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TAX COLLECTION KEY ISSUES AND ITS SOLUTION NECESSITY IN ARMENIA

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Abstract: *The modern tax system in Armenia was established in 1992, has gone through several stages of development, and is currently being continuously improved and reformed. In this regard, the tax authority of Armenia (the RA State Revenue Service) has set its mission in the area of tax service as ensuring the collection of tax revenues for the State Budget of the Republic of Armenia. In this case, the tax authority of Armenia, in its five-year strategic plans, has set and continues to set goals aimed at improving tax collection technologies. In this context, the application of modern tax collection technologies is one of the most important components in establishing an efficient tax system, endowed with urgency and timeliness, which accounts for the topic's relevance.*

In this context, it is noteworthy that there are numerous scientific studies in Armenia on the formation of an effective tax system. However, the vast majority of them address the proper definition of the tax burden and the improvement of tax administration. In other words, from the perspective of collecting a larger amount of taxes, scientific research has primarily examined possible changes in the tax burden and reforms to tax administration tools.

As a result, the obstacles and problems that arise in the tax collection process in Armenia have been less studied. In this regard, the subject of this article is the aforementioned problems, which have been classified into four main groups and formulated as tax collection challenges, representing the scientific novelty of the article

The purpose of this article is to identify the primary issues with the tax collection technologies used in Armenia and to propose modern solutions for their resolution, which will contribute not only to effective tax collection but also to the enhancement of the tax system's efficiency. To achieve the goal set forth in the article, a qualitative assessment of tax collection technologies was conducted to identify the causes of their unreliability and the potential consequences.

As a result, proposals have been put forward based on resolving the identified fundamental problems in taxation through the development of mechanisms that are aimed at addressing these problems.

Keywords: *taxation, tax system, modern technologies, improvement of the tax system, effective tax system.*

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Introduction

Speaking of tax collection technologies, it becomes clear that they include the calculation of taxes, the determination of tax liabilities, the payment of taxes by taxpayers, and the establishment of tax control over them, methods and forms of applying remedies, which not only differ in various countries but also undergo periodic changes within the same country over time, with the aim of adapting them to the challenges of the day.

It is characteristic that the efficiency of any country's tax system depends on the application of tax collection technologies. The more it is possible to collect tax revenues with the fewest resources, the more targeted the country's tax system will be and the more it will ensure the collection of the tax revenues planned in the state budget.

The establishment of such an efficient tax system is a top economic challenge and priority in the Republic of Armenia, based on the fact that tax revenues account for approximately 95% of the country's state budget. By setting the goal of establishing an effective tax system in Armenia, the article highlights the necessity of applying modern tax collection technologies and proposes a number of issues:

- ✓ To study the evolution of tax collection technologies in Armenia,
- ✓ To analyze the tax collection technologies applied in Armenia since its independence.
- ✓ Identify the reasons for the inefficiency of currently operating tax collection technologies in the Republic of Armenia and the existing key problems.
- ✓ Justify the necessity of applying modern tax collection technologies.
- ✓ Outline the directions for the application of modern tax collection technologies.

Literature Review

The issues of taxation and tax administration, as well as the mechanisms for their improvement and enhancement, have always been studied by numerous Armenian and international researchers. And although, in the context of modern technological advancement, the role of such studies has grown and more and more researchers are turning to modern tax collection technologies, nevertheless The tax system of the Republic of Armenia has its own unique characteristics, and research on it is limited by the opportunities provided by Armenia's tax legislation within the country. Therefore, the works of foreign and international researchers, no matter how much they offer scientific novelty from the perspective of forming an effective tax system, do not address the tax system of the Republic of Armenia and require additional research for their implementation in Armenia due to the factor of national specificity.

Based on the above, the fundamental issues of tax administration in Armenia have been studied in the works of Armenian researchers V. Bostanjyan, V. Harutyunyan, T. Harutyunyan, K. Baghdasaryan, and others [1][2][3][4][5]. In particular, the issues of improving tax administration and increasing the effectiveness of tax policy were discussed in the works of V. Bostanjyan and T. Harutyunyan, where the authors substantiate the link between the simplicity and stability of tax legislation and the efficiency of the tax system, proposing the optimization of the tax burden as a solution. However, the authors have not addressed the obstacles and problems in the tax legislation, which, even under conditions of tax law simplicity and optimal tax burden, in some cases compel and in others allow taxpayers to enter the shadow economy. In this context, it is noteworthy that the problems in the tax legislation relate not only to the tax burden and tax administration, but also to the registration of taxpayers, the submission of reports, the payment of taxes, and other mechanisms of the tax system.

V. Harutyunyan too addressed the key issues of an effective tax system in the Republic of Armenia. The author argues in the study that the yield-neutral tax system should reduce taxpayer costs and ensure predictability, However, the author did not address the problems of disproportionate tax administration, under which it is impossible to reduce taxpayer costs and ensure effective tax administration. K. Baghdasaryan has also conducted research from the perspective of forming an effective tax system, in his work "Problems of Management and Evaluation of Taxation Mechanisms" co-authored works and "Methods for Assessing the Shadow Economy and Approaches for Their Implementation in the Republic of Armenia" argue that the efficiency of the tax system is linked to the "tolerable" tax burden and the indicator of shadow economy reduction [6]. However, it has not addressed the causes of the emergence of the shadow economy and the problems under which the tax burden is "unbearable" for taxpayers [7]. And although other Armenian researchers have studied the fundamentals of an effective tax system, nevertheless, in this regard, the issues of tax collection in Armenia as a function of tax system management have been less researched.

The fundamental problems in the tax collection process that hinder the effective collection of taxes in the Republic of Armenia have been insufficiently studied, resulting in lower-than-expected outcomes despite the state's expenditures for tax administration. The latter have formed the basis of the article's research, aiming not only to identify the main issues in the tax collection process but also to classify them and, by proposing solutions, coordinate the key directions for establishing an effective tax system in Armenia.

For this reason, in addition to the studies by the aforementioned authors, the tax legislation of Armenia also served as a basis for the analysis conducted in this article. The actual acts and documents related to the management of the RA tax system, and the reports published by the RA tax authority.

Methodology

Within the framework of this study, descriptive, problem identification, causal analysis, and qualitative assessment methods were applied. In particular, the evolution of tax collection mechanisms in Armenia has been presented using the descriptive method. To this end, the history of the State Revenue Committee of

Armenia since its independence was studied, as well as the strategies developed and implemented by the tax authority during that period. annual activity reports, and the implemented tax collection mechanisms.

Based on the analysis results and using the qualitative assessment method for identifying causal relationships, the main problems hindering effective tax collection in Armenia were identified and classified into separate groups, and recommendations were presented for them.

Analysis

As with any phenomenon, the study of tax collection technologies in Armenia first and foremost involves an investigation of its evolution, which will make it possible to understand how these technologies were formed and what dynamic changes they underwent over time as they faced various obstacles. In this context, it can be confidently asserted that the need to develop tax collection technologies arose in the years following Armenia's independence, when the idea of having a state made the establishment of a tax system a top priority. It was logical that at that time it was already extremely important to convey to the citizens and businessmen of an independent and war-torn country the idea that paying taxes was as important and vital to the country's victory in the war, without which the state simply cannot carry out its functions. And although it was difficult, the newly formed tax system succeeded in introducing the first tax collection technology: a culture of paying taxes.

From this point on, as the tax system developed, tax collection technologies have periodically evolved and been refined, forming the following successive stages of tax collection technology:

- In the first phase, legislation aimed at tax collection was established to effectively organize tax collection. In 1997, the Law of the Republic of Armenia "On Taxes" was adopted [13], followed by laws on individual types of taxes. In May 1997, the Law of the Republic of Armenia "On Value Added Tax" was adopted [14], followed in September by the Law "On Corporate Profit Tax" [15] and in December by the Law "On Income Tax [16]." In 2000, the Law on Simplified Tax was adopted, and so on [17]. With the establishment of the legislative framework, the scope of taxpayers was defined, and the obligation to pay taxes was legally formalized, which, according to the Law on Taxes of the Republic of Armenia, provided that the taxpayer is obligated to independently calculate the amounts of taxes prescribed by law and to pay them into the state budget. The fulfillment of this obligation required the taxpayer to independently calculate and submit reports, the accuracy of which was subject to verification by the tax authority. Calculation and reporting were carried out on paper, and their processing required a long period of time and a large amount of labor resources. The presence of inaccuracies caused by subjective factors not only complicated the tax collection process but also affected the operational efficiency and effectiveness of the tax administration.
- In Phase 2, to improve existing technologies, https://file-online.taxservice.am and «e-invoicing» were implemented as an electronic system, which aimed to reduce the time spent by taxpayers on reporting and increase the efficiency of tax control by the tax administration. It was logical that in order to avoid fraudsters on the electronic platform and to protect the tax confidentiality of each taxpayer, the aforementioned electronic programs should have been built with high-security technologies, which overloaded the server system when numerous taxpayers submitted their returns simultaneously, causing software malfunctions.
- In the third phase of tax legislation reform, in 2016, the separate laws on individual taxes were consolidated into a single comprehensive document: the Tax Code of the Republic of Armenia. In this regard, the development of a single, comprehensive document was intended to consolidate the legislative provisions and procedures related to a taxpayer's activities and governing their relationship with the tax authority. However, in contrast, the ambiguities and poor readability of the tax code increased the likelihood of taxpayers committing legal violations and underscored the need to improve tax administration [3]. As a result, over the years, the amounts of taxes paid by taxpayers became overpayments due to the use of various technologies, which were subject to refund from the state budget, thereby jeopardizing its security.
- In Phase 4, a new tax payment system was introduced to further avoid overpayments subject to refund from the state budget. Under this system, payments made by the taxpayer began to be accumulated in a single account for taxes and were to be transferred to the state budget only when a tax liability was determined based on the taxpayer's submitted report. However, in all cases, when, in compliance with the Tax Code of the Republic of Armenia, a taxpayer amends the report they submitted within three years after filing and reduces their tax liability, the tax collection process becomes chaotic and unmanageable. In particular, in the context of numerous electronic reports, establishing controls over

report corrections and managing unpredictable corrections requires not only additional time but also additional labor resources, which, on the one hand, can create chaos and on the other hand, reduce the efficiency of the tax collection process.

- In Phase 5, tax administration was improved to prevent potential violations by taxpayers during the tax collection process [4]. The tax authority developed a strategy aimed at improving tax administration and tax reforms, which set five key objectives for improving tax administration for the years 2021-2025 [9].
    - Improving management systems and providing digital services to taxpayers.
    - Increasing the efficiency of tax administration, increasing revenue, and reducing the shadow economy.
    - Modernizing and building infrastructure.
    - Improving the level of dialogue with the public.
    - Implementing a modern human resources management system.

However, from the aforementioned objectives aimed at improving tax administration, it can be inferred that the centerpiece of the tax authority's strategy is to hold taxpayers accountable for statutory violations resulting from tax administration, which very often, according to the Laffer curve, has a counterproductive and negative effect on both the tax collection process and GDP [2]. The latter is justified by the high shadow economy indicator. The most up-to-date and comprehensive information on Armenia's shadow economy is presented in the International Monetary Fund's (IMF) 2018 report "Shadow Economies Around the World: What Did We Learn Over the Last 20 Years?".

Table 1

RA Economic and Tax Indicators (2020-2025)[1]

Indicators	2020	2021	2022	2023	2024	2025
Gross Domestic Product (GDP)	6,181.9	6,991.8	8,501.4	9,492.5	10,210.0	11,317.5
Tax Revenues and State Duties	1,387.1	1,586.9	1,926.0	2,221.9	2,390.0	2,725.2
Tax-to-GDP Ratio %	**22.4**	**22.7**	**22.7**	**23.4**	**23.4**	**24.08**

Although it is clear from the table that the tax-to-GDP ratio increased from 22.04 percent to 24.08 percent compared to 2020, this increase is due to two factors: First, as the table shows, GDP has increased by 83 percent compared to 2020, which, according to the laws of macroeconomics, should have increased tax revenue by the same, and even more, multiple times due to the multiplier effect.

Second, in 2023-2025, changes were made to Armenia's tax legislation, as a result of which the tax burden on turnover tax payers was doubled and the penalties for tax violations were tightened. In other words, a simple calculation shows that this increase in taxes is not the result of reducing the shadow economy, but rather of GDP growth and an increase in the tax burden. This phenomenon is most apparent when we examine the dynamic changes in taxes by individual tax types.

Table 2

Armenian state taxes by individual tax types, 2020-2025, (expressed in billion AMD)[2]

Tax Type / Revenue Stream	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**
Value Added Tax (VAT)	486.2	536.8	652.8	741.0	755.6	**914.3**
Income Tax	425.8	455.5	509.3	545.9	649.9	**726.9**
Profit Tax	158.4	165.7	251.2	344.2	358.5	**392.0**
Excise Tax	120.3	114.7	126.9	148.5	155.0	**172.5**
Customs Duties	81.1	112.5	80.6	120.4	145.2	**162.1**
Turnover Tax	29.5	32.8	41.5	45.2	48.0	**54.2**
Other Taxes & State Duties	85.8	168.9	263.7	266.7	277.8	**303.2**
TOTAL TAXES AND DUTIES	**1,387.1**	**1,586.9**	**1,926.0**	**2,221.9**	**2,390.0**	**2,725.2**

[1] The table was compiled by the authors using the annual reports of the State Revenue Committee of Armenia.

[2] Source: official website of the RA State Revenue Committee, https://src.am

According to the published document, the average shadow economy indicator in the Republic of Armenia for 1991–2015 was estimated at 42, 6%: And although according to IMF publications the shadow economy rate declined after 2015 and stood at around 36 percent in 2015, Nevertheless, such a high figure points to the problems in the tax collection process that force taxpayers into the shadow economy.

However, considering that a lower shadow economy rate of 20% was published by the competent tax authority of the Republic of Armenia in 2025, let's analyze the results of the RA State Revenue Committee's activities from 2020 to 2025.

The table clearly shows that while the total tax revenue increased, not all tax types grew proportionally. In particular, reducing the shadow economy implies primarily registering unregistered workers and an increase in realized turnover. Considering that under Armenian legislation, a taxpayer begins to pay VAT when their turnover exceeds 115 million drams, it is assumed that as the shadow economy has shrunk, VAT should have also increased accordingly. whose rate is 20 percent, than profit tax, whose rate is 18 percent.

However, in this case, the increase in VAT is not only smaller than the increase in corporate income tax, but also corresponds to the growth in GDP. In the event of registering previously unregistered workers, thereby increasing the number of employees and the average wage and reducing the shadow economy, income tax, in accordance with Armenian legislation, should have increased.

Overall, although it can be argued that 2020 -2025 tax growth is the result of GDP growth, nevertheless, let's consider what expenses the State Revenue Committee of Armenia has incurred for the increase in these tax revenues in terms of applying tax administration tools.

Table 3

Number of Tax Audits and Investigations in RA, 2020-2025 ***(figures expressed in units/counts)***

Audit / Control Type	2020	2021	2022	2023	2024	2025
1. Comprehensive Tax Audits	14 800	16 500	12 200	10 800	980	**910**
2. Thematic & Operational Audits	8 240	9 850	11 400	13 100	14 800	**11 540**
3. Desk (Cameral) Audits	18 500	22 400	26 100	29 800	34 200	**38 600**

The table clearly shows that tax administration has almost doubled in 2025 compared to 2020. In this regard, the efficiency of the tax system's management has not undergone a significant change, as tax revenues have also increased by a similar multiple, which is mainly the result of GDP or economic growth.

The study and analysis of the aforementioned tax collection technologies show that although their evolution over time has improved the mechanisms for collecting taxes, but the technologies in use in the tax collection process in Armenia have a number of problems that negatively affect the efficiency of the tax system, becoming causes of tax collection inefficiency. Specifically, such problems include:

- ✓ **The problem of unnecessary complexity in tax accounting:** The tax registration procedures are currently defined by the Tax Code of the Republic of Armenia, which very often places the taxpayer in a dilemma, frequently forcing them to break the law when complying with it becomes technically impossible. In particular, the requirement to submit legally prescribed adjusted reports when a taxpayer declares turnover that was not previously reported in the submitted documents creates a dilemma and complicates future tax accounting. In another case, the acquisition of goods without documentation by a trader subject to turnover tax entails payment of the tax at a rate of 10 percent, However, failure to comply with documentation requirements under tax control under the same legislation entails a 20 percent penalty, etc.
- ✓ **Problem of the electronic reporting burden:** The principle of the taxpayer's self-assessment and filing of returns implies that the results of any of the taxpayer's activities must be declared in the prescribed manner, for which the taxpayer submits a report. The variety and deadlines of reports place a burden not only on the taxpayer but also on the entire tax system.
- ✓ **Problem of unreliable tax collection:** The current tax collection system stipulates that the taxpayer must pay the tax within the period set for filing the tax return, after submitting the return. Under this mechanism, the taxpayer can easily postpone payment of the tax liability, in some cases not paying it at all. Over time, the tax liability becomes unmanageable, growing larger as the taxpayer continues to earn income and file returns, and at some point, is declared bankrupt due to substantial tax obligations.
- ✓ **The problem of disproportion in tax administration:** A thorough analysis of the Tax Code of the Republic of Armenia shows that the purpose of applying tax administration tools is to hold taxpayers

liable through the imposition of surcharges and fines. In this regard, there are many instances in which the imposed penalty is disproportionate to the infraction committed, especially when the taxpayer's operational characteristics are taken into account. It should be noted that the fine is an additional expense for the taxpayer, and in order to recoup it, the taxpayer is driven to seek new ways to go underground.

Conclusion

Based on the research conducted in the article, the application of modern tax collection technologies is proposed to address the aforementioned issues by enhancing those already in existence. Specifically:

- In order to address the problem of unnecessary complexity in tax accounting, we propose amending the Tax Code of the Republic of Armenia by excluding the submission of amended calculation-reports in cases where the figures presented as a result of the amendment do not correspond to reality. At the same time, the changes should be aimed at reviewing all provisions that, at any point in time, may conflict with or complicate the taxpayers' self-declaration process.
- The issues of the burden of electronic reporting and the unreliability of tax collection are interrelated, because the obligation to pay taxes arises when the taxpayer submits a tax return. The unreliability of tax collection arises when taxes are not paid after the return is filed. Therefore, by addressing the burden of electronic reporting, it is also possible to resolve the issue of tax collection. To address the problems of the burden of electronic reporting and the unreliability of tax collection, we propose to reduce the number of calculation reports submitted by taxpayers; Specifically, in cases where the calculation-report is informational or merely a repetition of a previously known indicator, as well as in the declaration of information related to a non-cash transfer transaction, the requirement to submit the report should be eliminated. Instead of filing a report, entrust the calculation of the tax liability and its subsequent collection to the tax agent: to the bank executing the transfer, which, for cashless transfers, including those made through the bank, will automatically withhold the tax amount from the transferred sum and remit it to the budget: providing the taxpayer's information at the time of the transfer, and submitting an annual report on the taxes collected and paid to the budget:

In applying this mechanism, the tax authority is simply relieved of tax oversight over non-cash transactions, delegating the function of collecting the taxes calculated on them to the bank. Naturally, in this case the tax authority can direct all of its administrative tools toward imposing tax controls on cash transactions and collecting the taxes due.

Overall, the application of this mechanism is not intended to make the bank a tax agent, but rather to reduce the volume of reports to be submitted by excluding their submission when the taxable transaction is obvious and the tax due can be collected immediately, thus avoiding the risk of non-payment later. This also reduces the tax authority's scope of supervision, allowing it to focus on transactions where the risk of the shadow economy is high. To address the issue of disproportionate tax administration, we propose to increase the number of administrative tools instead of the fines applied as a result of tax administration, which are aimed at further preventing violations and, as a result, reducing of the shadow economy. In this regard, it would be more effective to spend resources to communicate the idea to each taxpayer that there is no opportunity to operate in the shadow and that it is necessary to fully declare received income and pay taxes, rather than imposing a fine that forces the taxpayer to return to the shadow in order to compensate for it.

Conflict of Interest

The authors declare no conflicts of interest.

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