

International Tax Albania Highlights 2017



Investment basics:

Currency – Albanian Lek (ALL)

Foreign exchange control – There are no foreign exchange controls; repatriation of funds may be made in any currency. However, if the amount of foreign currency to be transferred abroad is significant enough to negatively impact Albania's balance of payments abroad, the central bank reserves the right to break down the transfer into smaller amounts. Repatriation of income (dividends, royalties and payments for consultancy services) is allowed, provided there are no outstanding tax liabilities in Albania.

Accounting principles/financial statements – National Accounting Standards (NAS) and IAS/IFRS apply for certain companies as from 2008. A revised set of NAS that is in line with the IFRS for small and medium-sized enterprises applies as from 2015. Financial statements must be prepared annually.

Principal business entities – These are the limited liability company, joint stock company, general and limited partnership, and branch and representative office of a foreign company.

Corporate taxation:

Residence – A company is resident if its legal seat or place of effective management is in Albania. Partnerships and legal entities with a permanent establishment in Albania are considered residents for tax purposes. Resident entities must register with the national registration center; joint stock companies also must register their shares with the shares registration center.

Basis – Resident taxpayers are taxed on their worldwide income; nonresidents are taxed only on Albania-source income.

Taxable income – Taxable income of residents includes business profits, as well as dividends, interest and capital gains. The taxable profit is the difference between gross profit and expenses related to a company's business operations.

Taxation of dividends – Dividend income is considered taxable income, unless the domestic participation exemption applies (see below under "Participation exemption").

Capital gains – Capital gains are considered taxable income and are taxed with other income at a rate of 15%.

Losses – Losses may be carried forward for three consecutive years, unless there is a direct or indirect change in ownership of 50% or more of the company's shares or voting rights. The carryback of losses is not permitted.

Rate – Companies with an annual turnover exceeding ALL 8 million are subject to a 15% tax rate. If the annual turnover is between ALL 5 million and ALL 8 million, the entity is subject to the simplified corporate income tax rate of 5%. Entities with a total annual turnover below ALL 5 million are exempt from the simplified corporate income tax.

Surtax – No

Alternative minimum tax – No

Foreign tax credit – Double taxation relief may be granted under a tax treaty. Albania allows a tax credit if supporting documents, as required by the Ministry of Finance, are provided to the general tax directorate and approval is obtained from the directorate.

Participation exemption – Dividend distributions and distributions of profits by resident companies or

partnerships are excluded from taxable profits if the payer is subject to corporate income tax, regardless of the extent of the participation of the recipient. The participation exemption is not available for holdings in foreign companies. Thus, such dividends are included in taxable income.

Holding company regime – No

Incentives – Relief from corporate income tax may be granted for certain projects on a case-by-case basis, such as investments related to public services and infrastructure projects, tourism, the apparel industry, start-ups and the oil industry.

Withholding tax:

Dividends – Dividends paid to a nonresident are subject to a 15% withholding tax, unless the rate is reduced under a tax treaty.

Interest – Interest paid to a nonresident is subject to a 15% withholding tax, unless the rate is reduced under a tax treaty.

Royalties – Royalties paid to a nonresident are subject to a 15% withholding tax, unless the rate is reduced under a tax treaty.

Technical service fees – A 15% withholding tax is levied on technical service fees, management fees and payments for construction, installation, assembly or related supervisory work, unless the rate is reduced under a tax treaty.

Branch remittance tax – No

Other taxes on corporations:

Capital duty – No

Payroll tax – No

Real property tax – Municipalities levy taxes based on the ownership or use of 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 also is applicable to agricultural land, at rates ranging from ALL 700 to ALL 5,600 per hectare, depending on the use. Property tax rates on buildings used for commercial purposes range from ALL 200 per square meter to ALL 400 per square meter, depending on the cadastral area in which the building is situated. As from 1 January 2016, urban land also is subject to property tax, with the amount ranging from ALL 1,400 per hectare to ALL 5,600 per hectare.

Social security – Social security and health insurance contributions are assessed at a combined rate of 27.9%, with the employer paying 16.7% and the employee

paying 11.2%. The monthly gross salary is used as the base for the calculation of the health insurance contribution, with the employer and employee paying equal shares at a combined rate of 3.4%. The base for calculating social security contributions is the gross salary between ALL 19,406 and ALL 97,030. The employer must calculate the contributions and remit payment by the 20th day of the month following the month of payment.

Stamp duty – Stamp duty is levied up to ALL 2,000. Notary fees for transactions involving immovable property range between 0.23% and 0.35% of the value of the transaction; fees for transactions involving movable property range from 0.23% to 0.3% of the value of the transaction.

Transfer tax – The transfer of buildings, land and other immovable property is subject to tax on the transfer of ownership, payable by the transferor before the transfer of title. Transfer tax amounts range from about ALL 100 up to ALL 2,000 per square meter for buildings used for commercial purposes and 2% of the sale price for all other immovable property (including agricultural land).

Anti-avoidance rules:

Transfer pricing – The transfer pricing rules are in line with the OECD guidelines. The rules contain definitions of controlled transactions and accepted transfer pricing methodologies.

Taxpayers engaged in cross-border transactions with associated parties are required to prepare transfer pricing documentation and make it available to the tax authorities within 30 days of a request. Taxpayers engaged in controlled transactions exceeding ALL 50 million in the aggregate in a fiscal year must complete and submit an annual controlled transactions notice to the regional tax directorate by 31 March after the close of the fiscal year.

Unilateral, bilateral and multilateral advance pricing agreements may be concluded with the tax authorities if the value of the controlled transactions for the entire period covered by the agreement is expected to exceed EUR 30 million or if the controlled transactions concerned are complex and of a strategic nature.

Thin capitalization – Interest deductions on loans are limited if the debt-to-equity ratio exceeds 4:1 (except for banks, insurance and leasing companies). Additionally, interest exceeding the 12-month average rate on loans from banking institutions, as officially published by the central bank of Albania, is nondeductible.

Controlled foreign companies – No

Disclosure requirements – Companies must disclose

their annual financial statements and related notes to the tax authorities by 31 March after the close of the fiscal year.

Other – There are no general anti-avoidance rules.

Compliance for corporations:

Tax year – Calendar year

Consolidated returns – Consolidated returns are not permitted; each legal entity must file a separate return.

Filing requirements – Advance payments must be made on a quarterly basis, but monthly installments are allowed as an alternative. Failure to pay the monthly or quarterly installments within the relevant deadlines is subject to a fixed penalty equal to 15% of the unpaid amount. A final annual tax return is due by 31 March of the year following the tax year, along with the statutory financial statements. The deadline for taxpayers subject to the simplified income tax is 10 February of the following year.

The payer of dividends, interest, rents and royalties is responsible for retaining, declaring and paying the withholding tax by the 20th day of the month following the month of payment.

Penalties – Interest and penalties are imposed for late filing, failure to file and tax evasion. Interest on a delayed tax payment is 120% of the latest available interbank interest rate. Other penalties also may apply.

Rulings – No

Personal taxation:

Basis – A resident individual is taxed on his/her worldwide income; a nonresident is taxed only on Albania-source income.

Residence – An individual is considered resident if he/she has a permanent home in Albania; is a citizen holding a consular, diplomatic or similar office abroad; or resides in Albania for more than 183 days within the same taxable period, regardless of whether the stay is interrupted or continuous.

Filing status – Each resident individual must file a return; joint returns are not permitted.

Taxable income – Taxable income includes income from wages, salaries and other forms of employment compensation; gains from the transfer of real estate; income from copyrights and royalties; profits from partnership interests and shareholdings; interest income derived from deposits and securities; and income from the sale of securities.

Capital gains – Capital gains are taxed at a rate of 15%.

Deductions and allowances – Deductions are granted for medical expenses, insurance and pension annuities, interest on education loans and real estate tax.

Rates – Income up to ALL 30,000 is exempt; income from ALL 30,001 to ALL 130,000 is taxed at a rate of 13% of the amount exceeding ALL 30,000; and income of ALL 130,001 and above is taxed at ALL 13,000, plus 23% of the amount exceeding ALL 130,000.

Other taxes on individuals:

Capital duty – No

Stamp duty – Stamp duty is levied in an amount up to ALL 2,000. Notary fees for transactions involving immovable property range between 0.23% and 0.35% of the value of the transaction; fees for transactions involving movable property range from 0.23% to 0.3% of the value of the transaction

Capital acquisitions tax – No

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 also is applicable to agricultural land at rates ranging from ALL 700 to ALL 5,600 per hectare, depending upon the use. Property tax rates on the residence of an individual range from ALL 5 to ALL 30 per square meter, depending on the cadastral area in which the building is situated and the year of construction. Individuals owning more than one residence will pay double the rate per square meter for the other residences. As from 1 January 2016, urban land also will be subject to property tax, with the amount ranging from ALL 1,400 per hectare to ALL 5,600 per hectare.

Inheritance/estate tax – Inheritances and gifts are taxed as income at a flat rate of 15%.

Net wealth/net worth tax – No

Social security – Gross monthly salary is the basis for calculating the health care contributions for both employers and employees, with each paying an equal share at a combined rate of 3.4%. Calculation of voluntary health care contributions and contributions for self-employed individuals are based on double the minimum threshold salary for purposes of calculating these contributions.

Social security contributions are calculated on the gross salary, with the employer paying 15% and the employee 9.5% on salary between ALL 19,406 and ALL 97,030. As from 1 January 2016, the salary base for calculation of health and social contributions for certain categories of

self-employed professionals will be determined by the Council of Ministers.

Compliance for individuals:

Tax year – Calendar year

Filing and payment – The personal income tax return is due by 30 April of the following year for individuals earning annual income of more than ALL 2 million from all sources.

Penalties – A penalty of ALL 10,000 will be imposed for making a late declaration. Other penalties and charges apply for late payment of tax.

Value added tax:

Taxable transactions – VAT is levied on the supply of goods, the provision of services, and “mixed supplies.” A reverse charge applies for imported services. Albania’s VAT law is aligned with the EU VAT directive.

Rates – The standard rate is 20%. The supply of medicines and medical services by private and public healthcare institutions and insurance premiums are exempt. Exports are zero-rated.

Registration – A person that carries out taxable supplies as part of his/her business activities must register for VAT purposes. The minimum base for mandatory registration is annual turnover exceeding ALL 5 million.

Licensed professionals (e.g. notaries, accountants, lawyers, etc.) must register, regardless of annual turnover. A person registered for VAT purposes also is subject to corporate income tax.

Filing and payment – VAT must be paid on the 14th day of the month following the month of declaration.

The VAT on foreign investments under agreements ratified by parliament or grants approved by the Council

of Ministers will be refunded within 30 days, as per rules issued by the Minister of Finance. VAT for exporters is refunded within 30 days. For other entities, the tax authorities have 60 days to assess and approve the creditable balance, but no deadline is provided for a cash refund and a VAT refund procedure is not available for foreign businesses.

A refund procedure based on a risk assessment system became effective on 22 August 2015. Based on a risk analysis made by the General Directorate of Taxation, tax audits will be conducted only on taxpayers that are classified as “taxpayers with risk,” and refunds will be granted based on the results of the audit. Non-risk taxpayers will be granted a refund by the deadline set out in the law, without undergoing a tax audit.

Source of tax law: Law No. 9920, dated 19 May 2008, on Tax Procedure, as amended; Income Tax Law No. 8438, dated 28 December 1998, as amended; VAT Law No. 92/2014, dated 24 July 2014, as amended; Law No. 9623, dated 30 October 2006, on Local Tax System in the Republic of Albania, as amended; Law No. 9975, dated 28 July 2008 on National Taxes, as amended; Law No. 9136, dated 11 November 2003, on Social and Health Contributions, as amended.

Tax treaties: Albania has concluded 40 tax treaties.

Tax authorities: Ministry of Finance, General Tax Directorate, Large Taxpayers Unit and Regional Tax Directorates, National Registration Centre

Contact:

Olindo Shehu (oshehu@deloitteCE.com)

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee (“DTTL”), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as “Deloitte Global”) does not provide services to clients. Please see <https://www.deloitte.com/about> to learn more about our global network of member firms.

Deloitte provides audit, consulting, financial advisory, risk management, tax and related services to public and private clients spanning multiple industries. Deloitte serves four out of five Fortune Global 500® companies through a globally connected network of member firms in more than 150 countries and territories bringing world-class capabilities, insights, and high-quality service to address clients’ most complex business challenges. To learn more about how Deloitte’s approximately 225,000 professionals make an impact that matters, please connect with us on [Facebook](#), [LinkedIn](#), or [Twitter](#).

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the “Deloitte Network”) is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.