5 Tax policy

A well-planned tax policy provides the necessary incentives to promote economic growth. This chapter, along with two sub-dimensions, explores the effectiveness of tax policy and tax administration. The first sub-dimension, tax policy framework, assesses the soundness and efficaciousness of the legal framework, the tax system, and the incentives for investment in promoting steady economic growth. The second sub-dimension, tax administration, focuses on the efficiency and transparency of the tax administration organisation while also reflecting upon the tax filing and payment procedures and taxpayer services.

Key findings

Albania has improved its overall score since the previous *Competitiveness Outlook* (CO), outperforming the regional average (Table 5.1). This improvement was driven by an increase in performance in the tax administration, largely due to advancements in tax filing and payment procedures as well as taxpayer services. Conversely, Albania's tax policy framework score has marginally increased since 2021.

Table 5.1. Albania's score for tax policy

Dimension	Sub-dimension	2018 score	2021 score	2024 score	2024 WB6 average
Tax	4.1: Tax policy framework			3.1	2.4
	4.2: Tax administration			3.7	3.8
Albania's overall score		**2.8**	**2.8**	**3.4**	**3.1**

The **key findings** are as follows:

- Albania has not broadened its Value Added Tax (VAT) base since 2021. Instead, the ongoing utilisation of reduced rates and a high VAT registration threshold has kept the base narrow.
- Albania's tax expenditure reporting stands out as the most advanced in the region. The Ministry of Finance and Economy mandated the publication of a tax expenditure report every two years.
- Albania has started to conduct demographic analyses on its population, but it has yet to estimate how these changes will concretely impact the size of the labour market or revenue from Social Security Contributions (SSCs). However, the Ministry of Finance and Economy is considering developing a new economic model that would assess the effect of demographic changes on the personal income tax (PIT) system.
- E-filing is mandatory for all taxpayers. To enhance tax compliance, the Albanian Government has introduced several services on its digital government portal, e-Albania, facilitating electronic filling and payment processes. These features include pre-filled PIT returns and the new e-Filing programme, which aims to reduce the likelihood of errors in return filings. Additionally, the tax administration has facilitated pre-filled and automatic declaration of sales and purchase ledgers, with plans to extend this feature to VAT declarations.
- The economy has made significant strides in aligning with the OECD Automatic Exchange of Information (AEOI) standards. Albania, the only Western Balkan economy to implement the AEOI legal framework, shared its information with more than 77 jurisdictions (including 24 EU Member States) in 2022. To process and use the taxpayer information, the Directorate of Information – Communication Sector was established in May 2023, specifically assigned to handle Common Reporting Standards (CRS) duties.
- Albania has not yet begun preparing for the implementation of the Global Anti-Base Erosion (GloBE) Rules, which will likely have a significant impact on its domestic tax system. The statutory Corporate Income Tax (CIT) rate is relatively low compared to OECD countries, and the use of generous tax incentives can further lower the effective tax rate.

State of play and key developments

Sub-dimension 4.1: Tax policy framework

Tax revenues in Albania remain significantly below the regional and OECD average. Albania's tax mix, on the other hand, is comparatively more balanced. In 2021, Albania's tax-to-GDP ratio was 25.6%, whereas the WB6 and OECD averages were 30.4% and 33.6%, respectively. One of the main reasons for the difference in tax revenues is that Albania collects less revenue from SSCs. In 2021, SSCs accounted for 23.3% of Albania's total tax revenues and 6% of its GDP, which is significantly below the WB6 average of 31.6% and 9.9%, respectively. Meanwhile, although the level of revenue from taxes on goods and services (11.9% of GDP in 2021) is above the OECD average (10.6%), Albania is more reliant on these taxes because it raises less revenue from personal and corporate income taxes. In 2021 for example, PIT revenues were only 2.1% of GDP in Albania, compared to an average of 8.3% in OECD countries (Table 5.2).

Table 5.2. Albania's tax revenues composition (2022)

Tax revenues are expressed as a percentage of GDP

	Corporate income tax revenues	Personal income tax revenues	Social Security contributions revenues	Taxes on goods and services revenues	Total tax revenues
Albania	1.9	2.1	5.7	11.9	25.6
WB6	2.1	1.9	9.9	14.9	30.4
OECD	2.8	8.3	9.2	10.6	33.6

Note: Information on Albania is from 2022 and information from the OECD is from 2020.
Sources: Data from the Ministry of Finance and Economy provided for the *Competitiveness Outlook* assessment; (OECD, 2024[1]).

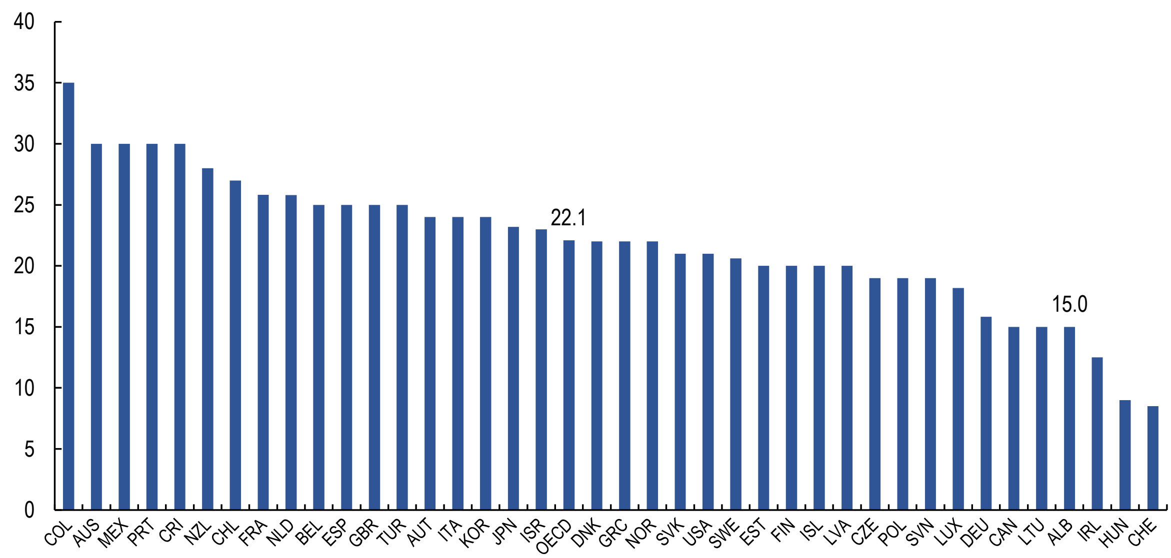
Albania's statutory 15% **corporate income tax** rate is among the highest in WB6 economies but is low compared to those in OECD countries (as shown in Figure 5.1). The CIT system in Albania is a worldwide tax system, which means that resident companies are taxed on both their foreign and domestic income. Given the low statutory CIT rate compared to other OECD countries coupled with the fact that a very limited number of Albanian businesses have expanded their activity in foreign jurisdictions, the worldwide tax system is unlikely to lead to significant additional revenues in the case of Albania.

Although Albania already boasts a relatively low top CIT rate compared to the OECD average, its generous profit-based **investment tax incentives** may further lower the effective tax rate of some companies operating within Albania. Since 2018, Albania has introduced numerous profit-based tax incentives. For example, qualifying companies in the software production, agriculture, agrotourism or automotive industries are eligible for a reduced 5% CIT rate, and four- to five-star hotels are exempt from CIT for the first 10 years of operation. However, as of January 2024, profit-based incentives were discontinued for 169 professions, which are now subject to a flat tax rate of 15% (apart from those offered in the IT sector, which will only be applicable until 31 December 2025).

Additionally, Albania operates Special Economic Zones (SEZ) that may further lower the effective CIT rate of some businesses. Companies established in such "designated areas of technology and economic development" are exempt from 50% of their CIT liability for a five-year period.

Figure 5.1. Corporate income tax rates, Albania and OECD countries (2022)

Tax rates are expressed in percentage



Source: OECD (2024[1]).

StatLink https://stat.link/rvuz3f

While all firms might benefit from a lower effective tax rate, Albania also has a **presumptive** (or simplified) **expenses regime** for micro and small businesses with turnover of up to ALL 10 000 000 (EUR 99 300). This can encourage “bunching” or business split as companies try to exploit this scheme.

Recent international tax developments may have implications for Albania and warrant further assessment. The **Global Anti-Base Erosion Rules (GloBE)** ensure large multinational enterprises pay a minimum level of tax on the income arising in each of the jurisdictions where they operate. While countries are not required to adopt the GloBE Rules, jurisdictions that adopt them will apply an effective tax rate test using a common tax base and a common definition of covered taxes to determine whether a multinational enterprise (MNE) is subject to an effective tax rate below the agreed minimum rate of 15% in any jurisdiction where it operates (OECD, 2022[2]). For Albania, this means that in-scope Ultimate Parent Entities of MNE Groups – that have their headquarters in a jurisdiction that has implemented the GloBE Rules and that operate a subsidiary (or constituent entity) in Albania – may be subject to a top-up tax in the residence jurisdiction, if the profits earned in the subsidiary are taxed at an effective rate in Albania below 15%. Moreover, Albania currently has no plans to introduce a **qualified domestic minimum top-up tax** (QDMTT) that would increase the effective tax rate of relevant subsidiaries to 15%.

With respect to the **exchange of tax information**, Albania is the only Western Balkan economy that has fully implemented the OECD Automatic Exchange of Information (AEOI) standards. In 2022, Albania shared its information with over 77 jurisdictions and received information from over 65. To process and use the taxpayer information, the Directorate of Information – Communication Sector was established in May 2023, specifically assigned to handle Common Reporting Standards (CRS) duties. Using this information for tax compliance and enforcement purposes can incentivise taxpayers to voluntarily disclose their assets, and enables the tax authority to better detect tax evasion and concealed offshore assets. Continuing to strengthen its capacity in this area will also help Albania more effectively tax capital income from its top earners (OECD, 2017[3]). At the end of 2023, Albania initiated the process of implementing the

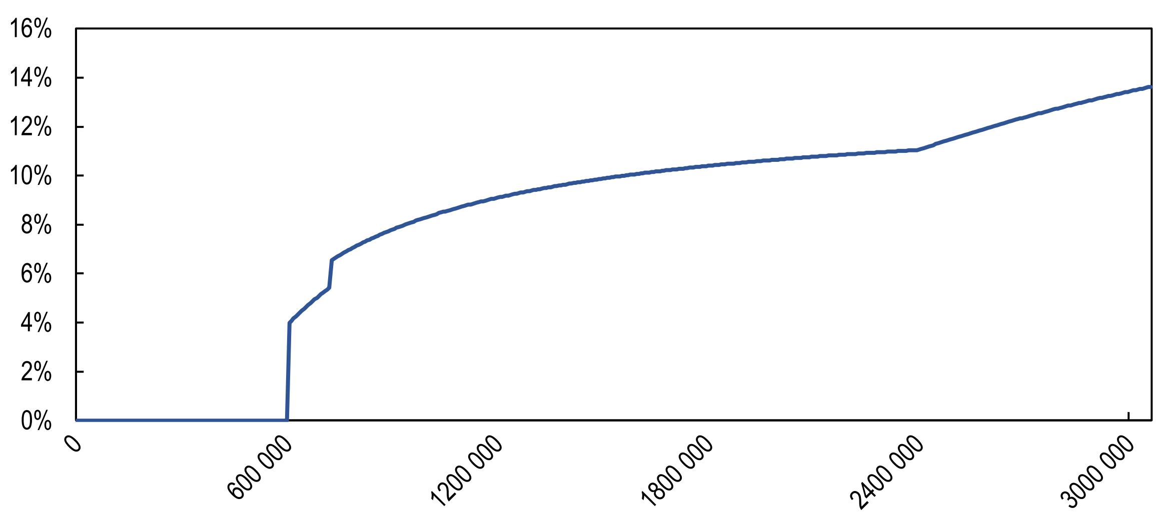
Country-by-Country (CbC) Reporting Package as set out in BEPS (base erosion and profit shifting) Action 13 (OECD, 2015[4]) and plans to implement the Package in 2024. In 2023, Albania also increased its co-operation with economies in the WB region, participating in multiple regional meetings and training focused on audit practices and international tax challenges.

The tax rules for personal capital income depend on the type of income. The tax rate for **dividends** is 8%, while realised **capital gains** and other forms of investment income are taxed at a flat rate of 15%. Meanwhile taxable business income (from self-employed or unincorporated businesses) is taxed progressively at 15% and 23% for net income up to and over ALL 14 000 000 (EUR 137 000) respectively. The differential treatment of capital and labour income, which is taxed progressively from 13% to 23%, can lead to arbitrage opportunities such as profit shifting (where entrepreneurs incorporate their businesses to distribute their profits as dividends rather than salaries). Incentives to incorporate are further heightened by the high turnover threshold of ALL 14 000 000 (EUR 137 000), below which incorporated businesses are not subject to CIT. It should be noted that to limit arbitrage opportunities, Albania has enacted an anti-avoidance rule targeting businesses that derive income from a limited number of taxpayers. Under this provision, such income is treated as labour income, thereby partly mitigating these arbitrage opportunities.

Albania has a progressive **personal income tax** regime and the highest top PIT rate in the WB6. A unique feature of the Albanian PIT system is that the basic tax allowance decreases with income as follows (and as seen in Figure 5.2). Individuals with annual income of less than ALL 600 000 (EUR 5 500) are exempt. Those with annual income between ALL 600 000 and ALL 720 000 can deduct ALL 420 000 (EUR 3 900). And finally, those with income over ALL 720 000 can only deduct ALL 360 000 (EUR 3 300) from their tax base. The remaining taxable income is then separated into two brackets where the first ALL 2 040 000 (EUR 20 000) is taxed at 13% and income above that threshold is taxed at 23%.

Figure 5.2. Effective average personal income tax rate in Albania based on annual gross income (2022)

Annual gross income is expressed in ALL



Note: Calculated taking into account standard personal income tax allowance only.
Source: OECD calculations based on Law No. 29/2023 “On Income Tax”, Albanian Ministry of Finance and Economy.

StatLink https://stat.link/iay0tu

While Albania boasts the highest PIT top rate in the region, its total **SSC rate** on gross salaries is around the regional average (27.9% versus 27.2%, respectively). Moreover, the share of revenue from SSC (as a percentage of total tax revenue) is the second lowest in the region. Bringing more employees into the formal sector could expand social protections and increase revenues from SSCs. SSC liability is split into 16.7% for employers and 11.2% for employees. Given the progressive PIT schedule and relatively low employee SSC rate, Albania's tax burden on low-income individuals is comparatively low, reducing the barriers to entry into the formal economy. Meanwhile, the self-employed in Albania pay a lump sum (equivalent to 23% of the monthly minimum wage in social contributions) and a lump sum (equivalent to 3.4% of twice the monthly minimum wage) in health insurance. Although these lump sums are set at low levels, they make the SSC system more regressive and risk disincentivising self-employed individuals – with earnings below the minimum wage – to formalise. These lump sums also imply that the self-employed will only be entitled to low benefits. However, the system allows them to increase SSC to receive higher benefits.

Albania has developed an aggregated tax revenue **forecasting model** and developed micro-simulation models for the VAT, PIT, CIT and certain excise taxes in 2019**.** Estimating future tax revenues is critical for policy makers to understand the revenue impact of proposed policies. Furthermore, the micro-simulation models, which Albania continues to improve, will help policy makers better identify those who are most positively and most adversely impacted by proposed tax reforms. However, this modelling and forecasting will grow in importance given the economy's rapidly ageing population; the population aged 65 or over is expected to almost double by 2050 (ILO, 2022[5]). Additional demographic changes include the increase in the share of women in the population due to the higher emigration rates for men. While Albania has carried out multiple demographic analyses and publishes projections on ageing and migration, the analysis does not estimate the impact of a drop in the number of people active in the labour market on tax revenues and the SSC system. That said, Albania plans to develop a micro-simulation model to analyse the impact of demographic changes on the PIT, which could help inform policies that will make Albania's economy more resilient to future challenges.

With respect to the **design and structure of the VAT system**, the standard VAT rate in Albania is 20%, which is similar to the OECD average of 19.2% and significantly above the EU minimum rate of 15%. In recent years, Albania has introduced reduced rates and considerably narrowed the base by increasing the VAT registration threshold to ALL 10 000 000 (EUR 81 000) from ALL 2 000 000 (EUR 16 000). Considering the size of the Albanian economy, this registration threshold is relatively high and results in a substantially reduced VAT base. For comparison, the average VAT registration threshold in OECD countries is EUR 53 000 (OECD, 2022[6]). Additionally, Albania applies two reduced rates: a 6% rate on tourism and accommodation as well as some advertising services; and a 10% rate on the supply of agricultural inputs. The fairly limited list of goods and services that are exempt from VAT, or for which a reduced rate applies, is in line with the OECD VAT guidelines (OECD, 2017[7])**.**

In line with the International VAT/GST (Goods and Services Tax) Guidelines for **digital taxation** (OECD, 2017[7]), Albania implemented measures such as levying VAT on cross-border digital services since 2014. Furthermore, Albania's rules determining the place of taxation refer to the usual residence of the private consumer, which is also aligned with the guidelines. This is important because the rapid growth in online sales of services and digital products (streaming, gaming, accommodation rentals, ride-hailing, etc.) requires regular updating of rules to ensure that the VAT is collected. Involving digital platforms in the VAT collection and remittal process can lower administrative costs and increase efficiency.

Albania levies several **environmentally related taxes**, including excise duties on gasoline and diesel and a carbon tax on gasoline, diesel, coal, kerosene, and petroleum. Although these policies are a step in the right direction and fuel taxes are relatively high in the Western Balkan region, there is significant room for Albania to increase its excise taxes further or introduce additional carbon pricing. Moreover, Albania has not yet begun to assess how it will be affected by the EU Carbon Border Adjustment Mechanism (CBAM),[1] which will impose taxes on carbon-intensive imports starting in 2026. In 2023 however, the Albanian

Government, with the support of the World Bank, approved a legal framework for the regular increase of the carbon tax on coal from January 2026, to have the tax rate aligned with the CBAM regulations by 2030. Additionally, in response to inflation and higher energy and food prices, Albania passed a law temporarily levying a solidarity contribution on electricity producers until the end of 2024. The revenues will be used to finance social packages for citizens.

As for **health taxes**, or taxes levied on goods that negatively affect health, Albania approved a plan in 2022 to gradually increase its excise taxes on tobacco products (from EUR 60 to EUR 90 for 1 000 cigarettes) over the next five years to align its tax burden on tobacco products with the minimum level set by the EU. The planned increase in excise taxes on tobacco products will likely increase tax revenues and have positive health implications. These taxes therefore have the benefit of both financing health expenditures while at the same time decreasing health costs through their impact on smoking rates. Currently, the total tax burden of cigarettes in Albania is over 50% of the retail price, which is still substantially below the 75% level recommended by the WHO (WHO, 2021[8]). For comparison, the tax burden is above 60% for almost all OECD countries and above 75% in most of them (OECD, 2022[6]). Considering their potential revenue and health benefits, there is room to raise taxes on tobacco products, provided there is minimal substitution with additional import.

Albania is a regional leader in **tax expenditure (TE) reporting** and has followed through on its commitment to evaluating TEs annually and publishing a TE report every two years. In 2019, the Albanian Ministry of Finance developed the necessary models to estimate the TEs and published its first report. Since then, Albania has continued to improve its modelling and published its second report in 2021. The regular systematic reporting of TEs allows the Ministry of Finance to evaluate better the efficiency of its tax expenditures, including the tax incentives, and the impact of its reforms.

Sub-dimension 4.2: Tax administration

Over the past decade, Albania has made significant strides in improving **tax administration organisation and functions.** The organisational structure of Albania's tax administration is split into the General Tax Directorate (GTD) and the General Directorate of Customs. GTD is responsible for the collection and administration of both direct and indirect taxes (including SSCs and VAT). The General Directorate of Customs is responsible for collecting and managing customs duties, VAT on imports, and excise duties, on both imports and domestically produced goods. Both institutions are part of the Central Tax Administration of Albania. Additionally, the tax administration continues to offer training courses to its employees through the Albanian School of Public Administration.

In the context of **compliance assessment and risk management**, the responsibility of executing tax audits rests with the audit division of the Regional Directorate of Taxation. 70% of audits are proposed by the centralised Risk Management Directorate, which employs an IT-based risk module. The remaining 30% originate from regional directorates. Three types of audits are carried out: comprehensive audits that scrutinise all tax types and fiscal years since the last audit; fiscal visits that concentrate on a single tax type and fiscal year; and field verifications, which handle the registration of taxpayers or the use of non-cash registers.

Regarding **transparency and independence**, the Albanian tax administration is given an annual budget, has a distinct legal status with responsibilities and duties, and has clear rules for dealing with officials inside the administration who abuse their power. That said, the tax administration still does not have an independent management board, and there are no concrete plans to establish one.

Electronic **tax filing** is mandatory for all taxpayers, and the filing software is available for free. In fact, over 97% of all VAT and PIT declarations are e-filed. Furthermore, pre-filled PIT returns are available in the tax authority's portal, e-Albania, and the methods used to calculate the amount of tax owed are clearly explained. Almost all the taxpayer services are now available through the e-Albania online portal. This significantly reduced the number of in-person visits and lowered compliance costs for taxpayers. The tax administration is developing business intelligence tools for improved tracking to enhance compliance further. Additionally, the tax administration has facilitated pre-filled and automatic declaration of sales and purchase ledgers, with plans to extend this feature to VAT declarations.

Taxpayer services provided by the GTD include online access to information, electronic communication with taxpayers, and in-person inquiries. Each of the 14 regional directorates is equipped with a Taxpayers Services Unit. Moreover, the Service Taxpayer Unit within the GTD monitors the effectiveness of these regional directorates, which report on their performance and issues monthly. Surveys on taxpayer satisfaction are conducted quarterly on the GTD website.

Overview of implementation of Competitiveness Outlook 2021 recommendations

Albania's progress in implementing past CO Recommendations has been mixed. Moderate advancements have been achieved through implementing the AEOI legal framework and new discussions on expanding the use of micro-simulation models. Conversely, its progress has stagnated in domains such as establishing an independent management board for the tax administration or expanding its VAT base. Table 5.3 shows the economy's progress in implementing past recommendations for tax policy.

Table 5.3. Albania's progress on past recommendations for tax policy

Competitiveness Outlook 2021 recommendations	Progress status	Level of progress
Continue to support the economy in light of COVID-19	Most tax support measures have been phased out, and some have been made permanent.	Strong
Increase tax revenues while maintaining a balanced tax mix	Albania has made progress in risk-based auditing to increase tax compliance and raise revenues. However, on the tax policy design side, there has been only limited progress with the moderate increase in health taxes.	Limited
Evaluate the scope to broaden the VAT base by reducing the goods and services taxed at the reduced VAT rate	Albania has introduced more reduced rates and narrowed the base by increasing the VAT registration threshold.	None
Expand the use of micro-simulation models to forecast tax revenues and to assess the distributive effects of tax reforms	Albania continues to update and improve its micro-simulation and tax revenue forecasting models developed in 2019.	Moderate
Weigh the advantages and disadvantages of the differentiated taxation of capital and labour income	Albania's New Income Tax law clarified the distinctions between employment, business, and investment income. Moreover, starting in January 2024, the CIT rate for income from professional services will be 15%. Nevertheless, a broader analysis of the advantages and disadvantages of the remaining differentiated taxation of capital and labour income has yet to occur.	Limited
Prepare an action plan in the case of consensus on Pillar 2's global minimum tax among members of the OECD/G20 Inclusive Framework on BEPS	No indication that this is actively being assessed and/or resulted in policy actions.	None
Establish an independent management board for the tax administration	No policy actions have been taken.	None
Continue to engage with the international tax community and implement international best practice	Albania has fully implemented the AEOI standards. In 2022, the economy shared its information with over 77 jurisdictions and received information from over 65. However, it has yet to start processing and using the information it receives from other jurisdictions.	Moderate

Carry out a cost-benefit analysis on the merits of a worldwide taxation system for resident corporations	No indication that this has been analysed and/or resulted in policy actions.	None
Foster co-operation and co-ordination on common tax issues within the WB region	Albania signed a memorandum of understanding on tax matters with Kosovo and addressed double taxation issues. Additionally, in 2023, Albania increased its co-operation with economies in the Western Balkan region through attending regional meetings and trainings.	Moderate

The way forward for tax policy

Considering the level of the previous recommendations' implementation, there are still areas in which Albania could enhance the tax policy framework and further improve the functioning of the tax administration. As such, policy makers may wish to:

- **Assess the impact of the GloBE rules on large in-scope MNEs operating in Albania.** To avoid forgoing tax revenues in the short run, Albania may also want to consider introducing a qualified domestic minimum top-up tax (QDMTT) to increase relevant subsidiaries' effective tax rate to 15%.
- **Re-evaluate the effectiveness of some profit-based tax incentives in light of the GloBE rules**. In particular, profit-based tax incentives such as rate cuts and exemptions are more likely to be impacted by the GloBE Rules, and evidence of their effectiveness is limited. Moreover, evidence of these incentives' effectiveness is limited relative to cost-based incentives.
- **Take advantage of the information obtained from AEOI**. The information is valuable for tax compliance and enforcement purposes. Tax administrations can use this information to incentivise taxpayers to voluntarily disclose their assets, which in turn enables the tax authority to detect tax evasion better and concealed offshore assets. Engaging in automatic information exchange with other countries will further aid Albania in more efficiently taxing its top earners' capital income (OECD, 2017[3]).
- **Assess the benefits of having income-specific PIT allowances.** The current design of the tax system may lead to kinks in individuals' marginal effective tax rates, which in turn can lead to distortions and inefficiencies.
- **Explore ways to decrease reliance on revenue from VAT and SSCs.** One way that the Albanian Government could reduce this dependence would be to increase tax revenues through expanding direct taxation.
- **Consider introducing a presumptive tax regime for small businesses and low-earning self-employed workers**. Well-designed and administered presumptive tax regimes can play an important role in raising revenues, gradually bringing small businesses into the formal economy and expanding social protection coverage while keeping compliance costs low (Mas-Montserrat et al., 2023[9]). Moreover, if Albania integrates SSCs into this presumptive tax regime, SSC compliance costs would be low and might incentivise low-income self-employed workers to formalise, thereby expanding social protection coverage. The self-employed who have higher earnings could then pay SSCs on all of their earnings.
- **Assess whether the tax administration has sufficient capacity to lower the VAT registration threshold.** If the Albanian tax administration could audit a greater number of smaller firms, this threshold could potentially be lowered.
- **Establish an independent body or management board for the tax administration (Box 5.1)**. This will increase transparency and accountability. Strengthening public trust in the tax administration can have a positive impact on tax morale and, therefore, on compliance more generally.

- **Implement a vendor collection regime supported by streamlined registration and collection procedures**. This regime would help collect VAT on B2C supplies of services and intangibles supplied by non-resident providers (OECD, 2019[10]).

Box 5.1. Independent Authority for Public Revenue in Greece

The Independent Authority for Public Revenue (IAPR) is Greece's competent body for the collection and distribution of public tax revenue. It was established in 2017 and facilitated by the Structural Reform Support Programme of the EU's Technical Support Instrument. The Independent Authority for Public Revenue aims to safeguard public revenue through enhanced tax compliance, and to provide high-quality services. It has the power to implement necessary measures to ensure the effective and efficient operation of its tax and customs services.

This reform of Greece's tax authority introduced a new organisational and operational framework to the tax administration. The Independent Authority for Public Revenue is operationally independent of the Ministry of Finance, meaning it is not subject to inspection by the Ministry of Finance or any other government bodies. Furthermore, the IAPR is autonomous regarding its finance and administration. It has the power to prepare and execute its budget and procurement programme, ensuring the smooth and sound functioning of the tax administration. The independence of the tax authority has tangible benefits, such as the high efficiency of the administration in managing its internal affairs while avoiding political interference in day-to-day operations. (OECD, 2013[11]).

Sources: IAPR (2017[12]); European Commission (2016[13]).

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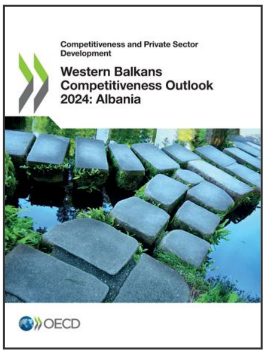
Note

[1] The EU Carbon Border Adjustment Mechanism (CBAM) is the policy instrument designed to reduce the likelihood of carbon leakage by instituting a carbon price on imported goods. This tool reflects the EU's commitments to reducing its greenhouse gas emissions under the "Fit for 55" package while still ensuring a level playing field between EU and non-EU businesses. The CBAM's transitional period, which started on 1 October 2023 and continues until the end of 2025, exclusively involves reporting obligations; however, from 1 January 2025, carbon pricing will also be implemented.



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