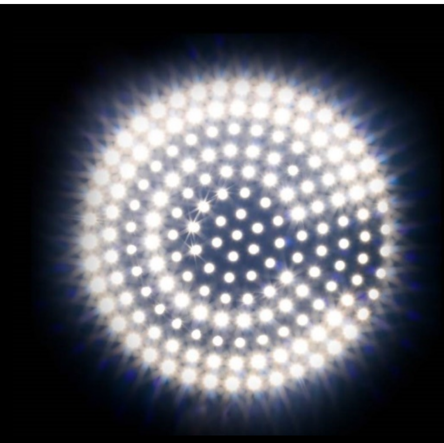
International Tax
Algeria Highlights 2017



Investment basics:

Currency – Algerian Dinar (DZD)

Foreign exchange control – The National Board of Investment must approve any proposed foreign direct investment project exceeding DZD 2 billion.

Foreign investors must partner with an Algerian-owned shareholder, and foreign ownership is limited to a maximum of 49%.

Foreign contributions to a company's capital and foreign loans must be registered with the Bank of Algeria through the company's commercial bankers in Algeria. Exchange control approval also is required for the remittance of dividends, directors' fees and other related party payments. Dividends may not be remitted from trading companies.

Accounting principles/financial statements – Accounting principles (SCF), which are in line with IFRS, are applicable for all commercial companies.

Principal business entities – These are the public limited liability company (*société par actions* or SPA) and the private limited liability company (*société à responsabilité limitée* or SARL).

Corporate taxation:

Residence – There is no definition of residence in Algerian tax legislation, but a corporation generally is considered resident if it is incorporated in Algeria. Branches of foreign companies and permanent establishments also are considered resident.

Basis – Resident and nonresident corporations are subject to tax on their Algeria-source income.

Taxable income – Corporation tax is computed on net profits derived from Algerian sources.

Taxation of dividends – Dividends paid by an Algerian company to another Algerian company are not subject to withholding tax and are exempt from tax in the hands of the recipient.

Capital gains – Capital gains generally are taxed as ordinary income. In certain cases, 35% relief is given where the assets have been held for up to three years, or 70% where the assets have been held for longer periods.

The following capital gains are exempt from tax or receive special treatment: capital gains realized within a group of companies; unrealized gains from the revaluation of fixed assets, if they are booked in a special reserve; and capital gains resulting from a merger, division or partial transfer of assets between group companies in Algeria.

Rollover relief is available where a company undertakes to acquire similar assets within three years.

Losses – Tax losses may be carried forward for four years. The carryback of losses is not permitted.

Rate –The corporate income tax rates for FY 2017 (i.e. for the corporate income tax return to be submitted before the end of April 2018) are as follows: 19% for manufacturing activities; 23% for construction activities, public works and hydraulic activities, as well as for tourism activities (except travel agencies); and 26% for other activities.

Special tax rules may apply to the hydrocarbon and mining sectors.

Surtax – A 5% surtax applies for medical importers.

Alternative minimum tax – The minimum corporate tax is DZD 10,000 annually.

Foreign tax credit – Algerian tax law does not provide for unilateral tax relief. A tax treaty, however, may provide for bilateral relief.

Participation exemption – See "Taxation of dividends."

Holding company regime – No

Incentives – The Investment Code is intended to encourage and stimulate productive investment in Algeria. It provides certain general guarantees and incentives. The most significant incentives are 10-year corporate tax and property tax exemptions if certain requirements are met. There also are specific incentives, for example, for investment in certain regions and investment promoting environmental protection and the oil industry.

Withholding tax:

Dividends – Dividends and distributions of profits paid to a nonresident company 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 10% withholding tax, unless the rate is reduced under a tax treaty. International loans, other than intercompany loans, are prohibited and no interest may be charged.

Royalties – Royalties are subject to a 24% withholding tax, unless the rate is reduced under a tax treaty.

Technical service fees – A 24% withholding tax applies on gross income derived from service fees paid abroad by a local company to a foreign company.

Branch remittance tax – A 15% withholding tax applies to remittances by a permanent establishment to its foreign head office, unless the rate is reduced under a tax treaty.

Other taxes on corporations:

Capital duty – Registration duty is levied on the formation of a company (and capital increases) at a rate of 0.5% of the capital.

Payroll tax – No

Real property tax – Property tax is charged on developed land, although a tax holiday may be granted for new buildings and buildings in specified development areas.

Social security – Social security tax funds both pensions and health care. The employer pays 26% of an employee's gross salary and the employee pays 9% of the pretax salary.

Stamp duty – Stamp duty is imposed at varying rates on transactions, including the execution of various documents and deeds.

Transfer tax – A registration fee is applicable to the transfer of land and buildings at a rate of 5% of the value, plus 1% for the land publicity fee.

Other – A 2% tax is levied on turnover (tax on professional activities). A 3% tax applies on the import of services. Assets that may cause environmental damage are subject to a pollution tax. A 2% training tax applies on the aggregate payroll in respect of the professional training fund and apprenticeship tax; a reduced rate may apply in certain cases.

Anti-avoidance rules:

Transfer pricing – There are no formal transfer pricing rules, but the arm's length principle applies to transactions between related domestic and foreign entities, and the Algerian tax authorities can tax profits where the transaction differs from those between independent enterprises. All entities registered with the tax department responsible for multinational companies must submit documentation to support their transfer pricing practices within 30 days after a request by the Algerian tax administration.

Thin capitalization – No

Controlled foreign companies – No

Disclosure requirements – No

Compliance for corporations:

Tax year – The tax year is the calendar year that ends on 31 December.

Consolidated returns – Algerian companies may elect for group treatment where a parent company owns at least 90% of a subsidiary. The election is optional but once made, is binding for at least four years. A specific regime also applies to companies involved in the hydrocarbon sector.

Filing requirements – The final tax payment is due by 30 April following the end of the tax year, along with the statutory return and the appropriate financial statements. Large companies must make three provisional tax payments by 20 March, 20 June and 20 November during the tax year, each amounting to 30% of the previous year's tax liability. For new companies, 5% of paid-up capital is deemed taxable income. Any withholding tax incurred is treated as a payment of corporate tax.

Penalties – Penalties apply for late filing, failure to file or filing an incorrect return.

Rulings – A tax ruling regime has been introduced. A ruling applies only to the taxpayer that requested the ruling.

Personal taxation:

Basis – Resident individuals are subject to tax on worldwide income; nonresidents are subject to tax only on Algeria-source income.

Residence – A taxpayer is considered resident if he/she has a right to reside or seek employment in Algeria, or if the individual's center of vital interests is in Algeria.

Filing status – Spouses are required to file separate tax returns. Separate returns may be filed for dependent children in respect of their independent income.

Taxable income – Taxable income generally is defined as income from all sources.

Capital gains – For business assets, the same rules apply as for corporations. Gains from the disposal of a principal private residence and other personal effects are exempt.

Deductions and allowances – Allowable deductions include travel expenses, amounts deducted by the employer to pay pensions and mandatory social insurance contributions.

Rates – Individual income tax is imposed at progressive rates up to 35% on amounts exceeding DZD 1.44 million per annum. A 15% withholding tax on dividends is a final tax for individuals.

Other taxes on individuals:

Capital duty – Registration duty is levied on the formation of a company (and capital increases) at a rate of 0.5% of the capital.

Stamp duty – Stamp duty is imposed at varying rates on transactions, including the execution of various documents and deeds.

Capital acquisitions tax – No

Real property tax – An annual property tax is imposed on all developed and undeveloped real estate in Algeria.

Inheritance/estate tax – Inheritance and gift tax is imposed on the recipient of property located in Algeria that is acquired by inheritance or gift. The rate is 3% for transfers between spouses, offspring or parents; otherwise, the rate is 5%.

Net wealth/net worth tax – Wealth tax for residents is assessed on a worldwide basis and is applied on a progressive scale up to 1.5%. Where an individual has paid a similar tax on non-Algerian assets, it may be deducted from the tax due in Algeria. Nonresidents are subject to wealth tax with respect to property deemed or actually located in Algeria.

Social security – An employee must contribute 9% of his/her pretax salary and wages to fund social security benefits.

Compliance for individuals:

Tax year – The tax year is the calendar year that ends on 31 December.

Filing and payment – Individual returns are due by 30 April following the close of the tax year. A tax return need not be submitted if a taxpayer's only source of income is employment income.

Penalties – Penalties apply for late filing, failure to file or filing an incorrect return.

Value added tax:

Taxable transactions – VAT applies to the supply of most goods and the provision of services in Algeria.

Rates – The standard rate is 19%, with a reduced rate of 9% applying to various basic items or where no input tax is recoverable (e.g. construction and internet services). Exports are zero rated.

Registration – There is no specific registration requirement for VAT purposes.

Filing and payment – Monthly returns and the tax payable are due by the 20th day of the following month.

Source of tax law: Finance Law, Tax Code

Tax treaties: Algeria has concluded more than 30 tax treaties.

Tax authorities: *Direction Générale Des Impôts* (DGI); *Direction Des Grandes Entreprises* (DGE)

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