

## Albania: Technical Assistance Report-Revenue Administration: Supporting the Delivery of the Reform Agenda



# ALBANIA

March 2019

## TECHNICAL ASSISTANCE REPORT—REVENUE ADMINISTRATION: SUPPORTING THE DELIVERY OF THE REFORM AGENDA

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## **Albania**

### **Revenue Administration: Supporting the Delivery of the Reform Agenda**

Stephen Vesperman, Allan Jensen, Paul Duffus, Telita Snyckers, and Michael O'Grady



**Technical Report**

**January 2019**

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## ABBREVIATIONS AND ACRONYMS

ALL	Albanian Lek (currency)
CIT	Corporate Income Tax
CRM	Compliance Risk Management
DG	Director General
EU	European Union
FAD	Fiscal Affairs Department
GDP	Gross Domestic Product
GDT	General Directorate of Taxes
HQ	Headquarters
HNWI	High-Net-Wealth Individuals
IMF	International Monetary Fund
INSTAT	Institute of Statistics
IT	Information Technology
LTO	Large Taxpayer Office
MOFE	Ministry of Finance and Economy
NACE	Classification of Economic Activities
NAIS	National Agency for Information Society
NBC	National Business Center
OECD	Organization for Economic Cooperation and Development
PIT	Personal Income Tax
RDF	Risk Differentiation Framework
RMD	Risk Management Department
RO	Regional Office
SECO	State Secretariat for Economic Affairs (Swiss Government Agency)
SLA	Service Level Agreement
TADAT	Tax Administration Diagnostic Assessment Tool
VAT	Value-Added Tax

## PREFACE

As a component of the IMF Fiscal Affairs Department's (FAD) technical assistance program for capacity building in revenue administration in Southeast Europe, a tax administration mission visited Tirana during the period of November 19–December 3, 2018. This was to assist the authorities in taking stock of reform progress in the General Directorate of Taxes (GDT) and provide advice as required on future efforts.

The mission was led by Mr. Stephen Vesperman (FAD) and comprised Mr. Allan Jensen (IMF Regional Revenue Administration Advisor), Mr. Paul Duffus, Ms. Telita Snyckers and Mr. Michael O'Grady (external IMF experts). The mission was also assisted by Mr. Keith Cartwright (FAD external expert) who was working with the GDT during the mission.

Meetings were held with Mr. Erjon Luci, Deputy Minister of Finance and Economy; Mr. Nikolla Lera, Advisor to the Minister, Ministry of Finance and Economy (MOFE); Mr. Xhavit Çurri, Acting Director General, and many managers and staff from the GDT's Headquarters (HQ) and regional offices; Ms. Mirlinda Karçanaj, National Agency for Information Society; Mr. Dashamin Begaj and other representatives of the Albanian Institute of Certified Accountants; and from the donor community for technical assistance to the GDT, Mr. Philipp Keller, Deputy Head of Mission, Embassy of Switzerland and Mr. Stephen Stork, First Counsellor, Delegation of the EU.

The mission would like to thank Mr. Endi Cekani, Chief of Cabinet, GDT, and Mr. Sokol Mici, Advisor to the DG for their excellent mission support.



# EXECUTIVE SUMMARY

## High-level Conclusions

**The General Directorate of Taxes (GDT) continues to make good progress in modernizing its administration of the taxation system.** With strong support from the Minister of Finance and Economy, a dedicated management team led by a reform-minded Director General is driving the modernization agenda and has created the momentum for real change across the organization. There is now evidence that reform initiatives in the three components of the administration—people, processes and technology—are delivering tangible outcomes. Investments continue to be made to improve the competency and professionalism of the workforce. Business process changes particularly in compliance risk management (CRM) and arrears collection areas are supporting the transition to a more modern administration and the Information Technology system (successfully implemented from 2015) is providing the platform for more efficient and effective internal operations of the GDT and increased availability of e-services for taxpayers.

**Nevertheless, the pace of change must be maintained if all the reform objectives are to be delivered.** The recent achievements will dissipate quickly if this momentum is not maintained. The GDT must continue to drive reform initiatives set out in its strategic plan and actively address weaknesses identified in IMF technical assistance reports. Ongoing budget and legislative support from the Minister and the government will be essential to move the GDT's performance closer to international good practices, increase the revenue yield, reduce the tax gap and influence future compliance behavior of taxpayers.

## Key Priorities

**The Large Taxpayer Office (LTO) must have a sharper focus on risk and needs to improve the skill levels of its auditors.** The importance to Government revenues from Albania's largest taxpayers cannot be overstated. The Government and the GDT must have the highest level of confidence that the LTO is effectively managing this subset of taxpayers and that appropriate scrutiny, risk assessments, profiling and engagement is embedded in its operation. Much more needs to be done to have a clearer focus on taxpayer profiles and risk, and to improve the technical knowledge and audit skills of LTO staff.

**A program to consolidate some core functions into fewer regional locations, beginning with the arrears collection function, should be accelerated.** The GDT's increased use of electronic services and telephone contact centers reduces the need for face-to-face contact with taxpayers. This provides the opportunity to consolidate relevant functions into one (or a few) locations to achieve real efficiencies in administration, including better use of staff resources,

increased effectiveness, improved performance quality, and greater uniformity in processes and decision-making.

**The GDT must continue to strengthen its CRM capability.** The GDT must have access to a broader range of third-party information (particularly bank and other financial institution information), and data-warehouse facilities to manage the risk assessment with automated analytical tools. The GDT is making some progress in this area, however the range and depth of available data falls well short of international trends. It is also necessary to increase the capacity to develop compliance strategies focusing on the key areas of non-compliance that contribute to the tax gap.

**The GDT needs to develop a strategy to deal systemically with integrity related issues and be more transparent around its anti-corruption activities.** During the past year, several instances of corruption by GDT staff have featured in the media. Corrupt behaviour by the GDT staff undermines the efforts to gain the trust and confidence of the community which is critical to influence the level of voluntary compliance.

**The ongoing issue of delayed VAT refunds must be addressed.** This is an unnecessary administrative burden for the administration—the root cause of which lies in weak tax forecasting and government cash management. The integrity and credibility of the VAT system relies on legitimate VAT credits that are payable being quickly refunded. It is concerning that this issue has re-emerged after it was largely addressed some years ago.

While the summary above represents the mission’s high-level recommendations, the body of this report discusses these and many other tax administration issues in more detail including additional recommendations for improving the GDT’s operations and structures. All recommendations are listed in Box 1.

### **Box 1. List of Recommendations**

#### **Section II: Improving Governance and Organizational Arrangements**

- Schedule more regular meetings of the Reform Management Committee to drive the reform agenda and undertake a review of the strategic plan.
- Appoint a third Deputy Director into the vacant role as soon as possible and accelerate the filling of other vacancies across the organization.
- Amend the legal framework to give the GDT greater authority to adjust organizational structures and to deploy resources.
- Establish a strong governance process for the management of the new IT contract at the senior level in the GDT.

- Develop an overarching strategy to build a strong integrity culture across the workforce and address corruption risks.

### **Section III: Strengthening the Large Taxpayer Office**

- Revise the large taxpayer criteria to ensure that all of the largest taxpayers are managed by the LTO.
- Establish a risk management unit in the LTO to support implementation of the risk differentiation framework, including tax revenue analysis and taxpayer profiling.
- Review the range of tasks undertaken by LTO Desk Audit and determine more appropriate organizational arrangements for non-audit work.
- Finalize the arrangements to consolidate the three existing transfer pricing teams into a single unit within the LTO.

### **Section IV: Strengthening Compliance Risk Management**

- Broaden the access to and use of third-party data, including automatic reporting of bank data—and procure a data-warehouse and analytical tools.
- Develop a data management strategy that optimizes the use of data from all sources, including the data from the e-fiscalization program.
- Review the current RMD organizational structure, including the division of work between organizational units, to support changes to business process and the introduction of data warehouse and analytical tools capability.
- Enhance the CRM work program to progress the development of a multiyear compliance improvement plan.

### **Section V: Improving Registration and Taxpayer Services**

- Propose a legislative change that allows the GDT to update the taxpayer register where there is clear evidence from field reports that register data is inaccurate.
- Develop a program to test the accuracy of the taxpayer register, in cooperation with the National Business Center (NBC), including the accuracy of the passive register.
- Develop a taxpayer service strategy and put in place clear governance arrangements to steer its coordinated implementation.

- Engage and involve taxpayers and tax intermediaries in tax products and process design with a view to simplifying compliance and reducing costs.
- Expand the range of published technical interpretive guidance.

#### **Section VI: Improving Tax Arrears Collection**

- Develop a plan to write-off uncollectable tax arrears.
- Appoint a project manager for the consolidated tax arrears pilot and progress the work to develop the detailed design.

#### **Section VII: Improving Audit**

- Undertake analysis to understand the reasons for the low collection rates on audit assessments and develop appropriate responses.
- Undertake analysis of the role and performance of the desk audit function to improve audit outcomes and eliminate low value work.

#### **Section VIII: Getting Taxpayer Appeals Right**

- Transfer the MOFE's taxpayer appeal function back to the GDT.
- Improve transparency by publishing anonymized summaries of administrative appeal outcomes, and statistics relating to appeals and outcomes.
- Improve procedural fairness by allowing, for genuine cases in exceptional circumstances, some flexibility to the tax payment/guarantee and appeal time limit pre-conditions.
- Reduce the time taken to finalize appeals and review procedures for dealing with low-value penalty appeals.

#### **Section IX: Timely Payment of Value-Added Tax Refunds**

- Pay the outstanding stock of VAT claims as quickly as possible.
- MOFE to improve the forecasting of net tax revenue to ensure that funds are available to pay all legitimate VAT refund claims immediately.
- MOFE to seek a legislative amendment to refund credits without any minimum carry forward period and without the requirement for taxpayers to submit a separate refund claim.

# I. CONTEXT AND OVERVIEW OF REFORMS

## A. Fiscal Context

**1. Tax and social contribution revenues are buoyant, reflecting strong economic growth.** Albania's economy has rebounded from a low-point in 2013 and GDP growth is expected to exceed 4 percent in 2018. Table 1 shows that tax and social contribution revenues have grown steadily in recent years. Revenue buoyancy has continued into 2018 – for the period January to September revenues from taxes and customs were up 3.8 percent year-on-year.<sup>1</sup> The GDT collected around 54 percent of all tax revenues (including social contributions) in 2017; most of the remaining taxes were collected by Customs at the border.

**Table 1. Overall Tax and Social Contribution Revenues, 2015–17**

(Revenue amounts in ALL billions)

Tax Type	2015		2016		2017	
	Revenue	GDP %	Revenue	GDP %	Revenue	GDP %
Personal income tax	29.7	2.1	31.4	2.1	32.1	2.1
Social contributions	71.7	5.0	79.2	5.4	86.8	5.6
Profit tax	24.2	1.7	28.5	1.9	31.6	2.0
VAT	124.8	8.7	128.1	8.7	139.5*	9.0
Excises	39.0	2.7	41.9	2.8	45.1	2.9
Customs duties	5.8	0.4	6.1	0.4	6.5	0.4
Other taxes	33.7	2.4	35.8	2.4	38.5	2.5
Local govt. revenue <sup>2</sup>	11.7	0.8	15.0	1.0	18.4	1.2
Total	<b>340.6</b>	<b>23.8</b>	<b>366.0</b>	<b>24.7</b>	<b>399.0</b>	<b>26.0</b>

Source: MOFE and IMF staff calculations and estimates.

\* VAT revenues are overstated as they do not reflect VAT refund arrears, which amounted to ALL11.7 billion at end-2017.

**2. Despite the increases, revenues have persistently fallen short of budget forecasts—putting pressure on the GDT, particularly on deferring payment of VAT refunds.** On average over the last 10 years, tax revenues underperformed relative to plan by close to 1.5 percent of GDP. Collection shortfalls against budget have continued into recent years and have been attributed in the main to unrealistic forecasting.<sup>3</sup> Table 2 shows the collection-versus-plan comparison for 2017 for each of the revenue sources collected by GDT. The biggest shortfalls

<sup>1</sup> Source: Media release posted on MOFE website on October 31, 2018.

<sup>2</sup> Includes the property tax, the simplified profit tax for small businesses, and other local taxes.

<sup>3</sup> See FAD report of August 2015 "Albania – Causes of Tax Revenue Underperformance and Options for Corrective Measures", Jensen et al.

were in VAT, PIT and Circulation and Fuel Taxes. VAT refunds were 16 percent less than forecast for 2017 and there were special arrangements for deferring VAT refunds for some large infrastructure projects. Issues relating to VAT refunds are dealt with separately in Section IX.

**Table 2. General Directorate of Taxes—Collected Revenue 2017—  
Collection vs. Budget Forecast**

(Revenue amounts in ALL billions)

Revenue Source	Net Collected 2017	Budgeted 2017	Percent Difference
PIT	32.1	36.2	- 11.2
Social security contributions	82.8	80.1	+ 3.46
VAT gross	48.9	55.3	- 11.49
VAT refunds	(13.9)	(16.6)	(- 16.44)
VAT net	35.0	38.7	- 9.36
Profit Tax	31.6	29.2	+ 8.22
National Taxes	12.4	13.3	- 6.63
Circulation and Fuel Taxes	15.2	19.3	- 21.47
Gambling Taxes	5.3	5.0	+ 7.00
Administrative fines	0.2	0.0	
<b>Total</b>	<b>214.7</b>	<b>221.7</b>	<b>- 3.17</b>

Source: GDT Annual Report 2017 (Table 1, Pages 11/12).

**3. Recent tax policy reforms have narrowed the tax base and complicated tax administration.** Tax policy in recent years has focused on 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). This trend has continued in the June 2018 and the (recently announced) 2019 fiscal packages. The CIT rate has been cut from 15 to 5 percent for some 11,000 businesses. On the other hand, a VAT threshold reduction brought some 13,000 micro-businesses into the VAT system from April 2018, with little revenue impact. Headline items for the proposed 2019 fiscal package include an almost halving of the dividend tax (from 15 to 8 percent), a widening of the employee PIT lower tax bracket, and further sector-specific VAT reductions. Some of these changes complicate an otherwise simple and well-structured tax regime and open tax avoidance opportunities—e.g., through shifting higher taxed income into dividends or CIT threshold manipulation.

## **B. Broad Overview of Reform Progress**

**4. The GDT continues to make good progress in modernizing its administration of the taxation system.** A combination of the success of the implementation of the new IT system in 2015 and a reform-minded Director General (DG) with strong managerial skills, and an energetic and committed management team, have created the momentum for real change across the organization. There is clear evidence of a leadership team focused on delivering the outcomes

from their reform agenda, including implementing IMF recommendations (Appendix I). The reform program is underpinned by:

- A Strategic Plan for 2017—21 which was endorsed in December 2016;
- Annual operational plans which are aligned to the Strategic Plan;
- The outcomes from the 2016 TADAT<sup>4</sup> performance assessment from which the identified weaknesses are being actively addressed (see progress report at Appendix 2).

**5. Several key initiatives are supporting a cultural change across the GDT.** The upgrading of accommodation is signalling a more professional approach by the workforce to tax administration. The increased use of online services (including the use of the e-Albania portal for tax payments and tax certificates) and the use of outbound electronic notices are facilitating a shift from face to face contact with taxpayers for more routine matters. Stronger and more productive relationships have been established with the MOFE and other government agencies including Customs, the National Business Center (NBC), the National Agency for Information Society (NAIS), and e-Albania. In addition, the senior leadership team has fostered an environment of driving and embracing change and directors are more engaged in management decision-making processes.

**6. Evidence is emerging that reform initiatives for some core functions are achieving tangible results.** The stock of collectable debt is continuing a downward trend resulting from the implementation of early intervention strategies and building on the outcomes from the recent arrears amnesty program (Section VI). Register accuracy has been improved through cooperative initiatives with the NBC and the Institute of Statistics (INSTAT). The GDT also adopted a highly organized and professional approach to the expansion of the VAT register following a reduction in the registration threshold, and in executing its compliance campaign for the tourism sector.

**7. The GDT has implemented or actioned many of the recommendations made by the December 2017 IMF HQ mission<sup>5</sup>.** Many of the 39 recommendations from that report have been implemented, substantially progressed or integrated into operational plans. It is evident that the leadership team highly value and are integrating IMF advice into their reform agenda. (see progress report at Appendix II).

**8. There are still significant improvements that can be made to the GDT's operations and structures to achieve a fully modernized administration.** The GDT's Strategic Plan sets

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<sup>4</sup> TADAT is the Tax Administration Diagnostic Tool developed with the support of the IMF, World Bank, European Commission and several countries. The tool does not assess organization structures and governance of tax administration.

<sup>5</sup> FAD Technical Assistance Report; Albania: Maintaining the Pace of Tax Administration Modernization; Jensen et al, December 2017

out a good framework for taking the organization forward over the next three years, however the following priority areas, which are discussed in detail in this report, require specific attention:

- Strengthening core functions of the LTO.
- Taking a more strategic approach to compliance risk management, including expanding the GDT's automatic access to third-party data.
- Consolidating regional office functions (starting with arrears collection) and fine-tuning organization structures.
- Increasing the competency of field auditors and improving the collection rate of audit assessments.
- Improving the integrity of the GDT's administration of the tax system.

## II. IMPROVING GOVERNANCE AND ORGANIZATIONAL ARRANGEMENTS

### A. General Department of Taxation Governance

**9. The GDT has a strong governance framework in place including a senior management committee structure.** There are three permanent senior management committees: (1) the Reform Management Committee responsible for the strategic direction of the GDT and the supervision of the reform plan; (2) the Operations Management Committee responsible for managing the annual planning process and monitoring the GDT's performance; and (3) the Compliance Management Committee responsible for the implementation of a CRM system that facilitates the design and execution of an integrated suite of risk mitigation strategies. All three committees are chaired by the DG and written mandates for each committee are in place.

**10. Several other less formal "issues-based" working groups support the work of the peak management committees.** Currently, there are three working groups focusing on strategic management, IT system management, and employee disciplinary measures.

**11. A comprehensive reporting framework is used to monitor the operational performance of the GDT.** There is an extensive suite of operational reports, generated by the tax administration information system, that is monitored by the Operations Management Committee and the senior leadership team.

**12. Although written mandates are in place, in practice the focus of the Operations Management Committee overlaps with the Reform Management Committee mandate.** The



Reform Management Committee has only met once this calendar year. The role of monitoring implementation of the strategic plan continues to be undertaken by the Operations Management Committee.

**13. The Reform Management Committee should have overall responsibility for implementing the key transformational reform initiatives.** The reform committee should take responsibility for: (1) ensuring that plans are in place to take reform initiatives forward and adequate resources are mobilized (both people and financial); (2) monitoring progress on implementation; and (3) resolving impediments to progress (e.g., resources, law changes, liaison with other agencies). High level committees of this type would typically meet at least quarterly and more often when time-critical decisions and directions are required.

**14. At the end of this year, the current Strategic Plan will have been in operation for two years and needs to be reviewed.** Although it is a very comprehensive plan, it would benefit from a review to consider if existing strategies require updating or if additional reform initiatives should be included. For example, the GDT may wish to consider including in the sub-objectives of the strategic plan (1) a specific focus to strengthen community consultation on taxation administration (see Section V); (2) the GDT's strategy to increase community's trust and confidence in its administration of the taxation system (see Section II below); and (3) other reform recommendations from this report. A review of the existing key performance indicators and the value they add to monitoring operational performance would also assist in developing a more targeted suite of indicators.

## **B. General Department of Taxation Structures and Operations**

**15. The GDT has a strong function-based headquarters structure in place.** It consists of three business streams: program design, delivery, and support. In the organizational structure each business stream is managed by a Deputy Director (however one of the Deputy Director positions is currently vacant—see below).

**16. The organizational structure includes a network of 13 regional offices and an LTO.** Some consolidation of functions has been achieved through the establishment of a centralized Call Center and a Payment Center. Following a recommendation made by the December 2017 HQ mission, some early work has been undertaken to assess the possibility of consolidating some arrears collection functions into fewer sites.

**17. The allocation of resources and the number of regional offices and their structure are inefficient.** Table 3 shows a major mismatch in the ratios of tax revenue to staff deployment across the regional network given current work load, need for specialization, and extensive use of automation. Significant effectiveness and efficiency gains can be achieved from further consolidation of certain core functions into fewer locations. Almost all advanced tax administrations have consolidated functions and tasks, particularly where there is little need for face-to-face contact with taxpayers and where functions benefit from specialization or

economies of scale (e.g., arrears collection, including specialized enforced collection, i.e., bankruptcy and liquidation actions), audit functions (e.g., complex tax fraud), inbound and outbound call centers, and legal support. The experience of modern taxation administrations is that when certain functions are consolidated in one (or a few) locations, effectiveness, performance quality, and efficiency increase and there will be greater uniformity in processes and decision making.

**Table 3. Comparison of Field Resources and Collection**

Area of Work	LTO	Tirana	Durres	Fier	Other ROs	Total
<b>Total Field Staff</b> (Excl. Investigation Dep.)	114	257	105	92	474	1,042
Service	7	39	20	15	7	184
Collection	10	39	16	14	46	144
Audit	72	129	45	43	21	460
Analysis/ICT	7	17	7	7	177	89
Support	18	33	17	13	50	165
<b>Tax Collected 2017</b> (ALL Billion)	88.5	83.2	12.6	7.2	30.0	228.6
<b>Percent of collection</b>	<b>39</b>	<b>36</b>	<b>6</b>	<b>3</b>	<b>16</b>	<b>100</b>
<b>Percent of field staff</b>	<b>11</b>	<b>25</b>	<b>10</b>	<b>9</b>	<b>45</b>	<b>100</b>

Sources: GDT Annual Report 2017 (collection); GDT Organization Charts provided (field staff distribution).

**18. The GDT should actively pursue the initiative to consolidate the arrears collection function into three sites.** The GDT now has a more methodical approach to managing tax arrears cases supported by a modern IT system and a comprehensive user manual for arrears collection staff. Consolidating this core function into three sites (e.g. South, Central, North) facilitates a more efficient use of skilled resources and greater capacity to channel resources to higher priority case work. This initiative is covered in more detail in Section VI. It would also be an ideal pilot project to gain experience in managing further consolidation of core functions (e.g. VAT refund checks) and support functions.

**19. Immediate action should be taken to finalize the consolidation of the three Transfer Pricing Units in the LTO.** Currently there are three small teams based in HQ, the Tirana Regional Office and the LTO. It would be more efficient to consolidate all transfer pricing staff into a single unit in the LTO. This initiative is covered in more detail in Section III.

**20. Field inspection work, currently based in the Investigation Department should be separated from the unit that undertakes the complex tax fraud work.** Currently there are approximately 180 field inspection staff based in three sites (South, Central, North) that largely

perform “unannounced” spot checks. In the 2017 year, they made 52,702 checks.<sup>6</sup> Further analysis is necessary to determine more appropriate organizational arrangements, considering the medium-term direction of consolidating offices and functions. In addition, the opportunity should be taken to determine if this work type represents an appropriate use of resources and the extent of the impact this work has on influencing future compliance behaviour.

**21. The GDT needs greater autonomy to enable it to adjust its organization structure as required to respond to operational needs.** It is essential that the GDT’s organization structure and personnel deployment match its business needs at any given time. Options to achieve greater autonomy in staff recruitment are being explored with the Department of Public Administration. However, the GDT must also have the authority to continuously adjust structures and resource allocation to match changes to risks and operational needs and align to more modern organizational arrangements without the need to seek Ministerial approval.

**22. The GDT has many unfilled vacancies for managers and key employees.** Currently there are approximately 200 vacancies including a Deputy Director position in headquarters. This vacant Deputy Director position has at least 17 direct reports (including the regional offices and the LTO) which are currently reporting directly to the DG. While other Deputies are assisting with this workload it is an unsustainable ongoing practice, as the DG must have a significant reform focus and not be distracted by daily line operational matters. Extended delays in filling this and other key positions will adversely affect operational performance and the pace of reform.

## **C. Information Technology Support**

**23. The GDT currently uses a “commercial off-the-shelf” (COTS) revenue administration system.** The system was deployed over the 2014-2016 period with the IT provider continuing to support the system through a service level agreement (SLA). The supplier also provides development upgrades on an “as required” basis. The system provides a comprehensive suite of modules essential to the operation of a modern tax system.

**24. The GDT’s current IT contract and SLA are due to expire in April 2019.** The National Agency for Information Society (NAIS), a separate government agency, has taken over the responsibility for drafting the terms of reference and managing the procurement process for a replacement contract.

**25. NAIS is proposing to procure, through a tender process, a fixed price SLA.** This new contract is to provide for the maintenance of both software and hardware, software changes to accommodate legislative amendments and any development needs required by the GDT for the life of the agreement. The mission expressed concerns as to how potential bidders could sensibly arrive at a competitive tender price when the requirements (particularly around potential future

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<sup>6</sup> This resulted in the discovery of 646 unregistered businesses; 2,702 tax coupon violations; 1,962 unregistered employees; and a further 6,100 unspecified violations.

development needs) are not specified. However, NAIS advised that this fixed price model for maintenance and development needs has been used successfully to meet IT requirements in other agencies and were confident it will meet the GDT's IT requirements. The proposed contractual arrangements include a provision to locate IT contractors "in-house" at the GDT. In addition, the GDT should have the mandate to identify and prioritize future development needs.

**26. A modern and agile IT system is a critical component for a revenue administration in ensuring the flow of revenue to Government.** Any significant interruption to this revenue flow can result in serious consequences. Most tax administrations have some dependency on external contractors to support their IT operations. However, this requires professional management of the contract and the SLA.

**27. NAIS is also managing the procurement of a replacement fiscal cash register system for the GDT.** This system will require businesses that make sales to consumers to provide sales data in real time to the GDT so that an official coupon number can be sent back to the business for printing on the consumer's receipt (coupon). This system will eventually be expanded to include all business to business sales (e-invoice), which will include risk analysis and data warehouse functionality. If managed effectively, it will be a valuable source of information for the GDT's compliance risk management teams. It is essential that the design and implementation of this system recognizes that there is enormous potential to deliver both strategic and operational outcomes if it is integrated with GDT's broader compliance management processes with essential interfaces to the GDT's central revenue administration system.

## **D. Community Trust and Confidence**

**28. The GDT needs to develop a strategy to deal systemically with integrity related issues and be more transparent around its anti-corruption activities.** During the past year, several instances of corruption by GDT staff have featured in the media. Corrupt behaviour by staff undermines the efforts of the GDT in gaining the trust and confidence of the community in its management of the taxation system—a critical influence on the level of voluntary compliance. The GDT has an Internal Affairs Department (comprising the Director and eight inspectors). There is a telephone line where taxpayers can report potentially corrupt behaviour, and a structured disciplinary process where more serious cases are submitted to a disciplinary committee. The GDT would benefit from taking a more strategic approach to assessing, quantifying and developing risk mitigation responses, which focus on prevention and detection. It should also publish more information about its anti-corruption activities, including aggregated data.<sup>7</sup>

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<sup>7</sup> For example, the Australian Taxation Office has a Fraud and Corruption Control Plan 2018–19 that includes prevention, detection and response strategies to build a strong integrity culture across its workforce.

## E. Recommendations

- Schedule more regular meetings of the Reform Management Committee to drive the reform agenda and undertake a review of the strategic plan.
- Appoint a third Deputy Director into the vacant role as soon as possible and accelerate the filling of other vacancies across the organization.
- Amend the legal framework to give the GDT greater authority to adjust organizational structures and to deploy resources.
- Establish a strong governance process for the management of the new IT contract at the senior level in the GDT.
- Develop an overarching strategy to build a strong integrity culture across the workforce and address corruption risks.

## III. STRENGTHENING THE LARGE TAXPAYER OFFICE

### A. Introduction and Recent Developments

**29. Strengthening the compliance management of large taxpayers is an important strategy to increase revenue collection.** Typically, tax administrations put in place a range of strategies to secure and protect revenues from this critical taxpayer segment, which in many countries contributes more than 50 percent of tax revenues. Consistent with international practice the GDT has put in place specific organizational and management arrangements to deal with its large taxpayer segment.

**30. The GDT has recognized the need to strengthen the operations of the LTO.** It is improving risk identification processes and aims to develop much stronger audit capacity and expertise. The mission was assisted by Mr. Keith Cartwright (FAD external expert) who was working with the LTO during the mission to provide more practical guidance on the risk differentiation framework. Key issues identified by Mr. Cartwright have been incorporated in this report.

**31. Technical assistance has been provided over the last 12 months to assist the LTO in applying the risk differentiation framework (RDF).<sup>8</sup>** The assistance has included workshops to

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<sup>8</sup> The RDF is a compliance tool to assess taxpayers' tax risk and determine the intensity of the tax administrations response. The RDF takes account of the estimated likelihood of the taxpayer misreporting their tax obligations and the consequences of their potential non-compliance.

explain the features of the RDF and the benefits from adopting tailored compliance interventions based on the level of risk. An initial selection of 20 taxpayers representing the highest risk was used to build experience with the RDF. Additional assistance has been provided to give more practical exposure to the RDF concepts and to develop concrete steps to adopt the RDF for the large taxpayer population.

**32. The GDT expressed concern on the extent of tax declaration under-reporting in key industries.** Tax revenues in trade, construction and fuel industries have reduced, however, at this stage full analysis work has not been undertaken to assess the reasons for this change.

## **B. Areas Needing Improvement**

### **Taxpayers Allocated to the LTO**

**33. The criteria<sup>9</sup> for identifying large taxpayers should be revised as not all large taxpayers are administered by the LTO.** The LTO taxpayer population currently comprises 680 taxpayers and 125 non-active taxpayers. The criteria include several rules including a turnover threshold of ALL 350 million, and a requirement that the business has been active for five years and make annual tax payments greater than ALL 20 million. The criteria also include specific taxpayer categories, e.g. banks, insurance companies, telephone card operators and cigarette companies. The criteria should be revised to remove the requirement to be active for five years before transfer to the LTO and the requirement to make annual payments greater than ALL 20 million. The current approach results in several of the genuinely large taxpayers being administered by regional offices. There are 351 taxpayers with a turnover of more than ALL 350 million with total tax revenue of ALL 11.73 billion in 2017, which are managed by regional offices.

**34. Taxpayers not meeting the criteria should be transferred out of the LTO.** There are 135 taxpayers with turnovers less than ALL 350 million (with a total tax revenue of ALL 4.4 billion) that should be transferred to regional offices. In addition, there are 125 passive (non-active) taxpayers that should be transferred from the LTO. The regulation specifies that passive taxpayers should be transferred to the passive register, however in practice this has not happened.

**35. Adjusting the LTO taxpayer population will increase the share of revenue contributed by LTO taxpayers.** The number of large taxpayers administered by the LTO would increase to 897 and result in the LTO share of total revenue increasing from 38.4 percent to approximately 42 percent. This should be regarded as an interim step towards moving closer, over time, to international norms for the percentage of domestic revenue managed by the LTO (at least 50 percent).

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<sup>9</sup> The large taxpayer criteria are set out in Regulation No. 6987/1 dated 29 March 2017

## Risk Identification

**36. The LTO needs to establish its own organizational risk unit and build risk management capability.** Large taxpayers present different and significant compliance risks that can have major consequences on tax revenues if not addressed. The Risk Management Department (RMD) is responsible for the GDT's compliance risk management function for all taxpayer segments. The primary focus has been the development of a risk register and associated risk rules and the selection of audit casework (70 percent) for the regional offices including the LTO. The risk rules are skewed towards small and medium taxpayers and do not specifically target the type of risks posed by large taxpayers.

**37. The current method of risk identification and selection of taxpayers for audit by the RMD is sub-optimal for large taxpayers.** Several weaknesses are evident:

- Very limited information is given on the reasons why a taxpayer has been selected for audit.
- The information in the financial statements is not considered.
- There is no feedback on audit outcomes to the RMD to refine the risk rules.
- The LTO's audit results, particularly for VAT refund and specific issue audits, are relatively weak.
- The audit results from selections made by the LTO are better than outcomes from cases selected by the RMD.

**38. A more structured risk analysis process is needed.** Advanced tax administrations profile all large taxpayers using a range of both financial and tax specific indicators to identify and prioritize risks to ensure efficient use of available resources. Profiling of large taxpayers and risk assessment should be routinely undertaken by the LTO using information from all sources, including the RMD.

**39. Implementing the RDF will develop a more robust approach to risk identification and assessment.** To implement the RDF, the LTO will need to build a specialist intelligence and data analysis capability. During his recent visit, Mr. Cartwright provided guidance on the risk indicators to underpin the RDF and the importance of using the information contained in the financial statements to improve the understanding of the taxpayer's business operations and its potential tax risks. In addition, he provided the GDT with an RDF Implementation Action Plan that sets out time-bound steps for the introduction of the RDF. Once the LTO risk unit is established and the risk profiling using the RDF has commenced, the LTO should be responsible for deciding which taxpayers to audit.

**40. The LTO needs to develop a tax analysis capability to better understand volatility in tax revenues.** There is currently no revenue analysis capability in the LTO to look at collection

trends and to determine the reasons for significant variations from budgeted forecasts during the year. Developing this capability would also enhance the GDT's input to the government's revenue forecasting and revenue estimating processes.

**41. The GDT needs to better understand the exposure to international tax risks.** The LTO has limited experience with transfer pricing and only one audit has been undertaken over recent years notwithstanding that training has been provided by various international organizations. As an initial step however, preliminary risk analysis work should be undertaken to identify the potential exposure to transfer pricing risks to provide for more informed decision-making on how to deal with identified risks. By way of example, the LTO could use a basic set of risk filters to analyse the large taxpayer population to get a picture of potential international risks. These risk filters could include:

- Reported losses for several years.
- Excessive debt and/or interest expense.
- Significant transactions with low tax jurisdictions using service arrangements and fees or commissions paid to related parties.
- Unrealistic profitability compared to industry trends.
- Substantial payments of interest to non-resident related parties.

### **Audit Capability**

**42. LTO auditors require technical expertise and advanced audit skills.** Strengthening risk identification processes will mean that more complex risks are identified, e.g. sophisticated tax planning and tax evasion. To build an effective audit function, the LTO will need to strengthen audit examination techniques (e.g. indirect audit methods and capacity to detect tax avoidance) and provide additional training in core competencies, e.g. tax accounting and financial analysis, tax technical and interpretative expertise and effective decision making. Additional donor support will be needed to assist the LTO to develop its audit capability.

### **Organizational Issues**

**43. Industry specialization should be adopted to reflect the importance of key industries in the economy.** LTOs generally structure their compliance operations on an industry basis to strengthen their understanding of industry and commercial practices. It enables tax auditors to specialize and develop a greater understanding of specific compliance risks. Adopting this approach will also enable the LTO to develop tailored compliance programs to help taxpayers meet their obligations under the law. The LTO has identified 22 industry specializations, which means that genuine in-depth specialization is not possible. Specialization



should be restricted to a small number of key industry sectors including banking and finance, energy and hydrocarbons, pharmaceuticals, construction and communications.

**44. The LTO should have smaller audit teams.** The LTO Audit Directorate has 64 auditors and three audit managers. Introducing smaller audit teams would provide for a more effective supervisor to auditor ratio and will enable more coaching, direction and mentoring to ensure compliance risks are properly identified and effective audit techniques are used. Six teams with around ten auditors would provide for a more productive and effective audit function.

**45. Some tasks undertaken by desk audit staff have low revenue impact.** This includes verification work, e.g. checking sales and purchases, observing the destruction of goods on which VAT would otherwise be payable, follow-up of late filers, processing correspondence from taxpayers and responding to information requests from other Directorates. The GDT should review the range of tasks and determine the extent that some tasks could be stopped, re-engineered or reassigned to more appropriate non-audit staff.

**46. Transfer pricing staff should be centralized into one unit within the LTO.** Transfer pricing units are currently located in headquarters, the LTO and the Tirana Regional Office. In many tax administrations the transfer pricing function is in the LTO where the risk is more likely to arise. This approach is considered more appropriate in the GDT as it will consolidate expertise, provide for economies of scale and more effective management of the transfer pricing function. Planning is underway to consolidate the three units to achieve the necessary critical mass to develop the required knowledge and skills. The initial focus should be on building a transfer pricing program including: (1) assessing transfer pricing risks; (2) determining specific information requirements to identify related party transactions; (3) identifying a small number of transfer pricing audits; and (4) identifying capacity building opportunities.

### **LTO Skilling Programs**

**47. A more strategic approach to assessing the LTO's learning and development needs is necessary.** Currently training needs are assessed through an annual process and training is provided mainly through the customs and tax academy. However, the LTO indicated that to a large extent training was of a general nature and not at the advanced and specialist level needed e.g. complex law interpretation. The complexity of tax laws and business operating structures including entities with international business dealings and transactions requires a highly skilled and qualified workforce. The GDT should review its current approach to learning and development to ensure that it is effectively building a specialized workforce with high levels of expertise.

### **High Net Wealth Individuals**

**48. Over time the GDT needs to increase its focus on the risks posed by high net wealth individuals (HNWI).** HNWI present a significant challenge to tax administrations primarily due

to the complexity of their affairs, the potential for aggressive tax planning and the resulting impact on the community's view of the integrity of the tax system. The experience in many tax administrations is that by focusing dedicated resources on the HNWI segment, significant improvements in compliance can be achieved.

**49. Consideration should be given to improving the compliance management of the HNWI segment as a medium-term strategy.** The GDT does not currently have the necessary skills to identify the tax risks in complex structures and arrangements. The current priority is to strengthen the LTO and address taxpayer non-compliance and reduce the tax gap. Considerable effort is still needed to strengthen risk identification processes and build audit capability and expertise. Once improvements have been made in these areas, developing a strategy to improve the compliance management of HNWI should be included in the reform program. An IMF Technical Note provides guidance on developing a HNWI strategy.<sup>10</sup>

## C. Recommendations

- Revise the large taxpayer criteria to ensure that all of the largest taxpayers are managed by the LTO.
- Establish a risk management unit in the LTO to support implementation of the risk differentiation framework, including tax revenue analysis and taxpayer profiling.
- Review the range of tasks undertaken by LTO Desk Audit and determine more appropriate organization arrangements for non-audit work.
- Finalize the arrangements to consolidate the three existing transfer pricing teams into a single unit within the LTO.

# IV. STRENGTHENING COMPLIANCE RISK MANAGEMENT

## A. Recent Developments

**50. The GDT has made some progress in implementing the CRM approach.** The appointment of a Director for the RMD and the filling of several long-term vacancies in that department have resulted in IMF advice finding more traction over the past year. This has resulted in some commendable efforts focusing on the compilation of a basic risk register, taking a more structured review of the risk rules, encouraging research from a local university into

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<sup>10</sup> IMF guidance note: <https://www.imf.org/~media/Files/Publications/TNM/2017/tnm1707.ashx>

taxpayer attitudes towards compliance, improving the results from risk-based audits and increasing the ability to assign relative risk scores to different sectors.

**51. The structured process applied in the tourism campaign has yielded encouraging results.** The use of a phased approach using a variety of channels and tools, including sending targeted letters to selected taxpayers, broadly follows IMF advice given in 2016 and 2017. Highlights of the impact of the tourism compliance campaign are included in Box 2.

#### **Box 2. Highlights of Tourism Compliance Improvement Campaign**

- **Taxpayer Service:** distribution of 3,090 leaflets; 12 meetings with tourist guides; contact made with 3,886 taxpayers; personalized letters sent to 1,841 taxpayers encouraging them to review the accuracy of their tax returns; and 1,615 taxpayers contacted by the Call Center.
- **Tax Audits:** 1,500 audits done by RTO's; a 13 percent increase in the number of employees declared; a 12 percent increase in VAT turnover declared; and a 13 percent increase in VAT payable.
- **Enforced Collection:** 229 taxpayers contacted, securing ALL 47 million in payments.
- **Field Inspections:** 9,486 visits resulted in ALL 127 million in penalties being imposed, 452 undeclared employees found, and 296 unregistered taxpayers detected.
- **Fiscal cash register checks:** a 10.9 percent increase in turnover over the previous year, and a 10 percent increase in the number of cash receipts issued over the previous year.

## **B. Areas Needing Improvement**

### **Range of Available Data**

**52. The GDT needs automated access to a much broader range of third-party data, including bank account information.** While access to (and analysis of) Customs data is showing encouraging progress, other third-party data sources are still largely accessed on an *ad hoc* basis, and large-scale automated cross-checking is not possible to assess potential risks and significant mismatches. Automatic access to some key data sources, such as bank and other financial information, will require legislative change. International experience shows that automatic reporting of bank information is particularly important in targeting tax evasion.

**53. Data from the new fiscalization<sup>11</sup> and e-invoicing system needs to be carefully managed.** A much-needed data warehouse is envisaged as part of the fiscalization initiative. Unless carefully managed as part of a central case selection and allocation system, there is a risk that large volumes of data from the fiscal register regime could result in the GDT focusing too much of its efforts on simpler cases of under-declaration, at the expense of more sophisticated tax evasion schemes with more revenue at risk.

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<sup>11</sup> The term "fiscalization" is used to describe a wide range of technological devices that revenue administrations use to monitor fiscal transactions (business to consumer and/or business to business transactions).

## Role of the RMD

**54. It is critical that the broader role of the RMD be understood.** The current functions of managing the risk model and selecting audit cases should continue. However, the major focus in the future would be to:

- Undertake environmental scans globally and domestically to identify emerging risks.
- Conduct more specific risk analysis to identify major risk clusters and quantify the revenue at stake.
- Identify the broader systemic causes of taxpayer non-compliance.
- Support the Compliance Management Committee in prioritizing risks to be mitigated.
- Develop compliance strategies to mitigate sectoral and other prioritized risks.
- Support the Compliance Management Committee in developing multi-year comprehensive compliance programs.
- Establish baseline measures and assess impact of compliance interventions.
- Identify opportunities for reducing the compliance burden for taxpayers.

Given the above, it is necessary to review the current RMD organization structure, work processes, technical infrastructure (e.g. data warehouse and analytical tools), and resource allocation and skills.

## Case Selection

**55. Case selection and allocation needs to be strengthened to ensure that areas of highest risk are targeted.** To achieve this requires:

- Reviewing, updating, and enhancing risk rules based on audit activity outcome and risk analysis undertaken using a wider range of data sources and analytical tools.
- Seeking opportunities for rationalizing and coordinating the analytical work that is currently being conducted across the various GDT organizational units (e.g. investigations department and VAT refunds team).

- Increasing the number of operational activities that are selected centrally.<sup>12 13</sup>

**56. The risk rules and case selection system are not appropriate for large taxpayers due to the more complex risk factors in such cases.** The current risk rules are more appropriate for taxpayers in the small and medium segments. While the data in the risk model should be available to the LTO, the identification of compliance risks is more complex, and analysis needs to consider other information available in the LTO. Therefore, it should be the LTO that oversees case selection for this segment. This issue is dealt with more fully in Section III.

## C. Recommendations

- Broaden the access to and use of third-party data, including automatic reporting of bank data—and procure a data-warehouse and analytical tools.
- Develop a data management strategy that optimizes the use of data from all sources, including data from the e-fiscalization system.
- Review the current RMD organizational structure, including the division of work between organizational units, to support changes to business processes and the introduction of data warehouse and analytical tools capability.
- Enhance the CRM work program to progress the development of a multiyear compliance improvement plan.

# V. IMPROVING REGISTRATION AND TAXPAYER SERVICES

## A. Tax Register Accuracy

**57. Good progress has been made during the past year to improve register accuracy and to streamline interactions with NBC.** The main advances were the validation and updating of economic activity (NACE<sup>14</sup>) codes for all Albanian businesses, in cooperation with INSTAT, and a new protocol with the NBC, which expanded the scope of cooperation and information exchange between the two agencies. A summary of the main developments is in Box 3.

<sup>12</sup> So far in 2018, the RMD selected 876 audit cases and the RTOs 786 cases. The RMD has had little influence on case selection for investigation and field inspection.

<sup>13</sup> Most contemporary tax administrations select all audit cases centrally except for large taxpayer cases, which are usually selected by the LTO – see also the TADAT Field Guide (POA 6-16).

<sup>14</sup> NACE (European Classification of Economic Activities) is the European reference framework for the production and dissemination of statistics related to economic activities. The current standard is called NACE Rev. 2.

### Box 3. Summary of the Main Register Accuracy Developments

- In cooperation with INSTAT and the NBC, economic activity codes have been validated and updated for all businesses to conform with the NACE Rev. 2 standard.
- A new GDT/NBC protocol was agreed in 2017 (to supplement an earlier electronic exchange agreement), which expanded the scope of cooperation and automation of procedures between the two agencies.
- Arrangements for reclassifying cases from active to passive (and vice versa) in the GDT and NBC registers have been streamlined and automated.
- Safeguards have been put in place to prevent deregistration where tax is unpaid and to stop multiple registrations by the same person for simplified profits tax.
- GDT staff in the service and control areas have received training on establishing correct economic codes.
- Where the GDT, through field activity, finds that an economic activity does not correspond with NACE code on the register, the update is notified electronically to the NBC and the code is changed on both registers.
- The GDT now has regular publicity campaigns encouraging taxpayers to update (through an online facility) their contact details on the GDT register.

**58. Notwithstanding these improvements, constraints on the GDT's legal authority to make register changes are still problematic.** While progress has been made on updating NACE codes on the register—where these are found by the GDT to be incorrect—no other substantive change to the NBC register can be made without the explicit request of the taxpayer. However, the reality is that taxpayers cannot be relied upon to notify register changes to the NBC (e.g., changes to a secondary business address). While there are penalties for non-notification, it appears that sanctions for non-compliance are generally not enforced by the NBC.<sup>15</sup> The GDT should have authority to update the register where there is clear evidence from field inspector reports that register data is inaccurate.

**59. The accuracy of the taxpayer register should be tested (in cooperation with the NBC), including the accuracy of the passive register.** The impact of the new cooperation and information exchange arrangements with the NBC needs to be tested to provide assurance that the new arrangements are having the desired effect of improving register accuracy. It is particularly important to test the accuracy of the passive register. A case is automatically flagged as passive if no declaration is filed for 12 consecutive months. While the list of passive cases is published on the website—and there are significant consequences for trading by or with a passive taxpayer—some cases flagged on the system as passive are likely to be still carrying on an economic activity.

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<sup>15</sup> See also the 2016 OECD's Global Forum Peer Review (Phase 2) Report on Albania's compliance with the international standard on exchange of information for tax purposes. This report noted that sanctions (for non-compliance with register change requirements) were apparently not enforced in practice by the NBC.

## B. Recent Expansion of the Value-Added Tax Register

**60. The GDT faced a major challenge in 2018 in managing a big expansion of the VAT register following a reduction in the registration threshold.** A large reduction in the annual turnover threshold for VAT registration—from ALL 5 million to ALL 2 million—brought some 13,000 small businesses into the VAT system for the first time in April 2018. This represented an increase of almost one-third in the VAT register.

**61. GDT approached this challenge in a highly organized and professional manner.** Starting in 2017, the GDT developed a clear strategy for targeting communication to this group of taxpayers and developing a simplified declaration for reporting on a quarterly basis. A highly coordinated campaign included meetings with accountants and business associations, dedicated small business “windows” in regional offices, media (including social media) awareness, and an ongoing taxpayer assistance program.<sup>16</sup>

**62. GDT’s efforts resulted in a smooth transition into the VAT system for this group of small businesses, with high filing compliance rates.** Of the 13,000 or so small businesses coming into the VAT register for the first time in April 2018, 96 percent have filed their VAT declarations on time, without penalty.

**63. This expansion of the VAT register will have an ongoing negative impact on the GDT’s workload—and compliance costs for small businesses—without significant revenue yield.** GDT is to be commended on successfully transitioning 13,000 micro-businesses into the VAT system in 2018. Managing this cohort of taxpayers on an ongoing basis places an added burden on the GDT with little return in terms of revenue yield. It also puts additional costs on smaller businesses and is unlikely to have any material impact on reducing the tax gap.

## C. Taxpayer Services

**64. The GDT is committed to taxpayer service as a key element of CRM, but there is a need for an overarching strategy and better governance in this area.** The GDT has made significant advances in improving taxpayer services, most notably in moving to predominantly “paperless” interaction with taxpayers, including the recent expansion of e-payment facilities and electronic tax certificates through the e-Albania portal<sup>17</sup> and the development of initiatives such as live chat facilities in the call center. The GDT also scores highly on “mystery shopper” surveys of the quality of services provided by public service agencies in Albania.<sup>18</sup> While these advances

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<sup>16</sup> For example, during October 2018, GDT provided 350 small businesses with assistance to fill in sales and purchases books and complete the VAT declaration.

<sup>17</sup> As a result of the e-Albania initiative, the number of manual certificates issued by the GDT in 2017 was 245,000 less than in 2016.

<sup>18</sup> The GDT has regularly been ranked in the top two public agencies for quality service (by the research agency IDRA) in recent years.

are commendable, there needs to be an overarching vision of the future of taxpayer services (including a strategy on contact channels and how services can support compliance risk management with tailored products). There is also a need for clearer governance arrangements in this area to ensure coordinated action to achieve that vision. At present, the overall taxpayer service strategy appears to be governed by the Reform Management Committee, which meets only infrequently.

**65. There should be more regular and structured interaction with users of GDT services (including key intermediaries) to improve product and process design.** Modern tax administrations have recognized the benefits of regular engagement with service users to better design and simplify products and processes; such engagement also fosters greater trust in the tax administration.<sup>19</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 (Albania still compares unfavorably with neighbors Former Yugoslav Republic of Macedonia and Kosovo in terms of taxpayer time needed to comply with tax obligations).<sup>20</sup> 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 and simplify tax administration.<sup>21</sup>

**66. The range and depth of published technical interpretive guidance is limited and needs to be expanded.** While there is good range of guidance material on the GDT website on general tax obligations, guidance on more complex technical issues is limited. Since 2017, the GDT publishes on its website a twice-yearly bulletin outlining technical decisions made on its own initiative and those made in response to requests from taxpayers. A similar bulletin is published giving the outcome of judicial decisions on tax appeals. These are welcome developments (which were mandated by a 2016 law change) and help to ensure that all taxpayers are aware of GDT interpretations and court decisions. However, a wider and deeper range of published technical interpretation guidance material would be expected having regard to the level of complex technical issues likely to arise (e.g., on the major changes to the VAT code following realignment with the EU VAT Directive). The scarcity of such published technical guidance was highlighted at a meeting between the mission and accountancy body

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<sup>19</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>20</sup> See “Paying Taxes 2019”, PWC/World Bank. This shows that it takes 255 hours to comply with CIT, Labor and Consumption taxes in Albania, compared with 119 hours in Macedonia FYR and 154 hours in Kosovo.

<sup>21</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.



representatives. As well as expanding the range of technical guidance, the website could be redesigned to make it easier to search for these interpretations.

## D. Recommendations

- Propose a legislative change that allows the GDT to update the register where there is clear evidence from field reports that register data is inaccurate.
- Develop a program to test the accuracy of the taxpayer register, in cooperation with the NBC, including the accuracy of the passive register.
- Develop a taxpayer service strategy and put in place clear governance arrangements to steer its coordinated implementation.
- Engage and involve taxpayers and tax intermediaries in tax products and process design with a view to simplifying compliance and reducing costs.
- Expand the range of published technical interpretive guidance.

# VI. IMPROVING TAX ARREARS COLLECTION

## A. Background and Recent Developments

**67. The GDT has embarked on a range of initiatives to strengthen the tax arrears collection function.** The 2016 TADAT assessment highlighted that the stock of arrears was high and trending upwards and comprised a significant proportion of aged debt. Since then, the improvement agenda pursued by the GDT includes strengthening the legislative framework, improving business processes, enhancing data analysis and more focused management of the arrears collection function.

**68. The stock of tax arrears has trended downwards since 2016.** The total tax arrears were ALL 107.3 billion at 31 October 2018 compared to ALL 111.5 billion at end of October 2017(see Table 4). Of the total stock of arrears ALL15.5 billion is subject to dispute. A large percentage of debt (approximately 56 percent) is overdue by more than 2 years. The reduction in debt can be attributed to: (1) the write off strategy for 2010 and earlier debt (write-off amnesty); (2) the waiver of penalties and interest for 2010-14 debt (provided the primary tax was paid); (3) the use of the call center as an early intervention strategy; and (4) stronger management of the arrears collection function.

**Table 4. Tax Debt, 2015–18**

(Amounts are in ALL millions)

Debt type	2015	2016	2017 (Oct)	2018 (Oct)
Total stock of tax debt (GDT)	100,373	147,068	111,509*	107,286#
Age of tax debt				
• Total debt (less than one-year overdue)	31,717	35,020	22,671	30,625
• Total aged debt (more than one-year overdue)	68,656	112,048	97,383	76,679

Source: GDT.

The figures include overdue interest and fines except for 2015.

\* Stock of debt was ALL 95.505 billion at end 2017.

# Includes ALL 15.5 billion in disputed debt.

**69. Several reform initiatives to improve the arrears collection function are progressing, including:**

- Legislative changes have been endorsed by the MOFE and are expected to be approved as part of the 2019 proposed fiscal package. The changes include: (1) enabling instalment agreements for VAT, PIT, social and health contributions; (2) eliminating the requirements for paper notifications as well as electronic communication with taxpayers and banks; (3) provision to write off uncollectable debts; and (4) allowing excess VAT credits to be offset against other tax types.
- An instalment management functionality has been incorporated in the IT system in November 2018; and training of staff is now underway.
- A strategy is being implemented to follow up taxpayers who failed to take the opportunity provided by the amnesty law to clean up outstanding arrears. The strategy includes writing to taxpayers, contact by the Call Center, and tax investigation.
- Improved operational processes have been adopted including the development of an arrears collection manual in March 2018.
- Training of regional office staff in collection procedures and improved analysis of the debt inventory to better inform the setting of arrears collection priorities.

## B. Areas Needing Improvement

### Writing-off Uncollectable Tax Arrears

**70. A significant proportion of tax arrears are not collectable.**<sup>22</sup> As shown in Table 5, 56 percent of the tax arrears relates to inactive taxpayers.

**Table 5. Active and Inactive Taxpayers with Arrears—end-October 2018**

Activity status	Number of taxpayers	Tax arrears	Percent of total arrears
		ALL Billions	
Active	51,278	47.5	44
Inactive	85,985	59.8	56
<b>Total</b>	<b>137,263</b>	<b>107.3</b>	<b>100</b>

**71. A write-off strategy is needed.** The draft legislative changes include new provisions to write off tax arrears declared uncollectable. Taking steps to write-off uncollectable arrears will give the GDT a much clearer picture of its collectable arrears. Good international practice is for write-off to be an ongoing action once all reasonable steps to collect the arrears are taken. Key features of a write-off regime are set out in Appendix III.

### Stronger Enforcement Measures

**72. The GDT currently uses a narrow range of arrears collection treatments.** Good use is made of the outbound call facility as an early intervention measure to minimize tax arrears; instalment arrangements (although currently limited) are in place for taxpayers who want to clean up their outstanding arrears; and garnishee action is taken to recover money from taxpayers' bank accounts. However, action beyond these interventions is limited. The GDT needs to send a clear signal that where taxpayers do not engage, the severity of the GDT's action will increase progressively.

**73. The GDT needs to use the full suite of the available tax arrears collection strategies.** Tax administrations develop a suite of arrears management strategies that can be tailored to individual taxpayer circumstances. These range from early intervention which recognizes that the more aged tax arrears become, the more difficult and expensive it is to collect through to firmer and stronger action against taxpayers who make no effort to manage their tax arrears. Typical arrears collection strategies are listed in Box 4.

<sup>22</sup> Collectable tax arrears generally exclude: (a) amounts formally disputed by the taxpayer for which collection actions have been suspended pending the outcome, (b) amounts that are not legally recoverable (e.g. through bankruptcy), and (c) arrears otherwise uncollectable (e.g. the debtor has no funds or other assets).

#### Box 4. Typical Arrears Collection Measures

- Outbound call center/reminder letters/text messages.
- Payment by instalment/flexible payment arrangements.
- Garnishee notices from third parties.
- Withhold government payments to debtors.
- Guarantees/securities.
- Freezing orders/close business/cancel license.
- Tax clearance for the granting of government contracts.
- Imposing penalties on company directors.
- Offsetting credits with debits.
- Liens over assets/Seizure of assets.
- Debt write-off.
- Insolvency/bankruptcy action.

**74. Legal enforcement tools should be used.** These include seizure of assets and using legal processes such as bankruptcy and wind up proceedings. As a next step the GDT should include the establishment of a firmer action unit within the pilot to consolidate the arrears management function described below. This will provide the opportunity to: (1) develop a more strategic approach to firmer action; (2) draft procedures for using legal enforcement tools; and (3) develop expertise.

#### Consolidation into a Smaller Number of Organizational Units

**75. Opportunities exist to improve the efficiency of the arrears function through the consolidation of tax collection sections into a smaller number of organizational units.** This has become common in many tax administrations to increase efficiency as the approach consolidates expertise and knowledge, facilitates consistency, strengthens workload management and delivers economies of scale.

**76. The GDT is considering steps to pilot the consolidation of arrears management.** Technical assistance was provided during 2018 to assist the GDT commence the process to consolidate arrears collection into a smaller number of sites.<sup>23</sup> Since then the GDT has continued to work through the range of implementation issues that need to be addressed and has now requested IMF technical assistance to develop the detailed design for the pilot to commence in the first half of 2019.

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<sup>23</sup> FAD Technical Assistance Report Albania: Improving Tax Arrears Collection, Pat Molan, August 2018.

**77. The consolidation of the arrears function is a major transformational reform initiative.** The Reform Management Committee should provide high-level oversight of the reform initiative and resolve any emerging barriers to commencing the pilot. Particularly, the Committee should approve the pilot design and monitor progress against the overall reform objectives. The consolidation is more than just relocating staff and their work to a new location. The pilot, in addition to introducing new organizational arrangements, should also take the opportunity to develop and introduce improved operational and collection processes that modernize the collection function, eliminate non-value add tasks and increase productivity. Box 5 sets how the design issues that will need to be considered.

#### **Box 5. Design Tasks for a Pilot to Consolidate Tax Arrears Collection**

- Develop the detailed implementation plan.
- Identify project risks and mitigation strategies.
- Determine the full range of functions to be consolidated.
- Determine the workload for the consolidated site including active/inactive taxpayers; tax arrears inventory; age of tax arrears.
- Develop organizational structures for routine and specialized collection work (e.g. insolvency, phoenix case management, debt write-off).
- Decide staffing numbers and team structures.
- Determine any necessary IT changes.
- Address accommodation and equipment requirements.
- Revise the standard operating procedures (Enforcement manual) where necessary.
- Develop the reporting format.
- Resolve workforce planning issues e.g. selection of staff for the consolidated site and staff placement of arrears staff who do not transfer to the consolidated site.
- Identify any immediate skilling needs.
- Change management processes to help staff understand and embrace the organizational change.
- Decide the implementation phases.
- Develop success indicators.

#### **Phoenix Activity**

**78. “Phoenix activity” is emerging as a material risk.** “Phoenix activity” describes the scenario where a new company is created to continue the business of a company that has been deliberately liquidated to avoid paying its debts including tax. Phoenix activity can result in the loss of significant government revenue if left unchecked. Legislative improvements have been made by government in relation to business deregistration which now requires taxpayers to file all outstanding tax returns and pay arrears before deregistration occurs.

**79. The GDT should take additional steps to address phoenix activity.** This could include working with other government agencies, e.g., the NBC to assess the extent of the risk and to consider techniques to detect and address the risk presented by phoenix activity. In addition, the GDT should look at good practices adopted by other tax administrations including legislative responses and promoting a cross government agency approach.<sup>24</sup>

## C. Recommendations

- Develop a strategy to write-off uncollectable tax arrears.
- Appoint the project manager of the consolidated tax arrears pilot and progress the work to develop the detailed design.

# VII. IMPROVING AUDIT

## A. Current Situation and Issues

**80. There are some positive developments in the audit function; however, further capacity building is necessary.** A new comprehensive desk audit manual has been developed, which will help to standardize operations and provide more appropriate case allocation based on auditor experience and skills. More attention is now paid to whether audit selections are producing material audit results in terms of additional tax assessed. Except for desk audits in the RTO's, all audits have shown an improvement in strike rates,<sup>25</sup> and the average value of audit assessments has increased across most categories (see Table 6). However, the continued focus on building audit capability should remain a priority.

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<sup>24</sup> By way of example the Australian Taxation Office is a member of a Phoenix Taskforce comprising 33 Federal and State government agencies to combat illegal phoenix activity. The Taskforce has developed sophisticated data matching tools to identify, manage and monitor suspected illegal phoenix activity.

<sup>25</sup> A strike rate is the percentage of audit cases completed that resulted in additional tax assessed.

**Table 6. Audit Performance for Regional Offices, 2017–18**

(Amounts are in ALL millions)

Organizational Units and audit types	2017					2018 (end-October)				
	Total number of audits	Audits with results above ALL 50,000		Money value of assessments		Total number of audits	Audits with results above ALL 50,000		Money value of assessments	
		No	%	Total	Average		No	%	Total	Average
Desk audit	14,265	2,996	21	5,423	0.38	7,864	1,337	17	2,253	0.29
VAT refund audit	534	278	52	326	0.61	586	369	63	959	1.64
Comprehensive audit	1,124	888	79	6,552	5.83	829	688	83	2,866	3.46
Single issue audit	750	383	51	640	0.85	655	354	54	1,009	1.54

**81. Only a very small percentage of audit assessments are collected.** GDT managers estimate that only about 20 percent of audit assessments are paid. With the low payment rate for both audit assessments and penalties, the effective compliance impact of audit (in deterring taxpayers inclined to under-report tax liabilities) is diminished. More analysis is required to understand the reasons for the low collection rates to assist in developing appropriate responses.

**82. Desk audit functions include a range of tasks of which many are not audit related.** These include following up on taxpayers who have not submitted returns, pursuing collection of new debts, helping taxpayers to make corrections to earlier returns, conducting “other validations” like verifying taxpayers’ financial statements, and responding to taxpayer queries. Information from one of the regional offices suggests that only about 35 percent of desk audit tasks are audit related. In 2018, desk audits resulted in an average yield per intervention of ALL 0.29 million.

**83. Further analysis of the role and performance of desk audit is needed.** This analysis should: (1) identify those tasks that should be eliminated, automated, or assigned to more appropriate areas, and (2) understand the factors contributing to the low revenue results.

## **B. Recommendations**

- Undertake analysis to understand the reasons for the low collection rates on audit assessments and develop appropriate responses.
- Undertake analysis of the role and performance of desk audit function to improve audit outcomes and eliminate low value work.

## VIII. GETTING TAXPAYER APPEALS RIGHT

### A. Organizational Placement of the Appeals Function

**84. Contrary to international good practice, first-level tax appeals are not reviewed within the GDT—this function was transferred to MOFE in 2017.** International good practice places emphasis on resolving tax disputes at the earliest possible stage by an independent (i.e. separate from the audit function) reviewer within the tax administration. This allows for mistakes and over-aggressive assessments or penalty notices to be quickly rectified at the least cost to the taxpayer and immediately flags for the tax administration any deficiencies in interpretation guidance or operational procedures. Since 2017, the GDT no longer independently reviews taxpayer appeals; all such administrative reviews are now dealt with by either the Tax Appeals Directorate of MOFE or, where larger amounts are involved, by a Tax Appeals Review Committee, which is also under the MOFE.<sup>26</sup>

**85. The MOFE should not be involved in deciding tax outcomes for individual taxpayers.** The transfer of the appeal function to the MOFE was apparently motivated by the desire to have a more “arm’s length” review of first-level tax appeals. However, involving the MOFE in deciding tax consequences for individual taxpayers is inappropriate. It not only undermines the operational independence of the GDT in interpreting tax law as applied to particular facts, it may also create a perception that the tax appeal process is not sufficiently insulated from political interference. A recent media article about a VAT refund appeal dismissed by one of the MOFE tax appeals bodies, which contained a suggestion of politically motivated reasons for dismissing the appeal, illustrates the perception of risks in this area.<sup>27</sup>

**86. The new arrangements have not increased the ratio of decisions in the taxpayer’s favor.** The mission was advised that the percentage of taxpayer appeals upheld following the transfer to the MOFE is broadly in line with appeal decision outcomes when first-level administrative reviews were carried out in GDT prior to 2017.<sup>28</sup>

**87. There is insufficient transparency around the MOFE tax appeal decisions and activity.** While the Tax Procedure Law allows for publication of anonymized administrative appeal outcomes,<sup>29</sup> only a small number of appeal decisions have appeared on the MOFE

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<sup>26</sup> The Tax Appeals Directorate of MOFE (comprising the Director and 11 appeals inspectors) deals with appeals where the tax in dispute is less than ALL 20 million; appeals over that threshold are decided by a 7-member Tax Appeals Review Committee appointed by the Minister of Finance (comprising 3 members from MOFE, 2 from the GDT, a representative of the State Advocacy and the Director of the Tax Appeals Department).

<sup>27</sup> Tirana Times article dated November 5, 2018 <http://www.tiranatimes.com/?p=139161>.

<sup>28</sup> Excluding a significant number of appeals involving a single issue (i.e. penalties for transactions with “passive” taxpayers) – all of which were recently upheld by the Tax Appeals Directorate.

<sup>29</sup> Article 109 of the Law on Tax Procedure.



website. No regular anonymized appeal outcome or statistical reports are published on the activities of the Tax Appeals Directorate and the Tax Appeals Review Committee.

## B. Procedural Fairness and Timeliness

**88. There is a high level of appeal refusals (without review), reflecting strict pre-conditions for exercising appeal rights and rigid application of those conditions.** During the period January–October 2018, one-quarter of all appeals dealt with by the Tax Appeals Directorate (and 40 percent of those completed by the Tax Appeals Review Committee) were refused without being considered further—because of an inability to meet the conditions for a valid appeal. These refusals mostly related to failure to pay the tax in dispute (or to provide a guarantee for that amount) or failure to lodge the appeal within the 30-day time limit, which is strictly adhered to.<sup>30</sup> As highlighted in previous reports, the absolute pre-condition for full upfront tax payment or guarantee is unduly harsh—there should be some possibility to allow the appeal to be admitted upon part-payment or deferral on genuine economic grounds. A recent law change proposal to exclude interest from the payment requirement is welcome but there is still too much rigidity in the tax payment pre-condition, which can result in procedural unfairness in some cases. Also, provision should be made for extension of the 30-day time limit where the failure to lodge the appeal on time is due to illness or other genuine reason outside of the taxpayer’s control.

**89. The timeliness of first-level appeal resolution still falls well short of international good practice.** As shown in Table 7, the percentage of administrative reviews completed within the 60-day statutory deadline has improved compared to 2015. However, while all cases are finalized within 90 days, the timeliness of review completions is still inadequate having regard to the TADAT standard.<sup>31</sup> Given that only 30 percent of appeals relate to tax audit assessments, there may be possibilities to streamline processes in the Tax Appeals Directorate for finalizing the remainder, which mainly involve low-value penalty appeals.

**Table 7. Comparison on Time Taken to Finalize Administrative Reviews**

(In percent of total cases finalized)

Period	Within 30 days	Within 60 days	Within 90 days
2015	4	31	65
2018 (10 months)	5	54	41

Source: GDT.

<sup>30</sup> During the period January–October 2018, the Tax Appeals Directorate completed 3,406 administrative reviews, of which 854 were refused because they did not meet the pre-conditions for a valid appeal. During the same period, the Tax Appeals Review Committee received 40 appeals of which 16 were refused.

<sup>31</sup> Under the TADAT scoring methodology, a ‘D’ rating applies unless the administrative review stage is completed for at least 90 percent of cases within the lower of 90 days or the statutory deadline.

## C. Recommendations

- Transfer the MOFE's taxpayer appeal function back to the GDT.
- Improve transparency by publishing anonymized summaries of administrative appeal outcomes, statistics relating to appeals and outcomes.
- Improve procedural fairness by allowing, for genuine cases in exceptional circumstances, some flexibility to the tax payment/guarantee and appeal time limit pre-conditions.
- Reduce the time taken to finalize appeals and review procedures for dealing with low-value penalty appeals.

# IX. TIMELY PAYMENT OF VALUE-ADDED TAX REFUNDS

## A. Current Situation and Issues

**90. The authorities are far behind with payment of legitimate VAT refunds due to taxpayers.** This is not a new situation; numerous IMF missions since December 2000 have commented on this reoccurring problem and have provided mitigation advice. However, reimbursement delays are no longer due to tax administration technical difficulties—they relate to overoptimistic forecasting of Government revenues. Throughout the years, when revenue falls short of forecasts, budget gaps have been fully or partially financed through “loans” from taxpayers by delaying the payments of their legitimate VAT refunds. Table 8 shows that at end-October 2018, VAT refund arrears constituted ALL 14.4 billion. This is an ALL 3.1 billion increase from end-September 2018.

**91. The integrity and credibility of the VAT system requires that legitimate VAT credits due be quickly refunded.** There is recognition that just as the tax authorities require the taxpayer to pay the right tax at the right time, so do the tax authorities have a corresponding obligation not to retain refunds to which the taxpayer is legally entitled. The GDT's inability to honor its payment responsibilities towards its taxpayer population—because of revenue forecasting deficiencies—may have an adverse impact on taxpayers' trust in the administration of the tax system and can influence non-compliance behavior. Box 6 outlines key good practices in VAT refund management.

**Table 8. Value-Added Tax Refund Situation at End-October 2018**

(Amounts in ALL 000)

Businesses	Stock of VAT refund claims in payment arrears			Stock of VAT refund claims not in payment arrears		
	Number of cases	Number of taxpayers	Amount	Number of cases	Number of taxpayers	Amount
Pipeline	4	1	7,389,980	1	1	1,067,080
Hydro power	1	1	2,257,442			
Oil exploration	2	1	417,617			
Exporters	240	197	3,755,830	92	87	1,157,436
Other businesses	46	46	627,339	20	20	428,918
<b>Total</b>	<b>293</b>	<b>246</b>	<b>14,439,208</b>	<b>113</b>	<b>108</b>	<b>2,653,434</b>

Source: Authorities and IMF staff calculations.

**92. Clearing the current stock of VAT refund arrears—in parallel to honoring new refund claims—requires Government revenue forecasts that are much more accurate.** It may take a long time before all VAT refund arrears are cleared. The GDT has entered into installment agreements with the three largest debtors shown in Table 8. Other debtors (exporters and other businesses) are paid in the sequence in which their VAT requests are approved—and when the budget situation makes payment possible. To limit further build-up of VAT arrears, the authorities have decided to apply a zero VAT rate to imports and domestic supplies of goods and services to the above-mentioned three large debtors from January 1, 2019. While this initiative may reduce the further build-up of VAT refund arrears, it may also introduce some complex taxpayer compliance risks in the domestic supply chain to these three businesses, particularly if the suppliers also trade with other businesses. What the “reverse charge-type” arrangement will not solve is the deficiencies in the forecasting of net tax revenues, which (combined with wider weaknesses in cash management and budgetary controls) for many years have been the causes of the continuous VAT refund problem. Thus, it is essential to improve considerably in this area.

**93. The statutory requirement to carry forward VAT credits should be removed.**

Currently, taxpayers (except for certain exporters) cannot claim VAT refunds, unless the refund claimed exceeds ALL 400,000 and the taxpayer has carried forward a tax credit for three consecutive months. To receive the refund a special refund request is required. Under the law the refund is to be made within 60 days<sup>32</sup> from the submission of the request. Except for the three installment arrangements, the current payment delay is about 4–6 month according to GDT personnel. In contemporary tax administrations, each VAT return represents the final

<sup>32</sup> 30 days for certain exporters.

self-assessed liability for the period. If the return reflects a net debit, the amount is paid by the taxpayer when filing; if the return reflects a net credit amount, it is treated as a refund application by the tax administration and processed in accordance with the risk management framework for VAT refunds (no separate refund request would be required and there would be no carry forward requirement). Any change in this area would need to be implemented on a phased basis to ensure that the cash-flow impact on the budget is manageable.

#### **Box 6. International Good Practices in Value-Added Tax Refund Management**

- Recognizing that refunds are an integral part of the operation of the VAT system, not an extraordinary item.
- Understanding that only the net revenue remaining after refunding excess credits is the real VAT revenue accruing to Government.
- Revenue performance is calculated net of approved VAT refunds and compared to revenue targets on this net basis.
- Subjecting VAT registration applications to proof of identity checks to prevent fictitious traders from entering the VAT system.
- Using purpose-built automated risk assessment software to review all VAT refund claims against risk criteria to distinguish refund claimants with good compliance history from those with poor or unknown compliance histories. High-risk claims are subjected to pre-refund audits or other verification, while lower-risk cases may be subjected to post-refund verification.
- Paying legitimate VAT refunds, or offsetting the credits against other tax liabilities, within the timeframe provided in law (good practices is to pay refunds within 30 calendar days from the date on which a refund claim is made).
- VAT returns showing a credit situation are automatically considered refund requests and taxpayers are not be required to submit a separate refund request.
- Paying interest to taxpayers where legitimate refunds are delayed.

## **B. Recommendations**

- Pay the outstanding stock of VAT claims as quickly as possible.
- MOFE to improve the forecasting of net tax revenue to ensure that funds are available to pay all legitimate VAT refund claims immediately.
- MOFE to seek a legislative amendment to refund credits without any minimum carry forward period and without the requirement for taxpayer to submit a separate refund claim.

## X. CAPACITY BUILDING ASSISTANCE

**94. The technical assistance to be delivered through the EU/SECO program for 2019 has been agreed.** It will continue to focus on strengthening core revenue administration functions particularly focusing on:

- Large Taxpayer Management.
- Consolidation of arrears collection.
- Strengthening compliance risk management.
- Upskilling auditors in the large taxpayer office.

## Appendix 1. Implementation of December 2017 IMF Mission Recommendations

Recommendations	Summary of Current Status
<b>Section II. Intensifying Cooperation Between the GDT and Customs</b>	
<ul style="list-style-type: none"> <li>Defer consideration of integrating any components of the tax and customs administrations prior to EU accession.</li> </ul>	<i>Implemented.</i> Decision on GDT/Customs integration has been deferred indefinitely.
<ul style="list-style-type: none"> <li>Establish closer collaboration arrangements between the GDT and Customs (including the mutual exchange of information, appointment of liaison officers, and establishment of joint risk-based task forces).</li> </ul>	<i>Implemented.</i> A GDT/Customs cooperation agreement has been signed and standard procedures have been approved.
<b>Section III. Improving the Governance of the GDT</b>	
<ul style="list-style-type: none"> <li>Remove MOFE representation from the GDT management committees.</li> </ul>	<i>Implemented.</i> A new Order (02.03. 2018) setting out management committee structures is in place.
<ul style="list-style-type: none"> <li>Improve liaison between the GDT and the MOFE on important issues such as proposals for legislative change.</li> </ul>	<i>Implemented.</i> There is good cooperation between GDT and MOFE on proposals for legislative change.
<ul style="list-style-type: none"> <li>Review the mandates of all management forums and map reporting pathways to peak decision-making bodies – and widely publish the information.</li> </ul>	<i>Implemented.</i> A new Order (02.03. 2018) setting out management committee structures is in place.
<ul style="list-style-type: none"> <li>Clarify the role of the MOFE in interpreting the tax laws.</li> </ul>	<i>Ongoing.</i> While GDT has exclusive competence on interpreting tax law relating to an individual taxpayer, MOFE retains an interpretation role on how the law is to be applied in certain circumstances. Where the line is to be drawn between these respective roles is not always clear.
<b>Section IV. Consolidating Tax Administration Structures and Operations</b>	
<ul style="list-style-type: none"> <li>Consolidate the arrears collection function into a fewer offices (guide: no more than four offices).</li> </ul>	<i>Ongoing with support of FAD TA.</i> The GDT has carried out significant preparatory work and is well advanced in its thinking on the location and operation of a pilot collection enforcement center. Further TA will be provided early in 2019, with a view to having the pilot operational by mid-2019.
<ul style="list-style-type: none"> <li>Consolidate the three existing transfer pricing units into a single unit within the LTO.</li> </ul>	<i>Ongoing.</i> The GDT has drafted an amendment to the organizational structure to consolidate the transfer pricing units in headquarters, the LTO and

	the Tirana Regional Office into one organizational unit in the LTO.
<ul style="list-style-type: none"> <li>Reintegrate the enforcement units, including the HQ-based taskforce, into the audit structure.</li> </ul>	<i>No progress to date.</i> A broad review of the field work undertaken by the HQ based taskforce and the field work undertaken in RO's field is necessary to assist with designing new organizational arrangements. New design needed to reduce inefficiencies from duplicated activities and optimize risk-based case selection processes that improve future compliance behavior.
<ul style="list-style-type: none"> <li>Consolidate the analysis units of the investigations department into a single unit supporting all four divisions.</li> </ul>	<i>No progress to date.</i>
<ul style="list-style-type: none"> <li>Review the organization and management structures of smaller ROs to identify opportunities for reducing management overheads.</li> </ul>	<i>Ongoing.</i> Initial work done on establishing a consolidated collection function.
<ul style="list-style-type: none"> <li>Provide more flexibility to the DG in making changes to organization structures and internal management forums.</li> </ul>	<i>Ongoing.</i> Draft legal proposals have been developed to give the GDT more autonomy on recruitment.
<ul style="list-style-type: none"> <li>Accelerate the process for recruitment of key persons, in cooperation with the Department of Public Administration.</li> </ul>	<i>Ongoing.</i> The HR Directorate has registered 203 vacancies and progress is being made with the Department of Public Administration to fill these vacancies. The vacant Deputy Director post remains unfilled.
<b>Section V. Information Technology Support to Tax Administration</b>	
<ul style="list-style-type: none"> <li>Establish a Working Group, comprising MOFE, GDT and NAIS, to improve the management and governance of the GDT's IT system.</li> </ul>	<i>Implemented.</i> A joint GDT/NAIS working group has been established to prepare TOR for the new contract.
<ul style="list-style-type: none"> <li>Build a data warehousing capability that is supported by modern analytical tools.</li> </ul>	<i>Ongoing.</i> Funding for a data warehouse has been requested for 2019. Terms of reference are not yet agreed with NAIS for this project.
<ul style="list-style-type: none"> <li>Undertake a feasibility study to decide on how to modernize the fiscal cash register system.</li> </ul>	<i>Contract awarded for new fiscalization project.</i> A market survey (but not a feasibility study) was carried out and the tendering process for a modernized cash register and e-invoicing system has now been finalized. The contract has recently been awarded and will be implemented in phases.

<b>VI. Strategic Compliance Risk Management</b>	
<ul style="list-style-type: none"> <li>• Increase the proportion of compliance improvement effort delivered through projects aimed at lifting compliance across whole industries or other identified taxpayer segments.</li> </ul>	<i>Ongoing.</i> Compliance Committee approved a risk register in April. Following a sector analysis, detailed action plan prepared for tourist sector – with satisfactory results. Continuous sector analysis action plan prepared with FAD TA support.
<ul style="list-style-type: none"> <li>• Test the accuracy of industry codes allocated to taxpayers and engage with other stakeholders to plan and implement a refresh exercise if necessary.</li> </ul>	<i>Implemented.</i> In cooperation with INSTAT and NRC, NACE codes for all businesses have been validated and cases where NACE Rev 2 code was missing have now been updated.
<ul style="list-style-type: none"> <li>• Broaden and automate the GDT's access to internal and third-party data.</li> </ul>	<i>Ongoing.</i> The GDT is consulting with NAIS to initially facilitate access to third party data through the Government information platform. Greater use is being made of Customs data.
<ul style="list-style-type: none"> <li>• Establish a modern data warehouse</li> </ul>	<i>Ongoing.</i> See Section V, second bullet.
<ul style="list-style-type: none"> <li>• Invest on an ongoing basis in raising the RMD's data analysis capability (skilled people and modern analytic tools).</li> </ul>	<i>Ongoing.</i> During 2018, RMD staff received training from INSTAT on use of economic activity codes; from OECD on CRM processes, SME compliance and strategies for tackling informality; as well as TA from FAD on sector analysis and identification of risk groups.
<b>Section VII. Taxpayer Services and Registration</b>	
<ul style="list-style-type: none"> <li>• Implement a program to test the accuracy of the taxpayer register – following the first year of the revised cooperation agreement between the GDT and the NRC.</li> </ul>	<i>Ongoing.</i> Testing of the GDT/NRC electronic communication protocol is continuing for issues such as automatic reactivation and web service elements. All cases of missing NACE Rev 2 codes have now been updated. Some limited accuracy testing is being done for new registrations and de-registrations. A wider accuracy testing program will be discussed with NRC after new systems requirements under the e-communication protocol have been finalized.
<ul style="list-style-type: none"> <li>• Prioritize the simplification of declaration forms and compliance procedures – with a view to improving Albania's ranking in the PWC/World Bank "Paying Taxes" survey.</li> </ul>	<i>Ongoing.</i> VAT statement for small businesses (ALL 2m to 5m) has been revised and simplified.
<ul style="list-style-type: none"> <li>• Provide greater clarity on the GDT's interpretation of tax laws – by widening and deepening the range of guidance material and catering for the needs of tax advisers.</li> </ul>	<i>Ongoing.</i> A technical decision bulletin is now being published and additional explanatory material has been published on the web.



<b>Section VIII. Large Taxpayer Management</b>	
<ul style="list-style-type: none"> <li>Invest in significant up-skilling programs in both auditing techniques and law interpretation for audit and taxpayer service staff.</li> </ul>	<i>Ongoing.</i> During 2018 LTO staff received training in National Accounting Standards and transfer pricing risk analysis, documentation requirements and reporting obligations.
<ul style="list-style-type: none"> <li>Conduct specific risk profiling for all LTO taxpayers.</li> </ul>	<i>Ongoing.</i> LTO undertakes data analysis using available information to assess risk based on tax revenue changes and industry trends. Technical assistance is being provided to introduce the risk differentiation framework.
<ul style="list-style-type: none"> <li>Reduce the size of the LTO field audit teams and increase specialization within each team.</li> </ul>	<i>Ongoing.</i> Consideration is being given to the appropriate level of sector specializations and changes to reduce the size of the audit teams to provide for a more effective supervisor to auditor ratio.
<ul style="list-style-type: none"> <li>Increase the number of staff in the taxpayer service, debt management, and desk audit units of the LTO.</li> </ul>	<i>Ongoing.</i> This recommendation will be reconsidered taking account of the outcomes from the technical assistance visit on the risk differentiation framework and the recommendations from this mission relating to arrears management and desk audit.
<b>Section IX. Tax Audit</b>	
<ul style="list-style-type: none"> <li>Invest in significant up-skilling programs in both auditing techniques, commercial awareness, and law interpretation.</li> </ul>	<i>Ongoing.</i> Training provided in National Accounting Standards as well as specialist training of a small number in Transfer Pricing and Digital Economy taxation. This upskilling is still very limited and narrow, and additional up-skilling programs will be required.
<ul style="list-style-type: none"> <li>Automate desk audit activities and redeploy staff to higher value-add work.</li> </ul>	<i>Ongoing.</i> The Audit Manual has been updated to focus on size and risk rather than time intervals since last audit. The more experienced auditors are now being allocated the largest and most complex audits.
<ul style="list-style-type: none"> <li>Refine audit performance measures to ensure they are meaningful.</li> </ul>	<i>Ongoing.</i> Audit strike rates are now calculated using a materiality threshold of ALL50,000. Additional performance measures have been developed to allow better monitoring of levels of detection and numbers of controls completed per inspector.
<ul style="list-style-type: none"> <li>Reintegrate field investigations units into the audit structures.</li> </ul>	<i>Ongoing.</i> See Section 4, third bullet.

<b>Section X. Arrears Collection</b>	
<ul style="list-style-type: none"> <li>Improve the legislative framework to strengthen the arrears collection capability of the GDT.</li> </ul>	<i>Implemented.</i> Proposals for law changes made to MOFE and have been included in the 2019 Fiscal Package.
<ul style="list-style-type: none"> <li>Design and deploy the instalment management function in the arrears collection module of the IT system.</li> </ul>	<i>Ongoing.</i> Instalment functionality in joint testing with the supplier.
<ul style="list-style-type: none"> <li>Establish a clear arrears collection strategy to follow-up on taxpayers who have not taken advantage of the amnesty legislation.</li> </ul>	<i>Implemented.</i> Analysis carried out and rework of strategy completed. Joint task forces are enforcing stricter collection measures, including seizure of up to 50 percent of the defaulting taxpayer's daily turnover.
<b>Section XI. VAT Refund</b>	
<ul style="list-style-type: none"> <li>Fully automate the VAT risk review process and regularly review and update the risk parameters</li> </ul>	<i>Ongoing.</i> A review of risk parameters has been completed. Risk review is not fully automated but is undertaken in two phases across two organizational units: Automatic review is followed up by a manual review.
<ul style="list-style-type: none"> <li>Pay VAT refunds within the prescribed time frames.</li> </ul>	<i>Not implemented.</i>
<b>Section XII. Taxpayer Appeals</b>	
<ul style="list-style-type: none"> <li>Transfer the first instance taxpayer appeal function back to the GDT.</li> </ul>	<i>Not implemented.</i>
<ul style="list-style-type: none"> <li>Adopt an approach under which: failure to pay tax-in-dispute does not affect the right to have an appeal heard; and the GDT is empowered to enforce payment where a deferral application is denied.</li> </ul>	<i>Not implemented.</i> Law change proposal made to exclude interest from the tax payment/guarantee pre-condition for admitting an appeal.

## Appendix 2. Progress on Addressing Tax Administration Diagnostic Assessment Tool Weaknesses

2016 TADAT Assessment <sup>33</sup>			Progress made	IMF mission's comments December 2018
Area of weakness	Score	Summary of gaps identified		
<b>Accurate and reliable taxpayer information</b>	<b>C</b>	Inaccurate industry codes and other data.	In cooperation with INSTAT, industry codes for all businesses have been validated and updated to NACE Rev. 2 standard. An expanded cooperation agreement was agreed in 2017 between the GDT and NRC, which automated and streamlined passive/active classifications, with safeguards preventing deregistration where there are tax arrears. GDT staff can notify the NRC to change industry codes where incorrect. Address change can still only be made by taxpayer notification to NRC.	Need for a project to test the accuracy of the register (in cooperation with NBC), including the accuracy of the passive register.
<b>Identify, assess, rank and quantify compliance risks</b>	<b>C</b>	Risk assessment limited to internal sources; unstructured processes.	Work has commenced on developing a risk register, and on developing compliance indicators for the various categories of taxpayer obligations.	Need for more structure in outcomes evaluation; improve access to external data; stronger analytical capacity; review methodology to calculate registration and declaration compliance; establish a data warehouse; structured approach on using data from cash registers to drive field verification activities.
<b>Mitigation of risks through compliance plan</b>	<b>C</b>	Underdeveloped compliance plan; not implemented GDT-wide.	The GDT is awaiting completion of the risk register before developing a new compliance plan. More operational audits are being selected through the risk process and resulting in improved strike rates. Pilot projects targeting high-risk sectors (e.g. tourism) have been undertaken.	Develop a multi-year compliance plan with the features outlined in Box 2, Page 22 of the TADAT field guide.

<sup>33</sup>For purposes of this review, the mission focused on **core business functions** where performance was scored as either a C (weak performance) or a D (inadequate performance or no available data) during the 2016 TADAT assessment.

<b>Monitoring and evaluation of compliance risk mitigation activities</b>	<b>C</b>	Limited efforts to monitor and assess impact of actions on compliance behaviour.	Reports of outcomes from pilot sectoral projects have been prepared. Some monitoring has been done of the impact of the ongoing informality campaign (e.g. under-reporting from cash registers). Audit reports to the HQ distinguish between central risk-based case selection outcomes and locally-selected outcomes.	Develop a structured CRM outcomes evaluation and monitoring framework to assess the impact of GDT activities on taxpayer behaviour.
<b>Scope, currency and accessibility of information</b>	<b>D</b>	No tailoring of information for intermediaries; no reliable data on phone response times.	Technical interpretation and court decision bulletins, which are of special interest to tax intermediaries, are published twice-yearly. The call center has reliable data on response times and has developed a widely-used live chat facility. A range of new information brochures and booklets was published with support from the European Bank for Reconstruction and Development.	Need for a wider – and deeper range of interpretive guidance and more tailored information to tax intermediaries (particularly on the more complex issues).
<b>Initiatives to reduce taxpayer compliance costs</b>	<b>C</b>	Initiatives to reduce compliance costs are limited and ad hoc	A simplified VAT declaration has been developed for 13,000 small businesses coming into VAT system from April 2018. The initiative with e-Albania has reduced the number of manually-issued tax certificates by 245,000 in 2017 (compared to 2016). Time to comply with tax obligations is still high compared to regional peers <sup>34</sup> .	Need for greater emphasis on tax process design – particularly on simplification of procedures and declaration requirements.
<b>Obtaining taxpayer feedback on products and services.</b>	<b>C</b>	No statistically valid surveys; taxpayer input to process and product design is ad hoc.	The GDT's website has questionnaires and surveys requesting feedback on experiences using the website, the call center and service centers. The quality of GDT services is also compared with the other main public service providers using "mystery shopping" methods (by consulting firm IDRA) – and GDT is regularly ranked in the top two agencies for service quality. While tax changes are well explained to affected sectors, there is not enough opportunity for taxpayers and intermediaries to have input into the design of tax products and processes.	Need to further develop taxpayer perception surveys (preferably using independent and statistically valid methods). Need to engage and involve business and tax intermediaries in initiatives to simplify compliance and improve process design.
<b>Stock and flow of tax arrears</b>	<b>D+</b>	The stock of arrears is high and comprises a significant proportion of old debt	The stock of tax arrears is trending downwards as a result of the write-offs under the amnesty law (2010 and earlier debt), the waiver of penalties and interest for 2010-14 arrears (provided the primary tax was paid), the use of the call center as an early intervention strategy and stronger management of the arrears collection	A strategy is needed to use the write-off provisions and the broadening of the instalment agreement arrangements in the 2019 Fiscal Package. The consolidation of

<sup>34</sup> According to the World Bank Group/PWC publication "Paying Taxes 2019", it takes 255 hours to comply with tax obligations (for profits, labor and consumption taxes) in Albania, compared, for example, to 154 hours and 119 hours respectively for Kosovo and Macedonia FYR.

			function. Legislative changes including enabling instalment agreements for VAT, PIT, Social and Health securities and introducing provision to write-off uncollectable arrears are part of the 2019 Fiscal Package. Instalment agreement functionality has been incorporated in the IT system and a strategy is in place to follow up those taxpayers who failed to take the opportunity provided by the amnesty law to clean up outstanding arrears.	the arrears collection into a smaller number of sites should be progressed as a reform priority with a pilot commencing in early 2019. The pilot should also include the development and use of firmer enforcement tools including seizure of assets and using legal processes such as bankruptcy and wind up proceedings.
<b>Scope of verification actions taken to detect and deter inaccurate reporting.</b>	<b>C</b>	Insufficient audit focus on high risk taxpayer segments; limited scope for large-scale automated cross-checking to verify tax declarations.	More audits are now selected centrally through the risk analysis process. The RMD has been involved in the design of several campaigns aimed at high-risk sectors, for example medical services and tourism. There is little structured evaluation of audit impacts on compliance. There is still no special focus on high wealth individuals, and there is concern about a reducing share of revenues from LTO cases. A Risk Differentiation Framework is being introduced for LTO cases – with a view to extending this framework to the regions in the future. Audit quality generally throughout the GDT is a concern. Audit training has been improved (including development of a new Audit Manual) and quality assurance is monitored by HQ. Large scale data matching (for verifying tax declarations) is still not in place for key third party information sources. There is no automatic reporting of bank information to the GDT.	Need for clearer outcome expectations for audit activity and more structured evaluation of audit impacts. Need for automatic reporting of bank and other financial information to GDT for Albanian residents – Albania is already committed to cross-border automatic exchange of such information from 2020 - using the OECD's Common Reporting Standard.
<b>Extent of proactive initiatives to encourage accurate reporting</b>	<b>C</b>	Coverage of binding rulings is limited; there are no cooperative compliance arrangements with taxpayers	The Law on Tax Procedures was recently changed to require the GDT to publicize interpretations given to taxpayers (while respecting taxpayer confidentiality). The GDT is also required to publish the outcomes of court decisions.  Cooperative compliance arrangements may not yet be appropriate given the GDT's stage of maturity.	Need to improve the breadth and depth of published technical interpretations – in an easily accessible way.
<b>Monitoring the extent of inaccurate reporting</b>	<b>D</b>	No estimates of the size and composition of the tax gap for	A VAT gap analysis was carried out by an IMF technical assistance mission in November 2016. This indicated a VAT compliance gap of over 30 percent of potential VAT revenues	Further deepen the RMD's analysis of compliance indicators to assess the size and

		any core tax or major segment.	(or 3 percent of GDP) for 2015. The gap in the case of construction and business services was particularly significant. The RMD has conducted early compliance indicator estimates, which includes an analysis of reporting accuracy.	composition of the compliance risk and resulting tax gap.												
Existence of independent, workable, and graduated dispute resolution process	C+	Appeal process is flawed. Payment of disputed tax a pre-condition for appeal right; RO can appeal decision of the Tax Appeals Directorate	First level (administrative review) appeals are dealt with by the MOFE from January 2017. Where the tax-in-dispute exceeds ALL 20 million, the appeal is dealt with by an Appeals Committee (under the jurisdiction of the MOFE); otherwise the appeal is dealt with by the Tax Appeals Directorate in the MOFE. There is insufficient transparency around the workings of the MOFE appeal bodies. Procedural fairness issues arise because the taxpayer must – in all cases, without exception – pay the tax in dispute (or provide a bank guarantee for that amount) as a precondition for exercising appeal rights. A law change proposal to exclude interest from the payment requirement is welcome, but this absolute tax payment pre-condition is too rigid.	Need for first-level administrative reviews to be dealt with by the GDT – in line with good international practice. MOFE should not be involved in deciding tax outcomes for individual taxpayers. The advance payment precondition needs to be moderated on genuine economic grounds. Flexibility on appeal time limits is also needed (for cases of illness etc.).												
Time taken to resolve disputes.	D	Time taken to complete administrative reviews is well outside international good practice.	<p>While there has been some improvement in appeal finalization timeliness since the TADAT assessment (see Table below), timeliness is still inadequate (a 'D' rating) having regard to the TADAT standard.</p> <p>Time taken (days) to finalize 1<sup>st</sup>-level reviews (in % of cases finalized)</p> <table><tr><th>Period</th><th>30 days</th><th>60 days</th><th>90 days</th></tr><tr><td>2015</td><td>4%</td><td>31%</td><td>65%</td></tr><tr><td>2018*</td><td>5%</td><td>54%</td><td>41%</td></tr></table> <p>* 10 months</p>	Period	30 days	60 days	90 days	2015	4%	31%	65%	2018*	5%	54%	41%	Need to improve the speed of resolution of first-stage appeals – to move closer to international good standards. Given that only 30% of appeals relate to tax audit decisions, it may be possible to streamline processes for finalizing low-value penalty appeals.
Period	30 days	60 days	90 days													
2015	4%	31%	65%													
2018*	5%	54%	41%													
Adequacy of tax refund processing	D	The risk assessment process is ineffective. Refunds are not paid within the 30-day TADAT standard; interest is not paid on late refunds.	<p>There has been some improvement in the risk assessment process.</p> <p>At the time of this mission the GDT was largely 4-6 month behind with paying VAT refunds. The unpaid refunds (which had been approved) amounted to ALL 14.8 billion. At the time of the December 2017 mission, the payment backlog was ALL 9.878 billion.</p> <p>No progress has been made to remove the legal impediments to meeting the TADAT standards.</p>	Keep VAT refund claim risk criteria under review. Ensure that refunds are made promptly. Remove legal obstacles to meet TADAT standards. Improve revenue forecasting to ensure that sufficient funds are available to pay refunds on time.												

## Appendix 3. Writing-Off Uncollectable Arrears

**In the process of collecting tax arrears, situations arise where it is appropriate for the tax authority to discontinue collection activity because the amount is uncollectable.** Generally, the decision not to pursue recovery of a tax debt is made when the amount is deemed a “bad debt” to be written-off under government accounting procedures. Before write-off takes place (which removes the tax debt from the books of account), the tax administration must be satisfied that it has taken all reasonable steps to collect the debt.

Write-off action is generally limited to three situations:

- The tax debt is not economical to pursue—typically, these cases involve small amounts or situations where the taxpayer cannot be located.
- The taxpayer has no funds or other assets (e.g., where a company has ceased operations and there are no assets or where a debtor has died and left no assets).
- The debt is not legally recoverable (e.g., where the amount represents the balance outstanding after a final dividend has been paid under bankruptcy or liquidation proceedings).

Most write-off systems have the following features:

- Legal authority to write-off tax debts is provided under a country’s financial management and accountability laws (not tax laws), and write-off powers are given to a limited number, only, of senior tax officials.
- Write-off approvals (and supporting reasons) are fully documented, and reviewed—sometimes by a committee, in the case of large debts. The write-off system is also subject to audit by the government’s external auditor, and the total value of debts written-off is published annually.
- Except where the amount is irrecoverable at law, the debtor is not absolved from ever having to pay the liability (i.e. the tax debt may be re-raised and action taken to collect it if, for example, the debtor’s financial position improves).
- Tax debts are considered for write-off on a case-by-case basis.
- Uncollectable debts are written-off without the knowledge or involvement of the debtors concerned (i.e., write-off is an internal accounting function).
- Amounts withheld from employees’ wages for personal income tax and social contribution amounts may have seniority (as preferred creditor claims). Coherent joint processes to deal with both tax/SSC and private sector debt, including on an out-of-court basis, may be adopted, (on an exceptional basis), to assist private sector lenders and facilitate future credit access by tax/SSC debtors.