



Albania
Investment
Council

Improving Transparency and Investment Climate

MAIN FINDINGS OF THE SURVEY ON TAX INSPECTION

Meeting of the Investment Council,
October 5th, 2015

Content of the Presentation

- ▶ I. Introduction
- ▶ II. Profile of Respondents
- ▶ III. Findings on Effectiveness of:
 - ▶ Tax Audit Process
 - ▶ Tax Appeal Directorate
 - ▶ Awareness of the Taxpayers
- ▶ IV. Summary of Comments Received from the Survey



I. Introduction

▶ **Objective of Survey**

- ▶ Aims to support and further detail the preliminary findings On Tax audit as well as to identify other concerns related to the tax audit process which will serve as a baseline for drafting the relevant recommendations.

▶ **Methodology**

- ▶ Anonymous;
- ▶ Launched online in Albanian and English in the IC website and shared via Facebook;
- ▶ Distributed through various Businesses Associations;

▶ **Timeframe**

- ▶ 27 August 2015 – 14 September 2015
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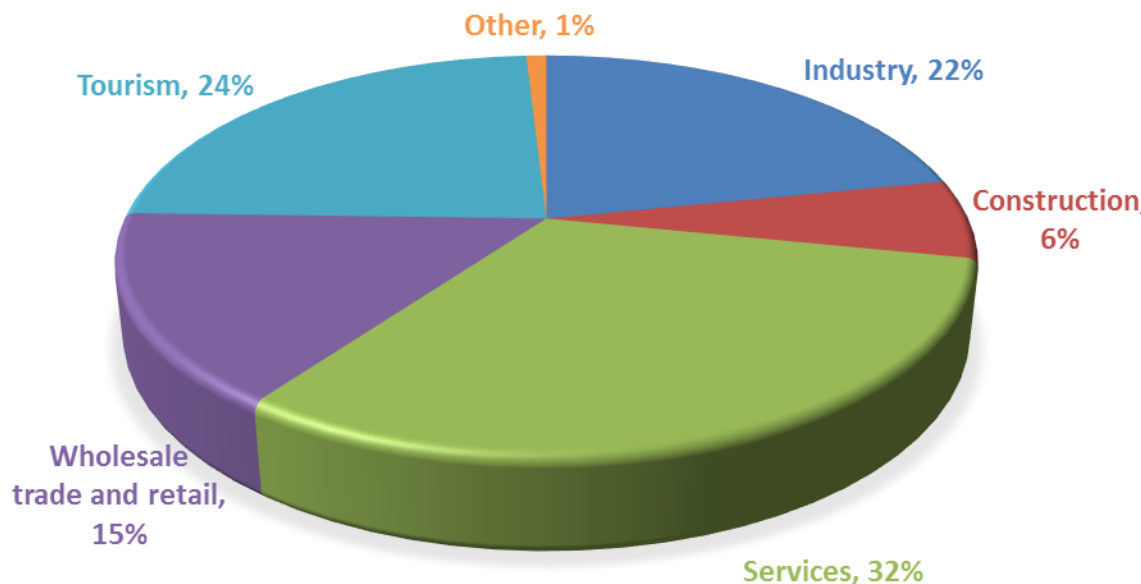
II. Profile of Respondents

► Completed by 110 companies

► 78% of Albanian ownership
and 22% of foreign ownership

► 78% Big Enterprises and 22%
Small Enterprises

Sectors represented in the Survey



The size of enterprises is based on the annual turnover according to the Law on Local Taxes (over and below 8 million ALL) according to the Law on Local Taxes.

▶ **III. Findings on the Effectiveness of Tax Audit Process**

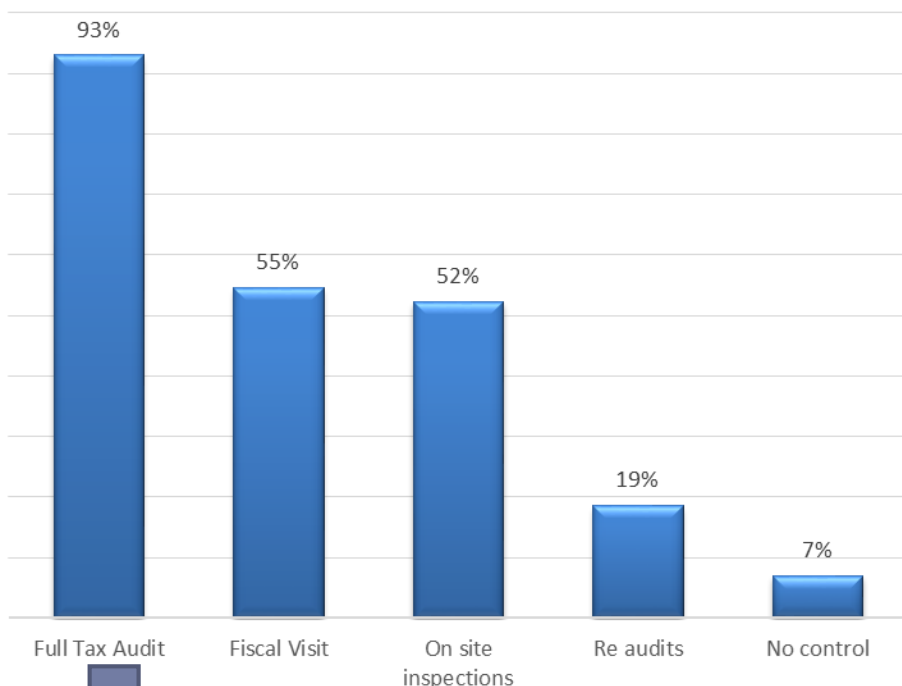
Legal Definition of Tax Audit

According to the Law No 9920 “On Tax Procedures in the Republic of Albania”, Instruction of Ministry of Finance No.24, dated 02.09.2008 “On Tax Procedures”, the tax audit can be:

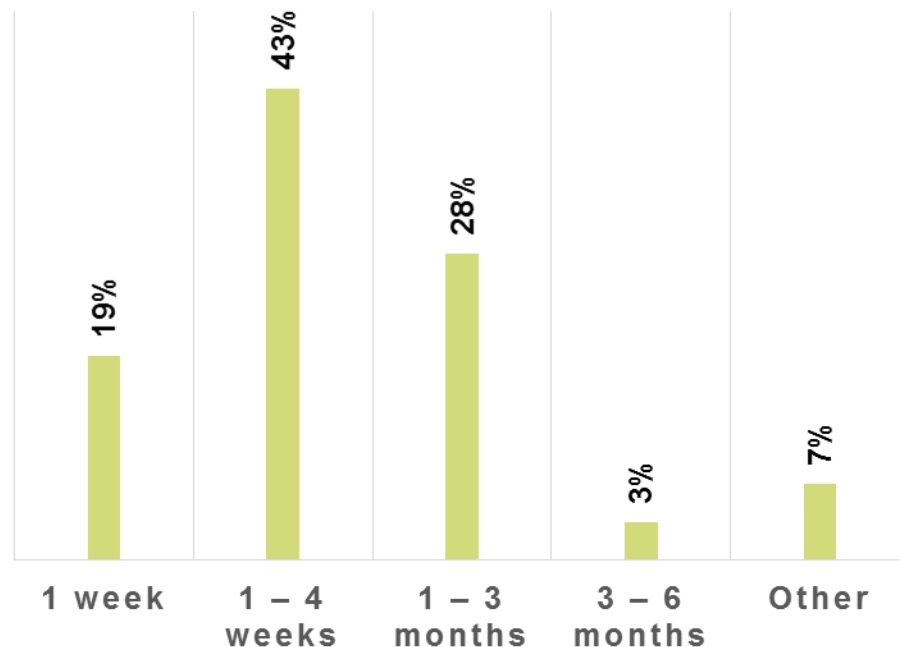
- A Full Control
- A Fiscal Visit
- An On-site inspection
- A Re-audit



3.1 Nature of Tax Audit and time duration of the Last Audit during 2013-2015 for Big Enterprises



93% of big enterprises declared to have been subject of a full audit during 2013-2015.



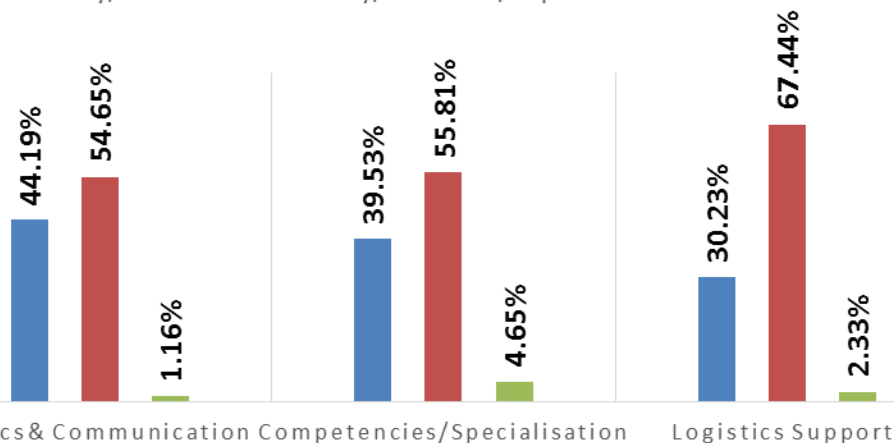
43% of big enterprises declared that the last audit had lasted 1-4 weeks.

Small Enterprises declared to have been mainly subject of On-site Inspections (46%) and Fiscal Visits (42%). It is worth noting that 38% of respondents declared being subject of a full tax audit.

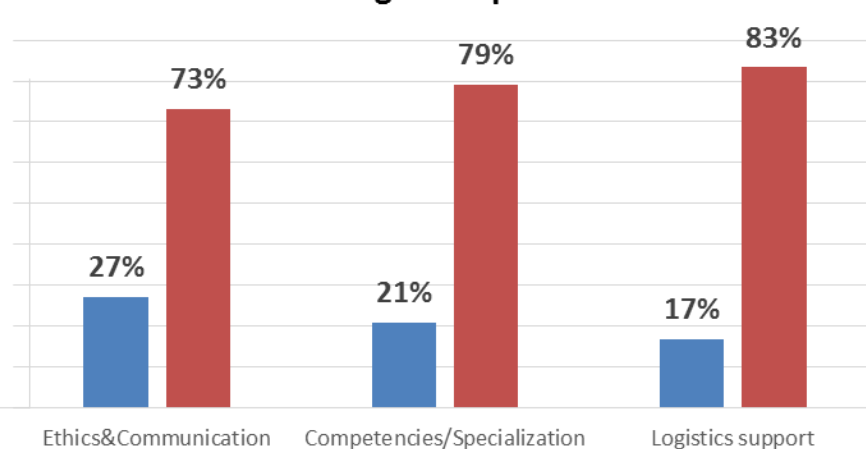
3.2 Evaluation on the Capacities of Tax Inspector According to Size and Ownership of Companies

Big Enterprises

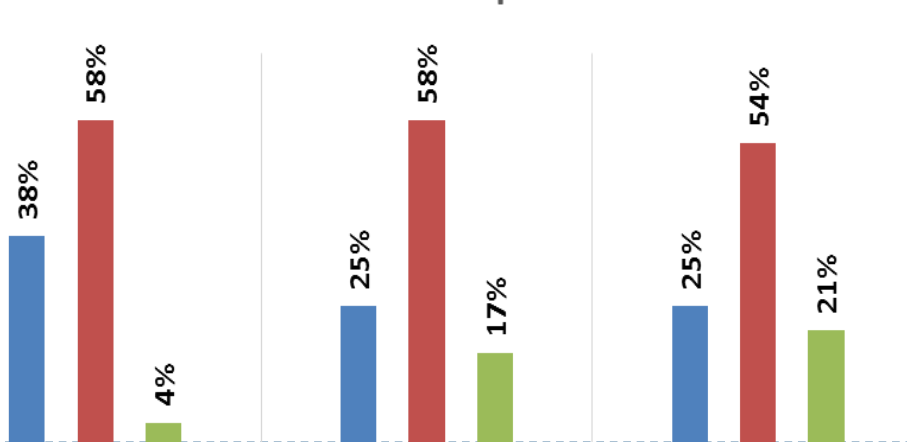
■ Very/ Professional ■ Very/Somewhat/Unprofessional ■ No Answer



Foreign Companies

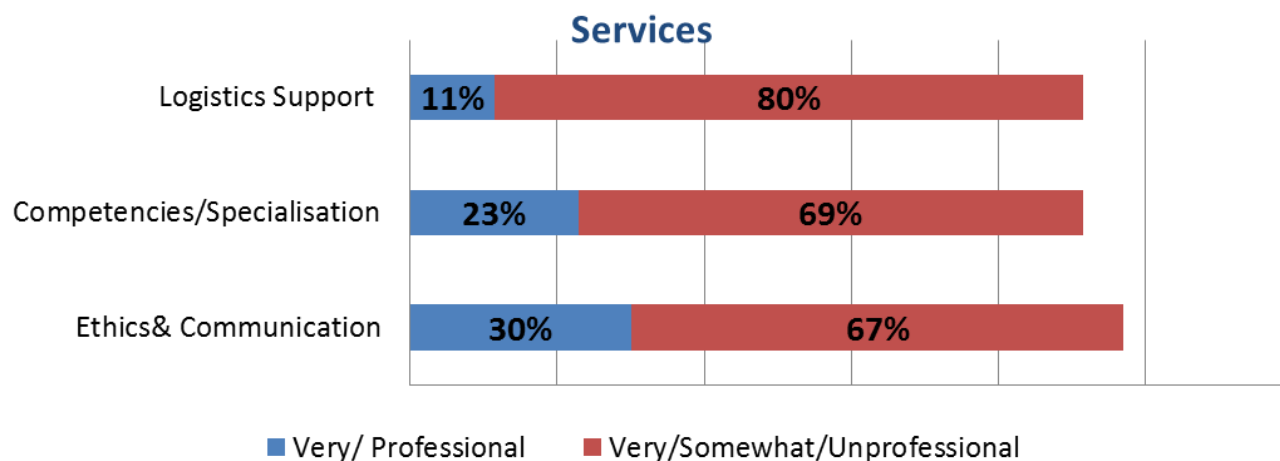


Small Enterprises



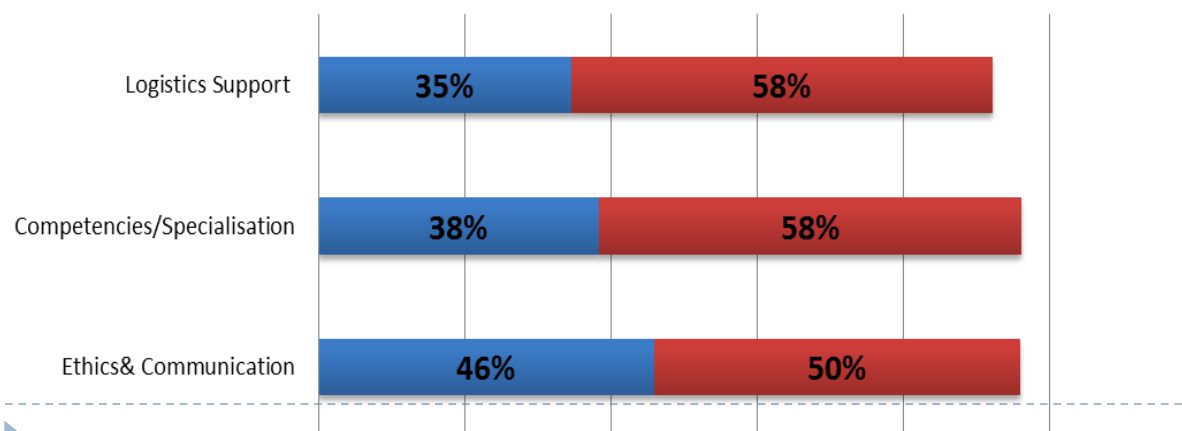
- Concerns on the capacities of Tax Inspectors are almost similar for both big and small enterprises with regard to **Ethics & Communication and Competencies**.
- In addition, there is a substantial dissatisfaction from the big enterprises on the **Logistics Support** provided by Tax Inspector.
- Foreign Companies are in particular very dissatisfied with the capacities of Tax Inspectors.

3.2 Evaluation on the Capacities of Tax Inspector on sectoral basis



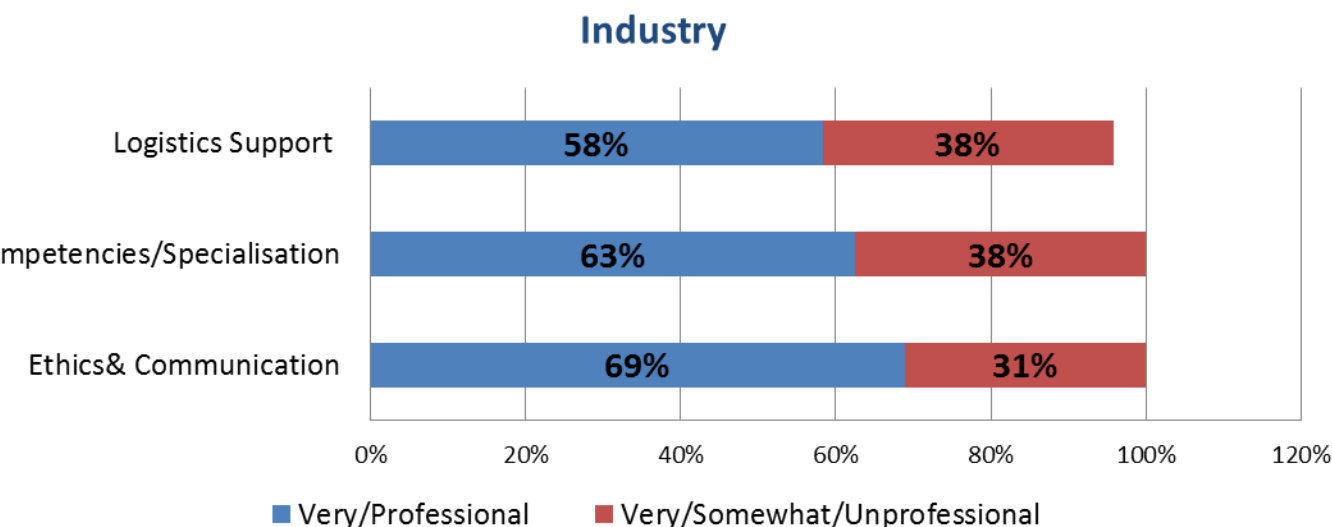
➤ The Services Sector gave the most negative evaluation compared to all the other sectors with regard to the capacities of inspectors, in particular on the logistics support.

Hotels and Touristic Operators

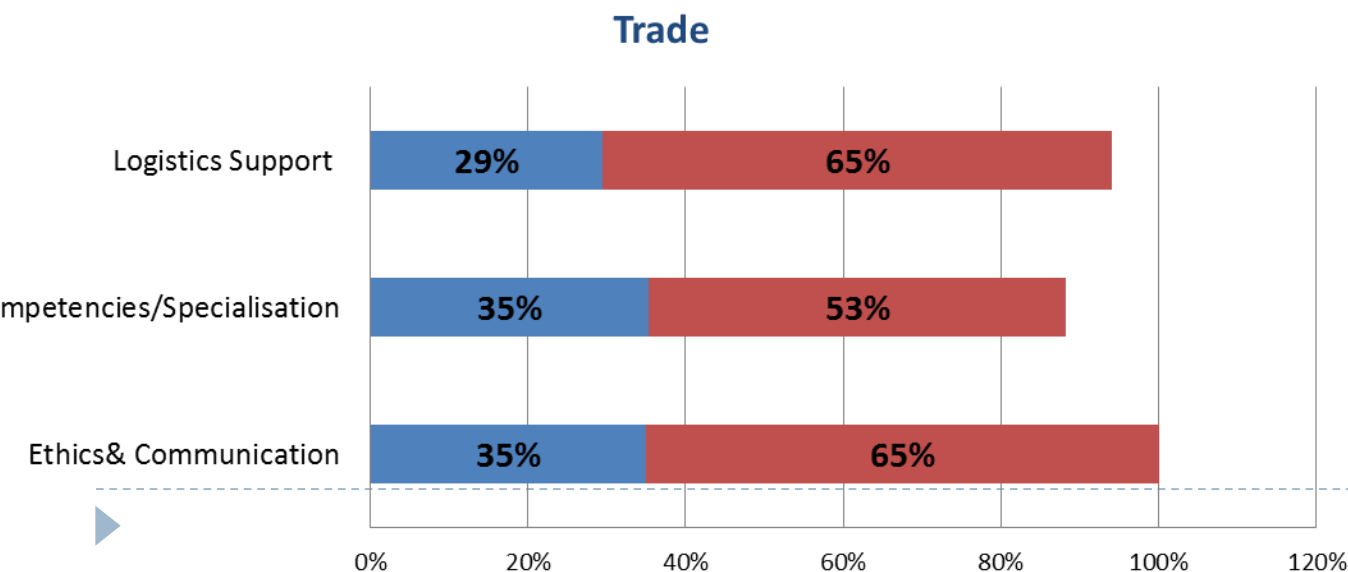


➤ In Hotels and Touristic Operators, 65% of the responses came from big enterprises which have somehow non positive evaluation on the capacities of inspectors.

3.2 Evaluation on the Capacities of Tax Inspector on sectoral basis



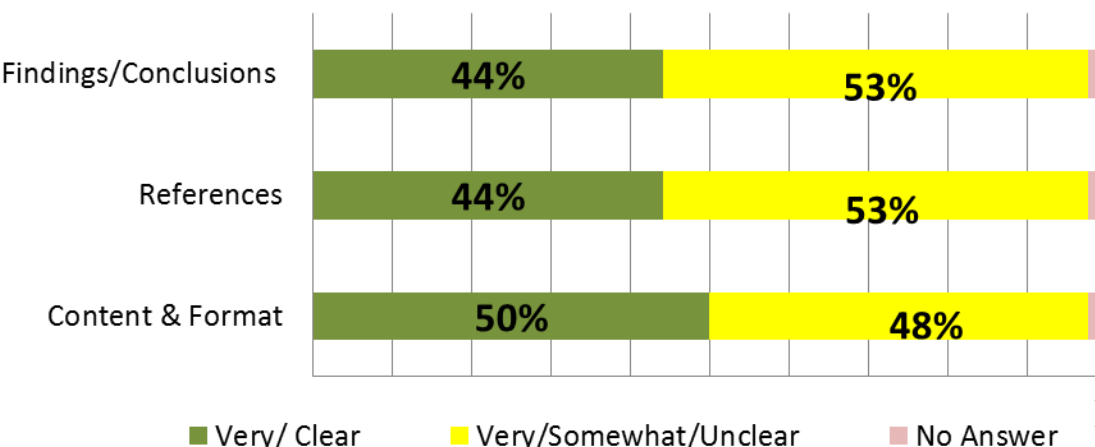
➤ In Industry, 88% of the responses came from big enterprises whereas 33% came from foreign-owned companies. **This sector had the most positive evaluation on the capacities of Tax Inspectors.**



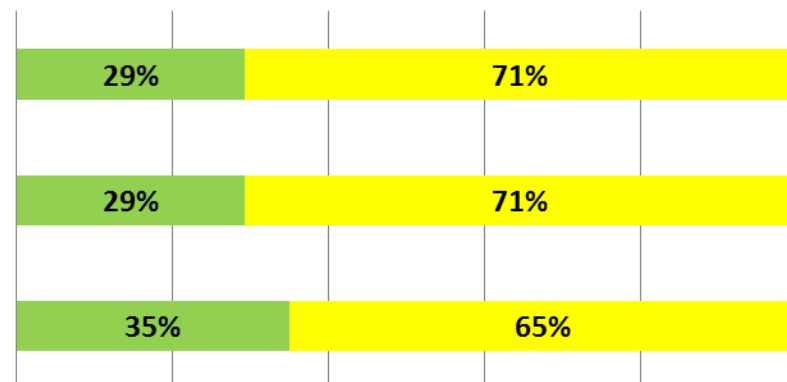
➤ In Trade, 82% of the responses came from big enterprises, and it is noted a substantial level of dissatisfaction on the capacities of Inspectors.

3.3 Evaluation on the Clarity of the Tax Audit Report, referring to the size of the enterprises

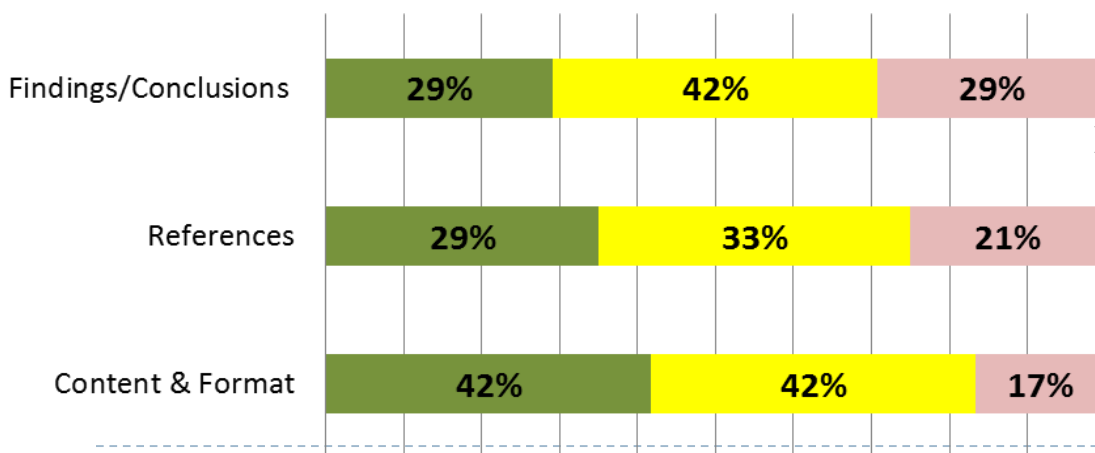
Big Enterprises



Foreign Companies



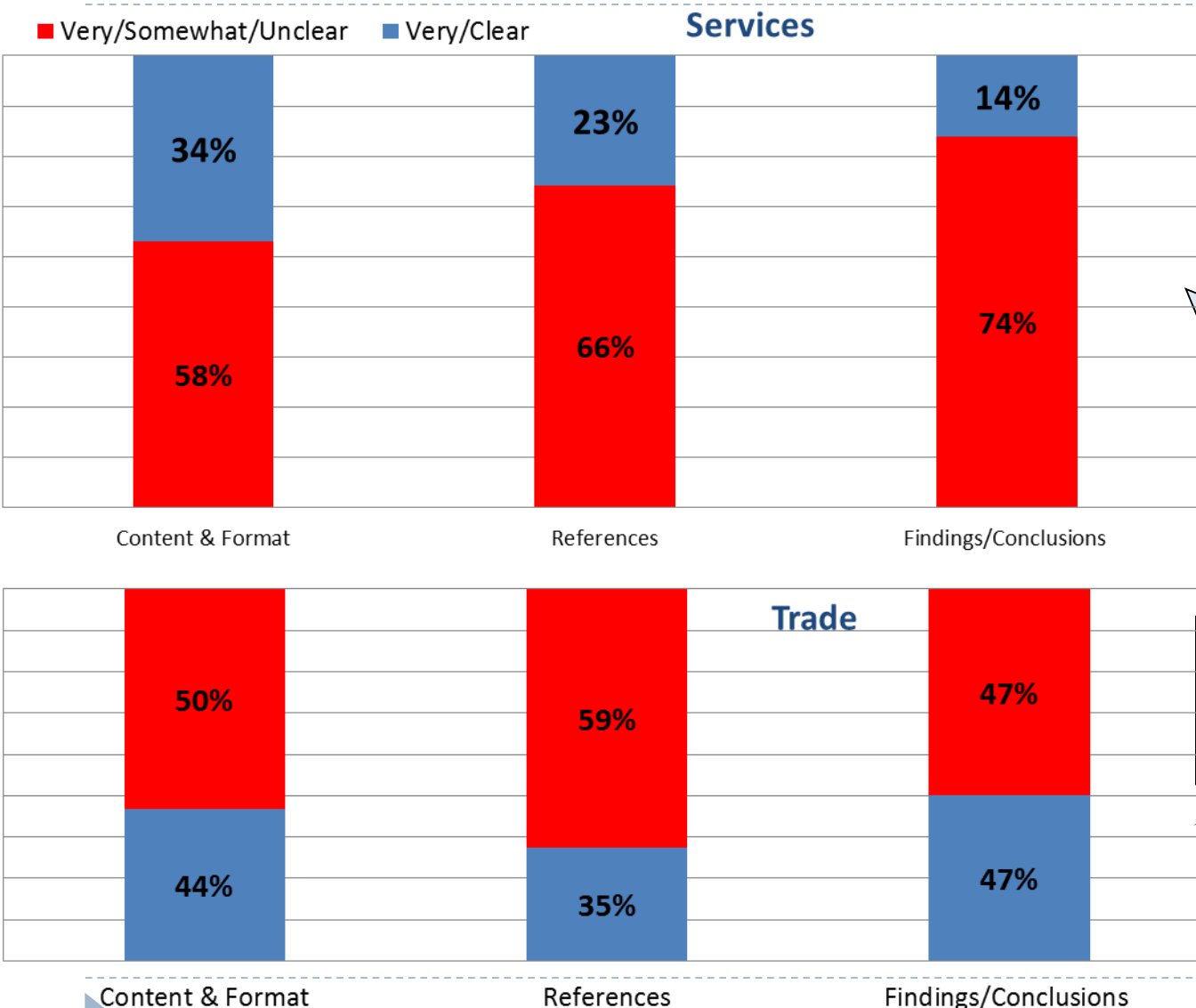
Small Enterprises



➤ Balanced responses from big companies, while reported as “problematic” from foreign companies. More clarity in particular is requested on the references and findings/conclusions of the report (as can be the case of imposed penalties).

➤ Small Enterprises have a more positive stand on the tax audit reports, linked as well with the nature of audits performed to this category, such as on-site inspections and fiscal visits. However, there is a substantial percentage of replies with “no answer” to this question leaving room for interpretation on the understanding of the report.

3.3 Evaluation on the Clarity of the Tax Audit Report on sectoral basis



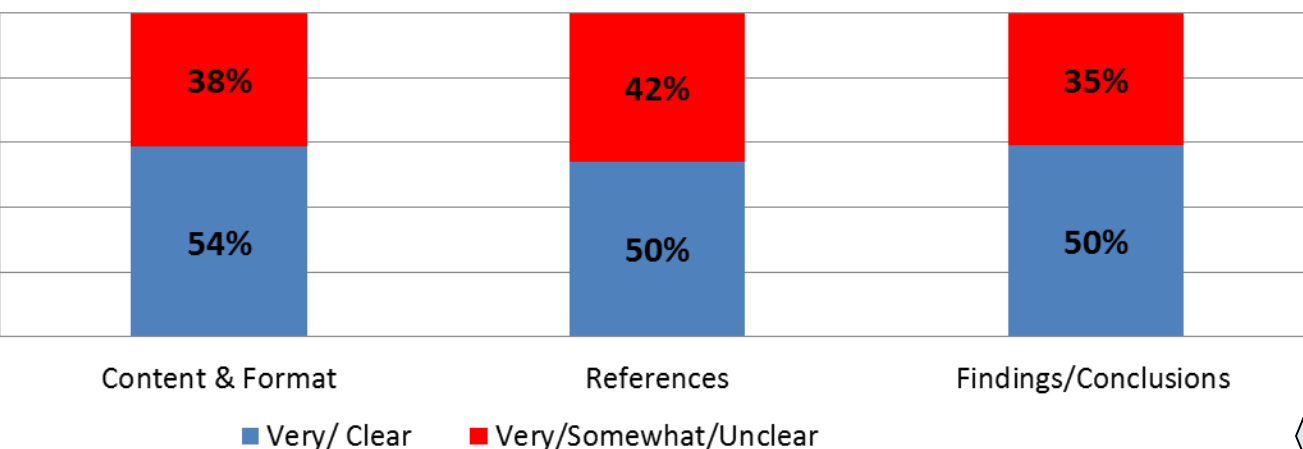
Service Sector gave the most negative evaluation on the clarity of the tax audit report, that is in coherence with the evaluation of the tax inspector's capacities.

Followed by Trade Sector in lower levels.

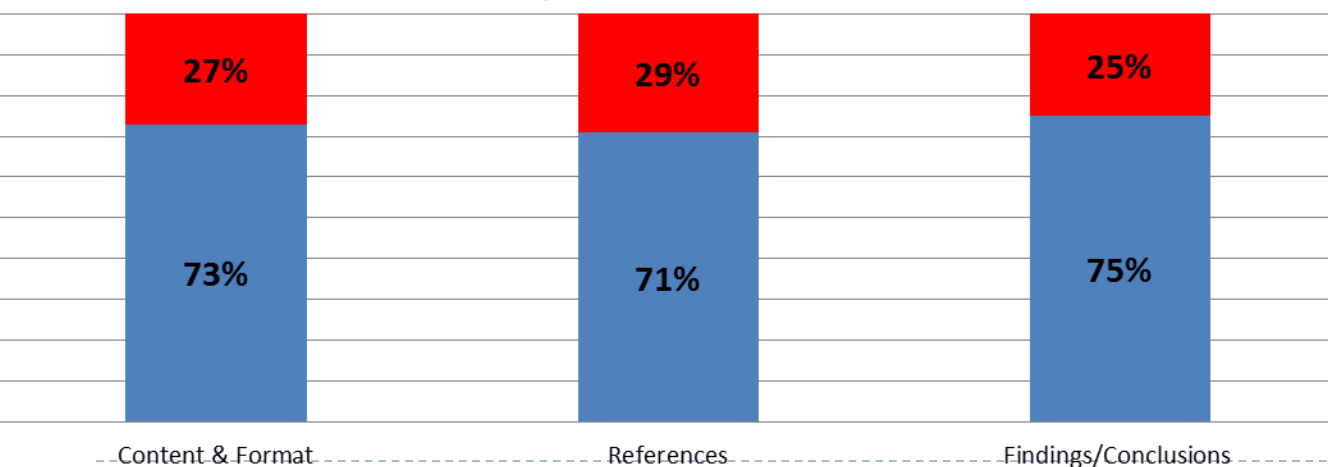
These two sectors seem the most dissatisfied on the tax audit reports.

3.3 Evaluation on the Clarity of the Tax Audit Report on sectoral basis

Hotels and Touristic Operators



Industry



Sectors with the most positive evaluation in relation to the clarity of audit report, in particular Industry Sector.

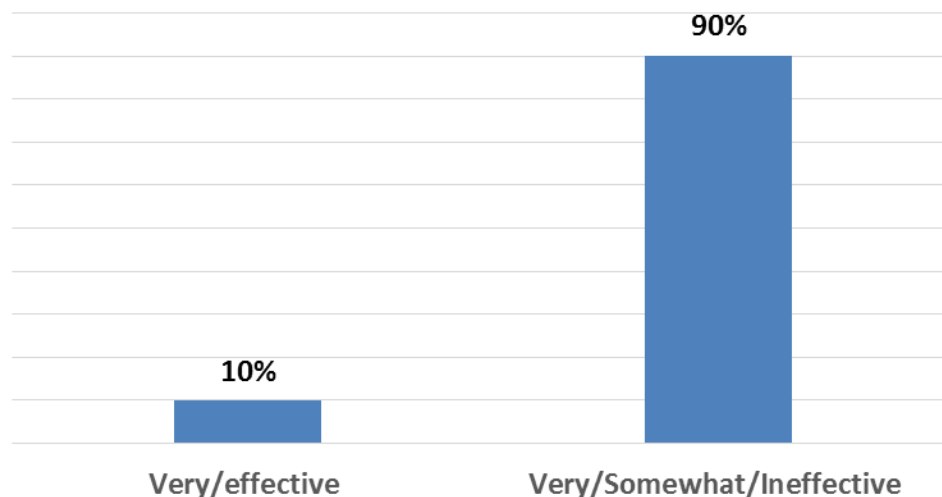
IV. Findings on the Effectiveness of the Tax Appeal

Big Enterprises

Have you undertaken any Tax Appeal Procedure in the last three years?



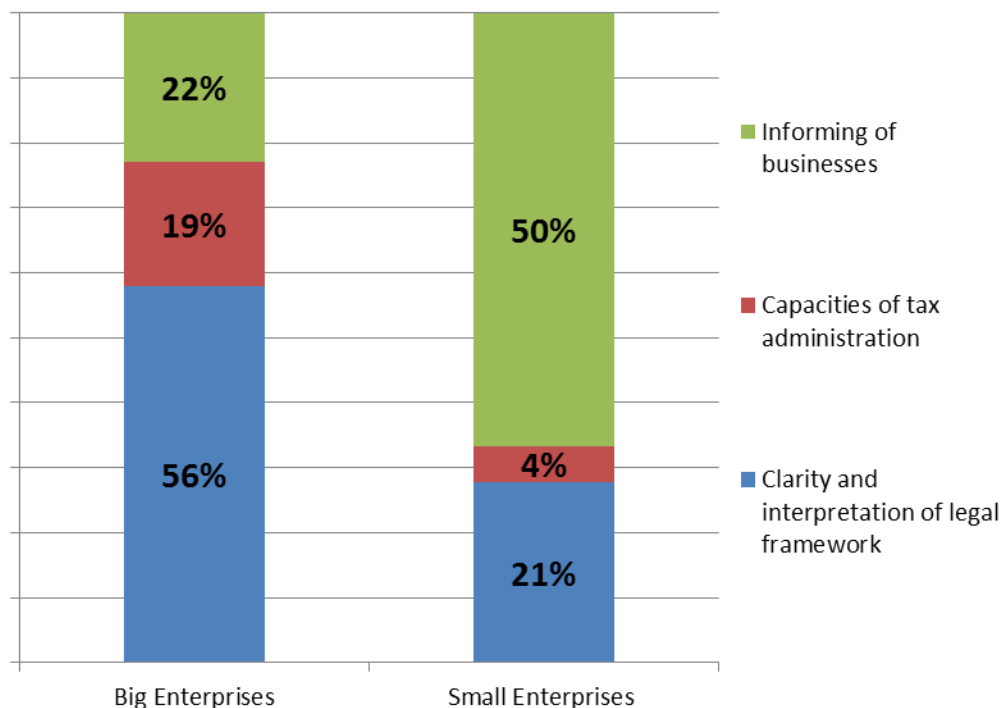
Effectiveness of the Procedure



Big Enterprises are the ones that have appealed. It is seen the highest level of discontent with the Tax Appeal Procedures

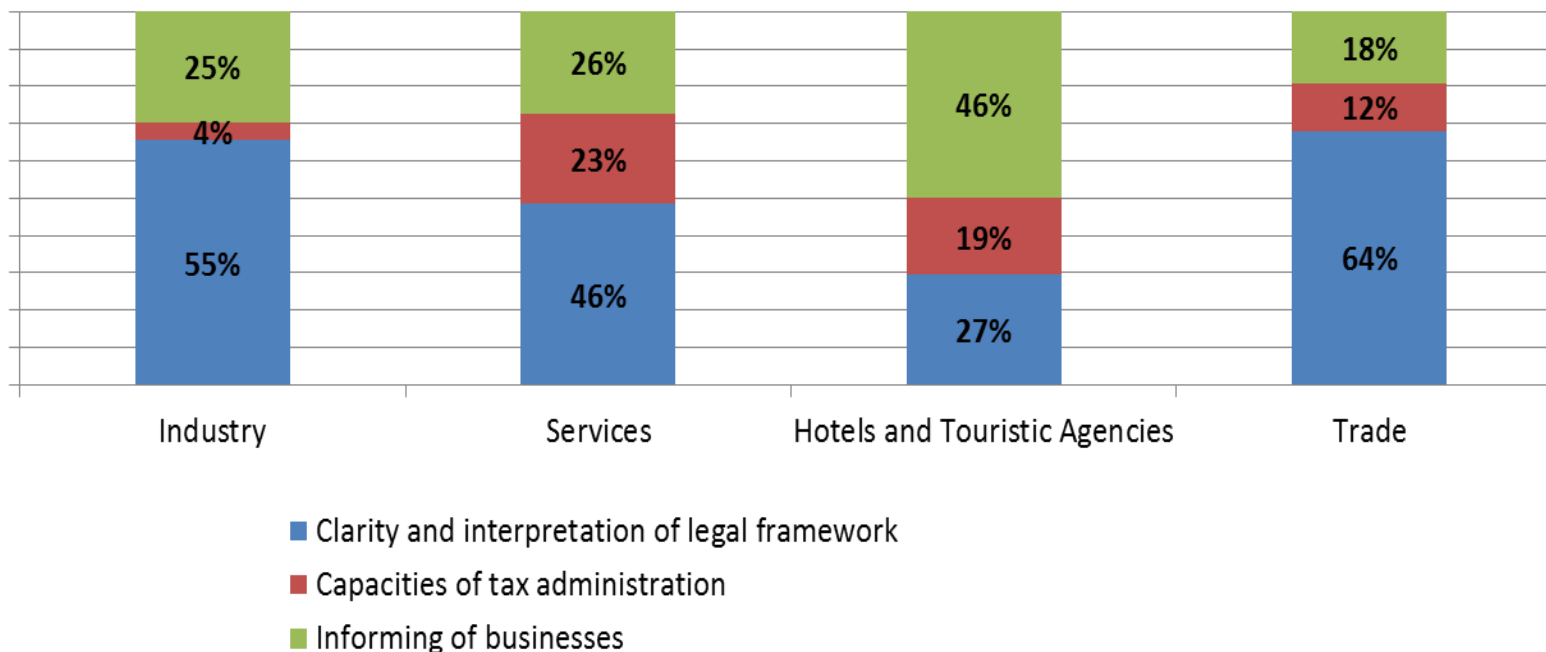
V. Findings on the Awareness Raising of Taxpayers

5.1 The Opinion of Small and Big Enterprises in relation to the Adequate Implementation of the Tax Legislation:



- Big Enterprises think that the adequate implementation of legislation is related mostly to the Clarity and Interpretation of the Legislation.
- Small Enterprises rank adequate information of businesses as the main factor that affects the proper implementation of tax legislation.

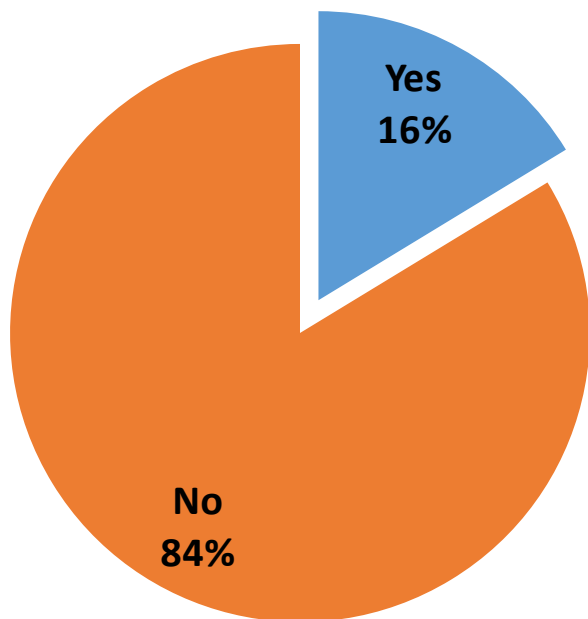
5.1 The Opinion about Adequate Implementation of Tax Legislation on sectoral basis



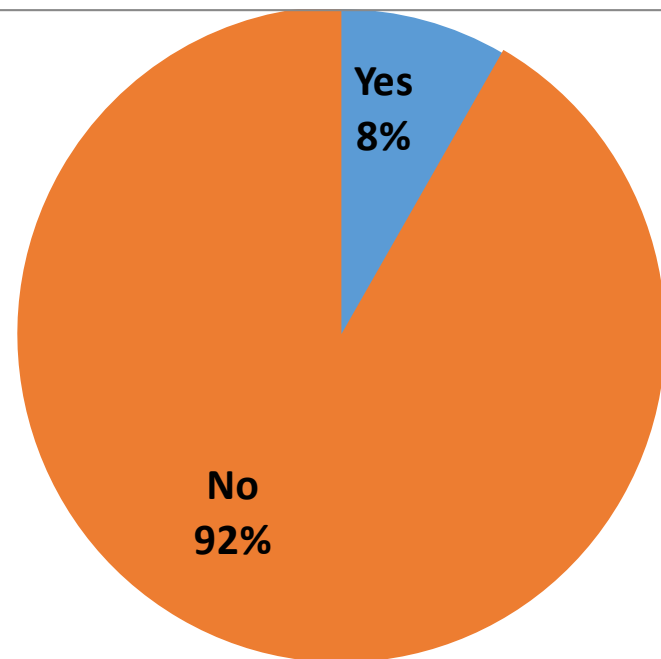
- The Clarity of Legislation and the relevant implementation of it are the most important factors for Industry, Trade and Services;
- Capacities of tax administration are evaluated to be important for ensuring the adequate implementation of the legislation in Services and Tourism;
- The adequate information on the legislation is considered an important aspect in particular for Tourism sector.

5.2 Opinion about the Training of Taxpayers according to the Size of Enterprises

Big Enterprises



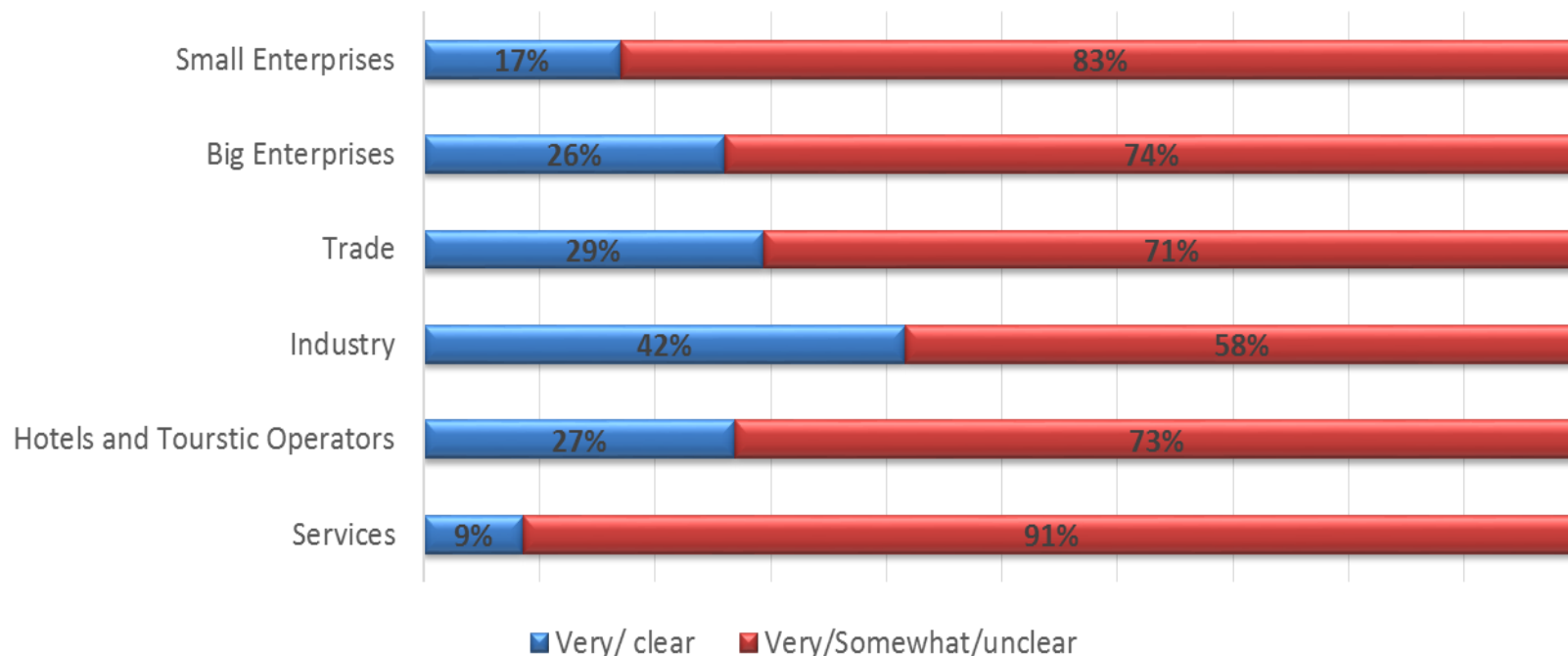
Small Enterprises



The trainings received by businesses are very few and by the comments received have been conducted mainly on the online declaration applied since January 2015.

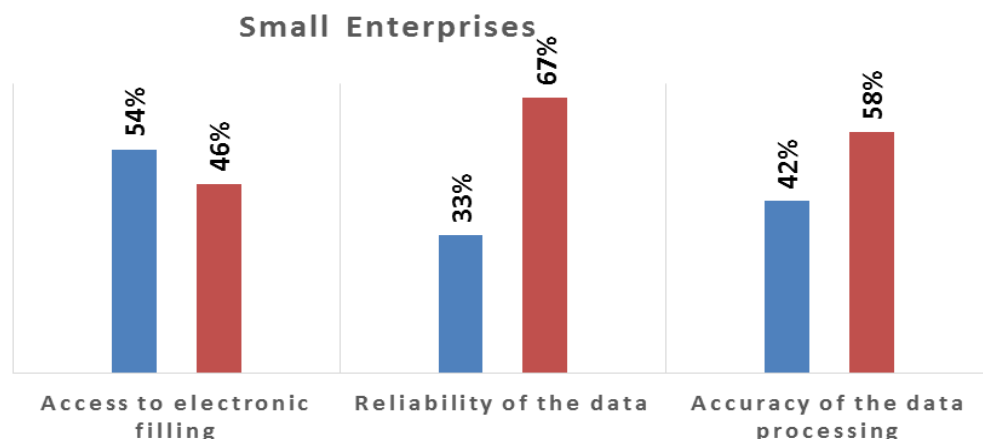
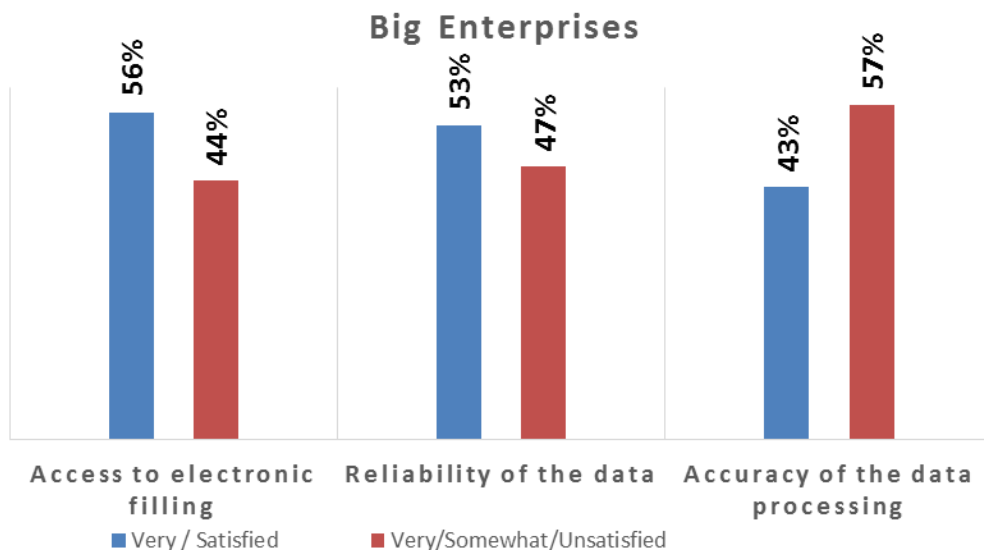


5.3 Evaluation on the Clarity of Explanations provided by the Tax Administration on the Legislation (per companies size and sector)



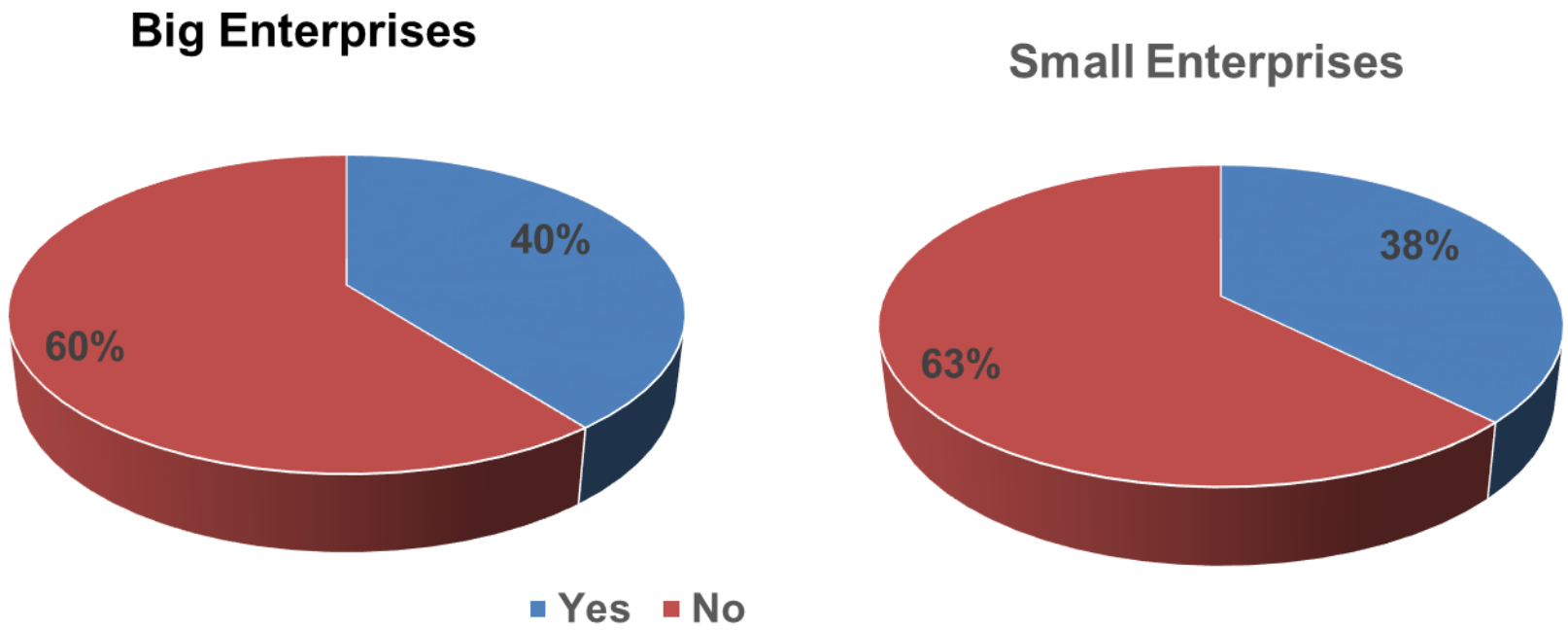
There is a general agreement by all respondents about lack of clarity on the explanations provided by the tax administration on tax legislation. **In particular more concerned seem to be service sector & small enterprises.**

5.4 Evaluation about Electronic Services Provided by Tax Administration



The evaluation is in general positive and more visible in respondents from big enterprises, who seem more satisfied.

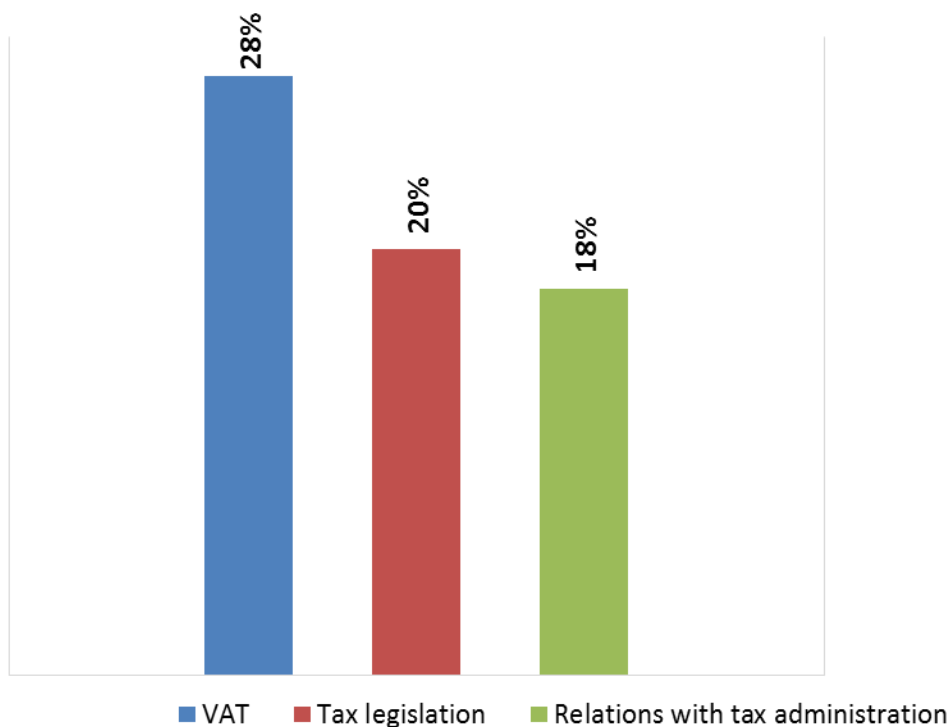
5.5 Information of Taxpayers on the new risk based selection system for tax audit



There seem to be some awareness on similar levels by big and small companies related to the application of the new risk based system for tax audit selection.

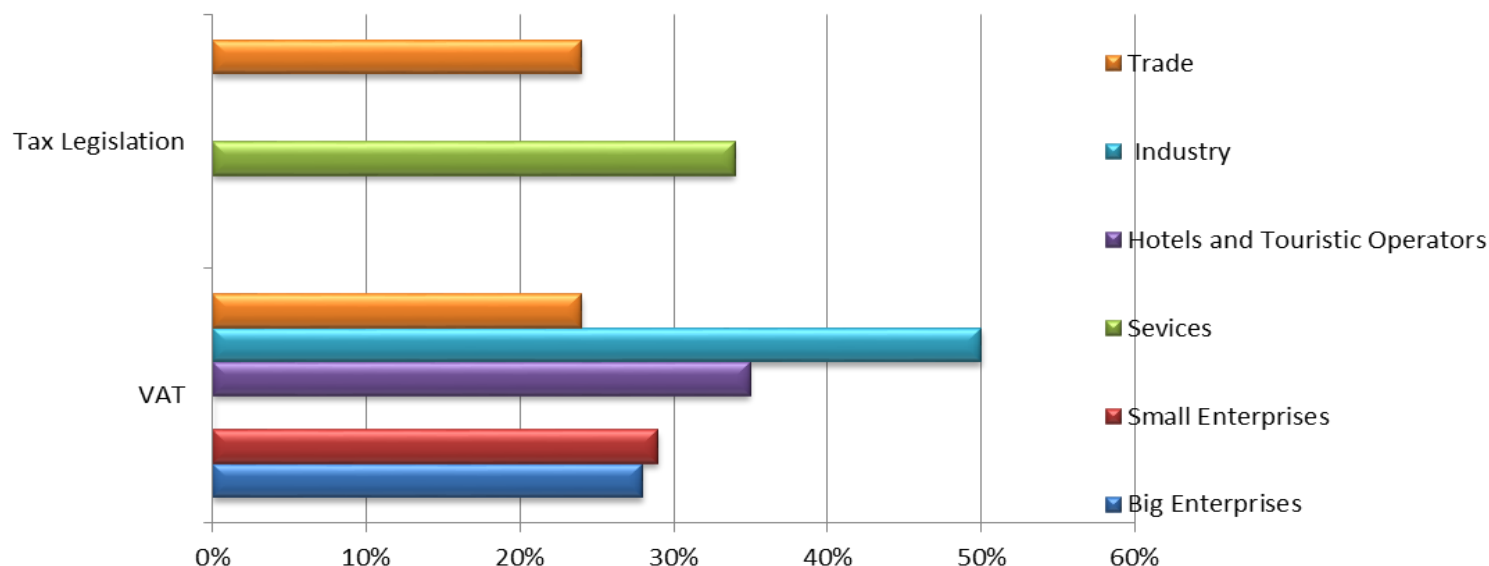


5.6 Perception of Businesses on the Most Important Factors Leading to Informal Activity



- VAT is perceived as the first most important factor leading to informality
- Followed by Tax Legislation
- Relations with Tax Administration are considered third on the importance to having an impact on informal activity.

5.6 Perception of the Business on the First Most Important Factor Leading to Informality



- VAT remains for most of the sectors as well as for small and big enterprises the first reason leading to an informal activity;
- Tax Legislation is another factor that is considered the first of importance by Service sector;
- In Trade sector it is found a similar evaluation from respondents for both VAT and Tax Legislation.

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- ▶ Summary of the comments arrived through the survey on various issues.

About the Appeal Directorate

- The taxpayer should be heard through organized meetings and not be penalized;
 - Long and tedious appeal procedures;
 - There is no sense to open a judicial process within directories;
 - Should be clear, friendly and explanatory;
 - Payment of the liability for the appeal process is an hindrance;
 - More independence of the Appeal Directorate;
 - Formal Tax Appeal;
 - TAD should be more professional in argumentation;
 - To be reorganized as a group for the settlement of disputes with the participation of lawyers, business representatives, judges.
-



On Formal & Informal Penalties

- The inspections seem to be made on a campaign, with a tendency to find something wrong and penalties are premeditated;
- Exorbitant penalties, not based on the law;
- The inspectors have no accounting skills;
- Absurd requests for the purpose of imposing penalties;
- **Special inspection procedures are requested for bars, restaurants & hotels;**
- Tax audits are based on a plan;
- Penalized the most correct companies;
- There is no will and structure to control the work of the inspectors;
- Based on the new system, there have been issued penalties to businesses that have not been even registered for that tax.



On Formal & Informal Penalties (continues)

- The higher the penalties imposed by the law, the more complex the law is for interpretation, leading to more negotiating powers to the inspectors for their own personal benefits;
- The laws should be simple and apprehensive;
- The formal penalties are based on various and non professional interpretations of the inspector, different from those of the company;
- Inconsistency in the administration's judgement;
- Penalties are issued at the maximum value although there is room for facilitating measures.



Suggestions for minimizing corruption practices

- The Audits should be executed by reputable subcontracted firms, and not from the tax authorities;
- The inspectors should be fair, professional and specialized
- Reduced contact with the inspectors;
- Companies to be considered as partners and not used for extortion;
- Tax audit should be monitored by cameras;
- Less people employed based on political affiliation; penalization of the corrupted inspectors;
- The auditing should be assessed afterwards by the companies through a questionnaire (aiming behavior & professional skills of the inspectors);
- Re-evaluation of the auditing reports.



Suggestions for minimizing corruption practices

- ▶ Tax procedures should be clear. No inspections out of working hours;
- ▶ More communication, more transparency with the business in the assessment of risk;
- ▶ Informatization, formalization and appointment of honest directors, professionalism, integrity;
- ▶ Motivation of inspectors through better financial reward;
- ▶ Reward correct businesses;
- ▶ Audits targeted to high risk companies enabling better use of the resources;
- ▶ Simplification of procedures to comply with tax rules;
- ▶ Clear tax legislation, to avoid ambiguity, published and accompanied with implementation practices.



About the Role and Support of the Taxpayers' Advocate

- ▶ Formal;
- ▶ Should be independent;
- ▶ Very important;
- ▶ Should play a role in the increase of transparency and communication in the improvement of trust;
- ▶ No awareness on the existence of the Taxpayers' Advocate;
- ▶ Playing a low role and support;
- ▶ No active role, should be closer to the taxpayers;
- ▶ The opinion of the TA should be heard when drafting laws or in judicial cases.



About the information sources on tax legislation

- ▶ Unclear interpretations
- ▶ The Technical Directorate at GTD quite often does not reply to the requests for interpretation. Even when it does, it only provides legal references, but no interpretation of the law;
- ▶ Legal amendments should be sent to the businesses via e-mail;
- ▶ Information is obtained from the GTD website and accounting experts;
- ▶ Information is obtained from the Official Publications Center, the update of the GTD website is done on delay;
- ▶ The GTD website should contain all the interpretations made to certain cases, to be applicable by the taxpayers.



Other issues

- ▶ Leave some time to the business to become formalized
- ▶ To remove the reference prices, to acknowledge the invoices of imported goods from the EU, and transport invoices;
- ▶ Acknowledgement of VAT for small businesses;
- ▶ Acceleration of bankruptcy proceedings;
- ▶ Informatization at maximum and reduction of deliberate audits;
- ▶ There is irresponsibility in the relationships with the business;
- ▶ Unqualified people;
- ▶ Removing the classification of businesses based on the turnover;
- ▶ Simplify the laws, inspectors training, investigate informality and unregistered businesses, reward the honest taxpayers.

