

AL-Tax Center

Fiscal Documents,

Nr. 2015/01/01

www.al-tax.org

altax@consultant.com

Date 10.01.2015

Tirana, Albania

Investment Climate and Tax System in Albania, 2015

New developments of tax system and the economic situation and rules about doing business in Albania

This document is prepared by the experts of the AL-TAX, in a series of thematic collections, with the aim to become a source of discussion for those who are interested, or have inseparable connection with taxation in the implementation of their practices.

The copyright belong to © AL-TAX and everyone who will use this material, is obliged to tell the source.

The documenti can be found to the website www.al-tax.org

If you have requests and question, please send to altax@consultant.com

©AL-Tax Center

Fiscal Documents

January 2015

Investment Climate and Tax System in Albania, 2015

CONTENT

- I. Recent macroeconomic performance and investment climate**
- II. Workforce and employment rules**
- III. Corporate governance**
- IV. Foreign exchange controls**
- V. Accounting principles/financial statements**
- VI. Principal business entities**
- VII. Financial services and bank rules**
- VIII. Fiscal system**
 - Customs
 - Tax system

I. Macroeconomic performance and investment climate

The GDP of Albania in 2014 stood at a preliminary growth rate of 2.1%. There have been changes in the composition of GDP by sector. The services are the most important sector in GDP with 45 per cent, mainly due to the development of the tourism sector. Industry and agriculture (excluding hotels and bars) has also seen an increase to 4.6 per cent in 2014. Construction has seen a decrease to 4.3 per cent. Inflation rate, in December 2014 it was at the level of 0.7 percent. Unemployment according to official statistics is at the level of 16.4 percent with a tendency to decrease as a result of employment promotion policies promoted by the government through increased investment in strategic sectors (energy production and services) and creation of an encouraging climate for foreign investments, which are an indicator of increased confidence in Albanian market. Foreign direct investments have a share of 7% of GDP in 2014.

The export of goods from inward processing of textile products and footwear are the products that dominated the Albanian export. Albania's business climate is generally favorable to foreign companies. There are no restrictions on foreign ownership of businesses, and all sectors are open for foreign direct investment (FDI), partnership private-public procurement process and makes no distinction between foreign and domestic firms. Albania has concluded free trade agreements with all neighboring Balkan countries, thereby easing the flow of products through its borders and ports.

Foreign investment in Albania is, therefore, generally permitted and treated according to conditions no less favorable than those which apply to domestic investment in similar circumstances, excluding the ownership of land, which is regulated by a special law. Indeed, the restrictions on the purchase of real estate are notable:

- Agricultural land cannot be purchased by foreigners, but may be rented for up to 99 years.

- Commercial property may be purchased, but only if the proposed investment is worth three times the price of the land.
- There are no restrictions on the purchase of private residential property.

As further protection for investors, it is important to note that Albania has signed the convention establishing the Multilateral Investment Guarantee Agency (MIGA). MIGA provides investment guarantees against certain non-commercial risks (e.g. political risk insurance) to eligible foreign investors for qualified investments in developing member countries.

According to a decision of the Council of Ministers on the Leasing of Assets of State Enterprises Companies and Institutions (No. 315, dated 24 April 2006), rent below market rates for the leasing of state-owned property (buildings, land) and rate reductions for production activity according to investment and employment levels.

II. Workforce and employment rules

Despite clear structural transformations of economy, agriculture remains a significant employer of the Albanian workforce (near 30% of total), closely followed by manufacturing, construction and trade industries. The labor market is highly competitive, with the lowest wage costs in the region. The national minimum wage is 22.000 Albanian Leks (around € 157¹ per month). Albania's population to 2.9 million includes a working population of slightly less than 2 million. Most Albanians speak more than one language and, in terms of age, Albania together with Kosovo has the youngest workforce in Europe.

Employment in Albania is largely governed and regulated by the 1995 Labor Code (amended twice, under Law No. 8085 of 13 March 1996 and Law No. 9125 of 29 July 2003) which is based on the Albanian Constitution, and in accordance with all international conventions ratified by

¹ Exchange rate 1 Euro = 140 ALL in December 2014

Albania. The Code provides for the contractual regulation of the relationships between employer and employee by means of individual and collective labor contracts. Foreigners may be employed in the Republic of Albania provided that they have the requisite work permits and residence permits, which are covered by immigration provisions in the Law on Foreigners, the requirements of which fall outside the scope of this discussion.

III. Corporate governance

The general corporate governance legal framework in Albania is almost complete, despite the lack of existence of a clear set of financial and company corporate governance rules. There are, however, various laws that deal with rights, obligations and mechanisms involving, to a great extent, corporate governance. The major reasons why corporate governance rules remain unsophisticated are the lack of a capital market and listed companies. The recently established Financial Supervisory Authority (as per the Financial Services Law 2006) has regulatory and supervisory power over the securities market, and the authority to implement some corporate governance standards that are laid down in Securities Law 2008. But insofar as no listed companies and no licensed capital market are in existence, these powers remain almost passive.

IV. Foreign exchange controls

There are no foreign currency exchange controls applicable in Albania. Repatriation of payments may be made in any currency. However, when the amount of foreign currency funds to be transferred abroad is large enough as to negatively impact Albania's balance of payments abroad, the Central Bank of Albania reserves the right to break it down into smaller amounts. Repatriation of income (dividends, royalties, and consultancy services) is allowed if no tax liabilities are outstanding in Albania.

V. Accounting principles/financial statements

Financial Statements must be submitted in both offices, annually: Tax office and National Registration Center. National Accounting Standards (NAS), International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) apply for all companies, effective January 1st, 2008, based on their turnover. The National Accounting Council has approved 15 accounting standards based on the NAS and IAS.

VI. Principal business entities

Commercial companies are guided by the 2008 Commercial Companies Act, which guarantees foreign companies and investor's equal treatment. The principal business entities in Albania are as follows: (i) general partnership; (ii) limited partnership; (iii) limited liability company (locally sh.p.k.); (iv) joint stock company (locally sh.a.); v) a branch; and vi) a representative office. Any investment made through merger and acquisition, takeover and green field investment is addressed in the Law on Entrepreneurs and Commercial Companies, 2008.

VII. Financial services and bank rules

According to the Law on Banks in Albania (No. 9662, dated 18 December 2006; amended by the Law (No. 8384, dated 29 July 1998) on the Addition of a Transitory Provision in the Law on the Bank of Albania (No. 8269, dated 23 December 1997), commercial banks and non-banking financial institutions provide a wide range of services under the supervision of the Bank of Albania. The Bank of Albania operates as an independent legal entity accountable directly to the Albanian parliament and is responsible for the formulation and implementation of monetary policy in Albania. A law on financial leasing was enacted on 12 May 2005, and governs financial leasing, the rights and obligations of the parties to a financial leasing agreement, and relations

deriving from the lease of movable and immovable property. Entities exercising activity as banks or non-banking financial institutions can engage in financial leasing activities only if the relevant license or authorization therein expressly allows for financial leasing.

Instruments of payments such as cheques, bills of exchange and promissory notes have been regulated by laws heavily based on the French Civil Code. The Law on Cheques is relatively old, having been enacted in 1963, and has never been amended because of its precision and predictability. Meanwhile, laws on bills of exchange and promissory notes were enacted in February 1996. According to these laws, negotiable instruments must comply with some requirements as to form, which if not respected may render the document and effect to be null and void. The Bank of Albania issues instructions to banks to comply with anti-money laundering procedures, including setting up specific units within bank structures to screen evidence and report any suspicious transactions.

VIII. Fiscal system

1. Customs

Customs duties are levied on the import of goods into Albania at the rates specified in the Customs Tariff. Customs duties are prescribed based on customs tariffs, and are amended every year.

There are three categories of customs duties used in Albania:

1. Tax on the value: calculated as a percentage of the value of goods that will be taxed;
2. Specific duty: calculated as a fixed amount per item of the goods that will be taxed; and
3. Combined duties: composed from these two categories of customs duties.

In special cases, to reinforce or replace customs duties, the following duties can be temporarily used:

- special customs duties: when imported goods are harmful to national manufacturers of the same goods;
- anti-dumping duties: when goods are imported at a much lower price than they are sold at in the exporting country; and
- balancing duties: when imported goods cause the slowing or stopping of the production of the same goods in Albania.

The new Custom Code was approved by Albanian Parliament in 2014. The new code provides for different regimes for the circulation of goods within Albania. The Custom Code is aligned to the closest level to the new Regulation Commission no. 952/2013, dated 09 October 2013 'Union Customs Code,' which is becoming an integral part of the new Code will replace the current Customs Code (based on the EU Regulation no. 2913/1992, now repealed by the European Parliament on 9 October 2013)

Customs Administration currently operates through a system of automated data processing, *Asycuda World*. This system is able to make automatic processing of customs declarations (a)

entry of data and recording directly into the system by the declarant, (b) based on the data system performs risk analysis, calculation and assessment of duties and completes the with (c) the accounting and payment of all duties.

Customs regimes require authorization from the authorities, which usually requires the applicant to provide guarantees for the payment of any customs duties and confirmation that the authorities will continue to be able to survey the goods. Treatment under a customs regime will terminate upon the assignment of the goods to another destination or the placement of the goods under another regime by the authorities.

Below is a general overview of the main customs regimes in place.

1.1. Free circulation

This allows the import or release of goods into free circulation within the territory of Albania. Goods set under this regime are subject to all trade policy measures, such as customs duties and other related payments. Value added tax on imports is paid at the time the goods enter the Albanian customs territory.

1.2. Temporary permit

Non-Albanian goods that are imported and that are to remain for a certain period of time within the territory, and thereafter exported, can remain in the Albanian customs territory completely or partially exempt from import duties and any trade policy measures, provided that the goods have not been altered (except for depreciation in value). The maximum period that goods can be held under this regime is one year; after this period they must be exported. The amount of customs duties payable in this case is 3 per cent of the total duties that would be paid for these goods if they were subject to full customs duties.

1.3. Processing under customs control

This allows goods to be imported from outside Albania for processing operations, changing the nature or status of the goods, without their being subject to import duties or other trade policy

measures. Duty becomes payable when the finished product is put into free circulation, as if it had been imported directly in order to be put into free circulation.

1.4. Active processing

This covers mainly foreign goods that are subject to amendment or transformation (to be assembled, etc.) within Albanian customs territory. Such goods are not subject to import duties or trade limitations, and reimbursement is permitted only if import duties were paid when the goods were set into free circulation. The final goods must be exported after processing. The goods must meet a processing measurement set by the authorities, and authorization for processing commercial goods will only be issued when the subjects are established in Albania, the imported goods are recognizable within the final goods, and the interests of Albanian producers are protected.

1.5. Passive processing

This permits Albanian products to be temporarily exported for further processing outside the country and to be brought back into Albania subject to total or partial exemption of import duties. The relevant authorities will authorize the application of this regime upon request, however, only if it is possible to identify the originally exported goods within the final imported goods, and such is not contrary to the interests of local producers. There are also some other restrictions.

1.6. Temporary warehouse

Under this regime, goods and products are permitted to be stored for a specific period in certain customs storage warehouses that are approved by the relevant authority. During this period they will not be subject to any customs duties. The storage period is 12 months with the possibility of an extension for a further 12 months.

1.7. Transit

This regime covers the movement of non-Albanian goods and/or vehicles that pass through the territory of Albania on their way to another country. Such goods transiting the territory of

Albania are exempt from customs duty, VAT and excise taxes. Evidence must be shown to the customs authorities that the goods do not originate from Albania and are only passing through the country.

1.8. Export

This is applied to all Albanian products destined to be exported outside the Albanian customs territory. Exports are exempt from VAT, and persons/companies exporting can benefit from a VAT credit for purchases made in respect of the products to be exported.

2. Tax System

Taxes in Albania are grouped into three main categories: (a) indirect taxes (VAT, excise, gambling and other indirect taxes), direct taxes (income tax, personal income taxes, taxes on capital); (b) local taxes, and (c) social and health security contributions.

National Taxes, administered by the Central Tax Administration and Customs Administration include:

1. Indirect taxes²

- a. Value added tax;
- b. Excise (*since 2012 is administered by Custom administration*);
- c. Taxes on gambling, casinos and hippodromes;

2. Direct taxes

- d. Income tax;
- e. National taxes;
- f. Other taxes, which are defined as such by special law, and
- g. Customs taxes.

3. Social and health security contributions, as defined in the social insurances law

² See explanation of term in ANNEX

Local taxes and tariffs administered by Local Tax Administration include:

- a. Tax on immovable property, which includes tax on buildings and agricultural land;
- b. Tax on hotel accommodation;
- c. Tax on impact of new constructions upon infrastructure;
- d. Tax on transfer of ownership right on real estate;
- e. Annual tax for vehicle registration;
- f. Tax for occupation of public space;
- g. Board tax;
- h. Temporary taxes
- i. Registration tariff for various activities;
- j. Cleaning and waste disposal tariff;
- k. Vehicle parking tariff;
- l. Tariff for services

2.1. Taxation of commercial companies

Each individual, who is a partner in a commercial company, is responsible for the company's tax liabilities to the tax administration, according to provisions in the company charter. According to commercial registry, over 98 percent of companies are limited liability companies. The remainder is joint stock companies, partnerships and less than 0.5 percent is limited partnerships. The tax period commences on 1 January and ends on 31 December of each calendar year.

At the moment a company is registered and starts its economic activity, it is responsible for:

- Calculation of VAT and timely declaration and payment;
- Payment of advance tax installments for profit tax to pay every three months;
- Calculation, timely declaration and payment of tax on incomes from employment for employers and employees;
- Calculation, timely declaration and payment of social and health contributions;
- Withholding and payment of withheld tax, under obligation of Law "On Income tax";
- Calculation, timely declaration and payment of taxes according to specific activity

"for gambling, casinos and hippodromes" for the companies that have to deal with this tax;

- Calculation, timely declaration and payment of excise under specific law "On Excises" for the companies that have to deal with this tax;
- Calculation, timely declaration and payment of national taxes and local taxes (if).

In order to calculate taxes, taxpayers who are subject to VAT or profit tax keep registers, accounting records, books and financial information and issue tax receipt or tax coupon, in accordance with relevant laws and regulations pursuant to them. Taxpayers keep their accounts in accordance with provisions of the law "On accounting and financial statements" and act pursuant to that law in accordance with IFRS principles. In order to register economic transactions related to taxes, taxpayers can also use books, records or documents specified in specific tax laws and respective regulation provisions. Taxpayers are required to use basic documentation, including tax invoice, in accordance with tax legislation and relevant legal provisions.

2.2. Tax exemption

Albania's tax regime is considered by far one of the most important incentives for foreign investment as it is the lowest in Europe; however, the tax system as such does not discriminate against or in favor of foreign investors. Likewise, legislation relating to the public procurement process makes little distinction between foreign and domestic companies, as many activities in Albania require licensing within the territory. The procedures for obtaining a license are, however, the same for national and foreign companies. The government to date has not screened foreign investments and provided little in the way of tax, financial or other special incentives.

2.3. Value Added Tax

The majority of goods and services are subject to VAT at a standard rate of 20 per cent, although certain exemptions apply (such as for financial services, postal services, supplies of electronic and written media for advertising, supplies of services at casinos and hippodromes (race tracks),

sales of newspapers, magazines and advertisement services in them, as well as research hydrocarbon operations).

In 2014 it was approved by Albanian Parliament a new VAT Law.

All taxable persons carrying out independent economic activities are required to apply for a mandatory VAT registration if their taxable turnover exceeds ALL 5 million³ in a calendar year. Any taxable person that performs import-export activities and any tax registered freelancer should register for VAT purposes regardless of the annual turnover.

The new law provides convenient and attractive environment, safety for local entrepreneurship foreign legal consistency fiscal, well-defined rules to ensure:

- Uniformity in the application of VAT, and so unified taxation system in line with that of the EU countries;
- Fair competition and equal conditions, eliminating factors that affect these conditions;
- Promoting the circulation of goods services, making our business competitive with other countries.

According to the new VAT Law (No. 92/2014), the most significant incentives for investors in Albania are as follows:

- VAT credit at the rate of 100 per cent for importers of machinery and equipment which will serve entirely their taxable economic activity;
- exemption of VAT for export of international services;
- automatic VAT refund system from treasury, based on risk management

The tax export regime can be considered a kind of investment incentive for both foreign and national entrepreneurs, and is applicable to all Albanian products destined for export outside the Albanian customs territory. The export VAT rate it is 0 per cent. Exporters can benefit from a VAT credit for purchases made on behalf of their exports.

Overall, if the tax credit for a taxation period is higher than the VAT applicable in that period, taxpayers have the right to use the credit surplus for the following taxable period. Taxable

³ EUR 36,000

persons have the right to request a reimbursement of the credit surplus when they have a taxable credit amount *over three months* that is *above 400,000 Albanian Leks*. As stated above, and since they are essentially exporters, investors are entitled to VAT reimbursement on the purchase of domestic goods or raw materials when it is for production purposes⁴.

2.4. Corporate taxation

2.4.1. Definition of Residence

A company is considered resident in Albania if it has its legal seat or place of effective management in Albania. Further, partnerships and legal entities with a permanent establishment in Albania would be considered resident taxpayers. Residents must register with the National Registration Center (NRC).

2.4.2. Taxable Basis

Residents are taxed on their worldwide income; non residents are taxed only on their Albanian-source income.

2.4.3. Taxable income

Taxable income of residents includes business profits, as well as dividends, interest, and realized capital gains. Taxable profit is the difference between gross profit and related expenses. The determination of the taxable profit is generally based on the profits shown on the financial statements.

2.4.4. Tax income Rate

From the January 1st, 2014 the income tax rate of 15%.

2.4.5. Taxation of dividends received by residents

Dividend income is considered taxable income, unless the participation exemption or a

⁴ For detailed explanation email to altax@consultant.com

double tax treaty relief is applicable.

2.4.6. Participation exemption

2.4.6.1. Resident companies

Dividends and distribution of earnings are excluded from a resident's taxable profit when dividends and earnings are distributed from resident companies or partnerships which are subject to corporate income tax despite the participation quota, in value or number, of the share capital, of the right to vote or the participation in initial capital or share capital of the beneficiaries.

2.4.6.2. Nonresident companies

No participation exemption is in place for holding of foreign companies. Consequently, dividends received from foreign companies would be included in taxable income. Taxation of dividends paid to nonresidents – Dividend income distribution to a nonresident is subject to a withholding tax of 15%⁵, unless a double tax treaty provides for a lower rate.

2.4.7. Capital gains

Realized capital gains are considered as taxable income and are taxed together with other income, at 15% on a net basis.

2.4.8. Losses

A loss may be covered by profits in the next three fiscal years, according to the principle "first loss before the last one". The tax loss can not be carried forward if the ownership of stock capital or voting rights of an entity changes by more than 50% in value or number.

2.4.9. Surtax

None

⁵ Since January 2015, amended by Law 156/2014

2.4.10. Alternative minimum tax

None

2.4.11. Reign tax credit

Double taxation is avoided through tax treaties. Albania currently has signed 40 tax double treaties in effect with other countries. The treaties are based under principles of OECD Model Tax Convention on Income and Capital. In 2013, Albania ratified the Convention on Mutual Administrative Assistance in Tax Matters, a multilateral agreement developed jointly by the Council of Europe and the OECD.

Tax Double Treaties with Albania

When a Tax Double Treaty is in force between Albania and another state, its provisions prevail over the local tax regulations. The effects of tax double treaties are in force with countries below, since the year in addition.

Romania (1995), Malaysia (1995), Poland (1995), Hungary (1996), Turkey (1997), Czech Republic (1997), Russian Federation (1998), F.Y.R.O. Macedonia (1999), Croatia (1999), Italy (2000), Bulgaria (2000), Norway (2000), Sweden (2000), Greece (2001), Malta (2001), Switzerland (2001), Moldova (2004), Belgium (2005), France (2006), China (2006), Egypt (2006), Kosovo (2006)⁶, Netherlands (2006), Serbia and Montenegro (2006), South Korea (2009), Austria (2009), Bosnia and Herzegovina (2009), Latvia (2009), Slovenia (2010), Spain (2011), Germany (2012), Ireland (2012), Singapore (2012), Qatar (2013), Kuwait (2014), and U.K. (2014).

Tax treaties with the following countries have not yet entered into force.

Luxembourg (-), Estonia (-), India (-), U.A.E. (-)

2.4.12. Holding company regime

No application of this type of company regime.

⁶ The Law no. 62/2014 ratified by Parliament the Agreement between the Government of the Republic of Albania and the Republic of Kosovo 'For the avoidance of double taxation with respect to taxes on either come bridges and capital and for the prevention of fiscal evasion'.

2.5. Tax Incentives or tax expenditures

Every exemptions or tax incentive is granted only by law. The tax incentives comprise different forms applied by law:

- low tax rates (15%) with no preconditions,
- reduced tax rates (special scheme for farmers),
- tax exemptions sectors (research and drilling of hydrocarbons),
- contributions made by the employer to ensure the health and lives of employees are non taxable,
- investment tax credits (investments of all kinds),
- tax loss carry forward,
- accelerated depreciation rates (see the table at Annex).

If the tax rate on income taxes can be compared with the neighbor countries with Albania, it can be noticed that the income tax rates are competitive and attractive ones. The tax rate on income and profit is applied on equal basis to all taxpayers regardless of the region, the branch they perform their economic activity from or the type of activity.

Tax is granted for selected projects on a case-by-case basis and for every business as per under articles 18 of income tax law; articles 53, 54 and 56 of VAT law including the special scheme of exemption from VAT for investments value over € 360.000; articles 10-12 of excise tax law; and article 9 of National Taxes law. The investment projects may include investments channeled to public services, infrastructure projects, as well as tourism and oil industries. More detailed the exemptions from taxes, tax depreciation, legal and illegal business expenses and other explanations of tax bases for every major tax type you can see at Annex.

2.6. Withholding tax

Withholding tax is applicable to dividend, interest, and royalty payments, as well as certain other types of Albanian-source income earned by nonresidents.

Dividends are subject to a 15% withholding tax rate, unless the rate is reduced under an applicable tax treaty. *Interest* is taxed at a 15% withholding tax rate, unless the rate is reduced under an applicable tax double treaty. *Royalties* are subject to a 15% withholding tax rate,

unless the rate is reduced under an applicable tax double treaty.

Withholding tax must be paid no later than the 20th day of the month following the month the remittance upon which the withholding tax is assessed. The payer of such amounts is responsible for retaining and paying the tax on the account of the tax authorities.

2.7. Other Albanian-source Income

A withholding tax of 15% is applicable to the gross amount of: a) technical service fees; b) management fees; c) payments for construction, installation, assembly or related supervisory work; d) rental payments; and e) payment for the performance of entertainment activities, which are made to nonresident taxpayers.

The income in the form of cash for increasing the capital with resources from outside the organization are not taxed ago, and have been subject to tax and that are not accompanied by official documents proving the origin of this income are taxable by 15% as personal income.

2.7.1. Repatriation of dividend tax

No tax.

2.8. Other taxes on corporations

2.8.1. Capital duty

No tax.

2.8.2. Real property tax

Municipalities levy taxes based on the occupation of real property. A real estate tax on construction projects is levied on the value of a new investment at a rate of 2% to 4% in Tirana and 1% to 3% in other municipalities. Property tax is also applicable to agricultural land at rates varying from ALL 700 to ALL 5,600 per hectare, depending upon their use. A tax credit of 50% may be available for certain rural projects.

2.9. Payroll tax

Resident employers are required to withhold personal income tax on employee wages and remit to tax authorities on a monthly basis. The threshold of salary non taxable it is 30.000 Leks per month (€ 215 per month). In Albania, since 2014 is applied the progressive tax rate, based in three tax brackets, as can be seen in ANNEX.

2.10. Social Security filing requirements

Employers must properly calculated social and health insurance contributions and must pay no later than the 20th date of the month following the month of calculation. The total social security contribution is 27.9 per cent of the monthly secured compensation salary. Social security and health insurance contributions are paid by the employer at the rate of 16.7%. Social security contributions paid by the employee are rated at 11.2%.

2.11. Transfer Tax

A 15% transfer tax is imposed on the seller on a net basis from for the transfer of the immovable property. However, this tax may be credited on capital gains for income tax purposes. No transfer tax is imposed on the transfer of securities.

2.12. Anti-avoidance rules

Transfer pricing – Albania applies the arm’s length principle. Since 2014 in Albania are in force the transfer pricing guidelines⁷. The Albanian Tax Instructions refer to the OECD transfer pricing guidelines, 2010 for guidance in applying transfer pricing principles.

2.13. Thin capitalization

The tax deduction for interest paid is restricted when:

- The debt-to-equity ratio is equal to or greater than 4:1. (Note, however, that banks, insurance and leasing companies are not subject to this rule);

⁷ Instruction No. 16/2014, signed by Minister of Finance

- Interest paid is in excess of the 12-month average rate of the inter-bank rate as officially publicized by the Bank of Albania.

2.14. Excise tax

Excise duties are levied on certain domestic or imported goods such as alcoholic beverages, fruit juice, water and other refreshment beverages, cigarettes, coffee, fuel oils, cosmetics, perfumes, packaging materials etc. Tax liable persons for excise duties are licensed producers and importers of the goods. Excise goods in the Republic of Albania and the relative tax rates are shown in the link⁸

The AL-Tax Studio has a team of quality fiscal experts and CPAs that are highly skilled. All experts are known to have excellent relations with their clients and are adapt in providing the right solution for the client in resolving the legal problems they face. The close team network means that all experts are able to draw upon the expertise of others in the office to help provide a complete, comprehensive service and anticipate and defuse any potential legal problems.

2015. Our mind it's your solution!

Director

Aurela GJOKUTAJ

altax@consultant.com

www.al-tax.org

⁸ http://www.dogana.gov.al/sites/default/files/Ligj%20142%20Per%20%23%20Ligjit%2061_Akciza_FZ-174-2014.pdf

ANNEX

Special schemes	Tax rate	Taxable base (supplies)					Exempted base (supplies)			
		Commercial companies	Small business	Individuals	NGO	Public institutions	Commercial companies	Small business	Individuals	NGO
		<p>The scheme for exemption of VAT payment for machinery and equipment imported by taxable persons, according to this law, for the purpose of their economic activity, regardless of the type of activity.</p> <p>Taxable value for processed, imported gold is established according to the List of Customs Tariffs and it also includes (if not included) expenditures for transport, security and other expenditures included in the import of goods and delivery until the moment of entry in the territory of the Republic of Albania, excluding the value of gold used as raw material.</p>								
0%	For goods exported from the territory of the Republic of Albania					Supply of buildings, except construction process				
	For international transport of goods or passengers and supply of goods and services related to it					Renting buildings for a period longer than two months				
	For the supply of goods and services related to commercial or industrial activity at sea					Supply of financial services				
20%	Supply of goods inside the country					Supply of gold from the Bank of Albania and second-level banks				
	Supply of services inside the country					Supply of banknotes and coins from the Bank of Albania				
	Mixed supply inside the country					Supply of mail stamps for use in mail services or similar stamps				
	Accommodation in hotels and resorts					Supply of goods and services for NGOs with public status according to authorization from the Minister of Finances				
	Renting buildings for a period ≤ than two months					Supply of services from religious or philosophical organizations for purposes of spiritual wellbeing				
						Supply of educational services from public and private educational institutions				
						Supplies for diplomatic and consular missions and their personnel on the basis of reciprocity				
						Supplies for international organizations based on international agreements				
						Supply of services provided by contractors or their subcontractors confirmed as such by National Agency for Natural Resources to conduct hydro carbon research				
						Supply of medications and packaging of materials used for production and packaging of medications				
						Supply of printing services for newspapers, supply of newspapers, magazines and books of any kind, as well as supply of publicity service by printed and electronic media				
						Supply free of charge as aid "For civil emergencies"				
						Supply of services for processing non-Albanian goods by subcontractors, designed for re-export by authorized taxable persons				
						Supply of services for gambling, casinos and hippodromes				
						Supply of ID cards				
						Supply of services provided outside the territory of the Republic of Albania by taxable persons, whose country of economic activity is Albania, or, in the case of individuals, whose usual country of residence is Albania				
						Supply of import of devices, including adapted cars, which help integration of physically disabled, paraplegics and quadriplegics				
						Supply of import of ships, according to headings 8901 20, 8901 30, 8901 90, 8902 00 in the Combined List of Goods				
						Supply of import of goods by NATO and its organizations in the framework of operations and international agreements				
						Supply of import of live breed animals donated by different donors				

Source: Parliament of Albania

Non-recognized expenditures for businesses completing financial statement

No.	Name	Non-recognized expenditures			
		For commercial companies *	Entry in force	For taxpayers of local tax on small business **	Entry in force
1	Cost of purchase and improvement of land and terrain;	√	1999	√	2010
2	Cost of purchase, improvement renovation and reconstruction of active assets depreciated according to law	√	1999	√	2010
3	Value of in-kind remuneration	√	1999	√	2010
4	Paid interests exceeding the 12-month average interest rate on loans for the bank market	√	2004	√	2010
5	Penalties, arrears and other penal conditions	√	1999	√	2010
6	Creation or increase of contingencies and other special funds	√	1999	√	2010
7	Personal income tax and tax on business income			√	2010
8	Personal income tax, excise, profit tax and deductible VAT	√	1999		
9	Expenditures for representation and receptions exceeding the amount of 0,3 % of annual turnover	√	2001	√	2010
10	Expenditures for personal consumption	√	1999	√	2010
11	Sub legal	√	2007	√	2010
12	Expenditures for gifts	√	2003	√	2010
13	Any expenditures the amount of which is not confirmed with documents by taxpayers	√	1999	√	2010
14	Expenditures for technical, consultancy and bookkeeping services by third parties that taxpayers have not liquidated within the tax period	√	2003	√	2010
15	Losses, damages, expected losses during production, transit and storage beyond norms established in special legal and sub-legal acts	√	2004	√	2010
16	Expenditures for salaries, remuneration and any other form of personal income related to employment relations that have been paid to employees and administrators outside the bank system	√	2007	√	2010
17	Amounts paid in cash , above 300 thousand ALL	√	2007	√	2010
18	Interest paid on exceeding amount when loan and advance payment exceed the total of own capital by an average of four times during the tax period***	√	2007	√	2010
19	Bad debt if the three conditions established in article 24 of the law are not fulfilled			√	2010
20	Expenditures for travel, food, accommodation and movement beyond established norms			√	2010
21	Increase of the company's own capital or that of each individual in a partnership	√	1999		
22	Declared dividends and profit shares for shareholders of commercial companies as well as profits in the case of partnerships	√	1999		

Source: Parliament of Albania

* These legal norms last more than 10 years whereas some of them have entered in force for 5 years

** These legal norms last more than 1 year

*** This definition does not apply to banks, insurance companies and leasing companies

Accepted depreciation norms for active assets for businesses completing financial statement

Name	Exempted from depreciation	Entry in force	Form of depreciation*	Depreciation norms			
				For commercial companies	Entry in force	For taxpayers of local tax on small business **	Entry in force
Land, terrain, works of art, antiquaries, jewelry, precious stones and metals	√	1999					
Costs for purchase, construction, improvement, renovation or reconstruction of buildings, machinery and equipment with long-term service			With remaining value	5%	2010	5%	2010
Depreciation for costs of purchasing non-material assets is calculated separately for each asset			In linear form	15%	2005	15%	2010
Computers, IT systems, software products and data storage equipment			With remaining value	25%	1999	25%	2010
Any other active asset used in the business activity			With remaining value	20%	1999	20%	2010

Source: Parliament of Albania

* When depreciation base does not exceed 5,000 ALL, all depreciation base should be deductible activity cost

Personal income tax and withheld tax

Transfer of property on long-term material assets	Tax rate	Tax base		Exemptions from tax base	
		Residents - For income earned from:		Residents - For income earned from:	Non-residents* - For incomes earned from:
<p>1. Transfer of property right on immovable property, land, buildings, is taxed at 15% of capital earnings. This paragraph does not apply for exchange of property right on land with the property right on buildings</p> <p>2. Tax is paid by individuals transferring property right on immovable property before registration of above property, in compliance with legal acts. Immovable property will not be registered without proof of tax payment with Office for Registration of Immovable Property.</p>	15%	Dividends		Benefits from social and health insurances schemes	Different services
		Bank interests and similar		Scholarships for students	
		Author's right		Remuneration for sickness and misfortune	
		Emphyteusis loan, rent		Expropriations	
		Property transfer		Compensation for former political prisoners	
		Gambling		Employer's contribution for life and health insurance	
		Sale of shares		International agreements	
				exchange of property right on land with the property right on buildings constructed on that land	
Increase of capital from sources external to the company		Salaries and remuneration below 10 thousand ALL			

Source: Parliament of Albania

List of national taxes and tariffs for services

No.	Type of tax	Tax rate	Entry in force	Exemptions
1	Port tax	1 Euro	2008	
2	Circulation tax on gasoline	5 ALL/liter	2009	
3	Tax on used transport vehicles	See List 1	2010	<p>Vehicles owned by international organizations and embassies enjoying diplomatic status accredited in the Republic of Albania, on the basis of reciprocity</p> <p>Legal entities and private individuals who, within January of current year, declare that they will not circulate during the same year with vehicles they own and they want to deregister by submitting respective plates and circulation permit to GDRTS ;</p> <p>Payments of tax on vehicles blocked with decision from the court, prosecution, etc., for the blocking period</p> <p>Cars with 4+1 seats and cylinder no bigger than 2500 cc when such vehicles are owned by physically disabled, antifascist war veterans, work invalids, blind, paraplegics and quadriplegics enjoying this status according to relevant laws if such vehicles are used only for their personal needs and not for private activity</p> <p>Agricultural machinery</p>
4	Tax on mining rent	See List 2	2008	
5	Tax on stamp and acts	See List 3	2008	<p>Formal actions required by foreign authorities based on reciprocity</p> <p>Registration of birth and death and services in the civil registry</p>
6	Tax on carbon and gasoline	See List 4	2008	
1	Circulation Tax on carbon and gasoline	See List 4	2009	
7	Tax on exercising fishing activity	See List 5	2009	
8	Tariff for crossing air borders of Republic of Albania		2008	
9	Tariff for use of TV devices and Albanian Public Television		2008	Persons enjoying the status of disabled based on Law nr. 7889, date 14.12.1994 "On the status of disabled", amended, the status of war disabled based on law nr. 7663, date 20.1.1993 "On the status of disabled during the antifascist war", amended, or the status of blind, based on law nr. 8098, date 28.3.1996 "On the status of the blind" *
10	Tariff for consular services from the Ministry of Foreign Affairs or Albanian embassies abroad		2009	
11	Tariff for provision of sailing passport from port authorities		2008	
12	Tariff for provision of driving license from GDRTS		2008	
13	Service Tariff for circulation of foreign passenger transport vehicles with capacity for more than 20 passengers, including driver and vehicles for transport of goods, loaded or not, is established on reciprocity		2011	
14	Tariff for radio telecommunication services from AEPC		2008	
15	Tariff for actions or services from the judicial administration in the Ministry of Justice, prosecution office, notary and real estate registration office		2008	
16	Tariff for radio television broadcast services from NCRT		2008	

Source: Parliament of Albania

* Persons mentioned above are not entitled to these benefits if they exercise private activity as private individuals or legal entities

List 1

Age coefficient for annual tax on used vehicles

Motor vehicles, cars, vehicles for mixed transport		All other types		Buses	
Age of vehicle	Coefficient for years used	Age of vehicle	Coefficient for years used	Age of vehicle	Coefficient for years used
1	0,00	1	0,00	1	0,00
2	0,00	2	0,00	2	0,00
3	0,00	3	0,00	3	0,00
4	0,18	4	0,20	4	0,07
5	0,19	5	0,22	5	0,08
6	0,20	6	0,24	6	0,09
7	0,21	7	0,26	7	0,10
8	0,22	8	0,28	8	0,11
9	0,23	9	0,30	9	0,12
10	0,24	10	0,32	10	0,13
11	0,28	11	0,34	11	0,14
12	0,32	12	0,36	12	0,15
13	0,36	13	0,38	13	0,16
14	0,40	14	0,40	14	0,17
15	0,44	15	0,42	15	0,20
16	0,48	16	0,44	16	0,23
17	0,52	17	0,46	17	0,26
18	0,56	18	0,48	18	0,29
19	0,60	19	0,50	19	0,32
20	0,64	20	0,52	20	0,35
21	0,68	21	0,54	21	0,38
22	0,70	22	0,56	22	0,40
23	0,72	23	0,58	23	0,42
24	0,74	24	0,60	24	0,44

Source: Parliament of Albania

Note: After 24 years of use, the coefficient for "Buses" increases with 0.03 and for "All other vehicles" with 0.0. For "Motor vehicles, cars and vehicles for mixed transport" it increases with 0.04

List 2

Percentage of Mining Rent according to classification

No.	Name of mineral group according to mining law	Percentage of mining rent
I	First group (I) METALLIC MINERALS	
1	Silver minerals	10
2	Gold minerals	10
3	Copper minerals	6
4	Chrome minerals	6
5	Nickel minerals	6
6	Iron minerals (iron-nickel)	5
7	Lead minerals	5
8	Zinc minerals	7
9	All other metallic minerals	4
II	Second group (II) NON-METALLIC MINERALS	
10	All non-metallic minerals	4
III	Third group (III) COALS AND BITUMEN	
11	Coals	5
12	Bitumen	5
13	Bitumen sands	5
14	Oil schist	5
15	Pyro-bitumen	6
IV	Fourth group (IV) CONSTRUCTION MATERIALS AND MINERALS	
16	Granite	6
17	Limestone	5
18	Gabbro	5
19	Basalt	4
20	Conglomerates	7
21	Marble	7
22	Construction tiles	7
23	Granite tiles	5
24	Sands	7
25	Serpentines	5
26	Travertine	5
27	Tractolite	5
28	All other minerals in group IV	5
V	Fifth group (V) PRECIOUS STONES	
29	All minerals in group V	10
VI	Sixth group (VI) SEMI PRECIOUS STONES AND OPAL	
30	All other minerals in group VI	10
31	Seventh group (VII) OIL AND GAS	10

Source: Parliament of Albania

List 3

Act and Stamp Tax

in ALL

No.	Name	Tax value
1	For issuing certificates for use inside the country	50
2	For issuing "Marriage certificate" in foreign language	200
3	For issuing "Birth certificate" in foreign language	200
4	For issuing "Marriage certificate" in foreign language	200
5	For registration of foreign citizens after they are granted Albanian citizenship	2.000
6	For change of name/surname	1.000
7	For registration of marriage acts	1.000
8	For procedure of family separation/union for citizens	1.000

Source: Parliament of Albania

List 4

Carbon tax on petrol

No.	Name of fuel	Measurement unit	Tax rate
1	Petrol	ALL/Liter	1,5
2	Gasoline	ALL/Liter	3
3	Coal	ALL/Liter	3
4	Solar	ALL/Liter	3
5	Coal Tar	ALL/Liter	3
6	Oil coke	ALL/Kg	3

Circulation tax on petrol and gasoline

No.	Name of fuel	Measurement unit	Tax rate
1	Petrol	ALL/Liter	27
2	Gasoline	ALL/Liter	27

Source: Parliament of Albania

List 5

ANNUAL TAX ON EXERCISING FISHING ACTIVITY

		<i>ALL/year</i>
I. Sea fishing (for 1 ship)		
1. Terminal Sea fishing:		
	ship 160-200 HP	40.000
	ship 201-410 HP	50.000
	ship above 410 HP	80.000
2. Pelagic fishing with travolants:		
	ship 160-200 HP	20.000
	ship 201-410 HP	30.000
	ship above 410 HP	40.000
3. Pelagic fishing with enclosures:		
	ship 80-200 HP	10.000
	ship 201-410 HP	20.000
	ship above 410 HP	30.000
4. Terminal pelagic fishing:		
	ship 160-200 HP	40.000
	ship 201-410 HP	60.000
	ship above 410 HP	90.000
5. Fishing with selective vehicles and terminal trawlers		
	ship 40 - 80 HP	15.000
	ship 81-160 HP	25.000
	ship 161-200 HP	40.000
	ship 201-410 HP	50.000
	Box 2	80.000
6. Fishing bivalve cockles (authorized)		60.000
II. Handicraft fishing with light vehicles		
1. Coastal fishing (for motor boats up to 40HP)		7.000
2. Fishing in coastal lagoons:		
	in lagoons (1 boat)	10.000
	in embouchures (1 fisherman)	12.000
3. Fishing in inland waters:		
	active (1 boat)	5.000
	in embouchures (1 fisherman)	8.000
4. Gathering bivalve cockles		
	with light boats for 1 (one) fisherman	20.000
III. Sport fishing at sea with sailing boats (for 1 boat)		40.000
IV. Aquaculture		
1. Cultivation of cockles in one plant		10.000
2. Cultivation of fish with plants at sea, in lakes and reservoirs		1.000
3. Aquaculture with plants on land		10.000

Source: Parliament of Albania

Note: For foreign ships licensed to fish in our territorial waters, tax on permit to exercise this activity will be twice the tax applied for Albanian ships. Exempt from this tax are ships authorized by the Ministry of Agriculture and Food (Fishing Directorate) to fish for scientific research purposes.

PAYROLL TAXES IN ALBANIA, 2015

TAXABLE INCOME Lek/month		PAYROLL TAX
From	To	
0	30.000	no tax
30.001	130.000	13% for the surplus over ALL 30,000
130.001	no limit	ALL 13.000 + 23% for the surplus over ALL 130,000

Indirect taxes are not generated by the person paying the tax, but they move from one taxable person to another until they are paid by the end buyer, who consumes the commodity or service. Tax movement is realized through pricing goods or services until all added values on goods and services from one buyer to another are purchased by the end consumer who has purchased goods or services with value added and indirect tax included in the price. VAT is the most popular tax in the group of indirect taxes.

Direct taxes are what we pay in person, or when our employer pays for our account in the tax administration. These taxes are a percentage of liability on our incomes or assets, but they can not be transferred to others. When paid, direct taxes are carried by the one who pays them. Payroll tax is the most comprehensive representative for this group of direct taxes.