

### Albania

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.

The Minister of Finance, by beginning of November 2011, issued two instructions amending existing Instructions on VAT and Income Tax.

#### **Amendment to Instruction no. 17, dated 13.05.2008 “On Value Added Tax”**

Instruction no. 25, dated 08.11.2011 introduces some clarifications on application of “reverse charge mechanism” in case of services provided to Albanian taxpayers by foreign suppliers, as follows:

- if the Albanian taxpayer provides only VAT exempt supplies, it may not deduct the input VAT applied in the reverse charge invoice;
- if the service rendered by a foreign supplier to an Albanian taxpayer is VAT exempt in Albania, the reverse charge scheme is not applicable;
- if the place of supply of services from a foreign service provider is deemed to be in Albania, the foreign service provider becomes liable to appoint a VAT representative in Albania, irrespective of the turnover (i.e. the threshold rule shall not apply).

The Instruction determines also (i) the categories of services which shall be considered as supply of medical services subject to VAT at 10%; (ii) the categories of educational services which are VAT exempt; and (iii) introduces new rules on formalities for documenting the return of products exported by Albanian taxpayers, through issuance of a credit note.

#### **Amendment to Instruction of Minister of Finance no. 5 dated 30.01.2006 “On Income Tax”**

One of the changes that Instruction no. 24, dated 07.11.2011 (amending Instruction no. 5/2006) introduces affects the contributions in cash to a commercial company by individuals in the ambit of share capital increase.

Under the provisions of Income Tax Law, whenever the income serving to pay such contributions has not been subject to taxation at the moment of share capital increase, the individual should pay the 10 percent tax. The procedures of declaration and payment are indicated in the Instruction no. 5/2006 as amended. The tax office issues a certificate confirming that the said income has been subject to taxation.

The novelty of Instruction no. 24/2011 is that the National Registration Center will not proceed with the increase of share capital if the above mentioned certificate is not presented.

The other amendment introduced by the Instruction no. 24/2011 regards the rate of interests to be paid by the taxpayer under the new rules on payment of tax on profit installments.

According to the latest amendments to Income Tax Law, a taxpayer can request the reduction of tax on profit installments at any time during the taxable period, provided that the tax on profit for the current period will be lower compared to the previous period or the period preceding this one.

To avoid any potential abuse with the taxpayer's right for reduction of tax prepayments, the law requires the taxpayer to pay interest (at a rate to be defined by the Minister of Finance) if the tax on profit shown in the annual declaration differs from the prepaid tax amount by more than 10 percent.

Instruction no. 24/2011 specifies that such interest shall be 5 percent.

# BOGA & ASSOCIATES

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