



Albania  
Investment  
Council

Improving Transparency and Investment Climate

# **2019 SURVEY FINDINGS AND DATA ANALYSIS**

**Secretariat of Albania Investment Council**

**December 2019**

# Context

- 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

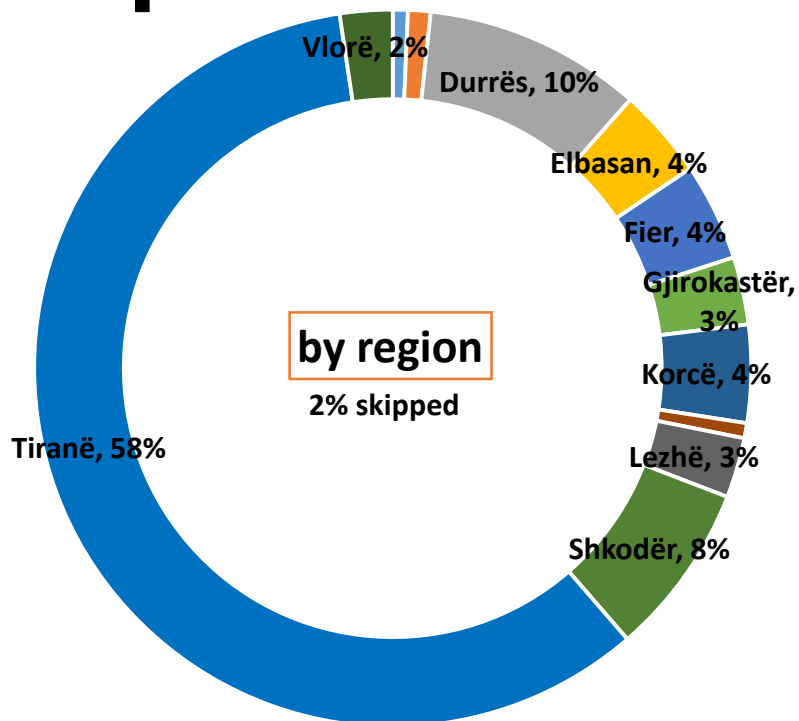
## Objective of the Survey

- **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:

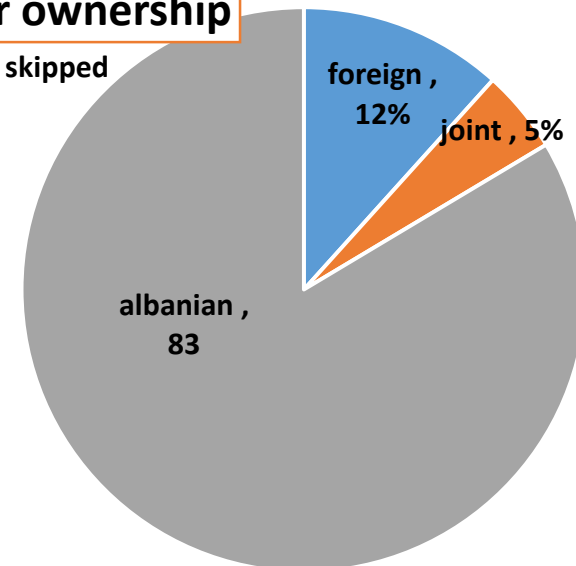
- Structured questionnaire
- Questionnaire filled in randomly online and anonymously by 300 businesses
- Published in Albanian and English in IC website/LinkedIn/Facebook/Twitter
- Sent by email to 8,000 businesses
- 3,000 businesses contacted by phone
- Collaboration with Epoka University on data analysis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

# Sample Profile – 300 companies



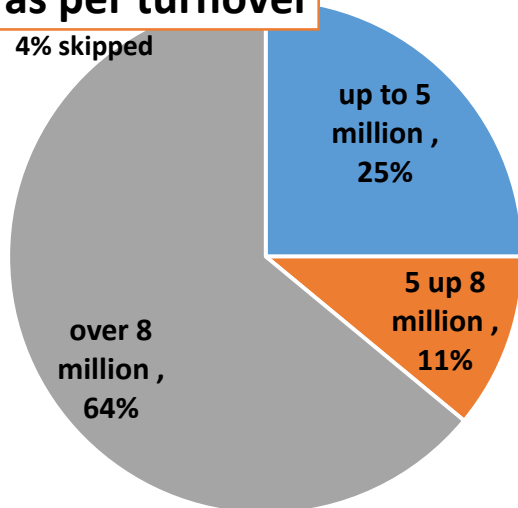
**as per ownership**

9% skipped



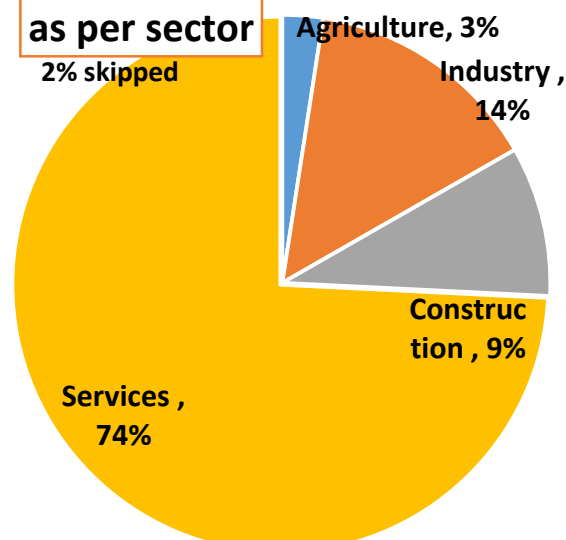
**as per turnover**

4% skipped



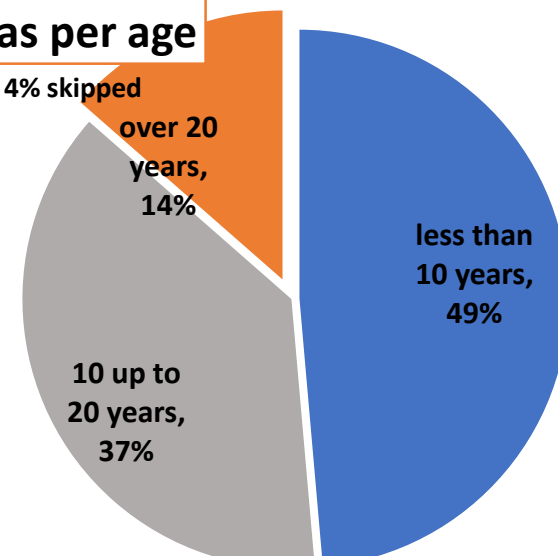
**as per sector**

2% skipped

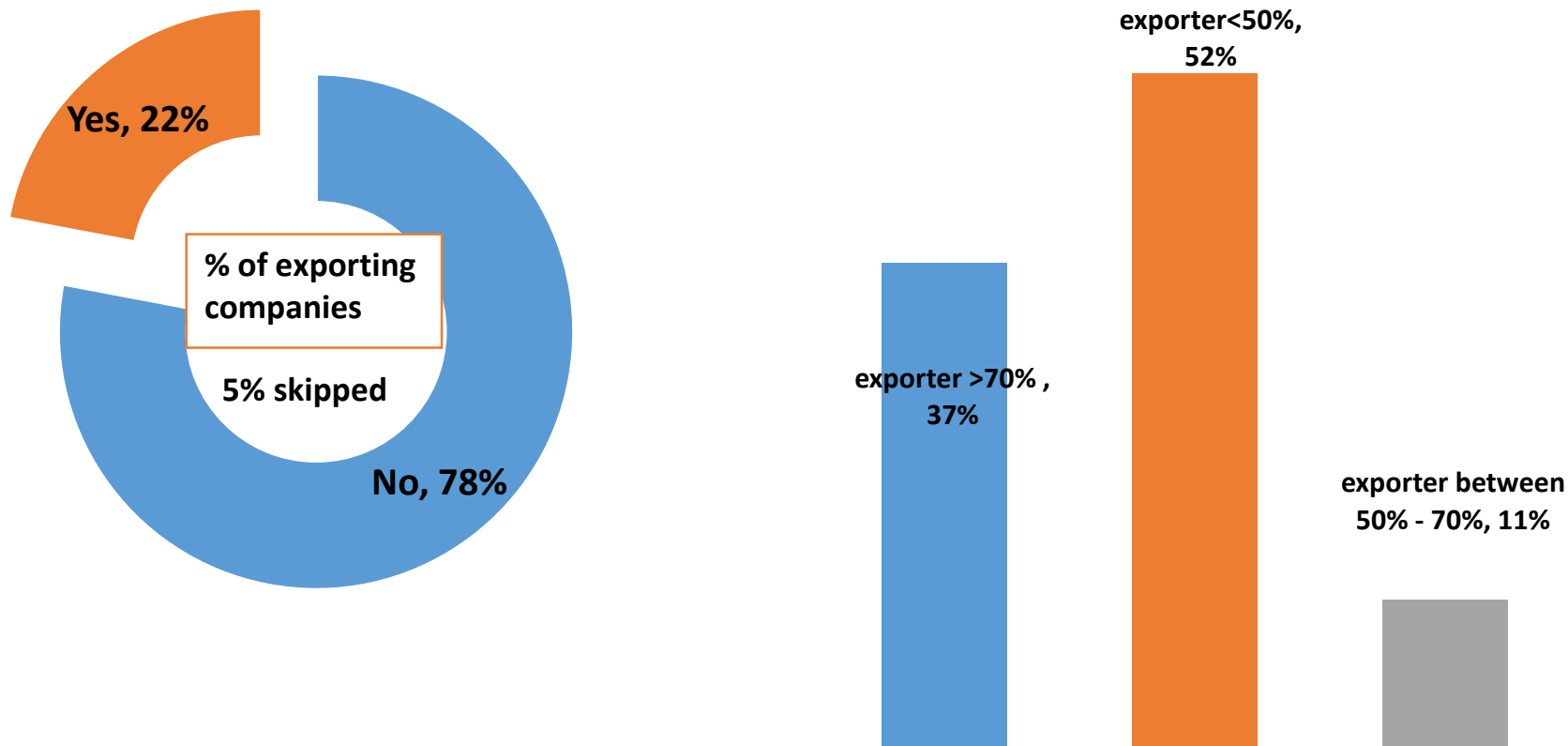


**as per age**

4% skipped



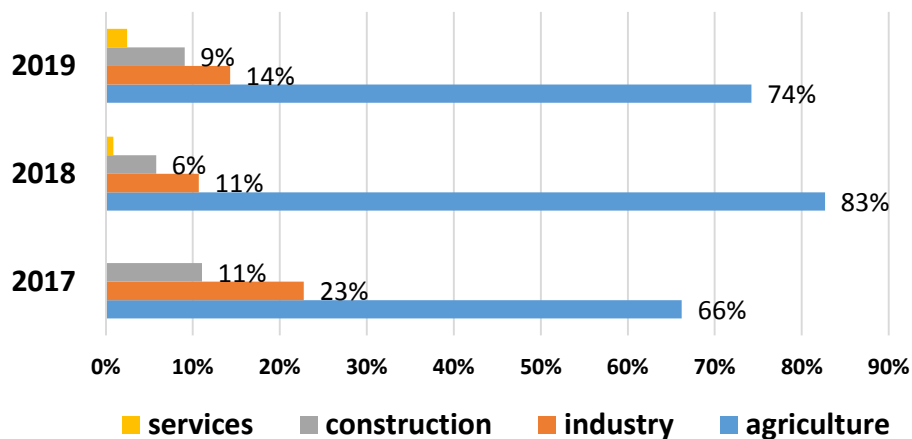
# Sample – Export representation



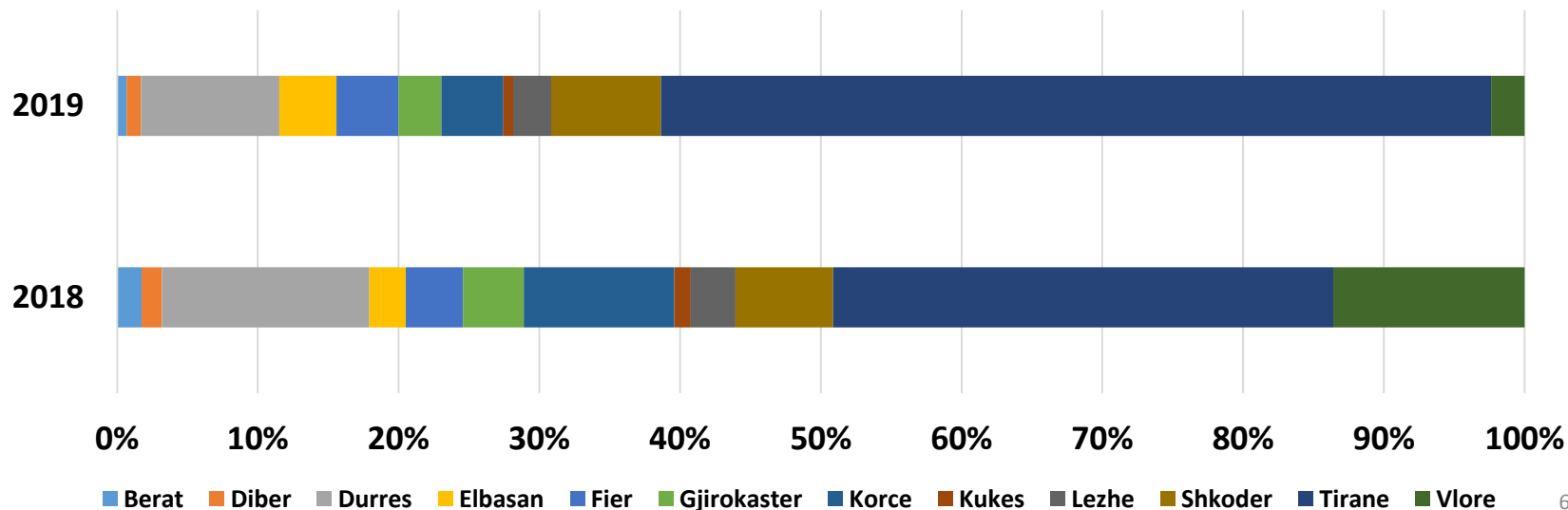
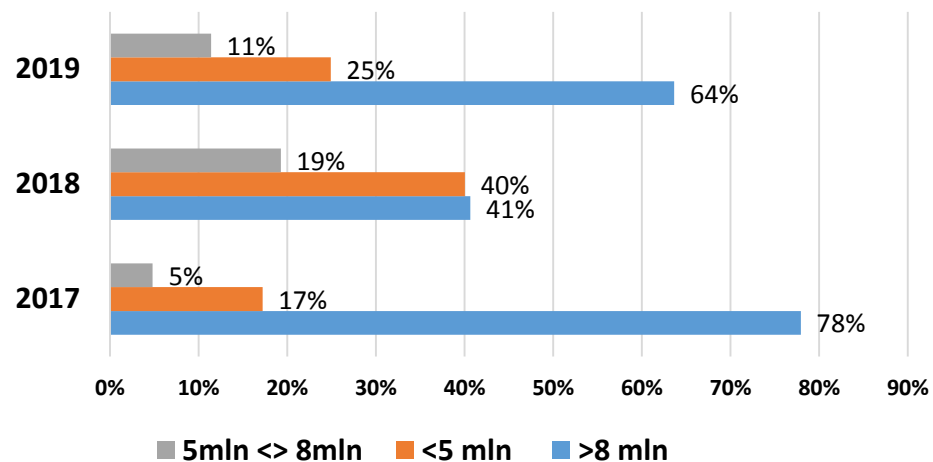
*22% of surveyed companies are exporters, from all categories*

# Sample in years

sample by sector



sample by turnover





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## **II. Tax Audit, Transparency and Communication with Tax Administration**

# Tax audit (2013-2018)

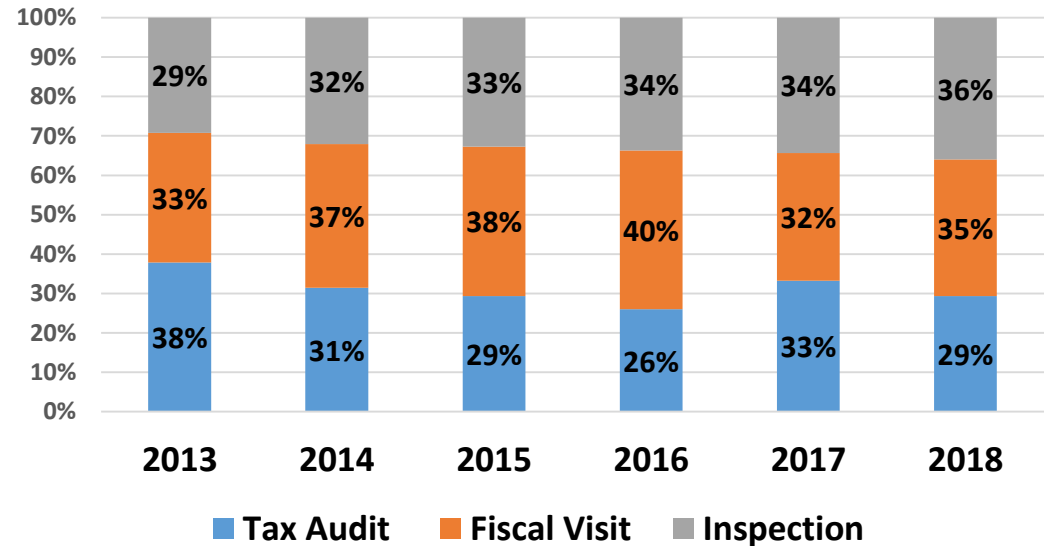
## - Types & Frequency

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

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%.

Tax Audit - Types





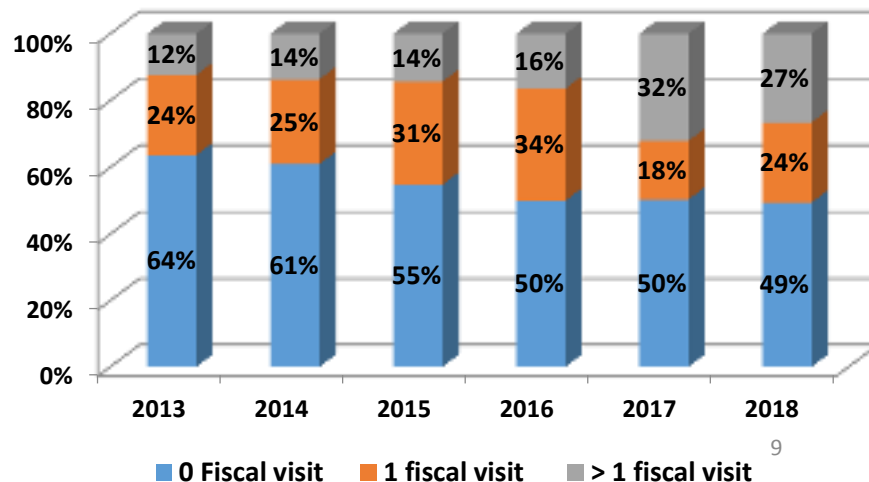
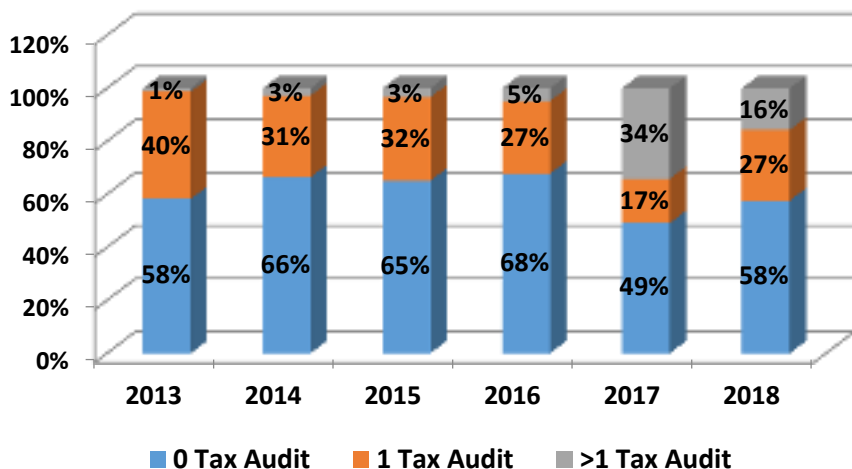
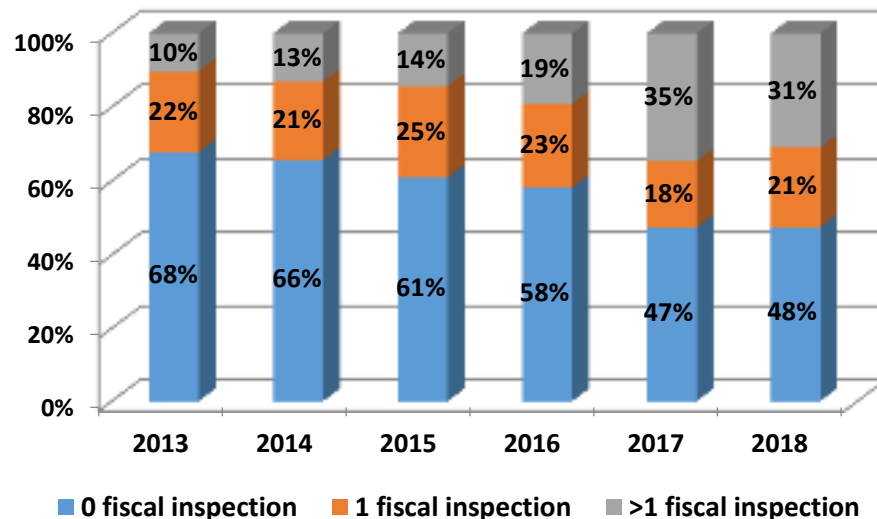
# Tax audit (2013-2018)

## - 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*

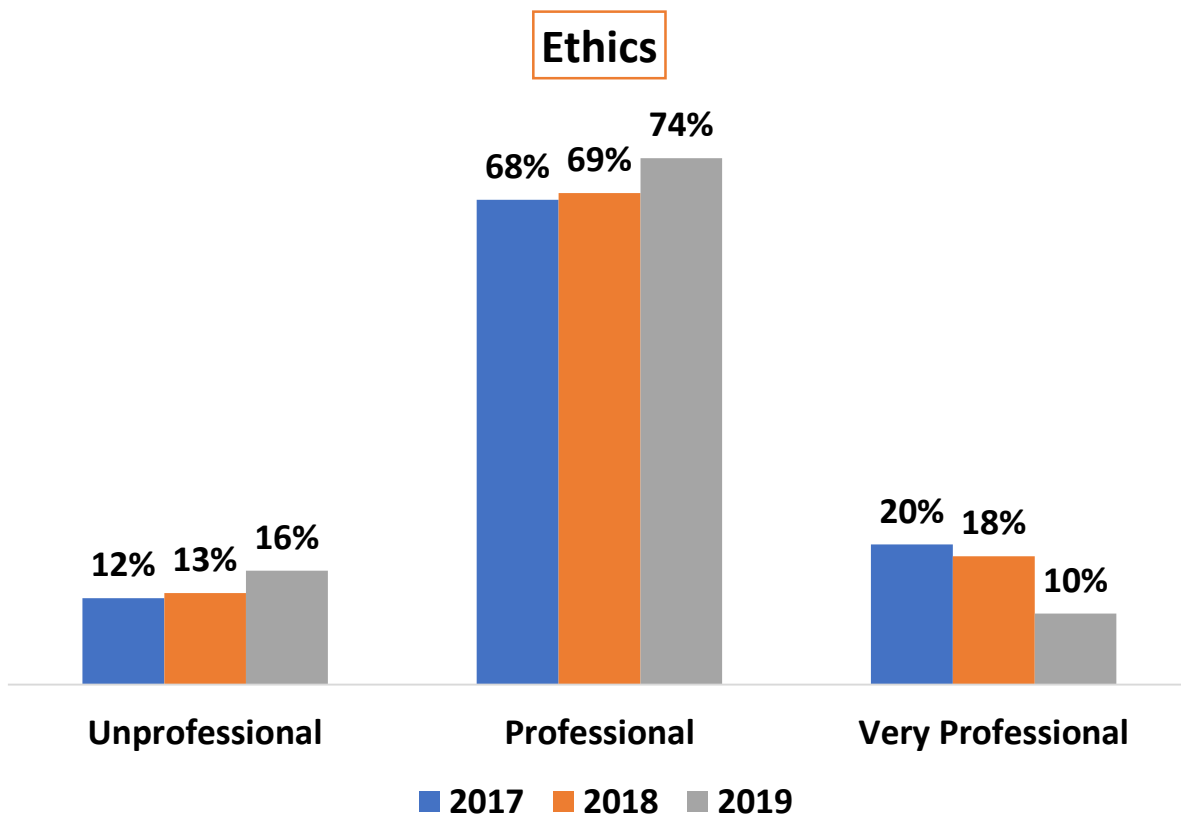
**More than half of the respondents stated that they were never been audited by tax administration**



# Professionalism of the tax inspectors

## – Ethics

Please provide your evaluation regarding professionalism of the tax inspectors inspecting your company – **ethics/behaviour**



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

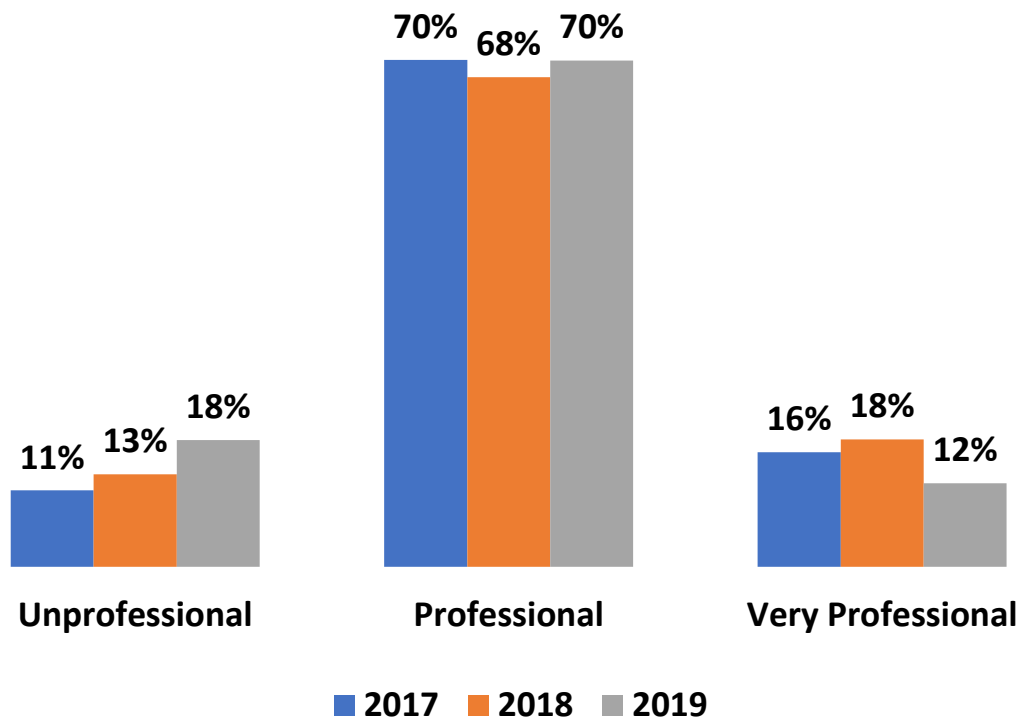
*Meanwhile, the perception of business in the “very professional” category of inspectors has **decreased**, a trend that continues from 2017.*

# Professionalism of the tax inspectors

## – Communication

Please provide your evaluation regarding professionalism of the tax inspectors inspecting your company – **communication**

### Communication



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

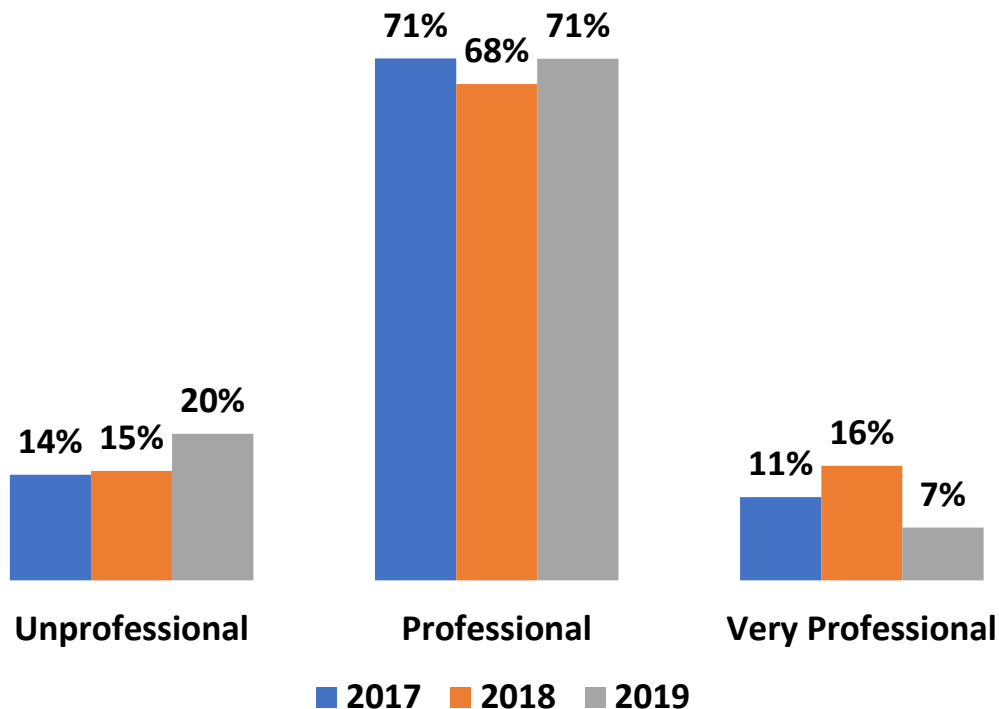
*Meanwhile, the perception of business in the “**very professional**” category of inspectors has decreased compared to 2018, even lower than the perception of 2017.*

# Professionalism of the tax inspectors

## – Professional Competencies

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

### Professional competencies

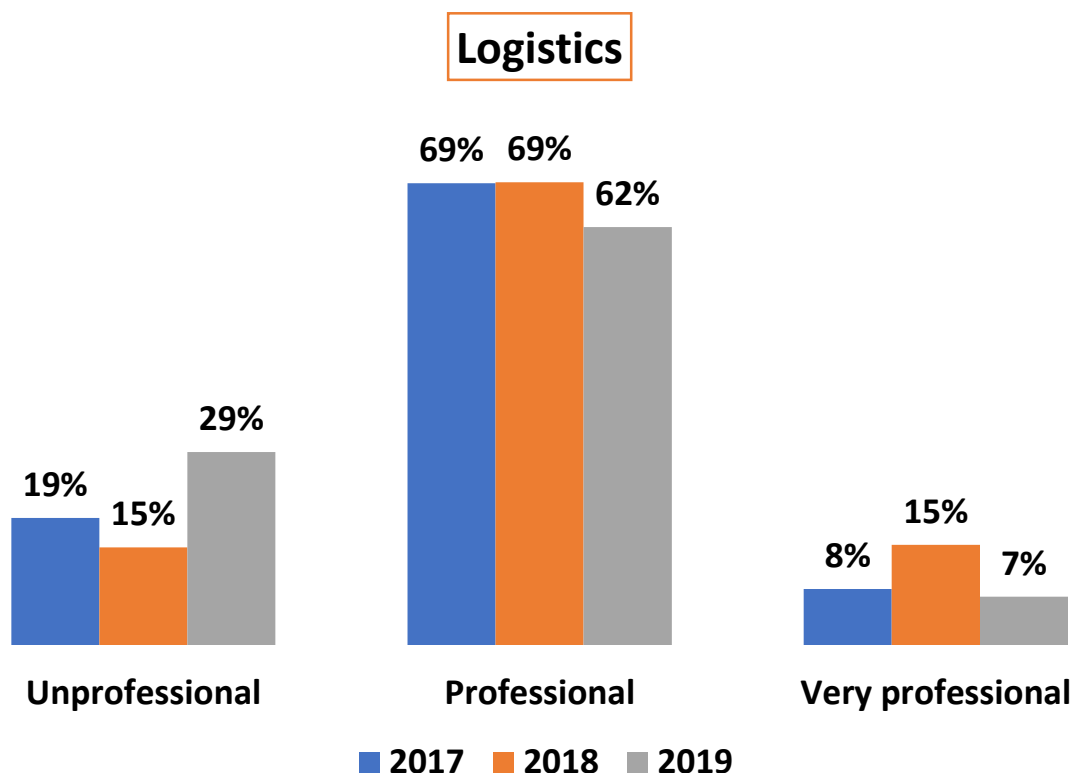


During 2019 the business declares **slight improvement** of professional competencies of inspectors from 2018 in the category “**professional**”, but

meanwhile, the perception of business in the “very professional” category of inspectors has decreased compared to 2018, even lower than the perception of 2017

# Professionalism of the tax inspectors – Logistics

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

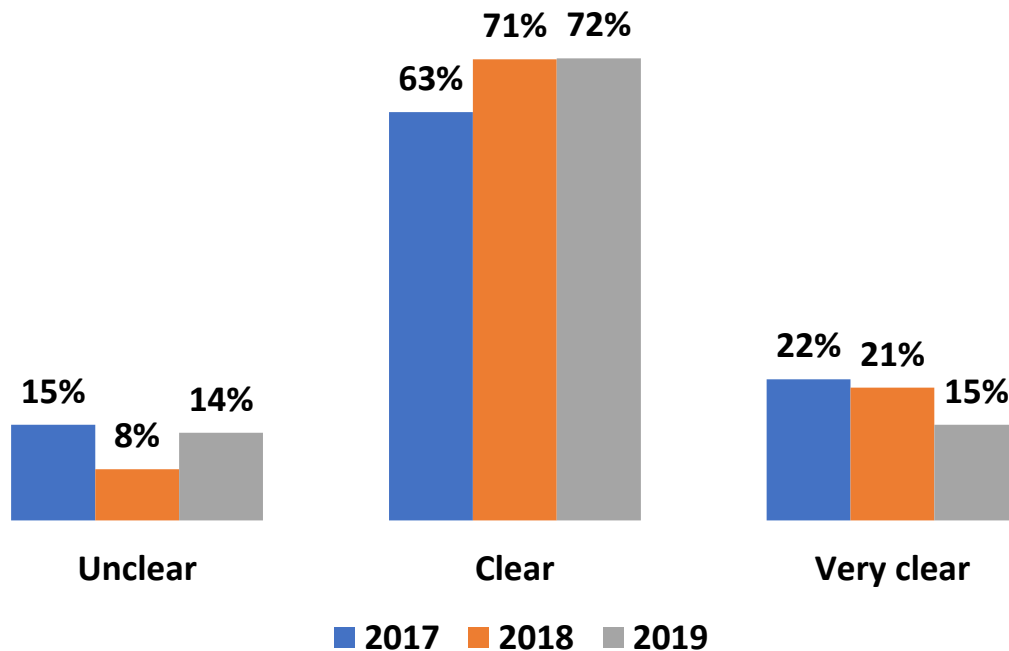


*During 2019 business declines inspectors professionalism in terms of logistics in both “professional” and “very professional” categories.*

# Clarity of the Tax Audit Report – Content

Please provide your evaluation on the clarity of the Tax Audit Report issued after a Tax Audit – content

## Tax Audit Report - Content



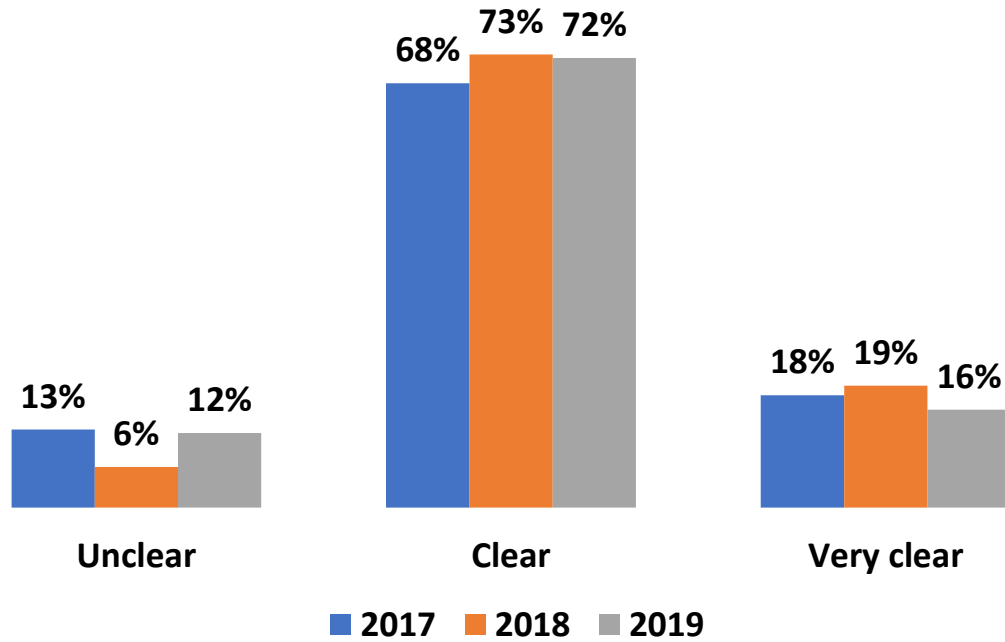
*Based on business perceptions, the assessment on the content of the tax report has slightly increased compared to a year ago in the "clear" category.*

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

# Clarity of the Tax Audit Report - Format

Please provide your evaluation on the clarity of the Tax Audit Report issued after a Tax Audit - **format**

**Clarity of the Tax Audit Report - Format**



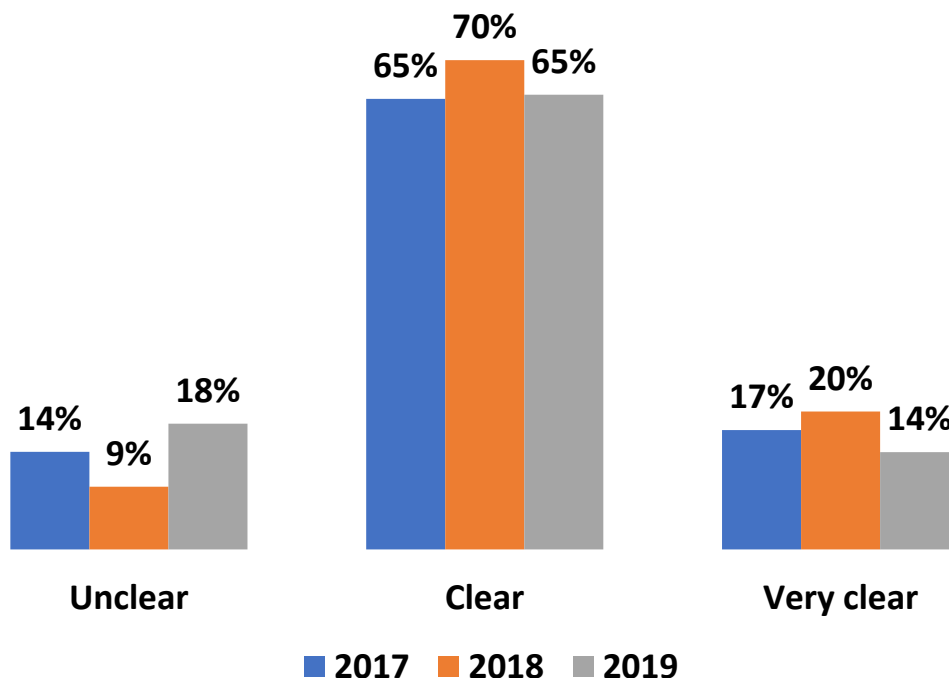
*Based on business perceptions, the assessment on the tax report format has a slight decrease compared to a year ago in the "clear" category.*

*Meanwhile, the rating in the "very clear" category has dropped*

# Clarity of the Tax Audit Report - References

Please provide your evaluation on the clarity of the Tax Audit Report issued after a Tax Audit - **references**

Clarity of 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.*

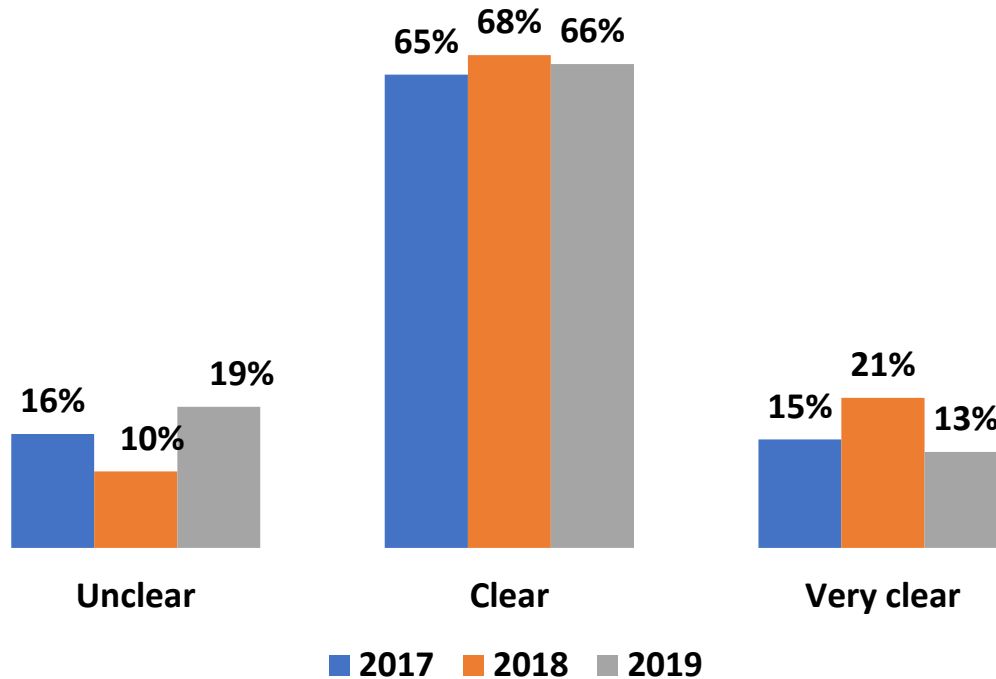
*Meanwhile, the rating in the “**very clear**” category has **dropped**.*



# 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*

Clarity of Tax Audit Report - Findings

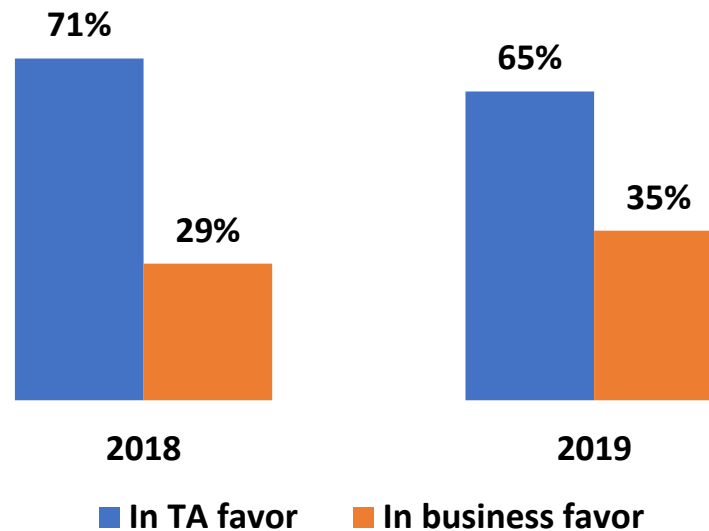
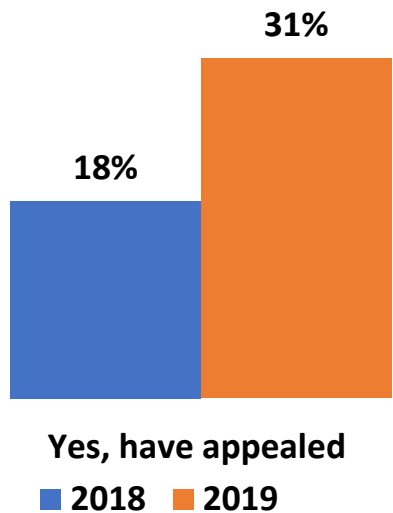


*Based on business perceptions, the assessment on Tax Report Findings has been **down** compared to a year ago in the “**clear**” category.*

*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?

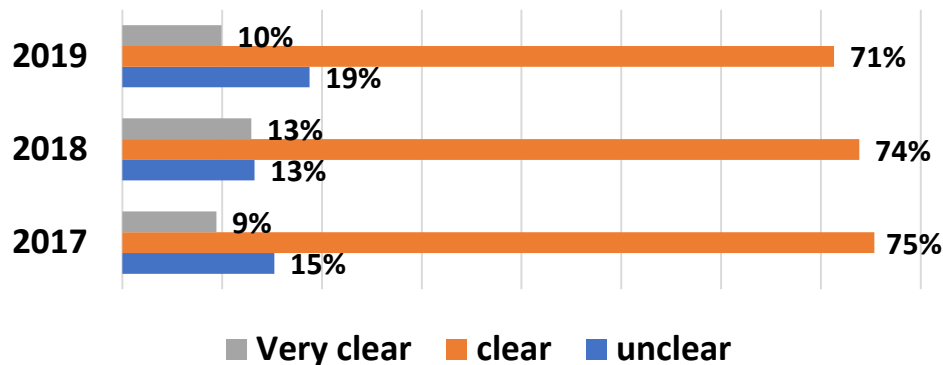


*Business - the number of tax appeals is **increasing** year by year*

*- 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*

# INFORMATION AND COMMUNICATION WITH TAX ADMINISTRATION

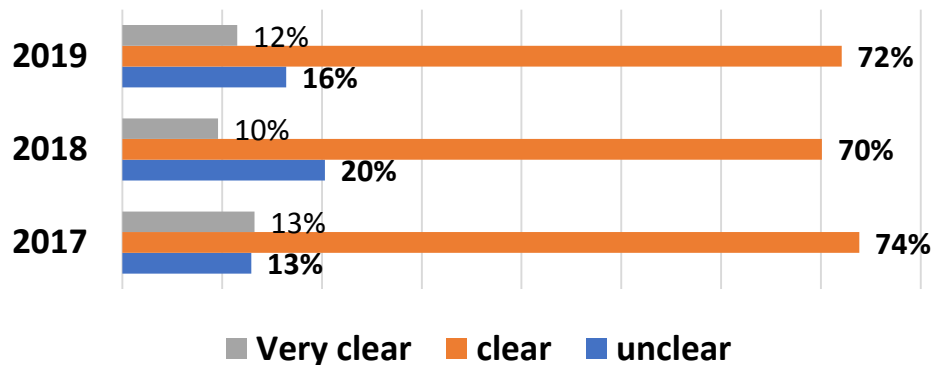
*How would you rate the clarity of the information related to the tax legislation provided by the Tax Administration*



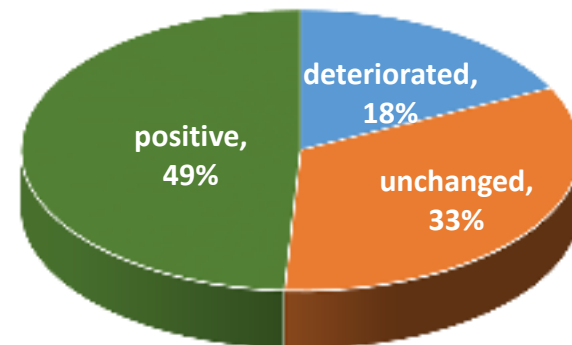
*Businesses almost remain at the same levels (2017-2019) regarding the clarity of tax legislation, while better assessing clarity regarding administrative procedures*

*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*

*How would you rate the clarity of the information related to the tax procedures provided by the Tax administration*

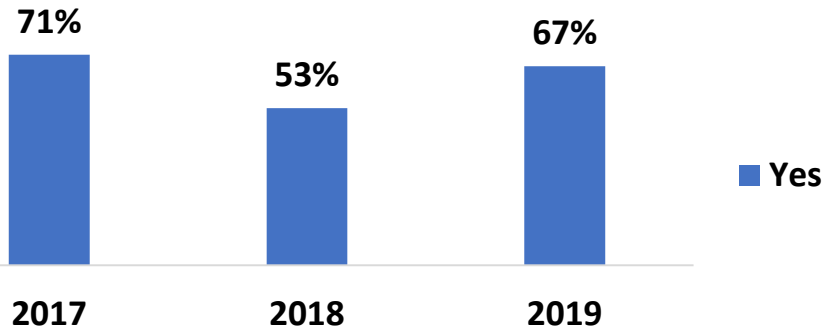


*How would you rate the change in the communication of the tax administration in the last two years?*

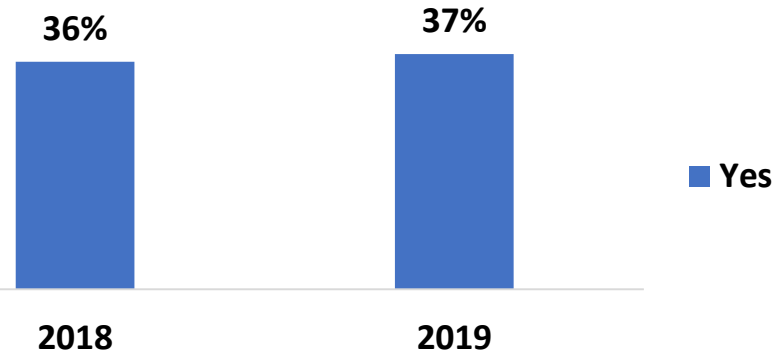


# INFORMATION AND COMMUNICATION WITH TAX ADMINISTRATION

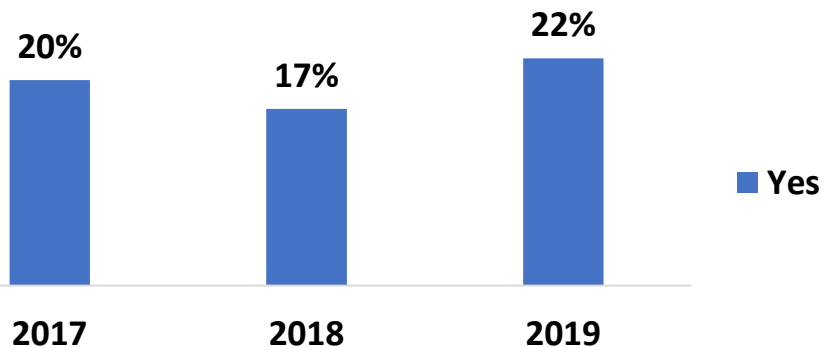
*Are you aware that the selection of taxpayers to be inspected is done through the new risk-based system?*



*Do you as business have information on the new risk-based system?*



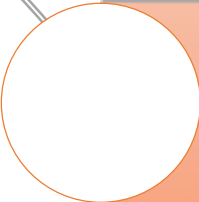
*Have you ever attended any training session provided in the last years by the Tax Administration on the implementation of tax legislation?*



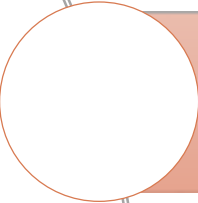
*Businesses appear to be more informed (in 2019) about risk-based selection than half of them are aware of this fact even though there is still much to be improved, especially on business knowledge of how the system works of risk*

*Increased training sessions reported by businesses - benefited from the GTD*

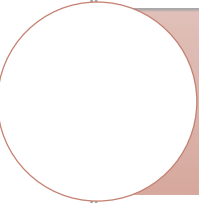
# CONCLUSIONS



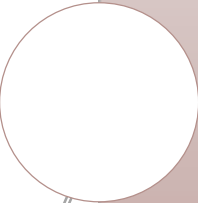
***The tax audit typology has shifted from full tax audit to fiscal visits and on-site inspections. The number of businesses controlled more than once a year is also reduced***



***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***



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# III. VAT REIMBURSEMENT

*Note: Data on VAT reimbursement cover period September  $t$  – June 2019  $t-1$*

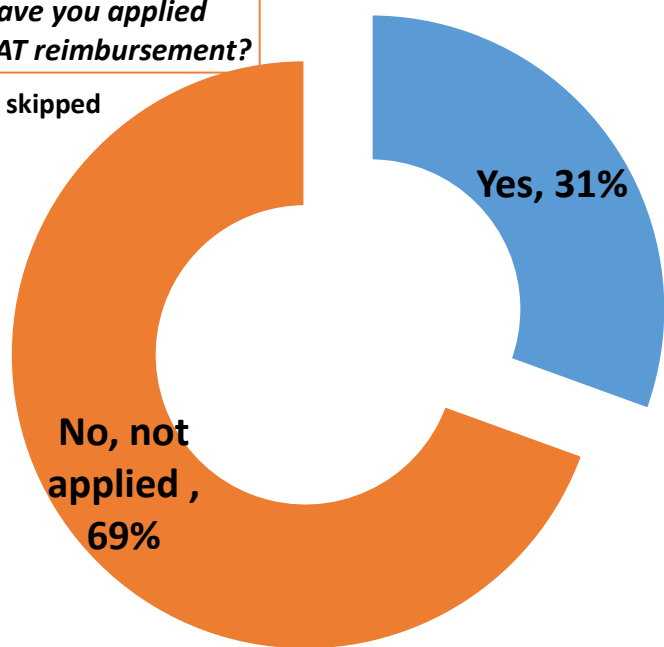
# VAT Reimbursement – Profile

*31% of companies eligible for VAT reimbursement state that they have applied for VAT refunds; of which 55% are exporters*

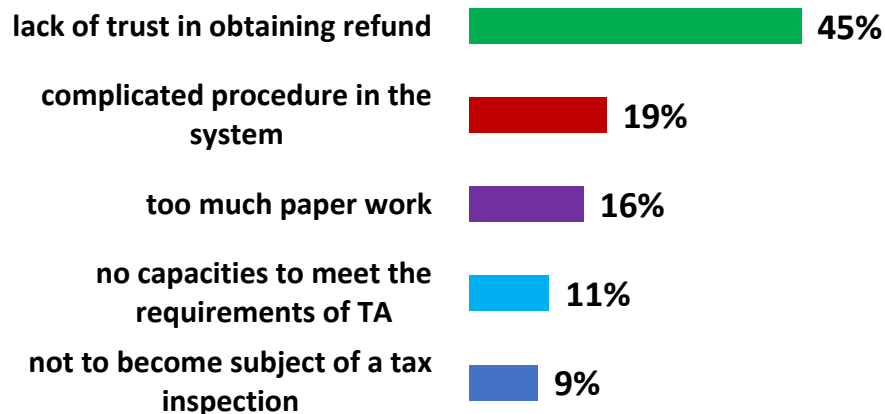
*45% of businesses that have not applied for VAT refunds state that the main reason was the lack of trust in receiving the refund*

**Have you applied for VAT reimbursement?**

12% skipped

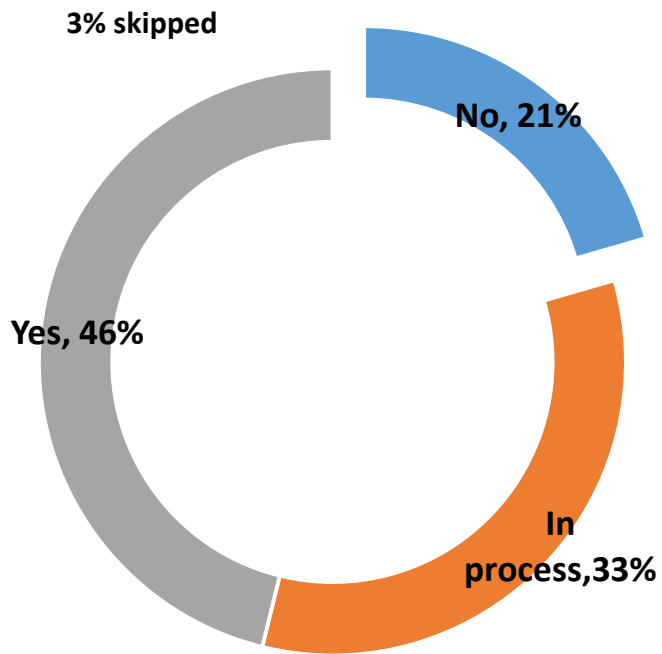


**Reasons not applying for VAT reimbursement, 2019**



# VAT Reimbursement

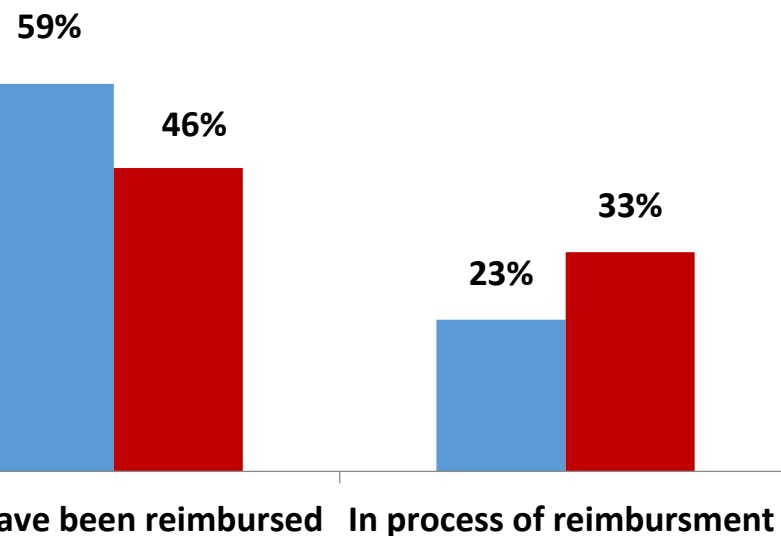
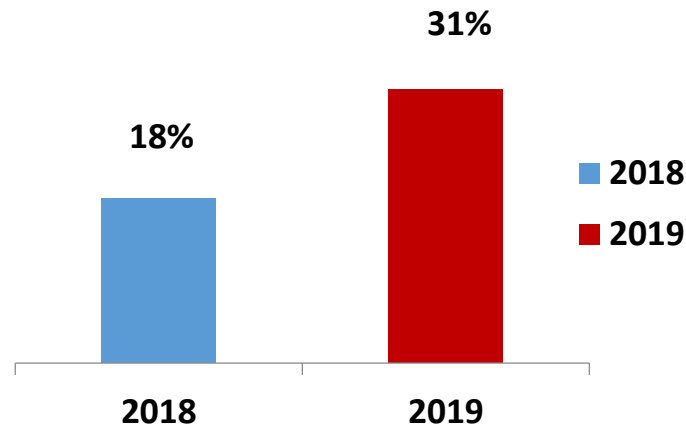
## Have you obtain VAT refund? (2019)



**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*

## Yes, have applied



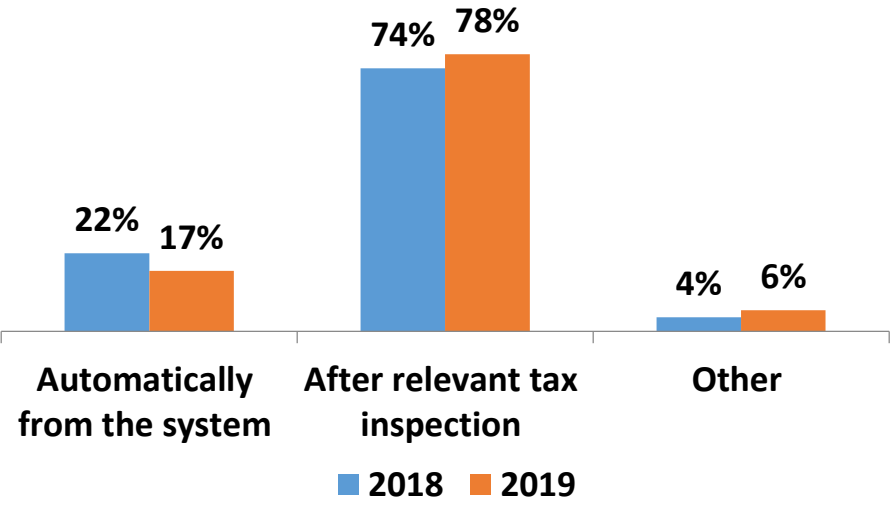


# VAT REIMBURSEMENT

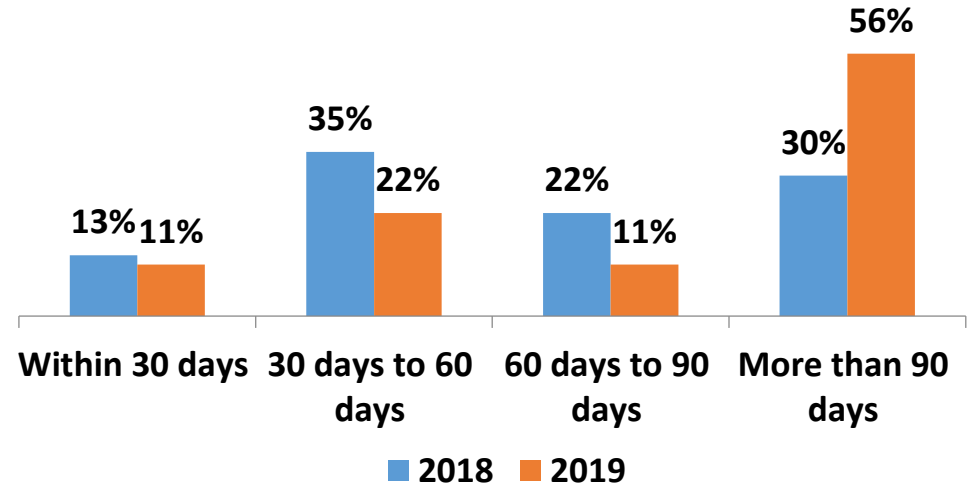
*In 78% of cases reported during 2019, reimbursed VAT is obtained after exercising tax control - similar to one year ago*

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

**How have you obtained VAT refund?**

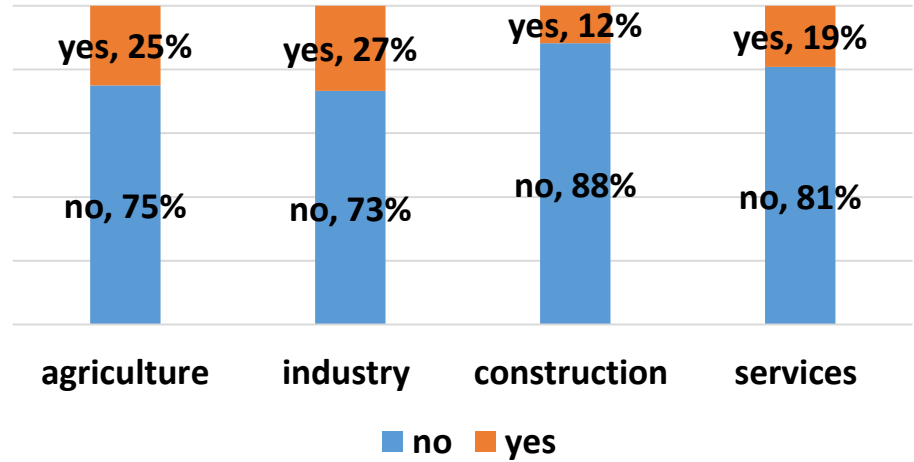


**What was approximately the time duration of the VAT refunding procedure?**



# VAT REIMBURSEMENT VS INVESTMENT (2019)

Has the VAT refund process affected your decision to invest?

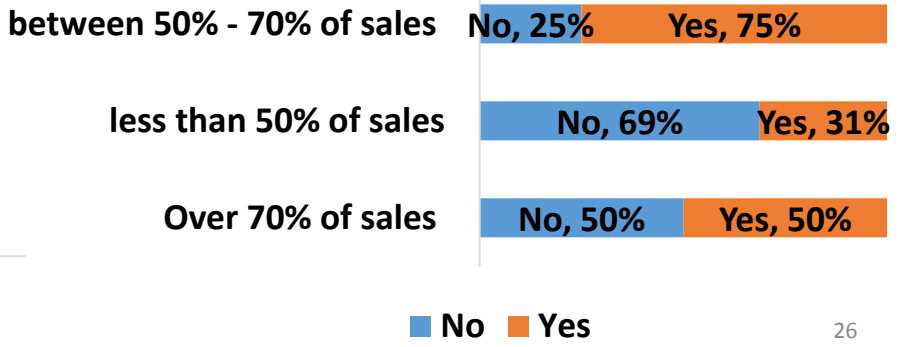
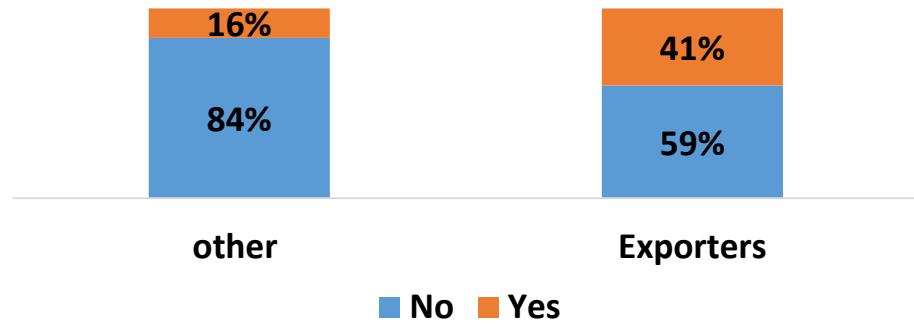


*It is noted that businesses are less vulnerable to VAT reimbursement when it comes to investments*

*The construction sector has the lowest sensitivity; meanwhile exporters are somewhat more sensitive*

## Exporters, Reimbursable VAT vs investment

### Exporters vs. non-exporters



# 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***



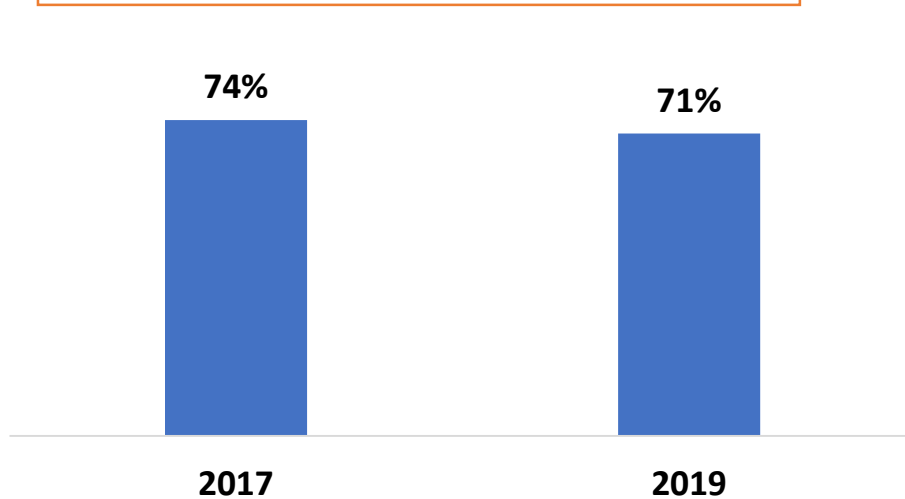
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# IV. INFORMALITY

# Informality – Business Perception

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



*Business perception on Informality, 2019*



*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*

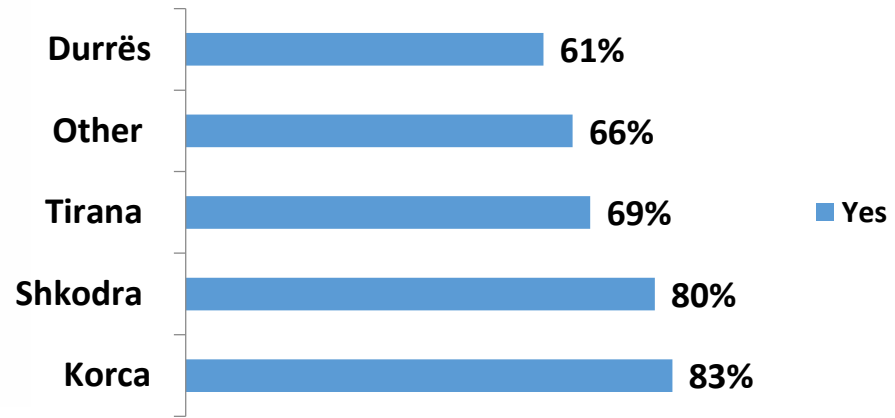
# Profile of Informality – Survey 2019

Do you face competition deriving from informal activities in your operating sector?

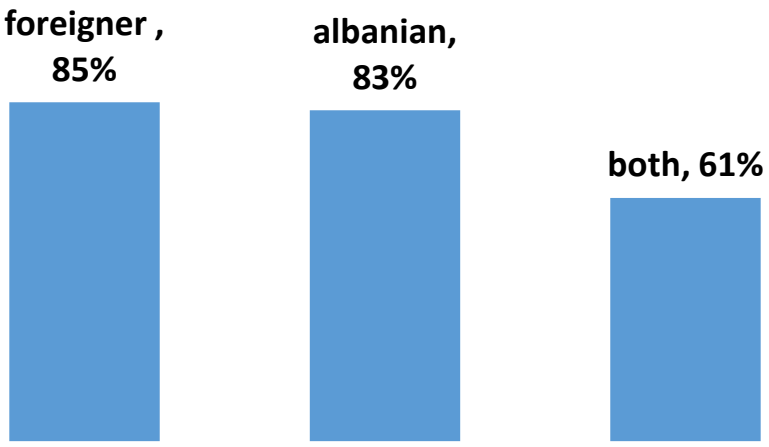
The perception of informality remains at the highest levels for:

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

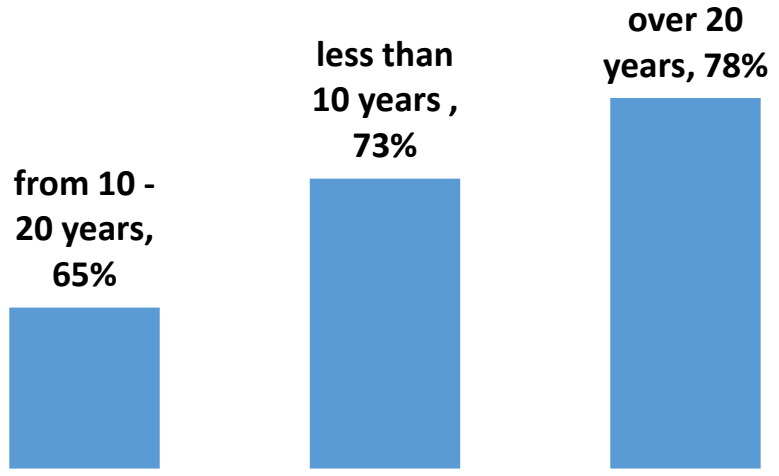
Informality as per county



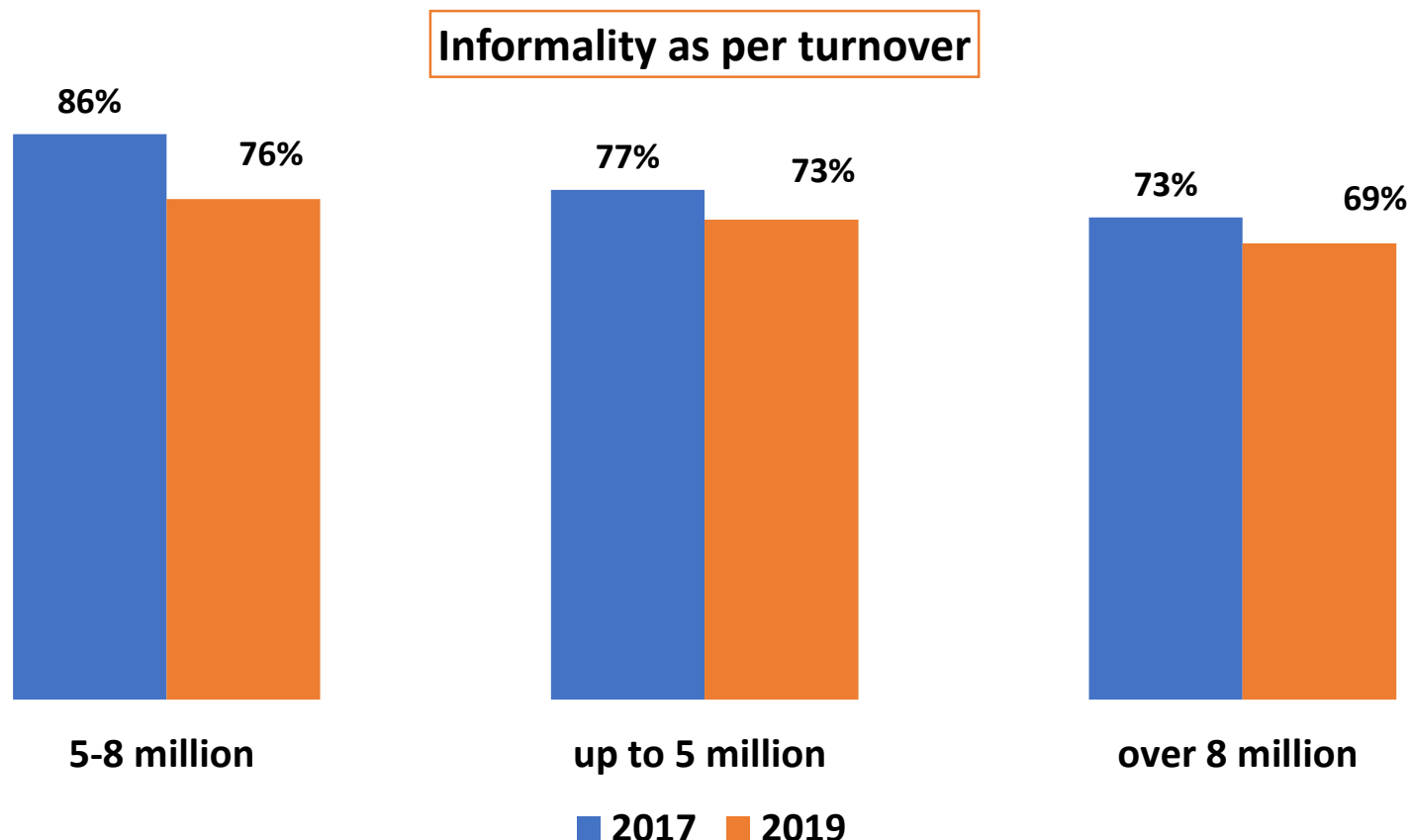
Informality as per ownership



Informality as per age



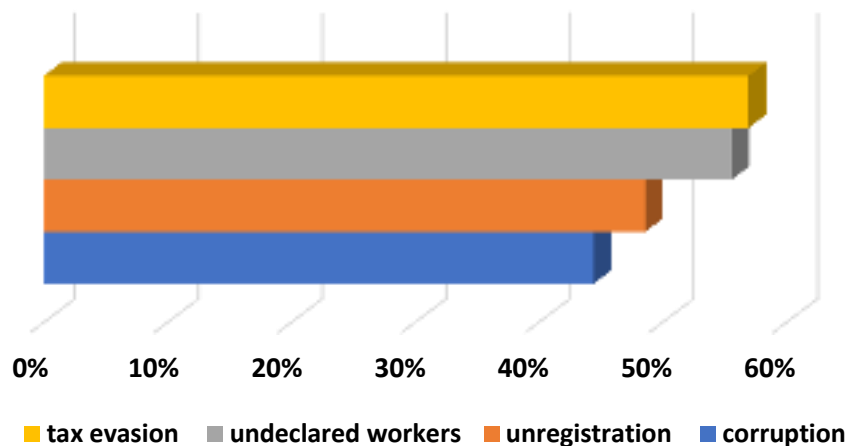
# Informality – Turnover



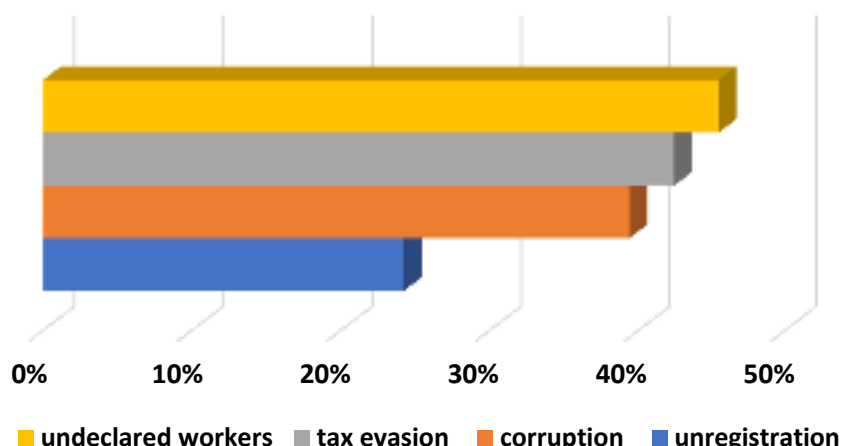
***We have some kind of confirmation or trend that for the period 2017- 2019, businesses with turnover 5-8 million have generally higher perception of informality, while businesses with turnover of over 8 million have generally lower perception.***

# Nature of Informality – as per turnover (2019)

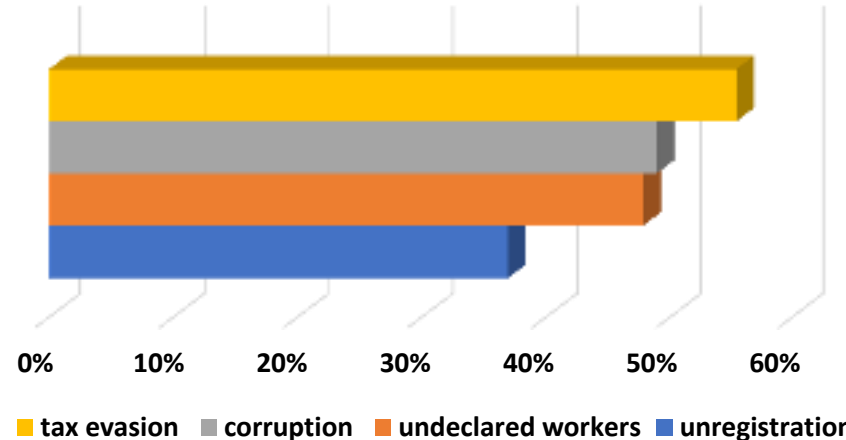
up to 5 million



5 - 8 million



over 8 million

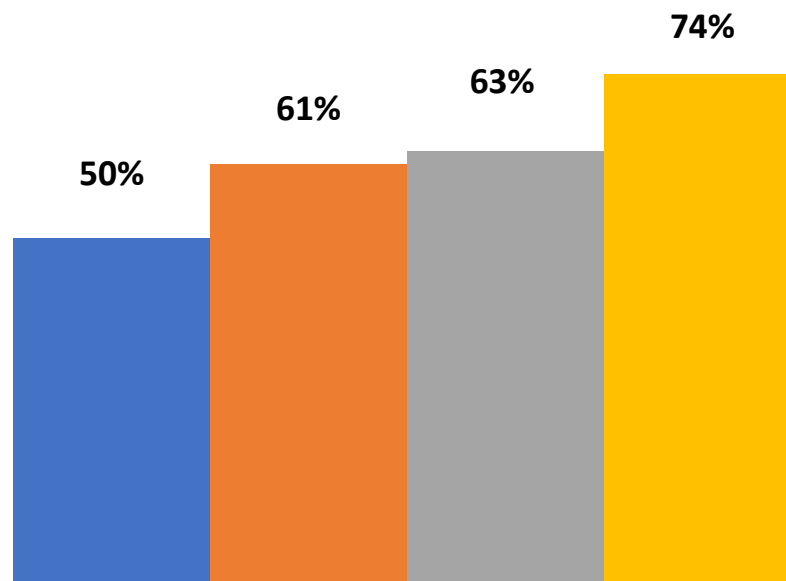


*Businesses with a turnover of up to 8 million think that the nature of informality is generally related to tax avoidance and undeclared workers, the same trend over the years*



# Informality – as per economic sectors (2019)

Informality as per sectors



*According to business perception, the **services sector** has the highest informality followed by the **construction sector***

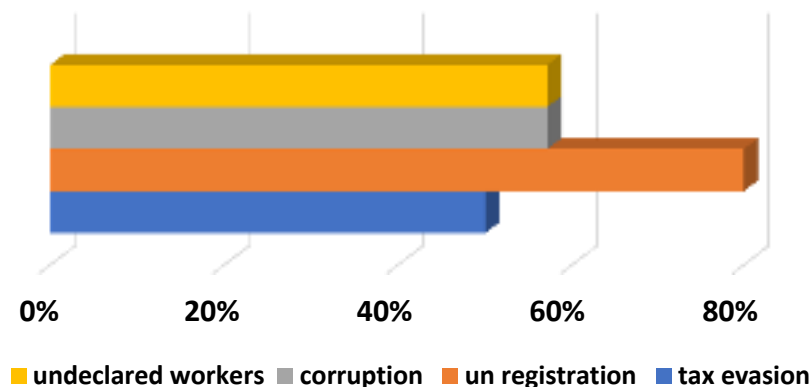
2019

■ agriculture ■ industry ■ construction ■ services

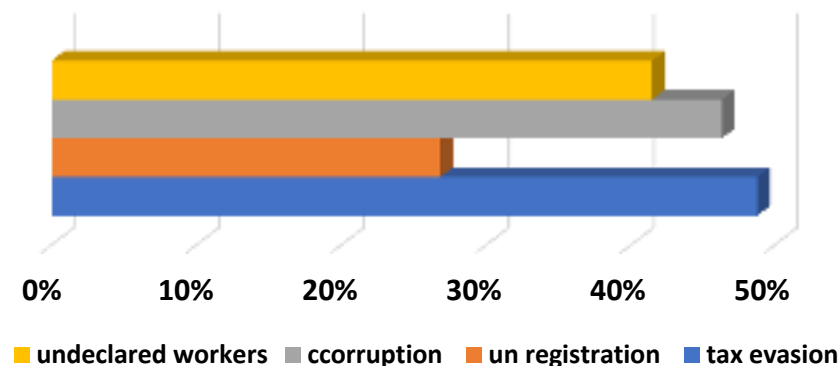
# Informality – Sectors

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

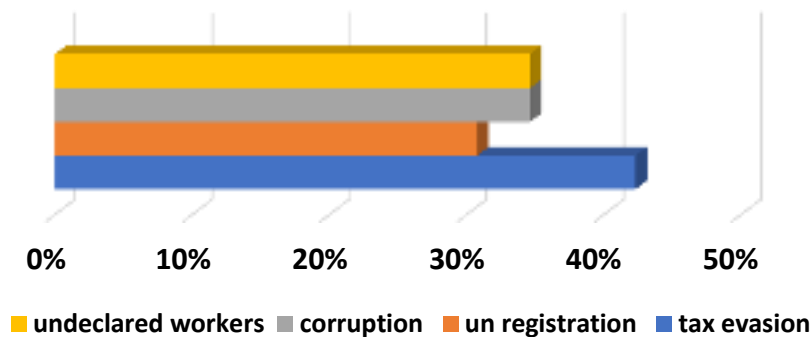
### Agriculture



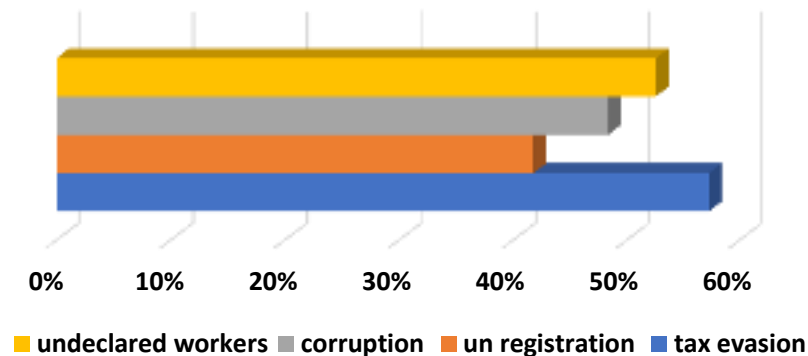
### Industry



### Construction

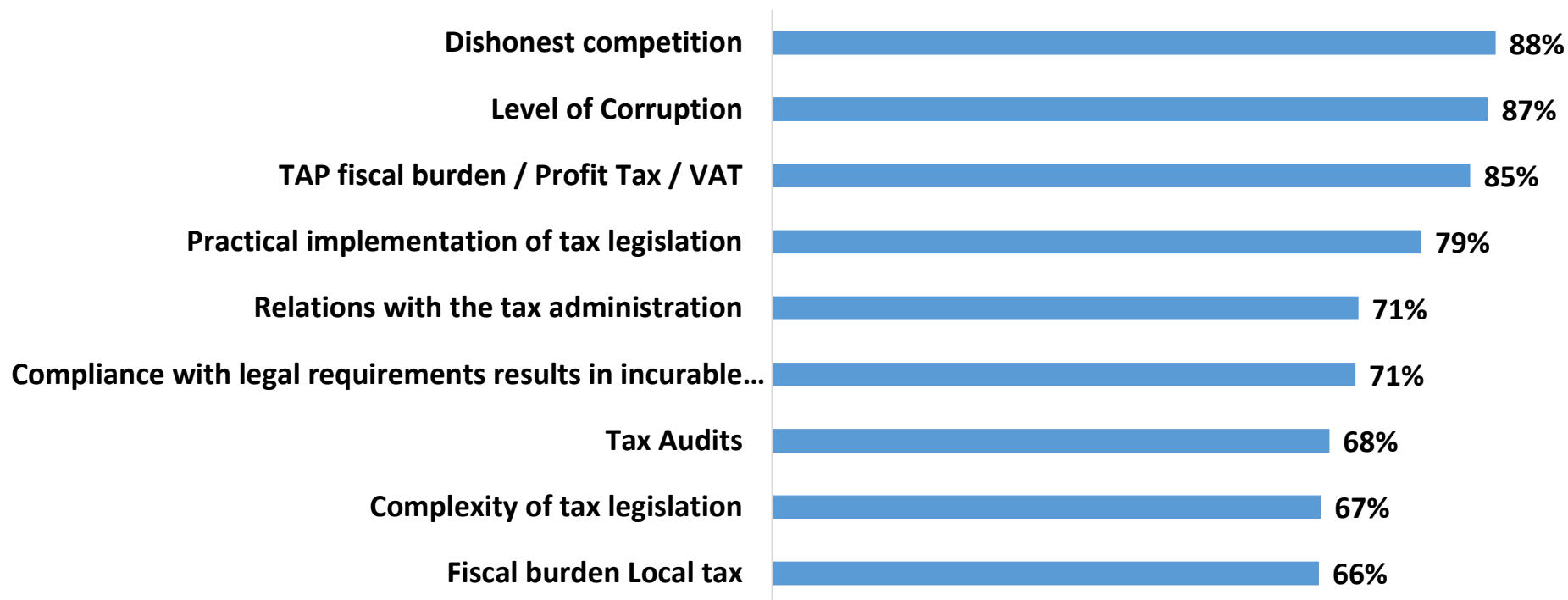


### Services



# Why Informal?

## Most important factor to informality 2019



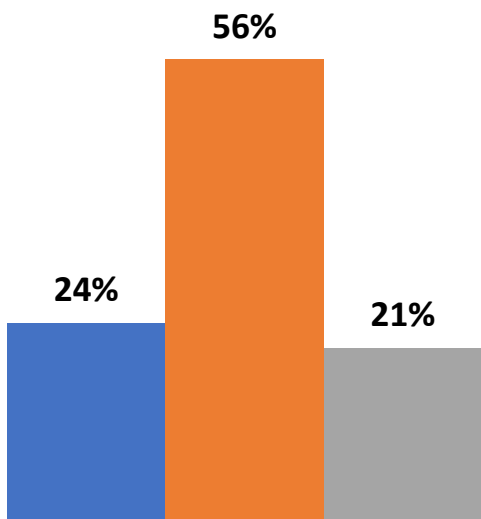
*Corruption, unfair competition and fiscal burden at the central level are the main factors driving the informality perception of business even during 2019, while unfair competition passes in 2019*

*The complexity of tax legislation and local taxes are the least important factors during 2019*

# Formalization Strategies

*Overall, there is a business effort to formalize, both at the individual level and at the sector level, a percentage that has been increasing.*

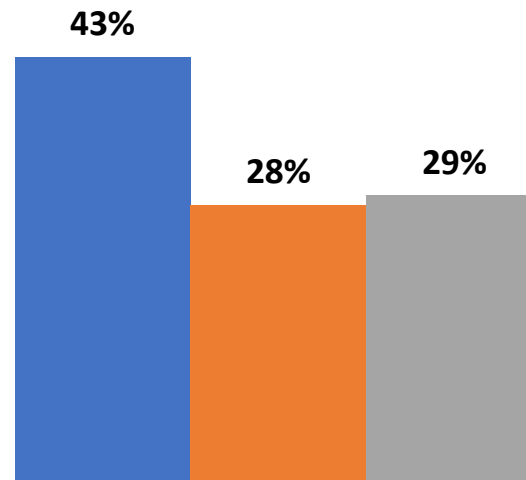
**If there is a degree of informality in your business do you have strategies to formalize it?**



2019

- No strategy
- no informality
- Yes I have a strategy

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

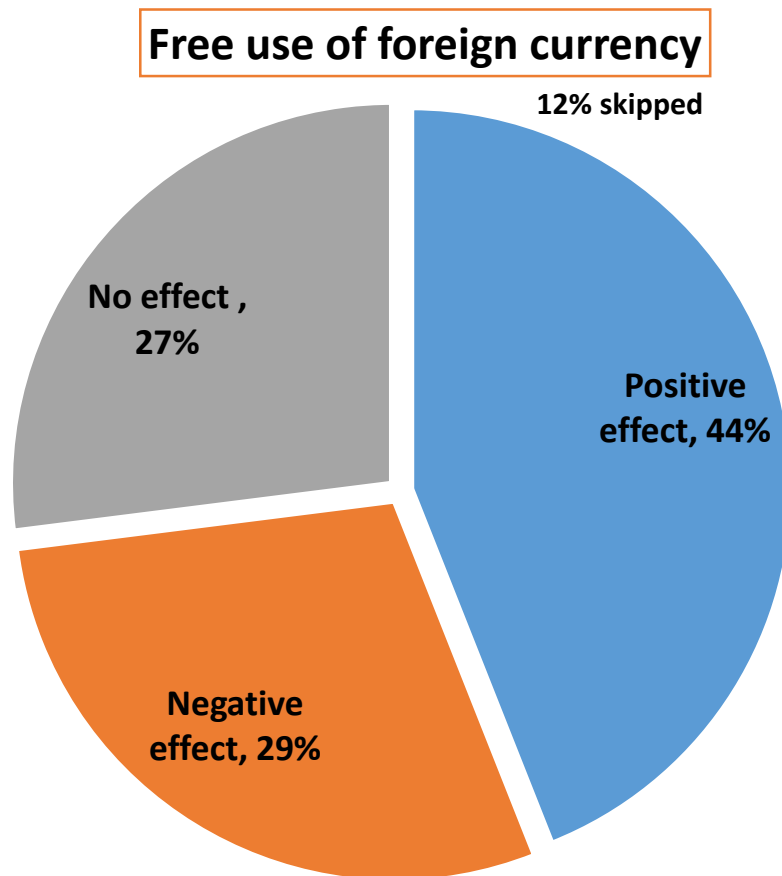


2019

- No, never discussed
- No informality
- Yes, we have discussed

# 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***