

## Possibility of Creating a New Regime of Cross-Border Supplies of Goods in Albania and Balkan Countries

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### Abstract:

*In the European Union, it has been accepted as an option to import taxable person may deduct the VAT related to the import of goods, despite the taxpayer did not pay it at customs, but has calculated it.*

*In Albania, Article 69 of Law 92/2014 "On VAT", which corresponds to Article 168 of Directive 6, but unmatched, specifically letter 'c' allows the deduction of VAT relating to the import of goods only if it was paid by a taxable person.*

*The study aims to examine the possibility of creating a new system for cross-border supplies in Albania and Balkan countries, using the EU practice.*

*The possibility of applying of the new regime proposed for cross-border trade between the Balkan countries is likely to increase revenues as simplified two stages currently applicable, under which are two administration to intervene, would reduce costs of business administration, as reduced operations relating to the payment of taxes, eliminating monetary transactions to customs and focusing only on taxes, facilitate control of statements for purposes of VAT and further reduced requirements for reimbursement of VAT by reducing significantly the cost of tax administering and the tax administration corruption.*

**Key words:** VAT, Cross-Border Supply, Tax administration, Balkan Countries, EU.

## INTRODUCTION

Taxation scheme for intra-Community supplies goods has been implemented since 1993 between the EU countries, where by the creation of a single market, controls and customs barriers were eliminated. Taxation of imports of goods and not taxation of exports to Albania and other Balkan countries which are not part of the EU follows a different scheme from the scheme established by Directive 6. Thus the import or export transactions between operators from different countries lose their literal meaning.

Albania and other Western Balkan countries, could be forced to implement this scheme, only when fully accede to the European Union, which could practically happened after a long period of time.

In this sense, policy-oriented by European Union or policies of countries concerned in the region, more and more, are articulating the idea of establishing an enhanced regional Balkan market. Such a market otherwise the fragmented market in national territory, will increase the attractiveness of investment capital in the region, multiplying the power consumption.

Reducing barriers on the border, not only facilitates the movement of goods and capital, but actually reduces the administrative costs of any business involved in regional circulation. In this sense, customs costs are a real burden for any business in the region, when it comes to bilateral exchanges, despite the fact that the countries of the European Union, such a thing has disappeared.

There is a ratio that varies, the ratio of the amount of VAT paid within the country to its total amount, including VAT paid within the country and VAT paid on imported goods. VAT

paid represents taxation of consumption and taxation for reasons of law (import). As more developed to be the domestic economy of a state, so that production is dominant, more important it becomes specific weight of VAT paid within the country, to the total VAT (VAT within the country and imports).

EU countries have this ratio above 70%, but reaches 90%. So the majority of EU countries realize this ratio to 90%, thus giving the exact meaning of this tax, as taxing consumption rather than imports.

In other developing countries, this ratio varies up to 50%, while in Albania, varies in the range 23-25%. So saying figuratively, VAT in Albania is a "taxation of imports" rather than "taxation of consumption".

In the European Union, it has been accepted as an option to import taxable person may deduct VAT relating to the import of goods, although earlier he did not pay it at customs, but has calculated it.

In Albania, Article 69 of Law 92/2014 "On VAT", which corresponds to Article 168 of Directive 6, but unmatched, after specifically, letter 'c' allows the deduction of VAT relating to the import of goods only if it was paid by a taxable person.

## **PURPOSE AND METHODOLOGY OF STUDY**

*The purpose of the study:* The study aims to examine the possibility of creating a new regime for cross-border supplies to the Balkans, using the EU practice.

*Basic research question:* Can we create a new regime of cross-border supplies of goods in Albania and Balkan countries similar to that of the EU?

*Hypothesis:* The implementation of the new regime of cross-border supplies of goods in Albania and Balkan countries would

reduce the cost of management of business, cost of tax administration and will promote capital goods moved between these countries.

*Methodology.* The purpose of the study will be achieved through comparative analysis and analysis of fiscal legislation.

## **CREATING A NEW REGIME OF CROSS-BORDER SUPPLIES OF GOODS IN ALBANIA AND THE BALKAN COUNTRIES**

At countries outside the EU, supplies of goods between taxable persons in countries separated from each other, are taxed with 0% tax rate for the seller, and the relevant tax rate for the importer. Purchases of goods between two taxable persons of different countries in border territory, are taxable in the country where the customer is located (receiver of goods). The buyer generally pays VAT by keeping the tax rate and conditions in force in the country where it is registered and where goods are delivered. Supply moment is the release of goods at customs. Application of this format is applied today by the Western Balkan countries.

According to European practice, the moment of supply for cross-border supplies, there is "crossing the border", but it is precisely the time that coincides with the transfer of ownership of goods as owner possessed, from the seller to the buyer. So in this case, the seller charges the taxable value, excluding VAT, while the buyer self-liquidate this bill.

An important contribution to the efficiency factors of VAT have given Aizenman and Jinjark (2008). Using the data of 44 countries for the period 1970 to 1999, they concluded that "openness" is the explanatory factor of efficiency of VAT.

Keen and Lockwood (2010) argued that the VAT is more likely to increase tax revenues in countries with high levels of "openness".

The system of cross-border supplies, can initially be implemented between the two countries, Albania and Kosovo. In a second phase, this system can be extended to the whole Balkan region.

Some of the steps to enable this system are listed as follows:

- The movement of goods from Albania to Kosovo and vice versa, may be subject to a taxation regime for the purposes of VAT, known as "cross-border regime of supply of goods".
- VAT regime, is applicable only to persons who have the status of "taxable person".
- For goods destined to Albania, with a starting point from Kosovo to Albanian custom, the actions carried out regularly according to the provisions of the Code of Albania.
- The customs declaration of import shall be calculated and recorded the value of VAT (for the types of goods except those excluded from this taxation). At present regime, this value is required to be paid by the importer Albanian action after which the goods are placed in free movement. Simultaneously with the payment, the importer receives the right of deduction of this amount according to the rules defined in the VAT law.
- So in this way, the importer liberated from immediate payment method, but preserving strictly the mechanism of VAT.
- In this case it can be implemented reserve-charge scheme. Value calculated as VAT payable on account of the Albanian customs not paid immediately. But the importer, this value is forced to disclose the recoverable VAT. The statement in this section is equivalent to the payment of VAT. On the other importer, this amount of VAT, according to the rules of deduction, of taxation, declares VAT as deductible tax in the same period.

## **REQUIREMENTS FOR ENABLING NEW REGIME OF CROSS-BORDER SUPPLIES**

Some of requirements to enable the scheme are listed as follows:

- Supplies are considered to be performed against payment.
- The seller and the buyer must necessarily be registered as taxable persons in their respective countries.
- Goods must be sent from the seller to the host country.
- The tax bill must be presented identification data, such as retailers and buyers.
- The seller is obliged to keep as evidence justifying a copy of the document that justifies the shipment of goods.
- The seller shall indicate on the invoice, the legal reference for the billing based only on the basis of the taxable value excluding VAT.
- A separate statement, documenting cross-border exchanges of goods, it should be compiled and disclosed every three months by the respective operators.

## **ADVANTAGES OF THE NEW REGIME OF CROSS-BORDER SUPPLIES**

Advantages of cross-border regime supplies are listed below:

- The new regime will provide finance to businesses breathing, as well as mobility of financial flows.
- The new regime will simplify both stages currently applicable, under which are two administration to intervene, at the first customs administration related to payment of VAT, and the second tax administration, relating to the declaration as deductible VAT on the relevant form.
- The new regime will reduce costs of business administration, as reduced operations relating to the

payment of debts, eliminating customs and monetary actions focused only on taxes.

- The new regime will facilitate the control of declarations for purposes of VAT, since the effect of the credit balance derived from imports of goods, reduced or eliminated when other domestic purchases are not influential.
- Tax Administration focuses primarily in maintaining alertness, only the sales price of domestic goods.
- The new regime will reduce the requirements for reimbursement of VAT, which significantly reduces the cost of administering the tax and the tax administration corruption.
- New regime encourages the capital movement of goods between the two countries, and between the Balkan countries, especially border areas businesses, since removed the limiting of necessity of liquid money in a certain moment.
- The flow not very negligible of imports from Kosovo, but also with other countries in the region, as the initial phase (the majority of the exchanges is to the countries of the EU, or even Turkey and China), does not endanger the quote collection of revenue from VAT.
- The income of the state budget are not endangered, but only postponed because payments collected at the time of import, physically "absent", recovered or matures into a second phase, resulting in the increase of VAT collected domestically.

## **DISADVANTAGES OF THE NEW REGIME OF CROSS-BORDER SUPPLIES**

Disadvantages of the new regime of cross-border supplies renditen are listed below:

- Risk reduction of taxable value within the country, may be evident for income from VAT.

- Complication of VAT system, adding a new scheme, besides the classical scheme.
- Complication of VAT form with two additional section, section of cross-border sales and section of cross-border purchases.
- A bilateral and multilateral negotiation process in the region, as well as a "consensus" of the European Commission, does not facilitate the process or the implementation of the new regime.

## CONCLUSIONS AND RECOMMENDATIONS

The possibility of applying of the new regime proposed for cross-border trade between the Balkan countries is likely to increase revenues as simplified two stages currently applicable, under which are two administration to intervene, would reduce costs of business administration, as reduced operations relating to the payment of debts, eliminating monetary transactions to customs and focusing only on taxes, facilitate control of statements for purposes of VAT and further reduced requirements for reimbursement of VAT by reducing significantly the cost of tax administering and the tax administration corruption.

Albania and other Balkan countries for many years are likely to be outside the EU. As a result governments of these countries as aspire to European integration, we should consider the possibility of implementing the new VAT regime for cross-border trade by "imitating" the European Community schemes, because facilitating policies in the group, making more attractive the serious capital investment, which tends to major markets such as the EU, but keeping under control domestic prices. Initially, this scheme can be applied between Albania and Kosovo, because of not very negligible flow of imports from Kosovo, but also with other countries in the

region, as the initial stage, does not endanger revenue collection from VAT.

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