Tax Newsflash

New Income Tax Law

Albania

October 2023

Audit. Tax. Advisory.

New Income Tax Law: Albania

Preface

Starting from 1 January 2024 the Law No. 29/2023, dated 30 March 2023 “On income tax” (the “New Income Tax Law”) will be effective.

The New Income Tax Law has been marked as one of the most important changes of the existing tax legislation in the recent years and its impact in the tax compliance is considered of great relevance. This document will provide you a brief summary on the novelties of the new law and highlighting the most important tax compliance matters.

Regarding individual taxation, the new law provides a detailed and broader definition of income categorization in three types: employment, business, and investment income, tax residence, taxation of inheritances and gifts.

In the light of the business taxation the new law gives a broader definition of tax residence, changes depreciation method of assets into straight line, recognize bad debt as deductible expense, introduce long-term contracts and exit tax provision, and extend the period of tax losses carried forward.

New Income Tax Law: Albania

Personal Income Tax

The new law will tax the individuals (registered or not with tax authorities) for three sources of income as follows:

- Employment
- Business
- Investment

Employment Income

The new law introduces "benefits in kind" as income subject to tax (measured at market value).

For determining the tax residence of the individuals two additional criteria are taken into consideration:

- Place of vital interests, and
- Place of activity criteria (shop, professional office etc.).

New Income Tax Law: Albania

Personal Income Tax

Employment income tax rates will be:

- 13% for income up to ALL 2 040 000 annually (ALL 170 000 per month)
- 23% on amounts exceeding ALL 2 040 000 annually.

Self-employed ("sole traders/entrepreneurs") providing professional activities will be taxed with progressive income tax, same as employment income (i.e. tax rate 13-23% depending on the annual amount) if the following criteria are met:

- At least 80% of their total income are generated from one client; or
- At least 90% of their total income are generated from not more than two clients.

The above does not apply if the professional services are provided to non-resident clients. In such a case, the income will be taxed as business income.

New Income Tax Law: Albania

Personal Income Tax

Business Incomes

Self-employed individuals will be taxed at a wide range of a list of business incomes such as: income from interests, dividends, royalties, operational business, leasing, capital gains on transfer of business assets etc.

Business income tax rates

- 15% for those with annual taxable income up to ALL 14 million
- 23% for those with taxable income exceeding ALL 14 million

Self-employed individuals whose annual turnover is up to ALL 10 million will have the option to choose between:

- A lump sum amount of presumed deductible expenses in the range of 30-90% of turnover (see next page for details); or
- Claiming deduction of all expenses supported by proper fiscal documents.

New Income Tax Law: Albania

Personal Income Tax

Presumed deductible expenses

The flat rates of the presumed deductible expenses vary depending on the type of business activity as follows:

Manufacturing activities

60%

Wholesale trading activities

90%

Retail and transport activities

70%

Bar and Restaurant

60%

Artisanal and craft activities

50%

Self-employed individual services

30%

New Income Tax Law: Albania

Personal Income Tax

Small business exemptions

Self-employed individual doing commercial business activity having a net annual taxable income up to ALL 14 million will continue to be exempt for income tax until 31 December 2029.

While, self-employed individuals providing professional services (the list to be approved by a decision of the Council of Ministers) will not benefit from this exemption and will be subject to the new taxation scheme and taxed at 15% or 23% depending on the annual business income.

Investment income

Individuals will be taxed at a wide range of extended list of investment income such as: income from dividends, royalties, interest, alienation of immovable properties, private pensions and life insurance, rental, mining and crypto assets etc.

Investment income tax rates will be as follows:

- 8% on dividends;
- 15% on the rest of investment income.

New Income Tax Law: Albania

Personal Income Tax

Annual income tax base

Annual income tax base equals the sum of annual income from employment, business and investment, minus allowances and deductions.

Individuals subject to income taxes from employment and/or business will be eligible to deduct the following:

- An individual annual allowance (see below)
- An allowance of ALL 48 000 for any child
- Annual expenses of up to ALL 100 000 for education of children, for taxpayers with annual income of up to ALL 1.2 million.

Individual annual allowances

According to the provisions of the new law, the standard deductions to the taxable base are estimated on annual basis as follows:

- Full amount if annual income does not exceed ALL 600 000 (ALL 50 000 per month);
- ALL 420 000 if annual income is between ALL 600 000 and ALL 720 000
- ALL 360 000 if annual income exceeds ALL 720 000.

Nexia AL

New Income Tax Law: Albania
Personal Income Tax

Annual personal income tax return

Individuals will be subject to annual personal income tax return filing if:

- Their annual gross income from all sources exceeds ALL 1.2 million;
- During the year have been employed by more than one employer;
- Their annual non-taxed income exceeds ALL 50 000.

The deadline for submission of the annual personal income tax return is 31 March of the following year (previously 30 April).

Income tax payable

The income tax payable is calculated by applying tax rates to each type of income separately and then deducting any tax on employment income withheld by employers, any withholding tax paid by a third party, any foreign tax credit, and any advance business income tax payments during the tax period.

New Income Tax Law: Albania

Personal Income Tax

Passive income from controlled foreign entities

The new law provides new rules on determining the passive income from controlled foreign entities, such as: dividends, income from sales of titles, royalties, interests from financial assets, and income from financial leasing.

Private pensions

The new law provides for a deduction from the tax base of private pension funds contributions. The maximum deduction is up to the minimum gross national monthly salary.

Inheritance, gifts and income from gambling

The new law determines the rules for inheritance (the current law does not have any provision on that). Also it provides more regulations for taxation of inheritances, gifts and income from gambling. The rules will apply to tax residents on their worldwide incomes, as well as to non-residents on their Albanian sourced incomes.

New Income Tax Law: Albania
Withholding Tax

Withholding tax is declared and paid upon the payment of the following types of income:

Type of income	Subject to tax if paid to a tax resident	Subject to tax if paid to a non-resident	Withholding tax rate (in %)
Dividends (*see next page*)	Yes (subject to the participation exemption)	Yes	8
Interests	Yes	Yes	15
Royalties	Yes	Yes	15
Leasing	Yes, only for payments to individual	No	15
Other types	Yes, only for payments to individual	Yes	15

New Income Tax Law: Albania

Withholding Tax

Withholding tax on dividends

Dividends paid to an Albanian resident entity will be exempted from the tax in the following case:

- The recipient holds at least 10% of the shares or voting rights of the payer; and
- The minimum participation has been held for an un-interrupted period of at least 24 months.

Deadline for payment of withholding tax

Withholding tax is due to be paid on the 20th of the month following the payment of beneficiary, except for dividends.

Different from the current law, the WHT on dividends declared (by decision of shareholders) but not paid out, must be paid by the end of the 3rd month following the month in which the decision of shareholders was taken. As per the current law it is by 20th of August of the following fiscal year.

New Income Tax Law: Albania

Corporate Income Tax ("CIT")

Entities subject to CIT

As per the new law starting from 1 January 2024 all legal entities including partnerships, cooperations, assets or equity management, trusts and entities which may be established through specific laws, will be subject to CIT regardless of their annual turnover. As per current law, entities with annual turnover up to ALL 8 million, are subject to simplified profit tax on small business.

Tax Residence

The new law has extended the definition of residency. "Effective Control" is a new criteria in addition to the existing: head office and effective place of management.

Non-deductible expenses

There are few additional non-deductible expenses in the new law, which among others, include:

- Bribes;
- Consultancy, management and technical services, charged by non-resident taxpayers if not paid by 31st of March of the following year (in case such expenses are paid later, they are tax deductible in the tax year when paid).

New Income Tax Law: Albania

Corporate Income Tax ("CIT")

Long term contracts

A new definition of a "long-term contract" as those concluded for the purpose of manufacturing, installation/construction, or the performance of services, for a period exceeding or expected to exceed 12 months. Revenues related to a long-term contract must be accounted for in accordance with their percentage of completion against total in the respective tax period.

Depreciation

The new law provides for straight line method (the current law has netbook-value method). The depreciation rates deductible for CIT purposes are:

- 5% for buildings, constructions and installations
- 15% for intangible assets
- 25% for IT equipment
- 20% for other assets

Bad debts

Allowances for bad debts can be deducted for CIT purposes also from non-financial entities, restricted to transactions with unrelated parties, to the extent that the taxpayer has taken reasonable steps to collect debt from the client.

- 20% of debts > 6 months
- 40% of debts > 12 months
- 60% of debts > 24 months
- 85% of debts > 36 months

New Income Tax Law: Albania

Corporate Income Tax ("CIT")

Capital gains on business restructuring

As a general rule, a business restructuring comprising only resident entities does not give rise to capital gains subject to tax on assets transferred under the reorganization, unless a cash payment is received in excess of a certain threshold which is taxed under specific taxation rules.

Capital gains on the change of ownership

The new law provides a special tax regime for changes of ownership of entities engaged in certain industries such as: telecommunication sector, financial institutions, owning rights of mines, hydrocarbons, natural resources, etc.

Losses carried forward

Tax losses FY2024 onwards may be carried forward for 5 years, with the earliest losses utilized first (3 years as per current law).

Such losses may be lost if there is a change of >50% in direct or indirect entity's ownership (value/number of shares or voting rights), or a change in business activity. The new law does not have a provisions regarding the carry forward losses arising prior to 2024.

New Income Tax Law: Albania

Corporate Income Tax (“CIT”)

Incentives for Corporate Income Tax

Activity	Annual Turnover (in ALL)	Tax rate (in %)	Effective period
Automotive, Agriculture and Agrotourism	N/A	5	31 December 2029
Software development	N/A	5	31 December 2025
4&5 stars branded and special status hotels (received by the end of 2024)	N/A	Exempt	10 years of operations
All entities except sole professionals	Not exceeding 14 million	Exempt	31 December 2029

Contact

Gerond Begolli
Partner

M: +355 (0) 69 4040 586
E: gerond.begolli@nexia.al

Tax, Financial Reporting & Compliance

This Tax NEWSFLASH is intended for the information of users. Every effort has been made to ensure that at the time of preparation the information contained it is accurate. Information within Tax NEWSFLASH is not designed to address a particular circumstance, individual or entity. Users should not act upon it without seeking professional advice relevant to the particular situation. No responsibility for loss, however arising, to any person acting or refraining from acting as a result of any material in this publication will be accepted by Nexia AL.