

# *Taxes at a Glance* Albania 2017

# Value Added Tax (VAT)

VAT standard rate is 20%.

VAT period is one calendar month.

VAT declarations consist of the VAT purchase book, VAT sales book and the VAT return.

VAT declarations are submitted electronically on a monthly basis.

VAT is applicable to:

- supply of goods and services,
- incurred in Albania and
- provided in return of a consideration
- by a taxable person in Albania, including
- imported goods into Albania.

The VAT registration threshold in Albania is an annual turnover of over ALL 5 million. Voluntary registration is possible.

Taxpayers that provide services of specific free professions such as finance, law, engineering, real estate, medicine etc. are required to register for VAT purposes in Albania, regardless of their annual turnover.

## Exempt supplies with credit rights (zero-rated supplies)

Examples:

- Exports
- International transport
- The supply of goods transported in the personal luggage of travellers
- Supply of gold for the Bank of Albania

## Exempt supplies without credit rights

Examples:

- Insurance services
- Postal services
- Health services
- Social assistance services
- Educational services

## VAT payable

If Output VAT > Input VAT

Output VAT – Input VAT = VAT payable

## VAT credit

If Output VAT < Input VAT

Output VAT – Input VAT = VAT credit

## VAT reimbursement

Can be claimed if the VAT credit balance:

exceeds ALL 400,000

has been carried forward for more than three consecutive months

# Corporate Income Tax (CIT)

Standard CIT rate in Albania is **15%** of the annual taxable profit.

A reduced rate of **5 %** is applicable for taxpayers with an annual turnover between ALL 5 million and ALL 8 million.

**Taxable profit** = accounting profit adjusted for non-deductible expenses and non-taxable income.

A taxable year runs from 1 January until 31 December of each calendar year.

Any other type of income, such as capital gains, is included in the overall calculation of the taxable profits, and are taxed with CIT.

Resident entities are taxed on all sources of income in and outside Albania, while non-resident entities are taxed on income generated only in the territory of Albania.

Arm's length principles apply to transactions with related parties. The Transfer Pricing legislation is in line with the OECD Transfer Pricing Guidelines.

## Exemptions from CIT

Examples:

- Taxpayers with an annual turnover less than ALL 5 million.
- Central Bank of Albania.
- Central and local government institutions.
- Foundations or non-bank financial institutions established from the Decision of the Council of Ministers.
- Film studios for cinematographic productions that are licensed and funded by the National Cinematographic Centre.

## Non-deductible expenses

Expenses which are not:

- a) supported with an fiscal invoice, and/or
- b) are not incurred for business purpose

Examples include:

- Donations.
- Fines and penalties.
- Benefits in kind.
- Accounting provision expenses.
- Gifts.
- Devaluations of fixed assets, inventory and financial assets.
- Representation expenses exceeding statutory limits.
- Sponsorship expenses exceeding statutory limits
- Interest expenses exceeding the statutory limits

## Non-taxable income

Examples include:

- Dividend income.
- Reversal of provisions.
- Revaluations of fixed assets, inventory and financial assets.

## Corporate residency

A legal entity is deemed to be resident in Albania if:

- a) it has its head office in Albania, or
- b) its place of effective management in Albania.

# Corporate Income Tax (CIT)

## **Permanent Establishment**

A fixed place of business where an entity carries out, wholly or partly, its business activities, including but not limited to:

- a) an administration office,
- b) a branch,
- c) a factory,
- d) a workshop,
- e) a mine, and
- f) a construction or installation site.

The determination of a Permanent Establishment, where applicable, is based on the provisions of the double tax treaties that Albania has entered into with a number of countries. When dealing with double tax treaty provisions, the Albanian tax authorities refer to the Organisation for Economic Co-operation and Development (OECD) commentaries.

## **Withholding Tax (WHT)**

All resident entities in the Republic of Albania should withhold tax at 15% from the following gross payment sourced from the Republic of Albania:

- 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 the board of directors.
- Payment on rent.
- 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.

WHT is not applicable when payment is made to a registered entity in Albania for corporate income tax purposes.

If a non-resident company does not create a permanent establishment in Albania and a double tax treaty exists between Albania and the home country of the non-resident company, the payment of WHT can be avoided or reduced.

## Personal Income Tax (PIT)

Resident individuals are subject to PIT on their worldwide income.

Non-resident individuals are subject to PIT only on the income sourced in Albania.

An individual is considered resident for tax purposes in Albania if:

- a) his centre of vital interest is in Albania;
- b) is present in Albania for a period(s) exceeding in the aggregate 183 days during any 12 consecutive months, ending in the fiscal year concerned;
- c) Albanian citizen working abroad as an official of Albania (e.g. diplomat) in a foreign state.

### Examples of income subject to PIT

- Salaries and other remuneration related to the current employment.
- Dividends and profit shares of partnerships.
- Interest and other financial income.
- Income from copyright and intellectual property.
- Gross income realized outside the territory of the Republic of Albania and used for capital increases in Albania.

### Examples of income exempt from PIT

- Income received from an obligatory social and health insurance scheme.
- Fellowships of pupils and students.
- Benefits received in the case of diseases and hardships in agreement with the relevant legal provisions in force.

### PIT on employment

PIT on employment is applied at a progressive rate, and is withheld by the employer on a monthly basis from the gross monthly salary of the employee.

Taxable Income	Rate
ALL 0- 30,000	0%
ALL 30,001 - 130,000	13% of the amount exceeding ALL 30,000
More than ALL 130,000	ALL 13,000 + 23% of the amount exceeding ALL 130,000

### PIT on income other than employment

Subject to **15%** rate, declared and paid on a yearly basis by the individual through the annual declaration of personal income tax.

If income is paid by a registered entity for tax purposes, it should be withheld as a WHT by the entity.

## Social and Health Contributions (SHC)

SHC are compulsory for all economically active persons with a permanent residence in Albania and include:

- Employed.
- Self-employed.
- Unpaid family workers.
- Other economically active persons.

When an individual, subject to compulsory SHC, is no longer obliged to pay social and health contributions for one of a number of reasons, he/ she can continue the contribution under a voluntary scheme.

Undergraduates can voluntarily pay SHC.

### Benefits

Examples:

- Retirement pension.
- Sickness benefit.
- Maternity benefit.
- Benefit from disability at work.
- Benefit from involuntary loss of employment.

### Applicable Rates

In an employment relationship, SHC is withheld by the employer on a monthly basis. The following rates apply.

	<i>Social Contributions Rate</i>	<i>Health Contributions Rate</i>
Employer	15%	1.7%
Employee	9.5%	1.7%
<b>Total</b>	<b>24.5%</b>	<b>3.4%</b>

Health contribution rates are based on the monthly gross salary, as well as other monthly income of an ongoing nature, of the employee.

Social contributions are applied up to statutory limits.

Self-employed individuals pay

**3.4%**

health contributions of not less than the double minimum salary established by Law,

and social contributions at

**23%**

of not less than the minimum salary established by Law.

## Other taxes and duties

Customs duties

Excise duties

Real estate tax

Municipality taxes

### Customs duties

Albania uses the Harmonized Code System for tariff classification.

Import of machinery and equipment for use in the business activity of the taxpayer are generally zero rated for customs duties purposes.

The customs duties range from

**0% to 15%**

depending on the type of good.

### Excise duties

Albania levies excise tax on products such as:

- alcoholic drinks
- tobacco
- cigarettes
- by-products of petroleum
- fireworks
- pneumatic tyres
- incandescent lamps
- plastic
- glass
- mixed packages.

### Real estate tax

Entities that own real estate property in Albania are subject to real estate tax.

It is calculated based on the location of the building and the purpose for which the building is used.

Real estate tax on agricultural land is levied on each hectare and varies, depending on the district where the agricultural land is located and on the land productivity categorisation.

Real estate tax on non-agricultural land is levied per square metre and varies, depending on the district where the land is located.

### Municipality taxes

Municipality taxes (or local taxes) depend on a number of factors, such as type of activity, municipality where the business is located and the annual turnover.

Examples:

- Tax on cleaning.
- Tax on the occupation of public space.
- Tax on billboards.
- Tax on education.

# Contacts

You can get further information from our tax team at PwC Office in Tirana.

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