

Armenia Delays New Tax Rules Again

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Small business owners continue to oppose legislation that they say will ruin them.

The Armenian government has delayed enforcing new tax legislation for a second time, as owners of small businesses across the country continue to object to changes they say will leave them much worse off.

The new rules were introduced in October 2014, but following widespread protests by owners of small and medium-sized enterprises (SMEs), the government postponed enforcing them until February 1 this year. It has now delayed them again until July 1.

At first sight, the legislation would appear to benefit SMEs as it reduces the tax rate payable on turnover from 3.5 to one per cent. The one per cent rate will apply as long as their annual turnover falls below the threshold at which companies must pay value-added tax, set at 58 million drams (about 120,000 US dollars).

But the downside is that under the new law, small businesses will have to document and declare every commercial transaction, in particular purchases from their suppliers. (See [Taxing Times in Armenia](#).)

Many SME owners say they would rather avoid doing this and carry on paying tax at the higher rate of 3.5 per cent.

The government has said that the reason for the latest delay is that it wants time to develop new regulations to help SMEs meet the requirements before it enforces the rules.

"As a result of discussions, it was decided to use this period to develop regulations that create more favourable conditions for businesses with an annual turnover of up to 58.3 million drams," Prime Minister Hovik Abrahamyan.

Armenia's parliament, which is dominated by the Republican Party, supported the postponement.

Traders say the new rules will make their lives more difficult, even impossible.

"We will now have to document every item so that we look honest when the tax service inspects us, otherwise we will be fined," said Karine, who sells sweets at a market in Yerevan. "To do that, we need to hire a qualified accountant to document our turnover on an ongoing basis. There are additional costs to this, and small businesses cannot afford to operate at close to a loss."

Arsene, a small business owner who has been involved in protests against the law, said that the way some companies did business would make it hard to document purchases.

"Many of us get goods on loan and pay for them only after we've sold them on," Arsene said. "How are we supposed to document that?"

WHO IS THE LAW AIMED AT?

There are no official figures on the size of the shadow economy in Armenia, but economists and tax officers estimate that it is equivalent to between 20 and 35 per cent of gross domestic product, and comparable to the government budget.

While the bill seems designed to catch SMEs that are cheating on their taxes, officials say that is not its main thrust at all. Instead, they say, the main reason for changing the taxation legislation is to tackle big businesses

According to official data, 15,000 large businesses account for about 98 per cent of tax revenues in Armenia. But these larger companies are also seen as the worst offenders for tax evasion.

The law is meant to track the income of large import and wholesale companies by getting the SMEs that trade with them to note down all their transactions.

"Our target is not small businesses, it's the large ones where the risks lie," Abrahamyan said. "We have therefore provided tax incentives for small and medium-sized businesses..... In exchange for tax breaks, we are requiring them to document their purchases from big businesses."

Vardan Ayvazyan, chairman of the parliamentary committee for economic affairs, explained why this route had been chosen. "The large businesses sell their goods and the small ones take them and sell them in the

marketplace," said. "It's impossible to identify where turnover is happening within this chain so that it can be taxed. Hence, the system needs to be reformed."

SME owners argue that the government should not be using them as a tool to fight big businesses.

Privately, though, some admit that the requirement to account for purchases and sales properly will show up past underreporting of tax liabilities in the SME sector. When the true scale of their businesses becomes apparent, they will be bumped up into the higher tax bracket that requires them to pay VAT at 20 per cent.

Official statistics show about 45,000 SMEs with an annual turnover of under 120,000 dollars, and the tax service says the vast majority of them declare an annual turnover of ten million drams, about 20,000 dollars.

Tax and finance officials suspect these reported income levels are well below the real average.

"It is strange and unrealistic for the annual turnover of tens of thousands of entrepreneurs to amount to only ten million drams," Deputy Finance Minister Armen Alaverdyan said at a recent press conference, adding that only by reducing the size of the shadow economy could the government start building up its budget revenues.

Opposition parties have criticised the focus on SMEs.

"By taxing small and medium businesses the government will achieve nothing. These people [in this sector] are simply surviving," said Vahagn Khachatryan, an economist and a member of parliament from the opposition Armenian National Congress party. "In reality, it is big business, first and foremost, that needs to be brought into the tax system.... It isn't small businesses that set the rules of the marketplace; the big businesses impose the rules on them."

Khachatryan suggested that one reason why the government was reluctant to tackle big companies head on was that business and politics were closely intertwined in Armenia. Instead, it was going after the small fry – and this could lead to numerous job losses in the SME sector.

The government has started work on the regulations it says will help SMEs comply with the law. The opposition has submitted recommendations on them and asked for an extended parliamentary debate on the issue.

Small business owners have warned that they will not stand down.

"If the government doesn't listen to us and if this is just a 'time out' designed to dampen our protests, we will start to strike again," said Stepan Aslanyan, who heads the Union of Small Business Entrepreneurs. "We will go all the way."

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