

Tax System Reforms in the Republic of Albania as part of the Western Balkans of European Integration



Economy

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Abstract

The aim of this paper is to show the reforms of the tax system of the Republic of Albania in terms of revenue from the various types of direct taxes. A comparison of the dynamics of tax revenues in Albania with revenue growth in Bulgaria and the two countries of the Western Balkans, Croatia and Slovenia already have membership in the EU. The period of analysis covers the years from 2008 until 2014. The main conclusion is that the reforms in the tax system in Albania are well developed, but have yet to modernize and Europeanize.

Introduction

2008 in the Republic of Albania was introduced flat income tax rate. As in the Bulgarian tax system in Albania, the rate of income tax was fixed at ten percent. This rate applies to corporate income to the income of individuals, as well as the income taxed at source. Therefore it can be argued that there is a true flat tax, because all income in society subject to the same rate. Since the beginning of 2014 the current model of flat income tax is replaced by a progressive tax on individual income and profits of legal persons.

The introduction of the flat tax in Albania is not an isolated case. In recent years, many countries in Central and Eastern Europe "return to the proportional income tax", the main motive for the adoption of which is "an effort to increase economic growth." There is evidence that the positive effects of the flat income tax rate are controversial and stimulating the economy is more pronounced in terms of proportional taxation.

From 2008 to 2013 is in force proportional tax rate of tax, which is levied on individual income in the Republic of Albania. During this period, the tax rate of ten percent. Income from employment is established minimum amount of income which is not subject to income tax. This amount of exempt income is 30000 lek.(1€=140 lek) For these characteristics taxation of personal income differed from the individual income tax in Bulgaria, established by early 2008. The last was not established threshold of taxable income, which give asocial nature of the taxation of personal income in Bulgaria. Tax preference, which is a 2014 recovery of income tax on people who work in the minimum wage can not be considered a genuine tax-free threshold from which can benefit all taxpayers. Therefore, it can be argued that the model of a flat income tax in Bulgaria is disturbed.

Both sides of the analyzed region, which are already members of the European Union do not apply t. Pomegranate. Flat income tax rate. In Slovenia, Croatia and the Republic is a progression in determining tax liabilities on income of natural and legal persons. Rates of individual income tax in Croatia ranged from 12% to 40% depending on the amount of taxable income. The special feature here is that the tax base is gross income from which is deducted the amounts of pension payments, which amounted to 20% of gross income. Furthermore, the established threshold is the minimum income that is not taxed. Any individual discount income to 2200 (1€=7.67 HRK) Croatian kunas per month, this discount can be increased depending on the number of persons whom a dependent taxpayer.

In Slovenia established shedulyarna system for taxing income. Tax rates ranged from 16% to 50%. Moreover, it is provided and common minimum taxable income that can be used all resident taxpayers. There are also tax breaks for special situations that can be used as disabled workers.

Especially important revenue of the state budget is the second income tax, namely the tax on corporate profits. This tax is important not only as a source of budgetary need: money, but also as a political tool for managing impacts on investment activity of companies. In what are the income and expenses recognized for tax purposes appears regulatory nature of the state in terms of business performance. Or in the tax law "provides for various tax benefits and burdens which are a kind of regulator, allowing the state to manage control over the development of the economy. As if the state wants to encourage investment activities of business organizations can establish a separate tax on, ie levying higher tax profit intended for distribution to the utility objectives of owners and levying lower tax or one with zero retained earnings, ie one that remains in the company and will be used for investment and expansion.

It should also be noted that excessive corporate tax rates can destroy incentives to work the business. Others have implications for the harmfulness of taxation of capital (profit) that "usually based on the assumption that the profit is reinvested (saves)." In this "situation any taxation of profits leads to further (other than VAT and excise duties, for example) tax on future consumption, compared with the current."

In the Albanian tax system taxation of corporate profits has limited importance as a source of revenue of the budget. The rate of tax on profits until the beginning of 2014 was down 10%. So it corresponded with the rate on income tax of individuals. With a large change in income tax, which is in force since January 2014, remove this apparent correspondence and changes occurred in the proportional nature of the tax on corporate profits. Furthermore, in the most common case, ie for companies with an annual turnover of over 8 million lek ten-percent tax rate rose fifteen percent. The intermediate stage of progression are companies with a turnover of 2 million 8 million Lek. Tax rate levied on their positive financial result adjusted for tax purposes, is 7.5%. Companies with annual turnover of 2 million Lek are subject to excise simplified income tax on small businesses in the amount of 25000 lek. This amount should be paid in the first six months of the year.

In the European Union is a widespread practice in the income tax on individual income be established progressive rates and the taxation of corporate income to establish proportionate. In the United States, for example the regime of taxation of profits at the federal level is based on a clear progression rates. Depending on the amount of taxable income tax rates range from 15 to 35%.

In Bulgaria, as in both member states of the Western Balkans is established similarly proportional taxation of corporate profits. In Slovenia is regulated standard rate of 17%. Unless it is regulated and zero financial performance of certain public funds for organizations that manage pension funds and companies called. Venture capital. The rules governing corporate income tax in Croatia provides tax rate of 20%. It is important to note also that, like taxation in Slovenia, and here provided substantial tax incentives for research and development. Legal persons having committed costs of such activities can reduce their taxable base by 100% to 150% of the amount of expenditure incurred.

The few proportional income tax in Bulgaria is lower than the established taxes on corporate profits in the reviewed countries of the Western Balkans. Bulgarian tax is one of the lowest in the entire European Union. Other things being equal, this makes Bulgaria more attractive to foreign investors. At source is levied on dividends paid to foreign persons, interest paid to foreign persons, as well as fees for rents and royalties paid to foreign persons. Tax rate of taxes withheld at source is 10%. In the same row are taxed fees for technical services in the territory of the Republic of Albania by foreign natural and legal persons. The ten-percent tax rate is levied on the total amount of technical service fees, management fees, and payments for the construction, installation, assembly or other similar work carried out by non-resident person. Income from such sources paid to foreign persons are not taxed at source, if signed a tax treaty with the country whose resident is the person.

Income from the same source categories in Slovenia deducted tax at source at the rate of 15%. In the Republic of Croatia has established a much more complex system of taxation at source. To determine the tax liability dividend distributed for the benefit of non-resident person is subject to a tax rate of 12%. Interest payments to non-residents are taxed at 15%. The tax is 20% when the income is paid to a person who is established in a country outside the European Union, which has an average rate of corporation tax of less than 12.5% and which has not concluded a tax treaty with the Republic of Croatia. Similarly 15% tax rate is the tax which is deducted at source on income from rents and royalties, and paid in favor of non-resident persons fees for technical services. Again, the tax becomes mandatory 20% when the income is paid to a person who is established in a country outside the European Union, which has an average rate of corporation tax of less than 12.5% and which has not concluded a tax treaty with R. Croatia.

In the Bulgarian Law on Corporate Income Tax are regulated rates of tax withheld at source on income paid to foreign persons. Dividends and liquidation proceeds are taxed at the rate of 5%. Income from interest, royalties are taxed with petprotsentov tax. Income outside interest, royalties paid to foreign entities are not realized through a permanent establishment in the country and source of income in the country of foreign legal entities established in jurisdictions with preferential tax treatment if they are not realized through a business in the country, subject to withholding tax at the rate of 10%, which is final. This shows that income tax at source in Bulgaria is lower compared to the three Western Balkan countries examined.

As another direct tax table is referred to local tax on small businesses. Effective January 1, 2014 is the change in tax legislation, according to which the local tax on small businesses has been replaced by the simplified income tax on small businesses. Each unit which carries out business in the fiscal year, realized annual turnover is less than or equal to eight million light subject to simplified income tax. The taxable turnover of small business include, but are not limited to, income from sale of goods and services, income from shares, interest income, income from the use of movable and immovable property.

The rates of tax levied on the performance of small companies are listed as part of the Corporate Income Tax. They are as follows, the profit of companies with an annual turnover of 2 to 8 million light taxed at a rate of 7.5%, and companies with an annual turnover of up to 2 million pay tax at 25000 lek.

Thus enabling local budgets receive income tax corporate profits. Taxing a simplified income tax on small business companies with an annual turnover of up to two million light by way of implementation approaches to patent tax.

Are liable for simple income tax are small producers and traders who pursue traditional crafts, as well as persons with services, provision of which is inseparable from the person providing the service. It is therefore difficult to determine with accuracy the financial result of the activities of these persons. To avoid difficulties for the tax payers and unjustified administrative costs for the public administration, the law provides a tax which is set in the absolute amount. This kind of taxation is a very weak source of revenue of the local governments budgets, which is result of 'inefficient taxation of the patent activities' in the new member states of the EU (Patonov, 2013, p.65).

Nevertheless, we can not talk about developed patent taxation. Moreover, the legislation does not even use formulations such as taxation of patent activities, patent or patent tax avoidance. In preparation for EU membership, however, must be amended legal regulations and to adopt and develop the patent tax. At this stage also need to create a table of activities which are taxed in this way and to provide for different tax rates for each of them. Since revenue from taxation of small businesses go to the municipal budget should introduce differentiation in the amount of tax due in view of the location of the premises. Thus can create progression and increase revenues to local budgets. But these are recommendations for the future development of the Income Tax Act.

Another traditional ingredient of the tax system are the taxes levied on the property. Levying of taxes of property rights is the least exposed to the adverse effects of mobility of the population and it causes external effects. Therefore, this group of taxes are identified as the most appropriate source of revenue for the local budget. It also stresses that in most real estate taxes are a major source of revenues of local budgets due to the general tax base, high rates of taxation and high tax collection. This principle has been adopted in the tax system of the Republic of Albania. Strong negative reaction from local residents regarding their payment arises because of four reasons: 1. conviction payers for increased tax valuation of taxable property, 2. the direct payment of taxes by payers 3. calculating the tax liability as a percentage of tax assessment as a result of which formed the conviction of regressive nature of these taxes 4. frustration of residents to counteract the public authority decisions on the size of the tax base and tax rate.

Property taxes can fulfill its role as a central pillar in the formation of revenues of local authorities when the state is able to build a functioning administration that successfully administer property taxes.

Other pertinent criticism of levies on property related to the mechanism of determining the amount of the tax payable. Assessment of the value of the property and the implementation of the corresponding tax rate is a source of many problems. They are related to the determination of the value of the property subject to taxation. On the one hand the basis for tax assessment is the market value of the property. After not yet a real sale, no permit accurate assessment of value. In determining property taxes are levied on both real and intangible components of value. There practice to the value of the real elements of the property to be added and the value of the mortgage on the property in relation to the debt assumed by the owner. So the assessment of taxable capital is increased and property is subject to a double squeeze on taxes.

Deduction for direct property taxes is relatively well developed in the Republic of Albania. Subject to property taxes are mainly real estate such as buildings and agricultural lands. Subject to taxation and transmitted by inheritance real estate.

Property tax is imposed on projects for construction of new buildings and equipment in the amount of 2 to 4% of the tax value of Tirana and 1 to 3% for all other municipalities. Tax rate that applies to the land ranges from 700 to 5600 lek per hectare depending on the intended use of the property. The tax levied on residential buildings and paid by the owners of such varied from 5 to 30 lek per square meter depending on the area in which the building is located and year of construction. Persons who hold more than one dwelling, pay tax for the next house, which is determined by applying the tax rate doubled. Inheritances and gifts are taxed under the taxation of income. The tax rate is proportional to the amount of 10%.

In Bulgarian law regulates property tax, Inheritance tax, in acquisition of property, on vehicles and tourist tax. In the Albanian tax legislation are not regulated as a tax levy on vehicle tax in acquisition of property and tourist tax. Given the less developed real estate market and less developed tourist sector in Albania could hardly expect these taxes contribute to seriously increase the revenues of municipalities.

In the Croatian tax system purchases of real estate are subject to tax on value added - whether carried out by companies or individuals. If the acquisition of real property is not subject to tax on value added, it is subject to sales tax on real estate is 5% of the market value of the property. Subsequent transfer is subject to tax on transfers of real estate. Subject to such taxation are the transfers of land. Acquired by inheritance or donation estate is taxed at the rate of 5% of their market value.

In the Slovenian tax system property taxation has similar characteristics to taxation in the reviewed countries to date. With property tax is levied on forest areas, residential and commercial property. Tax rates vary depending on the type and purpose of the taxable property. For owned forest areas provided tax rate of 0.07%. The residential buildings are taxed at the rate of 0.15%. The highest rate applies to properties with commercial and production. It amounts to 0.75%. The transfer of real property is taxed at the rate of 2% of the market value, if the transaction is not subject to tax on value added. Acquisition of property by inheritance and donation also be taxed, but its rates increase

progressively depending on the value of the property and the relationship between the donor or testator and acquirer of donation or inheritance.

Conclusion

The modes of direct taxation in the Republic of Albania are comparable with those laid down in the current countries of the European Union. Taxation of income based on the same principles on which they are based and the taxation regimes in Slovenia and Croatia. The experiment with the flat income tax rate in Albania was completed in 2013 and early 2014 found progressive taxation of personal income, as in most European countries. Removed link the tax rate on individual income tax with that of corporation tax. Were introduced elements of progression in the taxation of corporate profits. Income tax at source is also well developed. Established taxation of small businesses with simplified income tax is an important basis upon which to develop modern patent taxation during the pre-accession period. Another important conclusion is that the lowest income tax rates are established in Bulgaria. They are lower than the rates of the Albanian income taxes and significantly unjust social conditions. For the latter contributes lack of genuine non-taxable minimum income in Bulgaria. Relatively well developed is property tax in Albania, but there is still a need for dorazvitiya who will approach the utmost to property taxation in the European Union.

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