Review of Impact on Changing Fiscal System (Value added tax) in Albania

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Abstract:

This paper aims to outline the reasons and effects of changing fiscal system. Its malfunctioning of the fiscal system, specially VAT refunds scheme and identify objectives and reasons that bring not refunds of VAT on problems on business liquidity in the Shkodra region, Albania.

The refund of VAT is one of the important factors that has a significant impact on business liquidity. The refund process is the "Achilles heel" of this tax, to which should be paid great attention for the costs causes to businesses and the economy as a whole.

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Through interviews they were defined main causes of malfunction of refund scheme. Through analysis of the liquidity of the financial statements of businesses that have a credit balance over 400 000 ALL in the Shkodra region, has been analyzed the relation betëeen a business liquidity and malfunction of a refund scheme.

The paper could serve as an examples for the tax authorities to improve the performance of a VAT refund deadlines, and fiscal system in general. Other research in the future may be aiming to study trading businesses and import-export businesses to identify to which, problems with refund schem incur a greater cost.

Key words: Value added tax (VAT), refund, liquidity, fiscal system

I.   INTRODUCTION

Although in Albania there is a law that regulates fiscal system, specially VAT and its reimbursement, again we have businesses with a VAT credit balance in higher levels which is not reimbursed by the state.

In theory, VAT refunds should happen immediately after receiving verification and confirmation by the tax authorities for the refund claim. This is the practice of most developed countries, where refunds are paid generally within four weeks from the date when a claim for refund is made (International Monetary Fund, 2005). The situation is different in developing countries, where it often takes several months and sometimes more than a year, to review the refund claims.

The long period of non-refund VAT has a substantially affect in the business costs, this is a problem that is encountered in several countries including Albania (International Monetary Fund, 2005).

(Piranej, Saraçi, & Bashi, 2014) studied the problems of fraud and the reimbursement scheme. According to them, the VAT refunding scheme is still unclear for taxpayers and procedures are too bureaucratic, although it is given the

possibility of online applications for reimbursement of VAT. They see necessary the reduction of these procedures what would make businesses to prefer to be part of this scheme. In Albania there is not a comprehensive study which included tax exemptions which are a source of tax evasion.

According to Bashi (2015) if the refund of VAT has not done at a specified time in Albania is not applicable any form of compensation for these businesses. A more moderate rate of value added tax would lead to a collections with a broader base of tax revenues and reducing the possibility of tax evasion (Bashi, 2015)

The study aims to answer the following research question:

Do the delays in the reimbursement of VAT bring costs for businesses? Also support or oppose the main hypothesis of this paper which is:

H_0: There is a positive correlation between the delays in the reimbursement of VAT and the liquidity problems of businesses.

Various studies show that the problems with the scheme of refund of VAT are very delicate. This study will contribute to understand and identify the chain effect of delays or failure to refund VAT on business liquidity.

This work may contribute to the academic field from the theoretical perspective because the works on this field are few in Albania. Practical contribution of the paper is that it can serve as a guide for subsequent studies whose results can be compared with those obtained by this paper for a further study.

II.   METHODOLOGY

Below are described methods that will be used in this research. Descriptive and exploratory studies are two research strategies that will be used.

Descriptive strategie was chosen becauese it will serve to describe the chain effects to the businesses and the economy as a whole by the failure of the refund scheme in Albania. While exploratory strategie will serve to identify the connection between delays in reimbursement and businesses liquidity.

Strategy based on interviews and case study will be part of this paper. Part of this work will also be interviews with employees of tax administration, economists, accountants and businesses and will be analyzed some of the financial statements of entities that operate in the city of Shkodra. Through the data that will be collected we will answer to the questions raised in the paper.

The selected sample in this study consists in representatives of the tax administration, accounting and business units. Tax Administration representatives are employees who are directly related to the process of reimbursement, such as employees of the refund department and the treasury office. Accountants will be considered as a sample in this study because they are well informed about different aspects of the tax laws, including the refund process, because they serve as a consultant and service provider for businesses.

The self-selection sample, will be used for the selection of tax administration employees and accountants. To realize the interview, I addressed to the four accountants and three employees of tax administration.

The convenience sample, will be used for the selection of the businesses. Were selected four economists of the businesses and the financial statements of thirty businesses for the liquidity analysis.

III.   FINDINGS

> **Findings from interviews with employees of tax administration, accountants and economists**

1) The reasons of the delays in the refund of VAT

The three interviewed employees of tax administration, the four accountants and economists gave the same answer, that the staff which is responsible for the reimbursement process have the professional training for this process.

Asked if the delays in the refund of VAT is responsibility of the tax authorities or the businesses they gave the following answer: businesses – according to employees of tax authorities, tax authorities – accountants, economits.

To the last question for this section how the procedures for reimbursement of VAT affect the delays of VAT, three groups of respondents were in one mind, that the procedures are not a factor with a big weight in delays of reimbursement now, this because the new law entered in January 2015 has made positive changes in terms of procedures.

2) The costs from the malfunction of reimbursement scheme

Through the second section which aimed to understand the costs that cause delays in reimbursement were able to gather the following information: The three groups respond with a strong "Yes" to the question whether delays in reimbursement bring costs to businesses. According to them the main cost and what was set apart from all interviewees had to do more with business liquidity, then the result of liquidity problems were also interest of loans that businesses were forced to take.

One of the economists said that the effects of delays or non-reimbursement are feel in the liquidity of businesses and their effect continues and can even lead to the bankruptcy of the business. Also an opinion shared by four economists was

that only the time and expenses that you need to prepare documentation entities for reimbursement are a major cost for businesses to not count other costs.

Summing up the answers of the tax administration employees, accountants and economists interviewed about the question if delays in the reimbursement of VAT influence in the rise of corrupt practices were given the following answers. Influence, because businesses can try to solve this problem by paying bribes to employees of the tax administration.

3) The importance of functioning reimbursement scheme
Regarding to the importance of the operation of the reimbursement scheme, the reimbursement was described by the three parties as the weak point of VAT.

We had a difference of opinion among the group of administrative employees, accountants and economists about the efficiency of the process of reimbursement of VAT. Economists see as inefficient the process, the opposite occurs with accountants and administrative staff who estimate as efficient and continuous improvement. According to the two groups, employees and accountants reimbursement process is improving with the country development. Economists are less skeptical in this regard.

Three groups interviewed share the same opinion that the time it takes to tax administration to realize the refund of VAT is an indicator of the tax administration efficiency.

➢ **Findings from the analysis of financial statements**

To collect the secondary data was chosen to analyze the financial statements of 30 VAT companies with which operating in the city of Shkodra. Liquidity management of a company can be analyzed first in terms of dynamic indicators and static ones. Dynamic and static reports are calculated for each of 30 subjects. This chapter presents the findings of these reports.
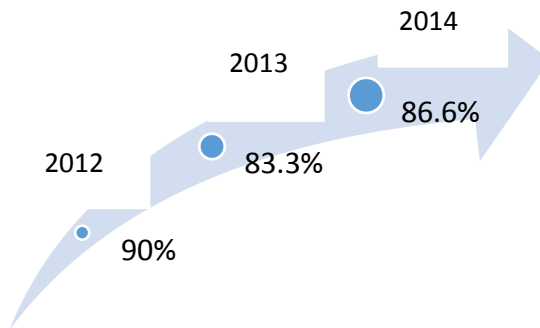
- Static Reports

Current Ration

Figure 6. *Percentage of samples that have a current ratio under "2" in years*

• 70 %

• 30

•90%

• 70%

2013

2012
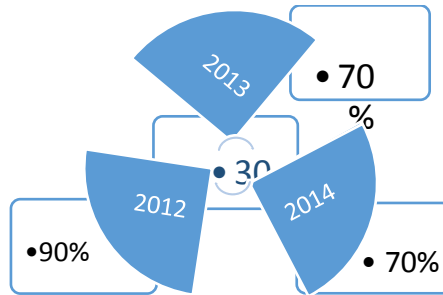
2014

Source: Author

Quick Ratio

Figure 7. *Percentage of the sample with a speed ratio less than "1", according to the years*
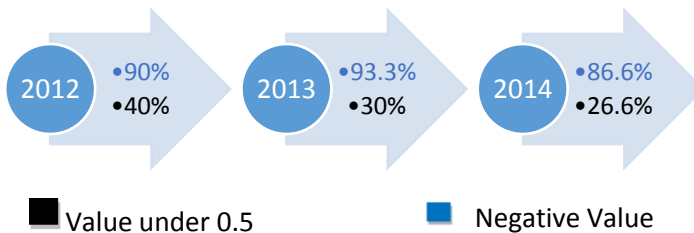

2014

2013

86.6%

2012

83.3%

90%

Source: Author

Liquid Ratio

The sample in the analysis, gives us these results, in 2014, 86.6% of the sample has an acid ratio below the reference value of 0.5 and 26.6% of the sample has this report with negative value. Figure below presents in more detail the findings.

Figure 8. *Percentage of samples that have a liquid report over "0.5" and under value "0"*
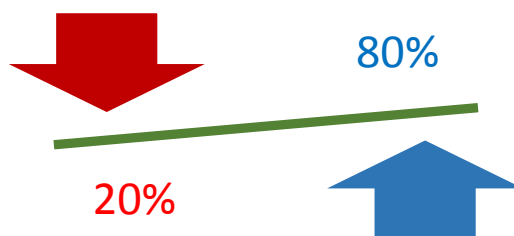

Source: Author

Working Capital

The percentage of subjects that have a absence of working capital for the three years analyzed is the same, 20%. So, 20% of the sample as for the year 2012, 2013 and for the 2014 has a negative amount of working capital. Another part is that for each year the percentage of the sample that has a positive working capital is 80%.

**Figure 9.** *Percentage of sample with a negative report and positive working capital*

Source: Author

Adequacy of working capital

It is suggested that this indicator to have a positive value and the higher the better is the liquidity of a company (Shuli & Perry, 2011). 20% of the sample have a adequacy working

capital ratio negative and 100% of the sample have this ratio below the value "1". The data provided in this report are presented below.

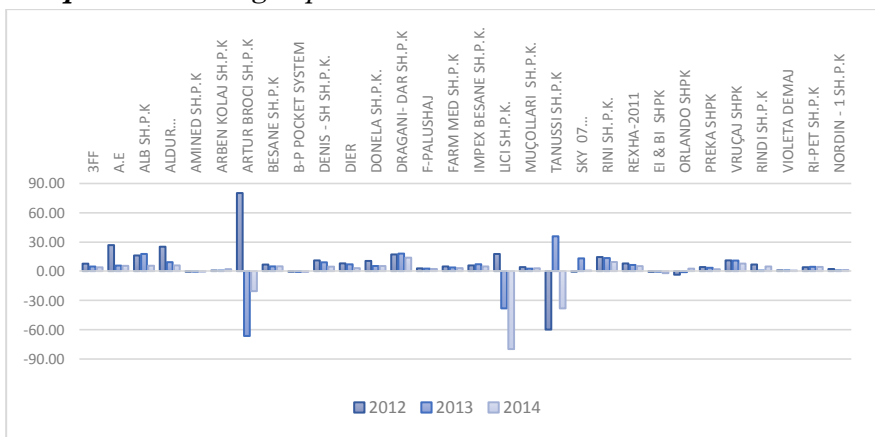**Graph 4**. *The adequacy of working capital*
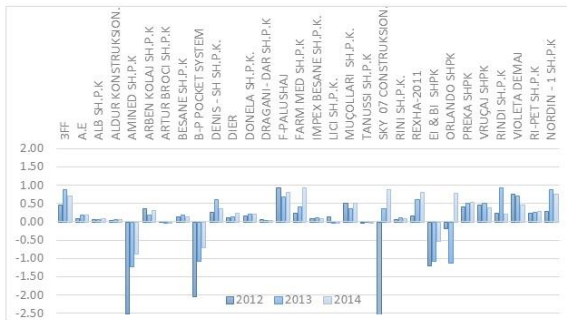
Source: Author

- **Dynamic Reports**

Working capital turnover

This report presents the number of times that working capital is paid over a period. 20% of the sample for each year have a negative working capital turnover. The concentrated way any findings is presented in the chart below.
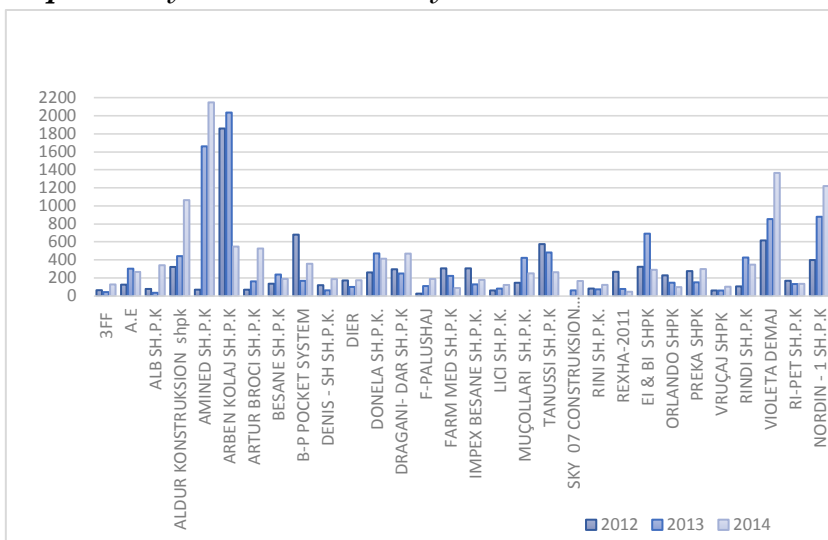
Graph 5. *Working capital turnover*

Source: Author

Days' sales in inventory

This report is related to the firm's ability to move inventory, so to not keep the inventory at an excessive levels. In 56.7% of cases the ratio has increased from 2013 to 2014. His fluctuations over three years are shown graphically below.

Graph 6. *Days' sales in inventory*

Source: Author

Days' sales in receivable accounts

Days' sales in receivable show us the time it takes to businesses to convert in money the receivables accounts. The chart below shows this ratio for thirty firms received for analysis. As noted in the chart for 2012, 2013 and 2014 average days collection is respectively 119, 89 and 119 days.

***Graph 7***. *Days' sales in receivable accounts*
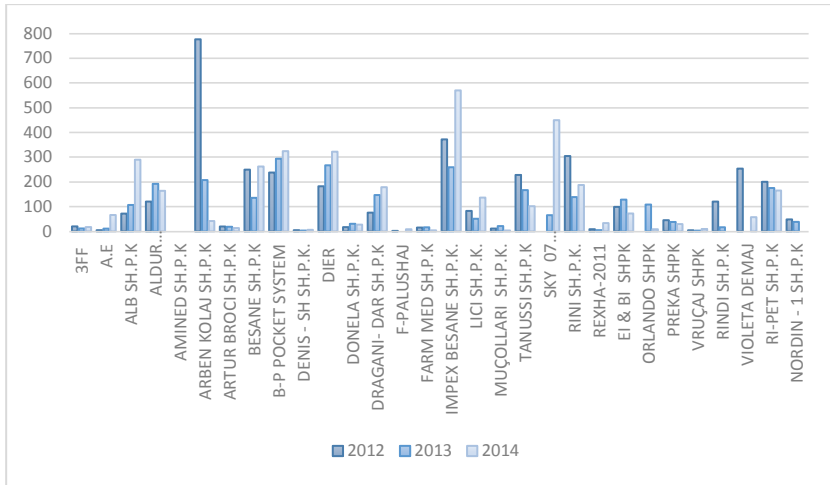
Source: Author

Days' sales in payable accounts

This report shows the average days of holding cash from company before liquidate the suppliers. Graphically this report for the selected sample of the study appear next. Average days of accounts payable turnover is 125, 300 and 1,139 days for each year respectively 2012, 2013 and 2014.

***Graph 8.*** *Days' sales in payable accounts*
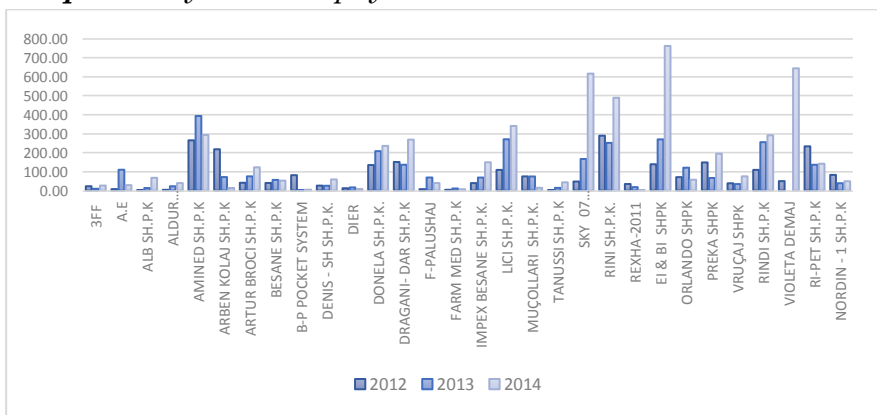
Source: Author

Cash Cycle

This cycle represents a correlation between sales, accounts receivable and credit from suppliers. From 2012 onwards the percentage of businesses with a negative cash cycle has increased. This percentage for each year 2012, 2013 and 2014 was 10%, 16.6% and 13.3%. From 2013 in 2014 63.3% of the sample have increased the cash cycle

Graph 9. *Cash Cycle*
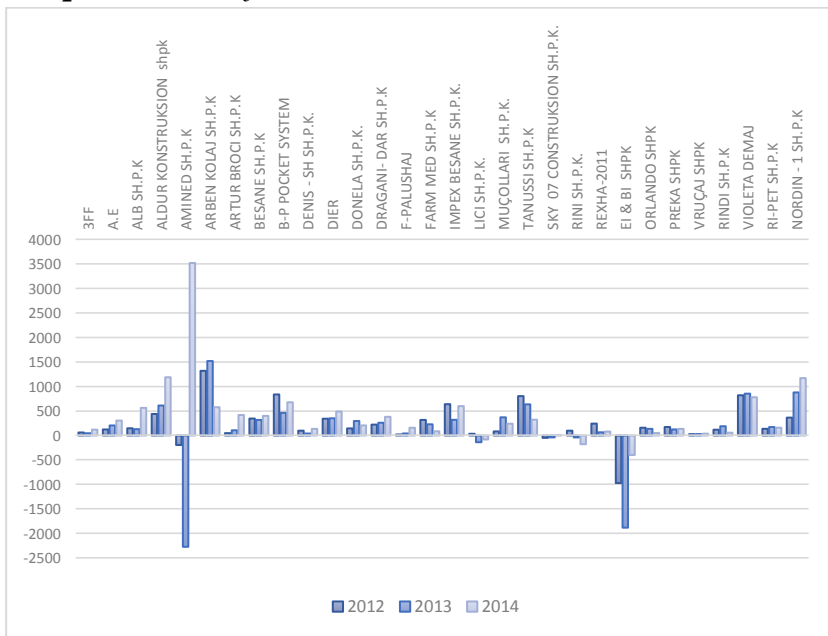
Source: Author

IV.   COMMENTS RELATING TO THE FINDINGS OF ANALYSIS OF FINANCIAL STATEMENTS

Analysis of static reports

Current, acid and liquid ratio

If corrent assets are financed with current liabilities then we will have a low current ratio, but if they are not funded with current liabilities then the ratio will be high. From the data

obtained from financial statements analysis result that the percentage of businesses that have problems with liquidity is high for 2012, 2013 and 2014, respectively 90%, 70%, 70%. Businesses selected for analysis are all with credit surplus of VAT over 400 000 ALL and this amount of VAT is part of current assets, which really is not a liquid sound because its refund takes time.

In three reports calculated, in that corrent, acid and liquid the most part of businesses, over 60% of them have problems with liquidity. Liquid report presents an even more aggravated situation for 26.6% of firms in 2014, 30% in 2013 and 40% in 2012.

These three indicators of liquidity present the liquidity situation for most of the selceted sample poor and troubled. Situation which a refund of VAT would "help". These problems with liquidity of businesses that represent these static indicators have a chain effect on the performance of the businesses.

Working capital and sufficiency of working capital
mjaftueshmëria e kapitalit punues

A positive difference between current assets and current liabilities means a positive working capital, meaning that the first source of financing for corrent assets comes from the voices of current liabilities the remaining part comes from long-term liabilities. Although it is preferred that this ratio to be positive, is available a surplus of this report. The most part of businesses (80%) for each of the three years have a long-term debt financing.

Once again, working capital report confirms that the vast majority of businesses are financed with long-term debt and have liquidity problems. Equal to three years, 20% of the sample have lack of working capital. By making a connection to the VAT we can understand that the liquidity problems that brought the lack of VAT reimbursement force businesses to obtain long-term debt such as bank loans. Thus adding other

costs these businesses, loan interests, which are not favorable for the latter.

Graph 10. *Working capital*
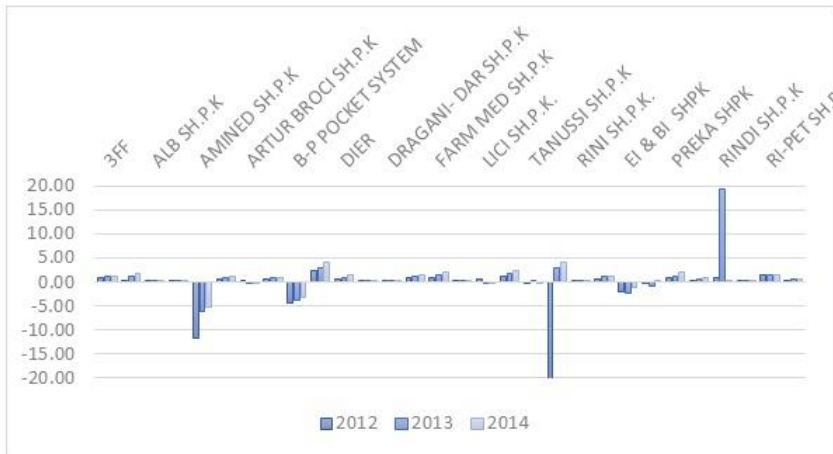
According to financial equilibrium theory neto cash flow is influenced by the difference between the delays in revenue (inventory, accounts receivable, refundable VAT etc.) and delays in payments (accounts payable to suppliers, tax obligations to the state, the payment of VAT etc.)

The adequacy capital ratio appears positive for most of the selected sample (80%), which means that firms have excess capital and have no liquidity problems. So here we have a conflict between working capital and its adequacy, the first presents the company's liquidity situation poorly and the other represents a good liquidity situation.

In conclusion, about static reports we can say that may be subject of efforts to change the value of balance sheet. Naturally, seeing all these businesses that have major problems with liquidity, which are forced to take loans and this situation continues for at least three years, arises question, why did not close their activities or why not bankruptcies or perhaps these reports are manipulated?

The reality of Albanian businesses is already known. The presence of two pair sets of financial statements does not impress to anyone who is familiar with the reality of the Albanian businesses situation.

Analysis of dynamic reports

Days' sales in inventory

A low inventory mean fewer opportunities to receive money in the future. Average inventory turnover days for 2012, 2013 and 2014 respectively are 274, 367 and 404 days. So, in most of the selected sample this ratio has been increasing what evidence for a decrease to inventory which caused deterioration of liquidity. Decreased inventory comes from the inability of the firm to make purchases, then the lack of liquidity. If these businesses will be refunded by the state for credit balances of VAT that they have this will improve their financial situation.

Figure 10. *Average days' sales in inventory for 2012, 2013 and 2014*
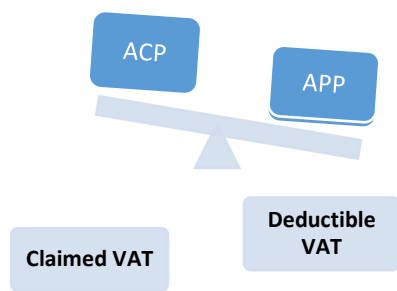

Source: Author

Days' sales in receivable and payable accounts and VAT

The analysis of data derived from two reports it appears that the days of accounts payable turnover are at high levels for most of the businesses analyzed. This high number of accounts payable turnover combined with indicators of liquidity problems, as low working capital and current ratio at the same time, liquid, means that the firm has difficulty in liquidation suppliers. This inability of the subject influences the delay in

refunding VAT. The effect then comes chains, the difficulty for the liquidation of suppliers means the inability to realize the deductible VAT. Moreover, this disability has been increased from 2013 to 2014.

On the other hand, we can say that days' sales in receivable accounts and VAT are at a moderate level. So, businesses realize VAT subsumed by sales, namely pay to the state VAT subsumed, but on the other state does not refund the excess credit VAT, affecting agan in increasing the problems with liquidity and bringing another business to financing debt and high interest rates that must pay. These rations are frequently called average collection period (ACP) and average payable period.

Figure 11. *Comparison of ACP and APP*

Source: Author

Cash Cycle

A low value of the cash cycle means that the subject may only recover cash quickly in sales, from operating activities.

The shorter the cycle life is the more efficient is presented the cash management. The analysis shows that cash cycle has been increasing, which shows for a lack of cash. This absence creates problems in the liquidation of suppliers, resulting in the destruction of the image of the company and the inability to realize the deductible VAT.

So, this report confirms once again what was reported by two reports above that businesses collect VAT subsumed

therefore pay the tax VAT before collection this tax from the client which caused problems with the flow of the cash of the taxable person.

V. CONCLUSIONS

Based on research findings from interviews and analysis of financial statements and going back once again to the objectives and the research question, concluded   to the following conclusions.

1. The process of reimbursement is getting improved in Albania, can not say that is efficient at the right level but new the new legislation has brought improvements in this regard.
2. The procedures for reimbursement are facilitated with the new law for value added tax.
3. The main reason that caused the delay in reimbursement of VAT is the bed implementation of the law by the tax authorities and the irregularities that have in recording the data businesses by themself. We can say that is the tax authority which delays tax refund while businesses are aware that there will be delays in repayment and often delay to make application for refund.
4. The discrepancy of opinions between employees of tax administration and businesses shows that there is a lack of transparency in the process of refund of VAT.
5. Delays in reimbursement of VAT are the main cause of liquidity problems of businesses. The effects of delays in reimbursement or nonreimbursement come one after another. The problematic liquidity situation forced businesses to get loans, increasing the costs as they have to pay the bank interest.
6. The effect of delays in refund of VAT is clearly presented in the reports of the liquidity of a company. Where as

dynamic reports as well as static ones appear problematic for businesses which have not benefited from the scheme of refund, the opposite occurs with the other that have been refund, to where the liquidity situation is more promising. This is the negative effect of malfunction of reimbursement scheme of VAT in businesses.

7. The operation of the reimbursement scheme is closely linked to the efficiency of tax authorities. The link between the latter two is a positive correlation. So, how better to operate the process of reimbursement of a country, the more efficientis the tax administration of that country.

We can say that the problems or delays in reimbursement process cause very high cost to businesses dealing with the liquidity of them. The working hypothesis that the delays in the reimbursement of VAT is positively correlated to the liquidity situation of the businesses is supported by qualitative and quantitative findings.

VI.   RECOMMENDATIONS

Finally, judging by the issues brought to light during the search, wihich are faced businesses also tax administration, in following are some recommendations.

1. Reimbursement process should be automated more and do not leave "on the hande" of the administration staff, as this increases the possibility of corruption and non-compliance with the law.

2. The tax administration to be more transparent to the private sector must publicly report to meet the legal deadlines for refunds.

3. Adoption of a model as some countries have done, on the basis of which will be allocated the taxpayers according

to the risk that they have to realize income. On the basis of several criteria that they will meet they will be included in one of the categories it may be that "gold", "silver" or "other". This will greatly facilitate the work of the tax authorities to assess the applications for reimbursement and the reimbursement performance.

4. There must be a review of customs law, where must be removed reference prices.
5. The VAT should be calculated and pay after the sale of goods imported by businesses.
6. Customs authorities should interact with authorities tax.

In conclusion, we can say that there is no magic way to improve the situation but the important thing is the desire and the will to move forward towards Europe by leaps measured in every aspect.

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