**ARMENIA CEQ**

**TEMPLATE: DESCRIPTION OF FISCAL INTERVENTIONS AS OF 2017**

<table>
<thead>
<tr>
<th>INTERVENTIONS TO BE MODELLED</th>
<th>DESCRIPTION OF THE INTERVENTION ACCORDING TO LEGISLATIONS/OPERATIONAL RULES</th>
<th>BENCHMARK BUDGET DATA</th>
<th>COMMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>DIRECT TAXES</strong>&lt;br&gt;(Method: Simulation)</td>
<td>Armenia (ARM) has a three-tier Personal Income Tax (PIT) structure: 24.4% for gross income up to 150,000 AMD per month; 26% for gross income over 120,000 AMD but less than 2,000,000 AMD; and 36% for income over 2,000,000 AMD.&lt;br&gt;Targeted Social payment: For all employees born after 1974 (public and private). 5%-5%, to be paid by employees and by the state (matching contribution).&lt;br&gt;<strong>Social Security Contribution</strong>&lt;br&gt;Incomes of social insurance fund—Describe and state differences wrt Social Payment</td>
<td>26.7% of CG revenue 6.1% of GDP 1.2% of CG revenue 0.3% of GDP</td>
<td>Method: Simulation *Note: Use the CEQ 2014 parameters. In the ARM PIT Note, the baseline PIT is from 2018 1.3% of GDP</td>
</tr>
<tr>
<td><strong>DIRECT TRANSFERS</strong>&lt;br&gt;Family Benefit Program</td>
<td>Flagship Means-tested transfer (since 1999)&lt;br&gt;As of 2017:&lt;br&gt; - Average monthly transfer: 31,350 AMD (FBP + emergency benefit)&lt;br&gt; - Total beneficiary families: 105,564 (100,288 from the FBP and 5,276 from the quarterly “emergency program”)&lt;br&gt; - Both FBP and “emergency benefit” are available in ILCS 2017 (y1_2 var)</td>
<td>4.2% of CG expenditure (FBP + child benefits) 1.1% of GDP</td>
<td>Method is Direct Identification. *In ILCS 2017, based on y1_2, relevant categories are: Family Benefit; Emergency benefit; and 3 child benefits (for child birth, for child care other child benefits) *Average Size of Transfers in ILCS 2017: Family Benefit + emergency (AMD 31,12.44) ALL Children benefits (AMD 196.23)</td>
</tr>
<tr>
<td>Child Benefits;</td>
<td>As of 2017:&lt;br&gt; - Average benefit size (monthly): 18,000 AMD&lt;br&gt; - Number of children (under 2) beneficiaries: 11,669</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-Contributory Pensions</td>
<td>As of 2017: 20% of CG expenditure</td>
<td></td>
<td>Method direct identification, under some assumptions.</td>
</tr>
</tbody>
</table>
| **Special privileges (primarily go to WWII veterans and their children);** | **As of 2017:** | **N/A** | **Method:** Direct identification.  
*In ILCS 2017, y1_2, relevant category is: “compensation for privileges”** |
<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Average size of the transfer: n/a</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Number of beneficiaries: n/a</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| **Unemployment Benefit;** | **NSS input:** “Unemployment benefit was valid only in first half of 2014 year and before that. Since second half-year of 2014 Government canceled paying this kind of social benefit, because it was passive source of income. Later Government decided to do trainings for unemployed and for some of them they paid stipendium. That is why in 2017 Diary (section Y1) you can see new row 11 “scholarship for unemployed, participated in educational programs”.” | --- | **No Need to Model** |

| **Average size of pension (monthly):** 40,634 AMD |  |  |  |
| Number of pensioners: For long-service (75,127); for merits (41,281); disability (37,335) |  |  |  |

| **5.3% of GDP** |  |  |  |

| Based on ILCS 2017, assumptions are:  
- Income Category= Pension (y1_2=4)  
- Situation of HH members: Old-age, partial, long-term service, privileged conditions, disabled (various), in case of breadwinner lost (variable: a2_1, a2_2, a2_3)  
Average Size of NCP in ILCS 2017: 30.37 AMD  
Average Size of Contributory pensions in ILCS 2017: AMD 30,382.32 |  |  |  |

**NSS input:** “Unemployment benefit was valid only in first half of 2014 year and before that. Since second half-year of 2014 Government canceled paying this kind of social benefit, because it was passive source of income. Later Government decided to do trainings for unemployed and for some of them they paid stipendium. That is why in 2017 Diary (section Y1) you can see new row 11 “scholarship for unemployed, participated in educational programs”.”
| **Scholarships** | N/A  
- Not cited in functional budget, hence, no large expenditure  
- Also: Less than 1% of observations with available information for the variable (unweighted) | N/A  
Method: Direct identification.  
In ILCS 2017, y1_2, relevant category is: “stipendium” |
| **Other benefits** | N/A  
- Not cited in functional budget, hence, no large expenditure  
- Also: Less than 1% of observations with available information for the variable (unweighted) | N/A  
Method: Direct identification.  
*In ILCS 2017, y1_2, relevant category is: “other benefits” |

**INDIRECT TAXES**  
(Method: Simulation)

| **Value Added Tax** | The standard rate of VAT on domestic sales of goods and services and the importation of goods is 20%. Exported goods and related services are zero-rated. Advertising, consulting, marketing, design, engineering, legal, accounting, audit, data processing, and other related services provided to non-residents are zero-rated if the non-resident’s place of business is outside Armenia. Various supplies, including most financial and education services, are VAT-exempt.  
*See Annex I – VAT Exemptions | 31.8% of CG revenue  
7.3% of GDP |

| **Excises on Tobacco** | ALL Tobacco Products (local and imported)  
Tobacco products: 1,000 units; AMD 5000  
Cigars: 1,000 units; AMD 550,000  
Cigarillos: 1,000 units; AMD 15,000  
Tobacco substitutes: 1KG; AMD 1,500 | 6.4% of CG revenue  
1.5% of GDP |

| **Excises on Alcohol** | See Annex II- Excises |

| **Excises on Oil (Petroleum, Kerosene, Diesel, Natural Gas)** | See Annex II- Excises |
| IN-KIND BENEFITS  
(METHOD: IMPUTATION) | Import Duties | Harutyun: “Under the EEU regulations, goods imported from member countries are free of custom duties. The unified custom tariffs are applicable for the goods imported from non-member states”.

CEQ 2014: “All imports are subject to a 10% tariff, though the list of exemptions is longer. We calculate an “effective” tariff as the total tariff revenue recorded in 2014 divided by total non-exempted imports. This rate is 3.9 percent, which was applied to all purchased items (not able to distinguish between imported vs local in ILCS).” |
| | | 5.7% of CG revenue  
1.3% of GDP |
| | | PENDING: Try to re-calculate effective import tariff. Effective tariff=Statutory Tariff/Total Non-Exempted Imports |
| | | |
| | Health | Education subsidies, by education level 6% of CG budget  
1.5% of GDP |
| | Education | Health subsidies, by inpatient/outpatient services 8% of CG budget  
2.2% of GDP |

**LEGEND:** N/A (not available); -- (no longer exists)

**SOURCES:**
- Armenia Statistical Yearbook 2018
- ARLIS (Armenian Legal Information System)
- State and Community Budget 2017, Economic and Functional classifications. Own elaboration based on XYZ official source
- IMF Article IV Armenia XX.
ANNEX I. VAT EXEMPTIONS

LAW LF-111. Article 15. The exemption from VAT is considered not calculation of it for the taxable turnover. The following transactions and operations as described in points 1, 2 and 3 of Article 6 of this law shall be exempt from VAT:
1. services of passengers’ transportation by the passenger electrical transport (trolley buses, trams, metro, and cable railway),
2. schools and other high and medium educational institutions – to the extent of the fee for education,
3. notebooks and music sheets for schools, albums for painting, children's' and school literature, sales of school educational publications, sales of scientific and educational literature published by higher educational institutions, specialized scientific organizations and National Academy of Sciences of the Republic of Armenia
4. scientific-research works
5. sales of child food
6. sales of veterinary pharmaceuticals, sales of chemicals, fertilizers, agricultural plants used in agricultural production to the producers of agricultural production.
7. Sales of agricultural products, produced in the Republic of Armenia, by the producer.
8. Services related to the care of children in preschool institutions, care of persons in institutions caring for disabled or elderly persons, as well as the sales of goods prepared and services carried in such places.
9. Radio broadcasting and TV-broadcasting not compensated by the users, including the receipt of means from other entities for the purpose of such broadcasting.
10. Sales of newspapers and magazines.
11. Services of funeral bureaus and cemeteries, as well as services related to the funeral and the sales of respective items.
12. Religious ceremonies, provision of religious items to the religious organizations as well as the sales of such items by the religious organizations.
13. Sales of postal services, postal stamps, stamped postcards and envelopes at a face value.
14. Sales of lottery tickets at a face value.
15. Insurance and reinsurance operations, including the services related to them and provided by the insurance mediators and agents.
16. Operations related to pension insurance, including the services related to them and provided by the insurance mediators and agents.
17. The following financial operations and transactions:
   – operations on registration, keeping and serving banking accounts and deposits,
   – provision of loans and credits, including the financing of commercial transactions, other factoring operations,
   – provision of guarantees, opening of letters of credit,
   – issuance, purchase, sale of securities, including the purchase for resale or other purpose,
   – issuance, purchase, discount, transfer or service of notes, checks, other payment securities, payment documents, cards and other instruments,
   – purchase, sale and resale of foreign exchange (notes and coins, except the coins and banking notes having coin-science use), the performance of futures, options and other such transactions with Armenian dram and foreign exchange,
   – the services of provision of cash,
   – the provision of financial agent’s (representative’s) services by bank,
   – management of other persons investments by trustee management or other means,
   – purchase, sale, resale of the precious metals bullion, opening of accounts based on them, and the transactions conducted by them,
   – financial leasing,
   – brokerage and other mediator services,
   – acceptance by the bank of keeping precious metals, stones, jewelry items, other values and
documents,
– sales of collateral remained under the management of the bank,
– services of acceptance of money (receipts, obligatory, housing, and other payments), as well as
of the payment of salaries, pensions, allowances, insurance and other payments, according to
the agreements signed.
Provision of payment documents, provision of information, preparation of securities, checks, payment
documents, cards, notes, coins, banking gold, fax services and other operations not linked directly to the
services envisaged under this paragraph are not exempt from VAT.
18. The lease and rental of state and local apartments, the service fee charged from the owners of
privatized apartments, the fee for living in hostels, the services provided by the condominiums and
building cooperatives to their members.
19. Sales of donor blood, infant milk, pharmaceuticals, orthopedic items, medical techniques and
items, medical care services, the sales of goods prepared and services conducted by the patients in
prophylactic enterprises and organizations and related with the healing and within the framework
of medical assistance.
20. Goods and services provided by foreign countries, international organizations, public, religious
organizations, individuals, provided within the framework of humanitarian assistance, as well as
goods and services provided by taxpayers of Armenia within the framework of such programs. If
legislation of Armenia (including international agreements) does not definitely indicate the
character of a program as humanitarian assistance, goods and services exempt from tax shall be
determined by the Authorized body of the Government of the Republic of Armenia in the field of
Humanitarian Assistance.
21. Delivery of goods and services on the account of project preparation facilities of credit and grant
programs of international financial organizations
22. Free (or with partial compensation) by the social (including benevolent) organizations and one-time
sales of goods and services during the year.
23. Operations related to the receiving and handling patents, copyrights, licenses.
24. Sales of bread.
25. Sales of black oil.

Note: Alternatively, check: https://www.arlis.am/documentview.aspx?docid=80579
## ANNEX II. EXCISES

<table>
<thead>
<tr>
<th>Goods</th>
<th>Unit of measure</th>
<th>Tax rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beer</td>
<td>Price excluding VAT and excise tax or customs value or purchase price or 1 liter</td>
<td>30%, but not less than AMD 105 for 1 liter</td>
</tr>
<tr>
<td>Grape wines and wines made of fruits and berries</td>
<td>Price excluding VAT and excise tax or customs value or purchase price or 1 liter</td>
<td>10%, but not less than AMD 100 for 1 liter</td>
</tr>
<tr>
<td>Vermouth and other grape wines</td>
<td>Price excluding VAT and excise tax or customs value or purchase price or 1 liter (by recalculation of 100% spirit)</td>
<td>50%, but not less than AMD 750 for 1 liter</td>
</tr>
<tr>
<td>Cognac, brandy, and other spirits</td>
<td>Price excluding VAT and excise tax or customs value or purchase price or 1 liter (by recalculation of 100% spirit)</td>
<td>50%, but not less than:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• AMD 3,000 for 1 liter (1 to 3 years old spirit)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• AMD 3,500 for 1 liter (4 to 5 years old spirit)</td>
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<tr>
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<td></td>
<td>• AMD 6,000 for 1 liter (6 to 10 years old spirit)</td>
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<tr>
<td></td>
<td></td>
<td>• AMD 8,500 for 1 liter (11 to 15 years old spirit)</td>
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<td></td>
<td>• AMD 14,000 for 1 liter (16 to 19 years old spirit)</td>
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<tr>
<td></td>
<td></td>
<td>• AMD 22,000 for 1 liter (more than 20 years old spirit)</td>
</tr>
<tr>
<td>Other brewed drinks (apple cider, pear cider,</td>
<td>Price excluding VAT and excise tax or customs value or purchase price or 1 liter</td>
<td>25%, but not less than AMD 270 for 1 liter</td>
</tr>
<tr>
<td>honey-drinks)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ethyl spirit</td>
<td>Price excluding VAT and excise tax or customs value or purchase price or 1 liter (by recalculation of 100% spirit)</td>
<td>50%, but not less than AMD 900 for 1 liter</td>
</tr>
<tr>
<td>Product</td>
<td>Description</td>
<td>Price Excluding VAT and Excise Tax or Customs Value or Purchase Price or 1 Unit/Metric Unit</td>
</tr>
<tr>
<td>------------------------------------------------</td>
<td>-----------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Spirituous liquors</td>
<td>Price excluding VAT and excise tax or customs value or purchase price or 1 liter</td>
<td>50%, but not less than AMD 500</td>
</tr>
<tr>
<td>Whisky and rum and other spirits</td>
<td>Price excluding VAT and excise tax or customs value or purchase price or 1 liter</td>
<td>50%, but not less than:</td>
</tr>
<tr>
<td></td>
<td>• AMD 3,000 for 1 liter (1 to 3 years old spirit)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• AMD 3,500 for 1 liter (4 to 5 years old spirit)</td>
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<td></td>
<td>• AMD 6,000 for 1 liter (6 to 10 years old spirit)</td>
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<td>• AMD 8,500 for 1 liter (11 to 15 years old spirit)</td>
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<td></td>
<td>• AMD 14,000 for 1 liter (16 to 19 years old spirit)</td>
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</tr>
<tr>
<td></td>
<td>• AMD 22,000 for 1 liter (more than 20 years old spirit)</td>
<td></td>
</tr>
<tr>
<td>Tobacco products</td>
<td>1,000 units</td>
<td>AMD 5000</td>
</tr>
<tr>
<td>Cigars</td>
<td>1,000 units</td>
<td>AMD 550,000</td>
</tr>
<tr>
<td>Cigarillos</td>
<td>1,000 units</td>
<td>AMD 15,000</td>
</tr>
<tr>
<td>Lubricating oil</td>
<td>Price excluding VAT and excise tax or customs value or purchase price or 1 kg</td>
<td>10%, but not less than AMD 400 for 1 kg</td>
</tr>
<tr>
<td>Tobacco substitutes</td>
<td>1 kilogram</td>
<td>AMD 1,500</td>
</tr>
<tr>
<td>Raw oil and oil materials</td>
<td>1 ton</td>
<td>AMD 27,000</td>
</tr>
<tr>
<td>Gases produced from oil and other hydro-carbons (except compressed natural gas)</td>
<td>1 ton</td>
<td>AMD 1,000</td>
</tr>
<tr>
<td>Petrol</td>
<td>1 ton</td>
<td>AMD 25,000</td>
</tr>
<tr>
<td>Diesel fuel</td>
<td>1 ton</td>
<td>10%, but not less than AMD 32500 for 1 ton</td>
</tr>
</tbody>
</table>

Source: https://www.arlis.am/documentview.aspx?docid=95189
ANNEX III. CEQ MODEL 2017

A. Dofile “From Disposable Income to Market Income)

1. Merges (Why don’t we merge \_m==2 consistently in the dofile?)
   - 10,380 individuals not merged from mem.dta to Y1.dta. But something similar happened in CEQ 2014

2. SUM main taxes and transfers (average sizes in ILCS 2017 vs official admin)
   - DIRECT Transfers: Average Size of Transfer from Family Benefit Program is close to the admin value.
   - For the rest of the transfers, the average size of the transfer in the ILCS is much lower than the admin value (PENDING: Check if it is due to sample design or transfers frequency). This is particularly relevant for Pensions, which represents the largest share of Social Assistance budget.

3. Check calculation of Gross Wages as a function of Net Wages
   gen chk = wage\_frml - w\_pre + PIT\_wage + SSC\_wage
   The difference between Gross Wage (own calculation) and Net Wage +PIT+SSC is not zero in Formal Employees (83.9% of cases) and Formal Self-Employed (22.7%)

4. Update PIT Scales Excel file

5. Dofile structure for web-simulation toolkit
   - Check which comments are relevant
   - Create globals for taxes and transfers that are subject to change in web -simulation toolkit
ANNEX IV. FISCAL SYSTEM (Total Scope vs CEQ 2017 Scope)

Total Balance and Primary Balance
- -264,826.0 MM AMD or -4.8% of GDP. Note: This is useful to calibrate our estimates of “Government Balance” in the Web Simulation toolkit.

Public Spending
- Total Spending of the General Government (GG) was 1,629,196,013.16 AMD MM or 29% of GDP (own calculations); of which 92% was executed by the Central government (CG).
  - Scope to be covered in the CEQ 2017: Approximately 41% of total expenditure (whether GG or CG). The “social assistance expenditure” is equivalent to “direct transfers” in the CEQ Model. Education and Health expenditure are equivalent to “in-kind benefits” in the CEQ model.
    - Total Education expenditure (10.24% of total GG expenditure OR 8.3% of total CG expenditure).\(^1\)
    - Total Health expenditure (5.13% of total GG expenditure OR 5.5% of total CG expenditure). The largest shares are: Outpatient services and hospital services (general, specialized, mother-child services).\(^2\)
    - Total Social Security expenditure (25.10% of total GG expenditure OR 27.2% of total CG expenditure. The main social assistance transfers, as a share of total GG expenditure, are: Old-age benefits (18.2 p.p.); family members and children (3.92 p.p.).\(^3\)

Tax Revenue

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\(^1\) CEQ 2014 covered most education levels, from pre-K to post-secondary schooling. Hence, it is reasonable to assume that we are able to model most of the Education in-kind benefits.

\(^2\) CEQ 2014 covered: Inpatient benefits, outpatient benefits and delivery benefits.

\(^3\) CEQ 2014 modelled: compensation for privileges, family benefit, benefit for the child, unemployment benefit, other benefits, scholarship, non-contributory pensions and housing subsidy. Based on ILCS 2017, in CEQ 2017, we are including: compensation for privileges, family benefit, emergency benefit (unemployment?); 3 child benefits, stipendium (scholarship?); and other benefits.