

ANALYSIS OF FISCAL POLICIES AND THEIR IMPACT ON THE LOCAL ECONOMY

Selma Kaçaniku Binjaku¹

*Phd.cand, Lecturer, Department of Accounting and Finance, Faculty of Business,
“Aleksander Moisiu” University, Albania
selmakacaniku@uamd.edu.al*

Prof. Shkëlqim Fortuзи²

*Professor, Dean, Faculty of Business,
“Aleksander Moisiu” University, Albania
shkelqimfortuзи@yahoo.com*

Abstract

Fiscal policies are the tools used by the government to influence the country's economy through taxation, public spending, and public debt. Their goals are to regulate the economy, assist in increasing employment, reduce inflation, and maintain control of public debt.

Tax revenues are the primary and significant sources of income for governments in most countries. The potential tax revenues of a country based on its legal or tax law are much greater than the actual tax revenues collected. Due to the lack of full tax compliance, government budgets are rarely balanced in most countries, and the gap between revenues and expenditures is growing. The key question is why taxpayers avoid taxes.

The purpose of this paper is to familiarize with the concept of fiscal packages and how the new taxation system works in the country.

The paper is divided into three sections, where the first section includes the analysis of the theoretical aspect of our tax system, focusing on the concepts of taxes and duties according to national legislation. The second section focuses on fiscal packages for the years 2020, 2021, 2022, and the revenues generated during the respective years, while the final section deals with the analysis of the survey conducted among businesses in our country that have implemented the taxation system by examining the difficulties businesses are currently facing after the implementation of taxation, as well as their approach to taxation.

Key words: taxes, fiscal package, businesses, taxation

1. INTRODUCTION

To achieve prosperity and political stability, national governments aim to achieve economic balance. The government uses various instruments to stimulate economic growth, reduce unemployment and achieve macroeconomic objectives.

Fiscal Packages are a system used to record sales and monitor taxes. These packages are mandatory for businesses that have a certain level of sales and is a way to ensure that businesses pay their taxes in an orderly manner. These packages are integrated in the tax system and help in the elimination system of fiscal evasion.

According to “The Economist” magazine, it emphasized that competitiveness in fiscal policies is the only “agent” that governments must stimulate productivity¹. On the other hand, competitiveness in fiscal policies is seen as a weighty incentive for foreign direct investments, since it has often influenced the attraction of investments to another country.

Also referring to the economists Break and Pechman, the primary purpose of taxation is the transfer of control of resources from one group to a society to another group, and carried out in such a way that it does not compromise, but rather helps the realization of other economic goals.²

2. RESEARCH METHOD

The methodology used is a combination of primary and secondary data. The paper is divided into two parts by developing a descriptive analysis. The first part is built on the basis of the theory using relevant literature for the argument of the topic I have chosen. The research was done electronically and using books and various scientific studies. The second part was built by developing a survey with a questionnaire of which will be completed online by employees of different companies. The questionnaire was carried out online via Google Forms and has been completed by 40 businesses, mainly small and medium-sized businesses in the country. The reason why I focused more on this sample is that the employees of these companies are more easily accessible than those of large companies.

3. FISCAL AND FINANCIAL SYSTEM OVER THE YEARS

The fiscal and financial (tax) system of Albania consists of several historical periods in this journey these 100 years of the independent Albanian state:³

Historical period 1912-1944

The new state after the declaration of the country's independence inherited a backward tax system and the country was characterized by political instability. There were efforts to establish a tax system in the interest of the consolidation of the state and the national economy.

The tax system of the First Republic and the Kingdom (1925-1939).

In 1925, among the first steps taken by the regime for the rapid increase of state income were the measures for the collection of tax arrears from the years

¹ Magazine - THE ECONOMIST

² Interview - Economists Break and Pechman (Book of Fiscality)

³ Erjona Bardhi “The current situation of the tax system and administration in Albania”

1912-1924. The administrative organization was carried out and based on this organization, the country was divided into prefectures. .

Historical period 1945 – 1990

The government that emerged after the Second World War pursued the policy of destroying the inherited tax system and set a political objective, the creation of a new tax system. From 1945-1976, the role of the tax system was to weaken private property. From the period 1977-1990, the role of the tax system was to eradicate private property. The tax policy of the Albanian state was based on the principles of the socialist classics for taxation and taxes.

Period 1991-2012

In Albania, the first legal acts for the establishment of the tax system have their origin in 1991, a period that coincides with the drafting of tax legislation in the country, which was concretized with its announcement in January 1992, and then with issuing the law “On income tax” on July 14, 1992. The tax legislation, which began to be implemented in 1992, can be considered the foundation of the modern tax system.

4. THE CONCEPT OF TAXES AND TAXES IN ALBANIAN LEGISLATION

A tax is a tax levied on income, property and goods in a given country. This tax can be applied by the government to collect revenue and finance public expenditure. Taxation is an important tool for governments to maintain public services and build necessary infrastructure. While Tax is another form of taxation, but in this case, it is applied on the goods and services that are bought or sold. This tax can be applied at a certain level, such as VAT (Value Added Tax), or it can be a tax set for a particular product or service.

The four principles of a sound tax system, according to the father of modern economics, Adam Smith:⁴

✓ *The principle of equality:*

The subjects of each state must contribute to the support of the government as much as possible, in proportion to their respective abilities, that is, in proportion to the income they receive in the state where they are located. According to the above principle subjects pay taxes depending on their ability, this does not mean that all people should pay taxes in equal amount. For the rich, the marginal utility of money is lower than for the poor. The rich have to pay more taxes than the poor. Equality means equality in the sacrifice that everyone makes.

✓ **Safety principle:**

⁴ William Craig - Taxation Theory and the UK System” from the book “Revenue Law Essentials”

The tax that every subject must pay needs to be certain, and not arbitrary. Time of payment, method of payment, amount to pay should be clear and simple for every person. Individuals should be knowledgeable about the amount of tax they are paying. Also, the taxpayer must be informed about the time he must make the payment. Information must be provided regarding the method of making the payment, i.e. whether it will be made with a single amount or in installments and the place of making the payment. An individual should plan in advance to pay a tax and in this way the payment is not difficult.

✓ Principle of suitability:

Any tax must be levied at a time and in a manner convenient to the contributor. Every tax must be collected at the time and in the manner in which there is no difficulty for the taxpayer to pay it. If a tax is collected at a time and in a manner that is inconvenient to the taxpayer, even a minimal amount of the tax will be a burden to the taxpayer. If a tax is collected at a time and in a manner that is convenient for the taxpayer, the taxpayer will not evade the tax in a significant amount.

✓ The principle of economization:⁵

Tax collection costs should be minimized. The tax system should not be too expensive. Any tax should be levied in such a way that the government does not have to spend too much on collection and the taxpayer does not have to spend too much on paying it. The principle of economization can be viewed from several perspectives: a high tax on income does not satisfy the principle of economization, but a high tax on narcotics and alcoholic beverages can be justified. There should be a minimum expenditure in tax collection and there should not be an adverse impact on production and people's desire to save and invest.

5. CLASSIFICATION OF TAXES

Taxes are imposed by governments and are of several types. According to Jain, Khanna, Grover and Jain (2007), in order to estimate the government budget, it is essential to know the tax classification.

Some of the main types of taxes are:

- (1) single or multiple taxation;
- (2) progressive, proportional, regressive and degressive taxes;
- (3) ad valorem (according to value) or specific taxes;
- (4) direct and indirect taxes.

⁵ Erokhin, V., Tianming, G., Andrei, J.V. (2023). Public Finance. In: Contemporary Macroeconomics. Springer Texts in Business and Economics.

6. FISCAL PACKAGE 2020 AND IMPACT ON THE DOMESTIC ECONOMY

The Fiscal Package of 2020 foresees fiscal measures mainly in function of good administration and promotion of some sectors, unlike the Packages drawn up in previous years.

Reducing informality and creating a more competitive business environment is a constant business requirement.

In this regard, Minister Denaj pointed out that the 2020 Fiscal Package, in addition to incentives for certain sectors of the economy, also provides for the harmonization of some fiscal laws with the provisions of the draft law “On the invoice and circulation monitoring system, one of the objectives of which it is also the reduction of informality and fiscal evasion.

During her speech, the Minister presented the draft laws of the Fiscal Package 2020, which provide for additions and changes in four main fiscal laws: the law “On tax procedures in the Republic of Albania” as amended; the law “On income tax”, amended; the law “On value added tax in the Republic of Albania”, as amended”; and the law “On national taxes”, amended.

For the first time, the 2020 Fiscal Package includes the creation of an automatic VAT declaration, where the taxpayer now only has to certify it or correct it in case it has not been declared correctly in the sales and purchase books.

The Fiscalization process will be carried out in several stages:

- The first phase affects Business-Consumer cash transactions and is expected to start implementation on July 1, 2020.
- The second phase of Fiscalization affects business-government cashless transactions and will start from January 1, 2021
- The third phase affects business-to-business cashless transactions and will begin to be implemented from July 1, 2021, where the monitoring of the payments of these transactions will be carried out through the banking system;
- The fourth phase includes the establishment of the business asset register and will begin implementation during 2020.

6.1. Impact on the local economy

Income structure

The revenue collection structure consists of:

- Net tax revenues account for 57% of total net revenues
- Social and health insurance contributions make up 43% of total net income.

For the year 2020, total gross tax revenues were programmed at 246.5 billion ALL and 235.5 billion ALL were realized, with a non-realization amounting to 11 billion ALL or 4.45% less.

Compared to the same period of 2019, with revenue realization of 259.5 billion ALL, the decrease in tax revenue is 24 billion ALL less or 9.24% less.

Tax Revenue

For the year 2020, the tax revenues were programmed at 155.6 billion ALL and 141.4 billion ALL were realized, with a non-realization of 14.2 billion ALL or 9.13% less.

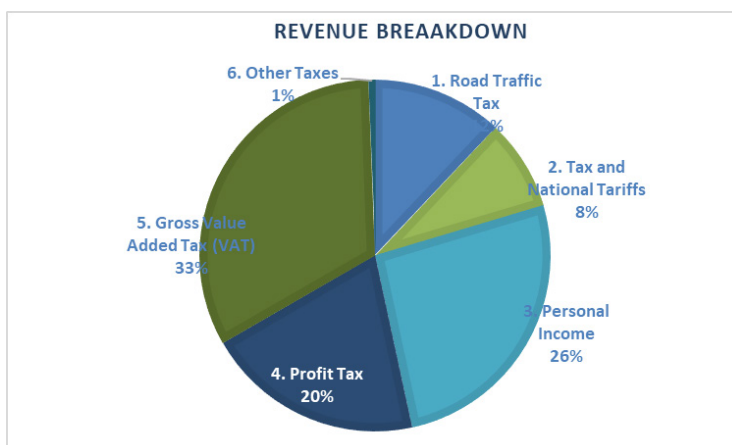
Compared to the same period of 2019, in which revenues were realized at 165.3 billion ALL, the results are down by 23.9 billion ALL or 14.47% less.

Income from Social and Health Insurance Contributions

For 2020, the revenues from Social Security and Health Contributions are programmed to be 90.9 billion ALL and 94.1 billion ALL have been realized, with an increase of 3.2 billion ALL or 3.54% more.

Compared to the same period of 2019, where the income from the National Social Security Administration was 94.2 billion ALL, the results are down by 50 million ALL or 0.1% less.

Chart 1- Revenue Structure 2020



7. 2021 FISCAL PACKAGE AND IMPACT ON THE DOMESTIC ECONOMY

The 2021 Fiscal Package states the following changes:

Notice on the minimum and maximum salary starting from the period January 2021, the minimum monthly basic salary, nationwide for employees, mandatory

to be implemented by any legal or natural person, domestic or foreign, is 30,000 ALL.

For the purpose of calculating social security contributions, monthly gross salary, will be:

1. Not less than the minimum monthly salary, equal to 30,000 (thirty thousand) ALL and up to 132,312 (one hundred and thirty two thousand and three hundred and twelve) ALL, for employed persons;
2. Not less than the minimum wage, equal to 30,000 (thirty thousand) ALL and according to the determination of the person himself, up to 132,312 (one hundred and thirty two thousand and three hundred and twelve) ALL, for self-employed persons;
3. Equal to the minimum monthly salary of 30,000 (thirty thousand) ALL, for unpaid family employees with whom the self-employed person works and lives legally.

Also, for the effect of calculating the mandatory health insurance contributions, the monthly salary will be:

1. Not less than the national minimum monthly salary of 30,000 (thirty thousand) ALL and up to the amount of the gross salary, according to the payroll statement, for employed persons;
2. How much twice the national minimum wage, of 60,000 (sixty thousand) ALL, for self-employed persons and unpaid family workers with whom the self-employed person works and lives.

7.1. Impact on the local economy

2021 earnings

The Central Tax Administration, for the period of 12 months 2021, presents a positive performance in revenue collection. The determination of the administration to fight evasion and the informal economy, as well as the sensitization campaigns undertaken, have influenced the increasing trend of income.

The revenue collection structure consists of:

- Net tax revenues constitute 57.6% of total net revenues.
- Social and health insurance contributions account for 42.4% of total net income.

For the year 2021, total gross tax revenues are programmed at 266.2 billion ALL and have been realized

274.9 billion ALL, with a realization worth 8.8 billion ALL or 3.3% more.

Compared to the same period of 2020, with revenue realization of 235.5 billion ALL, the increase in tax revenue is 39.5 billion ALL more or 16.8% more.

Tax Revenue

For the year 2021, tax revenues were programmed at 168.7 billion ALL and 168.7 billion ALL were realized, with a non-realization of 32 million ALL or 0.02% less.

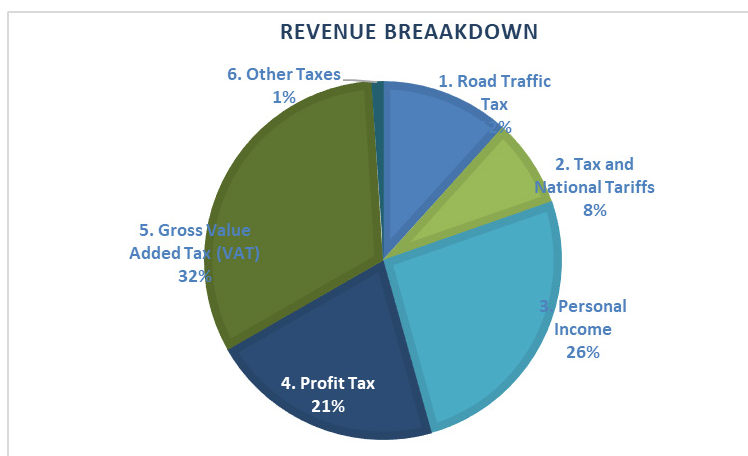
Compared to the same period of 2020, in which revenues were realized 141.4 billion ALL, the results are increasing by 27.3 billion ALL or 19.3% more.

Income from Social and Health Insurance Contributions

For 2021, the revenues from Social Security and Health Contributions are programmed to be 97.5 billion ALL and 106.3 billion ALL have been realized, with an increase of 8.8 billion ALL or 9.04% more.

Compared to the same period of 2020, where the income from the National Social Insurance Institution was 94.1 billion ALL, the results are increasing by 12.1 billion ALL or 12.9% more.

Chart 2- Revenue Structure 2021



8. FISCAL PACKAGE 2022 AND the IMPACT ON THE DOMESTIC ECONOMY

The main changes in the fiscal package of 2022 concern the tax on personal income from employment and the removal of some fiscal exemptions for businesses, in line with the recommendations of the International Monetary Fund.

Despite the government's promises for fiscal non-changes and business demands to have a consistency of the approved acts, even the year 2022 did not escape legal revisions.

Income structure

The revenue collection structure consists of:

- Net tax revenues constitute 57.6% of total net revenues.
- Social and health insurance contributions account for 42.4% of total net income.

8.1. Impact on the local economy

For 2022, total gross tax revenues are programmed at 308.7 billion ALL and are realized 308.0 billion ALL, with non-realization in the amount of 0.6 billion ALL or 0.2% less.

Compared to the same period of 2021, with revenue realization of 274.9 billion ALL, the increase in tax revenue is 33.1 billion ALL more or 12.0% more.

From the statistical data of the evidence of income realization for this period it results:

Tax Revenue

For the year 2022, tax revenues are programmed at 193.0 billion ALL and 189.6 have been realized billion ALL, with a non-realization of ALL 3.4 million or 1.8% less.

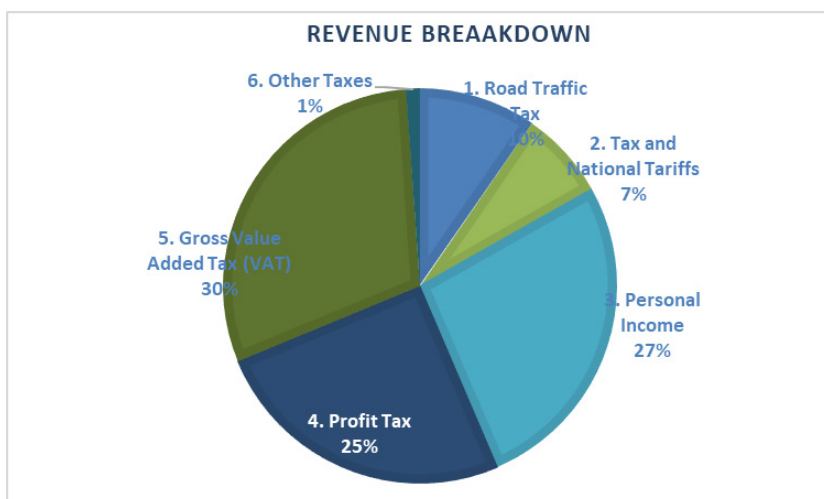
Compared to the same period of 2021, in which revenues were realized 168.7 billion ALL, the results are increasing by 20.9 billion ALL or 12.4% more.

Income from Social and Health Insurance Contributions

For 2022, the income from Social Security and Health Contributions is 115.7 billion ALL were programmed and 118.5 billion ALL were realized, with an increase of 2.8 billion ALL or 2.4% more.

Compared to the same period of 2021, where the income from the National Social Security Administration was 106.3 billion ALL, the results are increasing by 12.2 billion ALL or 11.5% more.

Char 3- Revenue Structure 2022

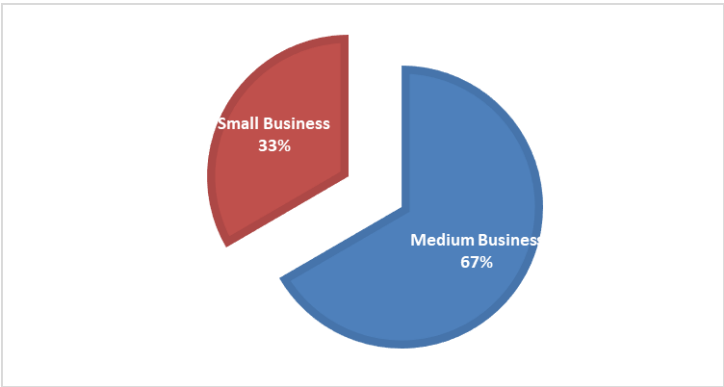


9. RESULTS OF THE ANALYSIS OF THE QUESTIONNAIRE ANALYSIS

In this section of the paper, the results of the survey addressed to 40 businesses in the city of Durrës will be analyzed regarding the fiscalization process, the progress of this process and the approach that businesses have to this process. The survey was created through the Google Form platform and sent to several accounting offices to then distribute to businesses.

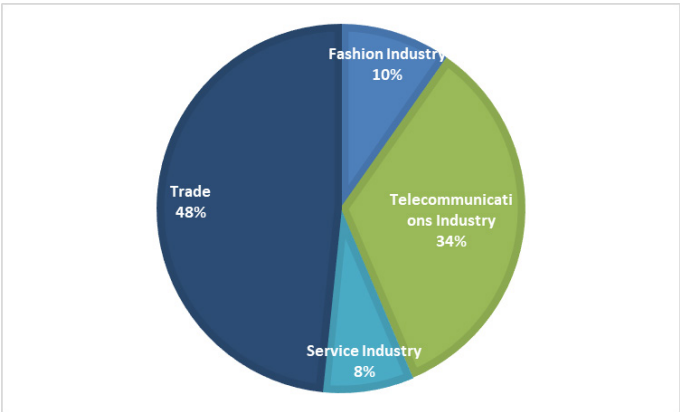
According to chart no. 4, most of the surveyed businesses were small businesses, namely 61.3%, the rest of 38.7% were medium businesses.

Chart- 4: Medium to Small business Contribution



According to chart no. 5, 38.7% operate in the service industry, 32.3% of the businesses turned out to be engaged in trade and 6.5% turned out to be in the fashion industry, while 22.6% of businesses were found to operate in the telecommunications industry.

Chart- 5: In which industry does your business operate?



When businesses were asked if they have an internal economist who deals with the fiscalization process, all of them answered yes, so regardless of the type of business or industry in which they operate, it is noted that the presence of an economist must that this process conforms to the rules and without problems because the latter is more inside our fiscal system due to knowledge.

Chart- 6: Do you have an economist who deals with the fiscal processalization?

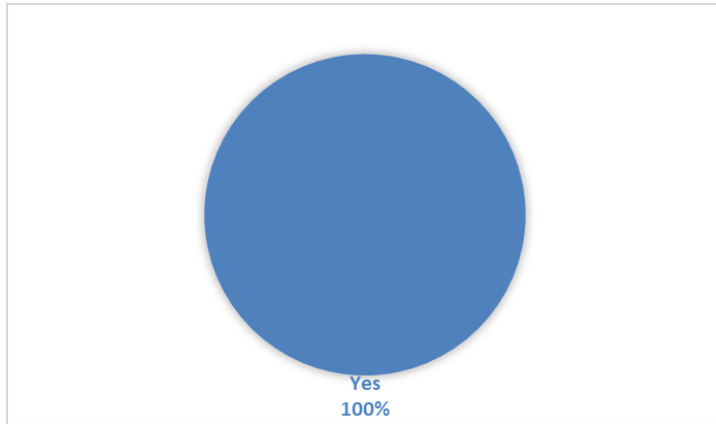
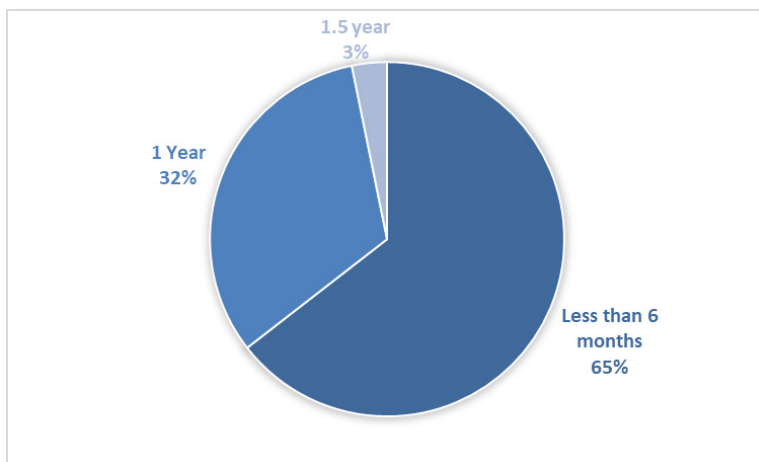


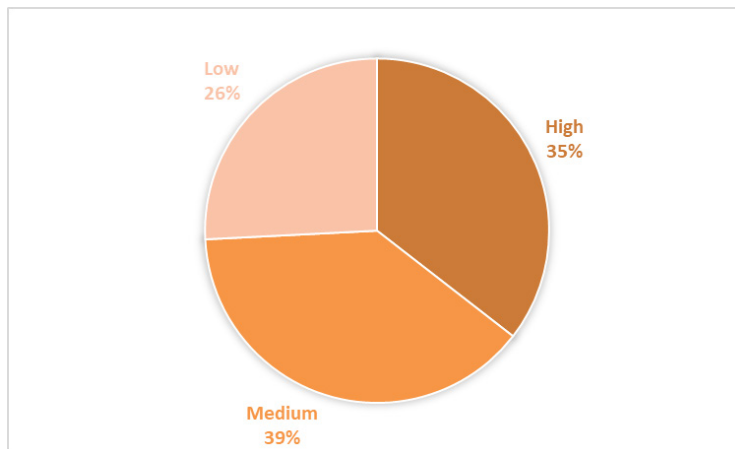
Chart- 7:Do you have an economist who deals with the fiscal processalization?

According to chart no. 7, 64.5% of businesses stated that they have been involved in the new fiscalization scheme for about 1 year, while the rest of 32.3% stated that they have been involved in this process for less than 6 months and only 3.2 % stated that they have had this process for about 1.5 years. So, this process is relatively unknown to everyone since it is still in the first stages of operation.



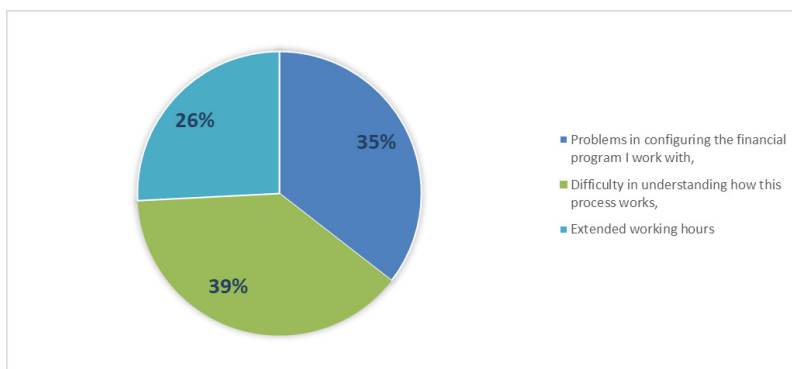
According to chart no. 8, regarding the degree of difficulty encountered by businesses in relation to the successful operation of this system, 35.5% answered that the difficulty they encountered is of a high level, the rest of 38.7% stated that the level of difficulty is of an average level and 25.8% of businesses stated that the difficulty has decreased over time.

Chart- 8: What is the degree of difficulty encountered by you regarding the smooth running of this process?



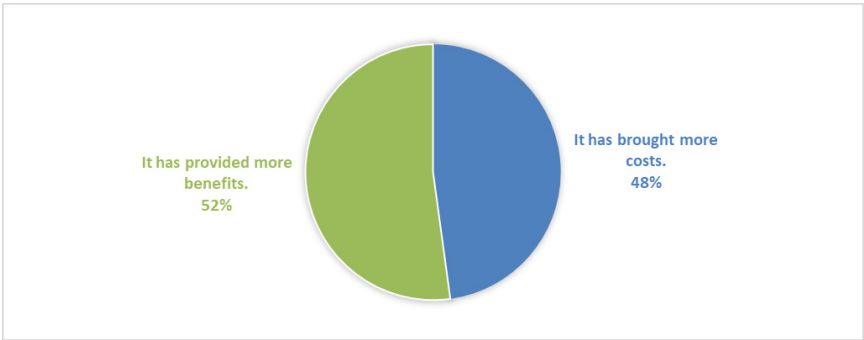
According to chart no. 9, regarding the difficulties encountered by businesses in relation to the fiscalization process, 45.2% said that the biggest difficulty for them was the perception of how this system works, also caused by the fact that it has been implemented for a while. while 41.9% of businesses stated that the difficulty came as a result of configuration problems from the company that sold them the financial program they currently work with, and as a result 12.9% see the extension of working hours as a problem.

Chart- 9: What are some of the difficulties you encountered regarding the fiscalization process?



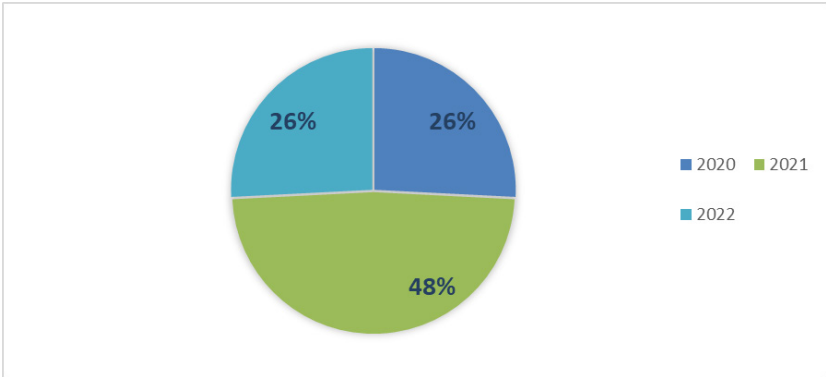
According to chart no. 10, when businesses were asked if this process has brought more costs than benefits, most answered that it has brought more costs, even those who were of the opinion that this process has been necessary for their business. This is because small businesses have had to hire someone to handle their finances as the need at this time has been greater than ever, and some businesses have even had to spend extra to equip their staff with electronic devices that to make invoices in real time. And only a small part answered that there were more profits at 32.3%.

Chart- 10: Has the fiscalization process brought more costs or benefits for you as a business?



According to chart no. 11, from the responses of businesses, we see that 48.4% of them say that the year 2021 was the best fiscal package and the fewest changes, while the other half is divided equally with 25.8% between 2022 and 2022.

Chart- 11: In your opinion, which year had the most favorable fiscal package for businesses?



Graph no. 11- In your opinion, which year had the most favorable fiscal package for businesses?

Regarding the suggestions to the relevant structures regarding the policies and deadlines set in relation to this process, some of the most frequent responses given by businesses were as follows:

- We were not ready for this change, there are many problems and we do not all move coherently
- The relevant structures are not yet ready for themselves.
- Since nothing is yet clear regarding the continuity and the way of operation, the tax structures should take these facts into consideration and show more tolerance towards businesses until everything works in the normal course.

10. CONCLUSIONS

The tax system in the Republic of Albania consists of a package of laws, regulations, instructions as well as tax agreements regarding taxes and taxes, for the manner and procedures of setting these taxes and taxes, their level. A number of factors can contribute to the difference between potential and actual tax revenue. Tax collection agencies may demonstrate institutional inefficiencies, inadequate tax collection skills, and personal management issues.⁶

- In 2020, the Albanian government approved a fiscal package to help businesses in Albania that were affected by the COVID-19 pandemic. This fiscal package included tax cuts and tax cuts for businesses, as well as cheap loans and subsidies to support workers and businesses in need.
- In 2020, the Albanian government adopted several different measures to help businesses during the pandemic. One of the measures was the reduction of the profit tax from 15% to 5% for businesses with a turnover of 14 million lek per year. Another measure was the reduction of VAT from 20% to 6% for tourist and food services in restaurants and bars.
- In 2021, the Albanian government continued to provide financial support to businesses in Albania, including a new program of subsidies and cheap loans for businesses that were affected by the COVID-19 pandemic.

In 2021, the government continued to provide support to businesses during the pandemic. One of the measures was the reduction of the profit tax from 15% to 5% for businesses with a turnover of 8 million lek per year. Another measure was the reduction of VAT from 20% to 6% for tourist and food services in restaurants and bars.

⁶ Amantia Levenaj - Indictment and its constituent components

- In 2022, the Albanian government continued to provide support for businesses in Albania, including a reduction in business taxes and duties, as well as a new program of subsidies and cheap loans to help businesses in need.

In 2022, the Albanian government continued to provide support to businesses during the pandemic. One of the measures was the reduction of the profit tax from 15% to 5% for businesses with a turnover of 8 million lek per year. Another measure was the reduction of VAT from 20% to 6% for tourist and food services in restaurants and bars.

Regarding the results of the questionnaire,

The fiscalization process is relatively unknown to everyone as it is still in the early stages of operation. Therefore, the degree of difficulty encountered by businesses regarding the successful operation of this system is of a high level, also due to the short time in which these businesses have implemented this system, which is less than 1 year. For all businesses, this process has resulted in more costs than benefits, and according to the majority of mostly small businesses, the implementation of the fiscalization process has not been necessary. This is because small businesses have had to hire someone to handle their finances as the need at this time has been greater than at any time. The biggest difficulty for businesses has been the perception of how this system works, caused by the fact that it has been implemented for a short time and is still unknown to everyone. Most of the businesses expressed that they were not ready for this change and that this change is not the right one according to their point of view.

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