# *Corporate Tax*

**Prof.Asoc.Dr. Etleva Bajrami**

Co-funded by the European Union

"Funded by the European Union. Views and opinions expressed are however those of the author(s) only and do not necessarily reflect those of the European Union or EACEA. Neither the European Union nor the granting authority can be held responsible for them

- Profit tax is one of the most important taxes for revenues in a state's budget and for the cost that burdens businesses. Profit tax is also known as corporate tax.
- Most states tax at a flat rate, while some states apply a graduated income tax structure.
- States offer a variety of tax exemptions to provide incentives for investment and treatment of business expenses in certain areas or sectors.

## *Importance of income tax*

- Profit tax is the tax that is applied to legal and natural persons, the so-called big businesses, which are legal persons and partnerships with income over ALL 8,000,000.
- Profit tax is also applied to legal entities, partnerships or other associations of persons, established or organized on the basis of a foreign law and operating through a permanent headquarters.
- Profit tax is applied to both legal entities and natural persons who are not subject to simplified profit tax but are registered as subjects of Value Added Tax.

- Firms that are taxed on net profits are not obliged to pay taxes in years when they are not profitable, while other tax bases create tax liability even when firms are making losses.
- Businesses benefit from public services, regardless of their profit level.
- Businesses benefit from the education system (skilled workers), infrastructure and other services funded by state governments.
- Other public services that are particularly important to businesses are the judicial system and public safety.

- Vertical equality does not usually apply to income tax.
- Flat tax applies in most countries.
- Whereas, horizontal equality is affected by the deductions, exemptions and tax preferences that some states grant to attract new domestic or foreign businesses and to promote economic development in general.
- Corporations have long criticized that the taxation of both income and profits and dividends is unfair.

- Profit tax is a tax applied to the profits of businesses and as such is a direct tax.
- Income tax is one of the most volatile sources of government revenue.
- Company profits are highly vulnerable to economic cycles first, due to the nature of business operations, where price changes in international markets can affect the cost and profits of domestic companies and, secondly, because businesses that pay income tax generally have the right to carry forward losses from future profits.

## *Difficulty in administration and compliance*

- Developing countries are competing with each other to attract as many large corporations operating outside their countries as possible.
- Multinational corporations follow the tax breaks, credits and deductions offered by the legislation of developing countries in order to benefit from lower taxes in the countries where they will operate.

- With rising energy costs, wages and transportation costs, these will always be decision makers for corporations in which country to operate.

- In the case of multinational corporations, the gross income of the corporation is the aggregate of the business done in different countries.
- The procedures are also different for declaration deadlines, payment deadlines, or what income is reported.

- In finance, the tax advantage created by borrowing compared to issuing own capital is always emphasized.
- This has an effect on the capital structure

- To calculate the tax on profit, taxpayers prepare the annual declaration of taxable income.
- Taxpayers submit the annual declaration to the tax authorities by March 31 of the following year, together with the required financial statements.

- Profit tax is calculated on the taxable profit presented in the annual statement of taxable income.
- Taxable profit is determined after necessary adjustments are made.

# *Exemptions from income tax*

- Exempted from profit tax are:
  - All central and local government bodies.
  - The Bank of Albania, which does not aim at profit.
  - The Bank of Albania is a first level bank, and its role is essential in monetary policy.
  - Legal entities that carry out activities of a religious, humanitarian, charitable, scientific or educational nature
  - Unions, chambers of commerce, industry or agriculture, as well as similar organizations that do not have profit goals

- Exempted from profit tax are:

  - Foundations or non-banking financial institutions that do not have a profit motive.
  - Voluntary pension fund administered by voluntary pension fund management companies.
  - Accommodation structures with special status with four and five stars.International organization

## *Deductible expenses*

- In order for the tax to be applied, the expenses incurred in order to realize the income must be deducted from the business income.
- Determining known and unknown costs is very important. Known expenses are expenses that will be deducted from income for the purpose of calculating income tax.
- Non discountable expenses are those expenses that create opportunities for their artificial increase and thus reduction of the profit tax, or when they cannot be documented with tax invoices according to the determinations in the tax procedures.

- In order to be known (deductible), the expenses must meet certain conditions:
- To have been carried out in the direct interest of the economic activity and with the normal direction of the taxpayer's activity.
- To determine the profit, the financial statements are taken as a basis, and each expense must coincide with an accounting action reducing the net assets.
- The expenses must have been incurred and be supported by legally recognized supporting documents.

# Unknown costs

- All expenses that do not meet the conditions of being known expenses are unknown expenses.
- In finance, investments and expenses are not the same thing, even though they are outflows of cash flow from the subject that exercises economic activity.

- Investments are expenses for the purchase of assets that will be used for many fiscal periods.
- Investments are unknown expenses, because they do not belong to the fiscal period.

# *Bad debts*

- A bad debt is an invoice that has not been collected in whole or in part.

- In order for the bad debt to be recognized during the financial year, the following three conditions must be fulfilled simultaneously:
- The amount of this debt was previously included in the taxpayer's income
- All possible legal efforts have been made to collect it
- When this debt is written off the accounting books

## *Crediting of tax paid abroad*

- The tax that taxpayer's resident in the Republic of Albania have paid in other countries (outside the territory of the Republic of Albania) for profits they have realized in those countries is credited.
- This reduction will not exceed the tax level that would be applied on those incomes if they were realized in the Republic of Albania.

## Carrying and Crediting of Losses

- Any loss can be carried forward up to the next three years, recording each year's loss separately, on the basis that the earliest loss is carried forward before the later loss.