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## **Albania**

# **Medium-Term Revenue Strategy: Revenue Administration Reform Options**

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**Technical Report**

**February 2020**

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## ABBREVIATIONS AND ACRONYMS

ALL	Albanian Lek (currency)
ASYCUDA	Automated System for Customs Data
BEPS	Base Erosion and Profit Sharing
B2B	Business to Business
B2C	Business to Customer
CAAT	Computer Assisted Audit Tools
CD	Capacity Development
CEE	Central and Eastern European Countries
CIT	Corporate Income Tax
CRM	Compliance Risk Management
CRS	Common Reporting Standard
EDW	Enterprise Data Warehouse
EU	European Union
FAD	Fiscal Affairs Department
GAAR	General Anti-Avoidance Rule
GDC	General Directorate of Customs
GDP	Gross Domestic Product
GDT	General Directorate of Taxes
HQ	Headquarters
HRM	Human Resource Management
IEKA	Albanian Institute of Authorized Chartered Auditors
IMF	International Monetary Fund
IT	Information Technology
LTO	Large Taxpayer Office
MTRS	Medium Term Revenue Strategy
MOFE	Ministry of Finance and Economy
NACE	Classification of Economic Activities
NAIS	National Agency for Information Society
NCTS	New Computerized Transit System
OECD	Organization for Economic Cooperation and Development
PIT	Personal Income Tax
POS	Point of Sale
RTO	Regional Tax Office
SECO	State Secretariat for Economic Affairs (Swiss Government Agency)
SEE	Southeast European Countries
SELDI	Southeast European Leadership for Development and Integrity
SOE	State-Owned Enterprise
SSC	Social Security Contributions
VAT	Value Added Tax
VDP	Voluntary Disclosure Program

## PREFACE

In response to a request from Ms. Anila Denaj, Minister of Finance and Economy, for support and guidance in the preparation of a Medium-Term Revenue Strategy (MTRS), an International Monetary Fund (IMF) Fiscal Affairs Department (FAD) mission in revenue administration visited Tirana during the period November 4 –19, 2019.

This mission was led by Mr. Stephen Vesperman (FAD). It comprised of Messrs. Paul Dempsey and Allan Jensen (both FAD), and Messrs. Barrie Russell and Michael O’Grady (both external IMF experts). This mission partly overlapped with a FAD mission, led by Ms. Dora Benedek, that provided tax policy options for the MTRS.

Several meetings were held with the Minister; Mr. Elton Haxhi, Deputy Minister, Ministry of Finance and Economy (MOFE); Mr. Nikolla Lera, Advisor to the Minister, MOFE; Ms. Delina Ibrahimaj, Director General, General Directorate of Taxation (GDT); Mr. Gjon Bardhi, Director General, General Directorate of Customs (GDC); and many managers and staff from the respective Headquarters (HQ) of the two agencies. The mission also met with Ms. Mirlinda Karcanaj, General Director, National Agency for Information Society (NAIS).

Meetings were also held with Ms. Marinela Jazoj and other representatives of the Foreign Investors Association of Albania; and from other development partners for the GDT, Dr. Patrik Meier, Deputy Head of Mission, Embassy of Switzerland, Ms. Sybille Schmidt, European Union (EU) Delegation; Ms. Sarah Jurreit, Directorate-General for Economic and Financial Affairs, European Commission; and Ms. Ermelinda Xhaja, Program Officer, Embassy of Sweden. The mission also liaised with Ms. Hilda Shijaku from the World Bank.

The mission would like to thank Ms. Blerina Paja, GDT, and Ms. Mirela Meko, GDC, for their excellent logistical support.

This report proposes revenue administration options to be considered for the MTRS and represents the final version of the draft aide-mémoire that was submitted to the authorities on November 19, 2019. It consists of an executive summary and seven sections: (i) Context of MTRS Development; (ii) Tax Compliance Gap and Current Responses; (iii) Addressing High Risk Areas of Non-Compliance; (iv) Building Institutional Capacity; (v) Improving Customs Administration; (vi) MTRS Governance Arrangements; and (vii) Next Steps and External Capacity Development Support.

## EXECUTIVE SUMMARY

**Albania is formulating a Medium-Term Revenue Strategy (MTRS) with IMF support.** The decision to commit to the development of an MTRS was taken against the background of revenue persistently falling short of budget projections, revenue continuing to lag behind regional peers in tax to Gross Domestic Product (GDP) ratios and the Government's assessment that an increase of revenue of 2.2 – 3.0 percent of GDP will be required to finance its additional spending needs over the next five years.

**The MTRS is a high-level road map for tax system reform, over the medium-term, needed to help finance the government's strategic objectives.** It sets out the government's strategy to mobilize revenue through the tax system to finance spending needs over the medium-term. For Albania, it is proposed that the strategy would be implemented over a five-year period.

**The MTRS will build on existing reform programs.** The General Directorate of Taxation (GDT) and the General Directorate of Customs (GDC) have undertaken a range of reform initiatives over the last five years; however, a refresh of their respective reform agendas is needed. The MTRS provides an opportunity to achieve a government-led strategy with a broad consensus on revenue goals and objectives, closely linked to priority spending to support the country's development agenda.

**As a precursor to this mission, a joint Fiscal Affairs Department and Ministry of Finance and Economy workshop was held in June 2019 to commence the formulation of the MTRS.** Key leaders from the MOFE, GDT and GDC participated at the workshop where a detailed presentation on the formulation of the MTRS was provided. The first draft of the MTRS formulation action plan and an MTRS gap analysis was also prepared.

**This report provides options to address high-risk areas of tax non-compliance and to strengthen revenue administration.** Tax policy reform options have been developed in parallel with this mission and are presented in a separate report.<sup>1</sup> This report sets out a range of short- and medium-term options to address specific high-risk areas of non-compliance and to strengthen institutional capacity to manage compliance more generally in both the GDT and the GDC. If implemented in full, these options have the potential to raise around one percent of GDP in revenue over the MTRS period. Some early gains may be possible but building capacity and achieving sustainable revenue improvements involve longer lead times.

### Priority Areas for Compliance Improvement

**Despite a strong focus on reducing informality in recent years, tax evasion remains rampant and ingrained in the national culture.** Underpayment of tax is pervasive across all sectors of the economy, with the largest losses in construction, trade, and services. The Value

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<sup>1</sup> IMF Report, *Albania: Tax Policy Reform Options for the MTRS*, Benedek, et al., November 2019.

Added Tax (VAT) compliance gap was estimated by the IMF<sup>2</sup> to be 28 percent in 2015—almost twice the European Union (EU) average. One in three workers were estimated by the World Bank to be engaged in some form of informal employment in 2018. A rolling series of anti-informality campaigns does not appear to have achieved a significant and sustainable improvement in compliance. A different and more strategic approach is clearly needed.

**Five priority areas for compliance improvement have been identified and targeted options for increasing revenue have been developed.** These options include several enforcement measures and other approaches that have been proven to be effective in other countries. The priority areas are:

- reducing the VAT compliance gap (with an early focus on the construction sector),
- reducing the cash economy, undeclared work, and underreporting,
- taxing unexplained wealth (including leveraging automatic exchange of financial account information through a well-designed voluntary disclosure program),
- limiting revenue leakage through artificial tax avoidance arrangements, and
- improving Customs administration by expanding information sharing arrangements and using data analytics to strengthen risk profiling processes.

These are balanced by a range of measures that will reduce compliance costs for taxpayers, increase certainty for taxpayers in how the tax laws are to be interpreted, and raise community confidence in the integrity of the revenue administration.

**These measures should not be considered as stand-alone solutions.** They will be effective only if they form part of wider compliance improvement strategies developed in line with the compliance risk management approach described in this report.

### **Institutional Capacity of Revenue Administrations**

**Despite good progress in recent years, the institutional capacity of both the GDT and the GDC is still relatively weak by international standards.** It is unclear that they could successfully implement the MTRS without a significant upgrade in the technical skills of staff and the supporting organizational arrangements. For each agency, the report sets out options for reorganizing to optimize performance, building far stronger analytical and risk management capabilities, and developing a more competent and well-equipped workforce.

**Undertaking a reform program of this scale while continuing to maintain normal business operations is a significant challenge for any revenue administration.** It will require strong and sustained political support and significant investment throughout the life of the MTRS, as the

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<sup>2</sup> IMF Report, *Albania – Revenue Administration Gap Analysis, the VAT Gap* Hutton et al, November 2016.

third component of the MTRS approach states. While some of the investment in capacity building may be provided by donors, the government will need to play its part in providing the necessary human and financial resources, including a dedicated reform program resource, and support for enabling laws and regulations.

**Stability in the senior leadership of the GDT and GDC throughout the MTRS**

**implementation is also essential.** Constant changes in leadership results in the loss of reform momentum as new incumbents take time to understand the challenges of administration and gain the confidence of staff. Real momentum for reform can only be maintained when the leaders are given sufficient time to energize their leadership team, build capacity, engage staff, embed new performance-oriented cultures, and promote real ownership of the reform agenda.

**MTRS Governance**

**Effective governance arrangements are essential for a successful MTRS.** The report outlines appropriate management structures and support arrangements at the MOFE level and for each participating agency. It also provides descriptions of the roles and responsibilities for each of the key players in the governance process.

**The revenue administration options presented in this report (and the tax policy options in the companion report) must now be considered for inclusion in Albania’s MTRS (see Appendix 8).** It is critical that the Steering Committee completes the MTRS in accordance with the action plan at Appendix 9. The IMF stands ready to provide ongoing support and guidance with the next phase of work. Box 1 summarizes the options and recommendations of this report.

**Box 1. Summary of Options and Recommendations**

Section/Options	Short Term (First 12 months)	Medium Term (One – Four Years)
<b>SECTION III – ADDRESSING HIGH RISK AREAS OF NON-COMPLIANCE</b>		
<i>Options for Reducing the VAT Compliance Gap</i>		
<ul style="list-style-type: none"> <li>Maximize the revenue-raising potential of fiscalization by ensuring that appropriate structures and systems are in place for monitoring and follow-up enforcement.</li> </ul>	✓	
<ul style="list-style-type: none"> <li>Target the construction sector for early attention and consider introducing a ‘reverse charge’ regime to prevent tax losses in the sub-contractor supply chain.</li> </ul>	✓	
<ul style="list-style-type: none"> <li>Develop and implement a series of focused compliance improvement projects using modern Compliance Risk Management (CRM) techniques for other identified high-risk sectors, such as professionals.</li> </ul>		✓

Section/Options	Short Term (First 12 months)	Medium Term (One – Four Years)
<ul style="list-style-type: none"> <li>Put in place additional protections against VAT fraud, including 'joint and several' VAT liability, and reverse charge arrangements for selected goods susceptible to fraud.</li> </ul>		✓
<b>Options for Reducing Cash Economy, Undeclared Work, and Underreporting</b>		
<ul style="list-style-type: none"> <li>Develop a more holistic and integrated approach towards tackling undeclared work.</li> </ul>	✓	
<ul style="list-style-type: none"> <li>Improve inter-agency cooperation arrangements and ensure that operational plans to identify shadow work are grounded on a clear strategy.</li> </ul>	✓	
<ul style="list-style-type: none"> <li>Extend the categories of persons required to file an income tax declaration.</li> </ul>	✓	
<ul style="list-style-type: none"> <li>Strengthen criminal sanctions for offences relating to undeclared work and underreporting.</li> </ul>	✓	
<ul style="list-style-type: none"> <li>Improve analytics and data sharing to better target unregistered work and underreporting.</li> </ul>	✓	
<ul style="list-style-type: none"> <li>Develop closer partnerships with business and community representatives to tackle undeclared work and tax-driven unfair competition.</li> </ul>		✓
<ul style="list-style-type: none"> <li>Improve the quality and reliability of financial statements.</li> </ul>		✓
<ul style="list-style-type: none"> <li>Develop an action plan at government and revenue administration level to reduce the cash economy.</li> </ul>		✓
<b>Options for Taxing Unexplained Wealth</b>		
<ul style="list-style-type: none"> <li>Target cases of significant unexplained wealth and give auditors explicit power to assess tax liability by indirect methods.</li> </ul>	✓	
<ul style="list-style-type: none"> <li>Target specifically offshore-related tax evasion and begin automatic exchange of financial account information under the Common Reporting Standard (CRS)<sup>3</sup> framework by 2020.</li> </ul>	✓	
<ul style="list-style-type: none"> <li>Incentivize the clean-up of past offshore-related evasion through a voluntary disclosure program (VDP) in the run-up to the first (2020) automatic exchange.</li> </ul>	✓	
<ul style="list-style-type: none"> <li>Widen the VDP to include undeclared domestic funds and assets—preceded by requiring automatic reporting by financial institutions of account information of Albanian residents.</li> </ul>	✓	
<ul style="list-style-type: none"> <li>Ensure a credible threat that VDP non-participants will be effectively and firmly dealt with; highlight the establishment of a follow-up investigation task force.</li> </ul>	✓	
<ul style="list-style-type: none"> <li>Collect taxes evaded through corruption and other financial crimes by improving cooperation "gateways" between the revenue agencies and other enforcement bodies.</li> </ul>		✓
<b>Options for Reducing Tax Avoidance</b>		

<sup>3</sup> The CRS is a standardized platform and framework, developed by the OECD, for automatic exchange of financial account information.

Section/Options	Short Term (First 12 months)	Medium Term (One – Four Years)
<ul style="list-style-type: none"> <li>Ensure that the general anti-abuse rule (GAAR) can be effectively implemented and act as a real deterrent to artificial tax-driven arrangements.</li> </ul>	✓	
<ul style="list-style-type: none"> <li>Enact targeted anti-avoidance measures to combat the most pervasive artificial arrangements— ‘bogus’ self-employment and artificial business splitting, pending simplification of the tax system.</li> </ul>	✓	
<ul style="list-style-type: none"> <li>Establish a specialist anti-avoidance unit in the GDT.</li> </ul>	✓	
<p><b><i>Options for Reducing Compliance Costs, and Increasing Tax Certainty and Confidence in Revenue Administration</i></b></p>		
<ul style="list-style-type: none"> <li>Develop a taxpayer service strategy.</li> </ul>	✓	
<ul style="list-style-type: none"> <li>Improve interpretative guidance to taxpayers and their advisors.</li> </ul>	✓	
<ul style="list-style-type: none"> <li>Improve tax product and process design through regular and meaningful interaction with users of GDT services, including key intermediaries.</li> </ul>	✓	
<ul style="list-style-type: none"> <li>Ensure that all decision-making related to tax outcomes for individual taxpayers resides with the GDT.</li> </ul>	✓	
<ul style="list-style-type: none"> <li>Promote confidence in the fairness of the tax system by paying VAT refunds on time and ensuring that all State-Owned Enterprises (SOE) pay their taxes.</li> </ul>	✓	
<ul style="list-style-type: none"> <li>Put in place a more structured integrity assurance framework.</li> </ul>	✓	
<ul style="list-style-type: none"> <li>Engage and involve taxpayers and tax intermediaries in designing tax laws and regulations, forms, procedures, and reporting systems with a view to simplifying the tax system and reducing compliance costs.</li> </ul>		✓
<p><b>SECTION V - BUILDING INSTITUTIONAL CAPACITY</b></p>		
<p><b><i>Options for Building Institutional Capacity in the GDT</i></b></p>		
<ul style="list-style-type: none"> <li>Shift responsibility for all fiscal monitoring work to the Audit directorate.</li> </ul>	✓	
<ul style="list-style-type: none"> <li>Channel all telephone enquiries to the national call center in the first instance and develop a structured escalation process to deal with more complex enquiries in a timely manner.</li> </ul>	✓	
<ul style="list-style-type: none"> <li>Expand scope and volume of the outbound telephone verification work conducted by the national call center (e.g., filing and payment enforcement, basic audit checks, and VAT refund verification checks).</li> </ul>	✓	
<ul style="list-style-type: none"> <li>Consolidate the operational work of the GDT into no more than three large regional offices plus the Large Taxpayer Office (LTO) and the national call center.</li> </ul>		✓
<ul style="list-style-type: none"> <li>Convert the remaining Regional Tax Offices (RTO) into service outlets—and rationalize the RTO network further over time.</li> </ul>		✓

<b><i>Options for Strengthening the CRM Capability</i></b>		
• Liaise with NAIS to ensure that an Enterprise Data Warehouse is delivered as part of the Fiscalization IT system.	✓	
• Contract-in experts in data analytics to undertake specific data analysis projects and include a requirement for transfer of skills to GDT staff.	✓	
• Leadership to champion the CRM approach and increase the number of CRM projects over time.	✓	
• Seek to expand the third-party data available to the GDT.		✓
• Acquire modern analytics software and train GDT staff in its use.		✓
• Partner with universities to develop courses in data analytics and behavioral science.		✓
<b><i>Options for Developing a Competent and Well-Equipped Workforce</i></b>		
• Liaise with representative bodies in key industries to provide training for LTO staff in how the industries are structured and operate (e.g., business structures, main business inputs, supply chains, operating processes and procedures, terminology used etc.).	✓	
• Target the national call center staff for early skills upgrades in law interpretation and negotiation techniques.	✓	
• Acquire suitable Computer Assisted Audit Tools and partner with other tax jurisdictions that use these products to train auditors in their use.	✓	
• Ensure that the law authorizes the use of indirect audit methods and partner with other tax agencies that already use these approaches to train auditors in their application.	✓	
• Recruit/select a small cadre of technical staff for intensive training in law interpretation and indirect audit methods. Pay this group an annual bonus and require an annual statement of income and assets similar to that required from senior GDT staff. Focus this group on the highest priority projects (e.g., off-shore bank accounts and construction).	✓	
• Seek assistance, in partnership with the Tax Academy, from universities, other tax jurisdictions, and professional associations to develop programs to address the skills gaps.		✓
<b><i>Options for Increasing the Operational Independence and Stability of Leadership of the GDT</i></b>		
• Ensure GDT leadership continuity for the period of the MTRS.	✓	
• Give more autonomy to the GDT in the areas of organization design, budget management, HRM, and setting performance standards.		✓
<b>SECTION V – IMPROVING CUSTOMS ADMINISTRATION</b>		
<b><i>Options for Improving Customs Administration</i></b>		
• Increase the number of authorized economic operators.	✓	
• Centralize all risk profiling into one national center.	✓	
• Improve risk filters, to allow for >33 percent through the Green Channel.	✓	
• Enact legal provisions for NCTS.	✓	
• Increase collaboration in the fight against informality, smuggling, corruption and importation of counterfeit goods.	✓	

• Develop a more professional and agile workforce.	✓	
• Assign responsibility for the administration of all fuel related taxes to one agency.	✓	
• Implement an integrity framework.	✓	
• Continue to invest in information technology.		✓
• Implement NCTS system.		✓
• Roll-out the Single Window.		✓
• Reduce the number of special tax zones and entities.		✓
• Expand further the use of the Green Channel (> 50 percent).		✓
• Develop and implement a supply chain monitoring system for fuel.		✓
• Develop further risk profiling, using advanced data analytics.		✓
• Develop advanced analytics capabilities.		✓
• Expand information exchange with partners domestically and internationally to improve risk profiling.		✓
<b>SECTION VI – MTRS GOVERNANCE ARRANGEMENTS</b>		
<b><i>Recommendations for Governance Arrangements</i></b>		
• Establish MTRS Program Management Office.	✓	
• Strengthen the composition of the MTRS Steering Committee.	✓	
• Establish a GDC Project Office.	✓	
• MTRS Steering Committee approve the MTRS draft by January 31, 2020.	✓	
• Ensure that close attention is paid to linkages and dependencies that exist among major MTRS measures so that critical reforms are prioritized and properly sequenced.	✓	

# I. CONTEXT OF MTRS DEVELOPMENT

## A. Fiscal Context

**1. Tax and social contribution revenues continue to trend upwards consistent with Albania's economic growth.** Albania's economy has rebounded from a low-point in 2013 with real growth of GDP expected to be in the region of 4.0 percent in 2020. Table 1 shows that tax and social security contributions (SSC) revenues have grown steadily in recent years. The General Directorate of Taxation (GDT) collected around 56 percent of all tax revenues (including SSC) in 2018; most of the remaining taxes were collected by the General Directorate of Customs (GDC). There was a modest increase in revenue collections for all core taxes in 2018. Table 2 shows the 2017 and 2018 collections for each of the revenue sources collected by GDT and GDC.

**Table 1. Overall Tax and Social Contribution Revenues, 2016 to 2018**

(Revenue amounts in ALL billions)

Tax Type	2016		2017		2018	
	Revenue	GDP Percent	Revenue	GDP Percent	Revenue	GDP Percent
Personal income tax	31.4	2.1	32.1	2.1	36.5	2.2
Social contributions	79.2	5.4	86.8	5.6	93.2	5.7
Profit tax	28.5	1.9	31.6	2.0	34.5	2.1
VAT	128.1	8.7	139.5	9.0	143.5	8.8
Excises	41.9	2.8	45.1	2.9	45.0	2.8
Customs duties	6.1	0.4	6.5	0.4	6.2	0.4
Other taxes	35.8	2.4	38.5	2.5	38.6	2.4
Local govt. revenue <sup>4</sup>	15.0	1.0	18.4	1.2	21.9	1.3
<b>Total</b>	<b>366.0</b>	<b>24.9</b>	<b>398.6</b>	<b>25.7</b>	<b>419.3</b>	<b>25.8</b>

Source: MOFE and IMF staff calculations and estimates.

Note: VAT revenues are overstated as they do not reflect VAT refund arrears, which amounted to ALL16.8 billion at end-2018.

### **2. Despite the increases, revenues have persistently fallen short of budget forecasts.**

On average, over the last 10 years, tax revenues underperformed relative to forecasts by close to 1.5 percent of GDP. Collection shortfalls against budget have continued into recent years and have mainly been attributed to unrealistic forecasting.<sup>5</sup> This trend continued into 2019 with a further decline versus forecast over the first nine months, particularly in VAT. The stock of approved unpaid VAT refunds was ALL18.1 billion as at end-September 2019—up from ALL16.8 billion at end-December 2018. VAT refunds for certain large taxpayers are paid by installments,

<sup>4</sup> Includes the property tax, the simplified profit tax for small businesses, and other local taxes.

<sup>5</sup> IMF Report, *Albania – Causes of Tax Revenue Underperformance and Options for Corrective Measures*, August 2015, Jensen et al.

contrary to international good practice. This issue is addressed further in Section III.F of this report.

**Table 2. Revenue Collected by the GDT and GDC, 2017–2018**  
(ALL billions)

Revenue Source	Collected		Difference
	2017	2018	
<b>GDT</b>			
PIT	32.1	36.5	+4.4
Social security contributions	82.8	88.7	+ 5.9
VAT gross	48.9	50.9	+2.0
VAT refunds	(13.9)	(14.4)	(+0.5)
VAT net	35.0	36.5	+1.5
Profit Tax	31.6	34.5	+ 2.9
National Taxes	12.4	12.9	+0.5
Circulation and Fuel Taxes	15.2	18.3	+3.1
Gambling Taxes	5.3	4.6	- 0.7
Administrative fines	0.2	0.1	-----
	<b>214.7</b>	<b>232.1</b>	<b>+17.4</b>
<b>GDC</b>			
VAT - Imports	104.6	107.2	+2.6
Excise - Imports	38.5	42.7	+4.2
Excise - Domestic	7.2	3.9	-3.3
National Taxes	16.5	19.5	+3.0
Customs Duties	6.5	6.2	-0.3
Rent Tax	2.3	2.6	+0.3
Scanning Fee	1.1	1.1	-----
	<b>176.7</b>	<b>183.2</b>	<b>+6.5</b>
GDT and GDC Total	<b>391.4</b>	<b>415.3</b>	<b>+23.9</b>

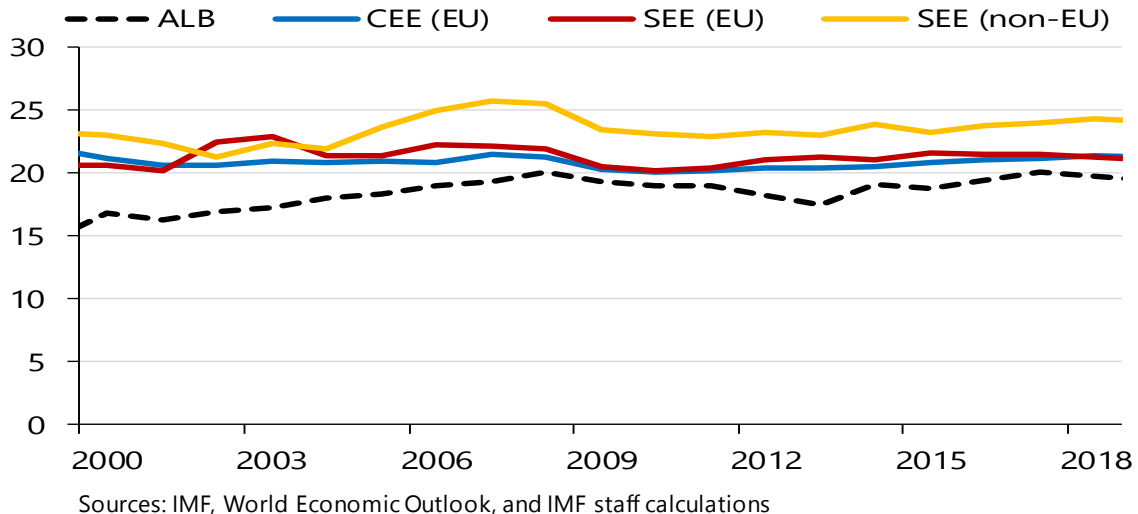
Source: GDT and GDC

**3. Albania has been lagging behind regional peers in tax to GDP ratios over the last two decades.** Figure 1 shows Albania's tax (not including SSC) to GDP ratio performance assessed against the three groups of economies in the region: central and eastern European (CEE) EU member countries (Czechia, Hungary, Poland, Slovakia, and Slovenia); southeastern European (SEE) EU member countries (Bulgaria, Croatia, and Romania), and southeastern European (SEE) non-EU countries (Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia).

**4. Recent tax policy reforms have accentuated the narrowing of the tax base and further complicated tax administration.** Tax policy in recent years has included tax cuts and sector-specific incentives (e.g. a low VAT rate for accommodation and special concessions for 4/5-star hotels and pharmaceutical manufacturers). In 2019, the Corporate Income Tax (CIT) rate was reduced from 15 to 5 percent for some 11,000 businesses; the dividend tax was reduced from 15 to 8 percent; and the lower brackets for Personal Income Tax (PIT) were widened significantly. In 2018, a VAT threshold reduction brought some 13,000 micro-businesses into the

VAT system with little revenue impact. Headline items for the proposed 2020 fiscal package include increased deductions allowed for sports sponsorship, legislative support for the payment of VAT refunds to be made by instalments in certain circumstances and a profit tax incentive for the automotive industry.

**Figure 1. Tax to GDP Ratios Against Regional Comparators, Excluding SSC**



## B. MTRS Context

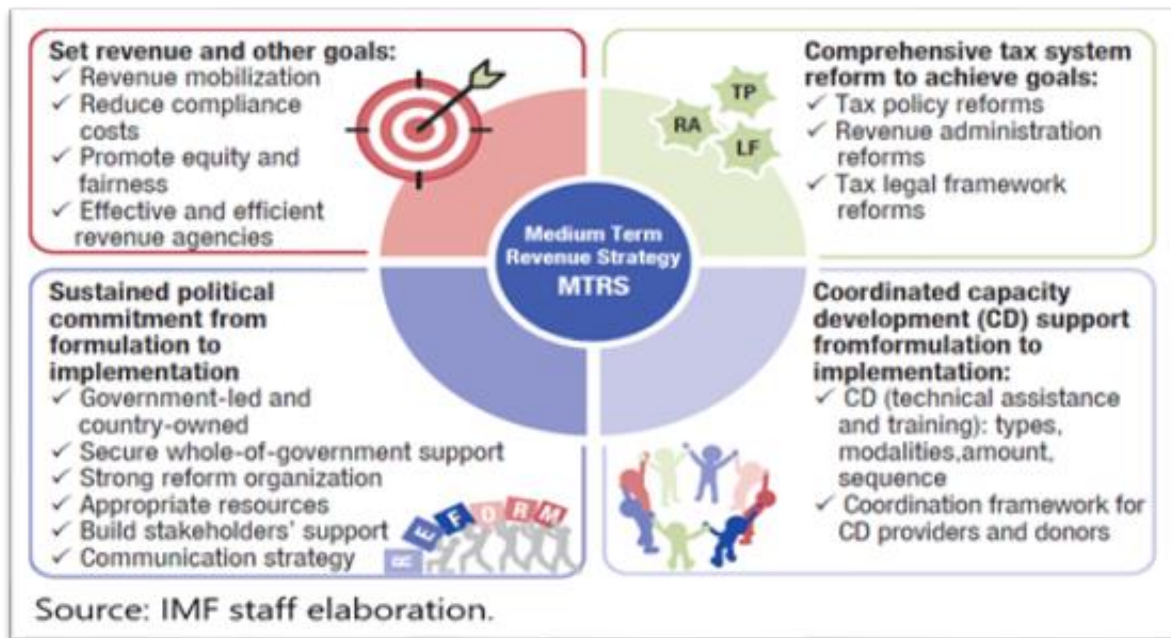
**5. Albania is formulating an MTRS with IMF support.** The aim is to strengthen and modernize revenue mobilization through policy and administrative reform, simplify and streamline procedures, and create fiscal space for investments in sustainable development goals, including health, education, and infrastructure. The MTRS is a high-level road map for tax system reform, over the medium-term, needed to help finance the government’s strategic objectives. The strategy would typically be implemented over a four to six-year period. It sets out the government’s strategy to mobilize revenue through the tax system to finance spending needs over the medium-term.

**6. The MTRS consists of four interdependent components:**

- A broad-based consensus on the medium-term revenue goals required to finance the agreed public expenditure.
- A comprehensive reform of tax policy, revenue administration, and associated legal frameworks to achieve the revenue goals.
- Sustained whole of government support during the life of the MTRS.
- Coordinated external support, including finance and capacity development support for the implementation.

Figure 2 illustrates the four key components of the MTRS approach.

**Figure 2. Key Components of the MTRS Approach**



**7. The MTRS addresses the policy, administrative, and legal components of the tax system in a holistic and interactive way.** It provides for essential coordination between these three elements of the tax system. This approach provides a platform for a tax system that is compatible with the changing economic environment and evolving business practices. The interdependencies and linkages between the different elements of the tax system create a business, investment, and tax environment that has clear policies to support the achievement of sustainable development goals, other national objectives, and to encourage investment.

**8. The government has assessed the country's additional spending needs for the next five-year period.** It has estimated that an increase of tax to GDP of 2.2-3.0 percent is required. It plans to finance this gap with revenues from comprehensive tax policy and administrative reforms.

**9. An MTRS gap analysis was completed in June 2019 (Appendix 1).** The gaps under the four components of the MTRS were assessed during a joint IMF-MOFE high-level workshop, which prepared a preliminary roadmap for formulating an Albania-led MTRS. At this time, it was agreed that follow-up capacity development for tax policy and revenue administration would be provided by the IMF to help evaluate reform options for the MTRS.

**10. Tax policy reform options have been developed in parallel with this mission and are presented in a separate report.** The tax policy options report<sup>6</sup> confirms that the current tax system is complex and fragmented and that frequent ad hoc changes undermined the stability

<sup>6</sup> IMF Report, *Albania: Tax Policy Reform Options for the MTRS*, November 2019, Benedek et al.

and transparency of the system and contribute to significant challenges for tax administration. The report concluded that a fairer, more efficient, simpler, and more transparent tax system could invigorate domestic economic activity and attract more foreign investment.

**11. This report provides revenue administration reform options for the MTRS.** It identifies shortcomings in the existing administrative arrangements of the GDT and GDC; provides options for building institutional capacity and improving compliance and revenue collections; and indicates broad timelines for implementation. If the options in this report are accepted in full, they have the potential to raise around one percent GDP over the MTRS period. Some early revenue outcomes are possible but many of the institutional reforms and compliance improvement plans involve significant lead times.

**12. Strong governance is essential for a successful MTRS.** Section VI considers the governance and reform program management arrangements required. The timing of the MTRS presents an ideal opportunity to achieve greater alignment and promote consistent approaches in the next generation GDT and GDC reform plans, to be developed over the next 12 months.

## C. Revenue Administration Setting

**13. The GDT has made steady modernization progress in recent years.** A combination of the success of the implementation of the new IT system in 2015 and a clear focus on a reform agenda since then has contributed to positive change across the organization. However, the reform momentum has recently slowed in part due to the lack of leadership stability. The current reform program has been in place for almost three years and needs to be refreshed.

**14. The GDC has made good progress in modernizing its administration to meet EU standards.** The customs code is broadly aligned with EU rules and procedures. Progress has been made in improving online customs procedures, reducing customs processing times, and increasing the use of risk assessment. A work plan to upgrade Customs IT systems has also been developed. The reform program is documented in the GDC's Business Strategy 2017-2021, underpinned by implementation plans.

**15. Significant improvements are still required to the GDT's and GDC's operations and structures.** Considerable investment and support are required to fully modernize the administrations and achieve material tax gap reductions. This report provides options for strengthening institutional capacity and achieving an improved level of taxpayer compliance.

## II. TAX COMPLIANCE GAP AND CURRENT RESPONSES

### A. The Compliance Challenge

**16. Albania suffers from widespread—and culturally ingrained—informality, with a significant adverse effect on tax revenues.** While reliable estimates on the overall size of the tax gap are not available, the scale of the non-compliance challenge is evident from the broad indicators in Box 2.

#### Box 2. Indicators of Levels of Informality

- **High VAT compliance gap:** This was estimated by the IMF to be 28 percent in 2015—almost twice the EU average. While under-assessed VAT is pervasive across all areas of the Albanian economy, the largest losses are in construction, trade, and services.<sup>7</sup>
- **Rampant informal work and underreporting:** One in three economically active Albanians were estimated by the World Bank Group to be working in some form of informal employment in 2018 – compared to one in five in Serbia and North Macedonia.<sup>8</sup> Various independent surveys corroborate this and highlight endemic income underreporting.<sup>9</sup>
- **Large cash economy:** Cash held outside of the banking system in August 2019 was at record levels (ALL288 billion or 22 percent of all circulating money—more than the annual amount of taxes collected by the GDT)<sup>10</sup> and was trending upwards. Equivalent estimates for North Macedonia and Serbia are 7.4 percent and 6.8 percent respectively.<sup>11</sup> A large element of cash in circulation in Albania is suspected to involve informal or illegal activity.

**17. Apart from the loss of tax revenue, informality on this scale undermines social cohesion and economic growth.** Low community confidence in the fairness and effectiveness of the tax system—a feeling that few are paying their “fair share”—leads to an ongoing cycle and culture of non-compliance and to unfair competition for compliant businesses.

<sup>7</sup> IMF Report, *Albania – Revenue Administration Gap Analysis, the VAT Gap* (Hutton et al), November 2016.

<sup>8</sup> *Western Balkans Labor Market Trends 2019* (Page 18), World Bank Group and Vienna Institute for International Economic Studies.

<sup>9</sup> A Southeast Europe Leadership for Development and Integrity (SELDI) survey of the Albanian labour force in 2016 found that 39 percent of respondents participated in undeclared work; 39 percent had no written contract; 29 percent declare and pay social contributions on the minimum wage; and 19 percent received higher pay than in contracts. A National Business Forum survey in 2015 found that businesses do not report 29 percent of their labour force. An International Labour Organization survey in 2016 found that 31.9 percent of non-agricultural labour was informal.

<sup>10</sup> Bank of Albania figures reported in *Albania Daily News*, October 4, 2019.

<sup>11</sup> As reported during the Albania National Payment System Committee organized by the Bank of Albania, October 2019.

**18. A contributory factor to low “tax morale” is tax design complexity and high compliance costs.** Frequent changes in tax policy in recent years have introduced elements of horizontal unfairness, e.g., employees paying significantly more income tax and social contributions than freelance professionals earning the same level of income, and the expansion of special tax breaks for different sectors and segments of taxpayers. Some of these policy changes also open opportunities for artificial tax avoidance such as bogus self-employment, splitting businesses to stay within the low CIT rate, and tax rate arbitrage (e.g., substituting low-taxed dividends for salary). Albania also scores relatively poorly in international “Paying Taxes” rankings, including the number of hours needed to comply with tax obligations and VAT refund arrangements.<sup>12</sup>

## **B. Current Responses**

**19. The Albanian authorities are addressing tax non-compliance partly through rolling “fight informality” campaigns, which began in September 2015.** These multi-agency campaigns, focusing on high-profile, spot check monitoring inspections, have recently become better targeted and coordinated through an inter-agency operational committee chaired by the MOFE. However, they are not linked to any clear over-arching strategy. The level of violations discovered as a result of spot-check monitoring continues to be high<sup>13</sup>. While this high “hit rate” may to some extent reflect improved targeting, it also implies that after four years of high-visibility anti-informality activity, the impact of these campaigns has been limited in achieving a significant and sustainable improvement in overall compliance.

**20. An important current initiative is the introduction (over the next two years) of real-time monitoring of invoices and receipts—so-called “fiscalization.”** It is intended that the first business-to-consumer (B2C) element of online retail receipt monitoring will be in place by April 2020, with the second business-to-business (B2B) stage, requiring mandatory e-invoicing by all businesses, to follow in mid-2021. Good practice would be to phase this differently, starting with B2B, followed by B2C. The GDT estimates that fiscalization has the potential to increase VAT collection by between 10 and 15 percent when fully implemented.<sup>14</sup>

**21. Major efforts have been made in recent years to make the revenue administration bodies more effective.** While the GDT and GDC have made significant progress in developing better systems and structures to improve compliance, there are still many areas where institutional capacity needs to be improved. These are addressed in Section IV.

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<sup>12</sup> See *Paying Taxes 2019*, World Bank Group and PWC.

<sup>13</sup> Results are reported regularly on the GDT website.

<sup>14</sup> GDT website.

## III. ADDRESSING HIGH RISK AREAS OF NON-COMPLIANCE

### A. Introduction

**22. This section identifies five priority areas for compliance improvement (see Box 3) and suggests targeted options aimed at increasing revenues over the medium term.** While elements of these areas overlap—payment of “envelope wages” will also usually involve VAT and income tax evasion by the employer—compliance improvement initiatives broadly categorized according to these priority actions have the potential to increase medium-term tax revenues and improve public trust in the tax system. To achieve and sustain the revenue gains, this must be done in conjunction with the institutional reforms proposed in Section IV.

#### Box 3. Priority Actions for Compliance Improvement

1. Reduce the VAT compliance gap.
2. Reduce the cash economy, undeclared work, and underreporting.
3. Tax unexplained wealth.
4. Limit artificial tax avoidance.
5. Reduce compliance costs, increase tax certainty, and confidence in revenue administration.

### B. Reducing the VAT Compliance Gap

**23. Maximize the revenue-raising potential of fiscalization by ensuring that structures and systems are in place for monitoring and follow-up enforcement.** The planned introduction of real-time monitoring of receipts and e-invoices has significant revenue raising potential (particularly for VAT)—provided it is well planned and well executed. Lessons can be learnt from the experiences of other European countries that already have similar systems. While the short-term focus is on the practical implementation challenges for businesses and GDT, it is important that the following broad principles guide the overall approach:

- **Fiscalization is not a standalone ‘magic bullet’ solution.** International experience is that it can deliver a permanent increase in revenues only if it is part of a wider compliance improvement strategy, including simplification and compliance cost reduction.<sup>15</sup>
- **Monitoring and follow-up enforcement must be risk driven.** Risk filtering systems need to be developed to ensure that large volumes of data on apparent irregularities, outliers and invoice mismatches are reduced to manageable levels. Follow up field audits should be

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<sup>15</sup> IMF Working Paper: *Electronic Fiscal Devices – An Empirical Study of Their Impact on Taxpayer Compliance and Administrative Efficiency*, (Casey and Castro), 2015.

limited to the highest risk cases, taking account of other risk indicators. Office-based interventions will be appropriate in many cases.

- **Fiscalization is an opportunity to cultivate greater trust in the tax system.** While the primary objective is to increase tax revenues, GDT should use the opportunity to emphasize the benefits to business, including faster VAT refund clearance, lower compliance costs in the long run under an e-invoice system, and a fairer tax system resulting from improved compliance.<sup>16</sup>

**24. Target the construction sector for early attention and consider introducing a ‘reverse charge’ regime to prevent tax losses in the sub-contractor supply chain.** While under-assessed VAT is pervasive across all areas of the Albanian economy, the construction sector stands out as being particularly problematic (Figure 3). International experience is that construction is highly susceptible to VAT fraud along the supply chain of sub-contractors. Domestic reverse charge regimes for construction are used extensively in the EU<sup>17</sup> and worldwide. These operate by making the recipient of construction services at the top of the chain (usually the main contractor) responsible for paying the VAT. It protects against sub-contractors down the chain purporting to charge VAT and then disappearing. In formulating its MTRS and action plans, the GDT needs to give early priority to the development of an intensive compliance improvement program specifically for the construction sector to reduce tax losses in this high-risk area.

**25. For other identified high-risk sectors, develop and implement a series of focused compliance improvement projects using modern Compliance Risk Management (CRM) techniques.** The development of these projects may need further capacity development assistance—both for data analytics techniques (to better identify risk clusters, such as professionals, within the VAT gap assessment) and for project design. To have any lasting impact, it is essential to approach sectoral compliance improvement projects in a comprehensive way (rather than adopting a limited audit or other ad hoc response).

**26. Put in place additional protections against VAT fraud, including ‘joint and several’ VAT liability, and reverse charge arrangements for selected goods susceptible to fraud.** An increasingly common mechanism to deter VAT fraud is the so-called ‘joint and several’ liability mechanism—where a person other than the person responsible for the VAT payment can be held liable— if he ‘knew or should have known’ that the VAT liability would go unpaid. The introduction of a measure along these lines should be framed in line with established EU law principles for joint and several VAT liability, which take account of the need to preserve legal certainty for genuinely innocent parties to a VAT fraud transaction.<sup>18</sup> Where there are indications of product-specific VAT fraud risks, such as raw metals (chromium featured in a recent significant

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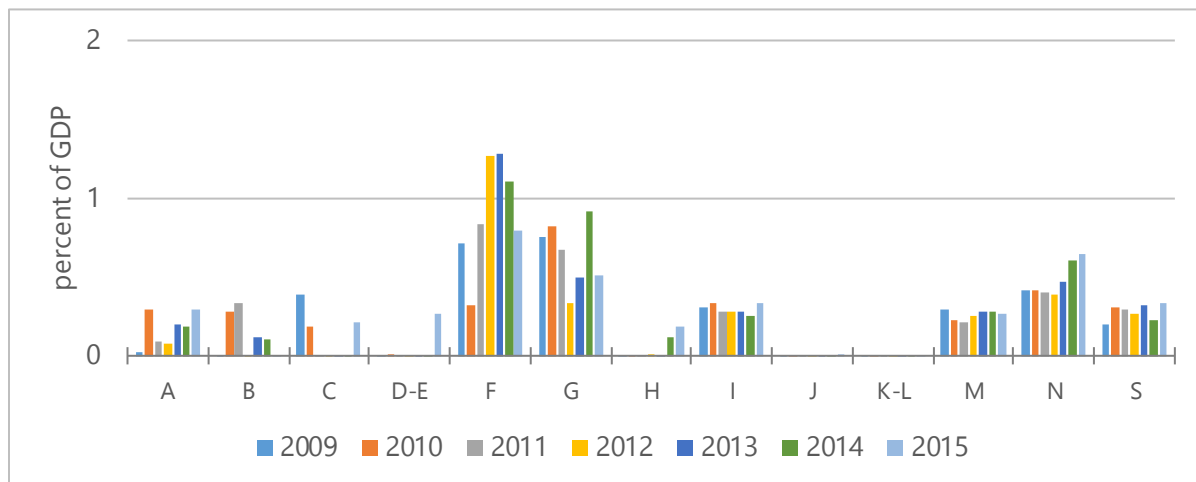
<sup>16</sup> World Bank Group Working Paper: *Can Electronic Tax Invoicing Improve Tax Compliance*, (Lee), March 2016.

<sup>17</sup> European Commission – *Assessment of the operation of the impact of the ‘reverse charge’ mechanism within the EU VAT system*, November 2014.

<sup>18</sup> See for example the UK HMRC Publication *Joint and Several Liability for Unpaid VAT*, (VAT Notice 726).

domestic Albanian VAT fraud), the VAT reverse charge mechanism should be considered for that product.

**Figure 3. VAT Compliance Gap by Sector (2009 – 2015) – in percent GDP**



Sector Code	Sector Description	Sector Code	Sector Description
A	Agriculture	I	Accommodation and food service activities
B	Mining and quarrying	J	Information and communication
C	Manufacturing	K-L	Finance, insurance, and real estate
D-E	Electricity, gas, and water	M	Professional services
F	Construction	N	Business support services
G	Trade	S	Other services
H	Transport		

Source: IMF Report, *Albania – Revenue Administration Gap Analysis, the VAT Gap* (Hutton et al), November 2016.

### **MTRS Options for Reducing the VAT Compliance Gap:**

#### **Short Term (First 12 months)**

- Maximize the revenue-raising potential of fiscalization by ensuring that appropriate structures and systems are in place for monitoring and follow-up enforcement.
- Target the construction sector for early attention and consider introducing a ‘reverse charge’ regime to prevent tax losses in the sub-contractor supply chain.

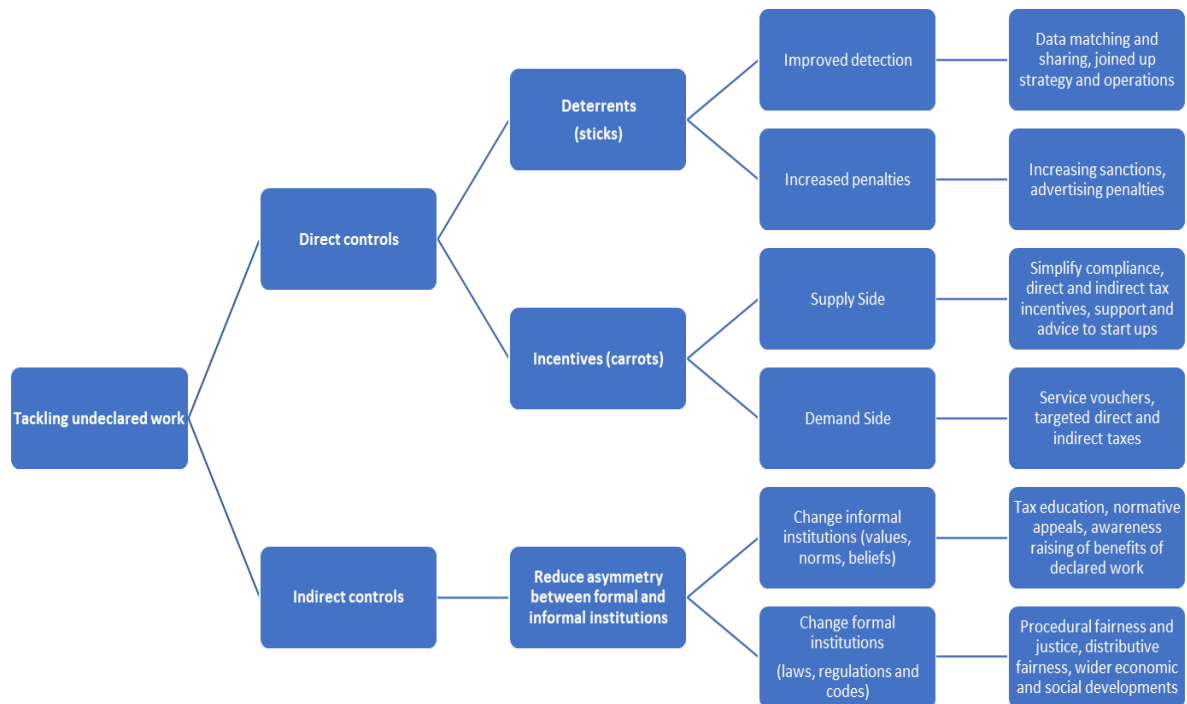
#### **Medium Term (One - Four Years)**

- Develop and implement a series of focused compliance improvement projects using modern CRM techniques for other identified high-risk sectors, such as professionals.
- Put in place additional protections against VAT fraud, including ‘joint and several’ VAT liability, and reverse charge arrangements for selected goods susceptible to fraud.

## **C. Reducing Cash Economy, Undeclared Work, and Underreporting**

**27. Develop a more holistic and integrated approach towards tackling undeclared work.** Moving workers from the cash economy into formal employment is difficult. There are a range of integrated policy approaches, beyond detection and sanctions, and some are highlighted in Figure 4.

**Figure 4. Policy Approaches and Measures for Tackling Undeclared Work**



Source: Regional Cooperation Council, *Diagnostic Report on Undeclared Work in Albania*, 2018.

**28. Improve inter-agency cooperation arrangements and ensure that operational plans to identify informal work are grounded on a clear strategy.** Responsibility for tackling undeclared work is spread across several agencies: tax non-compliance is with the GDT and GDC, SSC violations with social insurance bodies, and labor law with the labor inspectorate. While there is now better interagency coordination at operational level (guided by a high-level MOFE committee), there is a need for more organized (rather than ad hoc) operational planning, based on a clear over-arching strategy.

**29. Strengthen the criminal sanctions for offences relating to undeclared work and underreporting.** Compliance behavior is impacted by the level of sanctions applied in addition to the likelihood of detection. Under the current fiscal package, it is proposed to increase the proportionality of administrative fines – depending on the size of business, and escalating sanctions for repeat offences. A similar approach should be adopted for criminal offence sanctions, particularly for repeat offenders.<sup>19</sup>

<sup>19</sup> Currently a fine of ALL10,000 or one year in prison.

**30. Improve analytics and data sharing to better target unregistered work and underreporting.** The GDT needs to have a greater focus on identifying people outside the tax and SSC systems. Currently there is a large mismatch between labor force statistics, indicating real economic activity, and numbers of registered workers. The GDT needs to drill down into this data to identify the highest clusters of likely informal work. Systematic third-party data matching is also needed to be effective in identifying unregistered taxpayers. The exceptionally large “bunching” of declared income at, or below, the minimum wage also needs to be investigated using analytical techniques.

**31. Extend the categories of persons required to file an income tax declaration.** While monitoring of multiple employments is carried out (to ensure the correct tax bracket applies), a general requirement to file a tax declaration is limited to persons with annual income over ALL2 million. Extending the filing requirement to include all those with more than one source of income (apart from employment income) —although less than ALL2 million in aggregate — should be considered.

**32. Develop closer partnerships with business and community representatives to tackle undeclared work and tax-driven unfair competition.** Cooperation between business and community representatives can be a powerful in countering tax evasion and developing effective policy measures. These might include a broader withholding tax regime in areas where tax-driven unfair competition is rife.

**33. Improve the quality and reliability of financial statements.** Underreporting of tax obligations is facilitated by underreporting on financial statements. Tax and accountancy professionals play an important role in facilitating tax compliance. Membership of the Albanian Institute of Authorized Chartered Auditors (IEKA) is mandatory for practicing auditors. IEKA has a code of ethics for Professional Accountants. To address issues of underreported financial statements, the law establishing IEKA and company law reporting requirements should be reviewed to ensure that tax compliance obligations are adequately reported in audited financial statements. This should incorporate recent developments to the International Ethics Standards Board’s Code for Professional Accountants<sup>20</sup> on responding to non-compliance with laws and regulations. There should be regular engagement between the GDT and IEKA on general tax administration matters, including reporting procedures to deal with any breaches of professional standards.

**34. Develop an action plan at government and revenue administration level to reduce the cash economy.** The impact of an exceptionally high level of cash circulating outside the banking system (22 percent of all money in circulation) has a significant direct impact on taxation revenues and indirectly on Albania’s economic growth. Well-designed measures (including education and awareness raising) can be effective in reducing the cash economy. Some initiatives in this area, based on international experience, are:

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<sup>20</sup> See “ethicsboard.org”; The Restructured Code, April 2018

- **Reduce the cost of bank account facilities for individuals and small business and encourage greater use of electronic payment facilities.** While businesses in the VAT system have recently been obliged to have bank accounts and notify details to GDT, the current high cost of banking encourages the cash economy (less than half of Albanian adults have a bank account and only around 200,000 have e-money accounts).<sup>21</sup>
- **Examine further prohibitions on cash dealings.** Consider compulsory bank transfer payments for significant outgoings such as rent<sup>22</sup> (below the current ALL150,000 cash prohibition threshold); and examine international case studies that mandate 'card payments' and point-of-sale (POS) services terminals to be installed for professional groups and high value traders.
- **Develop an information and awareness campaign to coincide with the introduction of fiscalization.** Encourage taxpayers to avoid cash operators and increase publicity on how they can report cash activities with a guarantee of confidentiality.
- **Partner with reputable business, trade and professional associations.:** Highlight the risk of dealing with cash operators in terms of poor quality of workmanship, lack of effective protections, risks to warranties and potential health and safety issues.
- **Educate established business operators about the non-tax risks of understating income:** e.g. reduced insurance pay-outs, limited access to credit and compromised ability to sell a business.
- **Engage the community in identifying and rejecting cash modes.** The community is less tolerant of shadow economy operators who contribute little or nothing in the way of taxes, but at the same time claim government benefits, or live an extravagant lifestyle.
- **Inform the community of increasing capability to detect and deal with cash economy activities.** This is aimed at raising community confidence in the effectiveness of the administration by demonstrating that tax evaders are brought to account and represents an important deterrent to others who may be contemplating engaging in non-compliance.
- **Widely publicize anti-evasion actions.** Report the results of such actions including successful prosecutions that flow from these activities. Where the publication of detailed taxpayer information is restricted, sanitized case studies are an effective means of communicating results.

### **MTRS Options for Reducing Cash Economy, Undeclared Work, and Underreporting:**

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<sup>21</sup> World Bank Group Report, *The Retail Payment Costs and Savings in Albania*, June 2018.

<sup>22</sup> In Turkey, rent over a de minimis figure must be paid through the banking system.

### **Short Term (First 12 months)**

- Develop a more holistic and integrated approach towards tackling undeclared work.
- Improve inter-agency cooperation arrangements and ensure that operational plans to identify shadow work are grounded on a clear strategy.
- Extend the categories of persons required to file an income tax declaration.
- Strengthen criminal sanctions for offences relating to undeclared work and underreporting.
- Improve analytics and data sharing to better target unregistered work and underreporting.

### **Medium Term (One - Four Years)**

- Develop closer partnerships with business and community representatives to tackle undeclared work and tax-driven unfair competition.
- Improve the quality and reliability of financial statements.
- Develop an action plan at government and revenue administration level to reduce the cash economy.

## **D. Taxing Unexplained Wealth**

**35. Target cases of significant unexplained wealth and give auditors explicit power to assess tax liability by indirect audit methods.** Untaxed wealth accumulation—where declared income and sources of funds are clearly insufficient to finance lifestyle and assets—is a major factor in undermining trust in the tax system. Currently, GDT auditors can only assess tax liability where there is direct evidence of evasion from books and records or third-party information—the courts have been reluctant to uphold assessments based on indirect evidence of under-reporting. The tax procedure law should be changed to explicitly allow for indirect audit methods and to provide that reasonable assessments based on such methods are valid unless the taxpayer can explain the sources of wealth accumulation or other inconsistencies (see Appendix 2).

**36. Specifically target offshore-related tax evasion and begin automatic exchange of financial account information under the Common Reporting Standard (CRS)<sup>23</sup> framework by 2020.** A large element of serious tax evasion (usually by relatively wealthy individuals) has been facilitated by moving untaxed funds to accommodating offshore locations. The international response, overseen by the Organization for Economic Cooperation and Development (OECD), has been to bring together over 150 jurisdictions (the Global Forum) to commit to automatic exchange of financial account information. Albania has committed to commence the first automatic exchanges from 2020 (with technical assistance from the Italian tax authorities) and will begin to receive information about Albanian residents having financial accounts in overseas jurisdictions (including from most of the traditional offshore “havens”). The

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<sup>23</sup> The CRS is a standardized platform and framework, developed by the OECD, for automatic exchange of financial account information.

experience of the early adopters of the CRS framework is that the information exchanged identifies significant tax evasion. Albania is unlikely to be an exception.

**37. Incentivize the clean-up of past offshore-related evasion through a voluntary disclosure program (VDP) in the run-up to the first (2020) automatic exchange.** Many countries have introduced VDPs ahead of full implementation of automatic cross-border information exchange—with significant results for revenue generation.<sup>24</sup> Albania should consider introducing a VDP to leverage additional tax revenue from the introduction of automatic financial accounts information exchange.

**38. Widen the VDP to include undeclared domestic funds and assets—preceded by requiring automatic reporting by financial institutions of account information of Albanian residents.** A well-designed VDP has the capacity to generate significant additional revenue if it is broadened to include also untaxed domestic funds and assets. However, the revenue-generating impact of any such widening depends on the perceived capacity of the GDT to discover undeclared money held in domestic financial institutions. To have significant impact, automatic reporting to GDT of financial account information of Albanian tax residents—preferably using the CRS reporting framework—should be introduced in tandem with automatic cross-border reporting. The OECD has provided guidance on designing VDPs (including issues relating to confidentiality and criminal prosecution).<sup>25</sup> A useful “decision tree” on the issues to be considered is replicated in Appendix 3.

**39. Ensure a credible threat that VDP non-participants will be effectively and firmly dealt with; highlight the establishment of a follow-up investigation task force.** A key element in any successful VDP is the perception of the tax authority’s capacity and willingness to follow-up after the VDP deadline with investigation and enforcement action against non-participants. Announcement in advance of the disclosure deadline of the establishment of a dedicated follow-up investigation task force would help bolster the credibility of the likely negative consequences of not coming forward.

**40. Collect taxes evaded through corruption and other financial crimes by improving cooperation “gateways” between the revenue agencies and other enforcement bodies.** Revenue authorities can be key players in the fight against financial crime and corruption. International experience is that taxing the gains from criminality and corruption—as well as revenue authorities helping to support criminal conviction—is a powerful element in building trust in state institutions. The success of this approach depends on effective and well implemented cooperation arrangements between the revenue authorities and other law enforcement bodies—the prosecutor, the police, the financial intelligence unit and the anti-corruption authorities. There is scope for significantly improving such cooperation and

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<sup>24</sup> See OECD press release June 7, 2019 – indicating that voluntary disclosure of offshore assets resulted in more than €95 billion in additional revenue for OECD and G20 countries over the 2009 – 2019 period.

<sup>25</sup> See *Update on Voluntary Disclosure Programmes – A Pathway to Compliance*, OECD, August 2015.

coordination in Albania. The World Bank and the OECD have published useful guidance on developing effective cooperation mechanisms.<sup>26</sup>

## MTRS Options for Taxing Unexplained Wealth:

### *Short Term (First 12 months)*

- Target cases of significant unexplained wealth and give auditors explicit power to assess tax liability by indirect methods.
- Target, specifically, offshore-related tax evasion and begin automatic exchange of financial account information under the Common Reporting Standard (CRS) framework by 2020.
- Incentivize the clean-up of past offshore-related evasion through a voluntary disclosure program (VDP) in the run-up to the first (2020) automatic exchange.
- Widen the VDP to include undeclared domestic funds and assets—preceded by requiring automatic reporting by financial institutions of account information of Albanian residents.
- Ensure a credible threat that VDP non-participants will be effectively and firmly dealt with; highlight the establishment of a follow-up investigation task force.

### *Medium Term (One - Four Years)*

- Collect taxes evaded through corruption and other financial crimes by improving cooperation “gateways” between the revenue agencies and other enforcement bodies.

## E. Reducing Artificial Tax Avoidance

**41. Ensure that the recently enacted general anti-abuse rule (GAAR) is effective and acts as a real deterrent to artificial tax-driven arrangements.** Tax evasion in Albania is clearly a far bigger threat than avoidance (i.e., artificial arrangements seeking to get around the intent of the law). However, there is significant exposure to tax losses from avoidance arising from a combination of: many “grey areas” in the tax laws; obvious design weaknesses in key elements of the domestic tax system; and opportunities by multinationals to exploit gaps and mismatches. These issues need to be addressed to stop, or at least contain potentially large tax leakage. The GAAR enacted in 2019 is a welcome development but is currently expressed only in very broad terms.<sup>27</sup> The business community and GDT staff—and the courts who will ultimately interpret these laws—will need clearer guidance (through by-laws or otherwise) on how this important law change is to operate; otherwise it will be ineffective.

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<sup>26</sup> See *Improving Cooperation Between Tax Authorities and Anti-Corruption Authorities*, World Bank and OECD, 2018; and *Effective Inter-Agency Cooperation in Fighting Tax Crimes and Other Financial Crimes*, OECD, 2017.

<sup>27</sup> The 2019 GAAR provision states that the tax authorities can disregard arrangements which are made to circumvent the law; do not reflect economic reality; are not genuine having regard to the facts; are not made for valid commercial reasons; and are made to obtain a tax advantage. The GDT can use alternative assessment methods to recharacterize the transaction.

**42. Pending simplification of the tax system, enact targeted anti-avoidance measures to combat the most pervasive artificial arrangements — ‘bogus’ self-employment and artificial business splitting.** As highlighted in the IMF’s report setting out tax policy reform options for the MTRS, fundamental design complexity is driving artificial behaviors in key areas of the tax system, most notably in movements out of highly-taxed employment into much lower-taxed (for the same level of income) freelance contracting; and in the splitting of businesses to stay below the 15 percent CIT threshold. These purely tax-driven behaviors result in significant tax losses, which will continue without fundamental simplification and greater horizontal equity, as recommended in the tax policy reform options report. Pending such simplification, targeted anti-avoidance measures may help to moderate the worst abuses. Possibilities to consider include, in broad terms:

- ***Bogus self-employment:*** Some countries define in tax law the “litmus tests” of employment status for tax and social contribution purposes (which may be different from labor law)—these are usually some variations of supervision, direction and control—and disregard legal form in the case of a personal services company. Placing the burden of proof on the “client” that the contractor is a genuine freelancer can also be effective response.<sup>28</sup>
- ***Artificial business splitting to stay in a low tax bracket:*** A simple anti-avoidance mechanism in these circumstances is to allow only one threshold (e.g., ALL8 million) for all related businesses—with a very wide definition of related parties and entities—and to apportion just one threshold between all the related businesses, usually on the basis of turnover.

**43. Establish a specialist anti-avoidance unit in the GDT.** Tax avoidance can be highly complex and difficult to identify. An effective response requires a center of expertise in the tax administration—to deal directly with the largest cases and to provide guidance and support to auditors on avoidance-related issues. The need for such a centralized approach is even more important following the recent introduction of a GAAR and Albania’s new commitments as part of the Base Erosion Profit Shifting (BEPS) inclusive framework (which it joined in August 2019). Currently, the only specialist anti-avoidance unit is the transfer pricing area located in the LTO. The GDT needs to have a center of expertise for a much wider range of avoidance issues than transfer pricing. In many countries the specialist anti-avoidance unit is in the LTO.

### **MTRS Options for Reducing Tax Avoidance:**

#### ***Short Term (First 12 months)***

- Ensure that the general anti-abuse rule (GAAR) can be effectively implemented and act as a real deterrent to artificial tax-driven arrangements.

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<sup>28</sup> For example, the UK’s approach to false self-employment is broadly along these lines (but the “client” burden of proof requirement is currently limited to public bodies engaging contractors).

- Pending simplification of the tax system, enact targeted anti-avoidance measures to combat the most pervasive artificial arrangements— ‘bogus’ self-employment and artificial business splitting.
- Establish a specialist anti-avoidance unit in the GDT.

## F. Reduce Compliance Costs and Increase Tax Certainty and Confidence In Revenue Administration

### Introduction

**44. Some progress has been made in reducing compliance costs and increasing certainty for taxpayers; however major weaknesses remain.** The GDT recognizes that an appropriate balance between service and enforcement is critical to improving taxpayer compliance. Around 160 staff are now deployed to taxpayer service functions across headquarters, the regional tax offices (RTO), and a national call center. However, taxpayer compliance costs remain higher than in most countries in the region,<sup>29</sup> and major weaknesses persist, including:

- There is no overarching taxpayer service strategy.
- Interpretive advice provided to taxpayers and intermediaries is inadequate.
- VAT refunds are not paid on time and some state-owned enterprises (SOE) do not meet their tax obligation, which undermines confidence in the tax system.
- The GDT is not responsible for resolving the first stage of administrative appeals—a core tax administration function.<sup>30</sup>
- The integrity assurance framework is inadequate.

### Areas in Need of Improvement

**45. Develop an overarching taxpayer services strategy.** The strategy should outline the vision of the services the GDT will provide for taxpayers and intermediaries in the medium term and include a channel strategy setting out how those services will be delivered. Typical elements of a taxpayer service strategy are set out in Box 4.

#### Box 4. Typical Elements of a Taxpayer Services Strategy

- Treating taxpayers as clients with rights that are codified in the form of taxpayer charter, etc., and publicized.

<sup>29</sup> See *Paying Taxes 2019*, World Bank and PWC.

<sup>30</sup> This function was shifted to the MOFE in 2017 against IMF advice.

- Consulting widely with taxpayers and/or their representatives prior to the implementation of changes in laws and regulations, forms and procedures, and reporting systems etc.
- Working cooperatively with other government authorities to provide coordinated services to clients.
- Tailoring service delivery to match the needs of various taxpayer segments and risk to revenue and using the most effective delivery tools, including social media.
- Ensuring services staff are highly qualified and able to match the expectations of taxpayers and those of their professional tax accountants and advisors.
- Providing services independent of time and place in step with the availability of electronic services (e.g. interactive telephones, e-services and web pages).
- Providing a dedicated enquiry services for tax professionals.
- Promoting self-help web and e-services and minimizing face-to-face interactions with taxpayers and intermediaries.
- Providing prefilled tax returns.
- Establishing and monitoring service delivery performance according to performance standards; measuring client satisfaction; and demonstrating accountability by publicizing the levels of performance achieved against those service standards.

**46. Make tax laws and regulations as simple and easy to understand as practical.** Tax policy and law changes during recent years have made it more complex and costlier for taxpayers to comply with their obligations.<sup>31</sup> Laws and regulations must be formulated in such a way that they are easy to comply with and regulations should entail as little administrative burden as possible. Government authorities should involve businesses actively in the formulation of new regulations and in the design of reporting systems. Appendix 4 sets out a framework of design rules adopted in Denmark aimed at ensuring that tax laws and regulations are as simple and easy to understand as practicable for businesses and citizens.

**47. Improve interpretative guidance to taxpayers and their advisors.** The GDT now publishes on its website a half-yearly technical bulletin providing anonymized versions of interpretive decisions issued during the preceding six months. However, the scope and content of available guidance on tax law interpretation still falls short of good international practice. A survey by the Albania Investment Council<sup>32</sup> identified clarity of tax interpretation as an ongoing concern for business. The GDT should be more proactive in this area, by publishing regular practice statements and other technical bulletins new laws, amendments, and areas of ambiguity in existing laws—aimed at providing taxpayers with a reasonable expectation of how the GDT will interpret those laws. Information products should also be tailored to the needs and capabilities of the users (e.g. simple explanatory material for micro businesses). Many tax administrations

<sup>31</sup> IMF Report - *Albania: Tax Policy Reform Options for the MTRS*, Benedek et al, November 2019.

<sup>32</sup> "Findings of the Survey on Some Aspects of the Investment Climate" – Secretariat of the Albania Investment Council, October 2017 (the survey was conducted between July and September 2017).

provide a dedicated telephone enquiry service and publish specific technical guidance for tax advisers because they interact with and influence the compliance behavior of a great many taxpayers.

**48. Improve tax product and process design through regular and meaningful interaction with users of GDT services, including key intermediaries.** Modern tax administrations have recognized the benefits of regular engagement with key players in the tax system to better design and simplify products and processes; such engagement also fosters greater trust in the tax administration.<sup>33</sup> While developments such as the simplified VAT declaration for small business are a step in the right direction, the GDT needs to do much more in this area—to better understand compliance difficulties and frustrations from the taxpayer’s perspective, leading in turn to better process design. Also, in recognition of the key role played by tax intermediaries, the GDT should consider establishing a regular liaison forum with representatives of accountancy and other professional bodies dealing with taxation matters to engage on how to improve certainty and simplify tax administration.<sup>34</sup>

**49. Ensure that all decision-making related to tax outcomes for individual taxpayers resides with the GDT.** The MOFE currently takes a role in the interpretation of the tax law in complex cases, determines first stage administrative disputes, approves debt write-offs and extra statutory arrangements for the payment of VAT refunds by instalments for certain large investment projects. This situation promotes perceptions of political interference in the administration of the tax system and an uneven playing field. There should be a clear boundary between the legitimate policy making and oversight role of the MOFE and the role of GDT as the independent administrator of the tax laws. This is essential if the GDT is to build a relationship with the community of trust and integrity. Particularly, the responsibility for resolving administrative appeals should rest with the GDT. International good practice is that first-instance administrative reviews are conducted within the tax administration.<sup>35</sup>

**50. Promote confidence in the fairness of the tax system by paying VAT refunds on time and ensuring that all SOEs pay their taxes.** As at end-2018 the stock of approved but unpaid VAT refunds had reached ALL16.8 billion—and was growing—and around ALL8.2 billion in unpaid taxes was owned by two state owned power companies.<sup>36</sup> Failure to pay refunds in a timely manner damages a business’s cash flow and undermines the whole VAT system. Allowing

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<sup>33</sup> Some practical strategies on engaging taxpayers and intermediaries in achieving better tax product and process design are in the OECD Forum on Tax Administration publication “Together for Better Outcomes – Engaging and Involving SME Taxpayers and Stakeholders” (2013).

<sup>34</sup> While the GDT engages occasionally with tax intermediaries, there is no regular forum with these bodies. There is a Tax Council forum in Albania, which includes the GDT and representatives of tax practitioner bodies, but this Council is largely concerned with advising the Minister of Finance and Economy on tax policy issues relating to fiscal packages.

<sup>35</sup> OECD publication “*Tax Administration 2015 – Comparative Information*”, Table 9.12, which shows that in none of the 56 countries surveyed did the MOFE carry out tax appeal functions (in Slovenia and Slovakia, the MOFE appears to provide some assistance to the tax administration in this area).

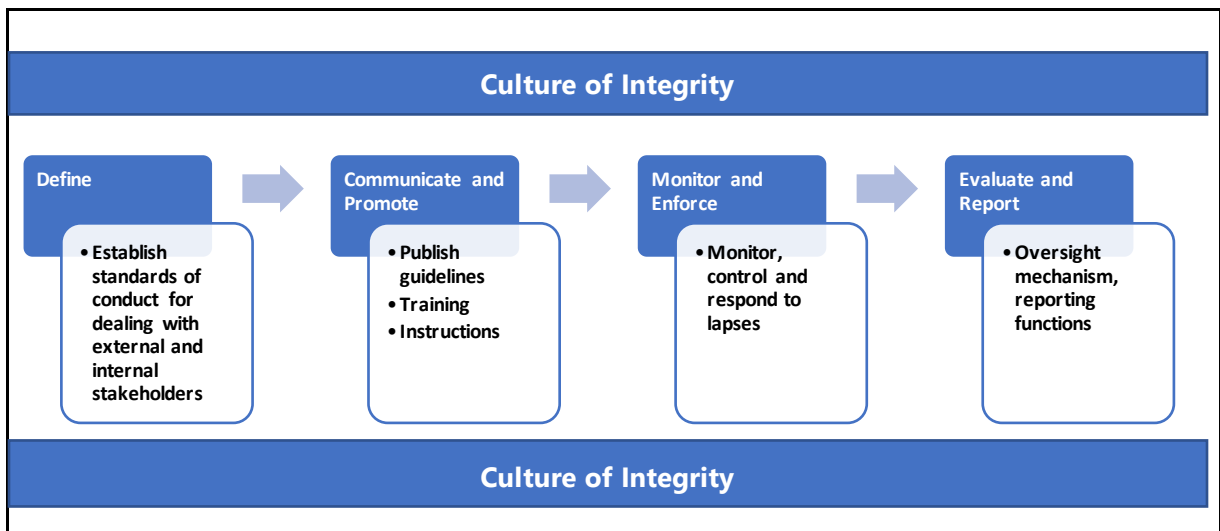
<sup>36</sup> See the Albanian State Audit Institute’s *Report for 2018*.

state-owned companies to forego payment of taxes due without apparent sanctions sends the entirely wrong message to the business community and civil society in general.

**51. Strengthen enforcement action against taxpayers who deliberately avoid meeting their tax obligations.** Community confidence in the administration of the tax system and taxpayers’ willingness to voluntarily meet their tax obligations are influenced by the belief that effective enforcement action will be taken against those taxpayers who fail to comply with the law. For example, there is a need to ensure unexplained wealth is taxed and to pursue stronger collection actions, including property seizures, corporate liquidations, and personal bankruptcies, where taxpayers have not entered into satisfactory arrangements for payment of arrears or have failed to honor such arrangements.

**52. Put in place a more structured integrity assurance framework.** Integrity breaches undermine GDT efforts to gain the trust and confidence of the community in its administration of the tax system—a critical influence on the level of voluntary compliance. The GDT has an Internal Affairs Department and taxpayers are encouraged to report alleged corrupt behavior. A disciplinary process is in place and more serious cases are submitted to a disciplinary committee. The GDT would benefit from developing a more comprehensive integrity assurance framework that: defines, communicates and promotes standards of behavior; monitors and enforces those standards, corrects lapses; and evaluates and reports on outcomes (see Figure 5). Further guidance is provided at Appendix 5.

**Figure 5. Integrity Framework Model**



**MTRS Options for Reducing Compliance Costs, and Increasing Tax Certainty and Confidence in Revenue Administration:**

- Short-term (First 12 months)**
- Develop a taxpayer service strategy.
  - Improve interpretative guidance to taxpayers and their advisors.

- Improve tax product and process design through regular and meaningful interaction with users of GDT services, including key intermediaries.
- Ensure that all decision-making related to tax outcomes for individual taxpayers resides with the GDT.
- Promote confidence in the fairness of the tax system by paying VAT refunds on time and ensuring that all SOEs pay their taxes.
- Put in place a more structured integrity assurance framework.

**Medium-term (One - Four Years)**

- Engage and involve taxpayers and tax intermediaries in designing tax laws and regulations, forms, procedures, and reporting systems with a view to simplifying the tax system and reducing compliance costs.

## IV. BUILDING INSTITUTIONAL CAPACITY

### A. Introduction

**53. Several important steps have been taken to improve the effectiveness of the GDT in recent years.** It now has a modern IT system, electronic interaction with taxpayers is the norm including universal e-filing of tax declarations; its headquarters structure had been streamlined, a dedicated Large Taxpayer Office (LTO) is in place, a national call center is established, and a start has been made in developing a modern CRM approach. In partnership with the Institute of Statistics and the National Business Register, the GDT has also undertaken a major refresh of the industry codes and other taxpayer data recorded on its national taxpayer register. In addition, the Fiscalization project will soon provide the GDT with real-time data on cash sales (April 2020) and e-invoices (July 2021).

**54. Despite these initiatives, the overall capacity of the GDT remains relatively weak by international standards.** In particular: the organization structure reflects an outdated business model; access to critical third-party data is limited and there is no enterprise data warehouse; staff are insufficiently skilled and lack modern administration support tools; and the GDT does not have sufficient operational independence and flexibility to drive the modernization agenda and respond quickly to changes in priorities and emerging risks.

**55. Investment in improving the institutional capacity of the GDT is essential.** It is uncertain that the GDT could successfully implement the MTRS without a significant uplift in staff skills and productivity. Sustainable capacity building cannot be achieved in the short-term. It will require the mobilization of substantial financial and technical assistance resources for the GDT over the medium term.

**56. This section outlines four key proposals for upgrading the capacity of the GDT:** (1) Reorganize to optimize performance; (2) Strengthen the CRM capability; (3) Develop a

competent and well-equipped workforce; and (4) Increase operational independence and stability of leadership.

## **B. Reorganize to Optimize Performance**

**57. The current organization structure reflects an outdated business model based on high volumes of face-to-face contact with taxpayers.** The GDT has a well-designed function-based headquarters. Operational work is delivered through a network of Regional Tax Offices (RTO), an LTO and a national call center. A workforce of around 1,000 staff is deployed across the 13 RTOs and taxpayers are assigned to a specific RTO according to geographic location.<sup>37</sup> However, with technology advances, there is less need for face-to-face contact with taxpayers and intermediaries. A new business model is required.

**58. Dispersal of a relatively small workforce across multiple sites creates inefficiencies and blunts effectiveness.** The current structure features relatively high management overheads and requires maintenance of multiple office sites. Fragmentation of core business functions across many sites reduces “critical mass” resulting in inconsistent approaches and decision-making, reduced capacity for specialization of staff, and more complex communication and performance management issues for headquarters. It also restricts the ability of the GDT to quickly re-deploy staff to meet changing priorities and emerging risks.

**59. Consolidating operations into a small number of large RTOs would deliver major productivity improvements.** This approach recognizes the shift away from face-to-face interaction with taxpayers and intermediaries and creates the critical mass across all core business functions required to organize more effectively.<sup>38</sup> The remaining small RTOs could be retained (with much reduced staffing) in the short to medium-term as service centers to cater for taxpayers in remote areas that do not yet have modern communications infrastructure. The number of small RTOs could then be rationalized over time as circumstances permit.

**60. The current structure also does not take full advantage of the capacity of the new IT system.** For example, telephone enquiries are currently answered by taxpayer service units and desk audit units in RTOs or by the national call center—with taxpayers self-selecting the preferred channel. There is no coordination of effort and no structured escalation process for dealing with more complex questions. The default is that taxpayers are simply told to put their questions in writing. The enquiries function could be managed far more efficiently, and the level and consistency of the advice offered raised substantially, by automatically directing all telephone enquiries to the national call center<sup>39</sup> As well, much of the enforcement work currently undertaken by the RTO desk audit units could be more efficiently performed by enhancing

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<sup>37</sup> Investigations staff, numbering around 185 (excluding HQ staff), are located in only three of the largest RTOs.

<sup>38</sup> A pilot is being developed to consolidate the debt management function for the southern region in a single office.

<sup>39</sup> The quality of the advice currently provided to taxpayers by Taxpayer Service units and Desk Audit units is discussed in part C of this Section.

system edit checks, applying automated risk filters, and centralizing outbound telephone verification work in the national call center.<sup>40</sup>

**61. The current split of responsibilities for fiscal monitoring work between the Audit and Investigations directorates is inappropriate.** Both Audit and Investigations have units dedicated to making short duration visits to business premises to check that they are meeting obligations under the tax and social security laws. Box 5 lists the types of checks undertaken during these visits. The only substantive differences between the activities of the two directorates are that monitoring visits conducted by Investigations staff are unannounced and can result only in the imposition of administrative fines. Cases are referred to Audit for any necessary follow-up tax and social security assessment action—but cooperation between the two directorates in this regard was reported to be deficient.

#### **Box 5. GDT Checks Undertaken During Fiscal Verification Visits**

Fiscal verification visits check that:

- The taxpayer is properly registered for tax and social security purposes.
- Cash sales are recorded using a fiscal register.
- Receipts for cash sales are issued to customers.
- Receipts are held for all inventory.
- A price list is displayed on the premises.
- All employees are in the system for both tax and social security.

**62. Full responsibility for the fiscal monitoring work should be shifted to the Audit directorate.** This work involves basic audit procedures and would be far more effectively coordinated if all fiscal verification activities came under the management umbrella of Audit. It would also facilitate planning and implementation of a comprehensive enforcement strategy to support the Fiscalization project due to “go live” in April 2020. The Investigations directorate could then focus more sharply on genuine cases of serious evasion and fraud.

#### **MTRS Options for Building Institutional Capacity in the GDT:**

##### ***Short-term (First 12 months)***

- Shift responsibility for all fiscal monitoring work to the Audit directorate.
- Channel all telephone enquiries to the national call center in the first instance and develop a structured escalation process to deal with more complex enquiries in a timely manner.

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<sup>40</sup> A pilot project conducted by the call center this year involving outbound calls to taxpayers who filed but did not pay appears to have been highly successful.

- Expand scope and volume of the outbound telephone verification work conducted by the national call center (e.g., filing and payment enforcement, basic audit checks, and VAT refund verification checks).

***Medium-term (One - Four Years)***

- Consolidate the operational work of the GDT into no more than three large regional offices plus the LTO and the national call center.
- Convert the remaining RTOs into service outlets—and rationalize the RTO network further over time.

## **C. Build a Stronger CRM Capability**

**63. The GDT has adopted the CRM model endorsed by the IMF, EU and OECD and applied by many leading tax administrations.** International experience has shown that this approach to managing compliance risks will, over time, deliver sustainable increases in tax revenue through increased taxpayer compliance.

**64. The CRM approach aims to improve compliance behaviors across entire taxpayer segments using integrated strategies.** Market segmentation principles are applied to divide the taxpayer population into smaller more manageable groupings based on common characteristics and potential risks. Compliance risks are then identified, analyzed, quantified and prioritized to ensure that the major compliance problems contributing to the tax gap are being addressed. Integrated risk treatment strategies are then developed as described in Box 6. Systemizing this approach ensures a focus on the most significant compliance risks and makes best use of available resources. It also provides a transparent and defensible record of the organization's compliance risk-management decisions (i.e., why resources have been devoted to particular risks in preference to others). An illustration of a project approach to mitigate major compliance problems in an industry sector is shown at Appendix 6.

### **Box 6. CRM Approach to Developing Integrated Compliance Improvement Strategies**

- Recognizes that the reasons driving taxpayers' compliance behaviors in any specific risk area are frequently quite complex and, as a result, are unlikely to be treated successfully with a one-dimensional response— particularly one based solely on enforcement actions;
- Directs attention to understanding the factors that shape taxpayers' compliance behaviors, so that a more effective set of responses—ones that deal with the underlying reasons for non-compliant behavior—can be developed and implemented;
- Promotes the development of treatment strategies which aim for an optimal mix of responses (e.g., clarification of the law, simplified procedures, education, assistance, audit, enforcement, and publicity) to achieve the widest possible impact on voluntary compliance across the entirety of the target taxpayer segment; and
- Ensures that these responses are sequenced in a coherent manner to deliver the maximum compliance leverage from the overall treatment strategy.

**65. Progress in establishing an effective CRM capability is slow.** The CRM approach has not yet taken root in the GDT. Only two CRM projects have been commenced (targeting tourism, and restaurants and cafes) and these have been largely driven by technical assistance provided under the IMF capacity development program<sup>41</sup>. The GDT's compliance effort remains predominantly enforcement based and is too focused on the past (detection and punishment). This one-to-one approach is cost-inefficient and does little to improve future compliance behavior or raise revenue collections.

**66. The main constraints to the development of CRM have been:**

- Insufficient institutional support—priority has not been given to the implementation of CRM.
- Insufficient access to third-party data—from both government and private sector sources.
- Lack of an enterprise data warehouse (EDW)—an EDW provides a central repository for data captured from multiple internal and external sources and applications and makes it available for analysis and use across the organization. The data stored in this type of digital warehouse is a tax administration's most valuable asset.
- Lack of a data analytics capability—data analytics is the process of organizing and examining data sets to develop models, draw conclusions and identify patterns from the information they contain, increasingly with the aid of specialized systems and software. Data analytics technologies and techniques are widely used by advanced tax administrations to identify and analyze compliance risks not otherwise apparent to the human eye.

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<sup>41</sup> *Revenue Administration and Public Financial Management in Southeast Europe Project; IMF Capacity Development Program with financial support from the European Commission (EC) and the Swiss State Secretariat for Economic Affairs (SECO); December 2018 – December 2021.*

**67. The GDT must be more pro-active in obtaining access to third-party data.**

Discussions with NAIS indicated that a wider range of relevant data from government agencies may be available than is currently accessed by the GDT through the government-wide interactive platform managed by NAIS. This opportunity should be explored as a matter of priority. Data from domestic third-party suppliers not available through NAIS (e.g., utilities companies) should also be actively pursued. Particularly, the GDT should seek government support for accessing a much broader range of domestic bank account data—ideally as a parallel initiative to the upcoming exchange of off-shore bank account data (see Section III). The multi-lateral exchange of information instrument soon to be ratified will also open important opportunities to acquire overseas third-party data previously unavailable. For example, several foreign tax jurisdictions that are parties to this Exchange of Information agreement can provide data on sales by internet-based businesses such as vendors of short-term accommodation in Albania

**68. The Fiscalization project represents an ideal opportunity to establish an EDW.** The IT system (under development by NAIS) will capture cash register data and e-invoice data and store this data together with e-taxes data in an integrated facility. The GDT should liaise with NAIS to ensure that the new integrated data storage facility is designed as an EDW with the capacity to also capture, store and analyze large volumes of third-party data. While NAIS is responsible for developing and maintaining the infrastructure for the EDW, the GDT must be responsible for deciding what data is captured, and how it is stored, analyzed, retrieved and reported.

**69. Upgrading the analytical capacity of the GDT staff is a bigger challenge.** The GDT currently does not have any data analysts. While modern analytics software can be purchased, skilled data analysts are a scarce commodity and the GDT is unlikely to have the resources to recruit experts in these fields on a full-time basis. The mission was also advised that Albanian universities do not currently offer courses in data analysis or behavioral science. The GDT will need to address this shortfall at various levels. For example, it could:

- Partner with universities to establish relevant tertiary courses in data analytics and behavioral science. GDT could offer practical work experience to students as well as future employment opportunities as incentives for the cooperation of the universities.
- Acquire modern analytics software and secure training in its use either from the supplier or through partnerships with other more advanced tax administrations.
- Secure the services of analytics experts on a short-term or part-time basis to lead the GDT staff in specific data analysis activities and include skills transfer to the GDT staff as a condition of the contracts.

**70. The new senior leadership of the GDT must champion the development of a stronger CRM capability across the organization.** It is important that all of the functional areas of the GDT understand the value and importance of a strong CRM capability and actively support it. Regular reinforcement of this message from the senior leadership is critical to success. The GDT should increase the number of CRM projects undertaken over time.

## MTRS Options for Strengthening the CRM Capability:

### *Short-term (First 12 months)*

- Liaise with NAIS to ensure that an EDW is delivered as part of the Fiscalization IT system.
- Contract-in experts in data analytics to undertake specific data analysis projects and include a requirement for transfer of skills to GDT staff.
- Leadership to champion the CRM approach and increase the number of CRM projects over time.

### *Medium-term (One - Four Years)*

- Seek to expand the third-party data available to the GDT.
- Acquire modern analytics software and train GDT staff in its use.
- Partner with universities to develop courses in data analytics and behavioral science.

## D. Developing a Competent and Well-Equipped Workforce

**71. The standard of technical skills and level of industry knowledge across the GDT workforce are low.** The lack of technical expertise reduces productivity and hampers the delivery of assistance that is essential to taxpayers and intermediaries in any tax system. Lack of knowledge of how key industries operate, especially in the LTO, reduces the ability of the GDT to understand the issues they face, provide meaningful assistance and monitor tax performance. The impact of these skills and knowledge gaps is exacerbated by the complexity of the tax system in Albania as described elsewhere in this report.

**72. The most critical functions in need of skills upgrades include audit, taxpayer service, and arrears management:**

- Auditors focus almost exclusively on reconciling accounting records to tax returns (direct audits)-they are not trained in the use of indirect audit methods (see Appendix 2) and have little capacity to establish the level of unrecorded economic activity or ascertain the potential liability represented by unexplained wealth.
- Except for written advice provided by the Legal directorate, advice to taxpayers is largely limited to procedural advice. Telephone and face-to-face enquiries on the interpretation of the law or its application to complex transactions are often responded to by simply restating the relevant provisions of the law or general rulings issued by the MOFE. This appears to be the case even for the LTO. Feedback to the mission from taxpayer representatives confirmed that this is a major irritant.
- Arrears Collection staff are not skilled in taking hard enforcement measures (e.g., bankruptcy and liquidation action).

**73. The current approach to the professional development of staff is clearly inadequate.** Training and development are managed by the Human Resource Management (HRM) directorate. New recruits receive two weeks of induction training delivered jointly by the Government School of Administration and the Tax Academy.<sup>42</sup> Existing staff changing roles (transfers or promotions) are meant to receive two days training but the mission was advised that this rarely occurs in practice. A general annual training program is also agreed between the GDT, GDC and Tax Academy and approved by the MOFE. This training is almost exclusively prepared and delivered by more experienced GDT staff or by staff from the Prosecutor’s office in the case of fraud related law topics. There is no testing or accreditation regime. Nor is there any capacity for more advanced training in competencies not currently present in the GDT.

**74. There are plans to expand the capacity of the Tax Academy.** A draft law has been developed aimed at transforming the training center into a genuine tax academy. The plan is to provide much more intensive training programs for both new staff (12 months combined formal and on-the job training) and existing staff moving to new roles (3 months combined formal and on-the-job training). However, the head of the Tax Academy estimates that this redevelopment will have a lead time of one to two years from the date of effect of the law. In the meantime, the OECD has agreed to share all of its on-line tax learning modules—but these will need to be translated and suitable training supervisors recruited and trained, which will also involve a substantial lead-time.

**75. The GDT staff are not well equipped to perform their roles effectively.** More advanced tax administrations use a range of sophisticated tools to improve the quality and consistency of services that are not currently available to GDT staff. Some examples include:

- Computer assisted audit verification tools (CAAT)—these are specialized audit software packages that perform a range of audit checks including data queries, data stratification, sample extractions, missing sequence identification, statistical analysis, calculations, duplicate transaction identification, pivot table creation, and cross tabulation. They are independent of the system being audited and use a read-only copy of the file to avoid any corruption of a taxpayer’s data. They also provide documentation of each test performed in the software that can be used as evidence in the audit report. There are several off-the-shelf CAAT products available on the market today.
- Decision support software—these are rules-based software packages designed to assist staff (and taxpayers)<sup>43</sup> to apply the law to complex issues. They are often designed in the format of a decision-tree which leads the user through a structured series of “yes/no” type questions to arrive at a conclusion. For example, the Australian Taxation Office provides a decision

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<sup>42</sup> The Tax Academy was established in 2009 as a dedicated training center for the GDT and GDC. It has only eight staff and inadequate accommodation.

<sup>43</sup> These tools are often made available on the tax administration’s website to assist taxpayers to self-assess.

support system<sup>44</sup> for determining the status of a worker as either an “employee” or an “independent contractor.”

## **MTRS Options for Developing a Competent and Well-Equipped Workforce:**

### ***Short-term (First 12 months)***

- Liaise with representative bodies in key industries to provide training for LTO staff in how the industries are structured and operate (e.g., business structures, main business inputs, supply chains, operating processes and procedures, terminology used etc.).
- Target the national call center staff for early skills upgrades in law interpretation and negotiation techniques.
- Acquire suitable CAAT products and partner with other tax jurisdictions that use these products to train auditors in their use.
- Ensure that the law authorizes the use of indirect audit methods and partner with other tax agencies that already use these approaches to train auditors in their application.
- Recruit/select a small cadre of technical staff for intensive training in law interpretation and indirect audit methods. Pay this group an annual bonus and require an annual statement of income and assets similar to that required from senior GDT staff. Focus this group on the highest priority projects (e.g., off-shore bank accounts and construction).

### ***Medium-term (One - Four Years)***

- Seek assistance, in partnership with the Tax Academy, from universities, other tax jurisdictions, and professional associations to develop programs to address the skills gaps.

## **E. Increase Operational Independence and Stability of Leadership**

**76. The GDT does not currently have the authority to make some key operational decisions.** Any changes to the organization structure must be approved at government level, budget is tightly controlled by the MOFE, and the GDT has limited ability to redeploy staff across sites due to a restrictive civil service-wide HRM framework. The result is that the GDT does not have sufficient operational independence and flexibility to drive the modernization agenda and quickly respond to changes in priorities and emerging risks.

**77. In recent years, many countries have moved to increase the autonomy of their revenue agencies.** The basic principle is that such autonomy can lead to better performance by removing impediments to effective and efficient management, while maintaining appropriate accountability and transparency. This is clearly an important issue for Albania given the challenge of supporting the government’s drive to reduce informality, improve revenue collections, lower compliance costs and develop an internationally competitive economy.

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<sup>44</sup> <https://www.ato.gov.au/calculators-and-tools/employee-or-contractor>

**78. Common areas targeted for increased autonomy include organization design and planning, budget management, performance standards, and HRM<sup>45</sup>:**

- Organization design and planning—the authority to design and modify the GDT’s organization structure, including the size and geographical location of operational offices, the number and responsibilities of directorates and sub-directorates etc., and the management structure; and the authority to formulate and implement strategic and operational plans.
- Budget management— the discretion to allocate/reallocate budgeted funds across administrative functions to meet changed priorities and emerging risks.
- Human resource management—the authority to set academic and technical qualification standards for categories of recruits, and to recruit and dismiss staff, the authority to establish and operate staff training/development programs; the authority to deploy staff as needed across functions and sites; and the authority to negotiate staff remuneration levels (often in accordance with broader civil service-wide policies and arrangements).
- Performance standards— the discretion to set its own administrative performance standards (e.g., for taxpayer service delivery).

**79. The new leadership team of the GDT must be given time to achieve the desired reform of the tax administration.** Instability in the senior leadership of the GDT has been a major impediment to successful reform. The GDT has experienced three changes of Director-General in the past year. This has diminished momentum for real reform as each new incumbent takes time to understand the challenges of a national tax administration and gain the confidence of staff. The GDT now has a new Director-General, two new Deputy Directors-General, and several new staff at the Director level. This new leadership team is energized and capable of taking the organization forward—but this will only happen if they are given sufficient time to build capacity and embed new performance-oriented culture within the GDT.

**MTRS Options for Increasing the Operational Independence and Stability of Leadership of the GDT:**

***Short-term (First 12 months)***

- Ensure GDT leadership continuity for the period of the MTRS.

***Medium-term (One - Four Years)***

- Give more autonomy to the GDT in the areas of organization design, budget management, HRM, and setting performance standards.

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<sup>45</sup> EU, *Fiscal Blueprints*.

## V. IMPROVING CUSTOMS ADMINISTRATION

### A. Assessment of Performance

**80. The GDC has made steady reform progress.** The GDC collects around 43 percent of all taxes and duties (Table 2). The Albanian customs code is aligned with the EU Customs Code. It is supported by online systems and automatic data processing using the Automated System of Customs Data (ASYCUDA). This system includes a module that categorizes imports by risk level. The GDC has made good progress in improving trade facilitation performance. The OECD Trade Facilitation Indicators note that Albania matches or exceeds best performance of its comparators for trade facilitation. There is room for further improvement by increasing the number of Authorized Economic Operators, and the introduction of the New Single Window and the New Computerized Transit System (NCTS). However, the GDC faces operational challenges in tackling tax evasion and smuggling, risk management, and the control of over 400 bonded inward processers. In addition, it monitors an excise relief scheme for fishing vessels.

### B. Building Institutional Capacity

**81. The GDC should continue to modernize its business processes, including centralizing its risk profiling function.** This would build on the recent centralization of the valuation function. Currently risk profiling is carried out across the organization, with local profiling at customs or excise stations. The centralization of the risk profiling function will help build expertise in a specialized function, improve the focus on the analysis of high risk, and ensure consistency of treatment of cases selected for intervention. It will also reduce unnecessary costs for compliant businesses.

**82. The GDC needs to develop enhanced data analytical capacity.** Data analysis within the GDC is primarily focused on monitoring revenue forecasts and risk profiling based on GDC data. There is no regular analysis of the excise gap, or the national market for individual excisable products, such as cigarettes. Access to data from other agencies and third parties is limited. There is no data warehouse facility that would allow more advanced data analytics to help identify higher risks and probable non-compliant behavior. The use of data analytics and enhanced risk-based management will provide better insights and widen the use of intelligence sources.

**83. Continued investment in IT systems is necessary to help GDC perform its duties more efficiently and effectively.** The GDC has a comprehensive IT work plan to support its business needs. It needs to upgrade some of its IT systems, including an updated version of the ASYCUDA system. It also needs an integrated tariff management system, improved capacity to exchange and analyze data, and the introduction of a modern case management system.

**84. The GDC should continue to develop a more professional and agile workforce.** To deliver a modern customs administration operating model it is necessary to develop a workforce

that has the right skills to manage trade facilitation while ensuring global supply chain security. This requires the development of new skills in areas such as data analytics, mathematics, economics, and sectoral knowledge. It also requires strong leadership, collaboration, and interpersonal skills. Building these skills will require investment in internal staff development programs along with more collaboration with the MOFE Tax Academy, educational institutions, businesses and international partners.

**85. The GDC should develop and fully implement an integrity framework to help build the confidence and trust of the community.** Increasing the levels of integrity within the GDT is an important element in building the confidence and trust of the community.<sup>46</sup> It builds on the GDC's core values and ethics, the work of its Anti-Corruption and Professional Standards Directorate, and clarifies the consequences of breaches in standards. The integrity framework should define, communicate and promote standards: monitor and enforce standards and correct lapses; and evaluate and report (See Figure 5 above).

### C. Performance Improvement Strategies

**86. The number of authorized economic operators should be increased.** The GDC has a new Authorized Economic Operator program. The program is based on the Customs-to-Business partnership introduced by the World Customs Organization. Traders who voluntarily meet a range of criteria work in close cooperation with customs agencies to assure the common objective of supply chain security. It requires a relationship based on the principles of mutual transparency, correctness, fairness and responsibility. However, the number of operators approved to date is low, with only two authorized exporters and one authorized importer/exporter. More progress in encouraging and approving applications would help to reduce the administrative burden on both the GDC and the legitimate trade.

**87. The implementation of the National Single Window should be progressed.** This will facilitate and accelerate trade by centralizing tasks related to the import/export clearance process and border control processes. It will help foster greater economic integration and reduce cost and time in trade and transportation. The World Bank's Western Balkans Trade and Transport Facilitation Project, launched in April 2019, will support the implementation of the Albanian National Single Window. It is scheduled for implementation by November 2023.

**88. The NCTS should be implemented.** This is a system of electronic declaration and processing that traders must use to submit Union Transit and Transport "*Internationaux Routiers*" declarations. The system will process the declaration and control the transit movement. It is used by all member states of the European Union and signatories of the Common Transit Convention. The NCTS will enhance trade facilitation and reduce the costs of doing business in Albania. It is

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<sup>46</sup> SELDI "Corruption Assessment Report- Albania 2016" indicates that customs staff are high on the list of officials perceived to be corrupt.

also supported by the World Bank’s Western Balkans Trade and Transport Facilitation Project and is scheduled for implementation by June 2022.

**89. Risk selection based on customs clearance channels is in place but needs to be enhanced.** The number of cases selected for “red” channel inspection, while reducing, remains high. This can lead to unnecessary and sometimes superficial inspections. The number of “yellow” channel cases, requiring documentary checks, is also reducing but very high (Table 3). The current risk selection results in unnecessary additional work for GDC. The risk filters applied should be gradually adjusted to increase the percentage of green channeled Single Administrative Documents.

**Table 3. Use of Customs Clearance Channels**

Year	Green/Blue Percent	Yellow Percent	Red Percent	Total Single Administrative Documents
2014	0	89.20	10.35	415,775
2015	0.7	88.52	10.26	421,987
2016	4.01	83.67	11.92	451,497
2017	6.24	85.28	8.07	498,789
2018	15.87	75.60	8.05	540,050
2019 (End 08)	19.53	72.63	7.47	405,098

Source: GDC, excludes rerouted Single Administrative Documents c.0.5 percent

**90. Responsibility for the administration of the circulation tax should be fully aligned with excise duty on fuels.** Currently circulation taxes on fuel are collected by the GDC at the point of importation on an agency basis on behalf of the GDT. The circulation tax on internally produced fuel is administered by the GDT. As the nature and incidence of the tax is similar to fuel excise, responsibility for the entire fuel supply chain should be dealt with by one agency. This will reduce unnecessary contacts by fuel producers. It will also ensure one agency can monitor the entire supply chain, identify fluctuations, such as the significant reduction in circulation taxes collected by the GDC in 2017 (Table 4), and have full responsibility for managing the compliance risks related to fuel taxes.

**Table 4. Gross National Taxes Collected by GDC**  
(ALL Million)

<b>Tax</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b> Jan – Oct
Circulation Tax	16,557	13,102	16,613	14,045
Carbon Tax	2,164	1,763	2,034	1,897
Mineral Royalties	2,804	2,333	2,618	2,049
Other	1,539	1,625	1,627	1,922

Source: GDC

**91. The GDC would benefit from enhanced supply chain reporting of hydrocarbon fuels.** The GDC has procured an effective track and trace fiscal stamp system for tobacco and alcohol from SICPA. Hydrocarbon controls rely on a fuel marking system procured from GFI Albania. There is no fuel supply chain reporting enabling more effective controls of both excise and circulation tax. A supply chain reporting system would complement the fuel marking program, providing data that can be analyzed to find gaps in the fuel supply chain.

**92. The GDC should increase collaboration in the fight against informality, smuggling, corruption and importation of counterfeit goods.** The interconnectivity of the trade facilitation, supply chain security environment and revenue collection require a collaborative approach to delivering the GDC outcomes. The GDC is dependent on many agencies and businesses, national and international, to do its business. This interconnectivity requires all entities to work together, coordinating efforts to facilitate legitimate trade. The GDC is part of an integrated global economy, facilitating the efficient movement of goods into and out of Albania. As well as international collaboration, the GDC must coordinate with other agencies involved in border management, such as agriculture, health and justice. The implementation of the Single Window will require an enhanced collaborative approach to border management.

**93. The GDC should expand information exchange with partners domestically and internationally to improve risk profiling.** Opportunities to expand the range of data available to the GDC for analysis should be taken. Developments such as the New Single Window, NCTS, and Authorized Economic Operator will provide new data sources. Additional data should be obtained from other government departments, such as on vineyards and tobacco growers from the Department of Agriculture. Advanced passenger information from airlines would also help with risk profiling.

**94. The GDC will need to further the partnership approach to working with legitimate businesses.** The GDC is an integral part of the global supply chain. It needs to develop new approaches to working with business to develop policies, processes and systems that effectively support its outcomes. The GDC also needs to work with businesses to help them manage the global supply chain, address risks and transport goods internationally as easily as possible. The GDC has a key role in improving national competitiveness. The trade facilitation committee,

chaired by the Ministry of Finance, involving other government bodies and business representatives, provides a forum where the further development of a partnership approach could be considered.

**95. The number of special tax zones or businesses, such as customs or excise warehouses, should be reduced.** There are 670 entities controlled, including over 400 bonded inward processors and 183 fishing operators. Some appear to have been granted special status due to difficulties in obtaining VAT refunds. The control of this number of entities is an administrative challenge. The entitlement to such status should be regularly reviewed to minimize the number of entities that need to be controlled.

### **MTRS Options for Improving Customs Administration:**

#### ***Short-Term (First 12 months)***

- Increase the number of authorized economic operators.
- Centralize all risk profiling into one national center.
- Improve risk filters, to allow for greater than 33 percent through the Green Channel.
- Enact legal provisions for NCTS.
- Increase collaboration in the fight against informality, smuggling, corruption and importation of counterfeit goods.
- Develop a more professional and agile workforce.
- Assign responsibility for the administration of all fuel related taxes to one agency.
- Implement an integrity framework.

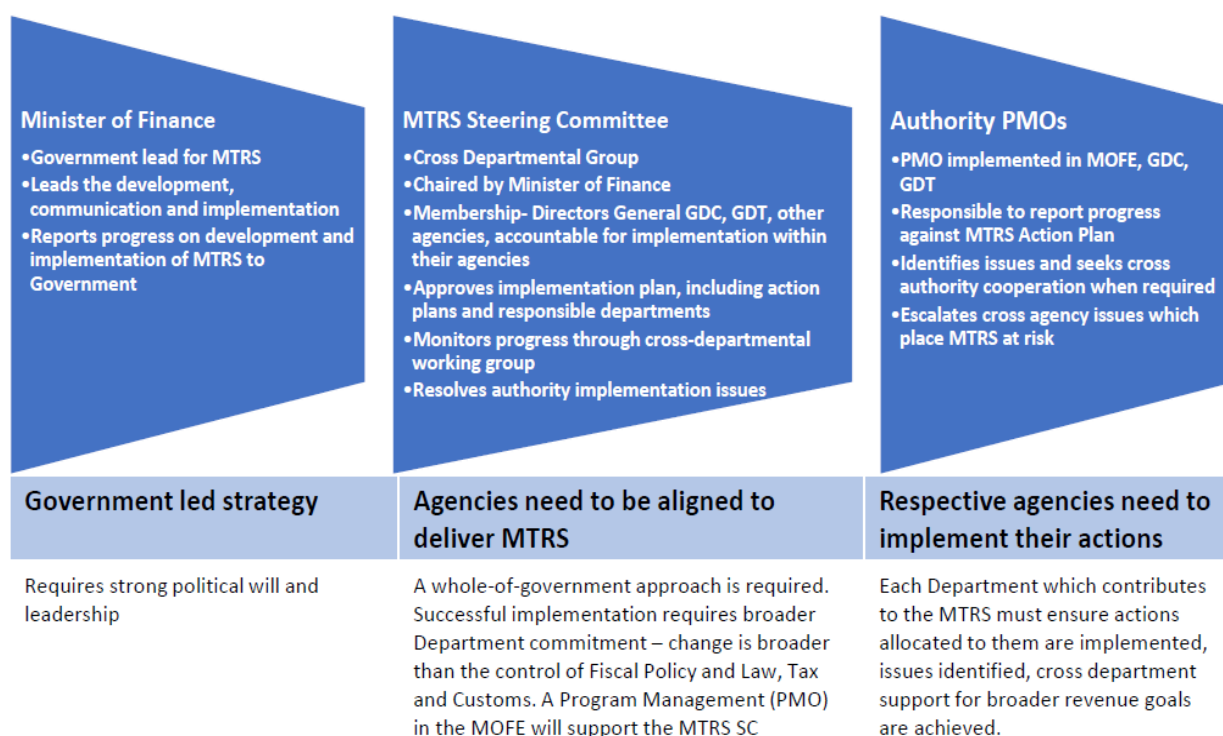
#### ***Medium-Term (One - Four Years)***

- Continue to invest in information technology.
- Implement NCTS system.
- Roll-out the Single Window.
- Reduce the number of special tax zones and entities.
- Expand further the use of the Green Channel (greater than 50 percent).
- Develop and implement a supply chain monitoring system for fuel.
- Develop further risk profiling, using advanced data analytics.
- Develop advanced analytics capabilities.
- Expand information exchange with partners domestically and internationally to improve risk profiling.

## VI. MTRS GOVERNANCE ARRANGEMENTS

**96. Effective governance arrangements are essential for a successful MTRS.** The MOFE must take the leadership of the tax system reform agenda. It has the authority and control over most MTRS components. Under current reform processes, each revenue agency develops its own plans. In contrast, the MTRS is a comprehensive reform that spans multiple agencies and multiple years. A description of the proposed governance arrangements is in Appendix 7. A high-level overview of the components of the MTRS Governance Framework is set out in Figure 6.

**Figure 6. Components of the MTRS Governance Framework**



**97. The MTRS Steering Committee has been formed.** This Committee is chaired by the Minister of Finance and Economy. Its membership includes two Deputy Ministers, the Minister’s head of cabinet and the Directors General of the revenue administrations. Representatives are at a senior level with authority to bind their organizations to implement the activities that will need to be undertaken. They should be accountable to the Steering Committee for the implementation of the reform actions within their agency. Progress on development and implementation of the MTRS should be reported regularly to the Council of Ministers.

**98. The composition of the Steering Committee should be reviewed to ensure broader whole-of-government representation.** The MTRS will require whole-of-government commitment. It will be important that the key departments and agencies involved in the implementation of the MTRS are represented. For example, senior representatives from the Prime Minister’s Office, Labor, Justice, Economy, Environment, NAIS, etc., should be considered to

ensure all departments and agencies required to undertake actions to support the MTRS are represented and have ownership of its implementation.

**99. An MTRS Technical Secretariat is in place to coordinate the formulation of an Action Plan and to support the Steering Committee.** This working group is chaired by the advisor to the Minister for Finance and Economy. It includes senior representatives from the MOFE, GDT and GDC. Broader whole-of government representation, such as from the Labor and Justice, should also be considered for this group.

**100. The proper resourcing of the MTRS Program Management Office (PMO) is critical.** The MTRS is not currently supported by a full time PMO. The MTRS PMO will need to develop an implementation plan for the administrative aspects of the MTRS and to follow up implementation. This plan will include the phasing and scheduling of key deliverables and will be developed in collaboration with the other relevant departments/agencies. The plan will also outline resourcing requirements, particularly for major investments in technology. The implementation plan will be endorsed through the Steering Committee. The MTRS PMO will develop a reporting system to ensure adequate monitoring of implementation progress. It will also coordinate consultation with external stakeholders. The assignment of resources to the MTRS PMO is an urgent priority.

**101. Project management arrangements in the revenue agencies will support the delivery of the MTRS.** GDT already has a Project Office to guide existing reform initiatives. GDC will need to establish similar arrangements to provide oversight and guidance for the implementation of customs related MTRS reform plans. Each Project Office will prepare separate project plans for which their administration is responsible to implement. The Project Office will monitor and report on progress and raise emerging issues that need to be addressed within the administration, the MTRS PMO, or by the MTRS Steering Committee.

### **MTRS Recommendations:**

#### **Short Term (First 12 months)**

- Establish MTRS Program Management Office.
- Strengthen the composition of the MTRS Steering Committee.
- Establish a GDC Project Office.
- MTRS Steering Committee approve the MTRS draft by January 31, 2020.
- Ensure that close attention is paid to linkages and dependencies that exist among major MTRS measures so that critical reforms are prioritized and properly sequenced.

## VII. NEXT STEPS AND EXTERNAL CAPACITY DEVELOPMENT SUPPORT

**102. The revenue administration options presented in this report and the tax policy options in the companion report must now be considered for inclusion in Albania's MTRS.** An overview of the MTRS options is at Appendix 8.

**103. It is critical that the Steering Committee completes the MTRS in accordance with the action plan.** The current draft of the action plan is at Appendix 9 however it is recognized that the Steering Committee will need to review and update the timelines to take into account the impact of the need for key stakeholders to prioritize earthquake recovery efforts. IMF stands ready to provide ongoing support and guidance with the next phase of work

**104. Targeted capacity development will be needed to support the formulation and implementation of the MTRS and the associated revenue systems reforms.** A number of development partners have expressed an interest in supporting the implementation of Albania's MTRS including the EU, SECO and the World Bank. Appropriate arrangements should be established to coordinate external support. To avoid costly duplication of effort and the risk of conflicting advice, it is essential for the government to effectively coordinate all support from development partners. The MOFE and each revenue agency's project office should be the organizational contact point for:

- Identifying the priority areas for external support.
- Determining the development partners who can deliver the support.
- Mobilizing that support including entering into project agreements.
- Monitoring the delivery, effective implementation and the results of that support.

## Appendix I. MTRS Gap Analysis

### Areas to Address to Transition the Current Tax system Reform Efforts into the Future Medium-Term Revenue Strategy

Expected actions on the MTRS' s four interdependent components	Status of Albania tax system reform effort
<b>I. Setting revenue and other goals</b>	<b>I. Setting revenue and other goals</b>
<ul style="list-style-type: none"> <li>• <i>Revenue goal to finance expenditure needs:</i></li> <li>✓ Are additional expenditure needs for the development/economic agenda determined?</li> </ul>	<ul style="list-style-type: none"> <li>• <i>Revenue goal to finance expenditure needs</i></li> <li>✓ The Albanian government sees European Integration is the over-arching development priority for Albania. Authorities intend to bring fiscal deficit further down, and to accelerate the reduction in public debt. There is no space to achieve this through the expenditure side, therefore stronger revenue measures are needed, including through a simple, predictable tax system, significantly broadened tax base, fully-functioning VAT refund system that doesn't distort investment decisions.</li> </ul> <p>Given the need to improve Albania's infrastructure and human development, fiscal consolidation should be underpinned by improvements in tax policy and tax administration that lead to higher revenues.</p> <ul style="list-style-type: none"> <li>✓ The additional expenditure needs of the strategy — beyond the baseline trends—has not yet been quantified. Consequently, no quantitative tax-revenue-level change has been determined to date.</li> </ul>
<ul style="list-style-type: none"> <li>✓ Is a specific revenue mobilization effort determined—an explicit target of raising the tax-to-GDP ratio by certain year; a new tax-revenue level?</li> <li>✓ How is it determined and what is the time path (e.g. yearly) for achieving it?</li> </ul>	<ul style="list-style-type: none"> <li>✓ Not yet determined. The timeframe of an MTRS in Albania can be aligned with the timeline of the SDS (i.e. 2019-2030), but with an interim medium-term target for the next 4/5 years as the focal point.</li> </ul>
<ul style="list-style-type: none"> <li>✓ Is this tax-revenue-level change linked to medium-term expenditure level needs?</li> </ul>	<ul style="list-style-type: none"> <li>✓ Not yet linked.</li> </ul>
<ul style="list-style-type: none"> <li>• <i>Other goals/objectives:</i></li> <li>✓ Are clear and broader objectives define—beyond just revenue mobilization? <ul style="list-style-type: none"> <li>➤ Such as, increasing the policy design efficiency, reducing taxpayers' compliance costs, increasing the efficiency of tax administration, and promoting the community's perception of fairness and integrity in the tax system</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• <i>Other goals/objectives</i></li> <li>✓ Other high-level objectives in generic terms—in addition to increasing revenue—have been stated, including: public administration reform, stable institutions and a modern, professional and depoliticized civil service; strengthening the independence, efficiency and accountability of judicial institutions; increasing the fight against corruption; increasing the fight against organized crime; ensuring the protection of human rights (including property rights). The objectives have not yet been clearly reflected in the reform initiatives; these initiatives also have not yet identified other specific objectives—e.g. reducing taxpayers' compliance costs.</li> </ul>

Expected actions on the MTRS's four interdependent components	Status of Albania tax system reform effort
<b>I. Setting revenue and other goals</b>	<b>I. Setting revenue and other goals</b>
<ul style="list-style-type: none"> <li>• <i>Consultation:</i> <ul style="list-style-type: none"> <li>✓ Are far-reaching efforts and active-stakeholder involvements undertaken by the government (and across the government) to develop country-ownership?</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>✓</li> <li>• <i>Consultation</i> <ul style="list-style-type: none"> <li>✓ Far-reaching consultation was done for the development of the SDS 2030 agenda. Though, given the lack of translating this agenda on expenditure and revenue needs, efforts to achieve far-reaching and active stakeholder involvement have not been yet undertaken, notably to develop a country-owned revenue strategy.</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>✓ Is country-ownership across all stakeholders achieved?</li> </ul>	<ul style="list-style-type: none"> <li>✓ Not yet.</li> </ul>

Expected actions on the MTRS's four interdependent components	Status of Albania's tax system reform effort
<b>II. Comprehensive tax system reform to achieve goals</b>	<b>II. Comprehensive tax system reform to achieve goals</b>
<ul style="list-style-type: none"> <li>• <i>Tax system reform scope and components:</i> <ul style="list-style-type: none"> <li>✓ Is there a mapping of the several tax system reform initiatives available?</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• <i>Tax system reform scope and components:</i> <ul style="list-style-type: none"> <li>✓ Not yet. This mapping—covering all policy, administration, and legal framework—is needed to feed into a single comprehensive tax system reform plan with relevant interdependencies, timing and sequencing.</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>✓ Is the tax system reform a single comprehensive plan—policy, administration, and legal framework—to achieve the above government's goals?</li> </ul>	<ul style="list-style-type: none"> <li>✓ Not yet. The above mapping should be complemented by a list of other possible reform options, e.g. obtained from previous advice by the IMF or other development partners, as well as proposals developed by the Albanian government or stakeholders—to address weaknesses in tax policy, administration and legal frameworks. An extensive list of options should form the basis for the selection of priority reforms to formulate the comprehensive tax system reform plan in the MTRS, so as to achieve a revenue-level change—a higher tax-to GDP ratio—as well as the government's wider sustainable development goals and broader objectives</li> </ul>
<ul style="list-style-type: none"> <li>✓ Are reform initiatives scattered across several government entities and not covering all tax system areas—policy, administration, and legal framework?</li> </ul>	<ul style="list-style-type: none"> <li>✓ There are several policy and administration reform initiatives, scattered across several government entities and there is no integral view of how these reforms contribute to the overarching strategic objectives of the government.</li> </ul>
<ul style="list-style-type: none"> <li>• <i>Specific revenue-raising initiatives:</i> <ul style="list-style-type: none"> <li>✓ Is the revenue goal divided into policy and administration components?</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• <i>Specific revenue-raising initiatives:</i> <ul style="list-style-type: none"> <li>✓ Not yet. Since the revenue-level change has not yet been set, and the objective of increasing revenue is generic, no specific goals to achieve revenue objectives by policy and administration reforms have been defined.</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>✓ Is the tax system reform considering specific reform initiatives in tax policy—a revenue policy package—needed to achieve a sustained</li> </ul>	<ul style="list-style-type: none"> <li>✓ The several policy reform initiatives are neither clearly grouped as a policy package, nor is there an estimation of their impacts on revenue mobilization and other objectives.</li> </ul>

Expected actions on the MTRS's four interdependent components	Status of Albania's tax system reform effort
<b>II. Comprehensive tax system reform to achieve goals</b>	<b>II. Comprehensive tax system reform to achieve goals</b>
revenue-level change and other objectives?	
<ul style="list-style-type: none"> <li>✓ Is the tax system reform considering specific reform initiatives in tax administration—a well-targeted plan to improve taxpayer compliance and institutional reforms—needed to achieve a sustained revenue-level change and other objectives?</li> </ul>	<ul style="list-style-type: none"> <li>✓ The several administration reform initiatives are not clearly grouped in a modernization agenda of the revenue agencies. Instead, they are focused in modernizing key operations and support areas—e.g. filing and payment, BPR and ICT driven projects. There is no estimation of impacts to ensure that a sustained revenue-level change will be achieved, or that other objectives are obtained.</li> </ul>
<ul style="list-style-type: none"> <li>✓ Is the sequence of these changes well-defined to enable an active management, including legislative changes and timely progressing the revenue level change to achieve the goal at the end of the reform horizon?</li> </ul>	<ul style="list-style-type: none"> <li>✓ Not yet, since no single comprehensive reform plan has been formulated. The several reform initiatives seem to have some reform management in place, but they are not clearly linked to the overarching reform objectives, not at least in associating how objectives will be achieved by estimating specific indicators.</li> </ul>
<ul style="list-style-type: none"> <li>• <i>Quantification:</i> <ul style="list-style-type: none"> <li>✓ Is a realistic assessment conducted of how much revenue policy and administration measures can generate to achieve the revenue objective on a sustainable manner? <ul style="list-style-type: none"> <li>➤ And on a yearly basis until achieving the target revenue level?</li> </ul> </li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• <i>Quantification:</i> <ul style="list-style-type: none"> <li>✓ No assessment has been conducted to estimate impact of revenue policy and administration reforms on the objective of increasing revenues.</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>✓ And also, regarding other objectives in respect to their goals?</li> </ul>	<ul style="list-style-type: none"> <li>✓ No assessment has been conducted to estimate impact of revenue policy and administration reforms on other objectives.</li> </ul>
<ul style="list-style-type: none"> <li>• <i>Administration reform initiatives:</i> <ul style="list-style-type: none"> <li>✓ Are the initiatives to modernize revenue agencies clearly identified, prioritized, and with well-defined objectives?</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• <i>Administration reform initiatives:</i> <ul style="list-style-type: none"> <li>✓ A comprehensive second-generation GDT reform plan for 2019-2021 sets out a good framework for taking the organization forward over the next three years; however, updates, streamlining, and reprioritization is required in some areas.</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>✓ Are those initiatives actively managed, with clearly empowered and accountable people, specific implementation plans, and resources allocated to achieve their outcomes?</li> </ul>	<ul style="list-style-type: none"> <li>✓ The GDT has a strong governance framework in place, including a senior management committee structure. There are three committees (Operations-Reforms-Compliance).</li> <li>✓ Implementation plans and performance indicators are in place.</li> <li>✓ Follow-up is undertaken monthly through committee meetings.</li> </ul>
<ul style="list-style-type: none"> <li>✓ Are synergies among revenue agencies, including in their modernization agendas, identified</li> </ul>	<ul style="list-style-type: none"> <li>✓ A few years ago, planning was underway to merge the tax and customs agencies. On IMF advise, this initiative is no longer a government priority. Instead, some efforts have been made to increase the cooperation between the two agencies (e.g. extensive data exchange).</li> <li>✓ The reform agendas of the two agencies are independent and synergies have not been defined</li> </ul>

Expected actions on the MTRS's four interdependent components	Status of Albania tax system reform effort
<b>III. Sustained political commitment from formulation to implementation</b>	<b>III. Sustained political commitment from formulation to implementation</b>
<ul style="list-style-type: none"> <li>• <i>Government leadership and commitment:</i> <ul style="list-style-type: none"> <li>✓ Is the highest-level of government visibly recognized in the lead of the tax system reform process, or fragmented efforts by government entities are perceived? <ul style="list-style-type: none"> <li>➤ For example, for determining expenditure needs and setting revenue goals.</li> </ul> </li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• <i>Government leadership and commitment:</i> <ul style="list-style-type: none"> <li>✓ The digital-supported reform initiatives seem to be recognized as government-led at the highest level. The President has declared that digitalization is a priority and the ministry of finance is leading the digital modernization initiatives of the ETA. Since the rest of tax system reform initiatives are scattered across agencies, and not part of a single comprehensive government plan, no high-level government leadership has yet been committed.</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>• <i>Whole-of-government approach:</i> <ul style="list-style-type: none"> <li>✓ Is broad buy-in across the government being nurtured?</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• <i>Whole-of-government approach:</i> <ul style="list-style-type: none"> <li>✓ Not yet for the overall tax system reform. Cross-agency collaboration exists in some specific initiatives (e.g. the customs single window), and when legal changes are required—in which case specific cross-agency working groups are created.</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>✓ Is broad buy-in across ministries and entities across the government being achieved? <ul style="list-style-type: none"> <li>➤ For example, on reform requiring cross-entity support—e.g. changes in revenue agencies' HR policies, tax disputes, environmental taxes.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>✓ And no whole-of-government approach is nurtured for addressing the cross-agency issues, which normally arise in a reform process. Instead a more ad-hoc approach is taken, when the issues arise.</li> </ul>
<ul style="list-style-type: none"> <li>• <i>Parliament support:</i> <ul style="list-style-type: none"> <li>✓ Is Parliament being timely involved?</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• <i>Parliament support:</i> <ul style="list-style-type: none"> <li>✓ Considering that a comprehensive tax system reform plan is not yet in place, it seems that Parliament is involved when some initiatives will require legislative changes.</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>• <i>Reform governance:</i> <ul style="list-style-type: none"> <li>✓ Are government arrangements in place at different levels (government, ministry of finance, revenue agencies) to ensure and sustained tax system reform management during the horizon of reform?</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• <i>Reform governance:</i> <ul style="list-style-type: none"> <li>✓ Current reform efforts have governance arrangement in place, associated with specific initiatives, e.g. the digitalization-supported initiatives at ETA with a direct involvement of the minister of finance. For the formulation of the Albania MTRS, a new government arrangement has been put in place, comprising an MTRS Steering Group—with advisors and unit heads at the MOF and heads of revenue agencies—and a Technical Secretariat, which will be the MTRS project team. This Technical Secretariat is very small (just 4 people), and the team has no full-time dedication.</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>✓ Are implementation plans being developed?</li> </ul>	<ul style="list-style-type: none"> <li>✓ Implementation plans exists for some specific reform initiatives.</li> </ul>

Expected actions on the MTRS' s four interdependent components	Status of Albania tax system reform effort
<b>III. Sustained political commitment from formulation to implementation</b>	<b>III. Sustained political commitment from formulation to implementation</b>
<ul style="list-style-type: none"> <li>• <i>Resources:</i> <ul style="list-style-type: none"> <li>✓ Are resources needed being estimated and (at least notionally) allocated for the medium-term, notably financial resources—e.g. revenue agencies' IT support, investment in infrastructure, etc.?</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• <i>Resources:</i> <ul style="list-style-type: none"> <li>✓ The current revenue agencies' reform initiatives apparently do not quantify in a comprehensive manner the multi-year resource and expenditure costs, so the resources are allocated on a year basis.</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>• <i>Communication:</i> <ul style="list-style-type: none"> <li>✓ Is there a clear communication strategy in place to reach out stakeholders, inform reform progress, and develop sustained support?</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• <i>Communication:</i> <ul style="list-style-type: none"> <li>✓ Not yet for a comprehensive tax system reform plan, with some communication is specific initiatives.</li> </ul> </li> </ul>

Expected actions on the MTRS' s four interdependent components	Status of Albania tax system reform effort
<b>IV. Coordinated capacity-development support from formulation to implementation</b>	<b>IV. Coordinated capacity-development support from formulation to implementation</b>
<ul style="list-style-type: none"> <li>• <i>Aligned external support:</i> <ul style="list-style-type: none"> <li>✓ Is there a mapping of CD support by DPs available?</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• <i>Aligned external support:</i> <ul style="list-style-type: none"> <li>✓ The Albanian MOF has a designated international cooperation unit dealing with capacity development partners coordination. This unit is compiling the CD support received across the government. Not yet has prepared a tax-system-reform focus mapping.</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>✓ Is this support aligned to the reform priorities?</li> </ul>	<ul style="list-style-type: none"> <li>✓ CD support is relatively limited at this stage, so alignment is more at reform-initiative level.</li> </ul>
<ul style="list-style-type: none"> <li>✓ Are CD needs determined and not yet supported by DPs, if needed?</li> </ul>	<ul style="list-style-type: none"> <li>✓ In the area of tax administration, CD support is aligned to the GDT's reform plan.</li> </ul>
<ul style="list-style-type: none"> <li>• <i>Coordinated external support:</i> <ul style="list-style-type: none"> <li>✓ Are clear mechanisms of incorporation and coordination of DPs to avoid overlapping/competing CD support?</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>✓ Since a comprehensive tax system reform has not yet been formulated CD needs will be determined in formulating the MTRS in the coming months.</li> </ul>
	<ul style="list-style-type: none"> <li>• <i>Coordinated external support:</i> <ul style="list-style-type: none"> <li>✓ The new unit at the MOF is working on some guidance, as part of the stocktaking across the government; not yet for tax system reform.</li> </ul> </li> </ul>

## Appendix II. Indirect Audit Methods

1. **Central to the effectiveness of the overall audit program is that each audit arrives at a reasonably accurate assessment of the taxpayer's correct tax liability.** For many taxpayers, particularly those in the SME sector, there is a considerable risk that some income will not be reported in their tax declarations to minimize their taxable income. This is especially true for those taxpayers where it is easy to conceal income, as the income is not subject to any systematic third-party reporting to the revenue body and/or it is difficult for auditors to otherwise directly verify such income with third party sources. There is also the risk that expenses against business income may be overstated by taxpayers to reduce their reported taxable income. A further complication may arise when conducting an audit as a result of a taxpayer's poor quality, or non-existent, books and records. For these reasons, auditors need a set of tools to indirectly measure taxpayers' taxable income.

2. **Indirect audit methods commonly used by tax administrations include:**

- **Source and application of funds method:** This method entails an analysis of a taxpayer's cash flows and comparison of all known expenditures with all known receipts for the period. Net increases and decreases in assets and liabilities are considered along with nondeductible expenditures and nontaxable receipts. The excess of expenditures over the sum of reported and nontaxable income is unreported taxable income.
- **Bank deposits and cash expenditure method:** This method computes income by showing what happened to a taxpayer's funds. It is based on the theory that if a taxpayer receives money, only two things can happen: it can either be deposited or it can be spent.
- **Mark-up method:** This method produces a reconstruction of income based on the use of percentages or ratios considered typical for the business under examination in order to make the actual determination of tax liability. It consists of an analysis of sales and/or cost of sales and the application of an appropriate percentage of markup to arrive at a taxpayer's gross receipts.
- **Unit and volume method:** In many instances gross receipts may be determined or verified by applying the sales price to the volume of business done by the taxpayer. The number of units or volume of business done by the taxpayer might be determined from the taxpayer's books as the records under examination may be adequate as to cost of goods sold or expenses.
- **Net worth method:** This method is based upon the theory that increases in a taxpayer's net worth during a taxable year, adjusted for nondeductible expenditures and nontaxable income, must result from taxable income. This method requires a complete reconstruction of the taxpayer's financial history, since the audit must account for all assets, liabilities, nondeductible expenditures, and nontaxable sources of funds during the relevant period.

3. **Indirect audit methods should only be used when the auditor has established a reasonable likelihood of unreported income.** This includes, for example, where:

- A taxpayer's known business and personal expenses exceed the reported income and non-taxable sources of funds have not been identified to explain the difference;
- There are irregularities in a taxpayer's books and weak internal controls;
- Gross profit percentages change significantly from one year to another, or are unusually high or low for that market segment or industry;
- A taxpayer's bank accounts have unexplained deposits;
- A taxpayer does not make regular deposits of income, but uses cash instead;
- A review of a taxpayer's prior and subsequent year tax declarations shows a significant increase in net worth not supported by reported income;
- There are no books and records; or
- No method of accounting has been regularly used by the taxpayer or the method used does not clearly reflect income.

**4. Estimated assessments using indirect audit methods must be reasonable and not arbitrary.**

The law should clearly authorize the use of indirect audit methods by the tax administration and reverse the burden of proof when an estimated tax assessment is based on indirect audit methods. The burden of proof is placed on the taxpayer specifically as regards the appropriateness of the recalculated tax basis in such situations. Nevertheless, courts in many jurisdictions have held that the tax administration must make a genuine attempt to determine a taxpayer's income i.e., it cannot simply pluck a figure out of the air. The estimate of the taxpayer's income must be based on reasonable grounds and also take into consideration the taxpayer's specific circumstances.

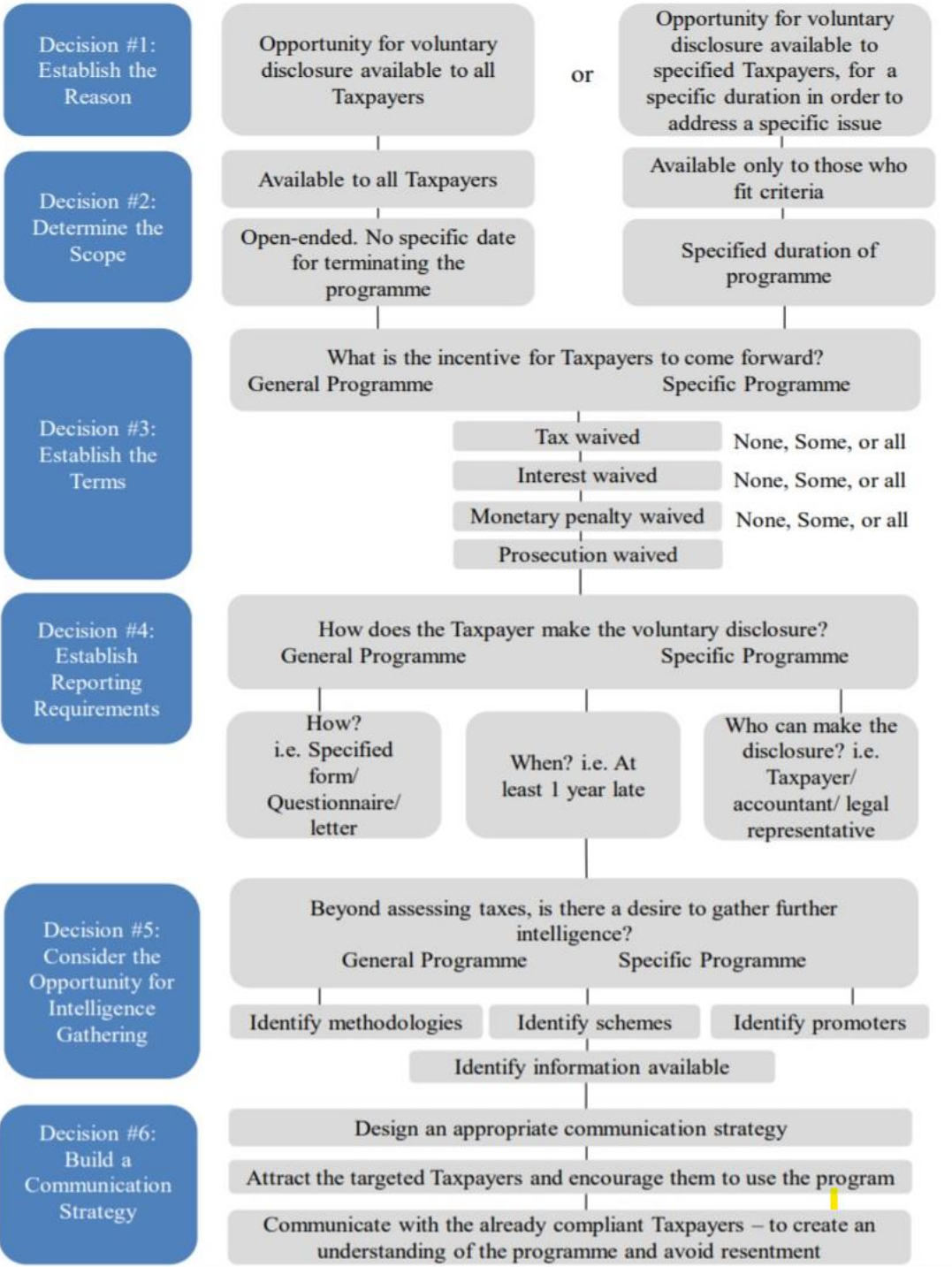
**5. The introduction of indirect audit methods in Albania must be managed carefully.**

While this approach is well-established as international good practice, it will be a new experience for local taxpayers and for local courts. For this reason, the GDT should anticipate a significant level of complaint and disputation, at least during the initial implementation period. Auditors must therefore be well-trained in the application of the indirect audit methods and provided with detailed procedural guidelines. It would also be prudent to liaise with the judiciary and with taxpayer representatives to ensure they are aware of the acceptance of this approach in other jurisdictions.

**6. The first cases should be subject to stringent quality assurance reviews before final assessments are issued.**

Given the anticipated adverse reaction of local taxpayers, it may also be prudent to authorize only a few highly trained and competent auditors to apply the indirect audit methods in the first instance, with a view to creating a set of *successful* case studies to help guide the broader cohort of auditors. These auditors should have a strong knowledge of the tax laws and procedures, accounting standards, and business practices.

# Appendix III. Voluntary Disclosure Program Decision Tree



Source: Update on Voluntary Disclosure Programmes – A Pathway to Compliance, OECD, August 2015.

## Appendix IV. Illustration of Design and Implementation Rules for Laws and Regulations<sup>1</sup>

- **No unnecessary regulations:** Regulators must always consider whether a specific problem is best solved through law, or whether other more appropriate options exist, such as information guidelines, incentives, corporate social responsibility, voluntary sector agreements, etc.
- **Simple and efficient:** Laws and regulation must be formulated in such a way that they are easy to comply with. Regulation should entail as little administrative burden as possible.
- **User involvement:** Government authorities must involve businesses actively in the formulation of new regulations, design of electronic systems, etc.
- **International context:** Framework conditions for businesses must be seen in an international context. Experience with similar law in other countries should be considered when formulating new law. Unnecessary special rules and over-implementation should be avoided.
- **Growth orientated regulation:** Business regulations must create stable and conducive conditions for the growth, productivity and innovation of businesses, whilst also protecting the environment and consumers and ensuring food safety.
- **Clear communication:** Government requirements and regulations must be communicated clearly to businesses and at the relevant time. New regulations must be communicated well in advance of entering into force. The purpose of government requirements must be clearly expressed, and regulations must be easy for businesses to understand,
- **Coordination:** Businesses must experience cohesion when dealing with government authorities. Requirements and deadlines must be coordinated to reduce unnecessary impact on businesses. Better cooperation between authorities and electronic solutions must ensure that businesses only shall report data once, in one location, if possible.
- **Visible service:** Dialogue between government authorities and businesses must be characterized by mutual respect. Government authorities must inform businesses of their rights and service entitlements, so they know what to expect.
- **Focus on individual businesses:** Government requirements must consider the size and production of individual businesses, especially in relation to small and medium-sized businesses. Electronic systems, including self-service systems, must be used strategically to provide more tailored interaction, with a focus on the business.
- **Targeted enforcement:** Enforcement of regulations must target areas where the problems are greatest, and the risks associated with non-compliance are most serious. Less scrupulous businesses must not gain by sidestepping regulations. Businesses which comply with law should be rewarded with less supervision.

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<sup>1</sup> Source: OECD 2019 – Danish Government De-Bureaucratization Plan for Laws Impacting Businesses.

## Appendix V. Framework for Reducing Corruption Vulnerabilities

Good governance in revenue administration <sup>1</sup>	How these features reduce vulnerabilities to corruption
<b>Sound Policy and Legislation</b>	
<p>1. Revenue policy designed based on principles of equity, efficiency/neutrality, simplicity, and transparency.</p> <p>2. A common set of administrative and procedural laws that are simple and reliable for different tax types.</p> <p>3. Legal framework provides appropriate balance between rights of taxpayers and powers of revenue administration, supported by effective dispute settlement procedures (e.g. independent tribunal/court or tax ombudsman) and legal safeguards against the improper exercise of powers by revenue administration (e.g. opportunity for taxpayers to pay overdue taxes before forced sale of property seized through distraint).</p> <p>4. A system of tax self-assessment is in place promoting voluntary compliance by taxpayers.</p> <p>5. Clarity and stability of law, rules, and processes. including minimal discretionary power vested in the revenue administration, and where discretion is unavoidable, clear conditions on how discretion will be exercised.</p> <p>6. Legal and human resource frameworks allow for firing of officers behaving unethically and provide a suite of appropriate sanctions for cases of lower culpability, with prosecution for criminal activities.</p> <p>7. Legislation allows for adoption of modern systems, processes and technology in revenue administration and sets out key aspects of organization and management (including relationship between Ministry and the revenue administration), including express legislative requirements for revenue administration to provide and publish reports on its operations and financials on a regular basis.</p>	<p>1. Raises revenue in non-distortive manner; creates a revenue system that is easily understood and harder to avoid or evade.</p> <p>2. Provides common basis for administration of all taxes regardless of tax types, thus promoting fairness and ease of understanding and application by tax officers.</p> <p>3. Supports the building of society's trust in revenue administration.</p> <p>4. Minimizes intrusion of revenue officials in the affairs of compliant taxpayers.</p> <p>5. Increases transparency; provides certainty to avoid disputes; reduces discretion that can be misused by dishonest officials.</p> <p>6. Provides basis for effective human resource practices to curb corruption.</p> <p>7. Provides legal basis for effective administration to minimize interference and opportunities for corruption.</p>
<b>Modern Systems and Processes</b>	
<p>8. Revenue administration work plans, budget, performance objectives, and outcomes are regularly publicly reported.</p> <p>9. Collection systems and procedures are streamlined to secure timely revenues without imposing undue compliance cost and inconvenience to the business.</p> <p>10. Service-oriented approach ensuring taxpayers have the information (quantity, quality, comprehensiveness) and support they need to meet their obligations voluntarily.</p> <p>11. Availability of a tax rulings function with clear and straightforward rules to avoid distinct tax treatments that deviate from the general rules and pose transparency concerns.<sup>2</sup> A general risk-based approach is adopted in the administration aimed at detecting and acting on taxpayers who present the greatest risk to the revenue system.</p> <p>13. Special programs using modern and transparent approaches to manage the compliance of the largest contributors, including large businesses, high-wealth individuals, and high-income earners. They have complex tax affairs with a high amount of revenue at stake and opportunity to undertake aggressive tax planning.</p> <p>14. Effective and impartial dispute resolution process is available and publicized.</p>	<p>8. Increases transparency and public accountability of revenue administration.</p> <p>9. Minimizes intrusion of revenue officials in the affairs of compliant taxpayers, avoiding rent seeking behaviors.</p> <p>10. Empowers taxpayers; reduces interactions with officials; reduces vulnerability to corruption by dishonest officials making unlawful demands.</p> <p>11. Provides certainty for tax treatment of transactions; empowers taxpayers in discussions with revenue officials.</p> <p>12. Removes discretion, minimizes intrusion of revenue officials in the affairs of compliant taxpayers.</p> <p>13. Focuses resources on highest risks to revenue; helps preserve the integrity of the tax system by ensuring that the wealthy in society pay their fair share.</p> <p>14. Protects taxpayers from unsubstantiated or corrupt tax assessments.</p>

Good governance in revenue administration <sup>1</sup>	How these features reduce vulnerabilities to corruption
<b>Streamlined Organization and Management</b>	
<p>15. Revenue administration is established with independence from political direction, e.g., reports to Minister of Finance who has overall fiscal responsibility, rather than to the Prime Minister or President.</p> <p>16. A function-based organization design with separation of duties and appropriate numbers of staff assigned to each function based on workload.</p> <p>17. Strong headquarters function providing oversight and uniform operations across the field network.</p> <p>18. Streamlined field operations and organizational alignment to key taxpayer segments.</p> <p>19. Effective internal audit and investigation/anti-corruption units established, with relationships and cooperation with public service wide anti-corruption activities and bodies.</p> <p>20. Strong oversight of revenue administration by external bodies (General Audit Office, Ministry of Finance) focused on monitoring performance but not allowed to interfere in specific taxpayers' affairs.</p>	<p>15. Reduces political interference in taxpayer affairs; increases ability of revenue administration to act independently in enforcing the laws.</p> <p>16. Removes one-to-one relationship between taxpayer and official; reduces under-employment and risk of corrupt behavior.</p> <p>17. Helps reduce vulnerability by establishing nationwide clear standardized processes and monitoring of operational performance of field offices.</p> <p>18. Improves quality of professional interaction with taxpayers; focuses resources on highest risks to revenue.</p> <p>19. Creates effective processes to identify and curb corruption.</p> <p>20. Increases accountability of revenue administration.</p>
<p>21. Revenue administration processes are digitalized and automated to the extent possible.</p> <p>22. Robust automated system of internal control checks and monitoring of processes, with access controls/audit logs.</p> <p>23. Automated risk assessment and case selection is in place.</p> <p>24. Technology supports notification of citizens about their obligations and correct procedures for revenue administration.</p> <p>25. Technology supports collection of feedback from the public on interactions with revenue administration staff, including reporting unethical behavior, e.g., through a dedicated integrity hotline.</p>	<p>21. Reduces face-to-face interactions; minimizes intrusion of revenue officials in affairs of compliant taxpayers.</p> <p>22. Ensures integrity of decisions, allows review and audit of actions taken by revenue officials.</p> <p>23. Removes personal influence and staff discretion.</p> <p>24. Increases transparency and accountability of revenue administration.</p> <p>25. Supports detection and prevention of unethical and unprofessional behaviors.</p>
<b>Leading People Management</b>	
<p>26. Human resource policies and processes assure merit-based selection, appointment, appraisal, and promotion of revenue officials.</p> <p>27. Senior management of revenue administration is appointed for a fixed period (tenure).</p> <p>28. Management process built on minimal management layers with appropriate spans of control, and internal control is one of the core management functions.</p> <p>29. Salaries set at a sufficient and competitive level.</p> <p>30. A formal rotation policy supports staff development, with a cycle to allow staff to build expertise and contribute to the respective function's performance.</p> <p>31. Ongoing staff training programs delivered so officials know their duties, conditions of service, and sanctions for wrongdoings.</p>	<p>26. Improves quality and professionalism of staff</p> <p>27. Reduces vulnerability to cronyism.</p> <p>28. Ensures close monitoring of operations; reduces opportunities for corrupt behavior.</p> <p>29. Reduces incentive for corrupt behavior.</p> <p>30. Increases officials' performance incentive and knowledge and expertise across all levels; increases taxpayer trust/satisfaction.</p> <p>31. Informs staff of required behaviors and risks of non-compliance.</p>
<b>Institutionalized Promotion of Integrity</b>	
<p>32. Staff is regularly informed about and supported in adopting positive behavior; corporate practice, including through an enforced Code of Conduct, strongly signals zero tolerance towards low staff integrity.</p> <p>33. Technology solutions to detect unethical behavior are routinely used.</p> <p>34. Legal sanctions are effectively applied on each detected corrupt behavior and publicly announced.</p>	<p>32. Management leads by example; creates a positive organizational culture and fosters "esprit de corps"; supports the prevention of unethical behaviors.</p> <p>33. Detects and prevents unethical behavior.</p> <p>34. Addresses and prevents unethical behavior; instills greater public confidence in revenue administration.</p>

Good governance in revenue administration <sup>1</sup>	How these features reduce vulnerabilities to corruption
<p><sup>1</sup> While the term revenue administration covers both tax and customs administrations, some of the information in this Box is more specific to the features of tax administration.</p> <p><sup>2</sup> For more information on the legal design of an advance tax ruling regime, see Waerzeggers, Christophe and Cory Hillier, 2016, "Introducing an advance tax ruling (ATR) regime—Design considerations for achieving certainty and transparency," Tax Law IMF Technical Note Volume 1, 2/2016, IMF Legal Department.</p>	

## Appendix VI. Example of a Compliance Project Approach for a High-Risk Industry

Where an industry or trade is identified as high risk, the revenue agency should:

- *Engage with the relevant industry or business associations* to explain why it is seen as high risk and to ensure that the revenue agency has an accurate understanding of how the industry operates.
- *Publicize the revenue agency's intention to conduct a verification program of the industry* and seek the support of the associations in informing their members.
- *Identify tax practitioners* who have a significant client base in the targeted industry, alert them to the issues and request that they inform their clients of the intention to conduct a verification program.
- *Conduct a sample audit program* to confirm the most serious areas of non-compliance and to quantify the amount of tax at risk across the industry.
- *Engage with the industry association and the tax practitioners* to prepare advice to industry participants on the areas of non-compliance identified through the sample audit program.
- *Send letters to taxpayers in the industry* and/or communicate with taxpayers through the industry association and practitioners advising them of the specific areas of non-compliance and requesting that they review their returns and make any necessary self-corrections.
- Highlight that voluntary disclosures will attract lenient penalties, and that further audits are planned under which taxpayers who have not self-corrected will be subject to full penalties.
- *Offer free seminars and advisory visits* for taxpayers who are unsure of their obligations (these seminars should ideally be conducted jointly with the industry association).
- *Ensure that the revenue agency's enquiry staff is aware of the compliance improvement program* and has scripted answers for enquiries received from taxpayers about the program, including how to make a voluntary disclosure, attend a seminar or request an advisory visit.
- *Ensure that the collection enforcement staff is aware of the program* and applies the reduced penalties and more flexible payment arrangements to taxpayers who voluntarily self-correct.
- *Conduct a follow-up audit program* of the industry with wider coverage and targeting taxpayers who have failed to self-correct and are assessed as high risk; and prosecute the worst offenders.
- *Publicize results* of audits and prosecutions highlighting how data matching and other new approaches facilitated detection of high-risk taxpayers and using representative case studies to show how informal economy participants were identified and dealt with.
- *Measure the effectiveness of the project* e.g., by tracking the number of voluntary disclosures received and the overall change in tax paid by taxpayers in the target industry and surveying the industry and practitioners to test for changes in observed compliance behavior.

## APPENDIX VII. MTRS GOVERNANCE FRAMEWORK

Who is Involved	What is their role?	Critical Success Factors	Their Responsibility
<p><b>Minister of Finance and Economy</b></p> <p><i>The MTRS is a government led, country owned strategy.</i></p>	<p>Leads the development, communication and implementation of the MTRS</p> <p>Reports progress on development and implementation of MTRS to government</p>	<p>Government led strategy</p> <p>Requires strong political will and leadership</p>	<p>Reports progress quarterly to Council of Ministers/Prime Minister</p>
<p><b>MTRS Steering Committee</b></p> <p><i>The Minister should be supported by an empowered, technically strong, central steering committee comprising representatives from the key agencies</i></p>	<p>Cross Agency group</p> <p>Chaired by Minister or Deputy Minister of Finance and Economy</p> <p>Membership – Senior MOFE officials, Director Generals from GDT and GDC, and senior officials from partner departments</p> <p>Approves action plan (including supporting implementation plans of responsible administrations)</p> <p>Monitors progress (through reports submitted by cross department working group)</p> <p>Resolve cross department implementation issues</p>	<p>Departments and administrations need to be aligned to deliver MTRS</p> <p>A whole-of-government approach is required. Successful implementation requires broader Department commitment – change is broader than the control of Fiscal Policy and Law, Domestic Tax and Customs Tax</p> <p>PMO will manage forward agendas and follow-up on action items</p> <p>Agency representatives accountable for delivery of agency reform actions</p>	<p>Meet monthly to review Cross Agency Status Report.</p> <p>Chair submits quarterly progress report – Dashboard Report summarizing overall status and key issues</p>
<p><b>Cross agency MTRS Project Management Office (PMO)</b></p> <p><i>Each agency needs to make timely and effective contributions to the success of</i></p>	<p>Members – MOFE Advisor (Head), GDT – two senior officers, GDC – two senior officers</p> <p>Assist with drafting of the MTRS</p> <p>Report progress against the MTRS Action Plan and Implementation Plan</p>	<p>Deadlines for MTRS drafting are met</p> <p>Respective Administrations are implementing their project plans</p> <p>Significant implementation issues are</p>	<p>Drafting of the MTRS</p> <p>Follow-up and support Project Offices to implement SC decisions</p> <p>Draw to the SC’s attention any emerging</p>

<p><i>the MTRS – needed to ensure action plan is implemented.</i></p>	<p>Identify implementation issues, and seek cross agency cooperation where required</p> <p>Escalate cross agency issues which place MTRS at risk.</p>	<p>identified and escalated to the SC as required</p> <p>Cross administration and departmental support for broader revenue goals are achieved</p>	<p>issues that may impact implementation of MTRS initiatives</p> <p>Prepare reports for the MTRS SC</p> <p>Disseminate good practices in reform implementation.</p>
<p><b>Separate Project Offices in GDT and GDC</b></p>	<p>Each PO will:</p> <p>Prepare separate project plans for each of MTRS reforms for which the revenue administration is responsible.</p> <p>Identify and seek approval for assignment of staff and other resources to each MTRS reform project.</p> <p>Take responsibility for, and monitor, reforms to ensure adherence to the MTRS implementation timetable</p> <p>Identify to the MTRS PMO any emerging issues that may impact the implementation of MTRS reforms</p> <p>Liaise with and complement the role of the PMO</p>	<p>Effective management and on-time delivery of the MTRS projects assigned to individual revenue administrations</p>	<p>Manage MTRS projects assigned to the relevant revenue administration</p> <p>Monitor and report on implementation of MTRS projects in the relevant revenue administration</p>

## APPENDIX VIII. DRAFT OVERVIEW OF THE MTRS OPTIONS

Objectives				
<ul style="list-style-type: none"> <li>Increase tax-to-GDP ratio by 2.2 to 3 percent of GDP in 5 years from a baseline of 25.9 percent.</li> <li>Tax Policy reform will contribute 1.4 percent &amp; Tax Administration reform 1 percent of GDP.</li> </ul>		<ul style="list-style-type: none"> <li>Reduce tax distortions and strengthen progressivity</li> <li>Reduce compliance costs and improve Investment Climate</li> <li>Improve community perception of tax and custom system fairness</li> </ul>		
Tax Policy Reform	Tax and Customs Administration Reform			Legal Framework Reform
<p><u>Broaden Tax Base:</u></p> <ul style="list-style-type: none"> <li>VAT on private health/education services, over-the-counter medicines, fee based financial services, on first sale of new residential property</li> <li>Eliminate all VAT exemptions on intermediate inputs</li> <li>Eliminate zero rating on linked services to bonded warehouses.</li> <li>Eliminate all exemptions and incentives on excises, national taxes and property tax</li> <li>Remove reduced business profits tax and exemptions</li> <li>Eliminate 6% compensation scheme for farmers</li> <li><u>Adjust tax rates</u></li> <li>Eliminate 6% reduced VAT rate and tax all goods and services at the standard rate</li> <li>Raise property tax rates</li> <li>Raise environmental tax rates on plastic packaging</li> <li><u>Simplify the tax system</u></li> <li>Unify profits tax rate to 15%</li> <li>Switch from profit-based to cost based incentives for priority sectors</li> <li>Simplified presumptive turnover based regime for small businesses</li> <li>Professional individuals to be taxed through PIT</li> <li>Remove PIT threshold for individual declarations</li> <li>Harmonize SSC and PIT brackets</li> <li>Raise threshold for VAT and CIT, and apply threshold consistently across all taxpayers</li> </ul>	<p><u>Tax Administration Compliance Improvement Initiatives</u></p> <p><u>Reduce VAT Compliance Gap</u></p> <ul style="list-style-type: none"> <li>Optimize fiscalization with risk-based monitoring and follow up enforcement</li> <li>Reverse charge mechanism for the construction sector</li> <li>Focused compliance improvement plans for identified high risk sectors</li> <li>Additional anti VAT fraud mechanisms such as 'joint and several liability'</li> </ul> <p><u>Reduce levels of undeclared work and underreporting</u></p> <ul style="list-style-type: none"> <li>Develop a more holistic and integrated approach</li> <li>Improve inter-agency cooperation</li> <li>Extend categories of persons required to file PIT</li> <li>Strengthen criminal sanctions</li> <li>Improve analytics and data sharing</li> <li>Develop partnerships with business and community</li> <li>Improve quality and reliability of financial statements</li> <li>Whole-of-government action plan to reduce cash economy</li> </ul> <p><u>Reducing Artificial Tax Avoidance</u></p> <ul style="list-style-type: none"> <li>Ensure the general anti-abuse rule (GAAR) can be effectively implemented</li> <li>Enact anti-avoidance measures against bogus self-employment</li> <li>Establish a specialist anti-avoidance unit</li> </ul>	<p><u>Tax administration Taxing Unexplained Wealth</u></p> <ul style="list-style-type: none"> <li>Target significant unexplained wealth and provide powers to assess tax by indirect methods</li> <li>Target offshore related tax evasion using CRS framework</li> <li>Incentivize past offshore related evasion through a voluntary disclosure program (VDP)</li> <li>Widen VDP to include domestic funds and assets</li> <li>Establish an investigation task force to deal with VDP</li> <li>Collect taxes evaded related to corruption and other financial crimes in cooperation with other agencies</li> </ul> <p><u>Reducing taxpayer compliance costs and increasing certainty</u></p> <ul style="list-style-type: none"> <li>Develop a taxpayer services strategy</li> <li>Improve technical interpretive guidance</li> <li>Improve tax product and process design by consulting users</li> <li>Pay VAT refunds on time and ensure SOEs pay their taxes</li> <li>Transfer taxpayer appeals function to GDT</li> <li>Strengthen GDT's integrity framework</li> </ul> <p><u>Increase operational independence and stability of leadership</u></p> <ul style="list-style-type: none"> <li>Give more autonomy in org design, budget management, HR, and performance standards</li> <li>Ensure stability of leadership for period of MTRS</li> </ul>	<p><u>Tax Administration Building Institutional Capacity</u></p> <ul style="list-style-type: none"> <li>Shift fiscal monitoring work to the Audit Directorate</li> <li>Consolidate operational work into no more than 3 offices</li> <li>Channel all telephone enquiries to the national call center</li> <li>Expand outbound call center activities</li> </ul> <p><u>Build a stronger CRM capability</u></p> <ul style="list-style-type: none"> <li>Widen access to 3<sup>rd</sup> party data</li> <li>Ensure Data Warehouse is implemented with fiscalization</li> <li>Acquire modern analytics skills, software &amp; partner with universities, etc., to optimize use of analytics</li> </ul> <p><u>Develop a competent and well-equipped workforce</u></p> <ul style="list-style-type: none"> <li>Expand tax academy, partner with universities and other tax jurisdictions.</li> <li>Work with industry to assist upskilling LTO staff</li> <li>Acquire CAAT software</li> <li>Recruit/select a cadre of staff for intensive technical training, including national call center</li> </ul> <p><u>Modernize Customs Administration</u></p> <ul style="list-style-type: none"> <li>Enhance trade facilitation (AEO, Single Window &amp; NCTS)</li> <li>Centralize risk profiling and improve risk filters, analysis and skills</li> <li>Increase collaboration in fight against informality &amp; smuggling</li> <li>Responsibility for fuel related taxes assigned to one agency</li> <li>Invest in IT</li> </ul>	<p><u>Strengthen Legislative Framework</u></p> <ul style="list-style-type: none"> <li>Update Customs Code to modernize and streamline customs administration, including legal provisions for NCTS</li> <li>Legislative measures to ensure effective tax collection in the digital economy</li> <li>Legislative measures to strengthen controls over international tax avoidance and evasion</li> <li>Update real estate tax law including revised basis for valuations</li> <li>Legislation to impose limits on cash transactions by consumers for provision of professional services</li> <li>Legislation to compel professionals to install electronic funds transfer POS terminals in their offices</li> <li>Legislation to allow use of indirect audit methods</li> <li>Engage and involve taxpayers and tax intermediaries in designing tax laws, regulations, forms, procedures and reporting systems, with view to simplify tax system and reduce compliance costs</li> </ul>

Political Support	External Resources
<p>Reform will be government-led, and overseen by the Steering Committee at MOFE:</p> <ul style="list-style-type: none"> <li>• A whole of government approach</li> <li>• Engage a wide base of stakeholders</li> <li>• Quantify key performance indicators and tightly monitored MTRS implementation</li> <li>• Evidence-based analysis of tax system reforms, including impact on revenue, income distribution and the economy</li> <li>• Multi-year budget to secure reform implementation</li> </ul>	<p>External support to the following areas:</p> <ul style="list-style-type: none"> <li>• Revenue forecasting and expenditure analysis</li> <li>• Administration performance monitoring including tax gap analysis</li> <li>• Policies and procedures to strengthen monitoring and taxation of cross-border dealings</li> <li>• Information strategy, data management and analytics</li> <li>• Taxpayer compliance risk management</li> <li>• Advanced rulings programs for tax and customs</li> <li>• Drafting of new legislation and legislative amendments</li> <li>• International profit shifting and tax avoidance</li> <li>• Digital economy</li> </ul>

## Appendix IX. MTRS Action Plan

Draft MTRS Formulation Action Plan			
Task	Time Frame		
	Start Date	Finish Date	
Minister confirms commitment to MTRS Effort	July 1, 2019	July 1, 2019	Completed
<b>Formalize MTRS Management and Governance Structure</b>	July 9, 2019	July 16, 2019	Completed
Working Group (Steering Committee)	July 9, 2019	July 16, 2019	Completed
Strengthen Technical Secretariat with full-time staff (Future MTRS MO)	July 9, 2019	July 30, 2019	Completed
Appoint liaison points in participant entities/agencies	July 9, 2019	July 16, 2019	Completed
<b>Agree on action plan and timeline (VC)</b>	July 16, 2019		Completed
Draft the plan	July 9, 2019	July 16, 2019	Completed
Approved by Steering Group	July 16, 2019	July 18, 2019	Completed
Approval by Minister	July 20, 2019	July 20, 2019	Completed
<b>Map of Reform Initiatives</b>	July 16, 2019	September 30, 2019	Completed
<b>Stocktake of previous advice</b>	July 16, 2019		
IMF and other DPs	July 16, 2019	September 3, 2019	
<b>MTRS component analysis</b>	August 8, 2019	December 31, 2019	
Expenditure needs determination	August 8, 2019	October 31, 2019	Completed
Revenue and other goals setting	August 8, 2019	October 31, 2019	Completed
Policy options	August 8, 2019	December 31, 2019	
Administration options	August 8, 2019	December 31, 2019	
Legal framework changes	August 8, 2019	December 31, 2019	
Management and governance of MTRS implementation to ensure political commitment	October 31, 2019	December 31, 2019	
Identification of CD needs	October 31, 2019	December 31, 2019	
<b>Mission on tax policy on MTRS formulation - policy part of Tax System Reform plan (see note 1)</b>	November 1, 2019	November 12, 2019	Completed
<b>Pre-Mission work with WG on revenue administration (RA) to progress RA part of Tax System Reform plan of MTRS (see note 1)</b>	October 1, 2019	November 4, 2019	Completed
<b>Mission on RA on MTRS formulation - administration part of Tax System Reform plan (see note 1)</b>	November 4, 2019	November 19, 2019	Completed
<b>Discussion of the first draft</b>	November 20, 2019	November 29, 2019	
<b>MTRS draft</b>	January 10, 2020	January 10, 2020	
Approved by WG/SC	January 10, 2020	January 31, 2020	
<b>Public review period (see note 2)</b>	January 10, 2020	March 30, 2020	
<b>Consultation Phase (see note 2)</b>	January 10, 2020	March 30, 2020	
Industry groups	January 10, 2020	March 30, 2020	
civil society	January 10, 2020	March 30, 2020	
other stakeholders	January 10, 2020	March 30, 2020	
Government agencies	January 10, 2020	March 30, 2020	
<b>Revision and finalization of MTRS</b>	April 1, 2020	April 30, 2020	
Finalization of MTRS	April 1, 2020	April 30, 2020	
Working Group (Steering Committee)	April 15, 2020	April 15, 2020	
Cabinet/President	April 30, 2020	April 30, 2020	
<b>Publication and advocacy</b>	May 1, 2020	June 30, 2020	
<b>Implementation begins</b>	July 1, 2020		
<b>Notes:</b>			
1/ These activities are new and aim to support in the filed the formulation of the MTRS initial draft, as well during the IMF/WB Spring Meetings.			
2/ Consultation and publication for public review have been concentrated in 1 phase, compared with previous action plan.			