



**A comparison between businesses and the  
general public when it comes to tax evasion  
and government fiscal policies.  
The case study of Albania.**

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Bachelor Thesis for Obtaining the Degree

Bachelor of Science in

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Submitted to MBA. David Osho

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Wien, 31.05.2021

## **Affidavit**

I hereby affirm that this Bachelor's Thesis represents my own written work and that I have used no sources and aids other than those indicated. All passages quoted from publications or paraphrased from these sources are properly cited and attributed.

The thesis was not submitted in the same or in a substantially similar version, not even partially, to another examination board and was not published elsewhere.

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## **Abstract**

This thesis will concentrate its focus on the impact of tax evasion on the Albanian economy and the general public's perception of the government's continuously evolving and changing fiscal policies. The study will also seek to clarify whether there is any implication between the frequent changes in government fiscal policy and the evasion of taxes if one so exists. Therefore, it is the aim of this research to narrow the research gap identified in the literature review and address the issues posed, thus encouraging the Albanian government to enact better fiscal policies in the future. Several factors were taken into consideration in order to better understand how to develop policies that address tax avoidance. The researcher finds it of immense importance, firstly, to understand the moral behind the decision not to pay tax in order to understand how to develop effective policies on tax evasion. The semi-structured interview format allowed for the collection of results as well as the correct response to this query; hence this research study employed a qualitative method approach, which entails the researcher conducting a total of 11 interviews from the general public, government officials, and well-established business owners who are competent and dedicated professionals working in both the public and private sectors. After careful analysis of the data, the researcher presents the results and conclusions of this thesis along with its limitations and recommendations.

# Table of Contents

<b>Affidavit .....</b>	<b>2</b>
<b>Abstract .....</b>	<b>3</b>
<b>Table of Contents .....</b>	<b>4</b>
<b>List of Tables .....</b>	<b>6</b>
<b>List of Figures .....</b>	<b>7</b>
<b>1 Introduction.....</b>	<b>8</b>
<i>1.1 Economic context .....</i>	<i>8</i>
<i>1.2 Defining the problem .....</i>	<i>9</i>
<i>1.3 The purpose of the study.....</i>	<i>11</i>
<i>1.4 Objectives .....</i>	<i>12</i>
<i>1.5 Research questions .....</i>	<i>12</i>
<i>1.6 Structure of the thesis .....</i>	<i>13</i>
<b>2 Literature Review .....</b>	<b>14</b>
<i>2.1 Tax evasion .....</i>	<i>14</i>
2.1.1 History of tax evasion and Definition .....	14
2.1.2 Tax evasion in Europe .....	16
2.1.3 Tax evasion in the Balkans.....	17
2.1.4 Tax evasion in Albania .....	19
<i>2.2 Fiscal policies .....</i>	<i>23</i>
2.2.1 Definition .....	23
2.2.2 Fiscal policies in Europe .....	24
2.2.3 Fiscal policies in the Balkans .....	26
2.2.4 Fiscal policies in Albania .....	32

2.3 <i>Tax ethics</i> .....	37
2.3.1 Ethics of tax evasion .....	37
2.3.2 Tax morale and the Panama Papers Case .....	39
<b>3 Methodology</b> .....	<b>42</b>
3.1 <i>Qualitative methods and research design</i> .....	42
3.2 <i>Data collection</i> .....	45
3.3 <i>Interview development</i> .....	46
<b>4 Data Analysis and Interpretation</b> .....	<b>48</b>
<b>5 Discussions of findings</b> .....	<b>68</b>
<b>6 Conclusion</b> .....	<b>70</b>
<b>7 Limitations, Implications and Recommendations</b> .....	<b>72</b>
7.1 Limitations .....	72
7.2 Implications .....	73
7.3 Recommendations for future research.....	74
<b>Bibliography</b> .....	<b>74</b>
<b>Appendices</b> .....	<b>80</b>

## **List of Tables**

Table 1. General government total of revenue and expenditure (% of GDP)

Table 2. Structure of general government total of revenue (% of GDP)

Table 3. Share of direct and indirect taxes and social contributions in general government total revenue

Table 4. Personal income tax (statutory rates)

Table 5. Tax wedge for a worker on average salary (% of total labour cost)

## **List of Figures**

Figure 1. Gender of participants

Figure 2. Age group of participants

Figure 3. Highest level of education

Figure 4. Tax evasion awareness

Figure 5. Avoidance of consequences

Figure 6. Tax evasion is perceived as ethically acceptable

Figure 7. The role of government corruption in the tax evasion

Figure 8. Word cloud shaped like the map of Albania

## **List of Abbreviations**

ALL – Albanian Lek

ATP – Aggressive Tax Planning

CIT – Corporate Income Tax

EC – European Commission

EFC – Economic and Financial Affairs Council

EMU – Economic Monetary Union

ERP – Economic Reform Programme

EU – European Union

FBiH – Federation of Bosnia and Herzegovina

FDI – Foreign Direct Investment

GDP – Gross Domestic Product

PRO – Public Revenue Office

SCP – Stability and Convergence Programmes

SGP – Stability and Growth Pact

SME – Small Medium Enterprises

TFEU – Treaty on The Functioning of the European Union

VAT – Value Added Tax

## **1 Introduction**

### **1.1 Economic context**

Albania is a democratic country with an open economy that transitioned from a communist-controlled economy in 1990. Despite the country's abundance of mineral deposits (hydrocarbons, mineral resources, and arable land), the economy is primarily supported by annual emigrant remittances, utilities, and agriculture. Remittances from emigrants represent the positive side of emigration in Albania. According to the Bank of Albania's estimates, they total about US\$530 million per year, or approximately 18 percent of GDP (Gedeshi, 2002). With the exception of 1996 and 1997, when Albania experienced a major economic crisis following the collapse of pyramid investment schemes, Albania's macroeconomic stabilization in the early 1990s was almost immediately followed by a non-inflationary economic resurgence, in contrast to many other transition economies. These schemes reported cumulative liabilities at nearly 50 % of the country's GDP (Teqja & Zotaj, 2014). The crisis had a significant economic impact, with the Albanian Lek (ALL) losing half of its value. The loss of capital in these investment schemes plunged the economic system into a downturn, and remittances from overseas plummeted dramatically (by 47 percent), reducing investments in infrastructure and other sectors. After 1998, Albania witnessed a strong economic development, low inflation and a stable currency (actual GDP rates exceeding 7 % per year) (Muco, Sanfey, and Luci 2001). Albania maintained a progressive economic policy strategy until 2009. The economic system was capable of withstanding the effects of the 2008 global financial crisis, which affected all international markets. The likelihood of an economic crisis affecting the Albanian financial system was much higher since many of the world's leading economies were in the midst of a full-fledged global recession. The consequences of the global recession have made the Albanian economy more vulnerable in the last 5-8 years.



## 1.2 Defining the Problem

Tackling the informal sector presents a number of challenges for a small country like Albania. The shadow economy is comprised of legitimate business activities that occur outside the purview of government authorities. These activities are usually classified into two categories. The first is undeclared labour, which accounts for roughly two-thirds of the shadow economy and involves wages that workers and businesses do not disclose to the government in order to avoid taxes or paperwork. The remaining one-third is due to underreporting, which happens when businesses, especially those that deal in cash, such as small shops, bars, and taxis, disclose only a portion of their income to avoid paying any taxes (Muharremi, Madani and Pelari, 2014).

The informal economy in Albania can be traced back to the early stages of the country's transition to an open market economy, when the legal, regulatory, and institutional framework developed slower than private enterprises. This created an opportune environment for an informal business culture with no rules and no control (Boka & Torluccio, 2013).

Data shows that the informal sector accounts for nearly 45 % of the Albanian economy, and amid various legal reforms and legislation, the authorities are struggling to address the informal economy (Balliu, 2018). Albania bears a substantial burden as a result of corruption and the failure of tax administration to effectively monitor the flow of taxes. Furthermore, Albanian legislation explicitly states that expert audits are only applicable to companies with an annual revenue of more than 30 million ALL and 30 registered workers (Balliu, 2018). Businesses with these attributes are regarded as large enterprises while small and medium scale enterprises are expected to prepare their own balance sheet for audit. These companies oftentimes declare financial losses, and tax authorities need to be particularly vigilant (Boka & Torluccio, 2012). Albania tends to use coercive policies to force people to fulfil their tax duties. The rationale

behind this stems from a number of policies implemented by the Albanian government (Muharremi, Madani and Pelari, 2014). For example, concealing revenues valued more than ALL 5 million for tax purposes can result in a sentence of two to five years in prison, and avoiding taxes worth more than ALL 8 million can result in a sentence of four to eight years in prison (Balliu, 2018). The non-payment of tariffs and taxes may result in fines or a sentence of three years imprisonment (Muharremi, Madani, & Pelari, 2014). Furthermore, in 2018, tax evasion laws were enforced, supporting this theory (“Albania tightens tax evasion rules, offers incentives,” 2018).

The tax system is the instrument designed to generate revenue for the government. Even though the researcher can make some generalizations about the fiscal system, it is difficult to evaluate the tax system in Albania due to several factors such as the country's level of development, tax administration capacity, and historical circumstances. Albania maintains a fairly simple taxation system and low tax burden. However, the distribution of the tax burden, combined with frequent reforms, contradictory laws and a lack of competence in institutions responsible for identification, audit, and compliance, have resulted in a weak taxation system with low stability (Christie and Holzner, 2021).

Individuals' and companies' reactions would then be reflected in the tax structure. Knowing the mentalities of both individuals and administration, the fundamental question arises at this point: How can Albania best plan its tax policy in order to achieve the main objective of fiscal stability, given the complex economic and political environment we face ?

### **1.3 The purpose of this study**

This research aims to look into the efficiency of Albania's fiscal system and how the perception of the main business sectors is affected by all of various tax controls and fiscal changes. The research aims to give a detailed

explanation on how the tax control and fiscal policies have impacted the business and the individual. The taxation system in the Republic of Albania has been on a continuous and consistent evolution. A small country that has experienced drastic political and economic changes in a short period, this and other social factors have caused the businesses and taxpayers to be less reliant upon the inspectors and the fiscal law. The investigation and analysis of this thesis are significant not only at the research level but also in providing an improved framework. As we see structural changes in our country and other neighbouring countries aspiring to join the European Union, fiscal policies remain the sole macroeconomic measures that governments can implement within their border. Throughout the years principles and specifics of the fiscal system have had massive improvements but we are far from achieving the optimal fiscal system. This research will not only identify the main processes, legislation, and policies adopted, but it will also examine how taxpayers have responded to the tax control imposed to them. This research will make use of the perspectives and insights of experts of the field and business owners and regular taxpayers. The use of interviews will provide a better understanding of how the policies implemented are seen from a taxpayer's perspective, and their thoughts on tax evasion and its causes. Finally, the research done should help the Albanian government establish an effective and productive communication link between the tax authorities and the business community.

#### **1.4 Objectives**

The transition process that Albania is facing has revealed a number of issues, the first being the reliability and efficacy of the fiscal policies, with the goal of establishing a consistent relationship between its objectives and the methods necessary to accomplish them. Conducting this study is of significant importance because it investigates a high-priority issue for the Republic of Albania. This study addresses the possible problems of tax evasion and how it

is affecting the country economically. provide feasible and valuable observations and recommendations for the systematic development of the fiscal system. This will make it possible for the government of Albania to increase the effectiveness of existing policies and create a more productive business climate. The research aims to understand the implications behind the taxpayers' reasoning and the extent to which they understand and agree with the fiscal policies they are subjected to. The following are the most important research objectives regarding this study:

- Highlight the role of taxpayers and evaluate their flexibility to adjust and react to changes in the fiscal system.
- Analyse the situation from a taxpayer's point of view and determine the degree of trust they have in the tax system and fiscal authorities.
- Recognize the moral underlying the decision not to pay tax in order to understand how to develop effective policies on tax evasion.

## **1.5 Research questions**

The purpose of this research is to understand the taxpayers' view and how they have interpreted the tax system changes as well as to examine the impact of these changes on taxpayer behaviour and whether they are linked or not to an increase in tax evasion in the Republic of Albania.

The main research question is as follows:

- To what extent do businesses and the general public view tax evasion and the resulting government fiscal policies.

The subsidiary research questions are as follows:

- What part if any , do Albanian fiscal policies play in encouraging tax avoidance by both the business and general public ?

## **1.6 Structure of the thesis**

This research is structured into numerous main sections, each further divided into smaller subsections. The introduction, which is divided into six subsections, will be the first section of the thesis. The first section will cover the Republic of Albania's economic background and historical factors related to this context. The introduction will provide both a brief overview of the topic and a complete and thorough summary of the study's problem. The first segment also outlines the purpose and objectives to be achieved by the end of the study. This section will conclude with a thorough description of the thesis layout.

The second section of the study is literature review, which is organised into three main sections, and each section has its subsections, that provide this research with relevant and crucial evaluations. The first section is tax evasion, in this section the author gives a background history of taxation and proceeds analysing tax evasion in EU, Balkan and Albania. The second section has fiscal policies as its main topic and gives an overview of fiscality in EU, Balkan and Albania. And the last section is tax ethics, in this section the researcher looks into the ethics of tax evasion and tax morale.

Following the literature review section, the study proceeds on to the methodology section, which presents a description of the research design and methods used in this research. The section on methodology defines and explains the qualitative approach used in this study. The researcher will present their data collection methods as well as the various data types employed in the thesis. Since the qualitative approach has been adopted, a number of interviews have been conducted with taxpayers and experts in the field. Another subsection of the methodology section will describe the framework of these interviews, what they might include, and the questions that will be posed to those participating in the interviewing process. The methodology section will be followed by the data analysis and interpretation part. The researcher will closely examine and interpret the findings of the interviews executed in this part of the thesis. Following the completion of the data analysis process, the report will continue discussing its conclusions. In contrast to quantitative analysis, where the

researcher tests the study's hypotheses, the researcher, in this case, will explore the interviews and the findings, which will be presented in the form of direct statements. Then there will be a conclusion section where the overall process of this study will be summarized. Eventually, the last segment will include limitations, recommendations, and implications. The researcher will discuss shortly the limitations of this field of research, provide suggestions for prospective research on the topic, and discuss the research's implications.

## **2. Literature Review**

### **2.1 Tax evasion**

#### **2.1.1 History of tax evasion and definition**

In specialized literature, the definitions given to the tax evasion concept are plentiful. In this study, the researcher will proceed to cite some of these, notably the most intricate ones, that better convey the complexity of the notion of tax evasion. Tax evasion, according to Professor Oreste Atanasiu, is "the total of licit and illicit practices by which interested individuals avoid, in whole or in part, the obligation imposed by fiscal laws" (Anastasiu quoted by Braithwaite, 2011). Tax evasion, at excessive levels represents a risk to society's financial stability, political cohesion, and social capital. It comes as no surprise then, that taxation is well institutionalized in mature democracies. Law no. 9920/2015 on tax operations refers to the phenomenon of evasion as "the total or partial fraud by Albanian, international natural and legal persons of the payment of taxes, levies and other payments owed to the national budget, to regional budgets, to the national social security budget, as well as to special extra-budgetary funds." (Official Gazette no.187, 2015)

Taxation has always represented a significant factor in society and all economies around the world. Most people in ancient economies depended on crop cultivation and harvesting to support their families. As a result, many people began to use their harvest to pay for living expenses, including taxes. In ancient Egypt, tax payments on agricultural production was collected by force, so tax collectors, also known as "scribes", were feared. Scribes, who were

authorized by pharaohs, were empowered to the extent that they had their independent tax courts; however, an individual accused of tax evasion did not have the right to contest these claims (Rostovtzeff, 1953). Special agents were appointed to audit and oversee the scribes to ensure equal collection procedures; these agents were also in charge of managing taxpayer concerns (Adams, 2001).

Many hypotheses, surveys, and experiments have been conducted to determine the effects of tax evasion and tax avoidance on economies, taxpayers, and government finances. Tax evasion is the unlawful failure to pay taxes by individuals, companies, and trusts (Arnaldo, 2014). To minimize their tax liability, some taxpayers purposefully misrepresent their real state of affairs and include false tax reporting, declaring fewer revenue, benefits, or compensation than they received (Arnaldo, 2014). Tax avoidance is often associated with the informal economy. Tax avoidance may take several forms, including, but not limited to, concealing financial data from the tax authority, presenting incorrect or misleading information to a tax agency during an audit process, or fabricating accompanying documentation to limit or remove a tax liability (Arnaldo, 2014).

An economic definition of tax evasion is "legal attempts to reform the tax regime to find ways of paying the lowest tax rate" (Dyrenge, 2008). Tax sheltering is comparable to tax avoidance, but it is not necessarily legal. Although forms of tax evasion that exploit tax regulations in ways that governments did not intend are legal, they are not always morally acceptable in the eyes of the public. Many companies and businesses who have been discovered to have engaged in such activities have encountered criticism, either from their regular customers or online public.

Another form of tax evasion that must be mentioned is aggressive tax planning (ATP), which, according to the European Commission, consists of taxpayers minimizing their tax burden by arrangements that are legal but contradict the intent of the law. Aggressive tax planning (ATP) is the practice of taxpayers decreasing their tax burden by legal arrangements but contradict the legal requirements; it also includes exploiting loopholes in a tax system (OECD, 2018). The European Commission regards the battle against tax evasion as

critical in order to secure government revenues for public spending, healthcare, education and welfare, encourage equitable burden-sharing and taxpayer morale, and, ultimately, to mitigate disparities in competition between businesses.

### **2.1.2 Tax evasion in Europe**

A report prepared by the Polish Economic Institute and discussed during the World Economic Forum annual conference in Davos on January 2020 revealed that European Union member states lose up to 170 billion euros yearly due to tax fraud and avoidance. "The European Union should consider coordinated actions to seal the taxation system in order to provide an alternative income source for the budget proposal, which would be established in absence of the United Kingdom, a significant contributor. Such resources could also help finance programs like the Green New Deal or the Just Energy Transition", emphasized Piotr Arak, the Director of the Polish Economic Institute.

According to the report, efficient business income taxation in European Union countries has plummeted by eight percentage points (from 24 percent to 16 percent) over the last two decades, with multi - national corporations openly shifting profits from countries where they operate to countries with lower-tax jurisdictions within the Union. According to 2016 statistics, Germany (EUR 18 billion), France (EUR 11 billion), and the United Kingdom (EUR 14 bn) were the countries most impacted by losses related to artificial profit shifting . As a result, the government faces a substantial loss in revenue, which must be compensated for with other revenue streams.

Six EU Countries profit from tax competition within the Union. The European Commission refers to these countries as internal tax havens are Malta, Cyprus, Netherlands, Luxembourg, Belgium and Ireland. These countries purposefully enact legal frameworks that facilitate fraudulent profit transfers. Furthermore, transnational enterprises often use them as intermediaries to make additional transactions to popular tax havens like the British Virgin Islands or Cayman



Islands. If the EU fails to take meaningful action against tax havens, the situation will weaken trust and solidarity among Member States.

The significant VAT gap in EU Member States, which accounts for an average of 12% of VAT revenue, does not alleviate the matter either. A significant portion of the gap is due to the use of cross-border transactions by businesses and criminal organisations to extort VAT, which results in annual losses of EUR 64 billion. According to the Polish Economic Institute, the assets of wealthy individuals sheltered in tax havens account for 10% of the European union's GDP; around 75% of income is not declared to the tax authorities at all. "We are losing large sums of money whilst simultaneously reducing the budget for integration policies which has previously supported the EU's faster growth. All that is required is a blockade to the flow of capital to tax havens. Those countries benefit only a few individuals while affecting us all." said Jakub Sawulski, chairman of the Polish Economic Institute's macroeconomics department.

### **2.1.3 Tax evasion in the Balkans**

Some of the Balkan governments' significant financial challenges today are low employment rates, high levels of undeclared labour, a lack of financial management, and a lack of fairness and profitability in tax matters. As a result, these countries depend on the EU and international financial institutions to some extent in order to balance their budget. However, in the longer term, such a scenario is unsustainable (Hutsebaut, 2015).

Data indicate that a portion of the economy that is not part of the fiscal system, also known as the informal economy, contributes to the Balkans' GDP. This means that 1 out of 3 US dollars flowing in the Balkans is not part of the economic system, and as a result, is not taxable. This ratio in Greece (1 to 4) and Serbia (1 to 3.4) has improved during the fiscal year 2011. The percentages are much higher in countries such as Bulgaria (1 to 2.8) , North Macedonia (1 to 2.7) and Kosovo and Montenegro ( 1 to 2.9) . If compared with the overall ratio (1 to 6) and European ratio (1 to 5), the Balkan region is distant from the

formal financial system of EU states but similar to the ratios of African countries (1 to 2.9) and Latin America (1 to 2.7) (Harremi, 2014).

When the economic metrics for the 2012 fiscal year were compared, Serbia and Greece came out ahead of the other Balkan countries. Countries such as Romania and Croatia saw a small improvement regarding the level of the informal economy, while Montenegro and North Macedonia saw a progressive deterioration of the situation (Harremi, 2014). Data indicates that the informal sector in the Balkans is on parity with the general government expenditures, accounting for 33% of the GDP for 2011 and 32.61 % for 2012. This high degree of informality demonstrates that tax avoidance is concealed in informality (Harremi, 2014).

If we examine the average tax gap in the Balkan countries, Albania will result with a 3.4% greater tax gap than the rest of the countries in the region. North Macedonia had the highest tax deficit in the Balkans during the 2011 fiscal year, while Montenegro had the highest tax deficit in 2012 (Harremi, 2014). Serbia had a lower tax deficit in both of the fiscal years reviewed. The vast majority of taxes and levies that comprise the tax system are reported and paid voluntarily, resulting in some of these payments being postponed or not paid at all. Levies and taxes are often only collected after tax audits and inspections have been completed (Harremi, 2014). These taxes, along with other unverified revenues, account for the vast majority of the lost tax money.

In March 2019, a coalition of Western Balkan Civil Society Organizations released an analysis titled "Tax Justice in Southeast Europe - How to Reduce Inequalities?" to the European Parliament. The research was conducted within the framework of the Balkan Monitoring Public Finance project, an EU-funded program to increase the accountability and transparency of government policies and decisions in the public finance sector. The study investigated taxation systems in seven Western Balkan countries (North Macedonia, Bulgaria, Kosovo, Bosnia and Herzegovina, Serbia, Montenegro and Slovenia), and identified several developments and trends that need to be reformed in order to ensure fiscal sustainability and tax justice. The report

advised governments in the Western Balkans to establish and promote progressive tax arrangements in order to combat rising inequality and tax evasion. Raising tax revenue is critical for improving the social service sectors, which are already overworked.

#### **2.1.4 Tax Evasion in Albania**

Albania has made considerable efforts since 1997 to build a tax structure equivalent to that of EU member states. In 2008, a 10% flat tax rate was introduced, along with other fiscal measures, leading to an increase in total tax revenue until 2011. However, it should be noted that sales as a percentage of GDP have plummeted or remained constant from 2008, or at 27 % of GDP (IMF staff report No. 16/143, 2016a).

Albania's recently elected cabinet concluded a three-year deal with the International Monetary Fund in 2013, receiving payment in exchange for a commitment to strengthen fiscal responsibility (IMF staff report No. 16/142, 2016). The assistance provided resulted in reversing Albania's declining tax revenues from 2011 to 2013, primarily through increased revenues from social obligations and benefits taxes. Taxes throughout the country have been increased from 10 to 15 percent, including corporate taxes, along with excise taxes. In 2014, personal income tax was converted to a progressive tax structure from a flat tax rate.

Given that 60% of taxpayers fall below the zero-rate criterion, this amendment undermined profits collection, negatively impacting tax collections. The increase in custom duties tariffs for tobacco and petroleum products in 2015 had little impact on tax collections. According to the 2016 IMF survey, the explanation for this may be the expectation of a duty increase, resulting in non-compliance with exports and imports, or, less commonly, just a decline in the demand of those products. The government agreed to repeal the small business tax in the 2016 budget resolution by exempting small and micro companies from profit taxes, which would lower tax receipts while encouraging economic growth (IMF staff report No. 16/142, 2016). According to the International

Monetary Fund (IMF staff report, 2016a), VAT non-compliance resulting from C-efficiency might be seen as a close match to tax evasion. They anticipate a 34 - 39 % potential value-added tax compliance gap, which is much greater than the regional norm and has been growing since 2008. The feasible VAT revenue for EU member states is 15%. This increasing tendency appears to be the result of non-compliance, primarily due to significant contraband and bribery in Albanian excise levies, such as cigarettes and petroleum (IMF staff report No. 16/142, 2016b).

Albania's informal industry is projected to have accounted for 33 % of its GDP in 2014, which is significantly higher than the EU average of 18.6 % (Hetemi & Konxheli, 2018). In September 2015, the Albanian government initiated a campaign against informal economy to combat tax evasion, especially through improved administration, registering employees and small businesses, and combating tax enforcement. Even though it was highly anticipated among interest groups, due to its magnitude and emphasis on small businesses, it did not generate the anticipated outcomes. It led to the worsening of the country's business climate, according to the Institute for Democracy and Mediation, which reports that they were taking a different approach from the tax office, which is attempting to be more collaborative and proactive (Hetemi & Konxheli, 2018). The complex nature of the tax system poses a heavy burden on businesses. According to the Center for Research and Policy Making, the amount of tax payments and the number of hours required to pay taxes are 19% and 43% higher than the Western Balkan estimate, respectively. Albania's general government revenues, both tax and non-tax, are lower than those of its neighbouring countries.

As a result, government expenditure is conservative, and the tax burden in Albania has been lower than in the majority of Balkan nations until 2014. In comparison to most neighbouring countries, Albanian tax revenues for the majority of significant tax sources remain minimal. (Hetemi & Konxheli, 2018). According to a 2017 IDM report, property taxes, income taxes, and, above all, social security payments are significantly lower in Albania. Only

VAT and CIT revenues approach levels that are consistent with the region's countries. As a result, Albania is dependent on indirect taxes almost as much as it is on direct taxes: the gross tax revenue share of VAT and excise tax revenues is approximately 49%. According to the Ministry of Finance of Albania, the country's lower tax revenues are partly due to reduced performance of wage taxes, according to an IDM survey (IDM annual report, 2017).

Tax efficacy is defined as the ratio of tax earnings for each tax (as a percentage of GDP) to the top tax rate (Muharremi and Madani, 2014).

Albania seems to have lower tax efficacy for social security payments and personal income tax than other Balkan countries. According to the IMF, Albania's tax efficiency in corporate income and value-added taxes is roughly proportional to its neighbours. Albania, like many other Western Balkan countries, suffers from an informal economy. According to government statistics, Albania's shadow economy amounts for approximately 30% of the overall market, while foreign financial institutions report that it amounts for approximately 45 % of the Albanian economy (Muharremi and Madani, 2014).

The informal economy has always had numerous synonyms, including shadow economy, secondary occupation, clandestine activity, and unlawful or unregulated work. Aside from the intricate phenomenon of clandestine employment, there is also work practiced imperceptibly, which frequently occurs in a family business setting and is hard to be evaluated. This category consists of the so-called blackwork performed by retirees, housewives, students and is often paid in cash to avoid reporting of the transactions (Muharremi and Madani, 2014). All these operations are difficult to be tracked for because they are all predicated on "friendly" relationships and reciprocity (Muharremi and Madani, 2014). People may engage in informal activities for a variety of reasons. It was calculated in 2012 that three out of every four businesses engaged in tax evasion. Three out of four businesses failed to pay mandatory contributions, violated legal norms, and refused to conform to working hours, minimum wage, and other requirements posed by the government. Three out of

four companies lacked the requisite authorization and development directions (Muharremi and Madani, 2014).

Organized crime is a subset of the informal economy. This category includes smuggling, prostitution, gambling, drug trafficking, and organized theft. Because of the high level of informal economy and undeclared labour within the economic system, evaluating the actual economic environment becomes much less reliable. In 1991, the Albanian labour market underwent significant changes, resulting in a shift in production sectors and employment structure. The following economic sectors have a relatively high level of illegal employment: construction (with 3 out of 4 workers being undeclared), SME-s (with 3 out of 4 workers being undeclared), service (with 3 out of 4 workers being undeclared), transportation (with 3 out of 4 workers being undeclared), and trade (with 3 out of 4 workers being undeclared) (Muharremi and Madani, 2014). The construction industry and the production of building materials are among the most prominent sectors demonstrating legislative failure. As of 2012, it was estimated that three out of four activities in the construction sector could be exercised anywhere, without regard for geographical conditioning or restrictions (Muharremi and Madani, 2014). Three out of four profitable activities in current market conditions are based on tax evasion through fictitious income statements and failure to pay contributions. The analysis of illicit labour or informality helps to understand a country's economic environment, especially the consolidation of fundamental state institutions, the extent to which they are used and the degree of corruption. Simply put, informality means fewer taxes for the state budget, which means fewer services and investments for citizens. Informality may benefit a small group of people but causes significant damage for society in the long term (Muharremi and Madani, 2014).

## 2.2 Fiscal Policies

### 2.2.1 Definition

Fiscal policy is the use of governmental expenditures and taxation to impact economic conditions, particularly macroeconomic factors such as consumer demand for goods and services, employment, inflation, and economic development (Easterly & Rebelo, 1993). The theories of British economist John Maynard Keynes have had a significant impact on fiscal policy (1883-1946). He contended that economic recession and collapse occur due to a mismatch between the elements of aggregate demand that are consumption expenditure and business investment. Keynes claimed that government agencies could regulate the business activity and stabilize economic growth by making adjustments in government expenditure and tax policies to compensate for shortcomings in the private industry. His theories arose in response to the Great Depression, and they contradicted traditional economics' premise that economic fluctuations were self-correcting (Easterly & Rebelo, 1993).

Keynes' suggestions were greatly influential, and they aided in the introduction of the New Deal in the United States, which featured extensive funding for public works projects and socioeconomic welfare programs (Easterly & Rebelo, 1993). According to Keynesian economic theory, aggregate demand or expenditure is the primary driver propelling economic growth and performance (Diesing, 2017). Aggregate demand consists of individual expenditure, capital investment expenditure, net federal expenditure, and net exports. According to Keynesian economics, the private market elements of aggregate demand are too inconsistent and too reliant on psychological and emotional variables to sustain economic growth (Diesing, 2017). An overheated economy and inflation can result from economic crises and recessions as well as undue optimism during good times induced by consumer and business pessimism, fear, and uncertainty. On the other hand, Keynesian economists conclude that government spending and taxes may be appropriately regulated and utilised to avoid surpluses and losses in private market consumption and capital expenditure to regulate the economy (Diesing, 2017). When private sector expenditure declines, the state

can expand more and tax less in order to directly surge aggregate demand. When the private market is overly confident and spends excessively quickly on consumption and new investment initiatives, the government might spend less or tax more to reduce aggregate demand (Easterly & Rebelo, 1993). To put it in other words, in order for the economy to be stabilized, the authorities must manage big budget shortfalls amid economic declines and administer budget excesses during economic expansions. These are the so-called fiscal policies of expansion or contraction.

### **2.2.2 Fiscal Policies in the EU**

The aim of the European Union's fiscal policy design is always to generate a sophisticated and efficient foundation for the organisation and monitoring of the Member States' fiscal policies (Mencinger, Aristovnik & Verbič, 2017). The legal structure was reformed in 2011-2013 in relation to the national debt crisis, that highlighted the demand for unbending legislation regarding the overabundance impacts of inadequate public finances in the Eurozone (Mencinger, Aristovnik & Verbič, 2017). Therefore, the amended framework is based on the experience of the design philosophy problems of the Monetary Union (EMU) and European Union and makes an effort to strengthen the fundamental concept of sustainable public finances, which is forecasted on the TFEU, Article 119(3) (European Parliament: DG Internal Policies, 2021). European law serves as the principal legislative foundation for the Stability and Growth Pact (SGP) in Articles 121 (multilateral supervision) and 126 (extreme deficit strategy) of the TFEU along with Protocol number 12 on the excess deficiency procedure (European Parliament: DG Internal Policies, 2021). Second, EU law forecasts thoroughly the proper application Treaty's principles and framework. The Mandate 2011/85/EU — criteria for euro area nations' finances, also known as 'Six-Pack', came into effect on December 13, 2011, modernising and amending the regulation of the SGP. The revised SGP contains the key mechanisms for monitoring the EU nations fiscal policies (precautionary arm) and the fixing of significant losses (disciplinary arm).

The SGP comprises of the following parameters in its current form :



- Council Regulation (EC) No 1466/97 of July 7, 1997, on the strengthening of the monitoring of budgetary situation and the monitoring and organisation of macroeconomic policies, as revised by Council Regulation (EC) No 1055/2005 of June 27, 2005, and Regulation Number 1175/2011 (EU) of November 16, 2011. This regulation comprises the precautionary arm;
- Council Regulation (EC) No 1467/97 of July 7, 1997, on accelerating and elucidating the application of the severe deficit procedures, as amended by Council Regulation (EC) No 1056/2005 of June 27, 2005, and Council Regulation (EU) No 1177/2011 of November 8, 2011. This regulation comprises the disciplinary arm;
- Regulation Number 1173/2011 (EU) of November 16, 2011, on the successful reinforcement of fiscal supervision in the Eurozone ;

Furthermore, the 'Code of Conduct,' that is an interpretation of the Economic and Financial Affairs Council (EFC), includes instructions on how to implement the SGP and contains directions on the format and contents of Stability and Convergence Programmes (SCPs) (Mencinger, Aristovnik & Verbič, 2017). Regardless of the fact that the Code of Conduct is not officially at the same status as a regulation, the premise that it provides specifications on the proper implementation of the SGP renders it of critical practical value. Its most recent update, approved by the EFC on May 15, 2017, consists of flexibility specifications within the current SGP regulations (via structural reform and investment provisions and a matrix clarifying 'financial good times and 'financial hardships' of the precautionary arm and stipulating which fiscal adaptation actions are needed for the pertaining recurring circumstance and debt ratio). The guidelines are stated in the 'Generally agreed to stand on versatility within the SGP', which was negotiated by the EFC and supported by the ECOFIN Council in February 2016; the reference point for the discussions was the Commission statement on flexibility in January 2015 . Moreover, the present edition of the Code of Conduct

includes several EFC verdicts from November 2016, which bring more emphasis to the expenditure threshold. The structural equilibrium indicator represents an important component of the fiscal monitoring framework.

### 2.2.3 Fiscal Policies in the Balkans

Due to the significant extent of shadow economy in the Balkans, the disparity between Western Balkan macroeconomic figures and those of EU nations must be carefully considered. (Hutsebaut, 2015). In terms of GDP, Serbia's public revenue and expenditure ratios were significantly higher in 2012, and both were somewhat comparable to the EU average. More specifically, income accounted for 43.7 % of the GDP while expenditure accounted for 49.8 %. The EU had an average revenue of 45.4 % of GDP and an expenditure of 49.4 %. The other Western Balkan countries have lower values, with Kosovo reporting the worst situation, with 26.8 % revenues and 29 % expenditure, followed by North Macedonia with 29 % and 32.7 %, respectively (Hutsebaut, 2015).

**Table 1. Total of revenue and expenditures of the Government (% of GDP)**

	Revenue	Expenditure
Serbia (2012)	43.7	49.8
Montenegro (2013)	42.9	45.6
Macedonia (2012)	29.0	32.7
Federation of Bosnia and Herzegovina (2012)	40.3	40.1
Kosovo (2012)	26.8	29.0
Croatia (2012)	39.2	43.3
EU 28 on average (2012)	45.4	49.4

(Source: Hutsebaut, 2015).

The government's revenue from direct taxes (as a percentage of GDP) is low in all Western Balkans countries. However, it is particularly low in Croatia, the Federation of Bosnia and Herzegovina (FBiH), Macedonia, and Kosovo, with 2.5 %, 3 %, and 3.1 %, respectively; meanwhile, income from indirect taxes is generally high across the Western Balkans, but especially so in Serbia, Croatia and Kosovo (Hutsebaut, 2015). Social contributions are relatively significant in

FBiH and Kosovo, with 16.2%, whereas in Kosovo, social contributions play no role in the general government budget (Hutsebaut, 2015).

**Table 2. Total of revenue and structure of general government (% of GDP)**

	Direct taxes	Indirect taxes	Social contributions	Other revenue
Serbia (2012)	43.7	19.8	11.6	5.5
Montenegro (2013)	42.9	18.5	12.4	4.8
Macedonia (2012)	29.0	12.4	8.6	4.2
Federation of Bosnia and Herzegovina (2012)	40.3	16.3	16.2	4.7
Kosovo (2012)	26.8	19.2	0	4.4
Croatia (2012)	39.2	24.0	12.7	0
EU 28 on average (2012)	45.4	13.6	14.0	4.9

(Source: Hutsebaut, 2015)

In order to finance their public budgets, Western Balkan countries depend heavily on indirect taxes. This is particularly the case for Kosovo (71.6%) and Croatia (61.2%). (Hutsebaut, 2015). The latter state has a pretty modest fraction of direct tax revenues, 6.4 %, which is very surprising given that Croatia has the highest personal income tax rates in the region (Hutsebaut, 2015). A possible reasoning to this case can be attributed to the manner tax laws are enforced in Croatia and the presence of various exemptions and tax allowances and credits.

**Table 3. Share of indirect and direct taxes and social contributions in government total revenue**

	Direct taxes	Indirect taxes	Social contributions
Serbia (2012)	15.6	45.3	26.5
Montenegro (2013)	17.7	43.1	28.9
Macedonia (2012)	12.7	42.8	29.5
Federation of Bosnia and Herzegovina (2012)	7.2	40.3	40.2
Kosovo (2012)	11.6	71.6	0
Croatia (2012)	6.4	61.2	32.4
EU 28 on average (2012)	28.4	30.0	30.8

(Source: Hutsebaut, 2015).

In all Western Balkan countries, personal income tax rates are generally flat and minimal, except for Croatia (12 – 25 – 40 (+10 % surcharge)) and Montenegro (9-15), which have progressive income tax rates (Hutsebaut, 2015). According to studies, progressive income tax rates alone do not guarantee a fair revenue from direct taxation because other variables also play a factor (Kóczán, 2016). Business tax rates in Western Balkan countries are very low, except in Croatia (20%) and Serbia (15%).

**Table 4. Personal income tax (mandated rates)**

	Rates (%)	Basic tax allowance
Serbia (2012)	43.7	n/s
Montenegro (2013)	9-15	n/s
Macedonia (2012)	10	€118.20/month
Federation of Bosnia and Herzegovina (2012)	10	€1837/year
Kosovo (2012)	4 – 8 – 10	€960/year
Croatia (2012)	12 – 25 – 40 (+10% surcharge)	€300/month
EU 28 on average (2012)	39.4	

(Source: Hutsebaut, 2015).

Social contributions are very high in Montenegro, with +15% payroll tax paid by the employers and 33 -39% paid by the employees, FBiH 10.5% paid by the employers and 31% paid by the employees, and Serbia 17.9% paid by the employers and 19.9% paid by the employees (Hutsebaut, 2015). The tax wedge for workers is relatively high in all Balkan countries, averaging 40%. Montenegro has a higher-than-average figure of 56 %, while Kosovo has the lowest wedge of 17 % (Hutsebaut, 2015).

**Table 5. Tax wedge for a worker on average salary (% of total labour cost)**

Serbia	39.9
Montenegro	56.0
Macedonia (2012)	37.0
Federation of Bosnia and Herzegovina (2012)	41.2
Kosovo (2012)	17.0
Croatia (2012)	39.6
EU 28 on average for single worker on 67% of average salary (2013)	36.8

(Source: Hutsebaut, 2015).

The economic and financial crisis of the 2010s brought economic and social consequences to all western Balkan countries, similarly to those of the European countries. Nevertheless, unlike the European Union members, the Western Balkans countries continue to this day facing high levels of informality and corruption. All of these issues together limit the government's ability to commit to active investments and social policies (Kóczán, 2016). According to Hutsebaut (2015), this is why the government has focused on improving their budgets while also attracting new foreign direct investments. It should also be noted that many initiatives have been initiated in this direction, but each of these initiatives must be reviewed for efficiency and effectiveness.

When the preceding data are analysed, it is possible to deduce that, from a labor union perspective, the taxation structures in the Western Balkans states are unequal, not just in their systemic nature but also in their implementation (Hutsebaut, 2015). They are structurally unequal due, in part, to the significant contribution of indirect taxes and the over-limitation of tax rates of higher incomes (both business and individual) as well as considerable property income and also operationally unfair because they lack efficiency, effectiveness and compliance (Kóczán, 2016).

The trade unions of the Western Balkan countries have proposed several reforms, taking into account the particular circumstances of the countries in which they operate, to create more fair, competitive, and effective fiscal policies (Hutsebaut, 2015). In certain countries, there is an emergent need for budget increases, much of which should be dedicated to education, capital investment projects (mostly in public infrastructure), welfare programs and proactive labour market strategies. Non-productive spending should be minimised, public finances should be better regulated, budget planning should be more efficient, and budget expenditure should become more functional, whereas government need to show more budgetary discipline.

An autonomous public agency should oversee public finances, and trade unions should be engaged in the drafting of the state budget; a "lighter" but more effective public administration is encouraged, and governments should rely less

on loans from foreign institutions by generating more of their tax revenue (Kóczán, 2016). In terms of tax administration, there is a need to reorganize the administration and tax procedures to make them more efficient and competitive. Furthermore, tax supervision, collection, and control must be strengthened. More investments are needed to build capacity within the tax administration, while more tax inspectors need to be hired.

These latter measures should be accompanied by adequate personnel, continuous training and skill development, investment in IT equipment, and the development of databases. Salaries must be increased to prevent tax inspectors from being corrupted. It is recommended that the tax administration ensure greater accountability to taxpayers, increase transparency in tax practices, and provide taxpayers with the possibility of filing an appeal (Hutsebaut, 2015).

When it comes to tax framework, categories of taxes and taxation rates, the western Balkan countries are recommended to introduce a more progressive structure of individual income tax, which will have an elevated top rate and tax exception for those on the minimum wages (up to 50% of household incomes) to re-establish the harmony among indirect and direct taxes and to add more transparency into the system, to allow a higher re-distribution of income and more active policies (Hutsebaut, 2015). Furthermore, greater differentiation of VAT rates is needed.

For essential goods and services, a zero or lower rate must be levied, whereas higher rates must be implemented for luxury goods and services (e.g., luxury cars ,large villas, boats, etc.) (Kóczán, 2016). A rigorous examination of the various tax deductions, exclusions, allowances, and incentives, both for personal income tax and business tax is required to increase the tax base. (Kóczán, 2016). Moreover, all companies who fail to fulfil the anticipated recruitment of prospective employees in return for any type of tax concessions ( subsidies or exceptions) should compensate the concession, which implies a return of the subsidies or the payment of the regular rate of corporate tax (Kóczán, 2016).

The only way for governments to win the war against corruption, financial fraud, and tax avoidance is to restore confidence in the government and

guarantee respect for the rule of law. It is critical to reducing the level of acceptance for the informal economy, evasion of social contributions, tax fraud, and corruption by all means. There is a need for tighter and more frequent controls on tax statements about private earnings and business income to reduce significant under-reporting of earnings and profits and strengthen financial discipline (Kóczán, 2016). Stricter controls are also essential for the introduction of minimum wage laws and the proper payments and transfers to the Public Revenue Office (PRO) in respect of social contributions; the PRO should submit to the employees a report on the social contributions that have been collected each year (Hutsebaut, 2015). Another measure the government should take is to emit state bonds on paper no longer but only digitally. The introduction of better prevention mechanisms on public procurement policies must be done, whereas the main contractor should be liable for sub-contractors (Hutsebaut, 2015). Cash payments must be restricted: every necessary payment should be made through financial institutions (or electronic payment) so that they can be documented (Kóczán, 2016). A variety of databases for tax, social, financial, and jobs resources must be created and used in a structured manner (i.e. they must be interlinked). Private individuals' unjustified and undeclared wealth (senior public and other officials, legislators, business executives, civil servants, etc.) must be analysed at the source, and proportionate sanctions must be imposed if they have violated the law (Hutsebaut, 2015). Better coordination is directly related to the performance of the respective inspection services (social welfare, occupation, indirect and taxation). Field operations should be carried out cooperatively by a joint task force. A labour identification and membership cards can be used to register and monitor workers in high-risk industries such as manufacturing, commerce, transportation and hospitality, restaurants and catering (Kóczán, 2016). A central registry must be created in order to record rented apartments/houses and visitors. This will allow for a more effective collection of rental income and tourist revenue (Hutsebaut, 2015). This will allow for a more efficient collection of rental income and tourist tax. It would be beneficial for Western Balkan countries to share information agreements on direct and indirect taxes (Kóczán, 2016). Trade unions advocate

increased supervision and control over transfer pricing (Kóczán, 2016). Taxpayers may be asked on the yearly tax declaration form if they have a banking account or insurance coverage in another country. For clandestine or informal assets repatriation from overseas, regulation and amnesty procedures, along with fair financial penalties, could be expected (Hutsebaut, 2015).

#### **2.2.4 Fiscal policies in Albania**

The European Commission published its evaluation of Albania's Economic Reform Programme (ERP) for 2021-2023 in March 2021. According to ERP's estimations, in 2020, the Albanian economy shrunk less than what was initially projected. Despite suffering a double setback from the November 2019 earthquake and the COVID-19 pandemic, real GDP only fell by 3.3 % in 2020 (European Commission, 2021). Tourism and manufacturing suffered significant losses as a result of pandemic-related domestic and foreign restrictions, but economic conditions started to improve in the second part of the year. Despite challenges in fiscal and monetary policymaking, the government and central bank were able to take timely and adequate action to assist enterprises, households, and the healthcare sector (European Commission, 2021). These interventions mitigated the impact on the labour market while maintaining macroeconomic and financial stability. According to the economic reform program, the Albanian economy will develop at a rate of 5% between 2021 and 2023, owing to solid growth in private consumption, exports, and investment (European Commission, 2021). A modest improvement in consumption and expenditure, a considerable recovery of services exports (including tourism) and an outstandingly high level of public investment is expected to bring a growth increase of 5.5% in 2021 (European Commission, 2021).

Still referring to the European Commission evaluation (2021), growth in 2023 is projected to be moderate to 4.5 %, with private spending and investment taking a greater role. This could lead to the gradual reduction of the unemployment rate to 9.4 %. Due to the optimistic capital expenditure plans, the fiscal deficit is projected to remain at 6% of GDP in 2021. Spending cuts are expected to halve the deficit and steadily reduce the public debt ratio by 2022.



The fiscal deficit reached 6.9% of GDP in 2020 due to a decline in tax revenues combined with unexpected spending needs and post-earthquake reconstruction (European Commission, 2021). Despite an expected rise in revenue, the deficit is expected to remain above 6% of GDP in 2021.

The public investment will grow considerably to finish post-earthquake reconstruction and stimulate economic resurgence, whereas pandemic-related spending needs will remain high. The lower capital spending in 2022 and 2023 is projected to bring the fiscal deficit under 3% and move the primary balance into positive territory by 2023 in accordance with the new fiscal rule (European Commission, 2021). The Economic Reform Program anticipates a modest reduction in the public debt ratio of about 4.3 PPS (purchasing power standard) over three years. It is predicated to reach 75.6% of GDP in 2023 when the pace of debt reduction is believed to accelerate.

According to the European Commission (2021), Albania faces significant obstacles in implementing ERP. Commission argue that commitment to fiscal consolidation should be backed by additional revenue mobilization and better management of liabilities; however, Albania has an excellent opportunity to make public spending more growth-friendly and efficient. Commission believes that Albania's business environment is hampered by structural weaknesses which need to be fixed. Another paradox found in Albania is that the number of university graduates is increasing while the percentage of the adult population with low skills and the rate of young adults without employment, training or education remains high.

Poverty and social exclusion are other problems that Albania must address, as expenditure on social security and healthcare is deemed inadequate to reduce poverty and expand healthcare coverage. The European Commission has also determined that the policy guidance identified in the EU-Albanian economic and financial dialogue conclusions in May 2020 has not been fully implemented. EC states that the analysis of key challenges in the ERP is incomplete. Although some reform measures are in accordance with the priorities identified by the Commission, some challenges are not appropriately addressed.

According to Albania's ERP, economic contraction in 2020 is expected to be 4.4 %, but this is just half of what was previously forecasted, with recent reports confirming an even lower contraction of 3.3 %. EC believes that the economic outlook, which depends on optimistic projections for public investment, is subject to descending risks from the COVID-19 pandemic and the political cycle. In conjunction with the projected closing of the output gap, inflation is expected to rise to 2.4 % in 2021 before hitting the 3 % target in 2023. After momentarily broadening to 9.2% in 2020, the present account deficit is projected to stabilize at 7.1% of GDP from 2021 on, financed almost entirely by foreign direct investment (FDI) inflows.

The solid foreign exchange (forex) reserves and the dominance of concessional debt will mitigate Albania's vulnerability from its increasing external debt ratio. Furthermore, a considerable number of financial reforms inspired by EU law will impact the stability and growth of the sector beyond 2021. The Albanian government approved several changes in regard to the local tax, value-added tax and income tax in 2020, which entered in force from January 1, 2021. Since the beginning of 2021, a taxable person for corporate income tax (CIT) purposes is considered any legal organisation or association which has an yearly income exceeding ALL 8 million in the territory of Albania (Decision no. 576 issued July 22, 2020, on legislative changes to Decision no. 953 on " VAT Law provisions Implementation " released in the Official Gazette 139, issued July 29, 2020).

Previously, the CIT registration requirement was linked to VAT registration. Nothing has changed with regard to the other classifications of eligible individuals subject to CIT. In this context, simple corporations, non-residents whose business is perpetually established in Albania, non-Albanians who are not subject to individual income tax and others (unless they are subject to simplified profit taxation for small enterprises) will remain to be treated as taxable individuals for CIT objectives (Decision no. 576 dated July 22, 2020, on legislative changes to the Decision no. 953 on "Implementing provisions of the VAT Law") (The Official Gazette 139, 2020).

Starting from January 1, 2021, taxpayers who have a yearly taxable turnover above ALL 14 million (roughly EUR 113 thousand) will all be subjected to CIT at a 0% rate. In the past, this group of people were subjected to CIT at a 5% rate (Law no. 106/2020 issued 29.07.2020, on legislative changes to the Law no.8438 on "Income Tax" issued December 1998 is published in the Official Gazette 154 issued 26.08.2020). The taxpayers who have an annual income above ALL 14 million will continue to be subjected to CIT rates of 15% on taxable profits. Furthermore, the CIT rates will remain unchanged for other taxpayers who are entitled to 5% CIT rates (i.e. software produces, automotive sector, agriculture organisations) (Law no. 106/2020 issued 29.07.2020, on legislative changes to the Law no.8438 on "Income Tax" issued December 28, 1998) (The Official Gazette 139, 2020).

Effective from January 1, 2021, all people with a yearly taxable revenue above ALL 10 million (around EUR 80.000) will be required to register for VAT purposes. If a taxpayer's yearly taxable revenue exceeds ALL 5 million, they may enrol independently for VAT obligations (around EUR 40.000) (Law no. 106/2020 issued 29.07.2020, on legislative changes to the Law no.8438 on "Income Tax" dated December 28, 1998) (The Official Gazette 139, 2020).

All categories of taxpayers will be uniformly subjected to the new VAT registration threshold. Until the end of 2020, all entrepreneurs engaged in regulated professions were required to file for VAT, regardless of their yearly turnover or the nature of their activity. (Law no. 106/2020 issued 29.07.2020, on legislative changes to the Law no.8438 on "Income Tax" issued December 28, 1998) (The Official Gazette 139, 2020).

This provision will be substituted in 2021 as the VAT mentioned above the limit is enforced to register enterprises who provide specific services classified as a controlled industry (e.g. lawyers, doctors, pharmacists, architects, engineers, auditors, accountants). Starting from January 1, 2021, the amended VAT accreditation threshold will apply to agricultural producers who formerly had to register only if their yearly turnover exceeded ALL 5 million (Law no. 106/2020 issued 29.07.2020, on legislative changes to the Law

no.8438 on "Income Tax" issued December 28, 1998) (The Official Gazette 139, 2020) (The Official Gazette 139, 2020).

Effective from January 1, 2021, all taxpayers registered for VAT must submit monthly VAT purchases and sales records and the associated VAT returns. The VAT sales and purchase records must be filed by the 10th of the succeeding month, and the monthly VAT return must be submitted by the 14th of the succeeding month (Law no. 106/2020 issued 29.07.2020, on legislative changes to the Law no.8438 on "Income Tax" issued December 28, 1998) (The Official Gazette 139, 2020) (The Official Gazette 139, 2020).

In the past, some categories of taxpayers were filing VAT purchase/sales books and VAT returns after four months. The simplified tax on small business will be subjected to all registered taxpayers carrying out business activity and having an annual turnover of ALL 0 – ALL 8 million.

Effective from January 1, 2021, the straightforward tax on small enterprises for this group will be 0%. If taxpayers exceed this turnover, they will be obliged to register for CIT obligations follow the requirements of the Income Tax Law (Law no. 122/2020 dated October 15, 2020, on amendments to Law no. 9632 dated October 30, 2006, on "Local Taxes" is published (Official Gazette no.139, 2020). In the past, the taxpayers who had a yearly revenue from ALL 0 to 5 million were subjected to a 0% tax rate, while taxpayers who had a yearly revenue of ALL 5 to 8 million were subjected to a 5% tax rate (Law no. 122/2020 issued 15.10.2020, on amendments to the Law no. 9632 issued 30.10.2006, on "Local Taxes") (The Official Gazette 139, 2020).

## **2.3 Tax Ethics**

### **2.3.1 Ethics of Tax Evasion**

Most commentators will regard tax avoidance as a morally unacceptable and unethical practice. There are some inconsistencies in the definition of the term "taxation" that must be taken into consideration when analysing this assertion. One of the leading authors of tax evasion ethics describes taxes as "the coercive government seizing of property" (McGee,1994). Several individuals will undoubtedly disagree with this viewpoint, claiming they willingly pay taxes

mainly for public purposes but that they are nevertheless obligated to settle that expense because the option of not paying them is not available. Taxation is inevitable: it is a matter of institutional design, not a psychological state of mind (McGee, 1994).

Taxation is founded on coercion, as evasion of taxes is illegal, so that if the taxpayer does not fulfil its tax obligations, the government can initiate the use of power (Bagus, Block, Eabrasu, Howden & Rostan, 2011). Since tax avoidance is ethically questionable there has to be a philosophical need to paying taxes, which is embodied in the compulsory nature of taxation. Such an obligation is "positive" in the notion that it mandates specific practices, whereas a "negative" obligation just prohibits certain practices (Bagus, Block, Eabrasu, Howden & Rostan, 2011). To be more descriptive, there are two forms of constructive commitments that can be used as a basis for taxation. The issue with the tax statement is that it is difficult to determine which categories of government services are demanded, in what quantities, and which unfulfilled requirements of one citizen signify the obligation of another. The obligation to implement them is legitimated by all ethical frameworks relying on positive obligations (Bagus, Block, Eabrasu, Howden & Rostan, 2011). However, in the absence of some objective criteria for the specific nature of one's obligation, such ethical standards boil down to the underlying premise: one may use coercion to compel others to partake in the expenses of satisfying every necessity that one believes should be addressed. (McGee, 1994).

While several pieces of research on tax compliance have been conducted, relatively few have investigated compliance, or even non-compliance, from an ethical standpoint. The majority of literature on tax evasion explores the subject from the standpoint of public finance or macroeconomics with ethical considerations discussed minimally. Martin Crowe's (1944) thesis, titled "The Moral Obligation of Paying Just Taxes," is perhaps the most comprehensive study on the ethics of tax avoidance that we have from the twentieth century. The thesis examined the religious and philosophic debate in the last 500 years, mainly in the Catholic Church (McGee, 2005). Tax evasion ethics has been examined through a number of viewpoints. Some of them are more theological,

while others are nuanced and metaphysical in essence. One strategy is to look at the individual's interaction with the state. Another is the individual's relationship with the taxpaying society or a subset of it. A third factor is the individual's relationship with God. Martin Crowe [1944] reviewed the literature on these three fundamental approaches that have been taken in the literature over the last five centuries (McGee, 2005).

There are three significant approaches on the ethics of tax evasion. Tax evasion is never justifiable; it is often justifiable, and it is always justifiable. The first point of view that taxation can never be considered ethical is considered the weakest of the three (McGee, 2006). It implied that Jewish people were "morally responsible for paying taxes to Hitler" while being discriminated against and sent to concentration camps. (Crowe, 1944) undertook an ethical, theoretical analysis with his "The Moral Obligation to Paying Just Taxes," indicating that an individual's confidence in the integrity of the taxation system and the 'ability to contribute principle' are essential factors influencing compliance. To support these statements about the consequences of an unjust society on tax evasion, McGee (2006) proposed a fourth point of view on tax evasion. When contemplating utilitarian ethics, morality is aligned with efficiency. According to the theory, financing inefficient public sectors by taxation, as opposed to the private sector, does not maximize societal resources (McGee, 2006). This statement is founded on the Natural Rights theory, which holds that there is no such thing as "natural justice" and that people have the right to disobey in cases that they feel a violation of their rights (McGee, 1994).

McGee also developed a systematic methodology for research into tax evasion perception to facilitate cross-national comparisons (McGee, 2005). Using a 7point Likert scale, the questionnaire comprised of eighteen proclamations that combined the three critical viewpoints tax evasion ethics. The first fifteen comments were focused on existing research findings, with three added to discuss human rights concerns that had previously gone unnoticed in research. This instrument has boosted the reliability of research into citizens' perceptions of tax evasion in different countries, as it has allowed for high comparability between results from different studies using the same methodology. The use of

a Likert scale has the capability of offering quantitative data, which is easier to calculate. However, due to the limited qualitative data generated by the technique, conclusions of social phenomena must be derived from observations of the social environments surveyed. This needs more analysis and understanding independently from the collection of data. Understanding the geopolitical, financial, cultural and social variables of the environment at the time of collection, for example, that influence individual perceptions. The climate surveyed in this research took into account the UK's environment during Brexit, which has caused major political uncertainty.

### **2.3.2 Tax morale and the Panama Papers Case**

The concept of a "fair" system of taxation is one of the oldest and most vexing fiscal issues challenging humanity, with different civilizations addressing the issues in different ways. People have worked with different types of fiscal arrangements since those early days, but the general consensus on an optimal fiscal structure has yet to be found. Scholars explored the concept of tax morality in the previous century in order to assign a normative and moral framework to fiscal and taxation activities (Chohan, 2016). Tax morale is a societal phenomenon that is difficult to understand. Tax compliance issues are as old as taxes themselves, and they will likely be a topic of interest for as long as taxes exist.

To understand the influence of a tax system, it is essential to know who follows the tax law and who does not. Tax evasion is a prevalent and increasing issue in almost every country. Regrettably, we know little about tax morale; economists see the subject as rational decision-making in the face of uncertainty (Chohan, 2016). This means that tax evasion is a gamble that may result in reduced taxes or, in the occurrence of detection, it may result in sanctions (Chohan, 2016). Dell'Anno (2009) has presented a theoretical model that demonstrates that tax morale is partly to blame for evasion. Tax morale is influenced by taxpayers' perceptions of integrity and social stigma. His model also takes into consideration the efficacy of policymakers in regulating important economic and structural factors influencing the level of tax evasion.



(Lago-Peñas & Lago-Peñas, 2010), provide a short description of the elements recognized as having an impact on tax morality in prior studies. They highlight that age, religious belief, economic burden, and consensus with government policies enhance tax morality, while lack of education and self-employment decrease morality. Lower shadow economies are also associated with higher tax morale; according to studies, countries with a high tax morality and obedience to the state, as with Western and Central European countries, have smaller proportional shadow economies than former Soviet Union member countries (Kemme, Parikh & Steigner, 2020). Morality in the context of "divine punishment" has also been discussed, but it has had less sway than arguments such as the ethical lens of human behaviour (Alm and Torgler 2011).

Another implication from the tax compliance literature is that "individuals who have tax avoiders as associates are more inclined to become evaders themselves" (Alm and Torgler 2011). The Panama Papers are beginning to shed light on this in a variety of cases where friends, parents, colleagues, in-laws, and other close relatives are found in synchronicity through MF files. The Panama Papers sparked international outrage by highlighting legitimate concerns over the lack of accountability in overseeing the "1 per cent's" finances. Current and former heads of state from a number of countries, as well as convicted criminals, celebrities, and many others, have been embroiled in transactions uncovered by the anonymous publication of more than 2 Terabytes of data, which equates to more than 11.5 million files. Several countries announced immediate investigations, and public outrage about the morality of non-transparent fiscal behaviour only intensified. While avoiding speculation, Alm and Torgler (2011) state that there is "considerable tangible and intangible proof that ethics varies significantly between individuals and that these differences affect in important ways regarding their compliance decisions." Especially relevant to the Panama Papers is the notion of personal morals and the reputational implications as a disincentive to tax avoidance. This reasoning was based on the belief that exposing tax frauds would have an influence on the reputation of the offenders and would discourage future evaders due to the expenses to their "good reputation." Transparency, as shown by the Panama Papers, is a required



requisite for this logic to work, and highly skilled tax evasion enablers of a legal-financial-accounting form, such as Mossack Fonseca [MF], help to decouple the reputational costs of tax evasion from the benefits of lower tax bills (Chohan, 2016). Using the lens of business ethics at the individual level, Alm and Togler (2011) argued that humans are not necessarily disingenuous, reasonable, self-interested beings as presented in the "conventional neoclassical worldview," but are instead driven by a variety of other forces that include some aspects of "ethics." The Panama Papers do not invalidate this line of inquiry because it is still undisclosed where the leak at MF arose.

The underlying belief of many people who complain about profit shifting to low-tax jurisdictions is that there is something illegal or unethical about parking income in a foreign country, that it is unpatriotic (Dell'Anno, 2009). Setting aside for a moment the fact that patriotism is a scoundrel's last refuge, examining this topic through the lens of positive economics reveals that it is a little more nuanced than it seems (Dell'Anno, 2009). One crucial point is that corporate board members have a contractual obligation to their shareholders to protect the corporation's assets (Dell'Anno, 2009). Earning profit in high-tax jurisdictions threatens to dissolve those assets more quickly than if those profits were registered in a lower-tax jurisdiction (Kemme, Parikh & Steigner, 2020). Thus, it may be argued that a corporation's top management has a fiduciary obligation to export income if doing so is in the best interests of the shareholders.

### **3. Methodology**

#### **3.1 Qualitative methods and Research design**

Research methodology, as stated by Buckley and Chiang, is "a strategic approach or conceptual layout by which the scholar plans out the scheme to find the problem or the solution to the problem." As per (Crotty, 1998) research methodology is a multidisciplinary approach "that emphasizes our choices and uses of specific protocols whilst integrating them to the projected outcomes, yet the selection of the research method is centred on the nature and scope of the research question." When the scholar or researcher is exploring a new area of

research or attempting to identify and hypothesize significant topics, qualitative research methodology is deemed suitable. The most popular forms of qualitative methods are interviewing and observations, which intend to provide an in-depth and insightful comprehension of topic areas via textual interpretations (Jamshed, 2014). Due to the emergent nature of qualitative research design, drafting qualitative study proposal is quite challenging (Sandelowski & Barroso, 2003). To comprehend the qualitative research method, one must first understand its history, values, and philosophical framework. In qualitative research, history writing is about more than just the past; it is also about the future. Hundreds of years ago, medieval scholasticism philosophers separated quanta (quantities) from qualia (the qualities of things). John Locke, a 17th-century empiricist philosopher, argued that primary properties, such as extension, number, and solidity, were considered independent observers (Denzin & Lincoln, 2005) while colours, tastes, and smells were regarded as secondary qualities generated as consequences on viewers. The period 1900-1945 is known as the conventional era of qualitative study; at this time, qualitative data approach intended to provide an objective interpretation of social phenomenon in social processes and other cultural practices (Mohajan, 2018). The positivist perspective promotes the scientific inquiry ideals of qualitative science. The timeframe of 1950-1970 was the second phase known as the Golden Age of Qualitative Study, the modernist phase (Mohajan, 2018). The data analysis was guided by different coding techniques for materials frequently collected from participant observation. Qualitative study in the postmodern era began throughout 1990 and 1995 as a phase of innovative and experimental ethnographies (Denzin & Lincoln, 2005). Throughout this time, narratives had largely eclipsed theories, and otherwise theories had been translated to narratives. The end of great narratives is proclaimed; emphasis was transferred to relevant, delimited, historical, and problem-specific theories and narratives (Denzin & Lincoln, 2005). From 1995 to 2000, the post-experimental investigation was conducted. During this time, qualitative research became more influential in its relation to democratic policies. The methodologically controversial period was between 2000 to 2010 and was accompanied by further

establishing qualitative research through various new journals (Mohajan, 2018). From 2010 till present, it addresses the methodological backlash associated with the mass movement backed by evidence (Mohajan, 2018). The introduction of evidence-based system as the main criteria of significance for social sciences has propelled the growth of qualitative research. Qualitative research utilises inductive thinking, with the author typically exploring concepts and perspectives in a specific context (Mohajan, 2018). It pertains to various methods of data gathering and processing using selective sample selection and open-ended, semi-structured interviews. It identifies as an efficient design that develops in a usual environment and allows the observer to incorporate a degree of accuracy through active participation in the social conditioning (Crotty, 1998). Qualitative research is a form of social activity that emphasizes on how individuals interpret and convey the meaning of their encounters in order to better understand the social realities of individuals (Crotty, 1998). It employs questionnaires, journals, documents, case studies, and open-ended interviews to accumulate, examine, and critically evaluate findings from textual and visual sources, as well as historical documents (Crotty, 1998). It is exploratory in nature, trying to comprehend "how" and "why" a particular social occurrence or activity performs as it does in a particular environment (Buckley, Buckley, & Chiang, 1976). It aims to facilitate us in comprehending the socioeconomic reality in which we operate and why everything functions the way it does (Mohajan, 2018). It seeks to deliver a comprehensive interpretation of social conduct, emotions, opinions, and lived experiences (Buckley, Buckley, & Chiang, 1976). The interpretivist, positivist and critical paradigms are the three primary paradigms of the qualitative approach. (Jamshed, 2014). It is intended to investigate individual's attitudes, perspectives, feelings, experiences, and what is central to their lives (Jamshed, 2014). Its foundation is the interpretative view to social realism, and the interpretation of human lived experiences (Mohajan, 2018). It has a significant influence on academia, medical care, psychology, social sciences, anthropology, leadership, information systems, and other academic disciplines. By embracing a qualitative methodology, an aspiring researcher will enhance and extrapolate the thinking process, analyse

and assess issues from a profound perspective, and minimize the preconceived notions (Jamshed, 2014). This can be accomplished through face to face interviewing or issue-directed dialogues (Jamshed, 2014). The interview is the most popular approach in qualitative research for data collection. Conforming to (Oakley, 1998), qualitative interviewing is a format where standards and practices are documented, achieved, tested, and improved. Every research interview has its unique framework; qualitative research interviews are often in-depth, semi-structured, or slightly structured interviews. Unstructured interviews are usually favoured while executing lengthy fieldwork because they enable participants to articulate themselves in their own ways and at their rhythm, with little control over participants' remarks (Oakley, 1998). Nondirective interviews, a version of unstructured interview, are intended to generate detailed information and do not typically include a predetermined set of questions. Semi-structured interviews, however, are those comprehensive interviews in which participants are required to reply to predetermined open-ended questions and are thus commonly used in studies by various professionals (Jamshed, 2014). Semi-structured interviews are premised on a semi-structured interview guide, which is a graphical display of topics or subject areas that the interviewee must address. They are widely used to interview an individual or, at times, a collective and last 30 to 60 minutes. (Jamshed, 2014). The approach to tackling the research question is reflected in the research methods. Depending on the, context the research method may well be a combination of qualitative and quantitative methods, or it could be qualitative or quantitative on its own. A prospective researcher can use qualitative methods to finetune preconceived concepts as well as infer the cognitive processes, assessing and assessing the topics from comprehensive standpoint (Mohajan, 2018).

### **3.2 Data collection**

Analysing tax evasion is a challenging task due to a limitation of unbiased data on tax compliance. The use of questionnaires to assess taxpayer attitudes toward tax evasion is a popular research method on this subject. As reported by Kirchler

and Wahl (2010), tax evasion questionnaires are among the main commonly used techniques for analysing taxpayer compliance rates. . Both primary and secondary data are employed in this research. Secondary data will be collected through Research Gate, Google scholar, Modul University Vienna library. The utilization of mathematical and analytical information obtained by authorities, organizations, and government agencies is fundamental to the topic's content. Based on previous literature, this research employs a semi-structured questionnaire to a range of individuals in order to analyse their sentiments toward the phenomenon of tax evasion and governmental fiscal policies in Albania. This will be the primary form of data collection for this study. The sample consists of professionals of the taxation field and have worked or are currently working in jobs related to fiscal evasion and fiscal policy, owners or people working on private businesses, and the general public. The objective is to estimate the critical determinants of Albania's income tax compliance behaviour. The questionnaire is composed of 13 main questions followed by short sub-questions asking the interviewees to elaborate their opinions. There were six main areas of questions that prevailed: generic investigation, motivations for not filing tax, motivations for failing to correctly declare tax, factors that influence tax compliance, and tax compliance behaviour. All interviews will be conducted online to respect the current COVID-19 regulations. The majority of the interview sessions will be conducted in Albanian, the researcher and the interviewees local idiom , so that better conclusions are generated since some of the interviewees lack English skills. The interviews will then proceed on being translated to English and transcribed.

### **3.3 Interview development**

The semi-structured interview was designed with the primary purpose of researching Albanian people's tax compliance perceptions and behaviours , as well as systems that could facilitate the strengthening of tax compliance in Albania. The interview consisted of 13 open-ended questions to help the researcher gain more profound knowledge on the topic. The researcher tried to

include participants from different genders, age, education level, and experience levels. The researcher chose this sample to ensure that a range of different viewpoints is represented. The interviewer performed the interviews herself and the participants were asked to express their assent to be recorded and for the conversations to be transcribed. The first two questions are regarding the educational background and professional experience of the participants, which the interviewer only asked if she could not find information about before the interview. The next question asks, 'What is your opinion on the current tax evasion situation in Albania?'. The question was posed to measure public opinion of Albania's current situation and see how informed the participants are about current changes happening in their country. This question partly answers the research question of this study and provides the interviewer with information on how tax evasion is perceived. The following question is 'What would you consider to be the strengths and weaknesses of the current tax administration system?'. The researcher continued to ask for the respondents' opinion on the positive and the negative aspects of the tax administration system to gain a deeper insight into how the public perceives it. The following question is phrased 'What are, in your opinion, the factors that affect tax compliance behaviour of businesses and citizens in Albania, if there are any?'. This question seeks to identify some of the reasons behind tax evasion and the main factors that influence it. Identifying the main factors that affect tax compliance is a crucial part of this research and helps the findings of this research. The next question asks, 'Do you have knowledge of businesses or people who practice tax evasion in Albania, and what are your thoughts about it?'. It is followed by a sub-question phrased as follows 'Did they get caught evading taxes?'. The main question and the sub-question ask a direct question to the participants to measure how many of them have been aware of friends or acquaintance engaging in tax evasion. The sub-question aims to measure if these tax evaders ever got caught participating in tax evasion. The question: 'Are you aware of any new and creative methods businesses and citizens are using to evade taxes?' aims to find and explore new sophisticated methods that have emerged in recent years. The question 'Do you think there is an epidemic going on with tax

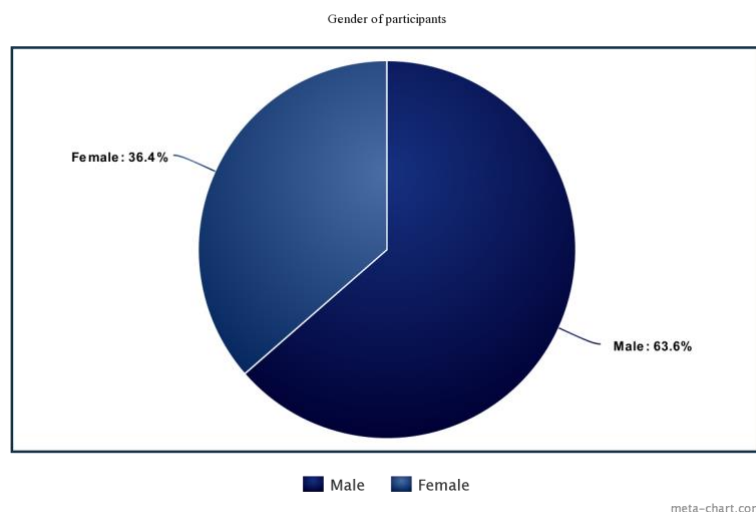
evasion In Albania because people perceive it as ethically acceptable to do so? ‘touches on the ethical part of the phenomena. The researcher is looking to find if there is an interaction between tax evasion and ethics and, if there is, how do ethics affect the general perception of tax evasion. The next question studies if tax evasion is perceived as a problem or no: ‘If you think there is a tax evasion problem in Albania, what mechanisms would you suggest to help identify those who evade taxes?’ This question was formulated to evaluate public opinion on the societal acceptance or rejection of certain compliance behaviours, such as tax evasion. The reasoning for this it is putting tax evasion behaviours in perspective to other responsibilities and activities of citizens. Through the question ‘How informed are you about the fiscal policies in Albania, and what are your thoughts regarding the current fiscal policies ? ‘this question seeks to explore the knowledge the participants have and asks them to voice their opinions on the current fiscal policies. The following question is articulated: ‘Do you think the lack of trust in the government and its fiscal policies encourages tax evasion? Please elaborate further.’ Through this question, the respondents will be encouraged to discuss with the researcher if the Albanian government is taking steps forward towards implementing useful fiscal policies. The interviewees will provide the researcher information regarding the Albanian government's progress in gaining citizens' trust by sharing their honest opinions. The following question asks, ‘Do you think the fiscal policies currently implemented are efficient in reducing tax evasion? If not, are there any changes you would suggest ?’ The researcher can utilize this question to determine whether Albania has made enough progress regarding the enforcement of policies or whether there is still an urgent need to develop new ones. It aims to uncover the weaknesses of the fiscal system by determining what policies are not working the way they should makes it easier to tackle them. This question fully answers the subsidiary research question, which assumes there is a correlation between evasion and fiscal policies. The question ‘In what ways should the government of Albania incentivize businesses and citizens to be more compliant with fiscal policies ?’, is looking for suggestions from the participants part to voice their ideas on improvements the government can make



to lower the tax gap in the country. The second to last question asks, ‘Do you think government corruption plays a factor in the process of evading taxes and not getting caught? This question mentions one of the biggest existing problems in Albania. Unfortunately, Albania is known to be a corrupted country, so the interviewer is looking into the issue and asking participants if corruption also plays a factor in the tax evasion process in their view. Lastly, ‘What are your views concerning the future of the Albanian tax system? ‘looks into what the future holds for the Albanian tax system and aims to gather opinions of the participants on any concerns they did not mention in the questions above.

#### 4. Data analysis and interpretation

To ensure that the sample was as inclusive as possible, the researcher conducted a total of 11 interviews with citizens, business owners, and government officials. The participants were all from different age groups, genders and had different educational backgrounds. From these 11 responders, 4 of them identified themselves as female, and the remaining 7 identified themselves as men.

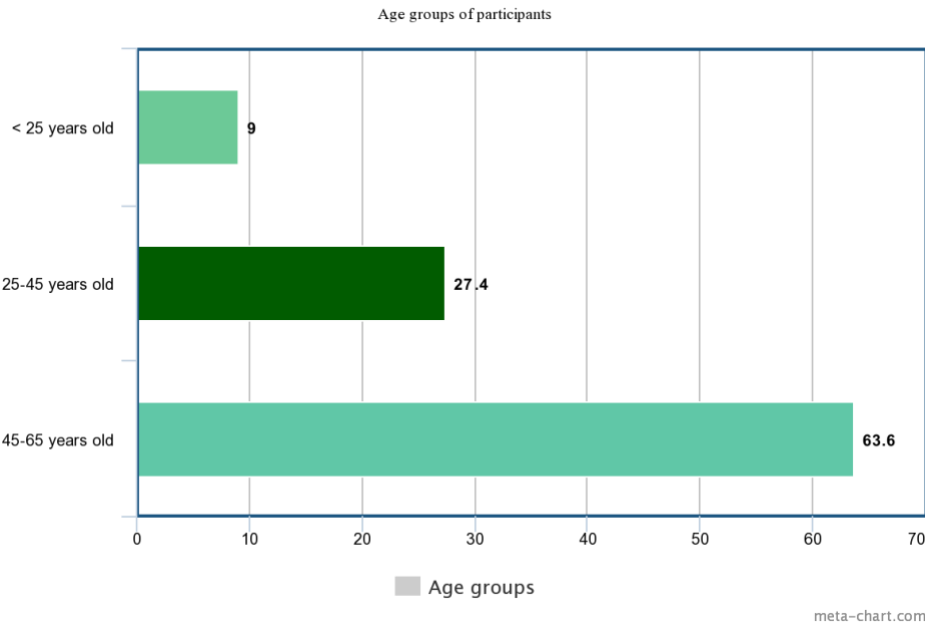


**Figure 1. Gender of participants (Author’s own)**

Other demographic characteristics , such as age, indicate that a great number of respondents , 63.6 % to be exact, were between 45 and 65 years old, followed by 27.4 % who were between 25 and 45 years old, and only 9 % were younger than 25 years old. The projections are presented in Figure 2 below. In terms of

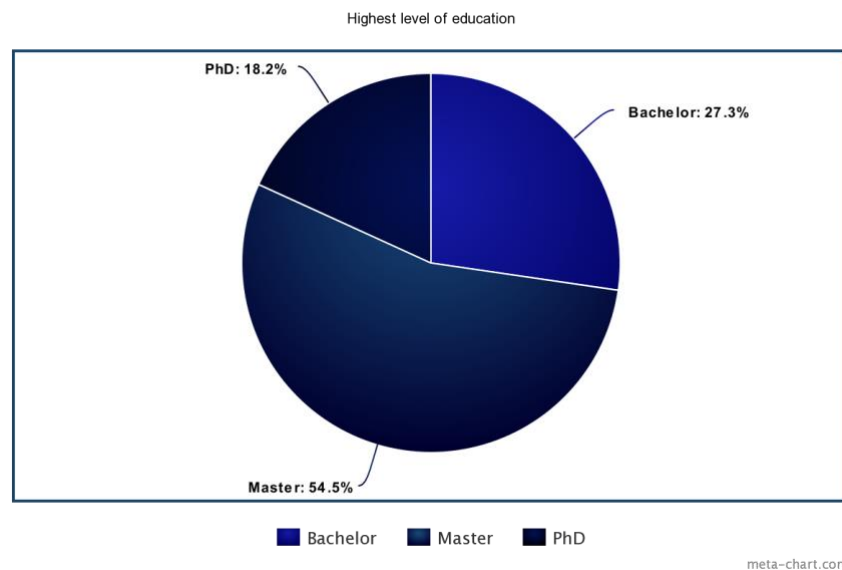


nationality, the participants were all Albanian citizens from different cities in Albania.



**Figure 2. Age group of participants (Author's own)**

Regarding the level of education, 27.3% of those interviewed stated that they possess a bachelor's degree, 54.5 % said that they have a master's degree, and 18.2% stated that they have a PhD as their highest level of education. All responders had knowledge of tax evasion and fiscal policies in Albania. The interviewer approached individuals who worked in the field of taxation or were part of the tax administration to obtain more professional views on the subject and included business owners and citizens to consider various points of view, ensuring that the study is not biased. The majority of participants had at least 15 years of experience working in the taxation system. Those who were not employed in the tax system were closely related due to their current professions. Only two of them worked jobs that had no relation to the topic.



**Figure 3. Highest level of education (Author's own)**

The findings of this research are introduced in this section and will be debated and analysed later in the study. All of the interviewees responded to the question about their knowledge of the phenomenon of tax evasion. The first question asked was `What is your opinion on the current tax evasion situation in Albania?`. Following a detailed analysis of the collected responses, the succeeding conclusions were attained. According to a large percentage of study's participants it was indicated that tax evasion in Albania is a big threat to the economy as institutions have reported a significant increase through the years. All participants agreed that the situation has gotten out of control and international and national institutions report tax evasion has reached between 35% - 40% of the country's GDP.

“(…) Albania has high levels of tax evasion, higher than most countries in the region. If we are going to talk numbers, it is about 40% of GDP. This is an alarming figure and raises concerns for local authorities.” ( Male, interview 5)

“Fiscal evasion is a real phenomenon for our country, but in recent years it has been the focus of all government fiscal policies. This war is currently at its peak.” (Female, interview 3)

“My opinion is that there is still fiscal evasion in the country, there has been a decline in recent years, but it still remains a significant problem in the Albanian economy.” (Male, interview 2)

“I may state that fiscal evasion in Albania is at an all-time high, with the exception of the post-communist era from 1991 to 1998, when it was at its peak.” ( Male, interview 4)

“Our economy suffers from a high level of tax evasion. Efforts and actions have been made to reduce these numbers, but little success has been achieved, and the country’s economy continues to suffer as a result.” (Female, interview 10)

“Fiscal evasion continues to be an ongoing problem that needs to be addressed. According to the calculations of independent domestic and foreign institutes, the evasion is around 35-40%.” (Male, interview 9)

The second question the researcher asked was, “What would you consider to be the strengths and weaknesses of the current tax administration system?” When asked about the strengths of the Albanian tax system, the responders had similar opinions, highlighting the digitalization process, the consolidated procedural and legal practices and following policies of EU developed countries.

“I would like to mention the fact of digitalization of the tax process as a strong point, and this helps with transparency and makes the control of the data faster and easier.” (Male, interview 2)

“(…) Strengths include the self-declaration scheme, which provides flexibility and autonomy between the government and the taxpayer. This project aims to make all tax returns and payments electronically through the portal and to be controlled electronically by the GDT (General Directorate of Taxes). In the context of increasing the use of electronic services by taxpayers as a tool to facilitate the procedures of declaration and payment of taxes in the voluntary fulfilment of tax obligations, the Albanian government has created supporting legislation that makes mandatory the declaration of taxes in electronic form for all taxpayers registered for VAT.” ( Male, interview 11)

“As strong points, I would mention the digitalization of the tax administrative system (...)” (Female, interview 10)

“The administrative system’s strengths may be considered to be the fact that it already has a consolidated procedural and legal practice, regular training and education of the tax administration, and collaboration with other law enforcement agencies.” (Male, interview 9)

“Strength: Reforms that are being implemented.” (Female, interview 8)

“As the strongest point of the tax administration, I would consider the policies, procedures as well as standards which in all cases are borrowed from EU countries (...)” (Male, interview 4)

“(...) Constantly improving the level of legislation, raising the quality levels of the administration’s communication with businesses, facilitating the conditions for setting up a business and managing it.” (Female, interview 3)

“Let’s start with the positives: the presence of comprehensive tax and customs legislation which, as I previously said, covers all legal and economic aspects. So, I do not see any major issues with their design or content.” (Male, interview 1)

While there weren’t many strong points mentioned when it came to the weaknesses of the tax administration, every interviewee had a couple of them that they wanted to mention, and the most common answers were; “gaps in the legislation”, “non-correct implementation of the policies”, “political interventions”, “frequent changes in the human resources”, “lack of training and weak administration”.

“As weaknesses, I would mention the lack of efficacy in controls done to business.” (Male, interview 2)

“Albania’s tax system is quite complex, which means that the tax rate differs for profit tax, withholding tax, personal income tax, value-added tax, and so on. All of this, I believe, is a flaw in Albania’s tax system.” (Male, interview 8)

“Among the flaws are the frequent changes in human resources in the tax administration, frequent legal changes, a lack of continuous training, political interventions, and so on.” (Male, interview 9)

“(…) Weaknesses: A lack of centralization or the development of an accurate database of an information system related to automation and logical calculations of a business’s output with micro and macroeconomic factors influencing a country’s economy. Consideration of tax avoidance practices as a standard business activity.” (Female, interview 7)

“As weak points, I would mention, non-coherent implementation of legal requirements and state interference in tax audits. What I mean by incorrect governmental interference are repeated interventions and adjustments during election times, whether local or parliamentary who often create confusion and delay the process of audit.” ( Male, interview 1)

“Weak points come as a result of many factors, but I would mention; the incorrect recording of taxes, still in Albania, we are behind with the collection of some types of taxes, such as taxes from the sale of property, taxes on property, etc. I can state that progress has really been made in Albania, but at the moment, I can’t say we have any strong points that I can mention.” (Male, interview 5)

“Weaknesses that may be identified are gaps in legislation (there is always room for interpretation), levels of administration training (exchange of experiences with other countries), and administration employment criteria that are not always correctly applied (qualifications not based on meritocracy). (Female, interview 3)

“(…) while the weaknesses are the complexity of the tax system and frequent changes of fiscal legislation combined with a weak administration.” ( Female, interview 10)

The third question, “What are, in your opinion, the factors that affect tax compliance behaviour of businesses and citizens in Albania, if there are any?”, received different opinions. Several interviewees expressed their concerns regarding the lack of tax compliance in Albania and the domino effect it’s

having in every sector of the economy. When asked about what is causing the non-compliance, a number of them blamed the absence of tax culture and the level of corruption within the administration.

“If we talk about the current period, an important factor is the decline of the economy due to the global pandemic. However, in general, I believe it is due to citizens’ predisposition to escape obligations. This has much to do with Albanians’ view of state power as well as their tradition of opening a business and initiating a venture.” (Female, interview 3)

“I think that an important role, in this case, plays the culture of individuals, who fail to see the tax as a benefit and service to society, but rather see it as an obligation to the state.” (Male, interview 2)

“Certainly, the political situation and personal acquaintance with various bribes cause the behaviour of businesses and individuals to differ depending on the relationships that they develop.” (Male, interview 4)

“There are several factors; corruption is one of them and also the lack of trust in how the money collected from the government will be put to use.” (Male, interview 5)

“Well, corruption would be the main one. It is also one of the biggest challenges that we are facing in almost every sector of our economy. Hence, the delay of our integration process. You cannot expect businesses and citizens to be tax compliant when corruption is at such a large scale.” (Female, Interview 6)

“We should note that Albania has a low fiscal education as a result of the transition of the systems. The subjective fact that every individual is inclined to regard every profit that comes from his business or economic operation as ‘just his’ ; another explanation is that some taxes and fees for some services are constantly increasing; and the fact that many so-called businesses are self-employed, with incomes so low that they can barely provide a living for their families. Corruption is another component that is a cost to companies, as is the fact that many individuals believe they are better “managers” of revenue than

the state is as a spending entity. That is, the notion that “since I get less services, I can pay less.” (Male, interview 9)

“As main factors, I would mention; minimal fiscal culture we have inherited, the continuing fines and punishing policies that are implemented, and a weak administration.” (Female, interview 10)

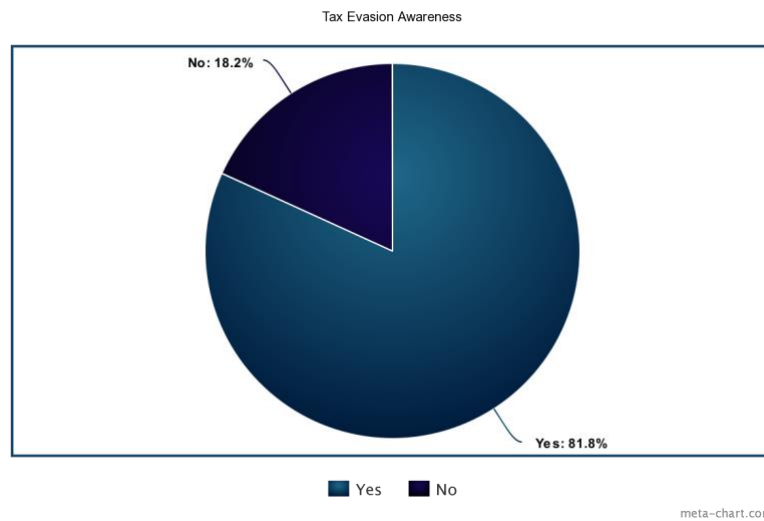
Three of the participants had different opinions regarding the factors that influenced citizen and business compliance, arguing that due to the bad economic situation, businesses cannot afford to pay the high fiscal burden and the other two mention the fairness of the tax authority.

“I believe that Albanian citizens and businesses are in accordance with the legal situation; however, the execution of obligations, in general, is dependent on the degree of the state requirements (...)” (Male, interview 1)

“In my view, there are two major factors that have a direct impact on citizen behaviour: the first is the unfair fiscal burden between companies, and the second is the tax administration’s treatment differentiation of businesses and individuals. The goal should be to treat everyone equally and not play favourites.” (Male, interview 11)

“I think that very often the tax audit in Albania is not programmed, periodic or equal in all businesses. This makes the business sceptical about the fairness of this direct authority.” (Male, interview 8)

The fourth question was arguably one of the most controversial questions of this study, asking the participants if they had any knowledge about businesses or citizens that practised tax evasion. This was followed by the sub-question “Did they get caught evading taxes?”. The researcher noticed that 9 out of 11 participants questioned answered positively when asked if they were aware of any businesses or individuals involved in tax evasion. The results in percentage can be seen in the pie chart below.



**Figure 4. Tax evasion awareness (Author’s own)**

“I think that the biggest evasion is committed by foreign businesses, which receive concessions in Albania. ” (Male, interview 2)

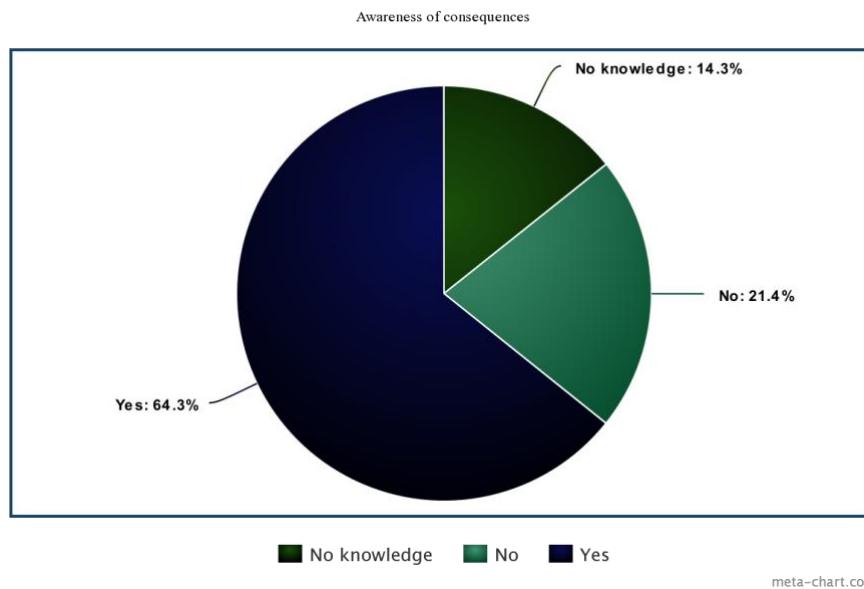
“Definitely, this is related also to my profession as a statutory auditor, and there are several instances where the General Directorate of Prevention of Money Laundering and other anti-corruption agencies show full knowledge about evasion and its analytical implications for any person or company.” (Male, interview 1)

“Undoubtedly, in casual interactions, there are individuals who freely admit to engaging in tax avoidance, citing an inability to pay state obligations due to a lack of liquidity or solvency of the company.” (Male, interview 4)

“As a tax inspector, I am aware of companies and individuals that engage in tax evasion.” (Female, interview 10)

When it comes to the sub-question, the answers were not so consistent. Only 6 out of the 11 interviewees confirmed that the businesses or citizens they were aware of engaging in evasion practices were identified and processed. Three of them answered negatively, and the other 2 said they had no information regarding this topic.





**Figure 5. Avoidance of consequences (Author's own)**

“Not that I am aware of.” (Male, interview 2)

“Individuals who have already been found committing tax evasion are properly recorded and fined.” (Male, interview 1)

“Of course, many individuals and companies are punished for breaching the rules and, in many cases, are penalized by paying evasive obligations and penalties associated with these evasions.” (Male, interview 9)

“No, they have not been caught. Even when they were ready to be identified, tactics used such as corruption against the tax inspectors on the field enabled them to avoid the gravity of the situation and continue with their “usual” business. “ (Female, interview 7)

When asked if they were aware of new and creative methods businesses and citizens use to evade taxes, most responders answered positively. They elaborated on the specific methods they were familiar with.

“In general, there is the tendency for adjustment in the level of tax liabilities. For example, using fabricated paperwork to reduce the fixed amounts charged

for VAT, profit tax, or local taxes. There are repeated instances in which people present incomplete or fictitious transactions.” (Male, interview 1)

“I’m not sure whether it’s a new or old method, but the reduction of real turnover of businesses and the fictitious increase of expenses, as well as the non-declaration of real salaries, cash transactions, or exchange of goods, are some of the tax evasions that are performed on a regular basis in Albania, but there have recently been cases of creating schemes, building companies with tax liabilities, and then declaring them bankrupt.” (Male, interview 8)

“(…) From experience, I know that the more the tax administration tightens measures to avoid evasion, the more creative methods to avoid liabilities from businesses increase. I think this is a constant war not only for Albania but for the whole world.” (Female, interview 3)

“The proliferation of tax forms based on income level contributes to increased attempts to avoid taxes and levies. Also, some businesses officially declare losses and inactivity of the businesses and carry out their activities illegally.” (Female, interview 10)

“As I previously stated, many businesses and individuals go informal as a result of the high fiscal burden. There is currently a progressive tax in Albania, which has caused many employed individuals to report only a portion of their income and receive the remaining amount in cash.” (Male, interview 4)

“The most common forms of avoidance would be that of VAT or other taxes, and a factor that leads to avoidance is the non-formalization, and non-identification of all entities or taxes electronically by the government.” (Male, Interview 5)

“Through the use of cash payments and the keeping of two reports: one for the effect of declarations and one for the effect of tax profit. The close relationship

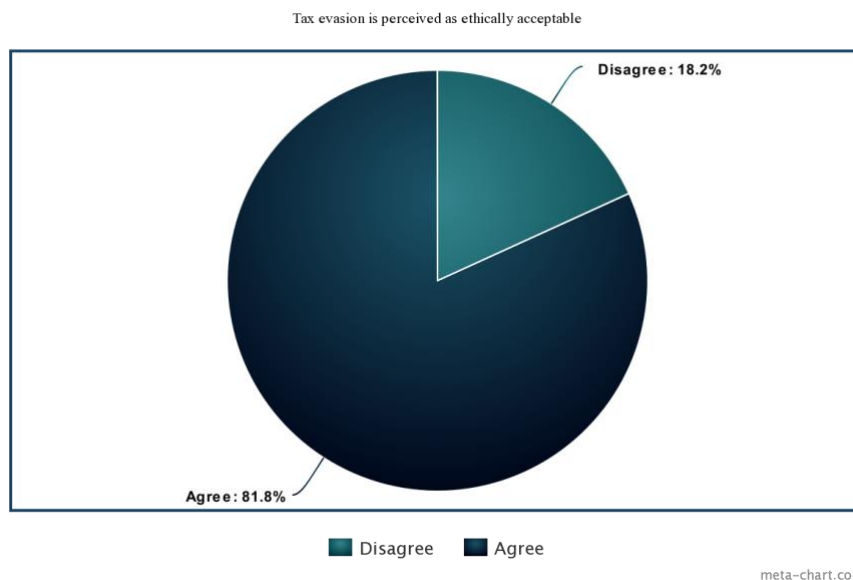
between accounting experts (today called legal auditors) has made this possible.” (Female, interview 7)

“Yes, an innovative practice that is commonly used in Albania is that of dividing large businesses so that turnover does not exceed levels and taxability rates change. Thus, dividing into two small companies with standard revenue figures in order to avoid being taxed as a big corporation.” (Male, interview 11)

Only two of the questioned participants stated that they did not know of any new creative strategies to evade taxes or reduce their tax burden.

“No, I don’t have information on any new methods. (Male, interview 2)

When it comes to the question, “Do you think there is an epidemic going on with tax evasion In Albania because people perceive it as ethically acceptable to do so?” 9 out of 11 participants believed it was perceived as ethically acceptable to evade taxes, and 2 out of 11 participants disagreed with the statement above.



**Figure 6. Tax evasion perceived as ethically acceptable (Author’s own)**

“Yes, it is true that it has become an ‘ordinary ‘and ‘popular ‘phenomenon to engage in, and non-participation in it places you in a disadvantaged position to

your competitors. To be honest, not all companies seek to escape tax obligations but are ‘pressured’ to do so by competition. As rivals avoid taxation, make more money, they can provide lower-cost services or products than the market. This is a very troubling phenomenon that causes significant economic disparity.” (Male, interview 11)

“(…) There seems to be a substantial decrease of the individual’s personal responsibility to the state(…)” (Male, interview 1)

“I think that there are significant improvements in the fight against evasion and the awareness of citizens. Although improvements are being made, Albania still suffers from a low level of tax culture, and this also has an effect in the perception of evasion.” ( Female, interview 10)

“Unfortunately, It has become a trend in which everybody wants to find ways to avoid tax obligations, but on the other hand, there are many consolidated businesses that have a very strong reputation in the market and do not want to be a part of this form of fraud. This comes as a result of the businesses not feeling supported by the government, and feeling like their competition may get preferential treatment.” (Male, interview 5)

“I think people who practice it perceive it as ethically acceptable, and I would call it an ‘infectious disease’ who has been shown to be transmissible in greedy people.” ( Male, Interview 2)

“Evasion is often considered a normal part of society. I would call this a lack of ‘conscience or guilt’ and attribute this to the inability of the government and administration to educate and inform the citizens. This mindset is common in nations where the perceived quality of governmental institutions and benefits is low or trust in the state is fragile.” (Female, interview 7)

“I do not believe that people view it as ethically acceptable, but there is definitely a more positive mentality surrounding tax evasion, in comparison to EU countries or neighbouring countries.” ( Female, interview 6)

“I’d like to stress once again that the individual or business is not seeking to prevent responsibilities out of desire or to increase revenue. In my view, the

person is compelled to commit tax evasion due to his or her inability to pay the high fiscal burden. I believe that it is a consequence of incorrect fiscal policies rather than cultural behaviour on the part of these individuals.”  
(Male, interview 4)

“More than an ‘epidemic ‘I would consider ‘Haemorrhage ‘which is currently coagulating. In short, I think we are on the right track. I think there are not enough studies or surveys for the ethical part of the discussion. Moreover, I would not like to make assumptions and call the Albanian society unethical.”  
(Female, interview 3)

When asked about mechanisms to identify those who commit evasion, the participants emphasized that there is a lack of implementation and execution of the current policies and the administration employees should be better qualified at handling these cases. Their suggestions varied from lowering the tax burden for specific taxes, simplification of the tax legislation to full digitalization of the process.

“The legislation, in my judgment, is complete, but its execution leaves much to be desired. As a professional in the field, the first issue that comes to mind is the disclosure of these individuals’ names to the general public. Additionally, the law should be the same for everyone; there must be no distinction between businesses, with some being protected and others being punished for the same violations, as this would exacerbate the problem. The state should reduce the opportunity for tax avoidance while still servicing the interest of companies.”  
(Male, interview 1)

“I think the most effective mechanisms would be to;

- raising awareness of the citizens and businesses and
- increasing the quality of control by tax authorities” (Male, interview 2)

“It is a phenomenon that, in my opinion, can be seen anywhere, even in societies with more consolidated economies. Some of the methods that I believe could be used include improving the qualification of operational structures in the field

for information gathering, as well as collaboration with other structures that perform services.” (Female interview 3)

“(…) However, the issue is that the tax administration is often unqualified and, in most cases, corrupt, and does not deal with detecting such instances except in specific cases where there might be a political motive to target a specific company.” (Male, interview 4)

“I agree that there are many ways to mitigate this phenomenon, but the most important thing is to find the correct taxation scheme, because VAT (20%) and sales tax (15%) are, in my view, at really high rates. Creating a more equitable structure for everyone would eventually normalize the situation and eventually decrease the number of tax evaders. Identifying single individuals or businesses, on the other hand, would be futile and a never-ending process. Also, raise awareness among tax system employees to better perform in their duties and not use their position for personal benefits.” (Male, interview 5)

Similar results were collected concerning the question “How informed are you about the fiscal policies in Albania, and what are your thoughts regarding the current fiscal policies in Albania?”. Almost all of the responders stated that the current policies are optimistic and in accordance with those of developed European countries.

“I believe that I am well informed about fiscal policies due to the profession I practice, and I think that fiscal policies need continuous improvement both in legal terms and in their practical implementation.” (Male, interview 9)

“I am well-informed, and I believe that the country’s fiscal policies are favourable, but that they should be more sustainable in the long run. They should also be simpler to understand for all people. It would be easier to convince people to cooperate once they understand the structure and role of taxation.” (Male, interview 11)

However, there was one responder who disagrees by stating the following ;

“I am sufficiently informed about the country’s fiscal policies; it is, in my judgment, a system that promotes informality, decreases competitiveness, and forces Albanian society towards informality” (Male, interview 4)

The question regarding whether the government’s lack of trust and its fiscal policies encourages tax evasion generated positive answers from all 11 participants.

“Yes, to put it more bluntly. The root of this issue lies in the mistrust and unreliability of state institutions. People have lost all faith in a government that is only present when elections are around the corner.” (Male, interview 1)

“Yes, it definitely has an impact. the more consolidated the state is and the more democratic, the better the business climate.” (Male, interview 5)

“Distrust is one of the main factors because all taxpayers do not feel the governmental support. They do not feel protected by the fiscal policies in place. This leads to people taking control over the situation. That is why intervention in the taxation sector is crucial.” (Female, interview 6)

The researcher proceeded to ask if the fiscal policies currently implemented are efficient in reducing tax evasion, and not all of the participants voiced the same opinion on this topic. The researcher explored further by asking whether they had any suggestions, and they replied as follows:

“I think that the current policies are not doing a great job judging by the increasing levels of tax evasion year by year, but I believe the fiscalization process that has initiated will be helpful in this aspect.” (Female, interview 10)

“I think that fiscal policies are appropriate. Of course, there, might be small improvements that might be needed, but I do not believe they are mainly to blame for the lack of tax compliance.” (Male, interview 2)

“Yes, I think they are effective, but only if they are really implemented in the correct way.” (Female, interview 7)

Two of the participants regarded the current policies as not effective and suggested for the implementation of a new tax system.

“The government is making efforts to improve things; for example, raising the minimum wage and exempting this wage category from taxes might be a step forward, but I do not believe it will have major effects. I would advocate for the implementation of a flat tax.” (Male, interview 8)

“Personal opinions do not really matter here because it is quite clear that these policies have failed to succeed. The same changes that I mentioned above, which would be the digitalization of the taxation system and switching back to the flat tax.” (Female, interview 6)

When asked about how the Government of Albania should incentivize businesses and citizens to be more compliant with fiscal policies, the majority mentioned increasing awareness among citizens and lowering the tax burden for some of the main tax rates.

“I believe that the safest approach is to maintain the same policies over time rather than changing them according to the election campaign season because they are destroying the country’s economic stability in this form. The second would be to better classify the definition of small businesses and medium businesses. For each of these divisions, there should be different taxes, not the same tax burden for both, but separated according to the categories when they belong. Fiscal trade policies should be consistent and tailored to the business’s level of income. This, I believe, would be beneficial also.” (Male, interview 1)

“To make more tangible the benefits that the citizen receives by paying taxes and duties. For example, if a person collects a certain number of tax coupons, they should be rewarded or refunded by the government.” (Female, interview 10)

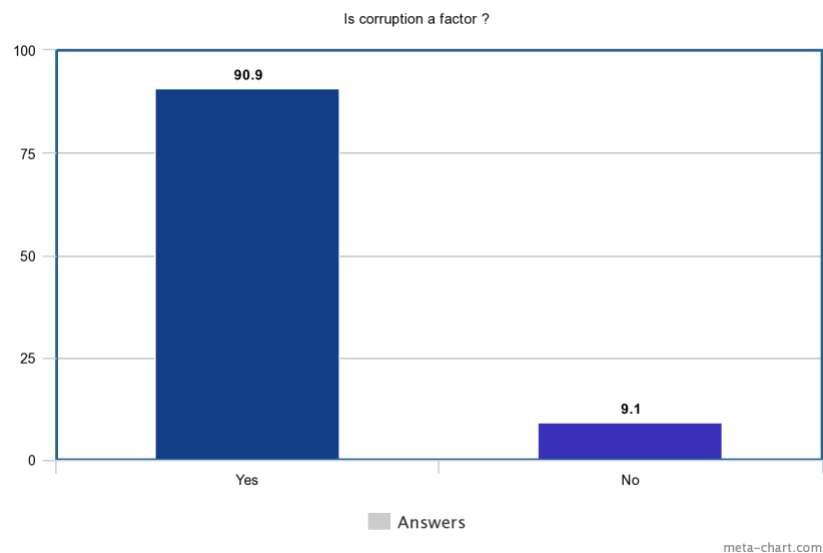
“I believe this can be achieved by raising awareness, by educating the masses of the importance of tax to the society and by lowering the main taxes. For example, profit tax which is at the moment 15%, in my opinion, should be



lowered to at least 10%, in order to increase the number of taxpayers.”  
(Male, interview 2)

“By offering them equal treatment by the tax administration and fair fiscal burden and also by raising awareness and showing people first-hand what their taxes are used for, and I believe they will be more compliant if they see their money being put to good use and see the benefits.” (Male, interview 11)

The researcher also asked the participants if they thought government corruption plays a factor in the process of evading taxes and not getting caught. There were mostly positive answers; only 1 participant disagreed and stated different opinions. The histogram below shows the percentages for both groups.



**Figure 7. The role of government corruption in tax evasion (Author’s own)**

“Definitely yes. Many taxpayers find the opportunity to create advantages to their competitors by avoiding tax controls.” (Male, interview 11 )

“Corruption in government, without a doubt, is the primary factor that encourages the distortion of the entire fiscal structure and increases evasion.”  
(Male, interview 4)

The last question that was asked to the participants was regarding the future of the fiscal system of Albania. The question was: “What are your views concerning the future of the Albanian fiscal system?”. There was a mix of opinions, part of the responders were optimistic about the future and expected the situation to change in the next five years, while the rest were more pragmatic in their approach and stated it was difficult to assess the situation, but there is a lot of work and improvements to be done yet. Some notable statements on the future of fiscal policy were :

“For me, there is a need for radical changes not in the policies itself but in the relationship between the general directorate of taxes and companies, also coordinated controls and controls that are spaced in time in order to avoid putting the business under pressure (...)” (Male, interview 1)

“I am very sceptical about the future of the system depends on the economy, the economy on government policies and policies on the desire to fight corruption which is eroding the country from within.” (Male, interview 8)



**Figure 8. Word cloud shaped like the map of Albania (Author’s own)**

Figure 8 depicts a word cloud of the most frequently used words in the interview segment. The word cloud is shaped like the map of Albania which is the country the study is being conducted on.

## **5. Discussion of findings**

In this section of the thesis, all of the aforementioned discoveries will be evaluated and debated. The majority of participants regarded tax evasion as a significant threat to the country's economy that is only getting worse over time. The alarming figures have raised concerns not only for the local institutions but internationals also, who have been asking the government to address this problem and develop an appropriate solution. The strengths and weaknesses of tax administration were addressed, and participants expressed various opinions. Several positive aspects of the tax system were mentioned during the interview. Among the most significant were "digitalization," "consolidated procedural and legal practices," and the "self-declaration scheme." Among the most commonly mentioned weaknesses were "frequent regulation changes," "lack of meritocracy in the employment process," "weak administration," and "failure to execute and implement policies." Participants expressed their concerns on the high level of participation in tax evasion and the main factors that influence it while discussing the compliance behaviour of Albanian taxpayers. The majority of interviewees indicated "lack of tax culture" and "corrupted tax administration" as the most significant determinants. Others added that due to the difficult period the Albanian economy is experiencing, not everyone can afford to pay the high fiscal burden, forcing them to participate in avoidance schemes. The study also touched on a sensitive subject when the researcher asked the participants if they had knowledge of businesses and citizens that practised tax evasion. Most of the participants admitted to being aware or personally knowing individuals who evade taxes. However, only half of these individuals reported that these individuals were identified or penalized for their actions. Regarding new methods or schemes used to avoid financial obligations, the interviewees revealed there is a tendency to try to decrease their obligations

by using the following methods, “fabricated paperwork”, “declaring bankruptcy”, and mainly using “cash transactions”. Participants stated that, as tax evasion is becoming more prevalent, the number of people that view it ethically acceptable is also increasing. Not everyone agreed; a number of individuals objected, claiming that not enough studies and research had been undertaken to reach this conclusion and that they did not want to make generalizations.

When examining potential strategies for identifying these occurrences, respondents acknowledged that more focus should be placed on training administration and increasing operational structure qualification. According to the respondents, the legislation is consistent with those of other European countries, and current policies are favourable, but they will only be effective if they are implemented correctly. Participants were unanimous in their belief that distrust in the government and its budgetary policies encourages non-compliance. When asked about ways to incentivize citizens to be more compliant, participants gave diverse responses. The most often mentioned proposals were to alleviate the tax liability on some of the principal taxes, raise public awareness on the importance of taxes, and be fully transparent about how that money will benefit the general public. It was recognized that government corruption has a significant role in evading taxes and preventing their discovery. According to the findings of this study, corruption increases tax evasion and encourages fiscal system instability.

Ultimately, the future of the Albanian tax system is addressed, and mixed feelings are expressed. Several participants argued that Albania had all the necessary means required to make progress and reduce the tax gap in the next five years. Participants were based on the premise that Albania is in the process of integrating into the EU, and in order to do so, they must adhere to EU norms and criteria. Another significant advantage is that the fiscal system is nearing completion, with the digitalization process projected to be completed by 2021. The other participants were less optimistic that these issues would be resolved in the foreseeable future unless substantial adjustments are made. They stated that the first step would be for the government to establish a relationship based on trust and develop a fair system and provide equal services to everyone.

## 6. Conclusion

The primary goal of the research was to assess the taxpayers' implications on not paying taxes and the extent to which they understand the fiscal policies they are subjected to. Albania's tax system has seen several political reforms, many of which have maintained the core structure of a small fiscal system whilst others completely eliminated it, posing severe difficulties for this system, which was formerly deemed as unsustainable. The researcher used a qualitative approach and made use of the secondary data on this topic. The primary data of this study were gathered by conducting interviews with taxpayers, business owners and experts in the field. The researcher aimed to be inclusive and consider different perspectives by selecting participants from diverse age ranges, genders, and level of education. The study also found no significant variations between age groups or genders, implying that this demographic variable has no influence on tax evasion.

The three main objectives of this study were clearly identified in the first section of the thesis. The first one was to highlight the taxpayers' role and evaluate their flexibility to adjust and react to changes in the fiscal system. The second objective was to determine the degree of trust taxpayers have in the tax system and fiscal authorities. The last one was to understand the reasoning behind the decision not to pay taxes. Interpreting the results of the questionnaire, a great number of the interviewees expressed firm opinions on the tax evasion situation in the country and the effect fiscal policies have had on the economy. The results indicate a high prevalence of tax evasion by both businesses and individuals, and a significant percentage of these occurrences go unreported and unpunished. According to the findings of this study, taxpayers have little faith in the overall tax system, and there is a significant lack of confidence in the way fiscal policies are implemented and amended.

Through interviews and the taxpayers' perspectives, the researcher concluded that cooperation between businesses and the government remains a major problem since it's primarily driven by the political bureaucracy that serves no benefit to the actual businesses. Corruption in the government and tax

administration was also highlighted as a contributing factor to the decrease in tax compliance in the country and increased inequality between businesses.

The study concluded that educating the citizens and the tax administration over tax evasion is of critical importance as a consequence of an undeveloped fiscal culture and a substantial lack of performance of the system and its competent institutions.

In terms of establishing a high functioning and fair relationship between fiscal institutions and taxpayers, progress should be made toward creating an effective administration with qualified professionals. These institutions should not give taxpayers the opportunity to judge the professionalism and integrity of their tax inspectors. Another significant recommendation is to effectively organize and execute equal tax controls in all entities. Tax controls must be spaced out and introduced gradually rather than in a short time period to allow the business to develop its activities without unnecessary pressure as this serves neither party.

The significant decrease of certain tax rates is also a fundamental amendment, particularly concerning VAT and other tax groups that are unfavourable to the development of the economy. Currently, Albania has a higher VAT than the other countries in the region. The reduction of tax rates, tax procedures, and tax administration impartiality are critical for the country's economic progress and welfare. They are also necessary for the economy's stability and the attraction of foreign investors to Albania. The fiscal system should not be viewed as a separate entity but instead as an integral component of a country's broader economic organisation. In order to achieve the goals of any capitalist economy, all systems inside it, including the fiscal system, must interact with one another. Based on the study's findings, I recommend that tax compliance initiatives be designed as a comprehensive portfolio that comprises implementation methods, tax awareness practices, taxation system integrity practices, and protracted governmental strategies.

## **7. Limitations, Implications and Recommendations**

### **7.1 Limitations**

The study had a significant amount of limitations which were encountered throughout the research study. Several of these constraints were known prior to the start of the study, while others were discovered along the way. In this research, the qualitative method was undertaken to explore the thoughts and perspectives of each interviewee. It was noticeable that choosing this approach and conducting the interviews would come with its own challenges.

The researcher conducted a maximum of 11 interviews with participants from different generations, genders, and educational status. Even though the researcher tried to be as inclusive as possible, having a small sample comes with its own set of constraints and makes it harder to generalise the results for the whole population of Albania. The conducted interview helped the researcher analyse Albania's tax evasion situation from the perspective of taxpayers, business owners, and professionals in the field. The sample provided a deeper understanding of the topic, contributed to reach the study's main objectives, and answered the research questions. It was not easy to select the sample. A number of 20 people were asked to participate in the interview, and part of them did not agree due to the research topic's sensitivity, and some did not feel like they had enough knowledge to contribute to the discussion. Limitations were also contracted while looking for secondary data. The literature review on tax evasion in Albania was restricted, and reliable information was not easy to find. Most of the information was only available in Albanian and was not up to date with the changes made in recent years. This became even more noticeable when trying to collect information about tax compliance in Albania.

Time constraints were another unique challenge while conducting the interviews, as most participants were not flexible due to their busy schedules. The interviews were all conducted in Albanian since most participants had little or no knowledge of the English language, and those who did speak English felt more comfortable if the interview was conducted in their native language. The language barrier made the transcribing process lengthier and more complicated.

Due to the apparent sensitivity of the topic and the information they had to disclose, some interviewees requested not to be recorded. Bias was also present during the interviewing process, despite the researcher's best efforts to avoid it. In comparison to the other participants, the researcher noted that those who worked in tax administration tended to have a more positive outlook and were less critical of the government or administration itself.

## **7.2 Implications**

This study gives academics and researchers significant contributions as mentioned below. Firstly, this research theoretically enriches government institutions and financial management departments by embracing both the alternative behavioural approaches of taxpayer compliance research and the conventional utility maximisation to identify the critical determinants of tax compliance. The findings indicate that in order to understand tax compliance complexities, both the conventional and innovative strategies are needed, including perceived notion on tax compliance, tax education, and integrity of the taxation system.

Secondly, this research provides the Albanian government and the tax policymakers with relevant data on residents and tax specialists perceptions and viewpoints about the existing tax administration, including their tax compliance behaviour, the determinant factors of tax compliance behaviour and solutions to improve compliance in Albania. This beneficial insight can assist the Albanian government and tax policymakers in understanding the current situation better, take notes of the principal problems and develop new effective strategies to meet tax revenue objectives. The conclusions are also useful to tax officials and researchers in similarly developing economies who want to address the factors that influence tax compliance in their respective country.

Ultimately, this provides to the Albanian and global tax evasion literature by complementing what is presently available. Other academics can utilise the findings of this research to develop through their own research papers on tax avoidance. This research could be published in various economic journals like , the Metropolitan Tirana Journal of Business and Economics.



### **7.3 Recommendations for Future Research**

Although this research addresses many aspects of tax evasion, there are many areas of this topic that can be studied further. Additional studies should be performed on comparative studies and comprehensive perspective to improve the range of literature on tax evasion. Comparative research studies are fundamental in establishing how tax evasion differs across cultural groups and geographic regions which will contribute to the development of new tax compliance strategies who can function both in similar and dissimilar settings. Data about tax evasion and tax compliance are currently hard to obtain in developing economies and this poses challenges. Additional research should be conducted in developing economies in order to accurately quantify the extent of tax evasion and develop efficient strategies and compliance techniques. Comprehensive research are also required to investigate tax evasion on a broader spectrum. There should be studies on the various types of taxes, such as personal income tax, VAT, excise taxes and customs, in order to determine which types of taxes citizens are more inclined to be compliant to. This would be quite beneficial in terms of enhancing the tax administration system.

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## **Appendices**

### **Appendix 1**

#### **Interviews**

A = Author

P = Participant

#### **Interview 1 – Male**

A: What's your educational background?

P1: I have graduated from the university of Tirana with a bachelor's in economics, Certified Internal Auditor

A: What's your professional experience?

P1: I have an experience of 30 years as a financial expert, and for 20 year now I run my own audit company.

A: What is your opinion on the current tax evasion situation in Albania?

P1: There are two points that should be noted in my opinion: the legal fiscal package and the customs package are complete, appropriate, and consistent with those of developed countries. The issue, I believe, is in the implementation of these packages. There is no consistency of controls over transactions, which, along with other factors, has a detrimental impact.

A: What would you consider to be the strengths and weaknesses of the current tax administration system?

P1: Let's start with the positives: the presence of comprehensive tax and customs legislation which, as I previously said, covers all legal and economic aspects. So, I don't see any major issues with their design or content. weak points I would mention, non-coherent implementation of legal requirements and state interference in tax audits. What I mean by incorrect governmental interference are repeated interventions and adjustments during election times, whether local or parliamentary who often create confusion and delay the process of audit.

A: What are, in your opinion, the factors that affect tax compliance behaviour of businesses and citizens in Albania, if there are any?

P1: I believe that Albanian citizens and businesses are in accordance with the legal situation; however, the execution of obligations in general is dependent on the degree of the state requirements. This can be linked to a specific case: a few years ago, the Albanian government incurred a debt of \$ 400 thousand from unpaid electricity debts, but with strong state intervention and extreme and rigid measures, the debt was reduced by 90 percent of its original value. Personally, I believe the measures taken were too severe, as they included prison time for those who did not pay their bills on time, and they were met with resistance, but the end result was a lower debt. So, I think that citizen compliance is related to the governments honesty and commitment to enforcing the law.

A: Do you have knowledge of businesses or people who practice tax evasion in Albania, and what are your thoughts about it?

P1: Definitely, this is related also to my profession as a statutory auditor, and there are several instances where the General Directorate of Prevention of Money Laundering and other anti-corruption agencies show full knowledge about evasion and its analytical implications for any person or company.

⇒ Did they get caught evading taxes?

Individuals who have already been found committing tax evasion are properly recorded and fined.

A: Are you aware of any new and creative methods businesses and citizens are using to evade taxes?

P1: In general, there is the tendency for adjustment in the level of tax liabilities. For example, using fabricated paperwork to reduce the fixed amounts charged for VAT, profit tax, or local taxes. There are repeated instances in which people present incomplete or fictitious transactions.

A: Do you think there is an epidemic going on with tax evasion In Albania because people perceive it as ethically acceptable to do so?

P1: Not only among Albanians, but throughout the world, this is a very common and widely discussed phenomenon. There seems to be a substantial decrease of the individual's personal responsibility to the state. There is still a struggle between the government's tendency to earn the maximum budget and the individual's desire to pay the least amount of money.

A: If you think there is a tax evasion problem in Albania, what mechanisms would you suggest, to help identify those who evade taxes?



P1: The legislation, in my judgment, is complete, but its execution leaves much to be desired. As a professional in the field, the first issue that comes to mind is the disclosure of these individuals' names to the general public. Additionally, the law should be the same for everyone, there must be no distinction between businesses, with some being protected and others being punished for the same violations, as this would exacerbate the problem. The state should reduce the opportunity for tax avoidance while still servicing the interest of companies.

A: How informed are you about the fiscal policies in Albania, and what are your thoughts regarding the current fiscal policies in Albania?

P1: I've noted several times in previous questions that, in my view, fiscal legislation is complete, but fiscal policies are frequently not on the same level as the legislation. More emphasis, in my view, should be put on agriculture and tourism, as well as policies that encourage domestic development. Import taxes should be increased from May to September in order to prioritize domestic farmers and domestic production, and then they should return to normal in the winter months. If such cooperation does not take place, Albanian agriculture will remain at very low levels, and so will the other sectors.

A: Do you think the lack of trust in the government and its fiscal policies encourages tax evasion? Please elaborate further.

P1: Yes, to put it more bluntly. The root of this issue lays in the mistrust and unreliability of state institutions. People have lost all faith in a government that is only present when elections are around the corner.

A: Do you think the fiscal policies currently implemented are efficient in reducing tax evasion? If not, are there any changes you would suggest?

P1: We are currently in the process of implementing the electronic bill, which I believe will be a difficult process. If we take the real example of a small business, it needs the minimum conditions of internet and electronic devices to put this process into operation. As we all know, not every business has these resources, and in this situation, it is an additional burden and financial expense for many businesses to purchase electronic equipment and software; additionally, we have very weak structured administration. Instead, I would recommend the Croatian model, which was developed by pilot companies over a five-year period to determine how to proceed further if the system works. the pilot project is an initial small-scale implementation that allows you to prove the viability of the project data. Alternatively, I would suggest that the implementation begin with VIP businesses, which have a turnover level of more than 2 million euros. These businesses have a well-prepared framework and can withstand the financial and employee qualification demands.

A: In what ways should the Government of Albania incentivize businesses and citizens to be more compliant with fiscal policies?

P1: I believe that the safest approach is to maintain the same policies over time rather than changing them according to the election campaign season, because they are destroying the country's economic stability in this form. The second would be to better classify, the definition of small businesses and medium businesses, and for each of these divisions there should be different taxes, and not the same tax burden for both, but separated according to the categories when they belong. Fiscal trade policies should be consistent and tailored to the business's level of income. This, I believe, would be beneficial also.

A: Do you think government corruption plays a factor in the process of evading taxes and not getting caught?

P1: The government plays such an important role in civil society, what can you expect from citizens if the government is corrupt? The atmosphere created by corruption then favours inequality; for example, consider the issue of tenders in Albania, where there is no competition and a small group of companies is favoured, despite the fact that they do not deliver the lowest prices.

A: What are your views concerning the future of the Albanian fiscal system?

P1: For me, there is a need for radical changes not in the policies itself but in the relationship between the general directorate of taxes and companies, also coordinated controls and controls that are spaced in time in order to avoid putting business under pressure. Currently, each agency conducts 4-5 annual checks per year, which does not prove to be an effective method of preventing evasion but instead puts pressure on businesses. Meanwhile, our regional colleagues record a median of 1-2 checks each year. Albania is still going through a tough time as a consequence of the earthquake and covid-19 situation so, I believe it will take time to recover and to make progress regarding fiscality.

## **Interview 2 – Male**

A: What's your educational background?

P2: I have received a Bachelor and master's degree in civil engineering from the University of Tirana

A: What's your professional experience ?

P2: Owner of a construction company and since 2009 Director at one of the Chamber of Commerce

A :What is your opinion on the current tax evasion situation in Albania?

P2: My opinion is that there is still fiscal evasion in the country, there has been a decline in recent years, but it still remains a significant problem in the Albanian economy.

A: What would you consider to be the strengths and weaknesses of the current tax administration system?

P2: I would like to mention the fact of digitalization of the tax process as a strong point, and this helps with transparency and makes the control of the data faster and easier. As weaknesses I would mention the lack of efficacy in controls done to business.

A: What are, in your opinion, the factors that affect tax compliance behaviour of businesses and citizens in Albania, if there are any?

P2: think that an important role in this case plays the culture of individuals, who fail to see the tax as a benefit and service to society, but rather see it as an obligation to the state.

A: Do you have knowledge of businesses or people who practice tax evasion in Albania, and what are your thoughts about it?

P2: I think that the biggest evasion is committed by foreign businesses, which receive concessions in Albania.

⇒ Did they get caught evading taxes? Not that I am aware of.

A: Are you aware of any new and creative methods businesses and citizens are using to evade taxes?

P2: No, I don't have information on this.

A: Do you think there is an epidemic going on with tax evasion In Albania because people perceive it as ethically acceptable to do so?

P2: I think people who practice it perceive it as ethically acceptable, and I would call it an `infectious disease` who has been shown to be transmissible in greedy people.

A: If you think there is a tax evasion problem in Albania, what mechanisms would you suggest, to help identify those who evade taxes?

P2: I think the most effective mechanisms would be to

- a) raising awareness of the citizens and businesses and
- b) increasing the quality of control by tax authorities

A: How informed are you about the fiscal policies in Albania, and what are your thoughts regarding the current fiscal policies in Albania?

P2: I think that the fiscal policies in the country have been improving through the years and are in line with those of the European Union.

A: Do you think the lack of trust in the government and its fiscal policies encourages tax evasion? Please elaborate further.

P2: Yes, I am of the opinion that distrust in government plays a factor. It is also worth noting that frequent changes in fiscal laws and policies make it difficult for businesses and individuals to keep up and can led to uncertainties and distrust.

A: Do you think the fiscal policies currently implemented are efficient in reducing tax evasion? If not, are there any changes you would suggest?

P2: I think that fiscal policies are appropriate, of course there ,might be small improvements that might be needed but I do not believe they are mainly to blame for the lack of tax compliance.

A: In what ways should the Government of Albania incentivize businesses and citizens to be more compliant with fiscal policies?

P2: I believe this can be achieved by raising awareness, by educating the masses of the importance of tax to the society and by lowering the main taxes. For example, profit tax which is at the moment 15% in my opinion should be lowered to at least 10%, in order to increase the number of taxpayers.

A: Do you think government corruption plays a factor in the process of evading taxes and not getting caught?

P2: I think corruption plays a key role, because the less corruption there is the less tax evasion there is going to be. It has to start from the government, they

set the example for the rest of the population. If the government is corrupt the chances are the citizens will follow their example.

A: What are your views concerning the future of the Albanian fiscal system?

P2: We are following the examples of other European and more developed Balkan countries, implementing new policies and the climate is improving. Based on statistics and reports it is predicted that there will be an increase in tax compliance, but this depends on how smoothly the implementation of digitalization will go.

### **Interview 3 – Female**

A: What's your educational background?

P3: Graduated with a bachelor's degree and a master's in economics from the university of Tirana.

A: What's your professional experience?

P3: Has 15 years of experience as tax inspector.

A: What is your opinion on the current tax evasion situation in Albania?

P3: Fiscal evasion is a real phenomenon for our country, but in recent years it has been the focus of all government fiscal policies. This war is currently at its peak.

A: What would you consider to be the strengths and weaknesses of the current tax administration system?

P3: Weaknesses that may be identified are gaps in legislation (there is always room for interpretation), levels of administration training (exchange of experiences with other countries), and administration employment criteria that are not always correctly applied (qualifications not based on meritocracy). Some strengths - Constantly improving the level of legislation, raising the quality levels of the administration's communication with businesses, facilitating the conditions for setting up a business and managing it.

A: What are, in your opinion, the factors that affect tax compliance behaviour of businesses and citizens in Albania, if there are any?

P3: If we talk about the current period, an important factor is the decline of the economy due to the global pandemic. However, in general, I believe it is due to citizens' predisposition to escape obligations. This has much to do with Albanians' view of state power as well as their tradition of opening a business and initiating a venture.

A: Do you have knowledge of businesses or people who practice tax evasion in Albania, and what are your thoughts about it ?

P3: Of course, I have knowledge considering that I have been working in the tax system for 15 years, and my opinion on this situation is explained above. I believe that the culture of the citizens, and their predisposition to avoid obligations has a lot to do with it. However, I will not group them all together because I believe there are other factors to consider, such as the failure to fulfil these commitments in certain situations due to a lack of funds.

⇒ Did they get caught evading taxes?

The tax administration has worked diligently to identify these occurrences, but this does not mean that the problem does not continue to exist.

A: Are you aware of any new and creative methods businesses and citizens are using to evade taxes?

P3: New methods- From experience I know that the more the tax administration tightens measures to avoid evasion, the more creative methods to avoid liabilities from businesses increase. I think this is a constant war not only for Albania but for the whole world.

A: Do you think there is an epidemic going on with tax evasion In Albania because people perceive it as ethically acceptable to do so?

P3: More like an "epidemic" I would consider "Haemorrhage" which is currently coagulating. In short, I think we are on the right track. I think there are not enough studies or surveys for the ethical part of the discussion. and I would not like to make assumptions and call the Albanian society unethical.

A: If you think there is a tax evasion problem in Albania, what mechanisms would you suggest, to help identify those who evade taxes?

P3: It is a phenomenon that, in my opinion, can be seen anywhere, even in societies with more consolidated economies. Some of the methods that I believe could be used include improving the qualification of operational structures in the field for information gathering, as well as collaboration with other structures that perform services.

A: How informed are you about the fiscal policies in Albania, and what are your thoughts regarding the current fiscal policies in Albania?

P3: Despite the difficulties caused by the pandemic, current policies have been optimistic and successful in increasing revenues from year to year, and I believe they are well thought out and effective. We continue to be trained, however, and our policies are in accordance with those of the EU.

A: Do you think the lack of trust in the government and its fiscal policies encourages tax evasion? Please further elaborate.

P3: Distrust of tax authorities is a phenomenon carried back from the transition years, but with reforms and fiscal policy management, the perception of the tax administration and its image in business sector has improved. I cannot claim that the view of the state body is the same as that of the tax administration, or that this helps businesses to avoid liabilities, since, as previously mentioned, evasion is a phenomenon born and fed over time by complex causes.

A: Do you think the fiscal policies currently implemented are efficient in reducing tax evasion? If not, are there any changes you would suggest?

P3: As I said above, the current fiscal policies have been effective in reducing the evasion rate in the country. I personally would not change anything regarding the current policies but would put more focus on improving the and training the administration.

A: In what ways should the Government of Albania incentivize businesses and citizens to be more compliant with fiscal policies?

P3: Some examples include: business support policies, continuing fiscal facilitation, expanded business partnerships, international trade agreements, improvements in infrastructure and technology, elimination of additional costs generated by the agency by improving online services, and so on.

A: Do you think government corruption plays a factor in the process of evading taxes and not getting caught?

P3: Of course, it plays a part, but we cannot assume that it is a common occurrence.

A: What are your views concerning the future of the Albanian fiscal system?

P3: The fiscal system, like every other system, is nearing completion. The ever-increasing strengthening of legislation and the administration's level of employment would result in an ever-increasing development of the country's fiscal system.

#### **Interview 4 – Male**

A: What's your educational background?

P4: Graduated from the Faculty of Economics with a bachelor's degree then I continued a master for European Economic studies and doctorate and PhD in Finance

A: What's your professional experience?

P4: I have worked for 3 years in the banking sector as an auditor, now for almost 13 years I work in the university system as a professor of economics. Recently a member of the parliament of Albania.

A: What is your opinion on the current tax evasion situation in Albania?

P4: I may state that fiscal evasion in Albania is at an all-time high, with the exception of the post-communist era from 1991 to 1998, when it was at its peak.

A: What would you consider to be the strengths and weaknesses of the current tax administration system?

P4: As the strongest point of the tax administration I would consider the policies, procedures as well as standards which in all cases are borrowed from EU countries. The weakest link, on the other hand, is the tax administration itself, where there are no actual professionals but party militants who hold the role of a person who imposes fines rather than specialists in the position of business advisors who offer assistance. Not only in the recent past, but for many years now, the tax administration has been seen as a corrupted component in which companies have been exploited.

A: What are, in your opinion, the factors that affect tax compliance behaviour of businesses and citizens in Albania, if there are any?

Certainly, the political situation and personal acquaintance with various bribes cause the behaviour of businesses and individuals to differ depending on the relationships that they develop.

P4: Do you have knowledge of businesses or people who practice tax evasion in Albania, and what are your thoughts about it?

Undoubtedly, in casual interactions, there are individuals who freely admit to engaging in tax avoidance, citing an inability to pay state obligations due to a



lack of liquidity or solvency of the company. So, in this sense, they do not want to evade in order to maximize their profit, but rather to avoid the real inability of paying the fiscal burden, which is a considerably high fiscal burden, and leads to increased informality.

⇒ Did they get caught evading taxes?  
I have no information.

A: Are you aware of any new and creative methods businesses and citizens are using to evade taxes?

P4: As I previously stated, many businesses and individuals go informal as a result of the high fiscal burden. In Albania, there is currently a progressive tax, which has caused many employed individuals to report only a portion of their income and receive the remaining amount in cash.

A: Do you think there is an epidemic going on with tax evasion In Albania because people perceive it as ethically acceptable to do so?

P4: I'd like to stress once again that the individual or business is not seeking to prevent responsibilities out of desire or to increase revenue. In my view, the person is compelled to commit tax evasion due to his or her inability to pay the high fiscal burden. I believe that it is a consequence of incorrect fiscal policies rather than cultural behaviour on the part of these individuals.

A: If you think there is a tax evasion problem in Albania, what mechanisms would you suggest, to help identify those who evade taxes?

P4: Of course, any form of tax evasion leaves a trail that can be easily followed, but only if we have a qualified and well-trained tax administration that is not involved in corrupt practices or bribery of businesses and individuals, it would make it much easier to detect these cases. However, the issue is that the tax administration is often unqualified and, in most cases, corrupt, and does not deal with detecting such instances except in specific cases where there might be a political motive to target a specific company.

A: How informed are you about the fiscal policies in Albania, and what are your thoughts regarding the current fiscal policies in Albania?

P4: I am sufficiently informed about the country's fiscal policies; it is, in my judgment, a system that promotes informality, decreases competitiveness, and forces Albanian society towards informality.

A: Do you think the lack of trust in the government and its fiscal policies encourages tax evasion? Please elaborate further.

P4: There is definitely a lack of faith in the government and tax administration because employment in this sector is usually done in the purpose of selling and buying jobs positions rather than meritocracy as it should be. As a result, the tax administration is one of the most discussed units for corruption.

A: Do you think the fiscal policies currently implemented are efficient in reducing tax evasion? If not, are there any changes you would suggest?

P4: Yes, as I've said, Albania's fiscal policy system promotes informality, which I believe is done specifically to increase corruption and bribery that this administration receives. What I would suggest is to reduce the fiscal burden to a minimum by giving businesses a chance to thrive and also have investment opportunities, which would also help increase the liquid assets.

A: In what ways should the Government of Albania incentivize businesses and citizens to be more compliant with fiscal policies?

P4: Surely, the government should launch campaigns to raise fiscal system awareness about payment methods and assist individuals and businesses. The term tax inspector should not be used any longer and be replaced with the term, tax consultant precisely in the function of providing consultancy and in this way informs businesses how they should operate in the fiscal aspect, as most businesses have a significant lack of knowledge in the fiscal system. The punishment of those who abuse must be the last element; before punishing those, who abuse, all other instructional, formative, recommendatory, and warning methods must be considered.

A: Do you think government corruption plays a factor in the process of evading taxes and not getting caught?

P4: Corruption in government, without a doubt, is the primary factor that encourages the distortion of the entire fiscal structure and increases evasion.

A: What are your views concerning the future of the Albanian fiscal system?

P4: As long as the same government ideology governs business relations, nothing can change in Albania's fiscal structure or tax evasion. This will only change if the business is seen as a partner, the fiscal burden is decreased, and

the appropriate measures are taken to financially help companies and individuals.

### **Interview 5 – Male**

A: What's your educational background?

P5: Bachelor and master's in economics.

A: What's your professional experience?

P5: Working in the banking system for more than 20 years, currently working as a director at OTP bank.

A: What is your opinion on the current tax evasion situation in Albania?

P5: The opinion is based on data coming from national and international institutions. Unfortunately, Albania has high levels of tax evasion, higher than most countries in the region. If we are going to talk numbers, it's about 40% of GDP. This is an alarming figure and raises concerns for local authorities.

A: What would you consider to be the strengths and weaknesses of the current tax administration system?

P5: Weak points come as a result of many factors, but I would mention, the incorrect recording of taxes, still in Albania we are behind with the collection of some types of taxes, such as taxes from the sale of property, taxes on property, etc. I can state that progress has really been made in Albania, but at the moment I can't say we have any strong points, that I can mention.

A: What are, in your opinion, the factors that affect tax compliance behaviour of businesses and citizens in Albania, if there are any?

P5: There are several factors, corruption is one of them and also the lack of trust in how the money collected from the government will be put to use.

A: Do you have knowledge of businesses or people who practice tax evasion in Albania, and what are your thoughts about it ?

P5: Yes, I would say there is a considerable number of businesses that practice tax evasion, not to mention that very few businesses declare the full amount of revenue. As I said we are in conditions of a very high level of tax evasion.

⇒ Did they get caught evading taxes?

Yes, there may be some of them who get caught, but they either get a fine or pay the tax administrators not to fine them.

A: Are you aware of any new and creative methods businesses and citizens are using to evade taxes?

P5: The most common forms of avoidance would be that of VAT or other taxes, and a factor that leads to avoidance is the non-formalization, and non-identification of all entities or taxes electronically by the government.

A: Do you think there is an epidemic going on with tax evasion In Albania because people perceive it as ethically acceptable to do so?

P5: Unfortunately, It has become a trend in which everybody wants to find ways to avoid tax obligations, but on the other hand, there are many consolidated businesses that have a very strong reputation in the market and do not want to be a part of this form of fraud. This comes as a result of the businesses not feeling supported by the government, and feeling like their competition may get preferential treatment.

A: If you think there is a tax evasion problem in Albania, what mechanisms would you suggest, to help identify those who evade taxes?

P5: I agree that there are many ways to mitigate this phenomenon, but the most important thing is to find the correct taxation scheme, because VAT (20%) and sales tax (15%) are, in my view, at really high rates. Creating a more equitable structure for everyone would eventually normalize the situation and eventually decrease the number of tax evaders. Identifying single individuals or businesses, on the other hand, would be futile and a never-ending process. Also, raising awareness among tax system employees to better perform in their duties and not to use their position for personal benefits.

A: How informed are you about the fiscal policies in Albania, and what are your thoughts regarding the current fiscal policies in Albania?

P5: What I can say about existing policies is that certain markets, such as tourism, have seen positive changes. If you invest in the tourism sector in Albania today, the VAT rate is 5% rather than 20% for the tourism sector. These facilitations make it possible to stimulate new investments. Another example is fiscalization reform; these are positive steps forward, but there is still more progress to be made.

A: Do you think the lack of trust in the government and its fiscal policies encourages tax evasion? Please elaborate further.

P5: Yes, it definitely has an impact. The more consolidated the state is and the more democratic, the better the business climate.

A: Do you think the fiscal policies currently implemented are efficient in reducing tax evasion? If not, are there any changes you would suggest?

P5: Albania's tax system, in my opinion, is excessively burdensome especially in certain sectors that need to be improved, such as agriculture. I believe it should be amended because it is not a fair tax structure in my opinion. Agriculture is one of the affected sectors that I mentioned previously because it is linked to goods that are subject to excise tax.

A: In what ways should the Government of Albania incentivize businesses and citizens to be more compliant with fiscal policies?

P5: There are a few, and I will highlight the above-mentioned fair taxation scheme, as well as all businesses being exactly equal in front of the tax laws, providing subsidies, and having fair VAT refunds while avoiding corruption. As an example, VAT in the tourism sector has been reduced to 5%, but there are issues with VAT refunds, where administration workers request tips or benefits. And these are factors that have a negative impact on the businesses.

A: Do you think government corruption plays a factor in the process of evading taxes and not getting caught?

P5: Without a doubt, it is one of the most important factors with a direct effect.

A: What are your views concerning the future of the Albanian fiscal system?

P5: Taking indicators from the progress made over the years, I believe that things will continue to improve and standardize in accordance with EU models, since the system of business organization, supervision and maintenance of balance sheets, and accounting principles are nearly integrated with EU standards. Furthermore, if Albania wishes to enter the EU, it must fulfil the requirements for tax system integration as well as the fight against corruption.

## **Interview 6 – Female**

A: What's your educational background?

P6: I have a bachelor's degree in management , currently studying for my master's degree.

A: What is your opinion on the current tax evasion situation in Albania?

P6: I would say that tax evasion in Albania is definitely one of the biggest concerns regarding not only the economic situation but also EU integration. It is one of sectors that requires immediate attention and government intervention.

A: What would you consider to be the strengths and weaknesses of the current tax administration system?

P6: It really depends on the specific type of taxation process that we are talking about but if we can make a general assumption based on the current situation one of the biggest weaknesses would be the absence of regulated and consolidated system. Also, the lack of digitalized processes is another weak point. We have to admit that there are strengths as well, and one of them would be the ability of our taxation sector to adapt quickly to economic changes. Constant changes are made to the taxation system over time. But this could also be a weakness if we over analyse.

A: What are, in your opinion, the factors that affect tax compliance behaviour of businesses and citizens in Albania, if there are any?

P6: Well, corruption would be the main one. It is also one of the biggest challenges that we are facing in almost every sector of our economy. Hence, the delay of our integration process. You cannot expect businesses and citizens to be tax compliant when corruption is at such a large scale.

A: Do you have knowledge of businesses or people who practice tax evasion in Albania, and what are your thoughts about it?

P6: Yes, without any doubt. And I believe that most people who currently reside here would answer the same way. If we take into consideration the corruption that is taking place in this specific sector, it is not surprising. Most of these businesses are stimulated by people who work in the system to keep doing it. It is never admitted out loud but that is the ugly truth.

⇒ Did they get caught evading taxes?

A few businesses did. The ones that get caught are normally used as bait or to scare the masses. The respective organs do not really try to find the root problem in the system. The majority of businesses that are caught are just used as propaganda by the government.

A: Are you aware of any new and creative methods businesses and citizens are using to evade taxes?

P6: I am not aware of any new methods, but I can state for a fact that there are several methods that are being employed by many businesses and individuals.

A: Do you think there is an epidemic going on with tax evasion In Albania because people perceive it as ethically acceptable to do so?

P6: I do not believe that people view it as ethically acceptable but there is definitely a more positive mentality surrounding tax evasion, in comparison to EU countries or neighbouring countries.

A: If you think there is a tax evasion problem in Albania, what mechanisms would you suggest, to help identify those who evade taxes?

P6: The digitalization of this sector would be a step in the right direction. Law breakers would be easily identified, and the problem could potentially come to an end but there is still room for discussion.

A: How informed are you about the fiscal policies in Albania, and what are your thoughts regarding the current fiscal policies in Albania?

P6: I have to admit that I am not as informed as I used to be, but my main suggestion regarding the fiscal policies in Albania is to switch the taxation model. The current economy desperately asks for changes in the taxation system. Going back to the flat tax and abandoning the progressive tax might highly benefit our economy.

A: Do you think the lack of trust in the government and its fiscal policies encourages tax evasion? Please elaborate further.

P6: Distrust is one of the main factors because all taxpayers do not feel the governmental support. They do not feel protected by the fiscal policies in place. This leads to people taking control over the situation. That is why intervention in the taxation sector is crucial.

A: Do you think the fiscal policies currently implemented are efficient in reducing tax evasion? If not, are there any changes you would suggest?

P6: Personal opinions do not really matter here because it is quite clear that these policies have failed to succeed. The same changes that I mentioned above, which would be the digitalization of the taxation system and switching back to the flat tax.

A: In what ways should the Government of Albania incentivize businesses and citizens to be more compliant with fiscal policies?

P6: Incentives have proven to be successful whenever they are implemented. Offering lower taxes to different sector in desperate need for growth could be useful.

A: Do you think government corruption plays a factor in the process of evading taxes and not getting caught ?

P6: As mentioned above, corruption is the main factor when it comes to tax evasion. Businesses and individuals are stimulated to break the law rather than punished for it. In exchange for monetary gifts or services, many businesses are becoming part of the tax evasion group.

A: What are your views concerning the future of the Albanian fiscal system?

P6: I think we still have a lot of work to do but there is light at the end of the tunnel. With EU integration being our main goal, we will slowly embrace new and positive changes. Most sectors are already compliant with EU regulations and the fiscal system will follow. After all, it is one of the requirements that needs to be fulfilled in order to be granted entry in the EU.

### **Interview 7 – Female**

A: What's your educational background?

P8: Finance and Accounting/Auditing

A: What's your professional experience?

P8: Since 2016, I have been working as an Internal Auditor at Bank of Albania (BoA).

A: What is your opinion on the current tax evasion situation in Albania?

P8: Evasion in the Albanian economy involves legitimate business activities carried out outside the reach of government authorities. These activities usually fall into two categories that remain common throughout Europe. The first is undeclared work, which accounts for approximately two-thirds of the shadow economy. It includes wages that workers and businesses do not declare to the government to evade taxes or required documentation. Undeclared work is widespread in the construction, agriculture and household services sectors (such as cleaning, childcare, care for the elderly and tutoring). Another third comes



from under reporting, which is when businesses - mainly those that deal heavily with tangible and liquid money (cash), such as small shops, bars and taxis - report only a fraction of their revenue to avoid some of the tax burdens. Fiscal avoidance, in my view, is fuelled by the following factors:

**Savings:** By working outside the active economy, participants can avoid taxes and possibly social security, circumvent tax and labour regulations, and avoid document-based evidence. There is a strong causal relationship between a country tax rate and the magnitude of tax evasion.

**Low risk of detection:** Participation in tax evasion is illegal. The chances of being caught and fined by government entities are low (despite the Albanian government recently undertaking some reforms) so more individuals will consider the risk worthwhile. Thus, reducing evasion requires a clear legal stance and the strength of law enforcement.

**Ease of participation:** Cash payments make it easier to get involved in evasion, as cash payments cannot be tracked. The Bank of Albania has recently undertaken a series of initiatives for the inclusion of electronic payments and the use of electronic cards.

A: What would you consider to be the strengths and weaknesses of the current tax administration system?

P8: Strength: Reforms that are being implemented. Weaknesses: A lack of centralization or the development of an accurate database of an information system related to automation and logical calculations of a business's output with micro and macroeconomic factors influencing a country's economy. Consideration of tax avoidance practices as a standard business activity.

A: What are, in your opinion, the factors that affect tax compliance behaviour of businesses and citizens in Albania, if there are any?

P8: I am of the opinion that previous practices, lack of punitive measures, lack of training on the code of ethics and disciplinary measures against officers responsible for accounting, collection, on-site inspections, etc. These can be considered some of the factors that affect tax compliance behaviour.

A: Do you have knowledge of businesses or people who practice tax evasion in Albania, and what are your thoughts about it?

P8: Yes, I have! As an economist who knows the importance of declaring the application of taxes for the economy, I have tried to recall or mention the negative effects as well as the legal effects of concealment or inaccurate reporting.

⇒ Did they get caught evading taxes?

No, they have not been caught. Even when they were ready to be identified, tactics used such as corruption against the tax inspectors on the field enabled them to avoid the gravity of the situation and continue with their "usual" business.

A: Are you aware of any new and creative methods businesses and citizens are using to evade taxes?

P8: Through the use of cash payments and the keeping of two reports: one for the effect of declarations and one for the effect of tax profit. The close relationship between accounting experts (today called legal auditors) has made this possible.

A: Do you think there is an epidemic going on with tax evasion In Albania because people perceive it as ethically acceptable to do so?

P8: Evasion is often considered a normal part of society. I would call this as a lack of 'conscience or guilt', and attribute this to the inability of the government and administration to educate and inform the citizens. This mindset is common in nations where the perceived quality of governmental institutions and benefits is low or trust in the state is fragile.

A: If you think there is a tax evasion problem in Albania, what mechanisms would you suggest, to help identify those who evade taxes?

P8: I think the most important is to invest and work towards improving peoples' views on the avoidance of tax obligations. I believe that the tax administration should restructure in order to enable as many service centres for taxpayers as possible across the country and offer free tax filing services, including the preparation of books and VAT returns. Taxpayers who bring their original paperwork to these centres will obtain free consultation and filing services (purchase and sale invoices). Of course, the taxpayer bears responsibility for the requested documents.

A: How informed are you about the fiscal policies in Albania, and what are your thoughts regarding the current fiscal policies in Albania?

P8: As an economist and as a citizen, I am constantly interested in what is happening in the fiscal system of Albania. I feel that for some situations I remain unclear even though I have the background and experience needed to understand them. I wonder if I feel difficulty what about the rest of the public who may not have any knowledge at all from the fiscal system ? So, this again remains one

of the challenges of the government for social inclusion in every process initiated by the government that affects the personal interests of citizens.

A: Do you think the lack of trust in the government and its fiscal policies encourages tax evasion? Please elaborate further.

P8: I believe so because everyone's decisions are influenced by their beliefs about the government and their perception of how the business revenue portions (taxes) will be managed. I believe there is a lack of confidence that taxes are used for the public good, that is why a lot of citizens and businesses do not feel 'bad' for evading taxes.

A: Do you think the fiscal policies currently implemented are efficient in reducing tax evasion? If not, are there any changes you would suggest?

P8: Yes, I think they are effective but only if they are really implemented in the correct way.

A: In what ways should the Government of Albania incentivize businesses and citizens to be more compliant with fiscal policies?

P8: To include public hearings and the input of the public, businesses, and people as laws are implemented or policies/regulations are changed, etc. Reforms should not only be taken as a blueprint by developed European countries but should be designed and adapted to meet the unique needs of each country's population and economy.

A: Do you think government corruption plays a factor in the process of evading taxes and not getting caught?

P8: Definitely, as explained above one of the main factors why it is so easy to engage in tax evasion in Albania. What I think is that informality, tax evasion and corruption are not being fought properly, by blaming policymakers, government, taxes, customs, etc., The last 20-25 years, when it comes to discussing concrete measures or packages of measures that will to enable the improvement of the situation, opinions are politicized and treated with an unjustifiable political extremism, which violates any principle or normal technical, legal and business judgment of the situation. What this does is shift the attention from what is important and starts a never-ending cycle of blaming the next.

A: What are your views concerning the future of the Albanian fiscal system?

P8: One of the main obstacles that stands out most against Albania's aspirations to join the EU. In conclusion, I would stress that it is important, especially for professionals and civil society, to avoid extremist or, in many cases, arithmetic judgments; which, without much economic logic, account for alleged price increases and bankruptcies. Instead, let the professionals help and support the drafting of legal provisions and fair enforcement rules that will enable the reduction of informality, tax evasion and corruption, and the protection of really small businesses, which provide a minimum and normal income for maintaining families.

### **Interview 8 – Male**

A: What's your educational background?

P9: I have a master's degree In mathematics-Finance

A: What's your professional experience?

P9: 20 years working in the banking sector, currently

A: What is your opinion on the current tax evasion situation in Albania?

P9: I think that the situation of tax evasion in Albania has improved as a result of Albania's inclusion in European and global economic organizations, as well as the need to meet the requirements for membership in the European Union, which has resulted in steps such as the drafting of various laws on evasion, money laundering, and so on. However, in most situations, they remain only on paper, resulting in very high levels of tax avoidance and evasion.

A: What would you consider to be the strengths and weaknesses of the current tax administration system?

P9: Albania's tax system is quite complex, which means that the tax rate differs for profit tax, personal income tax, withholding tax, value added tax, and so on. All of this, I believe, is a flaw in Albania's tax system.

A: What are, in your opinion, the factors that affect tax compliance behaviour of businesses and citizens in Albania, if there are any?

P9: I think that very often the tax audit in Albania is not programmed, periodic or equal in all businesses. This makes the business sceptical about the fairness of this direct authority.

A: Do you have knowledge of businesses or people who practice tax evasion in Albania, and what are your thoughts about it?

P9: I am aware of numerous businesses and individuals who engage in tax evasion. Many people do not report their true income, and many companies do not report their true turnover. I think this has been decreasing over the years, but it still exists in significant numbers.

⇒ Did they get caught evading taxes? No.

A: Are you aware of any new and creative methods businesses and citizens are using to evade taxes?

P9: I'm not sure whether it's a new or old method, but the reduction of real turnover of businesses and the fictitious increase of expenses, as well as the non-declaration of real salaries, cash transactions, or exchange of goods, are some of the tax evasions that are performed on a regular basis in Albania, but there have recently been cases of creating schemes, building companies with tax liabilities, and then declaring them bankrupt.

A: Do you think there is an epidemic going on with tax evasion In Albania because people perceive it as ethically acceptable to do so?

P9: I think such a perception has been created, especially in small businesses, where they see tax evasion as the only 'solution' to make ends meet at the end of the month. But this might not be the reason for all businesses to evade taxes, I think culture also plays a significant factor in this case , and some individuals commit tax evasion just because they think everyone around them is doing the same.

A: If you think there is a tax evasion problem in Albania, what mechanisms would you suggest, to help identify those who evade taxes?

P9: I think that the mechanisms as well as the laws exist, but it takes willpower to control and implement them. Implementation or following the legislation and rules , always is a task we are not fully successful in.

A: How informed are you about the fiscal policies in Albania, and what are your thoughts regarding the current fiscal policies in Albania?

P9: The work I do makes me want to be and be informed about the changes in the tax system in Albania.

A: Do you think the lack of trust in the government and its fiscal policies encourages tax evasion? Please elaborate further.

P9: I think that the loss of trust in the government, the corruption of tax control, the way of VAT refund, cause people and businesses to commit evasion.

A: Do you think the fiscal policies currently implemented are efficient in reducing tax evasion? If not, are there any changes you would suggest?

P9: The government is making efforts to improve things; for example, raising the minimum wage and exempting this wage category from taxes might be a step forward, but I do not believe it will have major effects. I would advocate for the implementation of a flat tax.

A: In what ways should the Government of Albania incentivize businesses and citizens to be more compliant with fiscal policies?

P9: Changing the structure from a progressive tax to a flat tax system. This will reduce the fiscal burden on companies and enable them to develop and flourish. In my opinion a better option would be a modified flat tax rate which would include some variations of these elements ; an income level beneath which no taxes are paid, a small number of allowable deductions – charitable contributions and home mortgage deductions are among the most common also different rules, or at least different rates, for business income. Some “flat tax” plans also have a small number of tax brackets. Technically, this makes them progressive tax plans, although they are far “flatter” than our current system

A: Do you think government corruption plays a factor in the process of evading taxes and not getting caught?

P9: It plays a big role because it is the primary issue that has undermined and continues to undermine not only the tax system in recent years, but the entire Albanian community in all sectors.

A: What are your views concerning the future of the Albanian fiscal system?

P9: I am very sceptical about the future, the system depends on the economy, the economy on government policies and policies on the desire to fight corruption which is eroding the country from within. Increasing public debt through PPPs (public-private partnership) and creating a welfare facade which is short lived , will create only more economic problems for the years to come.

## **Interview 9 – Male**

A: What's your educational background?

P10: I have a bachelor's degree in business economics and a second bachelor's degree in law. I also have several qualifications and I am a certified accountant.

A: What's your professional experience?

P10: I have held several official positions in the state administration, as director of the directorate of internal control of customs, director of the regional directorate of agriculture and now I practice my profession as an approved accountant

A: What is your opinion on the current tax evasion situation in Albania?

P10: Fiscal evasion continues to be an ongoing problem that needs to be addressed. According to the calculations of independent domestic and foreign institutes, the evasion is around 35-40%.

A: What would you consider to be the strengths and weaknesses of the current tax administration system?

P10: The administrative system's strengths may be considered to be the fact that it already has a consolidated procedural and legal practice, regular training and education of the tax administration, and collaboration with other law enforcement agencies. Among the flaws are the frequent changes in human resources in the tax administration, frequent legal changes, a lack of continuous training, political interventions, and so on.

A: What are, in your opinion, the factors that affect tax compliance behaviour of businesses and citizens in Albania, if there are any?

P10: Nonpayment of tax liabilities can occur for a variety of objective and subjective reasons. We should note that Albania has a low fiscal education as a result of transition of the systems. The subjective fact that every individual is inclined to regard every profit that comes from his business or economic operation as 'just his'; another explanation is that some taxes and fees for some services are constantly increasing; and the fact that many so-called businesses are self-employed, with incomes so low that they can barely provide a living for their families. Corruption is another component that is a cost to companies, as is the fact that many individuals believe they are better "managers" of revenue than the state is as a spending entity. That is, the notion that "since I get less services, I can pay less."

A: Do you have knowledge of businesses or people who practice tax evasion in Albania, and what are your thoughts about it?

P10: Yes, I certainly know individuals and companies who commit fiscal violations, and there is no question that this is an unacceptable and inadmissible thing to do, but it does happen, and it will take a long time to have significant improvements in this area. .

⇒ Did they get caught evading taxes?

Of course, many individuals and companies are punished for breaching the rules and, in many cases, are penalized by paying evasive obligations and penalties associated with these evasions.

A: Are you aware of any new and creative methods businesses and citizens are using to evade taxes?

P10: Yes. We may assume that the two things go hand in hand: once a legal regulation is enacted, a new way to circumvent commitments, or loopholes, is discovered.

A: Do you think there is an epidemic going on with tax evasion In Albania because people perceive it as ethically acceptable to do so?

P10: We cannot talk about an "epidemic" in tax evasion, but we can talk about a continuing tendency to evade taxes for many of the reasons mentioned above, but also because part of the business considers it ethically right.

A: If you think there is a tax evasion problem in Albania, what mechanisms would you suggest, to help identify those who evade taxes?

P10: I would actually suggest a couple of changes that can be implemented. The first one would be the better preparation of the tax administration, the second the continuous awareness of the business, the third the reduction of taxes where it is possible, because their increase encourages evasion. I would also suggest the , simplification as much as possible of fiscal legislation, reduction of bureaucratic procedures, and shortening the time of reimbursement of overpaid taxes. Finally, the central government and municipalities must demonstrate effective fiscal management of public funds.

A: How informed are you about the fiscal policies in Albania, and what are your thoughts regarding the current fiscal policies in Albania?



P10: I believe that I am well informed about fiscal policies due to the profession I practice, and I think that fiscal policies need continuous improvement both in legal terms and in their practical implementation.

A: Do you think the lack of trust in the government and its fiscal policies encourages tax evasion? Please elaborate further.

P10: Yes, it does have an effect. The effect is twofold: on the taxes and duties that the state is required to raise, and on the administration of those taxes and duties.

A: Do you think the fiscal policies currently implemented are efficient in reducing tax evasion? If not, are there any changes you would suggest?

P10: Fiscal policies are effective to some extent and as such have had little effect on reducing tax evasion. The main suggestion would be to increase the efficiency of the tax administration and increase public confidence in the proper administration of public money.

A: In what ways should the Government of Albania incentivize businesses and citizens to be more compliant with fiscal policies?

P10: There would be many ways, but the most important would be the incentivization of some priority sectors such as tourism and products for export. Also, more aggressive policies need to be made to promote employment and qualified human resources.

A: Do you think government corruption plays a factor in the process of evading taxes and not getting caught?

P10: Government corruption is a key factor in the tax evasion process. It becomes a double obstacle: on the one hand it increases costs for the business and on the other hand it causes considerable damage to revenue collection.

A: What are your views concerning the future of the Albanian fiscal system?

P10: I believe that there will be continuous improvements influenced by internal factors, but also due to the integration and approximation of legislation and best practices with EU countries.

## **Interview 10 – Female**

A: What's your educational background?

P11: I have a bachelor's degree in finance.

A: What's your professional experience?

P11: I worked for 15 years as an economist at Social Security as a pension inspector and now from 2005 I work as a freelance Accountant.

A: What is your opinion on the current tax evasion situation in Albania?

P11: Our economy suffers from a high level of tax evasion. Efforts and actions have been made to reduce these numbers, but little success has been achieved and the country's economy continues to suffer as a result.

A: What would you consider to be the strengths and weaknesses of the current tax administration system?

P11: As strong points I would mention the digitalization of the tax administrative system, while the weaknesses are the complexity of the tax system and frequent changes of fiscal legislation combined with a weak administration.

A: What are, in your opinion, the factors that affect tax compliance behaviour of businesses and citizens in Albania, if there are any

P11: As main factors I would mention ; minimal fiscal culture we have inherited, the continuing fines and punishing policies that are implemented, and a weak administration.

A: Do you have knowledge of businesses or people who practice tax evasion in Albania, and what are your thoughts about it?

P11: No, I have no knowledge of such people or businesses.

⇒ Did they get caught evading taxes ?

A: Are you aware of any new and creative methods businesses and citizens are using to evade taxes?

P11: The proliferation of tax forms based on income level contributes to increased attempts to avoid taxes and levies. Also, there are businesses who officially declare losses and inactivity of the businesses and carry out their activities illegally.

A: Do you think there is an epidemic going on with tax evasion In Albania because people perceive it as ethically acceptable to do so?

P11: I think that there are significant improvements in the fight against evasion and the awareness of citizens. Although improvements are being made Albania still suffers from a low level of tax culture, and this also has an effect in perception of evasion.

A: If you think there is a tax evasion problem in Albania, what mechanisms would you suggest, to help identify those who evade taxes?

P11: To identify those who evade taxes I would suggest to continue improving tax administration and the digital system and not change laws and policies on a regular basis.

A: How informed are you about the fiscal policies in Albania, and what are your thoughts regarding the current fiscal policies in Albania?

P11: I am aware of existing policies, and I believe that the current fiscalization initiative introducing the electronic bill would contribute in the battle against evasion.

A: Do you think the lack of trust in the government and its fiscal policies encourages tax evasion? Please elaborate further.

P11: No. ( the level of trust in government for the repayment of taxes and fees in the form of public goods and services to the community is low)

A: Do you think the fiscal policies currently implemented are efficient in reducing tax evasion? If not, are there any changes you would suggest?

P11: I think that the current policies are not doing a great job judging by the increasing levels of tax evasion year by year, but I believe the fiscalization process that has initiated will be helpful in this aspect.

A: In what ways should the Government of Albania incentivize businesses and citizens to be more compliant with fiscal policies?

P11: To make more tangible the benefits that the citizen receives by paying taxes and duties. For example, if a person collects a certain number of tax coupons, they should be rewarded or refunded by the government.

A: Do you think government corruption plays a factor in the process of evading taxes and not getting caught?

P11: No , I do not think that is a relevant factor. In my view it is more related to the lack of tax culture in Albania.

A: What are your views concerning the future of the Albanian fiscal system?

P11: I believe it will improve over time ,as Albania's future goals are to join the European Union , and steps are being taken in that direction. So, if we follow this path, I believe we will see improvements in the near future.

### **Interview 11 – Male**

A: What's your educational background?

P12: I have a bachelor's in economy.

A: What's your professional experience?

P12: I have been working for 11 years at the General Directorate of Taxes.

A: What is your opinion on the current tax evasion situation in Albania?

P12: Fiscal evasion is prevalent in the country to such an extent that it has an effect on business performance. Evasion is prevalent, especially in our ever-changing fiscal administration system. Due to the pandemic and the 2019 earthquake the economy was negatively impacted, and there was an increase in informal economy which leads to more tax evasion.

A: What would you consider to be the strengths and weaknesses of the current tax administration system?

P12: The country's tax administration system is constantly evolving, which creates a sense of confusion and uncertainty, making it more difficult to apply. Strengths include the self-declaration scheme, which provides flexibility and autonomy between the government and the taxpayer. This project aims to make all tax returns and payments electronically through the portal and to be controlled electronically by the GDT (General Directorate of Taxes). In the context of increasing the use of electronic services by taxpayers as a tool to facilitate the procedures of declaration and payment of taxes in the voluntary fulfilment of tax obligations, the Albanian Government has created supporting legislation which makes mandatory the declaration of taxes in electronic form for all taxpayers registered for VAT.

A: What are, in your opinion, the factors that affect tax compliance behaviour of businesses and citizens in Albania, if there are any?

P12: In my view, there are two major factors that have a direct impact on citizen behaviour: the first is the unfair fiscal burden between companies, and the second is the tax administration's treatment differentiation of businesses and individuals. The goal should be to treat everyone equally and not play favourites.

A: Do you have knowledge of businesses or people who practice tax evasion in Albania, and what are your thoughts about it?

P12: As a tax inspector, I am aware of companies and individuals that engage in tax evasion. This, I believe, poses a significant risk to these people, but they are forced to take it in order to survive in an unstable environment.

⇒ Did they get caught evading taxes ?

Of course, all of the identified businesses and individuals have been recorded, and some have been heavily penalized. The whole framework in the administration of taxes and fees is such that these people have not maintained personal responsibility and have tried to find someone to blame or have called it a misinterpretation and an innocent mistake.

A: Are you aware of any new and creative methods businesses and citizens are using to evade taxes?

P12: Yes, an innovative practice that is commonly used in Albania is that of dividing large businesses so that turnover does not exceed levels and taxability rates change. Thus, dividing into two small companies with standard revenue figures in order to avoid being taxed as a big corporation.

A: Do you think there is an epidemic going on with tax evasion In Albania because people perceive it as ethically acceptable to do so?

P12: Yes, it is true that it has become an "ordinary" and "popular" phenomenon to engage in, and non-participation in it places you in a disadvantaged position to your competitors. To be honest, not all companies seek to escape tax obligations, but are 'pressured' to do so by competition. As rivals avoid taxation, make more money, they can provide lower-cost services or products than the market. This is a very troubling phenomenon that causes significant economic disparity.

A: If you think there is a tax evasion problem in Albania, what mechanisms would you suggest, to help identify those who evade taxes?

P12: I think that the most efficient method would be to create a unified information system between the responsible institutions and market research to identify real transactions.

A: How informed are you about the fiscal policies in Albania, and what are your thoughts regarding the current fiscal policies in Albania?

P12: I am well-informed, and I believe that the country's fiscal policies are favourable, but that they should be more sustainable in the long run. They should also be simpler to understand for all people. It would be easier to convince people to cooperate once they understand the structure and role of taxation.

A: Do you think the lack of trust in the government and its fiscal policies encourages tax evasion? Please elaborate further.

P12: I believe that a lack of confidence in state institutions and tax evasion are closely connected. Tax authorities should set a good example by ensuring fair treatment for all. At the moment, they are continually evolving, which creates distrust among citizens and increases the potential for evasion.

A: Do you think the fiscal policies currently implemented are efficient in reducing tax evasion? If not, are there any changes you would suggest?

P12: I want to note that there is no "right solution or practice" for tax evasion in almost all developed countries transitioning to a consolidated market economy or in countries with a high degree of informality and a poor tax-paying tradition and culture that continues to happen. Fiscal policies in Albania, in my view, are effective and will have an impact on the consolidation of the economy. I agree that the administration's follow-up and implementation can be improved. The best solutions have considered and combined the establishment of clear and understandable rules for most taxpayers, with an affordable administrative and fiscal burden, and with the administration tax's educational, monitoring, and persuasive capacities to ensure the law's proper enforcement.

A: In what ways should the Government of Albania incentivize businesses and citizens to be more compliant with fiscal policies ?

P12: By offering them equal treatment by the tax administration and fair fiscal burden and also by raising awareness and showing people first-hand what their

taxes are used for, and I believe they will be more compliant if they see their money being put to good use and see the benefits.

A: Do you think government corruption plays a factor in the process of evading taxes and not getting caught?

P12: Definitely yes. Many taxpayers find the opportunity to create advantages to their competitors by avoiding tax controls.

A: What are your views concerning the future of the Albanian fiscal system?

P12: I believe that, like every fiscal and administrative structure, it takes time to achieve high levels of law enforcement. Education of society is the key to fiscal policy implementation, and it requires careful planning. Furthermore, the further politics is distanced from the administration and not exerting pressure on it and recruiting professionals, the sooner the situation can return to normal.