2019 SURVEY FINDINGS AND DATA ANALYSIS

Secretariat of Albania Investment Council
December 2019
I. Objective and Methodology
II. Tax Inspection, Transparency and Communication with Central Tax Administration
III. VAT reimbursement
IV. Informality
V. Findings & Suggestions
Objective and Methodology

Objective of the Survey

- The aim of this survey is to stimulate inclusive and evidence-based dialogue on business concerns related to investment climate:
  - Tax Audit and Business interaction with Tax Administration
  - Informality
  - VAT Reimbursement
  - Comparison in years

Methodology used:

- Structured questionnaire
- Questionnaire filled in randomly online and anonymously by 300 businesses
- Published in Albanian and English in IC website/LinkedIn/Facebook/Twitter
- Sent by email to 8,000 businesses
- 3,000 businesses contacted by phone
- Collaboration with Epoka University on data analysis and survey certification
- Survey contains data from the period July – September 2019
Sample Profile – 300 companies

by region

- Tiranë, 58%
- Durrës, 10%
- Elbasan, 4%
- Fier, 4%
- Gjirokastër, 3%
- Korcë, 4%
- Lezhë, 3%
- Shkodër, 8%
- Vlorë, 2%

as per ownership

- Albanian, 83%
- Foreign, 12%
- Joint, 5%
- 2% skipped

as per turnover

- Over 8 million, 64%
- Up to 5 million, 25%
- 5 up to 8 million, 11%
- 4% skipped

as per sector

- Services, 74%
- Industry, 14%
- Construction, 9%
- Agriculture, 3%
- 2% skipped

as per age

- Less than 10 years, 49%
- 10 up to 20 years, 37%
- Over 20 years, 14%
- 4% skipped
22% of surveyed companies are exporters, from all categories
II. Tax Audit, Transparency and Communication with Tax Administration
To a large extent the **typologies** of tax audits are **inspections** and **fiscal visits**.

The trend of full tax controls has been **downward**; in 2013 they accounted for 38% of all tax controls and in 2018 they dropped to 29%.

Can you please specify the type, number and duration of tax audits you have had?

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**Tax audit (2013-2018)**

**- Types & Frequency**

**Tax Audit - Types**

<table>
<thead>
<tr>
<th>Year</th>
<th>Tax Audit</th>
<th>Fiscal Visit</th>
<th>Inspection</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>29%</td>
<td>33%</td>
<td>40%</td>
</tr>
<tr>
<td>2014</td>
<td>32%</td>
<td>37%</td>
<td>33%</td>
</tr>
<tr>
<td>2015</td>
<td>33%</td>
<td>38%</td>
<td>29%</td>
</tr>
<tr>
<td>2016</td>
<td>34%</td>
<td>40%</td>
<td>26%</td>
</tr>
<tr>
<td>2017</td>
<td>34%</td>
<td>32%</td>
<td>33%</td>
</tr>
<tr>
<td>2018</td>
<td>36%</td>
<td>35%</td>
<td>29%</td>
</tr>
</tbody>
</table>
Tax audit (2013-2018) - Types & Frequency

Compared to 2017, the number of businesses subject to more than one full tax audit is halved from 34% to 16%.

Meanwhile compared to 2018, the frequency of inspections and fiscal visits has been maintained.

More than half of the respondents stated that they were never been audited by tax administration.
Professionalism of the tax inspectors – Ethics

During 2019 business declares slight improvement of inspectors behaviour / ethics in “professional” category, trend that continues from 2017.

Meanwhile, the perception of business in the “very professional” category of inspectors has decreased, a trend that continues from 2017.
Professionalism of the tax inspectors – Communication

During 2019, companies declared improvement of communication of inspectors compared to 2018 in the category “professional”.

Meanwhile, the perception of business in the “very professional” category of inspectors has decreased compared to 2018, even lower than the perception of 2017.
Professionalism of the tax inspectors – Professional Competencies

Please provide your evaluation regarding professionalism of the tax inspectors inspecting your company - professional competences

During 2019 the business declares slight improvement of professional competencies of inspectors from 2018 in the category “professional”, but meanwhile, the perception of business in the “very professional” category of inspectors has decreased compared to 2018, even lower than the perception of 2017.

Professional competencies

<table>
<thead>
<tr>
<th>Category</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unprofessional</td>
<td>14%</td>
<td>15%</td>
<td>20%</td>
</tr>
<tr>
<td>Professional</td>
<td>71%</td>
<td>68%</td>
<td>71%</td>
</tr>
<tr>
<td>Very Professional</td>
<td>11%</td>
<td>16%</td>
<td>7%</td>
</tr>
</tbody>
</table>
Professionalism of the tax inspectors – Logistics

Please provide your evaluation regarding professionalism of the tax inspectors inspecting your company - logistic support

During 2019 business declines inspectors professionalism in terms of logistics in both “professional” and “very professional” categories.
Clarity of the Tax Audit Report – Content

Based on business perceptions, the assessment on the content of the tax report has slightly increased compared to a year ago in the "clear" category.

Meanwhile, the rating in the "very clear" category has dropped.
Clarity of the Tax Audit Report - Format

Based on business perceptions, the assessment on the tax report format has a slight decrease compared to a year ago in the “clear” category.

Meanwhile, the rating in the "very clear" category has dropped.
Clarity of the Tax Audit Report - References

Based on business perceptions, the valuation on Tax Report References has decreased compared to a year ago in the "clear" category.

Meanwhile, the rating in the "very clear" category has dropped.
Clarity of the Tax Audit Report - Findings/Conclusions

Please provide your evaluation on the clarity of the Tax Audit Report issued after a Tax Audit - findings/conclusions

Based on business perceptions, the assessment on Tax Report Findings has been down compared to a year ago in the “clear” category.

Meanwhile, the rating in the "very clear" category has dropped.
Tax Appeal

Have you ever appealed a decision of the tax inspectors? If yes, please report if the decision was in favour of your company or Tax Administration?

Business - the number of tax appeals is increasing year by year

- although it perceives that tax appeal decisions have been in favour of the tax administration at the highest rate, but at a lower percentage compared to a year ago.
Businesses almost remain at the same levels (2017-2019) regarding the clarity of tax legislation, while better assessing clarity regarding administrative procedures.

49% of businesses think that communication with tax administration has improved in the last two years and only 18% of them think it has deteriorated.
Increased training sessions reported by businesses - benefited from the GTD

Businesses appear to be more informed (in 2019) about risk-based selection than half of them are aware of this fact even though there is still much to be improved, especially on business knowledge of how the system works of risk.
The tax audit typology has shifted from full tax audit to fiscal visits and on-site inspections. The number of businesses controlled more than once a year is also reduced.

Professionalism of inspectors - there is an increase in the three evaluated elements Ethics, Communication, Professional Competence and a decrease in the fourth element, Logistic Support.

Tax Report Clarity - there is an increase in "clear" judgment in only one of the evaluated elements, Content and a decrease in the other three evaluated elements, Format, References and Findings.

Tax Administration Relations - Improved communication with the tax administration is assessed in the last two years, although there has been a decline in the clarity of the legal framework despite increased tax administration training on fiscal legislation.

Businesses are aware of their risk-based selection, but are unaware of the risk system itself.
III. VAT REIMBURSEMENT

Note: Data on VAT reimbursement cover period September t – June 2019 t-1
31% of companies eligible for VAT reimbursement state that they have applied for VAT refunds; of which 55% are exporters.

45% of businesses that have not applied for VAT refunds state that the main reason was the lack of trust in receiving the refund.

Reasons not applying for VAT reimbursement, 2019:

- Lack of trust in obtaining refund: 45%
- Complicated procedure in the system: 19%
- Too much paperwork: 16%
- No capacities to meet the requirements of TA: 11%
- Not to become subject of a tax inspection: 9%

Have you applied for VAT reimbursement?

- Yes, 31%
- No, not applied, 69%
- 12% skipped
VAT Reimbursement

Have you obtained VAT refund? (2019)

- Yes, 46%
- No, 21%
- In process, 33%
- 3% skipped

86% of VAT refund recipients are exporters (67% of whom are > 70%)

VAT refund applications have increased compared to previous year, meanwhile the percentage of VAT beneficiaries and the number of those applications still pending has decreased.
VAT REIMBURSEMENT

In 78% of cases reported during 2019, reimbursed VAT is obtained after exercising tax control - similar to one year ago.

Meanwhile, during 2019 we have a significant increase in the Refund benefit over a 90 day timeframe.

How have you obtained VAT refund?

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automatically from the system</td>
<td>22%</td>
<td>17%</td>
</tr>
<tr>
<td>After relevant tax inspection</td>
<td>74%</td>
<td>78%</td>
</tr>
<tr>
<td>Other</td>
<td>4%</td>
<td>6%</td>
</tr>
</tbody>
</table>

What was approximately the time duration of the VAT refunding procedure?

<table>
<thead>
<tr>
<th>Time Duration</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Within 30 days</td>
<td>13%</td>
<td>11%</td>
</tr>
<tr>
<td>30 days to 60 days</td>
<td>35%</td>
<td>22%</td>
</tr>
<tr>
<td>60 days to 90 days</td>
<td>22%</td>
<td>11%</td>
</tr>
<tr>
<td>More than 90 days</td>
<td>30%</td>
<td>56%</td>
</tr>
</tbody>
</table>
VAT REIMBURSEMENT VS INVESTMENT (2019)

Has the VAT refund process affected your decision to invest?

- agriculture: yes, 25% / no, 75%
- industry: yes, 27% / no, 73%
- construction: yes, 12% / no, 88%
- services: yes, 19% / no, 81%

It is noted that businesses are less vulnerable to VAT reimbursement when it comes to investments. The construction sector has the lowest sensitivity; meanwhile exporters are somewhat more sensitive.

Exporters vs. non-exporters

- between 50% - 70% of sales:
  - Exporters: yes, 75% / no, 25%
  - Other: yes, 41% / no, 59%
- less than 50% of sales:
  - Exporters: yes, 31% / no, 69%
  - Other: yes, 41% / no, 59%
- Over 70% of sales:
  - Exporters: yes, 50% / no, 50%
  - Other: yes, 59% / no, 41%
Conclusions

Requirements for reimbursement applications have increased, but the% of reimbursement recipients has decreased; to be noted is the fact that the percentage of beneficiaries in process is increasing.

Among the main reasons for not applying for a VAT refund are the following: lack of confidence to benefit (45%), complicated system procedure (19%), and many documents (16%).

VAT reimbursement is obtained at 78% after a tax audit, increased compared to previous year.

Generally, regardless of the sector of their activity, most businesses state that VAT refunds do not affect their investment decision.
IV. INFORMALITY
Informality – Business Perception

Perception of business in 2019 versus 2017 about the existence of informal competition has declined although still is high.

It is confirmed that Tax Avoidance and Black Work are the two most prevalent forms of informality for 2019.

Please report if your company faces competition from informal economic operators in the sector?

Business perception on Informallity, 2019

- Declared workers: 78%
- Corruption: 75%
- Un-registration: 60%
- Tax evasion: 84%
The perception of informality remains at the highest levels for:

- Older companies (age > 20 years) and young companies (<10 years)
- Foreign and domestic owned companies
- Cities like Korca and Shkodra

Informality as per ownership:

- Foreigner, 85%
- Albanian, 83%
- Both, 61%

Informality as per age:

- Less than 10 years, 73%
- From 10 - 20 years, 65%
- Over 20 years, 78%

Informality as per county:

- Durrës, 61%
- Other, 66%
- Tirana, 69%
- Shkodra, 80%
- Korca, 83%
We have some kind of confirmation or trend that for the period 2017-2019, businesses with turnover 5-8 million have generally higher perception of informality, while businesses with turnover of over 8 million have generally lower perception.
Nature of Informality – as per turnover (2019)

Businesses with a turnover of up to 8 million think that the nature of informality is generally related to tax avoidance and undeclared workers, the same trend over the years.
Informality – as per economic sectors (2019)

According to business perception, the **services sector** has the highest informality followed by the **construction sector**.
Informality – Sectors

**Agriculture** unlike other sectors has informality of the nature of non-registration. **Other sectors** consider the informality of the nature of tax avoidance.

- **Agriculture**
  - undeclared workers
  - corruption
  - un registration
  - tax evasion

- **Industry**
  - undeclared workers
  - corruption
  - un registration
  - tax evasion

- **Construction**
  - undeclared workers
  - corruption
  - un registration
  - tax evasion

- **Services**
  - undeclared workers
  - corruption
  - un registration
  - tax evasion
Why Informal?

**Most important factor to informality 2019**

<table>
<thead>
<tr>
<th>Factor</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dishonest competition</td>
<td>88%</td>
</tr>
<tr>
<td>Level of Corruption</td>
<td>87%</td>
</tr>
<tr>
<td>TAP fiscal burden / Profit Tax / VAT</td>
<td>85%</td>
</tr>
<tr>
<td>Practical implementation of tax legislation</td>
<td>79%</td>
</tr>
<tr>
<td>Relations with the tax administration</td>
<td>71%</td>
</tr>
<tr>
<td>Compliance with legal requirements results in incurable...</td>
<td>71%</td>
</tr>
<tr>
<td>Tax Audits</td>
<td>68%</td>
</tr>
<tr>
<td>Complexity of tax legislation</td>
<td>67%</td>
</tr>
<tr>
<td>Fiscal burden Local tax</td>
<td>66%</td>
</tr>
</tbody>
</table>

Corruption, unfair competition and fiscal burden at the central level are the main factors driving the informality perception of business even during 2019, while unfair competition passes in 2019.

The complexity of tax legislation and local taxes are the least important factors during 2019.
Overall, there is a business effort to formalize, both at the individual level and at the sector level, a percentage that has been increasing.

If there is a degree of informality in your business do you have strategies to formalize it?

- No strategy: 24%
- No informality: 21%
- Yes I have a strategy: 56%

If there is a degree of informality in your sector do you have sector-level strategies to formalize it?

- No, never discussed: 28%
- No informality: 29%
- Yes, we have discussed: 43%
Free use Euro, USD etc…

How do you assess the free use of foreign currencies in domestic trade exchanges, except the ALL?

In general, businesses consider as positive the free use of currency ...
Conclusions

Perception of the existence of informal competition is still high among companies.

Foreign ownership companies, companies with over 20 years in the market, companies with turnover of 5-8 million and the services sector have the highest perception of informality.

Corruption, unfair competition and fiscal burden at the central level are the main factors driving the informality perception of business even during 2019; while the complexity of tax legislation and local taxes are the least important factors during 2019.

The nature of informality, by degree of importance, is tax avoidance, undeclared work, corruption, non-registration.

Agriculture has informality of the nature of non-registration while other sectors consider informality of the nature of tax evasion.

Businesses with a turnover of up to 8 million think that the nature of informality is generally associated with tax avoidance and working in the black, the same trend over the years.

For businesses with a turnover of more than 8 million, the nature of informality is related to tax avoidance and corruption - Same perception as last year.