



# **National Business Forum**

## **MONITORING REPORT ON THE TAX INSPECTIONS OF PRIVATE BUSINESSES IN ALBANIA**

**2014-2016**

**April 2016**

 **National Business Forum**

The National Business Forum is an open network of Business Associations and Chambers of Commerce. The NBF was founded on November 22, 2013 by 9 organizations. Forum members signed a Memorandum of Understanding, agreeing to work together on issues of common interest under the framework of the NBF. The NBF's mission is to represent the interests of businesses operating in Albania in dialogue with the public institutions. The founding members of the NBF are: The Albanian Center for Economic Research (ACER), The Albanian Constructors Association (ACA), The Albanian Chamber of International Trade and Development (ACITAD), The Tirana Chamber of Commerce and Industry (CCI), The Professional Businesswomen and Handcrafters Association (PBWHA), The Albanian Recycling Association (ARA), and The Albanian Chamber of Facon, Albanian Tourism Association (ATA). Website: [www.nbf.al](http://www.nbf.al)



The Center for International Private Enterprise (CIPE) strengthens democracy around the globe through private enterprise and market-oriented reform. It is one of the four core institutes of the National Endowment for Democracy and a non-profit affiliate of the U.S. Chamber of Commerce. CIPE has over 30 years of experience conducting more than 1,300 reform programs in over 100 countries around the world. Key program areas include enterprise ecosystems, democratic governance, business advocacy, and anti-corruption and ethics.

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## Abbreviations

CIPE	Center for International Private Enterprise
CU	Coordination Unit
GTD	General Tax Directorate
NBF	National Business Forum

## Introduction

### *About the NBF and the Position Paper on the Implementation Gaps in Tax Inspections of Private Businesses in Albania*

Since the NBF was founded in 2013, its members have been working together in order to address common sensitive issues of the Albanian business community. The NBF identified tax inspections as a priority issue in addition to VAT reimbursement on January 14, 2014.

During the beginning of 2014,<sup>1</sup> the VAT reimbursement continued to be a big concern for the business community. Businesses found very difficult to get reimbursed in a short time. Hence, Council of Ministers, based on the Ministry of Finance's proposal approved the decision to get the VAT reimbursement no later than 30 days, after the issue of the request. Afterwards, the undertaken measures seemed to facilitate the VAT Reimbursement process

Thereupon, the NBF members discussed and agreed to tackle another issue of great concern for their members, tax inspections. Furthermore, they decided to develop a position paper on the topic. The methodology used was an *Implementation Gap Analysis*, which gives the opportunity to compare the foreseen legal approach on tax inspection and the implementation of the tax inspection process. The NBF conducted 12 in-depth interviews with 12 businesses to get their experiences about tax inspections. In addition, two regional roundtables were organized by NBF to validate the interview findings. The legal analysis, inputs received from the in-depth interviews and from the regional roundtables, helped to identify where the gaps were in order to propose specific recommendations for their mitigation. Besides that, the NBF organized a major event in June 2014 which validated again the findings and recommendations of the position paper.

The full position paper can be found [HERE](#).

### *About the monitoring report*

This monitoring report has been prepared with the support of the Center for International Private Enterprise (CIPE), in the framework of the programme: Albania: Building an Effective Public-Private Dialogue.

The purpose of this report is to assess the implementation of the NBF's proposals from their position paper on the *Implementation Gaps in Tax Inspections of Private Businesses in Albania*. The study and specific recommendations were presented by the NBF members on June 20, 2014 in a [public conference](#). In addition, this monitoring report aims to evaluate the advocacy efforts of the Forum measured in the number of proposals, which have been reflected in the policy

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<sup>1</sup> The VAT Reimbursement was considered a problem in 2013 and remained a business issue during the beginning of 2014. On March, 2014 the government undertook some actions which mitigated the problem. Hence, the NBF was focused only on the issue of tax inspection.

documents of state authorities. To this end, this report is a basic instrument for measuring progress in achieving this objective of the NBF, which should result in the elimination of as many constraints and barriers to doing business as possible.

## The methodology for monitoring the tax inspections of private businesses 2015-2016

The methodology for evaluating the implementation of the recommendations of the NBF on tax inspection used various tools. The NBF held several meetings with the following stakeholders in 2014, 2015 and 2016 to discuss the improvements of the tax inspection system from both the legal and practical standpoints:

- *Interviews with representatives of General Tax Directorate and Taxpayers' Advocate*  
The NBF has organized a meeting with the Tax Inspection Department and Appeal Department, to get some updates on the changes in tax legislation, the capacities of tax inspectors, etc. In addition, the NBF organized five meetings with the Taxpayers' Advocate to get information about the business community proposals to improve the tax inspection process.
- *Interviews with the members of the NBF members/partners*  
In addition to research and analysis on the tax inspection process itself, NBF members held meetings and conducted interviews with 12 Albanian companies to learn their experiences with tax inspections over the last year.
- *Policy documents of the authorities and legal documents*  
The NBF examined the following documents:
  - [The Taxpayers' Advocate report 2016](#),
  - [Working paper on proposals for Improvement of the Tax Inspection Process: An analysis in the framework of Improving Business Climate in Albania Tirana, September 2015](#),
  - [Tax legislation 2015](#): Law No. 99/2015 "For some changes on the Law no. 9920, dated 19.05.2008 "On Tax Procedures in the Republic of Albania",
- *Continuous media monitoring and follow up official confirmations of the news related to the tax inspection.*  
Media coverage has helped on this point to get signals for follow up and ask for official confirmations.

## Degree of implementation of the NBF recommendations

This monitoring report assesses the implementation of the NBF's proposals presented in its position paper on [Implementation Gaps in Tax Inspections of Private Businesses in Albania](#) in June 2014. The NBF has proactively advocated for these specific and well-targeted recommendations and followed-up with public officials and relevant government agencies such as General Tax Directorate and its respective departments. This included continuous meetings with the Tax Inspection Department, Appeal Department, and Taxpayers' Advocate, as well as many appearances in the media and mentions about these proposals in subsequent policy studies, such as the NBF's recent study on informality. The chronology of the advocacy efforts of NBF is summarized as follows.

After conducting the position paper on tax inspection, the NBF presented it at a [public conference](#) which brought together around 50 people. Afterwards, the Forum had a [Working Breakfast with the Deputy Minister of Finance](#) Mr. Ervin Mete, on 25 of September 2014. This meeting aimed to discuss the concerns of the business community, by paying a special attention to the issue of tax inspections. In addition, on October 2 2014, the NBF held a meeting with the [Tax Control Department](#) at the General Tax Directorate to discuss about the three identified gaps and respective recommendations, which fall under the responsibility of this department. After the meeting with the Control Department, this latter was followed by other technical meetings with the respective responsible Tax Departments dealing with the tax inspection. Hence, on 23 of October, 2014 the National Business Forum had a meeting with the [Tax Appeal Department](#), where the issue of the *right to appeal*, was brought up.

In addition to having these technical meetings, the NBF members have been constantly appearing on media and stressing these recommendations on improving the tax inspection process. Besides that, this issue was addressed again in the subsequent NBF study on informality.

To follow-up on the remaining un-solved points of tax inspection, on 18 of March, 2016 the NBF [held a meeting with the Head of Tax Inspection Department](#) to talk about the recent changes on the tax inspection process, with the focus on the process of tax inspection. Additionally on April 28, 2016 the NBF held a 2-hour [meeting with the General Tax Directorate \(GTD\)](#). The overarching purpose of this meeting was to deal with the very last point of the study related with the risk evaluation and the publication of the respective criteria used for measuring the level of risk. In summary, it is worth mentioning that the achievements so far with regard to the tax inspection issue have been a result of hard working and effective advocacy developed by the NBF members over the last three years.

**During the monitoring of the adoption and implementation of the NBF's proposals, we found that out of the 5 main recommendations, three have been totally achieved, while two are partially achieved and remain to be further monitored by the Forum.** In the matrix below, you will find a detailed breakdown of the NBF's recommendations on improving the tax inspection process, both in the legal and practical sense, along with their level of implementation and respective comments.

*\*Note: This report assesses the implementation of the NBF recommendations included in the position paper on tax inspection for the period of 2015-April 2016*

No.	Topic	Recommendation of NBF	Implementation Phase	Issues to follow up / Notes
1	<i>Selection of the taxpayer, object of tax inspection</i>	In order to ensure reliability and transparency, the selection process should be administered only automatically, according to ICS data and results on the basis of the risk assessment analysis. This requires computerization of all regional tax directories. The centralized system of selection offers more guarantees for the consistency of the process. In this respect the Minister of Finance Guidelines should be updated and provide accurate information on the authority responsible for the selection process.	<b>Partially Achieved</b>	In some regions of Albania, the selection procedure is still applied manually according to reports by businesses and interviews. The transparency in the selection criteria of the risk analysis should be higher. To date, the businesses that are inspected are not aware of the selection criteria. Based on official data provided by the GTD, the Risk Department currently uses 54 criteria, but there is no public information yet about these criteria.
2	<i>Notification about inspection</i>	The GTD needs to set clear deadlines on how much in advance a business should receive notification about an upcoming tax inspection. National Business Forum members propose that the deadline should be 5 working days before the inspection takes place, as this is deemed to provide businesses with the sufficient time to adjust their daily plans to the tax inspection.	<b>Achieved</b>	The new implemented system launched on January 2015 stipulates that businesses get an automatic notification about inspection 10 calendar days in advance. Interviewed businesses admit that they do get a prior notification for a tax inspection, except of on-site verifications.
3	<i>Professional and ethical behavior of tax inspectors</i>	The Taxation Directories should respect professional criteria for hiring tax inspectors and developing continuous training programs in this regard. In addition, the Taxation Directories should do a specialization of the tax inspectors in accordance with the <b>specific characteristics of different sectors of</b>	<b>Partially achieved</b>	The Directorate of Taxation and the Fiscal Academy cooperate in the context of training tax inspectors / field staff. The latest interviews with business community representatives show that the tax inspectors are better behaved with businesses. The Tax Inspectors are respecting the official



		<p><b>businesses. Furthermore, National Business Forum members recommend to the Taxation Directories to organize informative tax visits in which tax inspectors would provide guidance about how to comply with tax legislation.</b> This could help both the Taxation Directories and the businesses to have an ethical behavior and a good communication with each other. This can help all the process of tax inspection to be less fraught and more transparent.</p>		<p>dress of working. In addition, their ethical behavior toward businesses has improved. But, they still do lack some professional capacities, as the recent action against informality replaced a lot of them with new staff.</p>
4	<i>Delivery of the report to the taxpayer after the tax inspection completion</i>	<p>The inspectors' team should always submit to the taxpayer the inspection report after the inspection completion. Regardless of the size of the company, the inspection report should be delivered to the taxpayers.</p>	<b>Achieved</b>	<p>The new introduced system in 2015, and the legal changes on the Law No. 99/2015 "For some changes on the Law no. 9920, dated 19.05.2008 "On Tax Procedures in the Republic of Albania", stipulate that businesses are delivered the final report of inspection electronically and in hard copy. Practically, most of interviewed businesses acknowledge that they receive the final report of tax inspection.</p>
5	<i>Right to appeal</i>	<p>National Business Forum members recommend that the amount of the prepaid fines be reduced to <b>10%</b> of the amount of the tax duties, as provided in the assessment notice. This gives the opportunity to a wide range of taxpayers to exercise their right to appeal.</p>	<b>Achieved</b>	<p>The recommendation has been fully implemented. Currently the percentage of prepaid fines goes to 0 percent.</p>

## Conclusions

Improvement of the tax inspection process for businesses has been an NBF priority since 2013. The NBF decided to tackle this issue and develop a position paper to provide specific recommendations to relevant public institutions for addressing the identified gaps in the current system. After finalizing the position paper, the NBF presented their findings at a public conference where representatives of government, the business community, donors and academia participated. Afterwards, the NBF continued with follow-up meetings and media appearances in order to continuously advocate for the implementation of these proposals.

In 2015, the GTD introduced a new electronic system which brought solutions for several of the gaps identified by the NBF. At present, companies to be inspected receive prior notification. In addition, the inspected businesses currently receive the final report of the tax inspection. Moreover, businesses have the right to appeal without prepaying fines. To date three of the NBF recommendations have been totally achieved, while two of them are partially achieved and remain to be further monitored by the Forum. It is to be noted that other business actors have been advocating on the issue of tax inspection, but unlike them the NBF has been specific, persistent, and well focused on its requests related to the position paper recommendations. Definitely, this has helped to achieve the results so far.

These are important achievements for the Albanian business community and for the NBF members. These positive achievements, have increased the businesses trust that positive outcomes might come up if they ‘proactively engage’ and advocate continuously to the government. Besides these positive achievements, some of the NBF proposals are not yet addressed, despite all the efforts of the NBF members. Tax inspectors still face a lack of professional capacities. The fiscal academy is trying to train them but a lot of new employees have been hired recently, so the process becomes hard to manage. In addition, the GTD should be more transparent, especially on publishing its annual reports and publishing the criteria they used for doing the risk evaluation.

The NBF has been tackling the most sensitive common business issues and it will remain engaged and continue to advocate on major issues affecting its members.