



ARMENIA – June 2020

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Armenia passes controversial property tax law despite state of emergency

Armenia's parliament has approved changes to the way property tax is calculated despite opposition to the bill including criticism of its timing.

The changes passed both hearings by 70 votes for, 11 against, and with 2 abstentions during an extraordinary session of parliament on 25 June.

If signed by President Armen Sarkissian, the bill will come into effect on 1 January 2021.

It has come under fire both for its timing — as the country grapples with the COVID-19 pandemic — and over fears of gentrification, with speculation that it could force lower-income people to move out from city centres.

Property tax is currently based on the appraisal value of a property as determined by the Cadastre Committee, which the government has said is lower than the actual value of properties. The bill proposes changing the way the Cadastre Committee values properties to bring it closer to its true market value.

Properties valued less than ₴3 million (\$6,000), which were previously exempt from tax, will also now be taxed.

During a government session on 27 May in which the government endorsed the changes, Prime Minister Nikol Pashinyan stated that due to the tax's progressive nature, the changes would lower property taxes for almost 500,000 people.

He said that property taxes would increase for 'palaces and mansions'.

During the parliamentary session approving the bill, Deputy Finance Minister Arman Poghosyan defended the changes saying they were necessary to pay for adequate communal services, roads, and parks.

He said there was no alternative as local budgets for cities and villages come mainly from property taxes.

According to the new law, six thresholds for tax rates will be imposed on flats and houses.

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My Step MP and Chair of the Parliamentary Committee on Economic Affairs Babken Tunyan raised the example of a 120 square metre flat in downtown Yerevan with a market value of \$80,000.

While the owners would currently pay annual property taxes of ₴9,000 (\$19), he said that according to the new law, they would pay ₴48,000 (\$100) annually.

The changes will be implemented gradually over six years.

According to the head of the Cadastre Committee, Suren Tovmasyan, property value will be reviewed every two years. He said that an electronic platform would be launched where people can enter their address to calculate their annual property tax.

The Cadastre Committee started recalculating the market value of properties in 2019 and will publish a database of the results before the law comes into effect.

Fears of gentrification

The government has come under fire for the timing of the bill, with many questioning the appropriateness of raising taxes during a state of emergency and while the country grapples with COVID-19.

However, Deputy Finance Minister Arman Poghosyan dismissed criticism of the 'untimeliness' of the bill as an emotional reaction. He said the timing was not relevant as the new tax system would not be implemented today, but gradually over the next several years.

Opposition to the bill in parliament was brought forward by the Bright Armenia Faction. MP Arkadi Khachatryan said the changes were not humane, and that taxes should be based on people's income as well.

The opposition faction had called on parliament to postpone the vote until 2022, however, this was rejected.

Criticisms toward the bill based on fears of gentrification have also been widespread.

In an interview with CivilNet, President of the Chamber of Auditors, Nairi Sargsyan, said that one-third of Armenia's population lived or was on the verge of living in poverty and that two-thirds of the population of downtown Yerevan were either pensioners or teachers and academics who received those homes during the Soviet years.

'Their income, either on pensions or on a teacher's salary, is not enough for their everyday expenses, forget about an additional tax burden', he said.

According to Sargsyan, many will be forced to sell their homes and move to the suburbs.

According to Sargsyan, the government's claims that people living in mansions currently pay low taxes could be remedied by a tax on luxuries.

'Because of 100–200 mansion owners, the poor population is falling under a heavy tax burden.'

On 27 June, several artists started a Facebook campaign sharing a post by singer and composer Vahan Artsruni calling for all 'native Yerevantsis' to oppose the bill.

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‘This is a new “way” to alienate or expropriate property which was inherited by us’, the post reads. ‘Think about the future of your children.’

‘The new property tax will deprive the natives of Yerevan. I’M A NATIVE AND THIS IS MY CITY. Join our flashmob’. The post was shared over 400 times including by opposition politicians and high-profile reporters.

Though he criticised the post for calling on only ‘native’ residents of the capital, My Step MP Babken Tunyan responded by proposing a public discussion on the new law, despite it already having passed.

A committee of six artists and academics responded that they were willing to meet with Tunyan.

The new law comes after the country switched from a progressive to a flat, income tax of 23% in September 2019.

In response to criticism at the time, the government justified the new taxation system by promising that progressive taxation would be implemented through property taxes and income declaration systems.

A bill on the latter is currently being developed by the Ministry of Finance.

Armenian MP tries to convince that property tax increase is helpful

During a special parliamentary session today, deputy of the My Step faction of the National Assembly of Armenia Babken Tunyan made a disputed statement, saying that, according to the bill on the establishment of a new property tax system, the property tax will be reduced, and it will grow essentially with regard to the law adopted last year.

Tunyan brought the example of real estate that costs AMD 30,000,000. “People pay AMD 2,500 for such property every year. Since the parliament changed the cadastral value last year, it won’t be raised this year, and if we adopt the amendments proposed by the government, people will pay AMD 43,000 for such property in January 2021. Now, if the bill is approved, people will pay AMD 19,000 for that property, not AMD 43,000. Moreover, the AMD 19,000 must be paid in the course of four years, and in 2021, AMD 4,500 must be paid, but the amount will gradually grow,” Tunyan clarified.

According to the bill proposed by the authorities, the property tax will be raised 3-4 times on average, and in central Yerevan — by 5-5.5 times.

In Armenia, a new property tax prompts debate about social justice

Armenia’s reform government recently introduced a flat income tax. Critics say a new property tax could hit people on low incomes hard.

- *After introducing a flat income tax in 2019, the Armenian government now plans to levy an increased property tax with the aim of bolstering local budgets.*

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- *Critics warn that this increased tax could become a social burden for people on low incomes, and that the gentrification of the Armenian capital Yerevan might accelerate - as poorer residents could move away.*

This month, the Armenian parliament gave the green light to a government project to increase property taxes.

Prime Minister Nikol Pashinyan, who came to power as a result of the “Velvet Revolution” in 2018, characterised the introduction of a progressive property tax as one of the most important economic reforms in Armenia.

“Last year we were criticised for violating the principles of social justice by introducing a flat income tax. We then said that we would solve the issue with reforms, with a progressive property tax,” Pashinyan said.

While many inside government and ruling coalition MPs see these tax changes as a social justice reform - their emphasis being on taxing visible wealth - the project has sparked another wave of criticism towards Pashinyan’s economic policies. These planned tax amendments come a year after the Armenian government introduced a controversial flat income tax, which was criticised by various groups at the time.

Much of the current criticism about the planned amendments has focused on how people on low incomes who live in downtown Yerevan and other expensive neighbourhoods will pay increased property tax - an annual tax on property owners. Many of these people either inherited their apartments or received them through state programmes during the Soviet era, and some fear the new property tax will result in severe gentrification of the Armenian capital.

“The poor receive welfare payments from the government and taxing them more during a pandemic is unreasonable. It is like giving them help and then taking it back”

In an interview to openDemocracy, economist Suren Parsyan, who is head of economic research at Armenian Revolutionary Federation Bureau, commented that the proposed property tax cannot be considered a social justice reform as it could impact poverty-stricken communities in Armenia. “The poor receive welfare payments from the government and taxing them more during a pandemic is unreasonable,” Parsyan said. “It is like giving them help and then taking it back.”

According to official data, the average monthly salary in Armenia is 135,000 drams (\$280), while the median salary is even lower. Those same statistics state that 23.5% of the population lives below the national poverty line.

Responding to the risk of low-income households not being able to pay the property tax, Deputy Finance Minister Arman Poghosyan said that paying the taxes will be manageable for the majority of people on low incomes, mentioning that a gradual four-year implementation plan had been designed.

Tsovinar Vardanyan, an MP in Armenia’s ruling My Step coalition, justified the government’s rationale, saying that “when we introduced flat income tax, it was already announced that the logic of our tax

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policy would not be taxing income, but taxing property and expenses". Vardanyan claimed Armenia's opposition is manipulating the issue by calling it "a project to increase taxes".

Hovik Aghazaryan, another MP from the ruling coalition, said in an interview he thinks people living in downtown Yerevan who are unable to pay the property tax should sell their apartments and "move to more humble apartments somewhere else and enjoy the saved money".

What changes

In Armenia, a lot of real estate is not taxed at all and most is under-taxed. The reason is that property tax is collected according to the land registry value of real estate, which is, as a rule, much lower than its market value.

To counter this - and, in its words, bolster local budgets, the Armenian government is planning to introduce a six-step tax system, under which the greater a property's land registry value, the more the tax has to be paid. The tax rates will be different for apartments and houses.

In 2019, Armenia's State Committee of Real Estate initiated a process of reassessment (the last time land registry values were assessed was in 2002), with the goal of equalising registry and market values of real estate. The process is ongoing. The committee sets land registry values according to a special zoning system. Recent updates introduced 20 new zones (instead of the previous 17), 10 of which are in Yerevan.

In order to make the change as smooth as possible, the Armenian government says the changes will be introduced gradually, starting from December 2021. The four-year plan implies levying only 25% of the tax for the first year, 50% for the second, 75% for the third and 100% for the fourth year.

The government is also planning to remove a 3,000,000 dram (\$7,000) non-taxable threshold - properties valued under this amount are currently exempt from property tax. In a recent cabinet meeting, Prime Minister Pashinyan said the non-taxable threshold should be cancelled partly because there's a need to change public attitudes towards the state budget.

"We should care about our state budget the same way we care about our family budget," said Pashinyan. "The non-taxable threshold should be eliminated. If a person's yearly property tax is as low as 100 drams [\$0.20], and our calculations show there will be such cases, let them pay it anyway. Fiscally, this means nothing, but psychologically, politically and in terms of civic attitude, this is of great importance."

What are the numbers

According to figures recently presented by the Ministry of Finance, there are roughly 432,000 apartments in Armenia. Sixty three percent of these apartments (275,000) fall under the current non-taxable threshold, with 107,000 of these apartments located in Yerevan.

Under current land registry values, most apartments are undertaxed. For instance, the annual property tax for around 135,000 apartments is 1,800 drams only (\$3.73) and there are just 6,000 apartments which generate a property tax of around 42,000 drams (\$87).

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The Finance Ministry says it has conducted research on international practices of applying property tax, comparing Armenia to countries with similar economies. For Armenia, the annual property tax revenue comes to 0.2% of GDP, while for Georgia it's 1% and Russia it's 1.2%.

The yearly six-step-taxing system is the following:

Armenia's six-band property tax system for apartments

Real estate value (drams)	Annual tax to be levied (drams)
Band 1 up to 10,000,000 (\$20,000)	5,000 max. (\$11)
Band 2 10,000,000 - 25,000,000 (\$21,000 - \$52,000)	20,000 (\$41)
Band 3 25,000,000 - 47,000,000 (\$52,000 - \$97,000)	64,000 (\$132)
Band 4 47,000,000 - 75,000,000 (\$97,000 - \$155,000)	176,000 (\$364)
Band 5 75,000,000 - 100,000,000 (\$155,000-\$207,000)	326,000 (\$675)
Band 6 100,000,000 or more (\$207,000)	326,000 + 1% of the sum exceeding 100,000,000

A similar six-step system, but with slightly higher taxation, works for houses.

Local municipalities are responsible for tax collection and all of the collected money will go to local budgets. The government says so far it has no plans to cut funding to local municipalities and sees property tax as an investment in improving public services.

How was the project received

ARF Bureau economist Suren Parsyan told openDemocracy that local municipalities will likely have trouble collecting the new property tax because of bad management practices. He suspects the government could decide to cut funds to municipalities in the future, likely by claiming that local budgets will receive increased property tax revenues instead.

Parsyan said the government should not have eliminated non-taxable thresholds both for income and property tax.

Former Prime Minister Armen Gevorgyan recently criticised the proposed reform in a column, calling claims that the new property tax is a social justice reform “nonsense” after the government “abandoned the rich should pay more” approach by introducing a flat income tax last year.

Leader of opposition party Bright Armenia Edmon Marukyan called on his followers to hold an online protest against the property tax changes.

Despite criticism, it is likely that Armenia's ruling My Step alliance is eventually going to pass the proposed amendments in the second sitting - a move that will provoke further discussions about social justice and criticism of new economic policies in Armenia.

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