SURVEY FINDINGS
“ON SOME ASPECTS OF THE INVESTMENT CLIMATE”

INVESTMENT COUNCIL MEETING XV
29 JANUARY 2019
I. Introduction
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III. Findings & Recommendations
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I. INTRODUCTION

Objective of the Survey:
Identify main business concerns reported during 2015-2018 IC Surveys, with focus:
- Tax Inspection and Relations with Tax Administration
- Informality
- VAT Refund

Methodology:
- Anonymously completed online survey / structured questionnaire
- Published in Albanian and English on the IC website (July-September 2017, July-September 2018)
- Sent by e-mail to approximately 1,000 business addresses, randomly selected from the database with 10,357 companies, created by official sources - NBC, GTD and IC 2015-2018 consultation database
- The sample was prepared to be representative at national level, in line with the distribution of businesses by sector and region
- Contact by phone about 1,000 businesses. 350 companies responded to the survey with a "response rate" of 70%
- Collaboration with EPOKA for business awareness, clarification of questionnaire and questions
- Data processing was carried out by the IC Secretariat, using SPSS
II. PROFILE OF SURVEYED COMPANIES

Distribution of Businesses per Sector

<table>
<thead>
<tr>
<th>Sector</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry/manufacturing</td>
<td>5%</td>
<td>18%</td>
</tr>
<tr>
<td>Construction</td>
<td>5%</td>
<td>11%</td>
</tr>
<tr>
<td>Trade</td>
<td>12%</td>
<td>39%</td>
</tr>
<tr>
<td>Services</td>
<td>72%</td>
<td>47%</td>
</tr>
</tbody>
</table>

Businesses as per Annual Turnover

<table>
<thead>
<tr>
<th>Turnover</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 5 Mio ALL</td>
<td>40%</td>
<td></td>
</tr>
<tr>
<td>5 – 8 Mio ALL</td>
<td>17%</td>
<td></td>
</tr>
<tr>
<td>Over 8 Mio ALL</td>
<td>41%</td>
<td></td>
</tr>
</tbody>
</table>

Classification as per Ownership

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>No response</td>
<td>27%</td>
<td>7%</td>
</tr>
<tr>
<td>Local</td>
<td>62%</td>
<td></td>
</tr>
<tr>
<td>Foreign</td>
<td>10%</td>
<td>18%</td>
</tr>
</tbody>
</table>
II. FINDINGS
A balanced distribution in the typology of tax audits is noticed in 2018 compared to 2015.

2017/2018 increased the number of tax audits and decreased the number of tax inspections.

The number of on-sight inspections has been significantly reduced for large businesses compared to 2015-2016, while we have increased controls.
III. Tax Audit – as per Sectors

The ways of controlling compliance with fiscal obligations are diversified by sectors

Trade and industry dominate fiscal visits

The services have a balanced distribution between fiscal visits, controls and inspections
Businesses report improved professionalism and clarity of documentation prepared by tax inspectors on average level.

There is still room for improvement, 64% of businesses think inspectors are professional.
During 2018, improvements observed in VAT refunds in 2017 have not been stable, reimbursements only after tax audits and those that last more than 30 days have increased compared to 2017.
III. Has the VAT reimbursement affected the decision of the exporters to invest?

Only 16% of exporting companies have stated that delays in VAT reimbursement have affected their investment decision. Companies rely less on VAT refunds in their investment decision-making.
The clarity and accuracy of business information by the tax authority has been steadily improving over the period 2015-2018.
III. Business awareness on the risk system and training provided by Tax Administration

The level of business awareness on the risk system has decreased during 2018. The degree of business awareness and training related to the risk system for the identification of legal non-compliance has been declining.
III. Assessment on the satisfaction of electronic tax services

Businesses report increased satisfaction levels regarding electronic tax services for 2018, compared to 2015 and 2017.
III. Do you encounter informal competition in the sector where you operate and how does it appear?

The informality rate perceived by the business as competition from informal activity in the sector is characterized by a negative trend.

Informality has decreased by 14% over the period 2015-2018.

The decline in informality is characterized by a reduction in fiscal evasion.

Corrupt practices remain a very sensitive business problem.
Only 12.1% of businesses stated in 2018 that they have a strategy to reduce unregulated economic activity.

Reducing informality has also been reflected in lowering the number of businesses that have formalization strategies in 2018 compared to 2015.
III. Tax Appeal, September 2017 - June 2018

Only 16% of companies have appealed the tax inspection decision; of those who appealed the decision, 89% sent a decision for administrative prosecution to the Directorate of Appeals (93% of the cases) or the CRTA (7% of the cases). Appeal decisions in 71% of cases were in favor of tax administration; 61% of companies do not agree with the decision; of those who disagree only 35% are addressing the issue to the court.
### III. Factors which promote informality – Survey 2018

<table>
<thead>
<tr>
<th>Factor</th>
<th>Not at all important</th>
<th>Unimportant</th>
<th>Somewhat important</th>
<th>Important</th>
<th>Very important</th>
</tr>
</thead>
<tbody>
<tr>
<td>Complexity of tax legislation</td>
<td>3%</td>
<td>6%</td>
<td>18%</td>
<td>48%</td>
<td>25%</td>
</tr>
<tr>
<td>Implementation in practice of tax legislation</td>
<td>3%</td>
<td>9%</td>
<td>14%</td>
<td>51%</td>
<td>28%</td>
</tr>
<tr>
<td>Fiscal burden – Personal Income Tax/Profit Tax/VAT</td>
<td>1%</td>
<td>9%</td>
<td>9%</td>
<td>50%</td>
<td>39%</td>
</tr>
<tr>
<td>Fiscal Burden - Local taxes and fees</td>
<td>1%</td>
<td>1%</td>
<td>2%</td>
<td>45%</td>
<td>38%</td>
</tr>
<tr>
<td>Tax Inspections</td>
<td>2%</td>
<td>18%</td>
<td>2%</td>
<td>49%</td>
<td>29%</td>
</tr>
<tr>
<td>Relationships with Tax Administration</td>
<td>1%</td>
<td>17%</td>
<td>4%</td>
<td>52%</td>
<td>26%</td>
</tr>
<tr>
<td>Unfair Competition</td>
<td>1%</td>
<td>1%</td>
<td>4%</td>
<td>52%</td>
<td>52%</td>
</tr>
<tr>
<td>Compliance with legal compliance</td>
<td>0%</td>
<td>20%</td>
<td>50%</td>
<td>28%</td>
<td>28%</td>
</tr>
<tr>
<td>Level of Corruption</td>
<td>0%</td>
<td>7%</td>
<td>39%</td>
<td>53%</td>
<td>53%</td>
</tr>
</tbody>
</table>

**Factors that promote informality:** Unfair competition, corrupt business practices, the fiscal burden caused by rising local taxes and fees.
IV. CONCLUSIONS

During 2018, compared to 2015, mechanisms for enforcement of compliance with fiscal management liabilities have been balanced and adapted to sector specifics and risk levels.

Improvements noted during 2015 in the fiscal system should be ensured through sustained improvement in the trend of inspectors' professionalism and business communication.

Informality after many efforts and government policies has entered a downward trend, this is a positive momentum for strengthening the mechanisms of formalizing the economy.

Corrupt practices and fiscal burdens, especially the growth of fiscal burden at the local level, remain a concern to the business in its efforts to formalize.

Communication with the business and its on time information on the procedural and legal changes is VERY DYNAMIC and lately it remains a determining factor in the improvement on investment climate and doing business.

Meanwhile, according to MoF, the level of VAT reimbursement in value has increased, the reimbursement rate of small companies is perceived to fall in 2018. Perhaps it is a moment to reflect on the balance between reimbursement of major projects, the ratio between applications and the level of reimbursement of small enterprises?
THANK YOU!

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