Is the Fiscalization Process a Sustainable Tool to Reduce the Informal Economy? The Effects and Challenges after the Implementation Compared with the Region Countries

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Keywords: Fiscalization process; Informality; Region

Abstract: During the year 2021, the government took measurements for the full implementation of the law no. 87/2019 date 18.12.2019 “On electronic invoice and the turnover monitoring system”. All businesses in Albania experienced a difficult period through staff training and continuous online platform problems of the software etc. Now, one year after the implementation of the law we may see if there is any positive effect on the business’s activities. What about this process in other countries in the region? The questionnaire was created for companies in the cities of Tirana and Durres. The results will show the effort of the tax authority administration to support businesses during this transition phase and if there are still fiscal and technical challenges for both parties after the full process of implementation. We will also analyze if this process has had an impact on the informal economy in Albania.

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1. FISCALIZATION PROCESS IN ALBANIA


Fiscalization is an important process in Albania related to the electronic monitoring and reporting of financial transactions to the tax authorities. Fiscalization is implemented to combat tax evasion, increase tax compliance, and improve the efficiency of tax collection.

To implement this process, the business needs to apply first for the electronic certification. After receiving this certificate from a certain authority it can be submitted in the fiscalization platform of electronic invoices. Then the fiscal devices used for issuing fiscal invoices must undergo certification and approval by the tax authorities to ensure compliance with the legal requirements.

Each fiscal device is assigned a unique identifier code, which is linked to the respective business and its tax identification number. One of the most important advantages of this process is real-time reporting.

During each transaction, the fiscal device generates an electronic fiscal receipt that includes details of the sale, such as the date, time, amount, VAT (Value Added Tax) details, and the unique identifier of the fiscal device. The generated fiscal receipts are transmitted in real-time or periodically to the tax authorities’ central system for monitoring and verification.

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In the invoice, there are five secure elements like number of the insurer of the invoice issuer (NSLF), the unique identification number of the invoice (NIVF), the operator code, the code of the address of the entity, and the QR code. The fiscal receipts are printed or electronically sent to the customers as proof of their purchases.

During the year 2021, like everything new, the challenges for the implementation of this law were numerous, causing difficulties for both businesses and the tax administration. The purpose of this paper is to study how the situation appears, now, more than one year after the implementation of the law and to see if there is any positive effect on the business’s activities. What about this process in other countries in the region? Following the study, we will see how is the situation presented in other countries of the region or more broadly in the European countries that have implemented this process. Will conclude with the result from the questionnaire, to answer how the general situation appears more than one year after the implementation of this process.

2. FISCALIZATION PROCESS IN THE REGION AND EU COUNTRIES

Fiscalization refers to the process of electronically recording and reporting sales transactions, especially in businesses that have direct interactions with end consumers. It has been studied by many researchers (Talikovs & Litvinenko, 2021), as an integrated process into digital infrastructure, or for its effect in the underground economy in the research of (Marković & Pavić, 2013).

In his research (Woźniakowski, 2018) defined the fiscalization process as “a process through which a certain level of government (supranational/federal/central) expands its power to raise its own sources of revenue, and in doing so it decreases the level of vertical fiscal imbalance”.

According to A guide from Enactor (n.d.), in other countries around the region and Europe, there are fiscal law types related to the fiscalization process as shown in Table 1 below.

<table>
<thead>
<tr>
<th>Country</th>
<th>Fiscal Law Type</th>
<th>Additional Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>Hardware/Software</td>
<td>Generally, a software-based approach but can use a Card Reader or HSM to store the certificate and generate signatures. Alternatively, 3rd parties offer this as an online service avoiding the need for any hardware.</td>
</tr>
<tr>
<td>Bosnia &amp; Herzegovina</td>
<td>Hardware</td>
<td>The printer requires certification, a standard hardware-based approach.</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>Hardware</td>
<td>Legislation changes that are due to come into force shortly have been challenged by retailers and are likely to be delayed, possibly significantly.</td>
</tr>
<tr>
<td>Croatia</td>
<td>Software</td>
<td>The Czech Republic/Croatia/Slovenia share a similar approach.</td>
</tr>
<tr>
<td>Germany</td>
<td>Hardware/Software</td>
<td>Requires a technical security device that will communicate with the authorities and record transactions on a fiscal memory. Legislation is due to come into force on the Jan 1st and at present no technical security devices have been certified.</td>
</tr>
<tr>
<td>Greece</td>
<td>Hardware</td>
<td>Long-standing fiscal rules in place.</td>
</tr>
<tr>
<td>Hungary</td>
<td>Hardware</td>
<td>The solution needs to be certified.</td>
</tr>
<tr>
<td>Italy</td>
<td>Hardware</td>
<td>Integration with NCR 165a supported.</td>
</tr>
<tr>
<td>Norway</td>
<td>Software</td>
<td>No certification is required, but self-certify the product to support audits, must have a legal entity in the country.</td>
</tr>
<tr>
<td>Poland</td>
<td>Hardware</td>
<td>The printer requires certification, a standard hardware-based approach.</td>
</tr>
</tbody>
</table>
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<table>
<thead>
<tr>
<th>Country</th>
<th>Solution Type</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Romania</td>
<td>Hardware</td>
<td>The solution needs to be certified.</td>
</tr>
<tr>
<td>Serbia</td>
<td>Hardware</td>
<td>The printer requires certification, a standard hardware-based approach.</td>
</tr>
<tr>
<td>Slovak Republic</td>
<td>Software</td>
<td>Fiscal printer, just announced changes to moving online, similar to the Czech Republic, as of July 1st, 2019.</td>
</tr>
<tr>
<td>Slovenia</td>
<td>Software</td>
<td>The Czech Republic/Croatia/Slovenia share a similar approach.</td>
</tr>
<tr>
<td>Sweden</td>
<td>Hardware/Software</td>
<td>Large organizations with good financial controls can apply for an exemption.</td>
</tr>
<tr>
<td>Republic of Srpska</td>
<td>Hardware</td>
<td>Printer requires certification, a standard hardware-based approach.</td>
</tr>
<tr>
<td>Ukraine</td>
<td>Hardware</td>
<td>Printer based.</td>
</tr>
</tbody>
</table>

Source: Enactor (n.d.)

Albania adopts this process from the region countries and, to be precise, from the fiscalization process in Croatia. There are many reasons that countries have gone through this process like reduced informal economy and more control of cash transactions. Similar research is made in Croatia for the effect of this process on the collection of more taxes (Tot & Detelj, 2014).

Other authors focus their study especially on the impact of the fiscalization process (Hoxha et al., 2022) or the readiness of Albania as a transition country for this process (Hykaj & Angjeli, 2023).

It is stated even in the economic reform programme that, during the period 2022-2024, the Albanian Tax Administration’s efforts to tackle informality will focus on:
- “identifying non-compliant taxpayers (taxpayers with increased revenue, but decreased due VAT; taxpayers not declaring expenses for electricity bills; taxpayers with under-declared wages for their employees – identified by comparing several years’ data.
- tackling tax evasion, tax fraud and informality, by making use of real-time monitoring of financial transactions between taxpayers, under the newly implemented fiscalization system.
- detecting undeclared global income from taxpayers and individuals, through the first Automatic Exchange of Information on Financial Accounts in 2021” (Council of Ministers, Republic of Albania, 2022).

3. ANALYSIS OF RESULTS AND FINDINGS

In this paper, we are studying the effects and challenges after the implementation of the fiscal process in Albania. We collected primary and secondary information from different resources. To achieve that we used a questionnaire towards businesses in Tirana and Durrës.

In the questionnaire, we included open and closed questions to receive as much information as possible. On the other hand, we used the data from government institutions about the revenues collected from tax authorities in the last two years. The questionnaire was sent to more than 200 businesses but only 146 of them responded.

We should emphasize that in Albania more than 90% of the businesses are small and medium enterprises. In the questionnaire, 146 businesses took part in the features as presented in the responses. Below are presented the results of the questionnaire.

a) The first question was about the legal form of the businesses. 59% of them were limited liability companies, 28% were self-employed with or without employees and the rest were stock companies.
b) In the second question they were asked about the period in which they started the implementation of the process. The law no. 87/2019 dated 18.12.2019 “On electronic invoice and the turnover monitoring system” became effective on three different dates. According to Article 48 of the Law, from January 1, 2021, it would be applied to transactions between businesses and the government, only with electronic invoices.

Furthermore, from July 1, 2021, it would be applied to all non-cash transactions between businesses and the last, and from September 1, 2021, the implementation would begin for all small businesses as well as cash transactions with the final consumer. As we can see from the results, 95% of the entities started the process just in time.

**Figure 1.** The legal form of organization

**Source:** Authors

**Figure 2.** Implementation of fiscalization process

**Source:** Authors
c) This process was new for all types of businesses. It was normal that part of them would have difficulties implementing it. From the results, we can see that 37% of them had difficulties implementing the fiscalization process and for the other part 63% it was easier. Taking into consideration that almost 60% of the sample was a limited liability company it is obvious that 63% of the sample would not have difficulties. Why?

This type of business is more organized and has its structure with a lot of people where everyone does their job. Instead, in the self-employed type of activity, the owner does everything himself. The majority of self-employed type of businesses do not have an economist or accountant who could help or train during the transition and implementation phase.

![Figure 3. Difficulties in implementing fiscalization process](Source: Authors)

![Figure 4. Level of difficulty in the technical aspect](Source: Authors)

d) One of the most difficult issues during this process was addressing technical and IT problems. Businesses subject to fiscalization are required to use a computer, internet and approved fiscal devices, such as electronic cash registers or point-of-sale (POS) systems, equipped with software that generates electronic fiscal receipts. For 82% of the sample, this process was evaluated with a low and medium level of difficulty, but for the rest of 18%, they faced a high level of difficulty.
e) Compared with the previous question, about the level of difficulties in adopting and training the human resources we have more companies that face difficulties. Only 18% of them evaluated it with low level, and the other part 58% medium and 24% high level of difficulties. So, we can conclude that it is more difficult to adapt and train human resources to new processes than other technical issues. 

![Figure 5. Level of difficulty to adapt and train the human resources](image)

Source: Authors

f) During the first year the tax authority had every day, three times a day, constant training for the fiscalization process. Every entity had the opportunity to take part in the training three times a day and repeat it based on their needs. However, it was a little difficult to convince owners to take part in those training, especially for self-employed entities. They had to do everything by themselves and was hard for them to find the time and follow the training. According to the results, 40% of the businesses admit that those trainings have helped them too much, 32% a little, and for the 28% those training have not helped at all.

![Figure 6. Training from the tax administration](image)

Source: Authors
g) The tax administration was in charge of finding solutions for all the problems of the businesses. According to the questionnaire, 60% of them found solutions from the tax administrations, 5% of them in some cases and 35% did not find solutions from the tax authority. Like everything new, even this process was a challenge for all businesses, the tax administration and the customers themselves.

Figure 7. Solutions to problems
Source: Authors

h) As we can see from the chart below, there is an alignment of the responses. So, businesses that find solutions for the problems find this process useful and are 48% very satisfied, 22% are satisfied, in total 70%. On the other hand, 30% are not satisfied and think that this process needs improvements.

Figure 8. Satisfaction with the process
Source: Authors

i) One of the major reasons that this process was implemented was exactly to prevent and fight against fiscal evasion. In general, even the data from the tax authority shows that more taxes are collected after the implementation of this process. In our study, the same conclusion has been generated; 7% are neutral and the rest of 16% disagree and strongly disagree with that.
In general, there has been a positive impact and an increase in revenues during these two years in the state budget. If we are going to compare just the Value Added Tax for these two years will see an increase in VAT collected (Albanian Ministry of Finances and Economy, 2023). In a first view of the data we can say that this may be the result of the fiscalization process, and this automated process has increased the formal economy and collected more VAT revenues in the budget.

### Table 2. VAT revenues in the budget (in million lek)

<table>
<thead>
<tr>
<th>ITEM</th>
<th>Jan</th>
<th>Feb</th>
<th>March</th>
<th>April</th>
<th>May</th>
<th>June</th>
<th>July</th>
<th>Aug</th>
<th>Sept</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>V.A.T. 2022</td>
<td>15,075</td>
<td>29,586</td>
<td>45,639</td>
<td>60,821</td>
<td>75,943</td>
<td>91,129</td>
<td>107,876</td>
<td>125,498</td>
<td>143,907</td>
<td>161,018</td>
<td>176,806</td>
<td>191,412</td>
<td>1,224,709</td>
</tr>
</tbody>
</table>


But, if we consider an extended analysis during the three years - 2021, 2022 and 2023, there has been an increase in the inflation rate for many reasons. First, it was the effect of the pandemic situation and then the war in Ukraine that increased all prices. So, it remains a little unclear and we cannot conclude that the increase in revenues is an effect of the fiscalization process.

### 4. CONCLUSIONS AND RECOMMENDATIONS

Even though it was a long process with three different phases, in general, 95% of the entities started the process just in time according to the law no. 87/2019 dated 18.12.2019 “On electronic invoice and the turnover monitoring system”.

Fiscalization process requested a computer, software devices and technical support. For 82% of the sample, this process was evaluated with a low and medium level of difficulty.

On the other hand, it requested a lot of hours of human resources training. Businesses evaluated that it was more difficult to train the staff for the new process and to adapt them to all the new devices and IT issues.
The results show the effort of the tax authority administration to support businesses during this transition phase and if there are still fiscal and technical challenges for both parties after the full implementation of the process.

According to the questionnaire, 60% of them found solutions from the tax administrations. 70% of the businesses find fiscalization process useful, 22% are satisfied and 48% are very satisfied with it.

In conclusion, we can emphasize that 77% of the businesses agree and strongly agree that this process was efficient in the fight against fiscal evasion.

According to the question if this process is a sustainable tool to reduce informal economy we can conclude that there was an improvement of the situation, and this is also supported by the results of the questionnaire. There is much to work in the entire chain of transactions, to strictly implement this process; then, there would be a noticeable reduction in informality.

We would recommend increasing the controls and penalties from the tax administration as it is done in the fiscal package 2023, but also the tax authority should support more businesses at any time.

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Additional reading


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