

Albania | Issue 01/10

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

Amendments to Tax Procedures Law, VAT Law and Income Tax Law

The Parliament recently approved amendments to Tax Procedures Law (no. 9920, dated 19.05.2008), VAT Law (no. 7928, dated 27.04.1995) and Income Tax Law (no. 8438, dated 28.12.1998).

Law no. 10209, dated 23.12.2009 amending the Tax Procedures Law and Law no. 10215, dated 21.01.2010 amending the VAT Law were published in the Official Gazette as of 18 January 2010 and 12 February 2010, respectively, and became effective 15 days after their publication.

Law no. 10228, dated 04.02.2010 amending the Income Tax Law has been proclaimed by the President, but to date it has not been published in the Official Gazette.

Below you will find a brief summary of most important changes:

Amendments to Tax Procedures Law

Tax obligations up to Leke 100: Tax obligations up to Leke 100 are considered as “tax obligations at zero value”. Previously, such limit was Leke 1,000. Tax authorities may not initiate procedures for enforcement collection of tax obligations up to the said limit.

Penalties threshold: The amendments regarding penalties applicable in cases of taxpayer’s infringements are summarized below:

- penalty related to a tax obligation may not exceed 100% of the tax obligation amount;
- penalty for delayed payment of taxes and submission of an incorrect tax declaration and incorrect request for reimbursement may not exceed 25% of the unpaid tax obligation or of the tax reimbursement requested in excess. The minimum of the penalty amount of Leke 10,000 for such infringement is abrogated;
- taxpayers that requested reassessment of their initial tax returns will now be subject to the penalty for late payment of the tax obligation (besides payment of the additional tax obligation and interest for delayed payment);
- new penalties are introduced for failure to use cash machine. For certain infringements, the penalty amount is increased in comparison with the previous provisions;

- purchase and use of cash machines from entities not licensed by the Ministry of Finance, is subject to a penalty amounting to Leke 100,000 and seizure of the cash machine.

Declaration of new employees: The employer shall declare the new employees with the tax authorities, 24 hours prior to initiation of the employment (instead of 48 hours provided previously). Failure to perform such declaration within the deadline is subject to a penalty of Leke 50,000 applicable to small business entities and Leke 100,000 for VAT registered entities.

Amendments to VAT Law

New VAT exempt supplies: The following are the new VAT exempt supplies:

- educational services supplied by private and public educational institutions, starting from October 1st 2010;
- services performed outside the Albanian territory by a taxable person whose place of activity or residence is in Albania (that was considered under the previous provisions of VAT law as an export of services i.e. taxable supply at 0% rate).

Importation of military materials donated by NATO members or its partners is no longer a VAT exempt supply. Instead, the VAT related to such importation is paid as a local cost by the Ministry of Defense.

Export and international transport: Minister of Finance and Minister of Public Works, Transport and Telecommunication shall determine (upon a joint instruction) the specific categories of supply related to the international transport of goods and passengers (considered as export and taxable at 0% rate).

Amendments to Income Tax Law

Taxable income: Contributions *in cash* of shareholders for increase of the company's share capital, which derive from sources out of the company (e.g. other than profits carried forward), which have not been previously taxed although subject to taxation, and are not supported with official documents proving their origin, are taxable income. The respective procedures are yet to be determined upon instruction of the Minister of Finance.

Persons subject to tax on profit: Persons (legal entities and sole entrepreneurs) having an annual turnover from Leke 5 to 8 million, are not subject to profit tax. They are liable for VAT and pay personal income tax on small business.

Approval and filing of financial statements and destination of profit after tax: Not only the commercial companies but also individuals that are subject to tax on profit shall (i) adopt within 6 months from closure of the financial year, the resolution approving the financial statements and defining the use of the profit/income, and (ii) file such resolution with the tax authorities within 31st July. Such resolution should be filed with the tax authorities even in cases of losses or no profit for the said year.

Failure to file the resolution on approval of the financial statements and use of profit with the tax authorities is subject to a penalty of Leke 10,000 (for both commercial companies and individuals) for each month or part of the month of delay.

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