

Issue 01/15

To keep you up-to-date with the latest economic and financial developments, this bulletin prepared by our Tax Team provides information that may affect the operation of your business in Albania.

Reference rent prices for tax purposes

On 3rd of June 2015 the Council of Ministers approved the Decision no. 469 "On Determination the Minimum Rent Prices for Tax Purposes" (the "Decision").

The Decision establishes that the minimum rent price of buildings for tax purposes (to be used as a reference from tax authorities) is 0.3% of the sale (reference) price of those buildings, as indicated in the decisions of the Council of Ministers on approval of average cost of buildings by the National Housing Body (*Enti Kombetar i Banesave*).

The reference rent price levels for premises used for business activity or for parking in Tirana, are the following:

- for premises used for retail sale of goods or services, the reference rent is twice of the minimum price mentioned above;
- for premises used as offices or warehouses, the reference rent is the same with the minimum price;
- for buildings privatized under the Law no. 7652/1992, the reference rent is 70% of the minimum rent price;
- for garages and basements, the reference is 70% of the minimum rent price and for open parking areas is 30%.

The reference rent price levels for premises used for business activity or for parking in other cities are lower.

In addition, the Decision requires public notaries to submit to Regional Tax Directorate until 15 July 2015 information for lease contracts in force. Within the 5th day of each following month, the notaries must submit information regarding new lease contracts entered into during the previous month.

New tax incentive for technology and economic development zone (free zones)

Albanian Parliament approved on 28th of May 2015 the Law no. 54/2015, amending Law no. 9789/2007 "On Establishing and Functioning of Economic Zones", aiming *inter alia* to create an effective administrative process to provide essential government services through 'a single window' for zone developers and zone users, and to ensure that reliable infrastructure is provided by the state to the boundaries of the zone.

In addition, the new Law grants additional tax incentives to businesses operating in an economic zone (now called "Technology and Economic Development Zone").

The new tax incentives consist in the following:

- Zone developers and zone users are eligible to a reduced profit tax rate (equal to 50% of the profit tax due for the first five years);

- Zone developers and zone users benefit from a tax deduction of 20% of their annual capital expenditure (this applies in addition to the normal depreciation), for a period of two years, during the first three years of investment;
- Zone developers are exempted from the tax on impact of new construction on infrastructure;
- New constructions on the zone are exempted from the tax on building for a period of five years;
- Zone developers and zone users are exempted from the tax on transfer of immovable property;
- An amount equal to 150% of wages and social & health contributions paid by employers in the zone is recognized as tax deductible during the first year of operation. In the subsequent years, any additional expense for wages and social & health contributions (compared to the previous year) shall be deductible at the level of 150 percent;
- Training costs and research & development expenditure are recognized for tax purposes at a level of 200% of the amount actually incurred. This benefit applies for a period of 10 years from the commencement of the business activity.

It is worth noting that for the first time the Albanian legislator introduced the concept of “virtual tax expenses”, which are special deductions made while calculating the taxable profit (i.e. an additional value is added to the incurred expense only for tax purposes).

The Law imposes also certain restrictions on eligibility of the tax incentives, such as that an existing business cannot be transferred in the zone with the only purpose of benefiting from the tax incentives, or that the goods produced in the zone cannot be sold in Albania with a price lower than what is considered “market value”.

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