

Tax Alert

Albania • Issue 1 • January 2014



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Income Tax

The following amendments to Law No. 8438 dated 28 December 1998, "On Income Tax", came into force on 1 January 2014:

- The Corporate Income Tax rate changed from 10% to 15%.
- Personal Income Tax on salaries and other employment-related remuneration has changed from a flat tax rate to a marginal tax rate, with incremental increases in income being taxed at progressively higher rates (tax brackets), as provided in the table below:

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

- Banks can now deduct for Corporate Income Tax purposes only loan impairments (provisions) calculated under International Financial Reporting Standards (IFRS), so they can no longer take into consideration the lower of the provisions calculated as per IFRS and those calculated as per the Bank of Albania.
- The Minister of Finance is expected to set by Instruction the form and content of the Withholding Tax (WHT) return, which will be used as a record for calculating, declaring and paying WHT to the tax authorities. A declaration form for WHT has not been provided yet.
- Farmers' income arising from the sale of agricultural land to other farmers or to individuals / juridical persons with agricultural activity is now exempt from Personal Income Tax.

- For the fiscal period 2013, small businesses have to complete and submit by 10 February 2014 the Declaration of Personal Income Tax for Small Businesses according to the previous provisions provided under Article 8 and Articles 12 to 12/6 of Law No. 8438, dated 28 December 1998, “On Income Tax”. For fiscal periods as of 1 January 2014, small businesses are no longer be treated under the Law “On Income Tax”, being covered instead by Law No. 9632 dated 30 October 2006, “On Local Taxes”. The annual submission deadline is still 10 February.

[Source: Law No. 177/2013 dated 28 December 2013, Official Gazette No. 203 published on 30 December 2013.]

Value Added Tax

A draft law amending some provisions of Law No. 7928 dated 27 April 1995, “On Value Added Tax” (VAT), became effective as of 1 January 2014.

- Supplies of goods and services in relation to the development phase of hydrocarbon operations by contractors and subcontractors of hydrocarbon operations (and affirmed as such by the National Agency of Natural Resources) are no longer exempt from VAT. The import of such goods and services is also no longer exempt from VAT. Supplies of goods and services in relation to the research / exploration phase of hydrocarbon operations remain exempt from VAT, however. The Minister of Finance and the Minister of Energy will decide by mutual agreement the list of goods and services related to the research / exploration phase of hydrocarbon operations, as well as the procedures to follow for their exemption from VAT.
- The audit and approval of taxpayers’ VAT credit balances by the tax authorities has been extended from 30 calendar days to 60 calendar days from the submission date of the VAT reimbursement request by the taxpayer. VAT credit is paid from the treasury system.
- As of 1 April 2014, supplies of medicines and health services by public and / or private health institutions are exempted from VAT. The Minister of Finance will approve by Instruction how to proceed with the inventory balance of medicines as at 1 April 2014.

[Source: Law No. 182/2013 dated 28 December 2013, Official Gazette No. 203 published on 30 December 2013.]

Health Contributions

As of 1 January 2014, the health contribution at the rate of 3.4% (i.e. 1.7% for the employees and 1.7% for the employer) is calculated on the total gross salary. Health contributions were previously calculated on the minimum and maximum gross salary limits set for social and health contribution purposes.

[Source: Law No. 184/2013 dated 28 December 2013, Official Gazette No. 203 published on 30 December 2013.]

Foreign employees working on hydrocarbon operations

As of January 2014, foreign employee income from hydrocarbon operations is no longer exempt from Personal Income Taxes in Albania.

[Source: Law No. 183/2013 dated 28 December 2013, Official Gazette No. 203 published on 30 December 2013.]

Tax procedures

Law No. 9920 dated 19 May 2008, “On Tax Procedures in the Republic of Albania”, has been amended to include the following provisions as of 1 January 2013:

- The limit on cash transactions has changed from ALL 300,000 to ALL 150,000.
- The deadline for appealing against the preliminary results of a tax inspection has been extended from 5 calendar days to 15 calendar days.
- Taxpayers now have a choice of either paying the whole amount of additional tax obligations (excluding penalties) assessed during the tax inspection or providing a bank guarantee before initiating the tax appeal procedure. The bank guarantee is then fully or partially returned within 30 calendar days as of the date of the Appeal Directorate’s decision.
- Additional tax liabilities resulting from the self-correction of tax returns by a taxpayer are no longer subject to penalties, but only late-payment interest, provided that the correction is made by the taxpayer within 12 months as of the date of the declaration.
- The Law clarifies that in the event the receipt date of tax liabilities notification from the tax authorities cannot be determined, the notification is considered to have been received by the taxpayer within 10 days of the mailing date.
- The Tax Appeal Directorate will take the necessary measures to publish its decisions on the tax authorities’ website.
- The collection of simplified income tax on small businesses is within the jurisdiction of the General Tax Directorate, instead of the jurisdiction of local municipalities.
- The Regional Tax Directorate is responsible for the issuance of any tax assessment notices related to the tax obligations of small businesses.
- Within 30 days from the initiation of the de-registration procedures at the National Registration Centre, the tax authorities should check the taxpayer’s situation, by means of a risk analysis. The risk analysis was not previously part of the tax authority’s procedures.

[Source: Law No. 179/2013 dated 28 December 2013, Official Gazette No. 203 published on 30 December 2013.]

Excise Law

- As of 1 January 2014, the excise rates on some products, especially alcoholic beverages and cigarettes, as provided under Law No. 61/2012 dated 24 May 2012, “On excise tax”, have been amended. The suggested excise rate amendments are provided in *Annex 1* of this Tax Alert.
- The basis for the calculation of the excise rate on beer is now hectolitres per alcohol degree of the final product. The excise rate on beer was previously based on the quantity of hectolitres measured at a temperature of 20 °C.
- Energy drinks are now defined as those drinks classified in the Combined Nomenclature of Goods 2202 10 00 and composed of more than or equal to 0.03% caffeine or made of taurine, guarana or ginseng.
- The excise rate on energy drinks is now calculated per litre. There was previously no excise rate on energy drinks.
- The Law also determines penalties for cases of tax evasion related to illegal production of tobacco and its by-products, non-payments of tobacco excise, non-payment of coffee excise, shortages or surpluses found in the premises of taxpayers and irregularities in the circulation of products subject to excise tax.
- As of 1 April 2014, the import of petroleum by-products which are used for personal purposes by companies focused on research and development of large oil and gas reserves in Albania is no longer exempt from excise tax.

[Source: Law No. 180/2013 dated 28 December 2013, Official Gazette No. 203 published on 30 December 2013.]

National taxes

As of January 2014, Law No. 9975 dated 28 July 2008, “On National Taxes”, has been amended to include the following provisions:

- The circulation tax on diesel and gasoline has changed from ALL 7 / Litre to ALL 17 / Litre.
- The Regional Tax Directorates are responsible for the calculation and the collection of national taxes, as provided in Law “On National Taxes”.
- Packaging tax now applies to multi-use glass and plastic packaging. A new definition of packaging and a list of exemptions from the packaging tax have been provided.

- All physical and legal persons have to declare and pay royalty tax by the fifteenth day of the month following that in which the sales are made. The declaration for the payment of royalty tax is submitted to the Regional Tax Directorate.

[Source: Law No. 178/2013 dated 28 December 2013, Official Gazette No. 203 published on 30 December 2013.]

Local Taxes

The following amendments to Law No. 9632 dated 30 October 2006, “On Local Taxes”, became effective on 1 January 2014:

- The simplified income tax on small businesses (i.e. businesses generating an annual turnover of less than ALL 8 million per year) is covered by the Law “On Local Taxes” instead of the Law “On Income Tax”. The simplified income tax on small business changes as follows:

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

- Income tax instalment deadlines are 20 April, 20 July, 20 October and 20 December of each year, payable at commercial banks into the tax administration’s bank account. After making the payment, the taxpayer goes to the tax services office to verify the payment and receives a “Tax Label” on income tax instalment payment. The taxpayer attaches this to its registration certificate received from the National Registration Centre. Small businesses with annual turnover of between ALL 0 and ALL 2,000,000 have to pay their income tax obligations within the first six months of the year.
- The deadline for the submission of the annual declaration by small businesses is 10 February. The deadline was previously 31 March.
- Building tax amendments provide that an individual owning a second building, except for one used as their residence, has to pay on that second building a tax equivalent to twice the normal building tax applied in the cadastral area of the second building. The building tax for each cadastral area has been changed. Details are provided in *Annex 2* of this Tax Alert.

[Source: Law No. 181/2013 dated 28 December 2013, Official Gazette No. 203 published on 30 December 2013.]

Customs

The nomenclature of goods and custom tariffs for the year 2014 has been published with effect as of 1 January 2014.

[Source: Council of Ministers Decision No. 1067 dated 14 December 2013, Official Gazette No. 202 published on 27 December 2013.]

Double Tax Treaty

As of 20 December 2013, the Double Tax Treaty for the avoidance of double taxation and prevention of fiscal evasion with respect to taxes on income between the Republic of Albania and the United Kingdom of Great Britain and North Ireland came into force.

[Source: Law No. 173/2013 dated 5 December 2013, Official Gazette No. 201 published on 27 December 2013.]

Annex 1

Category	Was	Becomes
Unroasted coffee	ALL 30 /kg	ALL 0 /kg
Roasted coffee	ALL 140 /kg	ALL 60 /kg
Energy Drinks	Not provided	ALL 50 /Litre
Beer	Not more than 70,000 hectolitres (HL), ALL 1,000 /HL for 6% alcohol and ALL 1,200 /HL for more than 6% alcohol	Less than 200,000 HL, ALL 360 /HL per alcohol degree
	70,001 to 200,000 HL, ALL 1,200 /HL for not more than 6% alcohol and ALL 14,400 /HL for more than 6% alcohol	
	200,001 to 300,000 HL, ALL 1,500 /HL for not more than 6% alcohol and ALL 1,800 /HL for more than 6% alcohol	More than 200,000 HL, ALL 710 /HL per alcohol degree
	More than 300,000 HL, ALL 3,000 /HL for not more than 6% alcohol and ALL 3,600 /HL for more than 6% alcohol	
Wine, Champagne, Fermented and Sparkling beverage	ALL 2,000 /HL	ALL 5,200 /HL
Intermediate alcoholic beverages	ALL 2,000 /HL for beverages containing more than 15% alcohol grade but not more than 22%	ALL 5,200 /HL
Spirituos Beverages	Less than 20,000 HL per year, ALL 50,000 /HL anhydrous alcohol	Less than 20,000 HL per year, ALL 65,000 /HL anhydrous alcohol
	More than 20,000 HL per year, ALL 65,000 /HL anhydrous alcohol	More than 20,000 HL per year, ALL 84,500 /HL anhydrous alcohol
Cigarettes containing tobacco	ALL 3,500 / 1,000 pieces	ALL 4,500 /1,000 pieces as of 1 January 2014
		ALL 5,000 /1,000 pieces as of 1 January 2015
		ALL 5,500 /1,000 pieces as of 1 January 2016
		ALL 6,000 /1,000 pieces as of 1 January 2017
Other refined tobacco and tobacco substitutes	ALL 1,500 /kg	ALL 3,000 /kg as of 1 January 2014
		ALL 3,700 /kg as of 1 January 2015
		ALL 4,400 /kg as of 1 January 2016
		ALL 5,100 /kg as of 1 January 2017
E472 (grease)	not provided	ALL 40 /kg

Annex 2

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



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