

A BRIEF HISTORY OF FISCAL SYSTEM IN ALBANIA: THE NECESSITY FOR EFFECTIVENESS

Eriona Vadinaj

PhD Candidate, Department of Finance-Accounting,
Faculty of Economy, University "Luigj Gurakuqi", Shkodër, Albania
evadinaj@gmail.com

Abstract

The purpose of this paper is to give a short description of the fiscal system operating in Albania and to express the necessity for an effective fiscal system. During the last two decades, our country has been faced with many changes. Political, social and economic changes enforced the immediate need to revise the fiscal and budget policies. Compared with the most developed administrations, the organization of tax administration in our country is in the middle of an evolutionary cycle, in order to achieve in medium terms the management of taxpayers by segments, industries and economic integration policies in the global economy. This process is still facing with many challenges that require definitely higher efficiency and effectiveness, inspired and leaded by the aspiration to be closer to European standards.

Keywords: Fiscal system, legislation, effective, tax administration, taxpayer

INTRODUCTION

A brief history of fiscal system operating in Albania

After the fall of the communist systems in the Balkan countries, in very specific circumstances, it was time to begin the process of reforming the tax systems, in order of the social-economic transition worldwide. In our country, this process is still facing with many challenges that require definitely higher efficiency and effectiveness, inspired and leaded by the aspiration to be closer to European standards.

During the last two decades, our country has been faced with many changes. Political, social and economic changes enforced the immediate need to revise the fiscal and budget

policies. Definitely, our fiscal system is also part of these changes, which has given its impact in the reporting process. Initially, the difficulties in reforming the tax system were numerous, for many reasons such as (Mateli, A., 2013):

- The economic and financial situation was in a deep crisis during 1991-1992, partly as a result of a total lack of regulatory legal framework in the economic field.
- The lack of knowledge or of a certain education in setting up and organizing a free economic and financial system.
- The psychology cultivated for years that Albania was the only country in the world without fees and taxes.

In Albania, the first legal acts for the establishment of the tax system have their genesis in 1991, a period that coincides with the drafting of tax legislation, which was materialized with the announcement of the Law "On income tax" on July 14, 1992. So, the contours of the fiscal legislation (and of course the determination of the type), the taxable base and tax rates belong to the last 91- and early 92-s. The Parliament, in 1992, adopted a legal tax package, which created the necessary legal basis in the fields of taxes and fees. It created a new indispensable fiscal instrument, which provides opportunities for providing public revenues and interrupting the crisis that the country was experiencing.

Tax legislation, which was implemented in 1992, can be considered as the foundation of modern tax system (Koli, R., Hilmi, S., 1996). In this period, began the implementation of taxes such as excise, turnover tax, income tax, small business tax and personal income tax (TAP), mainly derived from salaries and wages. Given the lack of experience in drafting tax legislation, laws drafted in this period were simple and uncomplicated. Initially, these laws were drafted:

- Profit Law approved in January 1992 (executed in March 1993), in which was implemented for the first time the proportional system of collecting taxes. This system, theoretically and practically, is recognized for promoting and developing free economic activity (Law no.7677).
- Profit tax law, like an indirect single phase tax, which was applied for the final product ready to be thrown into free circulation in the country. This law preceded the VAT Law (Value Added Tax).
- Foreign Investment Law, approved in November 1993, which treated equally the foreign and domestic investors (Law No.7594).

Shortly, to give a more concise view of how changes in tax legislation have occurred in Albania in a period of more than two decades, fiscal reforms can be grouped into six periods (Angjeli, A., 2007):

1. Period 1991-1993: The beginning of the tax system, the drafting and adoption of the fiscal package and the introduction of market economic instruments in the domestic economy. Characteristic for this period(in the early years) was the lack of tax policy and tax system. In summary, the characteristics of this period are as follows:

- Lack of tax legislation
- Lack of specialization in tax administration
- Lack of written work procedures to be followed by employees of tax administration(job description)
- Tax collection management was focused on short-term results rather than medium and long-term results
- The lack of a database
- The existence of a significant informal economy with a high percentage of unregistered taxpayers or registered taxpayers who report and declare less income, turnover or profit than reality
- Lack of documentation and of the necessary infrastructure, in order to maintain economic activity and to identify the taxpayers and consequently all the documentation held in the manual mode.
- Lack of control for preventing corruption
- Location of the tax administration and the number of employees inherited from the administrative division established under the communist system
- Cooperation between the tax administration and other state bodies was very low
- Lack of education and assistance to the taxpayer
- Lack of trainings
- Lack of effectiveness measures

2. Period 1994-1996: The implementation of tax legislation and the establishment of taxes.

In summary, the characteristics of this period are as follows (Preçi Z., 1999):

- Preserving the tax system features of the years 1991-1993
- Reorganization of the tax system and the implementation of new functions
- Changes and improvements in tax legislation
- The increasing number of registered entities
- The increasing of the tax base
- The increasing of the tax burden
- Establishing new taxation elements

- Forgiving the unpaid debts
- Improving tax collection methods

3. Period 1997-1998: The stabilization of tax revenues in order to prevent their decline, overcoming the financial and economic crisis created by the pyramid schemes in 1997.

4. Period 1999-2001: The consolidation of the tax system and tax revenues, which decreased significantly after the events of 97-s. The legislative package implemented during these years in Albania, improved the tax system essentially by applying new elements of the modern tax system and new methods in the taxes and fees fields(Kajsia, B., 2014).This period is characterized by:

- The development of a modern tax legislation with the assistance of foreign structures.
- The introduction of new elements in taxation
- The increasing of the effectiveness of tax administration
- The improvements of tax administration
- Sustainability and the increasing of the public revenues

During this time, two indirect taxes were introduced: VAT (value added tax) and Excises.

5. Period 2002-2006: The establishment of an adequate macroeconomic climate for developing and increasing the public revenues through improving business relationships and increasing the taxpayers services and tax administration. Changes in the tax system, that are due to foreign assistance, gave a comprehensive and a broadly view of the new fiscal legislation creating a greater confidence for business investments. Tax administration was significantly improved through the introduction of new modern methods, computerization system and tax control.

6. Period 2007-2015:Restructuring and modernization of the tax system, aiming (Ngjela, A., 2015):

- Establishing an anticorruption structure
- The increasing of the informational and technical assistance to taxpayers by improving the business climate in Albania
- A new law on tax procedures
- Providing revenues based on voluntary declaration
- Reducing corruption through the introduction of electronic filing

TAX LEGISLATION IN ALBANIA

Albania operates under the system "code law", which means a system where accounting standards and financial reporting for the effects fiscal issues are regulated by law. Tax legislation consists on a package of laws, regulations, guidelines and tax agreements (based on taxes and fees). The tax legislation contains rules on how financial reporting should be done according to fiscal policy, which are applied by all entities as well as by the tax authorities. Below we list some of them:

- Law no.7758, dated 12.10.1993 "*On documenting and accounting for tax purposes*", changed, which defined the basic rules and obligations to be enforced by the main entities.
- Law no. 9920, dated 19.05.2008, "*On tax procedures in the Republic of Albania*", changed, as well as the Instruction No.24, dated 02.09.2008, changed. It has with the objective to regulate the procedures and to administrate all taxes in Albania. It presents the principles of organization of the functioning of the tax administration.
- Law no. 8438, dated 28.12.1998 "*On income tax*", I changed. This law regulates relations arising in the fields of personal income tax, profit tax and withholding tax revenues.
- Law no.7928 dated 27.4.1995, "*For Value Added Tax*", changed.

Frequent changes in tax legislation have brought confusion to taxpayers. While the lack of information or getting late information, has brought not only the problem of disrespect or non-compliance with legislation, but also improper relationships between businesses and tax administration employees, favoring opportunities for bribery and corruption.

THE NECESSITY FOR AN EFFECTIVE FISCAL SYSTEM IN ALBANIA

Is the fiscal system operating in Albania effective?

What is the best fiscal system to be taken as an example?

If we take a look in retrospective, into the fiscal system in Albania, in nearly 26-years, we will definitely see how much it has been evolved and transformed. In his early 90s, the fiscal system was based on taxes. Nowadays, after more than two decades, he relies on the basic functions of fiscal services. The main purpose of this evolution is to increase the productivity of administrative operations through improving public transparency and administration accountability.

Compared with the most developed administrations, the organization of tax administration in our country is in the middle of an evolutionary cycle, in order to achieve in the

medium terms the management of taxpayers by segments, industries and economic integration policies in the global economy (Gjokutaj, E., 2012).

The compiling and structuring process of the fiscal system has been subject of many debates. Every entity requires tax lower taxes, especially if the discussion becomes detached from public spending. Obviously no one is happy when I pay taxes or fees, so the duty of a government is to explain why certain entities or individuals should pay more.

The best tax system for every country should be the system that will reflect better the economic structure of the country, the capacity to administer taxes properly, to meet the needs of public services and the right of access to other sources such as incomes, aids, etc.

Additionally, must also consider factors such as tax morality, tax culture and, perhaps above all, the existing level of trust between people and their government. History has shown that one of the most important sources of differences between tax theory and practices represents a step / leap into the unknown.

Tax legislation should be simple and homogeneous, in order to provide security to business needs, to serve the long-term stability provided that businesses adopt long-term strategies.

Nowadays, it can be counted five features in order to be called a "good" tax system. An optimal tax system should be based on these characteristics defined by Joseph Stiglitz, which are also key features to be defined as a harmonized tax system in the European Union, according to European Commission documents (Rrumbullaku, O., 2015):

- Economic effectiveness, the tax system should not prevent the effective use of monetary resources.
- Administrative simplicity: the tax system should be simple and relatively less costly in terms of administration.
- Flexibility: The tax system must be able to respond easily to the economic changes.
- Political accountability: the tax system should be composed in such a way to allow individuals to find out for what they pay and how the system reflects their preferences.
- Fair: the tax system should be fair in treating in different taxpayers.

According to these characteristics, the tax system can be considered as a garment that has a certain model, but that must be sewn by the body of the one who wears it.

CONCLUSIONS

1. Compared with the most developed administrations, the organization of tax administration in our country is in the middle of an evolutionary cycle, in order to achieve in medium terms the management of taxpayers by segments, industries and economic integration policies in

the global economy. Political, social and economic changes enforced the immediate need to revise the fiscal and budget policies.

2. The fiscal system in Albania, in nearly 26-years, has been evolved and transformed. It relies on the basic functions of fiscal services, in order to increase the productivity of administrative operations through improving public transparency and administration accountability.
3. Tax legislation should be simple and homogeneous, in order to provide security to business needs, to serve the long-term stability provided that businesses adopt long-term strategies.
4. Tax legislation should be effective. That means, it should be based on five effective features: economic effectiveness, administrative simplicity, flexibility, Political accountability and fair.

REFERENCES

Alley, C. and James, S. (2005). "The interface between financial accounting and tax accounting: a summary of current research", Working Paper Series, no.84, University of Waikato, NZ.

Angjeli, A.(2007). "DitariTranzicionitEkonomik", published by InstitutipërReformadheZhvillim, pp.265

Bollano, J. (2010). "Albania through implementation of financial reporting and auditing standards", Proceedings of International Scientific Conference of NAC of Albania

Cela,H. (2004). "Towards application of new standards on accounting and auditing – Albanian challenge on implementing IAS/IFRSs and ISAs", Albanian Institute of Authorized Chartered Auditors.

Cuzdriorean, D. (2012). "The relationship between accounting and taxation insight the European Union: The influence of the international accounting regulation", Working Paper, AnnalesUniversitatisApulensis, Series Oeconomica.

Freedman, J. (2008). "Financial and tax accounting: transparency and truth", University of Oxford Faculty of Law Legal Studies Research Paper Series, Working Paper No 2.

Gielen, F., and Hegarty, J. (2007). "An accounting and taxation conundrum: a paneuropean perspective on tax accounting implications of IFRS adoption", Paper prepared for the World Bank Centre for Financial Reporting Reform, Vienna, Austria.

Koli, R., Hilmia, S., (1996). "ShkencambiFinancatdhe e DrejtaFinanciare", pp 18

Lamb, M., Nobes, C., Roberts, A. (1998). "International Variations in the Connections Between Tax and Financial Reporting", Accounting and Business Research, vol. 28, no. 3, pp. 173-188

Law No.7594, Date: 04.08.1992, "Përinvestimet e huaja",published in F.Z, No.4, pp. 4

Law no.7677, date 03.03.1993, "PërTatiminmbitëArdhuratnë RSH", published in FZ. No. 3, pp. 3

Nobes, C. (2003). "A conceptual framework for the taxable income of businesses and how to apply it under the IFRS", ACCA, London.

Preçi Z., (1999). "ProblemetërritjesekonomikenëShqipëri", QSHKE, pp. 120

Rrumbullaku, O. (2015). "Taksimi", Tirane, Albania