

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.

## Tax and Regulatory Update

### Amendments to Albanian Fiscal Legislation

The Albanian Parliament passed a package of amendments to the existing fiscal legislation. List of new Laws is attached as Annex 1.

These amendments become effective on 2<sup>nd</sup> February 2006.

#### **New Amendments to Law no. 8560, dated 22.12.1999 “On Tax Procedures”**

*Tax Procedures Law applies to Social and Health Contributions*

The new Law states that provisions of Law “On Tax Procedures” become applicable to the social and health contributions, too.

This means that any procedural issue related to declaration and payment of social and health contributions, as well as any other issue concerning collection, reimbursement, appeal procedure such as late interest, appeal term etc. will be governed by the Law “On Tax Procedures”.

#### *Registration with Local Tax Authorities*

According to the new Law, taxpayers shall be registered with the local tax authorities where the “place of effective management of the business” is located, irrespective to the location of the legal seat.

In the contrary, under the old Law, the main criteria used to determine the competent local tax office, for registration purposes, was considered the one of the taxpayer's legal seat.

#### *Appeal Procedure*

The taxpayer should begin the tax administrative appeal procedure (i.e. submit its appeal to the tax appeal authorities) within 30 days upon receipt of the tax assessments or any other official notification. Anyhow, in case the notification is delivered by mail, the above term begins/run from the 10<sup>th</sup> day the act is submitted by the tax authorities to the post office.

With regard to tax notifications personally handed to the taxpayer, the 30-days term begins from the day the said notifications are delivered to the taxpayer.

In addition, the new Law provisions expressly entitle the tax appeal authorities (i.e. General Tax Directorate and Tax Appeal Commission) to examine the request for waiver of tax penalties and cancel them partially or totally.

#### *Alternative Methods on Determination of "Minimum Taxable Base"*

Under the old Law provisions, tax authorities may decide to reassess a transaction for tax purposes in case the justifying documents are missing or when the taxpayer is deemed to have manipulated sale prices.

The new Law provides for new criteria that might be used from tax authorities in case of transactions reassessment, such as the minimum taxable base, determined upon consultations of the General Tax Directorate with business associations in different fields of activity.

#### **New Amendments to Law no. 8438, dated 28.12.1998 "On Income Tax"**

##### *Integral Tax Declaration*

The new Law abrogates the provision (introduced in December 2004) establishing the obligation of every individual to submit to the tax authorities an annual integral tax declaration for personal income generated from any source, irrespective of the fact whether such income is taxable or has already been levied.

##### *New Rates on Employment Income Tax*

Gross salaries and compensations deriving from employment relationship will be taxed as shown in Annex 2.

## **Tax on Profit**

### *Entities Exempted from Tax on Profit required to deliver Annual Financial Statements*

The entities which are exempted from tax on profit (such as non profit organizations, international organizations etc.) are obliged to prepare and submit to the tax authorities, the annual financial statements, including declaration on profit tax and balance sheet, within the same terms as determined for other entities (i.e. within 31 March of the following year).

### *Tax Rate*

The rate of tax on profit decreased from 23% to 20%.

### *Depreciation Rate*

According to the new Law, the depreciation rate for intangible assets is increased from 10% to 15%.

### *Tax Exemption of Personal Income Deriving from Games of Fortune*

Under the new Law, individuals generating income from games of fortune and gambling are not subject to taxation (instead of the 20% tax rate payable under the previous Law).

### *Tax on Dividends*

Under the old Law, the general meeting of shareholders of commercial companies should approve the financial results of the previous year within the first six-month period of the subsequent year. Taxpayers should file with the tax authorities the decision of the company's competent body concerning use of prior fiscal year net profit, no later than 31 July of the subsequent year.

The new Law establishes that delayed submission of the abovementioned decision is subject to a penalty of Lek 25,000 for each month of delay, instead of considering the net profit as distributed dividend and hence taxed at a rate of 10% (as previously provided).

In case the company has decided to distribute dividends, it should transfer to the tax authorities the tax on dividend by 30 July, irrespective of the fact that the dividends are paid or not to the shareholders at this date.

### **New Amendments to Law no. 9136, dated 11.09.2003 “On Payment of Social and Health Security Contributions”**

Declaration and payment term of social security contributions for small businesses is due by the 20<sup>th</sup> day of the first month following each quarter (instead of the 10<sup>th</sup> day).

### **New Amendments to Law no. 7928, dated 27.04.1995 “On Value Added Tax”**

#### *Supply of Land and Buildings*

The Law abrogates the provisions introduced in December 2004, establishing the application of VAT on the first sale of new residential buildings and exemption from VAT of lease of such new residential buildings, starting from 2006.

Hence, the sale of buildings and land (including the land where such buildings are located) is not subject to VAT, whilst the lease of a building is subject to VAT.

Exception is made on leases of those buildings that are owned by central and/or local governmental entities which are not subject to VAT. Lease of land is exempt from VAT, except when the land is used for parking or storage of transport means.

#### *Other Supplies Exempted from VAT*

The new Law introduces the following VAT exempt supplies:

- Supplies of services of gambling activities, casinos and hippodromes;
- Supplies of newspapers, magazines, books of any kind, printing services, as well as supply of advertising in electronic and written media.

### *VAT at 0% rate on Air Navigation Services*

Supply of goods and services related to international transport of goods or passengers are taxed at 0% VAT rate. The new Law abrogates the exception introduced in December 2004, according to which air navigation services rendered in the territory of the Republic of Albania were subject to VAT at 20% rate.

#### *Minimum Taxable Value for Supply of Residential Construction Process*

The new Law establishes a minimum taxable value for residential construction activities. The said value is determined upon Instruction of Minister of Finance, based on the agreement entered into between General Taxation Directorate and Albanian Constructors Association.

#### *Unification of Tax Procedures*

Should the taxpayer fail to pay the due VAT obligations within the legal term, the tax authorities are entitled to undertake all measures as provided in Law “On Tax Procedures”, for collecting the due VAT and relevant interest and penalties. This provision aims to unify the tax procedures for VAT with those of other taxes (as specified in Law “On Tax Procedures”).

**New Amendments to Law no. 8977, dated 12.12.2002 “On National Tax System in the Republic of Albania”**

*Departure Tax*

According to the new Law, the company Tirana Airport Partners Shpk. is entitled to collect the departure tax (for passing the board of Republic of Albania through airport). Such tax is payable by Albanian and foreign individuals and under the new provisions it amounts to EUR 10, irrespective to the nationality of the individual.

*Exemption from Circulation Tax*

Vehicles registered in Kosovo are exempt from the tax on foreign vehicles circulation.

**New Amendments to Law no. 8982, dated 12.12.2002 “On Local Tax System in the Republic of Albania”**

*Tax on Annual Registration Vehicles*

The tax on annual registration of road transportation vehicles is paid at the moment of the technical control of the vehicle, instead of the end of March of the current year. In case of first registration, the tax should be paid fully upon vehicle registration and is valid for 365 days.

**New Amendments to Law no. 8981 “On Ratification of Customs Duties”**

According to the new Law, customs duties payable on importation of goods have been reduced, for certain products included in the customs code no. 22, 33, 34, 39, 44, 48, 72, 73 and 95.

## **Annex 1 - List of New Laws**

**Law no. 9454**, dated 21.12.2005 “On Amendments to Law no. 7928, dated 27.04.1995 “On Value Added Tax”

**Law no. 9455**, dated 21.12.2005 “On Amendments to Law no. 8977, dated 12.12.2002 “On National Taxes”

**Law no. 9456**, dated 21.12.2005 “On Amendments to Law no. 8982, dated 12.12.2002 “On Local Taxes”

**Law no. 9457**, dated 21.12.2005 “On Amendments to Law no. 9136, dated 11.09.2003 “On Payment of the Obligatory Health and Social Insurance Contributions in the Republic of Albania”

**Law no. 9458**, dated 21.12.2005 “On Amendments to Law no. 8438, dated 28.12.1998 “On Income Tax”

**Law no. 9459**, dated 21.12.2005 “On Amendments to Law no. 8701 “On Gambling, Casinos and Hippodromes”

**Law no. 9460**, dated 21.12.2005 “On Amendments to Law no. 8560, dated 22.12.1999 “On Tax Procedures in the Republic of Albania”

**Law no. 9461**, dated 21.12.2005 “On Goods Nomenclature and Customs Tariffs”

## Annex 2 – Tax Rates on Income Deriving from Employment

Threshold (monthly compensation in Lek)		Personal Income Tax	
0	14,000		1% of the amount over 0
14,001	40,000	Lek 140 plus 5%	of the amount over 14,000
40,001	90,000	Lek 1,440 plus 10%	of the amount over 40,000
90,001	200,000	Lek 6,440 plus 15%	of the amount over 90,000
200,001	and up	Lek 22,940 plus 20%	of the amount over 200,000

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