

## **MEASURING THE IMPACT OF CHANGES IN TAX RATES ON ALBANIAN BUDGET 2014-2017**

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### **Abstract**

*In terms of globalization and transferability of production factors, direct taxes constitute a tax field where countries develop competition between them to be more attractive to foreign investors. Harmonization of Albanian tax legislation with that of the European Union is ongoing. Considering the fact that when Albania gets the status of a candidate country for EU membership, indirect taxes go towards harmonization, Albania must remain competitive in the area of direct taxation to attract foreign investors to invest in the Albanian economy. During 2014-2016, the Albanian government made some significant tax changes that brought about changes in revenue to the Albanian state budget. But it was noticed that even though the purpose of these tax changes was to increase the revenues in the state budget, this was not achieved due to the failure of the hourly running of these revenue and non-functioning organs of tax control. Thus, in 2016, a campaign was launched to ensure the implementation of tax rules, which brought some problems to Albanian businesses.*

**Keywords:** Tax System Taxes, Taxes, Interest Rates, Tax evasion, VAT

## INTRODUCTION

### Tax system

The tax system in the Republic of Albania consists of a set of laws, regulations, guidelines and tax agreements regarding taxes and duties, the manner and procedures for imposing such taxes and duties, their level, the change and the abolition of taxes, assessment and collection of tax liabilities, as well as the forms and methods of tax audit. Taxes are the main revenue in the state budget and through them the government creates the financial means to finance public spending. In this sense, their treatment takes on even greater importance as far as the revenues collected from them directly affect the improvement of the lives of citizens. The concept of income tax, in fact, is an early concept in the Albanian legal system. We face it from the beginning of the existence of the Albanian state by transforming from time to time according to the governing systems in our country. From its beginnings to the present day the essence of this tax remains the same.

So individuals give up some of their income to finance public spending. What has changed with time is the principles upon which this tax is collected, the fiscal and social policies of the public operator, as well as the procedures for their collection and administration. In the last two decades, all these changes reflect in almost all European and international arrangements for the construction of effective and contemporary tax systems.

Tax is a state obligation to which persons and goods are subject as defined in the administrative laws of the state.

These obligations are used by the state in order to institutionalize the administration. To achieve the collection of these obligations are foreseen tax procedures according to the administrative acts of the state, among which are usually: the obligation of taxpayers to keep books and records related to their tax obligations; the obligation of taxpayers to present the facts necessary for the calculation of their tax liabilities; the procedure for submitting the tax declaration and the tax statements corrected; time limits and procedures for paying taxes and the rights of taxpayers for representation

Taxes and contributions are called any legally enforceable payments that make in favor of the state budget the natural and legal persons of a country, on the basis of the income or wealth they have, of the consumption of the goods and services they benefit. They constitute the main source of income in the state budget (over 90%). In most cases, the terms "tax" and "tax" are used in the same sense, although taxes are paid more on the basis of income or profits realized and goods consumed, while taxes are paid for the various services that state authorities make to citizens of them.

Types of taxes:

1. Taxes and contributions are national or local.
2. National taxes and duties include:
  - a) value added tax;
  - b) income tax;
  - c) excise;
  - d) tax on gambling, casinos and hippodromes;
  - e) national taxes;
  - f) other taxes, which are determined by a special law.
3. Domestic taxes and fees are defined in the law on the local tax system.
4. Social and health insurance contributions are defined in the Social and Health Insurance Law.

### **Albania compared to OECD countries**

Considering high-risk countries (in terms of political security and economic instability), investors aim to keep the initial investment costs low, which would increase the profits of the project in the early years and bring about a rapid return of the capital invested within a short period of time. Thus, the main consideration in placing an investment (considering the fact that most of the foreign projects in the region are of a short and medium nature - as a result of many study organizations and international institutions) is the fiscal burden in the first years of the investment.

It is this motive of investors, which makes the regional position competitive in the efforts to attract an investment. From the comparative data analysis with some of the countries in the region, it turns out that: the cost before an investment project starts to become operational, only as a result of the fiscal burden, stands respectively: Albania + 26% Macedonia + 5% Bulgaria and Romania 0 %. Project profit rates are higher in other countries in the group of countries under analysis and lower in Albania. From the above, it turns out that Bulgaria represents the main competitor in terms of attractiveness for the effect of the fiscal system, followed by Macedonia and Romania. However, given that the easing system of Bulgaria is temporary exempt, Macedonia could be the most preferred country for investors.

From the data reviewed, it seems that the change of the fiscal system has not managed to generate positive effects on the preservation of the previous reports of their contribution to domestic production. It is possible that a tax burden reduction for 19 economic activity will be more stimulating for the economy and the state budget itself. There is a need for a reconsideration of tax policy, particularly in terms of dividing the tax burden between the rich and poor society groups in the process of industrialization. It seems that the only objective of the

tax and tax policy has been to ensure the "at all cost" of the budget revenue, neglecting the other objectives that this policy must achieve.

In this sense, we think that the design of fiscal policy is mainly driven by short-term interests by neglecting its long-term effects, both in economic and social terms, with the aim of maintaining social equilibriums of development. Although the purpose of this paper is not to say that the fiscal tax burden should be reduced by x percent, we think it is time for a more complete reconsideration of the tax burden and in relation to the competing countries. The difference in the tax level between residents and non-residents is not believed to bring any economic benefits with effects on the state budget, but the damage to the image has the most consequences (unless it is in contradiction with other investment laws and international commitments in the framework of WTO).

Table 1. Albania compared to neighboring countries part of the OECD

	Customs duties in%	VAT per cent Percentage	profit tax Percentage	tax per cent	Other influencing elements
Albania	5%	20%	15%	15%	No convenience
Macedonia	0%	5%	15%	23%	1. Two years tax exemption 2. Reinvestment is excluded from tax-profit
Bulgaria	0%	0%	40%	15%	1. Two years tax exemption 2. 20% profit tax for the other three years
Romania	0%	0%	38%	15	Profit tax for the first two years 2.15% profit tax and another five years for investments over \$ 5ml

### Costs before starting an investment

In his business plan, besides the costs associated with the purchase of technology, the investor should also increase the payments he should make immediately to the customs, namely: customs duties (for machinery and equipment and other capital goods) to the extent 5% (minimum since many commodity categories, which are raw materials have tariffs of 10 percent); VAT on the amount of 20% of the purchase invoice amount (purchase price +

transport costs + insurance costs) plus customs duty. Cumulative costs for the fiscal burden effect increase by at least 26%

Profitability of Investments and Investor Costs- The profits realized by the economic entity are taxed at 30%. Whereas, dividends, interests and other types of profits, with source of economic activity in the country, pay a withholding tax at the rate of 10 percent for residents and 15 percent for nonresidents. The cost of the workforce increases by about 40% for payments made to the social and health insurance network.

Figure 1. Fiscal Indicators by the Consolidated Budget (4 Months Per Years)

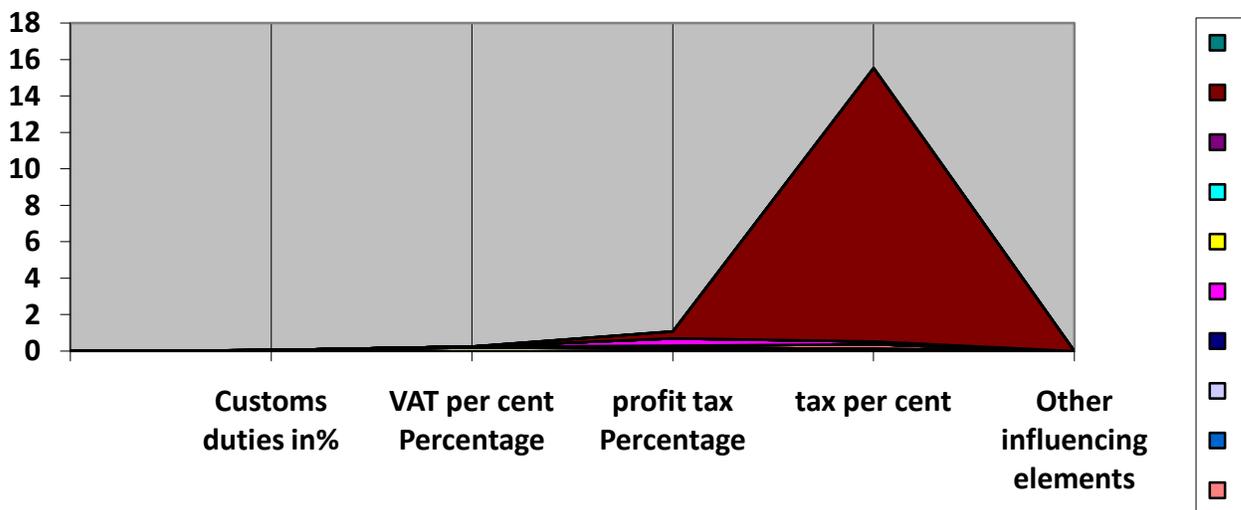


Table 2. Tax revenues in Albania over the last 5 years (Million All)

Appointment	4 Months 2013	4 Months 2014	4Months 2015	4 Months 2016	4 Months 1 2017
<b>Total revenue</b>	106,508	116,129	121,724	131,303	139,933
<b>II. Tax Revenues</b>	94,325	103,650	106,650	106,172	119,583
1. Value added tax	69,283	77,892	76,983	88,241	93,352
2 Profit tax	6,451	7,950	10,250	12,814	13,447
3. Excise	10,368	9,083	10,599	11,967	12,928
4. Personal Income Tax	9,665	8,716	8,698	10,553	10,373
5. National and other	8,753	9,842	8,821	10,659	12,845
Tables					
6. Customs Customs	1,643	1,707	1,687	1,774	1,841
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<b>III. Local Government revenue</b>	4,522	4,462	5,016	4,193	7,869
1. Property Tax	1,223	1,691	1,921	1,438	2,133
2. Small Business Tax	1,052	379	672	493	204
3 Local Tax	2,247	2,392	2,423	2,262	5,532
<b>IV. Revenues from special funds</b>	20,520	21,296	24,173	27,149	28,635
1. Social Security	16,954	18,429	20,205	22,714	24,221
2. Health Insurance	2,941	2,831	3,285	3,752	3,922

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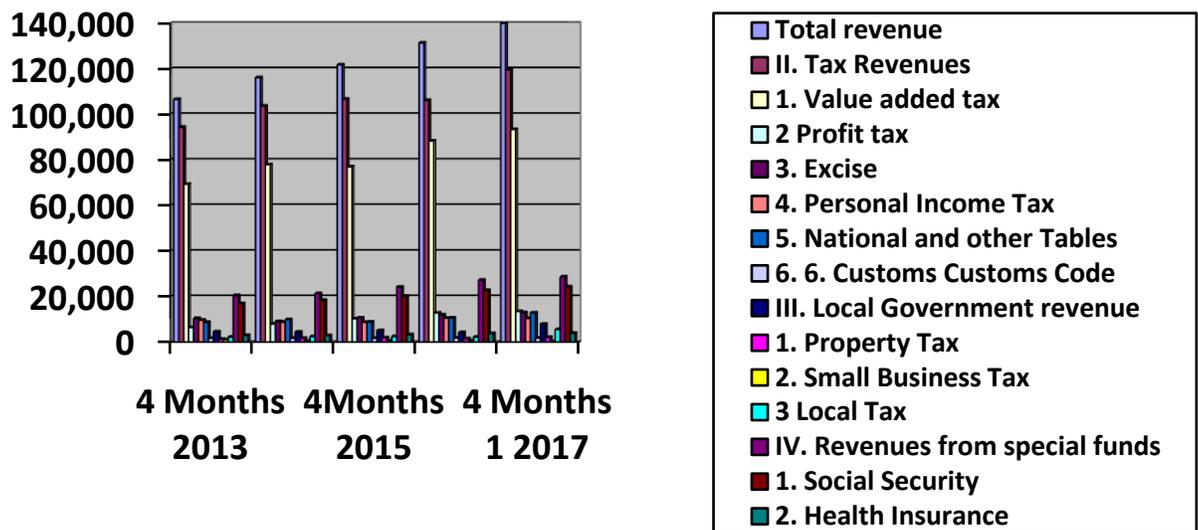
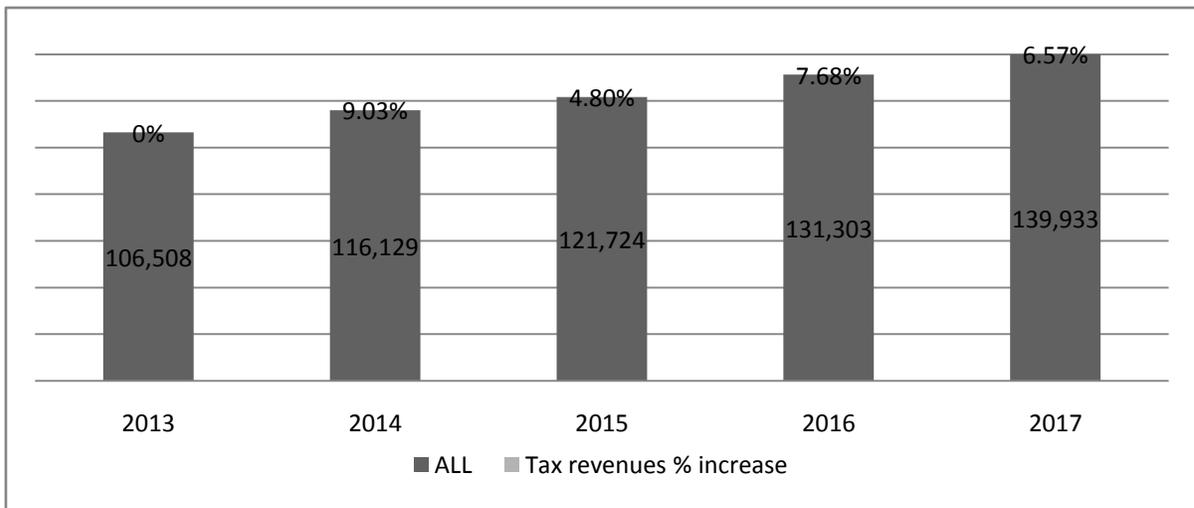


Figure 3. Increase of tax revenues in the last four years



In the figure above we see that tax revenues have been increasing for the last four years. The highest rate of tax revenues came in 2014, with growth rising to 9.03%. From the table above we see that value added tax is the item that occupies the highest share of tax revenue. In 2016 it occupies the highest percentage with 67.21% and in 2015 occupies the lowest percentage with 63.24%. This is directly related to the growth of household income and the growth of individual consumption. But this increase has also come as a result of the rise in the level of prices for products.

We see that a striking item is the profit tax, which occupies the highest share in 2016, with 9.76% above the total tax revenue. This item has experienced an increase during the last two years as a result of the increase in the number of businesses. Another reason that has led to an increase in the tax burden is the increase in the percentage of profit tax in 2015 by 5%, thus reaching 15%.

Figure 4. The percentage that each item occupies on the total tax revenue for each year (Million all)

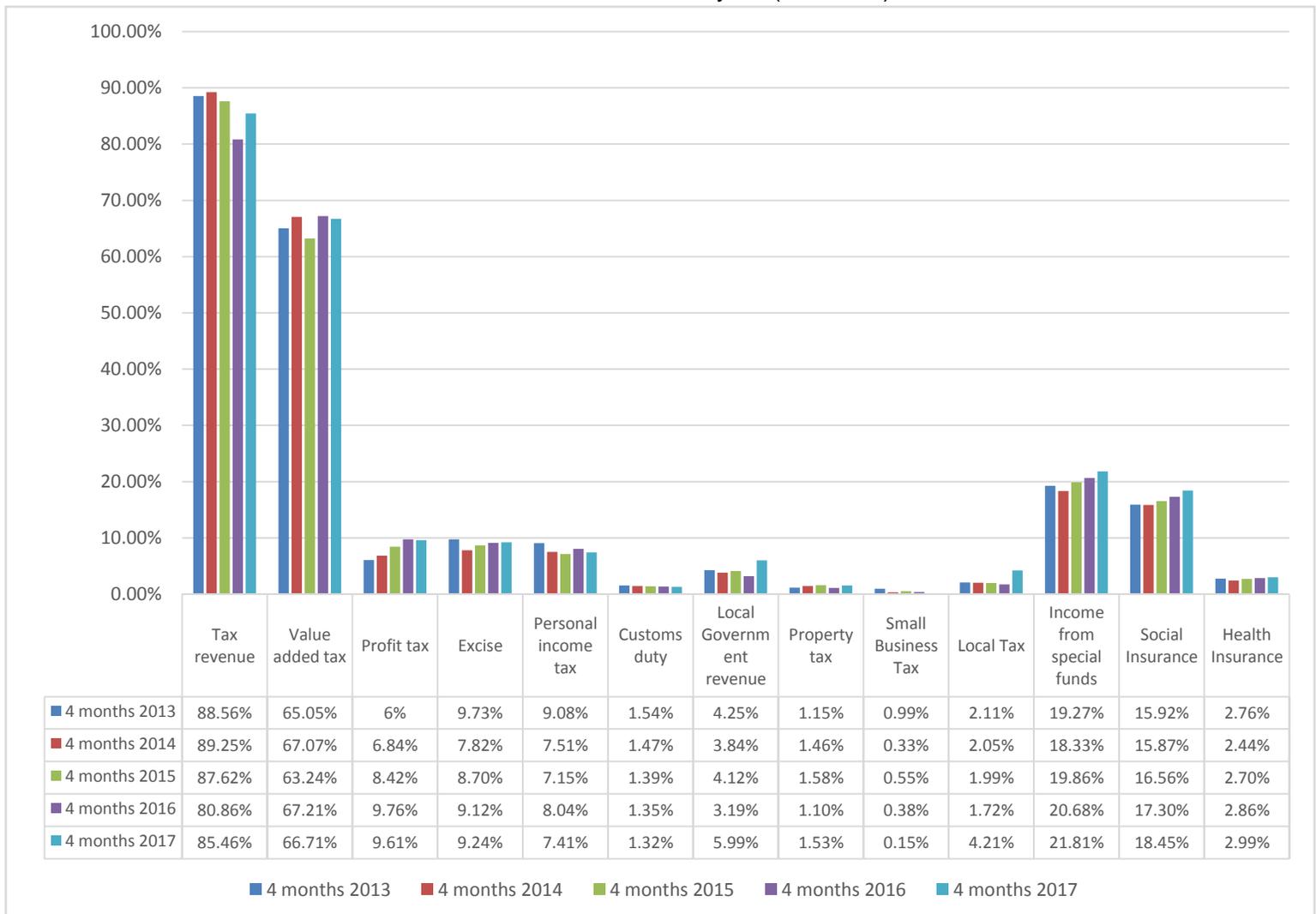
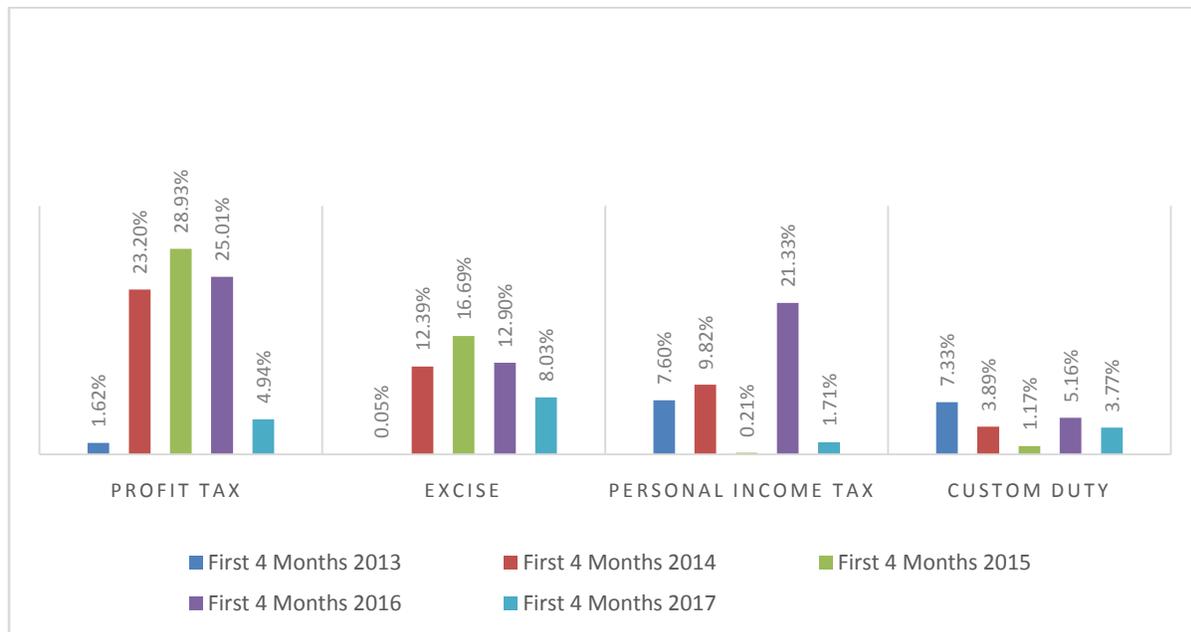


Figure 5. Percentage increase of items



a) With the change in 2014, the profit tax rate went up to 15%, increasing by 5%, and the state budget increased the revenue for this item by 23.2%, multiplying the revenues collected from the Tax Directorate. This indicator is a proof of the good functioning of the relevant institutions for the implementation of the legislation. Indicators show that this growth was higher in 2014, with a 28.93% increase from 2014. The increase in the profit tax for 2015 by taking as base year 2013 is 58.89%. While the growth in profit tax in 2016, taking as base year 2013 is 98.63%. This increase is also due to the increase in the number of businesses. In 2016, revenues from the state budget from the profit tax are higher than in 2015, although the number of businesses in 2015 is higher, respectively 2,062 businesses compared to 1840 in 2016 (number of businesses: new businesses - businesses that have been unregistered).

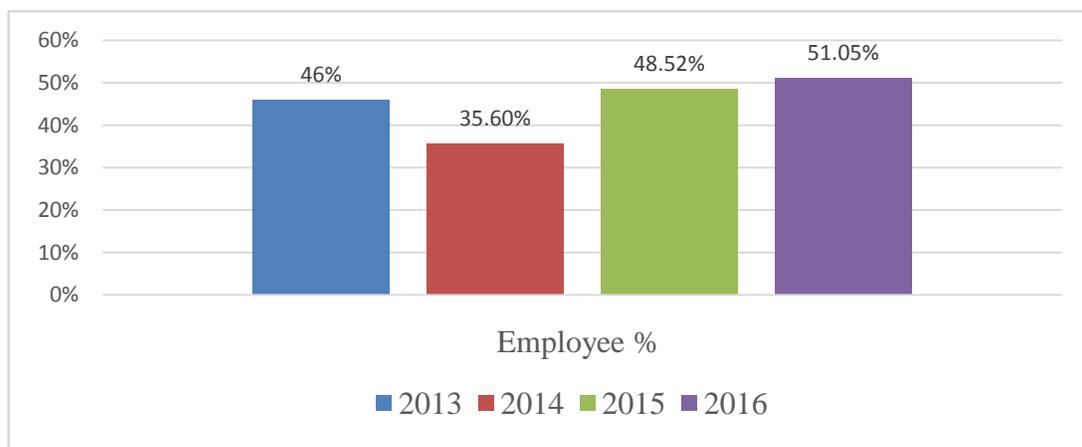
b) Another voice that changed in 2015 is the excise tax revenue:

1. Tobacco and its by-products have experienced an increase in the excise tax rate for 2015. The excise tax rate for cigarettes that contain tobacco is estimated at 5500 ALL per 1000 pieces, from 4500 ALL per 1000 pieces in 2014. So there is an increase of cigarette excise with 1000 ALL / 1000 pieces or 1 ALL / pcs.
2. Law 180/2013 has amended the excise tax on "Intermediate alcoholic beverages" from 2,000 ALL / HL to 5,200 ALL / HL and "Spirituos Beverages" from 50,000 ALL / HL to 65,000 ALL / HL and 65,000 ALL / HL to 84,500 ALL / HL.
3. The tax plus fuel tax for 2014 increased by 10 ALL / liter.

We see that the revenues in the state budget have been growing where the highest growth was achieved in 2015 with 16.69%. In 2016 this indicator has experienced a significant decrease of 3.79%.

One of the highlighted indicators is the one on personal income tax which we see that for 2014 and 2015 the income has fallen considerably since 2013. For 2014 the increase of revenues collected from the personal income tax is (9.82%), so there has been a decrease. This year also corresponds to the shift from flat taxation 10% to progressive tax. A change that should bring an increase in revenue to the state budget but did not result as such.

Figure 6. Percentage of Employees through Years



For 2014, this may be justified by the reduction in the number of employees, but by 2015 the number of employees increased considerably. So there is an increase of employees with 48.52%, which means there is a failure in the functioning of the bodies that deal with the collection of income from personal income tax. The sourcing agents did not do their job, and the competent bodies did not make checks on the employees declaration.

The year that marks an increase in revenue from TAP is 2016, which also corresponds to the campaign made by tax authorities for employee disclosure.

## CONCLUSIONS

A very important part of the state budget are tax revenues that account for most of the income. Through the years we have seen many changes of tax legislations that have come as a result of the failure of the law and of the bodies responsible for tax collection.

Albania applies a similar VAT rate to EU countries such as Austria, Great Britain, France. Even though a low-income country, it has a higher VAT rate compared to neighboring countries such as Kosovo, Macedonia, Montenegro, Bosnia and Herzegovina.

Compared with the OECD countries we see that: Customs duties (5%), Tvsh (20%), tax revenue (15%) and tax at source (15%) - higher than Macedonia, Bulgaria and Romania, even though it does not present any facilities for new businesses such as these countries.

Analyzing the state budget for the period 2013-2017 (the first four months), we conclude that higher revenues bring items such as VAT, Excise Taxes, Profit Tax and TAP. From the analysis made we see that the values of these items in the state budget has fluctuated the last 4 years.

Although we had an increase in profit tax, TAP, Excise, the magnitude in the state budget for these items was not the one expected, and this indicates a dysfunctional tax legislation. But if we analyze the monetary value change of these items over the last 4 years we see that:

With the change in 2014, the profit tax rate went up to 15%, increasing by 5%, and the state budget increased revenues for this item by 23.2%, multiplying the revenues collected from the Tax Directorate.

This indicator is a proof of the good functioning of the relevant bodies for the implementation of the legislation. Indicators show that this growth was higher in 2014, with a 28.93% increase from 2013. The increase in income from profit tax for 2015 taking as base year 2013 is 58.89%. While revenue growth in profit tax in 2016, taking as base year 2013 is 98.63%. This increase is also due to the increase in the number of businesses.

In 2016, revenues from the state budget from the profit tax are higher than in 2015, although the number of businesses in 2015 is higher, respectively 2,062 businesses compared to 1840 in 2016 (number of businesses: new businesses - businesses that have been unregistered).

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