

EFFECTS OF THE NEW TAXATION SYSTEM ON RURAL HOUSEHOLDS IN ALBANIA

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ABSTRACT

Aim: The tax system is a key pillar of the conceptual framework for the design and implementation of economic policies in Albania. This system, being constantly subject to changes and reforms, sometimes uncoordinated or without follow-up, in certain cases contains contradictory or unclear provisions that do not provide accurate decisions on certain transactions or situations. Changes in tax law provisions and enforcement regulations have recently resulted in unintentional errors by Albanian taxpayers, which are reflected in most cases in small businesses or rural households. The situation is more complicated in rural areas since only 10–12% of the total number of farms are equipped with a Tax Identification Number (NIPT). The main objective of this study is to assess the effects of changing tax rates on the personal income of farmers. **Methodology:** To carry out this study, the descriptive study research method was used, and primary data were collected through 100 interviews with farmers, and also secondary data were statistically performed as well as analysed with the aim of making conclusions. **Results:** Findings show that the new income tax rate has changed many times in a decade, and this change has not positively helped farmers. **Conclusions:** Tax rates have changed irregularly and without a well-studied long-term policy. This must be improved quickly so as not to discourage farmers from following through with their activity and business in Albania.

Keywords: tax system, household, farmer, Albania

JEL codes: D18, E62, H21

INTRODUCTION

The tax system in Albania consists of a package of laws, articles, and tax instructions that aim to oblige, orient and instruct all local tax entities to report properly and to settle tax obligations to the state. The main types of taxes in Albania are: Value-added tax (VAT); Corporate tax (CT); Employment income tax (EIT); Personal income tax (PIT); Excise (ET), and Local Taxes (LT). All tax rates, as well as contribution rates for social and health insurance, have been constantly

subject to successive changes, often without a follow-up and without coherence concerning the economic and social developments of the country, which have become a constant object of study in order to identify weaknesses in national policies aimed at increasing the performance of farms in Albania [Fortuzi et al. 2021]. Nowadays, taxation systems tend to be based on the main taxation principles, and what is more important, tax policymakers tend to create taxation systems that are clear, simple, and fit with the country's economy and business trends. Also, more and more taxation

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systems are becoming similar because of economic globalisation, which creates facilities for people and multinationals.

The Albanian Tax System contains several violations of the basic tax principles (such as the equity principle). Similar taxpayers in similar circumstances are taxed with different tax rates from 0–23%. For similar income levels, an individual may be taxed 13–23% for employment income or at a rate of 0% or 5% on profits for business income (if registered as an independent entrepreneur/freelancer).

The Albanian Tax System, in some cases, contains loopholes and contradictory or unclear provisions giving no exact rulings on certain transactions or situations and increases the uncertainty in tax treatment. The contradictory provisions, with no clear technical rulings, create differences in interpreting the rules, and “mistakes” considered as such by tax audit inspectors (during tax audits) may lead to additional tax dues, interest, and penalties for the taxpayers.

Many changes have been made in the tax law provisions, with many new regulations introduced and new procedures implemented – often not associated with adequate guidance – producing consequently unintentional mistakes by taxpayers and different implementation standards by the tax inspectors.

The new tax system did not include the farmers, and they did not benefit anything from VAT due to the self-billing of their goods from collecting companies.

Taxation evolution is divided in Albania into four main periods:

1. Ottoman empire;
2. Albanian independence;
3. Communist regime;
4. Free trade economy.

The Albanian tax system has its beginnings in the very early years, but the most well-known and documented period is the period of the Ottoman conquest [Mateli 2018]. The rules followed in Albania were according to Ottoman Empire rules. The period from 1912 to 1925 is considered full of political and social turmoil, including World War I, during which Albania was a battlefield of foreign armies, and laws were almost inexistent [Fejzaj and Gjoni 2021]. Some of the main features of this tax system were:

- tax revenues were based on taxation on the income generated by the agricultural and livestock economy;
- direct taxes were the main revenue in the total tax revenues;
- tax collection was done by collecting other goods of the same value;
- the tax burden fell on the peasantry;
- the administration of tax collection was done through entrepreneurship.

In this period, the main pillars of Albanian state income were the direct taxes inherited from the previous system and directly affected the product or the revenues of the producers at the time of their production and creation. The inherited taxes were [Gjoni et al. 2021]:

- Tenth;
- Xhelepi;
- Vergija, the tax on buildings and land;
- Patent tax, profit tax on the rich;
- Tax on products from forests and quarries;
- Customs fees.

At that period, all the taxes were related to agricultural production since Albania was considered an agrarian country. At this point, for example, *xhelep* was a tax calculated as a fixed income for each livestock (about 1/10 of livestock product) [Pano 2012]. The tax policy of the Albanian state during 1945–1990 relied on the principles of Marxist ideas about taxes [Gjoni et al. 2022], for whom only the concept of a surplus in the economy was important. During the communist economic system, the state budget revenues were divided into the following types of income:

- incomes from state-owned enterprises;
- incomes from cooperatives;
- private property incomes;
- incomes from the population.

These revenues were realised through two types of taxation:

1. Turnover tax (state-centralised net income);
2. Profit surplus (enterprise net income).

Immediately after the Second World War, the Albanian communist government, through the adoption of the tax legislation system, required a change of the budget revenue structure. This change favours the state sector and imposes a lot of taxes on the private

sector. After the disappearance of private property in 1976, the existing tax structure changed in favour of the state's economic income [Gjoni et al. 20215]. With the adoption of the New Constitution in 1976, the objective of the disappearance of private property was achieved through the tax system. The Albanian government, through the tax policy, proclaimed that Albania was the only country in the world without taxes. But Albanians paid taxes, which were “camouflaged” in the centralised prices of goods and services supplied by the state and cooperative economy [Çela and Gjoni 2021]. The same situation appeared in other socialist countries during the same period, which didn't classify the income from public enterprises as profit taxes, but only as a reduction of state surplus products [Çela et al. 2021]. The political, economic and social changes that existed in Albania after 1990 created the need for a complete review of policies and practices in the field of budget and revenues, with the main part coming from tax revenues. Under this logic, the conditions required the creation and implementation of a new fiscal policy [Wilczynski 1977]. Parallel to the development of the new tax legislation in the 1990s, almost all small and medium-sized enterprises were privatised, and the agricultural land was fragmented and given to the existing farmers (former employees of agricultural cooperatives and farms and, in some cases, to previous owners. The results of this fast privatisation, not coordinated and based on clear economic policies, led to “a limited economy” with a large number of small owners, mainly in the trade and services industry. The Law on Tax Procedures in December 1998 would again be an important step in the taxation system in Albania, as it sanctions in a clear and meaningful manner the rights and obligations of the tax administration and taxpayers on the basic principles of taxation, based on their ability to pay taxes [Muça and Kazazi 2021].

The tax system in Albania

Tax legislation has been amended and transformed, and with all this dynamic of change, we can identify the taxes that are applied in Albania:

1. National taxes and duties:

- Income Taxes;
- Social Security Taxes;
- Value Added Tax (VAT);

- Excise Tax;
 - Other National Taxes and Fees;
 - Customs Duties.
- #### 2. Local taxes and fees:
- The Local Tax on small businesses;
 - The Property Tax;
 - The Hotel Tax;
 - Tax for the impact on infrastructure;
 - The tax on the alienation of immovable properties;
 - Other local taxes and tariffs (including temporary taxes approved by the Municipality Council).
- #### 3. Tax procedures:
- Principles of administration of taxes, organisation and structure of the tax administration.
- #### 4. Tax authorities:
- National taxes. National taxes and duties are administered by the Central (National) Tax Authorities, where the General Taxation Department (GTD) and 15 Regional (branch) Directorates (including the Regional Directorate of Large Taxpayers) are included [Brunschot et al. 2021];
 - Customs duties. Customs duties and VAT on imported goods are administered by the General Customs Department;
 - Local taxes that are administered by tax offices of the local governments (in Municipalities and Communes);
 - Tax policies. The Tax Policy Directorate creates tax policies and drafting of laws and regulations in the Ministry of Finance in cooperation with the General Tax Department and other stakeholders [Brunschot et al. 2021]. The Ministry of Finance proposes draft tax laws to the Council of Ministers (Government) and to the Assembly of Albania (Parliament).
- #### 5. International tax treaties:
- International agreements and treaties (conventions) for the avoidance of double taxation.

The above-mentioned are the components that represent the Albanian Tax System as a whole. These components are the result of 30 years of experience in a market-oriented economy, and still, all the components and the whole system continue to be in transi-

tion [Angjeli 2010]. Tax policymakers and experts in the field create meetings, papers and discussions about the tax system and the elements that need changes or need better adaption. The process of the change of taxation system was made with the help of other European Countries in order to implement and adopt the best practices from these countries that passed from a closed communist system toward a market-oriented economy before us. Actually, it is clear to each one of us that the Albanian Tax System has to improve a lot of things, and there are a lot of problems facing today's tax system, but, considering this an important issue to discuss, we will explain further details below.

RESEARCH METHODOLOGY

Regarding this study, we used secondary data found through official sources of data in Albania regarding the tax rate obligations over the years. We analysed the data by working on changes in different periods and comparing the percentages of changes. We also analysed the effects of the changes by taking concrete examples of the salaries of farmers in accordance with certain categories of income from employment. We built a table with the data of tax rates and absolute values of tax obligations for many years, creating three categories of data:

The first category refers to the period when there was only one constant tax rate of 10% for all income (wage, second income etc.)

The second category refers to the first period when a progressive tax system was adopted, at first only on wage income, and later on other income for individuals.

The third category corresponds to the last period a year ago when the last change in the tax rate on individuals' income from employment occurred, as well as in the way of calculating taxation on any other secondary income from employment.

We have also used primary data taken from interviews with about 100 farmers in different areas of the country, most of them in the villages of Tirana. Some of the interviews did not result in success as some farmers don't have sufficient knowledge of taxes and consult with external economists about their business. However, 100 interviewees were able to answer ques-

tions correctly after receiving training on tax obligations and the effects of changes in their personal income. We used a single hypothesis for the study:

H_0 : Farmers have no positive attitude towards changes in the tax on personal income.

H_1 : Farmers have a positive attitude towards changes in the tax on personal income.

RESULTS

To analyse the changes that tax rates have undergone in the last ten years, we have built a matrix divided into four categories: the period before 2013 (which marks 8 years without major changes in tax rates, a simple tax was applied), the period 2014–2020 (there was a major change from simple tax to a progressive tax, the period 2021 (after the COVID-19 pandemic, there were changes in efforts to ease the tax burden), the next period from July 2022 (changes are expected in the way the tax is calculated, although it remains a progressive tax). Below we present a matrix table with the rates of recent years regarding some of the most important forms of contributions:

If we consider a wage level of EUR 1200, in 2013, the tax level would have been EUR 120; in 2020, the tax level would have been EUR 143.5; in 2021, the tax level would have been EUR 123.5; and in 2022, it will be again EUR 123.5. If we consider a wage level of EUR 2000, in 2013, the tax level would have been EUR 200; in 2020, the tax level would have been EUR 327.5; in 2021, the tax level would have been EUR 302.5; and in 2022 it will be again EUR 260.6. The recent tax rates for employment tax are complex and difficult to understand and to be adopted correctly by farmers and small enterprises, and will add higher costs of training or financial consultation to correctly report financial information for tax purposes. Regulating the tax system for the agricultural sector is important in Albania since we have a high share of employment in agriculture. This is considered one of the biggest problems in Albania's development [Kozak and Muça 2020]. We suggest more simple regulation for taxpayers that have 1–5 employees in their economic entities, or if they have total revenues lower than EUR 70,000. Another problem to be considered about small farming enterprises is the invoices to be recorded and reported

Table 1. Tax and Contribution rates in Albania from 2013–2022

Related Data	Previous important change (2013–2014)	Previous year (2020)	Current (since October 2021)	Approved in July 2022
Personal Income Tax Rate (PIT)	10%	Income EUR 0–250/Tax 0% Income EUR 251–1000/Tax 13%; Income > EUR 1000 Tax 23%	Income EUR 0–250/Tax 0% Income EUR 251–1250 Tax 13%; Income >EUR 1250 Tax 23%	{Income EUR 0–333 0%}; Income EUR 333–4201/2 (13% Wage – EUR 333) Income > EUR 420 {Inc EUR 333 0%; Inc EUR 334–1667 Tax 13% of Inc over EUR 250; >EUR 1667 EUR 184 plus Tax 23% of Value over EUR 1667
Corporate Tax Rate	10%	15%	15%	15%
Sales Tax Rate	20%	20%	20%	20%
Social Security Rate For Employees	9.5%	9.5%	9.5%	9.5%
Social Security Rate For Companies	15%	15%	15%	15%
Social Security Rate	24.5%	24.5%	24.50%	24.5%
Health Insurance Rate For Companies	1.70%	1.70%	1.70%	1.70%
Max Wage Level For Social Security	EUR 792	EUR 1,100	EUR 1,100	EUR 1,180
Min Wage Level For Social Security	EUR 183	EUR 250	EUR 250	EUR 267
Max Wage Level For Health Insurance	EUR 792	NA	NA	NA
Min Wage Level For Health Insurance	EUR 183	EUR 250	EUR 250	EUR 267
Health Insurance Rate for Companies	1.70%	1.70%	1.70%	1.70%

Source: Authors' own research.

as expenses and revenues, because these enterprises find many difficulties in receiving expense invoices with VAT. On the contrary, they have a recent obligation to report sales invoices with VAT by the recent tax system regulation. These imply a higher VAT to be paid to the state than the one that is the correct figure to be reported and paid.

A recent problem for all taxpayers in Albania is the obligation to report any income received by secondary resources as part of the basic wage by adding each pay-

ment to the basic level of wages in order to be taxed with higher rates (23%). This seems unfair because the taxpayer has been paying taxes and mandatory contributions for social and health insurance based on their first basic wage. There is no need to be the object of other taxes or contributions because they benefit only once from the system and with fixed services. The maximum level of wage to be considered when calculating health insurance contribution has been eliminated, and this means that there is no maximum level

of contribution you can give to the health insurance system, but you receive the same service, and there is no direct relationship between the contribution to be paid and the service received in exchange.

Farmers, in 90% of cases, say that they would want a simpler and less variable tax rate in the long term; they seek greater transparency in the use of these taxes in favour of the services of incentives against them. Farmers think the tax rate should be lower and differentiated by the level of income and standard of general well-being in the area where they live in relation to the rest of the population.

CONCLUSIONS

In conclusion, the tax system seems to be becoming more discriminatory and ruthless towards small and medium taxpayers. There is no real differentiation for VAT, and there is no simplification of the tax system for small farms to promote the growth of their performance in the market. There are few initiatives to adapt the VAT declaration system to buying and selling invoices for this category, which does not stimulate farmers to expand and seek to enter new markets or increase their influence in current markets. Another inefficient change results in the treatment of the liberal professions as normal employees of economic units, taxing their income in the same way as the income of employees and taxing them progressively. The latest changes in fiscal reporting for small farmers seem to be less effective, and tend to create confusion, disorientation and dissatisfaction or discouragement of starting new businesses. We suggest a tax system that treats farmers differently, making incentives, stimulating them with successful incentives, as well as regulating the methods of fiscal reporting in order for fiscal policy to stimulate growth, production and financial performance. Finally, the second hypothesis was proven, which states that farmers don't have positive attitudes towards changing the tax standard on personal income. This comes due to the lack of good knowledge of fiscal policies, due to the decrease in the level of trust in the fairness of fiscal policies in promoting the economic activity of farmers, as well as because of the added costs that this constantly changing system imposes on farmers.

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SKUTKI NOWEGO SYSTEMU PODATKOWEGO W WIEJSKICH GOSPODARSTWACH DOMOWYCH W ALBANI

STRESZCZENIE

Cel: System podatkowy jest kluczowym filarem ram koncepcyjnych projektowania i wdrażania polityki gospodarczej w Albanii. System ten, podlegający ciągłym zmianom i reformom, czasem nieskoordynowany lub bez kontynuacji, w niektórych przypadkach zawiera sprzeczne lub niejasne przepisy, które nie zapewniają trafnych decyzji dotyczących niektórych transakcji lub sytuacji. Zmiany przepisów prawa podatkowego i przepisów wykonawczych doprowadziły w ostatnim czasie do niezamierzonych błędów popełnianych przez albańskich podatników, co w większości przypadków znajduje odzwierciedlenie w małych przedsiębiorstwach lub wiejskich gospodarstwach domowych. Sytuacja jest bardziej skomplikowana na wsi, gdzie tylko 10–12% ogółu gospodarstw posiada numer identyfikacji podatkowej (NIPT). Głównym celem opracowania jest ocena wpływu zmian stawek podatkowych na dochody osobiste rolników. **Metodologia:** W badaniu wykorzystano metodę badań opisowych, a także zebrano dane pierwotne w 100 wywiadach bezpośrednich z rolnikami. Przeprowadzona analiza danych umożliwiła sformułowanie wniosków. **Wyniki:** Z badań wynika, że stawka podatku dochodowego zmieniała się wielokrotnie w ciągu dekady, a zmiana ta nie sprzyjała rolnikom. **Wnioski:** Stawki podatkowe w Albanii zmieniały się nieregularnie i nie miały oparcia w zrównoważonej, długoterminowej polityce. Należy to szybko poprawić, aby nie zniechęcać rolników do kontynuowania ich działalności rolniczej oraz pozarolniczej.