

The Impact of Increase of Taxation in Behavior of Consumers in Developing Countries, Case of Albania



Economy

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Abstract

Income in developing countries represent a vital factor in the wellbeing of inhabitants and the whole society. The consumer behavior changes in linearity with the change, meaning so increase and decrease, of tax rate. Albania, as a post dictatorial country and yet a transitional economy with a very fragile economy has been having a very unstable tax policy. The change of taxes had an impact on the development of the economy, so periods of time with low or flat taxes are accompanied with higher incomes and a higher rate of GDP. Constructive state policy in the field of consumption plays an important role in sustainable social and economical development of economy. The state regulates the consumption process by means of fiscal policy, building the socially oriented budget of the country, creating a fair taxation system for the population that stimulates domestic demand and economic activity. The aim of this article is to verify if the income after taxes influences in the consumer behavior. If there happens to be found a linear correlation between the income and consumer behavior and we know that higher tax rate means a smaller amount of net income what is the correlation between taxes and consumer behavior ? In this continuity of the article the major tasks are: analysis of income level to the type of consumer behavior and social group of the consumers; analysis of the influence of Albanian taxation system on the possibilities of increasing the domestic demand of different population groups; defining the measures intended for increase and growth of domestic demand.

Methods of Research

The monitoring of consumer behavior and consumer confidence is made up to the Albanian barometer and data are gathered form different institutions and Bank of Albania.

An examination of the situation in Albania is taken. The factor analysis of the period was carried out in the period of the lowest consumer confidence because we aim to reveal the types of consumer behavior of Albanian population depending on income, social group, education and age.

Consumer Behavior and its Types

In the current research the term *consumer behavior*¹⁶ is understood as the aggregate of factors characterizing actions of consumers and their preferences [1, p.80]. Consumer behavior was analyzed based on three major types of consumer behavior: active, traditional and tolerant. The active type of consumer behavior is typical for present day consumer society. It is expressed by the widely spread practice of the "credit consumption" based on the broad and easily accessible system of credits and loans. The traditional type is attributable to societies with traditional value systems. In this type of consumption the expenditure is equal to income and based on the settled norms of the consumer behavior, that is passively-adaptive demand. The tolerant (or formative) type is typical for peripheral or transitory consumer groups. In this group various types of actively-adaptive demand are predominant.

Correlation of Income and Income Level to the Type of Consumer Behavior

Income is the definitive factor of consumer behavior in Albania. Income is means in monetary and natural value, which a person receives from other people or organizations for covering personal expenditures. These means incorporate wages and other types of income from activity (after the tax payment); including transfers, net income from the business or agricultural activity, property (rent), dividends and other means. This factor of consumer behavior of the households in economics of Albania has been examined in details.

¹⁶Black J. A Dictionary of Economics.Oxford University Press.Oxford UK, 2002. ISBN: 0-19-86-1349-0. P.512.

Types of consumer behavior of population of Albania according to their income, %

Average monthly income for each member of the family, in Albanian Lek	Types of consumer behavior			
	Active	Tolerant	Traditional	Total
To 7'000	18	21,7	60,3	100
22'000-30'000	34,7	33,3	32	100
30'001-44'000	20	52	28	100
44'000- 97'030	33	39,5	27,6	100
Over 97'030	57,3	26,2	16,5	100
No answer	32,1	31,7	36,2	100
Total	33,4	33,3	33,2	100

Source: author's calculations on the results of the factor analysis of Bank of Albania survey, N = 1004.

Consumers with monthly income above 97'030 ALL per person of household are generally classified with the active type of consumer behavior. They belong to the social group middle class (government personnel and specialists, businessmen, managers of enterprises, qualified workers). The social group is understood as the behavioral model (the set of expectations and actions), that is inherent to the particular part of consumers.

Consumers with income below 7'000 ALL per person are classified with the traditional type of the consumer behavior. They belong to the social group of lower class (low qualification and wage workers, unemployed, pensioners, housewives).

The group of consumers with the income between 30'000-44'000 ALL are classified as the tolerant type of consumer behavior. They belong to the social group middle class periphery (self-employed workers of the production and service sphere, farmers, students, semiskilled wage workers).

According to the results of the factor analysis, it can be understood that the majority of active consumers are in the state sector of Albania. In the private sector most consumers belong to the tolerant type.

Among the directors there are 94% of active consumers. 91% of the specialists and officials represent the active type of consumer behavior. The workers are divided between active and tolerant types of consumer behavior, respectively 40% and 60%.

The majority of the self-employed and farmers are tolerant consumers. Among the pensioners there are 62% of tolerant type and 38% of traditional type consumers. Most of the unemployed represent the traditional type of consumer behavior. There are no active consumers among the unemployed. Generally, housewives and the unemployed live on transfers and belong to the traditional type of consumers.

Among the people with basic education there are 50% traditional type consumers. Among the consumers with secondary education there are about 43% of traditional type consumers. In the group of consumers with specialized secondary education there are more representatives of the tolerant consumer type, but active and traditional types make up 30% combined. Consumers with incomplete higher education (students) almost do not differ from consumers with secondary education in their consumer behavior. The majority of active consumers are the consumers with higher education – 63%.

The most active consumers (51%) belong to 35 – 44 years old age group. The majority of tolerant consumers are in the preretirement age group 55 – 74 year olds, but of the traditional type (55%) in the age group of 18 – 24 year olds.

Consumer confidence is the second most important factor consumer behavior in Albania. The higher the income, the higher consumer confidence of the population and other vice versa.

Generally the income of the population in Albania had the tendency to grow due to various reasons in the time period between 2005-2013. In the period of income growth 50-100% annually between the years of 2005-2013, households spent more than they earned. Consumers acquired debts and did not save. Many households are used to spend their entire income and for its reasons their consumption entirely depends on their income. Tirana become the leading region with the highest income per person. In other regions of Albania the index is also lower than in Tirana region. The same state of affairs remains.

<i>MONTHLY INCOME BY PREFECTIRES-RURAL AREA¹⁷</i>										
<i>PREFECTURES</i>	Total monthly income	Income from paid employment	Income from own agricultural and non-agricultural company	Pensions	Property income	Other fees and additional receipts	Poverty benefit	Remittances	Receipts in cash from relatives/ friends in the country	Other Income
<i>Berat</i>	31,144	2,693	13,921	3,217	44	1,016	209	9,066	848	130
<i>Dibër</i>	25,259	6,934	4,517	3,282	29	866	815	8,628	85	103
<i>Durrës</i>	32,812	12,496	11,628	3,950	376	435	353	3,348	169	56
<i>Elbasan</i>	22,020	3,221	5,575	3,639	30	636	273	7,974	647	26
<i>Gjirokastrë</i>	40,232	6,969	19,265	9,663	9	896	110	2,814	159	348
<i>Korçë</i>	28,646	6,136	12,961	3,710	239	465	123	4,257	357	398
<i>Kukës</i>	20,933	4,901	8,503	3,922	-	1,083	707	1,307	378	31
<i>Lezhë</i>	22,129	6,337	8,151	4,058	4	816	298	2,394	72	-
<i>Shkodër</i>	29,145	4,718	14,477	4,336	106	268	171	4,384	684	-
<i>Tiranë</i>	50,226	10,799	23,152	5,548	804	865	48	6,530	249	2,232
<i>Vlorë</i>	40,019	9,356	16,126	3,999	1,012	768	42	7,767	491	458
<i>Fier</i>	32,332	8,218	10,144	3,833	6	563	95	9,125	258	90
<i>Lushnjë</i>	26,453	4,390	14,570	3,234	38	382	-	3,625	213	-
Total	31,499	6,894	12,694	4,223	241	661	223	5,796	370	398

Source: Household Budget Survey, 2006-2015

The Influence of Albanian Taxation System to the Possibilities of Intensification of Domestic Demand

The variables, which influence the income of consumers (basket of goods, minimal wages, exemption limit, personal income tax) have been analyzed. Every country has its own understanding of minimal and maximal consumption for the households depending on the level of social and economical development of the

¹⁷Institute of Statistics Albania. <http://www.instat.gov.al/al/themes/të-ardhurat-e-familjes.aspx?tab=tabs-5>

society. Therefore the state itself forms norms of consumption that are based on the basket of goods, minimal allowance level, minimal wages, etc. The value of the basket of goods and services of minimal allowance level since April 1991, when this statistical index was factored in, has increased significantly. *The part of various taxes in tax payment of each quintile (population group by the income level) in 2015, %*. Level of taxes on personal income will be 7.5 % of personal income. Rate of taxes on profit will be 15%.

Taxation on personal income by employment.¹⁸

Taxable income		Percentage
0	30'000	0 percent
30'001	100'000	+ 15 % on the sum over 30'000
100'001	Above	10'500 ALL +20 % of sum over 100'000

This kind of taxation is known as Corporate Income Tax. Being subject of fiscal law an entity is classified by the turnover not by the juridical form of an entity.

Measures (Tools) Needed for the Intensification and Growth of the Domestic Demand of the Population

Increasing the real earnings of the poor consumers (which includes more than a half of the population of the country) will give the opportunity to activate the domestic demand and it is the factor for the exit of Albanian economics from the recession. Within the current legislation of Albania there are three instruments for this: direct reduction of the tax rates, increase of the exemption limit (tax credit), and introduction of the progressive income taxation scale.

Implementation of these instruments as the effective measures will help the population groups with low and medium income levels to activate their consumer demand, and the highly qualified specialists-professionals will be able to reach decent income levels. The use of these three elements can give the positive result: to increase the budget and to increase the real earnings of the low income group of the households. For example, the decrease in purchasing power of the population reduced the possibilities of export tourist services. More and more firms in Albania are oriented to the consumers from higher social group and higher income. Citizens of Albania who work abroad prefer to use the services of the tour operators in the countries they live in.

Along with that the change of traditional values, attitude towards the recreation, young people`s growing mobility, interest in the life styles of other peoples of EU countries, and growth of unemployment has led to the new forms of tourism: work outside of Albania and Medical Tourism. On the grounds of present research several conclusions can be drawn. Consumers with respectively high income are characterized by an active type of consumer behavior, and the consumers with low income are characterized by tolerant or traditional types of consumer behavior.

Recommendations for the future¹⁹

A strong recommendation is made on favor of flat tax and other lower taxes that would make again the region very attractive to foreign direct investments and would enhance the development of Albania.

Consumers are highly influenced by tax rates and for this reason we should try to have low taxation rates to enhance domestic development.

¹⁸ <http://www.monitor.al/tatimet-shqiptare-ne-100-vite-1912-2012-3/>

¹⁹ <http://www.monitor.al/dilema-e-paketes-se-re-fiskale-2/>

There are challenges toward the current fiscal policy in Albania. Analyse of fiscal policy for 2015 related to fiscal invasion and the deviation of tax obligations results that the higher the tax rate the higher the possibility not to pay the taxes and try to use niche spaces to invade taxes. More confused and more traditional will be even consumers. Even though macroeconomic politics will take financial measures to motivate consumers to use their savings still they tend to keep them.

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