A COMPERATIVE STUDY OF PROGRESSIVE TAX AND FLAT TAX: CASE OF ALBANIA

MASTER THESIS

XHENI KOCI

EPOKA UNIVERSITY

FACULTY OF ECONOMICS AND ADMINISTRATIVE SCIENCE

BANKING AND FINANCE

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XHENI KOÇI

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Author: Xheni Koçi

Faculty: Faculty of Economics and Administrative Science

Department: Banking and Finance

Thesis Title: A Comparative Study of Progressive Tax and Flat Tax: Case of Albania

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I clarify that this final work satisfies all the equipments as a Master Thesis for a degree of Master of Science in Banking and Finance

<div align="right">

Assoc. Prof. Dr. Uğur Ergün

Head of Banking and Finance

</div>

Department

This is to certify that I have read this final work and that is my opinion it is fully adequate, in scope and quality, as a Master Thesis for the degree of Master in Science in banking and Finance.

<div align="right">

Dr. Nertil Mera

Supervisor

</div>

Exam Board of Thesis

Title/ Name & Surname	Affiliation	Signature
1- Dr. Nertil Mera		
2- Assoc. Prof. Dr. Uğur Ergün		
3- Dr. Patrice Kandolo Kabeya		

A Comparative Study of Progressive Tax and Flat Tax: Case of Albania

ABSTRACT

Flat taxation or progressive taxation, is an ongoing debate in society of Albania. In Albania, over a decade, there have been imposed 2 types of taxation: Flat tax (2008-2013) and progressive tax (2014-ongoing). Each tax has its own advantages and disadvantages. The main objective of this paper is to show which tax has had the best performance in economic growth. To make this paper are collected data from INSTAT, Eurostat, Ministry of Finance of Albania, Bank of Albania, World Banka and other resources and then are created tables. Based on those tables it had been performed a comparative analysis of two fiscal systems, focused on a period of eleven years. Besides the comparative analysis another analysis is made and this is ANOVA (Analysis of Variance) and Independent Sample t-test. The study results show that the best fiscal system for Albanian economy is Progressive tax system. The Real GDP of the country was increased with 2.6%. The growth of the GDP has been affected form the increase of other indicators like tax budget revenues that had 3% increase and other indicators. The implication of the new tax increased the income of the revenues and reduced the public debt that Albania has had over the years. This implementation of the new tax had also negative side. Albania companies still till now make fraud and tax evasion by because they still use double accountings in their business. Further research is recommended to decide because 10 years doesn't define the best fiscal tax when the new fiscal system continues. To conclude a complete research, need more time, information and indicators, because the results change continuously.

Key Words: *Progressive tax, flat tax, economic growth, tax evasion, ANOVA, Independent Sample t-test, Group statistic, Fiscal package, tax revenue.*

Nje Studim Krahasues I Takses Progresive dhe Takses se Sheshte: Rasti I Shqiperise

ABSTRAKTI

Tatimi i sheshtë apo progresiv, është një debat i vazhdueshëm në shoqërinë shqiptare. Në Shqipëri, për më shumë se një dekadë, janë vënë dy lloje taksash: Taksa e sheshtë (2008-2013) dhe taksa progresive (2014-në vazhdim). Çdo taksë ka avantazhet dhe disavantazhet e veta. Objektivi kryesor i këtij punimi është të tregojë se cili taksë ka patur performancën më të mirë në rritjen ekonomike. Për të bërë këtë material janë mbledhur të dhëna nga INSTAT, Eurostat, Ministria e Financave e Shqipërisë, Banka e Shqipërisë, Banka Botërore dhe burime të tjera dhe më pas janë krijuar tabela. Bazuar në këto tabela është bërë një analizë krahasuese e dy sistemeve fiskale, të fokusuar në një periudhë prej njëmbëdhjetë vjetësh. Përveç analizës krahasuese, bëhet një analizë tjetër dhe kjo është ANOVA (Analiza e Variancës) dhe T-Test i Pavarur i Mostrës. Rezultatet e studimit tregojnë se sistemi më i mirë fiskal për ekonominë shqiptare është sistemi i takses progresive. PBB-ja reale e vendit u rrit me 2.6%. Rritja e PBB-së është ndikuar nga rritja e treguesve të tjerë siç janë të ardhurat e buxhetit tatimor që kanë pasur rritje prej 3% dhe tregues të tjerë. Implikimi i taksës së re rriti të ardhurat e të ardhurave dhe uli borxhin publik që Shqipëria kishte gjatë viteve. Ky zbatim i taksës së re gjithashtu kishte një anën negative. Kompanitë shqiptare ende bëjnë mashtrime dhe evazion fiskal, sepse ende përdorin llogaritë e dyfishta në biznesin e tyre. Rekomandohet hulumtimi i mëtejshëm për të vendosur, sepse 10 vjet nuk e përcaktojne taksën më të mirë fiskale kur vazhdon sistemi i ri fiskal. Për të përfunduar një hulumtim të plotë nevojiten më shumë kohë, informacione dhe tregues, sepse rezultatet ndryshojnë vazhdimisht.

Fjalët kyçe: *tatimi progresiv, tatimi i sheshtë, rritja ekonomike, evazioni fiskal, ANOVA, t-test i pavarur, statistika e grupit, paketa fiskale, të ardhurat tatimore.*

DEDICATION

This thesis I dedicate to my lovely family.

Thank you for supporting me.

I love you all so much

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My gratitude goes to my thesis advisor Dr. Nertil Mera, who was always willing to help me. Thank you for helping me with all of your recommendations and your advices. They helped me to continue and for working hard for the thesis. Without you help I couldn't conduct the thesis.

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Last but not least, I would like to thank all my friends. Thank you for supporting me and cheering me up and being by my side. I love you my friends.

I am and will be forever grateful to all of you.

DECLARATION OF STATEMENT

1. The main material that is included in this thesis has not been fully submitted or any part of any academic awards qualification other than that for what is created and now submitted.

2. The program of advanced study of which this thesis is part has considered of:

- Research methods that I have earn during the bachelor and master studies
- Examination of several theses that wore written by other that had the same topic as mine, or related to my topic, in both Albania and abroad. Regarding the creation of tables all the information to create them are took from Albanian statistic institution government like INSTAT, Ministry of Finance, Banka of Albania and from World Bank, European Database EUROSTAT and other statistic institution database that are known for their correct data information.

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LIST OF ABBREVIATION

GDP – Gross Domestic Program

TR – Tax Revenue

FTOC- From Tax Office and Costumers

RFLG – Revenues from Local Government

SI – Social Insurance

BOA – Bank of Albania

IMF – International Monetary Fund

1. INTRODUCTION

Taxation is one of the most important tools that the governments use to collect financial resources (revenues) from taxpayers for a country. Albania is a country that is developing each year and a good fiscal tax can provide opportunities from other investors to invest here. Albania economy is based on agriculture and in tourism, so a good tax opens many doors to increase the main indicators but to have a growth economy to. However, there is a little research about the taxation in Albanian language, as the majority of the information it is published in English. Another difficulty is the lack of publication that could be found about the taxation in Albania and not only in Albanian language, but even in English to. This paper seeks by examining the small information that could be found only in some publication in English and Albania, through a secondary research. Literature published in both Albanian and English has been reviewed, including government documents of Albania that were found in Albanian language such as: documents that were published from the Ministry of Finance, Banka of Albania and INSTAT, but even from World Banka, Eurostat and other sources that were found in English language. Not only that information was limited but other publication like research papers for this topic was also limited. Most of the research that were collected and exanimate were papers that were made from academic researches that have made previews research about my topic but also research that were related to the progressive and flat tax in general. This paper is restricted to analyze just economic indicators. Although political, social, historical, tradition and culture are part of indicators are important, they are not subject of this paper. This paper doesn't address how the indicators should be used and define and no question whether taxes are justified. The indicators are just analyzed in a comparative analyze to find which fiscal system created growth economy and is there best for Albanian economy. The paper starts with a brief overview of the concept meanings of tax and taxation, since Albanian legislation has two complete different meanings, followed by the advantages and disadvantages of tax and progressive tax. In the last section is made a comparative study of

Progressive tax and Flat tax in Albania. The main part of the case through an analyze using

statistical models like ANOVA and Independent sample t-test examining the key indicators that creates growth in Albania economy to find which tax system has major impact and the motives of this growth.

1.1. Problem Statement

Albania always has suffered from non- payments of the taxes, because most of the peoples in the country do not have basic economical knowledge. Due to that, many taxes have been not collected at all or they have been partly collected. In the last decade Albania had gone through many fiscal changes and this has created a confusion on which fiscal program is the best to be implementing to give an economic growth.

1.2. Purpose of the Study

The purpose of this study is to show which period of fiscal taxation conducted a better performance and growth in Albanian economy. This is achieved through Cooperative analyses, ANOVA test Independent Sample t- test and Group Statistics.

1.3. Research Objectives

Based on the purpose of the study we have those objectives

1. To describe the differences of Tax and Taxation according to Albania Law
2. To describe the Advantages and Disadvantages of Flat and Progressive Tax
3. To analyze revenues that are collected from tax payers during the Progressive tax
4. To analyze revenues that are collected from tax payers during the Flat tax
5. To make a comparative analysis for revenues that was collected from tax payers between Progressive tax and Flat tax.
6. To perform a study using ANOVA and Independent Sample test to show which period of fiscal system created a better performance and growth in Albania Economy.

1.4. Research Questions

The research is performed for giving answers to the following questions.

1. Why is important to understand the difference between Tax and Taxation according to Albanian Law?
2. What are the advantages and disadvantages of Flat and Progressive Tax?

3. How did the progressive tax effect the collection of revenue collected from tax payers?

4. How did the flat tax effect the collection of revenue collected from tax payers?

5. From the comparative analyzes of revenues collected by tax payers, which was the best period: Progressive or Flat tax?

6. From ANOVA test and Independent Sample test, which period of fiscal taxation shows a better performance and growth in Albania Economy?

1.5. Methodology

The methodology that is used to create this paper is based quantitative data collection. Through a analyze using statistical models like ANOVA, Independent Sample t-test and Group Statistic examines the key indicators that creates growth in Albania economy to find which tax system has major impact and the motives of this growth.

1.6. Importance of the Study

The focus of this research is to show which tax method gave better contribution in economic growth. What are the revenues that were collected in each period and how it was implemented the fiscal package in economy? Another focus is to find out which fiscal was successful and how the economy reacted with the changes that happened in the system.

This paper is based on quantitative data analyzing and the way that the study is performed was by making three analyses. The result from the analysis provided the answer that the research is created.

2. LITERATURE REVIEW

2.1. General View

For more a decade the fiscal system has changed from flat fiscal system when the tax rate was 10% for all the types of income to a progressive tax system when the tax rate depends from the income, the higher the income higher the tax. So, the tax rate changes from 0% under 30.00 Leke wage (low income) to 27.9% max wage (high income). If the fiscal system changes constantly from a flat tax when the tax rate is fix 10% for all taxes, to a tax that tax rate change depends of the income many question raise. "Why is important to understand the difference between Tax and Taxation according to Albanian Law?" The problem maybe was tax and taxation has different definition compare to other countries that have same definition so, the citizens have difficulties to distinguish the difference between them. Another problem would be inside the country, the citizen doesn't have some economical knowledge. Another question that arises is "What are the advantages and disadvantages of Flat and Progressive Tax?" This question needs to have an idea that maybe knowing the advantages and disadvantages of each fiscal system helps to understand and answer other question like "How did the progressive tax effect the collection of revenue collected from tax payers?" and "How did the flat tax effect the collection of revenue collected from tax payers during the Flat tax?". Once those questions are answered, it may be able to understand and judge more of which tax is better for Albanian economy and has an impact in the economy growth.

2.1.1. Tax and Taxation

Taxation has been a hot topic not only for Albanian but for entire world. The definition between tax and taxation has different meanings according to Albanian low. According to the low, Tax and taxation have two different meanings in Albania. The meaning of tax based law nr. 9920, date 19/05/2008 "For Tax procedures in the Republic of Albania", article 5, paragraph e says: "Taxation" is compulsory and non-refundable payment to the state budged of the local government bodies that are set by low and is not made in exchange for certain goods and service. According to Albania's law nr 9920, date 19/05/2008 "For Tax procedures in the Republic of Albania", article 5, paragraph f says: "Tax" is the compulsory and irrevocable payment in the state of budged or in the budged of local government bodies, set by law and paid by any person that exercising a public right or benefiting from a public service in the Territory of Republic of Albania (Government A. , 19/05/2008).

From a better function of tax system, taxes must have 4 main principles; the principle of legality, the annual principle, the principle of equity and the principle of necessarily. Those principles are regulated from General Taxation Directory (Drejtoria e pergjithshme e tatimeve, DPD), Tax Legislation in 2015, from instruction nr.25 that is changed dated 02.09.2008, chapter 2 of this instruction nr 12 is "Principles of tax administration", emphasized that (Government, 2008).

2.1.2. Advantages and Disadvantages of Flat and Progressive Tax

Knowing advantages and disadvantages of each fiscal system it helps to understand better the fiscal tax. Not many papers are made about this but everyone has similar point about advantages and disadvantages of each tax. One of the papers that were created about this topic is one of my seniors; Ervin Latifi a student of EpokaUniversity conducted a study about the same topic. The paper explained the system tax in periods, and the research was based on comparing each tax period in Albania with the countries that had the same tax at the same period. Another subject that was mention in the research is the advantages and disadvantages of progressive tax and flat tax (Latifi, 2015). Another paper that explained advantages is Romina Radonishiqi. The paper explained what taxation is and what are the advantages and disadvantages of progressive and flat tax in European countries that have flat tax and progressive tax (Radonshiqi, 2016). Banka of Albania conducted a survey regarding "The History of 20 years changing's and progress of Taxation Policy in Albania". From 1993 to 20012, BOA made a survey about the progress that Albania

through years made about the collection of the revenue from the taxation and tax. This report shows that VAT is the tax that had a constant growth in revenue collection through years and excise tax was the lowest tax in the Balkan courtiers. The new reform has made a change in the structure of the tax, deciding the flat tax with a tax rate 10% for all types of taxes. This new tax rate made that the GDP of Albania have a boom in economy growth. Everything was well explained better through graphs (Shqiperise, 2013). All the sources are found in academic journals as well as economic websites.

2.1.3. Fiscal System Evaluation in Flat and Progressive Tax

The sources of two fist sectors of the literature review were found mostly on the government websites, economic websites and journal articles, but in this sector, most of the sources were works and studies that were made by others. Those works mostly were found in journal articles. Tatjana Elezi has made a comparative study of flat tax system in Albania through some economic indicators. The study evaluates through tree main indicators if the flat fiscal package was necessary in the economic condition in that period. The 3 main indicators are: fiscal package (growth rate, employment and foreign trade balance), revenue indicators (four kinds of taxes, business expansion and other factors) and the third one is cultural taxpayers and fiscal deficit. The conclusions from the study were not very satisfied. The government strategies form combination the informal economy, fiscal evasion and corruption had a minimum impact on foreseen fiscal reform results. The economy remained fragile during the five years of its life and all the government's reform are not in accordance with anti-crisis measurement (Elezi, 2014). Engel Pere and Albana Hashorva on their study regarding "Tax System in West Countries-Between Simplicity and Efficiency aimed to develop a comparative analysis among fiscal system of West Balkan Countries (Albania, Bosnia & Herzegovina, Croatia, Kosovo, Macedonia, Monte Negro and Serbia). They divided their research in 4 sections. In the first section they displayed the dynamic of tax income in various Balkan countries to aim to show the weight of fiscal system of the structure of budget revenue of those countries. The second section deals with direct taxes: personal income taxes and the profit taxes, aiming to show the systems that have chosen different countries and whether they are based on progressive tax or flat tax. In the third section they analyze the direct taxes focused on value added tax. This section treads consumption tax as well as the determination made in different countries. In the last section they give a general competitive analysis for the tax system for separate countries

intending to reflect the policy being applied in those countries, both in the aspect of simplification of fiscal system and also of their efficiency. From their research they archived these conclusions. After 20 years of democratically changes, the fiscal system in West Balkan Countries is stabilized and based on tree taxes: personal income taxes, corporate taxes and value added tax and the tax revenue is 93.4% of budged revenue or 17.1% GDP. The main tax revenue is provided from income tax and VAT has the main role there. Albania, Bosnia & Herzegovina, Macedonia and Monte Negro have flat system tax with a tax rate of 10%. Different countries apply different incentivize regarding corporate tax and the system becomes an instrument to support different economic policy, in the same time this system losses the neutrality and simplicity. VAT is the main tax in tax revenue. This mean the tax has a significant impact in social aspect of taxation in general. The impact of VAT in tax system depends not only from the level of tax rate, but also from the limit of business registration in the system of the tax (Pere & Hashorva, 11). Flamino Viola e Margarida Saraiva made a comparative study of the tax burden of the Portuguese tax system, with the application of progressive rates and proportional rates (flat tax) in determining personal income tax. The results of the study, demonstrate that flat tax respects the constitutional principle of progressive tax rates; Portuguese taxpayers with lower (higher) incomes pay less (more) taxes on personal income compared to the flat tax; that the existence of progressive rates does not mean Portuguese taxpayers benefit; and that the flat tax can achieve higher tax revenue than the IRS (Individual Income Tax) in force. Although adoption of the flat tax is possible, it is not believed this adoption would be feasible for political reasons (Viola & Saraiva, 2015). Schiau Laura-Liana and Moga Aura Carmen made a study about the flat tax effects. The study is theoretical and empirical evidence in Western and Easter European Countries. This paper takes a close look at the advantages and disadvantages of the flat tax and looks at its proven benefits and failings in some European countries which adopted it and its theoretical or possible effects on the economies of other European countries which refuse the idea of a single tax rate for all types of revenues. In the paper says, although there is a basic format of the flat tax, there are multiple flat tax proposals that have been adopted in different central and Eastern European countries. The conclusions were like this: The flat tax systems in Eastern European countries proved their benefits and failings. The recent economic crisis tends to affect a lot these economies and may also affect their fiscal strategy. But on the short term the abortion of the flat tax regimes is unlikely to happen. In most Western European

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countries with mature tax systems which are the result of the past political redistributive game over many generations, the most likely losers from a flat tax are likely to be the past beneficiaries the middle classes who will use the democratic process to resist it (Moga & Schiau, 2009). Andreas Peichl made a research about Flat-rate tax systems and their effect on labor markets. The study shows a chronological order of different types of taxes in flat tax periods and the effect of flat tax in economic growth. The conclusions of the study are: Introducing a flat tax provides scope for improving the efficiency, equity, and simplicity of the tax benefit system however; these effects depend crucially on the specific details of the reform. Lowering tax rates will increase the labor supply, although the size of this effect depends on the respective elasticity's. The elasticity of labor supply is generally higher at the bottom of the distribution than at the top, and therefore a progressive rate schedule would be optimal. Broadening and simplifying the tax base have positive effects, although they do not have to be combined with a flat-rate schedule. The same is true for a flat tax on corporate cash flow, which can also have positive effects. The evidence suggests that the world could be flat in that the introduction of a flat tax is conceivable but no compelling reason can be found for recommending that the world should be flat (Peichl, 2014). Another working paper is made by International Monetary Fund (IMF). This paper reviews experience with the flat tax, seeking to redress the balance in the countries that have adopted the flat tax. The paper was written by Michael Keen, Yitae Kim and Ricardo Varsano from Fiscal Affairs Department. The first wave of flat taxes, for example, typically set the single rate at the highest of the pre-reform marginal tax rates; the second typically set it at the lowest. Even among the second wave reforms, some applied the same rate to corporate earnings, while others did not. Several, like the Slovak Republic, significantly increased the personal allowance; Georgia eliminated it altogether. This diversity of design plus variety too in the nature and extent of accompanying reforms to social contributions and benefits, and in levels of indirect taxation precludes simple generalizations. The conclusion from the empirical analysis was: except for Russia and the Slovak Republic, there seems to be no reform analyses based on household-level data (Keen, Kim, & Varsona, 2006). Denvil Duncan and Kiara Sabrianova Peter made a paper were they discuss Unequal Inequalities: Do Progressive Taxes Reduce Income Inequality? This paper analyzes the effect of changes in structural progressivity of national income tax systems on observed and actual income inequality. Using several unique measures of progressivity over the 1981-2005 period for a large panel of countries, the authors find that progressivity reduces inequality in observed

income, but has a significantly smaller impact on actual inequality, approximated by consumption-based GINIs. The shows empirically that the differential effect on observed vs. actual inequality is much larger in countries with weaker legal institutions. Substantial differences in inequality response to changes in top vs. bottom rates are also uncovered. The paper discusses implications of these results for flat tax policies (Peter & Duncan, 2012). Wenli Li and Pierre-Daniel Sarte from Federal Reserve Banka of Philadelphia and Richmond made a paper about growth effect of progressive tax. The paper studies the effects of progressive taxes in conventional endogenous growth models augmented to include heterogeneous households. In contrast to representative agent models with flat-rate taxes, this framework allows us to distinguish between marginal tax rates and the empirical proxies that are typically used for these rates such as the share of tax revenue, or government expenditures, in GDP. The analysis then illustrates how the endogenous nature of these proxy variables causes them to be weakly correlated, or even increase, with economic growth. The study, therefore, helps explain why cross-country regressions have mostly failed to uncover the distortional growth effects of taxes. In fact, while past U.S. tax reforms appear to have contributed only small increases in per capita GDP growth, the author analysis nevertheless suggests that differences in tax codes across countries explain a two and a half percent variation in cross-sectional growth rates. Finally, the paper shows that progressivity also introduces significant lags in the effects of tax changes on output growth (Sarte & Wenli, 2003).

2. 2. Tax and Taxation

Albania Tax System has had a continuous and sustainable change throughout the period of development of Albania state till the present day.

2.2.1. The concepts of taxes and taxation in Albania legislation

The tax system in Republic of Albania consists of a set of laws, regulations, guidelines and tax agreements regarding tax and taxation, the manner and procedures for imposing such taxes and duties, their levels, the assessment and abortion of taxation, the evaluation procedures and collection of taxation liabilities, as well as the methods of tax audit.

In other countries, the terms "tax" and "taxation" have the same meaning, in Albania they have different meanings. By taxation, according to Albanian low, means any legal enforceable payment that makes in favor of the state budget, by a natural or legal person of

a country, based on the income or wealth they have in order to create the means necessary for financing of public spending. Meanwhile, by tax means a compulsory payment in favor of the state budged or the budged of the local government bodies, that is set by law and is paid by any person who is exercising a public right or benefiting from public services in the territory of the Republic of Albania. Taxation and taxes are the main source of revenue in the state budget or in the budget of local government's bodies and remain essential in the entire Albania tax system. In most of the cases, the terms "tax" and "taxation" are used in the same sense however, the taxation is paid more based on the income or profits that are achieved and goods that are consumed, while taxes are paid for the various services that state authorities provide their citizens.

 Taxes are the main source of monetary revenues for local government municipalities, communes etc. From a financial point of view, the role of taxes is less significant than taxation. Taxation, as the main and the most important instrument to collect public revenues, is presented in many varieties. In Albania legislation, taxation is divided in direct and indirect.

Direct taxes and taxation include those taxes and taxation that are calculated in income, profits, real estate and public services. These taxes are part of the state budget and their fiscal burdens cannot be delegated. Some of direct taxations are: income tax, profit tax, property tax etc.

Indirect tax and taxation are included in the price of the products, goods and services, and they are paid by consumers as part of the price. Indirect taxation affects consumption, expenses and their fiscal burden delegated in the final consumer. Some of indirect taxation and taxes are: value added tax, customs duty, excise tax, etc.

For a better function of tax system, taxes and fees must meet/answer the four principles[1]:

- The principle of legality; According to this principle, the rules, values and ways of collection all kinds of taxes should be fixed through the law.

- The annual principle; According to this principle, the parliament should give the government the authorization to collect the tax and taxation annually.

- The principle of equity; According to this principle, common contribution should also be distributed among the citizens because of their possibilities.

- The principle of necessarily; According to this principle, the tax is a necessity to develop a country.

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[1] WebState, Public Finance, Taxation and Taxes, "What are taxes and Taxation". 29.09.2012
http://shtetiweb.org/2012/09/29/cjane-tatimet-dhe-taksat/

This thesis analyze the Flat and progressive taxation.

1. A flat taxation is applied with the same taxation rate as the taxation base (for ex. taxation on societies). The tax base is the economic value of income and wealth, which serves as the base for the calculation of tax. This taxation is generally simpler to settle, and as such, less expensive to collect.

2. In the progressive taxation, the tax coefficient increases on the taxable amount (ex. Income taxation: the higher the income, the higher the amount that is taken in form of tax). In the second case, expect the coefficient, other tax element is used, such as: minimum initialization. Progressive taxation can be considered as fair in the extent that it enables a redistribution of assets and a reduction in inequality.

2.3. Advantages and Disadvantages of Flat Tax and Progressive Tax

2.3.1. Advantages and Disadvantages of the Flat Tax

A flat tax or flat tax rate is a tax system with a constant marginal rate. This mean that, no matter what the income is, they pay the same tax rate. This tax usually is applied to individuals or corporate income. The flat tax rate in Albania has been 10% for all taxes.

2.3.1.1 Advantages of the Flat Tax

1. Flat tax taxes only one income. This means that it can be understood and be reported easily[2]. From that prospective it can help on reducing tax fraud and errors[3].

2. Helps saving money for taxpayers, since tax preparers do not need to be calculated[4].

3. Taxpayers save the financial cost of complying with IRS regulations. Those regulations often include lawyers, accounts and other resources[5].

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[2] By Colette L. Meehan, Article "Pros and Cross of a Flat Tax", from: http://smallbusiness.chron.com/pros-cons-flat-tax-4210.html

[3] By: Ervin Latifi, Epoka Student Journal: Albanian Finance "Flat or Progressive, An Analysis of Tax Options in Albania", Vol. 1, No. 1, 2015.
https://www.academia.edu/12882354/Flat_or_Progressive_An_Analysis_of_Tax_Options_in_Albania

[4] Same as 2

[5] Same as 2

4. It removes the section of tax code[6]. This means that government official can no longer manipulate the tax ratio, in exchange of personal income and favors.

5. It eliminates the double taxation of savings and dividends. This mean that families and individuals are not required reporting dividends, interest or other business-related income.

6. This income is taxed at the business level and individual level[7]. This is a good thing for them because they can be more profitable and think more about their business strategies.

2.3.1.2. Disadvantages of the Flat Tax

1. Unfair impact: For some it may be a good thing that, no matter what the income is, they pay the same tax rate, but this form of tax penalizes the low-income families of the population[8]. The average and low-income individuals and families must spend the money on the same tax as high-income people.

2. It eliminates the IRS. Many view that IRS as an imposing, intimidating arm of government, but this institution employs many people, who are trained to work in the tax industry. If IRS gets re-adjusted, then many employees would surely lose their jobs. This creates another problem, the increase of unemployment[9].

3. It benefits the rich. In flat tax, the rich pay a low rate of taxes compare to the earnings. So, this for government means losing some revenues[10].

4. Reduce the possibilities to create new business, because the government can't lower the tax ratio. This is a negative tool for a country who wants to attract new investors

5. The disadvantages on the housing market. Every country has citizens that have at least one mortgage. Those loans are more than 25 years term to 30 or more year's terms. We know that paying that mortgage interest entails a tax benefit; in the government words it means revenues. If we remove the tax privileges for mortgage interest, could have a devastating effect on the housing market. This create for the economy an effect that could take a long time to heal himself and for government an enormous loose on revenues.

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[6] Same as 2

[7] Same as 3
[8] Same as 1
[9] Same as 3
[10] Same as 3

6. The disadvantages on retirement savings. Businesses save an amount of the money they had to spend for taxes by contributing in employees' retiring plans. If businesses no longer receive a tax advantage for contributing to employees' retirement plans, they can change business strategies.

2.3.2. Advantages and Disadvantages of the Progressive Tax

A progressive tax is a tax system, in which the tax rate increases as the taxable amount increases. This means that, the taxable income rises from the low income to the high income, when the taxpayer's average tax rates are less than the person's marginal tax rate. This type of tax is focus more in the riches.

2.3.2.1. Advantages of the Progressive Tax

1. It is reasonable. Under this tax, the rate of taxation rises as the income that is taxable rises. The group that has higher income pays more taxes.
2. It's fruitful. With this tax the government benefits, because the income yield is higher compared to other forms of taxation[11].
3. Brings more income. More taxation from those who make more the more income is for government and the entire nation benefits[12].
4. It encourages a system of social justice; this allows everyone to have a chance at success.   The income that is collected from the riches helps the government to aid those who need it. From this, everyone has a chance to pursue their dreams.
5. It gives people safety. The progressive tax is more flexible, because when the income of a person falls, so does their taxation responsibilities. This provides a certain level of protection to those householders who have unexpected losses without the need to provide social services and programs. With the flat tax, we cannot do this, because this tax requires certain payments at certain time[13].
6. Less expensive. The system is economical too, because with minor changes in the rates, substantial changes can be brought about in tax collection without any extra cost. With this the government may concentrate its attention more on the riches of

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[11] RRitika. Muley. Article: ProgressiveTax : Merites and Demerites Publik Finnace, 2016
http://www.economicsdiscussion.net/taxes/progressive-tax/progressive-tax-merits-and-demerits-public-finance/17436
[12] Romina Radonshiqi, Phd: Science Arena Publications International journal of Business Management, Advantages and Disadvantages of Progressive and Flat Tax, Vol 1, (1):61-66, 2016
http://www.sciarena.com/J/List/1/iss/Volume%201%202016/Issue%201/9.pdf
[13] Same as 14

the society and brings an increase in income without involving any additional cost.[14]

2.3.2.2. Disadvantages of the Progressive Tax

1. Arbitrary fixation of rate. With this tax the rates are fixed arbitrary especially at higher levels of income. Those rates are fixed in an indiscriminate manner when the government needs more funds at a time of crisis.

2. Saving discouraged. This affects negatively the prospective to save, because the burden of taxation falls more on those sections of society which are in the position to.

3. It creates tax envisions. This type of tax has more changes than evading tax. We know that this tax, taxes the wealthy taxpayers. This means that those types of taxpayers try to evade the tax by presenting the false statements of their income or wealth before the tax authorities shows up.

4. It discourages productive activities. The progressive tax discourages the productive activities in the country, because the manufacturer is not interested in earning more. They also find it more difficult to get funds in cheaper rates, because the rate of savings goes dawn.

5. It may interpret as discriminatory. This imposes a discriminatory penalty on those who earn more.

6. It creates a system full of bureaucracy. This negative impact, because of the bureaucracy takes more hours in the calculation and double-check the information do determine if it is accurate. With other systems of taxation, to do the checking takes less time, because it is less complicated.

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[14] Same as 15

3. DATA AND METHODOLOGY

3.1 Methodology

To make this study the strategy of methodology that is used is based on quantitative data collection. The lack of publication that could be found about the taxation in Albania not only in Albanian language, but even in English made this study a little hard in making this paper. Most of the information that were collected were government documents of Albania that were found in Albanian language such as: documents that were published from the Ministry of Finance, Banka of Albania and INSTAT, but even from World Banka, Eurostat, International Monetary Fund (IMF) and other sources that were found in English language. Because of small area to collect the data, the lack of periods of fiscal system (Flat tax →2008-2013; Progressive tax →2014- on) and lack in data that were published the years of observation was 10 years divided in quarterly terms.

The main of this study is to examine through a comparative analysis and using statistic models such as: ANOVA, Independent Sample t-test and Group Statistic, to find which fiscal system is more effective and has a positive impact in economic growth.

In the comparative analyses the indicators that are analyzed are: types of taxation, four main sectors of economy (agriculture, industry, construction and transport), foreign trade balance and fiscal deficit and business Expansion. In statistic models such as: ANOVA, Independent Sample t-test and Group Statistic the indicators that are analyzed are Real GDP, Tax Revenue, From Tax Office and Costumers, Revenue From Local Government and Social Insurance.

1. ANOVA (Analysis of Variance) is a group of statistic method that is used to test if there is a significant difference between 2 or more means and it test whether the means of other groups is equal or not (Statistic, 2013). An important fact while using ANOVA to find whether the means are significant, actually it compares the variance and that's why it's called Analysis of Variance (Optimus). The first to use ANOVA is Sir Roland Fisher in 1925 in this book "Statistical Methods for Research Workers" (Optimus). Randomization model were first bushed in 1923 by Nayman. The reason why it's used early is because it's easy to compute and can be manually computed using simple algebra rather than complex matrix calculation (Optimus). ANOVA is more preferred to be used because it's simple and that can calculate more than two samples simultaneously, even the number of observation is different in each group. In addition to the laws and regulations, the tax system also has different types of taxes. ANOVA is used because, can calculate even the numbers of observation is different in each group but also can calculate more than two groups. It is used this statistic method to test which tax is better for economic growth in Albania. Data from the collection based on years and types of taxes will help to create a profile in general and ANOVA helps to determine which tax system is the best considers factors like: Real GDP, Tax Revenue, From Tax Office and Costumers, Revenue From Local Government and Social Insurance, that were used. This information can be used to determine which fiscal system is the best for Albanian economy and for these needs to use hypothesis and formulas.
- The formula for each entry is summarized for you in the following analysis of variance table (University):

Source of Variation	DF	SS	MS	F
Regression	1	$SSR=\sum_{i=1}^{n}(y\hat{}i-y^-)^2$	$MSR=\frac{SSR}{1}$	$F^*=\frac{SSR}{SSE}$
Standard error	n-2	$SSE=\sum_{i=1}^{n}(yi-y\hat{}i)^2$	$MSR=\frac{SSE}{1}$	
Total	n-1	$SSTO=\sum ni=1(yi-y^-)^2$		

n → Number of observation

SSR→ Regression Sum of Square

SSE→ Error Sum of Square

SSTO → Total Sum of Square

MSR$\rightarrow$ Regression Mean Square

MSE$\rightarrow$Mean Square Error

- Hypothesis of ANOVA:
  - If $\beta_1 = 0$, then we'd expect the ratio *MSR*/*MSE* to equal 1.
  - If $\beta_1 \neq 0$, then we'd expect the ratio *MSR*/*MSE* to be greater than 1.

2. The independent t-test is an inferential statistical test that determines whether there is a statistically significant difference between the means in two unrelated groups. The different names to call this test are: the two-sample t-test, independent-samples t-test or student's t-test (statistic, 2013). The t-statistic was introduced by William Sealy Gosset for cheaply monitoring the quality of beer brews 110 years ago, a chemist working for the Gunnies brewery in Dublin Ireland. "Student" was his pseudonym because company policy at Guinness forbade its chemists from publishing their findings, when he published Biometrica in 1908. Gosset had been hired owing to Claude Guinness's policy of recruiting the best graduate from Oxford and Cambridge to apply biochemistry and statistics to Guinness's industrial processes. Gosset devised the t-test as an economical way to monitor the quality of stout. The t-test work was submitted to and accepted in the journal <u>Biometrika</u> and published in 1908 (Wikiversity, 2015). When t-statistic is used, it's usually trying to find evidence of the significant evidence of a significant difference between two population means (two simple t-test), or between the population mean and a hypothesized value (1-sample t-test). The t-value measures the size of the difference relative to the variation in your sample data. It is said simple that t-value calculate the difference represented in unite of standard error and the graters the magnitude of t (positive or negative), the graters the evidence of against the null hypothesis that there are no significant differences. The closet the t to 0 there is no significant differences (Runkel, 2016). The same as ANOVA the t-statistic has its Owen formula and hypothesis. Those are as below (statistic, 2013). Group Statistic helps the Independent Sample t-test, giving more information about statistically significant difference between the means in two unrelated groups

- The hypotheses are as bellow:

- The null hypothesis for the independent t-test is that the population means from the two unrelated groups are equal: $H_0: u_1 = u_2$

- The independent t-test can reject the null hypothesis and accept the alternative hypothesis, which is that the population means are not equal: H_A: $u_1 \neq u_2$

To make this, it needs to set a significant level (alpha) that allows either rejecting or accepting the alternative hypothesis. The value of alpha is 0.05 or 5%.

  • The formula to calculate the t-test is as bellow (STHDA):

The formula of t statistic value to test whether the means are different is $t = \dfrac{mA - mB}{\sqrt{\frac{S2}{nA} + \frac{S2}{nB}}}$.

-   A and B represent the groups to compare

- mA and mB represent the means of groups A and B, respectively.

- nA and nB represent the sizes of group A and B, respectively.

- S^2 is an estimator of the common variance of the two samples.

S^2 has its own formula to be calculated. The formula is

$$S^2 = \sum (x - m_A)^2 + \sum (x - m_B)^2 \, / \, n_A + n_B - 2.$$

Another formula that it needs to know but mostly this formula is not used because its knon in the table of the t- test. This formula is

$$df = n_A + n_B - 2.$$

This result is influenced by those factors:

1. How many items is in the sample

2. The means of the sample

3. The means of the population that the sample is drawn different known as the standard deviation of the sample.

ANOVA can help to determine which fiscal tax is better for economy growth but, Independent sample t-test and Group Statistic determines whether there is a statistically significant difference between the means in two unrelated groups. Data from the collection based on years and types of taxes will help to create a profile in general but Independent sample t-test and Group Statistic determines if there is a significant difference for flat tax and progressive tax and for these needs to use the formulas and the hypothesis.

3.2. Research Design

This study utilized quantitative methodology. The research is conducting a study on efficiency of economic indicators on growth economy. The Real GDP is the dependent variable and all the indicators are independent variables. The study main focus is to evaluate fiscal system through main economic indicators, to see which fiscal system creates o positive impact on economic growth of Albania. To make this paper are collected data from INSTAT, Eurostat, Ministry of Finance of Albania, Bank of Albania, World Banka and other resources and then are created tables. Based on those tables it had been performed a comparative analysis of two fiscal systems, focused on a period of eleven years. The first period, flat fiscal system was seven years (2008-2013) and the second period, progressive fiscal system is four years (2014- on). Albania economy has still the progressive fiscal system. Besides the comparative analysis another analysis is made and this is ANOVA (Analysis of Variance) and Independent Sample t-test. To make those analysis the study need economic indicators. Those indicators are Fiscal indicators and revenue indicators. The fiscal indicators are: Real GDP growth rate, investment ratio, 4 main industries of economy, unemployment rate, employment rate, foreign trade balance, fiscal deficit and the finally we have business expansion. Every indicator in this group is collected as a % of GDP. The revenue indicators are: budged revenue (tax revenue and non-tax revenue) and tax revenue (direct, indirect tax and other taxes). Every indicator in this group is % of each indicator has in budget revenue and % of each indicator has in tax revenue.

4. RESEARCH AND ANALYSIS

Flat Tax

1. Fiscal Deficit

1.1. Real GDP growth Rate

The bellow table expresses the real impact of economy. The table contains previous fiscal package, through GDP ratio, during previous and after fiscal policy.

Table 1: Growth Rate

Indicators	2006	2007	2008	2009	2010	2011	2012	2013
Real GDP	5.4	5.9	7.5	3.4	3.7	2.6	1.4	1.1
Investment ratio	36.87	35.70	34.46	33.37	32.22	31.30	33.46	29.82

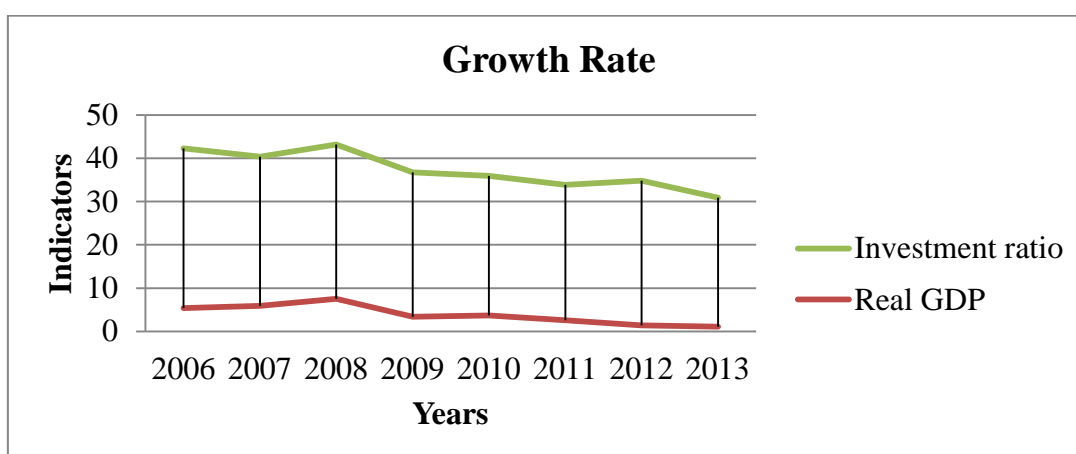**Source**: Trade Economic: https://tradingeconomics.com/albania/gdp

Figure 1 Growth Rate

The figure 1 shows 1.24% increase of investment ratio for 2008, while the GDP rate is 1.4% increase. In 2009, GDP rate has a huge decrease with 4.1%, while the investment ration has a small decrease with 1.09 %. In following years, the rate is returned into a slowdown trend after the first year of the reform.

Table 2: Contribution of main sectors in Real Growth Rate

Indicators	2006	2007	2008	2009	2010	2011	2012	2013
Agriculture	17.5	17.1	17.5	23.4	17.5	17.7	18.6	22.5
Industry	10	8.4	9.9	13.15	9.9	10.2	10.6	11.4
Contraction	12.9	13.4	9.4	8.9	9.4	8.8	7.7	10.5
Transport	4.9	4.9	5.2	8.5	5.2	5.9	4.9	4.9

Source: Ministry of Finance of Albania: http://www.financa.gov.al/al/raportime/programimiekonomiko-fiskal/raporte-dhe-statistika-fiskale-mujore/statistika-fiskeale

Year 2009 was the first year of the impact of this crisis that began in 2007 in the US and was later distributed throughout the world. The effect of this crisis was felt all over the world, but in Albania its effect felt less. This effect brought some consequences to the main sectors of the Albanian economy. Table 2 shows that in the first year the new fiscal taxation, the contribution of main sectors in real growth rate had fallen sharply.

The positive impact on the first year of the new tax has Agriculture (2008→+0.04%), Industry (2008→+1.5%) and Transport (2008→+0.3%), but the negative impact has Construction (2008→-4%). After 2008 except Construction the GDP of other 3 sectors have an increase.

The contribution of each indicator is different from each other. Industry has an increase of 1.5% from 2007 and this mean that the contribution is higher than before. Year 2009 has a big increase with 3.25%, but this increase will not last more because the following year shows a decrease in the same % as 2008. This decrease will not last more because the following years have a small increase but a positive one.

Construction is another main sector that contributes in the real GDP growth. This sector has started the year of new tax with a decrease of 4%. This decrease will continue in the following year too. In 2010 it is going to be a small increase but after the decrease will continue till 2012. Year 2013 shows a big increase with 2.8%. Construction was the indicator that had most decrease out of 4 indicators.

Transport had started in 2008 with a small increase and this increase will continue till 2009, when we have the biggest increase in all fiscal year with 3.3% increase.

Agriculture is the sector that has had a significant increase continually from year to year. Started in 2008 with 0.4% increase, and the year 2009 is the best year for agriculture its shows 5.9% increase. After 2009 we will have ups and downs but never in negative numbers or huge increase or decrease.

The most potential sector in the economy of Albania was agriculture, but in these years this sector had not any significant contribution in public finance or revenue collection although there are increases and decreases in positive numbers better than other sectors. The reason, that these positive numbers are mostly the result of other fiscal facilities rather than what the governments has given for this sector. Those other fiscal facilities are connected with the emigrants that are returning from other countries. They bring the income they have accumulated over the years that have worked abroad, building new farms or expanding the ones they had left before. This is not a good sign towards the flat tax or toward the good fiscal policies, in strengthening public finances.

By looking at these values, the economy of Albania has decreased compared to previous years even though there was a tax reduction with the new fiscal system.

1.2. Employment/Unemployment

The increase of the employment in private sector has been one of the most important purposes of this new fiscal tax. Table 3 and 4, shows the unemployment rate and employed by sectors.

Table 3: Unemployment rate (2006-2013)

indicators	2006	2007	2008	2009	2010	2011	2012	2013
Unemployment	13.6%	13.5%	13%	13.75%	14.2%	13.98%	13.44%	15.64%

Source : INSTAT

http://databaza.instat.gov.al/pxweb/sq/DST/START__TP__LFS__LFSV/LFS023/?rxid=8cb04628-4c34-403c-bf0c-1602d6b8ab52

Table 4: Employment Rate (2006-2013)

Description	2006	2007	2008	2009	2010	2011	2012	2013
Employed (I+II+III)	935,058	939,000	901,708	905,088	904,210	925,242	959,227	916,916
I. Public sector	169,000	167,100	166,543	166,430	166,338	165,100	164,400	163,900

II. Non agricultural Privat sector	224,058	229,900	238,975	237,231	241,836	256,288	268,690	290,763
III. Agricultural private sector	542,000	542,000	496,190	501,427	496,036	503,854	526,137	462,253

Source : INSTAT: http://databaza.instat.gov.al/pxweb/sq/DST/START__TP__AD__ADQ/
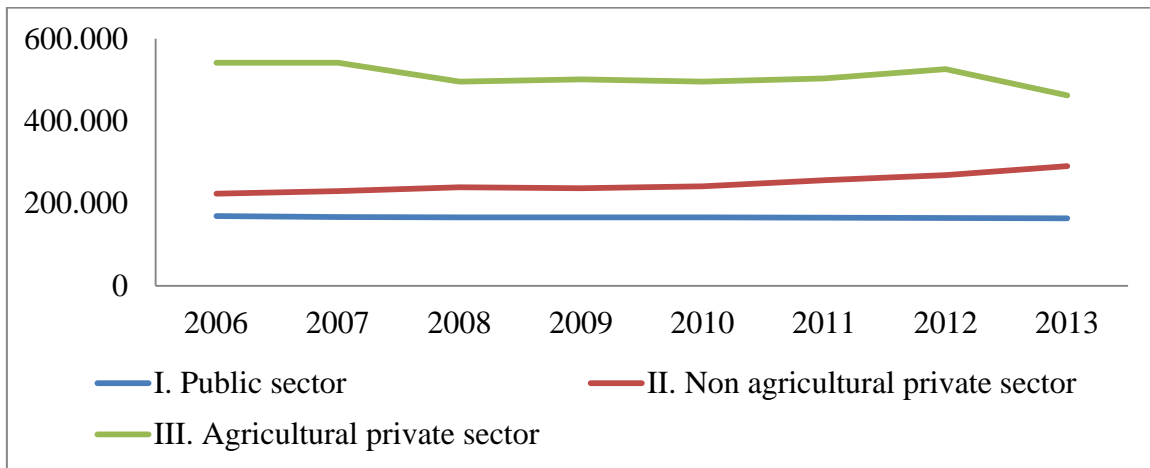
Figure 2: Structure of Employment

After the fiscal reform, the economy has reacted positively through the employment growth. During the first year of the reform the have 901.708 employed. Compared with the previous and subsequent years we have a decrease in employment. After 2008 we have an increase with 3.308 thousand employees until 2009. In 2009 the employed are decreased and after 2009, continue with an increase in employment.

Table 4 shows two types of employed in private sector: 1. Nonagricultural private sector and Agricultural private sector. The most employed are in this sector, leaving in the second-place Nonagricultural private sector and the third place is public sector. The reason why agriculture sector is the sector that shows more employees is because the agriculture is the most important sector in the economy of Albania. Through explaining results that come from figure 4, the number of employees of each sector of economy before and after the 2008 fiscal package, shows that the number of employees in non-agriculture private sector has a positive response expressed by the increase of employee's number year after year. The opposite happened with the other two sectors where is seen a decrease, expressed by the increase of employee's number year after year. The reason of this is the emigrants that they have returned from other countries. They bring the income they have accumulated

over the years that have worked abroad, building new farms or expanding the ones they have left before.

1.3. Fiscal deficit

The difference between total revenue and total expenditure of government is termed as fiscal deficit. It is an indicator of total borrowing needed by government and while we calculate the total borrowing the total revenue is not included.

Table 5: Fiscal Deficit

Indicators	2006	2007	2008	2009	2010	2011	2012	2013
Fiscal Deficit (in million ALL)	29,372	34,119	60,254	80,882	38,031	45,877	45,857	70,413
Budget deficit as a% of GDP	3.10%	3.53%	5.54%	7.04%	3.11%	3.58%	3.43%	5.16%

Source: Bank of Albania: file:///C:/Users/user/Downloads/Statistical_Report_December_16.pd
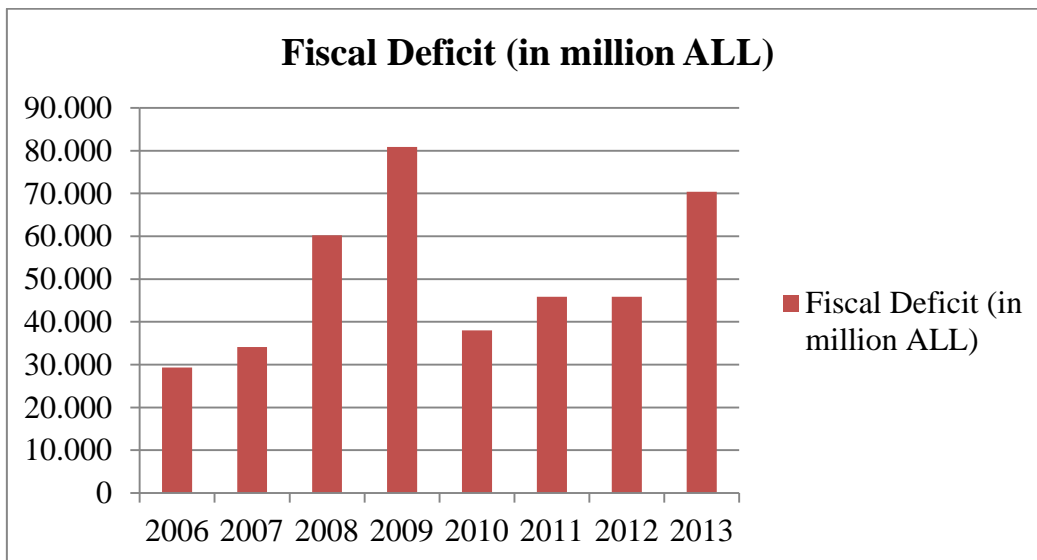
Figure 3: Fiscal Deficit
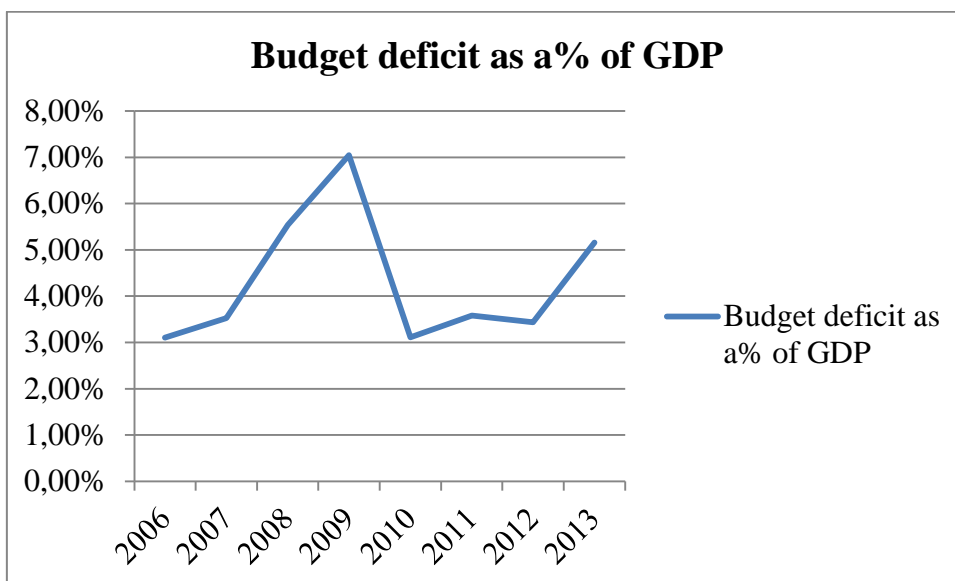
Figure 4: Budget Deficit

Table 6: Total Revenue and Total Expenses

Indicators	2006	2007	2008	2009	2010	2011	2012	2013
Total Revenue (In Million ALL)	229.4	251.6	291.2	299.0	324.7	330.5	330.4	327.2
Total Expenses (In Million ALL)	258.8	285.7	351.5	379.9	362.8	376.3	376.2	394.1

Source : INSTAT http://www.financa.gov.al/al/raportime/programimi-ekonomiko-fiskal/ekonomia-ne-fokus
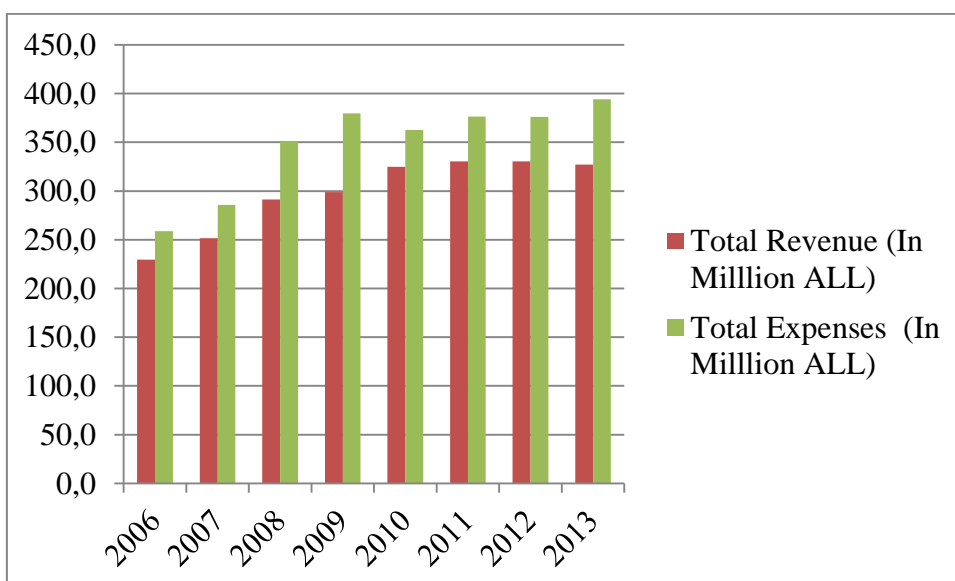
Figure 5: Total Revenue and Total Expenses

The years 2006-2010 were characterized by positive developments for the Albanian economy, coupled with an aggressive fiscal policy. From 29.3 billion in 2006, deficit almost doubled in 2008 to ALL 60.2 billion, to reach peak in 2009 by 80.82 billion ALL or 7% of GDP. The main impacts on this result were borrowing for the financing of the project 'Construction of Rrëshen-Kalimash' road. Starting in 2010, the government was taking measures to improve fiscal indicators, in particular the Debt and Fiscal Deficit. In this year, the deficit fell by 53% compared to 2009 and was at the 3.11% GDP limit. This trend continued in 2011-2012. Year 2013, as an election year, was associated with problems in revenue realization, a fact that was not reflected in high spending cuts, resulting in a deficit growth of 3.4% of GDP projected at the beginning of the year, to 5.16% of GDP.

1.4. Business expansion

This is the last factor that is analyzed is business expansion. This factor deals with the active enterprises under the legal form. Bellow table 7, shows how many new businesses are registered under the new tax

Table 7: Active Enterprises in Legal Form

Indicators	2006	2007	2008	2009	2010	2011	2012	2013
Total	73.672	80.077	94.533	94.953	103.038	109.039	106.837	111.083
Physical person	56.81	62.011	73.925	74.626	80.863	85.675	82.576	84.955
Farmers	0	0	0	0	0	0	0	0
Juridical person	16.862	18.066	20.608	20.327	22.175	23.364	24.261	26.128
Limited liability company	13.885	14.592	16.67	16.173	17.642	18.539	19.341	20.76
Anonymous society	505	533	577	554	725	791	850	880
Stat (not ShA)	642	987	997	995	931	940	927	936
Public administration	712	714	739	745	758	760	704	720

Others	181	174	353	429	526	558	581	722
NGO, Org. Intl.	937	1.066	1.272	1.431	1.593	1.776	1.858	2.11

Source : INSTAT http://databaza.instat.gov.al/pxweb/sq/DST/START__BR/BR0020/?rxid=3a6815d5-6641-44d8-86bb-0253ee90e17f

As is seen from the table above, after 2008 the numbers of new business that are new registered have a slightly increase. This means that they have no impact on profit tax and there is no good relationship between those 2 indicators. This means that the new open businesses are not oriented in the same direction with new profit tax income. Since 2008 until 2013, from all those years, new businesses have not brought any positive sign in collection of tax revenue profits. From the table is seen that the largest numbers of new businesses are physical persons. The annual increase by this group and the other groups (that is shows in table 7), shows that the flat tax has not encourage construction of new corporate. This tax is a great advantage for small businesses but, the incomes that this tax brings are very small. As a percentage of GDP this is 0.2% from 2008 to 2012 and in 2013 it is 0.5% of Tax revenue (see table 8 and 9)

2. Fiscal package

2.2. Tax Budget Revenue

Table 8: Budged Revenue in GDP (as% of GDP)

Indicators	2006	2007	2008	2009	2010	2011	2012	2013
Tax Budged Revenue	26.3%	26%	26.9%	26.1%	26.2%	25.4%	24.8%	24.20%
Tax Revenue	23.3%	23.6%	24.5%	23.7%	23.3%	23.4%	22.6%	22.2%
Non-Tax Revenue	3%	2.4%	2.4%	2.4%	2.9%	2%	2.2%	2%

Source: Ministry of Finance and Economy: http://www.financa.gov.al/al/raportime/programimi-ekonomiko-fiskal/raporte-dhe-statistika-fiskale-mujore/statistika-fiskeale-mujor
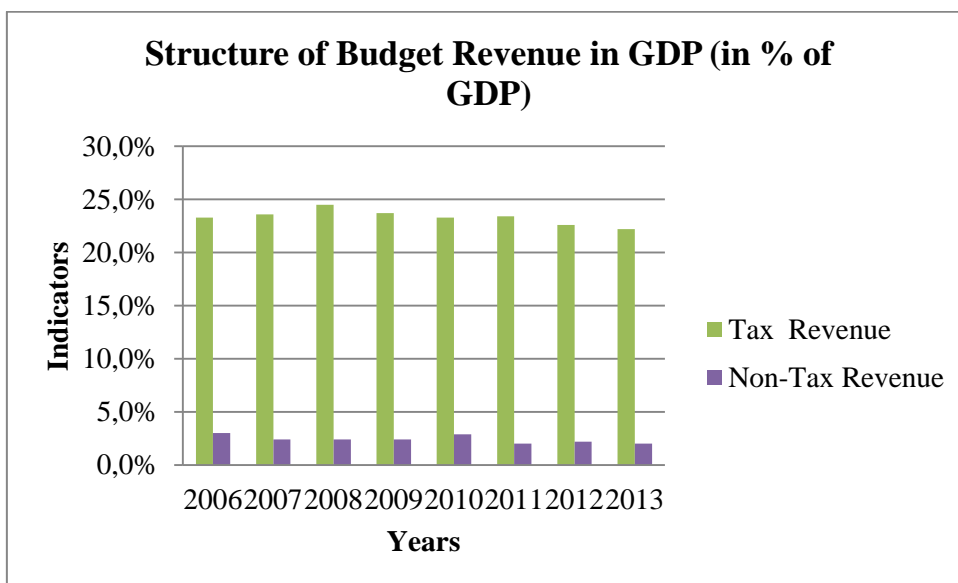
Figure 6 Structure of Budget Revenue in GDP

The flat tax came in effect in 2008. Two more years are added before 2008 in order for seeing see if the flat tax made changes in budget revenue of Albanian GDP. Table 8 and figure 6, presents the budget income and fiscal one in proportion of GDP in %. In the first year of the flat tax shows an increase of 0.9% in budget revenue and this is due to the increase by the same % of tax revenue, because the non-tax revenue has the same % for 3 consecutive years. After 2008 the budget revenue and Tax Revenue had a decrease, even in 2010 when the non-tax revenue has an increase by 0.5% after 3 consecutive years. Through this data the budgetary revenue shows the declining tendency in proportion of GDP and this indicates the decrease of the weight of the public finance sector in economy.

2.3. Direct and Indirect Tax

As it was shown in table 9, tax revenue is the major source of revenue, but in this table, are the division and the impact of each tax in tax revenue.

Table 9: Direct and Indirect Tax in Tax Revenue (in %)

Indicators	2006	2007	2008	2009	2010	2011	2012	2013
Tax Revenue	100%	100%	100%	100%	100%	100%	100%	100%
Direct Tax	33.53%	30.76%	28.37%	28.6%	28.48%	28.86%	30.11%	29.94%
Indirect Tax	47.35%	50.83%	52.8%	53%	52.95%	52.52%	50.81%	50.05%
Other Tax	19.12%	18.41%	18.83%	18.4%	18.57%	18.62%	19.08%	20.01%
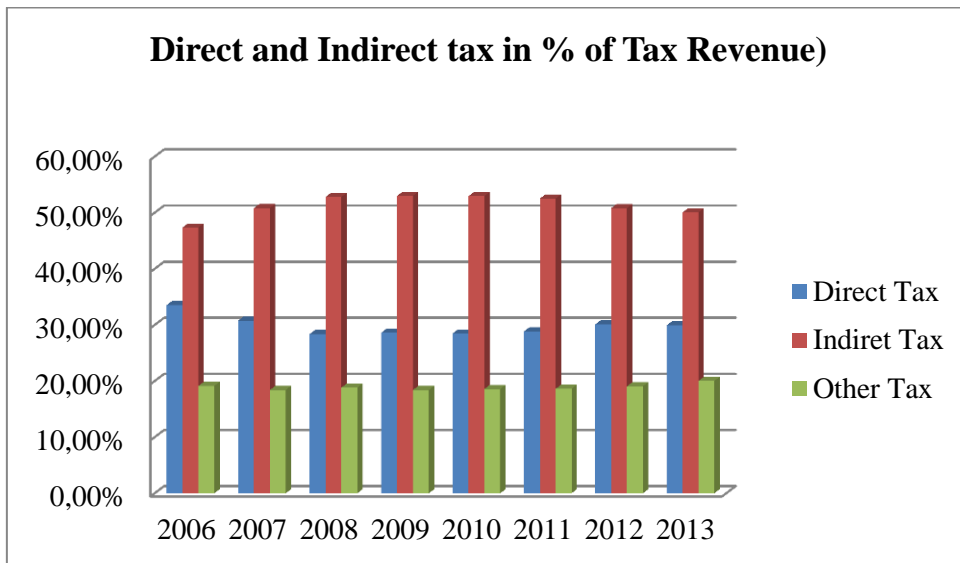
Figure 7: Direct and Indirect Tax of Tax Revenue

Figure 7 and table 9 shows not only the domination but also the growth rate of indirect tax (revenues collected from consumption taxes) versus indirect taxes (taxes that directly result in income earned by individuals in business and their wealth, because of the decline in consumption and as a consequence of domestic production and import).

Appendix A shows the types of indirect tax, direct tax, other taxes and the impact of each of them. The direct tax has lower percentage compared to Indirect tax and the differences are considerable high. The indirect taxes are taxes on consumption, because they weight down on the final consumer through goods prices. The large weight of those taxes shows that Albania implements fiscal system that is based on consumption. In direct tax, Profit tax has the domination compared to other taxes until 2008 (with 29%) and after 2008 we have Income tax (in 2009 with 34.6% and 2013 with 32.9%) and National taxes and other (in 20011 with 22.3% and 2013 with 31.7%). There are 2 indirect taxes: V.A.T and Excite Tax. Table 3 shows indirect tax has a considerable increase in tax revenue, making it dominant over other taxes. In indirect tax V.A.T is the dominant against Excise Tax. All those changes are described from the following factors.

Indirect taxes are easier to collect, while direct taxes, especially personal Income tax have been the subject to high level of tax avoidance and the tax evasion. The personal income tax in 2006 is 1% and after an increase of this tax, in 20010-2013 there was a small

decrease. However, compared to other years, shows an increase in the revenue. In the indirect tax, in the case of V.A.T, its tax rate has remained unchanged (20%) since 1996 when this tax became effective and the Excite tax has had its fluctuations (increase and decrease) as a result of its main commodities such as tobacco and fuels. Each year we see that the structure of GDP changes and those changes are even in the collection of revenues. Another factor that influenced and the most important one is the administration, in terms of revenue collection, measures against tax evasion and taxpayer education.

2.4. Performance of Budget and Tax Revenue in GDP

Appendixes B summarize the most important in direct and indirect taxes and their impact in GDP Growth. Personal income has been the subject to high level of tax avoidance and the tax evasion, but with the arrival of the new taxation, this tax was taxed at the same level as the other taxes. This made taxation a unique degree for all types of personal income. This indicates that the average annual growth of revenues from this type of tax for 2008-2013 was higher than the other years.

The other change in the new tax with 10% is on income from Profit tax. Year 2008 has an increase (of 1.7% of the GDP) compare with 1998 (1.1% of the GDP), but a decrease with 0.5% compare 2007 (2.2% of the GDP). In the year 2009 this tax is decreasing. The income from Custom duties has decreased from 2007 (1% of GDP) compare to 2008 with 0.8%. The decrease is not big but it's a positive sign from new tax. The reason why the government made this new tax (10%) in Custom duties is because of the trade liberalism policy.

Excise tax legislation has been a subject to frequent changes. With the increase of the products and goods that are subject to this tax and the improvement of the legal and administrative framework, the income from the tax shows a sustainable income. This increase is from 2008 till 2011 and in 2012-2013 a small decrease maybe because the cost of setting aside of the payments or framework in the custom. V.A.T became the main and stable source of income in the taxation system and fiscal system of Albania since 1996 where it was replaced with the turnover tax. As the other taxes this tax was taxed with 10%. Years 2008 and 2009 were the best years for VAT since 1996 respectively with 9.9% and 9.6%, but after in 2010-2013 shows a decrease in incomes that came from VAT.

The main reason why some of direct and indirect tax has had a decrease is because in 2007-2008 in all the word was the word economic crisis. This crisis took place in U.S and

then spread all over the word. The impact of this crisis in Albania came late in 2009-2012 and this is the main reason why is a decrease in tax Revenues from taxation in GDP.

Progressive tax

1. Fiscal Package

1.1. Real GDP Growth Rate

The table below presents the real impact on economy of present fiscal package, through: GDP Ratio, and investment Ratio.

Table 10: Growth Rate

Indicator	2014	2015	2017	2017
Real GDP	1.8	2.77	3.4	3.7
Investment Ratio	25.96	24.60	26.86	29.70

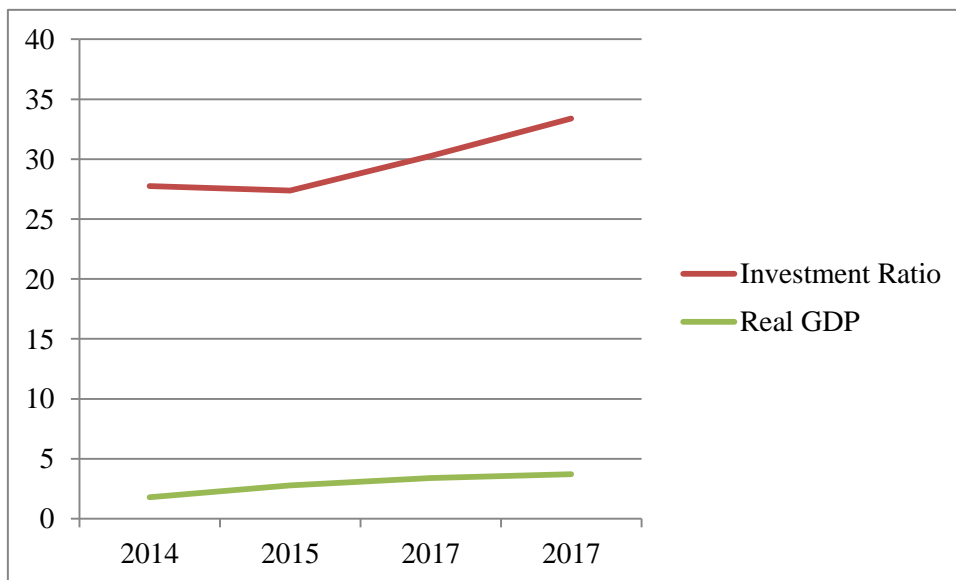**Source** : FRED https://fred.stlouisfed.org/series/MKTGDPALA646NWDB

Figure 8: Growth Rate

Table 10, shows that is about 1.2% decrease of investment ratio for 2014, than have a decrease in 2015 but after 2015 we see an increase with positive steps. The table demonstrated the growth rate of Real GDP that has a positive impact from the first year of

the new reform and even after the first year the rate is still increasing. This means that the reform has had a positive impact in the growth of Real GDPs.

After measuring the real GDP growth and Investment ration, now is presented the contribution of 4 main industries on GDP.

Table 11: Contribution of the main sector in GDP

Indicators	2014	2015	2016
Industry	15.3	11.7	15.5
Agriculture	21.7	19.9	18.2
Constitution	12	8.8	10.3
Transport	2.8	2.7	2.6

Source: Ministry of Finance and Economy: http://www.financa.gov.al/al/raportime/programimi-ekonomiko-fiskal/ekonomia-ne-fokus

Table 11 shows the contribution of 4 main industries on GDP. The contribution of each industry is different from each other.

Industry has an increase of 3.9% from 2013, this mean that the contribution is more than the previous fiscal packet and in 2015 has a big decrease but 2016 has a positive increase.

Agriculture has a decrease of 0.9% from 2013 this mean the contribution is less than the previous fiscal packet and this decrease is seen in 2 other years to.

Construction has an increase 1.5% from 2013 and this mean that the contribution is more than the previous fiscal packet. In 2015 we have a decrease and 2016 has an increase but still is lower than other years. And the last but not the least from the 4 indicators transport.

Transport has a decrease for 2.1% from previous year this means that the contribution is less than the previous fiscal packet. We have decreases in other 2 years but are too low and this is a good thing for GDP.

Industry, Constriction and Transport are affected directly from the new fiscal policy. For the agriculture is different because of the emigrants returning from foreign countries and started to invest in the birth country so we can have those types of results.

1.2. Employment/Unemployment

Employment is one of the most important purposes of each fiscal policy and the increase of the employment on private sector is to important purpose of the progressive tax.

Table 12: Unemployment Rate (in %)

Indicators	2014	2015	2016
Unemployment Rate	13.3	13.3	10.3

Source : INSTAT

http://databaza.instat.gov.al/pxweb/sq/DST/START__TP__LFS__LFSV/LFS023/table/tableViewLayout2/?rxid=8cb04628-4c34-403c-bf0c-1602d6b8ab52

The unemployment rate has a decrease 0.2% and has a rate 13.3 in the first year of the new fiscal reform. Even if the decrease is lower still is a positive sign for the new fiscal policy. In 2016, the unemployment rate has given the best lower rate; this interrelated as an important tool for assessing fiscal policies against unemployment.

Table 13: Employment Rate (in Millions of ALL)

Indicators	2014	2015	2016
Employment (I + II + III)	925339	972621	1042810
I. State Sector	163885	164020	164635
II. Privat non-agricultural sector	318571	360230	412473
III. Private agricultural sector	442883	448371	465702

Source: INSTAT http://databaza.instat.gov.al/pxweb/sq/DST/START__TP__AD__ADQ/
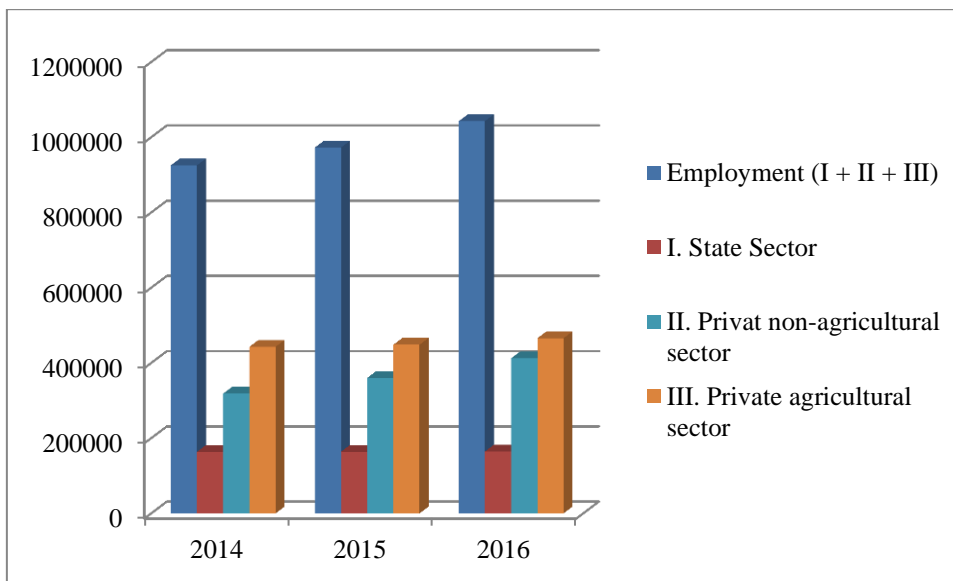
Figure 9: Employment Rate

After the new fiscal reform, the economy has reacted positively though the employment growth and unemployment decrease. Compare with the previous year in the past tax we see an increase with 8.423 employees in 2014 to 117.417 employees in 2016. From the table 14, in 2014 Private non-agricultural sector has more employees compare to 2013 and agricultural private sector has less employees than 2013. In 2014, Private agricultural sector has a small with 15 employees less compare to 2013, but in 2015 and 2016 we see increase in the employment. In 2014, the Private non-agricultural sector as a small decrease in employment and this continue in 2015 compare to 2013, but we will see an increase in 2016.This low number of employees is the result of 0.9% decrease of agriculture impact on GDP, but an increase is coming in 2015 and 2016. This is a good sign, because the agriculture sector is trusting new fiscal tax. State sector has positive responds in each year through the increase continuously of employees' number year after year.

1.3. Fiscal Deficit

Another factor that shows impact of this reform is Fiscal deficit.

The difference between total revenue and total expenditure of the government is termed as fiscal deficit. It is an indication of the total borrowings needed by the government. While calculating the total revenue, borrowings are not included.

Table 14: Fiscal Deficit (in Millions of ALL)

Indicator	2014	2015	2016
Fiscal Deficit (in million ALL)	72.128	55.313	**34.431**
Budget deficit as a% of GDP	**5.10%**	**3.71%**	**2.16%**

Source: Ministry of Finance http://www.financa.gov.al/legjislacioni/buxheti-thesari-borxhi/borxhi/treguesit-e-borxhit
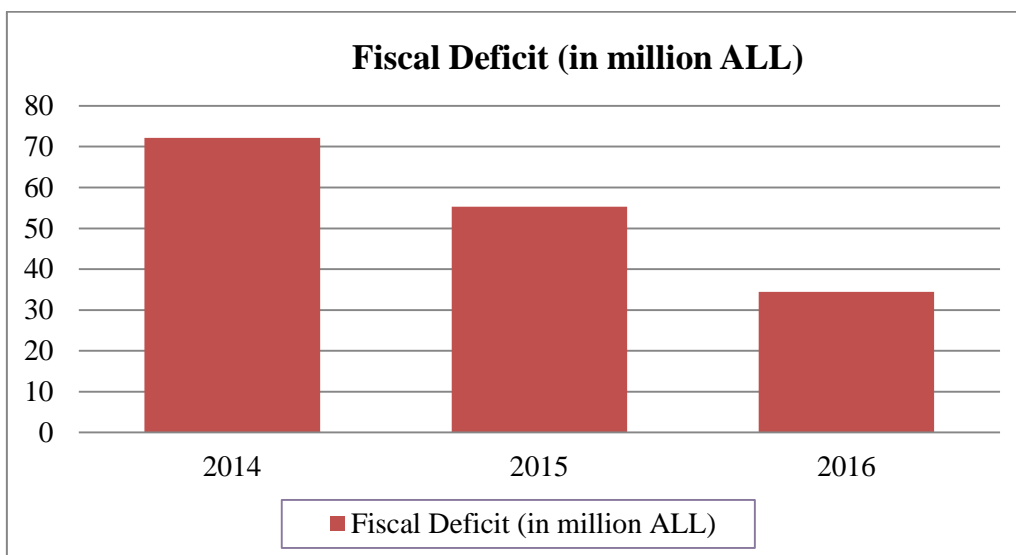
Figure 10: Fiscal Deficit
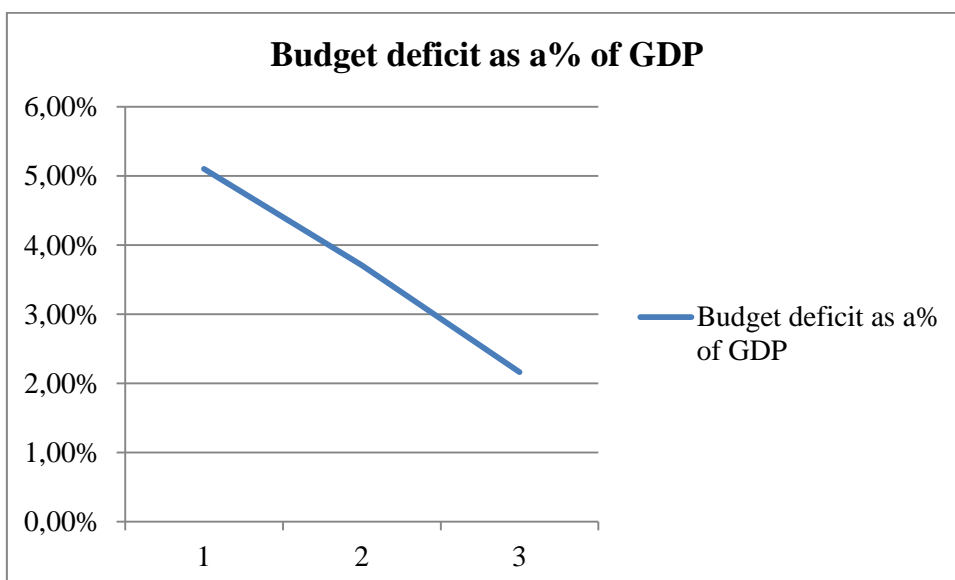
Figure 11: Budged Deficit

Table 15: Total Revenue, Total Expenses in Millions of ALL (2014-2017)

Indicator	2014	2015	2016
Total Revenue (in Million ALL)	366.7	379.2	**407**
Total Expenses (in million ALL)	**438.8**	**437.7**	**433.7**

Source: Ministry of Finance: http://www.financa.gov.al/legjislacioni/buxheti-thesari-borxhi/borxhi/treguesit-e-borxhit

Total Revenue, Total Expenses in Million of ALL
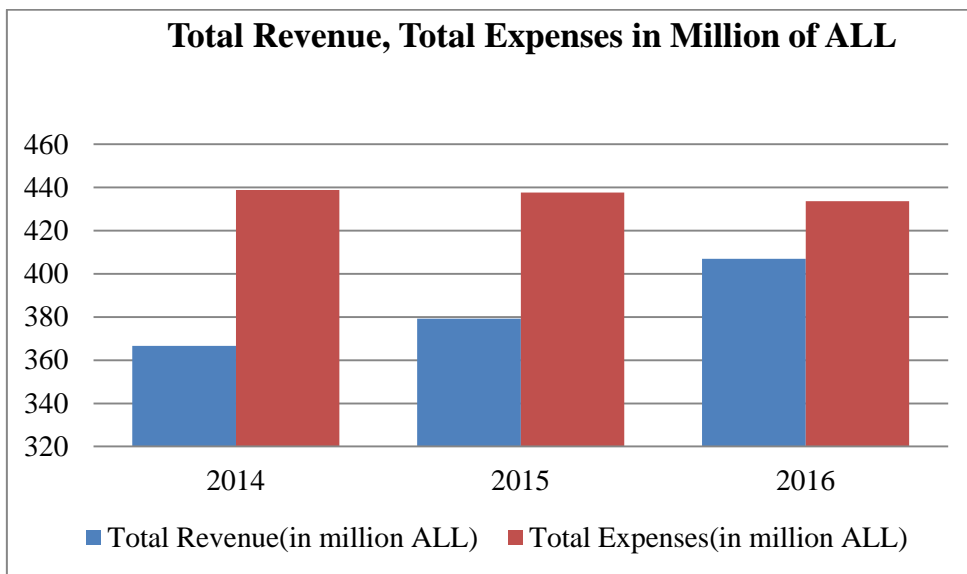
Figure 12: Total Revenue and Total Expenses

Table 14 indicate that fiscal deficit in the first year of the new fiscal policy has an increase of 1.714millon all in 2014 compared to 2013. The reason why fiscal deficit decreased is the increase of total revenue and the decrease of total expenditure. This increase is a small increase compare to 2013 and this is related to the necessity to recognize and settle arrears that had their effect on increasing Total Budget Expenditures and the reason that the year 2014 is close to 5.1% of GDP is mainly caused by non-realization of capital expenditures. In the previews years there is an effort to reduce the deficit from 3.7% to 2.16%. Year 2015 was enabled by the constant budget review, where the failure to make the revenue was attempted to be adjusted through the reduction of expenditures. Despite the fact that this policy enabled continuous control of the Deficit, it speaks of a lack of budgetary capacity and public finance management. 2016 appears as a very challenging year from the perspective of keeping the deficit at the predicted level. Initial budget figures show a rise in total spending, which is reflected only in current spending, as investments are at the lowest level in recent years. This government approach, to financial consolidation through shrinking public investment is presented at a high risk, because it jeopardizes the country's economic development for future periods.

1.4. Business Expansion

Table 16: Active Enterprise in Legal Form

Indicator	Active Enterprise		
	2014	2015	2016
Total	112.537	152.288	160.679
Physical person	85.654	103.414	100.955
Farmers	0	19.543	31.372
Legal person	26.883	29.331	28.352
Limited liability company	21.153	23.643	22.424
Anonymous society	874	911	821
State (not Sh.A)	941	935	980
Public administration	768	498	797
Others	769	934	865
NGO, Org. intl.	2.378	2.41	2.465

Source : INSTAT http://databaza.instat.gov.al/pxweb/sq/DST/START__BR/BR0020/?rxid=3a6815d5-6641-44d8-86bb-0253ee90e17f

The table below shows that the number of new registries businesses is higher compare to other previous years, because the government the government took measures to combat informality. In the years before, the number of business without being registered in the tax administration was higher, even though they had active status.

2. Revenue indicators

2.1. Tax Budged Revenue

Table 17: Structure of Tax Budged Revenue in % of GDP

Indicators	2014	2015	2016
Tax Budget Revenue	26.3%	26.4%	27.1%
Tax Revenue	24.1%	23.9%	24.6%
Non-Tax Revenue	2.2%	2.5%	2.5%

Figure 13: Structure of Budged Revenue in GDP

From the first year of the new tax, the budged revenue has increase with 79.8 million ALL. The recent years had a small decrease of tax revenue and a small increase of non-tax revenue. This situation will change in the coming years when the tax revenues will increase but, non-tax revenue will have the same increase as the last year. Through this data, the budget revenue shows the growth tendency in proportion of GDP and this indicates the growth of public finance sector in economy. In the other side the weight of budget revenue is higher and the role of this fiscal policy is good for the public sector.

2.2. Direct and Indirect tax

In this section it has been studied only Tax Revenue, the elements of this tax and the influence of each in it. In the Albanian legislation the tax revenue is classified according to the manner of their extraction. So, we have 3 types of tax revenue: Direct Tax Indirect Tax and Other Taxes.

Table 18: Structure of Tax Revenue in %

Indicators	2014	2015	2016
Tax Revenue	100%	100%	100%

Direct Tax	30.16%	30.91%	31.74%
Indirect Tax	49%	48.14%	46.85%
Other Tax	20.84%	20.95%	21.41%

Source: Ministry of Finance and Economy http://www.financa.gov.al/al/raportime/programimi-ekonomiko-fiskal/raporte-dhe-statistika-fiskale-mujore/statistika-fiskeale-mujor
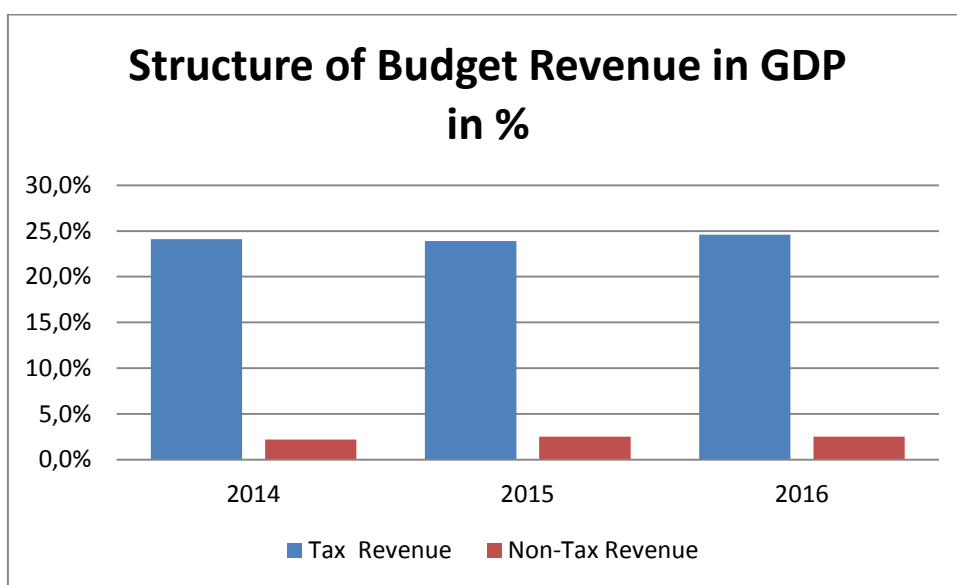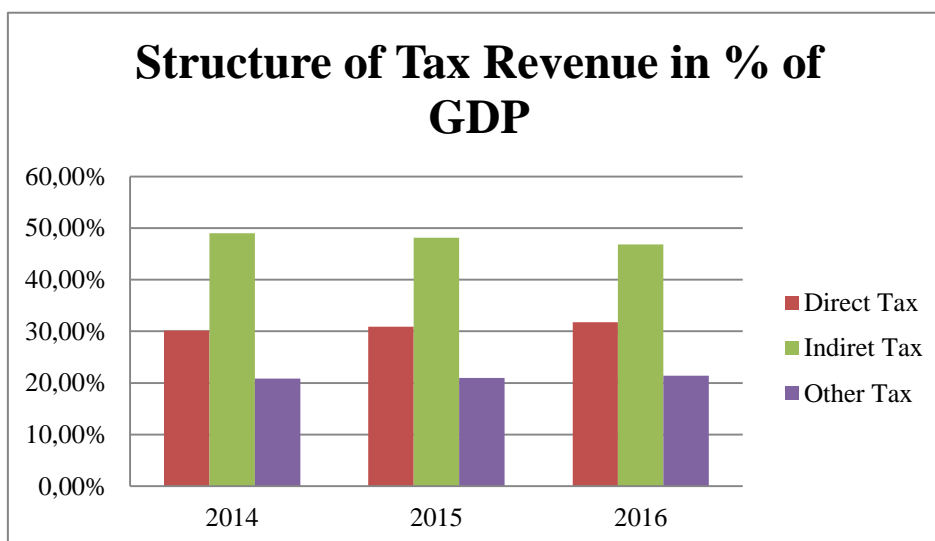

Figure 14: Structure of Tax Revenue in % of GDP

Tables 18, shows the domination and the growth rate of indirect tax vs. direct tax vs. other tax. We see that all direct tax and other tax is increase and the proportion of them in tax revenue is higher compare to 2013 in flat tax and the decrease of indirect tax and the proportion of this tax in tax revenue are lower, but still higher compare to 2 other taxes.

Appendix C shows the types of indirect tax, direct tax, other taxes and the impact of each of them. The direct tax has lower percentage compared to Indirect tax (see table 25 and 26) and the differences are considerable high. The indirect taxes are considered to be taxes on consumption, because they weight down on the final consumer through goods prices. The large weight of those taxes shows that Albania implements fiscal system that is based on consumption. In direct tax is National Taxes and others that have the dominant compared to other taxes (2014→ 32.2% till 201 → 30.5%). There are 2 indirect taxes: V.A.T and Excite Tax. Table 17 and 18 shows indirect tax has a considerable increase in tax revenue, making it dominant over other taxes. In indirect tax V.A.T is the dominant against Excise Tax. All those changes are described from the following factors.

Indirect taxes are easier to collect, while direct taxes, especially personal Income tax have been the subject to high level of tax avoidance and the tax evasion. As is said before that

the dominant of direct taxes is National Taxes and others, but it shows a decrease thought year, however still this tax is dominant. However, compared to other years, we have an increase in the revenue. In the indirect tax, in the case of V.A.T, its rate has remained unchanged since 1996 when this tax became effective and the Excite tax has had its fluctuations (increase and decrease) because of its main commodities such as tobacco and fuels. Each year we see that the structure of GDP changes and from this we have changes even in the collection of revenues. Another factor that influenced and the most important one is the administration, in terms of revenue collection, measures against tax evasion and taxpayer education.

2.3. Performance of Budged and Tax Revenue in GDP

Appendix D, summarize the most important in direct and indirect taxes and their impact in GDP Growth. Personal income tax was taxed at the same level as the other taxes, but after the new tax it changed based on the income the tax is. The higher the income the higher is tax rate charged this indicates that the average annual growth of revenues from this type of tax for 2014-2016 was higher than the other years. The changes were not only with personal income tax but with other tax too. The tax rate for Custom duties is now 5%. For V.A.T the tax rate is 20% and for-profit tax is 15%. Year 2014for Total Revenue has an increase (of 2.1% of the GDP) compare with 2013. This increase will continue even in other years. The income from Custom duties has no changes compare to previous fiscal tax and will continue even in the following years. Excise tax legislation has been a subject to frequent changes. With the increase of the products and goods that are subject to this tax and the improvement of the legal and administrative framework, shows a sustainable increase in the income from this tax. This increase is from 2014 and 2016 and 2015 shows a small decrease. This small decrease may be the cost of setting aside of the payments or frame work in the custom. V.A.T became the main and stable source of income in the taxation system and fiscal system of Albania since 1996 where it was replaced with the turnover tax. As the other taxes this the tax rate of this tax is 20%. V.A.T tax shows a decrease in collection of revenue, but still is the main tax that collects the most revenues.
The main reason why some of direct and indirect tax has had a decrease is because of changes in tax rate. When the new fiscal policy come the new tax rate, came to and this is the main reason is a decrease in tax Revenues from taxation in GDP.

ANOVA

ANOVA						
		Sum of Squares	Df	Mean Square	F	Sig.
trf	Between Groups	.074	1	.074	14.570	.000
	Within Groups	.513	101	.005		
	Total	.587	102			
ftocf	Between Groups	.086	1	.086	.054	.817
	Within Groups	161.530	101	1.599		
	Total	161.615	102			
rflgf	Between Groups	1.649	1	1.649	8.852	.004
	Within Groups	18.810	101	.186		
	Total	20.459	102			
sif	Between Groups	.064	1	.064	1.317	.254
	Within Groups	4.883	101	.048		
	Total	4.947	102			

At ANOVA statistical models compares 2 types of our taxes and reviles who is the best tax of the economy of Albania.

1. See if there is any difference between them.

2. Analyze the significant to each other.

- The results of Analysis of Variable or ANOVA are as bellow:

  - tr

$F (1:101) = 14.570$

P= 0.00

There is a significant effect of tr at 5 % level.

- ftoc

F (1:101) = 0.054

P= 0.817

There is no significant effect of ftoc at 5% level.

- rflg

F (1:101) = 8.852

P= 0.04

There is a significant effect of ftoc at 5 % level.

- si

F (1:101) = 1.317

P= 0.254

There is no significant effect of ftoc at 5% level.

The fist table shows the differences between groups and within groups are large. Between groups is 1 and the difference within groups are 101 and the difference is 100. It shows that is significant between each other because 0.00<0.05.

Group Statistics analyze

Group Statistics analyze the mean between 2 groups that we have started to analyze. It's going to be analyzed each of the factors first and then look at which of the factors is significant and which factor has greater impact on the main.

- First factor that is going to be analyzed is trf. Here is going to see the mean of 0 and
  1 and compare it with the graters increase.

trf- is the Growth of Tax Revenue

0 →Flat Taxes

1→ Progressive Tax

Group Statistics				
Tax regime	N	Mean	Std. Deviation	Std. Error Mean
trf 0	59	.0257738179	.0729549401	.0094979242
1	44	.0799481301	.0688866342	.0103850509

The table shows that the mean of Flat tax is 0.02577 and the mean of Progressive tax is 0.799, this mean that the growth of tax revenue in Flat tax is 2.577% and the growth of tax revenue in Progressive tax is 7.99%. We see that std. Error Mean is lower and it is stationary significant at 5% level. tr impact comes only from ftoc that has the greatest mean, others are low but significant tr receives from rflg only because it is Significant and others are not.

- The second factor is ftoc. Here we will analyze the mean when ftocf takes the value of 0 and 1 and compare who has the graters increase.

ftoc → is the growth from tax office and costumers

0 →Flat Taxes

1→ Progressive Tax

Group Statistics					
Tax regime		N	Mean	Std. Deviation	Std. Error Mean
Ftocf	0	59	.1772865087	1.1751224803	.1529879160
	1	44	.2356134947	1.3761817454	.2074672042

The table shows that the mean of Flat tax is 0.1772 and the mean of Progressive tax is 0.2356. This mean that the growth of tax revenue in Flat tax is 17.72 % and the growth of tax revenue in Progressive tax is 23.56 %. The next thing that we see is that the std.Error Mean is higher even though we growth, but this is non stationary significant at any level.

- The third factor is ftoc. Here we will see mean of 0 and 1 and compare who has the graters increase.

rfoc → is the growth of Revenue From Local Government

0 →Flat Taxes

1→ Progressive Tax

Group Statistics					
Tax regime		N	Mean	Std. Deviation	Std. Error Mean
rflgf	0	59	.0191744771	.3025864892	.0393934055
	1	44	.2749285892	.5603151442	.0844706863

The table shows that the mean of Flat tax is 0.1917 and the mean of Progressive tax is 0.2749. This mean that the growth of tax revenue in Flat tax is 19.17% and the growth of tax revenue in Progressive tax is 27.49%. The next thing that we see is that the std. Error Mean is lover and the difference in growth is higher comparing to ftoc and si. This mean is stationary significant at 5% level.

- The same thing we will do for the last factor too, si. Here we will see mean of 0 and 1 and compare it with who has the graters increase.

si → is the growth of Social Insurance

0 → Flat Taxes

1 → Progressive Tax

Group Statistics					
taxregime		N	Mean	Std. Deviation	Std. Error Mean
sif	0	59	.0600010855	.2430166947	.0316380788
	1	44	.1102631919	.1841329186	.0277590819

From the table we see that the mean of Flat tax is 0.60 and the mean of Progressive tax is 0.1102. This mean that the growth of tax revenue in Flat tax is 6% and the growth of tax revenue in Progressive tax is 11.02%. The next thing that we see is that the std. Error Mean is lower and the difference in growth is higher comparing to ftoc, but mean is non-stationary significant at any level.

The independent-samples t-test

The independent-samples t-test compares the means between two unrelated groups on the same endless, dependent variable.

Other thing analyzed is that in tr difference is between 0 and 1, means that progressive tax is higher and is significant than flat tax. This difference is stationary at 5% level, this means is significant at 5% level. The change comes from independent variables.

From this table we will see who from 3 independent variable has an impact on dependent variable tr. We see that rfg is stationary and this mean is significant at 5% level (sig of rflg is lover than 5% because 0.06<0.05).

- Independent sample t-test and group statistic derive the same result. Those result are as bellow:

- tr:

Flat tax [(M=0.257); (SD=0.729)]

Progressive tax [(M=0.799); (SD=0.688)

t (101) = -3.817; p=0.0

There is a significant difference for flat tax and progressive tax.

- ftoc

Flat tax [(M=0.177); (SD= 1.175)]

Progressive tax [(M=0.235); (SD=1.376)

t (101) = -323; p=0.817

There is no significant difference for flat tax and progressive tax.

- rflg

Flat tax [(M=0.191); (SD=0.302)]

Progressive tax [(M=0.274); (SD=0.560)

t (101) = - 2.975; p=0.04

There is a significant difference for flat tax and progressive tax.

- si

Flat tax [(M=0.0600); (SD=0.243)]

Progressive tax [(M=0.110); (SD=0.184)

t (101) = - 1.148;   p=0.254

There is no significant difference for flat tax and progressive tax.

5. CONCLUSION AND RECOMAMDATION

When it comes to pros and crosses for each tax policy, it's impossible to conclude which tax is good or bad, better or wars because both of regimes are equal when it comes to number of them. When it comes to analyze, which tax policy would help in the contribution of the country's economic growth, shows different result. The results from comparative shows, that in flat tax system, the fiscal indicators have responded well just for a short time period. For six years, that the flat tax reform was implemented in Albanian economy shows no sufficient measure were taken for supporting for supporting new tax. When new tax was implemented with him was created the new strategies to combat the informal economy, fiscal evasion and corruption had a minimum impact for fiscal reform results. Companies were still working with double- balances sheets. Even though the tax rate was 10% for all types of taxes, business tried to avoid paying fees by creating tax evasion and by not abolishing their businesses at the national registration center, so the revenues from taxes were small. Even though all the reforms were not in accordance with an anti-crisis measure and the economy remained fragile, the new tax made Albania the less affected country by the global crisis 2007-2009. When all the neighborhood countries were affected from the crisis Albania was the only country that in that time didn't show any effect from the crisis, but after 2009 the effects of the crisis were showed and made the economy more fragile. From the entire four main sectors that contributed in real GDP growth rate the only one that had increased more was agriculture. Agriculture in Albania consist more small family farms, but still those farms have lack of modern equipment and this sector has been excluding from the tax contribution. The reason why the agriculture had more increase is because the revenues that come from immigrants was higher but, when Greece and other countries were in cresses the number of immigrants that brought revenues decreased too. Another problem that didn't have a solution in six years of flat tax system was unclear property rights. This is a problem that has been carried out since the communist era, and has still not been resolved even nowadays. The results from comparative analysis for the progressive tax are not finished because this tax is still in

Albanian economy. So, these results are till in 2017. The progressive tax is a tax that the tax rate change based on the revenues. Even though the Albania economy is in the low-income country, she implemented applies a similar VAT rate as high income countries but this does not present any facilities for new businesses such as these countries. The higher the income the more tax is paid. From this advantage these taxes encourage small business, which may be foreign business or local business. In the analyze of the state budget revenue it was conclude that higher revenues are brought items such as VAT, Excise Taxes, Profit Tax and TAP. When it comes to main sectors of economy we see that only industry has an increase other not a high increase. Many problems that were in flat tax period are still problems in this period. Even though the strategies to reduce the problems that flat tax brought still didn't reduce those problems. The number of unemployed was reduced as the number of insured employees increased.

To make this paper was conducted two types of analysis. The result that came from using ANNOVA and Independent sample t-test are as bellow:

The result from ANOVA shows that the difference between groups and within groups is large and they are significant with each other because the value of alpha is 0.05 or 5%. From the comparison between the two taxes, the results show that the difference between the progressive and the flat tax is large and significant.

Independent sample t-test and Groups statistics show the same thing because they help each other to find the result is accurate. Each dependent and independent variable is large in Progressive Tax rather than Flat Tax. The difference between the mean of flat and progressive tax is huge. This means that we have more economic growth in Progressive tax regime rather than flat tax regime.

For this paper the research about the taxation in Albanian language is small because the majority of the information it is published in English. Another difficulty is the lack of publication that could be found about the taxation in Albania not only in Albanian language, but even in English. This paper seeks by examining the small information that could be found only in some publication in English and Albania, through a secondary research. Literature published in both Albanian and English has been reviewed, including government documents of Albania that were found in Albanian language such as: documents that were published from the Ministry of Finance, Banka of Albania (BOA) and INSTAT, but even from World Banka, Eurostat, International Monetary Fund (IMF) and other sources that were found in English language. Not only that information was limited

but other publication like research papers for this topic was also limited. Most of the research that were collected and exanimate were papers that were made from academic researches that have made previews research about my topic but also research that were related to the progressive and flat tax in general. This paper is restricted to analyze just economic indicators. Although political, social, historical, tradition and culture are part of indicators are important, they are not subject of this paper. This paper doesn't address how the indicators should be used and define and no question whether taxes are justified. The indicators are just analyzed in a comparative analyze to find which fiscal system created growth economy and is there best for Albanian economy.

All the result from this paper shows the same results of all the paper that are done from others. In flat tax system, the fiscal indicators have responded well just for a short time period. In progressive tax system, even though the Albania economy is in the low income country, she implemented applies a similar VAT rate as high income countries but this does not present any facilities for new businesses such as these countries. The difference that this paper has from other papers is, because this paper has a larger distribution not only for flat tax but even for progressive tax. Where other papers have just an evaluation of Albanian fiscal system through some economic indicators for one fiscal system (flat or progressive one), this paper has made a comparative analysis for both fiscal system to find which one is the best for economic growth of Albania. Some papers have made just a case study only for one tax system of Albania or have made comparison of the Albanian system of taxation with other Balkan countries or countries that have the same tax system. No one has made a paper analyzing together the fiscal package and income indicator in flat tax and progressive tax and then making a comparison between them first which fiscal system is the best for economic growth in Albania.

Some recommendations that can be said about this research are mostly about fiscal system. One think that can lead to a stable fiscal and economic system and can create a sluggish economic growth in the early years, but which can increase over time, is a combination of the progressive and flat tax rate. Another thought that can be said as a recommendation is the non-change of tax systems very often that this leads to a breakdown of the tax system and the economic one. As a result, in times of crisis, the Albanian economy will not be able to withstand the crisis and bring an even greater crisis than the fiscal economic one.

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APPENDENDICES

Appendix A: Structure of Direct and Indirect Tax in Flat Tax

Indicators	2006 % of GDP	2007 % of GDP	208 % of GDP	2009 % of GDP	2010 % of GDP	2011 % of GDP	2012 % of GDP	2013 % of GDP
1.Direct Tax	100%	100%	100%	100%	100%	100%	100%	100%
Profit Tax	32%	30.2%	29.0%	22.1%	21.4%	22.5%	18.6%	16.8%
Personal Income Tax	12%	21.3%	16.0%	34.6%	32.9%	31.9%	30.9%	32.9%
National Taxes and others	19%	20.9%	23.1%	17.3%	22.3%	24.4%	31.7%	31.7%
Custom Duties	20%	14.1%	13.9%	10.2%	8.8%	7.8%	6.8%	6.5%
Local Taxes	12%	10.2%	11.4%	10.5%	9.4%	8.3%	6.9%	2.7%
Property tax (buildings)	0%	0.0%	2.5%	1.9%	2.3%	2.2%	2.8%	2.2%
Small Business Tax	4%	3.2%	4.1%	3.2%	2.8%	2.9%	2.4%	7.1%
2. Indirect Tax	100%	100%	100%	100%	100%	100%	100%	100%
Excise Tax	24%	24.7%	23.3%	23.3%	25.4%	25.3%	23.8%	25.4%
V. A. T	76%	75.3%	76.7%	76.7%	74.6%	74.7%	76.2%	74.6%
3. Other Indirect Tax	100%	100%	100%	100%	100%	100%	100%	100%

Appendix B: Structure of Total Revenue in Flat Tax

Indicators	2006	2007	2008	2009	2010	2011	2012	2013
	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP
Total Revenue	26%	25.9%	26.9%	26.1%	26.2%	25.4%	24.8%	24.2%
A. Tax Revenue	23.4%	23.5%	24.4%	23.7%	23.3%	23.4%	22.6%	22.2%
1.Direct Tax	7.9%	7%	7.1%	6.8%	6.7%	6.7%	7.0%	6.6%
Profit Tax	2.5%	2.2%	1.7%	1.5%	1.4%	1.5%	1.3%	1.1%
Personal Income Tax	1%	1.5%	2.3%	2.3%	2.2%	2.2%	2.1%	2.2%
National Taxes and others	1.5%	1.5%	1.3%	1.2%	1.5%	1.6%	2.2%	2.1%
Custom Duties	1.6%	1.0%	0.8%	0.7%	0.6%	0.5%	0.5%	0.4%
Local Taxes	1%	0.7%	0.7%	0.7%	0.6%	0.6%	0.5%	0.2%
Property tax (buildings)	0%	0.0%	0.1%	0.2%	0.2%	0.1%	0.2%	0.1%
Small Business Tax	0.3%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.5%
2. Indirect Tax	11.0%	12%	12.9%	12.5%	12.3%	12.3%	11.4%	11.1%
Excise Tax	2.6%	3%	3%	2.9%	3.1%	3.1%	2.7%	2.8%
V. A. T	8.4%	9.1%	9.9%	9.6%	9.2%	9.2%	8.7%	8.3%
3. Other Indirect Tax	4.5%	4.3%	4.4%	4.4%	4.3%	4.4%	4.3%	4.4%
B. Non-Tax Revenue	1.8%	2.3%	2.1%	2.1%	2.5%	1.7%	1.8%	1.6%
C. Grande	0.9%	0.9%	0.4%	0.4%	0.4%	0.3%	0.4%	0.4%

Appendix C: Structure of Direct and Indirect Tax in Progressive Tax

Indicators	2014	2015	2016
	% of GDP	% of GDP	% of GDP
1.Direct Tax	100%	100%	100%
Profit Tax	21.2%	23.6%	24.8%
Personal Income Tax	28.5%	28.0%	26.7%
National Taxes and others	32.2%	31.8%	30.5%
Custom Duties	5.8%	5.5%	5.2%
Local Taxes	3.6%	5.4%	4.0%
Property tax (buildings)	1.7%	3.7%	0.5%
Small Business Tax	7.0%	1.9%	8.2%
2. Indirect Tax	100%	100%	100%
Excise Tax	24.8%	23.7%	35.7%
V. A. T	75.2%	76.3%	75.8%
3. Other Indirect Tax	100%	100%	100%

Appendix D: Structure of Total Revenue in Progressive Tax

Indicators	2014	2015	2016
	% of GDP	% of GDP	% of GDP
Total Revenue	26.3%	26.4%	27.1%
A. Tax Revenue	24.1%	23.9%	24.6%
1.Direct Tax	7.2%	7.2%	7.7%
Profit Tax	1.5%	1.5%	1.9%
Personal Income Tax	2.1%	2.1%	2.1%
National Taxes and others	2.3%	2.3%	2.4%
Custom Duties	0.4%	0.4%	0.4%
Local Taxes	0.3%	0.3%	0.3%
Property tax (buildings)	0.1%	0.1%	0.0%
Small Business Tax	0.5%	0.5%	0.6%
2. Indirect Tax	11.8%	11.5%	11.5%
Excise Tax	2.9%	2.7%	2.8%
V. A. T	8.9%	8.8%	8.7%
3. Other Indirect Tax	5.0%	5.0%	5.3%
B. Non-Tax Revenue	1.5%	1.8%	1.5%
C. Grande	0.7%	0.8%	1.0%

Appendix E: Independent Sample Test

		Levene's Test for Equality of Variances		t-test for Equality of Means				95% Confidence Interval of the Difference	
Independent Samples Test									
		F	Sig.	T	df	Sig. (2-tailed)	Std. Error Difference	Lower	Upper
trf	Equal variances assumed	.495	.483	-3.817	101	.000	.014193	-.082328	-.026020
	Equal variances not assumed			-3.849	95.489	.000	.014073	-.082112	-.026237
ftocf	Equal variances assumed	.189	.665	-.232	101	.817	.251902	-.558033	.441379
	Equal variances not assumed			-.226	84.053	.822	.257775	-.570936	.454282
rflgf	Equal variances assumed	7.882	.006	-2.975	101	.004	.085962	-.426279	-.085229
	Equal variances not assumed			-2.744	61.578	.008	.093205	-.442093	-.069415
sif	Equal variances assumed	.254	.615	-1.148	101	.254	.043798	-.137146	.036622
	Equal variances not assumed			-1.194	100.965	.235	.042090	-.133757	.033233

Appendix F: ANOVA

ANOVA						
		Sum of Squares	df	Mean Square	F	Sig.
trf	Between Groups	.074	1	.074	14.570	.000
	Within Groups	.513	101	.005		
	Total	.587	102			
ftocf	Between Groups	.086	1	.086	.054	.817
	Within Groups	161.530	101	1.599		
	Total	161.615	102			
rflgf	Between Groups	1.649	1	1.649	8.852	.004
	Within Groups	18.810	101	.186		
	Total	20.459	102			
sif	Between Groups	.064	1	.064	1.317	.254
	Within Groups	4.883	101	.048		
	Total	4.947	102			

Appendix G: Group Statistics

Group Statistics					
Tax regime		N	Mean	Std. Deviation	Std. Error Mean
Trf	0	59	.0257738179	.0729549401	.0094979242
	1	44	.0799481301	.0688866342	.0103850509
Ftocf	0	59	.1772865087	1.1751224803	.1529879160
	1	44	.2356134947	1.3761817454	.2074672042
Rflgf	0	59	.0191744771	.3025864892	.0393934055
	1	44	.2749285892	.5603151442	.0844706863
Sif	0	59	.0600010855	.2430166947	.0316380788
	1	44	.1102631919	.1841329186	.0277590819