

# Tax Alert

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## Income Tax

As of 1 January 2014, the following draft amendments to Law No. 8438 dated 28 December 1998, "On Income Tax", are expected to come into force.

- The Corporate Income Tax rate will change from 10% to 15%.
- Personal Income Tax will change from a flat tax rate to a marginal tax rate, where incremental increases in income are taxed at progressively higher rates (tax brackets), as provided in the table below:

Taxable amount (All/month)	Previous tax rate (%)	New tax rate (%)
0 – 30,000	0%	0%
30,001 – 130,000	10% of the total amount	13% of the gross amount over ALL 30,000
> 130,001	10% of the total amount	ALL 13,000 plus 23% of the amount over ALL 130,000.

- Banks can now deduct for Corporate Income Tax purposes only loan impairments (provisions) calculated as per the International Financial Reporting Standards (IFRS), therefore, will not take into consideration anymore the lower of provisions calculated as per the IFRS and provisions calculated as per the Bank of Albania.

## Value Added Tax

A draft law amending some provisions of Law No. 7928 dated 27 April 1995, "On Value Added Tax" (VAT), is expected to become effective as of 1 January 2014.

- 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.

- The audit and approval of taxpayer's VAT credit balance by the tax authorities is extended from 30 calendar days to 60 calendar days from the submission date of the VAT reimbursement request by the taxpayer. Nevertheless, the draft law is silent on the exact date of VAT reimbursement after the VAT credit balance is approved. PwC has suggested amending this accordingly.
- As of 1 April 2014, the supply of medicines and health services by public and/or private health institutions are exempted from VAT.

## *Foreign employees working on hydrocarbon operations*

As of January 2014, income generated from foreign employees working on the production phase of hydrocarbon operations will be subject to Personal Income Taxes in Albania, whereas those foreign employees working on the research and development phase of hydrocarbons operations will continue to be exempt.

## *Tax procedures*

Law No. 9920 dated 19 May 2008, "On Tax Procedures in the Republic of Albania", is expected to be amended with the following provisions starting from 1 January 2013.

- The limit on cash transactions will change from ALL 300,000 to ALL 150,000.
- The deadline for appealing the preliminary results of a tax audit will be extended from 5 calendar day to 15 calendar days.
- Taxpayers will now have a choice of either paying the whole amount of additional tax obligations (excluding penalties) assessed during the tax audit or make a bank guarantee before initiating the tax appeal procedures.
- Additional tax liabilities resulting from the self-correction of tax returns by the taxpayer will no longer be subject to penalties, but only late interest payments, provided that the correction is made by the taxpayer within 12 months from the date of declaration.
- The new draft law clarifies that in case the receipt date of tax liabilities notifications from the tax authorities cannot be determined, the notification will be considered as received by the taxpayer within 10 days from the mailing date.
- The Tax Appeal Directorate will take the necessary measures to publish its decisions at the tax authorities' website.

- The collection of simplified income tax on small businesses will be on the jurisdiction of General Tax Directorate, instead of the jurisdiction of local municipalities.
- Within 30 days from the initiation of the de-registration procedures at the National Registration Centre, the tax authorities should check taxpayers' situation by the means of a risk analysis. Previously the risk analysis was not part of the tax authority's procedures.

## *Excise Law*

- As of 1 April 2014, the import of petroleum by-products which are used for personal purposes by the companies focused on research and development of large oil and gas reserves in Albania, is no longer exempt from excise tax.
- As of 1 January 2014, excise rates of some products, especially alcoholic beverages and cigarettes, as provided under Law No. 61/2012 dated 24 May 2012, "On excise tax", will be amended. The suggested amendments of excise rate are attached in *Annex 1* of this Tax Alert.
- In addition, the draft law determines penalties in case of tax evasions related to illegal production of tobacco and its by-products, non-payments of tobacco excise, non-payment of coffee excise, etc.

## *National taxes*

As of January 2014, Law No. 9975 dated 28 July 2008, "On National Taxes", is expected to be amended as well with the following provisions:

- The circulation tax on diesel and gasoline is expected to change from 5 ALL/Litre to 17 ALL/Litre.
- The Regional Tax Directorates will be responsible for the calculation and the collection of national taxes as provided in Law "On National Taxes".

## *Local Taxes*

The following amendments to Law No. 9632 dated 30 October 2006, "On Local Taxes", are expected to become effective on 1 January 2014.

- The simplified income tax on small businesses (i.e. businesses generating an annual turnover of less than ALL 8 million per year) will be covered from Law "On Local Taxes" instead of Law "On Income Tax". The simplified income tax on small business will change as follows:

Annual turnover (ALL)	Was	Becomes
0 – 2,000,000	Fixed amount depending on the taxpayer's activity	25,000 ALL/year
2,000,001 – 8,000,000	10%	7.5 %

- Amendments on tax building provide that a physical person (i.e. individual) owning a second building, except from the one used as a residence, will pay on that second building a tax that is twice the normal tax building applied in the cadastral area of the second building. The tax building for each cadastral area has changed and details are provided in *Annex 2* of this Tax Alert.

Annex 1

Category	Was	Becomes
Unbaked coffee	30 ALL/kg	0 ALL/kg
Baked coffee	140 ALL/kg	60 ALL/kg
Beer	Not more than 70,000 hectoliters (HL), 1,000 ALL/HL for 6% alcohol and 1,200 ALL/HL for more than 6% alcohol	Less than 200,000 HL, 310 ALL/HL for alcohol grade
	70,001 to 200,000 HL, 1,200 ALL/HL for not more than 6% alcohol and 14,400 ALL/HL for more than 6% alcohol	
	200,001 to 300,000 HL, 1,500 ALL/HL for not more than 6% alcohol and 1,800 ALL/HL for more than 6% alcohol	More than 200,000 HL, 710 ALL/HL for alcohol grade
	More than 300,000 HL, 3,000 ALL/HL for not more than 6% alcohol and 3,600 ALL/HL for more than 6% alcohol	
Wine, Champagne, Fermented and Sparkling beverage	2,000 ALL/HL	5,200 ALL/HL
Intermediate alcoholic beverages	2,000 ALL/HL for beverages containing more than 15% alcohol grade but not more than 22%	5,200 ALL/HL
Spirituous Beverages	Less than 20,000 HL per year, 50,000 ALL/HL anhydrous alcohol	Less than 20,000 HL per year, 65,000 ALL/HL anhydrous alcohol
	More than 20,000 HL per year, 65,000 ALL/HL anhydrous alcohol	More than 20,000 HL per year, 84,500 ALL/HL anhydrous alcohol
Cigarettes containing tobacco	3,500 ALL/ 1,000 pieces	4,500 ALL/1,000 pieces on 1 January 2014
		5,000 ALL/1,000 pieces on 1 January 2015
		5,500 ALL/1,000 pieces on 1 January 2016
		6,000 ALL/1,000 pieces on 1 January 2017
Other refined tobacco and tobacco substitutes	1,500 ALL/kg	3,000 ALL/kg as at 1 January 2013
		3,700 ALL/kg as at 1 January 2014
		4,400 ALL/kg as at 1 January 2015
		5,100 ALL/kg as at 1 January 2017
E472 (grease)	not provided	40 ALL/kg

## Annex 2

Municipalities						
The minimum categories of buildings	Zone 1 Tirana Durrës  (Was)	<b>B e c o m e s</b>	Zone 2 Vlore, Fier, Saranda, Pogradec, Korce, Elbasan, Berat, Lushnje, Gjirokastr, Shkoder, Kavaje, Lezhe (Was)	<b>B e c o m e s</b>	Zone 3 All the rest  (Was)	<b>B e c o m e s</b>
ALL / m <sup>2</sup> per annum						
I. Residential buildings		<b>30</b>		<b>12</b>		<b>6</b>
Built before '93	15		10		5	
Built after '93	30		12		6	
II. Other buildings						
a) For commerce and services	200	<b>400</b>	150	<b>300</b>	100	<b>200</b>
b) Others	50	<b>100</b>	30	<b>60</b>	20	<b>40</b>
III. Buildings owned or in use, in territories defined as tourist villages	200	<b>400</b>	200	<b>400</b>	200	<b>400</b>



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