

Issue 05/16

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.

2017 Fiscal Package

The 2017 Fiscal Package has been approved by the Parliament on 15 December 2016 and published in the Official Gazette on 27 December 2016, except for the changes to Income Tax Law (law no. 8438/1998) which are still to be proclaimed by the President and to be published.

We are highlighting below some of the important changes introduced with this Fiscal Package.

Income Tax (law no. 8438/1998 “On Income Tax”)

An additional thin capitalization rule is introduced aiming to limit the financing of taxpayers through debt instead of equity.

Specifically, in case of loans and funding from related parties, the ‘net interest expense’ will be considered deductible up to 30% of EBITDA (Earnings Before Interest Tax Depreciation and Amortization). Net interest expense means the interest expense less the interest income, within the tax period. The taxpayer has the right to carry forward the non-deducted part of the interest and claim its tax deductibility in the following periods, except when the taxpayer's ownership has changed by more than 50 percent. This thin capitalization rule does not apply to banks, non-bank credit financial institutions, insurance and financial leasing companies.

Details on implementation of this provision shall be determined by a forthcoming instruction of the Minister of Finance.

It will become effective as of 1st of January 2018 and shall apply to the interest expense that pertains to 2018 financial statements.

In addition, the new law has clarified that amounts paid by banks in the form of annual and extraordinary contributions in accordance with the Law “On the Recovery and Extraordinary Intervention in the Albanian Banks”, are tax deductible expenses. This provision will enter into force 15 days after publication of the law in the Official Gazette.

National Taxes (law no. 9975/2008 “On National Taxes in the Republic of Albania”)

The most important amendments in the National Tax Law, effective as of 1st of January 2017, are the following:

- change of definition of luxury vehicles by including vehicles having a value equal to or exceeding Leke 5 million (*before the value was Leke 7 million*);
- biofuel becomes subject to circulation and carbon taxes. These taxes shall be paid for the diesel and petrol that is mixed in the biofuel (having customs code from 27102011 to 27102019, 27102090, and 38 26 00); the bio part of the biofuel will continue to be exempt;

- an exemption from circulation and carbon taxes is introduced for fuels (diesel and petrol) which are produced in Albania and are exported;
- royalty tax rate for the metallic minerals being part of a mineral byproduct is reduced to ½ of the rate of the mineral itself; in addition, metallic minerals to be processed within the country will be subject to a reduced royalty tax rate at ½ of the mineral rate;
- the royalty tax for the pyro-bitumen is reduced from Leke 2,371/ton to Leke 186/ton;
- the tax on packaging produced from recycled plastic waste generated in the country is significantly reduced (only for the domestic recycling industry) from Leke 50/kg to Leke 1/kg.

Excise Tax (law no. 61/2012 “On Excise Tax”)

Changes in the Excise Rate

The new law has abolished the increase of excise rate for tobacco products, which was anticipated to take place as of 1st of January 2017.

In 2017, the excise tax for cigarettes will continue to be Leke 5,500 for 1,000 cigarettes. From 1st of January 2018 the excise tax is planned to be increased at Leke 5,750 for 1,000 cigarettes. It will continue to increase annually until it reaches Leke 6,500 for 1,000 cigarettes in 2021.

The tax rate for cigarillos and cigars will be increased in year 2017 from Leke 2,500/kg to Leke 4,400/kg.

For other manufactured tobacco, the tax rate will not change (as initially planned) but will remain the same i.e. Leke 4,400/kg. However, a reduced tax rate of Leke 2,500/kg shall apply for the tobacco manufactured from leafs grown in Albania.

Another excise rate increase concerns liquid gas (GLN) used for combustion on vehicle motors. The excise rate becomes Leke 8/liter (previously it was nil).

The new law is effective as of 1st of January 2017.

Other Changes

The new law allows the importers to fix the excise stamps in customs warehouses. Currently, such process can be performed only in the excise warehouses.

The current Excise Law provides for different penalties for the same breach depending on the nature of the excise product. The new amendment has changed this approach by setting penalties based on the type of the breach.

Customs Tariffs (law no. 9981/2008 “On Approval of Customs Tariffs”)

The amendment provides for the reduction of customs tariffs to zero percent for the following goods: (i) raw materials used in the inward processing industry, and (ii) imported pet coke (with customs code 27040).

The new tariffs are applicable as of 1st of January 2017.

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Boga & Associates

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