



Albania
Investment
Council

Improving Transparency and Investment Climate

**FINDINGS OF THE SURVEY
ON SOME ASPECTS OF THE INVESTMENT
CLIMATE**

SECRETARIAT OF ALBANIA INVESTMENT COUNCIL

DECEMBER 2017

Agenda

- ▶ I. Introduction
- ▶ II. Profile of responding companies
- ▶ III. Findings on:
 - ▶ Tax Inspection
 - ▶ VAT Refund
 - ▶ Relations with Tax Administration
 - ▶ Informality
 - ▶ Business Climate
- ▶ VI. Summary of Comments and Suggestion from the Business
- ▶ V. Recommendations and Conclusions



I. Introduction

▶ **Object of the Survey:**

- ▶ Identify the progress on some main business concerns related to some aspects of investment climate, specifically focusing on:
 - a. **Tax Inspection and Relations with Tax Administration**
 - b. **Informality**
 - c. **VAT Refund**
- ▶ Compare some of the findings with previous Secretariat's surveys on these issues.

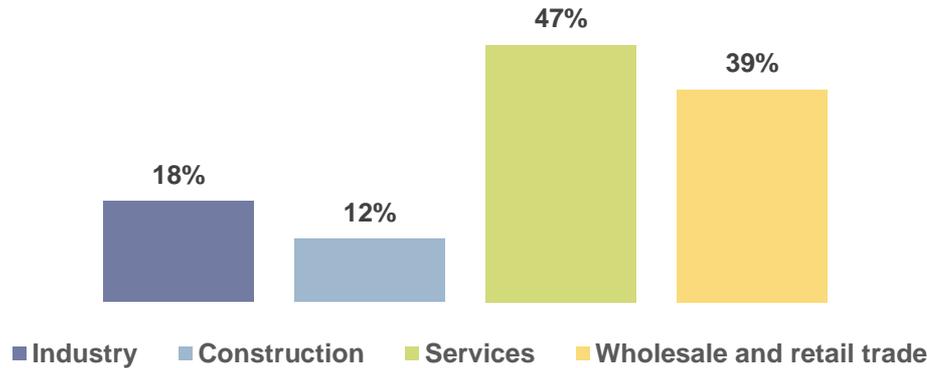
▶ **Methodology:**

- ▶ Online anonymous surveys filled in randomly by 146 businesses
 - ▶ Semi-structured questionnaire
 - ▶ Published in Albanian and English on the website of IC and Epoka University (July-September 2017), and advertised respectively on social media (FB, Twitter)
 - ▶ Link of the survey sent by e-mail to 8,000 companies (list received from NBC, GTD, Epoka University), contacted by phone around 1,000 companies.
 - ▶ Collaboration with EPOKA on raising business awareness, assistance in statistical processing and data validation.
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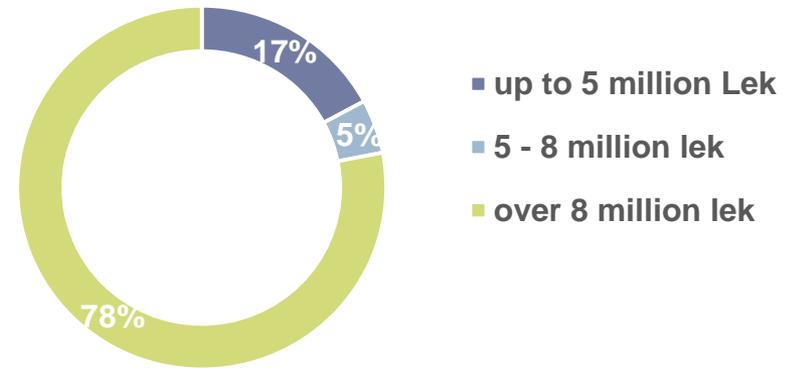


II. Profile of Responding Companies

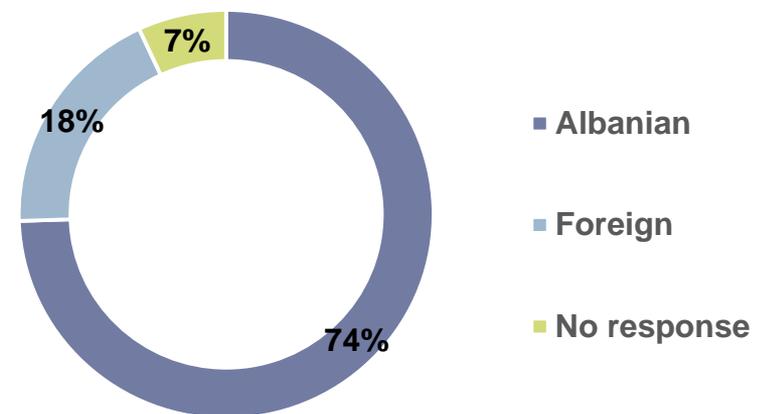
Representing Sectors in the Survey



Size of the Business

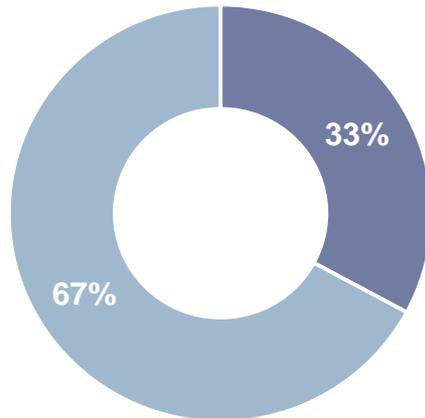


Ownership



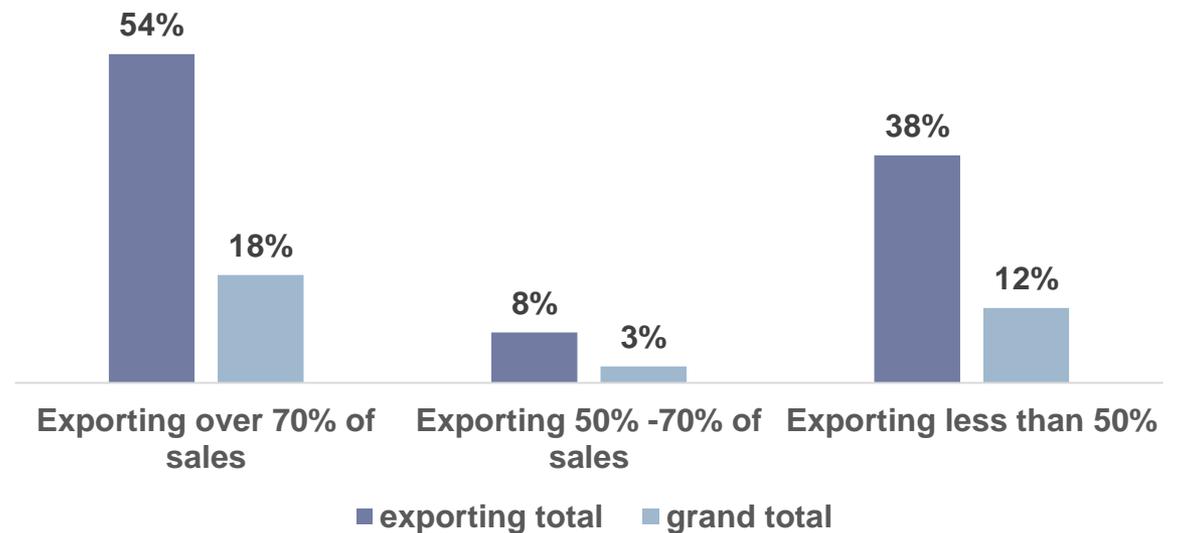
II. Profile of Companies - Exporters

Are you an exporting company?



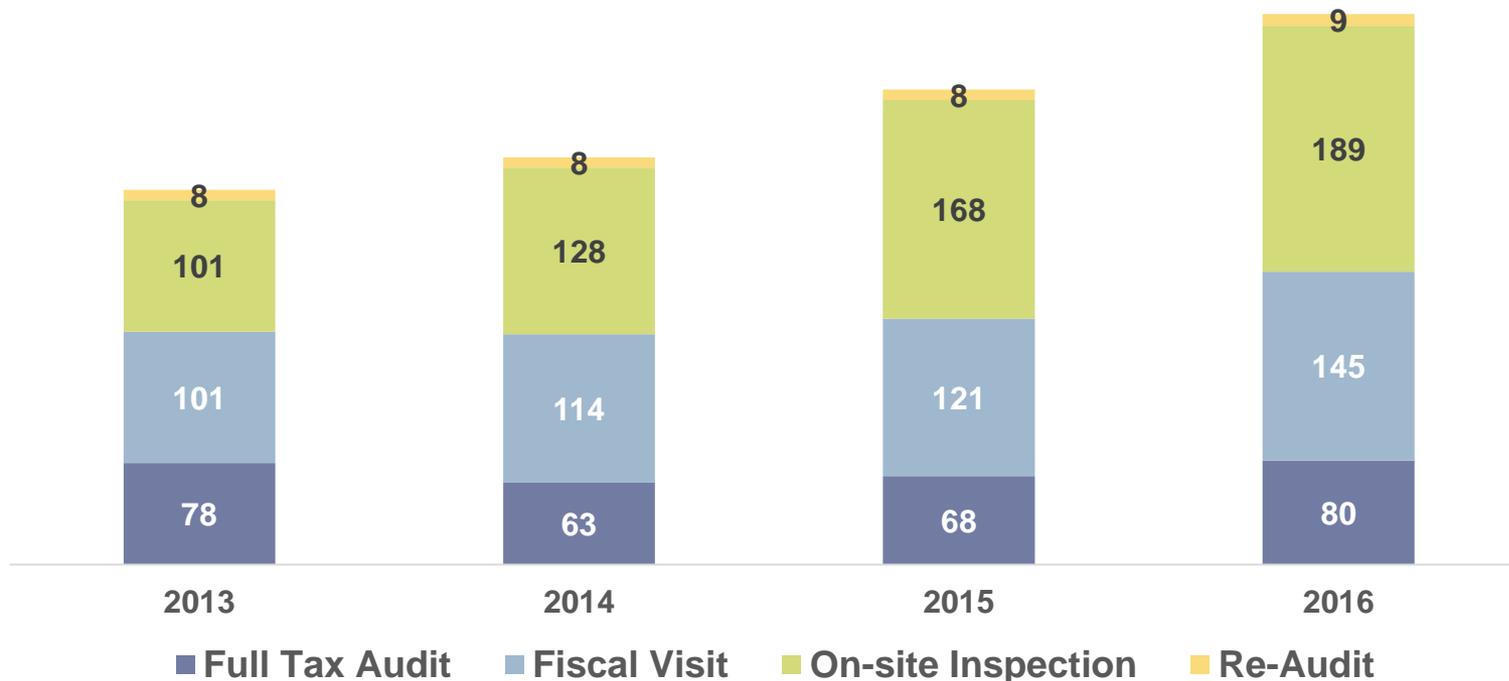
■ Yes
■ No

Profile of exporting companies



III. Tax Inspection – Types and Frequency of Tax Inspections (2013-2016)

Nature of Tax Inspections

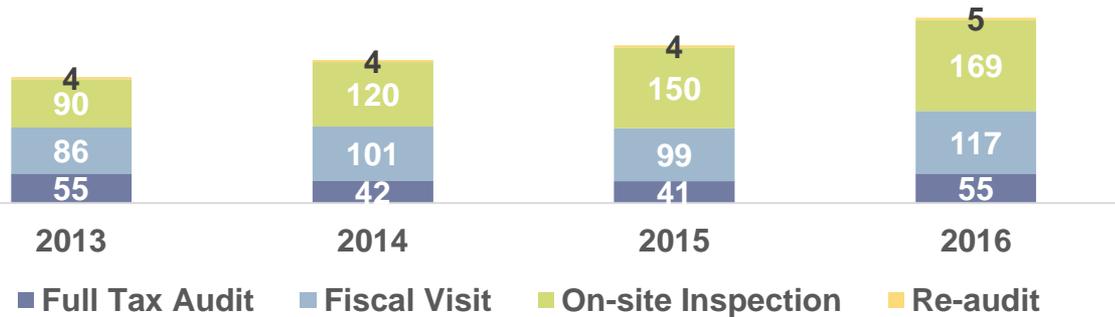


A slight increase in the number of inspections during 2016, mainly in Fiscal Visits and On-site Inspection.



III. Tax Inspection – as per Business Size and Sector

**Businesses with turnover over 8 million
- Nature of Tax Inspection**



Businesses with annual turnover over 8 million ALL have experienced an increase in the number of tax inspections during 2016

Trade - Nature of Tax Inspection

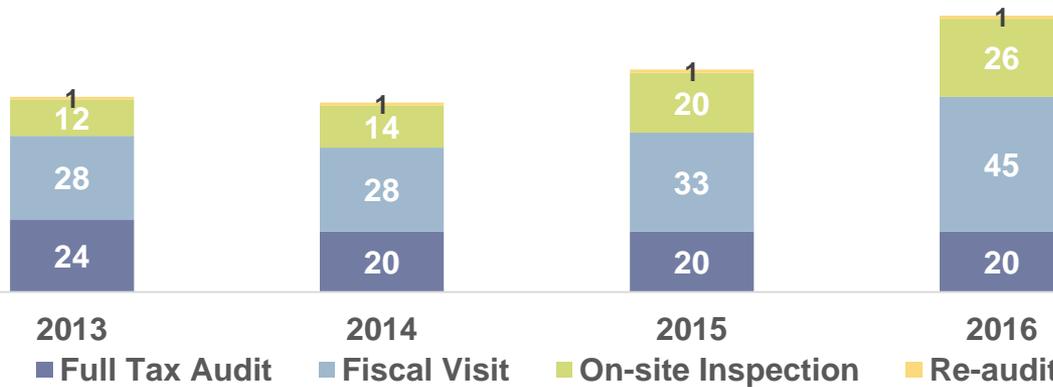


Meanwhile the sector which has had the biggest number, especially of on-site inspections is Trade.

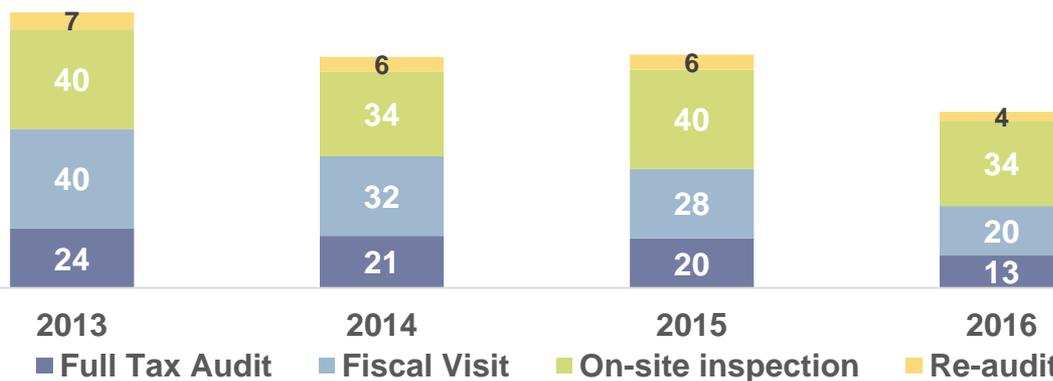


III. Tax Inspection – Sector of Services and Industry

Services - Nature of Tax Inspection



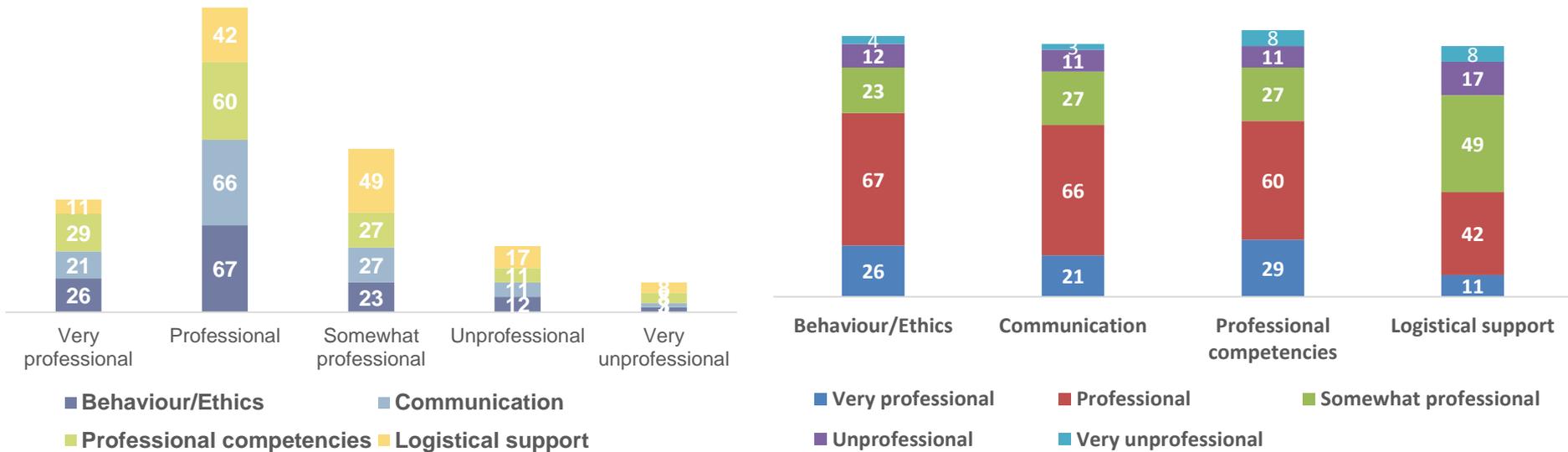
Manufacturing Industry - Nature of Tax Inspection



Services have experienced a high number of inspections, such as fiscal visits and on-site inspections, in contrast to manufacturing industry where it is being reported a considerable decline of them. This tendency of inspections is perhaps in line also with the risk policies declared by the Tax Administration.



III. Tax Inspection – Professionalism of Tax Inspector (2017)



There is a prevailing assessment for “professional” in the aggregate of all criteria. The criterion that has been assessed as “non professional” remains “logistical support”. Behaviour/ethics and communication are among some elements of professionalism assessed more positively.



III. Tax Inspection – Professionalism of Tax Inspector: Comparative assessment 2015 - 2017

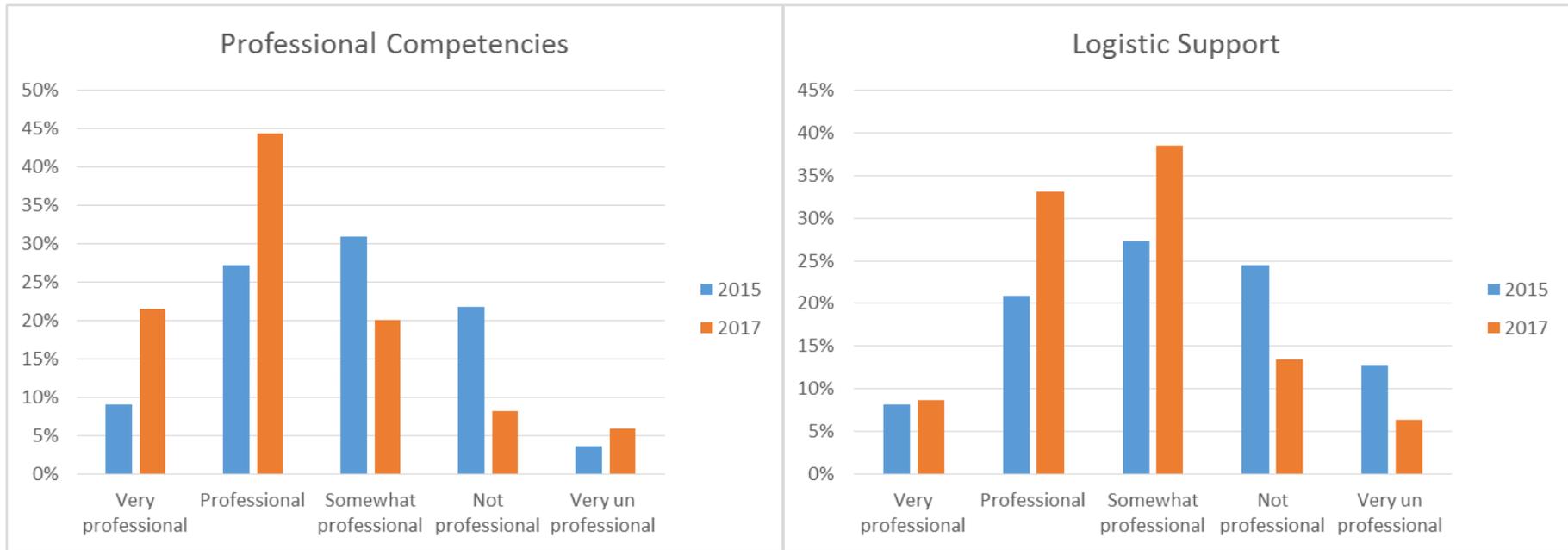


Note: t-test result on the differences between two years are significant at 5% significance level

There is an noticeable increase in the “professional” assessment of business relations with tax inspector, especially in terms of **ethics** and **communication**.



III. Tax Inspector – Comparative assessment on Tax Inspector

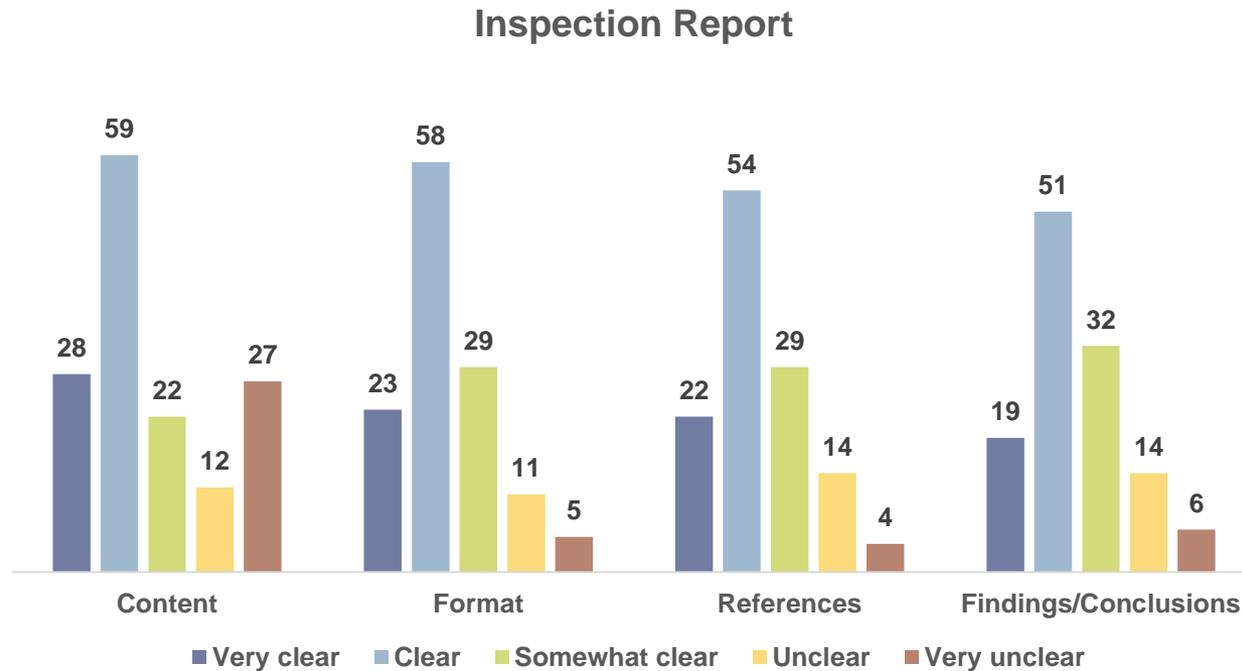


Note: t-test result on the differences between two years are significant at 5% significance level

It remains at low levels although with a slight increase the assessment for logistical support of inspectors by pertinent institutions. Although in improvement, again it is debatable the professional preparation as there is an increase in the extreme rating of “very unprofessional”.



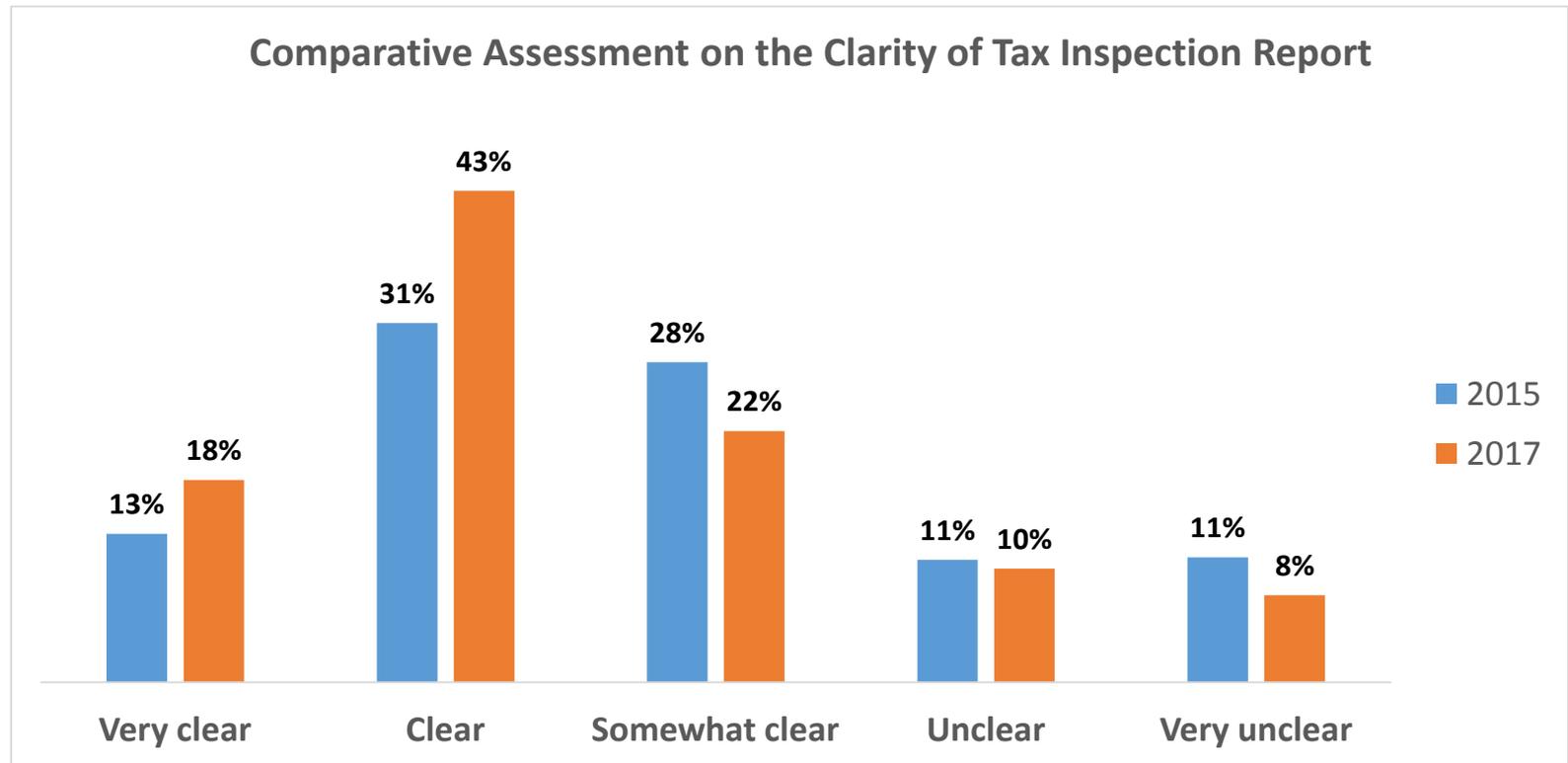
III. Tax Inspection - Assessment on the Clarity of Tax Inspection Report - 2017



In general, there is a tendency of positive assessment on the clarity of report on all considered elements. There is a fluctuation between the rankings of “very unclear” and “somewhat clear” being noticed at elements of “content of the report” and “findings/conclusions”.



III. Tax Inspection – Comparative Assessment on the Clarity of Tax Inspection Report



On average there is a noticeable improvement on the clarity of tax inspection report in the Survey 2017 compared to Survey 2015. The assessment on “Clarity of the report” has increased in all the considered elements of tax inspection report (content, format, references, findings and conclusions).

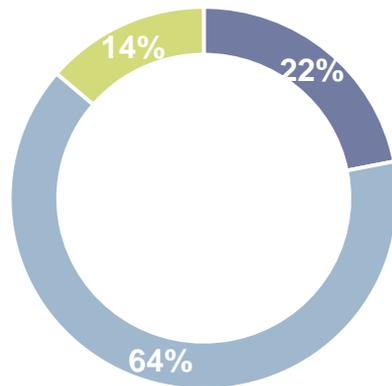


We may conclude:

- ▶ **Changes** in the nature of inspections – increased number of inspections, mainly at businesses with turnover over 8 million ALL, but, more **fiscal visits** and onsite inspections rather than full audits.
- ▶ This growth is more sensitive in the **sector** of Trade, meanwhile in the Industry there is a consolidating decline.
- ▶ Significant increase in the assessment of **quality** of the audit report, as well as the **behavior and ethics** of the inspector.

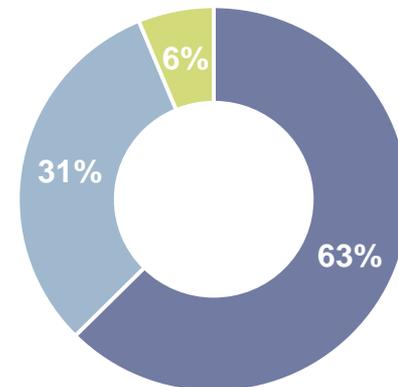
III. VAT Refund – Profile, 2017

Have you applied for VAT refund?



■ YES ■ NO ■ No response

Object of VAT refund



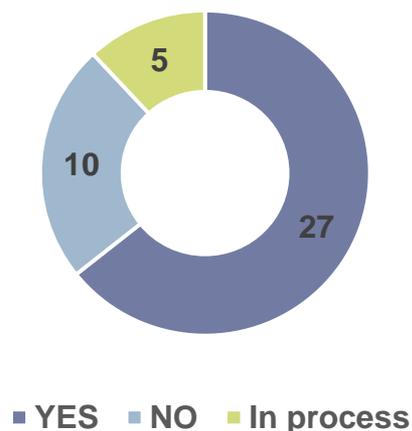
■ Export ■ Invesment ■ Other

22% of respondents have applied for VAT refund.

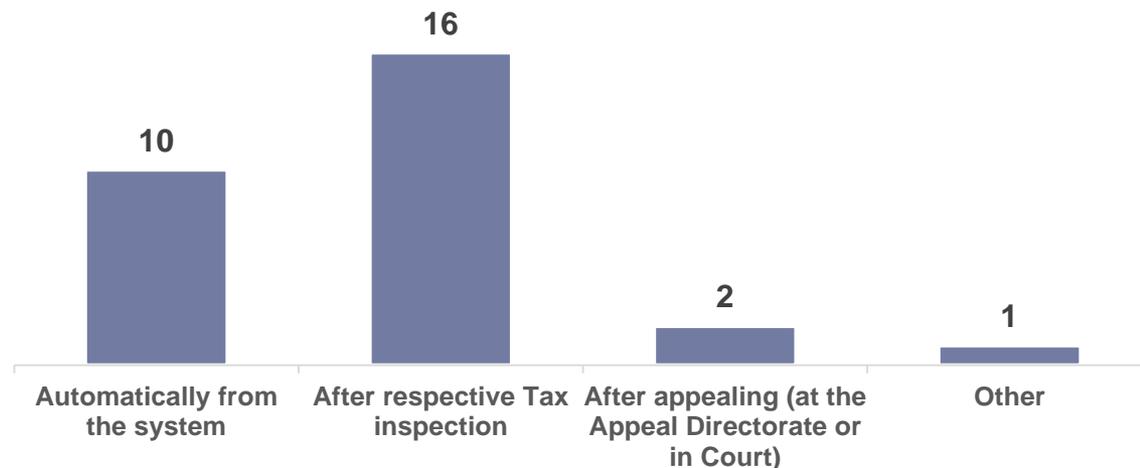


III. VAT Refund – Procedure in VAT Refund, 2017

Have you ever obtained VAT refund?



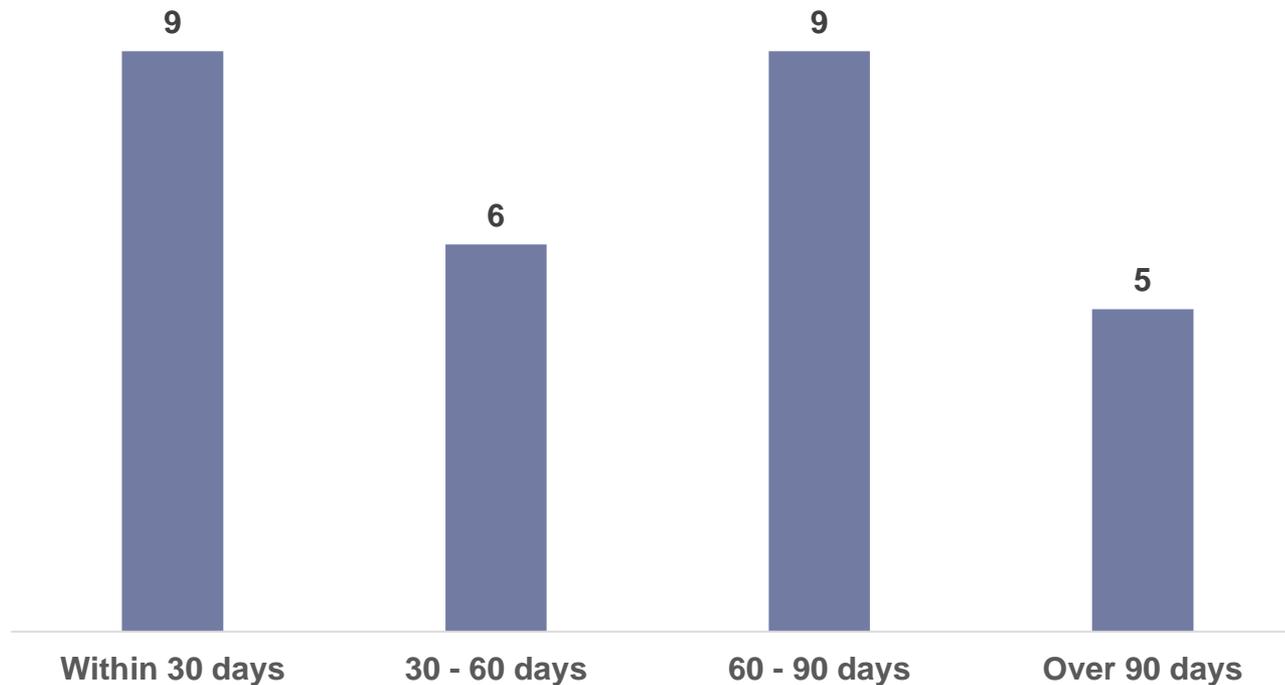
If yes, VAT refund obtained:



In the Survey, 27 companies (15 companies of which, exporting over 70% of their sales) have answered that they have obtained VAT refund, meanwhile 10 companies declared automatic refund. There is an increase in the number of cases refunded automatically and without inspection from tax administration, compared to the IC Survey 2016 (reported only 2 cases). There is a consolidation toward automatic refund, although more cases are needed to be confirmed by the companies exporting over 70% of sales.



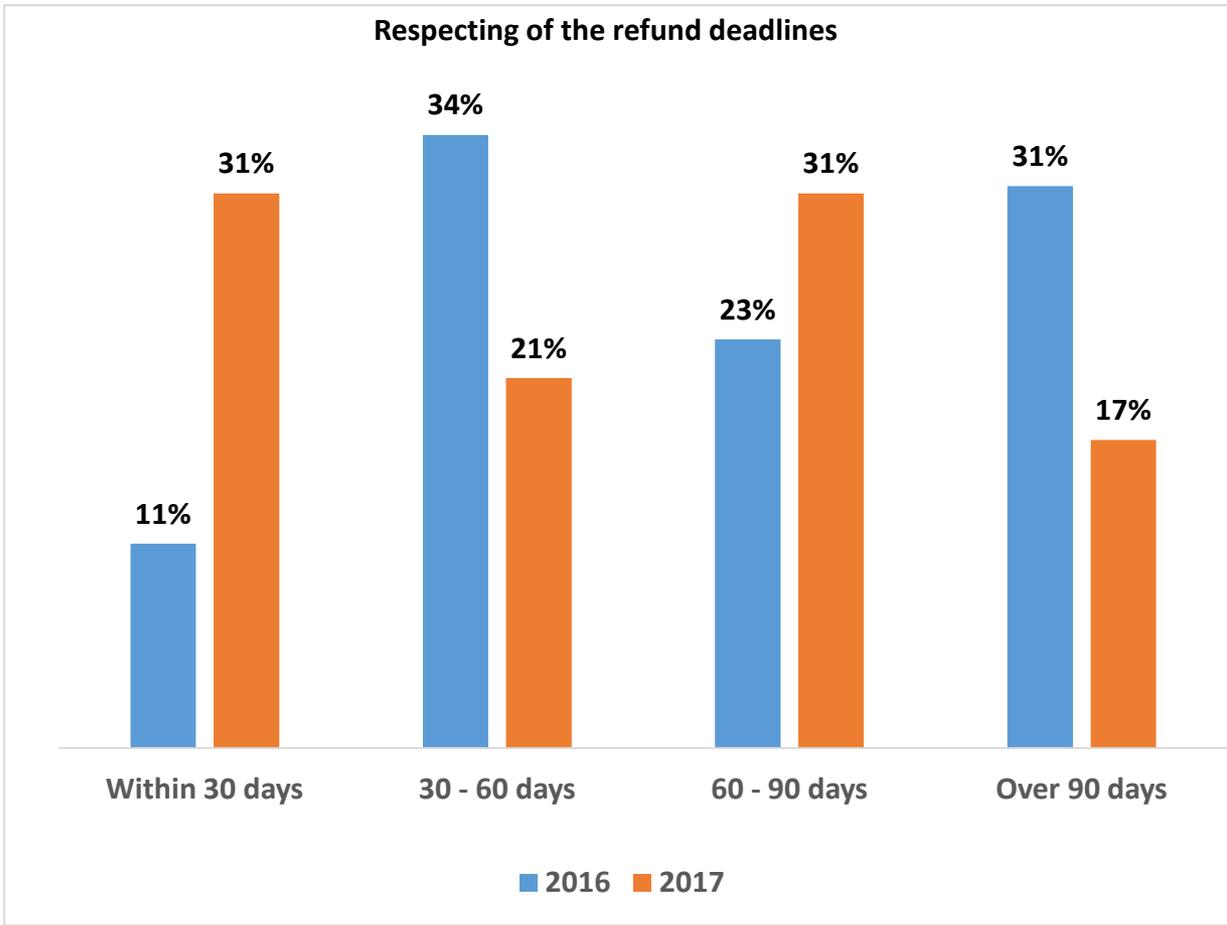
III. VAT Refund – Time duration, 2017



52% of businesses reporting in the survey to obtain VAT have received it within 60 days (the legal deadlines). Meanwhile, have been reported cases (5 cases in the Survey) when deadlines exceed 90 days.



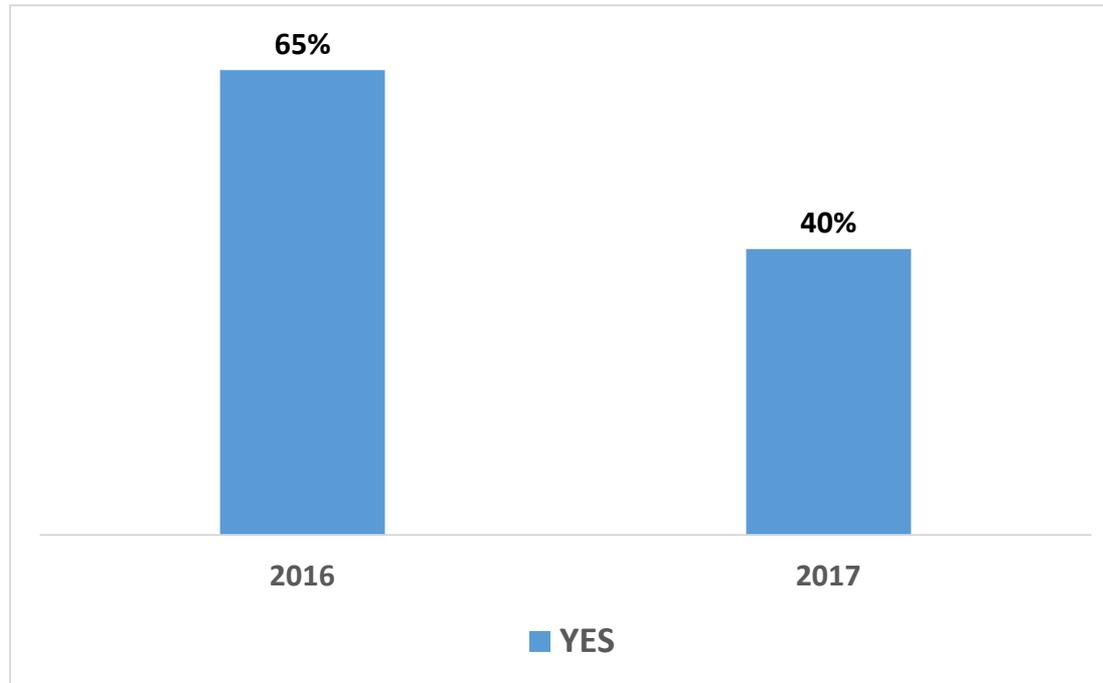
III. VAT Refund – Comparison on the respecting of deadlines



Meeting the deadlines remains a challenge for the tax administration. However, it is noted an increase in the number of refunds within 30 days and a decrease in the number of refunds over 90 days. In the Survey and in direct meetings held, companies claim sporadic cases when tax audits have been performed after the automatic refund.



III. VAT Refund - Does the VAT refund process affect the exporters in the decision to invest?



In 2017, in regards to VAT refund, exporting companies seem less affected in their decision to invest, compared to the feedback received for this category in the IC Survey 2016.

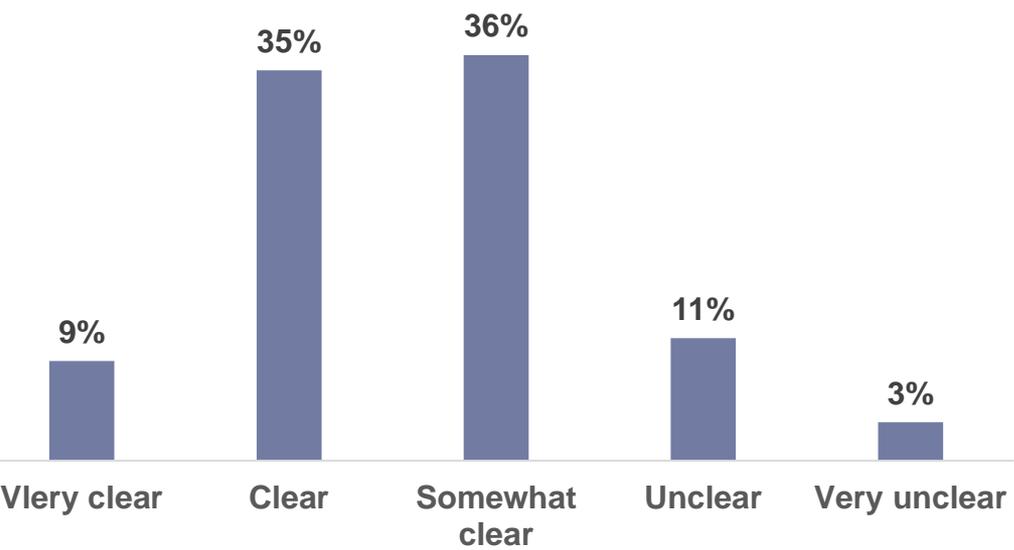


We may conclude:

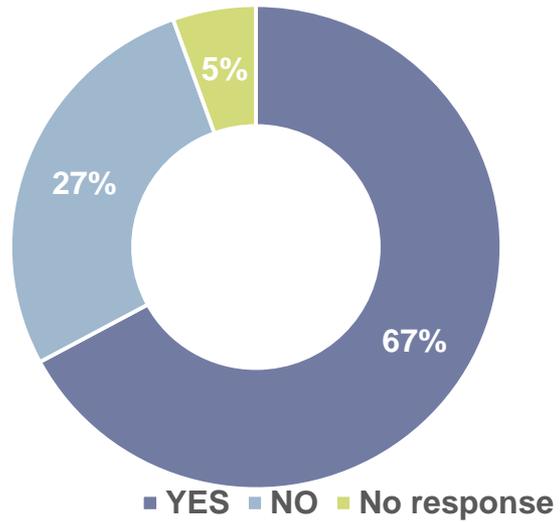
- ▶ A slight decrease in the reported number of companies which have received VAT, but an increase in obtaining it **automatically**, or after **the appeal**.
- ▶ Significant improvement in meeting the VAT refund deadlines, where the number of refunds has increased considerably within 30 days but **deadlines remain a concern for the parties**, while there are still reported cases which exceed 90 days.
- ▶ In 2017, exporters state **in average an improvement in the Refund Deadlines**.

III. Relations w/Tax Administration – Clarity of information and awareness on risk system, 2017

Clarity of Information by Tax Administration



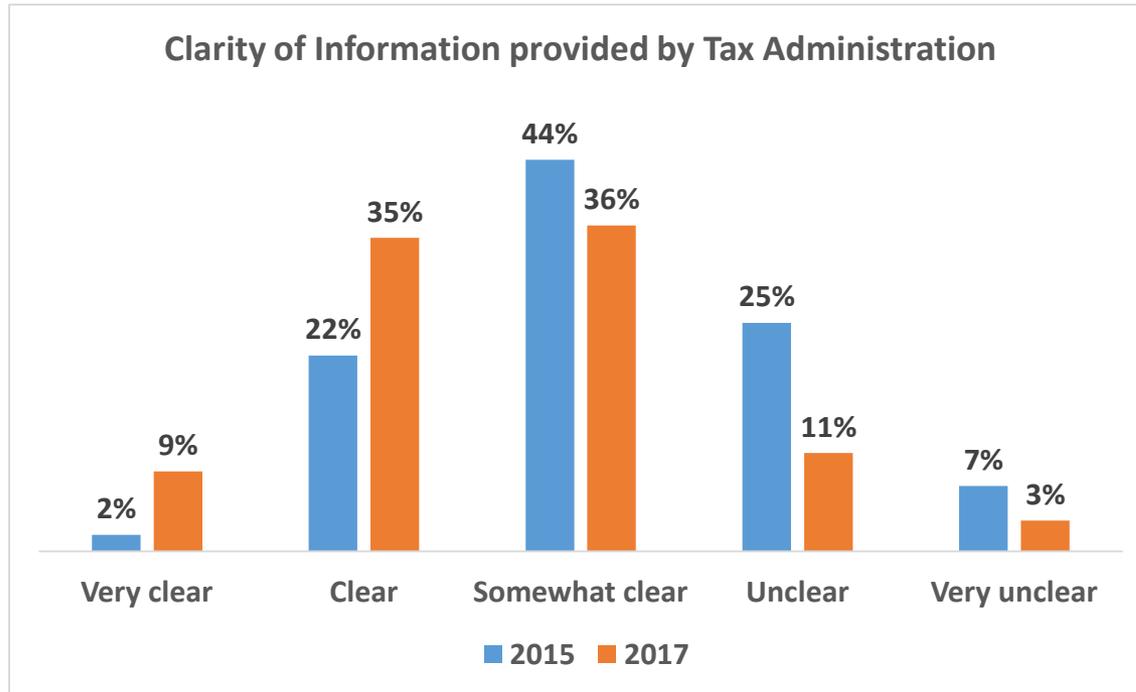
Awareness for the selection based on risk system



In their assessment, companies are in majority between “clear” and “somewhat clear” for the information provided by tax administration on legal framework. There are comments by companies that tax administration in many cases when asked clarification for interpretations, it only cites legislative acts. Meanwhile, the awareness on the application of risk system in the selection for tax audit is really high among taxpayers.



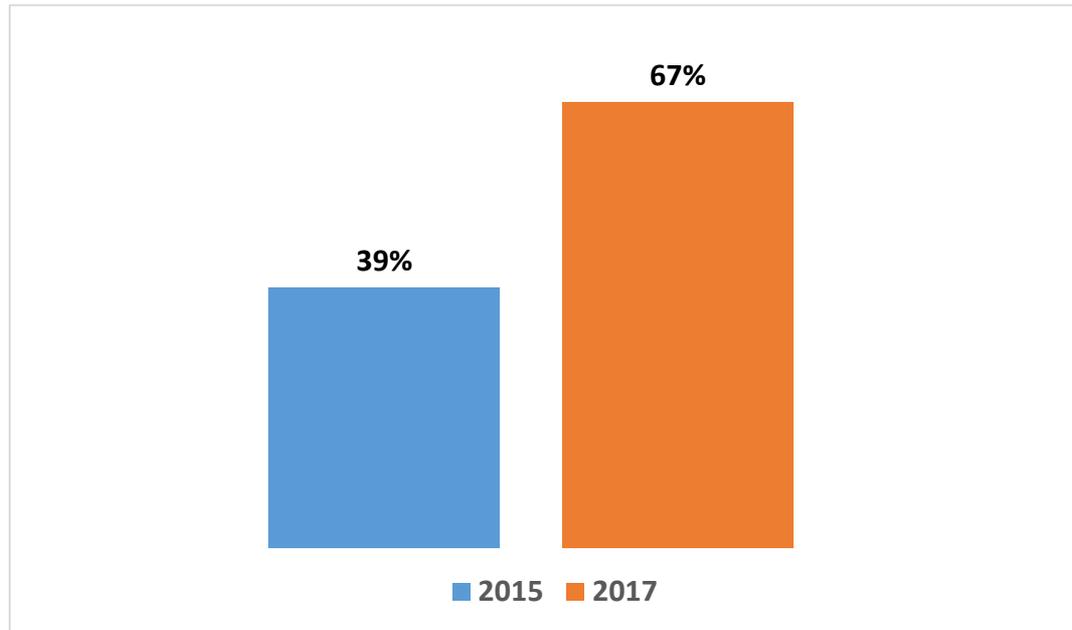
III. Relations w/Tax Administration – Comparative View on the Clarity of Information



A significant improvement is noted in the responses of companies in regards to information received by Tax Administration. We believe that this is linked to improvements in communication and services approach of tax administration toward taxpayers during 2016 – 2017.



III. Relations w/Tax Administration – Comparative Assessment on the Awareness of Taxpayers on the Application of Risk System

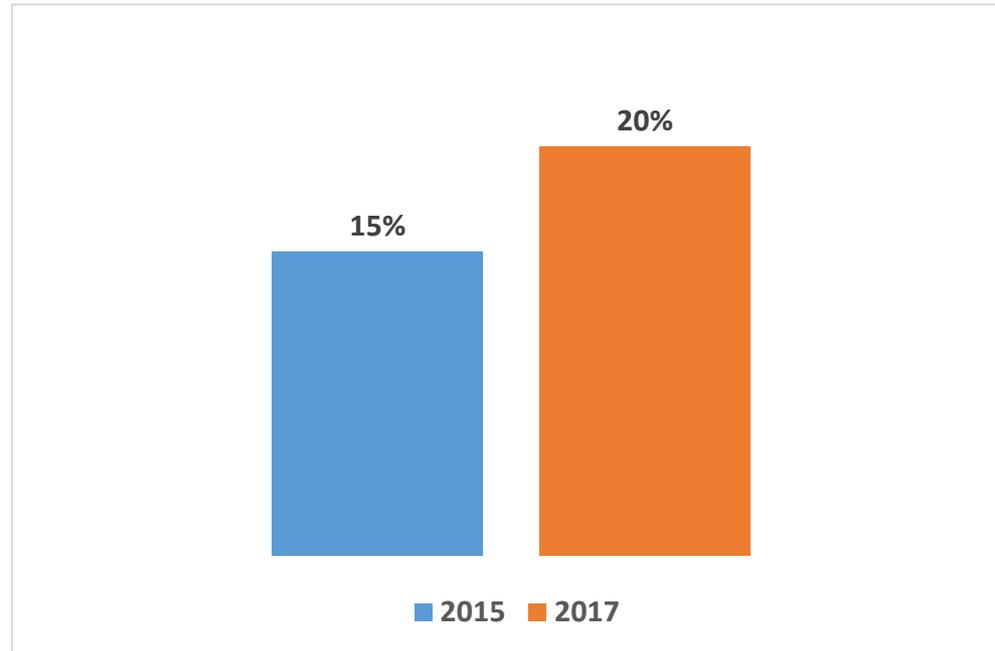


There is a significant increase in the taxpayers' awareness about the Risk System and selection for inspection based on it. We think that it is related also to the starting of application of the risk system itself and the awareness raised among taxpayers about it in the last 2 years.



III. Relations w/Tax Administration –

Participation in training sessions for businesses

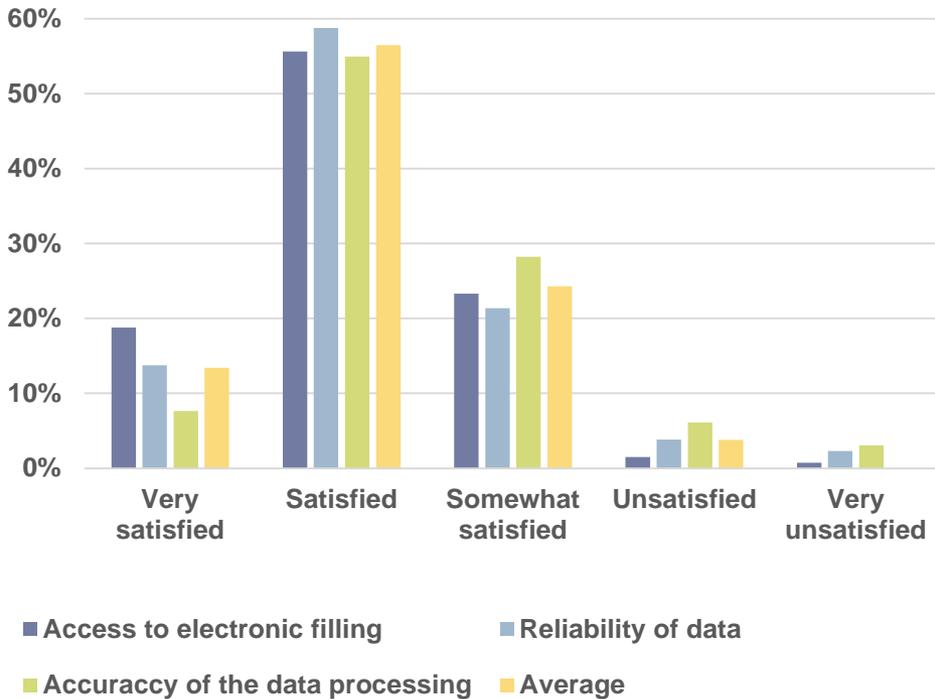


A slight increase of trainings reported by the business in the IC Survey 2017, corresponding also with a more positive interaction with Tax Administration. Mostly mentioned, trainings on the electronic reporting, VAT, etc.

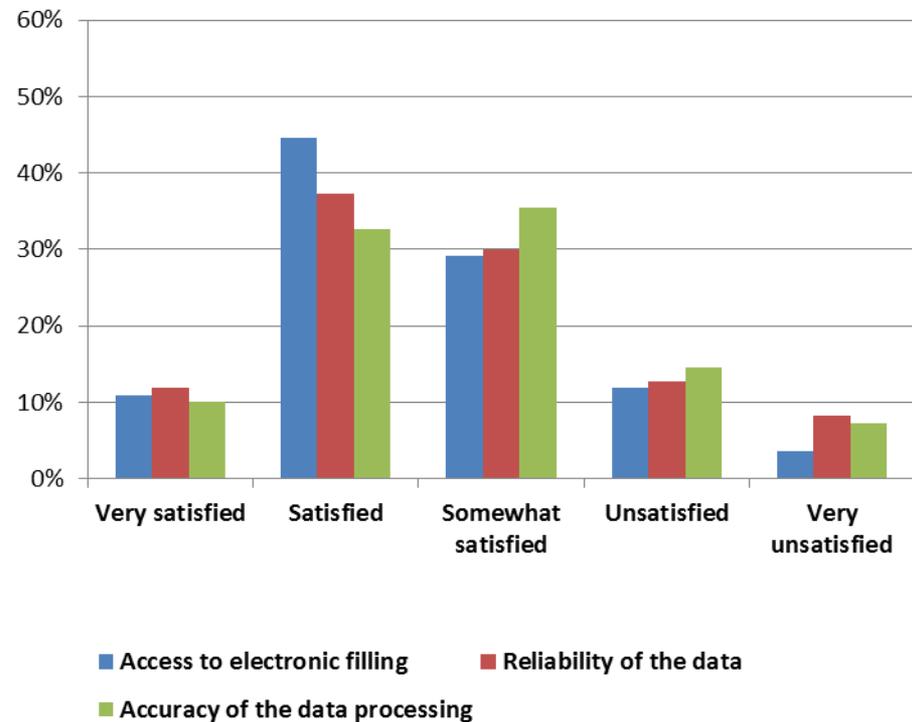


III. Relations w/ Tax Administration – Assessment on the Satisfaction from e-Tax Services

2017



2015



Note: t-test result on the differences between two years are significant at 5% significance level

Satisfaction from e-tax services is visibly higher in 2017 in all assessed aspects, such as access, reliability and accuracy of data processing.

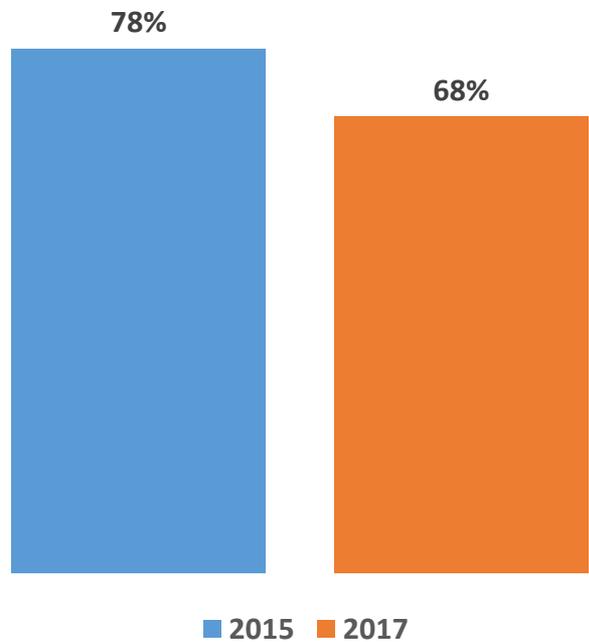


Key finding on Relations with Tax Administration :

- ▶ There is an increase in the transparency and communication with the business in regards to the reporting, access in time and quality of information.
- ▶ Remains a challenge to increase the companies' knowledge on the dynamics of the fiscal legislation.
- ▶ It is very important to continue with the digitalisation of services toward taxpayers.

III. Informality – Facing informal competition in the operating sector

Companies facing informal competition

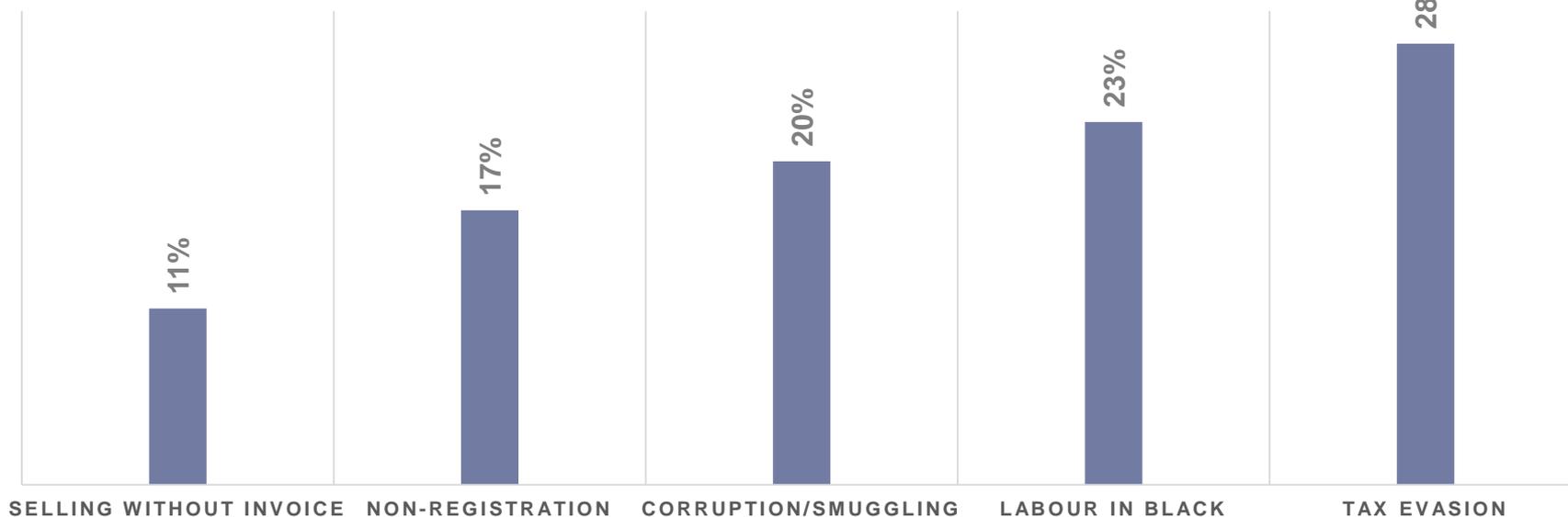


Companies seem to have experienced a slight decline in the competition from informal activities, which is still perceived at high levels and a concern for the economy.



III. Informality – Nature of Informality, 2017

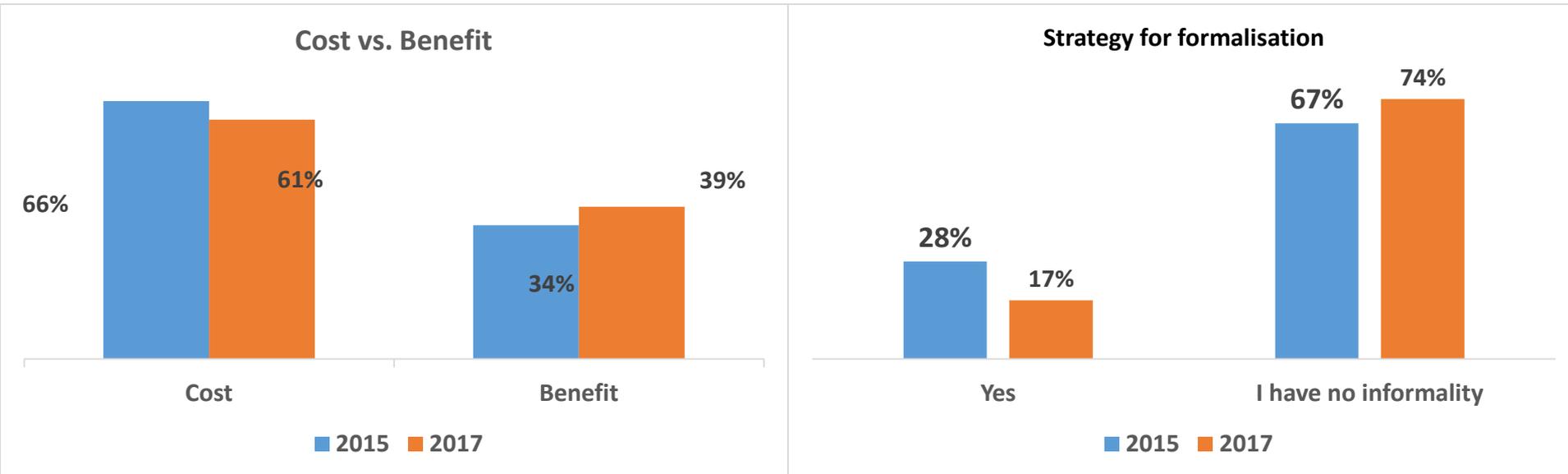
NATURE OF INFORMALITY



For 2017, companies perceive that fiscal evasion is the most frequent kind of informality, followed by undeclared work, corruption and smuggling. There is a change with the IC Survey 2015 in the perception of the nature of informality, where the most repeated one was corruption/smuggling, non-registration, tax evasion and undeclared work. Undeclared work is shown in the same levels as in 2015, meanwhile there is decline in the phenomenon of unregistered companies.

III. Informality –

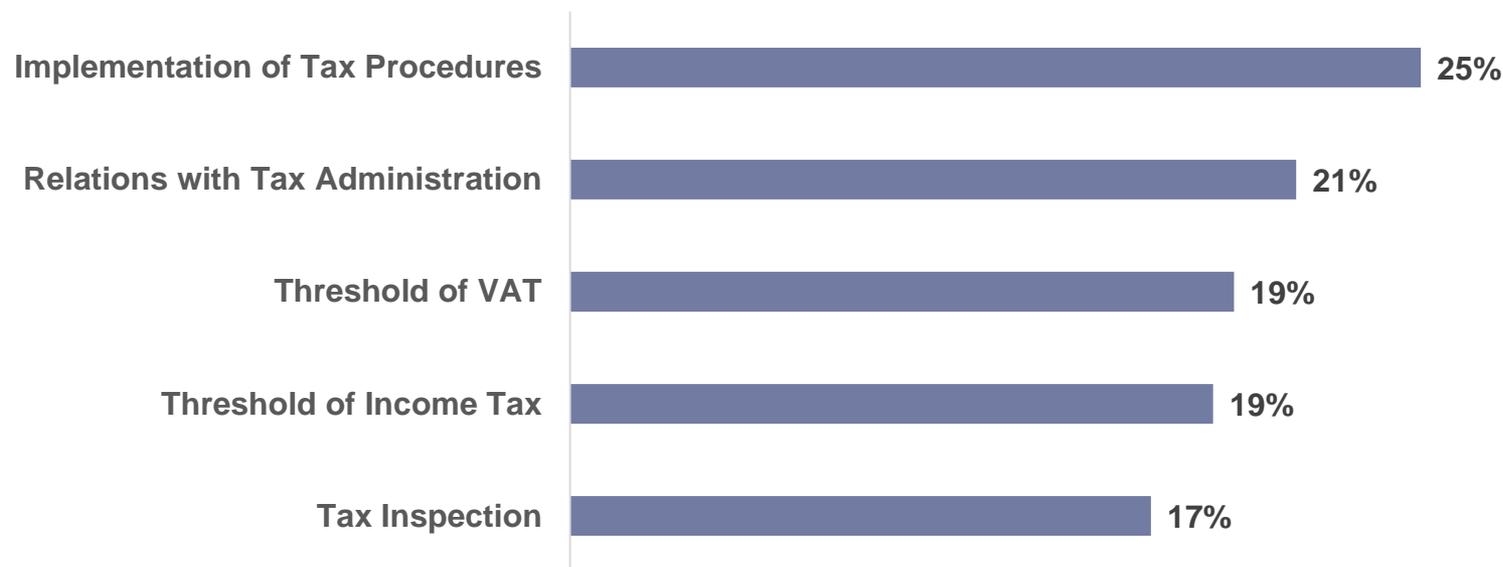
Comparison on the feedback from the business



In both periods, being informal is considered by companies as a cost, especially in the long term. Although they claim to be facing informal competition, the majority do not state having informality in their business activity.



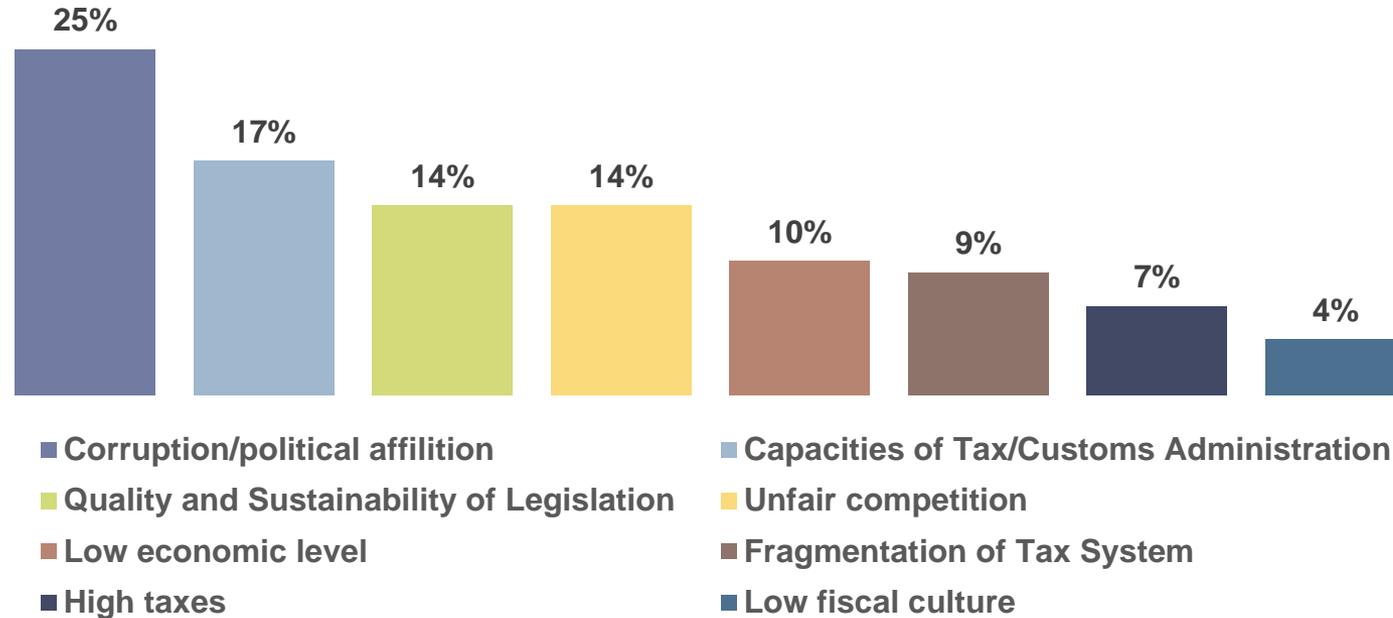
III. Informality – Most important fiscal factors which may promote informality, 2017



In 2017, companies assess that the fiscal factors which leave room for informality are tax procedures, relations with administration and escalation of income tax and threshold of VAT. However, the two latter ones summed up, constitute a considerable concern (38%) for responding companies in the survey.



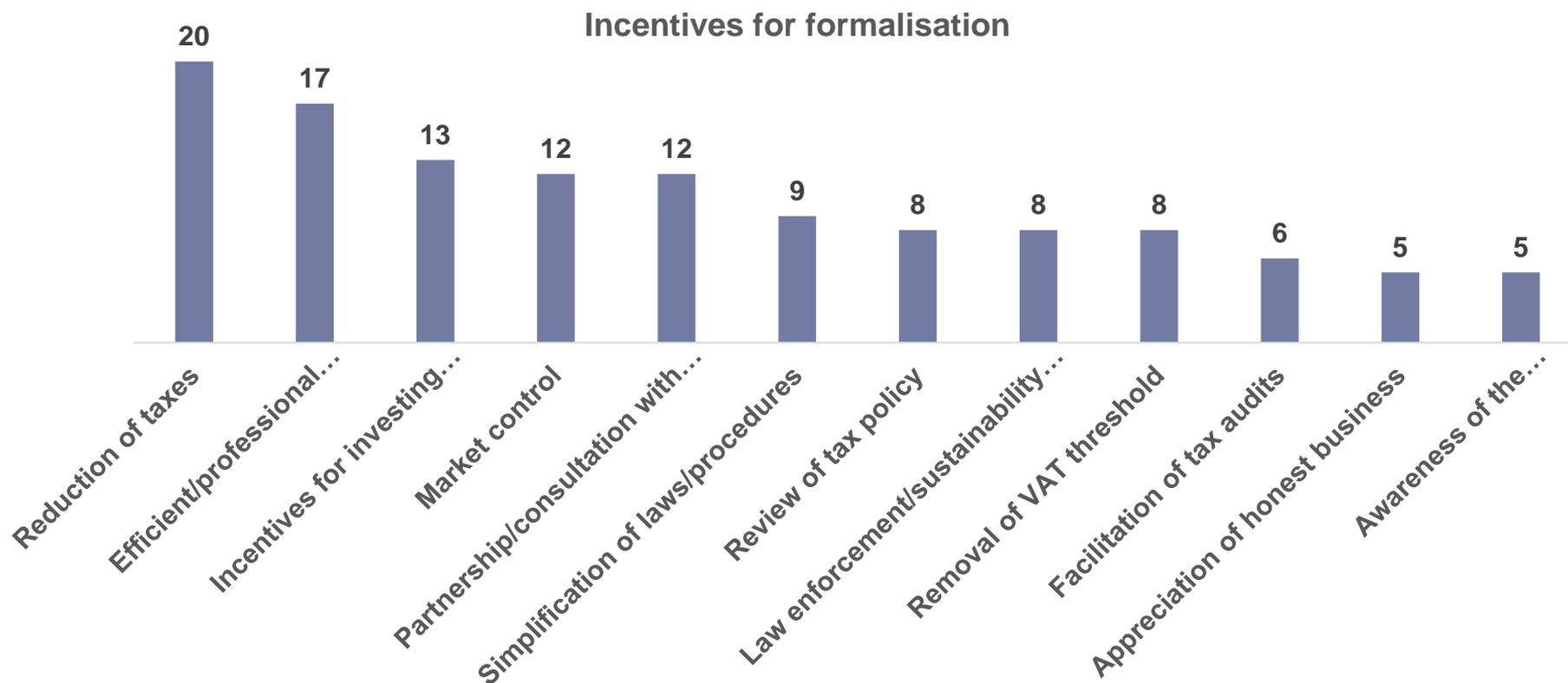
III. Informality: Causes which encourage informality, 2017



In one open question on the general causes that encourage informality, companies perceive corruption and political affiliation of companies, followed by the capacities of tax/customs administration and quality & sustainability of legislation – as the main ones. Also, it comes out as a feedback by the business, the need for the improvement of the fiscal culture within the companies to increase compliance with the fiscal system.



III. Informality – Suggestions for Incentives, 2017



Besides the traditional demand by the business for tax reduction, there is a proposal for upgrading the consultation with the business, improvement of the professional and efficiency of administration and simplification of procedures. Some companies demand to work with the final consumer and incentivise him regarding tax coupon.

Key findings on Informality

- ▶ There is a perception in the declining of the informality compared to 2015, meanwhile the threshold for income tax/VAT, relationship with the administration and application of law remain key factors influencing informality.

IV. Comments from the business – VAT refund

- Automatic refund for export and exchange of information by customs during export.
- Automatic crediting of the recoverable VAT.
- Possibility to pay other liabilities with the recoverable VAT, such as income tax, tax on the rent, dividends or penalties from the system and afterwards the risk to define whether it is needed an inspection or not.



IV. Comments from the business – Factors leading to informality

- Lack of **invoicing chain**, we buy services which are not object of VAT and not being able to **charge VAT in purchases**, as we receive tax invoices of Model 4.
- **Informality** in Tourism, at tourist guides and tourism agencies.
- The ability to earn more by paying less taxes. General business spirit and the lack of business culture in general.
- Push the final consumer to withdraw tax coupon.
- There are no controls or they are either insufficient or sporadic, issuing with ease **licenses for manufacturing activities**. No institution demands and controls the standardisation of manufacturing and respecting technical and environmental norms, etc.
- Removal of the right for retail sales (coupon) for big business is creating a fictitious retail and wholesale society, as the big businesses are obligated to create these societies to enable them to charge the goods that are not accepted by the retail market. This phenomenon is becoming a trend and it should be found a technical solution to eliminate fictitious retail societies.



IV. Comments from the business – Incentives for formalisation

- ▶ Increase the bonuses for customs officers if they increase regular customs clearances, therefore what they take now as a bribe to be taken officially as a bonus from the state.
- ▶ Request the origin of products at the companies which make the final sales of products.
- ▶ A business which fulfils all the criteria to be certified with a stamp so inspectors do not pay a visit and make pressure on them every week.
- ▶ The best way to fight informality is to control and fine citizens and companies which do accept a VAT invoice.
- ▶ The possibility to pay tax liabilities without immediate effect on penalties by tax inspections.
- ▶ Public awareness. Increase of incentives – for every tax coupon to get a refund of 5-6-10%.
- ▶ All the entities that sell, produce or have an activity in the area of agribusiness to be equipped with relevant licenses and to be monitored as per relevant legislation in order for all to be equal. This is especially evident in districts.



IV. Comments from the business – Incentives for formalisation

- ▶ Tax administration to organise special meetings by sectors in order to head companies toward formalisation.
- ▶ A qualified tax administration. It leaves much to the desire the level of militancy in the tax administration, young or old it doesn't matter, simply the selection is made on political affiliation rather than on professional specialisation. Young graduates or with max. 1-2 years of work experience can never be part of the tax inspection department and inspect professionals which have been in the field for years.
- ▶ The taxpayers service to be more open and in direct contact with the professionals, to help companies to be compliant in the reporting of their tax liabilities.
- ▶ More easily accessible information. Laws to be made public along with the respective instructions before being implemented and not many legal amendments.



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