

I. COUNTRY REFORM PROGRESS

Authorities continue to adjust the tax system in response to a growing and evolving economy. Recent and ongoing reforms include: (i) in the mining sector, a 2022 tax policy engagement by the IMF's Fiscal Affairs Department (FAD) contributed to a major reform of the fiscal regime adopted in 2023–24, shifting toward a more progressive and balanced system; (ii) a 2023 review of tax expenditures is now leading to the introduction of a capital gains tax as part of a broader reform package, which was the focus of a follow-up FAD engagement in 2025; and (iii) the October 2024 review of road transport taxation proposed a vehicle feebate to replace regressive value-added tax (VAT) and import-duty incentives, with subsequent discussions in March 2025 centered on implementation issues. Repeal of the VAT exemption and adoption of a rebate system—consistent with FAD recommendations—are planned for inclusion in the 2026 budget.

Authorities have been diligent in identifying capacity development (CD) needs and implementing CD advice. The finalization of the repeat IMF Tax Administration and Diagnostics Assessment Tool (TADAT) evaluation showed substantial progress since the original TADAT and warrants a new revenue administration project being created in CDMAP which can use the 2025 TADAT results as a new baseline, allows for contemporary recognition of the collaboration work with other CD donor partners, and allows for the easier creation of new objectives or updated milestones for existing objectives. The increased strengthening of core tax administration functions allows the State Revenue Committee (SRC) to be better placed to implement policy changes, including in relation to road transport (electric vehicles), capital gains or a universal tax declaration.

II. PROJECT DELIVERY HIGHLIGHTS

RM I: Revenue Module I – Tax Policy

Key Progress in FY26: The October 2024 review of road transport taxation proposed a vehicle feebate to replace regressive VAT and import-duty incentives, and subsequent discussions in March 2025 focused on practical implementation issues. Changes to electric-vehicle taxation are being incorporated into the 2026 budget law—consistent with FAD advice—including the replacement of the VAT exemption with a rebate mechanism. The March 2025 discussions also advanced a key recommendation of the 2023 tax-expenditure review, namely the introduction of a capital gains tax as part of a broader reform effort.

Previous Progress: In mining, a 2022 FAD tax policy engagement contributed to a major reform of the fiscal regime adopted in 2023–24, shifting toward a more progressive and balanced system.

Next Steps: Looking ahead, possible next steps include support on the design of a Financial Activities Tax, which authorities are actively considering, as a means to capture a fairer share of rising rents in the banking sector.

RM II: Revenue Module II – Revenue Administration

Key Progress in FY26: A key milestone achieved with the execution of a repeat Tax Administration Diagnostic Assessment Tool (TADAT) assessment, covering core tax capabilities and compliance risk management (CRM) among other dimensions. The authorities incorporated the insights from the TADAT assessment into their updated strategic plan, and were able to refine their capacity development needs. We also have a better understanding of the absorptive capacity of the authorities. We are already coordinating

with the IMF's Caucasus, Central Asia, and Mongolia Regional Capacity Development Center (CCAMTAC), the World Bank, Asian Development Bank, Swedish International Development Cooperation Agency and Expertise France, all of which are providing CD assistance to Armenia.

Previous Progress: The SRC has been conscientious in implementing CD assistance provided over FY25 and FY26, reflected in overall improvement in TADAT outcomes. A new SRC Chairman brought forward the TADAT assessment to FY26. Resources earmarked for other CD were invested in the TADAT assessment. This sets a base for a new project within CDMAP.

Next Steps: Direct HQ virtual CD will be used for preparatory work on a CD project using the new TADAT assessment as a baseline, including securing better large taxpayer filing and payment compliance, but also having CD packaged around addressing the shadow economy, registration (universal declaration of income), CRM, performance measures, staff capability, stakeholder / whole-of-government engagement and customs-tax cooperation.

III. LOGICAL FRAMEWORK

Country – Armenia		
RM I: Objective – Strengthen Policy Monitoring, Evaluation, and Institutions - TPM		Rating - 2
Outcome	Rating	Narrative
Improved structures (e.g., tax policy units) or capacity (e.g., models and tools) related to tax policy advice and analysis.	2 Partially Achieved	CD was delivered in FY25 on three topics: (i) tax elasticities; (ii) road transport taxation; and (iii) capital gains taxation. Changes in the taxation of electric vehicles are being implemented in the 2026 budget law.
RM II: Objective – Strengthened revenue administration management and governance arrangements		Rating - 3
Outcome	Rating	Narrative
Corporate priorities are better managed through effective risk management	3 Largely Achieved	CD on CRM, tax gap assessments and use of KPIs in FY25 and FY26. TADAT in FY26 confirmed substantial improvement. Continue in FY27 in the form of a focus on shadow economy, and include leadership, governance and HR elements.
RM II: Objective – Strengthened core tax administration functions		Rating - 3
Outcome	Rating	Narrative
A larger proportion of taxpayers meet their filing obligations as required by law.	3 Largely Achieved	CD on CRM, tax gap assessments and use of KPIs in FY25 and FY26. TADAT in FY26 confirmed substantial improvement. Continue in

		FY27 in the form of a focus on shadow economy, and include leadership, governance and HR elements.
A larger proportion of taxpayers meet their payment obligations as required by law.	3 Largely Achieved	CD on CRM, tax gap assessments and use of KPIs in FY25 and FY26. TADAT in FY26 confirmed substantial improvement. Continue in FY27 in the form of a focus on shadow economy, and include leadership, governance and HR elements.

IV. RISK ASSESSMENT

Description	Rating	Mitigation Measures
External Climate/Conditions		
RM I: CD delivery interrupted due to health crisis. Significant regional (border) tension.	Medium	Known techniques for virtual engagement and delivery of CD, if needed. Border tension reduced with peace treaty (Aug 2025).
RM II: CD delivery interrupted due to health crisis. Significant regional (border) tension.	Medium	Known techniques for virtual engagement and delivery of CD, if needed. Border tension reduced with peace treaty (Aug 2025).
Political Support		
RM I: Lack of political support for reforms.	Low	The IMF's Stand-by Arrangement is a strong sign of political support. Considered unlikely under newly appointed (2024) Chair, who was former deputy Finance minister. If needed, engage the IMF's Middle East and Central Asia Department (MCD) country team to assist in securing additional political support.
RM II: Political leadership has not always motivated the SRC in progressing with reforms.	Low	Considered unlikely under current SRC chair, who was former deputy finance minister. If needed, engage MCD country team to assist in securing additional political support.
Management and Technical Staff Support and Commitment		
RM I: Low commitment of management and staff in finance and other ministries to adopt and implement fiscal risk management practices.	Low	All past CD projects have evidenced the availability and engagement of qualified staff.
RM II: SRC management and staff previously took a passive position during CD assignments (2021), but this has not been observed recently (2024)	Low	Low risk assessment, so we accept the risk. If authorities do become passive, we can tailor mitigation, including proportionately reduced CD or active management of milestones.
Resource Adequacy		
RM I: The project is constrained by ministry of finance/SRC staff capability and capacity.	Low	Advice will include a realistic implementation timetable. This would ensure that CD complements the authorities' ongoing work. Staffing options will be explored early in the project.

Description	Rating	Mitigation Measures
RM II: Resources available do not allow us to address some requested development areas. Resource adequacy has generally improved between 2021-24, although some skills (e.g., analytics) present challenges in all administrations.	Low	Focus CD on those matters that do not have resource constraints. If needed, direct CD to the process of how to overcome skilled resource constraints.
Other Risks		
RM I: N/A.	N/A	N/A
RM II: Multiple donors are providing technical assistance on revenue administration reforms, which may result in overlaps.	Low	Participate in regular donor coordination meetings, take an active role in engaging with other donors to ensure support is prioritized and well-coordinated.

V. PROJECT MANAGERS: CONTACT INFORMATION

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