

Comparative Review of Tax Systems in the Republic of Albania and Great Britain

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Abstract

The taxation system is most certainly one of the main pillars of economic development towards sustainable growth. The aim of this paper is to critically assess the importance of an effective Tax System, its impact on the Albanian economy. Furthermore we shall outline a comparison of the Albanian Tax system to that of the United Kingdom. At this time a number of very important reforms are being undertaken by the government of Albania in light of future integration towards the European Union. The overview on the United Kingdom has the aim to enlighten the path on what should be our focus while building a Tax System that can help economic growth, to that effect Great Britain as a country of a stable and strong economy can be of example. Many differences can be noticed between the United Kingdom tax system and the Albanian one. This fact is simple to be accepted as Britain is one of the world superpowers, while the Albanian economy is a developing one. The tax systems in these two countries, the development history, application of VAT or Income Tax have had very different processions. The United Kingdom has one of the most voluminous Tax Acts in the world. The international company of legal research "LexisNexis" discovered that the Acts of Parliament on Taxation in the United Kingdom have more than doubled since 1997. The annual amendments to taxation are part of the Finance Act which has the power to change norms and principles of taxation as previously defined. Taxation in the United Kingdom usually includes payments for central government agencies called Her Majesty's Revenues and Incomes and local councils. Local Councils collect a tax called business norms from businesses. The Albanian Taxation System consists of a packet of laws, regulations, guidance and tax agreements, on the procedure of application, measure, amendment and removal of taxes. Taxes are the main source of income in the state budget and the local government budget and the foundation of the whole Albanian tax system. In conclusion, we shall analyze the impact of the frequent changes to Taxation Law within the Albanian system and the challenges faced in light of this changes in terms of implementation and application.

Keywords: Tax system, economy, growth, development

Introduction

Foundations of Tax Systems

Everything United Kingdom or Albania represents nowadays comes as a result of history. As far as history of tax system in United Kingdom is concerned, we see that it is a system dating back to its origin far earlier than the Albanian system.

The Tax revenue was initially implemented in Great Britain by William Pitt the Younger in his December 1798 budget in order to pay weaponry and equipments in preparation for Napoleonic wars. On the other hand, the tax revenue until the end of 1928, in our country has failed to apply as a tax denominated as tax on revenues. A similar kind of taxation can be considered the progressive tax, established since 1922 based upon the law on roads dated 26-11-1921, a tax that

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continued to be collected until the entry into force of the revenue tax. Despite the revenues increased during this period, the tax increase policy and especially the monopoly on several kind of important items aggravated the fiscal burden on the population. The inheritance tax upon special law has been established with the law dated 26-03 -1929, which was collected previously in a different fashion through mortgage tax.

Thus, while Great Britain laid the foundations of a genuine tax system our country at a time distance of roughly 130 years began to operate with similar policies, which could not be denominated "tax system" based on what we implement nowadays.

It is worth mentioning that the revenue tax in Britain was updated by Sir Robert Peel in the Revenue Tax Act in 1842. He requested only the taxation of those people with revenues above £ 150, a period where the Albanian government had not yet won independence. This explains that history has been the cause for time distance and difference between the two tax systems and their development. During that period, under the Ottoman invasion a reform was established. The first centralized reform was announced on November 3, 1839 and continued until 1855. The Ferman (reform) was denominated as the honorable reform of Gjylhane.

In view of the measures to be envisioned there existed also the tax collection. The aim of their collection stood at the increase of fiscal revenues, confrontation of huge expenditures that requested the keeping of state and military apparatus, payment of interest on international loans. We notice that while Britain updated the tax revenue reform, Albanian under Ottoman invasion imposed the first centralized reform.

Development During 1914-1918

During World War One (1914-1918) the treasury rejected proposals on a severe capital tax that the Labour Party wanted to use in order to debilitate capitalists. Instead, there was a profit tax of 50% of profits above the normal rate of the pre-war period and the norm was increased to 80 percent in 1917. The main increase of revenues came from revenue tax, which in 1915 amounted to 17.5%, and individual exemptions were reduced. The revenue tax norm was increased to 25% in 1916 and 30% in 1918. In total, the taxes provided at most 30% of national expenditures, whereas the remaining part came from loaning. The inflation was escalated to such extent that in 1919 it would be able to buy one third of the fiscal basket that was bought in 1914. The salaries remained low and especially the poor class and retirees were seriously dealt a blow.

The year 1912 marked the independence of Albania. The new state after the proclamation of country independence inherited a backward tax system especially from World War One. Despite all efforts to improve and change the tax system, it failed to reform the previous system of the Ottoman Empire due to non-transformation of economy and non-possession of a strong administration. Several measures were taken in the tax field, easing ¹ the peasantry from their heavy burden. In this regard, it was removed the overtaxation that dealt with one tenth and the addition of the war tax, which was imposed on the tax on salt as an effort to reduce the burden of direct taxes that were the main budget revenues. During this period, particular importance was paid to collection of revenue tax in the coffer of the new Albanian state, putting an end to their transfer and robbery by the Ottoman government.

The main basis of new Albanian state revenues was the direct taxes. These taxes were inherited by the previous system and affected directly the product or the revenues of producers at the moment of their production and creation.

While Britain was in continuous efforts to improve economic reforms and tax system, Albania had just won independence, therefore it was a newly established country, which duty was initially to separate from Ottoman economy.

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Development during Modern Period

The revenue tax in Britain has changed in the course of the years. It initially taxed the revenues of a person, regardless of whose was the right for these revenues, but now a person is subjected to revenue tax for which he/she has the right to benefit.

The overwhelming part of companies has been taken from net revenue tax in 1965 when corporate tax was introduced. These changes were consolidated by the Revenue Act and Corporations in 1970. In 1974, up to 750,000 people were forced to pay the highest revenue tax.

Margaret Thatcher who favored indirect taxes reduced the personal revenue tax norm in 1980. In the first budget after her election victory in 1979, the high norm was reduced from 83% to 60% and the basic norm from 33% to 30%.

The succeeding governments further reduced the basic norm to the current rate 20% in 2007. Thus, we see the introduction of modern rules of the tax system in United Kingdom. The biggest source of revenues for the government of United Kingdom is personal income tax. The second biggest source is national social insurance contributions, the third is the value added tax (VAT) and the biggest fourth is the corporate tax.

In our country from 1977-1990, the role of tax system was the undo of private property. The tax policy of Albanian government was based on principles of socialist classics on taxes and imposts. According to this concept, the tax power was initially used as a political and economical instrument to implement very high progressive taxes on rich people (up to 80%) aiming at their economic debilitation.

The Albanian Parliament approved in January 1992 a legal tax package that laid the necessary legal foundation in the field of taxes and imposts. It created a new indispensable fiscal instrument that provided opportunities on public receipts and the stoppage of crisis the country was living through. The tax legislation that began to be implemented in 1992 can be considered as the cornerstone of the modern tax system. Recently, until 2012 the fiscal policy on collection of budget revenues has been based on levels of administration as to central level with two main agencies that are; the central tax administration and customs administration and the local level with the establishment of local tax administrations.

At the time when Britain worked on reduction of personal tax to the mutual benefit of people and government, Albanian under the communist influence remains once more backward, where the main goal of this government was to harm the rich people in order to undo the classes. Thus, the real legal basis on the tax system in Albania can be considered in 1992.

Nowadays, the biggest source of revenues in Britain are the tax on personal incomes, national social insurance contributions, the value added tax and corporate tax, whereas in Albania unlike Britain, the main role is played by central taxes and customs.

Comparison of Value Added Tax

VAT, an indirect taxation that determines value added tax as a general tax on consumption of goods and services proportional to their prices and imposed at any stage of production and the process of price distribution without impost. VAT is implemented as a percentage tax on prices of goods and services. VAT in United Kingdom is regulated by Added Value Tax Act 1994 and other acts such as Finance Act, which imposes annual VAT norms. There are three VAT norms: standard norm (20%), reduced norm (5%) and zero norm (0%). Apart from that, several goods and services are exempted from VAT or outside VAT system.

In 1995 in Albania it was imposed the Value Added Tax that was announced upon decree No.1096, dated 12.05.1995, replacing in this way the tax on circulation. On October 1, 1997, after the crisis triggered by pyramid schemes and indispensable legal amendments, there began to be implemented the standard tax rate 20% from 12.5% that was previously. The main purpose was to curb economic decline and increase the revenues in order to pull the country out of economic and financial crisis. As we notice, VAT application in Albania has had a very serious purpose, given that pyramid schemes caused a huge damage to Albanian people. The dating of establishment of acts that regulate their application pertains to the very year even though with respective amendments in its norms.

The compulsory registration threshold on businesses in United Kingdom is £ 83,000 of revenues exempted from VAT for the fiscal year. The registration threshold on distance sale in Great Britain is £ 70,000. Businesses may wish to register on voluntary basis in order to request VAT on purchases made prior to the expiration of VAT registration threshold. There is a time limit on reimbursement of VAT that has been paid prior to registration. The time limit is 4 years on goods and 6

months on services purchased prior to VAT registration date. The reimbursements of VAT are submitted every three months, those periods are denominated "VAT accounting period ". This three month VAT reimbursements must be submitted only through internet. Businesses can choose VAT accounting period when they register for VAT with HM Revenue & Customs. It is possible to file VAT in internet even though it is safer to allow qualified accountants to do that.

In January 1998 in Albania, the registration threshold was increased from ALL 2 million to ALL 5 million. In January 1, 2001, the registration threshold was increased from ALL 5 million to ALL 8 million. In January 2010, the registration threshold was reduced from ALL 8 million to ALL 5 million. The taxable person requires reimbursement of surplus of VAT tax crediting if the taxable person has carried deductible VAT surplus for 3 months in a row. The requested VAT to be reimbursed is above ALL 400 000 lekë. Reimbursement is carried out when exporters have the right to request it, if their surplus exceeds ALL 400 000 lekë, thus, needing not to request the first condition. Within 60 days from the filing of the taxpayer's request and within 30 days from the filing of exporting taxpayers' request, the regional tax office verifies the tax situation. The payment of reimbursable crediting surplus takes place within 5 days from approval through the treasury system.

It is clear that the registration threshold figures are different and apart from that the Albanian figures have suffered a visible fluctuation in years. Britain on the other hand practices voluntary registration and distance sale. Likewise we have also the time limit on VAT restitution, reimbursement. Despite both of them have various applications, they merge at the point where they help the person in the role of the taxpayer to benefit something in his favour from the sale and purchase process. Despite the Value Added Tax is a broad sector within the tax system field, from the analysis of some of its elements it appears clearly that both countries applies different applications. Nevertheless, VAT purpose is to increase country revenues in order to create a solid state economy.¹

Comparison of Personal Income Tax

The personal income tax is a compulsory fee that is collected based on personal incomes of every person.

The personal income tax in United Kingdom is regulated by Tax Act² in Incomes and other acts. The personal income tax rate that a person must pay depends on how much of their benefited incomes exceeds their personal allowance in the fiscal year. The current tax year goes from April 6, 2016 until April 5, 2017. The personal payments of most people are £11,000 per tax year. This is the no-tax payment for all inhabitants of Great Britain. Personal assistance goes down from £ 1 for every £ 2 that benefited incomes exceed £ 100,000. It means that personal compensation is zero if the benefited incomes are £ 120,000 or above.

For incomes benefited from £ 0 to £ 32,000 on personal compensation, that is £11,000 until £43,000 of benefited gross incomes, the basic tax rate on incomes is 20%. The highest rate 40% can be applied when benefited incomes are £32,001 until £150,000 over personal payment. There is an additional norm 45% on gross incomes exceeding £150,000. There are various tax norms on incomes from dividends and savings.

As to foreign entrepreneurs it is worth mentioning that independent tradesmen, partners in business partnership and directors of companies must be registered for tax reimbursements of self-assessment. After their registration, they will receive a letter in April or May by HM Revenue and Customs explaining them to file a tax restitution until January 31. The submission of tax restitution of self-assessment is necessary even if there are no taxes to be paid. For the tax restitution in paper, the time limit is the last day of October and for tax restitution online is the last day of January. The final payment of each certain tax is the last day of January. In our country, the personal income tax is regulated by Law No.8438, DATED 28.12.1998 ON INCOME TAX. Individuals residing in Albania are subjected to personal income tax during the tax period for all income sources. Non-resident individuals are subjected to personal income tax during tax period for income sources realized in the territory of the Republic of Albania.

Procedures of personal income tax are stipulated upon instruction of Minister of Finance that pays to the employee a salary or bonus, retains the personal income tax and depositst the retained personal income tax to tax bodies, no later than 20th day of the succeeding month when payment was made. Salary 0 - 30,000 tax 0, salary 30,001-130,000 tax 13% of the

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GENERAL DIRECTORATE OF TAXATION – TAX LEGISLATION 2015

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amount above ALL 30,000 lek, Salary 130,001 tax 13,000 lek + 23% of the amount above ALL 130,000 lek. Every employer deposits the retained tax to the tax bodies no later than the 20th day of the succeeding month when payment was made. The tax period starts on January 1 and ends on December 31 of each calendar year.

In both systems¹ we see a regular tax collection defined with respective dates and time limits for deposit. We notice that the class with minimum salary in Albania is not liable to pay revenue tax while Great Britain has imposed a respective price even for that category of salary. Given that the revenues are higher, and those given as minimum salary cover an important part of monthly expenditures.

Based on this factor we see that the tax percentage is dependant and as a result, Britain taxes with higher percentage.

Conclusions

The tax system is a broad field with huge study opportunities in all sectors it involves. Comparing accordingly the history of the course of creation and functioning of British and Albanian tax system, the application fashion of **Value Added Tax (VAT)** and **Tax on Personal Incomes** as well as their functioning, we come to the conclusion that both systems differ largely from each-other.

The establishment time comes to the assistance of their comparison. The analysis of factors leading to the establishment of tax systems and their development shows that the basis of differences between them is attributed to history. Time, place and influence of various external factors brought about a non-similar creation in tax systems. While Great Britain laid the foundations of a genuine tax system, our country at a time distance of roughly 130 years began to operate with similar policies that could not be denominated "tax system" based on what we have today in implementation.

While Britain was in ongoing efforts to improve economic reforms and tax system, Albania had just won independence, therefore it was a newly established country which duty was initially to separate from Ottoman economy.

Based on substantial original discrepancies, the two above mentioned sectors got developed (**Value Added Tax (TVSH) dhe Tatimi mbi të Ardhurat Personale**). Given that the entire tax system is based on the economy of the country and that British economy is far more advanced, cultivated and organized than Albanian economy, then the collection of taxes and imposts will be higher where even receipts, expenditures and revenues will be higher.

It would be wise for our country to follow up in a similar fashion the policies used by Great Britain for future and efficient development of the entire tax system package. Apart from increase of standards, I believe we shall encounter a marked economic growth. It cannot be an easy way of change, given that it is a many-year long path with continuous improvements observed by British personalities who had an impact on the establishment of current nowadays tax system, but the approach effort to their organizational fashion would bring about positive consequences.

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