THE IMPACT OFTAX POLICIES ON BEHAVIOR OF TAXPAYERS

MASTER'S THESIS

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IMPAKTI I POLITIKAVE FISKALE Në SJELLJEN E TATIMPAGUESIT

ABSTRAKTI

Sitemi tatimor është një ndër sistemet më të rëndësishme për ekonominë e një vëndi, është edhe njëkohësisht burimi më i rëndësishëm i të ardhurave. Edhe shteti Shqiptar ka pësuar shumë ndryshime të këtij sistemi ndër vite, kjo edhe për shkak të politikave dhe regjimeve të ndryshme që ka ndjekur, por që gjithmonë ka patur një tendencë për përmirësim. Informaliteti dhe sitemi tatimor janë pasqyra e ekonomisë së një vëndi dhe sidomos politikat favorizuese tatimore ose fiskale që adaptohen në ekonominë e atij vëndi, të cilat sjellin një zhvillim ekonomik dhe një integrim të të gjitha hallkave që përbëjnë një sitem ekonomik të duhur.Pyetja kerkimore e këtij punimi është: Si kanë ndikuar gjithë këto ndryshime të shpejta në sistemin tatimor tek tatipaguasit? Sa të cënuar ose jo të cënuar ndihen ato, nga gjithë ky kontroll tatimor? Për më tepër punimi fokusohet në përceptimin e ndryshimeve fiskalenga bizneset dhe me konkretisht nëpërceptimi sipasllojeve të bizneseve (biznese të mëdha dhebiznese të vogla). Të dhënat janë seleksionuar nga kërkimi primar qëështë realizuar nëpërmjet pyetësoreve. Pyetësorët janë realizuar nga bizneset e mëdha dhe të vogla që operojne kryesisht në Tiranë. Periudha kohore e mbledhjës së të dhënave është Prilli i 2018-së. Gjetjët më të rëndësishme i referohen percëptimeve tëbizneseve për kontrollet tatimore dhe ndryshimeve fiskale dhe impakti i ndryshimeve fiskale mbi keto biznese.

Fjalët ky̧ce: sistemi tatimor, politikat fiskale, tatimpaguesit, adaptimi i ndryshimeve,performanca dhe përceptimi bizneseve.

THE IMPACT OF TAX POLICIES ON BEHAVIOR OF TAXPAYERS

ABSTRACT

The tax base is one of the most important systems in the economy, at the same time it is one of the main sources of the government's income. The Albanian state has experienced many changes of this system over the years due to the policies and different regimes that have followed but there has always been a tendency for improvement. The tax system and the informality are the mirror of the economy of the country, especially the favorable tax/fiscal policies that have been adapted to the economy, which bring economical development and integration of all the gaps to a proper economic environment. The study's reseacrh question is: how have all the raid changes in the tax system has affected the taxpayers? Do they feel threat from all this tax control? Furthermore the study focuses on how the business performance has been indicated from the tax control.The data was collected from a survey which was focused in small and big businesses that operates in Tirana.The questionnaire was realized in unities which mainly operates in Tirana. The period in which this data where taken was April 2018. The main finds of the study are the different perception of businesses for the tax control and the impact of the fiscal changes on these businesses. All this fiscal changes that the businesses faced were more in disfavor of the small businesses.

Key words: Tax System, fiscal policy, taxpayer, adaption of changes, business perception and performance

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DECLARATION

I hereby declare that this Master's Thesis, titled The impact of tax policies on tax behaviors, is based on my original work except quotations and citations which have been duly ackowledged. I also declare that this thesis has not been previously or concurrently submitted for the award of any degree, at Epoka University or in any other university.

Dorina Plaku

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LIST OF ABBREVIATIONS

BB	Big Business
EU	European Union
IMF	International Monetary Fondacion
NRC	National Registration Center
SB	Small Business

CHAPTER 1
INTRODUCTION

The tax system has always been treated as one of the most important factors in the economy of the country. It has created a strong relationship between the system, the state, the economy, businesses and taxpayers. The burial system has never shifted to its rustic form but it has always been in line with the changes. Moreover the tax system is seen as a kind of harmonization between different countries. By using preferential and stimulating policies, has developed a fair and profitable trade for each of the two trading partners. The way that one country decides to develop the tax system, shows clearly the economy of the country and that's why the developed countries give a big boost to it. They believe that through this system they can create a sustainable economy and government. With the economic changes of our country, of the regions and the countries which are in the process of being part of the EU, fiscal policies remain the only macroeconomic policies with which government can operatory within their territory.

Over the years like any other aspect of the economy, concepts and features of the fiscal system began to be improved and more detailed. Practices have shown that the fiscal system is a stratification of rules. From time to time or year to year the fiscal system needs to be updated but always in the way to reach an optimal fiscal system. An optimal fiscal system will be optimal when the fiscal burden is fairly distributed through tax payers, when taxes do not cause distortions in taxpayer behavior or in investors in different sectors or in industries. The tax system in the Republic of Albanian state has had a continuous sustainable development during the development period of the Albanian state up to the present day. The study and the analysis of this system are really crucial not only at its doctrinal level but above all in the practical aspect of this concept. Our country has gone through all of the political systems that could have passed and each one has left a culture somewhere developed and somewhere not

developed. However we try to decrease the level of the informality and to increase the level of the development of the fiscal system. Even the fiscal policies that have been set up have a great deal of power, and all the theories that exist for them or the precise establishment of an optimal system were clearly shown that favoring policies do not bring unnecessary consequences to the economy and to a wage. Favorable policies are all those policies that do not express a tax burden or a high tax obligation, any changes that may be made to this policy are the first that they are reacting to and are skeptical, where they are normally always expected a response from the most important part of a tax system. Fiscal policies and their changes have a major impact on increasing or decreasing the level of GDP in the world, affecting inflation, unemployment, and the well-being of a single person. Therefore, the level of taxes should be kept at the allowed rates which can negatively affect all the above elements. Nowadays the countries all over the world are in an open struggle between them to have a developed economy and are competing with each other to increase as much as the number of foreign investors. Hence favoring and developing the appropriate tax policies would help to attract foreign investors and affect the growth of the economy. Taxpayers are also interested in more favorable policies, but they do not pose a high level of trust in the entire tax system, perhaps from the point of view of how this system has developed and the drastic changes it has had, or perhaps even from a non-developed culture of how the whole system works. None of the taxpayers have the proper for the way that their money are administrated, no one has the confidence that this money is a return and investment for them, or even that will ever have compensation. All this uncertainties has begun earlier, at a time when the system was not set up to the fullest extent possible and brought the informality that taxpayers were adapted to it and all this tax audit that took place in the period 2014-2015 and that continues today, found no-prepared all the taxpayers and businesses.

Albania is the country with the lowest level of tax revenues, compared to most of the countries in the region. The key findings of this research were mainly regarding the perception of big and small businesses about the frequent changes of the fiscla policies. The whole situation that was created for this issue makes small businesses to trust less the law, the inspectors and the tax legislation. From the data collection, it can be said that small businesses believe that all the tax action was realized for them. Moreover from the survey it comes out that both categories of businesses need to be trained for the tax policies and they believe that such frequent

changes on tax policies have e negative impact on the businesses' performance and in the entire economy.

1.1 Objectives and purpose

The purpose of choosing this topic, besides being one of my favorite fields, is moreover a modest study of all this change in the Albanian tax system. What I'm most interested in is about how taxpayers have responded to all of this tax control that has been made to them. Are they able to adapt all this change in the fastest possible way and at the same time in the right way? Are these taxpayers aware of the evasion they have caused throughout these years? Even the Albanian tax system, along with all its competent bodies, throughout the tax audit seemed to exert pressure on the business and slow down its activity.

The research question of the thesis is more focused on how taxpayers have understood all this change in the tax system. More specifically, the thesis's research questionconsists:how is the perception of the major groups of the businesses (small and big businesses) related to all this tax control and fiscal changes.

Objectives: - apart from the main goal of the thesis, there are some objectives that are very helpful to the research question

The perception of the Big Businesses and Small Businesses in the changes of tax policies

1.   To take a general look at how the tax system has changed in Albania

2.   To compare Albanian tax system with the region

3.   To study the overall perception of the businesses that operates in the Albanian market.

Initially, the study has been focused in the development of a literature review or the reading and concentration of many different studies that many authors had realized for the tax system, fiscal policies, but above all for taxpayers.

✓   Tax system, its changes and importance – this thesis suggests various publications and studies on how the tax system has changed, the impact that it has in the economy, the role it plays and the timeliness of this tax system for the economy of a country.

✓   The impact of tax policy and tax system on the economy of a country between GDP, inflation, unemployment and the entire system.

✓   Taxpayers and their importance - seen from the point of view of taxpayers' response and flexibility to any change in fiscal policy. How do taxpayers conceive the tax burden and believe in the tax system and the competent bodies.

Another chapter contains a very short history that has experienced the entire Albanian tax system over the years, starting with the Ottoman conquest and the way of starting a simple tax system, unknowable perhaps for the time, continuing on with the improvements and changes made to the entire tax system and policies as an integral part of it and reaching to the present day reforms against informality and evasion.

The questionnaire, has to deal with qualitative and quantitative data and to develop this I used the inductive approach.

Population - are all businesses that have commercial operation activity in Albania.

Sampling - Entities or businesses that have activity in Tirana. For the study is completed a relatively high number of questionnaires on accounting studios and online.

CHAPTER 2
LITERATURE REVIEW

2.1 Tax system and its changes

The fiscal system is a mechanism that has existed since the early days where people lived in communion. Even if the payments of the fiscal policies were not in monetary terms, the philosophy remains the same. After that period, we had a more advanced system from the creation of ancient Greece, followed then by Ottoman Emperors and continuing further whuch has take a great importance that continues to his days. While modern fiscal systems appeared in Western Europe and North-America during the mid-century. A that time we can not say that it was the proper fiscal system but it could be called the beginning of a new area in the fiscal aspect and onlu in the 11th century was created the basic legal framework for imposing taxes at the right way. One of the oldest books for tax systems that says a little more contemporary at that time, and which continues to be the benchmark for creating more moderate systems is that of researcher Casey , where the book titled is Tax planning ideas, 1966. The tax system in various parts of the world has had very important evolutions and major changes, always in its continuous improvement. In practice there is no perfect tax system in any part of the world, although economic analysis are mainly focused on how taxes should be imposed to boost economic efficiency and promote a fair distribution of income to the state and at the same time as public spending. Although there are no "perfect" systems, the way these systems are designed have essentially economic prosperity (Mirrlees et al., 2011). Yet due to the complexity of the tax planning, it cannot be said to have a unified and very clear definition (Spitz, B., 1972) for the taxation system but based on all the knowledge adopted during the development of various cases related to the fiscal system, we can reach an all-inclusive definition of the tax system:

Tax system: we mean the entirety of harmonized, rational, effective, flexible and appropriate forms of taxation in the realization of the economic, social development goals of a states.

The tax system is the base for creating a state budget, because in the end, modern and industrialized societies do not have a budget-free state, and there is no budget without a public revenue system or a tax-free system. Tax planning is legal from a legal point of view, but is more necessary from an academic point of view (Rieger, H 1978).

Creating a tax system by itself is not creating some rules or institutions that merely serve to collect taxes. Practice has shown that the fiscal system is a stratification of the right rules. Year after year, the fiscal system around the world has needed important adjustments, always taking into account the fact or aiming at achieving the creation of an optimal system. It will be called optimal when the fiscal policy is fairly distributed through taxpayers or is more explicit when taxes do not cause distortions in taxpayer behavior or decisions or investors in different sectors or industries. The first initiative to create an optimal fiscal system (Ramsey, 1927) and (Atkinson 1971). Two other researchers such as Mirrles (1971) and Vicrey (1996) model formula and economic equations based on a system where economic information is asymmetric or ubiquitously incomplete, sending to what is called "Hazard Moral".

Creating a proper tax system would mean creating a better economy and a better prosperity for the population of a country (Scharpf andSchmidt (2000). We have to say that tax planning has a very important role in any financial organization, industrial enterprises, but also in oriented services. It is very difficult to compare financial systems between countries, because it may indicate different factors on it, such as macroeconomic, geographic, or why not the history of the country. The number of population, the taxpayer behavior, the geographical and the historical conditions are elements that affect the type and nature of taxes. Normally, to have a proper tax system, there are some standards that should be part of the system and these standards are: economic effectiveness, simplicity, flexibility, transparency and justice. However, we have to say that tax systems in all countries of the world had and have the same basis in which they focused on creating a unified system and it is not very different from other countries (Board, J., Sutcliffe, C., Ziemba, WT, 2003). Despite the differences between the countries, due to the factors mentioned above, we can say that the states have always established among themselves several favorable multinational policies to help different businesses invest where they want (Finnerty, CJ, Merks, P., Petriccione, M., Russo, R., 2007).

Two other authors have shown that appropriate international fiscal policies and policies may have and have had a positive effect on increasing foreign direct investment and increasing the economy of many countries.

In the foreign literature one of whom was titled "Equity and Tax Planning", which was developed for the tax system in Spain, the authors clearly indicated that the clear design of a tax system is in most cases a scary tax. Economies have become and are becoming increasingly complex, which causes the fiscal system to change frequently and consistently to suitably taxpayers (Duran-Cabre.J and Esteller- More, A, 2014). It is not so important how the fiscal policies are drafted for an optimal system, the more important is the way they understand these policies than those directly affected by those that are neither less nor more than the taxpayer. To talk about the advantages or disadvantages of a system, you should compare the country and the taxpayer's reaction before deciding this policy and also after imposing a fiscal policy (Schanz.S, 2008).

2.2 Tax policies as part of the fiscal system:

In some countries of the European Union, some studies have been carried out on how the fiscal system changes indicate in the state budget. This is about the way of how a state achieves a harmony between the costs and revenues that generates a system of a given state (Wagner, 1976, Pommerehne 1978). A country that has the most revenue and a certain level of public spending indicates a good future for that country and a sovereign state budget, which is not possible for any country in European countries and moreover, because the frequent changes in fiscal policies and other financial policies (Roig-Alonso, M. (1998).Fiscal system is not just a term that needs to be updated or improved at all times. But it is such a subtle economic process, as it has many fiscal and tax policies, taxpayers, agents, etc. or we can call it as one of the most important processes of a country's economic planning, which means that to this system should be given a very great importance. At the beginning the tax system was mainly built for corporations. Generally, in all countries of the world, there were more corporations than other business units. And since corporations had profits or even high earnings during the economic activity, the politicians of the respective states began to use them as way of generating the most revenue in the state budget, so they created the right

policies for set a balance between public spending and revenues generated by corporations Oates, W. E. (1969).

The optimum tax system, or a system that has no irregularities and no deficiencies, still does not exists, even in countries such as the United States or Germany that are a world superpower, frequent changes in the fiscal system and fiscal policies have led to many irregularities and quite dissatisfaction for the taxpayer. To create a proper fiscal system, or at least rely on some rules that need to be taken into account by states when designing the system, and those rules are (Smith, S. 1992)

-Each subject should contribute in order to support its government as much as possible in the means of revenue that it will generate.
- The tax that everyone has to pay must be fair, safe, in favor of entities or taxpayers, and not arbitrary.
- Each of the taxes or any other tax liability should be taken at those times that are most appropriate for the contributor to pay.
-. Each of the taxes should be taken and kept out of the system as little as possible.

The power of a tax system do not depends only on the number of entities that one country has, but on the income that the state generates. The tax resource consists mostly: incomes, rent, profit, land, property (Kryeziu R, 2014) etc. and all this should be factual in order to give to the legislator the opportunity to decide in which form he/she will apply the taxes (Leibfritz.W, Thornton, J and Bibbee, 1997). It is not only the creation of a tax system that is important but also the administration of a particular tax system because the proper administration bringswide system consistency and a harmonization for all system components. The administration of the tax system requires a recognition of the costs incurred by it. Recognized direct costs are costs of the operation of the tax authorities. Indirect costs include a variety of forms such as:the cost of time used to collect tax declaration forms, the costs of keeping accounting records, the cost of tax consultants' rewards.

Until now we have mentioned fiscal policies that are an integral part, or that they are the epicenter of a tax system. Monetary policy and fiscal policies have been the most discussed and analyzed topics from many different scholars around the world, showing very clearly that establishing or creating appropriate fiscal policies would be the future of a country. For fiscal policies, many different studies were conducted in the Eurozone, pointing to the importance of the latter for this continent, but not only for the Eurozone, but also for developing countries, a study has been carried out to see the effect of tax policies on their development. The most important principle of fiscal policy is described by two authors as follows:

"The primary purpose of the taxation process, or so-called fiscal policy, is to transfer the control of resources from one group to another in a society and realized in such a way that it does not compromise, but rather helps in realizing other economic goals (Break.G. F 1975). But fiscal policies also include taxes, agents, taxation rates, tax obligations, but above all, taxpayers who are the most disadvantaged in this tax system. In a study conducted in Romania, after the 2008 crisis, all fiscal policies were changed so as to make possible the recovery of the economy in general, but they also came to another conclusion that fiscal policies are not merely a main objective simply economic growth, but also the consolidation of public finances (Dinu, M., &Marinaş, M. C. (2014)). For the planning of appropriate tax policies it is also necessary to look at the composition of the policy or government of a state (Welsch, G.A., Anthony, R.N., 1974). But fiscal policies are also discrete and the primary purpose of these policies is their impact on the economy of a country.

Discrete fiscal policies are supposed to help to achieve some macroeconomic parameters such as the optimal level of employment, price stability and economic growth, and they consist of executive and legislative powers of the state through government spending programs and taxes. Fiscal policies are part of a law process and the state budget and these discrete policies cannot act immediately (Auerbach, A. J., & Gale, W. G. 2009). After the global crisis that generally caught up in all countries, we can say that discretionary policies are not giving the proper effect and stabilizing various macroeconomic cycles (Feldstein, 2009). According to Colbert, "The art of taxation consists of such a level of taxation in order to provide a multitude of possible revenue, with the minimum of taxpayer response. For taxes and fees there is a

division of the specifications under clearly defined laws, they appear to be the same, but they really have other meanings, because each one is designed for a particular purpose. The tax according to Law no. 9920 is hereby amended as follows:

Tax: It is a compulsory and irrevocable payment to the state budget, or it is also done for exchange of goods and services.

According to the author (James.S, 2001), the tax has certain characteristics such as: that the tax lacks the condition of direct return or compensation or are such unanticipated inputs in the case general.

It should be said that taxes are the element that has changed more in a particular fiscal system, for every given exchange there is a certain tax and every source or profit has a set tax and that is paid by all. While the tax has another definition in law 9920, but very close to that of tax, with small differences:

Tax: It is a compulsory and irrevocable payment in the state budget, but also in the budget of certain local government organs, established by law and it is paid by any person who benefits from a public right or even benefits one public service in the Republic of Albania.

The tax has its own characteristics, such as: they are mainly monetary revenues in local state organs, are also voluntary, and from a financial point of view the role of taxes is less important than that of taxation. Many scholars have taken over the review and study of any tax, because they are among the most numerous. We can start with the dividend that is made on taxes and where a general dividend is given as direct taxes and indirect taxes. Direct taxes are all taxes that impede income, real ownership, dividends and these taxes are paid directly by the responsible persons and are deposited in the state budget. Direct taxes are divided into progressive taxes and proportional taxes, each of which has its own characteristics, because progressive tax has a different percentage of tax base application, while the other tax has a different percentage of tax base application. However, in the history of taxes, different forms of taxation are known as proportional, progressive, regressive and flat. Each of these systems is distinguished by the type of fee that is applied to the tax object for its calculation (Liaropoulos, L., &Tragakes, E. (1998). Indirect taxes or indirect taxation, which is mainly due to taxation of consumption, where this is realized by taxation of the price of products and

services and is paid by consumers in their indirect way because the introduction of these taxes into the state budget is done by the subject itself or entity that carries out other actions with the fiscal system.

For all types of tax, have been conducted a lot of different studies, ranging from direct and indirect taxation. We can say that studies have started with income taxes, which are seen as one of the most important direct taxes and which occupy a large volume of revenues accruing from taxes to the state budget (Madura, 2004). Exactly is the consumption tax, a typical example of indirect taxation (Hall.R E and Rabushka, 1983). But not just for consumption but also for other taxes such as taxation on international investment and savings (Gordon.R.H, 1986) Gordon 1992 also conducted a study on how different countries applied income tax. Profit tax and dividends are studied by (Chow, JF, 1974), while capital structure tax has been studied by Modigliani and Miller (Modigliani, F., Miller, MH, 1958), whereas in Europe the study of interest rate tax with cross-border strategies (Janeba, E. and Peters, W, 1999), while VAT has been studied by (Gordon.R.H, 1986).However in the European Union, which is the cradle of tax, VAT is one of the most criticized by academics because of its frequent change and the many exemptions made for it, bringing a large reduction in state budget revenues.

2.3 Changes in fiscal policies and its impact on the economy:

Fiscal policies have always been formed primarily for all large companies in a country and not for small businesses. Big corporations, or more precisely since corporations were best known, when creating a tax system, we can say that every policy was originally created and then generalized and regulated for medium companies, reaching even in small businesses. Fiscal policies have a huge impact on the performance of a country's economy and are among the key factors affecting any kind of small or small business. Normally taxes and fees for large businesses are more numerous and larger in size than tax obligations that small businesses (Chown J, 2000), at least in the countries of the world and mainly in Europe, this is visible. In various studies I've read mainly developed in Europe, we can say that often on big businesses there has been a pressure to pay tax obligations on the part of big companies and a

liberalization or let's say a favor towards businesses small. Talking just about how the financial system affects businesses means that you've talked about much of the economy of a country. Throughout the review of the literature, I noticed that the fiscal policy and the tax system itself have a strong link to GDP and a certain place. In the study titled "Aggregate Demand, In: Macroeconomics", it is mentioned very clearly the link between GDP and established taxes. There is a positive relationship between them.

$$AD = GDP = C + G + NX + I \qquad \text{eq } 1$$

Looking at the above formula we can clearly observe the way in which taxes affect the GDP of a state. All this is related to the types of fiscal policies (Mankiw, G, 2008). In the knowledge adapted to the development of different subjects, we have seen that we have two types of fiscal policies that are bound to fiscal policies, each of which has a certain use and importance. As noted by the formula consumption is indirectly taxed by the VAT, investments can be considered as a source and can be taxed at source and net exports include both imports and exports, where gross exports are not taxed , while imports have certain exceptions but mostly they are taxed.

According to many different authoritative policy makers, it means:

↓ t(taxation) / ↓ VAT / ↓ Excise => ↑ C and ↑ G => ↑ GDP, but we are lowering taxes in general we have a ↑ I and we will have an unemployment ↓, in the budget deficit of the state. While restrictive fiscal policy is the opposite, that would mean a ↓ of GDP and a ↓ I and an increase in inflation and unemployment and (Mikesell, J). As it is mentioned above one of the most important taxes and that many studies have been done by many different, we can say that is income taxes. One of these studies had to do with the method of amortization of the tax evasion of monetary flows that are uncertain in the future (Berg, M., Waegenaere, A.D., Wielhouwer, J.L., 2001). This study clearly stated the fact that taxpayers interact with tax agents to enable them to intervene in the amortization of their income, so that the tax burden they have to pay is lower, so they do not believe they will have , any major returns and by the state after the payment of tax liabilities at the disposal of these taxpayers

2.3.1 Taxpayers

The effect of the notice is the impact on the economy of introducing a new tax that is not absorbed instantly. Some tax effects can be recognized and before the introduction of a tax change only through the relevant notice. The fact that the effects of the announcement, otherwise known as the effects of the impact, may be very important explains the statement according to which: "An old tax is a good tax" (Buchanan J, 1999). Not only does the notification effect give rise to problems related to tax law, but even the anticipation of a future announcement may also provoke an increase in the spreading effect on prices or other tax-affected variables. In a study conducted in Spain in 2012, as its economy was not at the right levels and local taxes and fees had changed a lot, it was noted that taxpayers, both large and small, felt some kind of insecurity and some kind of consent to such frequent changes in the tax system and fiscal policies. In the unilaterally distributed questionnaires, taxpayers stated that these changes are not in favor of the businesses or entities they have, but they are in favor of the failed Spanish policy and setting as much change as possible in these policies is more borer issues (Jose.D and Alejandro.M, 2014). Taxpayers are generally susceptible to any taxes and taxes imposed, they want to be highly informed and be prepared for any change in the fiscal system of the country they operate, but at the same time they require to have information about other countries where they can operate.

Different theories such as empirical and economic ones are the necessary and useful tools to study the behavior of taxpayers when there is a change in taxes, but also all other economic policies (Crawford and Fredman, 2010). A tax system should be transparent in order the citizens to recognize the tax burden they have to pay. Many well-known economists advise that it would be very positive that the state aims to be transparent to the contributors and does not misinform the taxpayers. According to this view, those types of taxation in which are clearly defined the subjects that will pay the tax liability are most preferable. For example, one of the taxes that can be considered as a good tax is the tax on profit, because the tax-paying companies are anonymous in carrying the burden. But from the aspect of transparency, profit tax is one of the most obvious because it is not visible to the one who actually pays the tax.

Taxes are paid by people, not by institutions and are the shareholders, employees, clients and others who bear the tax burden on such a case.

CHAPTER 3

COMPARISON BETWEEN ALBANIA AND THE REGION

3.1. History of the tax system in Albania

The tax system in Albania has had a strong deviation with regard to how the country's political system has evolved. This path of the system has been the most accurate picture of the economic systems that have been installed and implemented by the Albanian governments. Systems are divided into certain periods, as well as the political, economic and social history, and each of the periods has its own characteristics, in which I have realized a brief summary of all the evolution of the tax system. The development of the Albanian tax system has divided into five periods as follows:

✓ The beginning of the fifteenth century until the creation of the Albanian state - it is known that it was under the great empire of that time as it was that Ottoman, where we noted the "first taxes" and the creation of a certain system, whoever was obliged to pay the obligation, let's call it the tax. After the division of lands and administrative divisions created, two types of taxes were introduced:
✓ Tax on tithing
✓ Tribute

Whereas the classification of taxes according to the Ottoman literature were as follows:
✓ Taxes based on sharia
✓ Common / Common Taxes (Fee for Fee and Fee for Livestock)
✓ Heavy taxes

- ✓   Extraordinary Fees
- ✓   Profit tax (which was handled by every craftsman, craftsman and industrialist)
- ✓   Personal Tax (placed on persons regardless of the amount or amount of property).

But, apart from all declared taxes, this basic taxation system was clearly defined on the basis of the Shariah's laws all tax liabilities that taxpayers had to pay, even those who were exempt from tax.

3.1.1The Albanian state (1912-1924)

The new state after declaring the country's independence inherited a backward tax system and the country was characterized by political instability. Despite efforts to improve and change the tax system, the government could not reform the previous system of the Ottoman Empire because of not changing the economy and not having a strong and stable administration. However, efforts were made to establish a tax system in the interest of the consolidation of the state and national economy, where some tax measures were taken, facilitating the peasantry from the burden and special importance was the collection of tax revenues in the cash register of the newAlbanian state. The taxes and taxation inherited by the new state are the same as those mentioned above

3.1.2The Creation of the Republic and the Albanian Kingdom (1925-1944)

After the Governing of Vlora in 1925, a number of changes were made by the ruling governments in the taxation system. Indeed, in June 1924, the first steps were taken to create a new fiscal system in our country or the basic principles of a tax system, although it had a small life expectancy due to the many economic and political factors of that time . According to those publications that I read about the tax system we can say from 1925 to 1939, was a period characterized by intensive developments in the tax system and the introduction or establishment of many taxes and duties, or more precisely the proper naming of these taxes. A Zog's tax system policies aimed at preserving some features of the old system, improving the tax system, applying customs duties, removing some of the fiscal burdens. It was this kingdom

that created the main principles of taxation of an Albanian state and at this time the state budget revenues consisted of seedlings and taxes at that time and these generated income had their seven specified divisions.

3.1.3 Liquidation of the Tax System (1945 - 1990)

After World War II, the government followed the policy of destroying the inherited tax system and set the political objective, creating a new tax system, eradicating what until then considered why not private property and the taxes would be used until the disappearance of private property, aiming at the complete change of the economic system. The tax policy of the Albanian state relied on the principles of socialist classics (Fishta .I and Ziu.M, 2004) on taxes and taxation. On the basis of this concept, the power of tax was initially used as a political and economic instrument for the implementation of a very high progressive taxes on the rich (up to 80%) aiming at their economic weakness; the limitation of capitalist relations, as well as the weakening of the economic power of the bourgeoisie; and the creation of a new system of socialist relations in production. The tax system contained the central and local tax system, which were mandatory, set by law, which are deposited in the state budget, in the amount and within the prescribed timeframe. The tax system was divided into the central tax system of the city and the village, in the first one included: taxes on wages realized by the activities of craftsmen, traders and similar persons, income from work, income tax from singles and from married, the second included tax on income from taxa, tax on alcoholic beverages, income tax from the cultures of the city, but also the taxes on the car owners, the stamp duty, etc. Needless to say, although it can not be called a proper tax system, again within the policies pursued at that time there was a tax system nationalized in its best form, where its traces exist to this day.

3.1.4 Tax system 1991-ongoing

After the collapse of the communist regime, the economy of our country had a very different culture from those of the surrounding countries, even having a culture and economy even

worse than all of its neighboring countries that also had a certain communist regime. Albania's economic and financial situation in this period is characterized by:

✓   Deep economic crisis and lack of legal certainty for the market economy.

✓   Lack of ownership right

✓   The "cultivated" psychology that Albania was the only country without taxes and taxes

✓   Lack of tax legislation and fiscal culture

In Albania, the first legal acts for the establishment of the tax system have their origin in 1991, a period corresponding to the drafting of tax legislation in the country, which was concrete with its announcement in January 1992, and then with issuing the Law on Income Tax on July 14, 1992. Tax legislation, which began to be implemented in 1992, can be considered as the foundation of the modern tax system. We can say that in these years there was a huge development and a significant improvement in the tax system, at least based on the laws that were read out for the tax system. At this time, the concepts of direct taxes and indirect taxes began to appear for the first time, each of which is included in certain taxes or fees. It was also understood and increased the importance of the revenue collected from the tax system and the impact of these in the economy of a country.

During the following years we can say that the Albanian state had a good performance of the cashier's system, but in 1997 it suffered a great financial crisis because of the pyramid schemes and the consequences of a disruption of the economy, were followed year after year onwards. The flat tax has been applied in Albania since 2007, having an immediate effect on revenue growth in 2008, before the outbreak of the global financial crisis. However, 2012 proved unsuccessful in its implementation because less than 10% of individuals actually reported income tax. From 2014 we have the progressive tax. Somewhat between 2007 and 2014, sometimes referred to as the years of restructuring and modernization of the tax system. In this period, a number of different laws for the reform of the financial system were drafted and adopted, among which we can mention the Law on Value Added Tax, the Law on Securities, the Law on Insurance and Reinsurance Activity, the Law on income tax, the law on

tax procedures in the Republic of Albania, etc. These laws, together with the directives and recommendations of the European Union, are at the basis of the current legislation on the tax system in the Republic of Albania. Later in 2015, the big action is already known to avoid tax evasion and the increase in tax revenues that have been missing for years, sending a rise in the debt level, which still receives very high figures today a country like Albania.

3.2 Comparison of the Albanian tax system with some countries in the region

We have to admit that the tax system in Albania is not very advanced system and in line with what is considered a proper taxation system. Recently, a tax action has begun which appeared to be not well accepted by Albanian taxpayers, who have a serious lack of culture regarding how a system should function right. Tax revenues, collected from the fiscal system have been low and unmatched at the same time. The only contributes that the state has received were social or health insurance contributions or contributions, though not voluntary ones, and only some of the big companies have made possible payment of certain taxes. Many of the businesses in our country that have operated in the market that they have not been registered at the National Registration Center, not to mention, for the creation of purchase and sale books, or the use of fiscal boxes for which a whole tax action.

Our country, on the basis of political and social costs, has been called a tax-free country, where this concept has been inherited through generations, giving us exactly a balance of the economy and an increase in unemployment due to non-declaration of employees . Based on the most recent IMF reporting, note that our country is considered as one of the countries with the lowest burden of land than neighboring countries. This is because the spaces for evasion are numerous and still unpopular because tax policy is amateur and the tax administration remains a very weak body in action. Our country ranks last in comparison to neighboring countries, as regards collecting tax revenues but not collecting them. According to this report, Albania should take an example from neighboring countries to overcome this problem despite the recent initiative to reduce informality. Many economic units have never even made a statement or paying the contributions to their employees. Earlier, but today, fiscal evasion in the country continues, though at much lower and more controlled rates. Now moreover this

evasion can make the owners by hiding the products or not issuing the tax voucher, or by lowering the level of profit and agreeing with the financiers or accountants so as not to generate huge amounts in their earnings paid a tax on profit or even other low liabilities.

By 2014, according to many authors various portals and editions of elevations, even the statements by the Ministry of Finance can say with full conviction that Albania is the only country that has had a lower level of fiscal revenues and a high level of spending as a consequence of the marked political, economic and social backwardness. In fact, according to IMF reports, our country and the Balkan countries reported that the main tax rates such as VAT, TF etc. are much higher than even the most developed Balkan countries, besides the tax thresholds with those rates being high. compared to EU countries, we can say that tax rates and contributions are very low, while compared to the Balkans are very high. albania has some very low tax rates or percentages, something that does not allow the identification of taxpayers or their creation so that they contribute to the creation of appropriate tax revenues. In no country in the Balkans, or in many rare places, there are zero tax rates, or very high profits to include profits or incomes in calculating the tax burden.

CHAPTER 4
DATA AND METHODOLOGY

4.1 Data collection

There are used primary and secondary data for this thesis. In order to measure the perception of the taxapayers regarding the fiscal changes, it is realized a questionnaire. All the questionnaires have been distributed in a direct contact with the finance chief or the company's financier and in indirect through accounting studios. The number of questionnaires sent was 230 in total, which 204 of them found valid, while the rest 26 were invalid for various factors that are not directly related to the disputed questionnaire but with the refusal to respond or the inability to complete the questionnaire by responsible persons such as financiers. The questionnaire is abandoned by 24 questions, where six of the first questions require general business information, while the rest of the questions are in line with the perception of the businesses regarding the tax policies. Out of these twenty-four questions, 15 of them are closed questions, one of them open questions and only 5 have a degree of appreciation, otherwise called liqueur degrees. The first, second and third questions are general information about entities. The four and fifth questions relate to each other in order to notice when the entities have started their activity and when they are made aware of the registration at QKB.. The other questions are related to the tax action developed in this period and the type of penalties the entities have received, the tens of questions is a question that is different from the first because between accounting and fiscal laws there are many differences that often for many businesses have made possible the generation of different fines. The next and beyond are questions about which taxpayers think or allude to what is required, e.g. if they need training or not, which of the taxes think that there is a high burden on them and how much

high, how have all this tax assessment been exercised, etc. This is a questionnaire based on a few readings and at the same time as the most recent reports of economic portals such as the IMF and a media outbreak of all this delayed initiative.

The questionnaires have been spread to small and big business and have been completed from responsible people during April 2018. The data which were taken from them was divided in two major groups (small and big businesses). The data has been excelled. After that, it is used SPS software to build ANOVA model in order to analyze them and to compare the results in the groups that previously were mentioned. Firstly we will see the overall perception and then the impact of size on the perception. The thesis's variables are SB and BB independent variables and the perception is the dependent variable. Analysis variance (ANOVA) is used to analyze the differences among groups. Many authors state that ANOVA model is appropriate for comparing groups for statistical significance. In other words, it helps to determine whether there are statistically significant differences between groups. It is suited to a wide range of practical problems.

4.2 Methodology

The tax system and the fiscal policies are widely dealt with by many different scholars in different perspective. Taxpayers have also developed studies of different types to study how these are affected and respond to any possible change in fiscal policies and laws. In this thesis will be analyzed the historical part of the tax system and more concretely the perception of the fiscal changes.

In the first chapter are mentioned the definitions of the key elements of the tax system such are tax, taxpayers. After that we can see the evolution of the fiscal policies in the Albanian system and a comparison between Albania and the region. Finally we have the analyzation of the primary data through charts and ANOVA model. ANOVA model will help me to analyze and compare the results between SB and BB. The thesis will be concluded with the findings, recommendations of the research.

CHAPTER 5

# EMPIRICAL RESULTS

5.1 Analyze questionnaire

The questionnaire is designed to have an argument and answer the research question and all the other questions that are have raised in order to achieve the results and the conclusions drawn. As it is shown above, this questionnaire is distributed in Tirana, with specified areas. In the 220 dispersed questionnaires, 204 of them are properly filled out by the responsible persons and are valid at the same time, while only 16 of them are not valid. Most of the entities from which the questionnaires were distributed were mainly in Tirana city. They were almost 204 completed questionnaires. They were split in an equal way: 86 big business and 118 small business.

As can be seen from the following chart it can be said that 45% of the entities that answered me in the questionnaire were retail trade, where most of them were small businesses, while the rest went to large businesses, followed by 37% of the entities have their wholesale trading activity, while in the smallest number of respondents were the production activities, with a 10% percentage and the service activity which, based on the responses received, results in a percentage of 8%. Production and service activity was very difficult for me to have direct contact with company financiers for different factors, who did not depend entirely on me.
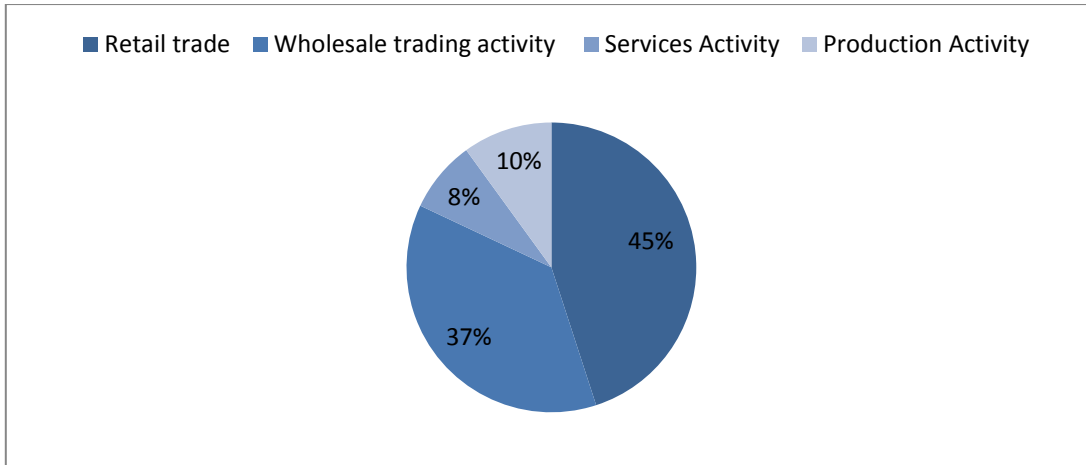
*Figure 1*The kind of the business activity

The fifth and sixth questions are very related to each other, because in those two questions we will see when companies have actually started their activity and when they are registered at the National Registration Center. Most of the companies which were contacted, they state that they have a foreign capital and always show that they want to be ok with all the decisions and changes that the state has taken so they preferred to register in time in order to not create problems. Businesses that had operate for a short time in our market, which they were somewhere between 0 and 3 years, showed very clearly that their registration had taken place after the first tax audit, which means about 6% of them. While the businesses that had been operating for many years in the market showed that most of them in Tirana were registered in time, at the national business registration center where among them can be mentioned: Kosmonte Foods Albania, Delta Sh.pk, Neranxi, Albtelecom Albania, while another part in Tirana were registered after the tax action or were registered much later than when they initially started the activity.
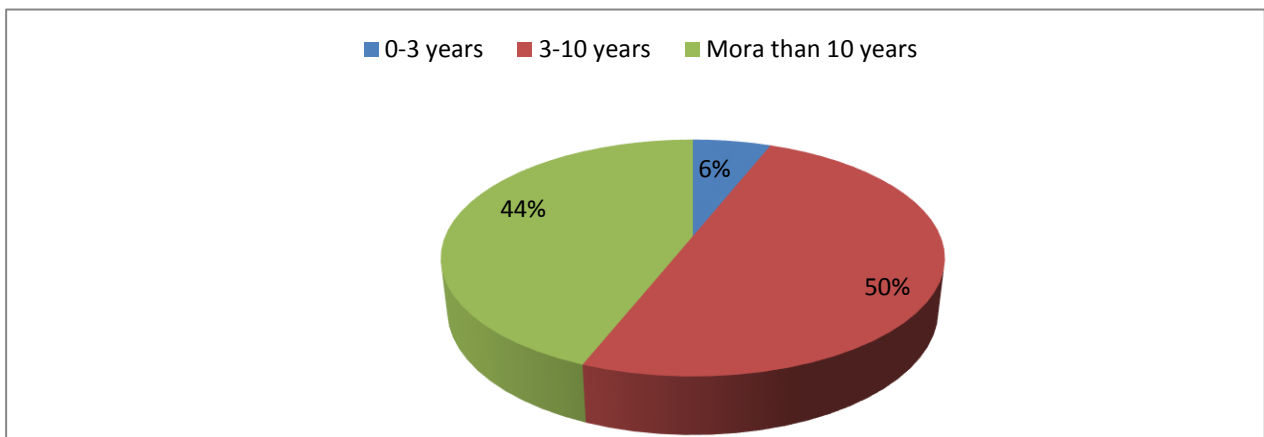
*Figure 2*The duration that businesses have operated in the market

The following graph indicates that the units were controlled by tax inspectors of the area but also by other responsible taxpayers as controllers who are not necessarily related to external inspectors. As can be seen in the graph above we can see that somewhere in 27 business units are checked only once by tax inspectors, this generally based on the generated questionnaires were more large and consolidated businesses and timely acting on the market ours, which means they had gained a trust from the tax authorities.
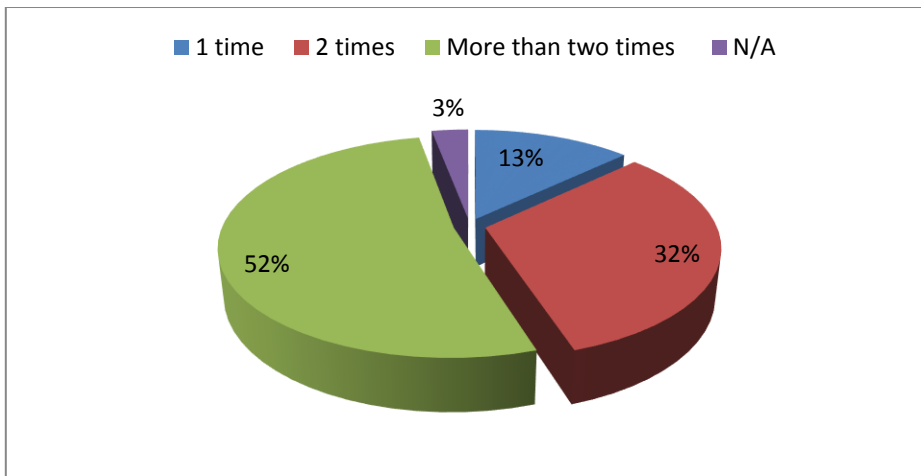
*Figure 4*How many times the businesses have been controlled

Most of the businesses were controlled more than twice, about 107 of the economics units within a specific period because we have to say it was more a control against small businesses. The entities that were controlled twice were the lowest in number, somewhere in 66 of them, whereas the entities that gave no response, since they were not controlled for this period were somewhere in 6 of them. Controlling each entity for a period of one year, more than twice is an inadequate economic policy or action, because frequent assignments exert a lot of pressure on the entity, preventing the continuation of the activity in a properly way.

Graph 1.1

The number of the penalties that the subjects have took
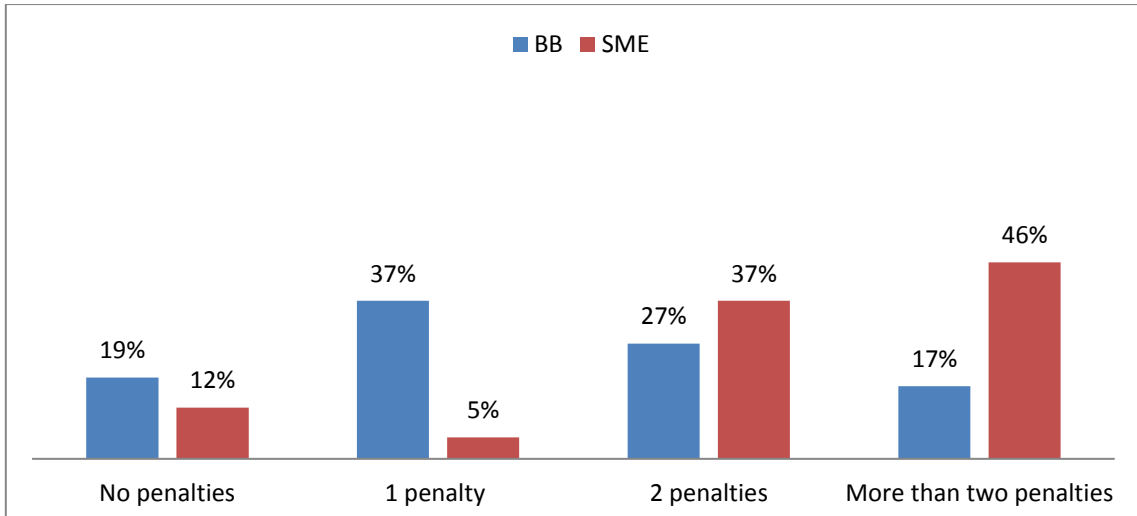
Based on the graph above we notice that large financial units or businesses that are considered big have a lower number of fines. Businesses with a penalty are mostly the big businesses that most of them, which have made it possible to di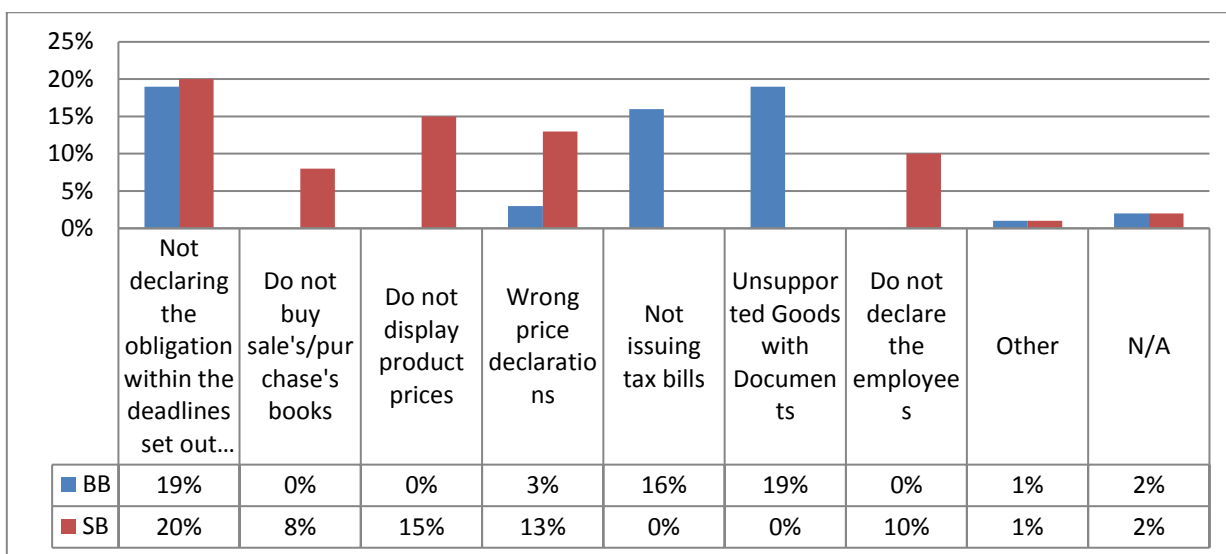stribute the questionnaire, we can say that they have been operating in this market for years and are more careful about all the fiscal incentive systems. Even for businesses that have only received two more penalties are the SB. Based on this data it can be said that now that all this movement and this tax action has been taken by the government and the competent fiscal organization has aimed at the largest and at the same time fierce control of the SMEs that appear to be is not that they generate tax revenues for the state budget over the years for many factors. The number of fines imposed on small and medium-sized businesses can be said to be too high and at the same time very costly for these businesses.

From all this it seems as if these entities are the cause of the low tax revenues, but this can not be left at the expense of these units, as many large businesses that have the operating hours in the market cause the highest percentages of fiscal evasion and it seems that they are not penalized and even continue to operate smoothly and providing even greater profits. But the question arises which are some of the penalties that big businesses provide and what are some of these penalties for small businesses?

Graph1.2

Types of penalties received by entities

	Not declaring the obligation within the deadlines set out…	Do not buy sale's/pur chase's books	Do not display product prices	Wrong price declaratio ns	Not issuing tax bills	Unsuppor ted Goods with Documen ts	Do not declare the employee s	Other	N/A
BB	19%	0%	0%	3%	16%	19%	0%	1%	2%
SB	20%	8%	15%	13%	0%	0%	10%	1%	2%

Graphic number 1.2 shows clearly that a number of different penalties are taken by different entities based on the turnover they generate during the year. Clearly there are some penalties that both large and small businesses have in common. Failure to declare the obligation within the deadlines set out in the fiscal law seems to have been a common offense but that the big businesses were penalized, which showed that they often overlooked this penalty even because they saw it as a small cost and many of them showed that this was also due to the lack of time for all the actions that are being done in businesses. While the penalty that is almost equal for both large and small businesses is the penalty related to the non-payment of the tax liability within the deadline set in the fiscal laws for any tax.

It seems that the highest penalties for small and medium businesses have been related to not issuing a tax coupon, something that for big businesses is not a problem. The only penalty that has not been selected by all of my units in the study is not allowing tax control. The penalties that have only affected the large and non-cash business are the following: the failure to issue a tax invoice for goods that they can buy or sell, unaccompanied goods. Which means there are only two fines that have touched the big business, as opposed to the amount of penalties that have touched the small business. While the taxes that have affected SB and have not affected the big business are as follows: Failure to keep the right documents or purchase and sale books; no display of the price of traded products, no declaration of employees or even payments or receipts with amounts greater than 150000 ALL

The penalties that an entity can take are many, even though they may not have a direct link with the entire tax system. It has been heard for a long time by Albanian taxpayers, is a complaint about the level of this fine and the mistrust they have in its value, as well as the entire tax system, for many reasons by the most diverse but point of the first cultural one and not the proper development of this system over the years. Precisely with this tax audit that was developed, it is still believed by the entities that the level of fines generated for this period is simply a value set on an unrealistic and proper basis, but on the basis of the unknowns of the responsible persons.
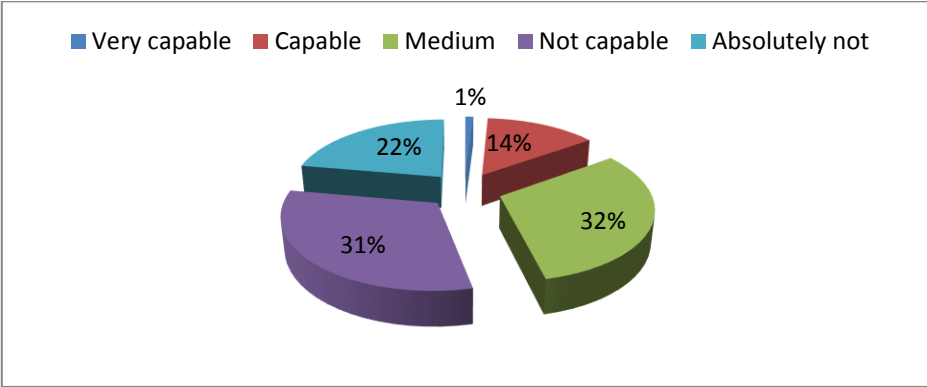

Figure 4 The evaluation of the ability of tax authorities's employees

The chart gives a summary of the evaluation of the respective people who have done the controll, where by filling out the questionnaire for the question of whether the level of penalties received is in full compliance with the rules and tax laws. Some entities (especially big busninesses) that had received a penalty thought that the level of the fine was in full compliance with the fiscal laws and at the same time affordable for the entity. While the rest of the entities have a lower estimation of how these high costs for the entity are met, especially small businesses.

Most of the entities in our country think that these penalties are of a very high value and cause very high costs for the unit, hindering the economic development of the entity as a whole. This shows some sort of untrustworthiness of businesses against persons involved in the development of relevant duties in the tax system and some kind of underestimation of the

knowledge of these persons, perhaps because of other factors or due to delays in return of the response to these taxpayers. A very small proportion of financial analysts gave a positive rating to these individuals, while the rest of the financiers gave a moderate and lower estimate.

Regarding the question whether the entities have addressed to the Tirana Appeal Directorate for fines, based on the statistics and answers provided in the questionnaire, most of the entities have filed a petition for a fine in this competent body. About 23% of the entities did not consider it necessary to appear in this body or other bodies to apologize for the penalties or reductions. While the rest of 77% of entities thought it necessary to file claims to reduce the level of penalties received, as most of them are medium or small entities, but also large ones that have been penalized twice or more than twice at very high and unmanageable values.

All of these fiscal changes are often too unconcerned, very unexplained and not very quickly adapted to taxpayers, both businesses and taxpayers. Everyone needs to be well-behaved for any kind of change that will occur in a tax system, because, according to many taxpayer studies, "an old tax is a good tax", so an old system for them is a system of good. Businesses are taxpayers who require a great deal of time in making changes required by the tax system, so a question posed to the taxpayers involved in the study is as is it necessary for the taxpayers to be trained for the fiscal changes. Based on the answers provided and collected, they presented this result:
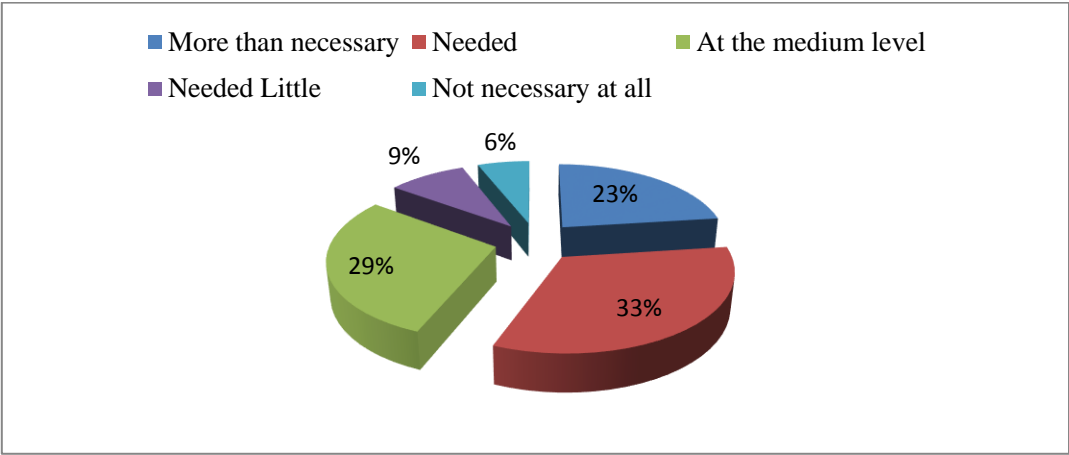

Figure 5 How much is necessary for taxpayers to be trained for the fiscal changes?

The graph shows that most of the financiers of the entities feel much needed to develop different trainings in the fiscal system for any change that the face. Most of the entities have an average rating for these trainings. While businesses that were only penalized for a kind of penalty, we can say that it was not necessary to carry out fiscal trainings because they were very well informed about these changes and because their businesses had been operating for years in the level of professionalism. However it was very necessary to inform the taxpayers in due time for any new initiative. Big businessesare taxed in a different way from small businesses.
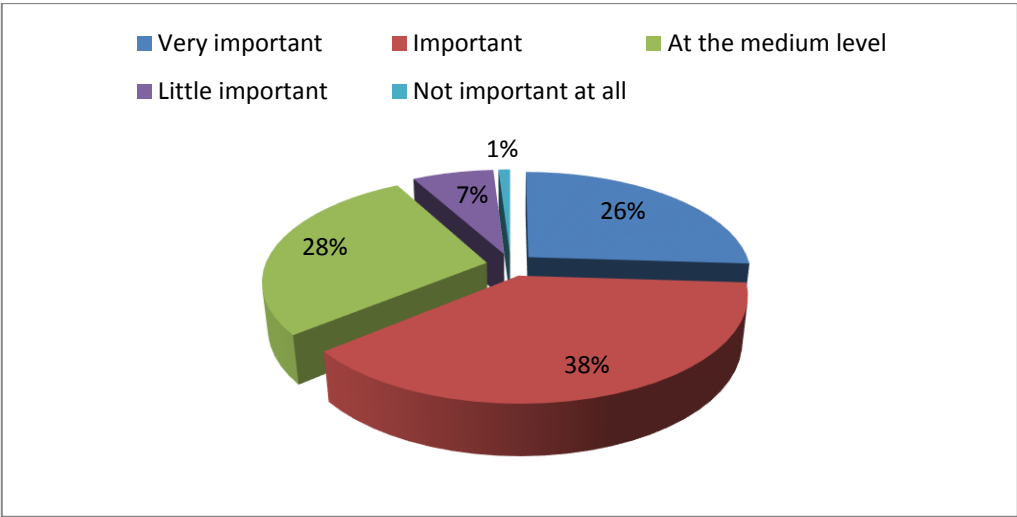
*Figure 6*The importance of taxation for the businesses

Figure 7 shows the significance of taxes for entities. Based on the results of the graph, it is shown that most of the entities have an average rating for the heavy weight that these taxes and taxes charge for them. About 38% of the entities value all the severity of tax liabilities as important, while 28% think these liabilities are important at the medium level and about 26% of other businesses specify them as very importamt for the entity. Only 1% of the entities state that the taxation is not important at all.
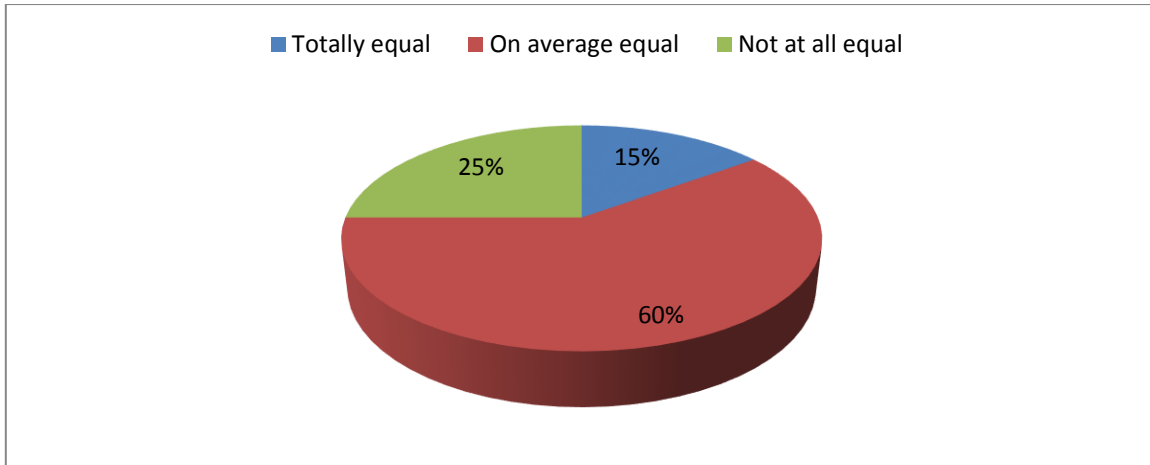
Figure 7 How equal do you believe that the controls from the respective persons have been?

Small taxpayers (businesses) expressed the impression that large businesses did not suffer much from all this tax action, and they were also greatly favored by all this tax audit and small taxpayers believed that all this control has been done especially for them, for the a lot of reasons, among them due to high tax evasion. About 15% of the entities that are a very small percentage are very positive about all this control over the businesses, which is to say that it is a negligible percentage that have confidence in the development of the entire tax system in general. While most taxpayers in the business format, both large and small, expressed some sort of untruth about the fiscal system and the way this system operated in general, not to mention all this control against informality. This is a negative sign to the entire tax system in our country, showing that many taxpayers do not believe in it because it comes as a result of other chain factors, which do not disappear or eliminate very soon.

Graph 1.3
The impact of the tax controll on the businesses

	Lower the number of employees	Lower the trading level	Increase the level of declarations	Accrue responsibilities	Create chaos until the procedures are set	Lower the level of investment in business	All the above	There was no impact
SB	10%	3%	17%	3%	23%	4%	37%	3%
BB	5%	3%	7%	2%	10%	15%	13%	45%
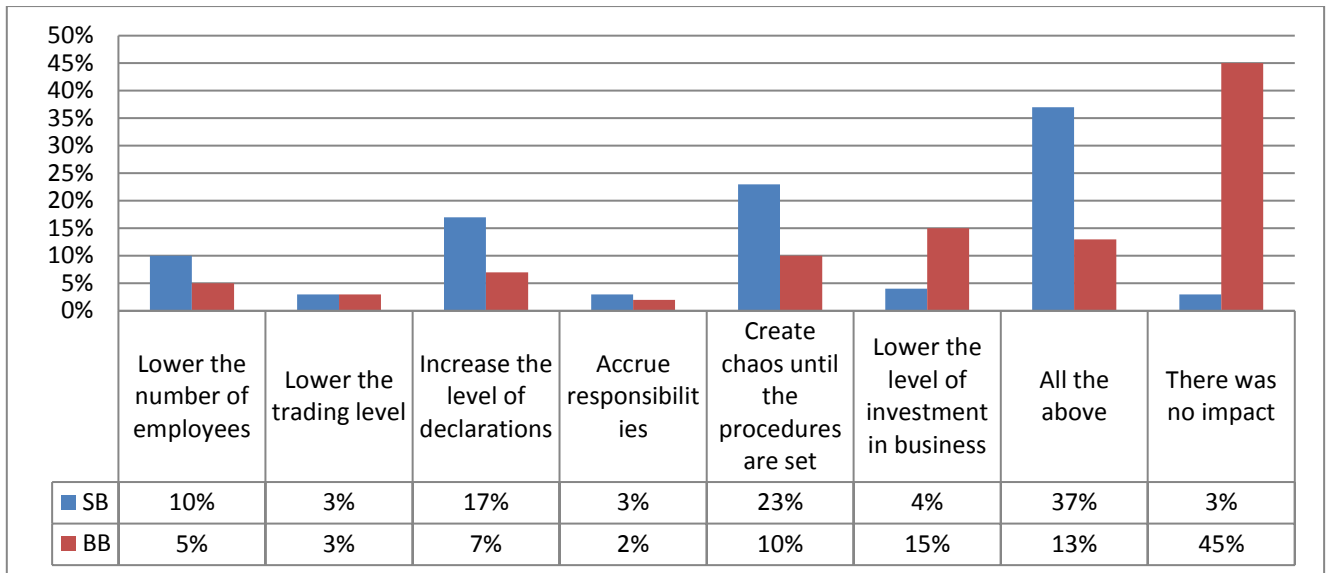
The way in which all recent tax changes have affected the selected entities are different for big small businesses. Normally, such divisions are expected between businesses, and in view of the mission, vision and objectives they have. It is well known that most of the businesses that are consolidated and operating in Tirana are more regular than some of the businesses that operate in some of the most sprawling cities.

This graph shows how all this tax control and constant tax changes have influenced their activity and continuity simultaneously. The differences between big and small businesses are apparent. Big businesses in the largest proportion filled in distributed questionnaires have shown that this tax control is not having a major impact on those with a 45% share, as they had been operating in the market for years and it is not that they were affected by tax audits, this only sometimes in special cases, which concerned the preparation of final reports, or mistakes that could be made during declarations. The rest of the big businesses indicated that they had had an impact on their activity, frequent control, causing many unnecessary breaks. 15% had lowered the level of investment in their business during this period, while other large economic entities indicated that their controls were mostly carried out for political reasons against them rather than as a genuine fiscal checkpoint, while as far as other alternatives are concerned, a very small percentage of these businesses makes their choice.

Otherwise, it happens with small businesses that view all of this tax audit as a quasi-political and not too functional or frustrating action for the fiscal system itself as a whole 37% of small and medium-sized enterprises show that with the implementation of tax control within a very short period of time, they have had the effect of: reducing the number of employees, lowering the level of trade at lower rates. Only 23% of the respondents responded that these frequent tax changes and a very inexpensive tax control have created a chaos for their economic unit, until all procedures are properly regulated, creating a lot of cost for and even interruption of their economic activity for a while.
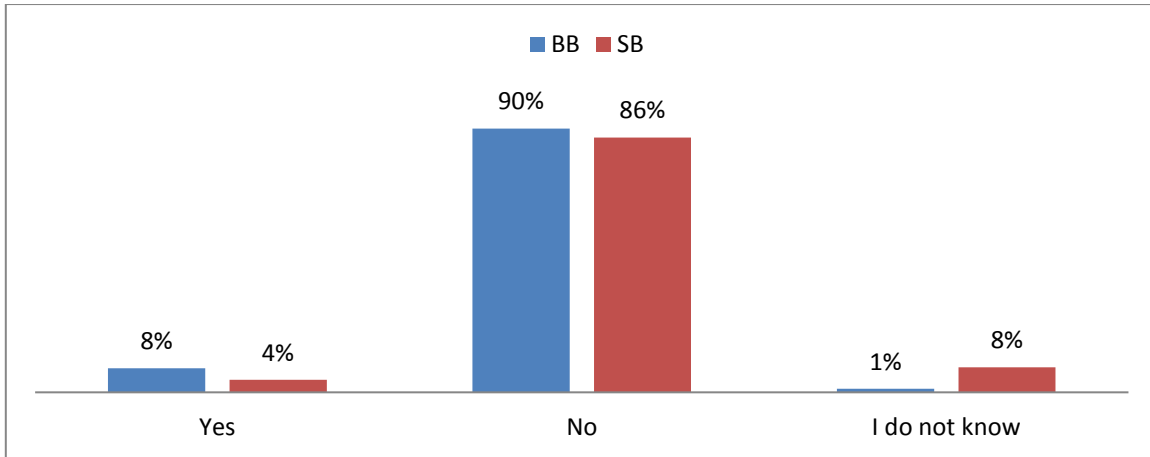
5.2 ANOVA Model

Above we saw an overeall pereption from the businesses about the fiscal policies and the changes on it. The second part of the results will be focused on the impact of size devided in two major groups: for Big Businesses and Small Businesses. In order to compare and analyze the results for this two groups we will use ANOVA Model. The study's aim is to test the significant differences within groups. Below we will see the results of ANOVA model fro the questions which were related with the perception/behavior of the businesses Obviously the perception for the tax sytem is different regarding the type of business.

A general finding about the perception of this two categories of the businesses is that the small businesses believe less in the fairness of the tax controls and tax policies compared to the big businesses. Small businesses have less information about the tax legislation of our country. Most of them they do not have informtion at the medium level. While a very small portion of the small businses 6/118 knows the legislacion well. Menawhile the big businesses are more well informed. The frequent changes in the tax policies are not are not efective for the businesses due to the businesses.

Some of the businesses had request a decrease in the penalties that they had received and the answer that they had regarding their opinion was in egeneral fair. However if we compare this answer between big and small entities there is a difference. Big businesses were not satisfiedrelated with the compesations that they should took from the gorvernment.

Graph 1.4

*Do you think that such frequent changes on tax policies are efectiv?*

From ANOVA model the results of this question seems to be significant P<0.05. Meaning that the difference is significant between the groups. However, 90 % of BB believe that frequent changes are not effectiv and 86% of SB have the same opinion. Even if for this alternative both categories of businesses aswered almost the same, we have a differencce in the other two alternatives of the question. From the raph we can notice that 8% of SB donot know if the frequent changes of the tax policies favor or disfavor the business. From this point we can understand that SB do not have enough information to judge what is apropriate or not for the unity compared to BB. In the question above we observed that SB have less ifnformation than BB and here we can notice a link between this two questions. The main findg of this graph is that both kind of unities state that the frequent change in tax policies does brings any benefit to the unities.

Another point where we can underline from the results of ANOVA model is the businesses's perception about the capability of the inspectors. The evaluation of this capability is based in the contacts, controlls that thi unities have had with the inpectors.

Graph 1.5
 Evaluation of inspectors
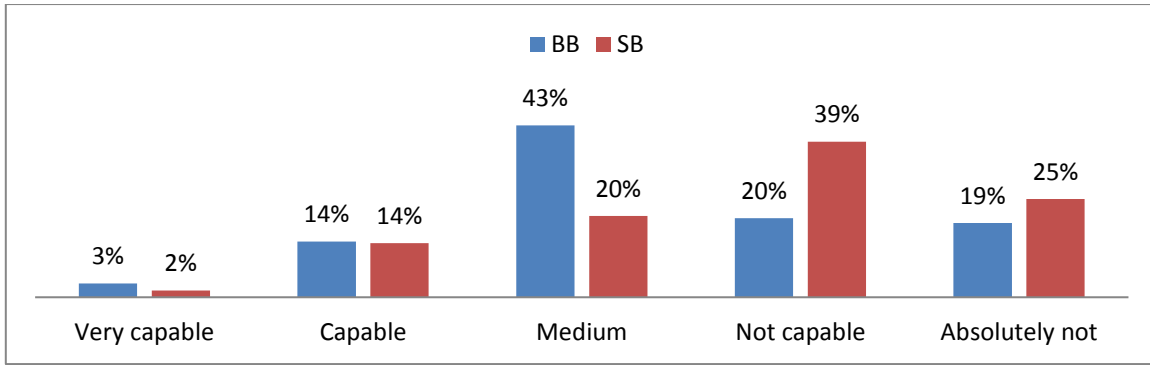
The results are significant P= 0.018, the perception of the unities is different. From data is shown that BB trust and evaluate more positively the inspectors who have done the controlls. From the graph above is noticed 43% of BB underline that the inspectors are in a medium level capabel. Meanwhile the SB that attached to this opinion are the half in number. Maybe this reaction may come from the fact that all the intensive tax controll that was made was seeking more SB than BB.

The entities were asked in the questionaire about the percption of the tax regiomatics system and their results were as follow:

Graph 1.6

Tax regiomatics system
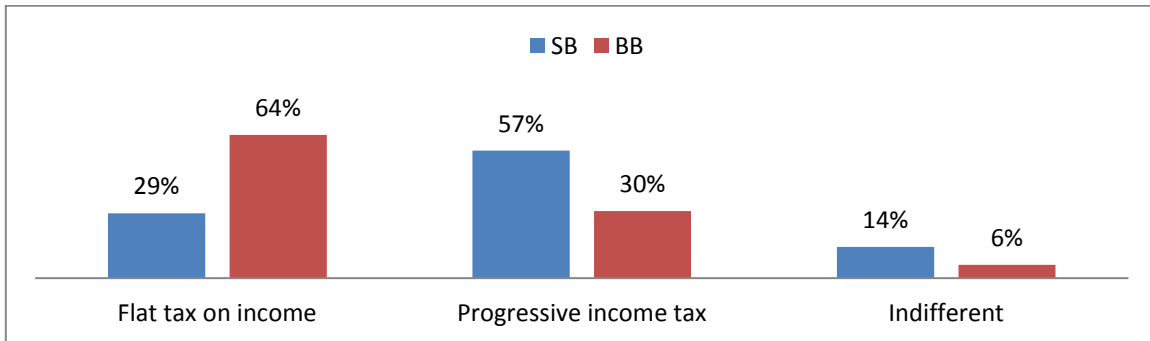
From ANOVA Model, we observed that the result is significant between SB and BB 0.000. Meaning that the perception regarding the the tax regiomatics system is quite different among the groups. Big business prefer more the flat tax on income than the progressive income tax. The progressive income tax is based on how much you earn thats why the big businesses tend to avoid it. Menawhile for the small businesses is totally the different. They state that who earns more should pay more. A small percentage of both kind of entities were indifferent in this quetion.

35

The conclude question is related with the alternative that it would be more apropriate for the tax system in the albanian condistions.

Graph 1.7

The apropriate alternative for the tax system in Albanian conditions
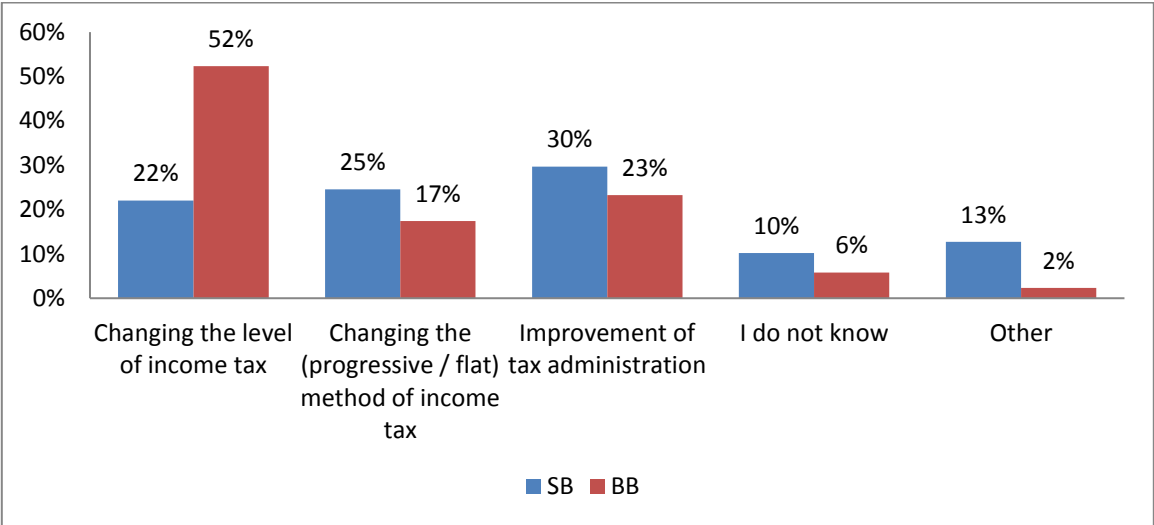
In the graph is shown that 52% of the BB prefer to change the level of income tax and 17% of them to change the kind of the tax which is applied in Albania. A considerable percentage believve that it should be a change in the tax administration. As about the SB, if we list from the importance the want an improvement in the tax administration, then a change in the kind of the tax.

Graph 1.8

How was the entity's assessment of all this tax audit?
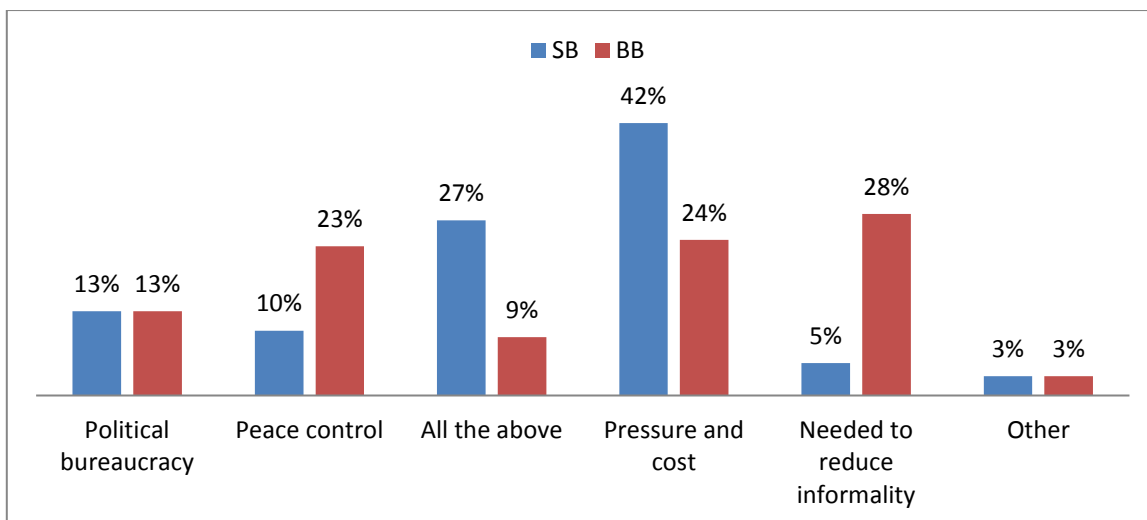
This is a question that is related to or wanting to know how the whole fiscal system looks, the whole of its policies. Albania is the only country in the Balkans that has developed a very liberal policy towards businesses that allowed them to develop all their activity by not paying tax obligations or not configuring at all times registered with the competent authorities. Even Kosovo, which is one of the newest Balkan states, has for some years been developing a somewhat appropriate fiscal policy, also as a result of a culture adored by Yugoslav or Serbian occupations. In the many comparisons over the years for the Balkan countries, Albania was listed as one of the last countries in the development of appropriate tax policies, or for the lowest GDP, or for unemployment, inflation etc.

As a conlusion of the ANOVA model findgs, BB and SB in some points they have totally different perceptions regarding the tax polices, inspectors, the fairness of the tax system. From the survey, is mentioned that SB were in focus of the tax controlls more than BB. This may be a reason why the results of some questions were significant in ANOVA model. The model states that there is a lack of trust from the small unities to the all tax system. Moreover small and big unities prefer a different regiomatic system. SB tend to choose more the progressive tax of income, menawhile the BB the flat tax of income.

CHAPTER 6
CONCLUSIONS AND RECOMMENDATIONS

The fiscal system in Albania has faced very important changes, for a developing country and compared to the countries of the region. In summary all this the thesis concludes to these conclusions which are a reflection of the literature review and the econometric model:

The fiscal system is one of the most important systems of a functioning economic system, which is the basis of many studies. Tax revenue is the income that accounts for most of the income in GDP of a country, and in Albania, these incomes have been growing ever year-on-year. Appropriate fiscal policies, with low or significant tax rates, bring about a rise in GDP = C + I + G + NX, a reduction in unemployment and the impact on inflation.

The tax system in our country has undergone many political changes, some of which have provided the basic form of a modest fiscal system, while other policies have eradicated it, causing major problems for this system that until recently was very unworkable. Taxpayers, both businesses and individuals, are the only ones who are affected or are sensitive to any kind of change in fiscal policies.

From the data collection seems that the recent tax controls that took place in our country to businesses seemed to have had a lot of impact on the them: increasing the number of businesses registered in NRC, increasing the tax declaration and paying them, made it possible to create a other culture, how a business should operate in a developing society, and increase taxpayer responsibilities to tax authorities. The most numerous penalties according to the analysis and completion of the distributed questionnaires are addressed to small businesses, such as: not installing fiscal equipment, not issuing a tax receipt, not paying the tax liability in time etc. While for the big business the number of penalties was small, but in higher value such as: failure to issue a tax invoice, no tax declarations on time, payment or collection of

customers or suppliers with values greater than 150000 ALL. All tax control exercised on different entities had different impacts. Most major businesses showed that the whole action was not having a major impact on them, while for small businesses there was a huge impact on reducing employee numbers, increasing claims on the online system, increasing cost, numerous checks carried out often had led to the termination of economic activity.

According to the thesis taxpayers do not have a strong belief in the entire fiscal system, how fiscal policies are deployed or changed, the way they operate with businesses, they are mostly driven by political bureaucracy that does not serve them. As about the small businesses during the development of the questionnaires expressed the idea that all this tax or action control was developed towards them and not to big businesses that do not pay the obligations as much as they need and are still not penalized. Few of the businesses think this control as a task that should have been realized before, extending in time and needed to reduce informality and tax evasion.

Albania is the country with the lowest level of tax revenues, compared to most of the countries in the region, even lower than Kosovo, while the cost of spending without mentioning the public debt is considerable. Tax controls are very necessary for any country, especially for developing countries such as Albania, which, due to various economic, social, but above all, political factors, has developed an inadequate fiscal culture.

LIMITATATIONS

There were some limitations for realizing this thesis. The literature review was limited for the albanian case. A key limitation of this research was that the businesses which were contacted, were sceptic regarding the questionnaires and as a result this makes the results to be less trustfull. Another point of limitaions was the lack of informacion for secondary data regarding the number of the businesses that were regjistrated to the NRC. This informacion was important in order to compare the primary data with the secondary one.

RECOMMENDATIONS

The recommendations made for this thesis must first acknowledge that they have come as a process of reading the literature, developing a questionnaire and ANOVA model but also comparing Albania with the countries of the region.

Tax controls should be developed, both for big and small businesses and for all types of taxpayers, so that we can familiarize the entities with them so that this whole step is not restored intensive from the beginning. Training at fiscal institutions for any possible tax evasion is very important, both as a consequence of a not very developed fiscal culture, but also of a significant lack of proper functioning of this system and its competent bodies.

Develop appropriate controls with the right people in order to create a highly functional and effective link between the fiscal system bodies and taxpayers. On the part of the tax authorities, there should be no room for taxpayers to judge the professionalism and the way of doing so, although even in the most developed countries the taxpayer are skeptical of any change that occurs in the whole system and any undesired outcome attributes it to the latter. Tax controls should be effectively organized and exercised equally in all entities.

Tax controls should not be exercised within a very short period of time, but they must be extended in time, leaving sufficient space for businesses to develop their entire activity without unnecessary pressure or pressure increase business costs and also bring no benefits to either party.

Albania needs to create a wealth fiscal system whose development will bring benefits, such as the level of GDP growth, unemployment and inflation decline. Appropriate tax policies are one of the best choices for every country, taxpayers, but also for foreign investors. Today the struggle between countries is to attract as many foreign investors as possible, pushing them through favorable fiscal policies and eliminating double taxation.

Reduction of some tax rates is very necessary, especially for VAT, or other taxes that are not very encouraging for our taxpayers. VAT is one of the taxes most affecting the consumer and is at a very high level compared to many countries in the region and at the same time a high tax on the minimum vital products.

The fiscal system is not to be seen as separate on its own but as a very important link to the whole economic system of a country. All systems within an economic system, including the fiscal system, are very important to interact with one another in order to achieve those objectives that make for any economic system

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QUESTIONAIRE

1   What is your current job position in the company?
1. Economist
2. Manager
3. Economist Specialist (Approved Accountant, Certified Accounting Expert)
4. Other *

2   What is your experience in this position?
1. I have no experience
2. Less than 1 year
3. 1-5 years
4. 5-10 years
5.Over 10 years

3   What is your highest level of educational qualification?
1. High school
2. Bachelor
3. Master
4.PHD
5. Other _____

****4   What kind of business is the subject where you work?
1. Big business
2. Small business

5   What is the activity of the economic unit that you work for?
1. Wholesale
2. Retail
3. Manufacturing
4. Service

6   How many years is the economic unit operating in the Albanian market?
1. 0-3 years
2. 3-10 years
3. 10 years and over

7   **When was the entity registered to the National Registration Center?**
1. At the beginning of the activity
2. 0-1 years
3. 1-3 years
4. 3 years and over

8   **Which was the reason for encouraging the subject to registration to the National Registration Center?**
1. For Correctness
2. Due to tax control
3. Other reason

9   **Howwell do you know the tax legislation of our country?**
1. Very well
2. Good
3. Fair
4. Slightly
5. Nothing at all

10   **Do you think that such a frequent change of tax legislation is effective?**
1. Yes
2. No
3. I do not know

11   **How many times has the entity been controlled from the tax audit?**
1. 1 time
2. 2 times
3. More than two times
4. Never

12   **Have you ever been subject to penalties for errors? If so, how many times have you been penalized?**

1.1 time
2. 2 times
3. More than two times
4. Never

13   **Which are some of the penalties provided by large businesses and which small businesses (Please note after the BM (Large Business) or BV (Small Business) Answer?**

1.Not declaring the obligation within the deadlines set out in the fiscal law
2. Do not buy sale's/purchase's books
3. Do not display product prices
4. Failure to meet the tax obligations within the deadline

5. Wrong price declarations
6. Not issuing tax bills
7.Unsupported Goods with Documents
9. Do not declare the employees
10. Other
11. N/A

14   **Howcapble do you think are the employees of state bodies?**

1. Very capable
2. Capable
3. Medium
4. Not capable
5. Absolutely not

15   **Has the company ever request forgiveness for penalties from the Appointment Unit of the Appellate Body?**
1. Yes
2. No

16   **How do you think was the assessment made by the fiscal authorities to change the level of penalties?**
1. Very correct
2. Correct
3. Fairly correct
4. No corrected
5. Not at all correct

17   **How much do taxpayer need to be trained on fiscal changes?**

1. More than necessary
2. Needed
3. at the medium level
4. Needed Little
5. not necessary at all

18   **How important are the taxes and fees for the economic unit?**

1. very important
2. important
3. at the medium level
4. little important
5. Not important at all

***19   **How equal do you believe that the controls from the respective persons have been?**

1. Totally equal
2. On average equal
3. Not at all equal

20 **Which was the impact of tax control on businesses?**

1. Lower the number of employees
2. Lower the trading level
3. Increase the level of declarations
4. Accrue responsibilities
5. Create chaos until the procedures are set
6. Lower the level of investment in business
7. All the above
8. There was no impact

21 **Howwas the entity's assessment of all this tax audit?**

1. Political bureaucracy
2. Peace control
3. All the above
4. Pressure and cost
5. Needed to reduce informality
6. Other

***22 **What model of income tax appears to be most appropriate for you to apply in Albania's terms?**
1.Flat tax on income
2. Progressive income tax
3. Indifferent

23 **Please specify the type of income you think is appropriate to submit to the tax model selected in the above question:**

1. Flat / progressive tax only on personal income
2. Flat / Progressive Taxes only on business incomes
3. Flat / progressive taxes on personal income and on business incomes

24 **Under the current conditions in Albania, which of the following alternatives would be more appropriate for the tax system?

1. Changing the level of income tax
2. Changing the (progressive / flat) method of income tax
3. Improvement of tax administration

4. I do not know

5. Other

ANOVA

		Sum of Squares	Df	Mean Square	F	Sig.
Q2	Between Groups	.829	1	.829	.996	.320
	Within Groups	168.166	202	.833		
	Total	168.995	203			
Q3	Between Groups	.001	1	.001	.001	.970
	Within Groups	166.994	202	.827		
	Total	166.995	203			
Q5	Between Groups	4.594	1	4.594	6.082	.014
	Within Groups	152.582	202	.755		
	Total	157.176	203			
Q6	Between Groups	.048	1	.048	.130	.719
	Within Groups	73.889	202	.366		
	Total	73.936	203			
Q7	Between Groups	62.953	1	62.953	62.725	.000
	Within Groups	202.733	202	1.004		
	Total	265.686	203			
Q8	Between Groups	3.990	1	3.990	8.604	.004
	Within Groups	93.672	202	.464		
	Total	97.662	203			
Q9	Between Groups	7.476	1	7.476	9.027	.003
	Within Groups	167.284	202	.828		
	Total	174.760	203			
Q10	Between Groups	.626	1	.626	5.649	.018
	Within Groups	22.370	202	.111		
	Total	22.995	203			
Q11	Between Groups	22.376	1	22.376	48.068	.000
	Within Groups	94.031	202	.466		

	Total	116.407	203			
Q12	Between Groups	11.372	1	11.372	13.268	.000
	Within Groups	173.138	202	.857		
	Total	184.510	203			
Q14	Between Groups	6.143	1	6.143	5.639	.018
	Within Groups	220.029	202	1.089		
	Total	226.172	203			
Q15	Between Groups	.745	1	.745	5.592	.019
	Within Groups	26.917	202	.133		
	Total	27.662	203			
Q16	Between Groups	10.009	1	10.009	6.360	.012
	Within Groups	317.912	202	1.574		
	Total	327.922	203			
Q17	Between Groups	2.458	1	2.458	1.941	.165
	Within Groups	255.836	202	1.267		
	Total	258.294	203			
Q18	Between Groups	.719	1	.719	.824	.365
	Within Groups	176.203	202	.872		
	Total	176.922	203			
Q19	Between Groups	.273	1	.273	.554	.458
	Within Groups	99.648	202	.493		
	Total	99.922	203			
Q20	Between Groups	86.296	1	86.296	19.857	.000
	Within Groups	877.875	202	4.346		
	Total	964.172	203			
Q21	Between Groups	1.597	1	1.597	.896	.345
	Within Groups	360.065	202	1.783		
	Total	361.662	203			
Q22	Between Groups	9.149	1	9.149	23.637	.000
	Within Groups	78.184	202	.387		
	Total	87.333	203			

		Sum of Squares	df	Mean Square	F	Sig.
Q23	Between Groups	.472	1	.472	3.228	.074
	Within Groups	29.509	202	.146		
	Total	29.980	203			
Q24	Between Groups	32.559	1	32.559	23.123	.000
	Within Groups	284.436	202	1.408		
	Total	316.995	203			