



Doing Business in
Albania



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Preface

This guide has been prepared by Baker Tilly Albania, an independent member of Baker Tilly International. It is designed to provide information on a number of subjects important to those considering investing or doing business in Albania.

Baker Tilly International is the world's 8th largest accountancy and business advisory network by combined fee income and is represented by 149 independent member firms in 125 countries and over 24,000 personnel worldwide. Its members are high quality, independent accountancy and business advisory firms, all of whom are committed to providing the best possible service to their clients, both in their own marketplace and across the world.

This guide is one of a series of country profiles compiled for use by Baker Tilly International member firms' clients and professional staff. Copies may be downloaded from www.bakertillyinternational.com.

Doing Business in Albania has been designed for the information of readers. Whilst every effort has been made to ensure accuracy, information contained in this guide may not be comprehensive and recipients should not act upon it without seeking professional advice. Facts and figures as presented are correct at the time of writing.

Up to date advice and general assistance on Albanian matters can be obtained from Baker Tilly Albania, whose contact details can be found at the end of this guide.

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Contents

	Page
1 Fact Sheet	4
2 Business Entities and Accounting	6
2.1 Business Entities	6
2.2 Accounting and Auditing	8
3 Finance and Investment	10
3.1 Banking and Sources of Finance	10
3.2 Foreign Investment Incentives	10
3.3 Foreign Investment Restrictions	11
4 Employment Regulation	12
4.1 Entry Visa and Work Permit	12
4.2 Employing Local Employees	13
4.3 Social Security	13
4.4 Trade Unions	13

	Page
5 Taxation	14
5.1 Corporate Tax	14
5.2 Value Added Tax (VAT)	16
5.3 Excise Tax	17
5.4 Withholding Tax	17
5.5 Personal Income Tax	18
5.6 Other Taxes	18

1 Fact Sheet

Geography

Location	Southern Europe on the west of the Balkan Peninsula
Area	28,748km ²
Land boundaries	Montenegro (north), Kosovo (north-east), Macedonia (east), Greece (south)
Coastline	362km on the Adriatic and Ionian Seas
Climate	Mediterranean (warm dry summers and mild winters) although there are variations between regions
Terrain	Predominantly mountainous; flat along the coastline
Time zone	GMT +1 (daylight saving GMT +2)

People

Population	2.9 million (2011 est)
Ethnic groups	Albanian 95%, Greek 3%, other 2%
Religion	Islam, Christianity (Catholics and Orthodox)
Language	The official language is Albanian, although most of the younger generation can speak fluent Italian, English and Greek

Government

Country name	Republic of Albania
Government type	Parliamentary Republic
Capital	Tirana
Administrative division	Albania is divided into 12 counties, which include 36 districts and 373 municipalities

Economy

GDP – per capita	US\$8,000 (2010 est)
GDP – real growth rate	3.5% (2010 est)
Work force	1.053 million (2010 est)
Unemployment	13.7% (2010 est)
Currency	Albanian lek (ALL)

2 Business Entities and Accounting

2.1 Business Entities

2.1.1 Sole proprietorship

Sole proprietorship is the simplest way of operating a business in Albania.

To form a sole proprietorship the foreign investor must register with the National Registration Center (NRC) as a natural person or under a business name.

A sole proprietor has unlimited liability for the debts of their business.

2.1.2 General partnerships

In a general partnership all partners are jointly and severally liable, without limitation, for the amount of the partnership's obligations. There is a requirement to register with the NRC. There is no minimum contribution required to form an Albanian general partnership.

All partners are administrators of the general partnership unless there is a different requirement in the bye-laws. There is a requirement to prepare annual financial statements for the partnership and to calculate net income for each partner. Partners are taxed based on their general partnership net income.

2.1.3 Limited partnerships

A limited partnership is required by law to consist of unlimited partners and at least one limited partner. The limited partners are liable only to the extent of their initial contribution. Their rights and obligations are defined in statute. The unlimited partners have the same status as they would have in a general partnership (see 2.1.2). The general partners are responsible for the administration of the partnership. If a limited partner takes part in the management of the partnership they may incur unlimited liability.

The partnership is not dissolved if the limited partners decide to leave, however, it is dissolved if all unlimited partners leave.

2.1.4 Limited liability companies (Sh.P.K)

The minimum capital required to form a limited liability company is just ALL100. The law requires companies to register with the NRC.

A Sh.P.K may be established by one or more shareholders, either individuals or business entities, who will be liable only to the extent of their contributions to the share capital. Contributions to capital may be in cash or any other asset, although contributions via services provided are not permitted. Limited liability companies are managed by an administrator appointed by a majority of the shareholders.

The law requires that limited liability companies prepare annual financial statements and file them with the NRC. Companies with total assets, revenues and average number of employees above certain limits are required to appoint a certified public accountants to audit their financial statements (see 2.2).

Limited liability companies may not offer shares to the public.

2.1.5 Joint stock companies (Sh.A)

Joint stock companies must register with the NRC. They are managed by a director or board of directors appointed by a majority of the shareholders. Joint stock companies must also have a supervisory board, with a majority of the members being non-shareholders. An Sh.A has the option to make public offerings of its shares. A joint stock company must be founded with a minimum initial capital of ALL10m if it intends to offer its shares for sale to the public. Otherwise the minimum initial capital is ALL3.5m.

Shareholders are liable only to the extent of their share capital. At least a quarter of the nominal value of the shares issued must be paid up on subscription; the management of the company will decide upon the payment of the remainder.

The law requires that joint stock companies prepare annual financial statements and file them with the NRC. They must be audited by a certified public accountant.

2.1.6 Branches and representative offices

It is possible to establish a branch or representative office in Albania.

Both branches and representative offices have the same legal personality as the parent company.

Branches are organised and administered separately and may carry out activities with third parties in the company's name.

The purpose of a representative offices is not to create income, but to promote the business of the parent company. Representative offices may sign agreements in the name, and on behalf, of the company.

Branches and representative offices must be registered with the NRC.

2.1.7 Joint ventures

Joint ventures arise where two or more business entities agree on engaging in an economic activity. A joint venture may be arranged through an entity separate from the parties to the joint venture via the creation and registration of either a partnership or company.

Alternatively a joint venture may be established by contract without forming a separate entity, in which case the activity would be carried out through the joint venture parties.

2.1.8 Trade licences

Certain economic activities require a trade license, usually obtained from the National Licensing Centre. These include tourism, construction, telecommunication, radio and broadcasting, fishing and trading in medical products and fuel.

2.2 Accounting and Auditing

Financial statements for partnerships and companies must be submitted annually to the NRC and relevant tax office.

The accounting year coincides with the calendar year and all accounting transactions must be reflected in ALL at the Bank of Albania exchange rate on the day of the transaction.

Accounting records should be written in Albanian and kept in hard or soft copy for a period of at least ten years. There is an obligation to conduct a physical inspection of inventories and tangible assets at least once a year.

Branches or affiliates of listed entities (there is no official list in Albania), large unlisted entities (see below) and financial institutions must prepare financial statements in accordance with International Financial Reporting Standards (IFRS). All other entities must prepare financial statements according to National Accounting Standards (NAS).

Large unlisted entities, as defined by law, are those meeting the following criteria for the last two financial years:

- Annual turnover exceeding ALL1.25m
- Average number of employees 100 or more.

Entities required to prepare financial statements according to IFRS, joint stock companies and all other entities meeting at least two of the criteria listed below are required to have financial statements audited by a certified public accountant:

- Total assets exceeding ALL40m
- Annual turnover exceeding ALL30m
- Average number of employees 30 or more.

The professional auditing body, as the body responsible for developing auditing standards, has mandated the use of ISAs and IFAC's Code of Ethics for its members, and these are the standards with which auditors in Albania comply.

3 Finance and Investment

3.1 Banking and Sources of Finance

Albania has a two-tiered banking system, whereby commercial banks and other financial institutions can provide a range of services under the supervision of the Bank of Albania.

Other sources of finance includes micro-credit institutions and pension funds. Micro-credit institutions provide limited services to small and medium-sized entities seeking finance, whereas pension funds usually invest in large corporates.

No current account restrictions are generally imposed on the purchase, sale, holding, or transfer of foreign exchange. However, the Bank of Albania is entitled to apply temporary restrictions in order to protect the level of the exchange rates or its official reserves.

There are no restrictions in transferring capital into Albania, however capital transfers out of the country are subject to certain documentary requirements.

Albanian anti-money laundering regulations are similar to EU requirements.

3.2 Foreign Investment Incentives

The legal framework to encourage foreign investment into Albania is in place, offering all foreign investors (individuals or legal entities) considerable incentives as follows:

- No prior government authorisation is needed and no sector is closed to foreign investment
- There is no limitation on the percentage share of foreign participation in companies
- Foreign investment may not be expropriated or nationalised directly or indirectly, except for designated special cases, in the interest of public use as defined by law
- Full profit and dividend repatriation (after taxation) is permitted
- Foreign investors have the right to expatriate all funds and contributions in kind of their investments
- Concession rights on natural resources and on resources of common interest, as defined by the law on concessions, are available to both residents and foreign investors
- No distinction is made between Albanian and foreign investors for tax purposes
- Funds from the liquidation of a company may be repatriated

- Bilateral agreements with a number of countries on the promotion and protection of reciprocal investments
- Double taxation treaties (see Appendix 1)
- No requirements for foreign investors to source locally or export a certain amount of the production
- Occasional tax relief from corporate income tax is granted for selected projects on a case-by-case basis. These projects may include investments channelled to public services, infrastructure projects, as well as tourism and oil industries.

3.3 Foreign Investment Restrictions

Limited exceptions to the incentives above apply to broadcasting, health services and legal services industries. Restrictions also apply on purchasing real estate – foreigners may not purchase agricultural land, however, it may be rented for up to 99 years; commercial property may be purchased but only if the proposed investment is worth three times the price of the land.

4 Employment Regulation

4.1 Entry Visa and Work Permit

EU citizens may visit Albania with a valid passport. Those who wish to work in Albania for more than three months must apply for both a residence and a work permit. To obtain a residence permit a number of documents are required, including a work permit. Foreign citizens can apply for a work permit by completing and submitting an application form, which is available from the Migration Office and from Albanian embassies and consulates abroad, along with several other documents. More information can be found at <http://www.mpcs.gov.al>.

The law provides that certain categories of foreign citizens are exempt from the requirement to obtain a work permit, including:

- Diplomats and diplomatic employees
- Representatives of non-profit religious and humanitarian organisations
- Consultants or advisors at government institutions
- Representatives of technical missions providing assistance through international organisations to government institutions
- Top management of non-profit organisations
- Business visitors staying for less than one month
- Crew members of ships or aircraft staying for up to three months
- University professors, researchers, or foreign specialists entering Albania under the framework of bilateral agreements between governments or educational institutions
- Representatives of mass media, correspondents, or reporters who are employed by a foreign employer.

In addition, non-resident foreign citizens employed by a foreign company and carrying out one of the following activities in Albania for a specified period are exempt from the requirement to obtain a work permit:

- Negotiations in the name of a foreign company, concluding an agreement, or participating in a trade fair for up to a month
- Cross border transportation staff of both passenger vehicles and distributors of goods, eg truck drivers, for up to three months
- Installing machinery or constructions delivered by a foreign corporation, performing service and repairs to machinery, and training Albanian or foreign employees, for up to a month.

4.2 Employing Local Employees

Labour relations between employee and employer are regulated by individual employment contracts or collective employment contracts in accordance with a number of Albanian laws. Albania adheres to all basic international labour organisation conventions protecting employees' rights.

The minimum wage in Albania is ALL20,000 (effective from 20 July 2011) based on a standard 174 hour month. Overtime, limited to 40 hours per month, is paid at a premium of 25% over the standard hourly rate (certain restrictions apply to pregnant women and children under 18). Overtime during public holidays is paid at a premium of up to 50% over the standard hourly rate.

Contracts of employment may be for a fixed term or open ended. The maximum probation period is three months. The minimum notice period for termination varies according to the employee's length of service. This may be agreed upon in advance by both parties. An employer is required to register employees with relevant tax office and labour office, deduct tax from their pay and must settle the amount held on behalf of the tax authorities by no later than the 20th day of the month following that in which the employees were paid.

4.3 Social Security

Social insurance and health insurance premiums are paid by the employer at 15% and 1.7% respectively of gross pay up to a maximum monthly wage of ALL87,700 (effective from 1 July 2011). The minimum monthly wage for social security contributions purposes is ALL20,000 (effective from 1 July 2011).

4.4 Trade Unions

Employees have the right to form trade unions which are organised at national and company level. Trade unions have the right to negotiate wages, working conditions etc. Agreements between employers and trade unions are binding for all employees regardless of their status as members or non-members of the relevant union. Both the Labour Code and Law No. 7458 sanction employees' rights to strike.

5 Taxation

5.1 Corporate Tax

Business entities (including partnerships) with annual turnover exceeding ALL2m are subject to corporate tax. The tax year coincides with the calendar year. The corporate tax rate is 10%. Resident companies are taxed on their worldwide income whereas non-resident companies are taxed on their Albanian source income. Legal entities are considered residents if they have either their headquarters or an effective place of management in the Republic of Albania. There are no specific transfer pricing guidelines in Albania but reference is made to OECD transfer pricing guidelines.

An annual tax return must be submitted to tax authorities and the tax liability (if any) must be paid by 31 March of the subsequent year. Depreciation method and rates are defined by Law 8438 date 28.12.1998 "On Income Tax". They range from 5% to 25% per annum. Losses can be carried forward for three consecutive years.

The tax base is profit adjusted in accordance with Albanian tax law which provides a list of non-deductible expenses; these include:

- Costs of the acquisition of depreciable assets
- Capital expenditure on improvement, renovation and reconstruction exceeding 15% of the net book value of the depreciable assets
- Payments toward private pensions or health insurance
- Increases in capital and reserves, as defined in law
- Corporate dividends
- Interest on loans that exceed the annual average rate declared by the Bank of Albania
- Interest on loans exceeding four times shareholders' equity
- General sponsorships¹ that exceed 3% of income before tax, and sponsorships for newspaper or magazines that exceed 5% of income before tax
- Personal consumption gifts, fines and penalties, salaries and any other form of compensation related to employment, payment of which is not made through the banking system

¹According to Law 7892 dated 21.12.1994 "On Sponsorships", a sponsorship is defined as financial and material support for social and public activities, which includes humanitarian, cultural and artistic, educational, academic, ecological activities, literary, scientific and encyclopaedic publications and press publishers.

- Representation expenses (such as business meetings, complimentary gifts etc) exceeding 0.3% of annual turnover
- Per-diems exceeding ALL3,000 for inter-city business trips (€60/day for international business trips);
- Depreciation and amortisation expenses exceeding the tax depreciation rates
- Any other expense not supported with a regular invoice.

5.1.1 Dividend income

Dividend income is generally taxable, unless the participation exemption (see 5.4) or a double tax treaty relief is applicable.

Dividends and distribution of earnings are excluded from a resident company's taxable profit when dividends and earnings are distributed from resident companies or partnerships which are subject to corporate income tax.

No participation exemption is in place for holdings in foreign companies. Consequently, dividends received from foreign companies would be included in taxable income.

Dividend distributions to non-residents are subject to a withholding tax of 10%, unless a double tax treaty provides for a lower rate.

5.1.2 Realised capital gains

Realised capital gains are taxable and aggregated with other income and taxed at 10% on a net basis.

5.1.3 Losses

Losses may be carried forward for three years unless there is a change of ownership of 25% of the company's shares. Carry-back of losses is not permitted.

5.1.4 Simplified profit tax

Small entrepreneurs (sole proprietorships, partnerships or legal entities) which have a gross annual turnover up to ALL8m are subject to simplified profit tax, regulated by Law No.9632, dated 30.10.2006 "Local taxes system". These taxes are collected by the relevant municipality. Law 9632 requires every taxpayer to register with the relevant municipality before starting their activities. The amount of simplified profit taxes depends on the turnover during the previous fiscal year (or estimation for the first year) and also varies by the type of activity. The simplified profit tax must be paid in four

instalments: (1) first instalment – the time of registration or renewal of certificate of registration or before 20 April; (2) second instalment – before 20 July; (3) third instalment – before 20 October; (4) fourth instalment – before 20 January of the next year.

Tax payers with turnover between ALL2m and ALL8m are required to pay any excess corporate tax over the simplified profit tax upon submission of their annual tax return, together with financial statements, by 31 March of the following year.

5.1.5 Double taxation treaties

Double taxation treaties have been negotiated with a number of other countries listed in Appendix 1.

5.1.6 Occasional tax relief

Occasional tax relief from corporate income tax is granted for selected projects assessed on a case-by-case basis by government according to criteria set by parliament. Projects may include investments in public services, infrastructure projects, as well as projects in the tourism and oil industries.

5.2 Value Added Tax (VAT)

VAT is applied on the supply of goods, services, and mixed supplies, as well as imported goods. For imported services, the reverse-charge mechanism applies. The standard VAT rate is 20% except for medications and health services which are subject to 10%. Health services include only the supply of services with a therapeutic nature. The rate on exports is 0%.

All business entities with annual turnover of all supplies exceeding ALL5m must register for VAT purposes (ALL2m for legal, accounting, and other professionals). A monthly VAT return must be submitted and the VAT liability paid, if any, by the 14th day of the following month.

Some supplies are designated as exempt, including banking and insurance, gambling, tobacco, real estate, long-term operating leasing and education.

Businesses, other than those making exempt supplies, can generally recover the VAT they suffer, but there are exceptions. For businesses making supplies subject to VAT and exempt supplies partial exemption rules apply. Recovery is blocked on a number of inputs including vehicle repairs, fuel, travel, advertising and promotions.

In cases when a non-resident provides services where the place of supply is considered to be the Republic of Albania, and consequently the VAT liability arises in Albania, the non-resident taxpayer must appoint a tax representative in Albania in order to issue its invoices and charge VAT. This obligation applies regardless of the value of the supply: the VAT registration limit does not apply.

5.3 Excise Tax

Excise duties apply to a limited number of products, in particular, tobacco and its derivatives, petroleum, alcoholic beverages, soft drinks and coffee, as well as perfumes and deodorants. If goods are imported, the tax is calculated on the customs value plus customs duties.

5.4 Withholding Tax

Withholding tax is applicable to payments of dividends, interest, and royalties payments, as well as certain other types of Albanian-source income earned by individuals and non-resident entities.

- Dividends, interest, royalties are subject to a 10% withholding tax rate unless the rate is reduced under an applicable tax treaty or by participation exemption. Dividends are not subject to withholding tax when the beneficiary is subject to corporate income tax and has a participation of more than 25% in the share capital.
- Other Albanian-source income – a withholding tax of 10% is applicable to the gross amount of:
 - Technical service fees
 - Management fees
 - Payments for construction, installation, assembly, or related supervisory work in relation to buildings and fixed plant
 - Rental payments
 - Payment for the performance of entertainment activities.

Withholding tax must be paid no later than the 20th day of the month following the month of the remittance upon which the withholding tax is assessed. The payer of such amounts is responsible for retaining and paying the tax to the tax authorities.

5.5 Personal Income Tax

Residents are taxed on their world wide income whereas non-residents are taxed only on their Albanian source income. An individual is considered resident if they are physically present in Albania for a total of more than 183 days within a tax year. If an individual has sources of income other than from employment and their annual income exceeds ALL200,000 (ALL2m for self employed individuals) then a tax return must be filed by 30 April of the following year and any tax due must be paid within 30 days of this date.

Taxable income includes:

- Wages, salaries, as well as from other forms of employment compensation
- Dividend income
- Amounts derived from copyright or royalties
- Returns on investments
- Profits derived from sale of securities on a net basis
- Other amounts designated as taxable under Albanian tax law.

The tax rate applicable to capital gains and personal income is 10%. If personal income is below ALL30,000 the applicable rate is 10% on the amount exceeding ALL10,000.

5.5.1 Other taxes on individuals

Inheritance and gifts are taxed as income. In most cases an individual's tax liability is settled by withholding at source by the payer.

5.5.2 Social and health security contributions

Social and health security contributions payable by the employee are at 9.5% and 1.7% respectively up to a maximum of monthly wage of ALL87,700 (for calculation of contributions only). These are deducted from the gross monthly wage by the employer, who must file and pay over these contributions by no later than the 20th day of the subsequent month.

5.6 Other Taxes

5.6.1 Real estate taxes

Municipalities impose an annual tax on the value of land and buildings which varies depending on the location of the property. The tax ranges from ALL5/m² to ALL200/m².

5.6.2 Municipal taxes

Municipalities impose several annual taxes such as green tax , advertising and cleaning which vary depending on the location, size of the business and activity.

5.6.3 Transfer taxes

Transfer taxes apply to transfers of real estate at rates which vary depending on the location of the property. The tax for building ranges from ALL100/m² to ALL2,000/m². The tax for other real estate ranges from 0.5% to 3% of the property price. The rate for agricultural land is 0.5% of the property price.

5.6.4 Stamp duty

There is no stamp duty.

Appendix 1: Double Taxation Treaties

Countries with a tax treaty with Albania:

Austria	Malaysia
Belgium	Malta
Bulgaria	Moldova
Bosnia & Herzegovina	Montenegro
China	Netherlands
Croatia	Norway
Czech Republic	Poland
Egypt	Romania
France	Russian Federation
Germany	Serbia
Greece	Singapore
Hungary	Slovenia
Ireland	Spain
Italy	Sweden
Korea	Switzerland
Latvia	Turkey
Macedonia (FYROM)	

Tax treaties ratified and awaiting entry into force:

Estonia
Kuwait
Luxembourg

List of Countries under negotiation:

Iceland
India

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Notes



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