

Doing Business and Investing in Albania

2017 Edition



pwc

Partner's letter



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I am delighted to present the guide to “Doing Business and Investing in Albania”. The guide is intended to be of interest to business owners and investors looking to enter or grow their operations in the Albanian market.

Albania is a small country in South Eastern Europe that has been striving to improve its business, legal and tax climate in order to enhance its attractiveness to prospective foreign investors. Indeed, in the 2017 ‘Index of Economic Freedom’ Albania ranked 13th in the world in terms of trade freedom¹. Albania continues to develop as an attractive destination for foreign direct investment in the region, despite strong competition with a number of neighbouring countries, which has led to a steady growth in GDP.

The PwC Albania team has brought together all of their experience and knowledge to design this guide and to provide a high level overview of the main issues and features that we believe every investor should consider before entering the Albanian market. The guide provides some basic information about Albania and its people, reviews the key business conditions in the country and then delves into the most important trade, legal, labour and taxation regulations in the country; which every prospective investor should keep in mind.

In particular, it contains a section dedicated to foreign investment, with a discussion about the various incentives and favourable treatments that are available to prospective investors. As an example, a recent law on tourism encourages foreign and domestic investors to consider Albania as a business destination by providing very competitive investment terms aimed at transforming the tourism business in Albania into one of the most important sectors of the economy.

The information provided is not an exhaustive description of all the business, legal and tax regulations in Albania. Therefore, should you need any specific assistance or would like to inquire in more detail about any specific topic in this guide, please do not hesitate to get in touch with our team. We are always ready to assist you.

On behalf of PwC Albania, I wish you all the very best with your endeavours in Albania.

¹ <http://www.heritage.org/index/>

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Office Location



Investing in Albania – Highlights

Albania is a country with clear potential for economic growth and development. Located in the Western Balkan Peninsula, its geographical position is perfect for quick access to the markets of Italy and Greece, as well as overland into other European Union countries. It is also a crucial transport hub, with Durres and Vlora ports linking up to the regional road corridor networks and enabling access to the sea to other landlocked Balkan countries.

Albania’s favourable climate and abundance of natural resources offers development opportunities in sectors such as energy, mining, agriculture and tourism. The country offers a professional and skilled labour force with an average salary of around EUR 300 per month enabling investors to consider Albania as a viable option for the manufacture, production and processing of goods and services.

Albania’s stable economic situation has resulted in one of the lowest inflation rates in the region (1.3% in 2016) and a consistent annual growth rate of around 3.4%. With 38 double tax treaties and other bilateral and multilateral agreements, coupled with recent changes to investment laws that promote investment incentives, Albania has created an amicable and liberal business environment for those looking to invest. Currently, Foreign Direct Investment is one of the highest in the region, with EUR 880 million invested in 2015.

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Albania – a profile

1.1 Introduction

History

The history of Albania begins to take shape around 3000BC. The Illyrians were the first to populate Albania at the beginning of the Bronze Age, an Indo-European people who settled in the Balkan Peninsula. The name Albania (in Albanian: “Shqipëri”), derives from one of the Illyrian tribes called “Albano” meaning the “Land of Eagles”.

In 1190 the first Albanian medieval state, the Principality of Arbër, was founded, with Kruja city as the capital. In the middle ages, the name Arbëri was increasingly used to refer to the region now comprising the nation of Albania.

In the late 14th century, with the expansion of the Ottoman Empire towards the Balkans, Albania became a battlefield. For about 25 years, the national hero Gjergj Kastrioti Skanderbeg united the Albanian provinces, leading them in their resistance against the Ottoman army. Following his death in 1468, the Ottomans occupied the country for about five centuries.

Albania proclaimed its independence in 1912 and the present day national borders were sanctioned by the Conference of Ambassadors held in London in 1913. A short-lived monarchy (1914-1925) was succeeded by an even shorter-lived first Albanian Republic (1925-1928). This was replaced by another monarchy (1928-1939), which was headed by Prince Zog I. During World War II, Albania’s National Liberation Army fought alongside the allies first against Italy and then against Germany. As a result, Albania finally achieved full independence on 29 November 1944.

Not long after independence Albania became a communist state, led and dominated by Enver Hoxha (d. 1985). The Republic of Albania was founded in 1991 and the former communist party was removed from power in the elections of March 1992, amid economic collapse and social unrest. Further crises followed during the 1990s, peaking in the 1997 financial pyramid schemes scandal, and led to a mass emigration of Albanians from the country; mostly to Italy, Greece, Switzerland, Germany and the U.S.A.

Albania became a full member of NATO in 2009 and in June 2014 was granted candidate status to the European Union.

Geography and climate

Albania is located in South East Europe in the Western Balkan Peninsula and shares common borders with Macedonia to the east, Greece to the south and Kosovo and Montenegro to the north. It has access to the Adriatic and Ionian Seas in the west and southwest, with Italy less than 72 km away across the Adriatic Sea.

The country terrain is mostly mountains (almost 70% coverage), combined with a beautiful coastline and numerous rivers and lakes, and covers an area of 28,748 km².

The highest point in Albania is Korabi Mountain (2,751 m). Three large lakes of the Balkan Peninsula - Ohrid, Prespa and Shkodra - are partly located in Albania. The capital and the largest city in Albania is Tirana, with other cities located around the country, including: Durrës, Korça, Elbasan, Shkodra, Gjirokastra, Vlorë and Fier.

Albania has a Mediterranean climate with an average temperature of 7 °C in the winter and 24 °C in the summer. Rainfall averages between 1,000mm

and 1,500mm annually, with the higher levels of rain falling in the north. Nearly 95% of the rain falls in the winter.

Albania falls within the Central European Time Zone (GMT +1) and between April and October switches to daylight savings time, i.e. GMT +2.

1.2 People

Population

Albania has a population of just under three million people, of which nearly a third live in Tirana, the capital city.

Language

The official language in the Republic of Albania is Albanian (locally referred as “Shqip”). Albanian is an Indo-European language, spoken by approximately 7.6 million people, not only in Albania and Kosovo, but also in other countries in the Balkans region where there is an Albanian presence, including western Macedonia, southern Montenegro, southern Serbia and north-western Greece.

Religion

The Constitution of Albania provides for freedom of religion and the Government respects this right in practice. There have been no reports of societal abuse or discrimination of any kind based on religious beliefs or practice.

Education

In Albania, attendance at school, whether public or private, is mandatory for Primary and Secondary education.

Higher education, although not compulsory, is also available in various forms; colleges, universities, academies etc.

Adult education is also possible for those adults who either did not complete their basic education or those who wish to continue with their learning.

There are about 2000 schools throughout the country (approximately 1500 schools for Basic Education, and 500 Secondary Education schools), and 38 universities, (15 public and 23 private ones) with approximately 146,000 students registered for the academic year 2015/2016.

Living standards

In 2016, Albania’s GDP per capita was EUR 3,781 p.a. The data generated from the Ministry of Finance shows a 3.4% growth in economy.

The minimum wage in Albania is approximately EUR 185 (ALL 24,000) per month while the average monthly salary in the public sector is around EUR 410 (54,500 ALL) and around EUR 320 in the private sector (ALL 42,500).

1.3 Governing structures

The politics of the Republic of Albania takes place in the framework of a Parliamentary Representative Democratic Republic. The Constitution is the highest law in the land and was adopted by popular referendum on 28 November 1998.

The system of government is based on the separation and balancing of the legislative, executive and judicial powers. All three branches of government are separate and independent to each other.

The Parliament represents the legislative branch. The executive branch is represented by the President as the Chief of State, the Prime Minister as the head of Government and the Council of Ministers. The judicial branch is

composed of the Constitutional Court, the Supreme Court, First Instance Courts and Courts of Appeal.

As of September 2017, the Government consists of 11 ministries. Whereas, the unicameral Parliament consists of 140 seats based on a closed list proportional representation system, where all Parliament members serve a four-year term.

1.4 Legal system

The Albanian legal system has a civil law system. All legal acts must be in compliance with the Albanian Constitution which is the highest law in the legislative hierarchy. International treaties and conventions ratified by the Parliament prevail over the local legislation, apart from the Constitution, in the event of an inconsistency with the local legislation.

Laws and other legal acts are issued and approved by a number of bodies, and enacted as follows:

- Laws are proposed by the Council of Ministers, any member of Parliament or 20 thousand voters (people), approved by Parliament and enacted by the President of the Republic. After approval by Parliament, a law enters into force 15 days after its publication in the Official Gazette or at another date as specified by the law.
- Parliamentary decisions are issued by Parliament.
- Decrees are issued by the President of the Republic.
- Normative acts, decisions, instructions, regulations and orders are issued by the Council of Ministers.
- Instructions, regulations and orders are issued by each Ministry.

Court decisions are issued from First Instance Courts, Courts of Appeal, and the Supreme Court.

The Constitutional Court, which is not part of the ordinary judicial system, has a specific role and has jurisdiction over the review of constitutionality of law and other normative acts. The Constitutional Court guarantees and upholds compliance with the Constitution and has the ultimate power to interpret its content. Individuals or legal entities can also address the Constitutional Court if they claim that the right for a fair legal process has been violated.

Judicial system

The judicial system consists of the First Instance Courts, the Appeal Courts and the Supreme Court. The First Instance Courts and the Appeal Courts judge cases under three jurisdictions: criminal, civil and administrative. Cases in the First Instance Courts are heard by one judge or a panel of three judges, whereas cases in the Appeal Courts are heard by a panel of three judges. The Supreme Court deals with matters that are organised into three main panels: Civil, Criminal and Administrative. For the unification of judicial practice, the Supreme Court can deal with specific cases in Joint Panels, with the participation of all its members.

The decisions are proclaimed by the judge/s in the name of the Republic. There is no “trial by jury” system in Albania.

In August 2016, Albania’s parliament adopted a law on introducing vetting for judges and prosecutors, passing the law on Reassessment of Judges and Prosecutors, known as the “vetting” law. It is part of a wider judicial reform demanded by the EU and designed to cleanse the justice system of corruption and political influence.

1.5 Economy

Tourism

A recent law on tourism encourages foreign and domestic investors to consider Albania as a business destination by providing very competitive investment terms aimed at transforming the tourism sector in Albania into one of the most important sectors of the economy in the coming years. Official data shows that year on year, tourism is a growing industry. In 2016, over 4.5 million tourists entered Albania (mainly by road), showing an increase of over 12% compared to 2015.

In addition, in December 2016 the government approved the National Plan “Albania 2030” with the main goal to support the urban development in Albania especially focusing on integrated planning for coast development in Albania by identifying the potential areas for tourism development.

The Adriatic and Ionian seas that run along the coastline of Albania, offer a large number of varied beaches, with sandy

and rocky shores. During the long and sunny summer, these beaches are a major attraction for Albanians and foreign tourists alike, so it is little wonder that this is where the business venture investments are concentrated.

Tourism in the mountains is also important. National parks and mountains like Valbona, Theth, Razma, Voskopoja, Dardha and Llogora offer amazing scenery and well-run resorts that offer opportunities for walking, hiking, adventure sports or just relaxation.

There are also some UNESCO protected areas in Albania, such as, Butrint, Berat and Gjirokastër, all known for their unique cultural values.

In almost all cities of Albania, you can find cultural monuments, museums, archaeological parks, castles and buildings that conjures up the history of ancient civilizations and provides a compelling attraction for tourists.

Some of the most notable international tourist magazines and newspapers have finally discovered Albania and recognise the country as one of the most attractive spots in the region and a must-visit destination.



Transport

Regional and European cooperation in the transport sector is seen as an important topic for the Albanian Government. It is because of this that in June 2004 Albania was a co-signatory of the Memorandum of Understanding that created the regional transport organisation in South East Europe Transport Observatory (SEETO) with the aim of promoting cooperation in the development of multimodal transport infrastructure. Albania is also a member of BSEC (Black Sea Economic Cooperation), a fully-fledged regional economic organization which acquired international legal identity by charter in May 1999.

The objective of Albania’s membership and participation in these organisations is to facilitate its integration within Southeast Europe and with the intention of utilising segments of Pan European Corridors IV, V, VII,X and, in particular, Corridor VIII (Durrës-Varna through Tirana, which include the ports of Durrës and Vlorë, as well as Rinas international airport in Tirana).

Road transport

Albania has 3,719 km of road network, comprised of primary roads (32% of network length), secondary roads (56% of network length) and planned new roads (the remaining 12% of network length). The most important road segments (highways) are the ones connecting the city of Tirana with Durrës, Shkodra and Montenegro, Tirana with Elbasan, Durrës with Lushnja, Durrës with Kukës and Kosovo. Recently, the construction of the Fier-Levan-Tepelenë highway has been completed, greatly assisting with road traveling the south of Albania and on into Greece.

The most important road projects for 2016-2020 include investment plans in:

- the Blue Corridor Road, part of the seaside corridor, which will eventually link Montenegro with Greece. Starting in Shëngjin and going through to Butrint, this road

is a must for the development of tourism, giving tourists access to vast seaside areas. The entire road project is expected to have a length of about 350 km.

- the Arbri Road, a dual carriage road, 72 km long, that will facilitate road traffic travelling between Tirana and Macedonia.

Railway Transport

The Albanian railway network consists of 441 km of single non-electrified track that connects a number of towns and cities in the country. The connection through to Montenegro via Hani Hotit (rebuilt to its previous condition in 2003) gives access to the European railway network.

However, it has to be recognised that much of the railway network is obsolete and poorly connected. For this purpose, considerable investment has been ring-fenced for the development of the following specific segments:

- Tirana – Rinas (Airport)– Durrës
- Vorë – Shkodër – Hani Hotit (border with Montenegro)
- Durrës – Elbasan – Pogradec – Lin (border with Macedonia)

Maritime transport

The most important Albanian maritime ports are Durrës, Vlorë, Shëngjin and Sarandë, which deal with the majority outgoing and incoming freight and passengers; with the port of Durrës accounting for the highest volumes of traffic. In addition, Albania has two very important petroleum terminals (managed and operated by the private sector under the supervision of the Ministry), both serving the petroleum industry and importing refined products. These are:

- Porto Romano (near Durrës)
- Petrofilera (north of Vlorë)

With its Adriatic and Ionian coastline and its close proximity to North Africa and the Middle East, Albania is ideally positioned to serve as a regional hub

for maritime trade. However, the strengthening of the ports’ capabilities is still a high priority and very much needed in order to accommodate and support the development of the multimodal transport ambitions for the country and for the region.

One of the major developments foreseen is in the new port of Shëngjin, in the north of Albania. The port is expected to become one of the largest in the region, substituting the Port of Durrës as the main industrial port of Albania. With a sixty million tons of cargo operational capacity per year, the port aims to cover the needs of the region (Kosovo, Serbia, Macedonia).

Air Transport

Civil aviation has undergone a major transformation since 2005. A Public Private Partnership agreement was awarded to a concessionaire to operate Tirana’s “Mother Teresa” International Airport for a period of 20 years (extended for a further two years in 2016, on the condition that access is given to more international flights). Concessionaire was owned from a consortium of companies (Albanian-American Enterprise Fund “AAEF, DEG-Deutsche investitions-und Entwicklungsgesellschaft GmbH and AviAlliance GmbH) until November 2016 when it was sold to Real Fortress Limited Company.

Infrastructure has been modernised and capacity expanded resulting in a throughput of more than two million passenger in 2016. Following an amendment to the agreement with the concessionaire, the Government now intends to develop air transport infrastructure even further with the construction of more airports in Saranda in the south and Kukës in the north of Albania.

Telecommunications

Albania’s country code is +355.

Landline and mobile telephony, as well as postal services, are well regulated and monitored from the Authority of

Electronic and Postal Communications (AKEP). In the fixed line sector, Albtelecom is the biggest player in the market with 71% market share (out of 248,000 total subscribers in 2016).

The mobile telephony sector is shared between four companies in Albania. The market is oriented towards prepaid services counting on 92% of total subscribers, with Vodafone Albania having the highest market share.

A number of private and foreign courier operators provide postal, parcels and packages services in Albania. Posta Shqiptare, a state-owned entity, is the biggest player in the market with about 94% market share.

Another important development has been in the call centre industry which, as a subsector of the business process outsourcing industry, has grown significantly in the last few years to become a major employer, especially for the younger generation. There are around 300 call centres in Albania with over 25,000 employees. The biggest operators are Italian companies which aim is to provide services to not only Italy but also to other EU country markets.

Currency

The Albanian official currency is Albanian Lek (ALL). The exchange rate regime is determined by the Bank of Albania and permits the use of foreign currencies for payment of goods and services. The value of the ALL against foreign currencies is freely determined by the market and has proved to be relatively stable against both the Euro and the US Dollar in recent years. End of year 2016 exchange rates for US Dollar and Euro have been respectively; 1 USD: 128.17 ALL and 1 Euro: 135.23 ALL).

Economic zones

Albania has given high priority to the improvement of economic development areas and the respective regulatory framework. The government has approved a new legislation related specifically to these areas in order to provide adequate

conditions for interested parties. As an example, taxes have been reduced or exempted in order to facilitate economic activity in specific sectors. The current approved areas are:

- Koplik, Shkodër (61 ha), a major city in the north of Albania, bordering Montenegro,
- Spitallë – Durrës (209 ha), between the main port of Durrës and the international airport at Rinas.
- Vlorë (289 ha), situated six kilometres from the city of Vlora, on the coast to the south of Albania.

All three areas represent significant potential areas development across many business sectors such as agriculture, goods and services, the automotive industry and other light industry.

1.6 Trade

In June 2014, the European Council granted Albania candidate status to future EU membership. The Stabilization and Association Agreement (SAA) has been in force since April 2009 and Albania has continued to implement its obligations. Regular political and economic dialogue between the EU and Albania has been maintained through the relevant structures under the SAA.

The government is seriously involved in reforms related to EU integration and continues to make progress in meeting the objectives set out in the five key priorities for the opening of accession negotiations. The integration process in the EU serves as a significant motivator for the whole country to go forward and carry on reforms in order to improve business climate and align legislation with EU requirements.

The liberalization of the foreign trade regime in Albania has been a major objective since 1990. This has been implemented in compliance with the rules and guidelines set by the EU and the World Trade Organization (a WTO member since 2000). In May 2016, Albania has become the latest WTO member to ratify the new Trade Facilitation Agreement (TFA). Imports and exports of goods with the EU are not generally subjected to special authorization requirements. Exceptions are made to those quotas or control requirements imposed through different bilateral or multilateral agreements signed by Albania.

Albania has signed several Free Trade Agreements (FTAs) with key markets (European Union, Turkey, CEFTA and EFTA countries) allowing Albanian-based manufacturers to use the country as a gateway to markets in southern Europe and for transshipping to the EU. By using the SAA, Albania can export all industrial goods produced in the country and import all needed products into the country from EU countries without any customs tariffs. Albania has signed 43 bilateral treaties which aim to protect and promote investments, as well as 41 double tax treaties.

1.7 Energy and mining

Electricity

Main players in the electricity market are KESH (Albanian Power Corporation), OST (the transmission system operator) and OSHEE (the distribution system Operator). Between them, they are responsible, respectively, for the production, transmission and distribution of electricity. In addition to KESH, there are several private companies (operating mainly on a concession basis) involved in the production sector.

The total network capacity, a combination of state owned hydro power plants and private concessionaires, in 2015 amounted to 1,895 MW. Total energy produced relies on hydro resources with 25% of it produced from private companies.

| In MWh | 2012 | 2013 | 2014 | 2015 | 2016 |
|----------------------|-----------|-----------|-----------|-----------|-----------|
| Yerly production | 4,724,800 | 6,959,326 | 4,726,246 | 5,865,671 | 7,135,914 |
| Import | 3,230,144 | 2,322,528 | 3,355,987 | 2,355,358 | 1,826,753 |
| Export | 335,535 | 1,424,821 | 288,497 | 955,941 | 1,868,605 |
| Domestic Consumption | 4,369,370 | 4,551,411 | 5,010,554 | 5,069,252 | 5,108,160 |
| Technical losses | 3,250,039 | 3,305,622 | 2,783,182 | 2,195,837 | 1,985,901 |

Source: INSTAT data

With the new 400 kV interconnection power line with Kosovo finalized in June 2016, Albania took a further step towards its integration into the regional electricity market. Given the natural water resources in Albania and the large areas of hydrographic territory, the Government is giving high priority to renewable energy sources and promoting ‘Green Energy’ by offering a number of incentives and support to investments.

In January 2016 the government fully adopted the National Renewable Energy Action Plan which together with the 2013 Law on Renewable Energy aim to make Albania complaint with the acquis on renewable energy.

Oil & gas

Albania is one the largest exporter of crude oil in the region (first among Energy Community countries). Exports of oil increased by 9.37% in 2015 compared to 2014, however production fell by 7%. The production of refined oil products also fell in 2015, a decrease of 10% compared to 2014.

Albpetrol sh.a. (state-owned company) is active in the development, production and trade of crude oil. A planned privatization plan of the company in 2016 has been put on hold from the Albanian government.

Although the gas sector is not very developed yet, Albania has continued to focus on the development of the Gas Master Plan of Albania in order to have a well regulated market in the future. In addition, in September 2015, the Albanian Parliament adopted a new law on natural gas sector, which transposes the Third Energy Package and establishes a general legal framework for further developing the gas market in compliance with the EU acquis communautaire.

The development of the high profile Trans Adriatic Pipeline (TAP) project is bound to have an effect on the local market. TAP is the largest foreign investment project in

Albania and will enable the country to become part of the international natural gas network. This will provide developmental solutions to the areas and zones where the pipeline passes through by revitalizing economic life and increasing employment. The TAP was certified as an independent transmission operator (ITO) for natural gas on 31 March 2016 and is seen the future transmission system operator that will Albania with the European gas market.

Alternative sources in the energy sector

Given its coastal position and a Mediterranean climate that provides 2,400 hours of sunshine per year, Albania has the ideal geographical conditions for the development and sustainable production of solar and wind energy. The National Agency of Natural Resources (AKBN) and donors have carried out a number of studies for installing solar panels in both residential and service sectors. There are also plans to develop wind energy farms in Albania during the next few years with ideal locations all across the country, particularly in the mountains and coastal lowlands.

Mining industry

Albania has a long history of mining with significant mineral deposits of chromium, nickel, copper and bitumen, as well as non-metallic minerals such as limestone and decorative stones.

Currently, a number of small to medium size mining and quarry companies that operate in Albania, with only a few that could described as large-scale. By the end of 2015, the AKBN reported 600 mining licenses, out of which 112 licensees were extracting chromium ore from the mines of Bulqiza. Production in the mines in 2014 was estimated at a value of around US\$175million with chromium as the biggest contributor at 76% of the domestic mining output.. Limestone and other construction minerals represented the second largest contributor with 12%.



Business environment

2.1 Business environment

Referring to the annual report of Bank of Albania, economic activity grew over 2016. Such growth mainly reflected the expansion of consumption and private investments. Economic growth was largely driven by the expansion in services, whose contribution accounted for around 2.2% in the period under review, with services related to “Trade, hotels and restaurants, and transport” being the main contribution. Construction, although slowing down the growth pace, continued to be one of the main growth factors.

In line with the growth of economic activity, labor market improved as well, mainly driven from the expansion of employment in services determining in this way the continuous reduction of unemployment over the year.

After a supply shock at the beginning of the year, inflation was upward during the rest of the year ending up with an average rate of 1.3% in 2016. Main reasons of high inflation in the second half of the year are the weakened external disinflationary pressures and higher pressure from domestic demand.

Fiscal policy showed a correcting trend over 2016, supported by the increase in revenues, while public expenditure maintained similar levels with the previous year. At the end of the period, the consolidated fiscal policy resulted into a considerable narrowing of the budget deficit for 2016. Budget was mainly financed by external funds, reducing the need of the government to borrow in the domestic market.

Investments recorded an annual growth of 8% over the first nine months of 2016. The two main categories, construction and investments in machinery and equipment, provided positive contribution, supported by the eased financing standards, the improved capacity utilization rate, and the increase of enterprises’ confidence, their improved financial situation and the increase of foreign direct investments.

| Indicators | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---------------------------|--------|--------|--------|--------|--------|--------|
| Real GDP Growth | 2.6 | 1.4 | 1.1 | 2.0 | 2.7 | 3.4 |
| Unemployment rate | 14.3 | 13.8 | 16.4 | 17.9 | 17.5 | 15.7 |
| Labour force | 68.5 | 63.4 | 58.1 | 63.6 | 65.3 | 65.7 |
| Inflation | 3.4 | 2.0 | 1.9 | 1.6 | 1.9 | 1.3 |
| Import (FOB, % of GDP) | (40.0) | (36.9) | (35.7) | (31.6) | (29.9) | (30.8) |
| Export (FOB, % of GDP) | 15.4 | 16 | 18 | 9.4 | 7.5 | 6.9 |
| GDP per capita (EUR) | 3,187 | 3,306 | 3,323 | 3,442 | 3,554 | 3,780 |
| Public debt (as % of GDP) | 59.4 | 62.1 | 70.4 | 72.1 | 72.7 | 71 |
| FDI in mln EURO | 746 | 746 | 923 | 878 | 881 | N/A |

Source: Bank of Albania & Ministry of Finance

2.2 Information, communication & technology

Information, Communication & Technology (ICT) development in Albania is of high importance. In order to have positive results in this area a number of actions have been taken which will facilitate the integration of ICT within government agencies and institutions. The main objectives of this exercise will be to improve and promote digital services enabling e-services for citizens and business in order to increase transparency and improve public administration services in accordance with European principles of competition.

Albania already has in place most of basic elements of a governing and regulatory framework which is responsible for the monitoring and stability of this sector. The Postal and Electronic Communications Authority, National Agency on Information Society, National Authority for Electronic Certification, the Commissioner for the Protection of Personal Data, the Minister for Innovation and ICT are all institutions with responsibilities for the development of ICT in Albania.

In May 2015 the Albanian government launched the e-Albania portal as a unique gate where citizens, government agencies, private sector and investors can benefit of e-services. Based on interoperability with the government platform (approximately 30 institutions) the portal provides 150 services focusing on public procurement, local taxes, immovable properties, business registration, local government etc.



Foreign investment

3.1 Attracting foreign investment

The Albanian Government is undertaking a wide range of structural reforms to create an international competitive business environment and to align the growth opportunities with the needs of foreign investors.

For a strong and consolidated legal framework, the Government has introduced laws on foreign investment and strategic investments, which

guarantee specific protections for foreign investors who invest EUR 1 – 50 million and create a certain number of new job vacancies, with the main priority in the following sectors:

- Energy and mining;
- Agriculture and fisheries;
- Transport, infrastructure and urban waste;
- Telecommunications;
- Tourism;
- Economic zones;
- Priority Development Areas;

Foreign Direct Investment has increased significantly in the last few years, mainly driven by the mining sector (primarily oil and gas), telecommunications, financial intermediation and services.

There has also been significant improvement with regard to the management of public procurements, with the respective legal framework becoming better aligned to EU directives. Another important area is the law on concessions and public private partnerships (PPPs) which offers different options and solutions to foreign investors wishing to enter the domestic market.

In order to further facilitate procedures, the National Registration Centre and National Licensing Centre have been merged into only one Agency – The National Business Centre (QKB), to enable businesses to process and finalise required procedures for registration and licensing (when required) within a one stop shop environment.

Additionally, the Government of Albania, through the Albanian Investment and Development Agency (AIDA), provides effective ways to invest in Albania by supporting, facilitating and monitoring administrative procedures (known as assisted or specialised procedures).

The Albanian government has announced the ‘One Billion Project Financing’, which will mainly support infrastructure, health, education

and tourism development projects, with banks operating in the country expected to be the main partners in this project. Another important goal of such initiative is to foster Public Private Partnership schemes with foreign investors.

3.2 Investment incentives

A number of incentives have been introduced to generate a welcoming climate for foreign investors willing to invest in Albania:

- No prior government authorisation is needed and no sector is closed to foreign investment.
- There is no limitation on the percentage share of foreign participation in a company – 100% foreign ownership is possible.
- Foreign investors have the right to expatriate all funds and contributions in kind of their investment.
- Albania’s tax system does not distinguish between foreign and domestic investors.
- There are no restrictions on the purchase of private residential properties.
- Foreign investments may not be expropriated or nationalised directly or indirectly and will not be subject to any measure or similar action, except for public purpose determined by law. Foreign investments will be treated in a non-discriminatory manner and paid immediately, in a fair and effective manner, in accordance with the law.
- Agricultural land cannot be purchased by foreigners and foreign entities, however it can be rented for up to 99 years.
- Commercial property may be purchased, but only if the proposed

investment is worth three times the price of the land.

- Investors in Albania are entitled to judicial protection of the legal rights related to their investments. The Albanian Civil Procedure Code outlines provisions regarding domestic and international commercial arbitration. The ICSID Convention entered into force in Albania on November 14, 1991.

Other tax incentives include:

- Imported goods in Technical and Economic Development Areas (TEDAs) are exempted from import duties and VAT.
- Albanian goods that enter TEDAs are VAT exempted.
- Goods can be transported from one TEDA to another without paying import duties or VAT.
- Capital expenses are 20% deductible for a period of two years if developers and users invest in TEDA within three years of its operation.
- Developers and users are also exempted from 50% of the profit tax rate (currently at a rate of 15 %) for a period of five years.
- A developer’s project is exempted from infrastructure taxes.
- Buildings in TEDAs are exempted from real estate taxes for a period of five years.
- Buildings transferred to a TEDA are not subject to the transfer tax on real estate.
- Wages and social costs are 150% deductible for the first year and new expenses for wages and social costs compared to the previous year are 150% deductible for the subsequent years.
- Training costs are 200% deductible for a period of ten years.
- Research and Development costs are 200% deductible for a period of ten years.



Banking and finance

The financial system in Albania consists of the Central Bank of Albania, second level banks acting as commercial banks, the Deposits Insurance Agency, insurance companies, pension funds, fund management companies, lease companies and brokerage houses.

4.1 Banking system

The banking system itself consists of 16 second level banks as at December 2016, 14 of which are foreign owned. The four largest banks – National Commercial Bank (BKT), Raiffeisen Bank Albania, Credins Bank and IntesaSanPaolo Bank Albania dominate the banking system, holding together around 68% of the total assets of the banking system.

| No | BANKS | Total Assets 30 September 2016 | |
|----|---|-----------------------------------|--------|
| | | in ALL ('000,000) | in %** |
| 1 | Banka Kombëtare Tregtare (BKT) – National Commercial Bank | 374,993 | 27% |
| 2 | Raiffeisen Bank Albania | 263,650 | 19% |
| 3 | Credins Bank | 158,577 | 11% |
| 4 | Intesasanpaolo Bank Albania | 156,161 | 11% |
| 5 | Tirana Bank | 81,296 | 6% |
| 6 | Societe Generale Albania | 79,375 | 6% |
| 7 | Alpha Bank Albania | 73,426 | 5% |
| 8 | Union Bank | 40,708 | 3% |
| 9 | NBG Bank Albania | 39,881 | 3% |
| 10 | American Bank of Investments | 34,983 | 2% |
| 11 | ProCredit Bank | 32,887 | 2% |
| 12 | Veneto Banka | 29,650 | 2% |
| 13 | FIBANK Albania | 18,744 | 1% |
| 14 | International Commercial Bank | 9,628 | 1% |
| 15 | United Bank of Albania | 7,005 | 0% |
| 16 | Credit Bank of Albania | 2,021 | 0% |

4.2 Central bank

Through its monetary and supervisory authority, the Bank of Albania performs the functions of a classical central bank towards banks, branches of foreign banks, and non-bank financial institutions. The Bank of Albania formulates and implements policies seeking to achieve the primary objective, which is to keep inflation under control. Based on the domestic banking market, it promotes and supports the development of the foreign exchange regimes and systems, the domestic financial market, the payment system and contributes to improving monetary and lending conditions which, in turn, supports the country's economic stability and development. In addition, the central Bank promotes the maintenance of liquidity, solvency and normal functioning of the Albanian banking system.



4.3 Insurance market

Insurance companies are regulated by the Albanian Financial and Supervisory Authority (AFSA). Seven companies operate exclusively in the non-life service sectors. Two companies operate exclusively in the life service sector and the state-run “Insig” provides both life and non-life insurance services.

Uniqa Group Austria and Vienna Insurance Group are the international insurance companies that lead the insurance market in Albania through their ownership of Sigal Life and non-life companies, Sigma, Interlbanian and, recently, Intersig.

| | Company name | Market Share |
|-----------------|--|--------------|
| Non-life | | |
| 1 | Sigal Uniqa Group Austria sha | 27.80% |
| 2 | Sigma Interlbania Vienna Insurance Group sha | 15.20% |
| 3 | Eurosig sha | 15.10% |
| 4 | Albsig sha | 11.60% |
| 5 | Intersig Vienna Insurance Group sha | 11.10% |
| 6 | INSIG sha | 7.40% |
| 7 | Ansig | 6.60% |
| 8 | Atlantik-Shoqeri Sigurimesh sha | 5.20% |
| Life | | |
| 9 | Sigal Life Uniqa Group Austria | 67.90% |
| 10 | Sicred sha | 22.20% |
| 11 | Intersig Jete sha | 9.90% |

Substantial improvements have been made to enhance the effectiveness of supervision of the insurance sector. The legal framework has been strengthened with the approval of primary legislation broadly in line with EU requirements.

4.4 Supervision authority

The AFSA is a public independent institution. AFSA is responsible for the regulation and supervision of the non-banking financial system in general and the operations of

the insurance sector in particular. AFSA reports directly to the Albanian Parliament. The main areas of its activities fall under the following: insurance market and its operators; securities market and its operators; private supplementary pension market and its operators; other non-banking financial activities with the exception of leasing companies and non-bank financial institutions.

4.5 Latest developments

The adoption of International Financial Reporting Standards (IFRS) in the insurance market, as well as the adoption of the new European Union regulatory regime, Solvency II, on 1 January 2016, has created substantial challenges to the sector's operation and its supervision which will need to be properly managed.

4.6 Leasing companies

The Law “On financial leasing” was enacted in 2005. There are nine leasing companies currently operating in Albania. Some of them are part of international groups such as Raiffeisen and Porsche Group.

| No. | Name | Licensing date |
|-----|--------------------------------|----------------|
| 1 | Tirana Factoring and Lease | 3/28/2013 |
| 2 | Raiffeisen Leasing | 7/15/2009 |
| 3 | Albanian Financial Institution | 5/30/2016 |
| 4 | Landeslease | 12/24/2009 |
| 5 | Porsche Leasing | 10/29/2013 |
| 6 | Albania Leasing | 4/21/2014 |
| 7 | Final | 2/20/2009 |
| 8 | Crimson Finance Fund Albania | 11/16/2015 |
| 9 | Tranzit | 8/4/2010 |

Compared to the banking sector, leasing is considered to have lower risk since the loan is backed by the financing contract. Despite this the Albanian leasing market has remained very narrow in the country's economy, mainly being used for financing the purchase of automobiles. Furthermore, the market is not addressing the business needs of small and medium businesses, for equipment and new technologies, which are considered necessary for growth.

Importing and exporting

5.1 Legislation

The movement of goods into and out of Albanian territory is subject to a customs declaration and subject to formalities defined by customs legislation.

As of 1 January 2015 Albania started the gradual adoption of the new “Customs Code of the Republic of Albania”, fully compliant with the Union Customs Code that entered into force in the EU on 1 May 2016. The new legislation introduced simplified procedures that allow companies to self-manage their customs operations under significantly reduced customs inspections and supervision, compared to the classical method of presenting goods to a customs office.

5.2 Prohibitions and restrictions

Domestic legislation and international regulations require the authorisation or licensing of the import or export of certain types of goods.

Prohibitions and restrictions apply to military items, radioactive substances, dual use goods and technology, precursors and narcotic drugs, waste materials, chemical agents causing ozone depletion, CITES (endangered species) and cultural objects. Licenses to import or export such commodities can be obtained from the Ministry of Defense, Ministry of Health, Ministry of Environment or the Ministry of Culture.

Food, animals, plants etc. are subject to sanitary, phytosanitary or veterinary controls and approvals are required for the importation or exportation of these goods.

5.3 Customs duties

Customs duties for imported goods are applied on the basis of the customs tariff, origin and customs value.

The customs duty rate of a commodity is determined on the basis of tariff classification. Albania classifies goods in accordance with the EU Combined Nomenclature (CN) that adds further subdivisions to the Harmonized System (HS) of the World Customs Organization (WCO). “Third party customs duty rates”

depending on tariff classification of goods, vary from 0% to 15%.

Goods which qualify a set of rules determined in free trade agreements, are considered as originating. Albania has ratified bilateral and multilateral free trade agreements that allow importing from or exporting to territories with preferential customs duty rate of 0% for almost all originating products, with:

- EU Member States as part of Stabilization and Association Agreement,
- EFTA Member States,
- CEFTA 2006 Member States,
- Republic of Turkey.

Albania has also ratified the Regional Convention on pan-Euro-Mediterranean preferential rules of origin which sets the same provisions regarding the origin of goods for EU Member States, EFTA States, participants in Barcelona

process, participants in the European Union’s Stabilization and Association Process and Faroe Islands.

Customs value of a commodity comprises the basis to which, customs duty rate determined in accordance with tariff classification and origin, is applied. Valuation rules in Albanian legislation are based on WTO valuation rules. Customs value includes several elements such as cost, freight, insurance and other services. Royalties and license fees that constitute a condition for sale may also be included in customs value.

5.4 Customs regimes

The payment of duties and the moment these duties arise depend upon the type of customs regime used.

In order to place goods into “free circulation” payment of duties is required, while several ‘suspense’ regimes allow the processing or storing goods without being subject to immediate payment of customs duties.

Temporary admission regimes enable for the importation and use of goods in the Albanian territory for a limited period of time. Depending upon the type of goods, customs authorities may grant total or partial relief from duties.

Placing goods in a customs warehouse or in a free zone suspends the payment of duties as long as the goods remain in storage. Companies can store goods in a free zone, in a public customs warehouse or can obtain an authorisation to transform their own storage facilities into a customs warehouse.

The inward processing regime allows manufacturers to suspend the payment of duties for imports used during a production process. Generally, processed products are not subject to any duties as long as they are re-exported.

The outward processing regime allows Albanian goods to be temporarily exported in order to undergo a processing process. Typically, the repair or replacement of defective products under the outward processing regime, due to a contractual obligation or a guarantee, is not subject to duties upon the subsequent re-importation.

Exporting goods from the Albanian territory is not subject to customs duties. However Albania applies mineral rent (royalty tax) to several mineral products extracted from Albanian natural resources such as chromium ore, oil etc. If the taxes are not paid in the early stages, the customs authorities may collect this tax at the point of exportation.

5.5 Documentation and procedures

In order to import and export, or place goods under another customs regime, a person must be established in the Albanian territory. To be established in the Albanian territory:

- a natural person must be a resident of Albania.
- a legal person, must have its registered office, central headquarters or a permanent business establishment in the territory of Albania.

The condition of being established in the Albanian territory does not apply to persons who place goods in international transit or temporary admission, with the condition that their representative is established in the Albanian territory.

Placing goods under temporary admission, inward and outward processing regimes require prior authorisation from the customs authorities.



Business entities

6.1 Business registration

In order to attract foreign investors, the Government of Albania has developed a range of incentives and has applied a set of liberal fiscal policies.

The Albanian legislation provides fair and equitable treatment of foreign investors with regards to the establishment of foreign businesses in Albania.

Foreigners enjoy the right to engage in economic activities in Albania upon registration in the National Business Centre (NBC).

NBC serves as a “one-stop-shop” solution for business registrations for all types of business entities in Albania. In addition to the registration in the registry of companies, it also implies direct registration for the purposes of taxes at national and municipal levels, health and social security and the Labour Inspectorate.

The registration of an entity/entrepreneur with the NBC is finalized within 24 hours from the submission of the completed documentation required and a payment of ALL 100 (approximately EUR 0.8), which can be reduced to ALL 0 if the registration is performed electronically.

NBC also serves as an online public database, which reflects the status and key information of an organization, the management and scope of activity of any registered entity and entrepreneur.

Additionally, NBC accepts and processes applications for licenses, as might be required for specific activities, and issues the same accordingly.

Simplification of business registration and licensing procedures are among the major objectives of the Albanian Government’s business reform.



6.2 Forms of business entities

The establishment of commercial companies and entrepreneurs, branches and representative offices, organisation and management rules, reorganisation and liquidation of the same, are ruled by Law no. 9901, dated 14.04.2008 “On Entrepreneurs and Commercial Companies”, as amended (hereinafter the “Companies Law”).

Commercial companies can be organized as general partnerships, limited partnerships, limited liability companies or joint-stock companies. In practice, commercial companies are generally established as limited liability companies and joint-stock companies, founded by one or more shareholders.

Establishment, organisation and liquidation of joint-ventures are ruled by the relevant provisions of the Albanian Civil Code.

Non-profit organizations are organized and registered respectively in conformity with the Law no. 8788, dated 07.05.2001 “On non-profit organizations”, as amended and the Law no. 8789, dated 07.05.2001 “On registration of non-profit organisations”. Their registration is performed by the court through a specific decision.

Information on Limited Liability Companies (Sh.p.k.)

The limited liability company’s name is immediately followed by the words “Shoqëri me Përgjegjësi të Kufizuar” or “Sh.p.k.”.

Limited liability companies cannot offer their shares to the public as a means of investment.

Shareholders

A limited liability company is founded by one or more shareholder(s), individuals or entities, each of which are personally liable for the company’s liabilities to the extent of unpaid parts of their subscribed contributions in the share capital.

The contribution of shareholders in the company’s capital may be in cash or in kind (movable/immovable property or rights).

Share capital

The minimum share capital is **ALL 100** (approximately **EUR 0.8**).

Each shareholder owns one share in the company in proportion to his/her/its contribution in the share capital. The percentage that the share represents in the share capital corresponds to the voting rights conferred to each of the shareholders.

A share may belong to one or several persons. If a share belongs to several persons, these persons shall be considered as one shareholder in relation to the company and they shall exercise their rights through a commonly appointed representative. They are, however, jointly and severally liable for liabilities arising from the shareholding.

Management

The steering bodies of a limited liability company are:

- the General Assembly, which is composed of all shareholders and is entitled to take the most important decisions related to the company’s operation, such as the setting up of management rules and appointment of administrator(s), any increase or reduction of share capital, profit distribution, reorganisation and

dissolution, commitment of the company in specific circumstances, etc.

- the Administrator(s) which is/are responsible for the day-to-day activity of the company.

Information on Joint-Stock Companies (Sh.a.)

A joint-stock company is a commercial company founded as a private placement or public offering, the share capital of which is divided into shares subscribed by its founders.

Shareholders

Shareholders of joint-stock entities can be individuals or entities, which are liable for the company’s liabilities to the extent of the unpaid value of the issued shares in the share capital. The company can be established by one or more shareholders.

Share capital

The share capital of a joint-stock company:

with private offer shall not be less than **ALL 3,500,000** (approximately **EUR 26,000**),

with public offer shall not be less than **ALL 10,000,000** (approximately **EUR 74,200**).

Shareholders’ contributions may consist of cash or property and rights, valuable in money. They cannot consist of labour or services.

All shares (either ordinary or priority ones) shall have a minimum par value.

Each ordinary share grants to its holder a voting right. Priority shares may be issued without voting rights; in such cases they cannot constitute more than 49% of the share capital.

Shares may not be issued before the registration of the company with

the NBC, otherwise they are invalid and the company’s founders are jointly and severally liable toward the shareholders for any damage caused as a result of such action. The rights related to the shares cannot be transferred before registration of the company with NBC.

A share may belong to one or several persons. If a share belongs to several persons, these persons shall be considered as one shareholder in relation to the company and they shall exercise their rights through a commonly appointed representative. They are, however, jointly and severally liable for liabilities arising from the shareholding.

Management

The managing bodies of a joint-stock company are:

- the General Assembly, which is entitled to take the most important decisions related to the company’s operation, such as the setting up of management rules and the appointment of an Administrative Council for a one-tier managing system and a Supervisory Council and/or an Administrator(s) (if resolved in the Articles of Association) for a two-tier managing system, any increase or reduction of share capital, profit distribution, reorganisation and dissolution, commitment of the company in specific circumstances, etc.
- the Administrative Council (of a one-tier managing system), which will exercise both administrative and supervisory powers. The Administrative Council consists of 3-21 members (individuals), appointed by the General Assembly. They appoint one of more administrators to exercise powers that are not exclusively granted to the Administrative Council. The majority of the members of the Administrative Council should be independent and different from the administrators of the company.

- the Supervisory Council (of a one-tier managing system), which is composed of 3-21 members is appointed by the General Assembly and will exercise supervisory powers. They cannot act as administrators of the company. In addition, one or more administrators appointed either by the Supervisory Council or the General Assembly (according to the company's Articles of Association) will be responsible for managing the day-to-day activities of the company.

Representative offices

Foreign companies may open representative offices in Albania to carry out non-commercial activities. Representative offices are not separate legal entities and therefore cannot conduct commercial activities in Albania. Nonetheless, foreign investors may use representative offices if their presence in Albania consists only of promoting the activity of the foreign entity.

Branches of foreign legal entities

Branches of foreign legal entities can be registered to conduct commercial activities in Albania. A branch is subject to corporate income tax in the same manner as other Albanian companies but there is no withholding tax in Albania for the repatriation of after-tax profits. The foreign company shall be liable, with its entire assets, for the liabilities arising out of its branch's operations.

Foreign investors may choose to use the registration as a branch for their investments, if they plan a temporary presence in Albania, or if they decide not to legally separate the Albanian entity from the parent company.

Entrepreneur

Any natural person can conduct a business as a sole proprietor after being registered for this purpose in the NBC.

Joint Ventures

A joint venture does not have the features of a commercial company; instead it is a contract signed by the founding partners whereby they agree to conduct an economic activity and share the profits.

The contract is not subject to any particular form, except when required by the nature of contribution of the partners to the joint capital. For example, if the joint capital is composed of immovable properties, the contract must be signed in front of a notary. The contract may be amended only with the consent of all the partners, unless otherwise agreed.

A partner's contributions may be in cash or in kind, however contributions cannot consist of work or services. It is presumed that partners are obliged to contribute, in equal parts between them, as necessary to achieve the purpose of the joint venture, unless it is otherwise provided in the contract.

With regard to administration features, unless the agreement provides otherwise, the administration power belongs to each of the members separately from the others.

6.3 Regulatory environment

Competition law

The Anti-trust Law no. 9121, dated 28.07.2003, as amended, aimed to set out the mechanisms for the identification of possible threats to fair competition and mitigate possible risks by setting out rules for the conduct of enterprises and the obligations of the institutions responsible for competition.

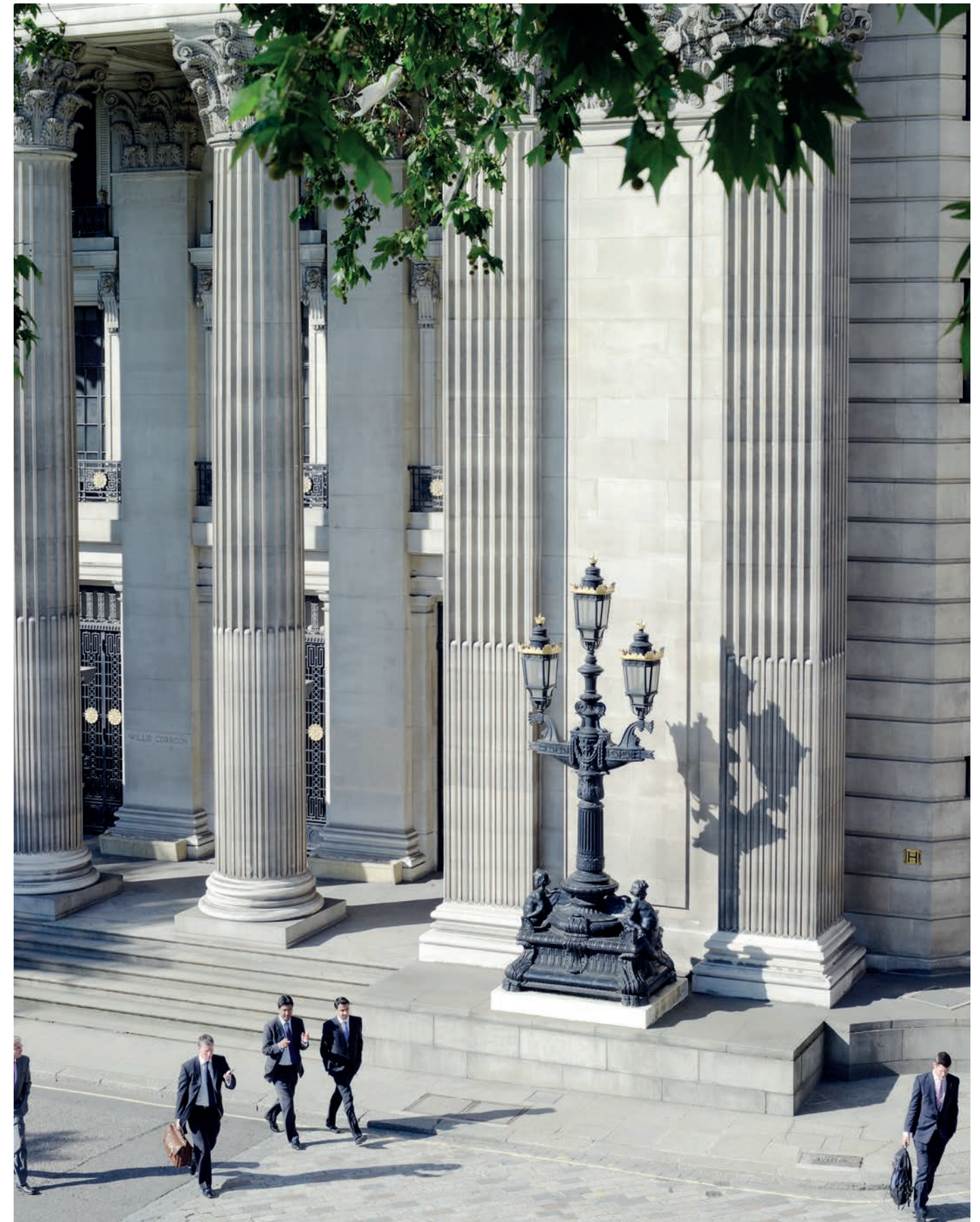
The law is applicable to all entities that conduct activities in the territory of the Republic of Albania, as well as to those entities that conduct activities abroad, when the consequences of those activities are displayed in the domestic market.

"Entity" shall imply any individual or juridical person, either private or public, that exercises an economic activity.

Consumer Protection

The main legal acts regulating consumer protection are the Civil Code and the Law no. 9902, dated 17.4.2008 "On Consumers' Protection". The protection of the legitimate rights of consumers, as well as the development and implementation of consumer policy in accordance with the law, is also the responsibility of the Consumer's Protection Commission (CPC).

The three most important functions of the CPC are to supervise the consumer market, settle consumers' complaints and inform and advise consumers. The CPC may also constitute an alternative to the civil courts for the purposes of disputes' settlement and the decisions of the CPC serve as guidelines for trade enterprises. The CPC is entitled to impose fines and prescriptive orders for any violations of the consumer laws.



Labour relations

7.1 Labour

In Albania, employment relations are regulated by the Labour Code which has been approved by means of Law no. 7961, dated 12.07.1995 and amended several times during the years 1996, 2003, 2008 and, most recently, in 2015. The aim of the latest changes was to align the national law with several Council Directives, such as Council Directive no. 2008/104/EC and 2010/18/EU. By means of these changes, the employment relationship between the employer and the employee is defined more clearly, in terms of rights, obligations and procedures.

7.2 Employment contracts

A labour contract is an agreement between the employee and the employer, which governs the employment relationship and contains the rights and obligations of the parties.

Based on the Labour Code, the parties should formalize the employment relationship by signing the employment agreement no later than commencement of the work. An extension of 7 days at the latest might be granted in justified circumstances, otherwise, the employer becomes subject to penalties.

7.3 Public holidays

The national holidays of the Republic of Albania are as follows:

| Calendar Day | National Holidays |
|-----------------|-------------------------------------|
| January 1 and 2 | New Years' day |
| March 14 | Summer Day |
| March 22 | Nevruz Day |
| Variable date* | Catholic Easter |
| Variable date* | Orthodox Easter |
| May 1 | Labour Day |
| Variable date** | Eid al-Fitr (End of Ramadan) |
| October 19 | Mother Teresa Beatification Day |
| Variable date** | Eid al-Adha (First of Sacrifice) |
| November 28 | Independence Day |
| November 29 | Liberation Day |
| December 8 | National Youth Day |
| December 25 | Christmas Day |

*Note: The Catholic and Orthodox Easter holidays may be subject to change each year.

** Note: The Eid al-Fitr and Eid al-Adha holidays may be subject to change according to the lunar calendar.

7.4 Employment of foreigners

Residence permit

Foreign citizens staying in Albania for more than 90 consecutive days within a 180 day period are required to obtain a residence permit. The application should be submitted and processed at the Directory of Borders and Immigration, situated near the Ministry of Internal Affairs. The Directory issues a temporary residence permit to the applicant upon submission of the relevant documents and within 60 days releases the final residence permit. Residence permits can be granted for three months, six months, one year, two years, five years or permanently.

A foreign individual can apply for a permanent residence permit if he/she has had a legal stay of five consecutive years in the Republic of Albania, and he/she continues to have a connection with or activity in Albania.

Citizens of the United States are subject to a favourable regime, which allows them to stay in the Republic of Albania for at least one year without a residence permit.

Work permit

An expatriate can work in Albania after being equipped with a work permit. There are several types of work permit, depending on the reason for working in the country.

The application for a work permit is filed at the Directory of Migration, Labour Office, situated near the Ministry of Social Wellness and Youth.

The timeframe for issuance of the work permit is within 30 days from the date of submission of the required documentation.

A work permit can be granted for different terms depending on the type of permit requested.

Citizens of the European Union and the Schengen Area are exempted from the obligation to obtain a work permit for their work in Albania. However, this category of expatriates is required to obtain an "Exemption from Work Permit", which is a document released by the Labour Office after submission of the relevant set of documents. The applications procedure is similar to the one for obtaining the work permit.

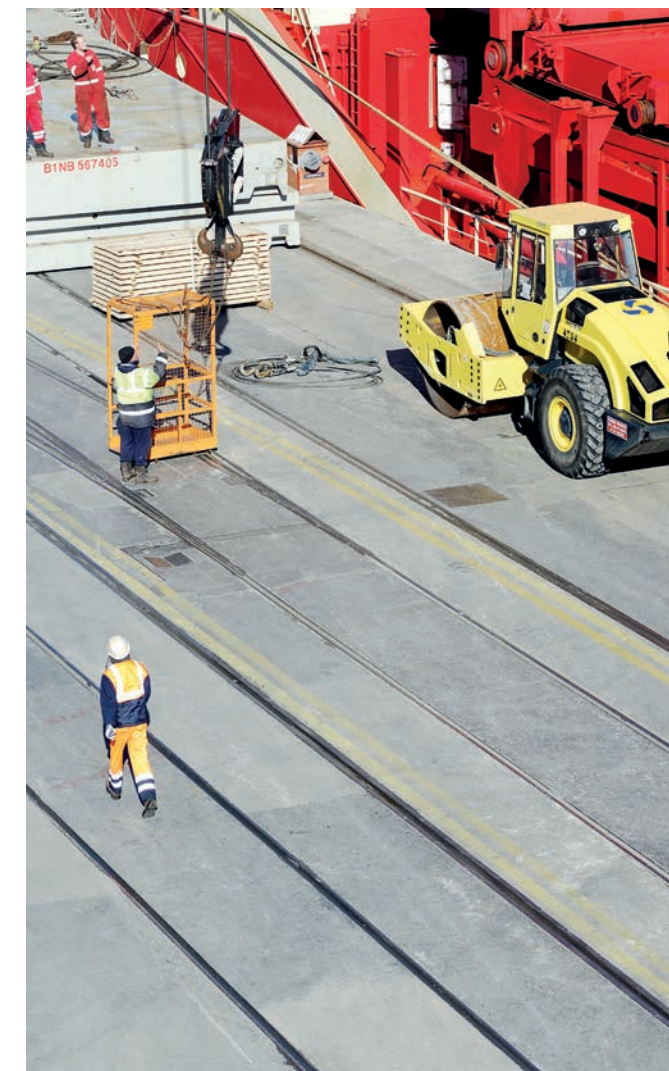
In addition, citizens of the United States, in the field of employment, enjoy equal rights as those of Albanian citizens.

Foreign driving license

Foreign citizens holding a national driving license or an international driving license are not required to apply for and obtain a local driving license, provided that they reside in Albania for a period of not more than one year.

In addition, foreign nationals holding a driving license issued by one of the member countries of the European Union and who have obtained a residency permit in Albania are entitled to apply for and obtain an Albanian driving license by submitting a request to the competent authorities in Albania.

Lastly, foreign vehicles are allowed to circulate in the territory of Albania for a maximum period of one year using the foreign circulation permit.



Taxation

8.1 Profit tax

Corporate income tax

Corporate Income Tax (CIT) is paid by all Albanian entities on the profit realised in the territory of Albania and/or abroad.

The tax year for CIT purposes runs from 1 January until 31 December of each calendar year.

Tax rate

The current CIT rate in Albania is a flat rate of 15%. CIT is self-assessed by the taxpayer by adjusting the accounting profit for all items of non-taxable income and non-deductible expenses.

Taxable persons

For CIT purposes, taxable persons are considered to be all juridical persons, partnerships and branches of foreign entities which are registered for VAT purposes, provided that they are not subject to the simplified profit tax for small businesses (see section 8.8).

Exemptions

The following entities are exempt from CIT:

- Central and Local Government Bodies and the Central Bank of Albania.
- Legal entities which conduct religious, humanitarian, charitable, scientific or educational activities.
- Trade unions or chambers of commerce, industry or agriculture.
- International organizations, agencies for technical cooperation and their representatives, the tax exemptions of which are established by specific agreements.

- Foundations or non-banking financial institutions established to support the development policies of the government through credit activities.
- Film studios and cinematographic productions that are licensed and funded by the National Cinematographic Centre.
- Voluntary pension funds managed by the management company of voluntary pension funds.

Taxable base

Taxable profit will be determined by the accounting profit adjusted for tax purposes with non-taxable income and non-deductible expenses.

The Albanian legislation specifies that the following expenses are considered, among others, as non-deductible expenses:

- The interest paid on outstanding loans and prepayments, which exceeds four times the amount of the net assets, or amounts to more than 30% of tax adjusted earnings before interest, taxes, depreciation and amortisation (EBITDA) beginning from 2018.
- Loan interest exceeding the 12-months average interest rate in the banking sector, as published by the Central Bank of Albania.
- Benefits in kind and gifts.
- Penalties and other tax-related sanctions.
- Wages, bonuses and any other form of income deriving from an employment relationship and paid to the employees in cash.
- Payments made in cash of amounts exceeding ALL 150,000.

- Provisions and reserves (with some exemptions applicable to the financial sector).
- Personal living expenses and family expenses.
- Expenses for technical services, consultancy and management, received from foreign entities which are not registered for tax purposes in Albania, for which no withholding tax has been paid by 20 January of the following year, at the latest.
- Losses, damages, wastage incurred during production, transiting or warehousing, exceeding the norms defined by laws and related instructions.
- Depreciation and amortisation calculated at rates exceeding the tax depreciation rates.
- Impairment losses on fixed assets.
- Representation expenses that exceed 0.3 % of annual turnover.
- Sponsorships exceeding 3% of profit before tax, and sponsorships of press and other publications exceeding 5% of profit before tax.

Bad debts are only deductible if all of the following conditions have been met:

- An amount corresponding to the bad debt has been already included in the taxable income.
- The bad debt is written off and removed from the taxpayer's accounting books.
- All possible legal actions to recover the debt have been taken.

Special considerations on bad debts are provided for in the financial sector.

Permanent establishment

A permanent establishment (PE) shall imply a fixed place of business through which the business activity of an enterprise is wholly or partly carried out either directly or through a dependent agent. A PE could include an administrative office, a branch, a factory, a workshop, a mine or any other place for exploitation of natural resources, as well as a building, reconstruction, installation or assembling site.

The provisions of the double tax treaties prevail over the local legislation. Nonetheless, there is a procedure to be followed up with the General Tax Directorate in order to be able to apply the rates provided by the double tax treaties.

Capital gains

Capital gains are treated as ordinary taxable income.

Dividends and profit distributions

In determining taxable profit of a resident person, dividends and profit distributions are excluded from taxable income when they are distributed by companies and partnerships of resident and foreign non-resident companies that are subject to profit tax, regardless of the quota of participation, in value or number, of the share capital, the voting rights or participation in the share capital.

Fiscal losses

Fiscal losses may be carried forward against profits for up to three consecutive years, according to the principle 'first loss before the last one'.

If during a taxable period the direct and / or indirect capital or voting rights of a person changes, by more than 50% in value or in number, the fiscal losses are forfeited.

Losses cannot be transferred to other parties.

Payments on account

During the taxable period, the taxpayer should prepay CIT on a monthly or quarterly basis. With this regards, CIT prepayments may be processed either on the fifteenth of each month of that year or quarterly within each quarter (31 March, 30 June, 30 September, 31 December).

The amount of each CIT prepayment is determined by the tax inspector, based on the annual turnover. More specifically, the amount of monthly prepayments is based on the amount of CIT declared in the two tax years prior to the current tax year, calculated as per below:

- In each of the months January, February and March of the current taxable period, the amount of profit tax for the taxable period of the two preceding years is divided by 12.
- In each of the nine other months of the current taxable period, the amount of profit tax for the preceding taxable period is divided by 12.

When the taxpayer is in its first year of activity, the prepaid CIT amount is based on the turnover estimations made by the taxpayer or by the tax authorities.

Failure to pay the CIT prepayments within the deadlines shall be subject to a penalty equal to 10% of the principal amount provided as payable by tax authorities.

Filing requirements

Albanian taxpayers are obliged to electronically submit the annual CIT return to the tax administration's official website on or before 31 March of the following year and to pay, within this deadline, the difference between the CIT liability as per the submitted CIT return and the CIT prepayments made during the tax period.

General Assembly decision on profit distribution

Companies should decide on the use of their prior year net profits within the first six months of the following year and submit their decision to the tax authorities no later than 31 July.

The decision on the use of the company's prior year net profit should be submitted to the National Business Centre within 30 days of the decision date.

Payment of tax on dividend

Companies have an obligation to pay to the tax authorities the dividend WHT on 15% of the amount distributed to shareholders no later than 20 August of the year in which the dividend is approved, regardless of whether or not the dividend has been paid.

Branches cannot decide on the designation of their profits or their financial statements, which are approved by the parent company.



8.2 Transfer pricing

Introduction

Albania's transfer pricing regulation adheres to 'arm's length' principles for related-party transactions. The governing rules are set out in the Law "On Income Tax" and in the Instruction "On Transfer Pricing" issued by the Ministry of Finance. They are based on the OECD Transfer Pricing Guideline for Multinational Enterprises and Tax Administrations 2010. Amendments to transfer pricing rules in May 2014 have extended the 'arm's length' application to business activities.

Scope and methods

The regulations provide a specific definition of related parties, which includes direct and indirect control, as well as control over the board of directors. The types of transactions covered include the transfer and use of tangible and intangible assets, provision of services, financial transactions (including leases, interest, guarantee fees etc.) and other types of transactions prescribed by the Ministry of Finance.

Taxpayers are allowed to use the most appropriate transfer pricing method to evaluate the 'arm's length' result of a controlled transaction. The accepted methods include comparable uncontrolled price, resale price, cost plus, profit split and the transactional net margin method.

Applicable documentation

Companies engaged in controlled transactions must disclose related-party information in their annual income tax returns, as well as prepare a transfer pricing report and other relevant documents. This report does not need to be submitted at the time of the return filing, but where a taxpayer has prepared documentation accordingly, it must be submitted to the tax authority within 30 days of a request being made.

Taxpayers engaging in controlled transactions exceeding ALL 50,000,000 (loan balance included) per period, in aggregate, are required to complete and submit an annual controlled transactions notice by 31 March of the following year.

Transfer pricing documentation may be submitted in Albanian or English language, in electronic or paper format. However, where documents are submitted in English, the Tax Authority has the right to request translation of English documents into Albanian. This translation must be provided within 30 days of request for translation.

Audits and penalties

Albania's Tax Authority has stepped up on the number of transfer pricing audits. The types of transactions targeted include tangible goods, intangible property transfers (e.g. royalty payments), intra-group services and financial transactions.

The Tax Authority can adjust the taxable income of companies whose related-party transactions fall outside acceptable ranges. In case of contravention, the Tax Authorities may also penalise non-compliance with 'arm's length' rules and documentation requirements. The penalty is set up to 25% of the tax shortfall. Regarding annual controlled transactions notice, a penalty of ALL 10,000 applies for every month of post due date delivery.

Benefits from transfer pricing documents preparation

While the submission of the transfer pricing documentation is not subject to a late submission penalty, the preparation of the transfer pricing documents brings two main benefits, which include the adjustment at any point in the market range instead of the market median appointed by law and the ability to pay the additional obligation and interest, not the penalties, in case of self-correction.

Advance pricing agreements

The advance pricing agreement (APA) is a procedural agreement between one or more taxpayers and one or more Tax Administrations regarding the adoption of a pricing method to be applied to cross-border transactions between affiliated entities. Regarding APAs, the governing rules are set out in the Instruction "On Advance Pricing Agreements". Transfer pricing regulations in Albania provide for unilateral, bilateral and multilateral APAs. Applications for APAs will only be considered if the controlled transactions for the entire period covered by the agreement will exceed EUR 30 million and the maximum covered period for the APA is five years (except when the APA includes the application of a reciprocal Government agreement ratified by law).



8.3 Personal taxation

Personal income tax

Personal income tax is paid by individuals on the overall income they earn from various sources in Albania and abroad during a calendar year, excluding the exempt income.

Tax rate

The following tax rates apply to income generated from employment:

| Taxable income (ALL/month) | | Tax rate |
|-------------------------------|----------------|--|
| From | to (inclusive) | |
| 0 | 30,000 | 0 % |
| 30,001 | 130,000 | + 13 % of the amount above 30,000 ALL |
| 130,000 | And above | 13,000 ALL + 23% of the amount above 130,000 ALL |

The minimum monthly salary in Albania is ALL 24,000 effective from 5 May 2017.

Taxable Persons

Individual taxpayers, both residents and non-residents, are subject to personal income tax. Albanian law applies the principle of world-wide taxation. Resident individuals are taxed on all sources of income inside and outside the territory of Albania, while non-resident individuals are only taxed on income generated in the territory of Albania.

An individual is deemed to be a resident of Albania if he has a permanent home in Albania or if he stays in Albania, either consecutively or intermittently, for more than 183 days in a calendar year irrespective of his citizenship or living interests. However, the provisions of the double tax treaties (if any) prevail over the local legislation.

Taxable base

The following categories are subject to personal income tax:

- Salaries and other remuneration related to the current employment (salaries include the basic salary and all permanent allowances).
- Dividends and profit shares of partnerships.
- Bank or securities interest income.

- Income from copyright and intellectual property.
- Income from loans and leases, except when income is generated by the development of a commercial activity, in terms of commercial law.
- Proceeds from the transfer of immovable property.
- Income from gambling.
- Proceeds from the difference between the sale and purchase price of shares.
- Other income, generated by individuals resident or non-resident, sourced in the Republic of Albania.
- Cash income for the increase of capital, sourced from outside the company, which was subject to tax but has not been taxed earlier, and that is not accompanied by official documents proving the origin of the funds.

The following are exempt from personal income tax:

- Income arising from obligatory insurance under an obligatory social and health insurance scheme, as well as economic benefits for individuals with no income or with low income.
- Scholarships for pupils and students.
- Benefits received in case of diseases and hardships.
- Compensations in cash and/or in kind due to expropriation made by the state for public interests.
- Income exempt on the basis of international agreements ratified by the Parliament of Albania.
- Financial compensation provided by the state to former political convicted.
- Contributions paid by employers for the life and health insurance of its employees.
- Benefits for compensations obtained by final decisions of the courts, as well as certain compensations for court costs.
- Income received from state institutions for achievements in science, sports, culture.
- Transfer of the right of ownership of agricultural land by a registered farmer to a farmer or a legal person who performs agricultural activity.
- The contribution made by each member of a voluntary pension fund to the extent determined by the law on voluntary pension funds and contributions made by the employer or any other contributor, on behalf of the voluntary pension fund member.
- Returns on investments, including capital gains, from investments made by the pension fund assets, during administration by the management company.

Filing requirements

Individuals resident in the Republic of Albania and non-residents who generate income sourced in the territory of the Republic of Albania are required to submit an annual income declaration not later than 30 April of the year following the tax period for which the declaration is made.

Individuals who generate annual gross taxable income less than ALL two million are exempt from the requirement to submit the annual income declaration.

An annual income declaration may be complemented by other individuals who do not have a legal obligation to file, if they want to benefit from the scheme of deductible expenses when certain conditions are met.

Non-residents do not benefit from the right of deductible expenses. The amount of deductible expenses should not be greater than the sum of the gross annual taxable income.

In case of material error, the declarant has the right, within three months from the date of submission of the declaration, to make the necessary corrections. Within this period, the individual has the right to correct the statement twice, with no penalisation. In the event of a third time, sanctions will apply.

The difference between total gross income and the sum of deductible expenses and income from employment constitutes the taxable income of the individual. The tax paid during the year will be deducted from the amount of tax calculated as per legislation in force.

Where an individual’s income is sourced abroad and taxed in the country where the income is generated, the deductibility of the foreign tax shall be allowed as per the relevant double tax treaties in force.

The annual income declaration is submitted electronically to the regional tax directorate.



8.4 Withholding tax

Basis of taxation

An Albanian entity which makes payments to non-registered entities for services it provides to the entity is required to withhold from the invoiced amount and pay Withholding Tax (WHT) to the tax authorities.

Tax rate

The standard WHT rate in Albania is **15%**

Taxable income

All resident entities in the Republic of Albania including central and local government authorities, non-profit organizations and any other entity created under the legislation in force, are obliged to withhold tax at the rate of 15% from the following gross payments sourced in the Republic of Albania:

- Dividends.
- Profit shares.
- Interest.
- Payments of copyright fees and royalties.
- Payments for technical, financial and insurance services.
- Payments for construction, installation, assembly or associated supervisory work.
- Payments for management and participation by a board of directors.
- Rental payments.
- Payments for performances of actors, musicians or sportsmen, including payments made to any entity that employs artists or sportsmen, or acts as an intermediary for the arrangement of shows or performances.
- Income generated from gambling and casinos.

Exemptions

The above provision shall not be applicable in the following cases:

- The beneficiaries of the products are Albanian residents registered for CIT and VAT or taxpayers registered for simplified profit tax.
- When payments are made to entities not registered in Albania for services related to the international transport of passengers and goods.

Reduced WHT rates

Where a treaty for the avoidance of Double Taxation on Income and Capital (DTT) exists between Albania and the country of residence of the foreign entity, the payment of WHT might be avoided or reduced, provided that the

conditions set up in the respective DTT are satisfied. The reduced rates are applied according to the terms of each specific DTT.

Albania has signed DTT agreements with 41 countries, out of each 38 are already into force.

Filling requirements

The taxpayer is required to pay WHT to the tax authorities by the twentieth day of the month subsequent to the month in which the payment is made to the service provider. There is an exception regarding the payment of dividend, in this case the legal entities should pay WHT to the tax authorities by the 20th of August of the year in which the financial result is approved, irrespective of whether the dividends are distributed or not.



8.5 Social and health contributions

Taxable person

Social and health contributions are compulsory for employed persons, the self-employed, employers and persons who obtain regular income from different sources.

Foreign individual taxation

Foreign individuals who work in Albania under a local employment agreement are required to pay social and health contributions in the same manner as local employees. Foreign employees working under a foreign employment contract in Albania (with some exceptions) have the right to choose between the Albanian social and health insurance scheme, or another scheme of their home country.

Tax rate

Employees pay social security contributions at the rate of **11.2%**.

The employee contributions are composed of **9.5%** social insurance contribution and **1.7%** health insurance contribution.

Employers are liable to pay social security contributions on behalf of their employees at the rate of **16.7%**.

The employer contribution is made up of **15%** social insurance contribution and **1.7%** health insurance contribution.

The contributions are composed of **3.4%** health insurance contribution of not less than the double minimum salary, i.e. **ALL 48,000**.

The self-employed individual is required to pay social insurance contributions of not less than **23%** of the minimum salary **ALL 24,000**.

The monthly minimum and maximum salaries for social and health contribution purposes are ALL 24,000 and ALL 105,850, respectively.

8.6 Value added tax

Value Added Tax (VAT) is a tax imposed by government at each stage in the production of a good or service.

The standard VAT period is one calendar month.

Standard VAT rate

The standard rate of VAT is 20% and applies to all goods and services not qualified as exempt, with or without credit rights.

Starting from June 2017 a reduced VAT rate of 6% is applied to the supply of accommodation services in all accommodation facilities, as determined by the applicable legislation for the tourism sector.

Zero-rated supplies

A VAT rate of 0% (exempt with credit rights) is applicable on the following supplies:

- Export of goods.
- The supply of goods sent or transported outside of the territory of the Republic of Albania by the buyer of those goods who is not present in Albania.
- Supply of goods from not-for-profit organizations, exported as part of their humanitarian, educational or charitable activity.
- Supplies of services intended for goods which are imported under the inward processing regime.
- Supply of services, inclusive of transport and other additional aid operations, related directly to export or import of goods as specified in the Law on VAT.
- Supply of goods destined to be transported in the personal baggage of travellers.
- The supply of goods and services related to international transport.
- The supply of goods and services performed in the scope of diplomatic or consular relations.
- The supply of goods and services within the Republic of Albania destined for the armed forces of members of NATO.
- The supply of gold for the Bank of Albania.
- The supply of services from intermediaries in the name and on behalf of third parties, for a set of transactions as prescribed in the Law on VAT.
- Supply of goods intended for temporary import regimes, customs warehousing or destined for a free zone.
- The supply of goods which are intended to be admitted into territorial waters for the fuelling and provisioning of drilling or production platforms.

Exempt supplies

The following are considered VAT exempt supplies without credit rights:

- Certain activities in the public interest such as postal services, hospital and medical care and closely related activities, the provision of medical care and closely related activities, exercise of the paramedical profession, supply of human organs, blood and milk, supply of services closely related to social welfare, education, religious, cultural and sports activities.
- Insurance services.
- Financial services.
- Gold and banknotes supplies from the Bank of Albania and second level banks.
- Hydrocarbon research operations.
- Gambling, casino and racetrack services.
- Supplies of immovable property (excluding construction services).
- Supply of land.
- Supply of rented premises for periods of more than two months.

Furthermore, certain imports are exempt from VAT such as:

- Import of goods which, if supplied within Albania, would have been exempt from VAT.
- Import of personal used goods or in the baggage of travellers.
- Goods imported by diplomatic and counsellor bodies.
- Imports declared to be under the temporary allowance regime and active processing.
- Import of machinery as an inward investment with a value equal or higher than ALL 50,000,000.
- Import of machinery from businesses subject to simplified Corporate Income Tax.
- Import of machinery as an inward investment in agribusiness, regardless of investment value.

Supplies for which input VAT may not be credited

Input VAT is the VAT paid through purchases made by taxpayers during the course of business. As a general rule, input VAT may be credited if it is to be used in the provision of goods or services subject to VAT.

However, input VAT on specific taxable supplies cannot be credited by the purchaser of the service and this includes:

- Input VAT on fuel expenses, unless the latter is used for resale purpose or technological purposes.
- VAT on the acquisition of vehicles and on car related expenses, unless used for activities such as leasing, car sales or taxi services.
- VAT on travelling expenses, hotel accommodation expenses and the like.

VAT computation

The amount of VAT to be paid is calculated as the difference between VAT applied to sales (output VAT) and VAT applied to purchases (input VAT). If the input VAT is higher than the output VAT, then the difference is a VAT credit which can be carried forward to subsequent months. If output VAT is higher than input VAT and credit VAT from prior periods, a VAT liability results.

Taxpayers who carry out both taxable and exempt activities can credit only the portion of their input VAT that corresponds to taxable activities. If a clear division of input VAT cannot be made, a credit coefficient, which is calculated as the ratio between the turnovers on taxable activities over the total turnover, is applied.

Reimbursement of credit VAT is possible if the taxpayer has been in a VAT credit position for three consecutive months, and the value exceeds ALL 400,000.

Application of the reverse charge mechanism on the supplies of services from foreign entities

If services are provided by a foreign entity not registered in Albania to a registered entity in Albania, the reverse charge mechanism can be applied by the latter.

If services are provided to an entity not registered in Albania, the foreign supplier should appoint a VAT representative in Albania, if the place of supply of services is deemed to be in Albania.

Place of supply of services

As a general rule, the place of supply of services is Albania when the receiver of the service is a registered taxable entity in Albania, or the receiver of the services is an individual and the supplier of the service is a taxable entity registered in Albania.

| Location of the supplier | Location of the buyer (taxable entity) | Location of buyer (individual) | Place of supply |
|--------------------------|--|--------------------------------|------------------------|
| Albania | Outside of Albania | | Non-taxable in Albania |
| Outside of Albania | Albania | | Taxable in Albania |
| Albania | | Outside of Albania | Taxable in Albania |
| Outside of Albania | | Outside of Albania | Non-taxable in Albania |

Filing requirements

The deadline for the electronic filing of the VAT books is the tenth day of the following month.

The deadline for the electronic filing of the VAT declaration and the payment of the related tax liability is the fourteenth day of the following month.



8.7 Excise duty

Excise duty is a tax applicable to certain goods consumed in Albania, whether imported or produced in the country.

Albanian excise legislation is based on EU Council Directive 2008/118/EC that defines common provisions applicable for all excisable goods. It also integrates specific provisions applicable for each category of excise products.

Categories of products subject to excise duty in Albania are:

- Energy products (e.g. petroleum, gasoil, gas)
- Tobacco products (e.g. tobacco, cigarettes)
- Alcohol and alcoholic beverages (e.g. beer, wine, spirits)
- Other products (e.g. baked coffee, energy drinks, fireworks)

Excise duty is usually calculated as an amount per quantitative measuring unit defined for that product (e.g. per litre, per kilogram, per hectolitre, per 1000 pieces).

Suspension arrangement

Excise duty for imported goods arises at the moment of importation (release into free domestic circulation). However, if authorised, a company may suspend the payment of excise duty as long as goods remain in a fiscal warehouse. In this case, excise duty becomes chargeable upon the moment goods are released into the market for consumption.

Producing and processing excise goods in Albania is subject to a special authorization issued by the customs authorities.

Tax markings

Excise legislation requires that tobacco products, alcohol and alcoholic beverages, imported or produced in Albania, must have affixed fiscal stamps when released for consumption in the domestic market.

Several oil by-products in Albania are subject to marking with fiscal markers and dying substances, as per the requirements of Albanian excise legislation, upon exportation or release for consumption in the domestic market.

Exemptions

Excise products are exempted from excise duty when intended for:

- The use of diplomatic and consular missions.
- The use of international organisations.
- Military forces of NATO member states.
- Personal consumption when carried in personal baggage of travellers, in limited quantities.
- Export.

- Placing in a customs suspense regime.
- Use in metallurgy.
- Energy products used in mineralogical processes.
- Fuel for fishing boats.
- Fuel for international airlines.

Excise legislation provides several other exemptions which are specified for each category of products subject to excise duty.

Reimbursement

Excise duty is reimbursed for:

- Goods that are used in a process previously approved by the customs authorities.
- Exported products that have previously been subject to excise duty in Albania.
- Fuel used by companies involved in the construction of electric energy resources, with an installed power of not less than five MW per source.
- Fuel used in greenhouses, for the production of industrial and agri-industrial products.
- Biodiesel used in transportation.

The reimbursement procedure is subject to special provisions and pre-defined criteria on the basis of which the amount to be reimbursed is calculated.



8.8 Local taxes and tariffs

Local tax offices, within municipality administrations, are responsible for the collection of all local taxes. Local taxes are applied either as a percentage or as a specific amount and vary depending on the location and/or type of activity being conducted.

Simplified income tax

Physical persons or legal entities that conduct business in Albania and have an annual turnover from ALL five million to ALL eight million are subject to simplified income tax. The applicable tax rate on profit is 5%.

For small businesses with an annual turnover less than or equal to ALL 5 million, the simplified income tax rate is 0%.

Entities that are subject to simplified income tax have an obligation to submit an annual tax declaration providing details on total revenues, deductible expenses, taxable profit, tax liability and any other details required for the correct completion and submission of an annual tax return.

Taxpayers with an annual turnover up to ALL 5 million, are also obliged to submit an annual tax return.

The deadline for submission of an annual tax declaration is the 10th of February of the year following the tax period for which the tax declaration is completed.

Tax for impact on infrastructure

Tax is levied on new construction projects for any impact they might have on existing local or national infrastructure. The tax base is the new investment's value or the sale price per square metre of the project.

In case of construction for residential purposes that are not intended for use in the tourism, industry or public sector, the tax rate varies from 4% to 8% of the sale price per square metre. The sale price per square metre is based on reference market prices.

For constructions other than those intended for residential accommodation, the tax is levied as a percentage of the investment value and varies from 2% to 4% in Tirana and 1% to 3% in other districts.

For infrastructure projects, national road construction, ports, airports, tunnels, dams or the construction of energy infrastructure, the tax levied on impact on infrastructure is 0.1% of the investment value (including machinery and equipment), but not less than the cost of rehabilitation of damaged infrastructure.

The tax obligation lies with the investor.

Real estate tax

All physical persons and legal entities, whether local or foreign, who own a real estate property in Albania, are subject to real estate tax.

Real estate tax on building

The tax amount calculated is based on surface area and varies depending on the district where the building is located. It is calculated as a fixed value per square metre and varies on an annual basis from ALL 5 to ALL 400 per m².

The following are exempt from real estate tax on building:

- Properties owned by the state or the local government used for non-profit purposes.
- Buildings used by religious institutions.
- State-owned assets, transferred with a decision by the Council of Ministers, under the state administration of public companies.

Real estate tax on agricultural land

The tax is levied on each hectare owned and varies depending on the district it is located and the land productivity categorisation. It varies on an annual basis from ALL 700 to ALL 5,600 per hectare.

Where the agricultural land is planted with fruit trees and viticulture, the taxpayer is exempt from paying the real estate tax on agricultural land for five years.

Real estate tax on land

The tax amount calculated is based on surface area and varies depending on the district where the building is located and the purpose of its use (household or business). It is calculated as a fixed value per square metre and varies on an annual basis from ALL 0.14 to ALL 0.56 per m² for households and from ALL 12 to ALL 20 per m² for businesses.

Tax on transfer of ownership rights for real estate

For buildings, the tax is determined based on the surface area of the building that is the subject of ownership transfer and varies depending on the district and the purpose of use of the real estate (residential or commercial).

The tax on transfer of ownership rights for real estate ranges from ALL 100 to ALL 2,000 per m².

For other kinds of real estate, other than buildings, the transfer tax is defined as 2% of the reference sales price.

Hotel accommodation tax

The basis for calculating the tax on hotel accommodation is the number of nights spent in the hotel.

The tax rate is a fixed value per night of stay depending on the designated zone (Tirana vs. other regions) where the hotel is located and the quality of the hotel, for which the number of stars is used as a proxy. The rates range from ALL 35 to ALL 350 per night.

Advertising tax

Local authorities impose a tax on billboards used for identification or marketing purposes. The tax varies depending on the surface size of the advertisement and the purpose of its exhibition.

The tax can vary from 0 to ALL 90,000 per m² and is applied every year.

Tobacco advertisements on billboards and any other form of publicity are not permitted.

Temporary tax on educational infrastructure

Families, individuals and juridical persons, local or foreign, who live and conduct economic activity within the territory of the municipality of Tirana are subject to temporary tax on educational infrastructure.

For companies, the tax ranges from ALL 4,000 to ALL 37,000 per year depending on the economic activity and turnover of the company.

This temporary tax is applicable for a seven year period.

Tariffs for the use of public areas

This tariff is paid for the use of public areas for commercial purposes and is based on the surface area of the occupied space and the location of the area. It is calculated as a monthly obligation of the taxpayer.

In Tirana, the tariff for the use of public areas is uniform within any particular geographic designation in the district, irrespective of the type of activity performed. The tax varies on a monthly basis between ALL 200 to ALL 1,500 per m².

Tariffs for cleaning and waste removal

All physical persons and legal entities whether local or foreign who live and conduct business activity within the territory of the municipality of Tirana, are subject to cleaning and waste removal tariffs.

For businesses the tariff depends on the business activity they perform and their annual turnover, and varies from ALL 3,500 to ALL 450,000 per year.

Other

There are several other taxes and tariffs in existence, such as TV and telephone taxes, port charges, consular fees, airport taxes and registration taxes.



Accounting and statutory audit

9.1 Accounting and financial statements

Accounting and financial reporting in Albania is referred to and regulated by Law no. 9228, dated 29.04.2004 “On Accounting and Financial Statements”. The duration of the accounting period in Albania is twelve months beginning on 1 January and ending on 31 December. Financial statements are prepared and presented in the Albanian language, and accounts are presented in Albanian Lek. Accounting records must be retained for ten consecutive years after the accounting period, unless a longer period is compulsory.

The National Accounting Standards (NAS) issued by the National Accounting Council, as revised and improved in 2015, and the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (translated into Albanian by the National Accounting Council), are the two financial reporting frameworks used. The revised NAS are largely based on the IFRS for SMEs.

Entities should generally apply NAS in preparing financial statements unless they fall into one of the categories listed below, in which case they must adopt IFRS.

- Companies listed in an official stock exchange, or subsidiaries subject to consolidation of the accounts of listed companies.

- Commercial banks, financial institutions, insurance and reinsurance companies, investment funds and entities licensed in investment trading, even if not listed in an official stock exchange.
- Other entities not listed in a stock exchange, when they exceed both of the following thresholds simultaneously for the last two years:
 - i. Annual turnover of ALL 1,250,000 thousand, and
 - ii. Average number of 100 employees per year.

Commercial banks in Albania are also required to report to the Central Bank of Albania in accordance with the “Methodology on Reporting and Content of Financial Reports” and regulations of the Bank of Albania, being a rules-based reporting framework specific for banks.

9.2 Statutory audit

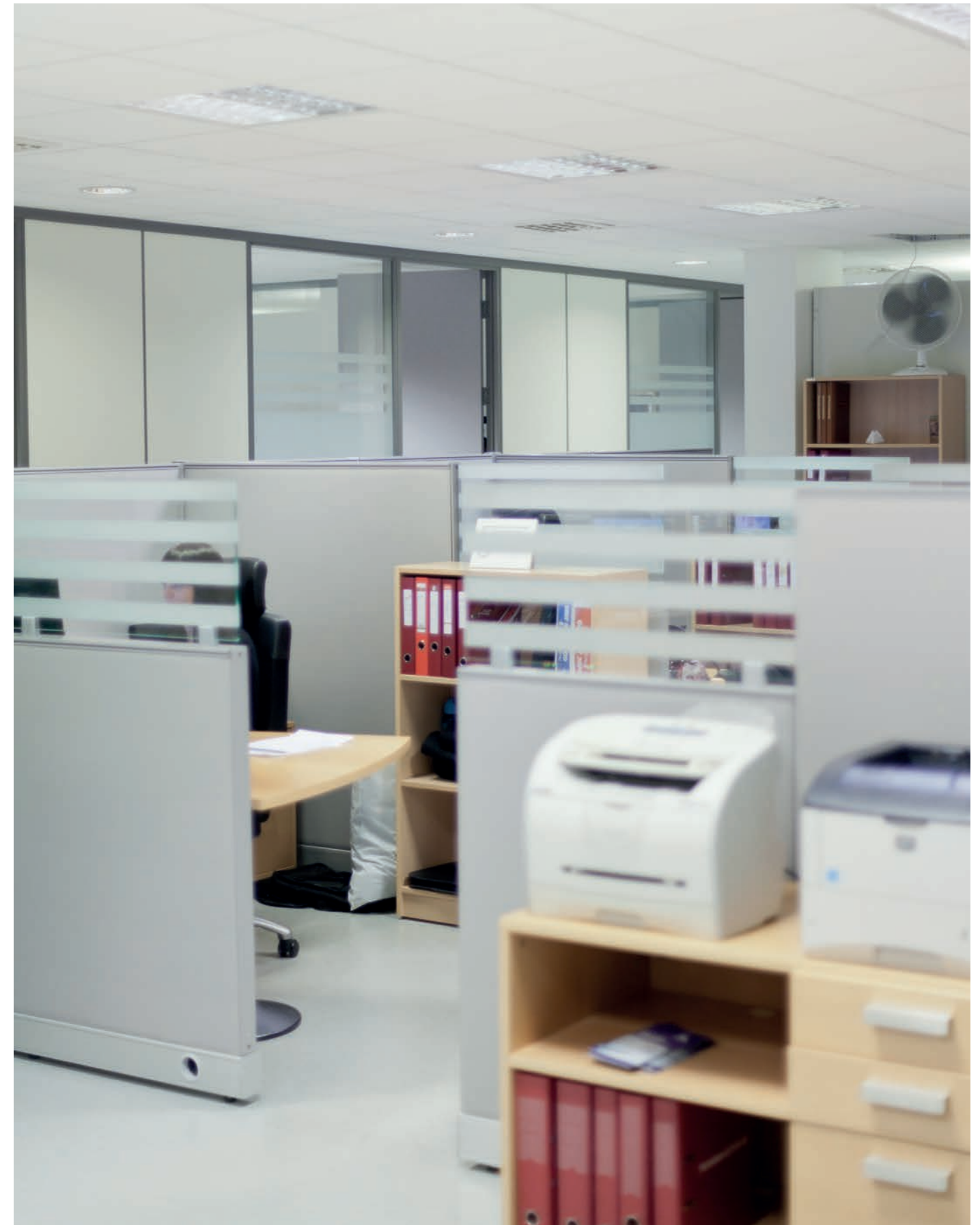
Statutory audit is regulated by Law no. 10091, dated 5 March 2009 “On Statutory Audit, the Statutory Auditor and certified accountant profession” as amended with laws 10297, dated 8 July 2010 and 47/2016. The statutory audit is compulsory for the following entities:

- All commercial companies that prepare their financial statements in accordance with IFRS.
- All joint stock companies;

- Limited liability companies when at least two of the following criteria are at the end of accounting period for two consecutive years, met:
 - i. Total assets of ALL 50,000 thousand or more.
 - ii. Total turnover of ALL 100,000 thousand or more.
 - iii. Average number of 30 employees during the same reporting period.

Financial Statements are audited in accordance with International Standards on Auditing (ISA), as issued by the International Audit and Assurance Standards Board (IAASB). The statutory auditor is rotated after a maximum period of seven consecutive years with a minimum of two years cooling-off period. The statutory auditor is subject to the supervision of the Public Oversight Board (POB) and the Institute of Authorized Chartered Auditors of Albania (IEKA).

Public Interest Entities (PIE) are required to establish an audit committee, responsible for the monitoring of the internal control environment of the entity, as well as the independence of the statutory auditor and the audit firm. PIE includes listed entities, commercial banks, insurance companies, fund companies and investment and pension funds, as well as any other entity determined by separate decision of the Council of Ministers. Appointment of the statutory auditor and the audit firm by banks and insurance companies is subject to the pre-approval of the Bank of Albania and the Albanian Financial Supervisory Authority.



Introduction to PwC

10.1 PwC in Albania

As elsewhere in the world, PwC in Albania uses the benefit of its hand-on experience to provide a strong level of local understanding and support, in accordance with the international professional standards of the PwC worldwide organisation.

In Albania we are proud to offer services to leading domestic and international companies and public services institutions. Our clients range from the largest and most complex organisations to start-ups and innovative entrepreneurs.

We tailor our services to match the needs and requirements of each client, considering their size and specific needs. While we have experience

working with all industries represented in Albania, we have built particularly strong expertise in areas such as banking, insurance, construction, energy, oil and gas, telecommunication, infrastructure and retail.

More than 70 specialists in Albania and Kosovo provide daily professional assurance, tax, legal and business advisory services to clients in Albania by making use of their expertise and international competence. Most of them undertake Association of Chartered Certified Accountants (ACCA) studies, with many already being members. Others are members of the Institute of Certified Public Accountants in Albania and/ or Certified Public Accountants, all prepared and experienced to help our clients build value, manage risk and improve their performance.

At PwC, our purpose is to build trust in society and solve important problems. We're the largest professional services network, uniting more than 223,000 people from 157 countries, who are committed to delivering quality in assurance, advisory, tax and legal services.



Assurance services

PwC has the knowledge and experience necessary to help companies and organisations both large and small. Our audit and assurance approach is tailored to suit the size and nature of your organisation. With our deep understanding of local and international regulation and legislation we can also help with complex reporting issues involving Sarbanes-Oxley and IFRS

Additionally, we are leaders in the development of non-financial performance reporting, helping our clients respond to the need for greater transparency, improved corporate governance and business models based on the principles of sustainability.

Our Assurance Services include:

- Audits of financial statements prepared in accordance with IFRS.
- Audits of financial statements prepared in accordance with the generally accepted accounting principles in Albania.
- Reviews of financial reporting.
- Agreed upon procedures.
- Expert opinions on accounting technical issues.
- Training on accounting and financial reporting.
- Assistance with various accounting related matters.
- Regulatory compliance and reporting.
- Sarbanes-Oxley compliance.
- Independent controls and systems process assurance.
- Internal audit.

Tax services

Tax is a major factor in virtually every business decision. Clients realise that,

by seeking our expert advice, tax savings can be achieved.

PwC in Albania provides comprehensive tax advisory services for all aspects of Albanian taxation, as well as for international taxation.

We provide tax advice, answers to your questions and/or offer opinions on tax matters including research, discussions, memoranda and attendance at meetings related to these matters. We give clients the benefits of international expertise and in depth understanding of the local authorities. Our tax staff have substantial practice experience as well as academic experience through on-going training within PwC.

We place a high priority on problem solving, creativity and building long-term relationships with clients.

Our tax services include:

- Tax compliance and accounting.
- Tax reporting strategy.
- Transfer pricing.
- Tax advisory.
- International tax.
- Tax planning, structuring and optimisation.
- Tax due diligence, reorganisations and post-deal integrations.
- Tax appeals and litigations.
- International assignment services.
- Expatriate tax services.

Legal services

Our PwC legal team has the local and international knowledge and experience in assisting clients in all legal aspects of their business in Albania and cross border transactions. With a commercial awareness approach and a solution oriented mind-set, we are dedicated to providing legal advice, strategy and alternative resolutions.

Legal services at PwC include:

- Legal advice.
- Legal due diligences.
- Litigation and representation in civil and administrative courts, as well as arbitration tribunals.
- Preparation and negotiation of contracts.
- Preparation of corporate deeds and establishment procedures.
- Assistance in bankruptcy/liquidation procedures.
- Compliance and regulatory requirements.
- Assistance in licensing procedures.
- Immigration services.
- Real estate transactions.
- Secretarial services.

Advisory services

Our Advisory Services practice focuses on the strategic development of businesses, including the purchase or sale of businesses and assets and assisting in the development of new projects. By combining the global knowledge pool of Advisory Services with our local skills we are able to provide an exceptional service to clients by effectively linking regional commercial reality with international resources to create a position of mutual acceptability and consensus.

In Advisory Services we support and advise our clients in developing new projects including feasibility studies, valuation, business plan preparation and market surveys. We also advise on mergers and acquisitions or takeovers of businesses.

Our Advisory Services also include transaction and performance improvement services.

Corporate social responsibility

We know that it takes more than just nice words and good intentions to make the world a better place to live.

Making a lasting contribution requires one to deliver real actions. It may come in various forms – a monetary support, an environmentally responsible behaviour or advising those in need are only a few of the possibilities.

Therefore, on top of continuously striving to fulfil and exceed our clients' expectations, we feel a wider

responsibility. What we do every day helps to increase the transparency and reliability of the Albanian environment and contributes to alleviating the problems in society.

We take pride in conducting our own business in an honest and ethical manner. We participate in vocational associations and legislative drafting as well as share our knowledge in training sessions and seminars.

We help those in greater need.

We participate in various charity initiatives. In addition to offering funding, our employees act as volunteers to make a contribution of their time and know-how.

We care about those we work with, respect and value our colleagues, share work-related knowledge and experience, appreciate healthy ways of living and promote sports and active lifestyle.

Our motto and aim is building relationships through creating values.



Useful sources of information

Financial Supervisory Authority <http://www.amf.gov.al/>

Albanian Association of Banks <http://www.aab.al/al/>

Ministry of Urban Development <http://www.zhvillimiurban.gov.al/>

Gateway to Albania: <http://albania.al/>

General Tax Directorate: <https://www.tatime.gov.al/eng/>

Customs Administration: <http://www.dogana.gov.al/en>

Institute of Social Insurance: <http://www.isshe.gov.al/al/sigurimi-i-detyruar/>

Councils of Ministers: <https://www.parlament.al/>

Ministry of Finance: <http://www.financa.gov.al/en>

Bank of Albania: <https://www.bankofalbania.org/>

Institute of Statistics: <http://www.instat.gov.al/en/Home.aspx>

Electronic and Postal Communications Authority: <http://akep.al>

Official Publications Centre: <http://www.qbz.gov.al>

Other useful addresses and websites:

PwC Albania: <http://www.pwc.com/al/en.html>

Albanian Investment Development Agency: <http://aida.gov.al/home>

The World Bank - Doing Business in Albania: <http://www.worldbank.org/sq/country/albania>

Portal of public services: <https://www.e-albania.al/>

Foreign Investors Association of Albania: <http://fiaalbania.al/>



The material contained in this guide is for general information purposes only and does not contain a comprehensive analysis of each item described. Before taking (or not taking) any action, readers should seek professional advice specific to their situation. No liability is accepted for acts or omissions taken in reliance upon the contents of this publications.

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