



# Tax Alert

## Year-end procedures

The deadline for submission of Financial Statements, Corporate Income Tax and Annual Controlled Transactions Notice for the year ending 31 December 2020 is fast approaching. In order for you to be in compliance with Albanian fiscal and accounting legislation<sup>1</sup>, Mazars experts would like to draw your attention on the following issues:

### ❖ Withholding tax (WHT)

The entity should pay within 20 January 2021 the withholding tax concerning the following transactions, which will be recorded in the 2020 accounting books:

- i. For services received from foreign companies not registered with Albanian tax authorities (whether they have appointed a tax representative for VAT purposes in Albania or not) the entity should pay within the year-end the withholding tax to the Albanian tax authorities, in order for the related expense to be considered as deductible for the determination of the Corporate Income Tax (CIT). This rule is applicable despite the payment of the related invoice. In case there is a Double Tax Treaty (DTT) in place with the country of residence of the foreign company, please refer to its provisions and make sure to apply for a clearance from the Albanian tax authorities.
- ii. Interest and royalties paid to foreign companies not registered with Albanian tax authorities should be subject to careful review in case there is a DTT in place with the country of residence of the foreign company. The percentage to withhold should be that specified in the DTT provisions. In all cases where interest and royalties are considered as exempt from withholding tax in Albania or are subject to a reduced rate of withholding tax, please make sure to apply for clearance with the Albanian tax authorities.

### ❖ Application of the "Self-invoice" (reverse - charge mechanism) and "Invoice issued from the buyer"

For all services provided from foreign companies, foreign individuals as well as local individuals not registered (and not liable to register) with the Albanian tax authorities, the taxpayer should apply the reverse-charge mechanism and the invoice issued from the buyer procedure.

In case the entity has not complied with such requirements during the year, Albanian legislation provides that taxpayers have the opportunity to submit revised tax returns within 36 months from the date of submission of the initial tax return.

These procedures should be followed even for those services which are agreed to be invoiced within 2020, but physical invoices have not been received yet. In case of non-compliance, the expenses incurred for these services will be considered as non-deductible for CIT purposes.

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<sup>1</sup> This tax alert does not intend to provide detailed information in regards to accounting checklist needed to be performed for the preparation of Financial Statements.

#### ❖ **Year-end inventory**

Physical counting and valuation should be performed and documented for tax purposes, in relation to the balance/situation as at 31 December 2020 of the following:

- i. stock inventory
- ii. fixed assets

Please consider to follow law provisions in case of damaged inventory or out of use assets.

#### ❖ **Year-end cash count**

Cash count should be carried out and documented for all the amount of cash in Lek and foreign currencies as at 31 December 2020.

#### ❖ **Year-end bank statements**

For the purpose of the reconciliation of the bank balances presented in the financial statements, we would suggest that confirmation letters are sent to the banks the Company collaborates with for the confirmation on the year-end balances for each bank account.

#### ❖ **Year-end confirmation on receivables and payables balances for clients and suppliers**

Confirmation letters should be sent to suppliers and customers for confirming their balances towards yours at 31 December 2020, in order to ensure the accuracy of the balances that will be presented in the financial statements.

#### ❖ **Year end tax position confirmation with the tax system**

After the submission of December tax returns, we would suggest to extract a balance of tax accounts according to the general ledger in the tax system (efiling). The aforementioned ledger should cover all types of taxes: VAT, CIT, Social and Health Contributions and Personal Income Tax. We recommend you to reconcile these statements with your Company's accounting records and to identify any discrepancies. Such differences (if any) should be followed up and clarified with your tax inspector.

#### ❖ **Transactions with related parties**

In case the controlled transactions performed with your related parties are above ALL 50 million (taking in consideration all transactions therefore including loan balances), you must submit to the Tax Authorities an annual controlled transaction notice within 31 March.

Should the transfer pricing analysis demonstrate that the prices applied between related parties are not in accordance to arm's length principle, an adjustment must be performed in order to decrease the deductible expenses or increase the taxable revenue. We suggest to perform such analysis before submitting the Corporate Income Tax return.

#### ❖ **Independent auditor's report**

An independent audit report is required, should your company fulfill one of the below conditions:

- i. prepare financial statements in compliance with International Financial Reporting Standards;
- ii. be a joint-stock entity despite the reporting framework;
- iii. be a limited liability companies reporting based on national accounting standards when, at the end of the accounting period, for two consecutive years, they exceed two of the three indicators below:
  - a) total assets of the balance sheet, at the end of the respective accounting period, reaches or exceeds the amount of ALL 50 million;
  - b) the amount of income from economic activity (turnover) in that accounting period reaches or exceeds the amount of ALL 100 million;
  - c) has, on average, 30 employees during the accounting period.

#### ❖ Other reporting requirements

As of last year financial statements, some additional reporting requirements are required:

- i. **Performance report**- entities must prepare the progress report, which through a comprehensive analysis, fairly presents the development and the entity's performance, accompanied by a description of risks and uncertainties main, which the unit can face.
- ii. **Non-financial report** - Large economic units, which are public interest entities and the average number of employees exceed 500, during the reporting period, should include in performance report a non-financial report, which include necessary information for a better understanding of the entity's own development, performance, the position and impact of its activity on the environment, social issues and those of employment, respect for human rights, anti-corruption and bribery issues.
- iii. **Internal management report**- Public interest entities should include in the performance report the internal management report of the entity.

#### NOTE:

To all those clients for whom Mazars in Albania provides tax, bookkeeping services or transfer pricing this tax alert is only for notification purposes.

This alert is provided for information purposes only and does not constitute dedicated professional advice.

## **CONTACT**

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