

## Tax system in Albania

## TYPES OF ORGANISATIONS

### Types of organisation

	<i>Name in local language</i>	<i>Registrable in commercial register / legal entity</i>	<i>Minimum capital</i>	<i>Sole shareholder company</i>
<b>Limited liability company</b>	Shoqëri me përgjegjësi te kufizuar (Shpk)	yes / yes	approx. EUR 1	yes
<b>Private Joint Stock company</b> <b>Public Offer Joint Stock company</b>	Shoqëri aksionare (Sha) me oferte private Shoqëria aksionare (Sha) me oferte publike	yes / yes	approx. EUR 28,083 approx. EUR 82,809	yes no
<b>General partnership</b>	Shoqëritë Kollective	yes / yes	no	no
<b>Limited partnership</b>	Shoqëri komandite	yes / yes	no	no
<b>Registered branch office and Representation office</b>	Degët dhe zyrat e përfaqësimit të shoqërive të huaja	yes / no	no	n / a
<b>Joint Venture</b>	Shoqëri e thjeshte	yes / yes	no	no

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	<b>Capital tax / registration fees</b>	<b>Written form / notarization</b>	<b>Tax transparency</b>	<b>Registration with tax authorities</b>	<b>Statutory audit (revenues more than EUR 808,407, total assets more than EUR 404,204, more than 30 employees)</b>
<b>Limited liability company</b>	no / registration in commercial register	yes / yes	no	yes	if two of the above statutory thresholds are exceeded accordingly for two consecutive years
<b>Private / Public Offer Joint Stock company</b>	no / registration in commercial register	yes / yes	no	yes	obligatory
<b>General partnership</b>	no / registration in commercial register	yes / yes	no	yes	no (if no individual has unlimited liability: yes, if above statutory thresholds are exceeded)
<b>Limited partnership</b>	no / registration in commercial register	yes / yes	no	yes	no (if no individual has unlimited liability: yes, if above statutory thresholds are exceeded)
<b>Registered branch office and Representation office</b>	no / registration in commercial register	yes / yes	no	yes	as part of any audit of the parent company
<b>Joint Venture</b>	no / registration in commercial register	yes / yes	no	yes	if two of the above statutory thresholds are exceeded accordingly for two consecutive years

Exchange rate: EUR 1 = ALL 114.23(rounded) 31.12.2022

## MERGERS & ACQUISITIONS

### Financing

#### Financial assistance by the subsidiary

N/A

#### Subordinate debt (mezzanine capital)

N/A

#### Interest expenses for acquisition financing

N/A

#### Interest expense on subordinate debt

N/A

### EU interest barrier

N/A

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## Squeeze-out options

N/A

### Buy-out of minority shareholders (squeeze-out)

N/A

## Capital gains - corporations and partnerships

N/A

### Sale of shares in a joint stock corporation

N/A

### Sale of shares in a limited liability company

N/A

### Sale of interest in a partnership

N/A

### International participation exemption

N/A

## Sale of business

N/A

### Definition

N/A

### Valuation

N/A

### Goodwill

N/A

## Mergers and demergers

N/A

### Types of mergers described by commercial law

N/A

### Valuation

N/A

### Valuation in financial accounting

N/A

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**Goodwill amortization**

N/A

**Tax treatment of revaluation**

N/A

**Contributions (transfer of assets into the capital of a company)**

N/A

**Contributions in kind**

N/A

**Tax treatment**

N/A

**Goodwill amortisation**

N/A

## **DOUBLE TAXATION AGREEMENTS**

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### **Double taxation agreements**

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Country	Effective date	Real estate clause	Dividends %	Interest %	Royalties %
Austria	01.01.2009	yes	5/15	5	5
Belgium	01.01.2005	no	5/15	5	5
Bosnia and Herzegovina	01.01.2009	yes	5/10	10	10
Bulgaria	01.01.2000	yes	5/15	10	10
China	01.01.2006	no	10	10	10
Croatia	01.01.1999	no	10	10	10
Czech Republic	01.01.1997	yes	5/15	5	10
Egypt	01.01.2006	no	10	10	10
France	01.01.2006	yes	5/15	10	5
Estonia	03.06.2010	yes	5/10	5	5
Germany	01.01.2012	no	5/10	5	5
Greece	01.01.2001	no	5	5	5
Hungary	01.01.1996	yes	5/10	0	5
Ireland	01.01.2012	yes	5/10	7	7
Iceland	03.04.2015	yes	5/10	10	10
Israel	11.04.2021	yes	'10/15	10	5
Italy	01.01.2000	no	10	5	5
India	31.10.2013	no	10	10	10
Korea (R.O.K)	01.01.2009	no	5/10	10	10
Kosovo	01.01.2016	yes	10	10	10
Kuwait	01.01.2014	yes	0/5/10	10	10
Latvia	01.01.2009	yes	5/10	5/10	5
Luxembourg	12.03.2009	yes	5/10	5	5/10
Macedonia	01.01.1999	yes	10	10	10
Malaysia	01.01.2001	no	5/15	10	10
Malta	01.01.2001	no	5/15	5	5
Moldova	01.01.2004	yes	5/10	5	10
Netherlands	01.01.2006	no	0/5/15	5/10	10
Norway	01.01.2000	yes	5/15	10	10
Poland	01.01.1995	no	5/10	10	5
Qatar	19.04.2012	yes	5/10	5/10	6/10
Romania	01.01.1995	no	10/15	10	15
Russia	01.01.1998	yes	10	10	10
Serbia and Montenegro	01.01.2006	no	5/15	10	10
Singapore	01.01.2012	no	5	5	5
Slovenia	01.01.2010	yes	5/10	7	7
Spain	04.05.2011	no	0/5/15	6	10
Sweden	01.01.2000	no	5/15	5	5
Switzerland	01.01.2001	yes	5/15	5	5
Turkey	01.01.1997	no	5/15	10	10
United Kingdom	05.12.2013	yes	5/10/2015	6	10
United Arab. Emirates	19.06.2014	yes	0/5/10	5	5
Non-treaty countries			8	15	15

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## VAT

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### Tax rates

Standard rate: 20%

reduced rate 6%

- Supplies of accommodation services by the accommodation facilities
- Supplies made within five-star accommodation structures of an internationally known trademark
- Supplies of accommodation and restaurant services, excluding beverages, by the certified structures operating in agritourism
- Supplies of advertising services by audiovisual media
- Supply of licensed public transport equipped with electric motors, with nine plus one places or more
- Supply of books of any type
- Supply of construction work services for public investments in sports clubs/sports federations or for investments in sports infrastructure undertaken by private entities

at 0% rate

- Exports of goods
- International transport
- Services relating to maritime activities
- Supplies under diplomatic arrangements
- Supply of gold to the Central Bank of Albania
- Intermediary services related to zero-rated supplies or services rendered abroad

### Supply of goods

Supplies of goods with consideration, withdrawal for private use (self supply) as well as any other supply without consideration are taxable.

#### Place of supply of goods

The location of a supply of goods is at the location where the goods are delivered or are made available by the suppliers.

If the delivery of goods or making the goods available involves transport of the goods, then the location is considered the place where the transport of goods begins, except in the cases defined otherwise in the VAT law.

Supply of electric energy, gas, water, heating, cooling, or air conditioning is performed at the location where the supply is received.

Import from third countries: if supplier is liable for import VAT, in importing country

### Supply of services

Supply of services and private use / supply of services without consideration (self-supply) are taxable

#### Place of supply of services

A differentiation is made between services rendered

- to taxable person ("Business to Business", "B2B") or

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- to non-table person (“Business to Customer”, “B2C”)

For the purpose of determining the place of the supply of services.

- taxable persons (holding a VAT registration number) and
- non-taxable legal entities holding a VAT registration number will be considered as “taxable persons”

#### Basic rule

B2B	B2C
Place of recipient (Place where the recipient of services has established his business)	Place of supplier (Place where the supplier of services has established his business)

#### Special cases

	B2B	B2C
Supplies of services by intermediaries	Place of recipient (basic rule)	Place of the underlying transaction
Property services	Place of property	Place of property
Cultural, artistic, scientific, educational, sports, entertainment or similar services, like services in connection with fairs and exhibitions including services of the respective organizers; not applicable to admission and related services	Where the services are physically carried out (place of event)	Where the services are physically carried out (place of event)
Admission and other related services for events like fairs and exhibitions	Where the services are physically carried out (place of event)	Where the services are physically carried out (place of event)
Passenger transport	Proportionally with the distance covered	Proportionally with the distance covered
Transportation of goods (without intra-Community goods transportation)	Place of recipient (basic rule)	Distances covered
intra-Community goods transportation	Place of recipient (basic rule)	Place of departure
Ancillary transport services	Place of recipient (basic rule)Place of recipient (basic rule)	Where the services are physically carried out
Appraisal and processing of movable tangible objects	Place of recipient (basic rule)	Where the services are physically carried out
Restaurant and catering services	Where the services are physically carried out	Where the services are physically carried out
Restaurant and catering services in connection with intra-Community passenger transport	Place of departure	Place of departure
Renting of means of transport for up to 30 days	Where the means of transportation is actually put at the disposal of the customer	Where the means of transportation is actually put at the disposal of the customer
Renting of means of transport for over 30 days	Where the means of transportation is actually put at the disposal of the customer	Where the means of transportation is actually put at the disposal of the customer
“Listed services” to third country customers 1)		Place of recipient
“Listed services” to customers in the EU		Place of supplier (basic rule)
Electronically supplied services, such as telecom, radio and TV services 2)	Place of recipient (basic rule)	Place of recipient

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## Mini-One-Stop-Shop (MOSS) / One-Stop-Shop (OSS)

N/A

## Reverse charge (reversal of tax liability)

Generally for all transnational supplies of services and work supplies.

### Requirements

Supplier is a foreigner (no residence, no place of business or establishment in Albania involved in providing the service).

Customer is a taxable person holding a VAT identification number.

When a person, for the purpose of VAT, is a tax-payer, but does not have a fixed place of business, or, in the case of an individual, a usual place of residence in Albania, the Ministry of Finance has the right to require him to appoint another person as his tax representative

### Consequences

Invoice without VAT, indication that tax liability is transferred to the customer Customer liable for the VAT

### Application also

## Tax reliefs

### Exemption (Input VAT deductible even though no VAT chargeable on supply of goods and services)

Land and buildings

- Leasing a land or a site, except the cases when the land is used for parking of transport vehicles and other means of transport.
- Supply of buildings except to the construction process.
- Rental of buildings unless:
  - a) lease for a period not exceeding two months;
  - b) accommodation in hotels or similar

Financial Services

- Insurance and reinsurance, Granting, negotiating, and dealing with loans, credits, credit guarantees and any money insurance, including management of loans, credits or credit guarantees by the grantor;
- Transactions relating to bank accounts, payments, transfers, debts, checks and negotiable instruments, except for debt collection;
- Transactions relating to currency, bank notes, and money which are legal tender, except for items used solely for collection.
- Transactions relating to stocks, bonds and other securities, except for supervision services;
- Management of investment funds;
- Transactions relating to contracts for life insurance, including reinsurance;
- Transactions relating to management of pensions funds and obligatory health insurance

Gold Supply

- Supply of gold by the Bank of Albania and commercial banks, as well as banknotes and coins of the Bank of Albania
- Postage services
- Supply of postage stamps for use for postal services, supply of similar stamps.
- Not-for profit organizations
- Supply of goods or services for medical or dental treatment;
- Supply of services for the protection or care of children or old people;
- Supply of educational, cultural, or sport services;
- Supply of services by religious or philosophical organizations for the purpose of spiritual welfare.

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#### Medical services

- Supply of drugs and implantable medical devices
- Supply of health services and activities closely related to them, with the objective of protecting the health of citizens, including prevention, diagnosis, treatment of illness and rehabilitation of health disorders, from public or private health institutions
- Supply of organs, blood and human milk;
- Supply of goods or services for dental treatment;
- Education Services
- Educational services by educational institutions, public and private
- Packaging materials and drugs
- Supply of packaging and materials used for production and confection of drugs
- Sales of newspapers, magazines and advertisement services done in them
- Services of printing houses for newspapers, magazines and books of any kind as well as supplies of advertisement services by written and electronic media.
- Sales of newspapers and magazines, daily or weekly, as well as advertisement services they publicize for other persons.

#### Hydrocarbon operations

- The supply of goods and services by the contractors and subcontractors of hydrocarbon operations, which are affirmed as such by the National Agency of Natural Resources, in relation to the research and development phase of hydrocarbon operations, is no longer exempt from VAT. The import of such good and services is no longer exempt from VAT as well.
- Others
- Free of charge supplies in cases of support rendered for situations, defined in the Law "On Civil Emergencies". (The Council of Ministers is charged to define rulings on cases of exemptions for support rendered in case of civil emergencies.)
- Supply of services of processing goods for re-export by taxable authorized persons on the basis of provisions defined in the Customs Code with regard to operations under active processing regime (The Minister of Finance defines the required documentation in Instruction for exemption application.)
- Supplies of services on games, casinos and hippodromes

#### VAT exemptions on import

- Final import of all goods imported by a taxpayer, when their supply within Albania is VAT exempted
- Import of goods placed in transit regime.
- Import of goods declared to fall under temporary regime and active processing.
- Importation of goods by NATO and its bodies in the frame of operations on the basis of international agreements.
- Importation of military materials for Armed Forces donated by countries of NATO and its partners.
- Local and cross-border supplies of services and importation of goods carried out by operators in the hydrocarbons sector only if directly related to the exploration phase.
- Supply and importation of medicines and health care services as of 1 April 2014.
- Importing machinery and equipment for investment contracts with a value equal to or greater than 50 million; or investment contracts in active processing sector and agribusiness, regardless of the value of the investment; or for manufacturing entities subject to simplified profit tax.
- Importing of agricultural equipments and live cattle
- Importing of gold from Central Bank of Albania

#### **Zero rates ("non-genuine" tax exemption) (Input VAT is not deductible)**

##### Exports

##### Fasson services

- Supply of services in the temporary regime and active processing

##### International transport

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- International transport of passengers from / to destinations outside the Republic of Albania.
- Refueling and supply of other resources needed for sailing vessels and airplanes.

#### Gold Supply

- Supply of gold by the Bank of Albania and commercial banks, as well as banknotes and coins of the Bank of Albania

#### Diplomats, etc.

- Supply of goods and services performed under diplomatic and consular relations;
- Supplies of goods and services to international organizations and their members recognized as such by the authorities of Republic of Albania

Supplies of goods and services in Republic of Albania to NATO Allies or civil personnel accompanying them. The Minister of Finance defines with an instruction the exemption of supply to diplomatic or consular missions, as well as for their staff, on the basis of reciprocity, and the exemption of supply to international organizations based on international agreements.

## Deductible input VAT

VAT invoiced to the business for the supply of goods and services and import VAT Generally no deduction of input VAT with respect to:

- Expenses that are not completely for the purpose of economic activity
- Fuel costs, unless: purpose of economic activity is the purchase of fuel in order to sell it, purchased fuel is used for technological needs.
- Costs for travel and per diems, accommodation in hotels and recreational activities
- The cost of cars, unless:
- The purpose of economic activity is the purchase of the vehicle in order to sell them.
- The use of cars is the sole purpose of economic activity (e.g. renting, taxi service, ambulance).
- The cost of fuel of any kind used for vehicles.
- The cost of promotional advertising items.

For representation expenses the right of deduction is not allowed for expenses beyond the allowed rate for their recognition as a deductible expense.

## Input VAT correction

A VAT credit note may be used to reduce the VAT charged on a supply of goods or services; a debit note may be used to increase the amount of VAT. Tax credit and debit notes must be cross-referenced to the original VAT invoice.

## Real estate

### Rentals

Rental of real property is exempt if the rent is for more than 2 months. However the lesser has the right to select a taxable option under certain circumstances.

### Sales

Sale of land is exempt

## Refund of input VAT for Albanian taxable persons within the EU

N/A

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## Foreign taxable persons

N/A

### Registration

N/A

### Refund of input VAT for taxable persons domiciled in the EU

N/A

### Refund of input VAT for taxable persons not domiciled in the EU

N/A

## GENERAL MANAGERS

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### Civil law

Contract of employment, service contract, contract for services, agreement, statute etc.

### Social insurance

Employees: income tax on wages and salaries including all payroll-related costs

### Income tax

Employees: income tax on wages and salaries including all payroll-related costs

### VAT

Employee: no VAT

### Work permit

As a general rule foreign citizens working in Albania for a period longer than one month are required to obtain a work permit, unless exempt with law or international agreement. The application forms can be obtained at the Migrations Department in the Ministry of Labor and Social Affairs, in embassies and consulates abroad and in regional labor offices of the respective districts. The expatriate may perform only the work for which the work permit has been issued. Expatriates that reside 183 or more days in one 12 month period on the territory of Republic of Albania with or without interruptions will be considered as residents for tax purposes.

No work permit is needed for EU and Schengen citizens.

### Residence permit / Settlement permit

Residence permit is needed if a general manager is staying more than 90 days for a period of 180 days from the date of entrance into the Albanian territory. The residence permit for an employed person is issued in accordance with the work permit.

After the issuance of the "residence permit for employed persons" the holder is obliged to notify the competent authorities about any change of conditions for which the permit is issued and request for its approval if the change is related to:

- name and address of employer, place of residence, and place of work

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- valid employment contract

This does not apply to EU and Schengen citizens.

## Liability

In case of gross negligence or fault

## Minimum remuneration

N/A

## SOCIAL INSURANCE AND NON-WAGE LABOR COST

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### Social insurance

Statutory health, accident and pension insurance for all employed and self-employed persons

### Contribution rates and maximum contributions

The contribution basis for the calculation of the social insurance of employed persons is limited to a minimum of ALL 34,000 (EUR 297) per month. Starting from April 1, 2023 it will become ALL 40,000 (EUR 350).

The calculation of the health insurance for the self-employed is done based on the double amount of the minimum contribution basis as mentioned above.

The contribution basis for social insurance of employed persons is limited to a maximum of ALL 176,421 (EUR 1,544)

There is no contribution ceiling for the calculation of health insurance. Health insurance is based on gross salary.

### Self-employed persons

#### Health insurance

3,4%

#### Pension insurance

21,6%

#### Obligatory pension fund

N/A

#### Accident insurance

N/A

#### Maximum contribution

The calculation of the health insurance for the self-employed is done based on the double amount of the minimum contribution basis as mentioned above.

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## Employed persons

### Health and accident insurance

4.8% (3.91 % employer, 2.39% employee)

### Pension insurance

21.6 % (12.79 % employer, 8.81 % employee)

### Maximum contribution

The contribution basis for social insurance of employed persons is limited to a maximum of ALL 176,421 (EUR 1,544)

There is no contribution ceiling for the calculation of health insurance. Health insurance is based on gross salary.

### Others

N/A

### Severance fund

N/A

### Non-wage labor cost

N/A

## IMMOVABLE PROPERTY

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### Tax depreciation

#### Straight-line

Declining balance method at a rate of 5 % on net book value.

#### Additional

N/A

### Depreciation categories

#### Land

Not depreciable

#### Buildings

At 5 %

#### Tax base for buildings

The accounting value of the category recorded in the opening balance of tax period

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## Special depreciation

If the remaining value of the assets at the beginning of a tax period is less than 3% of their historic acquisition cost, the entire remaining balance is recognized as a tax-deductible expense in that tax period.

## Write-ups

N/A

## Real estate income tax

The transfer of the right of ownership of immovable property, land and building is taxed with 15 % on capital gains realized. For buildings, transfer taxes are paid from the transferor, the tax calculated based on the area and usage (residential, commercial, other) in the range of ALL 100 - 2000/m<sup>2</sup> depending on the municipality where the property is located. Exemptions apply for the transfer of the ownership between members of the same family.

### Object of taxation

Capital gains realized

### Tax rate

15%

### Tax collection

Tax on income from the transfer of the right of ownership is paid by the individual that sells the real estate. Local offices of real estate registration calculate and collect the relevant tax liability.

The payment of taxes is a requirement for the registration of the ownership transferring act.

### Exemptions

Exemptions apply for the transfer of the ownership between members of the same family.

## Property transfer tax

### Object of taxation

The transfer of the right of ownership of immovable property, land and building is taxed with 15 % on capital gains realized. For buildings, transfer taxes are paid from the transferor, the tax calculated based on the area and usage (residential, commercial, other) in the range of ALL 100 - 2000/m<sup>2</sup> depending on the municipality where the property is located.

### Basis of assessment

Capital gains realized

### Tax rate

15%

## Property-related taxes

Real Estate Tax is levied yearly on buildings by municipality where the property is located, based on the property area/ square meter/usage.

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## Property tax

### Objects of taxation

Real Estate Tax is levied yearly on buildings, commercial land and agricultural land, based on the property area/square meter/usage.

For commercial land (not public space), the tax is in a range of ALL 12 - 20/m<sup>2</sup> depending on the land location and usage.

For noncommercial land, the tax is

in a range of ALL 0.14 - 0.56/m<sup>2</sup> depending on the land location and usage.

For agricultural land, the tax is in the range of

ALL 700 - 5,600/hectare per annum depending on the land category, as determined by the Ministry of Agriculture.

For buildings the real estate taxes are applied as percentage of the tax base as follows:

- 0.05 % for residential buildings
- 0.2 % for buildings that are used for economic activity.

For buildings that have not been finished on time is applied 30 % of the regular tax rate.

Taxes on the transfer of ownership on buildings is in a range of ALL 100 - 2,000 depending on location and usage.

Income from leasing contracts: Under Article 784 and onwards of the Civil Code, "income from

leasing contracts" is income from a contract through which a person is entitled to use and improve an immovable property. Income from

leasing contracts is periodic compensation in cash or in kind that an individual generates from leasing real estate. If the tenant, according to the contract agreed among the parties, improves and adapts that property for the tenant's needs, the expenses incurred by the tenant are considered to be the income generated from leasing contracts for the owner of the property.

## Real estate funds

### Owner of the fund assets

N/A

### Annual valuation

N/A

### Borrowing

N/A

### Diversification of risk

N/A

### Tax liability

N/A

## TAX CONCESSIONS

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### Direct

The tax relief to expatriates seconded to Republic of Albania has been implemented under specific conditions.

### Indirect

#### Income tax concessions, e.g.

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#### **Tax credits**

##### **Family Bonus Plus:**

N/A

##### **Children surplus:**

N/A

##### **Sole earner deduction pa.:**

N/A

##### **Child deduction:**

N/A

##### **Alimony deduction:**

N/A

##### **if in employment / pension income p.a.:**

Personal allowance up to ALL 40,000 (EUR 350)

#### **Allowances and exemptions**

##### **Profit allowance:**

##### **Investment allowance:**

The return of investment, including capital gains, made through the assets of a pension fund during the administration by the administration company are exempted from income tax

#### **Government subsidies**

Grants supporting job creation in Albania.

## **OTHER TAXES**

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#### **Business tax**

no

#### **Wealth tax**

no

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## Inheritance and gift tax

Gift/estate taxes are levied on immovable property located in Albania. An individual who transfers/ donates the ownership of immovable property has to pay taxes before the registration of such property in accordance with relevant laws. Gift/estate taxes are taxed as income at a flat rate of 15 %.

## Property transfer tax

The transfer of the right of ownership of immovable property, land and building is taxed with 15 % on capital gains realized. For buildings, transfer taxes are paid from the transferor, the tax calculated based on the area and usage (residential, commercial, other) in the range of ALL 100 - 2000/m2 depending on the municipality where the property is located. Exemptions apply for the transfer of the ownership between members of the same family.

## Capital duties and fees

### Contract duties

N/A

### Registration fees

N/A

### Capital duty

N/A

## FILING DATES AND DEADLINES

### Annual tax returns

Annual Corporate Income tax declaration and payment of tax liability by 31 March of the following year.  
Annual Declaration of the Small Business Income and payment of tax liability by 10 February of the following year.  
Individual income tax return by 30 April of the following year

### VAT interim returns

Monthly on 14th day of the following month

### European Sales Listing

N/A

## INCOME TAXES

### Tax rate

progressive tax rates

Taxable Income (ALL)	Tax rate %
Up to 40,000	0%

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From 40,001 to 50,000		6.5 % on the amount exceeding ALL 30,000	
From 50,001 to 200,000		13% % on the amount exceeding ALL 30,000	
Over 200,001		ALL 22,100 + 23 % on the amount exceeding ALL	200.000

## Special tax rates

N/A

## Tax liability

### Unlimited

Individuals who are resident in Albania are subject to tax on their worldwide income.

### Limited

Non-residents are subject to tax on income derived from Albania sources only.

## Tax assessment period

Calendar year

## Income categories

Income from

1. Employment
2. Self-employment
3. Interests
4. Dividends
5. Capital
6. Real-estate income
7. Other royalties, gambling, etc.

## Accounting

Is regulated based on the Accounting Law. Listed companies, financial institutions and certain other companies with public interest (PIE) are required to apply IFRSs. All other companies as specified by Albanian Accounting Act are required to use National Accounting Standards (in line with IFRS for SME) or may voluntarily chose to apply IFRSs.

Self employed with a turnover up to ALL 2,000,000: receipts and payments accounting (cash basis accounting)

Small businesses with a turnover from

ALL 2,000,001 to ALL10,000,000 are required to maintain accounting records and report based on micro entity standard No.15 ( published by the National Accounting Council)

## Loss set-offs

Only capital gains can be offset with capital losses

## Loss carryback

not possible

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## Loss carryforward

In general tax losses can be carried forward for three consecutive years. Tax losses can be carried forward for 5 years if certain investment thresholds are reached (1 milliard ALL).

## Operating expenses

Expenses of the business

## Tax allowable expenses

Expenses for acquiring, securing or maintaining the revenue of the business except for non-deductible expenses determined by law

## Lump sum option

N/A

## Motor vehicles

N/A

## Social insurance

deductible

## Withholding tax

Statutory withholding tax rate is 15 %. A lower rate or 0 % can apply, provided it is envisaged by a double taxation agreement (DTA)

### Interest

15 % (a lower rate can apply, provided it is envisaged by a double taxation agreement)

### Royalties

15 % (a lower rate can apply, provided it is envisaged by a double taxation agreement)

### Dividends

8 % (a lower rate can apply, provided it is envisaged by a double taxation agreement)

## CORPORATE INCOME TAXES

---

### Object of taxation

Income

### Tax rate

0% for entities with annual turnover between ALL 0 million and ALL 14 million

15 % flat rate for entities in general with turnover in excess of ALL 14 million

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5% : Apply for certain industries under specific conditions in accordance with specific laws:

- software production and development
- taxpayers whose activity is based on agricultural co-operation and those that are awarded the status of “certified agrotourism entity” on or before until

31 December 2021.

- entities, which exercise economic activity in the automotive industry,

## Tax liability

Commercial companies, permanent establishments

### Unlimited

N/A

### Limited

Entities established in Albania

## Financial year

Accounting exercise begins on 1 January and ends on 31 December. Exemptions for specific activities, with the proposal of the National Accounting Council, approved by the Council of Ministers.

## Accounting

Is regulated based on the Accounting Law. Listed companies, financial institutions and certain other companies with public interest (PIE) are required to apply IFRSs. All other companies as specified by Albanian Accounting Act are required to use National Accounting Standards (in line with IFRS for SME) or may voluntarily chose to apply IFRSs.

## Loss carryback

Not allowed

## Loss carryforward

In general tax losses can be carried forward for three consecutive years. Tax losses can be carried forward for 5 years if certain investment thresholds are reached (1 milliard ALL).

## Shell company purchase

If a change of more than 50 % in the entity’s ownership occurs, the remaining tax losses are forfeited.

## Operating expenses

Expenses of the business

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### Transfer prices

Subject to Transfer Pricing Regulation are all Albanian taxpayers engaged in cross-border transactions with 'associated parties'. Filing an annual controlled transaction notice is required only for companies which have aggregate controlled transactions (including loan balances) exceeding ALL 50,000,000 (approx. EUR 414,044) during the reporting period. Transfer Pricing Documentation must be filed within 30 days of request from Albanian Tax Authorities.

The Transfer Pricing documentation must address at least the following:

- Overview of the taxpayer's business operations and organizational chart;
- Description of the corporate organizational structure of the group; Description of the controlled transaction(s), including analysis of the comparability factors and details of applicable transfer pricing policy (where relevant);
- Explanation of the selection of most appropriate
- transfer pricing method (cost plus, profit split, comparable uncontrolled price method);
- Comparability analysis as described above;
- Explanation of any economic analysis and projections relied on;
- Details of any advance pricing agreements or similar applicable to the controlled transactions;
- Conclusion as to consistency of the conditions of the controlled transactions with the market principle, including details of any adjustment made to ensure compliance;
- Arm's-length basis, documentation required.

### Interest on debt financing of acquisition of shares

Deductible under the same conditions as interest payable on other type of borrowings. However, interest paid by the taxpayer during the fiscal year which exceeds the 12-month average interest rate of the bank market as officially published by the Bank of Albania is not deductible.

### Debt / equity

Interest is deductible if the debt/equity ratio does not exceed the 4:1 ratio. Short-term bank loans with duration of less than one calendar year not considered for purposes of calculating the ratio of the loan as above. This restriction (ratio 4:1) does not apply for banks, leasing and insurance companies.

### Tax depreciation

For tax purposes fixed assets are divided into four groups:

- 1st group (non-depreciable assets): land, art objects, antiques, jewelry, precious metals and stones are not amortized;
- 2nd group (costs of purchase or construction and costs of upgrading, renovation and reconstruction of buildings, fixtures and machinery and equipment with long service) are depreciated separately with declining balance method at a rate of 5 % on net book value;
- 3rd group (intangible assets) are depreciated separately for each asset on a straight-line basis, at the rate of 15 %;
- 4th group (computers and IT systems) are depreciated based on net book value at 25 % and 20 % for all the other assets.

Accounting depreciation depends on accounting policy of the company

### Provisions

Banks can now deduct only loan impairments (provisions) for Corporate Income Tax purposes if they are calculated following the International Financial Reporting Standards (IFRS).

### Motor vehicle expenses

Depreciation expenses are deductible up to 20 % of the net book value. Depreciation over at least 10 years Acquisition cost: no ceiling

No deduction of input VAT on acquisition cost and running expenses of passengers' cars except when:

- the sole purpose of economic activity is the purchase of the vehicle for selling.

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- the sole purpose of economic activity is the use of cars (e.g. renting, taxi service, ambulance service)

## Non-deductible expenses

The cost of acquisition and improvement of land

Any capital increase of the company or contribution increase in a partnership, upon capital or initial contribution defined by the contract and status of the person.

The value of compensation in kind, which include any compensation paid not in cash by the employer or a person related to him for the services performed by the employee for his employer.

Compensations of such type are:

food compensation, donation of vehicles, house appliances, tickets for tourist trips etc., providing of dwelling houses or premises for personal use or other purposes that are not directly related with the conducting business activity

Dividends declared and profit distributed among partners or shareholders

Personal income tax, excise duties, profit tax, and input tax (VAT-deductible)

Voluntary pension contributions (while mandatory contributions of the employer according to legislation are deductible expenses of the business)

Interest paid from the taxpayers exceeding the loan interest rate as determined in the Official Gazette by the Bank of Albania (on December 31 of the previous year). The same is applicable to loan interest exceeding a debt to equity ratio of 4:1. Exceptions for banks and insurance companies when

Fines, late payment interests, and other penal sanctions paid for different legal and administrative reasons. In case of removal of the fines, late payment interest and other penal sanctions: the benefited income from removal of the above is not taxable and therefore for fiscal effects the fines will be reconsidered as deductible expenses

Provision for risks and expenses except of those created by insurance companies and banks

Representation expenses and reception for amounts exceeding 0.3 % of the annual turnover. Exemptions apply for exporting companies.

Personal living expenses (including all expenses of personal consumption which have no direct relation with performance and results of the business).

Net Interest is deductible if does not exceeds 30% of the EBITDA. The non-deductible Interest is carried forward under certain rules and regulations.

## Interest barrier

Net Interest is deductible if does not exceeds 30% of the EBITDA. Such interest not deductible in the current period can be carried forward to future tax periods, provided that a change of 50% in the entity's ownership does not occur. Such limitation does not apply to banks, other financial institutions that are not banks, insurance companies and leasing companies.

## Interest and royalties to intra-group companies

N/A

## Withholding taxes

Statutory withholding tax rate is 15 %. A lower rate or 0 % can apply, provided it is envisaged by a double taxation agreement (DTA)

### Interest

15 % (a lower rate can apply, provided it is envisaged by a double taxation agreement)

### Royalties

15 % (a lower rate can apply, provided it is envisaged by a double taxation agreement)

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**Dividends**

8 % (a lower rate can apply, provided it is envisaged by a double taxation agreement)

**Controlled foreign corporation (CFC) rules**

N/A

**Hybrid mismatches**

N/A

**National parent- subsidiary exemption**

Dividends are tax exempted.

**International investments**

N/A

**International parent- subsidiary exemption and portfolio investments**

N/A

**Goodwill amortisation**

On a straight-line basis, at the rate of 15 %

**Group taxation / pooling****Tax groups**

N/A

**Pooling**

N/A

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