

## LAST AMENDMENTS TO TAX LEGISLATION AND DEVELOPMENT OF TOURISM SECTOR IN ALBANIA

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**Abstract:** *The tourism sector is one of the main contributors to the Albanian economy, having a growing positive trend. The development of tourism in our country is foreseen as part of sustainable development, with great growth potential, generating economic development and guaranteeing employment. Therefore, for this purpose, promotion of Albania as a tourist destination and attracting a large number of visitors, both domestic and foreign, requires the support of a sustainable, environmentally friendly and expansive tourism development throughout the year.*

*In order to create the most competitive conditions in the region and to promote the presence in the Albanian market of internationally renowned names, it was necessary to intervene in the Law on Value Added Tax, providing that within this category of accommodation<sup>267</sup> structures, services are provided with a reduced rate of value added tax<sup>268</sup>.*

*Even the Balkan region's neighboring countries - such as Macedonia, Montenegro, Serbia, etc., foresee convenience in the value added tax for the tourism sector.*

*Starting from the great potentials our country offers in the field of tourism, from the geographic, climatic point of view, it is considered necessary to promote an increasingly elite tourism, offering high standards in accommodation facilities of "Hotel with five stars, special status ". This will enable the absorption of large investments in our country, as well as the presence of well-known brands in the field of hotel trade.*

**Key words:** *tourism, law, the value added tax, priority sector, government, fiscal facilities, direct investment, tax legislation, etc.*

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<sup>267</sup> According to the definition provided in Article 4 of Law No.93 / 2015, "On Tourism", the accommodation structure is "*... the structure made available to tourists, domestic or foreign, individuals or groups organized for a period of time indefinite, but not more than one year, accommodation services (sleeping, food, beverages and other services), in accordance with the standards set by its classification and categorization ...*". Classification and categorization of accommodation structures is a compulsory condition for the exercise of accommodation activity. This, in addition to enhancing fair competition and the quality of services, is also a measure for consumer protection. Accommodation facilities will not advertise any classification levels, according to their wish, for which they do not meet any standards. For example, a tourist in a hotel classified with "3 Stars" will be offered services of that standard, because this structure has undergone a formal classification process, after which it has resulted to meet the standards of that level.

<sup>268</sup> Law No.92 / 2014 "On value added tax in the Republic of Albania" has aimed at approximating with the European Union Directive "On the Common System of Value Added Taxes" in Europe (DE 2006/112). In this Directive, in Annex 3, it defines what the supplies of goods are and services on which reduced VAT rates may apply where are listed and the supplies of many services and other goods over which the reduced VAT rate can be applied, but always not higher than 5%. Even in Chapter VII of the Law (Article 49, in accordance with Article 98 of the Directive) it is stipulated that in addition to the standard scale, the reduced rate of VAT may be applied. Pursuant to this provision, already with the entry into force of Law No.71/2017 "For an addition to Law No. 92/2014" On Value Added Tax ", amended, a reduced rate of 6% applies for the supply of accommodation service in accommodation structures, as defined in the legislation in the field of tourism.

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## 1. DEVELOPMENT OF TOURISM AS A PRIORITY SECTOR

Taking into account the above, as well as the fact that the tourism sector currently has a special attention from the Albanian government as one of the priority sectors in the country's economic development through the recent changes in the Value Added Tax Law added to the Republic of Albania, part of the fiscal package, approved in December 2017 by the Assembly, it is proposed that the supply of services provided within the accommodation structures "Five-star Hotel, Special Status", as defined in the legislation of the field of tourism, to be with a reduced VAT rate of 6%.

By these changes it is also intended that the government should be given the right to determine that for a particular category of taxable person the tax period is longer than one month but not longer than one calendar year, in order to reduce compliance costs.

Thus, the obligation to submit a VAT declaration for a particular category of taxable person is for a period longer than a month, as can be the quarter, as is currently the obligation to disclose the data for the contributions of social security and health insurance, and income tax on employment for the subjects of simplified tax on profit for small business.

In the following, the above is also intended to allow the government to determine by the decision that the summary records accompanying the VAT declaration are for a longer period than a month, as may be quarterly, but not longer than one calendar year<sup>269</sup>.

The recent amendments to the Value Added Tax Act aim at giving the legal status to the government that, besides setting the minimum overall VAT registration limit, also specify cases

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<sup>269</sup> Paragraph 5 of Article 107 of the Law No.92 / 2014 "On value added tax in the Republic of Albania", as amended, provides expressly that: "... **The Minister of Finance has the right to appoint an instruction that for any taxable persons category tax period to be longer than one month, but not longer than a calendar year ...**". However, since the Council of Ministers, pursuant to paragraph 2 of Article 117 of the same law, establishes with a decision the minimum VAT registration limit, then it is proposed to be the same body that has the right to determine by a decision that for any category of taxable person the tax period shall be longer than one month but not longer than one calendar year. Likewise, since the declaration of value added tax, pursuant to Article 109 of the Law, is always accompanied by the summary records as for the completed works, for the supplies received and for the corrections made, namely the sales book and the purchase book, for this particular category of taxable person, have the right to also determine that the summary records are for a period longer than a month, such as a quarter, but not longer than a calendar year.

In this way, the obligation to submit a VAT declaration is for a period longer than a month, as can be the quarter. Therefore, for a certain category of taxable person, the submission of the VAT declaration should be made on a monthly basis, within the 14th of the first month, after the end of each quarter of the calendar year.

of exclusion from this limit or, set a minimum limit of registration for specific categories, unlike the general limit.

### **1.1. Innovations changes in the law No. 92/2014**

Amendments to the Law on Value Added Tax aim at:

- Encouraging the development of the elite tourism sector and especially the development of hotel services in five-star hotels, special status;
- Growth of competition and economic development;
- A different treatment to reduce compliance costs for a particular category of taxable persons as determined by a decision of the Council of Ministers regarding the period of submission of the VAT declaration and summary records.

The new law<sup>270</sup> proposes to apply a reduced rate of VAT, namely 6%, for the supplies provided within the accommodation structures "5 Star Hotel, Special Status", according to the definition in the legislation of the field of tourism<sup>271</sup>.

For this reason, given that the development of hotel services is one of the priorities of the tourism sector, in order to develop and stimulate investment in this sector, applying a reduced VAT rate not only to the provision of accommodation services but also for any other service provided within the accommodation structures "Five-star hotel, special status", according to the provisions of the legislation in the field of tourism, will bring positive effects concretely, promoting investment, improving service and quality, will spur increasing the number of tourists, creating new jobs, etc.

## **2. FISCAL FACILITATIONS IN THE TOURISM SECTOR**

The tourism sector is one of the main contributors to the Albanian economy, having a growing positive trend. Currently, for the provision of accommodation service in accommodation structures, according to the definition in the legislation of the field of tourism, the reduced rate of VAT 6%<sup>272</sup>.

By applying the reduced rate of 6% tax on accommodation, and for any other service offered within the accommodation facility "5 Star Hotel, Special Status", the aim of listing our country as a destination of favored in the Mediterranean offer of international tourism markets, but especially the promotion of the presence in the internationally renowned "brand" Albanian market. It is also aimed at creating a new image for tourism Albania, providing service in accordance with international standards<sup>273</sup>.

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<sup>270</sup> Law No.107 / 2017, published in FZ.222, dated 19.12.2017, provides in Article 4 of Article 49 that: "... *Exceptionally as set out in paragraph 3 of this Article, the reduced rate of Value Added Tax 6% applies to any service supply provided within the "Hotel / Resort Five Star, Special Status" accommodation structures, as defined in the legislation of the tourism field and who are holders of an internationally registered and internationally recognized trademark "Brand name". The conditions, criteria and procedures for the implementation of this point shall be determined by a decision of the Council of Ministers ...* "

<sup>271</sup> Law No.93/2015, "On Tourism" adopted on 27.7.2015 published in the FZ. Nr.164, p. 11491

<sup>272</sup> Approved by the Law No.71/2017, "For an Addendum to the Law No.92 / 2014" On Value Added Tax in the Republic of Albania ", as amended, published in the Official Gazette no.113, p. 5974

<sup>273</sup> Referring to the number of visitors in the last 4 years (2013 - 2016), they have shown that from 2013 to 2016 there has been an increase of 45.4% of the number of foreign nationals entering in our country.

For this purpose, the recently adopted amendments to the new fiscal package, the law on income tax, aimed at<sup>274</sup>:

- The incentive of the tourism sector, reducing the tax rate<sup>275</sup> according to the regulations in the field of tourism;
- Incentives in the field of software production, reducing the tax rate as a key factor for technological and economic development<sup>276</sup>.

In today's global economy environment, where technology and information development is a major impetus for boosting competition and long-term economic growth, many governments have devised policies to encourage innovation in technology, including most countries the OECD and other major economies such as China, India, Brazil and Russia<sup>277</sup>.

In addition, promoting investment in the tourism sector will also contribute to:

- Opening up new jobs;
- Increasing the number of tourists and visitors with great potential of purchasing power that will stay in Albania;
- Increasing consumption as an important factor in GDP growth.

Currently, the countries of the region have chosen different forms of incentives to improve the tourism climate<sup>278</sup>. Other countries' tax incentive experiences show a variety of tax treatment.

Our country has chosen the form of tax deduction from the normal rate, proposing that this rate be 5% by 15%, which is the normal rate. This form of incentive aims to create favorable conditions for improving the climate for the development of information technology market by encouraging the creation of these developments within the country.

In order to promote investment in elite tourism and the absorption of well-known international operators in the field of tourism, it is also envisaged that the construction of "5-star special status hotels" accommodation structures will be exempt from the infrastructure impact tax<sup>279</sup>. Also, these investments are also excluded from the tax on the building.

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<sup>274</sup> Law No.8438, dated 28.12.1998, "On Income Tax", as amended.

<sup>275</sup> Thus, the tax rate cut at 0% for the first 10 fiscal years is foreseen for accommodation structures "Four-star and five-star hotels, special status"

<sup>276</sup> Reduction from 15% to 5%, the tax rate in this case was assessed as an important instrument to motivate the retention of intellectual capacities within the country

<sup>277</sup>International practice recognizes some forms of incentive and specifically:

- Through recognition beyond the allowed norm of current expenditures or capital expenditures;
- Tax relief for the acquisition of intellectual property by other companies;
- Tax incentives for profit realized by the use or production of innovative technological developments.

<sup>278</sup> Thus, refraining from Serbia's fiscal legislation, this country exempts for 10 years from profit tax, those tourism investments, which exceed 8 million euros, and employ at least 100 people. In return for investment in tourism, Turkey provides for multiple tax on income tax and income tax, namely up to 90% reduction in personal income tax or personal income tax. In general, tax reductions in Turkey are made for a period of time not exceeding 10 years. Macedonia applies a reduced tax rate, depending on the portion of the profit reinvested in tangible and intangible assets (including computer software and patents used to expand business activity). Bulgaria offers accelerated 2-year amortization for new computers and new equipment. Ireland allows an additional 25% deduction over costs, actually made for investors who realize the design and development of integrated and innovative hardware and software systems, complex software algorithms, models and mathematical solutions.

<sup>279</sup> In this regard, the countries of the region provide incentives to attract foreign direct investment in the tourism sector and especially to the high standard hotel structures (5 star hotels, special status).

## CONCLUSIONS

Albanian tourism is still in its infancy and is currently facing difficulties to compete with the level and quality that offer hotels and resorts of the region. For the tourism development, in addition to the high number of tourists, above all, a wide and high quality hotel and resort infrastructure is needed, which only experienced hotel groups can offer. On the other hand, the current tendency of the Balkan countries is to provide incentives in a variety of ways, in order to attract foreign direct investment in the tourism sector and, in particular, to upgrade high standard hotel structures (hotels with four and five star).

All these interventions in the domestic fiscal legislation aim precisely at the development of the tourism sector and, above all, to improve the image of our country everywhere in the world. These investments will contribute to the opening of new direct and indirect jobs, the growth of tourists and visitors, and the growth of domestic consumption, thus contributing to the growth of society's well-being in our country.

This remains to be seen.

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