

**BRIEF**

**MAIN TAXES IN ALBANIA**

**2019**

## **GENERAL TAX PROVISIONS**

Taxation in Albania is determined on the basis of residency. A company is considered resident in Albania if incorporated in Albania or the effective place of management is in Albania. An individual is considered resident taxpayer if it is domiciled in Albania or stays in Albania for more than 183 days in the last 365 days. Resident taxpayers are subject to corporate income tax on their worldwide income while foreign entities are subject to tax on income sourced in Albania.

The fiscal year in Albania is identical with the calendar year; the tax period begins on 1 January and ends on 31 December. Documents, books and records, should be maintained in Albanian Lek, and kept for 10 years. Tax returns are filed by taxpayers based on a self-assessment system.

## **INCOME TAXES**

### **Corporate Income Tax**

The Corporate Income is applied on the statutory income statement after adjustments according to the tax law. The standard tax rate is 15%, a reduced rate of 5% is applied to small companies which invoice up to 14 million LEK per year and to the following types of taxpayers, regardless of turnover:

- IT companies that develop and maintain software
- Agro-tourism entities
- Agriculture cooperatives

In addition, four-star and five-star hotels are exempt from corporate income tax for a period of 10 years provided they have met the criteria for obtaining a special status until December 2024.

Generally, business expenses may be deducted in calculating taxable income provided that they are related to activities necessary for generating taxable income. Some expenses are explicitly non-deductible such as for example:

- Cost of benefits in kind
- Representation expenses exceeding 0.3% of annual turnover
- Cost of land and property acquisition
- Voluntary pension contributions
- Fines or penalties
- Reserves or special funds (excluding certain reserves as provided by the law)
- Expenses which are not properly backed up by supporting documents
- Salary expenses if not paid through the banking system
- Expenses paid in cash exceeding 150,000 Lek
- Interest expenses that exceed the annual average rate published by the Bank of Albania

Tax losses can be carried forward for three tax periods (years) according to the “first loss before the last one” principle. The tax loss cannot be carried forward if the ownership of stock capital or voting rights of an entity changes by more than 50% in value or number.

Thin capitalization rules apply if interest bearing loans exceed by four times or more shareholder equity (excluding short-term loans). The interest paid on the excess principal is non-deductible. Banks, insurance companies and leasing companies are not subject to thin capitalization rules.

Albanian tax authorities can adjust taxable profits if the transaction between related parties is not at arm's length. Transfer pricing adjustments are made by the tax authorities through the Commission of Transfer Pricing in the General Tax Directorate.

The dividends received from a resident company are not subject to corporate tax in Albania.

### **The Tax on Small Business**

Registered physical persons or companies with an annual turnover of up to 8 million LEK are subject to the simplified tax on small business, which is a local tax administered by the general tax directorate.

Taxpayers with an annual turnover between 5 million LEK and 8 million LEK will be subject to simplified tax on small business at the rate of 5% of their net profit. The tax should be paid in advance each quarter. Taxpayers with an annual turnover of up to 5 million LEK are excluded from the tax on small business (the tax rate is 0%).

### **Withholding Tax**

The standard withholding tax rate in Albania is 15%, unless the rate is reduced under an applicable tax treaty.

An Albanian entity which makes payment to a non-registered or foreign entity for services and other types of transactions, sourced from the Republic of Albania is required to withhold the withholding tax from the gross invoiced amount. Withholding tax is applicable to:

- Dividends (reduced to 8% starting from 01/01/2019)
- Interest
- Royalties and copyright
- Technical services and management fees
- Financial and insurance services
- Payments for construction, installation and related supervisory work
- Rental payments
- Payments for the performance of entertainment activities

The dividends paid to resident companies are not subject to withholding tax in Albania. Also, repatriation of profits by branches of non-resident companies is not subject to dividend tax in Albania (this exemption is not extended to subsidiaries).

The taxpayer is required to pay the withholding tax to the tax administration not later than the 20<sup>th</sup> of the month following the month in which the payment was made to the provider of the services.

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### **Double Tax Treaties**

Albania has entered into double taxation avoidance Agreements with various countries. The countries with a tax treaty with Albania are the following:

Austria	Germany	Macedonia	Serbia
Belgium	Greece	Malaysia	Singapore
Bosnia-Hercegovina	Hungary	Malta	Slovenia
Bulgaria	India Ireland	Moldova	South Korea
China	Iceland	Montenegro	Spain
Croatia	Italy	Netherlands	Sweden
Czech Republic	Kosovo	Norway Poland	Switzerland
Egypt	Kuwait	Romania	Turkey
Estonia	Latvia	Qatar	United Kingdom
France	Luxembourg	Russian Federation	UAE

### **Personal Income Tax**

All individuals who have permanent residence in Albania, or stay in Albania for more than 183 days over a 365 days period are subject to personal income tax. Albanian tax residents are subject to personal income tax on their worldwide income, whereas non-resident individuals are subject to tax only on income from Albanian sources. Individual taxpayers with a total annual income of less than 2,000,000 Lek are not required to submit the annual personal income tax return.

Most sources of income with some exceptions are subject to personal income tax. Resident taxpayers with annual income of less than 800,000 Lek are entitled to some deductions.

The tax payer must submit the annual individual personal income tax return and pay the tax due to the tax administration not later than 30 April of the year following the year for which the tax declaration is made.

### **Payroll Tax**

Employers are required to withhold personal income tax on gross salaries on a monthly basis and pay to the tax authorities not later than the 20<sup>th</sup> of the following month. The taxes applied to income from employment are the following:

Monthly Taxable Income (in ALL)	Tax amount (in ALL)
0 – 30,000 ALL	Non taxable
30001-150,000 ALL	13% of the amount above 30,000 ALL
above 150,000 ALL	15,600 ALL + 23% of the amount above 150,000 ALL

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## **VALUE ADDED TAX (VAT)**

VAT is applied on supplies of goods and services or the import of goods into Albania. The reverse-charge mechanism applies to imported services.

Any person or entity conducting economic activities in Albania is required to register for VAT registration if the taxable turnover exceeds 2,000,000 Lek in a calendar year. Taxable persons that wish to import goods into Albania and taxpayers that supply professional services considered independent professions (lawyers, accountants, architects etc.) must register for VAT regardless of the annual turnover.

The standard VAT rate is 20%. Hotel accommodation services, Agro-tourism activities, Literature and Electric Buses are subject to VAT at a reduced rate of 6%, the reduced rate is extended to all services provided by five-star international hotel brands.

The export of goods, services related to the international transport of goods and passengers, and some other supplies explicitly specified in the law are zero rated. Some services and goods are exempt from VAT (e.g. financial and life insurance services, export of services, lease of real estate, educational services, medicines and certain medical services, the supply of books, magazines, newspapers and incorporated advertisements, gambling). The research phase in hydrocarbon operations is also exempt from VAT.

Taxpayers who supply both VAT and VAT exempt goods and services can credit only that portion of their input VAT that corresponds to their activities subject to VAT.

The VAT books (purchase book and sale book) must be filed electronically until the 10<sup>th</sup> of the following month. The VAT liability must be paid on the 14<sup>th</sup> of the following month.

VAT refund is handled by the Treasury. The regional tax directorate should verify and approve the VAT refund amount within 60 days from the taxpayer's request.

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## **SOCIAL AND HEALTH SECURITY CONTRIBUTIONS**

Social insurance and health insurance contributions are mandatory and are payable both by the employee and the employer. The tax base is the monthly gross salary, but not less than the minimum national monthly salary.

The minimum national monthly salary is 26,000 LEK. The Council of Ministers usually reviews the minimum national salary, minimum and maximum salary amounts each July.

### **Social insurance contributions**

The employee pays 9.5%, withheld monthly by the employer, while the employer pays 15% of the gross salary. The contribution is calculated monthly up to a maximum (ceiling) monthly gross salary of 114,670 LEK. If the gross monthly salary is higher than 114,670 LEK, only the first 114,670 LEK are subject to social insurance contributions.

### **Health insurance contributions**

Both the employee and the employer pay 1.7% of the gross monthly salary (not less than the minimum national monthly salary). For the self-employed, the basis for the calculation of health care contributions shall be double the minimum salary set forth for purposes of calculation of the social contributions.

The employer must pay the social security and health contributions not later than the 20<sup>th</sup> of the following month.

### ***Note for administrators of Albanian companies:***

Each administrator of an Albanian company is considered an employee for social security (and payroll tax) purposes. The administrator of the company must be registered with the Albanian General Tax Directorate not later than two days after the incorporation of the company.

### ***Note for suspending (making dormant) companies in the commercial registry:***

The companies can be suspended in the commercial registry only after all liabilities towards the tax administration have been paid. In addition, companies in suspended status are forbidden from both issuing sales invoices and receiving cost invoices from third parties.

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## **LOCAL TAXES AND FEES**

Local tax authorities collect taxes from entities carrying on business in their municipalities or communes.

According to the Law on the Local Tax System, a wide range of local taxes is levied on every business activity based on a national list of taxes and thresholds.

### **Real estate tax**

Natural persons and legal entities who own real estate property in Albania are subject to tax on real estate. Local tax on real estate consists of the real estate tax on buildings and real estate tax on agricultural land.

The annual tax on buildings is levied on each square meter and varies from 5 ALL – 400 ALL per square meter, depending on where the building is located. Buildings owned by the state and local governmental authorities as well as by religious institutions are exempt. The tax on buildings is charged at twice the rate for any second or subsequent residential real estate property owned by individuals.

Real estate tax on agricultural land is levied on the surface (hectares) of the agricultural land; its amount depends on the region where the land is located.

### **Tax on the sale of real estate**

Individuals must pay the tax on the sale of real estate on the transfer of the ownership rights of buildings and other real estate properties. It is payable by the individual who transfers the ownership of the real estate. The tax rate is 10% and is applied to the difference between the sales value of the property minus the purchase value of the property.

### **Infrastructure tax**

Tax on infrastructure is levied as a percentage of a new construction investment. Generally, tax on infrastructure varies from 1 to 3 percent of the new investment value (except in the Municipality of Tirana where it amounts to between 2 and 4 percent). For public infrastructure projects (construction of national roads, ports, airports, tunnels, dams, etc.) the tax on infrastructure is 0.1 percent of the new investment value but not less than the rehabilitation costs of the infrastructure damaged by the new construction. Payment of infrastructure tax is an obligation of the investor. It is paid once a permit for a new construction is issued and is calculated upon the planned investment budgeted.

### **Other national and local taxes**

There are a variety of other national and local taxes and fees. These include port charges, consular fees, TV and telephone taxes, driving license fees, airport arrival and departure tax, business registration tax, cleaning tax, advertising tax, circulation tax on vehicles, etc.

*Note for companies in suspended status in the commercial registry registered in the area administered by the Municipality of Tirana:*

Suspended companies registered with the Municipality of Tirana are not excluded from the obligation to pay cleaning and sign tax.

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