

TAX PERCEPTIONS IN ARMENIA

HOUSEHOLD AND ENTERPRISE SURVEY

2016

This report presents the results of a study on tax perceptions among households, enterprises, and individual entrepreneurs in Armenia. The research was conducted from October to November of 2016, within the scope of the USAID Armenia Tax Reform Project.

A similar research was also conducted three years ago (<http://www.crrc.am/research-and-surveys/completed-projects/387-Tax-reform-project?lang=en>).

THE MAIN FINDINGS OF THE HOUSEHOLD SURVEY ON THE PERCEPTIONS OF THE TAX SYSTEM

- Twenty-three percent of the respondents are not familiar with the existing taxes in Armenia, even though 71 percent deal with property tax, and 61 percent with land tax.
- Respondents reported that they receive information about taxes from television and radio (70 percent), followed by their relatives and friends (37 percent).
 - ✓ Note: In comparison to the survey results in 2013, the internet and social networks have gained more popularity, while print media has lost its share in 2016. “Text messages” are now included in the other sources of information.
- According to the respondents, they are taxed first on the property (74 percent of the respondents), income and land (73 and 71 percent, respectively), and only then on “goods and services” (55 and 49 percent, respectively).
- People are less aware of the indirect than direct taxes. Furthermore, the perceptions of the latter are based first on the property tax, followed by the income tax from their salaries.
- Respondents do not have a clear understanding of the role and functions of the tax authority in the system of public administration.
- Among the more popular perceived functional roles of a tax authority respondents think that the tax authority should collect taxes based on the paying capacity of businesses and people.
- Around 65 percent of the respondents think that unlawfully charged tax advance payments negatively impact tax compliance.
- Respondents expressed content with the electronic services provided by the tax authority, particularly its call center/hotline.
- Sixty-three percent of the respondents do not know what new services the tax authority should provide. The rest of the respondents do not expect new services from the tax authority, are afraid of the change, but would like to see the existing ones properly implemented.

- Forty-six percent of the respondents agree that dealing with the tax authorities is stressful, around a double of those who think the opposite (25 percent).
- Fifteen percent of the respondent would like to work as tax inspectors.
 - ✓ Note: In comparison to the survey results in 2013, the percentage of the respondents who would like to work as tax inspectors has decreased from 19 percent to 15 percent.
- Among those that would like to work as a tax inspector, 23 percent would aim to be fair and work for the good of people, and achieve change by making the system fairer.
 - ✓ Note: In comparison to the survey results in 2013, the percentage of the respondent who has that aim has increased from 16 percent to 23 percent.
- Seventy one percent of the respondents hold a clear position against avoiding taxes (on a scale 1-10, reporting “6” and above). Moreover, 43 percent said that avoiding taxes is not justifiable at all. At the same time, 20 percent think that almost everyone practices such “tax behavior.”
- Twenty-seven percent said that informing tax authorities if they see tax legislation violations (for example, not providing a receipt in a store), is the right thing to do.
- At the same time, of the 27 percent of those who think it is right to inform:
 - Forty-four percent would not mind buying goods from a seller that does not abide by the laws;
 - Only one in three would serve as an example by asking for a receipt for the amount they paid for goods or services;
 - Only one in ten agrees or fully agrees that they would inform tax authorities if they witnessed cases of tax evasion;
 - ✓ Note: In comparison to the survey results in 2013, the percentage of those that think informing tax authorities is the right thing to do has decreased from 43 percent to 27 percent.
- Sixty-eight percent of the respondents think that the taxpayers would stop avoiding taxes, and would cooperate with the government for the sake of public good if the government decreased tax rates.
 - ✓ Note: In comparison to the survey results in 2013, the difference between the two opinions - would cooperate with the government and it is useless - has decreased, from four times it is now two and a half times. People would cooperate with the government less now.
- In relation to tax amnesty, only 28 percent think that people “would go and declare” objects with past unpaid taxes. This belief decreases with the income increase. Thirty-nine percent do not believe that this process is realistic.
- Seventy-four percent of the respondents agree that if tax rates are decreased, the violators should receive more serious penalties.
- Two main reasons why people avoid taxes were “desperate financial situation” and “high tax rates.”

- Only 13 percent of the respondents think that there is no patronage in Armenia and everyone pays taxes equally.
 - ✓ Note: In comparison to the survey results in 2013, the percentage of those who think that there is no patronage in Armenia and everyone pays taxes equally has decreased twice, dropping from 28 percent to 13 percent.
- Sixty-eight percent of the respondents are ready to pay more taxes if they see less corruption.
- Excluding the “undecided,” 32 percent of the respondents think that saving on income tax by using tax deductions is appropriate, as it is connected with job creation for people with disabilities and implementation of social programs in general.
- Of those who find optimization of taxes acceptable, 7 percent explain their stance by the inadequately high level of tax burden.
 - ✓ Note: In comparison to the survey results in 2013, three years later:
 - The percentage of the respondents who think it is acceptable to decrease taxes as much as possible has gone down twice. However, they have joined not those who think it is unacceptable, but rather those respondents who don’t know or are undecided.
 - Among the respondents who think it is unacceptable, the percentage of those who don’t think it is “fair and honest” has increased twice.
- Ninety-six percent of the respondents think that the tax burden is high in Armenia. Sixty-seven percent of the respondents considered tax burden heavy for small-size businesses and 55 percent think it is heavy for medium-size businesses. At the same time, 61 percent did not consider it heavy for large businesses.
 - ✓ Note: In comparison to the survey results in 2013, according to the respondents three years later:
 - The tax burden has not decreased for citizens, in everyday life neither for the cost of commodities, and services nor the taxation of the salaries.
 - The tax burden has shifted slightly toward being heavier for small and medium business.
 - The perception of the tax burden of large businesses has gone down slightly.
- On the question about the appropriate use of taxes, 51 percent of the respondents think that the government currently uses the taxes for “personal purposes.”
- Seventy-one percent of the respondents do not know or do not agree that the public services they receive are actually useful for them. At the same time, 63 percent agree with the opinion that they would be willing to pay more taxes if they saw more public, social and other services, for example police, army and free education.
- When asked, what percentage of the taxes is returned to the society in the form of public services, 62 percent of the respondents noted up to 20 percent.

- When asked what the government should do if more funds are needed in case of a force majeure situation, only five percent of the respondents think that the taxes should be raised.
 - ✓ Note: In comparison to the survey results in 2013, three years later the share of those who think it is acceptable to raise the taxes remained the same – around five percent.
- Thirty-seven percent of the respondents gave a positive answer when asked if they were proud to be paying taxes. Fifty-two point three percent responded “no,” because according to them the taxes do not serve their purpose or they do not know what purpose the taxes serve.
- Two thirds of the respondents do not consider paying taxes dignifying or noble, and are not proud of paying taxes. The main reasons are the inefficient use of the funds and unfair distribution.
- Thirty-six percent of the respondents are ready to accept a more complex tax system, but only if it is fairer. Among those who are for a complex tax system:
 - Married and never married respondents are more willing to make such a “sacrifice.”
 - Respondents care less about the simplicity of the legislation and value fairness more with the increase in salaries and income.
 - However, respondents whose family members or they personally have done business in the past year or have been a business owner would like to have simpler tax legislation.
- Public trust toward state authorities is low.
 - “Don’t know” and “refuse to answer” options are more frequent when asked about independent entities outside of the Armenian government, such as the RA State Commission for Protection of Economic Competition and Public Services Regulatory Commission of the Republic of Armenia.
 - Local self-government bodies and the Ombudsmen are the most trusted. Courts are somewhat trusted.
 - The Government, National Assembly, the President, Ministry of Finance seldom got unconditional trust.
 - Trust toward financial-tax institutions is lower than the average among other institutions.
 - ✓ Note: In comparison to the survey results in 2013, three years later:
 - Trust toward all institutions has either decreased or stayed the same.
 - Trust toward the Government has significantly decreased.
 - Tax Service and even the Constitutional Court are not an exception (nine and 10 percent decrease, respectively).

- In order to improve tax collection, 63 percent of the respondents would first decrease tax rates, followed by 58 percent who would cut the number of tax types in Armenia, and 31 percent would make the texts of tax laws simpler and clearer.
- Fifty-five percent of the respondents agree that people would be willing to pay taxes if it was less complicated and time-consuming.
- Only 10 percent of the respondents agree that the tax system in Armenia is predictable and they can correctly predict what their tax burden the following year will be.
- Eighty-one percent of the respondents agree that the government should impose higher tax rates for the rich.
- Ninety percent of the respondents agree that people will always be willing to pay taxes if they believe that the taxes are fair.
 - ✓ Note: In comparison to the survey results in 2013, three years later the share of those respondents who think that tax rates should go down because of heavy tax burden has moved from second to first place.
- According to only 30 percent of the respondents, they have access to necessary information on tax regulations.
 - ✓ Note: In comparison to the survey results in 2013, the results for this question on access have decreased from 32.4 percent to 30 percent. We think that it primarily refers to access to clarifications on ambiguous law provisions, and not access to the actual texts of the laws.
- Only eight percent of the respondents were active in the discussion stage of the Tax Code. The percent of those who were indifferent during the discussion stage of the Tax Code is three and half times higher - 29 percent.
- Sixty-one percent do not know whether the Code that has been passed for the first time would foster improvement of the business environment, and 64 percent do not know whether it would attract investments in the economy.
- On the question about the possible positive impact of the Constitutional amendments adopted as a result of the 2015 referendum in Armenia on tax collection,
 - Only 11 percent gave a positive response.
 - Individual entrepreneurs, self-employed and employed respondents, i.e. “actively employed people,” are more pessimistic than the group of “passive” respondents (pensionaries, housewives and students) and unemployed.
 - Respondents in “manufacturing” think like the average taxpayers, however people in the trade and service sector are more pessimistic.

- Married and never married respondents think similar to the average, while those in other categories – divorced, single, widowed and separated - are more pessimistic.
- Respondents with higher education are slightly more optimistic than those with lower levels of education.
- Pessimism decreases with the income increase.
- Respondents willing to work as tax inspectors are above the average optimistic about the positive impact of the Constitution on taxation.
- Fifty-six percent do not know what to do about tax policy issues, do not have specific suggestions:
 - Primary active response is: “decrease the tax burden, including decreasing tax rates.”
 - Lower income respondents show more support for such decrease, while those with middle income are more likely to value issues connected with tax administration, including inspection regulations.
 - High income respondents have different priorities and suggest attracting direct investments through tax incentives.
- The topic of ecologization of tax laws is difficult for people. However, among the respondents who have some certainty, the percentage of the proponents is higher than the opponents (39 percent and 8 percent, respectively).
- Sixty percent of the respondents did not know what to do on the issues related to tax administration reforms. The main responses were not intervening in the business of the taxpayer and simplifying tax calculation forms.
- Answers to the question on the introduction of an automated information exchange system with the tax authorities of other countries show that 58 percent of the respondents do not know about it. Twenty percent of the informed respondents think that it should have been done earlier, emphasizing the importance of explaining it clearly to the population in advance. The interest to be part of an international automated information exchange system drastically decreases among the high income groups.
- After entering Eurasian Economic Union, only 10 percent of the respondents are willing to pay additional taxes to solve financial issues connected with the Union.
- Thirty-five percent of the respondents agree or fully agree (hereinafter, “in favor”) that it would be reasonable to buy goods for higher prices from law-abiding sellers, than cheaper goods from tax evading ones.
 - Sixty percent of the respondents demand a receipt/document when they do not get one for their purchase of goods or services.

- Seven percent of the respondents are ready to “inform” tax authorities when witnessing cases of tax evasion. Yet, 38 percent is fully against that, and additional 44 percent do not agree. This function would be difficult to enforce in Armenia.
- If Armenia's foreign debt reached 70 percent of the gross domestic product, which is a dangerous and impermissible limit, then
 - a. Twenty percent of the respondent would be willing to pay more taxes to keep Armenia from being declared bankrupt internationally. One third is not sure, also possibly because they do not know what the consequences of bankruptcy for Armenia would be. About half (46 percent) are not willing to provide support in solving that problem by paying more taxes.
 - b. Seventeen percent of the respondents are ready to postpone retirement, receive lower subsidies and salaries so that the government would not have to raise tax rates.
- From tax perception perspective, only 17 percent of the respondents value government’s investment in their future pensions. The new system does not serve as an additional motivation to pay taxes for the rest.
- The survey employed a new approach, aimed at identifying typical characteristics of a person particularly willing to pay taxes. Thus,
 1. People in “trade and services” are more forgiving toward tax evaders (33.9 percent compared to 36 percent of the “manufacturers” and the average 35 percent). Respondents in this category are also less likely to “inform tax authorities” compared to the average.

However, at the time of need, when the foreign debt of Armenia reaches a critical point, the respondents in this category are more willing to take on more burden in comparison to the average.

2. Divorced respondents are more consistent with requesting receipts when shopping and buying from law-abiding sellers even when the prices are higher. This group of respondents is also more willing to take a certain share of the burden on themselves if Armenia’s foreign debt reached a critical point (23 percent compared to 17-19 percent average).
3. Respondents with higher education are more cautious about “informing tax authorities.” It can be speculated that they legally evaluate the consequences of that system being not fully regulated by laws.
4. Respondents with below-higher level of education are less than the average willing to make voluntary payments within the accumulative pension system that is being gradually established in Armenia (14 percent compared to 17 percent of the average).

5. As individual salaries and income goes up people become more willing to pay more for goods and services but purchase them from law-abiding sellers.
6. As income goes up, the willingness to “inform tax authorities” goes down.
7. As income goes up people become more willing to voluntarily pay toward the accumulative pension system that is being gradually established in Armenia.
8. However, as incomes goes up, people become less inclined to demand receipts for their purchases.
9. Higher income respondents are more willing to take on an additional burden if Armenia’s foreign debt reached a critical limit.
10. Respondents who have personally or through their family members done business over the past year or own a business are not so inclined to be attentive during purchases neither when it comes to dealing with law-abiding sellers, nor requesting receipts for their purchases.
11. Again, respondents who have done business over the past year are also careful when it comes to “informing tax authorities,” displaying seven percent less interest from the average.
12. This group, similar to the high income group, is more willing to take on an additional burden if Armenia’s foreign debt reached a dangerous point, as well as is more willing to voluntarily pay toward the accumulative pension system that is being gradually established in Armenia.

Thus, high income respondents as well as those doing business in the past one year may not be attentive during their purchases to deal with law-abiding sellers and demand receipts for the purchases currently, but from a strategic perspective, when Armenia is in a dangerous situation, or when it comes to pension prospects, they consolidate and show a higher tax compliance and willingness.

- The comparison of the perceptions of the ethnic minorities and ethnic Armenians in Armenia show:
 - ❖ Representatives of the ethnic minority taxpayers (mostly Yezidi) are more willing to lend to the government than let the government borrow from foreign countries.
 - ❖ Are less likely to accept more complex tax legislation (27 percent in comparison to the average 36 percent).
 - ❖ Are more willing to inform tax authorities if they witness cases of tax evasion.
 - ❖ Are willing to take on an additional burden if Armenia’s foreign debt reaches a dangerous limit.

THE MAIN FINDINGS OF THE ENTERPRISES' AND INDIVIDUAL ENTREPRENEURS' SURVEY

- Among the surveyed business taxpayers (BTP), 84 percent choose the simplest organizational statuses – individual entrepreneurs and limited liability companies.
- Surveyed BTPs mostly pay direct taxes: 94 percent of the taxpayers pay income tax, 36 percent pay profit tax, and only 27 percent deal with VAT. Seventy-four percent of the business taxpayers have dealt with non-standard tax regimes.
- Thirty percent of the BTP have been operating less than three years.
- Analysis of business success and failure of the respondents show that 29 percent do not see their business prospects being successful in the next three years, around one third cannot make predictions, and 16 percent plan on good or very good business.
 - ✓ Note: in comparison to the survey results in 2013, three years later:
 - The percent of the pessimists has decreased from 38 percent to 29 percent.
- Eighty-nine percent of the owners (participants) of BTP organizations are natural persons, and only 11 percent are organizations. This should be a signal for the tax and revenue policy makers: to take into consideration the users and the structure of the founders when developing tax regimes, thresholds, and other tools.
- The main buyers of the products, work, and services of the business taxpayers in Armenia - 87 percent - are individuals/end-users/final consumers. Forty-five percent of the business taxpayers work in the field of trade. Only ten percent of the business taxpayers are involved in manufacturing industries.
- Only 12 percent of the BTPs follow corporative governance regulations. Research on tax administration in the world shows that tax compliance levels are higher in the organizations that follow corporative governance regulations.
- BTPs do not tend to join professional unions or associations. Only four percent are involved in a similar horizontal cooperation. In other words, “industrial” dialogue is currently lacking among the respondents.
- Business taxpayers receive information on taxes more from media (44 percent), and communicating with each other (other businesses) (42 percent) than from the tax authority and its official website (67 percent, combined).
 - ✓ Note: In comparison to the survey results in 2013 on the source of information, three years later:
 - Tax authority is losing to social media.
 - Communication with each other (other business) is not the first source of information any longer, but remains an important one.
- According to the surveyed businesses, the mission of the tax authority should be first, to help the taxpayers calculate taxes in compliance with the legislation. Secondly, the tax authority should collect taxes based on the paying capacity of the businesses.
 - ✓ Note: In comparison to the survey results in 2013, three years later these two perceptions have switched places. Now the business community is more interested in understanding the tax legislation and correctly calculating and paying taxes.

- Business taxpayers propose three priorities to the authorities: decrease tax rates, decrease the number of taxes, and make the texts of the tax laws simpler and clearer.
- Interviewed business taxpayers are not very much concerned about the functions of the tax authority, and think that the paradigm developed here should not be changed. Thus, over 70 percent were in favor of the list of services currently provided by the tax authority. They particularly value the electronic system for report submission and electronic system of writing out tax accounts.
 - ✓ Note: In comparison to the survey results in 2013, three years later there is at least a 20 percent increase in the level of satisfaction from all of the different electronic services.
- According to the 40-50 percent of business taxpayers, the tax burden is heavy or very heavy. Income tax was assessed as particularly heavy, followed by profit tax and VAT. Excise tax, non-standard tax regimes and property tax with less than 40 percent were considered comparably lighter. Environmental and natural resource use fees were considered the lightest, with the lowest 16 percent rating.
 - ✓ Note: In comparison to the survey results in 2013, three years later:
 - Perceptions toward profit tax and VAT burden have slightly decreased.
 - Perceptions toward income tax have increased from 58 percent to 63 percent.
- Business taxpayers were more tolerant toward the rates of environmental and natural resource use fees, which has the highest level of suggestions for rate increase (nine percent of respondents), as well as excise tax.
 - ✓ Note: In comparison to the survey results in 2013, three years later:
 - Proponents of VAT and non-standard tax decrease have become more uncertain now, with a share of these respondents moving to the “don’t know” category.
 - Proponents of profit tax and turnover tax decrease have slightly gone down, which means there will be less resistance if the rates increase (proponents went up from zero point eight percent to three percent).
- One third of BTP are unaware of existing tax breaks in Armenia.
 - ✓ Note: In comparison to the survey results in 2013, there was an increase in the percentage of awareness. In comparison to the 46 percent in 2013, 30 percent are unaware now.
- According to 46 percent of business taxpayers, changes in tax legislation should not happen more often than three years.

- ✓ Note: In comparison to the survey results in 2013, three years later businesses have become less demanding in that regard.
- In a case of emergency in Armenia, during force majeure situations, according to the businesses the government should rely on the population instead of borrowing from external sources (23 percent and 17 percent).
 - ✓ Note: In comparison to the survey results in 2013, three years later:
 - Borrowing has become less popular among the respondents, even if it means temporarily increasing taxes (four percent agree to that option in comparison to the three point five percent in 2013).
 - More respondents are against borrowing externally than internally.
- According to the survey results, the practice of hiring an external accounting company to calculate taxes (13 percent of business taxpayers) and/or involving a tax consultant to ensure tax compliance (only nine point three percent of the business taxpayers) is at an early stage of development in Armenia. Other professional consulting directions are less often outsourced.
 - ✓ In comparison to the survey results in 2013, three years later business taxpayers
 - Have started outsourcing less.
 - In all cases “keep” accounting internally less often than other professional services.
- According to the businesses, non-standard (alternative) tax regimes (patent fee, fixed fee, family businesses) neither contribute nor not contribute to tax compliance (equal 28 percent).
- The analysis of the question, “Is it worth being a law-abiding taxpayer? What are the advantages of tax law abidance for the business as a whole, and what are its negative consequences in the Armenian environment?” shows that for those who see the advantages, the main factor is “not being fined,” “sleeping peacefully,” while factors such as “contributing to business growth” and “develop business reputation” have lower rating (28 percent in comparison to the 60 percent of the first two). Moreover, becoming more law-obedient is considered a direct threat to have a negative impact on the business (45 percent).
 - ✓ Note: In comparison to the survey results in 2013, businesses:
 - Are slightly less afraid that the tax authority will treat them subjectively, as a result of which they will suffer.
 - Continue to consider law-obedience as a “not valued, not appreciated” practice.

- Around 78 percent of the BTP think that avoiding taxes is not justified. The percent of those that criticize that practice is 11 times higher than those that justify it.
 - ✓ Note: In comparison to the survey results in 2013, we found a positive tendency. The amplitude between those that criticize and those that justify increased from being four point seven times, to eleven times.
- According to the same businesses, in real life around 40 percent of the BTP avoid taxes when possible. Their share is two point six times higher than those who “don’t avoid and comply.”
 - ✓ Note: In comparison to the survey results in 2013, three years later we found a positive tendency. The amplitude between those who avoid and those who “don’t avoid and comply” increased from being twice to two point six times.
- In regards to the question on the relationship between tax rates and tax revenues based on the famous Laffer curve, 73 percent of the business taxpayers agreed that the state budget will receive more money as a result of lower tax rates.
 - ✓ Note: In comparison to the survey results in 2013, three years later the percentage decreased from 80 percent to 73 percent. This percentage had decreased from 76 to 73 percent among the households. One can speculate that this idea has started to “stall” in Armenia.
- Around half (49 percent) of the businesses have tax inspections. Among the inspections, “non-core” inspections (unrelated to complying with state budget obligations) are more frequent – operations of cash registers, opposite cross inspections. It is worth noting here, that the number and frequency of these inspections is not regulated by the legislations. The overwhelming majority of the core inspections were within the approved annual plan of the tax authority. The majority (52 percent) of the respondents were informed of their right connected with the inspections.
 - ✓ Note: In comparison to the survey results in 2013, three years later:
 - Increase in inspections was registered only in one case, which was an opposite cross-inspection. It may be connected with the fact that the tax authority has access to more data (Big data), and a strengthened E-invoicing system.
 - The tax authority is more consistent in following the schedule of its planned inspections.
 - There is an important shift toward being more informed: former 30 percent of “uninformed” has decreased to 20 percent.
- During the inspections, the percentage of those that express disagreement is three point seven times lower than the percentage of those that agree/do not speak up. Over a half of those who disagree, file “written disagreements,” followed by 18 percent that apply to

the commission of appeal and seven percent eventually take it to the court. The satisfaction rate with the discussion of the inspection results is quite low. However,

- Businesses are about twice as more content with the discussions with the court than with agencies (40 percent and 27 percent).
- Businesses are less content with the single departmental appeal committee than with the regular departmental appeal committee (19 percent and 27 percent).
- Getting informed about personal mistakes is noted as a positive side of tax inspections and appeals. It serves as a quasi-audit.
- ✓ Note: In comparison to the survey results in 2013, three years later:
 - There is an increase in presented disagreements.
 - Applications to the departmental committee have increase three times - eighteen percent in comparison to the former seven point seven percent.
 - Simultaneously, the percentage of complaints expressed to friends has decreased from 83 percent to 58 percent.
- According to the surveyed businesses, the percentage of those who pay bribes to tax/customs authorities is 39 percent, two point eight times more than those who don't pay bribes (14 percent).
 - ✓ Note. In comparison to the survey results in 2013, three years later:
 - The share of those who pay bribes has slightly decreased from 23 percent to 14 percent.
 - Due to the decrease, the amplitude between those who pay and those who do not pay bribes grew from one point nine to two point eight times.
 - Among those who pay bribes, “hard business calculations” remains the reason for paying as it is more profitable, and they save money.
- In regards to customs perceptions, the majority of the businesses prefer to draw up customs forms through customs brokers, rather than on their own. The same is true for coding of goods according to the Commodity Nomenclature of External Economic Activity. Forty-seven percent of businesses consider the practice of benchmark prices imperfect (only three percent considered the practice acceptable for Armenia in the current situation). Armenia’s membership in Eurasian Economic Union has not yet created a more trusting environment among the businesses in regards to customs relations, taxes and compulsory fees charged by the customs authority (according to 47 percent of the respondents).

- ✓ Note: In comparison to the survey results in 2013, three years later we found that the importing businesses would prefer not to deal with the coding of goods according to the Commodity Nomenclature of External Economic Activity themselves (from 23 percent to 19 percent).
- Only 18 percent of the business taxpayers budget for training on tax and accounting topics; moreover, for 90 percent of them, these expenses do not exceed 300 thousand dram annually.
 - ✓ Note: In comparison to the survey results in 2013, businesses have increased their training budget one point five times; however, those who budget for such training remain four times less than those who do not.

FORWARD

INTRODUCTION

PART ONE | HOUSEHOLD SURVEY ON TAX PERCEPTIONS

TAXES AND GENERAL PERCEPTIONS ON TAXES

Albert Einstein once said, that "the hardest thing in the world to understand is the income tax." Understanding the philosophy of taxes, i.e. universal compulsory fees, somehow carrying it within and being reflected in it is crucial for voluntarily paying them. Paying taxes is prescribed by the Constitution of the Republic of Armenia. Thus, Article 60 of the Constitution of the RA states, "Everyone shall pay taxes, duties, and make other mandatory payments in the amounts and manners prescribed by law." Taxes and other mandatory payments (in a broader sense - taxes) are collected annually in accordance with the Law on the State Budget passed by the National Assembly of the RA to cover state and public expenditures. There are also local taxes and compulsory fees that are prescribed by the law for financing community expenses.

Citizens pay taxes, encountering them in different ways - indirectly, as consumers paying excise tax and VAT and directly, as taxpayers paying income tax from the salaries, as well as paying property tax on houses, land and vehicles. Because corporations, legal persons are, in a sense, a groups of physical person shareholders and owners, then profit tax, in a mediated way, also has an impact on the wellbeing of physical persons.

The first Tax Code in Armenia was passed in October 2016. It will go into effect starting 2018 (except a few provisions that go into effect in 2017). Discussions around the Code created a new opportunity for people to refresh their tax perceptions. For the first time, it contains an introduction about the principles of building a tax system, makes provisions to consider effectiveness factor in decision-making, and talks about the responsibility of keeping proportionality against the degree of violations.

The Tax Code:

- Increases progressivity of income tax;
- Sharply increases the rates of excise and income tax, leaving the rates of profit tax and VAT the same;
- For the first time for the RA resident physical persons, there are dividend taxes, which prescribe that if received dividends are reinvested, the entire amount of charged income tax is returned to the physical person;
- Again an unprecedented provision in tax legislation, it allows the taxpayer to voluntarily decline tax breaks;
- Strengthens control over physical person business owners, even moving them to the profit tax field, which is typical for organizations;
- Includes a provision that transfers unpaid business-related tax obligations of the physical person to their heirs after their death;
- Prescribes for foreign physical persons to individually pay VAT in Armenia in some cases;
- Fosters entrepreneurial flexibility through tax neutrality, particularly through special control of temporary suspension of activities and joint work, investment in other components of the capital other than the authorized capital, and moving losses connected with reorganization to succeeding years, as well as working with discounts.

- Surprisingly, does not view cash register receipts as a tax accounting document (note that in the past it was even a subject for a national lottery);
- Simplifies tax legislation, because many normative acts are compiled in one code, as well as provides clarifications on what property value surplus is and how to account for various technological losses;
- Further tightens up penalties for tax evasions, and introduces transfer pricing rules.

DEMOGRAPHIC CHARACTERISTICS OF THE RESPONDENTS

The main demographic description of the respondents, which largely reflects the composition of the population of Armenia by different categories, is presented below.

Marital status: 69 percent have been married, 27 have never been married or are single (see Table 2.3).

Occupation: 55 percent of the respondents are pensioners, housewives or students, who do not work, another 11 percent are unemployed. Thirty-four percent consider themselves hired workers, individual entrepreneurs/employers, or self-employed (see Table 2.1).

Education: 30 percent of the respondents have higher education at the time of the survey, and 62 percent had secondary or secondary vocational education (see Table 2.4).

Economic Situation: 52 percent of the respondents reported an income of 0 - 40 thousand dram (after tax) in the month prior to the survey. Less than one percent of the respondents had a monthly income of more than 600 thousand dram (see Table 2.5). The most common income interval was between 40 and 106 thousand dram (37 percent; see Table 2.6).

Ethnic belonging: 98 percent of the respondents identified themselves as Armenian; around two percent Yezidi (see Table 2.8). The percentage of Russian, Ukrainian, Greek and other ethnicities was very small.

Sphere of occupation: 31 percent of the respondents fall into the category of manufacturing (agriculture, mining, quarrying, electricity and water supply and construction); nine percent trade; and 60 percent other spheres (see Table 2.2).

Ninety-four percent reported that they personally or their family members had not engaged in entrepreneurial activities during the past year (see Table 2.7).

In the “agriculture” category, those who are engaged in livestock farming deal with the market and trade more than those who are involved in farming (see Table 1.3-1.6). The degree of commercialization in livestock farming is 51 percent and 40 percent in farming, even though only 21 percent of the respondents are engaged in livestock farming in comparison to 44 percent of the farmers.

It is interesting to note, that the comparison of the farmers described in the paragraph above with the question on the engagement in entrepreneurial activities shows (see cross tabulation Table 1, 2 and 3) that even the respondents engaged in commercial agricultural activities do not consider it as entrepreneurial activity: only seven percent said they operate in the entrepreneurial field.

PUBLIC PERCEPTIONS ON TAXES

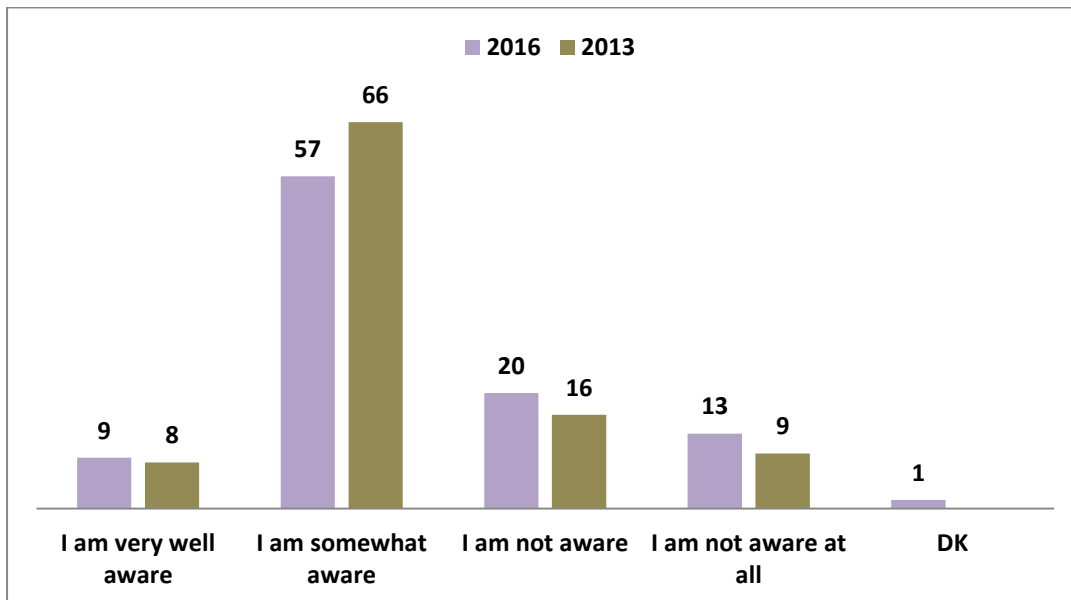
Tax perceptions among the respondents were based on the following:

- Tax legislations;
- Willingness to comply with tax legislation; fulfillment of the responsibility or even a sense of pride;
- Efficiency of how the revenues of the state budget are spent;
- Trust toward tax collecting institutions, and infrastructure;
- Circumstances connected with the methods of tax collection and equal treatment under the law;
- Appealing the cases of law violations by the tax collecting institutions, as well as the level of trust toward judiciary;
- The opportunity to make the personal observations, and have their opinions heard.

The analysis of the survey results reveals the following picture on Armenians’ perception of taxes:

Thirty-three percent are not aware of the taxes existing in Armenia, even though 71 percent encounter property tax and 60 percent encounter land tax (see Table 1.1 and Table 1.2).

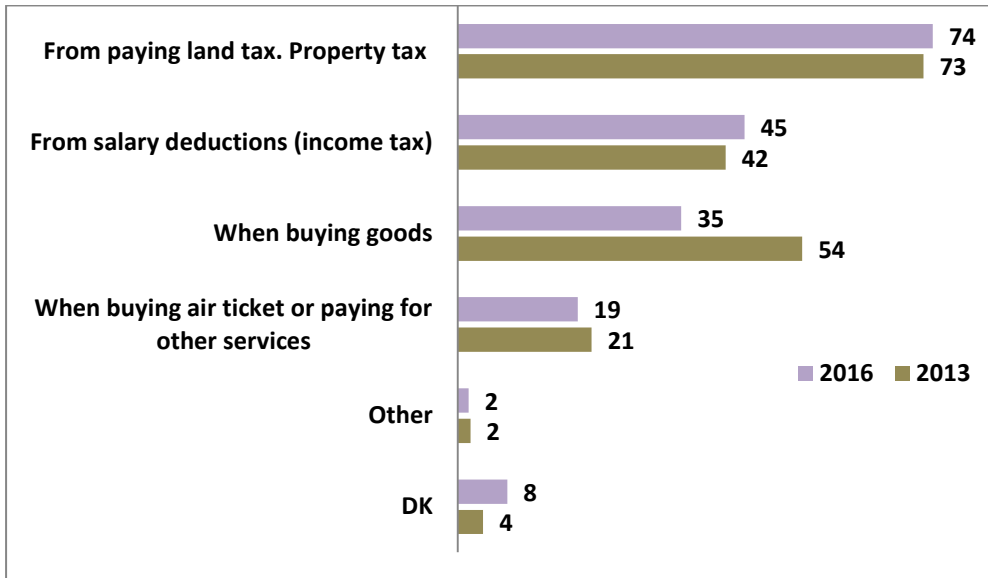
Chart 1. Are you aware of the taxes in Armenia?



Respondents were more likely to be deal with property taxes and working with the local self-government bodies. As a result, 68 percent of the respondents noted that they do not deal with VAT. Only 45 percent of the respondents said that they personally or their family members deal with income tax (see Table 1.2).

Respondents regard various other payments, which they encounter daily, as tax. This was the case with the tax on cattle, pastures, social “accumulative” payments, utility bills and other similar payments. For 74 percent of the respondents the understanding of paying taxes is connected particularly with paying property and land tax. Other perception “triggers” include payments from the salaries (45 percent) and purchasing goods (35 percent) (Table 1.28 and Chart 2), and payments for airplane tickets, increase in food prices, payments for parking, condominiums and for other services.

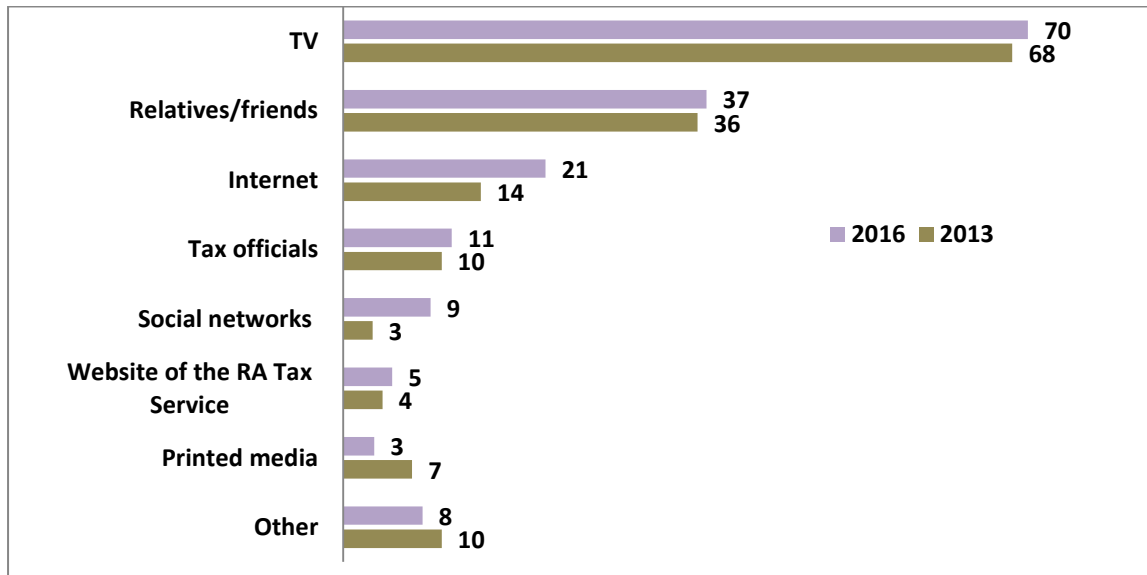
Chart2. How do you know that you pay taxes? (Multiple answers are acceptable)



Respondents noted that they receive information on taxes from television and radio (70 percent), followed by their relatives and friends (37 percent). The latter shows that taxes are a common topic for conversations. Only 16 percent of the respondents had received information from tax authorities, while 21 percent had received information from the internet, and only three percent had received information from print media (see Table 1.18 and Chart 3).

Note: In comparison to the survey results in 2013, the internet and social networks have gained more popularity, while print media has lost its share in 2016. “Text messages” are now included in the other sources of information.

Chart 3. Where do you get information about taxes? (Multiple answers are acceptable)



Only 31 percent of the respondents “agree” or “fully agree” that the information on tax rates, legislation and regulation is fully accessible to them, while 58 percent think otherwise (see Table 1.17, line 5).

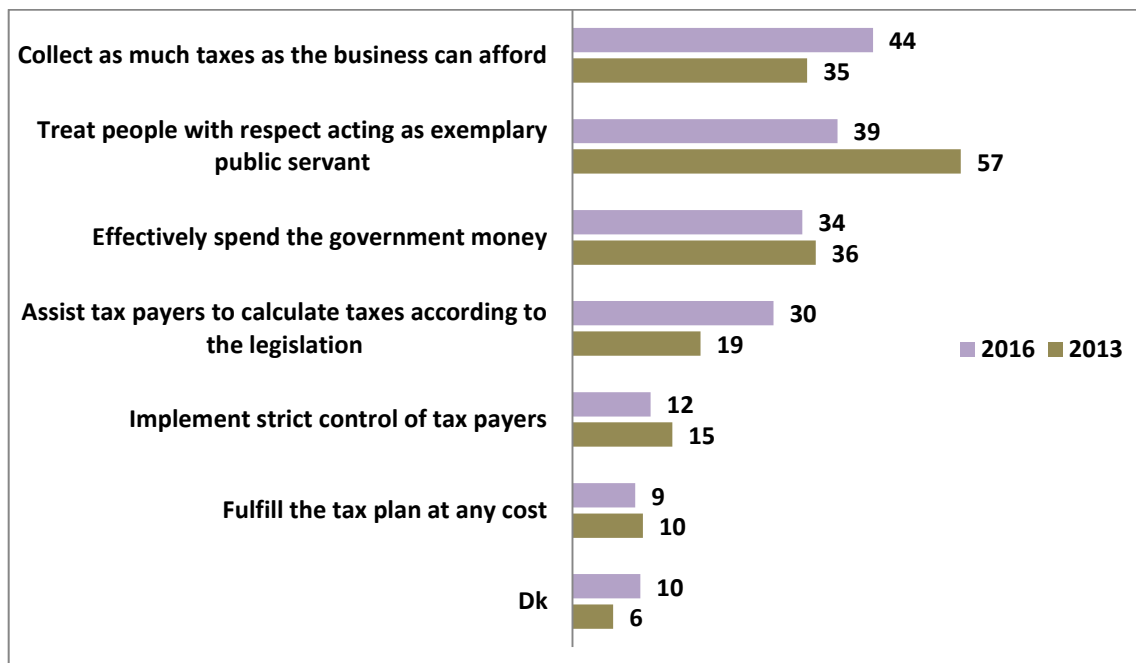
According to the respondents, they are first taxed on their property (74 percent of the respondents), income and land (73 and 71 percent, respectively), followed by goods and services (55 and 49 percent, respectively; see Table 1.35). In the “Other” category some mentioned speed cameras and traveling by an airplane.

In summary, people are not well aware of indirect taxes. The perceptions of the direct taxes are formed based on the encounters with the property tax and income tax, deducted from the salary. The topic of taxes dominates conversations, and there is a need to improve the sources of information as part of a tax administration direction.

PERCEPTIONS OF THE RESPONDENTS CONCERNING TAX AUTHORITIES

The analysis of the public perceptions on the existing and desirable objectives of the tax authority showed that the respondents do not have a clear understanding of the functions of the tax authority in the public administration system. Moreover, the most popular responses on the mission and the main objectives of the tax authorities are only indirectly relevant. For example, 39 percent of the respondents wish that the tax authorities would treat people with respect – acting as exemplary public servants. Thirty-four percent also wished the tax authorities spent public money more efficiently (see Table 1.7 and Chart 4). As one can see, the emotional aspect is of primary importance for the respondents. This could be connected with the wish to be confident that their hard earned money is spent right. Other findings of the survey support this perception.

Chart 4. Which of the following definitions do you think should serve as the main goal of the tax authority? (Multiple answers are acceptable)

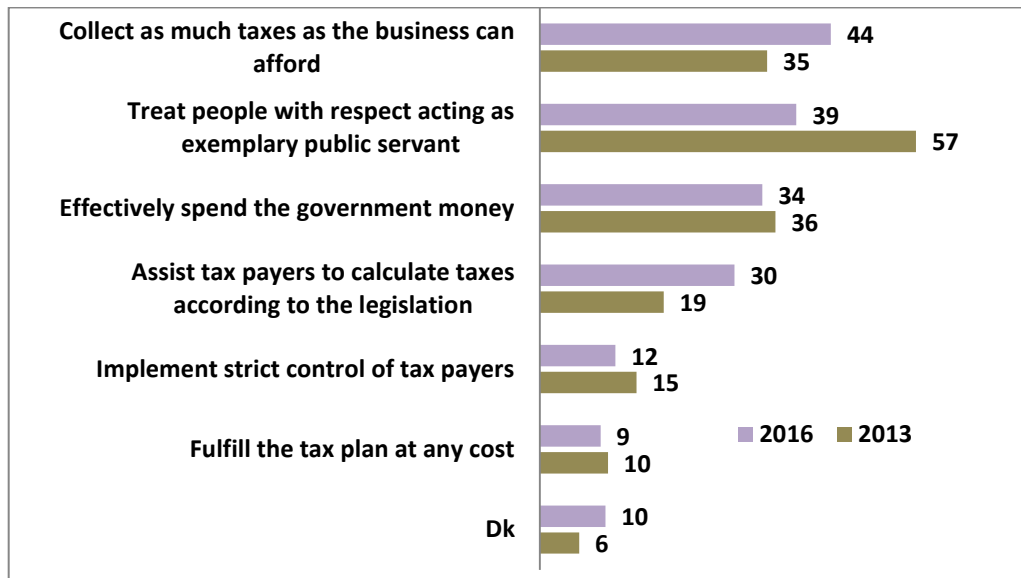


The analysis of the results concerning the functions of the tax authority reveals the following: “Collecting taxes as much as the citizens and the businesses can afford” is one of the most popular responses regarding the mission of the tax authority. It is not surprising then that 64 percent of the respondents think that the illegal solicitation of payments negatively impacts tax compliance (see Tables 1.7 and 1.17 Line 12).

Excluding emotional answers that are not directly relevant, the second function of the tax authority should be helping the citizens to pay taxes according to the tax legislation (30 percent of the respondents). It would be interesting to juxtapose this finding with the question “Do you think that citizens should calculate and pay their own taxes?” (see Table 1.19). Twenty-nine percent of the respondents answered yes, not wishing to leave that responsibility on the tax authority.

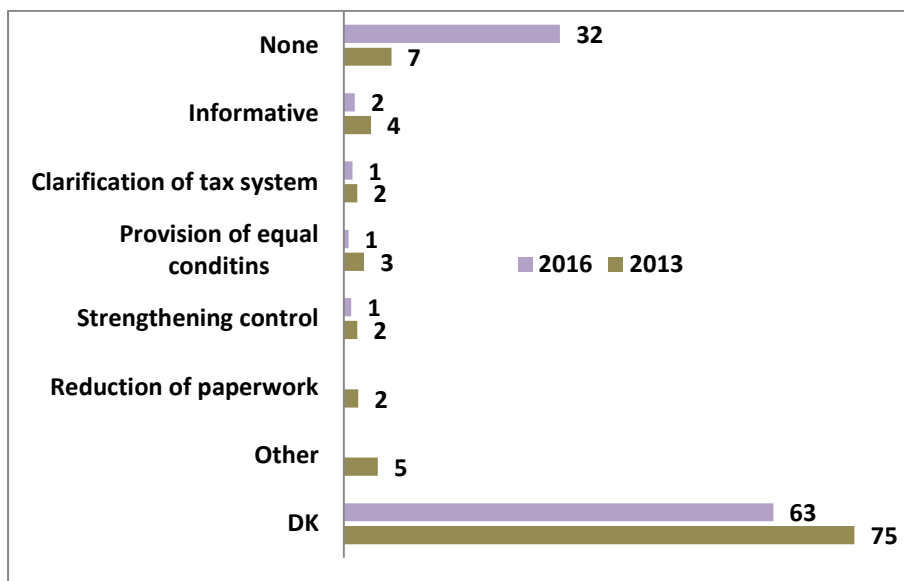
Respondents were satisfied with the electronic services provided by the tax authority, the Call Center having a particularly high rating among other answers. However, respondents had a difficult time assessing provided services in general: 43-62 percent “don’t knows.” These findings may be due to the nature of the survey. Since the survey was conducted in the households, not all the members of the households deal with tax services (see Table 1.23 and Chart 5).

Chart5. How would you assess the following services delivered by the RA Tax Service (2016)?



Looking at the questions on the importance of delivering new services, and excluding the cases when “don’t know” was chosen as a response (63 percent), the research shows that the respondents do not want new services; they are cautious of change, and prefer to see improvements in existing services (see Table 1.24 and Chart 6). Respondents noted “they have a lot of work to do, the citizen is not protected” answer. They also offered more specific suggestions, particularly to be publically accountable, to guide instead of penalizing during the first inspection and ensure equal administration.

Chart6. What new services do you think should be delivered by the SRC?



When comparing the results of the question above with the question “To what extent do you agree that dealing with employees of the tax inspection is stressful” (see Table 1.17, Line 8), 46 percent agree or fully agree with the statement, exceeding the percentage of those who think otherwise (25 percent).

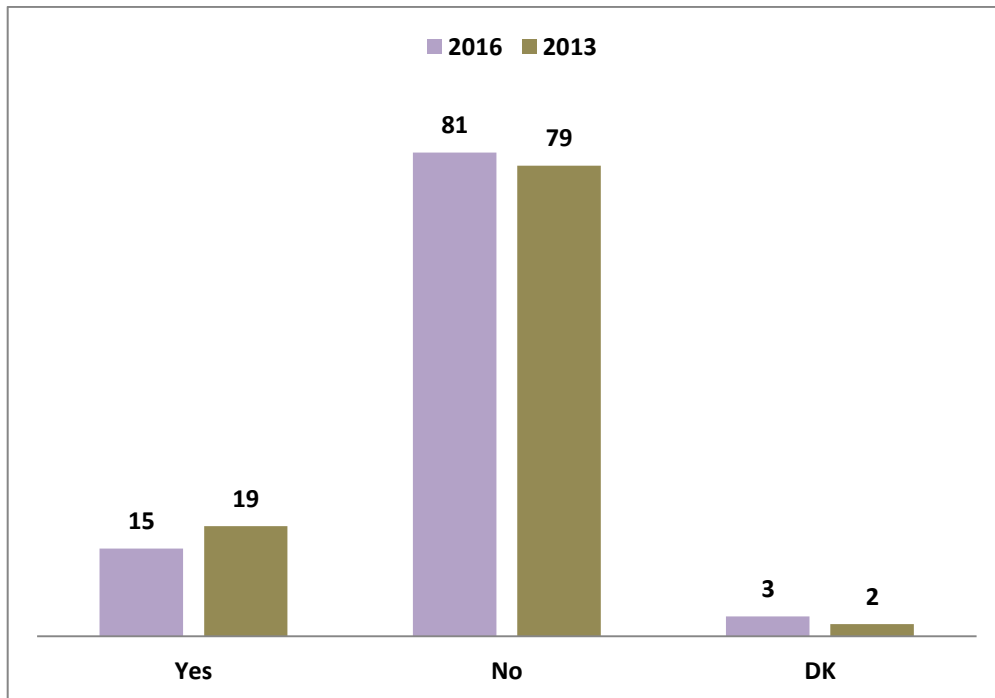
Only 15 percent of the respondents would be interested in working as a tax inspector, in comparison with the 81 percent of the respondents who would not (see Table 2.8). Those who would like to work for the tax authority would like to work there for the job being prestigious, interesting, or well paid, while others were interested in working for the tax authority to make the system more beneficial for the citizens, or make the system more honest and useful (see

Table 2.9.1). The group of these “devoted” citizens constitutes four percent of the respondents or 23 percent of those interested in working for the tax authority. Those who would not want to work for the tax authority gave the following reasons: the complexity of the job; the lack of skills and knowledge; and the incompatibility of the job with integrity; or the poor reputation of the job (see Table 2.9.2 and Charts 7-9).

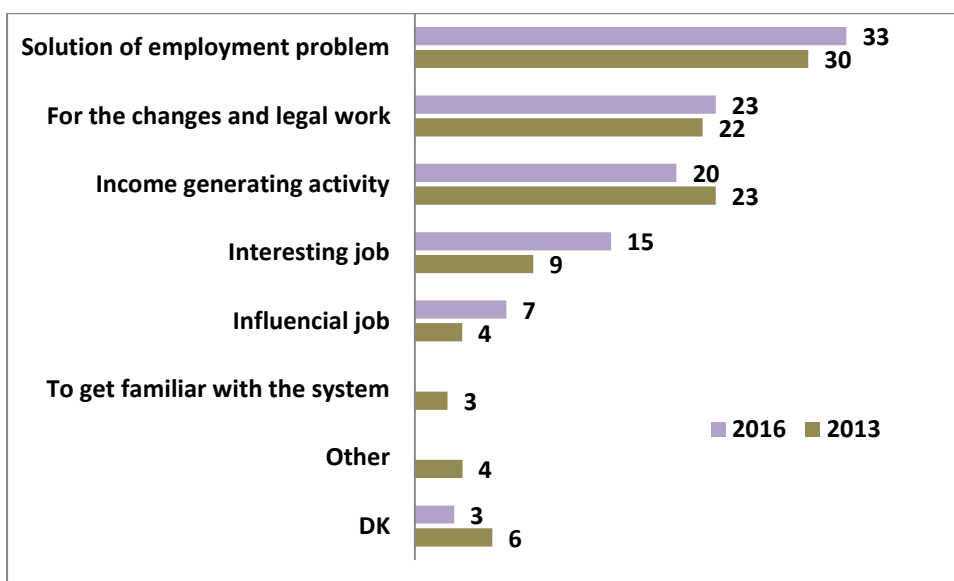
Note: In comparison to the survey results in 2013:

- The percentage of respondents who would like to work as tax inspectors has decreased from 19 percent to 15 percent.

Chart7. Would you like to work as a tax inspector?



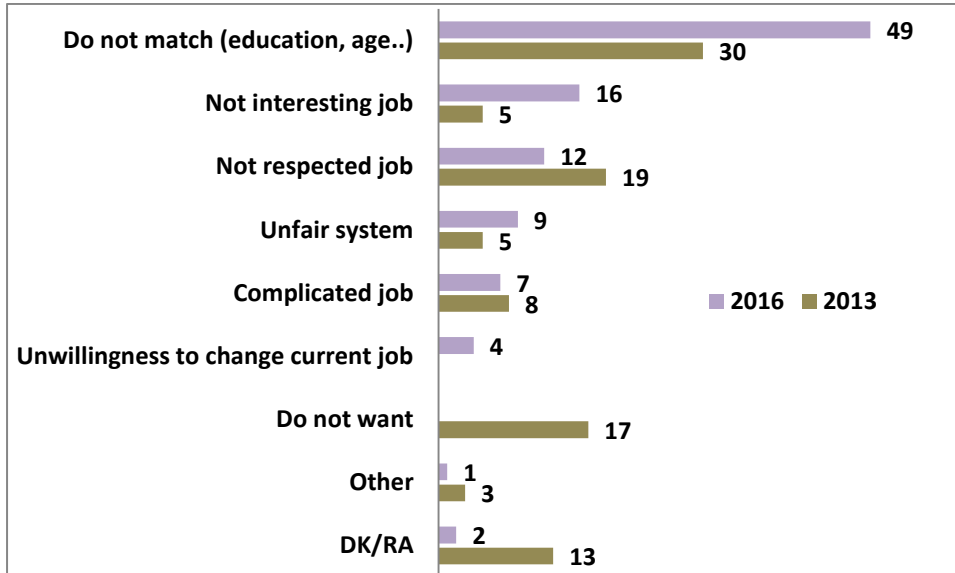
Char 8. Why would you like to work as a tax inspector? (Among the “yes” answers)



Besides this group of “devoted” people, there is also a group of promising intellectuals who think that the job is interesting (15 percent).

Note: Further analysis (see Cross tabulation Tables 4.1-4.8) shows that for all of the main question covered in this report those who are interested in working as tax inspectors show above average results for the readiness to pay taxes, dealing with compliant taxpayers and other questions.

Chart9. Why would you not like to work as a tax inspector? (Among the “No” answers)



In a summary of the section “PERCEPTIONS OF THE RESPONDENTS CONCERNING TAX AUTHORITIES,” respondents do feel the improvements in the tax system. At the same time, around 65 percent criticize illegal solicitations by the tax authority. Respondents would like to see the tax authority particularly taking into consideration the paying capacity of taxpayers when implementing their mission. Thirty percent of the respondents think that the tax authority should consider the paying capacity of the taxpayers and help the taxpayers with the calculation of the taxes. This is a serious resource to mobilize into the groups of those willing to pay taxes. Few are interested in the prospect of becoming a tax inspector, and among those who are interested, monetary motives are dominating. However, there is a small group of enthusiasts who would work as an inspector to make the system fairer to benefit the population.

TAX COMPLIANCE

“Tax compliance” is one of the central elements in tax surveys around the world. Willingness to comply with tax legislation and the rate of tax compliance are used with the term interchangeably.

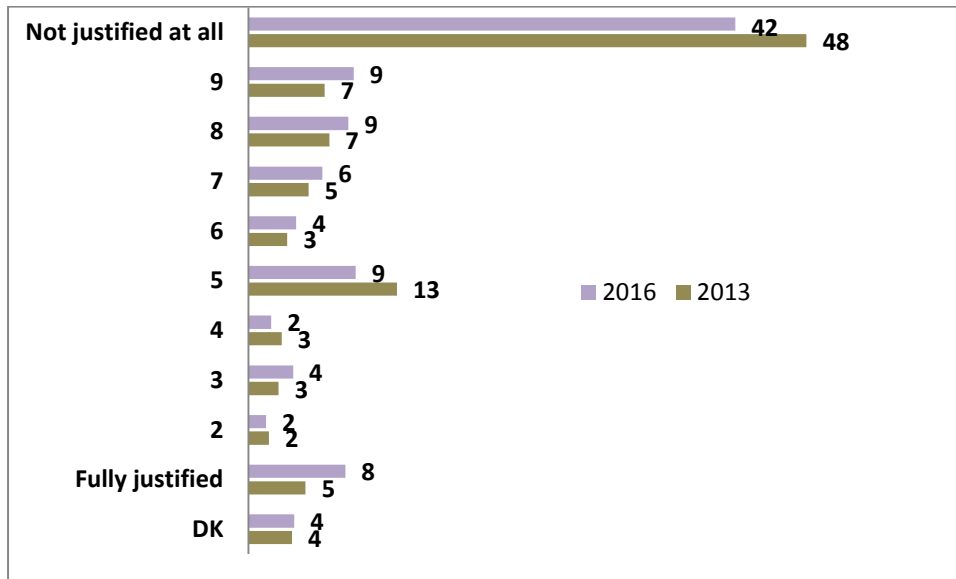
The Tax Compliance survey reveals the following perceptions and attitudes among the respondents:

Seventy percent of the respondents hold a clear position against avoiding taxes (on a scale 1-10, reporting “6” and above) (see Table 1.8 and Table 1.9).

The respondents are generally not in favor of avoiding taxes when possible. On a scale 1 to 10, where 10 is “Not justified at all,” avoiding taxes scored 7.8. At the same time, whether people cheat on taxes when possible scored 6.6 (see Table 1.8).

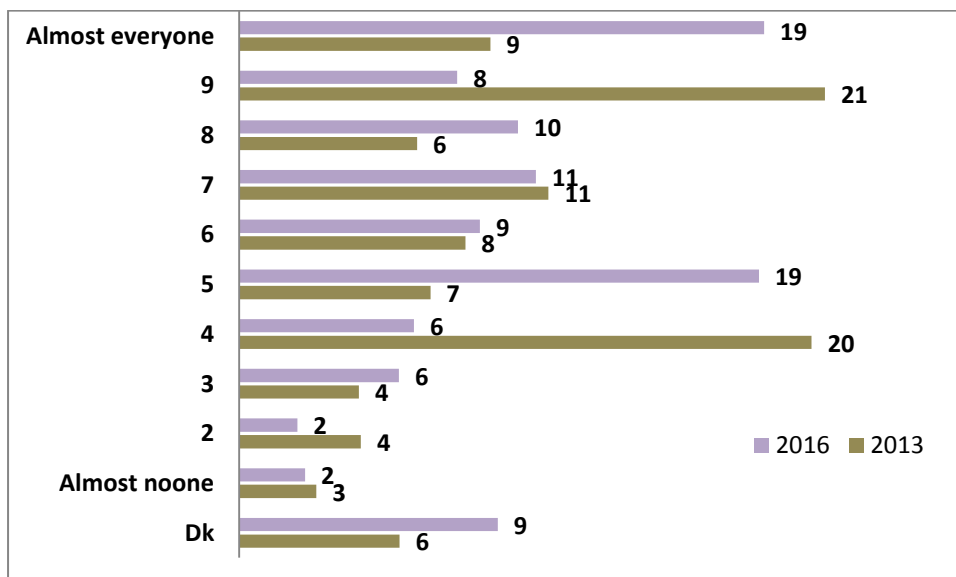
Moreover, 42 percent said that avoiding taxes is not justifiable at all. It is important to note here, that the question addressed avoiding taxes in general, without specifying cases of avoiding taxes permissible by the law (see chart 10).

Chart10. On a scale 1-10 (1- fully justified, 10 – not justified at all), how justified is it to avoid taxes when possible?



The comparison results of questions 1.8 and 1.9 are surprising. While a large segment of the respondents (43 percent) is categorically critical toward avoiding taxes, 47 percent hold a strong position (on a scale of 1-10, reporting “6” and above) that people avoid taxes in reality. Moreover, 19 percent said that almost everyone displays such a behavior (see Table 1.9 and chart 11).

Chart11. On a scale 1-10 (1- almost no one, 10 –almost everyone), do you think that people avoid taxes when possible?

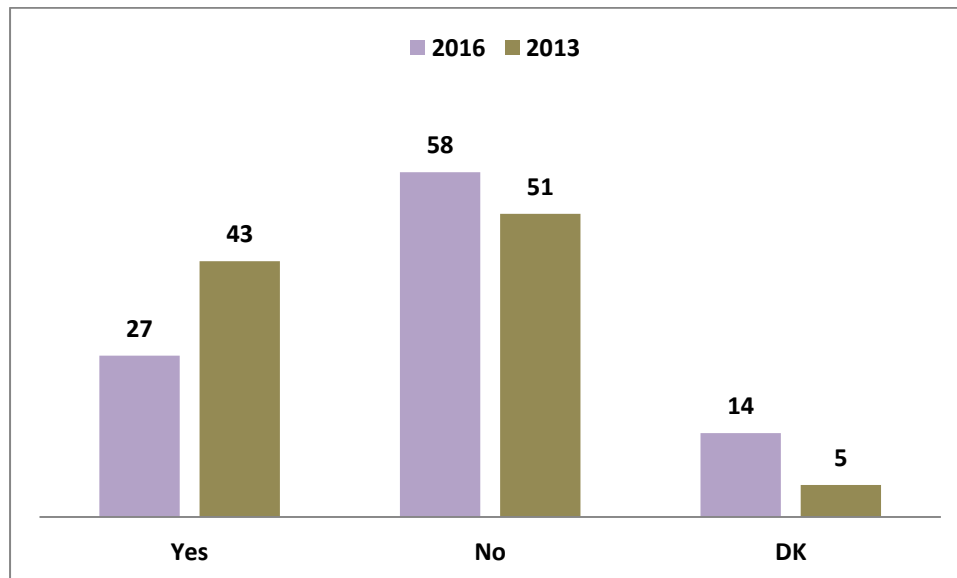


It is interesting to observe the attitude of the “undecided” respondents. While four percent of the respondents fall into the category of “don’t know” and “refuse to answer” for the hypothetical moral question 1.8, nine percent fall into this category for the more practical

question 1.9. The percentage of the borderline “undecided” respondents thus doubles. This is also a resource to increase the number of the taxpayers.

The topic of “whistle blowers” is also new for the Armenian reality. Therefore, we analyzed it separately. Twenty seven percent (see Table 1.21 and chart 12) said that it is right to inform tax authorities if they see tax legislation violations.

Chart12. Is it right to inform the tax authorities in case of failure to fulfill the requirements of the tax legislation?



The comparison of this question with three other questions directly concerning the respondents reveals interesting results (see Cross tabulation Tables 5.1; 5.2; 5.3). Thus, of the 27 percent of those who think informing is right:

- Forty-seven percent are not opposed to purchasing goods from none tax-compliant sellers;
- Only one in three would serve as a personal example, requesting relevant receipts for the purchased goods and services (33 percent of the respondents agree of fully agree);
- About one in six (15 percent) agrees or fully agrees, that they would inform the tax authorities if they witnessed cases of tax evasion.

Thus, one can conclude that the respondents generally value informing tax authorities about law violations, and the importance of doing something about it, however, in reality they hesitate, something keeps them back from doing so. Freeriding seems like an easier option. From that perspective, it is important to pay attention that there is a provision in the government program to encourage “whistleblowers” and protect them.

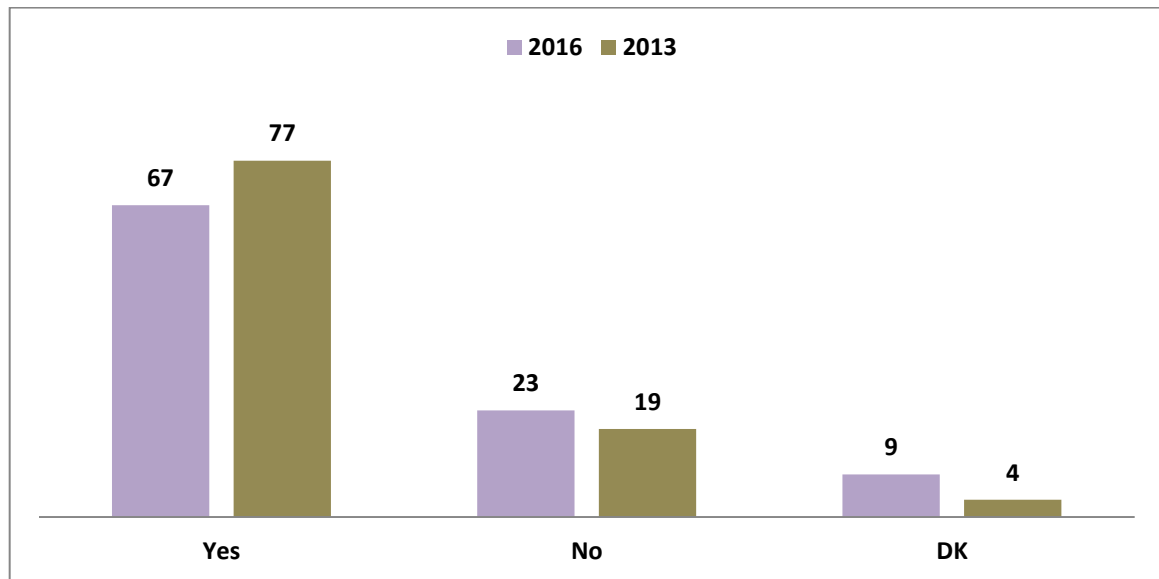
Note: In comparison to the survey results in 2013, the share of those who think informing tax authorities is the right thing to do has decreased from 43 percent to 27 percent.

Questions about Laffer’s curve are common in other countries. According to the theory, in the situation of higher tax rates and tax burden, people are more likely to avoid paying taxes. Among other questions addressing this notion (see Tables 1.10-1.13; 1.15; and 1.38), the respondents

were asked whether the budget would receive more money if the government decreased tax rates. Seventy-three percent responded “yes,” in favor of the theory.

Another similar question asked whether the taxpayers would stop avoiding taxes, if the government decreased tax rates. Again, 67 percent of the respondents believed that citizens would stop hiding taxes and would cooperate with the government for the sake of public good. **Here again, the number of the optimists two and a half times outnumbers those who do not think it would change anything** (see Chart 13).

Chart13. Let’s imagine that the government has decided to reduce the taxes. Will people in Armenia be ready to cooperate, i.e. to stop cheating on taxes?



One can see an interesting pattern when comparing the answers to this question with the specially added question on “tax amnesty.” The “optimist” respondents who are willing to voluntarily pay taxes and cooperate with the government (see Table 1.38), prefer to have an amnesty more than have tax rates decreased without amnesty when asked “If Armenia implemented a tax amnesty and everyone could declare all the taxes they had hidden in previous years, with a condition that they would have to lawfully pay taxes after that, and, as a result, would people start declaring their hidden taxes and would they start honestly paying their taxes?” (See Cross tabulation 6).

Separately exploring the question on tax amnesty (see Table 1.38 and Cross tabulation Table: 7.1-7.8).

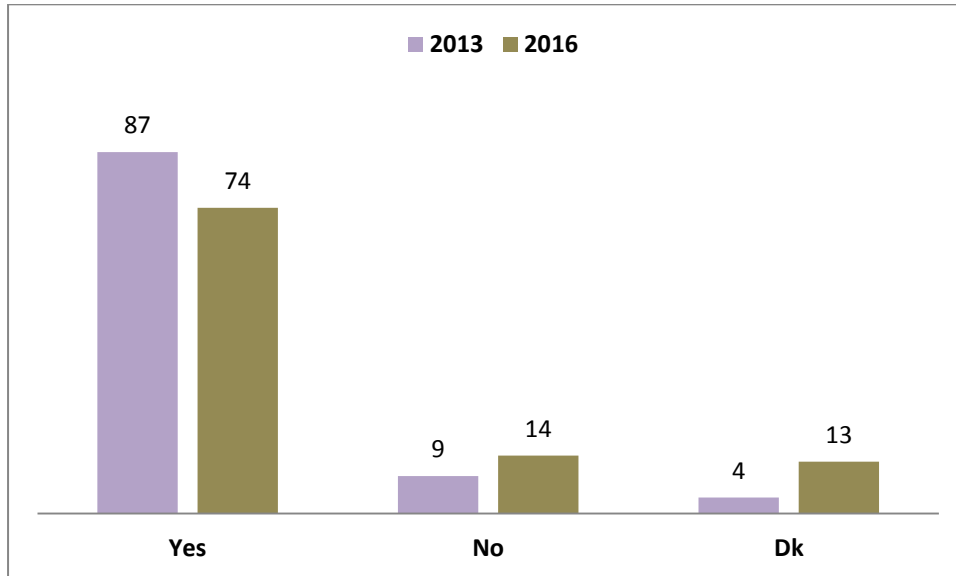
- Only 28 percent think that people would “go and declare” all taxable objects, for which they have not paid taxes previously;
- Around one third are undecided regarding this question;
- Thirty-nine percent do not believe that this is a realistic process;
- Believers are respondents with low or middle income. The belief decreases with the increase in income.

Note: In comparison to the survey results in 2013, three years later the difference between the two opposing views – people would cooperate with the government and “it will not

work”—has decreased from four to two and a half times. People would cooperate with the government less.

Seventy-four percent of the respondents agree that if the tax rates are decreased, tax evasions should have stricter punishments (see chart 14).

Chart14. Would you agree to lower the taxes but to strengthen the responsibility in cases of breaching the law?

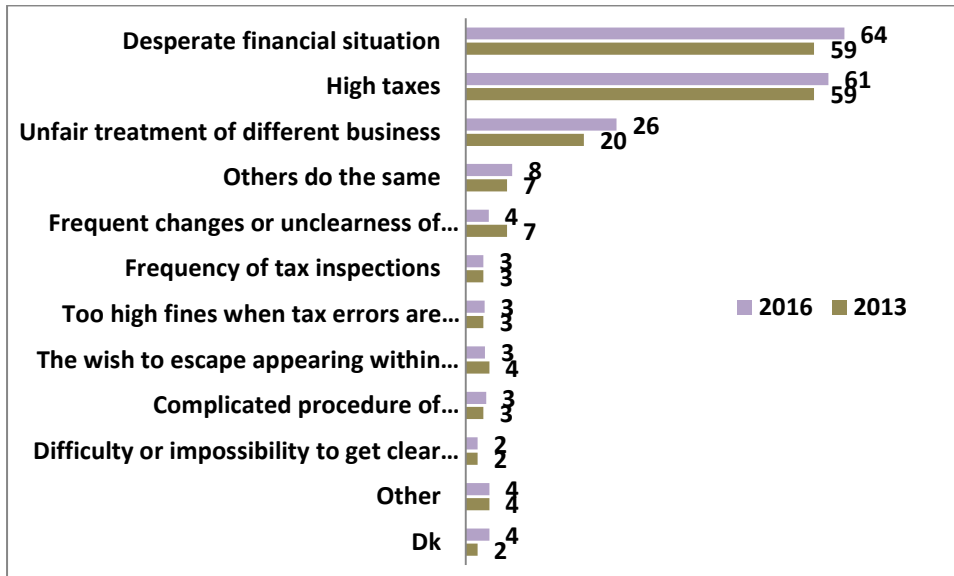


Looking at the opinion of those who said yes to this question regarding the question on the willingness to lawfully pay taxes after the amnesty (see Table 1.38), one can see (see cross tabulation Table 5 and 6) that these people are not as inclined toward stricter penalties.

Thus, the majority of the respondents are ready to stop hiding taxes, and even ready for stricter punishments, on the condition that tax rates decrease along with an amnesty. It is worth to note here, that 96 percent of the respondents consider the tax burden heavy or very heavy in their daily life.

The answers to the question “Why do people avoid paying taxes?” are presented in Table 1.13 and Chart 15.

Char 15. What are the main reasons for not paying or hiding the taxes? (Multiple answers are acceptable)



One can group the answers into two categories of reasons: unfair tax administration and main issues with tax practices. Among the two possible responses, “desperate financial situation” and “high tax rates” were among the most common. This finding is in line with the previous statement, which suggests that the main objective of the tax authority should be to consider the paying capacity of the taxpayers when establishing tax rates.

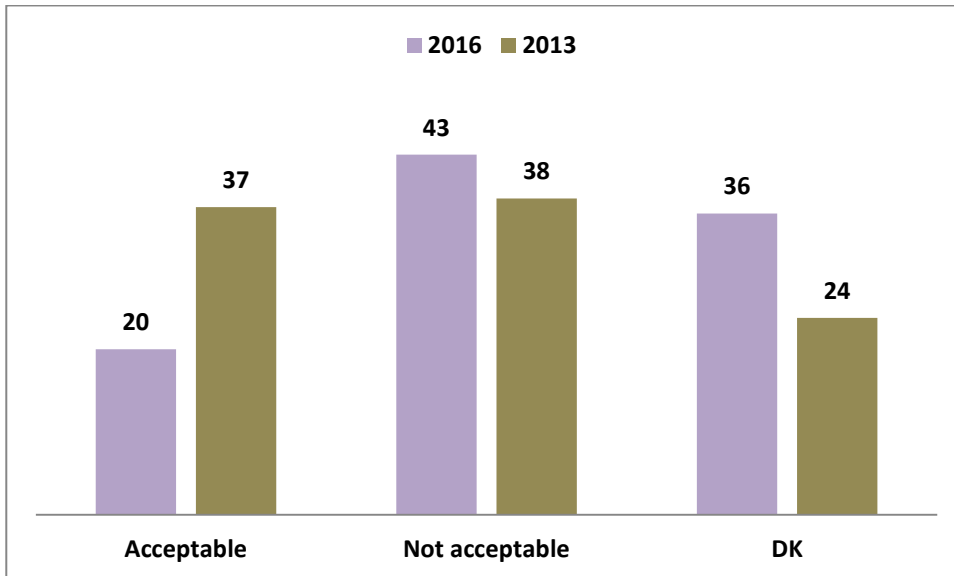
“Unfair treatment of different businesses” was also among the most common answers with 26 percent. Comparing this finding with the other answers, one can conclude that the respondents are not as much concerned with the frequent changes in the laws, frequent inspections, or that others also avoid taxes. The sum of these last three reasons is 15 percent. This is also an opportunity resource, as already noted for question 1.9. In the “Other” category respondents also listed “they have a mandate,” “it has become a culture,” and “they are greedy” answers.

The analysis revealed perceptions on unfair taxation of various businesses: only 13 percent think that there are no “roofs and protection” and that everybody pays taxes equally (see Table 1.17 Line 2). Sixty-eight percent of the respondents are willing to pay more taxes, if corruption is lower (see Table 1.17 Line 10).

Note: In comparison to the survey results in 2013, the share of those who think that there are no “roofs and protection” in Armenia has decreased twice, from 28 percent to 13 percent.

Is it acceptable to pay less in taxes in the cases permitted by the law? This question has been new for the taxpayers in the recent years (see Table 1.15 and Chart 16).

Chart 16. Do you consider taxpayers’ practice of reducing taxes acceptable?



A large share of respondents who answered “don’t know,” and the equal number between “yes” and “no” answers, in addition to the large percentage of the “don’t know” responses on the follow-up question “why” to “yes” or “no” responses (charts 16-18) shows that this question is difficult not only from the aspect of not knowing the law, but also from a psychological aspect. It may also be explained by the fact that to this day tax legislation does not define legal reduction or legal optimization of taxes.

Char 17. Why do you consider taxpayers’ practice of reducing taxes acceptable?

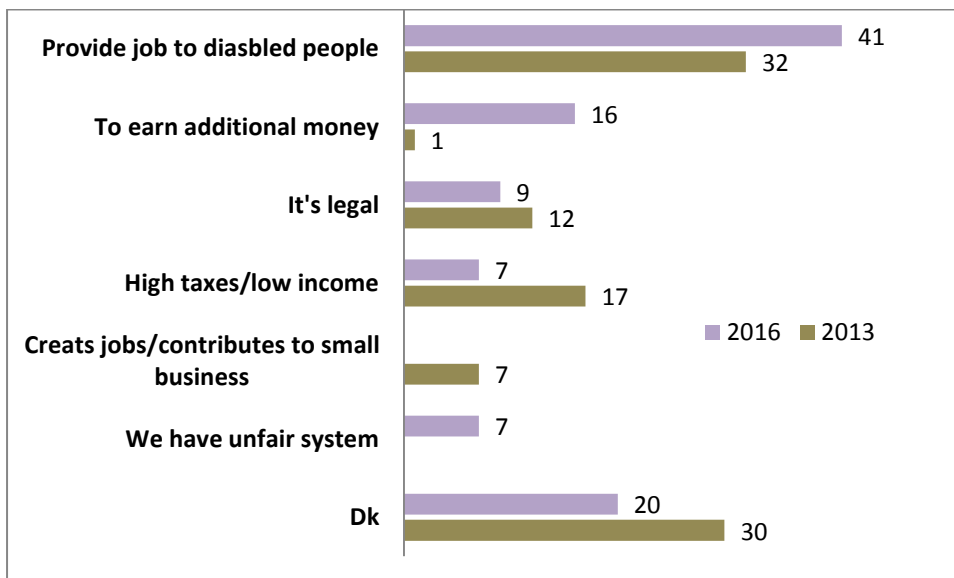
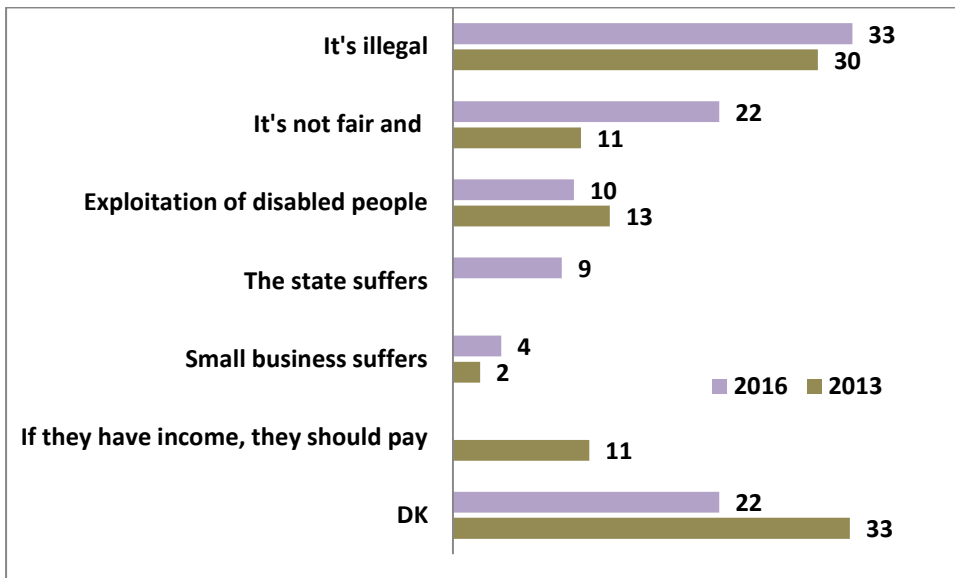


Chart18. Why do you consider taxpayers’ practice of reducing taxes unacceptable?



For the sake of the tax-profit understanding and analysis it is important to study the opinions of those who consider it acceptable to legally plan and optimize taxes (see Table 1.15.1). Again, excluding the undecided, we will find that 41 percent think that it is acceptable to save on profit tax by using tax breaks, because it is connected with creating employment opportunities for people with disabilities and implementation of social programs in general. Thus, it seems that the public is considerably in favor of the solution of not only fiscal but also regulatory issues through tax legislation.

Of those who are in favor of tax optimization, seven percent explain their stance by the inadequate high level of the tax burden. Same percentage thinks it is a “boomerang,” noting that “the government itself is dishonest.”

Interestingly, 9 percent of those who are in favor of tax optimization consider tax reduction acceptable, arguing that it is permissible by the law. This group represents a knowledgeable taxpayer who is ready to have their voice heard in the civil society and express a clear stance.

Note: In comparison to the survey results in 2013, three years later:

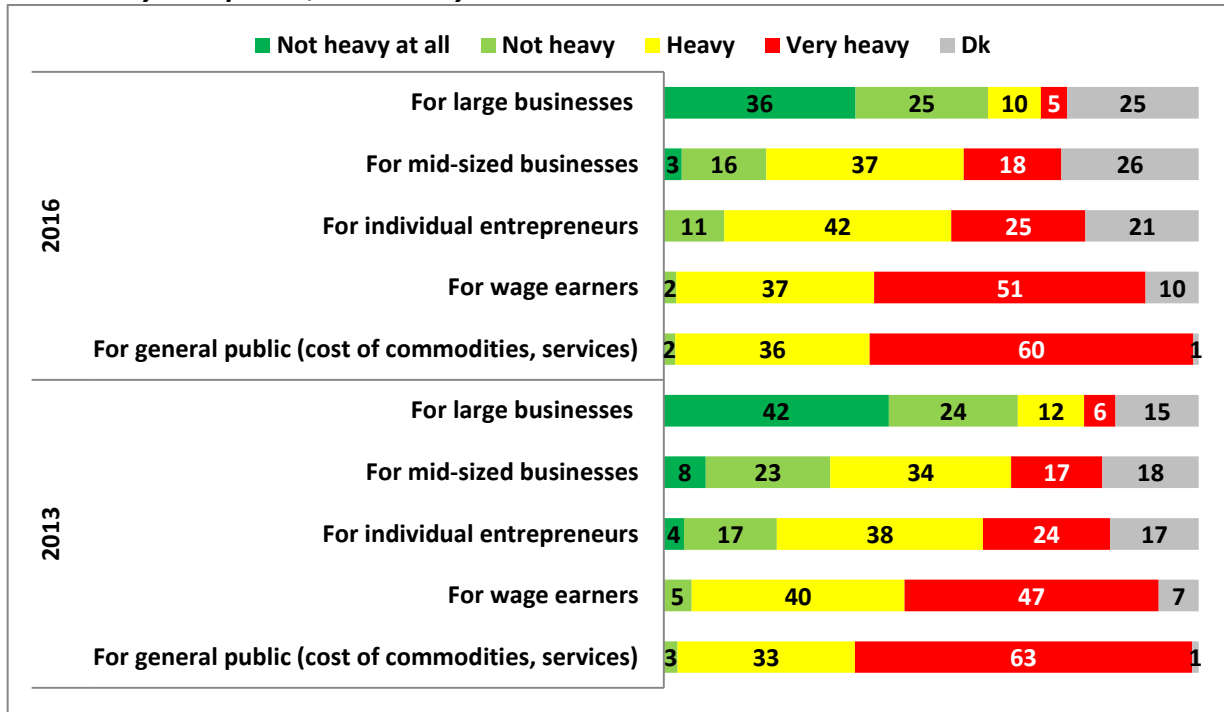
- *The share of those who find tax reduction acceptable has decreased three times. Respondents who have left this category, have mostly joined those who don't know and are undecided, and not those who find it unacceptable;*
- *Among those that consider it unacceptable, the share of the respondents who think it is “dishonest and unfair” has increased;*

For the same tax-revenue policy perspective, it is important that the great majority of the respondents (54 percent; see Table 1.20) is ready and finds it acceptable to take on the responsibility of calculating taxes themselves, instead of leaving the responsibility on the state or local self-government bodies, as it is done in many other countries of the world (and in Armenia for the property tax). Interestingly, before that answer, 61 percent of the respondents had questioned the ability of each citizen to independently follow up and calculate their taxes (see Table 1.19).

The analyses of the willingness to pay taxes and attitudes toward taxes would not be complete without the opinions of respondents on the tax burden in Armenia. According to 96 percent of

respondents, the tax burden has a high level of impact on their daily life (see Chart 19 and Table 1.27.1). Seventy-seven percent of the respondents think that the tax burden is heavy for small-size businesses and 55 percent think it is heavy for medium-size businesses. At the same time, sixty-one percent did not consider it heavy for large businesses.

Chart19. In your opinion, how heavy is the tax burden...?



Note: In comparison to the survey results in 2013, three years later, according to the respondents:

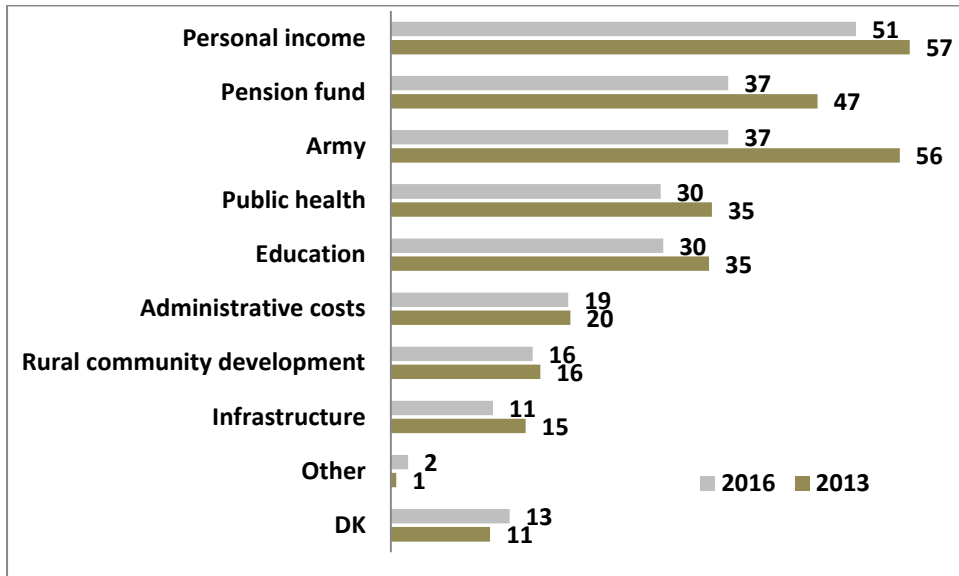
- The tax burden in the daily lives of citizens has not decreased, neither from the perspective of goods and services, nor from the perspective of the income tax;
- It has shifted toward “heavier” for small- and medium-size businesses;
- The tax burden has slightly decreased for large businesses. That indirectly means that respondents more strongly believe that businesses are capable of carrying a heavier tax burden.

PERCEPTIONS ON TAX USE

Paying taxes is greatly driven by the justification of its purpose. Despite the level of awareness on the specifics of the budget system among the respondents, the survey revealed a very sensitive attitude of the respondents toward how the collected taxes are used (see Tables 1.14, 1.17, 1.22).

Fifty-one percent of the respondents surveyed on the use of taxes said that the government puts tax money to a personal use (Chart 20).

Char 20. How does the government currently use the income generated from taxes? (Multiple answers are acceptable)

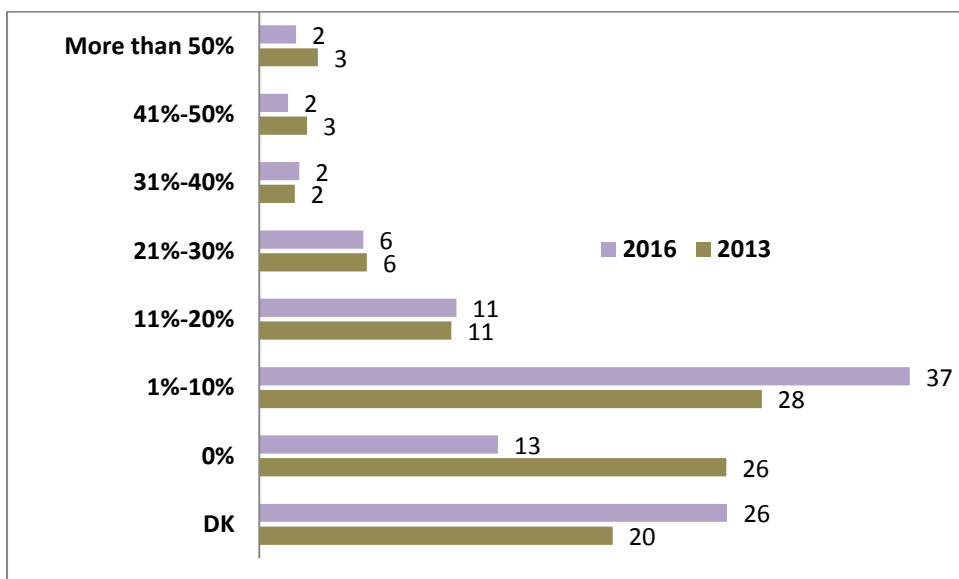


Thirty-seven percent of the respondents mentioned the army/security and pensions as directions for using tax money. Public health and public education were mentioned as directions for spending tax money by 30 percent of the respondents.

The survey results show that awareness about the practices of tax collection and the directions of the use of tax money can influence the willingness to pay taxes. Thus, 71 percent of the respondents do not know or do not agree that the public services they receive are actually useful. At the same time, 63 percent of the respondents agree that they would be willing to pay more taxes if they saw more social or other services that are useful to the public, such as the police, the army, and/or free education (see Table 1.17, first and fourth lines).

When asked, what percentage of the taxes is returned to the society in a form of public services, 48 percent of the respondents noted up to 20 percent (Chart 21 and Table 1.25). Additionally, every fourth respondent said they do not have a clear idea about the issue, and 14 percent thought they do not get back anything in a form of public good.

Chart21. Please indicate the percent of the taxes that you think the society gets back through the services delivered by the state



When asked what the government should do if more funds are needed in case of a force majeure situation, only five percent of the respondents think that the taxes should be raised (see Chart 22 and Table 1.14).

Overall, the respondents are not entirely ready for this question, do not know how to solve this strategic question of financial stability, and are ready to borrow from other countries, oligarchs and to decrease expenditure. The questionnaire included a new option – “sell the property that is still publically owned,” however this option did not get many responses. Among the “other” option the most popular responses were “to take from those who took” and “use all means.”

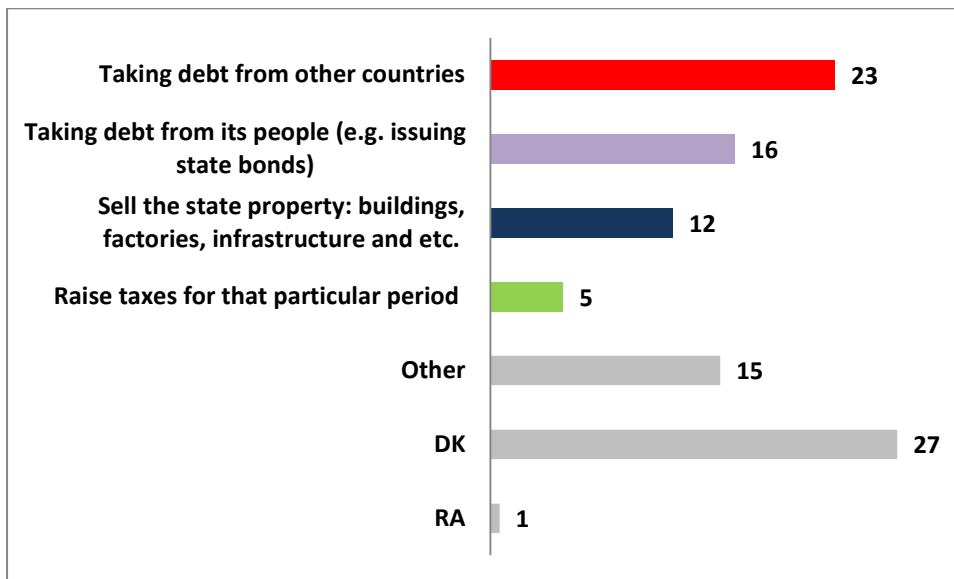
Separate analysis of this “ready to be taxed” respondent (see cross tabulation Table 21.1-21.8), i.e. the five percent, show that:

1. They are among those people who personally, or whose family members have done business over the past year;
2. Are more often from the households that have higher monthly income. Individual analysis shows that these people are more among the middle income (40 – 190 thousand dram) respondents;
3. People with higher education are more hesitant to answer this question on force majeure;
4. There are more “never married” respondents in this group (presumably, young people);
5. They are equally distributed according to the sphere of occupation, with a small deviation toward the "producers" (agriculture, mining, manufacturing, electricity, water supply and construction).

Tax perceptions of this “ready to be taxed” group are the following:

6. They express less pride for paying taxes in comparison to the rest of the respondents (31 percent in comparison to the average 37 percent)
7. From tax administration perspective, they emphasize the importance of simplifying tax accounting forms and eliminating unlawful interference in business operations. From tax revenue reform perspective, they propose to discuss decreasing the tax burden.
8. Twice more than the average, they are willing to pay more taxes, retire later and receive less subsidies, if the foreign debt reaches a critical limit, thus saving their country from being declared bankrupt (35-41 percent compared to 17-19 percent, respectively).
9. However, their stance on the pension reforms does not differ from the average respondent. The question asked, “According to the law on accumulative pension, all young employees are required to pay a part of their salaries toward their retirement, while receiving funds from the state budget during their lifetime, for the same purpose.” This means, that this group does not consider this question as an “emergency,” even in the case when the government pays from the state budget to the young people during their active years of life, to ensure a decent standard of living when they retire.

Chart22. If the government needs additional money in a force-majeure situation, which would be a better option?



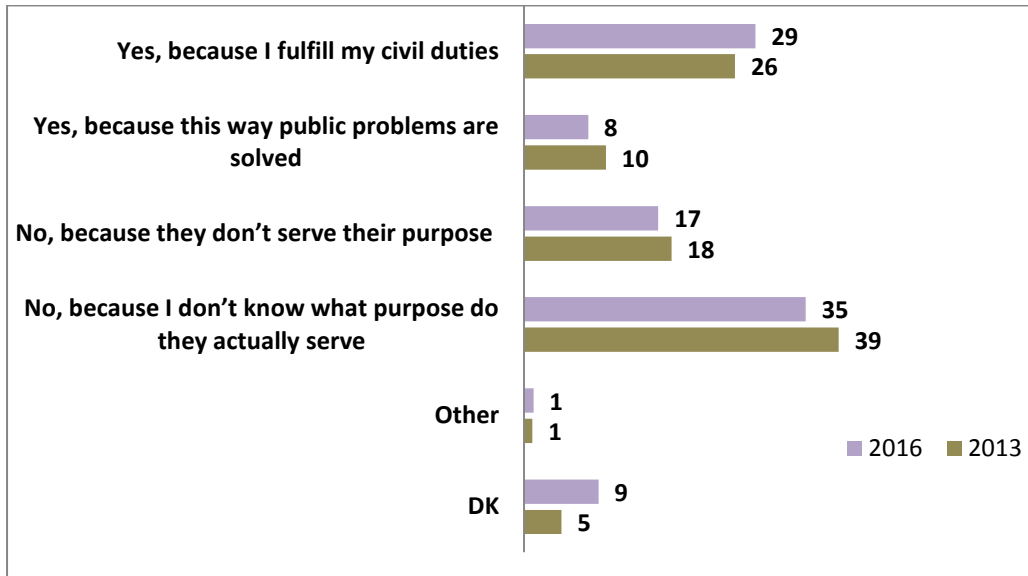
Note: In comparison to the survey results in 2013, three years later the share of the respondents, who agree that the taxes should be increased, has remained the same – five percent.

THE SENSE OF IMPORTANCE OF PAYING TAXES AND ACTIONS THE TAXPAYERS WOULD TAKE

Respondents were asked “Are you proud to be paying taxes?” The results of the research (see Tables 1.29) show that the feeling of pride is directly connected with the level of trust toward the state and local self-government bodies in the country. Respondents with no hesitation made suggestions on what they would do for people to trust and start paying taxes willingly and voluntarily.

Thirty-seven percent of the respondents gave a positive answer when asked if they were proud to be paying taxes. Fifty-two percent responded “no,” because according to them the taxes do not serve their purpose or they do not know what purpose the taxes serve (Chart 23). This 37 percent cohort can significantly change the perceptions of the role of taxes and improve tax collection, if the issue of fairness that was raised multiple times during the survey is solved.

Chart 23. Are you proud to pay taxes?



Among the 37 percent of respondents who gave a positive answer, eight percent showed a clear and complete understanding and assessment of the purpose of taxes. This cohort explained their positive response by saying public issues are solved through taxes.

Among “other” responses respondents listed “I have not even thought about it,” and “No, because the tax burden is heavy, I have many difficulties especially given that others who don’t pay get richer illegally.”

In a summary of this section, two thirds of the respondents do not consider paying taxes dignifying or noble, and are not proud of paying taxes. The main reasons are the inefficient use of the funds and unfair distribution (see above: the answers to the question on the efficient use of revenue from the collected taxes).

Moreover, the respondents are willing to accept a more complex tax system, but only if it is fairer. Forty-eight percent of the respondents agree with this point of view, which exceeds the number of those who do not agree with this point of view (see Table 1.17, Line 11). A further analysis of those who would agree to a more complex tax system shows:

- Married and never married respondents are more willing to make such a “sacrifice” (see Cross tabulation Table 8.1);
- Respondents care less about the simplicity of the legislation and value fairness more with the increase in salaries and income (see Cross tabulation Tables 9.1 and 10.1);
- However, respondents whose family members or they personally have done business in the past year or have been a business owner, would like to have a simpler tax legislation (32 percent in comparison to the average 48 percent).

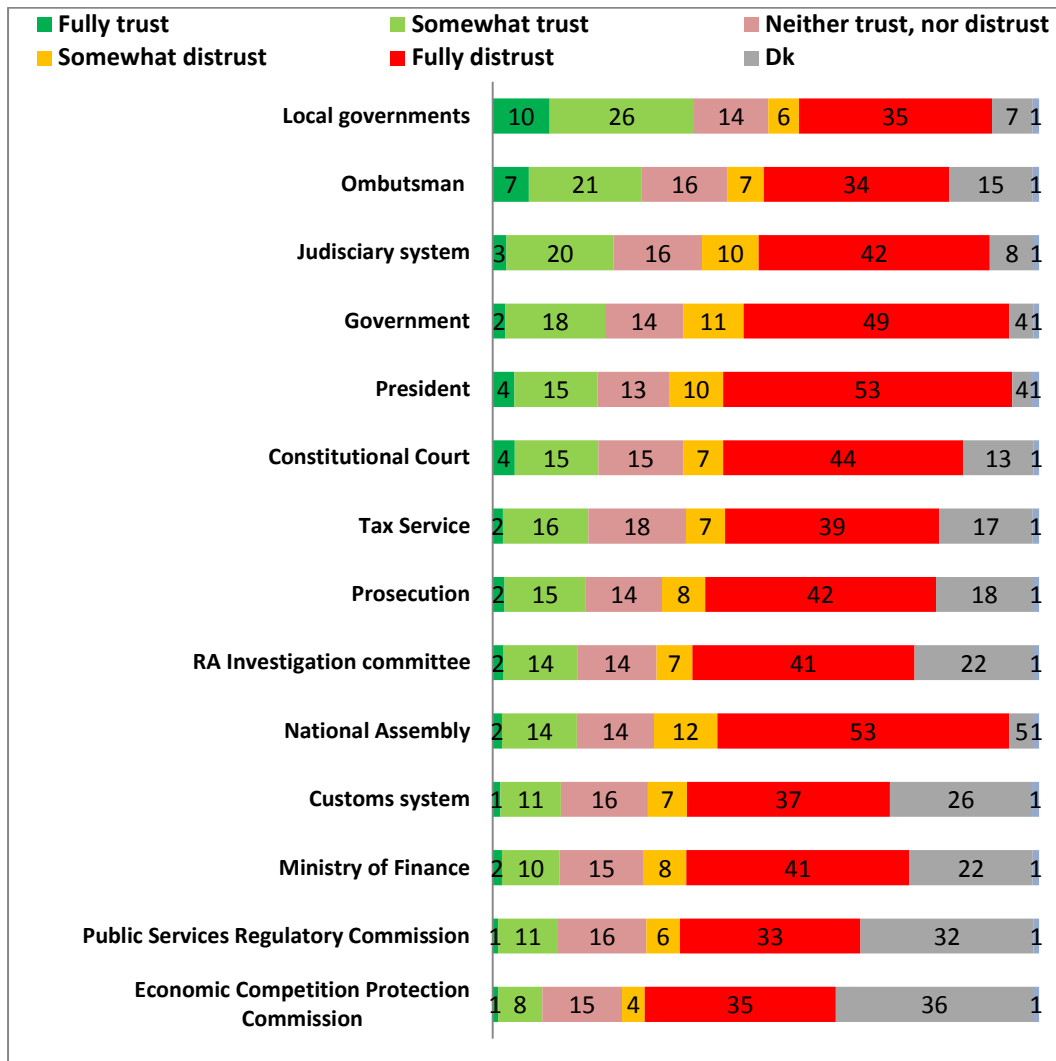
Trust and what to do to improve tax collection

As the perceptions of the population are anchored in the institution of trust, a separate question tried to reveal what the level of trust is among the population (see Table 1.26). The general result is that the public shows little trust toward state institutions.

“Don’t know” and “refuse to answer” options were common particularly for the institutions outside of the government, such as the State Commission for Protection of Economic Competition and Public Services Regulatory Commission of the Republic of Armenia.

Respondents fully or somewhat trust the local self-government bodies and the Ombudsmen, and somewhat the Courts, while the National Assembly, the Government, the President and the Ministry of Finance seldom got unconditional trust. This perception may be connected with the role of these institutions in tax policies.

Chart24. To what extent do you trust the following institutions?



The low level of trust toward the Ministry of Finance may be connected with a lack of awareness and a lack of understanding of its key functions, particularly because during the last few years the Ministry of Finance also includes the State Revenue Committee.

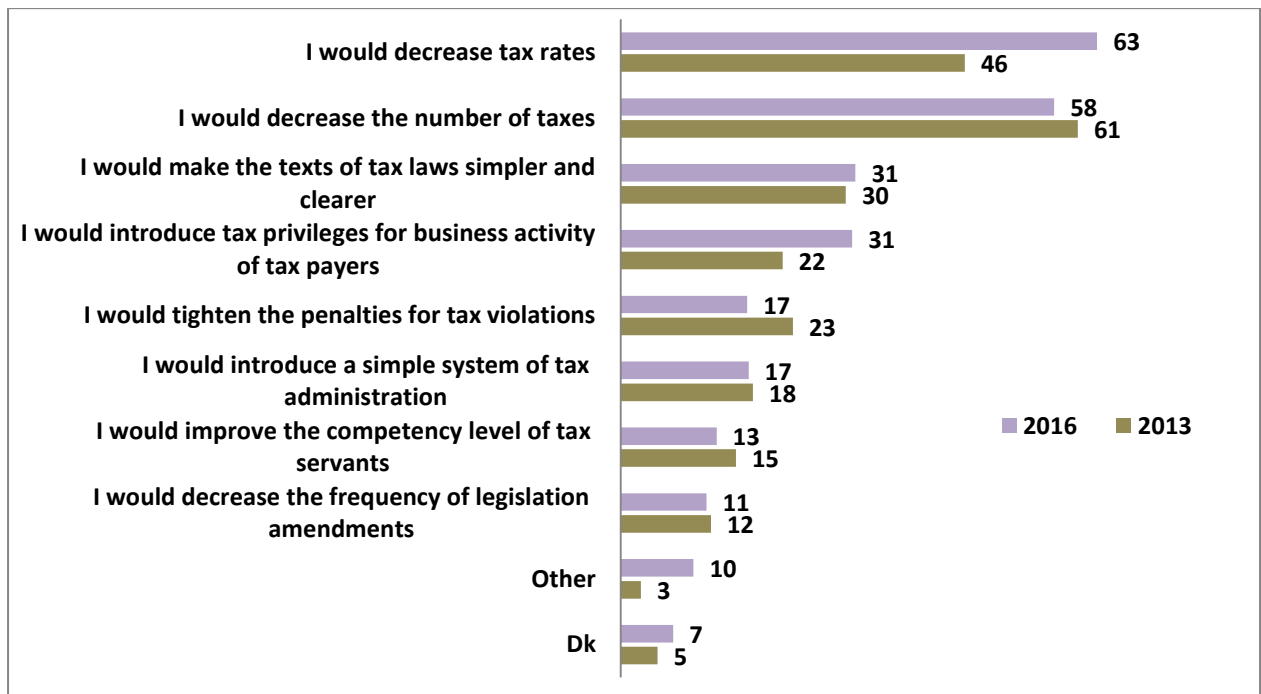
In a summary of this section, the level of trust toward financial-tax institutions is not high in Armenia, and is lower than the average among other institutions. The respondents understand the role of the Ministry of Finance, the government in general, and the National Assembly as an institution setting tax policy, and from that perspective, these institutions did not receive significant public trust. From the fiscal federalism perspective, the relatively higher trust level toward the local self-government is important. It may be explained by the assumption that the respondents deal with local taxes, which are not difficult to calculate, they experience and hear about taxes when paying property and land tax. All conditions equal, it means that if the rules and regulations of tax collection are better followed by the self-government bodies then the tax collection there would be more efficient.

Note: In comparison to the survey results in 2013, three years later:

- *The level of trust toward all institutions has either decreased or stayed the same;*
- *The level of trust toward the government has drastically decreased;*
- *Tax Service and even the Constitutional Court are not an exception (7 and 8 percent decrease, respectively).*

What to do to improve tax collection: the question asked “If you were in a decision maker position in a state agency, which would be your three primary actions to stop people from avoiding taxes and have them follow tax laws and regulations?” The results show that in order to improve tax collection, the respondents would first decrease tax rates. Sixty-three percent of the respondents chose this answer (see Chart 25, Table 1.16).

Chart25. If you were in a decision maker position in a state agency, which would be your three primary actions? (more than one answer possible)



Suggestion to decrease the number of the tax types is the second popular answer (58 percent), followed by simplifying the texts of tax laws (31 percent).

Considering that these two suggestions mean simpler relationship and administration, it makes sense to compare them with two similar questions:

- “To what extent do you agree that if paying taxes was easier and less time-consuming, people would be more willing to pay them?” Fifty-five percent agreed with this statement (see Table 17, Line 6).
- “To what extent do you agree that the tax system in Armenia is predictable? We can accurately forecast how the tax burden will look like next year?” Only 10 percent of the respondents agreed with this statement (Table 17, Line 7).

Fourth and fifth popular suggestions to improve tax collection are to introduce business tax breaks, followed by toughening penalties for tax evasion cases.

Among the “other” answers the respondents listed the importance of government intervention in the form of tax exemption during the first year to create jobs, rebuilding trust toward the tax authority, and in general taxing the rich more in order to restore trust and justice

The following two questions about the justice of tax system in order to improve tax collection prove the argument above.

1. The majority of the respondents (46 percent) agreed with the question “To what extent do you agree that the government should tax the rich with higher tax rates?” (see Table 17, Line 3). It means that from a tax burden distribution perspective, respondents believe that fairness in the horizontal tax administration is as important as vertical fairness.
2. The great majority of the respondents, 88 percent, positively answered to the question “To what extent do you believe that if people believe that taxes are fair, they would be willing to pay them?”

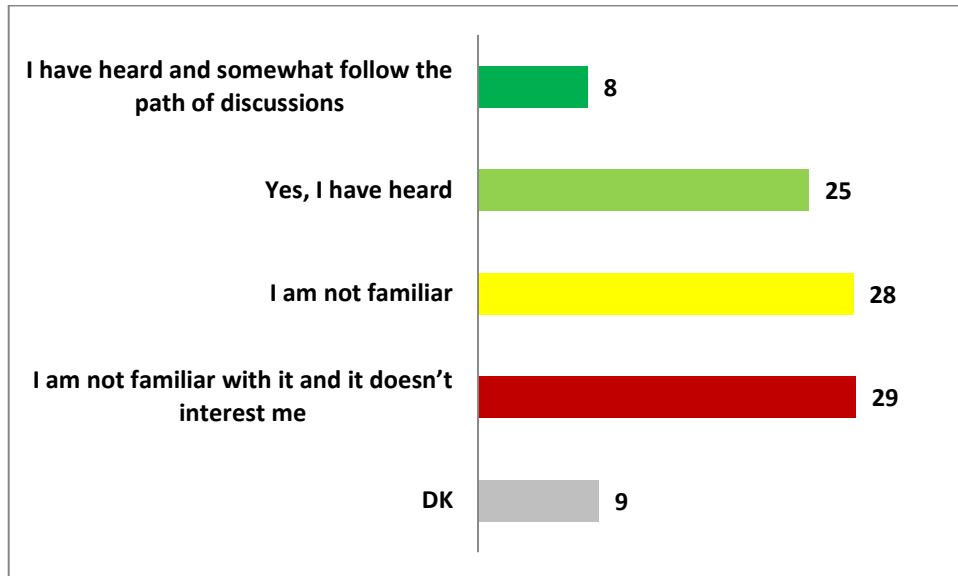
Note: In comparison to the survey results in 2013, three years later tax rate reduction has moved from second to first most popular answer.

Specific questions were added to understand whether people have access to information about laws and tax regulations, how interested and willing are people to participate in the discussions to change that, what they think needs to be done regarding tax policy and tax administration policy, and to what extent and who are willing to be pioneers in this regard.

According to only 30 percent of the respondents, they have access to necessary information on tax regulations.

Citizens of Armenia had a good opportunity to participate in the development of a new tax regulation system, as for the first time in 2016 a new Tax Code was discussed and adopted in Armenia. Only eight percent of the respondents were active in the discussion stage of the Tax Code. Further analysis shows that middle income respondents were more actively involved than high income respondents (see Cross tabulation [Table 11.1-11-8](#) and [12.1-12-8](#)). The share of those who were indifferent during the discussion stage of the tax code is three and half times higher (29 percent) than those that actively participated.

Chart 26. Were you aware that the draft of the Tax Code, containing all the tax laws was being discussed at the National Assembly of RA, %



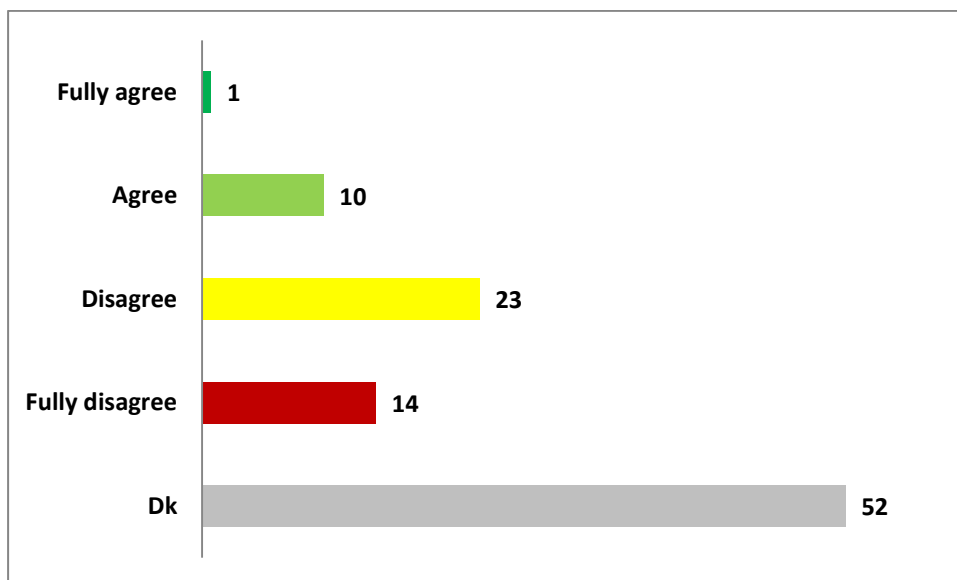
The connection between the Tax Code and the business environment and investments: Sixty-one percent of respondents do not know whether the Tax Code will have an impact on the improvement of the business environment (see Table 1.31), and 64 percent do not know if it will contribute to attracting new investments in the economy (see Table 1.32). The reason for this unawareness and the “don’t knows” could be the fact that Tax code discussions were not publicized enough. Similarly, respondents are not certain how frequently tax laws should be changed, with 42 percent saying “don’t know” (see Table 1.37).

In December 2015, Armenia held a referendum and passed Constitutional amendments. Would the Constitution create a new trustworthy environment among the taxpayers, and would the taxpayers be more willing to pay taxes? The results of the survey show only 11 percent positive responses. If we exclude the large percentage (53 percent) of “don’t knows,” the share of the respondents who think so would be 23 percent (see Chart 27, Table 1.40 Line 6). Thus, the average of the skeptical respondents is 89 percent. Further analysis of the characteristics of the group that is skeptical of the future benefits of the Constitution shows,

- By occupation: Individual entrepreneurs, self-employed and employed respondents, i.e. “actively employed people,” are more pessimistic than the group of “passive” respondents (pensionaries, housewives and students) and unemployed (see Cross tabulation Tables 13.2; 14; 15.2);
- By the field of occupation: Respondents in “manufacturing” think similar to the average taxpayers, however people in trade and service sector are more pessimistic (see Cross tabulation Tables 16.1-16.8; 17.1-17.8);
- By marital status: Married and never married respondents think similar to the average, while those in other categories – divorced, single, widowed and separated - are more pessimistic (see Cross tabulation Table 8.5);
- By the level of education: Respondents with higher education are slightly more optimistic than those with lower education levels (see Cross tabulation Tables 18.2 and 19.2);

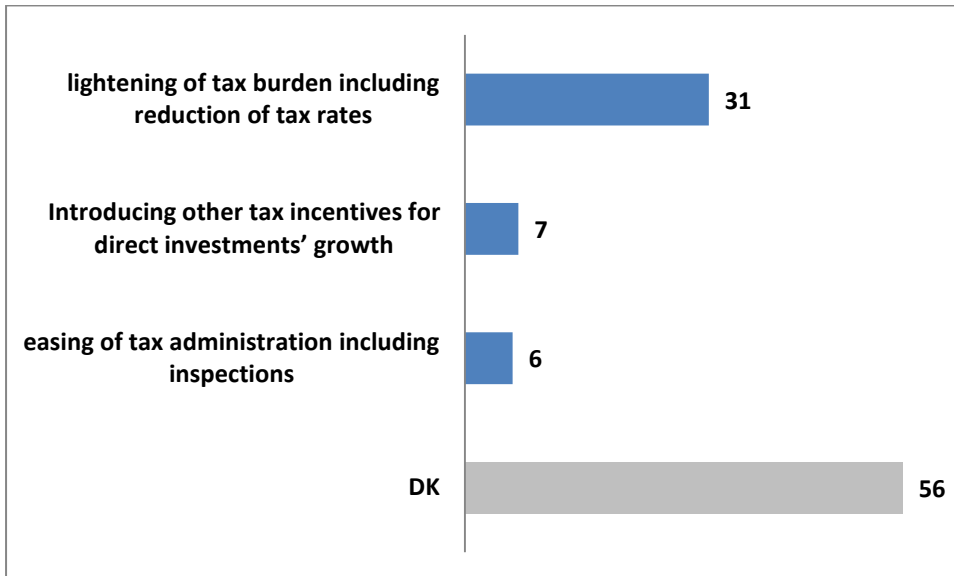
- By income (see Cross tabulation Tables 9.5 and 10.5):
 - o On the individual level of analysis, respondents with lower level income, not significantly, but are more optimistic than middle and higher income respondents;
 - o On the household level of analysis, pessimism decreases as income increases. Similarly, respondents who personally or whose family members have done business / or became business owners, that is have higher chances of getting larger income, are more optimistic about the positive impact of the Constitution (see Cross tabulation 20).
- Respondents willing to work as tax inspectors are optimistic above the average in the positive impact of the Constitution on taxation (see Cross tabulation Table 21.5).

Chart 27. Constitutional amendments of 2015 will create a more trustworthy environment, and the willingness to pay taxes will increase, %



What do taxpayers have to suggest changing in the tax policy and administration? The answers to this question are presented in Chart 28.

Chart 28. Which direction in tax reform do you consider the key for improving the business environment, %

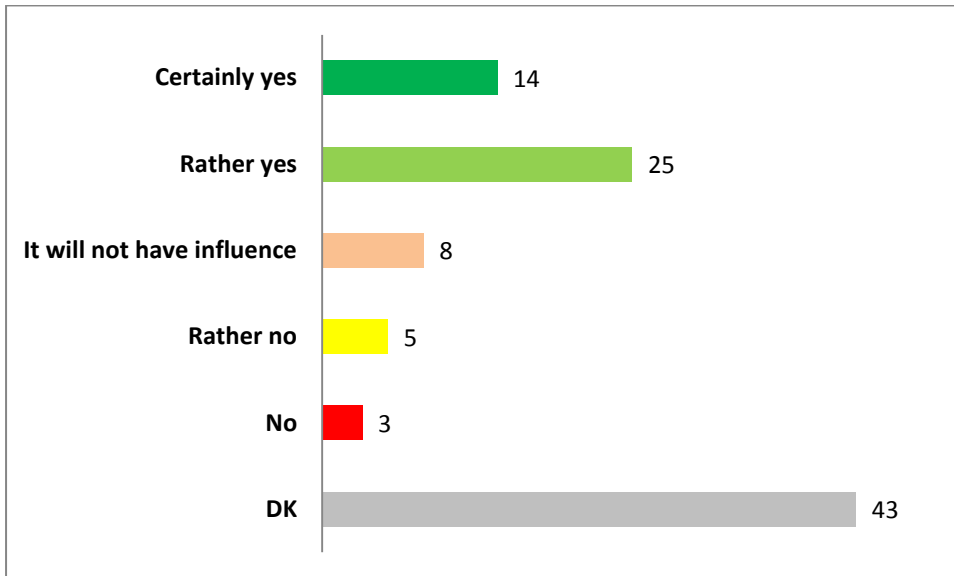


Suggestions on tax policy (see Chart 28 and Table 1.33, as well as Cross tabulation Table 22.1-22.8):

- Fifty-six percent do not know what to do about tax policy issues, or are indifferent;
- Primary active response is: “lighten tax burden, including decreasing tax rates;”
- Lower income respondents show more support for such decrease, while those with middle income value issues connected with tax administration, including issues connected with inspection regulations.
- High income respondents have different priorities and suggest attracting direct investments through tax incentives.

As a direction of tax-revenue policy, and taking into consideration the discussions among professional and scientific circles of Armenia around the ecologization of the tax laws, we also inquired people about their opinion on the need for such a significant change in the structure of the taxation bases of the existing taxes in Armenia. Respondents were told that in that case taxes on income and property decrease in the overall tax burden, while the taxes on the goods and services that are harmful for the environment increase. The results are presented below (see Chart 29 and Table 1.36, and Cross tabulation Table 23.1-23.8).

Chart29. Would you be more prone to pay taxes more consistently, if the model of ecologization of tax laws was implemented, i.e. putting the tax burden on the manufacturing of the goods and services that are harmful for the nature?, %

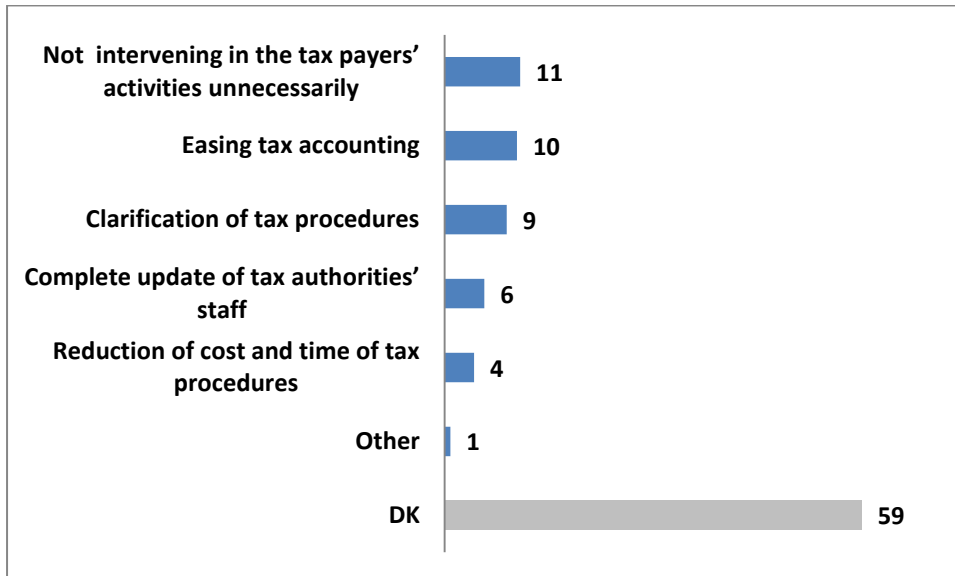


- ❖ The topic of ecologization of tax laws is difficult for people. However, among the respondents who have some certainty, the percentage of the proponents is higher than the opponents (39 percent and 8 percent, respectively). From a revenue policy perspective, this could become a subject for a strategic discussion for the Ministry of Finance of the RA.
- ❖ Proponents are lower and middle income respondents, not only on individual but also on household income level analysis.

Suggestions particularly for reforms in tax administration (see Chart 30, Table 1.34):

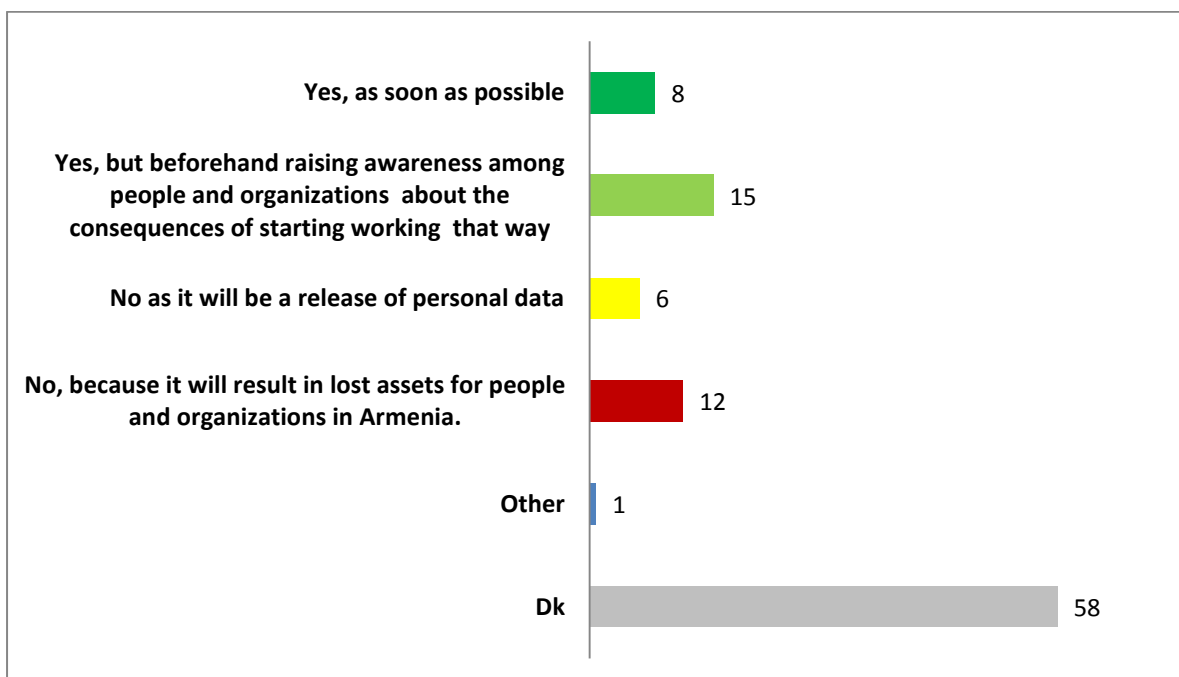
- A larger 60 percent do not know what to do, or maybe do not want to interfere in such a complex matter;
- Respondents emphasized not intervening in the business of the taxpayer and simplifying tax calculation forms;
- As an “other” option respondents particularly noted to be treated equally with the large taxpayers. It is important to note here, that in the Armenian reality large taxpayers are associated with unfairness and shadow economy.

Chart 30. Which direction of tax administration do you consider key for improving the business environment?, %



In this section we tried to gauge respondents opinion about modern tools and methods of international tax administration, particularly in the context of OECD's "Base erosion and profit shifting" BEPS initiative and other similar ones. Modern international tax administration cooperation entails introduction of a strong system of information exchange on transfer pricing, real beneficiaries and other important issues. It will significantly decrease tax evasion. Thus, we inquired, to what extent do the taxpayers support the introduction of such a system, considering that while making taxation more fair, it could also result in a tax burden increase. The analysis of the responses is presented below (see Chart 31 and Table 1.39 and Cross tabulation Table 24.1-24.8 and 25).

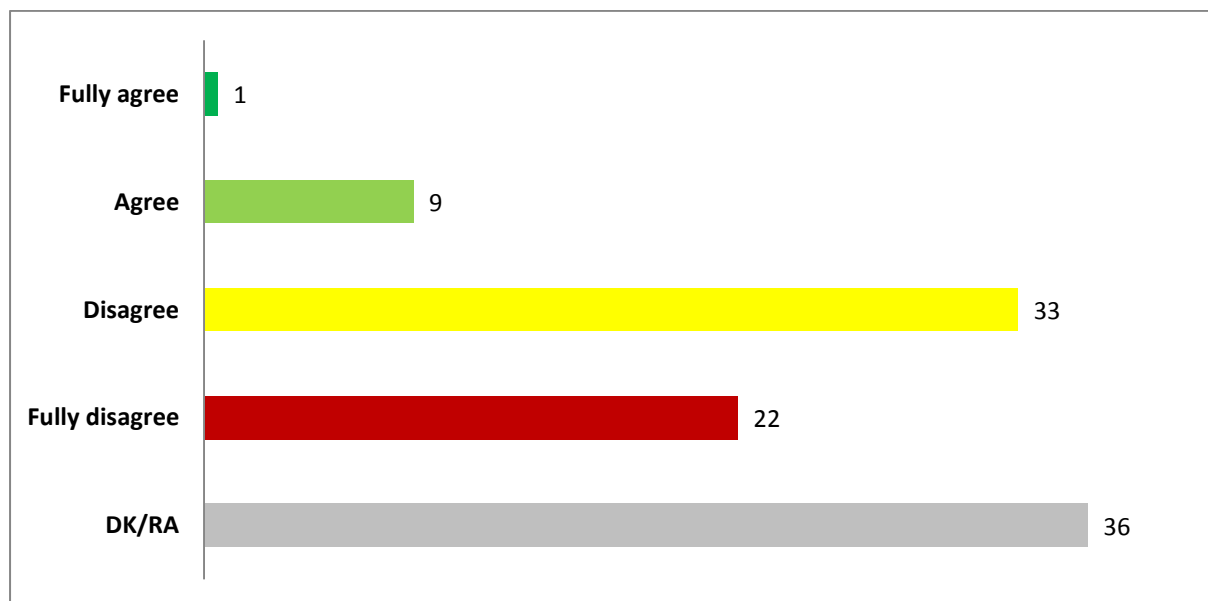
Chart 31. Many countries in the world use automated systems of information exchange, which make information about business deals and profits available for the tax authorities of the country where the business operates. Would you like Armenia to join that international agreement?, %



- Fifty-eight percent of the respondents do not know about it and thus, do not have an opinion about it. This is understandable considering the novelty of the notion;
- Excluding the “don’t knows,” 56 percent of the rest agree with the notion. Moreover, 20 percent of them think that it should have been done earlier, emphasizing the importance of explaining it clearly to the population in advance;
- Separate analysis of the 20 percent shows, that this group displays active tax position in other aspects as well. In comparison to the average, they are more willing to buy goods that are more expensive but from law-abiding sellers than cheaper goods from a seller that cheats on taxes (44 percent in comparison to the 38 percent of the average);
- People are concerned about sharing personal information and drastic loss of income;
- Lower and middle income respondents have fewer concerns and are obvious supporters of these international administration mechanisms. However, the interest to be part of an international automated information exchange system drastically decreases among the higher income groups.

The results of another international topic – membership in Eurasian Economic Union - show that only 10 percent of the respondents are more inclined to pay taxes “to solve financial issues facing the Eurasian Economic Union” (see Chart 32, Table 1.40 line 10 and Cross tabulation Table 26). In other words, they understand and assess the value of this new regional reality for Armenia. Fifty-five percent were against and 36 percent were undecided. The share of those who gave a positive answer to this question is slightly higher among lower income respondents.

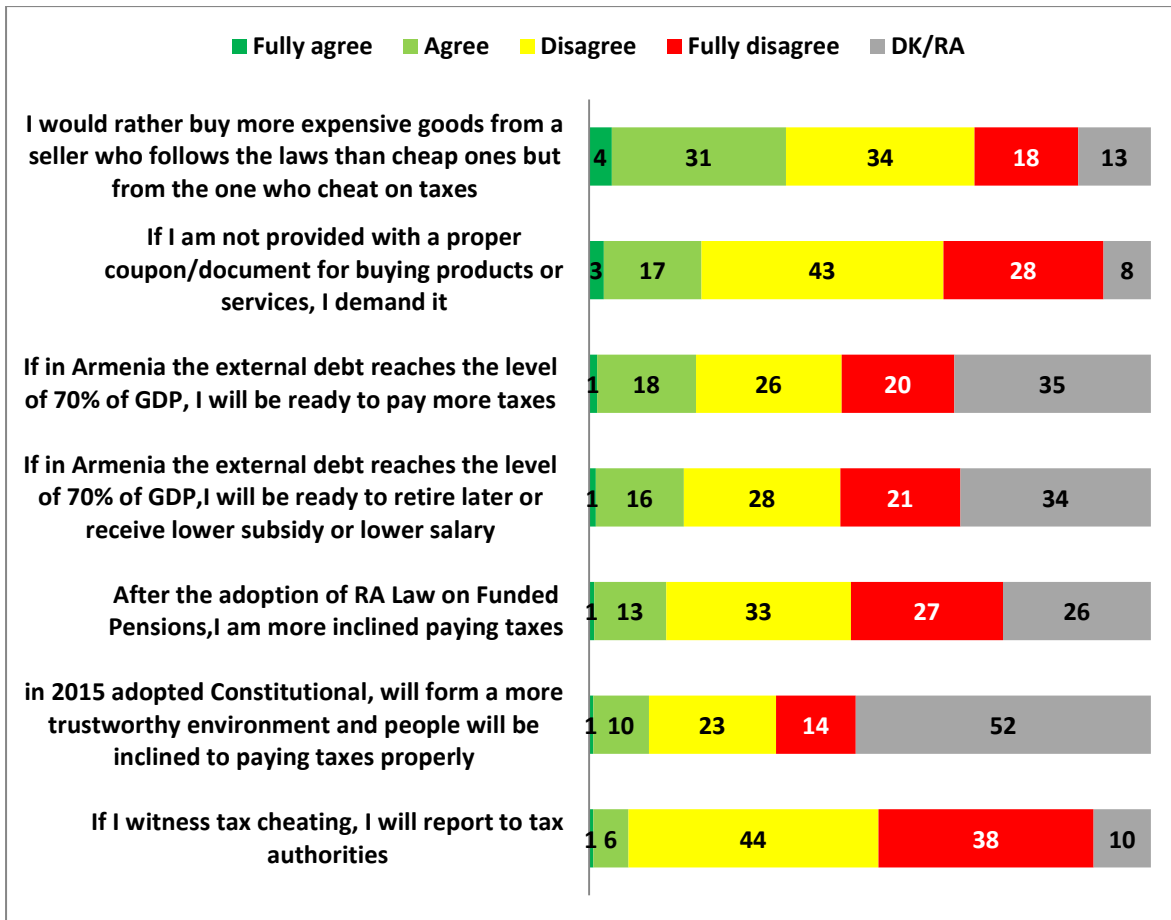
Chart 32. After the membership in Eurasian Economic Union, I am more inclined to pay taxes to solve financial issues facing the Union, %



The last section of the questionnaire with its non-standard questions was aimed at understanding to what extent the respondents are ready to form a behavior of a more active taxpayer for a better future of their country.

The results of the questions aimed at understanding how common are people who are ready to pay taxes (“ready taxpayers”), as well as the depth of their perceptions, are presented below. In order to have a fair and effective tax collection system:

Chart33. “Ready taxpayers” perceptions in a few regards



1. Thirty-five percent of the respondents agree that it is more appropriate to buy more expensive goods from law-abiding sellers, than cheaper goods from sellers that avoid paying taxes.
2. Twenty percent of the respondents demand a receipt for purchased goods and services if the seller does not give them one.
3. Seven percent of the respondents are ready to inform the tax authorities when witnessing a case of tax evasion. Thirty-eight percent fully disagree and 44 percent disagree with this attitude. This means, cooperation between the tax authorities and citizens around this issue would be difficult to establish in Armenia.
4. If Armenia's foreign debt reached 70 percent of the gross domestic product, which is a dangerous and impermissible limit, then:
 - a. Twenty percent of the respondent would be willing to pay more taxes to keep Armenia from being declared bankrupt internationally. One third is not sure, also possibly because they do not know what the consequences of bankruptcy for Armenia would be. About half (46 percent) are not willing to support in solving that problem by paying more taxes;

- b. Seventeen percent of the respondents are ready to postpone retirement, receive lower subsidies and salaries so that the government would not have to raise tax rates.
5. Only 14 percent of the respondents value government's investment in their future pensions. The new system does not serve as an additional motivation to pay taxes for the rest. (Armenia is in the process of gradually introducing accumulative pension system, which requires all young employees to save a part of their salary for their retirement, while also receiving funds from the state budget during their employment years for the same purpose).

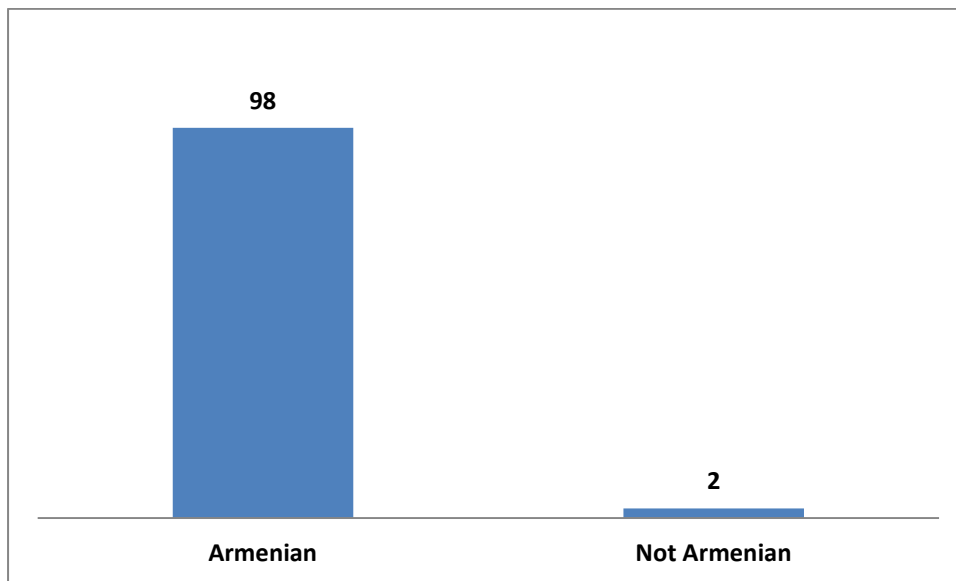
Further analysis was conducted to identify typical characteristics of a person particularly willing to pay taxes (Cross tabulation Tables 8-10 and 13-20). Thus,

1. Unemployed respondents are less likely to "inform," while marital status makes no difference on the "informing" answers.
2. People in "Trade and services" are more forgiving toward tax evaders and are more willing to buy goods and services cheaper from non-law-abiding sellers. However, in the time of need, when Armenia's foreign debt reaches a dangerous limit, this group of respondents, in comparison to the average, is more willing to take on some of the burden.
3. Divorced respondents are more consistent with requesting receipts when shopping and buying from law-abiding sellers even when the prices are higher (23 percent in comparison to the average 20 percent and 40 percent in comparison to the average 35 percent). This group of respondents is also more willing to take a certain share of the burden on themselves if Armenia's foreign debt reached a critical point (23 percent compared to 17-19 percent average).
4. Respondents with higher education are more cautious about "informing tax authorities." It can be speculated that they legally evaluate the consequences of that system being not fully regulated by laws. At the same time, they are more likely to demand a receipt.
5. Compared to the average, respondents with below-higher level of education are less willing to make voluntary payments within the accumulative pension system that is being gradually established in Armenia (14 percent compared to the average 17 percent).
6. As individual salaries and income goes up people become more willing to pay more for goods and services but purchase from law-abiding sellers.
7. As income goes up, the willingness to "inform tax authorities" goes down, starting from the middle income (above 190 thousand dram).
8. As income goes up people become more willing to voluntarily pay toward the accumulative pension system that is being gradually established in Armenia (see Cross tabulation Table 9.8).

9. However, as incomes goes up, people become less inclined to demand receipts for their purchases.
10. Higher income respondents are more willing to take on additional burden if Armenia’s foreign debt reached a critical limit.
11. Respondents who have personally or through their family members done business over the past year or own a business are not so inclined to be attentive during purchases neither when it comes to dealing with law-abiding sellers, nor requesting receipts for their purchases.
12. Again, respondents who have done business over the past year are also careful when it comes to “informing tax authorities,” displaying seven percent less interest from the average. Similar to the high income group, this group is more willing to take on some burden if the foreign debt of Armenia reaches a critical limit. They are also more likely to voluntarily pay toward the accumulative pension system that is being gradually established in Armenia.

Thus, high income respondents as well as those doing business in the past one year, may not be attentive during their purchases to deal with law-abiding sellers and demand receipts for the purchases currently, however, from a strategic perspective, when Armenia is in a dangerous situation, or when it comes to pension prospects, they consolidate and show higher tax compliance and willingness.

Chart34. Distribution by ethnicity, %



The comparison of the perceptions of the ethnic minorities (mostly Yezidi, Russian, Ukrainian, Greek, etc.) and ethnic Armenians in Armenia show (see Chart 34, Table 2.8, and Cross tabulation Tables 27.1-27.8):

- ❖ Representatives of the ethnic minority taxpayers are more willing to lend to the government than let the government borrow from foreign countries.
- ❖ In comparison to ethnic Armenians are less likely to accept more complex tax legislation (27 percent in comparison to the average 36 percent).

- ❖ Are more willing to inform tax authorities if they witness cases of tax evasion.
- ❖ Are willing to take on an additional burden if Armenia's foreign debt reaches a critical point.

This part of the report presented the results of household survey. The next part of the report discusses tax perceptions of enterprises and individual entrepreneurs in Armenia.