



SUCCESS STORY

USAID Assistance Plugs Major Tax Loophole



- 2007 – 2009
Strategic Tax Administration
Modernization Plan Goals**
1. Establishment of self-assessment system
 2. Modernization of Information Technology
 3. Reformation of tax administration-related legislation:
 - 3. 1.1. Review the loopholes in laws on specific tax types and submit relevant legislative amendments to the National Assembly**
 4. Ensuring growth of Tax / GDP ratio
 5. Modernization of the Tax Body

On July 3, 2007, the National Assembly of Armenia adopted the Law on Amendments and Addenda to the Law on Simplified Tax, presented by the State Tax Service of the Government of the Republic of Armenia (STS) and prepared with assistance from the USAID Armenia Tax Improvement Program (ATIP). It eliminated a major loophole in the Law on Simplified Tax that will result in a significant increase of tax revenue.

On June 5, 2000, the Republic of Armenia passed its Simplified Tax Law with the intent to assist small businesses and reduce the black market. The Simplified Tax Law provides a considerably lower tax rate and an easier form of record keeping, resulting in a reduced cost of doing business.

The Simplified Tax succeeded in reducing the cost of doing business so much, in fact, that it became a prominent form of loophole for large taxpayer units (companies). Large taxpayers, whose gross revenue precluded Simplified Tax treatment, split off the functions of its business by forming separate subsidiaries, branches and brother/sister related companies all qualifying for the much lower Simplified Tax rate. This loophole seriously reduced the Government’s business tax revenue, since large companies were paying a fraction of the taxes due from operations under the Profit Tax Law.

The STS has for some time unsuccessfully recommended amendments to the Simplified Tax Law aimed at closing this tax loophole. At the request of the STS, the ATIP team lead by Stephen Vasak studied the Simplified Tax Laws and its loopholes, met with senior STS Officials, recommended changes in the law, and formulated the legal and tax basis to assist the STS’s presentation before the National Assembly. Subsequently, The National Assembly approved the Amendments by a vote of 83 percent. The new law will be enforced starting January 1, 2008.

In summary, parent/sub, branches, brother/sister relations between large taxpayer units and simplified tax companies have been abolished, as well as operations among related simplified tax businesses. Doing business will now be in line with the intent of the Simplified Tax Law by limiting the scope of business to small, specific forms of one-shop and sole proprietor operations. Elimination of the “loophole”, which refocuses simplified tax law to its original intent, will significantly increase the Government’s business tax revenue and reduce shadow activities in Armenia.