

BOGA & ASSOCIATES

**Investment in Albania**  
**2007**

*Legal Tax Accounting*

A photograph of a modern building with a glass facade, viewed from a low angle against a clear blue sky. The building's structure is composed of large glass panels and white frames, creating a grid-like pattern. The sky is a deep, uniform blue, occupying the upper two-thirds of the image. The building's edge is visible in the bottom right corner, showing a series of windows and a white ledge.



# Investment in Albania

2007



# Preface

Investment in Albania is published by Boga & Associates to provide information for those considering investing or conducting business in Albania.

The information presented in this publication has been carefully researched, and proper measures have been taken to ensure the information is correct and reflects the current situation as of May 2007 unless otherwise stated. Investment in Albania offers a brief look into the history and development of the political, economic and social structures that have shaped and now define Albania. Due to the continuous growth and constant change in Albania it is important to obtain further information before concluding any decisions regarding investments.

Albania is rich in history and culture, has bountiful natural resources and immeasurable beauty. This combination of these assets demonstrates the overwhelming potential for investors and will no doubt sustain the continuous growth of the Albanian economy.

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***The information contained in Investment in Albania is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation***

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# Investment in Albania

## Chapter 1

### Brief Survey

#### Geography and Climate

Albania is a southeast European country. It is located in the west of the Balkan Peninsula and covers a surface of 28,748 km<sup>2</sup>. Albania borders the Republics of Serbia and Montenegro in the north and east, the Former Yugoslav Republic of Macedonia in the east, and Greece in the south. Kosovo (Kosova in Albanian) borders the northeast of Albania. Albania has access to the Adriatic and Ionian Seas in the west. The terrain is mostly mountainous. The average altitude of 708 meters is about twice as high as the European average. The country offers numerous beautiful landscapes, archaeological sites, historic castles and other tourist attractions. The climate is Mediterranean with dry hot summers and cool rainy winters. Average rainfall is 1,300 mm per annum.

Albania is in the Central European time zone and hence is one hour ahead of GMT. Between April and October it switches into daylight saving time, i.e. GMT+2.

#### Population and Language

The population of Albania is approximately 3.2 million and its capital, Tirana, has a population of some 700,000 inhabitants. Before 1990 more than 60 percent of the population lived in rural areas. After this date there was considerable internal migration from rural areas to urban ones and from small towns to bigger cities, especially to Tirana.

Since 1990, Albania has also experienced massive emigration. It is estimated that 15 percent of the population currently lives outside the country, the most frequent destinations of Albanian emigrants being Greece and Italy.

The official language is Albanian. The Albanian language belongs to the Indo-European languages family. Italian and English are the most commonly spoken foreign languages in the country.

#### Currency

Albania's official currency is the Lek (ALL). Monetary policy is under the control of the Bank of Albania (BoA). The BoA issues the money in circulation, manages foreign currency reserves and supervises the banking system.

Up until 1996, the Lek remained relatively stable (1 USD was equal to 100 ALL). Following

the crisis of 1997, the Lek lost approximately 80 percent of its value against the US dollar and other currencies. More recently, the exchange rate trends of the Lek against the euro and the US dollar have reflected the performance of these two currencies in international markets. For the second year in the row in 2006, after a long period of appreciation, the Lek's appreciating dynamic went downward. During 2006 the Lek continued to appreciate against the US dollar, but slightly deappreciated against the euro. Bank of Albania argues that strong economic growth has been supporting the Lek appreciation. The current exchange rate is 1 USD = 93.05 ALL and 1 EUR = 126.32 ALL (Bank of Albania, 2 May 2007).

## Government and Political System

Albania is a Parliamentary Democracy. The Parliament of 140 seats is elected every four years through general elections. According to the Constitution, the Parliament (known as the Assembly of Albania) elects the President for a five-year term. The President appoints the Prime Minister who is the head of the Council of Ministers, the highest executive body in Albania. Ministers are nominated by a presidential decree based on the Prime Minister's recommendation. The Parliament gives the final approval on the composition of the Government.

The country is divided into 36 districts grouped into 12 prefectures. The Prefects are appointed by the Council of Ministers. Local elections are held every three years and out of these District Councils are elected. The latter appoint the District Governor. City mayors are directly elected by voters.

The judicial system consists of the Constitutional Court, the Supreme Court, Appeal Court and District Court.

## A Brief History of Albania

Albanians are one of the most ancient populations in the region. According to historic data, they are descendants of Illyrians, who settled in the Balkan Peninsula at the end of the Neolithic period and at the beginning of the Bronze Age. In fact, the name of the country, Albania, derives from one of the Illyrian tribes called "Albanoi". In Albanian, Albania is called Shqipëri, meaning the land of eagles.

At the end of the 14th and the beginning of the 15th century, the Ottoman Empire began its expansion towards the Balkans and Albania became a battlefield. In 1443-1468 Gjergj Kastriot Scanderbeg, today a national hero united the Albanian provinces and organized a successful revolt against the Ottoman army. For 25 years the Turks were kept out of Albania. However, after his death the Ottoman Empire gained control of the entire country for about five centuries. Albania proclaimed its independence in 1912. At the London Conference of Ambassadors in 1913, the present borders of Albania were sanctioned by the Great Powers of the time.

In 1928 Ahmet Zogu declared Albania a kingdom and became "King of Albanians", Zogu I. He fled the country in April 1939, when Italy occupied Albania. After the capitulation of Italy, the Germans occupied Albania until the end of 1944. The Albanian Communist Party, later

called the Labour Party of Albania (PPSH), led by Enver Hoxha, came into power after the defeat of the Germans at the end of World War II. For about 45 years Albania was under the rule of the most totalitarian regime in Eastern Europe. All farms and small industries were nationalized and the whole economy was centrally planned and managed through larger-scale state enterprises. Albania cut its economic and diplomatic relations, first with the Soviet Union in the early 1960s, and then with China at the end of the 1970s, remaining totally isolated from the rest of the world. Inefficiency, mismanagement of the economic system and disregard of human rights brought the country to stagnation.

With the fall of the Berlin Wall by the end of 1989 and when major political changes overwhelmed the ex-communist countries in the early 1990s, Albania, too, embarked on the road to transition towards a democratic society and a free market economy.

Supported by the international community, Albania seemed to make some progress and the economic indicators were promising. However, a lack of strong institutions, incomplete financial reforms and an undeveloped banking sector led to the development of fraudulent pyramid schemes, in which most Albanians had invested their savings (the World Bank and IMF estimate that USD 1.2 billion was lost in these schemes). Their subsequent collapse in 1997 caused severe civil disorder. Over half a million weapons were stolen from military depots.

The new government elected in June 1997 made considerable efforts to restore law and order. A new constitution was approved by a national referendum in November 1998. Nonetheless, the recovery process slowed down again in early 1999 with the outbreak of the Kosovo crisis. During this crisis, Albania, supported by the international community, hosted more than 450,000 refugees. After the conflict was resolved, with the initiative of the US and the EU, a Stability Pact for the entire Balkan region was designed with the intention of bringing economic development to the region, as well as social stability and empowerment of the democratic and legal institutions.

The new government elected in July 2005 has a quite challenging agenda. Its main targets are the development and consolidation of a democratic state by strengthening the existing institutions infrastructure, fighting widespread corruption and restoring equality before the law, encouraging a fast and well balanced economic growth, integrating Albania into the European Union and NATO.

On 18 February 2006 the government of Albania and the European Union signed the Stabilization and Association Agreement (SAA). The EU Commissioner for Enlargement, Mr. Olli Rehn and Albania's Minister of Foreign Affairs, Mr. Besnik Mustafaj inked the agreement on behalf of the EU and the Albanian Government, respectively. The final approval of this agreement is signed on 12 June 2006 at the EU summit in Vienna.

## **Visa system for foreigners traveling to Albania**

Albania is relatively easy to access. Before traveling to Albania, foreigners should contact the diplomatic and consular representations of the Republic of Albania abroad to check if rules have changed. Foreign citizens can enter the Republic of Albania after presenting valid

passports and entry visas issued by diplomatic or consular representations of the Republic of Albania abroad. The passport should be valid for at least six months after the validity of the visa. A visa shall be issued if the relevant person presents to the Albanian diplomatic or consular representation an invitation from an institution or private person resident in the Republic of Albania.

## Holders of ordinary passports

- a. Foreign citizen holders of ordinary passports can enter Albania without an entry visa if they are citizens of the states noted in Chart 1. They have to present their valid passports at the border crossing point, where they pay an entry fee of Euro 10, and are granted a stay permit of 90 days. The entry fee is established on the basis of reciprocity. Foreign citizens must have the necessary currency to sustain themselves during their stay in the Republic of Albania.

Table 1

### Chart 1 – Country

|                  |             |             |
|------------------|-------------|-------------|
| Australia        | Greece      | Portugal    |
| Austria          | Netherlands | San Marino  |
| Belgium          | Ireland     | South Korea |
| Canada           | Iceland     | Spain       |
| Denmark          | Italy       | Sweden      |
| Finland          | Japan       | Switzerland |
| France           | Luxembourg  | Turkey      |
| Germany          | New Zealand | USA         |
| Great Britain    | Norway      | Bulgaria    |
| Czech Republic * | Estonia     | Hungary     |
| Croatia          | Latvia      | Lithuania   |
| Liechtenstein    | Malaysia    | Malta       |
| Poland*          | Rumania     | Cyprus      |
| Singapore        | Slovakia    | Slovenia    |

\* entry without tax

## Holders of diplomatic and service passports

- a. Foreign citizens, holders of diplomatic or service passport and residents of the countries noted in Chart 1, as well as citizens who are resident in the countries with which there is a bilateral agreement as given in Chart 2, can enter the Republic of Albania without a visa. The aforementioned citizens are allowed to stay in Albania for up to 90 days.
- b. Pursuant to bilateral agreements, Albanian citizens who hold diplomatic or service passports can travel to the countries given in Chart 2 without an entry visa with a stay permit up to 90 days.

## Chart 2 – Country

|           |                              |              |
|-----------|------------------------------|--------------|
| Algeria   | Great Britain                | Romania      |
| Argentina | Greece                       | Russia       |
| Australia | Holland                      | San Marino   |
| Austria   | Hungary                      | Slovakia     |
| Belgium   | Island                       | Slovenia     |
| Bulgaria  | Italy (diplomatic passports) | Spain        |
| Canada    | Japan                        | South Africa |
| Chile     | Luxembourg                   | South Korea  |
| Croatia   | Macedonia                    | Sweden       |
| Cuba      | Malaysia                     | Switzerland  |
| Denmark   | Montenegro                   | Turkey       |
| Egypt     | New Zealand                  | Uruguay      |
| Finland   | Norway                       | USA          |
| France    | Poland                       |              |
| Germany   | Portugal                     |              |

## Living and working conditions

### Working permit

Foreigners wishing to work in Albania for a period of more than three months should obtain the working permit issued by the Ministry of Labor and Social Affairs.

However, should the foreign individuals fall into the following categories an exemption from the working permit is provided:

- a. representatives and employees of the diplomatic representative offices of the international organization with a diplomatic status;
- b. representatives of non profit governmental organizations;
- c. executive directors and important employees of foreign companies who exercise or intent to conduct activity in Albania;
- d. specialists in the framework of bilateral and multilateral agreements;
- e. staff of international transportation of goods and people;
- f. lectures, members of scientific staff, university lectures/professors, members of scientific staff of private scientific organizations, if there is a public interest, due to their particular knowledge;
- g. representative of mass media, correspondents or reporters, working for foreign employers;
- h. university students participating in exchange summer works based on the respective agreements.

The documents required in the context of application with the Ministry for obtaining the working permit, are the following:

1. Personal request of the employee including a brief summary of the applicant's work experiences;
2. Application form for the work permit to be filled and signed by the employer supporting the request for the working permit of the employee (pre-stamped form);
3. Declaration of the employer for the employment of one foreigner towards two Albanian citizens;
4. Passport photocopy as well the photocopy of the page showing the last entry into Albania;
5. Degree or professional certificate;
6. Criminal records certificate of the employee issued in the country of origin;
7. Medical certificate issued by the relative authorities in the country of origin or in Albania;
8. Labor contract entered into between the employer and the employee;
9. Court decision for the registration of the employer with the commercial register;
10. Certificate of registration of the legal entity with the tax authorities;
11. Declaration of employees (pre-stamped form), which is quarterly submitted to the Employment Office, indicating the number and the relevant information of the employees;
12. Declaration of employees (pre-stamped form) which is quarterly submitted to the Tax Authorities, indicating the payment of social and health contributions of the employees;
13. Notice addressed to the Employment Office in Tirana to indicate the job vacancies in the company;
14. Five (5) photos size (3.4 x 4.5)

The Ministry will issue its decision on the working permit application within 30 days from the date of the submission of the documentation. Official fee for the work permit is ALL 6,000 or approximately EUR 50.

Once the foreigner obtains the working permit application for the residence permit should be made.

### *Residence permit*

Foreigners who enter in the Republic of Albania and will stay more than 90 days must apply for the residence permit to be issued by the Ministry of Interior.

In order to obtain the residence permit, the following documents must be submitted at the Local Police Station, where the foreigner resides:

1. Personal request indicating the reason of the residency in Albania;
2. Application form (pre-stamped form) for the residence permit to be filled and signed by the applicant;
3. Passport photocopy as well the photocopy of the page showing the last entry into Albania;
4. Copy of the work permit;
5. Criminal records certificate of the applicant issued in the country of origin;
6. Family certificate, if applicable;
7. Employer's certificate indicating the reason of residency of the employee;

8. Copy of the lease agreement for the premises, where the employee is residing;
9. Court decision for the registration of the employer with the commercial register;
10. Certificate of registration of the employer with the tax authorities;
11. 2 (two) photos size (3.4 x 4.5).

The Ministry will issue its decision on the working permit application within 30 days from the date of the submission of the documentation. The total official fee for the residency permit is ALL 24,000 or approximately EUR 200.

The person applying for the work and/or residency permit must be personally present in the moment of the delivery of the documents as well as in the moment of the withdrawal of relevant permits.

All documents required for the issuance of the work and/or residency permit should not be older than three months from the date of application with the Local Employment Office and/or Police Station.

In order to obtain work and/or residence permits, all documents executed abroad should be legalized with Apostille in accordance with the Hague Convention of October 1961, applicable in Albania since 2003. They shall be then translated into Albanian language and notarized by a notary public.

## Accommodation

Tirana offers the best opportunities for accommodation. Almost all the major hotels and well-known restaurants accept credit cards. However, Albania remains predominantly a cash society and most payments in shops, restaurants etc., are settled in cash. A good source of information on hotels throughout Albania and respective rates is [www.albania-hotel.com](http://www.albania-hotel.com).

Foreigners that plan to stay longer in Albania can rent houses and apartments. The rental cost for 100 m<sup>2</sup> is approximately USD 600. There are several real estate agencies operating in Tirana, although the market is not very developed and the best way to find good accommodation is through Albanian colleagues or the foreign community.

Good restaurants, which are widespread in Tirana, usually offer Italian cuisine combined with Albanian specialties. A list of some good hotels and restaurants is included in Appendix A.

The state administration works five days a week from 08.00 to 16.30 hrs Monday through Thursday. Working hours on Friday are from 08.00 to 14.00 hrs. The Banks operate from 09.00 to 15.00 hrs, whereas most shops are open everyday from 09.00 to 19.00 hrs.

The only civil airport in Albania is Rinas Airport, named after Mother Theresa, which is about 25 minutes drive from Tirana. Taxis are easy to arrange, but prices should be negotiated in advance. A one-way taxi journey into the city is approximately USD 20-25.

Telecommunication is still a challenge in Albania, as some areas are rather difficult to access via telephone. Mobile communication services are offered by two distributors, Albanian Mobile Communication and Vodafone, covering almost all Albanian territory.

## Chapter 2

# Business Opportunities

### Economy

The year 2006 was marked by increased sales volumes; low inflation consistently within the range set by the Bank of Albania (BoA) of 2-4 percent, improved revenue performance and increased credit to the economy by the banking sector, along with a stable monetary situation.

### Economic Indicators

Inflation remained subdued, averaging 2.4 percent for 2006. According to BoA the controlled inflation was also supported by low oil prices at the second part of the year that helped reducing the costs of production and transport. The decline in food and agricultural products prices weakened the overall increase in prices during the first half of the year despite upward pressures on prices from rents and utilities. The Lek also contributed somewhat to low inflation levels even though its appreciation trend went downward in 2006.

Capital investments realized below the planned levels coupled with the serious electrical power shortages during Q4 negatively impacted the economic growth rate and restrained economic activities. However, according to Bank of Albania, the economy grew in real terms in 2006 by 5.0 percent, less than the forecasted level.

|   | 2002  | 2003  | 2004  | 2005  | 2006  |
|---|-------|-------|-------|-------|-------|
| Nominal GDP ALL (Bn)                            | 624.7 | 682.7 | 766.4 | 836.8 | 896,3 |
| Nominal GDP USD (Bn)                            | 4.459 | 5.600 | 7.455 | 8.385 | 9.136 |
| Nominal GDP/Capita (USD)                        | 1,441 | 1,800 | 2,427 | 2,674 | 2.855 |
| <i>Growth Rate (%)</i>                          |       |       |       |       |       |
| Real GDP  | 2.9   | 5.7   | 5.9   | 5.5   | 5.0   |
| Retail prices (avg.)                            | 5.2   | 2.4   | 2.9   | 2.4   | 2.4   |
| Retail prices (end of period)                   | 1.7   | 3.3   | 2.2   | 2.0   | 2.5   |
| <i>Savings-Investment Balance (in % of GDP)</i> |       |       |       |       |       |



|                  |      |      |      |      |      |
|------------------|------|------|------|------|------|
| Foreign Savings  | 7.2  | 5.5  | 3.8  | 5.5  | 5.9  |
| Domestic Savings | 17.4 | 17.9 | 20.0 | 18.6 | 19.2 |
| -Public          | 0.0  | -0.1 | 0.1  | 1.4  | 2.6  |
| -Private         | 17.4 | 18.0 | 19.9 | 17.2 | 16.7 |
| Investment       | 24.5 | 23.4 | 23.8 | 24.2 | 25.1 |
| -Public          | 6.7  | 4.6  | 5.0  | 5.2  | 5.7  |
| -Private         | 17.8 | 18.8 | 18.8 | 19.0 | 19.4 |

Source: Bank of Albania, IMF, Ministry of Finance

The following table presents the origins of the Albanian Gross Domestic Product through the years.

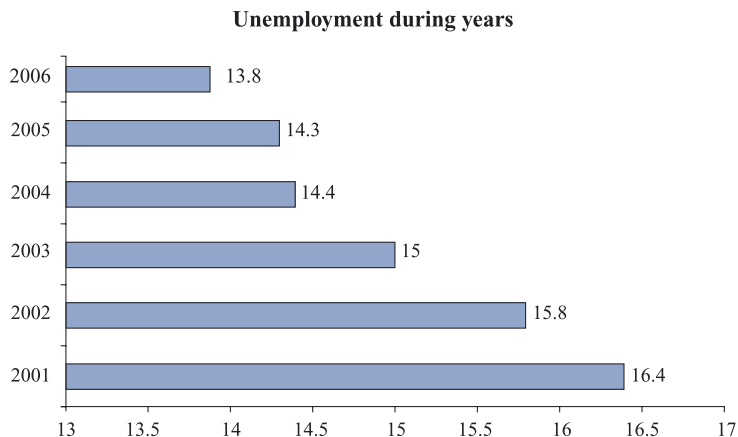
| In % of total  | Table 2 |      |      |      |       |
|----------------|---------|------|------|------|-------|
|                | 2002    | 2003 | 2004 | 2005 | 2006* |
| Industry       | 10.8    | 13.0 | 13.5 | 9.5  | 10.1  |
| Agriculture    | 26.3    | 24.0 | 23.4 | 21.9 | 21.5  |
| Construction   | 7.9     | 8.1  | 8.5  | 16.5 | 17.3  |
| Transport      | 11.2    | 12.1 | 8.9  | 7.8  | 8.0   |
| Other services | 43.6    | 42.8 | 45.7 | 44.3 | 43.1  |

Source: Bank of Albania – 2006. \*Preliminary data.

Albania's economic growth is helping to improve the country's labor market, whose jobless numbers have been improving in the last several years. The unemployment rate was 13.8 percent for 2006, the lowest level in recent history. (GRAPH 1).

Source: INSTAT, Bank of Albania

GRAPH 1



### Fiscal Indicators

In 2005, the overall fiscal deficit declined substantially as a result of new measures aimed at strengthening the revenue administration and rationalizing expenditures. (Refer to Table 3). It reached the lowest level in the last seven years as a percentage of GDP, easing the burden it presents to financial resources for the economy. The deficit declined to 3.4 percent of GDP (from revenues of 24.4 percent of GDP and expenditures of 27.8 percent of GDP), well below the projected level of 5 percent of GDP.

In 2006, though public expenditures increased well over the revenues, causing budget's deficit upward.

Fiscal revenues were 98.4 percent of forecasted revenues in 2006 compared to 93.1 percent and 92.7 in 2004 and 2003 respectively. Expenditures on the other hand, recorded a limited increase of 0.9 percent in 2006 representing 95.4 percent of planned expenditures for the year.

Table 3

|                 | 2002               | 2003 | 2004 | 2005 | 2006 |
|-----------------|--------------------|------|------|------|------|
|                 | <i>In % of GDP</i> |      |      |      |      |
| Revenues        | 24.7               | 24.5 | 24.1 | 24.4 | 24.6 |
| Expenditures    | 31.4               | 29.0 | 29.2 | 27.8 | 28.7 |
| Overall Balance | -6.6               | -4.5 | -5.1 | -3.4 | -4.1 |

Source: Ministry of Finance, IMF

## Monetary Indicators

Bank of Albania has absorbed round 3.9 billion ALL during the first half of the year, passing on the injection trend during the rest of the year. This policy is justified by the BoA with the increasing demand for money and the concentration of the budgeted deficit at the end of the year. During 2006 the public sector's demand for money slightly increased by 3.3 %. Bank of Albania confirms that this relatively low level has balanced the high crediting of the private sector, influencing in the securing positive monetary stability.

Credit to the economy in 2006 experienced a strong surge with an increase in outstanding loans of 56.7 percent compared to 2005. At the end of 2006, outstanding loans totaled ALL 191.2 billion which translates to 21.3 percent of GDP compared to 14.6 percent at the end of 2005.

After increasing its repurchase agreement rate twice by 25 basis points to 5.5 percent 2006, as presented in Table 4, the BoA pursued a neutral monetary policy during the rest of the year holding the key interest rate unchanged. This policy was a result of the stable performance of consumer prices and low inflationary expectations by BoA officials. The Repo rate remains at the 5.5 percent level as of the date of this publication.

Table 4

|  | 2002   | 2003   | 2004   | 2005   | 2006  |
|--|--------|--------|--------|--------|-------|
| <i>Exchange Rates - Period Average</i>               |        |        |        |        |       |
| ALL / USD  | 140.1  | 121.9  | 102.8  | 99.8   | 98.1  |
| ALL / EUR  | 132.4  | 137.5  | 127.7  | 124.2  | 123.1 |
| <i>Annual ALL Interest Rates - End of Period (%)</i> |        |        |        |        |       |
| Deposits   | 9.25   | 7.62   | 5.99   | 5.57   | 4.94  |
| Loans (weighted avg.)                                | 15.98  | 10.52  | 13.73  | 12.16  | 12.92 |
| T-bills  | 12.62  | 9.49   | 8.1    | 6.91   | 7.14  |
| Core Interest Rate (%)                               | 8.50   | 6.50   | 5.25   | 5.00   | 5.50  |
| <i>Amounts in ALL (Bn) - End of Period</i>           |        |        |        |        |       |
| Deposits   | 282.34 | 320.46 | 366.80 | 425.50 | 463.5 |
| Loans  | 38.65  | 50.68  | 69.97  | 121.94 | 191.2 |
| Credit to Economy (in % of GDP)                      | 6.19   | 7.42   | 9.13   | 14.57  | 21.3  |

Source: Bank of Albania, IMF, Ministry of Finance

The World Bank's Board of Executive Directors discussed on January 10, 2006 the new Country Assistance Strategy (CAS) for Albania. The new CAS covers the period 2006-2009 and envisages a lending program of up to USD 86 million from the International Development Association (IDA) and USD 110 million from the International Bank for Reconstruction and Development (IBRD). The CAS aims to strengthen Albania's prospects for EU Accession by supporting key aspects of the Stabilization and Association process, the National Strategy for Social and Economic Development (NSSED), a governmental strategy that determines key macroeconomic and fiscal indices in support of the balance of payments, and the Integrated Planning

## **Privatization**

The privatization process is a key element for Albania's progress towards a developed market economy. According to the government, the privatization process aims to:

- Stimulate the Albanian economy through the efficient use of natural and human resources;
- Support and further develop the private sector;
- Attract strategic and financial investors;
- Create the conditions for the establishment of the capital market;
- Prepare and deliver a fast, efficient and credible privatization process encompassing all sectors.

The main privatization opportunities in Albania for the near future are:

## **In Energy**

- The privatization of the Power Production and Power Distribution sectors at the Albanian Power Corporation (KESH sh.a), with rebuilding preparations underway.

## **Telecommunication**

- Privatization of the remained 12% of the shares owned by the state in AMC (Albanian Mobile Communication).
- Privatizations of 76 % of the shares of Albtelekom, the only state owned fix Telephony Company in Albania.

## **In Hydrocarbons**

- The privatization of ARMO ShA, the state oil refining and distribution company (in process since 2004);
- The restructuring and privatization of Albpetrol ShA, the state oil and gas exploration and production company;

## In Water Supply and Transportation

- The concession of the Durres Port cereal and grain terminal;
- The concession of the Durres Port Train ferry terminal;
- Water supply systems in Berat and Kucove.

## Insurance

- INSIG ShA – the only state owned insurance company in the market. It operates in Albania, Kosovo and in Macedonia with life and non-life insurance products. 39 per cent of its shares are owned by IFC and EBRD.

Recently, the Albanian government introduced the Private Public Partnership (PPP) concept, within a new Concession Law, that guarantees more transparency and competitiveness. The government has started using PPP to grant concession to a number of small hydro-powers.

The institutions engaged in the privatization process are:

- Council of Ministers
- Ministry of Economy, Trade and Energy
- The regulatory authorities for the respective sectors
- Other Ministries related to the respective privatization sectors - General Directorates
- Public Procurement Agency
- Concession's Treatment Unit

The approval of a sale or a concessionary contract is the last step in the privatization process and is granted by the Council of Ministers. Preliminary efforts include an evaluation process approved by the Council of Ministers.

## Foreign Investments and Trade

According to the BoA, foreign direct investments for 2006 amounted to 259,8 million euro. This figure counts as 3,6 % of the Albanian GDP. FDI increased during 2006 with more than 35 million euros.

Table 5

| Foreign and jointly owned companies by activity | <i>New companies (not cumulative)</i> |      |      |      |      | Total active companies as at end of 2005 |
|---|---------------------------------------|------|------|------|------|--|
|   | 2001                                  | 2002 | 2003 | 2004 | 2005 |  |
| <b>Agriculture</b>                              | 0                                     | 1    | 1    | 0    | 0    | 3  |

|                     |    |    |    |    |    |     |
|---------------------|----|----|----|----|----|-----|
| <b>Industry</b>     | 24 | 22 | 17 | 28 | 29 | 228 |
| <b>Construction</b> | 9  | 10 | 3  | 4  | 6  | 52  |
| <b>Transport</b>    | 2  | 6  | 3  | 3  | 3  | 24  |
| <b>Commerce</b>     | 23 | 20 | 22 | 37 | 39 | 139 |
| <b>Services</b>     | 11 | 10 | 14 | 23 | 21 | 84  |

Source: INSTAT

Trade volumes have rapidly expanded in Albania since the beginning of transition. Imports have grown by an average annual rate of 19.1 percent while exports have grown 21.9 percent during the 1998-2005 periods. During the first four years of transition, Albania registered the strongest export performance in EU markets among all former centralized communist economies with an average rate of growth in the period 1993-1996 of 65 percent<sup>1</sup>.

Albania has joined the World Trade Organization in September 2000 and is currently implementing its tariff reductions schedule. According to the Albanian Center for International Trade (ACIT), the trade-weighted average import tariff has been eased from 15.3 percent in 1998 to 11 percent in 2000 and 7.41 percent in 2006.

Albania has also signed Free Trade Agreements with eight South-Eastern European countries.

Table 6

| <b>Principal exports 2006</b>       | <b>% of Total</b> | <b>Principal imports 2006</b>        | <b>% of Total</b> |
|-------------------------------------|-------------------|--------------------------------------|-------------------|
| Textiles & footwear                 | 57                | Machinery & Vehicles                 | 20                |
| Different manufactured products     | 2                 | Food, beverages & tobacco            | 17                |
| Food, beverages & tobacco           | 7                 | Building materials                   | 4                 |
| Minerals, metals and their products | 24                | Minerals, metals and their products  | 26                |
| Machinery                           | 4                 | Textiles & footwear                  | 9                 |
| Wood or other fiber                 | 2                 | Chemical industrial products, alloys | 8                 |
| Other                               | 5                 | Other                                | 16                |

Source: Albanian Center for International Trade

1. World Bank Country Economic Memorandum, Dec. 2004

## Geography of Trade in 2006

The following table presents the pattern of trade activity by region and country in 2006. (Table 7)

Table 7

| Partner Countries      | Exports            |               | Imports            |               | Trade Balance<br>(ml USD) |
|------------------------|--------------------|---------------|--------------------|---------------|---------------------------|
|                        | Amount<br>(ml USD) | %<br>of Total | Amount<br>(ml USD) | %<br>of Total |                           |
| <b>EU – 25</b>         | <b>696.43</b>      | <b>88</b>     | <b>1,913.90</b>    | <b>63</b>     | <b>-1,217.47</b>          |
| Germany                | 25.09              | 3             | 142.01             | 5             | -116.92                   |
| Greece                 | 75.22              | 10            | 512.05             | 17            | -436.83                   |
| Italy                  | 574.57             | 73            | 883.46             | 29            | -308.89                   |
| Austria                | 2.24               | 0             | 61.24              | 2             | -59.00                    |
| France                 | 5.54               | 1             | 27.09              | 1             | -21.55                    |
| Other EU               | 13.78              | 2             | 288.08             | 9             | -274.30                   |
| SEE Countries          | 64.18              | 8             | 205                | 7.9           | -140.82                   |
| UNMIK-Kosovo           | 13.15              | 4             | 11.2               | 0.4           | 1.95                      |
| FYROM                  | 12.64              | 2             | 39.5               | 1.5           | -26.86                    |
| Serbia & Montenegro    | 10.82              | 1             | 22.1               | 0.9           | -11.28                    |
| Croatia                | 2.26               | 0             | 26.3               | 1             | -24.04                    |
| Bulgaria               | 3.28               | 0             | 80.9               | 3.1           | -77.62                    |
| Romania                | 0.65               | 0             | 20.8               | 0.8           | -20.15                    |
| Bosnia and Herzegovina | 4.36               | 1             | 3.3                | 0.1           | 1.06                      |
| USA                    | 3.44               | 0             | 23.3               | 0.9           | -19.86                    |
| China                  | 9.16               | 1             | 149.2              | 5.7           | -140.04                   |
| Turkey                 | 9.99               | 1             | 193.8              | 7.4           | -183.81                   |

Source: Albanian Center for International Trade

As it was the destination of 88 percent of exports and 63 percent of imports, the European Union is the main trading partner of Albania. Italy and Greece, Albania's most important trading partners generated 83 percent of the total exports and 46 percent of the imports.

## Opportunities and Incentives for Foreign Investors

Notwithstanding the difficulties and challenges, Albania is a country that offers many investment opportunities to foreign entities and individuals. The country has considerable natural

resources, including oil, gas, and coal, iron, copper, chrome, water and hydroelectric potential.

The privatization process in itself offers a wide range of options. Potentially high profit sectors include mining and oil extraction, both of which are export-oriented industries. Albania is the only country in Europe with substantial reserves of chromium which before 1990 made it the world's third largest producer of chrome ore. Nevertheless, significant capital investments and capacity upgrades are needed in order to modernize the old, outdated production methods. Other areas of interest include thermal and hydro power production, alternative sources of energy production, infrastructure, agriculture, light industry sectors such as textiles, leather and footwear, confections, and meat processing.

The privatization strategy explicitly seeks qualified foreign firms as strategic investors for these key sectors. The process has already attracted foreign investors, mainly from Greece, Italy and Turkey.

Tourism also offers great investment prospects. Albania has spectacular mountain scenery, a beautiful and pristine coastline, and ancient history and culture. Tourism could be one of the main attractions for foreign investors in the future, but currently Albania lacks the proper infrastructure to promote investments in this sector.

Investors in Albania enjoy full legal protections in regards to their investments. Private investments cannot be nationalized, expropriated, or subject to any similar measure, except in special cases provided by law such as public interest. Parties to a dispute may agree to submit claims for consideration by an arbitration institution. Foreign investors have the right also to submit disputes to an Albanian court.

Other legal incentives include:

- Equal treatment of foreign and domestic investors;
- Full profit and dividend repatriation, after taxation;
- Repatriation of funds from liquidated companies;
- Bilateral agreements on the promotion and protection of reciprocal investments with Austria, Belgium, Bulgaria, China, Croatia, Czech Republic, Denmark, Egypt, Finland, France, FYROM, Germany, Greece, Hungary, Israel, Italy, Luxembourg, Malaysia, the Netherlands, Poland, Portugal, Romania, Slovenia, Sweden, Switzerland, Tunisia, Turkey, United Kingdom and United States.
- Double taxation treaties in force with the following countries: Belgium, Bulgaria, China, Croatia, Czech Republic, France, FYROM, Greece, Hungary, Italy, Malaysia, Malta, Moldova, Norway, Poland, Romania, Russian Federation, Sweden, Switzerland, Turkey, Egypt, the Netherlands, UNMIK Kosovo and Serbia and Montenegro. Double taxation treaties are under negotiation with Austria, Germany, Iran, Lebanon, South Korea, and Ukraine.



## Chapter 3

# Business Entities

### Types of Business Entities

The foreign investor has numerous options available for organizing business operations in Albania. This may be achieved either by forming a locally incorporated company or a branch of a foreign entity. Law no. 7638, dated 19.11.1992, "On Commercial Companies", provides the legal framework to establish a business in Albania. This law has several features in common with many other European commercial laws.

The business entities governed by this law are as follows:

- Sole Proprietorship - Personi Fizik ose Tregtar
- Unlimited Partnership – Shoqeri kolektive
- Limited Partnership – Shoqeri komandite
- Limited Liability Company – Shoqeri me pergjegjesi te kufizuar
- Joint Stock Company – Shoqeri anonime

Albanian law currently lacks an exact definition and regulation of a Branch or Representative office. According to Law no. 7667, dated 28.01.1993, "On Commercial Registry and Modalities to be Followed by Companies", branches and representative offices of foreign companies must follow the same procedures as Albanian companies for the purpose of registration with the Albanian Commercial Registry. Indirectly, this means that the law recognizes the legal existence of such entities.

### Sole Proprietorship

This is the simplest form of organizing a business. In sole proprietorship, the owner has unlimited liability for any debts.

Law no. 7632, dated 04.11.1992 "On Provisions Governing the First Part of the Commercial Code" governs this form of business. The sole proprietor trades under his own name and such trade must be registered as a business name. Individuals interested in establishing this type of business should:

- File an application with the court of the district where the business will be conducted. The application should indicate the name, address and type of business;
- File an application with the tax department near the local municipalities and submit other documents (such as court decision on its registration, personal certificate with photos, and lease contract for the premises where the activity will be conducted).

### Unlimited Partnership

All partners are unlimitedly and jointly liable for the debts of the entity. Creditors can claim

against a partner for the debts of the partnership, only if they have failed in their claims against the partnership as a whole. In unlimited partnerships, the partners are all considered administrators of the partnership, unless the contrary is stipulated in the bylaws. Each partner represents the partnership with third parties. An unlimited partnership should issue annual financial reports.

The rights, duties and obligations of partners are governed by written bylaws, which should be filed with the Commercial Register.

## Limited Partnership

A limited partnership, which is seldom used in practice, consists of one or more general partners (unlimited) with unlimited liability and one or more limited partners whose liability is limited to the amount of their agreed contributions of the initial capital.

A limited partner may not take part in the management of the partnership even if he is given a proxy, otherwise he incurs unlimited liability.

The Articles of Incorporation of the limited partnership should contain:

- the total amount or value of the contributions of all partners;
- the amount or value of the contribution made by each general or unlimited partner;
- the percentage of the participation of all general partners and of each limited partner in the partnership's profits and in the remaining value after its dissolution.

All decisions are made in conformity with the Articles of Incorporation.

## Limited Liability Company (Shpk)

As a business owner, the foreign investor will be faced with many important decisions, including what business structure to use in the company formation. While many countries allow the typical structures of sole-proprietorship, partnership, or corporation for business ownership, the Albanian legislation gives the ability to form a limited liability company.

This is the most common and appropriate legal form of conducting business in Albania. Its members enjoy limited liability and, unless the articles of the bylaws provide otherwise, members have the right to transfer their shares to other persons, upon decision of three-fourths of the voting rights. It can be established by one or more partners, legal or natural persons, who are responsible for losses only to the extent of their contribution to the capital of the company. The minimum required capital for this form of company is ALL 100,000, which is equal to approximately USD 1000<sup>2</sup>. The capital is divided into shares with a value not less than ALL 1,000 (USD 10). The contributions to the capital can be in cash or in any asset, tangible or intangible. The law does not permit contributions in services.

Administrators nominated through the General Assembly of the shareholders manage the limited liability company. Extraordinary decisions, increases or decreases in the share capital, mergers and acquisitions are to be approved by at least three quarters of the capital shareholders. The law requires annual financial statements to be prepared by the company.

*2. The current exchange rate is 1 USD = 93.05 ALL as of 2 May 2007*

The transformation of this form of business into unlimited and limited partnership can be made only with the unanimous approval of shareholders and after approval of financial statements for the last two years.

## **Joint Stock Company**

Its capital is divided into shares, with shareholders held responsible for losses only to the extent of their contribution to the capital. The minimum initial capital required is ALL 2 million (approximately USD 20,000<sup>3</sup>) for companies with no public offering, and ALL 10 million (approximately USD 100,000) for public offering companies. The joint stock company is managed by a board of directors composed of one or more members nominated by a supervisory council.

The supervisory council exercises the control over the board of director's performance. This council should have not less than 3 and not more than 21 members. One third of the members of the supervisory council should be company employees.

The capital is fully subscribed when the partners have promised to bring assets to the company in cash or in kind for an amount equaling the capital. In the moment of the subscription, at least one quarter of the nominal value of the shares representing contributions in cash must be paid in. Payment of the remaining value shall be made in installments upon the decision of the board of directors. Shares of contributions in kind must be fully paid in at the moment of subscribing. The law does not permit contributions in services.

## **Branches and Representative Offices**

Under the Albanian Commercial Code, a foreign investor can also operate in Albania though a branch or representative offices. The branch or representative office should be registered in the Commercial Register and should have a legal representative empowered by the head office to administer the office. For tax purposes, the branch is treated in the same manner as an Albanian entity.

The documentation required by the Albanian Commercial Register for the registration of the branch or representative office is the following:

- Articles of Incorporation and By-laws of parent company and all amendments.
- Recent extract of the Chamber of Commerce which reflects:
- registration of parent company in the Commercial Registrar of the country of origin;
- the fact that the company is not subject to dissolution or bankruptcy; and
- the composition of the managing bodies of the company.
- Resolution of parent company's Board of Directors or of any other body of the company authorized under the by-laws, for the establishment of the branch or representative office in Albania and appointment of the Legal Representative (Manager) of the branch or representative office in Albania.

*3. The current exchange rate is 1 USD = 93.05 ALL as of 2 May 2007*

## Joint Ventures

Albanian legislation recognizes the joint ventures under the term of simple company, since it is based on an agreement only and no legal personality is granted to this partnership. Joint ventures may be concluded by two or more persons, whether individuals or legal entities, foreign or national, agreeing to engage in an economic activity in order to share profits deriving there from. This partnership is required to be registered with tax authorities only.

### **There is no minimal capital requirement.**

Partners are liable to perform the contributions provided in the contract. Unless otherwise agreed, every partner may take part in the management of the partnership and has full power to carry out any acts which are within the scope of the partnership. Every partner is entitled to receive its share of the profits after the accounts have been approved, unless otherwise agreed.

Partners are jointly responsible for fulfilling the obligations imposed upon them by law and by the partnership agreement; unless they prove they were not at fault.

## Required Registration Documents

For registration of a company the following documents are required:

- Request to the district court;
- Articles of Incorporation signed in the presence of a notary public;
- By-Laws signed in the presence of a notary public;
- Documents reflecting the capital disbursement (when the contributions are in cash, the bank statement or the notary public deposit deed is necessary and when the contributions are in kind, the report of an expert is requested).

To be noted that documents executed abroad before a notary public need to be legalized through Apostille as per the Convention of Hague on legalization of foreign public documents.

The Articles of Incorporation should contain the following:

- Name of the company;
- Shareholders;
- Initial capital;
- Registered seat of the company;
- Administrators or directors of the company;
- Scope of the company;
- Duration of the activity.

### Activities Requiring a Business License

Activities requiring a business license are principally in the following sectors:

- Tourism;
- Construction;
- Fuel trading;
- Fishing;
- Telecommunication;
- Radio and Broadcasting;
- Pharmaceutical and medical products trading, etc.

## Chapter 4

# Business Environment

### Accounting Regulations

The old Law no. 7661 dated 19.01.1993 “On Accounting” is abrogated from 01.01.2006, as result of entrance in force of a new Law no. 9228, dated 29.04.2004 “On Accounting and Financial Statements”.

The temporary Albanian Accounting Standards and Regulations are approved with Decision of the Council of Ministers nr.783, dated 22.11.2006 and are applicable from 01.01.2006.

All economic for-profit units in the Republic of Albania, including financial institutions and auditing companies, regardless of their legal form or specific legal requirements that can be applied to them, are subject to Law no. 9228, dated 29.04.2004 “On Accounting and Financial Statements”. Also, non-for profit organizations are subjects to this law, except for the cases when their financial statements and accounting are governed by specific laws and regulations.

All entities must adopt an accounting system in compliance with the accounting plans/standards issued and approved by the Council of Ministers.

Currently, there are three accounting plans/standards:

- Accounting Standards and Regulations, which cover most of the entities subject to the accounting law;
- Accounting Plan for Banks, which covers commercial banks;
- Public Accounting Plan, which covers central and local governmental institutions.

The Ministry of Finance can approve supplements to these plans depending on the specific characteristics of each entity.

The fiscal year consists of twelve consecutive months and should begin with the calendar year. Accounting records must be kept and maintained in Albanian Lek and in the Albanian language. Transactions in foreign currencies are allowed to be carried out through special accounts in the respective currencies. However, once a month and at the end of the fiscal year, foreign currency must be converted into Albanian Lek. All accounting books, source documents and financial reports should be retained for a period of 10 years. Normally, accounting books and records can also be maintained by third parties, with the exception of cases specified by law.

Albanian bookkeeping rules are similar to those commonly applied worldwide. Entries have to be documented on a double-entry basis, arranged chronologically and on a historic cost basis.

Companies should verify the existence and the valuation of the assets and liabilities at least once a year through the inventory process and with the supporting documentation.

Depreciation of fixed and amortization of intangible assets is calculated according to the methods and rates determined in Law no. 8438, dated 28 December 1998 "On Income Tax".

In the preparation of the financial statements the following principles, common to international accounting practice, apply:

- Assumption of the going concern basis;
- Consistency between accounting periods;
- Use of accrual accounting and matching concepts;
- Comparative information should be disclosed in respect to the previous period for all numerical information in the financial statements;
- Each material item should be presented separately in the financial statements;
- Assets and liabilities, as well as items of income and expense, should not be offset;
- All transactions and accounts should be valued and presented fairly, prudently and transparently;
- Fixed assets are valued at acquisition or production cost net of depreciation or amortization;
- Raw material supplies, goods for resale, finished products and work in progress, are valued at purchasing or production cost. The cost of inventories could be established using methods described in the Accounting Standards and Regulations, such as FIFO, weighted average price, etc.

Law no. 9228, dated 29.04.2004 "On Accounting and Financial Statements", for the first time, introduces accounting standards. This law sets up the concept of national and international accounting standards, which will serve as basis for selecting treatments or accounting methods, applicable when preparing or presenting financial statements.

Standards drafted by the International Accounting Standards Board, translated into Albanian under the responsibility of National Accounting Committee without changes from the original English version, announced by the Minister of Finance are mandatory for the following entities:

- Publicly held companies and their branches, subject to consolidation of accounts;
- Second tier banks, financial institutions similar to banks, insurance and re-insurance companies, securities funds and all companies licensed to perform investment activity in securities, even if they are not stock listed companies;
- Other big publicly held economic units, when their annual revenues and the number of employees, exceed the limits defined by the Council of Ministers.

Other entities will apply the National Accounting Standards. The National Accounting Standards are approved with Order no. 4292, dated 15.06.2006 of Minister of Finance. The preparation of the International Accounting Standards is still in process. The International Accounting Standards as well as the new National Accounting Standards will enter in force from 1 January 2008. During this period the temporary Accounting Standards and Regulations will continue to be applied.

## Financial Statements and Certification Requirements

The new Law no. 9228 provides that financial statements should include the following documents:

- Accounting balance sheet;
- Statements of revenues and expenses;
- Statement of equity changes;
- Cash flow statement;
- Financial statements annexes, which include a presentation of accounting; methods, as well as the other explanatory material.

The standard reporting forms of the balance sheet and income statement, as provided by the Accounting Standards and Regulations, are presented in Appendix F.

From the fiscal year 2003 together with the financial statements the companies should file with the tax authorities within 31 March of the subsequent year of the tax return. The standard form of the tax return is shown in Appendix E.

The financial statements of all companies subject to the Accounting Law should be certified by independent chartered accountants if they meet at least two of the three following conditions:

- Amount of total assets is more than ALL 6 million;
- Amount of yearly sales is more than ALL 12 million;
- The yearly average number of permanent employees is more than 10.

## Financial Sector

During the first transition years, too little was done to build up the extremely underdeveloped financial sector inherited from the communist regime. The inefficiency of financial institutions was one of the main factors leading to the creation and rapid expansion of pyramid schemes, in which many Albanians lost their savings in 1997. The consequences of this financial crisis confirmed that immediate measures had to be taken for solid improvements in this sector.

## Banking Industry

As part of the IMF-supported emergency program, a new banking regulation was approved in July 1998, which formalized a two-tiered banking system. Private Banks are required to have a minimum capital of ALL 700 million and should be incorporated as joint stock companies. Commercial banks and other financial institutions can provide a range of services under the supervision of the Bank of Albania (BoA). The BoA operates as an independent legal entity accountable directly to the Albanian Parliament. It is responsible for the formulation and implementation of monetary policy in Albania. Specifically the BoA had exclusive power and responsibility to:

- Formulate and implement monetary policy and foreign exchange policies;

- Act as a sole issuer of domestic currency in the Republic of Albania;
- License, supervise and regulate the activities of banks and other financial institutions;
- Provide credit for banks;
- Oversee the payment system in the Republic of Albania and facilitate efficient inter-bank payments and settlements;
- Hold and manage the official foreign reserves of the Republic of Albania;
- Distribute securities for the state account and issue securities for its own account.

All second-tier banks operating in Albania have the following obligations:

- Report monthly to BoA. These reports should include the balance sheet and profit and loss account for the month, foreign currency balances, changes, if any, within the management of the Board of Directors of the bank, data on the bank network structure, interest rates, credit exposures, credit per economic sector, high risk control, adequacy ratio (including total risk), weighted assets and off-balance sheet items, regulatory capital;
- Compulsory reserve;
- Keep records on each transaction greater than ALL 2 million or the equivalent in other currencies;
- Each individual is entitled to transfer from the territory of the Republic of Albania, a total of ALL 3.5 million or the equivalent in other currencies computed using the daily exchange rate, within a period of one year;
- For payments greater than ALL 3.5 million, supporting documentation must be submitted also specifying the allowed payment instrument, i.e. Letter of Credit, Letter of Guarantee of Incasso;
- Report on a monthly basis the provision for doubtful debt;
- Maintain a capital adequacy ratio as defined by the Basel Accord of at least 12 percent;
- Report to the Office for Money Laundering Monitoring at the Ministry of Finance all transactions greater than ALL 20 million or its equivalent in other currencies;
- Maintain an Obligatory Reserve equal to 10 percent of deposits (exclusive of inter and intra-bank deposits);
- Maintain an open currency position with certain limits established by BoA – 20 percent for a single currency and 30 percent for the total portfolio of currencies.

## **Banking Industry Composition**

2006 was another dynamic year for the Albanian Banking system in terms of expansion and enlargements. In total, there were 62 new branches and agencies that commenced operations throughout the territory of Albania. Interestingly, the sector's growth has been entirely organic and it has yet to experience any M&A activity despite the relative high degree of fragmentation.



List of Banks and their respective presence as at the end of 2006

Table 8

| <b>Nr.</b> | <b>Banks</b>                  | <b>Number of Branches</b> | <b>Number of Agencies</b> |
|------------|-------------------------------|---------------------------|---------------------------|
| 1          | Raiffeisen Bank               | 37                        | 46                        |
| 2          | Banka Kombetare Tregtare      | 22                        | 10                        |
| 3          | United Bank of Albania        | 3                         | 1                         |
| 4          | Italian Albanian Bank         | -                         | 6                         |
| 5          | Italian Bank for Development  | 1                         | -                         |
| 6          | Tirana Bank                   | 32                        | 4                         |
| 7          | National Bank of Greece       | 4                         | 6                         |
| 8          | International Commercial Bank | 5                         | -                         |
| 9          | Alpha Bank                    | 9                         | 1                         |
| 10         | American Bank of Albania      | 10                        | 11                        |
| 11         | ProCredit Bank                | 21                        | 1                         |
| 12         | First Investment Bank         | 1                         | 2                         |
| 13         | Emporiki Bank of Greece       | 3                         | 4                         |
| 14         | Credit Bank of Albania        | 2                         | 1                         |
| 15         | Credins Bank                  | 11                        | 4                         |
| 16         | Banka Popullore               | 29                        | -                         |
| 17         | Union Bank                    | 3                         | 4                         |

Source: Bank of Albania

The following Table 9 presents the structure of subjects licensed by the BoA through the years:

|                                    | 2002              | 2003 | 2004 | 2005 | 2006 |
|------------------------------------|-------------------|------|------|------|------|
|                                    | <b>Cumulative</b> |      |      |      |      |
| Banks                              | 14                | 15   | 16   | 17   | 17   |
| Financial Institutions (Non-banks) | 5                 | 7    | 7    | 7    | 6    |

|  |     |     |     |     |     |
|--|-----|-----|-----|-----|-----|
| Foreign Exchange Bureaus               | 58  | 58  | 54  | 58  | 60  |
| Savings and Loans Associations         | 113 | 131 | 130 | 131 | 125 |
| Unions of Savings & Loans Associations | 2   | 2   | 2   | 2   | 2   |

Source: Bank of Albania

The banking system reported a positive net result for the 2006 year of ALL 7.45 billion or about 12.9 percent higher than the previous year. Relative to the GDP, this amount translates to 0.83 percent versus 0.79 percent of the previous year. Following is a table summarizing financial results and profitability ratios for the Albanian banking system (Table 10):

Source: Bank of Albania

Table 10

|                      | 2003 | 2004  | 2005  | 2006  |
|----------------------|------|-------|-------|-------|
| <b>In ALL (bn)</b>   |      |       |       |       |
| <b>Net Results</b>   | 4.45 | 5.11  | 6.60  | 7.45  |
| <b>In Percentage</b> |      |       |       |       |
| <b>ROA</b>           | 1.24 | 1.28  | 1.40  | 1.36  |
| <b>ROE</b>           | 19.5 | 21.10 | 22.24 | 20.17 |

The table below (Table 11) provides some insight on the portfolio composition in the banking industry and the relative developments in the last five years.

Table 11

|                    | 2002          | 2003          | 2004          | 2005          | 2006         |
|--------------------|---------------|---------------|---------------|---------------|--------------|
| <b>In ALL (bn)</b> |               |               |               |               |              |
| <b>Loans</b>       | <b>38.65</b>  | <b>50.68</b>  | <b>69.97</b>  | <b>121.94</b> | <b>192.2</b> |
| Individuals        | 7.09          | 2.29          | 1.43          | 38.44         | 64.4         |
| Companies*         | 31.57         | 38.39         | 48.55         | 83.50         | 127.8        |
| % of Deposits      | 13.69         | 15.82         | 19.08         | 28.66         | 37.4         |
| % of GDP           | 6.19          | 7.42          | 9.13          | 14.57         | 21.3         |
| <b>In ALL (bn)</b> |               |               |               |               |              |
| <b>Deposits</b>    | <b>282.34</b> | <b>320.46</b> | <b>366.80</b> | <b>425.50</b> | <b>541.0</b> |

|                                |               |               |               |               |              |
|--------------------------------|---------------|---------------|---------------|---------------|--------------|
| Individuals                    | 234.89        | 271.62        | 310.63        | 357.78        | 441.57       |
| Companies*                     | 47.44         | 48.84         | 56.17         | 67.72         | 99.44        |
| In ALL (bn)                    |               |               |               |               |              |
| <b>Money outside the Banks</b> | <b>130.78</b> | <b>125.19</b> | <b>138.10</b> | <b>149.68</b> | <b>163.3</b> |

\*Companies include private and public enterprises.

Source: Bank of Albania

### Insurance Industry

The insurance industry in Albania was created in 1991 with the establishment of the first insurance company INSIG, which held a monopoly position in the market for several years. The industry remains small despite increases in both numbers of companies and their product base (about 0.5 percent of GDP in 2006). The market has experienced relatively consistent growth on yearly basis, also supported by the 2006 increase of 11.95 in premiums written versus 2005.

Table 12

| <b>2006</b>                  |                        |                 |
|------------------------------|------------------------|-----------------|
|                              | In number of contracts | In ALL (mln)    |
| Compulsory Insurance         | 327,013                | 2,976.91        |
| Voluntary Insurance of which | 180,362                | 1,530.24        |
| Life                         | 23,442                 | 307.52          |
| Non-Life                     | 156,920                | 1,222.72        |
| <b>Total</b>                 | <b>687,737</b>         | <b>6,037.39</b> |

### Premiums written by type

Table 13

|                    | <b>2002</b>     | <b>2003</b>     | <b>2004</b>     | <b>2005</b>     | <b>2006</b>     |
|--------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| In ALL (mln)       |                 |                 |                 |                 |                 |
| Vehicle Insurance  | 2,778           | 2,998           | 3,144           | 2,835           | 2,834           |
| Property Insurance | 633             | 543             | 714             | 806             | 785             |
| Health Insurance   | 106             | 129             | 179             | 147             | 177             |
| Life Insurance     | 285             | 86              | 114             | 238             | 307             |
| <b>Total</b>       | <b>3,803.70</b> | <b>3,755.10</b> | <b>4,151.40</b> | <b>4,026.00</b> | <b>4,507.15</b> |

Source: Insurance Supervisory Authority

As shown in Table 13, motorized vehicles insurance still remains the leading type of insurance in the market accounting for 71.82 percent of the total in 2006. The insurance market was dominated by compulsory insurance in 2006 with more than double the contracts written compared to voluntary insurance, even though voluntary insurance increased slightly from 2005.

The market for Non-Life Insurance, i.e. vehicle, property, and health, is comprised of the following companies (with respective market shares as at end of 2006):

- SIGAL – 27.34%
- SIGMA – 18.40%
- INSIG – 18.64%
- ATLANTIK – 11.39%
- INTERSIG – 8.00%
- INTERALBANIAN – 7.85%
- ALBSIG – 5.95%
- EUROSIG – 3.23%

The market for Life Insurance is comprised of the following companies (with respective market shares as at end of 2006):

- INSIG – 42.39%
- SIGAL-LIFE – 35.14%
- SICRED – 22.47%

An analysis of the ratio of claims paid versus premiums written by insurance companies through the years is presented below in Table 14.

Table 14

|                     | 2002         | 2003     | 2004     | 2005     | 2006     |
|---------------------|--------------|----------|----------|----------|----------|
|                     | In ALL (mln) |          |          |          |          |
| Claims              | 858.62       | 1,306.85 | 1,037.95 | 1,198.44 | 1,371.44 |
| Premiums            | 3,803.70     | 3,755.10 | 4,151.40 | 4,026.00 | 3,893.46 |
| Claims/Premiums (%) | 22.57        | 34.80    | 25.00    | 29.77    | 35.22    |

Source: Insurance Supervisory Authority

## Tax System

The tax system includes personal income tax, profit tax, tax on real estate, value added tax (VAT) and excise tax. The tax year is the calendar year.

The process of modernization of the tax legislation started in October 1997 with changes to

the VAT, established in mid-1996, by replacing the turnover tax. The initial VAT rate of 12.5 percent was increased to 20 percent and most exemptions were abolished. In December 1998, a new law on personal income tax and profit tax was introduced and new tax rates for personal income tax were established. A modern system of collection of tax on profit and withholding tax on dividends, interest, and certain services was also introduced. In January 1999, a new Customs Code came into force, simpler to apply and leaving less space for individual interpretation. It has also been designed to comply with WTO requirements. In April 2007, Parliament approved changes to the existing fiscal legislation. For more information, see Appendix G .

## Personal Income Tax

Under Albanian law, all individuals are liable to income tax. While residents pay tax on all taxable income sources, non-residents pay tax only on income generated within the territory of Albania. Residents are considered to be persons who stay in Albania, in aggregate for a period or periods exceeding 183 days in a tax year.

Tax is computed separately on each category of income. Personal income tax is levied on the following categories of income:

- Wages, salaries and other compensation derived from labor relations. These income include basic pay, overtime pay, bonuses and any other payment for the performance of employment;
- Dividends and profit shares of partnerships;
- Capital gain derived from the sale of shares. The taxable base is the difference between the sale price and the purchase price or nominal value of the shares.
- Interest from bank deposits and other interest bearing securities except interest received on treasury bonds and other securities issued by the government before 21 January 1999;
- Income from copyrights and royalties;
- Income from loans and leasing, excluding cases when this income is generated through commercial activity (in the latter case, the income is declared in the tax return from the recipient itself);
- Income from transfer of ownership on real estate;
- Other income (i.e. any other item of income that is not explicitly exempt).

### Exemptions

- Allowances received from social and health insurance schemes, including pensions;
- Scholarships;
- Compensation received with regard to expropriation.
- Income of individuals who enjoy diplomatic status;
- Benefits in kind received from employees.

### Personal income tax rates

Wages, salaries and other compensation for employees will be taxed as follow in Table 15:

Table 15

| Threshold (monthly compensation in ALL) |           |  | Income tax |
|---|-----------|--|------------|
| 0                                       | To 14,000 | 1%   |            |
| 14,001                                  | 40,000    | ALL 140 plus 5% of the amount over 14,000      |            |
| 40,001                                  | 90,000    | ALL 1,440 plus 10% of the amount over 40,000   |            |
| 90,001                                  | 200,000   | ALL 6,440 plus 15% of the amount over 90,000   |            |
| 200,001                                 | and over  | ALL 22,940 plus 20% of the amount over 200,000 |            |

- Income from transfer of right to ownership of real estate, other than the agricultural land, is taxed as follows:

| In million of ALL | In percent of sale price |
|-------------------|--------------------------|
| 0-2               | 0.5%                     |
| 2-4               | 1%                       |
| 4-6               | 2%                       |
| >6                | 3%                       |

Income from transfer of right of ownership of agricultural land is taxed at a flat rate of 0.5%.

But, in April 2007, Parliament approved changes to the above rates applicable on income from transfer of right to ownership of real estate. The law is not promulgated from the President of the Republic, so far. For more information, see information Appendix G.

- On other incomes, which are subject to tax, a flat rate of 10 percent is applied.

## Social Security Contribution

The Albanian social security system is administered by the Public Institute of Social Security, which is under the jurisdiction of the Council of Ministers. The employer contributions include contributions to the work accidents indemnities and unemployment fund. Employees are also liable to a percentage for both health and social security contributions. Only a portion of the gross monthly salary, between a floor of ALL 13,140 or other specific floors, depending on the qualification of the employees in the private sector and category of economic activity of the employer and a ceiling of ALL 65,700 per month is subject to contribution at the following rates:

## Contribution rate:

|                  | Social Security | Health Insurance |
|------------------|-----------------|------------------|
| Paid by employer | 20%             | 1.7%             |
| Paid by employee | 9.5%            | 1.7%             |

The Council of Ministers has decided that the minimum monthly salary applicable in Albania is ALL 14,000 (decision no. 245, dated 27.04.2006). Therefore, the salary of ALL 13,140 shall be considered as a minimum for calculation of social security contributions of self-employed individuals, only.

On the other hand, the floor of ALL 14,000 is taken into consideration for calculation of social and health contributions of “non-qualified” employees. The Council of Ministers upon Decision no. 42, dated 31.01.2007 determined new levels of the minimum monthly salary for purposes of calculation of social and health contributions of the qualified employees in the private sector, according to the nomenclature of economic activity.

Fall into the scope of application of Decision no. 42, those employees of managerial and technical-economic level, including other qualified employees.

The nomenclature of economic activities is composed by 72 categories. Each group reflects the corresponding minimum monthly salary for every level of qualified employees.

## Corporate Income Tax

Beginning from 1 January 2006 the corporations conducting business in Albania are subject to profit tax at a flat rate of 20 percent. Tax is levied on any domestic or foreign legal entity whose status is determined by the Albanian laws in force.

The determination of the taxable base starts with the profit shown in the profit and loss account. The profit calculation should be made according to the accounting legislation in force and the relevant instructions issued by the Ministry of Finance.

In calculating the taxable base the following expenses are considered:

- Expenses incurred for generating the operational profit;
- Insurance premiums;
- Depreciation allowances;
- Interest (excluding certain situations as established by law);
- Bad debts when the following conditions are simultaneously met:
  - a) The corresponding amount has been included earlier as income
  - b) The bad debt is cancelled in the accounting books of the taxpayer
  - c) All possible legal action to enforce payment has been undertaken.

A list of expenses that are not deductible for tax purposes is provided in the text of the tax law. The following are examples of items that are not deductible:

- the cost of acquisition and improvement of land (capitalized);

- the cost of benefits in kind (tax-free for the recipient);
- interest in excess of the annual average bank interest rate;
- interest paid for loans exceeding on average four times the amount of net assets value during the taxable period<sup>4</sup> .
- private pension premiums;
- damage and waste related to production, transportation and storage in excess of the rates determined by law;
- dividends;
- the profit tax itself;
- penalties and fines;
- expenses in respect of technical, consulting and management services provided by third parties, and not paid in the relevant tax period (such expense become deductible should the company pay the amount of withholding tax related to such services during that tax period); and
- personal consumption expenses;
- representation expenses when exceed 0.3 percent of the annual turnover;

## Depreciation

The legal owner of the asset is entitled to the depreciation allowances. In the case of finance leasing, depreciation may be claimed by the lessee, being the person who bears the risk of the loss or destruction of the asset.

There are two methods of depreciation - the straight-line method and the pooling system. The straight-line method will be applied for:

- Costs of purchase or construction, costs of improvement, restoration, and reconstruction of buildings, long term fixtures and fitting and machinery and equipment at a rate of 5 percent;
- Intangible assets at a rate of 15 percent.

The pooling system will be applied for:

- Computers, information systems, software products, back up systems (25 percent);
- All other depreciable assets of the business (20 percent).

For all the above categories, the first date of the month that follows the month of purchase is considered the start date for calculation of depreciation.

Depreciation allowances are not granted on land, works of art, antiquaries, jewelry, precious metals and stones.

## Inventory

Inventory can be valued using the weighted average price method, FIFO, or any other meth-

*4. This rule is not applicable for banks and insurance companies.*



od specified in the Accounting Standards and Regulations, provided that the entity consistently uses the same method as described.

## **Reserves and provisions**

Reserves are not allowable deductions for tax purposes, although banks and insurance companies are allowed to deduct reserves and provisions required by their regulatory bodies.

## **Losses**

Losses may be carried forward for three years. However, this does not apply when there are changes of more than 25 percent in ownership titles.

## **Inter-company dividends**

Domestic dividends received by a resident company are exempt from taxation, provided that the recipient corporate shareholder holds at least 25% of the share capital of the company distributing the dividend. If the recipient shareholder holds less than 25% of the share capital of the distributing company, the dividends are included in the taxable income of the recipient shareholder.

## **Transfer price**

Tax officials have the authority to make adjustments to profit arising from a transaction between related parties if the parties have concluded the transaction under conditions, which differ from those of a similar transaction between unrelated parties.

## **Foreign tax credit**

Income taxes paid abroad by residents, whether individuals or entities are credited to tax amounts due in Albania in accordance with the provisions of the tax law.

## **Withholding Taxes**

Dividends and profit sharing

- Dividends and profit sharing, irrespective of the status of the recipient, are subject to withholding tax at a 10% rate.

No withholding tax is imposed on dividends distributed to a resident company.

## Interest

- Interest paid to non tax registered residents or non-residents is subject to final withholding tax of 10 %.

## Other payments

There is a 10% withholding tax for payments such as artistic performances, royalties, leases, management and participation in managing bodies; technical, managing, financial and insurance services, construction, installation, or accessory supervision services paid to non tax registered individuals and entities.

## Value Added Tax

VAT taxable persons are all individuals and legal entities making taxable supplies and having an annual turnover in excess of ALL 8 million. In such case, the registration for VAT purposes is required. For individuals and legal entities that operate in the import/export sector it is mandatory to be registered, notwithstanding the annual turnover.

Taxable transactions include the supply of goods and services in Albania by a taxable person, as well as the importation of goods to Albania by any person. Also, the following transactions are taxable:

- transactions for no consideration or for a consideration less than the market value;
- barter transactions; and
- the private use of taxable goods by a taxable person (self-supply).

The taxable amount is the value of the goods and services supplied, excluding VAT. The taxable amount of imported goods includes transportation and insurance costs, import costs and any applicable taxes, duties or tariffs.

The following supplies are not subject to VAT:

- Lease and sale of land;
- Sale of buildings.
- Financial services;
- Interests paid in the context of financial lease;
- Certain services rendered by not-for-profit organizations;
- Postal services;
- Medicines, medical equipment and certain supplies in connection with oil exploration;
- Supply of newspapers, magazines and books of any kind, newspaper printing services, as well as the supply of advertising in electronic and written media
- Donation of goods made in case of natural or social calamities.

The rate of VAT is 20 percent. Exports of goods and services, and supplies relating to international transport are zero-rated.

## VAT deferred scheme

The VAT deferred scheme for machineries and equipment imported by the taxpayer for purposes of its business activity, despite their type, is applicable up to six months from the moment of importation.

No any guarantee is required for the application of the deferred scheme.

## Local Taxes

### Tax on real estate

All Albanian and/or foreign individuals and legal entities that own real estate property are subject to tax on real estate. Such tax consists of the tax on building and the tax on agricultural land.

**Tax on buildings:** This tax is paid for each meter square of the building including the underground floors proportionally with the period of ownership during the year.

The buildings owned by the state and by local governmental units, as well as by religious institutions are exempted from this tax.

Tax on buildings varies depending on the district where the building is located. In Tirana and Durres districts the tax per square meter is established, as follows:

- Building used for commercial purposes ALL 200
- Building used for production ALL 150
- Other building ALL 50

Tax on building in other districts is lower.

**Tax on agricultural land:** This tax is paid for each hectare of agricultural land. It varies depending on the land's category and the district where the land is located.

### Tax on transfer of right of ownership on real estate

The tax is applicable in case of right of ownership on buildings and other real estate properties. It is payable by the person that transfers the property right.

Tax amount for buildings held for business purposes and private residence amounts to ALL 2,000/sq.m and ALL 1,000/sq.m, respectively for Tirana District. For the third category, which includes buildings destined for other purposes, this tax amounts to ALL 1,500/sq.m.

Tax is lower in other districts of the country.

Tax on transfer of ownership right on other real estate property, other than buildings is 2 percent of the sale price.

Donors of real estate property to governmental entities, religious institutions or not for profit organizations are exempted from tax on transfer of real estate, but are held liable to pay the fee for which the tax agent is entitled to (3 percent of the taxable amount).

### Hotel Residency Tax

The hotel residency tax is payable by all persons residing in a hotel, both Albanian and foreigners and amounts to 5 percent of the hotel bill. It is calculated and withheld by the hotel administration. The hotel administration must remit the total amount of hotel residency taxes to the respective municipality by the 5th of the month for the previous month.

### Taxes on Small Business

Individuals who carry on small businesses or independent services and are not registered as taxable persons for VAT purposes are subject to the local tax on small business. Such tax shall be paid quarterly, within 20 April, 20 July, 20 October and 20 January of the subsequent fiscal year.

The table here below indicates the small business tax, which varies from the type of activity and location. For the activities conducted in communes, the tax levels are reduced at 50%.

|     |   | 1   | 2                 | 3                  | 4                  | 5                 | 6                  | 7                  |
|-----|---|---|-------------------|--------------------|--------------------|-------------------|--------------------|--------------------|
|     |   | <b>Tax Indicative Level (in thousand Lek)</b> |                   |                    |                    |                   |                    |                    |
| No. | Turnover/<br>Type of Activity               | Up to<br>2000                                 | 2000<br>-<br>3000 | +3000<br>-<br>4000 | +4000<br>-<br>5000 | 5000<br>-<br>6000 | +6000<br>-<br>7000 | +7000<br>-<br>8000 |
| a)  | Retail sales                                | 45  | 68                | 83                 | 98                 | 113               | 128                | 143                |
| b)  | Wholesales                                  | 45  | 68                | 83                 | 98                 | 113               | 128                | 143                |
| c)  | Production                                  | 33  | 55                | 70                 | 85                 | 100               | 115                | 130                |
| d)  | Services                                    | 25  | 48                | 63                 | 78                 | 93                | 108                | 123                |
| e)  | Independent<br>Professions                  | 38  | 60                | 75                 | 90                 | 105               | 120                | 135                |
| f)  | Nonpermanent/<br>In movement/<br>Outpatient | 8   |                   |                    |                    |                   |                    |                    |

## Excise Tax

Excise tax is applied to a limited number of goods such as tobacco, alcoholic drinks, soft and fresh drinks, derivatives of petroleum and coffee. For goods produced in Albania, the excise tax is calculated on the sale price of goods. For imported goods this tax is calculated on the customs value including import duty. Excise tax is not applied when goods are exported. Liquid fuel used for household consumption is exempt from this tax, as well.

Tax is levied either as a percentage rate or per unit stamp duty, depending on the commodity. The following rates are applicable from May 2007, (Table 16):

Table 16

|                              |                     |
|------------------------------|---------------------|
| Tobacco                      | ALL 2,240 per kg    |
| Cigarettes                   | ALL 40 per pack     |
| Beer                         | ALL 30 per liter    |
| Wine                         | ALL 20 per liter    |
| Grappa                       | ALL 100 per liter   |
| Soft Drinks                  | ALL 2 per liter     |
| Mineral Water                | ALL 2 per liter     |
| Coffee (roasted/non-roasted) | ALL 50 / 100 per kg |

It is expected that there will be another increase in excise tax mainly to cigarettes category in the second half of 2007.

## Customs Duties

Customs duties are charged according to imported goods' classification in a 6-digit Harmonized System. For many imported items minimum custom values are applied. Major exemptions are applicable for:

- Goods imported under government agreements, and where the duty exemption is explicitly stated in the agreement;
- Certain imports for contractors in oil exploration;
- Humanitarian aid;
- Goods imported for charitable, philanthropic, or assistance purposes by not for profit organizations, religious institutions, public entities;
- Goods imported for trade promotion purposes and advertising.

The tariff nomenclature contains only the following tariff rates: 0, 2, 5, 8, 10 and 15.

## Other national and local taxes

There are a variety of national and local taxes and fees. These include port charges, consular fees, TV and telephone licenses, driving license fees, airport arrival and departure tax, business registration tax, cleaning tax and advertising tax.

## Double Tax Treaties entered into by Albania

Since 1992 Albania has entered into agreements "For the avoidance of double taxation with respect to taxes on income and on capital" with several countries.

The Agreements cover the taxation of income from business profits, international transport, dividends, interest, royalties, dependent and independent personal services, as well as income from real estate. These apply to persons (individuals and legal entities) who are residents in one or both of the contracting states.

The Agreements specify the rules that apply to taxation of the above mentioned types of income in the attempt to avoid double taxation. In addition, for some types of income like dividend and interest, the Agreements specify the maximum rate applicable in both contracting states.

### I. Tax Treaties in force:

- 1 Treaty with Poland, in effect as from January 1, 1995.
- 2 Treaty with Rumania, in effect as from January 1, 1995.
- 3 Treaty with Malaysia, in effect as from January 1, 1995.
- 4 Treaty with Hungary, in effect as of January 1, 1996.
- 5 Treaty with Turkey, in effect as from January 1, 1997.
- 6 Treaty with the Czech Republic, in effect as from January 1, 1997.
- 7 Treaty with the Russian Federation, in effect as from January 1, 1998.
- 8 Treaty with Macedonia (FYROM), in effect as from 1 January 1, 1999.
- 9 Treaty with Croatia, in effect as from January 1, 1999.
- 10 Treaty with Italy, in effect as from January 1, 2000.
- 11 Treaty with Bulgaria, in effect as from January 1, 2000.
- 12 Treaty with Sweden, in effect as from January 1, 2000.
- 13 Treaty with Norway, in effect as from January 1, 2000.
- 14 Treaty with Greece, in effect as from January 1, 2001.
- 15 Treaty with Malta, in effect as from January 1, 2001.
- 16 Treaty with Switzerland, in effect as from January 1, 2001.
- 17 Treaty with Moldova, in effect as from January 1, 2004
- 18 Treaty with Belgium, in effect as from January 1, 2005
- 19 Treaty with China, in effect as from January 1, 2006
- 20 Treaty with France, in effect as from January 1, 2006
- 21 Treaty with the Netherlands, in effect as from January 1, 2006.
- 22 Treaty with Egypt, in effect as from January 1, 2006.
- 23 Treaty with UNMIK-Kosovo, in effect from January 1, 2006
- 24 Treaty with Serbia and Montenegro, in effect from January 1, 2006.

**II. Tax Treaties negotiated and initiated on a technical level, but not yet signed by the respective governments:**

- 25 Treaty with Iran negotiated on December 22, 2002.
- 26 Treaty with South Korea negotiated on February 25, 2004.
- 27 Treaty with Lebanon negotiated on September 8, 2004.
- 28 Treaty with Austria negotiated on April 8, 2005.
- 29 Treaty with Ukraine, first round negotiated on June 16, 2004.
- 30 Treaty with Germany negotiated in Berlin on May 12, 2006.

# Appendix A

## Useful Addresses in Tirana

|                     |  |
|---------------------|--|
| Country Code:       | 355  |
| Tirana City Code:   | 4  |
| General Information | Tel: 124                                       |
| Ambulance           | Tel: + 355 4 222235 / 253364 / 253365          |
| Fire Brigade        | Tel: + 355 4 222222                            |
| Police Stations     | Tel: + 355 4 224445 / 223322 / 224529 / 366826 |
| Roadside Assistance | Tel: + 355 4 234872 / 363423                   |
| Radio Taxis         | Tel: + 355 4 355555 / 259999 / 244444 / 377777 |
| Rinas Airport       | Tel: + 355 4 375342 / 223938                   |

## Main Hotels

|                                |  |
|--------------------------------|--|
| Sheraton Tirana Hotel & Towers | “Italia” Square<br>Tirana, Albania<br>Tel: + 355 4 274707 / 274711<br>E-mail: reservations.tirana@starwoodhotels.com |
| Tirana International Hotel     | Scanderbeg Square<br>Tirana, Albania<br>Tel: + 355 4 234185<br>E-mail: hotel@tirana-international.com                |
| Rogner Hotel Europapark        | Bldv. “Deshmoret e Kombit”<br>Tirana, Albania<br>Tel: + 355 4 235035<br>E-mail: info@tirana.rogner.com               |
| Grand Hotel Tirana             | “Ismail Qemali” Str. Nr. 11<br>Tirana, Albania<br>Tel: +355 4 253219 / 253220<br>E-mail: grandhotel@icc-al.org       |
| Diplomat Hotel                 | “Muhamet Gjolllesha” Str.<br>Tirana, Albania<br>Tel: +355 4 233151 / 258468<br>E-mail: diplomat@icc.al.eu.org        |



Mondial Hotel "Muhamet Gjollështa" Str.  
Tirana, Albania  
Tel: +355 4 232372  
E-mail: hotelmondial@hotelmondial.com.al

President Hotel Deshmoret e 4 Shkurtit Str.  
Tirana, Albania  
Tel: +355 4 259574 / 259575  
E-mail: carlsberg@abissnet.com.al

Chateau Linza Qesarak, Dajti Mountain  
Tirana, Albania  
Tel: +355 4 362906 / 362913  
E-mail: chlinza@interalb.net

## Restaurants

Piazza Ded Gjo Luli Str.  
Tirana, Albania  
Tel: +355 4 230706

Metropolitan "Italia" Square, Sheraton  
Tirana, Albania  
Tel: +355 4 274707

Gloria Qemal Stafa Str. Villa Nr. 40  
Tirana, Albania  
Tel: +355 4 247731 / 222698

Berlin Vaso Pasha Str. Nr. 7  
Tirana, Albania  
Tel: +355 4 273863

Vinum Qemal Stafa Str. Nr. 60  
Tirana, Albania  
Tel: +355 4 230822

Sky Club Deshmoret e 4 Shkurtit Str. Sky Tower  
Tirana, Albania  
Tel: +355 4 221666 ext. 143

Casa di Pasta Deshmoret e 4 Shkurtit Str. Rinia Park  
Tirana, Albania  
Tel: +355 4 251175 / 251179

Tavernetta Deshmoret e 4 Shkurtit Str.  
Tirana, Albania  
Tel: +355 69 21 30958

# Appendix B

## List of Banks and other funding agencies

### Bank of Albania

Scanderbeg Square, Nr. 1  
Tirana, Albania  
Tel: +355 4 222230 / 222752 / 222152  
E-mail: public@bankofalbania.org

### Tirana Stock Exchange

Dora d'Istria Str. Nr.2  
P.O. Box. 274/1  
Tirana, Albania  
Tel: +355 4 271849  
Email: tseinfo@abcom-al.com

### Alpha Bank, Tirana Branch

Blvd Zogu i Pare, Nr. 47  
Tirana, Albania  
Tel: +355 4 240478 / 240479  
E-mail: alphabank@interalb.net

### American Bank of Albania

Ismail Qemali Str. Nr. 27  
P.O. Box 8319  
Tirana, Albania  
Tel: +355 4 276000 / 248762  
E-mail: americanbank@ambankalb.com

### Banka Popullore

Donika Kastrioti, EGT Tower II/1  
Tirana, Albania  
Tel: +355 4 272790  
E-mail: info@bpopullore.com

### Banka Kombetare Tregtare

Blvd. Zhan D'Ark  
Tirana, Albania  
Tel: +355 4 266276 / 266277 / 266278

### Credins Bank

Ismail Qemali Str. Nr. 21  
Tirana, Albania  
Tel: +355 4 234096 / 233912  
E-mail: info@credins.com

### **Credit Bank of Albania**

Perlat Rexhepi Str.  
Al-Kharafi Administrative Building  
Tirana, Albania  
Tel: +355 272168 / 272166  
E-mail: creditcba@icc-al.org

### **Emporiki Bank of Greece S.A**

Kavaja Str. Nr. 59  
Tirana, Albania  
Tel: +355 4 258755  
E-mail: headoffice@emporiki.com.al

### **First Investment Bank**

Blvd. Zogu i Pare, Nr. 64  
Tirana, Albania  
Tel: +355 4 256423 / 256424

### **International Commercial Bank**

Murat Toptani Str.  
Tirana, Albania  
Tel: +355 4237567 / 237568  
E-mail: info@icbank-albania.com

### **Italian Albanian Bank**

Rruga e Barrikadave  
Tirana, Albania  
Tel: +355 4 233965  
E-mail: biatia@adanet.com.al

### **Italian Bank for Development**

Blvd. Deshmoret e Kombit, Twin Towers  
Tirana, Albania  
Tel: +355 4 280351 / 280352

### **National Bank of Greece**

Durresi Str.  
Tirana, Albania  
Tel: +355 4 233623 / 233624

### **Procredit Bank**

Sami Frasheri Str.  
Tirana, Albania  
Tel: +355 4 233958 / 233496

### **Raiffeisen Bank**

Kavaja Str. Pall. 12 Kate  
Tirana, Albania  
Tel: +355 4 222669  
E-mail: info@raiffeisen.al

### **Tirana Bank**

Blvd. Zogu i Pare, Nr. 55/1  
Tirana, Albania  
Tel: +355 4 233441 / 233443

### **Union Bank**

Blvd. Zogu i Pare (near the Train Station)  
Tirana, Albania  
Tel: +355 4 250653

### **United Bank of Albania**

Blvd. Dëshmoret e Kombit, Nr. 8  
Tirana, Albania  
Tel: +355 4 227408 / 223873  
E-mail: UBA@albaniaonline.net

## **Funding Agencies**

### **Albanian American Enterprise Fund**

Dëshmoret e 4 Shkurtit, Green Park Complex  
Tower 2, 12th Floor  
Tirana, Albania  
Tel: (355) 4 222408  
E-mail: j.griffin@aaef.com.al

### **Albanian Guarantee Fund**

Dora D'Istria, In Front of Law Faculty. Apt. 3/3  
Tirana, Albania  
Tel: +355 4 247047 / 247048  
E-mail: aga@icc.al.eu.org

# Appendix C

## International Organizations

### World Bank

Deshmoret e 4 Shkurtit, Nr. 34  
Tirana, Albania  
Tel: +355 4 240578  
[www.worldbank.org.al](http://www.worldbank.org.al)

### International Monetary Fund (IMF)

Blvd: Deshmoret e Kombit  
Twin Towers, Tower 1  
5-th Floor  
Tel: +355 4 280400  
E-mail: [imf@albmail.com](mailto:imf@albmail.com)  
[www.imf.org/tirana](http://www.imf.org/tirana)

### European Bank for Reconstruction and Development (EBRD)

Abdi Toptani Str. Torre Drin  
4th Floor  
Tirana, Albania  
Tel: +355 4 232898 / 253099

### United Nations Development Program (UNDP)

Deshmoret e 4 Shkurtit, Nr. 35  
Tirana, Albania  
Tel: +355 4 233122 / 233148

### United States Agency for International Development (USAID)

Elbasani Str. Nr. 103  
Tirana, Albania  
Tel: +355 4 247285

### International Finance Corporation (IFC)

Deshmoret e 4 Shkurtit, Nr. 34  
Tirana, Albania  
Tel: +355 4 240578

## Governmental Institutions

### Council of Ministers

Blvd Deshmoret e Kombit  
Tirana, Albania  
Tel: +355 4 274448 / 277444  
[www.keshilliministrave.al](http://www.keshilliministrave.al)

### **Ministry of European Integration**

Blvd Deshmoret e Kombit

Tirana, Albania

Tel: +355 4 228645

### **Ministry of Finance**

Blvd Deshmoret e Kombit

Tirana, Albania

Tel: +355 4 267654 / 226002

### **Ministry of Foreign Affairs**

Blvd Zhan D' Ark, Nr 6

Tirana, Albania

Tel: +355 4 364090 / 362084

### **Ministry of Economy, Trade and Energy**

Blvd Deshmoret e Kombit, Nr 1001,

Tirana, Albania

Tel: +355 4 223119 / 223455

### **Ministry of Interior**

Blvd Deshmoret e Kombit

Tirana, Albania

Tel: +355 4 258625 / 228167 / 233544

### **Ministry of Defense**

Blvd Deshmoret e Kombit

Tirana, Albania

Tel: +355 4 237816 / 226865

### **Ministry of Education and Science**

Durresi Str. Nr 23

Tirana, Albania

Tel: +355 4 234845 / 226405

### **Ministry of Health**

Blvd Bajram Curri

Tirana, Albania

Tel: +355 4 376193 / 364908

### **Ministry of Justice**

Blvd Zogu i Pare

Tirana, Albania

Tel: +355 4 232704 / 259388

### **Ministry of Public Services, Transport and Telecommunication**

Blvd Deshmoret e Kombit

Tirana, Albania

Tel: +355 4 234674 / 232389 / 222653

**Ministry of Food, Agriculture and Consumer Protection**

Scanderbeg Square, Nr 2

Tirana, Albania

Tel: +355 4 232796 / 227924

**Ministry of Tourism, Culture, Youth and Sports**

Pruga: Abdi Toptani

Tirana, Albania

Tel: +355 4 222508

**Ministry of Labor, Social Affairs and Equal Chances**

Kavaja Str.

Tirana, Albania

Tel: +355 4 233429 / 228340

**Ministry of Environment, Forestry and Water Administration**

Duresi Str.

Tirana, Albania

Tel: +355 4 270623 / 270630 / 270621

# Appendix D

## Banking System – Products and Services

**The following is a brief description of the products and services offered by the banking system in Albania.**

The credit facilities consist of a wide range of products including short-term commercial loans, short-term advances, overdrafts, guarantees, mortgage loans, medium term loans and recently commercial and individual leasing alternatives. Micro-credit financing is a sector within the system which has seen rapid growth for some time now. The product base in the micro-credit market includes loans for both businesses and individuals. Some of the loan categories for the above clients are the following: (I) for businesses a range of products including small, medium and large loans whereas (II) for individual's products including housing loans, loans for reconstruction and consumer loans. Overdrafts are also a product with an increasing appeal.

The treasury products that are delivered include foreign exchange with Albanian currency and cross currencies within a basket of major global currencies, time deposits, purchase of treasury bills and other non-governmental bonds in secondary markets, CDs, Repo agreements etc.

The operational and transactional products offered include international money transfers, import and export letters of credit, and bills for collection, current and time deposits travelers' checks, credit and debit cards, and some payments through online banking. The government is currently reviewing a draft law on factoring, which when implemented will allow businesses to sell their receivables to financial intermediaries like banks and other non-bank financial institutions.

The automated services include fax special services and ATMs with cash withdrawal and deposit possibilities 24 hours a day, every day of the year. Typically, no fees are charged for the issuance of cards and for the transactions performed within the in-country network.

Other services are also available like special tax and utilities collection accounts, VAT collection, mortgage loans, mortgage loans linked to time deposits, etc.



# Appendix E

## Corporate Income Tax Declaration and Payment Form

|  |                   |               |   |                         |                                 |     |  |                                  |     |  |          |     |  |                        |     |  |                   |  |  |
|--|-------------------|---------------|---|-------------------------|---------------------------------|-----|--|----------------------------------|-----|--|----------|-----|--|------------------------|-----|--|-------------------|--|--|
| <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="text-align: center;">2) Fiscal period</td> </tr> <tr> <td style="height: 20px;"> </td> </tr> </table>   | 2) Fiscal period  |               | <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td>1) Serial Number: _____</td> </tr> </table> | 1) Serial Number: _____ |                                 |     |  |                                  |     |  |          |     |  |                        |     |  |                   |  |  |
| 2) Fiscal period   |                   |               |   |                         |                                 |     |  |                                  |     |  |          |     |  |                        |     |  |                   |  |  |
|  |                   |               |   |                         |                                 |     |  |                                  |     |  |          |     |  |                        |     |  |                   |  |  |
| 1) Serial Number: _____  |                   |               |   |                         |                                 |     |  |                                  |     |  |          |     |  |                        |     |  |                   |  |  |
| <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 40%;">VAT Number</td> <td style="width: 10%; text-align: center;">(3)</td> <td style="width: 50%; border-bottom: 1px solid black;"> </td> </tr> <tr> <td>Business name of taxable entity</td> <td style="text-align: center;">(4)</td> <td style="border-bottom: 1px solid black;"> </td> </tr> <tr> <td>Name, surname of physical person</td> <td style="text-align: center;">(5)</td> <td style="border-bottom: 1px solid black;"> </td> </tr> <tr> <td>Address:</td> <td style="text-align: center;">(6)</td> <td style="border-bottom: 1px solid black;"> </td> </tr> <tr> <td>City/Commune/District:</td> <td style="text-align: center;">(7)</td> <td style="border-bottom: 1px solid black;"> </td> </tr> <tr> <td>Telephone number:</td> <td> </td> <td> </td> </tr> </table> |                   | VAT Number    | (3)   |                         | Business name of taxable entity | (4) |  | Name, surname of physical person | (5) |  | Address: | (6) |  | City/Commune/District: | (7) |  | Telephone number: |  |  |
| VAT Number   | (3)               |               |   |                         |                                 |     |  |                                  |     |  |          |     |  |                        |     |  |                   |  |  |
| Business name of taxable entity  | (4)               |               |   |                         |                                 |     |  |                                  |     |  |          |     |  |                        |     |  |                   |  |  |
| Name, surname of physical person   | (5)               |               |   |                         |                                 |     |  |                                  |     |  |          |     |  |                        |     |  |                   |  |  |
| Address:   | (6)               |               |   |                         |                                 |     |  |                                  |     |  |          |     |  |                        |     |  |                   |  |  |
| City/Commune/District:   | (7)               |               |   |                         |                                 |     |  |                                  |     |  |          |     |  |                        |     |  |                   |  |  |
| Telephone number:  |                   |               |   |                         |                                 |     |  |                                  |     |  |          |     |  |                        |     |  |                   |  |  |
| <b>Profit/Loss Calculation</b>   |                   |               |   |                         |                                 |     |  |                                  |     |  |          |     |  |                        |     |  |                   |  |  |
|  | <b>Accounting</b> | <b>Fiscal</b> |   |                         |                                 |     |  |                                  |     |  |          |     |  |                        |     |  |                   |  |  |
| <b>Revenues and Expenses</b>   |                   |               |   |                         |                                 |     |  |                                  |     |  |          |     |  |                        |     |  |                   |  |  |
| (8/9) Revenues   | 8                 |               |   |                         |                                 |     |  |                                  |     |  |          |     |  |                        |     |  |                   |  |  |
| (10/11) Expenses   | 10                |               |   |                         |                                 |     |  |                                  |     |  |          |     |  |                        |     |  |                   |  |  |
| (12) Non-deductible expenses   |                   |               |   |                         |                                 |     |  |                                  |     |  |          |     |  |                        |     |  |                   |  |  |
| <b>Profit/loss</b>   |                   |               |   |                         |                                 |     |  |                                  |     |  |          |     |  |                        |     |  |                   |  |  |
| (13/14) Loss   | 13                |               |   |                         |                                 |     |  |                                  |     |  |          |     |  |                        |     |  |                   |  |  |
| (15/16) Profit   | 15                |               |   |                         |                                 |     |  |                                  |     |  |          |     |  |                        |     |  |                   |  |  |
| (17) Loss carried forward  |                   |               |   |                         |                                 |     |  |                                  |     |  |          |     |  |                        |     |  |                   |  |  |
| (18) Net taxable profit (16-17)  |                   |               |   |                         |                                 |     |  |                                  |     |  |          |     |  |                        |     |  |                   |  |  |
| <b>Income Tax Calculation</b>  |                   |               |   |                         |                                 |     |  |                                  |     |  |          |     |  |                        |     |  |                   |  |  |
| (19) Income Tax at 20%   |                   |               |   |                         |                                 |     |  |                                  |     |  |          |     |  |                        |     |  |                   |  |  |
| (20) Income Tax at other percentages   |                   |               |   |                         |                                 |     |  |                                  |     |  |          |     |  |                        |     |  |                   |  |  |
| (21) Income Tax (19+20)  |                   |               |   |                         |                                 |     |  |                                  |     |  |          |     |  |                        |     |  |                   |  |  |
| (22) Deferred Income Tax   | 22                |               |   |                         |                                 |     |  |                                  |     |  |          |     |  |                        |     |  |                   |  |  |
| (23) Prepayments   | 23                |               |   |                         |                                 |     |  |                                  |     |  |          |     |  |                        |     |  |                   |  |  |
| (24) Overpaid Income Tax   | 24                |               |   |                         |                                 |     |  |                                  |     |  |          |     |  |                        |     |  |                   |  |  |
| (25) Payable Income Tax  |                   |               |   |                         |                                 |     |  |                                  |     |  |          |     |  |                        |     |  |                   |  |  |
| (26) Penalties/Interests for late payments   |                   |               |   |                         |                                 |     |  |                                  |     |  |          |     |  |                        |     |  |                   |  |  |
| <b>(27) TOTAL PAYABLE AMOUNT</b>   | <b>27</b>         |               |   |                         |                                 |     |  |                                  |     |  |          |     |  |                        |     |  |                   |  |  |

# Appendix F

## Local Financial Statements Format

### BALANCE SHEET

#### ASSETS

##### A SUBSCRIBED AND PAID IN CAPITAL

##### B FIXED ASSETS

###### I) INTANGIBLE

- a) Start-up expenses
- b) Research & development costs
- c) Other
- d) Partial payments
- e) Depreciation (-)
- h) Provisions for devaluation (-)

###### II) TANGIBLE

- a) Land, buildings, plant and general installations
- b) Machinery, equipment, technical installations, tools and instruments
- c) Other
- d) In progress and partial payments
- e) Depreciation (-)
- h) Provisions for devaluation (-)

###### III) FINANCIAL

- a) Securities
- b) Accounts receivable related to shareholdings
- c) Loans
- d) Provisions for devaluation (-)

##### C CURRENT ASSETS

###### I) INVENTORY AND WORK IN PROGRESS

- a) Raw materials and others
- b) Production, works, services in progress
- c) Products and goods
- d) Others
- e) Provisions for devaluation (-)

###### II) ACCOUNTS RECEIVABLE FROM DEBTORS

Over one year

- a) Trade receivables (clients for sales and services)
- b) Receivables from shareholders (unpaid capital)
- c) Receivables from personnel and other persons
- d) Other receivables
- e) Provisions for devaluation (-)

### III) SHORT - TERM SECURITIES

- a) Shares, bonds, treasury bills, other securities
- b) Provisions for devaluation (-)

### IV) CASH AT BANK AND ON HAND

- a) Deposits at bank and other accounts
- b) Cash on hand
- c) Others

### V) PREPAID EXPENSES

Over one year

### D OTHER ACCOUNTS

- a) Expenses to be amortized in several years
- b) Foreign exchange differences

### TOTAL ASSETS

- OFF BALANCE SHEET ACCOUNTS
- FIXED ASSETS UNDER LEASE
- OTHER THIRD PARTIES' PROPERTIES
- OTHER OFF BALANCE SHEET ACCOUNTS

## LIABILITIES

### A SHAREHOLDERS EQUITY

#### I) CAPITAL STOCK, RESERVES PROFIT/LOSS

- a) Subscribed capital
- b) Share premiums
- c) Differences from revaluation
- d) Reserves
  - Legal reserve
  - Statutory reserve
  - Other reserves
- e) Retained earnings (Loss -)
- f) Profit (loss) for the current financial period (Loss -)

#### II) OTHER SHAREHOLDERS' FUNDS

- a) Development fund (reserve)
- b) Fund for employees supplementary remuneration
- c) Fund for severance indemnity

d) Other funds

### III) SUBSIDIES FOR INVESTMENTS

### IV) PROVISIONS FOR CONTINGENCIES AND LIABILITIES

- a) Provisions for contingencies
- b) Provisions for expenses

## **B LIABILITIES**

### I) DEBT PAYABLE DUE IN OVER ONE YEAR

- a) Loans from banks and other financial institutions
- b) Other loans
- c) Prepayments from customers
- d) Due to suppliers
- e) Due to state
- f) Due to shareholders
- g) Other payables

### II) DEBT PAYABLE DUE WITHIN ONE YEAR

- a) Loans from banks and other financial institutions
- b) Other loans
- c) Prepayments from customers
- d) Due to suppliers
- e) Personnel
- f) Payable social contributions
- g) Due to tax authorities
- h) Due to shareholders
- i) Other payables

### III) Deferred income

## **C OTHER ACCOUNTS**

- a) Foreign exchange differences

## **TOTAL LIABILITIES OFF BALANCE SHEET ACCOUNTS**

## **PROFIT AND LOSS ACCOUNT EXPENSES**

### I) REDUCTION IN OWN PRODUCTION STOCK

### II) COST OF PRODUCTION AND OTHER EXPENSES

- 1 - Raw materials and other consumables
- Purchases during the period

- Change in stock (+ -)
- 2 - Goods
  - Purchases during the period
  - Change in stock (+ -)
- 3 - Supplies and services
- 4 - Personnel expenses
  - a) Wages and salaries
  - b) Other benefits
  - c) Social and health contributions
- 5 - Taxes and similar
- 6 - Other expenses
  - a) Net book value of fixed assets sold
  - b) Losses from uncollected receivables
  - c) Other
- 7 - Depreciation and provisions
  - a) Depreciation of fixed assets
  - b) Provisions for devaluation of fixed assets
  - c) Provisions for devaluation of current assets
  - d) Provisions for contingencies and expenses
  - e) Allowance for expenses to be amortized in several years

**TOTAL (I + II)**

III) FINANCIAL EXPENSES

- 8 - Interest paid and payable
- 9 - Losses from sale of securities
- 10 - Foreign exchange differences
- 11 - Provisions for financial assets
- 12 - Other financial expenses

**TOTAL (I + II + III)**

**TOTAL RESULT FROM ORDINARY ACTIVITIES**

**IV) EXTRAORDINARY EXPENSES**

**EXTRAORDINARY RESULT**

**V) PROFIT BEFORE TAX**

**VI) PROFIT TAX AND SIMILAR**

- a) Profit tax
- b) Other deductions

**VII) NET PROFIT (or of the BALANCE SHEET) V - IV**

## **REVENUES**

### **I) TURNOVER**

- 1 - Sales of products
- 2 - Sales of services
- 3 - Sales of goods
- 4 - Other sales and services

### **TOTAL OF NET SALES EXPORT:**

### **II) OTHER REVENUES (except for financial income)**

- 5 - Increase in products inventory
- 6 - Production of fixed assets
- 7 - Subsidies
- 8 - Other income
  - a- Sales price of fixed assets
  - b- Collection of receivables
  - c- Others
- 9 - Reverse of depreciation and provisions
  - a- Reverse of depreciation for fixed assets
  - b- Reverse of provisions for fixed assets
  - c- Reverse of provisions for current assets
  - d- Reverse of provisions for contingencies and liabilities

### **TOTAL (I + II)**

### **III) FINANCIAL INCOME**

- 10 - Income from interests and others
- 11 - Income from sale of securities
- 12 - Positive foreign exchange differences
- 13 - Reverse of provisions for financial assets
- 14 - Other financial income

### **TOTAL (I + II + III)**

Negative result from ordinary activities

### **IV) EXTRAORDINARY INCOME EXTRAORDINARY RESULT**

### **V) BALANCE SHEET RESULT (Loss)**

# Appendix G

## **Current amendments to Albanian fiscal legislation**

Albanian Parliament approved changes in tax legislation on 16 April 2007. Currently, their promulgation by the President of the Republic is still pending.

### **Appeal Procedure**

The new Law amends the requirements to be met prior to the examination of administrative and judiciary appeal procedures against tax liabilities imposed to taxpayers.

Such new Law requires the taxpayers to pay the tax obligation determined in the tax liabilities assessment, not including respective interests and penalties; otherwise the appeal shall not be examined in the administrative level. The possibility to provide a guarantee for the tax obligation in the context of a tax appeal as it was determined by the previous legal provisions is now abrogated. On the other hand, the taxpayers will be required to pay 15% of both penalties and interests imposed by the tax authorities when claiming their cancellation before the courts; whilst such requirement does not apply in the context of the administrative appeal.

### **Income Tax on Non-residents**

The income of non-resident individuals and entities generated from services carried out physically within the Albanian territory is considered as Albanian sourced income and subject to taxation.

### **Tax on Income Derived from Transfer of Ownership Title Over Real Estate**

The tax on income derived by individuals from transfer of ownership title over real estate applies to transfer of land and buildings. The rate has been increased to 10% over the net income instead of differentiated tax rates between 0.5% up to 3% of the sale price.

In cases when the ownership of the land is exchanged with ownership of part of the building to be constructed over such land, the taxable income consists of the difference between the value of that part of the building and value of the land. The value of both land and building is approved by the Council of Ministers and is based on the construction minimum fiscal cost.

#### **New Category of Tax Deductible Expenses of Entities Engaged in Construction Activities**

The new Law includes as tax deductible expenses of entities engaged in construction activities (i.e. investor), the value of the land made available by the owner of the land to the constructor in exchange of the ownership over part of the building. The taxable income of the investor includes also those incomes corresponding to the value of building, object of the exchange ownership contract.

The value of the land and that of the building is approved by the Council of Ministers and is based on the construction minimum fiscal cost.

### **Value Added Tax (VAT)**

A new exemption from VAT for the lease of buildings is introduced. However, an exception from this VAT exemption is foreseen when the lease duration is no more than 2 months. Further, accommodation in hotels and vacancy residences remain VAT taxable.

### **Excise Tax**

The oil used for preparations of machinery, equipment and vehicle lubrication will be subject to excise tax by 40 LEK per kilogram.





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