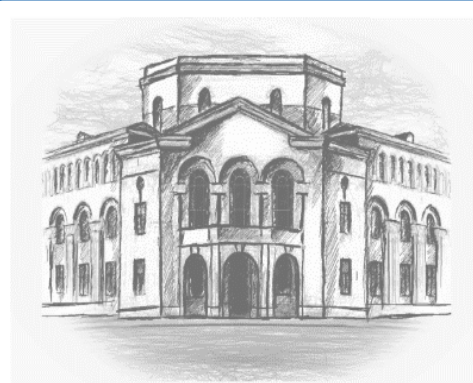


# REPORTING TAX EXPENDITURES IN THE REPUBLIC OF ARMENIA



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**ATI Regional Workshop on Tax Expenditures**

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# Procedural issues of calculation of tax expenditures in the RA

- ✓ **From 2015 TE's are estimated and reported in the Budget message of the RA Government in an annual basis.**
- ✓ **Currently, in the Budget message of the RA Government are reported tax expenditures of 3 large subgroups of taxes: VAT, CIT and PIT. This expenditures are also disaggregated with the reference to the privileges given by legislation.**
- ✓ **Databases of the Statistical committee of RA (System of National Accounts) and the State Revenue Committee (financial and tax statements of organizations) were used to estimate tax expenditures.**
- ✓ **The concept of “Benchmark tax” plays an important role. This is the sum of taxes that would be paid to the state budget in case of taxing the entire taxation base formed in the economy.**
- ✓ **Several tax privileges such us zero-rated VAT exports, deductions from the gross income while calculating taxation base for the PIT, etc., are not considered as tax expenditures.**



# Key widespread issues about tax expenditure's reports on the case of Armenia

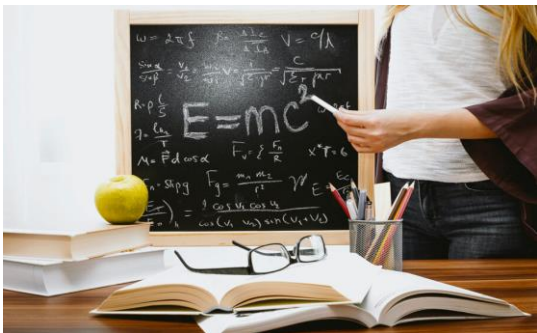
		YES	NO
1	Reported estimation methodology	V	
2	Statutory responsibilities or definition of tax expenditures		V
3	Tax expenditures with a legal reference	V	
4	Estimation of individual tax expenditures (VAT, PIT, CIT)	V	
5	Policy purposes of tax expenditures	V	



# Why do we implement tax expenditures in Armenia?

✓ **Public policy faces several issues which are not confidential, thus they are subject to be reported. That issues require following subgroups of tax expenditures...**

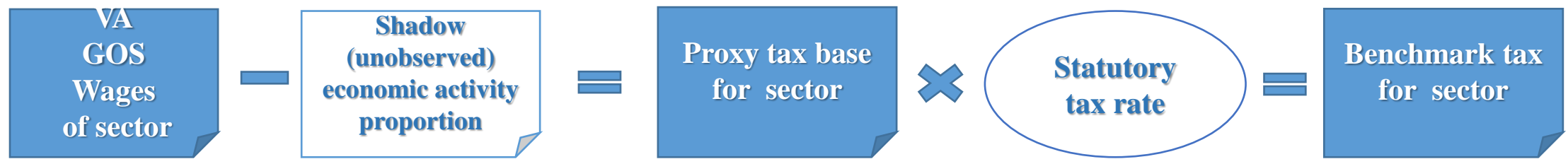
- Social oriented tax expenditures (tax exemptions of education, healthcare, science, humanitarian aid, PIT refunds for servicing mortgage interest, etc.)
- Expenditures aimed at improvement of structure of the economy. (F.I: Reduced rates of CIT and PIT for the IT sector)
- Tax benefits aimed at improving the business and investment environment and increasing economic activity. (Special tax regimes for MSMEs, provision of services to the organizer of the free economic zone and the operator of the free economic zone, etc.)





# Brief estimation methodology of tax expenditures implemented in Armenia

✓ As a proxy tax base for assessment of the “Benchmark tax” is was adopted each sectors value added (for VAT), gross operating surplus (CIT) and wages of workers (PIT) from the System of National Accounts (SNA):



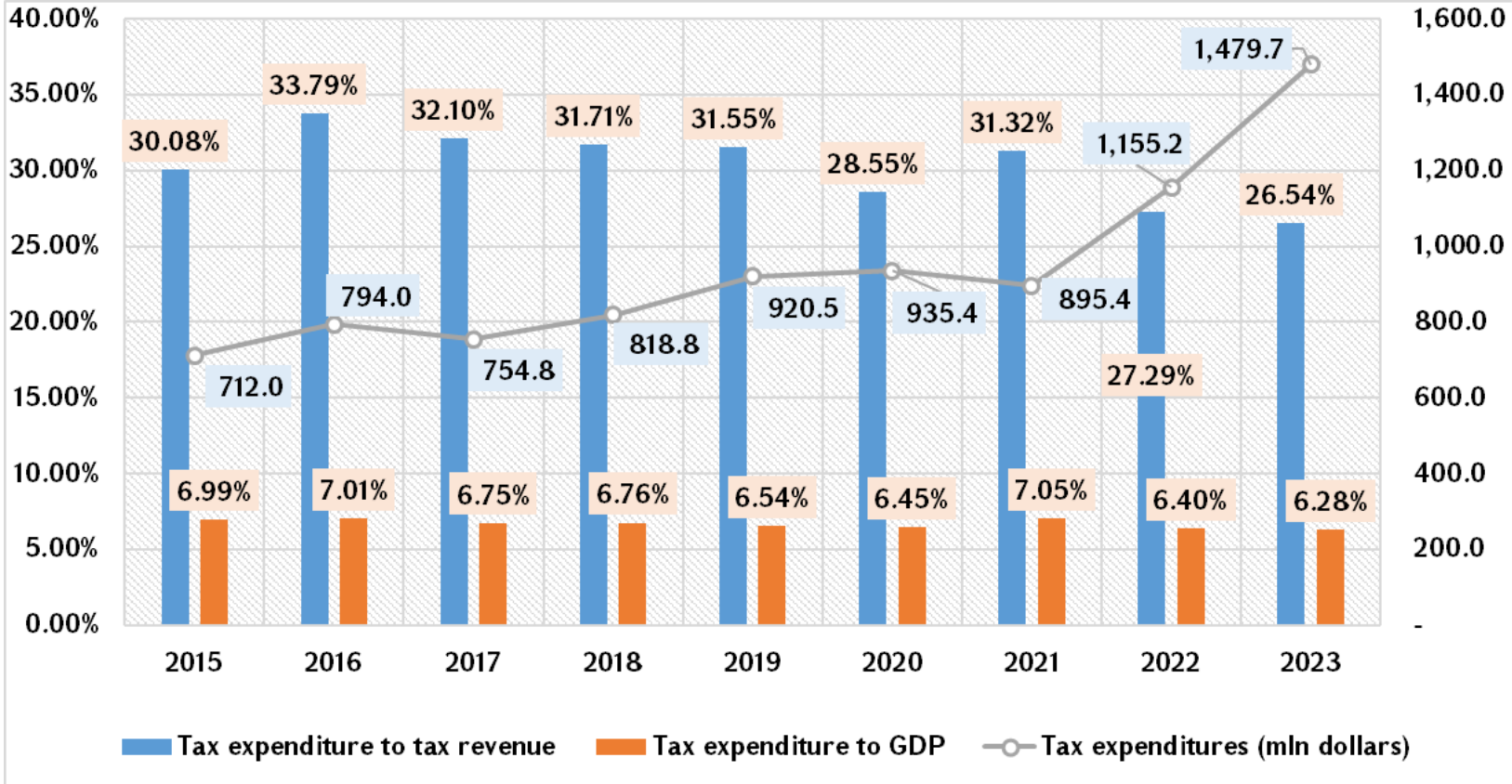
✓ For exempted transactions whose proxy tax base can't be derived from the SNA we use their turnover and value added to production ratio:





# Total tax expenditure's dynamics in the RA for 2015 – 2023

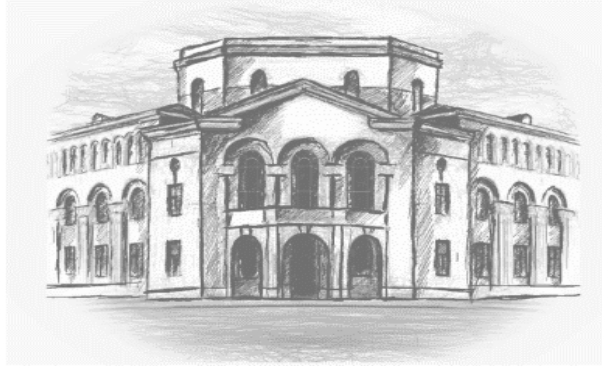
✓ Tax expenditures amounted to 6-7% of GDP for the observed period and were almost in line with the GDP growth rates.





# Disaggregated report of VAT expenditures for Armenia in 2023

	Tax expenditure	Tax expenditure volume (mln dollar)	Tax expenditures to tax revenue	Tax expenditures to GDP
<b>1</b>	<b>In terms of VAT, including:</b>	<b>1,037.3</b>	<b>18.60%</b>	<b>4.40%</b>
1.1.	<i>agriculture</i>	44.8	0.80%	0.19%
1.2.	<i>healthcare</i>	218.1	3.91%	0.93%
1.3.	<i>education</i>	89.3	1.60%	0.38%
1.4.	<i>finance and insurance</i>	262.4	4.71%	1.11%
1.5.	<i>VAT threshold</i>	152.9	2.74%	0.65%
1.6.	<i>operation of casinos, organization of sweepstakes</i>	160.5	2.88%	0.68%
1.7.	<i>sale of gold and precious stones</i>	4.3	0.08%	0.02%
1.8.	<i>humanitarian aid</i>	17.4	0.31%	0.07%
1.9.	<i>sale of fertilizers</i>	14.6	0.26%	0.06%
1.10.	<i>expropriation of irrigation water by water user companies</i>	3.8	0.07%	0.02%
1.11.	<i>supply of goods, performance of work and (or) provision of services carried out within the framework of subsidies, subsidies and grant programs</i>	1.8	0.03%	0.01%
1.12.	<i>provision of services and goods to the organizer of the free economic zone and the operator of the free economic zone, performance of works for the organizer of the free economic zone and the operator of the free economic zone</i>	0.9	0.02%	0.00%
1.13.	<i>Other benefits not mentioned above defined by the Code</i>	11.2	0.20%	0.05%
1.14.	<i>privileges issued by other laws</i>	7.5	0.13%	0.03%
1.15.	<i>microenterprise regime</i>	47.7	0.85%	0.20%



***Thank you for your attention!***