

VALUE ADDED TAX - FRAUDS AND OTHER PROBLEMATICS WITH THE REIMBURSEMENT SCHEME

Piranej, Klemona

Bank Officer, Union Bank, Albania

Saraçi, Peter

University of Shkodra, Economic Faculty, Albania

Bashi, Elidiana 

University of Shkodra, Economic Faculty, Albania

elidianapema@yahoo.com

Abstract

The business performance depends on its show and its company skills to produce products with the lower costs and to sell them with the best price. Also, the surviving of a business depends by the market competition, but we can't also let out without mentioning a very important factor which are taxes and fees. The reimbursement scheme of value added tax, is a big opportunity for every business even though, the realization of this topic has been very complex. The problems which businesses encounter because of this scheme makes very difficult to refund the credit balance. On the other side the tax evasion cannot be left behind because of the flawed of value added tax. This study aims to value the shortcomings of the reimbursement scheme and also the impact that it has as the point of view also on the side of the government, discussing as case studies businesses in Shkodra city, Albania. This system needs to be administered more powerfully and with more details to fight the tax evasion and business problems. Furthermore it studies the tax evasion due to the facilities and the exceptions from the value added tax. Despite this, value added tax is the tax that brings the most higher income in Albania.

Keywords: Value added tax, reimbursement, businesses, income management, taxation

BACKGROUND

The purpose of this paper is to value the flawed of the reimbursement scheme of the value added tax system, as one of the most income to budget of Albania. The paper has been referred to studies concerning the reimbursement of VAT in our country and omissions from the VAT refunds. Also according to the press report that provided audit firm "Deloitte & Tousse", our country has a debt of 24.6 billion business. Businesses Through reports made online on the official website of ministry of finance have reinforced the status of government debt to them as a result of allegations of their credit balances.

As against its response and many other problems, our state has secured a hefty loan from the International Monetary Fund to improve this situation. On the other hand studies forms of VAT fraud and data confidential tax administration deception fraud Karuzel type of government has brought a damage of 600 million leks to the financial budget in Albania. Based on the above reports, the collection of secondary and primary data, through, evaluation in several businesses in Shkodra region, we are trying to facilitate understanding of the problems of the VAT refund scheme and the problems it brings in businesses in our country. It will also analyzes whether being put to work "benefits" of debt to close the gap in payment of overdue bills.

Limitations of the study

Restrictions of this paper were faced in information gatherings from the businesses. Many of the asked businesses refused to give informations on figures because of the confidentiality of the problem. Although the sceptic manner of behaviour from the businesses, we can admit that each business below mentioned are different cases, but they have something in common that are all included in the reimbursement scheme.

METHODOLOGY

This paper is based on primary sources and secondary sources. Primary sources consist of data collected through direct interviews, with businesses in the region of Shkodra. On the other hand secondary sources consist of studies conducted earlier, in "Law on value added tax" No. 7928 dated 27.4.1995, the ratio of state debt as a result of the reimbursement scheme implemented by the company "Deloitte & Tousse" debt accredited by the International Monetary Fund and World Bank. All these resources are used in the authentication function to the hypothesis.

Given the first problems that exist in the scheme of reimbursement of VAT, we can say from the first sight it is evident that the problems encountered in this scheme are known by the

wide public. Those most affected are our nation's businesses, especially those that base their activities in exporting. Businesses surveyed are the type that approach the criteria to be included in the value added tax scheme, and they absolutely prove this vacuum that creates this scheme. Every business has respectively refunded amounts by which necessarily affected the liquidity of the firm and other consequences chain. But it must be said that for 2014 were reimbursed by 929.7 mln albanian leke where from 375 businesses, 227 businesses was reimbursed VAT. This comes as a combination of existing funds specifically from law changes. We can admit that the findings of the paper are consistent with the hypothesis raised above.

VALUE ADDED TAX

The value added tax in Albania was first implemented, based in the law no. 7928 date 27/06/1995. This new tax was the most innovation in tax structure in Albania republic. Since the first time implemented in Albania, till now, it is the most uncontested fiscal law that generates the most income in fidcal budget of our country. Value added tax, is applied to all the taxable supplies of goods and services, also to all imported goods in our country. Each business that has an annual money circulation over 5 milion All (this is the minimum threshold, changed on 2010) or each person that imports goods that are treated as taxable by law. From 01 February, 2011 each individual that offers services from profesions as: lawyer, notary, doctor, economist, nurse, etc are obliged to register for the value added tax scheme. Another important concept, part of the law on VAT is the taxable value application and the tax rate.

The taxable value of the furnishes must include all taxes, levies, duties, fees and similar payments excluding VAT. Also included secondary costs as expenses brokerage packaging, shipping and insurance. The taxable value of imported goods consist of the import value determined by the Customs authorities on the basis of customs legislation in force in the Republic of Albania. Value added tax levels in Albania are:

- ✓ Level 20% for all supplies of taxable goods and services, as well as imports.
- ✓ 10% level for supplies of medicines and medical supplies.

Under the changes in the new fiscal package, the date 1/4/2014 supply of medicines, medical supplies and medical services is an exempt supply. This kind of change in the fiscal treatment was proposed and approved for final removal of this tax burden to patients by bringing them with a lower price. This kind of change is thought that will bring a negative financial effect on 2014 earnings with an amount of 100 million leks, but also on the other hand, this will be balanced by the reduction of budget expenditures for the year 2014.

- ✓ 0 % level for the exports, gold supplys to Bank of Albania, international transport, etc.

Based on European Union derictions, the standard rate of VAT from 1 January, 2011 till 31 December, 2015 can not be lower than 15%.

Value added tax application in Albania compared to the country regions.

Figure 1. The rate of value added tax of Albania compared to the near neighbors

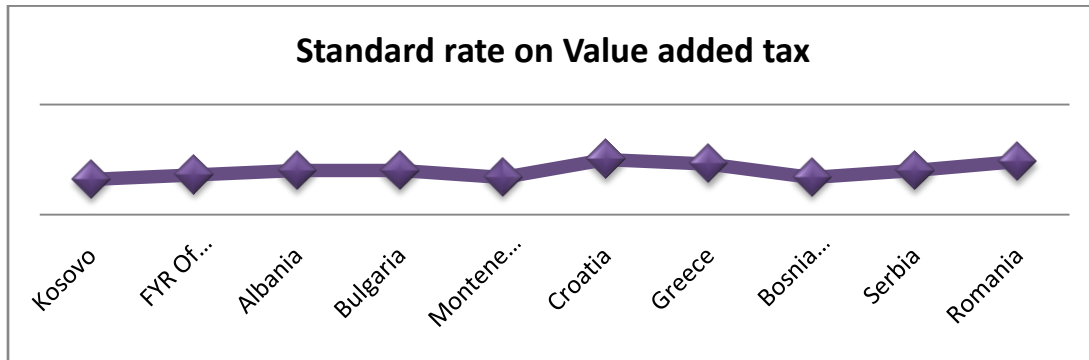


Table 1. Rates of value added tax

No	Country name	Standard rate of VAT	Reduced rate of VAT
1	Kosovo	16%	
2	FYR of Macedonia	18%	5%
3	Albania	20%	
4	Bulgaria	20%	7%
5	Montenegro	17%	7%
6	Croatia	25%	6.5% - 13%
7	Greece	23%	
8	Bosnia and Herzegovina	17%	
9	Serbia	20%	8%
10	Romania	24%	5% - 9%

According to the comparisons based upon the figures, we can judge that Albania is not the highest level applying standard rate of Value added tax, but we can see that our fiscal law doesn't make any omission or reduction from the standard rate.

Types of frauds from Value added tax scheme

Frauds through money circulation

This fraud is made from those taxpayers that hide their real money circulations without declaring real figures. This kind of fraud is widely used from the tax payers that make trading transactions

by cash. This fraud's spread is used to those businesses that are registered to the value added tax scheme, because this types of businesses very often make transactions with small businesses' categories, by hiding in this manner the transaction value from both sides.

Increasing the VAT with credit balance

This form of frauds, includes the efforts of the tax payer to find many purchasing bills for the false inexistent goods that are complied only by the bill value. When the tax payer applies for the reimbursement of the creditor VAT within the period of 3 months, this kind of fraud can be discovered by controlling the crosses of the bills that are false, or throuh the physical control of the inventory of the goods.

VALUE ADDED TAX EXPORTING OR FRAUDS EXPORTING

The tax payer applies the tax of 0 % rate for the existing exports, and asks the VAT on purchases for this exports, meanwhile these goods are used to personal usage and not for business activity. We must admit that mostly at this scheme fraud are included the consuming goods and the luxury goods. This fraud can be discovered only through inspections for the verification of the from which the demand for reimbursement derives.

The “carousel” frauds

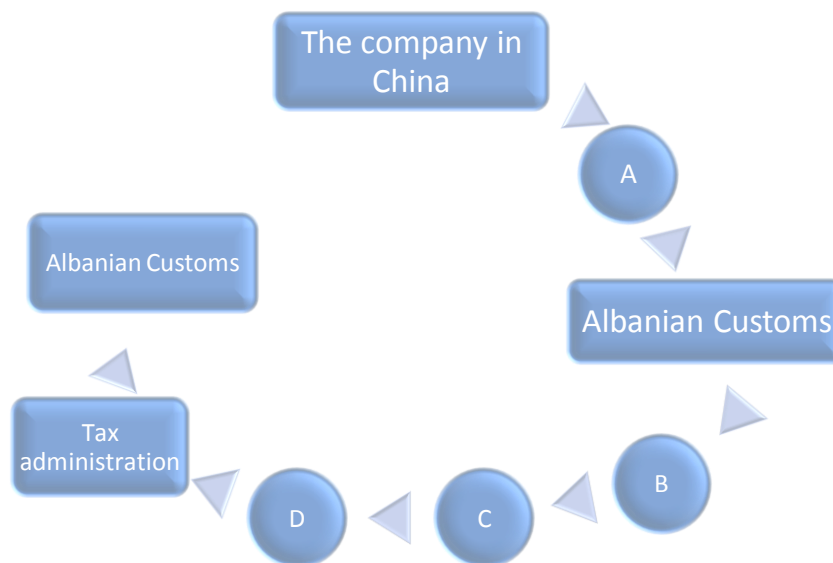
Specially, this kind of fraud includes the abuse that is related to the exemptions from the VAT scheme. For the last year in Albania, are discovered about 90 cases of this type of fraud, that is translated to 200 million All losses from the budget income. If the control to this phenomena does not increase, than the trend of increasing the cases similar to this fraud is increasing, too. The “Carousel” fraud is related to the transactions of purchasing – selling repeated, between tax payers that change their fiscal status very often. This transaction exchange means that VAT is not payed by the seller, and meanwhile the buyer (client or business), declares as VAT creditor balance for the purchase transaction. Commonly, a long and complex chain of transactions in different regions, is used to cover this phenomena that is happening. “the carousel” fraud is often used from organizations included in the economic crime and this means a great monetary value of loss from the budget income. The impostors that apply this fraud, include in the fraudulent chain by gathering different businesses by making difficult their evidence by making noted weaknesses of the taxations system in Albania. Goods, that are targeted to this fraud are goods with a high money value and low cost of transportation (informatics supply, communication, etc). This kind of goods can remain at the same place, but the trading transactions give the idea of a continuance buying – selling.

“The carusel” fraud in Albania

From tax administration offices in Albania, it is noted that this giant fraud with the reimbursement scheme of VAT is 600 million Albanian leke. During the 3 months of summer, the state budget has overpaid the amount of 600 million Albanian leke for phantom companies that cheated the customs and tax administration. Meanwhile, there are firms that do not get reimbursed for 4 years, on the other hand this phantom companies have reimbursed twice: Once from the tax administration and once from the custom. The fraudulent scheme is called “Carusel”, from economic criminal case that happened in Europe during 2005 – 2006.

How does this scheme function?

Figure 2. The “carusel” fraud scheme



The company registered in China, results that brings goods in Albania, that in fact do not exist, but are only billed, after passing the customs in Albania without paying value added tax, because you can not pay for the goods you do not have it. This "goods" is sold to another company, that is part of the group. The company in this case the purchased goods with VAT , then the VAT is another business sells . The last re-export business the same invoice to collect so value added tax and customs in taxes

Why does this scheme of fraud function?

The fiscal experts admit that by now that the opening of a business is allowed within the first day of application by an individual, this is really favorable to promote this fraud scheme.

In the case of the disappearance of fraud, or embezzlement taxpayer, the taxpayer is registered as VAT taxpayer applying VAT on its sales, but he/she disappears by not sending any statement or declaration, this makes possible to cease the payments of any money for the budget from the voice of VAT. These is the case when the taxpayers profit from the administrative exploit vulnerabilities. This fraud scheme is a systematic movement of tax crime in the VAT system, which is found in some regions of the our country.

Basically, VAT fraudsters benefiting from goods purchased, increasing the amount and invoice values over the regular rates are trying to control the potential corruption and break the integrity of the controller to not introduce this as a trick to taxpayers adminsitration officers. VAT receivers sell their merchandise or service at a price the market and further away without paying VAT by not declaring any period. This type of fraud applies to fraud of a 3-6 months period ending with the disappearance of fraudsters. So the evasion is covered without any consequences to nobody, to the fraudsters as well as to the controller himself.

Cloning Fraud

This fraud is performed using taxpayer number of identification for taxable person, that is known. A person who commits such a fraud, without being registered himself with a singli number of identification for taxable person, uses someone else, that is registered with the tax authorities. The person disappears without ever declaring, as it is natural that he has no where to declare how long is unregistered and rob the taxpayer number of identification. Innocent buyer of goods or services of VAT credit claims as to the purchase value of the impostor made, which is the way that fraud can be detected, in the future when it is checked by inspectors of the tax administration office. While the taxpayer is robbed of number of identification and tax receipts are issued, they face their lack of declarations in tax administration and makedeclaration on liabilities and penalties under the law to pay VAT. The information system of VAT should have a mechanism geared precisely to monitor new registrations, particularly those mentioned below:

1. From the work experience, the tax administration officers should detect, the problematic zones on this phenomena of frauds
2. Misleading people will know that these goods and the area is monitored by the administration and will waive application of the scheme uncovered areas and goods that are now riskier activities and will make efforts in other areas. The information system of

VAT should give the alarm when the statements of the previous period activities are different from the statements of these activities for new registrations. (Zones should be introduced here earlier this fraud and type activities).

3. The system should cross activities, in which the acquisition VAT is greater than the declared VAT sales for several periods in a row.
4. Computer program should make the cross references activities of VAT paid on purchases for VAT monitored activities.
5. The system should have an "alarm mechanism" to adapt and evidence the interruption of the statements of tax declarations of the taxpayers, specially for the statements of new registrations that are abnormal (large sales in the first months of activity of any business).
6. From experience, employees of tax administration need to know that a certain trick is usually limited to an isolated area or in an activity or particular good or service. Usually, the function of the fraud scheme implemented in nearest area or in other areas if this fraud worked. Thus, abnormality in any process of administration functions (registration, payment of the statement) should be viewed with the eye of identification of irregularities or deviations from normality. The tax office should be careful in recording a VAT taxpayer, verifying and looking for all the available data (current and historical) as this is the most essential control of the relation between the administration tax - taxpayers. The taxpayer should be very well known by the administration office of taxes, and on the other hand the administration office of tax should carry out the consequences in the event of fraud or deviation from its natural status of the business.

WHEN A TAXPAYER CAN APPLY FOR A VALUE ADDED TAX REIMBURSEMENT IN THE REPUBLIC OF ALBANIA?

As a taxpayer benefit reimbursement, must meet two main conditions:

- ☐ taxable person is carrying a lot of tax credit for three consecutive months.
- ☐ required reimbursement exceeds 400 000 Albanian Leke

Reimbursement of VAT can be performed with one of the following three forms:

- ☐ By default of the additional taxes unpaid by the taxpayer
- ☐ By keeping the amount of future tax payments
- ☐ Through automatic reimbursement, then passing the amount to be refunded to the account of the tax payer.

The reimbursement scheme problems in the republic of Albania are seen, as a defect of malfunction of the system by both sides: Businesses and 2. Tax offices authorities

Given the changes to the "Law on Tax Procedures" (old section), when a claim for refund is accepted from the tax authorities, within 30 days the tax authority should conclude its inspections, in order to make the approval of credit outstanding of value added tax and its reimbursement. Reducing the value added tax limit from 8 million Albanian leke to 5 million Albanian leke in 2010 contributed to increase the number of taxpayers subject to the system of value added tax, concluding in rising demand for value added tax reimbursement from many businesses at one time, and 30 days deadline for applications and controlling became impossible to be observed from the authorities. As consequence of this terms of controlling, and the changes to the law on value added tax on 2014, the period of control was extended from 30 days to 60 days from the authorities. The main purpose of this change was, to give facilities to the tax offices to execute properly its duties and responsibilities.

Another novelty is the transfer of responsibilities of amount reimbursements from the Tax Department to the Treasury Department. We see that these two changes have affected two key points value added tax reimbursement scheme. Last Change aims:

- a. elimination of tax administration responsibilities in providing value added tax reimbursement, making possible a diversification of tasks
- b. ensuring the implementation of the main principles of VAT refundable "first-in, first-out" (problem discussed below)
- c. reducing corruption

BUSINESS CASES – THE WAY THE REIMBURSEMENT SCHEME IS IMPLEMENTED

Case no. 1

The firm X limited operates in the city of Shkodra, in the market of aluminum processing and production. Is a registered to the tax office as a limited responsibility business, since 1995. Since the early year of founding, aimed to expand its activity, with the purpose to maximize the profit and become one of the most reliable firms of this market in the city of Shkodra. So this firma tried to reduce the importing of goods from Italy, by making the process of colouring of aluminum within its factory, thus fulfilling:

- Annual income increase
- Reliable profit extends in time
- Vendor production
- Variety in aluminum production, gaining so a competitive advantage compared to other firms of the market.

From 2005, it became part of the “Very Important person” – clasification of the tax office administration, first under Tax office dependence in Shkodra, than dependent from tax office in Tirana. This firm has a considerable amount of credited VAT – accumulated in the years that has not been reimbursed by the state.

What are the reasons for this high excess VAT credit from this firm?

First, the reference prices at the time when the goods are imported and the customs of the country is assessed and placed in the base of reference prices which are almost always higher than prices in the invoicing of the imported goods. Customs Administration sets high reference prices for imported goods in order to meet its budget, but on the other hand, this high price will rise to higher taxable base which increases the input VAT firm, providing redundancy highest credit for the firm and the tax administration problems in its reimbursement. Second, as I mentioned above, firms importing raw materials to processed and eventually sold at home and abroad. Exports generated by the firm are exempted from VAT that normally under the law, is subject of removing the possibility to create a collectable VAT, which would reduce the surplus.

What are the consequences caused to the firm by this acts?

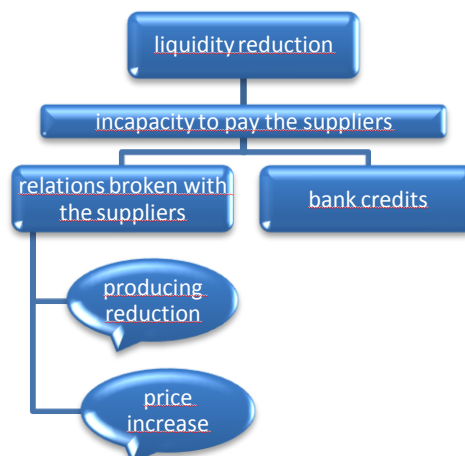
This lack of reimbursement for the business in question has caused major liquidity problems, affecting the suppliers’ payment. Bills have failed to pay on time, putting the firm in a dilemma:

- I. Dissolution of relations with suppliers, in the sense that they are due to non-correctness of the firm will raise prices or lower the quality of goods and services purchased by the firm.

- II. Increased demand for credit from banks to exit from the liquidity crisis.

The 1st action gives the firm a bad image, destroying relations with suppliers, the second has a high interest rate cost, but this is seen as the way out to accomplish the firm’s need for liquidity.

Figure 3. The lack of liquidity consequences of the firm X



But why the firm does not claim a VAT reimbursement?

The firm conducts all legal practices for refund request and submits it, but it always leads to a tax administration to assess the firm's audit and in almost all cases the auditor concludes that the firm has anomalies and impose penalties that reach almost the value of outstanding credit of VAT. The firm feared that this happened to them if any reimbursement happened.

Case no. 2

Venice Art is one the most interesting that operates in the city of Shkodra. It was founded from Edmond Angoni, and actually it has an employment of 60 workers that manually make thousands of masks per year. This firm imports the raw materials and also operates as a trading firm, by selling its production in or abroad through exports. The two main its retailing shops are in Venice and Las Vegas – United States of America. It also exports goods to Greece, Canada and France. By importing, the firm accumulates an input VAT, creating a crediting balance. On the other hand it exports, and its value is excluded from the VAT system, based upon the VAT law. The reimbursement application is seen as problematic for two reasons:

- a. Moment of control by the tax department. In any anomalies found under their control which reduce the required amount for reimbursement. Various expenses qualify as tax unknowns, such as the telephone costs. Venice Art has its two retailing in Venice and Las Vegas and telephone expenses abroad are substantial but reasonable controllers not seen a fraction of the cost by making it as part unknown. This kind of phenomenon occurs in any required reimbursement check for one thing or another, making the firm "guilty" to each case and brings a lot of confirmed reduced reimbursement.
- b. However, a problem has been period's lasting a VAT reimbursement. According to information received by the treasurer with the old form of VAT reimbursement procedures and lasted up to 6 months, while the new law makes the amount reimbursement by control of tax administration within 60 days.

Venice Art is one of the firms, included in the declared list, that was approved from the government, for value added tax reimbursement. This firm is the magic case, when the reimbursement scheme of value added tax worked properly.

Case No. 3

Ardsel is a trading firm that operates in the city of Shkodra, and also exports for Kosovo. It trades goods that are related to food and construction. During 2008, Ardsel made a request for the amount of 6,224,000 Albanian leke for reimbursement and it was refunded at the same year. Later in 2009, this firm requested the amount of 5,337,000 Albanian leke. And it was approved

from the tax inspectors the amount of 5,176,887 Albanian leke, because of the control of the inspectors. Compensation of the amount was made in phases:

- 1.790.171 All are recompensed from tax income during 2011 and 2012.
- 1.250.000 are given cash in 2011 and 2013
- The remained amount of 2.136.716 is the amount recompensed on 18 April, 2014.

Consequences!!! The amount recompensed of 2.136.716, all with a delay of four years, brought liquidation problems to the firm, by taking overdrafts from the bank, related to the cost of interest rate to pay.

CONCLUSIVE REMARKS

- a) Value added tax is not yet a consolidated tax, as per its income even for the problematic it shows at special points of this scheme.
- b) The reimbursement scheme of Value added tax has still unclear steps to the taxpayers and excessive bureaucratic procedures, although facilities are offered through online applications of the VAT reimbursed.
- c) Value added tax reimbursement are being made from the treasury office, since the last changes of the law.
- d) There are contradictions between the tax and customs administration in their mode of operation. On the other hand the customs administration through the reference price increases VAT to be refunded leaving a heavy burden on tax administration for payment and reimbursement.
- e) There is a no way to monitor the amount of VAT to move on and determine the amount held by the state budget for its refund.
- f) There is no way of compensation applied for the businesses whose reimbursed VAT deadline set is not closed in time.
- g) This gap created by the shortcomings of the VAT refund scheme brings major problem in Albanian businesses, ranging from lack of liquidity and so forth with a chain process.
- h) Sometimes reflected the lack of liquidity of the businesses is reflected also the lack of liquidity of the government treasury, and therefore as at the beginning of this year, the Albanian government is obliged to increase public debt to give businesses breathing through VAT refunds.
- i) An increase in public debt increases the cost of living of Albanian citizens.

j) It should also be noted that businesses in our country are not "appropriate" to this phenomenon, but make "a blind eye and a deaf ear" as a result of control by the tax administration that can be sent if requested reimbursement of the firms.

k) Exemptions from value added tax are source for tax evasion and businesses in Shkodra are part of it.

RECOMMENDATIONS

I. We think that a rate value added tax moderated collection, will bring a broader base of income tax in the case of VAT and will leave a less gap for tax evasion. People are influenced from differences in the rate of taxation – they fill themselves more proud, and are consequently more addictive to pay a lower Value added tax rate.

II. Further improvement of many other bureaucratic steps by the tax administration and explanation of the steps should follow the reimbursement scheme of businesses for their VAT. Many of the businesses that are part of the reimbursement scheme – don't want to be part of these scheme because of the bureaucratic treatments from the tax office. If the procedures of this scheme are reduced, certainly a wider range of businesses shall be part of these system.

III. Eliminating the "contradictions" between the tax and customs administration to work for the common good of the budget, and on the other hand the possibility to cheat with this scheme is lower if these two important offices collaborate with each – other.

IV. Fiscal Training to the employees to be more attentive to the needs of taxpayers as well as to the frauds made by them.

V. A comprehensive study on the tax exemptions specified by law should be made, which are the source for tax evasion. A wider range of businesses should be included at the exemption classes – not only drugs and imports from abroad.

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