

Hierarchy and the Albanian Tax Administration Function. is it a Promoter or a Barrier in the Implementation of the Tax Law?



Law

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ABSTRACT

Everyone can ask the question of why we have taxes and fees. Practically we can say that a democratic society cannot exist without taxes. Fees and taxes are a necessity because the living standard of a modern society requires it.

The tax administration should collect revenues in order to provide goods and services and to guarantee the legitimate rights of the members of the society, to pay pensions, social benefits etc. The main sources of the Albanian tax legislation are the constitution, various laws, acts, and court practices. The Ministry of Finance is at the top of the hierarchy of tax administration and it is responsible for the administration and implementation of laws. There is an important difference between taxation and fees. The fee is an obliged and non-refundable payment in the state budget, while taxes are instrument which guarantee the payment of a person who by law benefits directly from public services. Since 1992 tax law has undergone successive changes. Likewise even the tax administration has undergone transformations. It is responsible for law implementation and for maximizing the tax and fees' collection. The basic question of this paper is to what extent these two elements favor the economic development of the country.

The role and the scope of fiscal policy

Referring to the literature but not only, we know that the "leadership" role of the state in terms of economic policy implementation is irreplaceable for objectives such as:

- Economic development orientation for further implementation of the relevant strategy;
- Ensuring the stability of the market and prices;
- Employment;
- Preserving the equilibrium of payments' balance;
- Allocations such as;
- distribution of production factors (including the promotion of domestic competition, coordination to increase labor force and the capital in the country, as well as promotion of national employment distribution);
- fulfillment of public needs (eg administration, defense, education, culture, science, health etc). In other words the economic policy examines the economic processes, instruments, actions and decisions of the government to achieve its goals. Thus, the state or the local authorities are carriers of the economic policy by influencing the elections, orientations, as well as its applications. So these state authorities consciously implement various forms of regulation in terms of economic aforementioned processes (Komoni, 2008). Consequently, the greater the number of targets that must be fulfilled more difficult becomes their implementation. However on the basis of respective goals the economic policies are classified as follows:
- independent (in cases when the realization of a goal does not affect the realization of another economic goal);
- Additional (when the realization of a goal contributes to the achievement of another economic goal);
- And contradictory (if the realization of a goal makes it difficult or prevents the achievement of another economic goal).

Whereas the economic policy instruments are usually classified into the following groups:

- Public financial instruments (or fiscal policy)
- Monetary policy instruments - credit;
- System and prices' policy instruments;
- Foreign trade and foreign exchange system instruments;
- Direct control instruments.

Compatibility between the objectives of these instruments is an equally important process related to the formulation and implementation of the economic policy of a country. Referring to the above order, fiscal policy involves the use of public financial instruments i.e. of public revenues and expenditure for the imple-

mentation of public economic policy goals. Therefore, it is one of the most important instruments of economic policy as it affects aggregate economic performance as well as on the behavior of economic agents. The action mechanism of fiscal policy has to do with its long-term effects, such as the impact on the development of the country's growth mainly in its fast economic one. In these conditions, the function of state is that of the mediator in the economic development, as long as it is needed to create general conditions against security and speed conservation of economic growth and development in the country. On the contrary, the Albanian government currently instead of determining priorities in the development of a sector or its branches, it is still dealing with the improvement of basic infrastructure, in function of industrial policies, those of regional development, science and education development, as important factors in the context of the integration of the national economy's competitiveness in an international scale. But we should emphasize that the degree of economic development of a country is determined by the quantity and quality of human and material resources in order to achieve the level of technical and technological developments, which on the other hand are directly affected by fiscal policy (Komoni, 2008). And precisely for this reason, hereinafter we will take in consideration the advantages and disadvantages of the Albanian fiscal system.

Advantages and disadvantages of the Albanian fiscal system

Even though there have been early experiences of flat tax as in Jersey in 1940, Hong Kong in 1947 etc, the concept of flat tax that is known today took its shape only in 1994. Then, this tax system was embraced by Baltic countries (Estonia, Lithuania, Latvia), Just then, the debate was even more interesting when this system was welcomed by Russia in 2001. After this circumstance, several ex- communist countries started to apply the flat tax system.

Advantages of flat tax system

The flat and progressive tax system differs from the taxing level (% of taxing) towards the same referential base. Therefore, in the flat tax system, work and capital are not taxed in a progressive approach but in different levels, consequently the bigger the incomes from work and capital the higher the income level from the state will be in relation with respective taxing. In the same way, it is justified in relation with labor and capital's size, as the taxing level doesn't change toward the reference basis. However, the main advantages of flat tax are the reforms that support it and the simplification of fiscal system. Exactly, the exclusions are omitted through the same rate of taxing and it is not needed time and a big effort to calculate different incomes, which indicate less cost for the state. On the other hand, it can be stimulated theoretically the will of economic agents to pay through a

“fixed taxing” level (Hall, E., Rabushka, A., 2007). Thus, beyond the fact that politics decides on who is paying less or more, who is going to be punished or favored, the flat tax has an objective and a main reference point: it doesn't consider closely the generated incomes or the type of business. Also, the flat tax contributes in the omission of tax evasion and lessens the insecurities regarding new investments. Therefore, local businesses may expand their activity, as new businesses may “arise” given that this tax system tends to tax incomes and not to create conditions on bankruptcy. It also given autonomy to the market, because when there are more money on circulation offered more products may be offered and more services may be allocated in the proper way.... creating in this way more options for the employment growth. Regarding what was mentioned above, a favorable climate is created for the foreign investments, increasing cash inflows in the state budget which indicates premises in the development of social welfare of the country.

Disadvantages of flat tax

Although, the flat tax apparently constitutes a simple fiscal system, its practical implementation is always complicated. According to the flat tax theory, the latest is difficult to be practically implemented, especially in the developing countries because their economic system itself is complex, but not impossible. Thus, the simplification of the whole system may be reached through different reforms in support of flat tax system (Weinsbach, 2006), which essentially are not necessarily linked with the flat taxing (Marstin, 2008). On the other hand, the flat tax is essentially regressive as it makes poor people pay proportionally more than rich ones, so the principle of social democracy is underestimated, according to which the rich citizens help poor ones through public benefits. According to this context, it is claimed that: flat tax enables an unequal competition in fiscal systems among different countries; a phenomenon which is followed by capital and labor force migration. In order to eliminate these damages, it is needed the adoption of some harmonized procedures. Meanwhile, the transition to another fiscal system may result not only complex but also expensive at first, but it may result confounding in many countries. Businesses but not only, are orientated this time toward means to avoid new tax measures especially in transitioned periods. The flat tax has been also criticized regarding ideological basis that has substantially, so it is regarded as harmful for the democracy... There are also some claims that “flat tax is effectively an attack toward all social structures we live in”. However, there are many good reasons why a country should apply it” (Peichl, 2008).

Has flat tax system resulted effective in Albania?

Before we answer the posed question, let's do a general evaluation of the Albanian economy in the last five years. During the period under consideration, the growth of gross domestic product was about 2%, which indicates a slowdown in relation with the previous periods mainly the Greek and Italian one. This happened as a consequence of the sensitive reduction in remittances from Albanian emigrants in neighboring countries being that 20% of the labor force results employed in Western Europe (Italy, Greece, Germany and England). The latest data show that the unemployment rate has fallen again, currently resulting 13.3% nevertheless; this phenomenon is still a wound for the Albanian economy given the young ages of the population even more the Albanian labor force. But it is worth mentioning that the budget deficit against GDP has gradually improved in recent years thanks to efficient tax collection. Thus, during this period expenditures in education, health and infrastructure have continued to grow. In the latter, we can mention also the support given to energetic company KESH. Public debt to GDP ratio is also reduced in the last decade, reaching the level 58.8% referred to the official statistics but anyway carrying fiscal and macroeconomic risk.

Special attention is dedicated to the inflation rate, trying to be held in control against the objective of the price stability, it results 3.5% because of the international pressures on oil and energy prices, but it remains inside the limit accepted by the Central Bank of Albania 3% ± 1%. Exports have increased significantly, expressing a greater demand for goods and Albanian products especially when the domestic currency was depreciated constantly compared to other currencies and quality along with prices of goods have remained unchanged. Imports also have noted an increase even greater because some raw materials are imported considering the lack in the country. Meanwhile, foreign direct investment has fallen significantly since 2008 that for the same reasons mentioned above. New businesses have marked a slight increase, but national savings against the GDP has decreased.

Let's now turn to the primary issue: whether the flat tax has been efficient to the Albanian economy?

Albania has applied flat tax reform relatively late in 2007, if we will compare it with other countries (see Table 1). In this context, referring to the 2013 report of Pricewaterhouse Cooper's “Doing Business 2013” we see that:

It is estimated the 160th among 185 countries that have been taken in consideration, leaving behind only Kyrgyzstan and Ukraine among the ex-communist countries that have applied the same reform in the periods 2006 and 2004 respectively. The best results of the evaluation of the country related to the implementation of the abovementioned reform, dedicated to the following circumstances:

1. Facilities were offered as regards tax calculation in 2007, after the tax system was implemented “user friendly”;
2. Other taxes were eliminated except those of profit, so it was reduced fiscal burden for businesses and individuals with high income;
3. The average level of tax actually results:
 - a) 8.6% tax on profit (13 types of taxes);
 - b) 25.3% tax on profit (12 types of taxes);
 - c) f) 4.3% other taxes (19 types of taxes), against fiscal aggregate of 38.7%. Which constitutes have the lowest rate of tax in South-Eastern Europe after that applied by Montenegro.
4. Performance indicator of tax compliance was improved on the average:
 - d) 119 days for big business the small and medium one;
 - e) 94 days for the collection of tax from employment income;
 - f) 144 days for consumables taxes.

Meanwhile the best estimation of Albania in this aspect is that of 2009, which was ranked as the 138th among 185 countries or, the reform apparently had just started to give first fruits.

But how are fiscal consolidated indicators realistically presented annually during the period 2008-2013?

The annual fiscal income have recorded a modest increase in October 2010 (see figure 2), while their great increase was that of 2008 (a year after the reform), and in 2009 was marked the lowest value of them that was after 2007.

Figure 1 - The annual fiscal income (2008-2013). Source: Ministry of Finance, fiscal Statistics

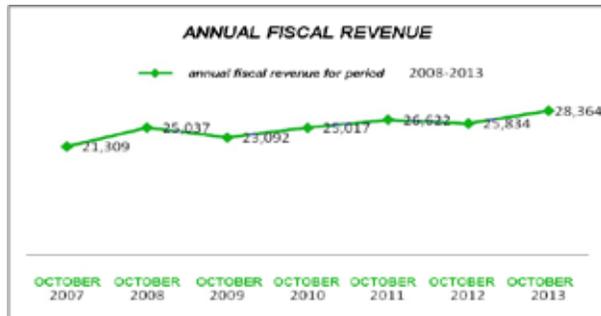


Figure 1 World Bank 2014

If this incomes are estimated in relation to GDP in years we have, 23.4%, 23.6%, 23.6%, 23.7% and the 22.8% for 2014.

On the average, the biggest influence in the annual revenues is from customs and tax's ones, and beyond them, the biggest influence between the latest is held by three voices:

- The value added tax with 9.4% of GDP;
- Excise with 3% of GDP
- Personal income tax with 2.2 % of GDP;

Whereas, the main voices of public expenses against GDP refer to:

- Expenses for social security and transfers -9.1 %;
- Staff (salaries and contribution of social security)- 5.3%;
- Operating expenses on maintenance and subsidies -2.4 %;
- Other expenses (economic aids, unemployment payments, compensation of political persecuted people etc) - 1.6%.

Referring to the consolidated budget increase during this period, we can claim that: the tax and duty's revenues have decreased as the main part of budget revenues. Among them, a bigger decrease has been on: (OECD 1990 Employment Outlook .Paris)

profit tax, duties and excises in conditions when the revenues from national taxes have been considerably increased. In the expense voices, there have also been decreased: operating expenses and maintenance ones, subsidies, expenses on social security and other transfers.

However, what can be said regarding the welfare level in Albania?

Taking into consideration the estimation report of the international organization SEDA (Estimation on the Stable Economic

Development) , Albania is ranked the 3rd among 150 countries taken into account regarding the welfare level increasing. Exactly, according to this evaluation- report, it takes 97.9 points, as it has progressed in the equality of incomes, in government, health system, education, property rights and security affairs. Therefore, differently stated, Albania has premises to maintain the same economic growth in the future... But, being realistic, what we actually aspire is stimulating the economic growth with fast steps to be well integrated in the European family, therefore this economic growth can't be never supported with actual fiscal policy towards: employment growth, public investment growth- private and foreign ones, reduction of budget and public deficiency, further growth of expenses in education, health system, infrastructure, technology etc, as through the latest can be given an impetus to the Albanian exports focusing on social policies that are orientated toward the reduction of inequalities and welfare growth of the country in a progressive way and further stable.

Discussions and recommendations

Contrary to the economic advantages of flat tax, studies of the same nature in developed countries have shown that this system affects the growth of social inequality. But as we saw above, the opposite occurs in ex-communist countries, even though in these cases we cannot be permanently faithful of this system. It should be noted that this reform was a necessity for these countries based on the fact that their previous fiscal system was inefficient. In some countries this reform has brought progress, although with difficulty, while in others there has been no impact, or furthermore it has worsened the situation by making the poor strata even poorer. Through the aforementioned system, the wealthy pay little or almost "nothing" avoiding social responsibility and thus there remains not much for the state to do. While the only countries in which the flat tax has brought positive effects are generally those with small populations, whereas in Albania the high level of public debt carries macroeconomic and fiscal risks. The proper addressing of this issue is related to the credible commitment of the medium-term fiscal consolidation. So, it will need to increase revenues and also reduce current expenditure while the capital and social spending intended for the people in need should be supported. The eventual revenues from the privatization of national assets should primarily be used to reduce debt, but also to repay the arrears invoices of the government to the business since these last would help economic activity in the near term. As for the above, it creates the opinion that the flat tax reform is important and necessary for economic agents of a country with the previous centralized economy, before moving to a progressive tax system. Since this last can provide a fair redistribution between different social groups, giving the state more possibilities to make appropriate interventions in the market at a time when public opinion is sensitized to the fiscal morality.

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