

PERFORMANCE OF TAX ADMINISTRATION IN ALBANIA YEARS: 2010-2014

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Abstract

Even though Albanian General Directorate of Taxation has recently make reasonable efforts to improve its performance, fiscal evasion, informality and low efficiency of tax administration is still a problem for the Albanian economy. It is important for the government to analyze the performance of tax administration because it provides signals that help improving fiscal politics in the future. The aim of this research is give an overall view of tax system in Albania, to evidence the efficiency of tax administration and to determine the factor that influence the tax administration through review of prior literature in this field. The research tries to calculate the efficiency of tax administration in Albania during years 2010 till 2014. At the end of the paper it is concluded that the efficiency of Albanian Tax Administration System is low and there are some important factors that should be taken seriously in consideration to improve the actual situation. This research article describes also in a theoretical way the tax administration process in Albania.

Keywords: Tax Administration, Efficiency, General Directorate of Taxation, Tax Rate, Tax Revenue, Albania

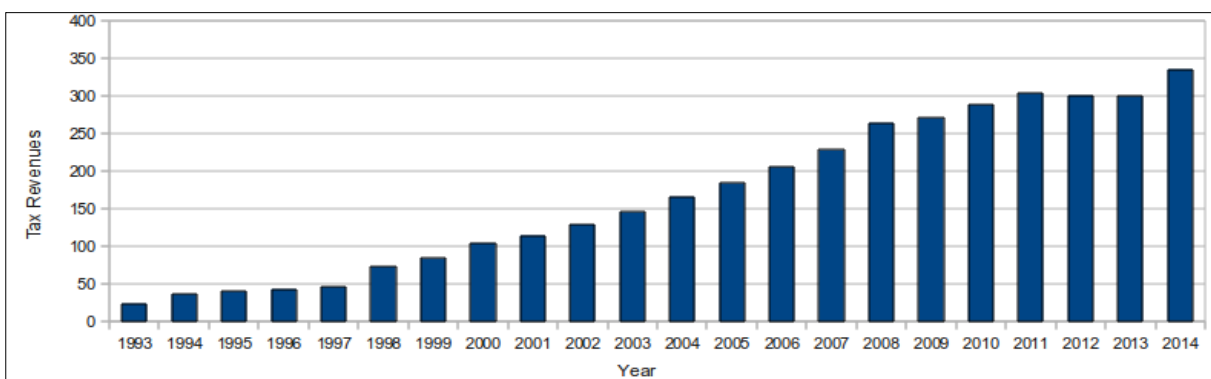
INTRODUCTION

There are four main groups of taxes in Albania: (i) indirect taxes (VAT, excise, gambling and other indirect taxes), (ii) direct taxes (income tax, personal income taxes, taxes on capital); (iii) local taxes, and (iv) social and health contributions. From year 2014, personal income tax is progressive (income from salaries: from 0 ALL to 30,000 ALL - 0%; from 30,001 ALL to 130,000 ALL - 13% on the amount exceeding 30,000 ALL; over 130,000 ALL - 13,000 ALL plus 23% on

the amount exceeding 130,000 ALL) and corporate income tax is 15%. Value-Added Tax is applied at two different rates of 20% as standard rate, and 10% on medicinal products (Law no. 8438 for Income Taxes and 92/2014 for VAT). Social insurance for the employees contribution is 9.5% while for the employer is 15%. Health insurance is at 1.7% for both employee and employer (Law no. 10383 and Law no. 9136).

From 1993 till 2011 tax revenues are gradually increased, in 2012 and 2013 they remained constant and there was a slightly increase in 2014 (Figure 1). The increase of tax revenues in 2014 is due to increase in VAT revenues and increase of corporate income tax rate to 15% from 10%.

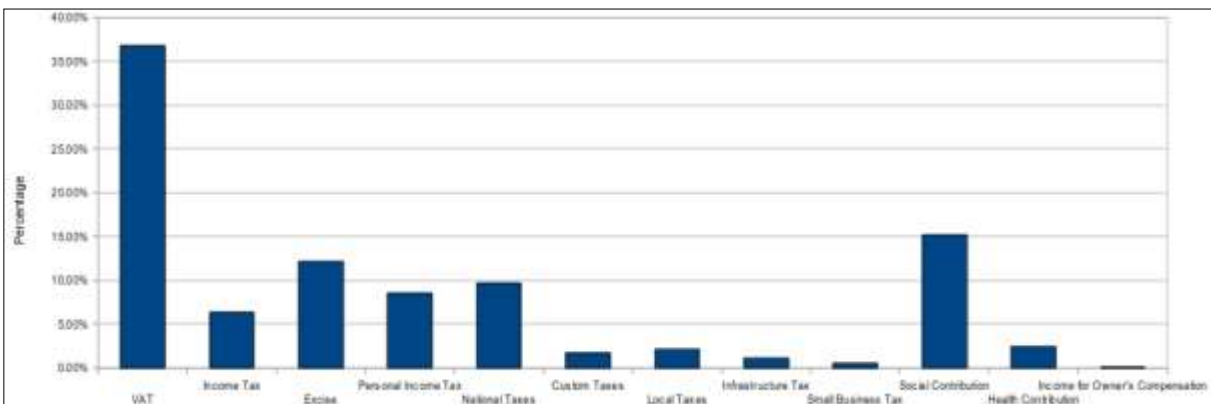
Figure 1: Tax revenues in Albania (in milliard ALL)



Source: Ministry of Finance, Albania

Approximately during all years, tax with highest contribution in total tax revenues collected in Albania is Value Added Tax. Value added tax contributes nearly 37% of the total revenues collected in year 2014 (Figure 2).

Figure 2: Tax revenues structure for the year 2014



Source: Ministry of Finance, Albania

Albanian General Tax Directorate is the authority to manage taxes in Albania according to the fiscal laws. The mission of Tax Administration is to collect tax revenues in an efficient way, by applying the tax legislation consistently, in order to fund the budget of the Albanian State. The main objectives of Tax Administration are to: (i) increase tax collections; (ii) increase percentage of timely declarations; (ii) increase percentage of timely payments; (iii) reduce costs of tax payments; (iv) reduce compliance costs; and (v) increase taxpayer satisfaction (Corporate Strategy, GDT 2015-2019).

According to the Doing Business Report (2016) taxes and contributions that would be paid by a standardized case study company are presented in the Table 1. Albania stands at 142 in the ranking of 189 economies on the ease of paying taxes. Approximately, businesses make 34 tax payments a year, spend 357 hours a year filing, preparing and paying taxes and pay total taxes to 36.50% of their profits (Table 1). Comparing to report of Doing Business (2015), Albania stands at 131 in the ranking of 189 economies on the ease of paying taxes. Approximately, businesses make 34 tax payments a year, spend 357 hours a year filing, preparing and paying taxes and pay total taxes amounting to 30.7% of profit. It can be concluded that the ease of paying taxes is worsened from year 2014 to 2015.

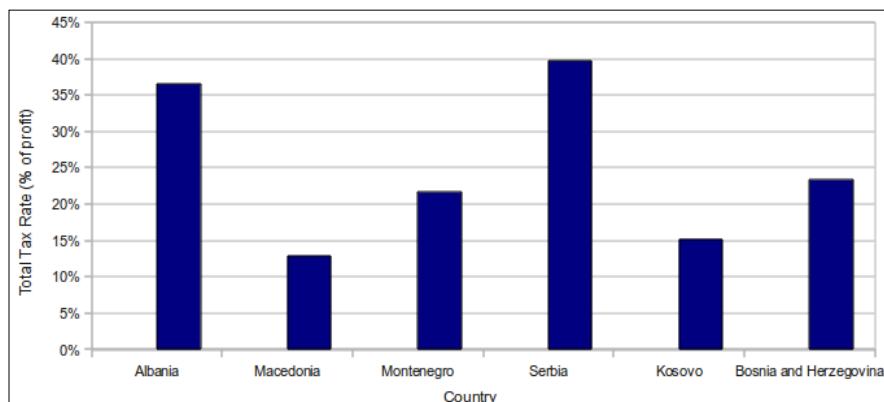
Table 1: Summary of Tax Rates and Administration

Tax or Mandatory Contribution	Payments (number)	Notes on Payments	Time (hours)	Statutory tax rate	Tax Base	Total tax rate (% of profit)	Notes on total tax rate
Social security contributions	12		94	15%	gross wages, minimum salaries are imposed	16.92	
Corporate income tax	5		119	15%	taxable profit	14.14	
Health insurance contribution	0	paid jointly		1.7%	gross salaries	1.92	
Property transfer tax	1			2%	sale price	1.21	
Municipal taxes	1			180,000 ALL	fixed fee varies by type of business	0.71	
Property tax	1			280 ALL	area of building (land) in m ²	1.02	
Value added tax (VAT)	12		144	20%	value added	0	not included
Tax on Impact on Infrastructure	1			2%	value of investment	0.61	
Fuel tax	1				included into the fuel price	0	small amount
Employee paid-labor tax	0	paid jointly		11.2%	gross salaries	0	withheld
Totals	34.0		357.0			36.5	

Source: Doing Business Report, 2016

Among regional countries, Albania is one of the country with high level of tax rate (as % of total profit) after Serbia (Figure 3) despite the fact that the level of informality reaches almost 50 percent, with one third of businesses operating in Albania having no cash registers (Qiang, 2015).

Figure 3: A comparison between Albania and Regional Countries



Source: Doing Business Report, 2016

It is very important for tax administration to understand and identify factors that influence efficiency of tax administration. Tax administration has mainly three main types of expenditures: administrative costs, salary costs and IT costs. IT expenditure was defined as the total costs of providing IT support for all administrative operations (OECD, 2011).

The main objectives of the paper are to (i) calculate the efficiency of the tax administration; (ii) identify the factor influencing tax administration and (iii) give conclusions to improve situation.

METHODOLOGY

In order to calculate efficiency of tax administration, there are used data from Intra-European Organisation of Tax Administrations (IOTA) and Albanian Ministry of Finance. The research data consist of tax revenues collected only by regional tax directorates and expenditures done by regional tax directorates and general directorate of taxation. The paper has taken into consideration only 5 years, from year 2010 till 2014. Total expenditure of tax administration as a percentage of revenue collected (%) is the measure used for efficiency. Total expenditure taken into consideration includes employment costs, IT expenditure and other cost (for normal operating).

Efficiency of tax administration depends on internal organizational structures of regional tax directorates; how well they allocate budgeted funds to meet priorities; how they utilize ICTs and e-government to decrease costs; and how they remunerate and motivate their staff (OECD, 2011). Increasing tax revenue is a function of effective enforcement strategy which is the pure responsibility of tax administration (Abiola, Asiwah, 2012).

Some other important factors affecting efficiency of tax administration are: autonomy of tax authority, use of ICT, strong audit practice, public enlightenment, staff remuneration and motivation and perceive of corruption (Shagari, 2014).

EMPIRICAL RESULTS

Total expenditure of the tax administration as a percentage of the revenue collected was nearly 1.19% in 2010 and 2011 and then it was increased in 2012 in 1.22%. In 2013 the percentage was decreased to 0.99% and then in 2014 it was increased to 1.59% due to an increasing in IT expenditure (Table 2).

Compared to other countries, Albania has the ratio (total expenditure of the tax administration as a percentage of the revenue collected) considerably high. Tax directorates need to increase more the revenues collected using strong audit practices, staff motivation, public enlightenment, trust in government and increasing the number of taxpayers (i.e., decreasing the informality or tax evasion). On the other hand, there should be carefully analysis of employment costs and the IT expenditures. During 2014 the IT expenditures were dramatically increased. The revenues collected are not proportionally increased with increasing of total expenditure of tax administration.

Table 2: Summary of Total Tax Revenues and Expenditures, 2010-2014

	2010	2011	2012	2013	2014
Number of employees of the tax administration	1,595	1,598	1,596	1586	1586
Number of taxpayers	103,038	109,039	106,837	111,083	112,537
Revenues (in million ALL)	162,400	166,390	165,340	144,485	163,600
Direct Taxes (in million ALL)	63,308	66,248	67,928	65,039	76,378
Indirect Taxes (in million ALL)	50,148	48,734	43,932	24,259	26,346
Social Funds (in million ALL)	48,944	51,408	53,480	55,187	60,876
Total Expenditure of the Tax Administration (in million ALL)	1,940.4	1,983.8	2,016	1,430.374	2,595.992
Employment Costs (in million ALL)	1,558.2	1,594.6	1,646.4	1,375.6	1,730
IT Expenditure (in million ALL)	30.8	68.6	67.2	54.7744	467.512
Other Costs (in million ALL)	351.4	320.6	302.4	0	398.48
Average cost to the tax administration per employee (ALL)*	976,920	997,920	1,031,520	867,339	1,090,794
Total expenditure of the tax administration over the revenue collected**	0.0119	0.0119	0.0122	0.0099	0.0159
Total expenditure of the tax administration as a percentage of revenue collected***	1.19	1.19	1.22	0.99	1.59
*Average cost to TA per employee (ALL) = Employment costs/Number of employees					
***Total expenditure of TA as a percentage of revenue collected = Total expenditure of TA x 100/Total revenues					

Source: Intra-European Organisation of Tax Administrations (IOTA) and Ministry of Finance, Albania

CONCLUSIONS AND DISCUSSIONS

The efficiency of tax administration in Albania is still low. General Directorate of Taxation needs to analyze audit practices, staff motivation, public enlightenment, trust in government and increase the number of taxpayers in order to decrease tax evasion. Tax audit help tax

directorates to decrease tax evasion and help businesses in understanding fiscal politics and procedures. Staff motivation is important because employees do their best when they are motivated. Public enlightenment makes people aware of the importance of paying taxes and where their payments have been invested. Increasing trust in government will lead to increase the tax amount paid by taxpayers. Businesses make 34 tax payments a year, spend 357 hours a year filing, preparing and paying taxes and pay total taxes to 36.50% of their profits which are relatively high indicators. Fiscal politics need to improve because Albania has worsened its position on the ease of paying taxes.

Since this study tried to calculate the efficiency of tax administration, further studies should try to measure the factors effecting efficiency by conducting a survey to regional tax directorates and create a statistical model which can be helpful to evidence which factor is more important.

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