

TaxAlert 2008

Issue 01/08

To keep you up-to-date with the latest economic and financial developments, this bulletin provides information that may affect the operation of your business in Albania.

Amendments to Albanian fiscal legislation

- **Application of VAT to several supply of goods and services rendered from non-for-profit organizations, educational services, supply of medicine equipment and import of periodic publications and books**
- **New changes regarding the deduction of VAT on purchase of fuel**
- **New compensation scheme applicable for the supplies of products from farmers to taxable persons**
- **Personal income tax at the rate of 10% applicable to small business entities with an annual turnover from ALL 2 million up to ALL 8 million**
- **Application of IAS from business entities**
- **New excise duty rates for several goods**

For details explore the following text:

Value Added Tax (VAT)

New amendments to Law no. 7928, dated 27.04.1995 “On Value Added Tax”

VAT Taxable Supplies

As per the new Law no. 9856 dated 26.12.2007 “On some Amendments to Law “On VAT”, the following supplies become subject to VAT:

- Supply of goods and services for medical and dental treatment, protection and care of children and elder people, as well as educational, cultural and sportive services, which are rendered from non-for-profit organizations. Under the old law provisions, such supplies performed by non-for-profit organizations were exempt from VAT, provided that they were against reduced payment.
- Supply of educational services by public and private educational institutions.
- Supply of medical equipment;
- Import of periodic publications, magazines, printings and books of all types.

These amendments have entered into force on 5th of February 2008.

VAT Deferred Scheme

The previous regulatory framework had established the deferment of payment of VAT due on the import of machineries and equipment up to six months.

Under the new rules, the VAT payment may be deferred up to twelve months for all imported machineries and equipment, for taxable persons, independently from the type of activity (Law no. 9856, dated 26.12.2007 “On some Amendments to Law “On VAT”).

The above amendment is effective starting from 5th of February 2008.

VAT Deduction on Purchase of Fuel

The Minister of Finance has amended the Instruction no. 3, dated 30.01.2006 “On VAT” in regard to the rules applicable to the VAT deduction on purchase of fuel. According to the said amendment, in cases where the fuel is used for technological purposes only, the right to credit the VAT is automatically granted to the taxpayer.

The taxpayer must submit evidences to the tax authorities that the fuel is used only for technological purposes.

Under the new rules, the taxpayer is no longer obliged to obtain the authorization from General Tax Directorate (GTD) for the deduction of VAT on purchase of fuel used for technological purposes. Instead, the taxpayer shall notify in writing the GTD on the credit of the said VAT.

This notification should contain the following elements:

- a. forecast for the annual consume of gasoil in the current year;
- b. real consume of gasoil for the previous year and the percentage of the cost of gasoil in the total of expenses;
- c. inventory of vehicles (except for cars);
- d. inventory of technological machineries and equipment for which the gasoil is used as well as their hourly consume as provided in the manuals;
- e. technological card of the line in case the gasoil is used as an energy source in the technological process as well as the hourly consume of line machineries;
- f. official confirmation from regional transport directorate for the payment of the annual taxes for the vehicles owned or rented;
- g. official confirmation from local tax office for the payment of fiscal obligations (VAT, profit tax, social & health contributions) for the previous and current year;
- h. official confirmation from local tax office for the current situation regarding the outstanding tax obligations.

In case the above documentation is incomplete or false, the GTD is entitled to conduct a tax audit to the taxpayer and to waive the right of VAT credit for one year, imposing also respective penalties.

The VAT credit amendment mentioned here above has entered into force on 7th of February 2008.

Compensation Scheme for Farmers

Pursuant to Law no. 9848, dated 17.12.2008 “On some Amendments to Law “On VAT”, farmers who supply agricultural and farming products to taxable persons are entitled to benefit from a compensation. The compensation rate is 6% of the amount of the supply.

The formats of the VAT ledgers and VAT monthly declaration prepared by the taxable persons have been changed to reflect the application of the above compensation scheme.

The compensation scheme is effective from 1st of January 2008.

Income Tax

New amendments to Law no. 8438, dated 28.12.1998 “On Income Tax”

Personal income tax for small business entities

The new Law no. 9844, dated 17.12.2007 (amending the Law no. 8438, dated 22.12.1998 “On Income Tax”) establishes that income of physical and legal persons, who are subject to small business tax, having an annual turnover between ALL 2 million and ALL 8 million, become subject to personal income tax.

The annual turnover will include all type of income, such as:

- income from supply of goods and services;
- income from participations;
- income from use of movable or immovable property;
- interest income;
- other income generated during the taxable period.

The tax rate is 10% of the taxable base. The taxable base will be calculated as the difference between the annual revenues and the annual deductible expenses. The detailed list of non-deductible expenses is provided in the law.

The tax on small business paid on quarterly basis as provided by Law “On Local Taxes” will reduce the due amount of the personal income tax reflected in the annual tax return.

The taxable persons as defined above will have the obligation to prepare the annual tax return and pay the personal income tax within 31st of March of the year following the closure of the fiscal year.

The taxable persons are required to prepare the sale and purchase ledgers and profit and loss statement in the formats provided in the Instruction of the Minister of Finance.

The above law provisions are effective from 1st of January 2008.

International Accounting Standards

Decision of Council of Ministers no. 742 dated 07.11.2007 “On the Criteria for the Business Entities which should apply the International Accounting Standards”, has established the conditions that should be fulfilled by the business entities in order to apply the IAS.

As per this Decision, beginning from 1 January 2008, the business entities (as specified in article 4 of point 3.c of Law no. 9228 “On Accounting and Financial Statements”) will apply the IAS, if in the last two years, both the following two conditions are fulfilled:

1. their annual turnover is over ALL 1,250,000,000; and
2. average number of employees is higher than 100.

The Albanian version of the International Accounting Standards is not yet published by the National Accounting Council.

Excise Duty

New provisions to Law no. 8976, dated 12.12.2002 “On Excise Duty”

The new law provides for some changes in the level of excise duty for heavy oils and a new category of goods subject to the excise duty as follows:

Table 1

Code	Description	Excise Duty	
		Was	Becomes
V	OIL BY-PRODUCTS		
27 10 19 31 till 27 10 19 49	Heavy oils (gas oil)	75 % but not more than ALL 37 per liter and not less than ALL 17 per liter	75 % but not more than ALL 37 per liter and not less than ALL 27 per liter
VII	INCANDESCING LAMPS	Was	Becomes
85392192	More than 100 V	N/A	100 %
85392198	Not more than 100 V	N/A	100 %
85392210	Reflector lamps	N/A	100 %
85392290	Other	N/A	100 %
85392992	More than 100 V	N/A	100 %
85392998	Not more than 100 V	N/A	100 %

The above amendments have entered in force on 5th of February 2008.

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For more information contact:

Boga & Associates
Dëshmorët e 4 Shkurtit
P.O Box 8264
Tirana ALBANIA

Tel +355 4 251050/251022
Fax +355 4 251055

Internet: <http://www.bogalaw.com>
E-mail: info@bogalaw.com

Genc Boga- Partner
Alketa Uruçi- Manager
Mirjeta Emini- Manager

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