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COMPARATIVE MATRIX OF INCENTIVES FOR INVESTMENTS IN THE COUNTRIES OF THE WESTERN BALKANS

Since April 2017, the Secretariat of the Investment Council in cooperation with AIDA has prepared a Comparative Matrix of the incentives and the main elements of the fiscal burden applicable in Albania and other Western Balkan countries in the context of [Meeting No. 5 – “Investment Promotion Incentives: Albania vis-a-vis Western Balkan Countries.”](#) This Matrix has been updated as follows in the context of [Meeting No. 18 – “On Investment Potentials and Priority Sectors.”](#)

- What is common to most countries in the updated matrix is that they have adopted a progressive tax on income and different VAT rates depending on sectors.
- Additionally, Albania applies a tax reduction on dividends from the normal rate of 15% to 8% and the lowest minimum turnover of ALL 2 Mln for VAT purposes and it implemented a package of fiscal measures for tourism and agrotourism in an effort to promote the set up of accommodation structures.
- Countries like North Macedonia and Serbia are more aggressive in targeting investors in other sectors through national and regional economic free zones and direct rewarding policies for any new job openings in the country.
- We emphasize that while taxation is recognized as an important factor in companies’ decisions to invest, it is not the main determinant¹. Foreign Direct Investment is attracted to those countries that offer market entry and profit opportunities; predictable and non-discriminatory legal and regulatory framework, macroeconomic stability; responsible and capable workforce, and well-developed infrastructure. It is all these factors that in their entirety affect the long-term benefit of a project.

¹ *Tax Effects on Foreign Direct Investment, OECD 2018*

Common aspects:

1. *Free Trade Agreements such as CEFTA and EFTA*
2. *Double Taxation Avoidance Agreements for with many states*
3. *Legal Framework on Investments and Protection of Foreign Investments*

INCENTIVES	ALBANIA	NORTH MACEDONIA	SERBIA	MONTENEGRO	KOSOVO	BOSNIA AND HERZEGOVINA
FISCAL BURDEN						
<i>Corporate profit tax</i>	15%	10%	15%	9%	10 %	10%
<i>Income tax on interest</i>	15%	15%	15%	9% for non-resident companies and 5% for non-resident individuals except for cases when otherwise foreseen in the DTT	10 %	10 %
<i>Personal income tax</i>	0%, 13%, 23%	8%, 10%, 18%	<ul style="list-style-type: none"> • Income from employment and income from business 10%; • income from copyright and income from rent 20%; • Income from capital 15% by exempting from taxation the sale of assets that were the property of the seller for more than 10 years. 	9% <ul style="list-style-type: none"> • Taxation at 11% for income of more than 766 Euro net/month from employment • Start-up employment salaries (except for the agriculture sector, fisheries, transport, shipbuilding sector) are exempt from taxation for 8 years, up to a total sum of EUR 200,000. 	10%	10%

<i>Social contribution of the employer</i>	16.7%	25.8%	17.9%	10%	5% + 10% voluntary	10.5%
				The maximum contribution base is EUR 50,000 in a calendar year.		
<i>Social contribution of the employee</i>	11.2%	27%	19.9%	24%	5% + 10% voluntary	31%
<i>Value Added Tax (VAT)</i>	20% 6% in tourism sector	18% standard rate 5% reduced rate (food, computers, software, solar thermal systems, the first sale of residential buildings)	20% 10% of basic food items and public services.	21% of taxpayers with a turnover of more than EUR 18000 are subject to VAT. 7% for basic food items, medicine, books, public services and transport. 0% VAT for international transport	18% standard rate 8% reduced rate 0% for exports	17%
<i>Carrying Forward Losses</i>	Carried forward for 3 consecutive years	The tax-loss can be carried forward for three years	Carried forward for 5 years	Tax-loss including capital loss may be carried forward for 5 years.	Carried forward for up to 7 consecutive years	Loss may be carried forward for 5 consecutive years
<i>VAT reimbursement</i>	Immediate or from 30 – 60 days.	VAT reimbursement is done immediately within 30 days from the filing of the tax declaration.		The foreign investor does not have to pay every order for exported goods but is obliged to pay 0%, VAT, according to the Law on VAT. This means that the foreign investor who has paid VAT for raw materials and at the	Every three months for domestic supplies if the VAT crediting is carried forward for 3 months and at the end of the third month the VAT crediting value exceeds EUR 3,000. Every month for	

				moment he exports finished goods he will pay VAT and will have the right to VAT reimbursement for raw materials.	exports if the VAT crediting is more than EUR 3,000	
CONCRETE INCENTIVES						
I. Fiscal	<p>VAT exempt when imported: 1. Agricultural machinery and equipment, for inward processing regime and agribusiness; 2. machinery dedicated for investment \geq EUR 360 000</p> <p>Import of machinery and equipment:</p> <p>a) to execute investment contracts of equal or greater value more than ALL 50 million;</p> <p>b) to execute investment contracts in the active processing sector and agribusiness, whatever the value of the investment; and</p> <p>c) the importation of production machinery by the subjects of the simplified profit tax.</p> <p>Exempt from customs duties on imports of raw materials and semi-finished goods intended for export. (Suspension of import duty and VAT on goods imported under the inward-processing procedure)</p>		<p>Exempt from on-profit tax for investors for 10 years, if:</p> <ul style="list-style-type: none"> • they invest in fixed assets with a sum that exceeds about EUR 9 million, and • they have employed at least 100 staff legally <p>Exempt from customs duty for the import of raw materials and semi-finished materials intended for export, and for the import of machinery and equipment for foreign investors.</p>	<p>Exemption from profit tax for the first 3 years is provided for companies engaged in production activities in an undeveloped area. <i>(This incentive is not applicable in the agriculture, transport, shipbuilding, steel and fishery sectors.)</i></p>	<p>VAT exempt when imported:</p> <ul style="list-style-type: none"> - Goods that are processed for purposes of export; - IT equipment; - Production machinery; - Raw materials entering a production process; <p>Exempt from customs duty for raw materials and production machinery.</p> <p>Return of excise on fuel consumed in the production process</p> <p>Deductible expenses from Corporate Profit Tax: Representation expenses up to 10% of the pre-tax profit, plus another 10% for</p>	<p>Reduction by 30% of the profit tax when they invest more than 50% of current profit in production equipment.</p> <p>Reduction by 50% of the profit tax when they invest EUR 10 million from their funds constantly in 5 years, no less than EUO 2 million in the 1st year.</p> <p>Twice the amount of gross salary of new employees is considered as a deductible expense for taxation purposes on the condition that the duration of the work contract has to be at least 12 months full time and that the new employee must not have worked previously with the same taxpayer during the last 5 years.</p>

					<p>sponsorships.</p> <p>Deductible expense from 10% beyond the depreciation expense for new production machinery during the first year of their use.</p>	
II. Economic zones	2 zones in the process but not active (Spitalla and Koplaku)	15 Economic Zones, 3 fully functional (Skopje 1, Skopje 2 and Stip) 1 is undergoing PPP procedures (Tetovo) 11 others in different development stages	14 approved zones, 12 operational zones		N/A	
Fiscal incentives within Economic Zones	<ol style="list-style-type: none"> 50% reduction of profit tax for the first 5 years. Entry and exit of goods according to the provisions of the Customs Code. Deductible expenses 20% of the annual capital for the first three years. Supply of Albanian goods in the zone is considered as export supply at zero VAT rate. The developer is exempted from the tax on infrastructure effect Buildings are exempted from immovable property tax for 5 years. The developer and user are exempted from the property transfer tax 	<p>Exemption from profit/income tax for a period of up to ten years from the day of starting the activity in the TIDZ. To fully use this exemption from taxes, the investor must have started the business activity no later than two years following the official decision to start work in the TIDZ.</p> <p>2-Exempted from personal income tax on salaries of employees, regardless of the number of employees, for the first 10 years of activity in the TIDZ;</p> <p>3- VAT exemption of goods' and services' supplies, besides sales to the end consumer that is done within the economic zone.</p>	<ol style="list-style-type: none"> 0% VAT on goods and services within free zones and for those who enter the area The supply of electricity and gas with 0 % VAT Entry and exit of goods that are exempted from customs duty Exemption from local taxes 		N/A	<p>Exempt from VAT on imports of goods.</p> <p>Exemption from customs duties on import of equipment for production</p>

		4- VAT exemption for the import of goods that will be sent in an economic zone on the condition that they are not sold for end consumption				
<i>Non-fiscal incentives within Economic Zones</i>	<ol style="list-style-type: none"> Expenses for salaries and social contributions of the employer are recognised at 150% of their value during the first fiscal year. Additional expenses for salaries in the following years are recognised as expenses at 150% of their value. Training costs are considered as deductible expenses at twice their value for 10 years. Research development costs are considered deductible expenses at twice their value for 10 years. 					
<i>III. Non-fiscal incentives</i>	<p>Assisted procedure by AIDA as per sectors and value of the investment:</p> <ol style="list-style-type: none"> Energy and mining, transport, infrastructure, electronic communications, urban waste, for investments \geq EUR 30 million; Tourism at least 80 new jobs, TEDA \geq EUR 5 million; Agriculture and fisheries \geq EUR 3 million and at least 50 new jobs; Priority Development Areas \geq EUR 1 million at least 150 jobs. 		<p>Employer's contribution reduction for new hires for the period 1 July 2014 – 31 December 2017:</p> <ul style="list-style-type: none"> - 1 – 9 new hires, 65% reduction - 10 – 99 new hires, 70% reduction Over 10 new hires, 75% reduction. It is assessed that this reduces the employer's expenses for salaries to 20%. 			

	<p>Special approval procedure by the Government and expropriation for:</p> <ol style="list-style-type: none"> investments \geq EUR 50 million for the above sectors; for investments \geq EUR 10 million and 600 jobs in the PDAs. For every investment \geq EUR 100 million <p>Specific: Rental of state property with 1 Euro</p>		<p>State grants for investments by foreign investors, too, Greenfield projects and brownfield projects in the manufacturing sector and international trade varying from EUR 150 000 to EUR 600 000 of the investment cost or covering costs for new staff hired for purposes of the investment for 2 years. Allocation of funds in line with the criteria:</p> <ol style="list-style-type: none"> Degree of regional economic development; New jobs from a minimum of 20 – 50, as per regions. <p>For <i>labour-intensive</i> sectors grants may be progressively increased (by 10%, 15%, 20%) for new jobs (more than 200, 500 and 1000).</p>			
IV. Sectoral incentives						
Agriculture	<p>Tax on profits 5% for Legal Entities - Agricultural Cooperation Companies</p>	<p>66 available sites in 6 communes</p> <ul style="list-style-type: none"> Offer price Starting from € 1 / m² Offer price Starting from € 	<p>a) Direct payment from EUR 80 000– EUR 160 000.</p> <p>b) Incentives are dedicated to rural</p>			

		<p>0.1 / m² for 99 years of lease</p> <ul style="list-style-type: none"> • Average size of the site: 3000m² - 4000m² • State aid in the form of co-funding made available <p>Income tax: For persons who are engaged in agricultural activity, as first profession, the following tax exemptions are allowed:</p> <ul style="list-style-type: none"> • Up to 300.000 dinars (income), they are allowed 100% of standard expenses and • From 300,001 to 1.300.000 dinars (income), they are allowed 80% of standard expenses. <p>For persons engaged in agricultural activity, as a secondary profession, standard expenses are set at the amount of 80% from the derived income.</p>	<p>development.</p> <p>c) Specific incentives for technical and professional assistance.</p>			
Tourism	<p>6% VAT on Accommodation Structures (Bed + Breakfast);</p> <p>6% VAT on Any Supply Within “Hotel/Resort 5*, Special Status” Structures (Brand Name)</p> <p>Exemption from Building Tax and Impact Tax on Infrastructure Hotel/Resort 5*, Special Status”(Brand Name)</p> <p>Exemption from Profit Tax, for a</p>	<p>Vat reduction for tourism from 18% to 5%</p> <ul style="list-style-type: none"> • Attracting foreign investors for the construction of hotels and touristic objects • Subsidies for Tour and Air Operator. The scheme was prepared as below: Depending on the countries tourists were coming from, the tourist operator would make from EUR 10-25 for every 		<p>VAT exemption for the import of goods and services for the construction of 5-star hotels.</p> <p>Reduction of the property tax by 30% for 4-star hotels and 70% for 5-star hotels.</p> <p>Grant support for the</p>		

	<p>10-Year Period for Those Structures, “Hotel / Resort 4 * and 5 *, Special Status” Eligible For Special Status until December 2024.</p> <p>6% VAT for Certified Entities in agro tourism (Sleeping + Restaurant (Non-Drinking))</p> <p>Infrastructure Impact Tax Exemption for Agro-Tour Operators Who Will Invest in this Area.</p> <p>From January 1, 2018 For Certified Entities In agro tourism Profit Tax decreased from 15% to 5%.</p>	<p>tourist; For the transport of tourists by train, the operator makes EUR 15 per tourist; For combined transport (tour guides) from EUR 10-15 per tourist.</p>		<p>northern part of Montenegro for investment in tourism – minimum EUR 500,000 and minimum 20 jobs within 3 years (construction of hotels of more than 3 stars)</p>		
<i>IT</i>	<p>5% Tax on profit on software production/development</p>					

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