



## Tax&Legal Highlights

### Albania

#### **New Law "On accounting and financial statements"**

In the Official Gazette no. 79, dated 30 May 2018 was published the Law no. 25/2018 "On accounting and financial statements" ("New Law"), which will replace the Law no. 9228, dated 29.04.2004 "On accounting and financial statements" ("Current Law"), with effect as of 01 January 2019. The New Law is partly harmonized with the European Union legislation on financial statements and other reports of economic entities.

Below are summarized the main amendments brought by this New Law as compared to the Current Law.

#### **New Concepts**

The New Law includes definitions of certain concepts that are missing in the Current Law, such as 'financial "holding" entities', 'group of economic entities', 'participating interest', 'consolidated financial statements', 'functional currency and presentation currency', 'responsible person for preparation of financial statements', etc. Furthermore, the New Law coordinates better the terms and provisions with the Law no. 10091, dated

05.03.20019 "On statutory audit, organization of the professions of statutory auditor and certified accountant ", as amended.

**Classification of economic entities**

The New Law determines the classification of economic entities according to three criteria: total assets, total revenues from economic activity and the average number of employees during the reporting period. Entities are classified under one category if they fulfill at least two of three respective criteria, as presented in the table below:

Type of entity	Criteria 1	Criteria 2	Criteria 3
	Total assets	Revenues from economic activity	Average number of employees
Micro-economic entities	≤ ALL 15 million	≤ ALL 30 million	≤10
Small entities	≤ ALL 150 million	≤ ALL 300 million	≤50
Medium-sized entities	≤ ALL 750 million	≤ ALL 1,500 million	≤250
Large entities	> ALL 750 million	> ALL 1,500 million	>250

An entity classified under one category is reclassified into another category only if it exceeds or falls below the limits of at least two criteria for two consecutive reporting periods.

Similarly, the New Law also establishes the classification of groups of economic entities (for the purpose of preparation of consolidated financial statements and other reports at group level) when their values after consolidation meet at least two from three of the respective criteria:

Type of groups of entities	Criteria 1	Criteria 2	Criteria 3
	Total assets	Revenues from economic activities	Average number of employees
Small groups	≤ ALL 150 million	≤ ALL 300 million	≤50
Medium-sized groups	≤ ALL 750 million	≤ ALL 1,500 million	≤250
Large groups	> ALL 750 million	> ALL 1,500 million	>250

The limits for two criteria, specifically for total assets and total revenues from economic activity, will increase every three years until 2028 with the purpose of full harmonization of these criteria with the ones provided in the respective European Union legislation.

**Applicable standards**

International Accounting Standards and International Financial Reporting

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Standards (IAS/IFRS) will be applicable only to public interest entities, as well as to regulators of public interest economic entities that perform their activity in crediting and insurance industry, with certain exemptions. All other entities will apply National Accounting Standards (NAS), but will have the possibility to apply IAS/IFRS voluntarily.

'Public interest entities', will be considered all companies listed in stock exchange markets; bank and non-bank financial institutions; insurance and reinsurance companies; investment and voluntary pension funds; as well as other companies that are relevant to the public interest due to the nature of their business, their size or the number of their employees, determined by a Council of Ministers decision.

### Reporting period

The regular reporting period duration is 12 months, starting from 1<sup>st</sup> of January until 31<sup>st</sup> of December. The New Law provides that the duration of the reporting period may be shorter or longer than 12 months in cases of initiation or termination of the economic activity but may not, however, be shorter than 3 months or longer than 15 months.

### Consolidated financial statements

Economic groups, with the exception of small groups, prepare consolidated financial statements. Exceptionally, small groups are subject to this obligation only if one of the group's entities is an entity of public interest.

### Financial statements components

Components of financial statements vary depending on the classification of the respective economic entities:

Type of entity	Statement of Financial Position	Statement of Profit or Loss	Statement of Other Comprehensive Income	Statement of Cash Flows	Statement of Changes in Equity	Explanatory Notes
Micro-economic entities (not 'holding')	Yes, simplified	Yes, simplified	No	No	No	Yes, simplified
Small entities	Yes	Yes	No	No	No	Yes
Medium-sized entities	Yes	Yes	Yes	Yes	Yes	Yes
Large entities	Yes	Yes	Yes	Yes	Yes	Yes
Small, medium and large public interest entities	Yes	Yes	Yes	Yes	Yes	Yes
Not for profit organizations	Yes	Yes, in the form of Statement of Activities	No	Yes	No	Yes

**Obligatory information of explanatory notes**

Medium-sized, large and public interest entities should present a number of obligatory information as part of explanatory notes to the financial statements, such as: average number of employees for each category, amount of salaries for governing and executive bodies, information about economic entities where it has participating interests or owns shares, information over group entities that prepare consolidated financial statements, agreed fees with auditors for the purposes of statutory audit as well as other services such as general advisory, tax advisory, etc.

**Specific reports and statements**

The below additional reports are obligatory for some economic entities:

Type of entity	Performance progress report	Management report*	Non-financial report*	Report on payments made to governmental institutions
Micro-economic entities	No	No	No	No
Small entities	No	No	No	No
Medium-sized entities	Yes	No	No	No
Large entities	Yes	No	No	Yes, if it operates in the extractive industry or industrial forest exploitation
Small, medium and large public interest entities	Yes	Yes	Yes, for large entities with >500 employees	Yes, if it operates in extractive industry or industrial forest exploitation
Not for profit organizations	No, if total assets or revenues <ALL 30 million	No	No	No

\*This report is included in the performance progress report

**Signing of financial statements**

Besides the legal representative of the entity, the financial statements must be signed also by the person responsible for their preparation. This is the employed person, physical person licensed as certified accountant or statutory auditor, as well as legal persons organized as audit companies or accounting companies that provide accounting services, which in accordance with the employment contract or service agreement concluded with the economic entity holds responsibility for the preparation of the financial statements.

**Submission and publication obligation**

Within 7 months from the reporting date, all economic entities will submit for publication to the National Business Center or any another responsible authority where they might be registered: (a) annual statutory financial

statements, (b) performance progress report, (c) audit report, when these documents are compulsory.

Medium-sized and large economic entities, as well as public interest entities, will have the obligation to publish these documents in their websites.

Non-for profit organizations are obliged to publish annual statutory financial statements and performance progress reports in their official websites, only if total assets or total revenues exceeds ALL 30 million.

### **Special regulation related to profit distribution**

The New Law provides the limitation of the amounts of profit that can be distributed to shareholders in cases where the economic entity has not fully amortized capitalized development costs, or when it has recognized income from participating interest which are not fully collected.

### **Retention of accounting documents**

The rule for retention of accounting documents remains for 10 years in a row after closing of the reporting period to which they belong. However, contrary to the Current Law, which does not provide any limitation in this regard, the New Law stipulates that accounting documents should be retained at the headquarters where the economic activity of the entity is conducted.

### **National Accounting Council (NAC)**

In comparison with the provisions of the Current Law, the New Law provides some amendments in the number of members of the National Accounting Council (7 members proposed against 9 members currently), the composition (entities/institutions that have the right to propose members), their appointment (by the Minister of Finance instead of by the Council of Ministers as it is currently provided), and the obligation of the National Accounting Council to report its annual performance within the first quarter of the following year.

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