

Muja Law office brings you the January 2020 Legal Update regarding the most important recent amendments of the tax legislation published in the Official Gazette on 31 December 2019 and entered into force on 15 January 2020. The amendments of this so-called “*Fiscal Package*” affect several tax laws, such as law no. 8438/1998 “Income Tax Law”, law no. 9920/2008 “Tax Procedures Law” and law no. 92/2014 “Value Added Tax”. However, kindly note that the amendments related to e-invoices will become effective in accordance with the timeline set forth in law 87/2019, “On Invoices and Transactions’ Monitoring System”.

Some of the most important amendments of the Fiscal Package to the above tax laws are as follows:

Tax Procedures Law (Law no. 9920/2008)

➤ *Compensation of tax obligations*

In specific cases, tax amounts to be paid or paid in excess in the tax or customs administration may be set off against each other. However, this provision will apply only on specific cases. The Minister of Finance shall define, through an instruction, the criteria for the application of this provision and the entities that will benefit from it.

➤ *VAT refund through installments*

On specific cases, upon the request of the tax administration, the taxpayer may enter into an installment payment agreement with the tax administration by setting a detailed payment plan for the liabilities of the tax administration against the taxpayer. When such an agreement is entered into, the obligation of the tax authorities toward the taxpayer is considered as fulfilled and no late payment interest shall apply. The procedures for the application of this disposition will be determined through a decision of the Council of Ministers. This disposition will be applicable until 30.06.2021.

➤ *Incompliance with new e-invoicing system*

In case of incompliance with the new e-invoicing system, fines and/or penalties shall apply. Fines have now been amended, with each fine being specified in three levels: a) the lower amount for taxpayers that are not registered for VAT (annual turnover up to 2 million Leke); b) the second category for taxpayers that are subject to simplified profit tax (annual turnover up to 8 million Leke); c) and the highest fines are applied to taxpayers that are registered for profit tax (annual turnover more than 8 million).

➤ *Controls and verifications from tax administration*

In case of violations, such as those related to registration of taxable persons, use of fiscal equipment, documentation of goods, documentation of sale transactions of goods or services and issuance of tax invoices, registration of employees, or any other verification of implementation of tax legislation, the tax administration may carry out on-site inspection without a prior written notification, but only with an ID document and the daily working order.

Value Added Tax (Law no. 92/2014)

➤ *Electric vehicles*

The supply of new electric vehicles (that have only an electric motor) and are not registered in any other state will be exempted from VAT (including import or local supplies). The supply of electric vehicles of 9+1 seats used for public transport will be subject to the reduced VAT rate of 6%.

➤ *VAT exemption for the rebuilding process*

Supply of construction services for construction of buildings destroyed from the earthquake will be exempt from VAT during the rebuilding process. Same exemption applies to direct suppliers of constructors for services and goods acquired during the said process. The General Tax Director should authorize such exemption. The Council of Ministers shall determine the procedure for the VAT exemption.

➤ *Reverse charge invoice*

In case of reverse charge, the issue of the invoice from the recipient should be made not later than the 10th of the month following the month when VAT arises.

Income Tax Law (Law no. 8438/1998)

➤ *Dual employed individuals*

Individuals employed in more than one employer must fill-in the annual tax return on personal income, irrespective of the amount of total annual income. Such individuals have to declare in their tax return, the total income from employment and calculate the tax obligation based on the progressive tax rates. The employees shall pay the personal income to tax authorities after deducting the tax withheld by the employers during the year (if any).

➤ *Transfer of immovable property ownership between family members*

Transfer of the ownership title of the house and/or land between family members (such as between husband and wife, or between parent and children), through donation or renunciation from the ownership right, is exempt from personal income tax. However, only one transfer of ownership right to each beneficiary is exempt.

➤ *Deductible expenses for exporters*

The expenses for participation in fairs or expositions abroad, incurred by exporters are recognized as deductible tax expenses up to 3% of the annual turnover. However, in order for this rule to apply, the taxpayer should have generated more than 70 per cent of their income from export sales during the last three years.

➤ *Sponsorship of sports teams*

When legal entities that generate an annual taxable profit of more than 100 million Leke sponsor sports teams' part of recognized federations, they shall recognize as tax deductible expense an amount which is three times the sponsored amount. The deduction cannot be carried for future tax periods. The sponsorship amount should not exceed the limits set in the law no. 7892, dated 21.12.1994 "On sponsorship". This provision is applicable when and only if the sponsor has obtained a "Sponsorship authorization" from the General Tax Director according to the procedures to be detailed in an instruction from the Minister of Finance.

➤ *Loss carry forward*

Taxpayers that invest in business projects in a value of more than 1 billion Leke, have the right to carry forward losses in the next 5 tax years, while on the other hand taxpayers will continue to carry forward their losses for a period up to 3 years. The Minister of Finance will define through an instruction the criteria for the application of this provision.

➤ *Automotive industry*

Legal entities that conduct economic activity in the automotive industry are subject to a profit tax rate of 5%. The Council of Ministers will determine through a decision the activities, criteria and procedures for the implementation of this provision.

➤ *Sale of Shares*

Provisions of a tax treaty on avoidance of double taxation on income and on capital prevail over the Albanian law with respect to taxation of capital gains from sale of shares. The rules on taxation of capital gain from sale of shares will not be applicable in case a tax treaty regulates the taxation of such shares' transfer.

National Taxes

➤ *Luxury Vehicles*

Value of vehicles classified as "Luxury Vehicle" will be depreciated annually at 10% of the residual value and the sales' value of vehicles classified, as "Luxury Vehicle" may not be less than the value of the vehicle.

➤ *Persons with disabilities*

The category of persons with disabilities are exempt from annual taxes on used vehicles of 4+1 seats and cylinders not more than 2500 cubic meters, when used for personal interests.

➤ *Penalty for late payment*

The penalty for late payment of the annual tax on used vehicles will be 0.06% of the unpaid tax obligation for each day of delay up to a maximum of 365 calendar days.

Revaluation of immovable property

➤ *Period and responsible expert*

Individuals who own immovable property have the right to revalue their immovable property at market value, starting from 14th of January 2020 until 30th of September 2020. The revaluation can be done by an expert licensed for the valuation of immovable property or by the local office of the State Agency of Cadaster.

➤ *Payable tax*

The tax payable on the revaluation is calculated at 3% of the taxable base. In case of revaluation of the property from a licensed expert the taxable base is calculated as the difference between the value indicated in the evaluation report, which may not be less than the minimum fiscal prices, and the value of the property of the registered act or revalued value for which the tax has been paid. In case of revaluation of the property from State Agency of Cadaster, the taxable base will be the difference between the reassessed value at the minimum fiscal prices and the value of the property of the registered act or revalued value for which the tax has been paid. In case of revaluation of legal entities' immovable properties, the tax payable on the revaluation will be calculated at 5% of the taxable base. The taxable base will be calculated as the difference between the reassessed value and the accounting book value of the immovable property.



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Muja Law is a family-run law office where we work hard for the success of our clients and to provide excellence in legal service. Our roots go back to 2001 when our Managing Partner, Krenare Muja (Sheqeraku), opened her law practice office in Tirana, Albania. Krenare's son Eno joined her in 2014, and the other son Adi entered the practice in 2019. What started in Tirana as a small, family-run law office has grown and flourished in the community for the last 20 years. The office consists of various respected and talented lawyers who possess outstanding educational and community service backgrounds and have a wealth of experience in representing a diverse client base in various areas of the law.

The office is full-service and advises clients on all areas of civil, commercial and administrative law. With significant industry expertise, we strive to provide our clients with practical business driven advice that is clear and straight to the point, constantly up to date, not only with the frequent legislative changes in Albania, but also the developments of international legal practice and domestic case law. The office delivers services to clients in major industries, banks and financial institutions, as well as to companies engaged in insurance, construction, energy and utilities, entertainment and media, mining, oil and gas, professional services, real estate, technology, telecommunications, tourism, transport, infrastructure and consumer goods. In our law office, we also like to help our clients with intermediary services, as an alternative dispute resolution method to their problems.

While we have grown over the past 20 years and become recognized as one of Albania's leading law offices, we are grounded in the essence of "who" we are and "where" we started. We understand the importance of family, hard-work, and dedication.

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