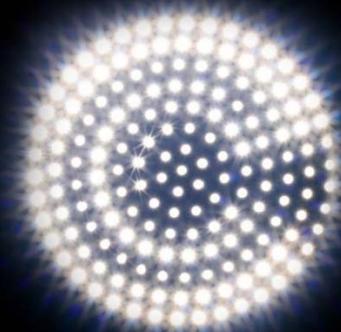


## International Tax Albania Highlights 2018



### Investment basics:

**Currency** – Albanian Lek (ALL)

**Foreign exchange control** – There are no foreign exchange controls; repatriation of funds may be made in any currency. Repatriation of income (dividends, royalties and payments for consultancy services) is allowed, provided the necessary supporting documentation (decisions, invoices and/or contracts) is available.

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

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

### Corporate taxation:

**Residence** – A company is resident if its principal 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 business 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 Albanian-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 income 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 together with other types of 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 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 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 submitted 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 the taxable profits of the recipient if the payer is subject to corporate income tax in Albania, regardless of the extent of the recipient's participation. The participation exemption is not available for holdings in foreign companies and foreign-source dividends are included in taxable income.

### **Holding company regime – No**

**Incentives** – As from 1 January 2018, four- and five-star hotels with “special status” that are an internationally recognized brand and operate under a registered trademark are exempt from corporate income tax for a period of 10 years. This incentive is available to all hotels granted the special status until December 2024.

Additionally, companies that produce and/or develop software are subject to a 5% corporate tax rate.

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 clothing 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.

As from 1 January 2018, the construction of accommodation structures classified as four- and five-star hotels with special status that are an internationally recognized brand and operate under a registered trademark is exempt from the real estate tax on construction projects.

Property tax applies on buildings, urban land and agricultural land as follows:

- As from 1 January 2018, property tax on buildings is calculated based on the market value of the buildings

at tax rates that vary depending on the type of building. A 0.05% rate applies for residential buildings and a 0.2% rate for business premises. For buildings that are still under construction, tax is charged at 30% of the applicable rate.

- Property tax on agricultural land is calculated based on the area of the land, at tax rates ranging from ALL 700 to ALL 5,600 per hectare, depending upon the use.
- Property tax on urban land is calculated based on the area of the land, at tax rates ranging from ALL 1,400 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% (15% social security and 1.7% health insurance) and the employee paying 11.2% (9.5% social security and 1.7% health insurance).

Monthly gross salary is used as the base for the calculation of the health insurance contribution, while the base for calculating the social security contribution is the monthly gross salary between ALL 24,000 and ALL 105,850. The employer must calculate the contributions and remit payment by the 20<sup>th</sup> day of the month following the month of payment.

**Stamp duty** – Stamp duty is levied up to ALL 40,000. Notary fees for transactions involving immovable property range between 0.23% and 0.35% of the value of the transaction; and fees for transactions involving movable property range from 0.23% to 0.3% of the value of the transaction.

**Transfer tax** – The transfer of ownership to immovable property and buildings is subject to tax, which is payable by the transferor before the transfer of title. Transfer tax amounts range from approximately ALL 300 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** – Albania’s 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 must 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 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 generally are limited if the debt-to-equity ratio exceeds 4:1 (this rule does not apply to banks, insurance and leasing companies). Interest exceeding the 12-month average rate on loans from banking institutions, as officially published by the central bank of Albania, is nondeductible.

As from 1 January 2018, the excess of net interest over 30% of earnings before interest, tax, depreciation and amortization (EBITDA) on related party loans is considered a nondeductible expense. Any excess net interest may be carried forward indefinitely and deducted in subsequent years, until more than 50% of the company's shares or voting rights are transferred. The provisions do not apply to banks, insurance companies, nonbank credit financial institutions and financial leasing companies.

**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 tax payments must be made on a quarterly basis, but monthly installments are allowed as an alternative. Failure to pay the monthly or quarterly installments by 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 interbank interest rate

published on quarterly basis by the Bank of Albania. 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 an Albanian 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 (to the extent that these are not covered by the mandatory health insurance), pension annuities and interest on education loans.

**Rates** – Income from employment is taxed at progressive rates as follows: (i) income up to ALL 30,000 is exempt; (ii) income from ALL 30,001 to ALL 130,000 is taxed at a rate of 13% on the amount exceeding ALL 30,000; and (iii) income of ALL 130,001 and above is subject to tax of ALL 13,000, plus tax at 23% on the income exceeding ALL 130,000. All other income is taxed at a flat rate of 15%.

#### Other taxes on individuals:

**Capital duty** – No

**Stamp duty** – Stamp duty is levied in an amount up to ALL 40,000. 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 applies on buildings, urban land and agricultural land. (See "Real property tax" under "Other taxes on corporations", above.)

**Inheritance/estate tax** – Inheritances and gifts are taxed as income at a flat rate of 15% when the taxable income is realized (i.e. for noncash assets, when they are subsequently transferred or sold).

**Net wealth/net worth tax** – No

**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% (9.5% social security and 1.7% health insurance). Monthly gross salary is used as the base for the calculation of the health insurance contribution, whilst the base for calculating the social security contribution is the monthly gross salary between ALL 24,000 and ALL 105,850.

The calculation of health care contributions for self-employed individuals is based on double the minimum threshold salary for purposes of calculating these contributions.

#### 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. Albanian VAT law is aligned with the EU VAT directive.

**Rates** – The standard rate is 20%. A reduced 6% rate applies to the supply of accommodation services in all

accommodation structures defined as such by the legislation on tourism and the supply of all types of service provided in four- and five-star hotels with special status. 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 (reducing to ALL 2 million as from 1 April 2018 other than for: (i) licensed professionals (e.g. notaries, accountants, lawyers, etc.) who continue to be subject to the obligation to register, regardless of annual turnover; and (ii) agricultural producers subject to the agricultural producers' compensation scheme.

A person registered for VAT purposes also is subject to corporate income tax.

**Filing and payment** – VAT must be paid by the 14<sup>th</sup> day of the month following the month of declaration, except in cases provided by the Council of Ministers when the tax period may be longer than one month but may not exceed one calendar year.

**Source of tax law:** Law No. 9920, dated 19 May 2008, on Tax Procedures, 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 41 tax treaties.

**Tax authorities:** Ministry of Finance, General Tax Directorate, Large Taxpayers Unit and Regional Tax Directorates, Business Registration Center

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