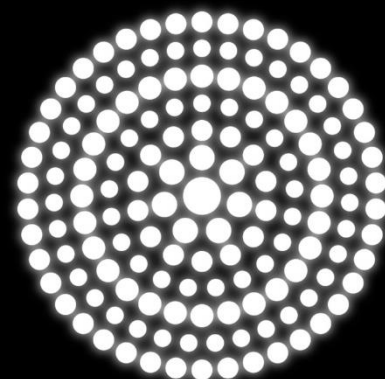


International Tax Albania Highlights 2020

Updated January 2020



Recent developments:

For the latest tax developments relating to Albania, see [Deloitte tax@hand](#).

Investment basics:

Currency – Albanian Lek (ALL)

Foreign exchange control – There are no foreign exchange controls and funds may be repatriated 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 – The law on accounting and financial statements includes rules for the classification of economic entities and groups of entities, and criteria for the application of National Accounting Standards (NAS) and IAS/IFRS. NAS are aligned with IFRS for SMEs. Financial statements must be prepared annually and are subject to statutory audit if certain criteria are met. The regular reporting period is a 12-month period from 1 January until 31 December. The reporting period may be shorter or longer than 12 months in cases of commencement or cessation of economic activity, but may not be shorter than three months or longer than 15 months.

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:

Rates

Corporate income tax rate	Taxable income	Rate
	Less than ALL 5 million	0%
	ALL 5,000,001 - ALL 14 million	5%
	Over ALL 14 million	15%
Branch tax rate		0%/5%/15%
Capital gains tax rate		0%/5%/15%

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 resident 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. Branches are taxed in the same way as resident taxpayers.

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 taxable income and deductible expenses related to a company's business operations.

The following sources of income earned by nonresidents are considered as Albanian-source and, as such, taxable in Albania:

- Income from services rendered by nonresidents to an Albanian resident, regardless of where the services are provided or payment is made;
- Income derived from rights for the exploitation of mineral resources, hydrocarbon resources, and other rights for the exploitation of natural terrestrial and marine resources (including in Albanian territorial waters), and information pertaining to those rights, as well as income from their alienation (e.g., a transfer of ownership); and
- Income earned by nonresidents from the transfer of ownership of shares and other participations, if throughout one year prior to the transfer of ownership, more than 50% of the value of the shares is derived directly or indirectly from immovable property, rights, or related information as mentioned above.

Rate – Entities registered for corporate income tax purposes (usually those with annual turnover exceeding or expected to exceed ALL 8 million) are subject to corporate income tax at 5% of taxable profit if their annual income does not exceed ALL 14 million, and 15% of taxable profit where annual income exceeds ALL 14 million.

For entities registered for simplified corporate income tax purposes (usually those with annual turnover not exceeding or expected to exceed ALL 8 million), the rate is 0% if their annual turnover is below ALL 5 million, and 5% if annual turnover is between ALL 5 million and ALL 8 million.

A reduced 5% corporate income tax rate applies to automotive companies, software production/development companies, agricultural cooperative companies, and companies certified as agro tourism entities by 2021 (reduced rate applicable for a 10-year period).

Surtax – There is no surtax.

Alternative minimum tax – There is no alternative minimum tax.

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 the corporate income tax rate of 0%, 5%, or 15%, as applicable.

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. Taxpayers investing more than ALL 1 billion in qualifying business projects may carry forward losses for five consecutive years.

Foreign tax relief – 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 income and profits distributed 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.

Holding company regime – There is no holding company regime.

Incentives – 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 10 years. This incentive is available to all hotels granted the special status until December 2024.

Compliance for corporations:

Tax year – Calendar year

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

Filing and payment – 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 10% 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 corporate income tax regime is 10 February of the following year.

Nonresident persons with Albanian-source income not otherwise taxed in Albania must file a declaration of taxable income and pay the tax due by 31 March of the year following the tax year in which the income arose. Advance payments are not required and foreign tax credits are not available.

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. For dividend withholding tax, the deadline is the earlier of the 20th day of the month following the date of payment of the dividend, and 20 August following the approval of the dividend distribution (irrespective of whether the dividend has actually been paid).

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 – A taxpayer may submit a written request to the General Tax Directorate for a ruling on the tax treatment of a specific transaction or situation. Rulings are binding both on the taxpayer and the tax authorities.

Individual taxation:**Rates**

Individual income tax rate on employment income	Monthly taxable income	Rate
	Up to ALL 30,000	0%
	ALL 30,001 to ALL 150,000	13%
	Over ALL 150,000	23%
Individual income tax rate on all other income (except dividends)		15%
Individual income tax rate on dividends		8%
Capital gains tax rate		15%

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.

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

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; income from the sale of securities; and other types of income not listed specifically in the legislation.

Rates – Income from employment is taxed at progressive rates on a monthly basis as follows: (i) income up to ALL 30,000 is exempt; (ii) income from ALL 30,001 to ALL 150,000 is taxed at a rate of 13% on the amount exceeding ALL 30,000; and (iii) income exceeding ALL 150,000 is subject to tax of ALL 15,600, plus tax at 23% on the income in excess of ALL 150,000. All other income is taxed at a flat rate of 15%, except for dividends that are taxed at a reduced rate of 8%.

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

Deductions and allowances – Deductions are granted only to resident individuals for medical expenses (to the extent that these are not covered by the mandatory health insurance) and interest on education loans.

Foreign tax relief – Resident individuals are entitled to relief for foreign tax paid on foreign source income. The relief is calculated on a per country basis, with all income from a country aggregated, and given as a credit against the Albanian tax payable on the income. Excess foreign tax credits may not be carried forward or back.

Compliance for individuals:

Tax year – Calendar year

Filing status – Resident and nonresident individuals must file a return if their annual gross taxable income exceeds ALL 2 million; joint returns are not permitted. As from 1 January 2020, all individuals with more

than one employment must file an annual income return, irrespective of the amount of their annual gross taxable income.

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 5,000 is imposed for making a late declaration. Other penalties and charges apply for late payment of tax.

Rulings – A taxpayer may submit a written request to the General Tax Directorate for a ruling on the tax treatment of a transaction or situation. Rulings are binding both on the taxpayer and the tax authorities.

Withholding tax:

Rates

Type of payment	Residents		Nonresidents	
	Company	Individual	Company	Individual
Dividends	0%	8%	8%	8%
Interest	0%	15%	15%	15%
Royalties	0%	15%	15%	15%
Fees for technical services	0%	15%	15%	15%

Dividends – Dividends paid to a nonresident or to an Albanian-resident individual are subject to an 8% withholding tax, unless a reduced rate or exemption is available under a tax treaty. No withholding tax applies on dividends paid to an Albanian-resident company.

Interest – Interest paid to a nonresident or to an Albanian-resident individual is subject to a 15% withholding tax, unless a reduced rate or exemption is available under a tax treaty. No withholding tax applies on interest paid to an Albanian-resident company.

Royalties – Royalties paid to a nonresident or to an Albanian-resident individual are subject to a 15% withholding tax, unless a reduced rate or exemption is available under a tax treaty. No withholding tax applies on royalties paid to an Albanian-resident company.

Fees for technical services – A 15% withholding tax is levied on fees for technical services; consultancy fees; management fees; and payments for construction, installation, assembly, or related supervisory work; paid to a nonresident or to an Albanian-resident individual, unless a reduced rate or exemption is available under a tax treaty. No withholding tax applies on fees for technical services paid to an Albanian-resident company.

Branch remittance tax – There is no branch remittance tax.

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.

Interest deduction limitations – 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 is nondeductible where the rate exceeds the 12-month average rate on loans from banking institutions, as officially published by the central bank of Albania.

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 – There is no controlled foreign company legislation.

Hybrids – There is no anti-hybrid legislation.

Economic substance requirements – There are no economic substance requirements.

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. Annual financial statements also must be submitted to the National Business Center by 31 July after the close of the fiscal year, together with the decision of the competent decision-making body approving the financial result and destination of profit (e.g., as dividends, reserves, capital increase, or retained earnings). The relevant decision-making body depends on the legal form of the entity.

Exit tax – There is no exit tax.

General anti-avoidance rule – A general anti-avoidance rule applies that allows the tax authorities to disregard actions and transactions that are fictitious, having regard to all the facts and circumstances, and that are proved as being undertaken for the purpose of obtaining a tax advantage in contravention of the principles of the tax legislation. Such actions/transactions may:

- Distort the principles of the tax legislation;
- Not be based on the market value principle;
- Lack substantial economic effect;
- Have a legal form that does not reflect economic substance; and/or
- Contain elements intended to avoid or reduce tax.

The burden of proof lies primarily with the tax authorities, who have the right to recharacterize the action/transaction and calculate the tax liability based on alternative tax assessment methods.

Value added tax:

Rates

Standard rate	20%
Reduced rate	0%/6%

Taxable transactions – VAT is levied on the supply of goods, the provision of services, and “mixed supplies.” A reverse charge applies for services received by Albanian businesses considered as having their place of supply in Albania. 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;
- All types of service provided in four- and five-star hotels with special status;
- Accommodation and restaurant services provided within accommodation facilities that are certified as “agro tourism entities” (except for beverages);
- Books;
- Advertising via audiovisual media (e.g., television); and
- Electric mini buses with the capacity for at least nine passengers used for licensed public transport.

Certain supplies of goods and services for the purpose of the general interest are exempt from VAT. These exempt supplies include:

- Medicines and medical services provided by private and public healthcare institutions;
- Insurance premiums;
- Imports by government agencies of materials and equipment in the event of a natural disaster; and
- Imports of materials and equipment for military purposes by the Ministry of Defense.

Following a devastating earthquake in November 2019, the following supplies are exempt from VAT during the period declared as a “state of natural disaster” and the reconstruction period:

- Construction services supplied as part of the reconstruction program by contractors authorized by the General Tax Director;
- Services and goods supplied to authorized contractors and used by them for reconstruction processes; and
- Materials, equipment and temporary buildings imported by state bodies, charities and other philanthropic organizations.

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 2 million, other than for: (i) licensed professionals (e.g., notaries, accountants, lawyers, etc.) who are subject to the obligation to register, regardless of their annual turnover; and (ii) agricultural producers subject to the agricultural producers’ compensation scheme for which the threshold is ALL 5 million.

Filing and payment – VAT must be paid by the 14th 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.

Other taxes on corporations and individuals:

Unless otherwise stated, the taxes in this section apply both to companies and individuals and are imposed at the national level.

Social security contributions – 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). The health insurance contribution is based on monthly gross salary, while the social security contribution is based on monthly gross salary between ALL 26,000 (minimum salary for social security purposes) and ALL 114,670

(maximum salary for social security services). The employer must calculate the contributions and remit payment by the 20th day of the month following the month of payment.

Self-employed individuals calculate health care contributions on double the minimum salary for social security purposes, i.e., ALL 52,000 (ALL 26,000 x 2) for 2020.

Payroll tax – Albania does not impose a payroll tax.

Capital duty – Albania does not impose capital duty.

Real property tax – Municipalities levy taxes based on the ownership or use of property by companies, and the occupation of property by individuals.

Real estate tax on construction projects is levied at the following rates:

- 4% to 8% of the sale price per square meter on constructions for residential and/or commercial purposes;
- 2% to 4% of the investment value in Tirana, and 1% to 3% in other municipalities on constructions designated to be used in the tourism sector, industry, agriculture; for individual constructions for personal usage; as well as for constructions for public use; and
- 0.1% of the investment value (but not less than the restoration cost of bringing any existing infrastructure back into use through repairs, alterations, and additions), for infrastructure projects for the construction of national roads, airports, etc.

Various rates apply to other types of building.

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, and certified agro tourism entities are exempt from the real estate tax on construction projects.

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

- Buildings – 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.
- Agricultural land – on the area of the land, at tax rates ranging from ALL 700 to ALL 5,600 per hectare, depending upon the use.
- Urban land – on the area of the land, at tax rates ranging from ALL 120,000 to ALL 200,000 per hectare for companies (ALL 1,400 to ALL 5,600 per hectare for individuals).

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

Stamp duty – Stamp duty is levied in an amount up to ALL 1,000. 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.

Net wealth/worth tax – Albania does not impose a net wealth tax or a net worth tax.

Inheritance/estate tax – Individuals are taxed on inheritances and gifts 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). The transfer of ownership rights to a building and/or land through the donation or waiver of those

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rights is exempt from personal income tax where the transfer is made between family members. The exemption is restricted to one transfer per beneficiary.

Tax treaties: Albania has around 40 active tax treaties. Albania signed the OECD multilateral instrument (MLI) on 28 May 2019.

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

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