



SPI Albania Project on “The impact of IFRS implementation on the banking regulations”

Minutes

Meeting with the Ministry of Finance and The General Directorate of Taxation

Purpose of the Meeting

To follow-up with the 3d PWG meeting task of SPI Secretariat and PMT to clarify on the possible changes on tax reporting due to IFRS implementation.

Participants

Mr. Florjon Mima, Deputy Minister, Ministry of Finance
Mr. Ylber Beizo, Head of Accounting Department, General Directorate of Taxation
Ms. Arta Shehu, specialist, General Directorate of Taxation

Representing SPI Albania

Ms. Miranda Ramaj, Deputy Director, Bank of Albania and Project Manager - PM
Mr. Armand Muharremi, Financial Division Manager, Banka Popullore and Deputy Project Manager
Mr. Ilir Pustina, Chief inspector, Bank of Albania and PWG member
Ms. Elona Bollano, SPI Albania Director of Analytics and Policy

Venue

October 21, 2008 — Ministry of Finance

SPI Secretariat and the Project Management Team for the impact of IFRS implementation, met with the Deputy Minister of Finance and two representatives of the General Directory of Taxes. The objective of the meeting was to discuss the changes in tax reporting introduced by IFRS implementation.

The PM made a short presentation of the SPI project and presented the concerns raised by banks during the project working group (PWG) meetings related to the financial reports for the Tax Authorities. Actually, according to the article 25 on the law “On tax on income”, no. 8438, dated 28.12.1998, to determine the taxable profits for banks and insurance companies are used the known technical provisions created (for banks) in accordance to the rules set by Bank of Albania in this regard.

Banks are concerned with the divergences that will arise as result of the different methodologies of calculating these technical provisions (loan loss provisions) by Bank of Albania (BoA) and by IFRS – the accounting standards in power since January 1st, 2008.

Bank of Albania’s methodology in calculating the loan loss provisions is based on prudential principles, while IFRS methodology is based on accounting principles - the evidence of impairment of the financial assets. Due to the difference in principles, the provisions and consequently the calculated taxable profit are different.



The representatives from the tax authorities stated that they are preparing a draft law proposal with scope to harmonize the tax procedures (tax on income) with the new accounting standards i.e. IFRS.

In addition, they stated that the link with BoA regarding the technical provisions most probably will continue to exist, but in a modified version. One possible alternative is to follow the methodology applied for the depreciation of assets. Banks will calculate the provisions in compliance with BoA's standards and as a next step they will have to correct these calculations in accordance to IFRS.

Another important area treated in the draft proposal will be related to financial active / passive items. According to the representative of the tax office, the devaluation/evaluation of these items (fair value valuation) will not be recognized as respective expense / revenue.