Albania: Enhancing Tax Administration Capacity During Challenging Times
ALBANIA
TECHNICAL ASSISTANCE REPORT—ENHANCING TAX ADMINISTRATION CAPACITY DURING CHALLENGING TIMES

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Enhancing Tax Administration Capacity During Challenging Times

Frank van Brunschot, Steve Vesperman, Allan Jensen, Michael O’Grady, and Paul Dempsey
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<table>
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<tr>
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<th>Description</th>
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<tbody>
<tr>
<td>ALL</td>
<td>Albanian Lek (currency)</td>
</tr>
<tr>
<td>CD</td>
<td>Capacity Development</td>
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<tr>
<td>CRM</td>
<td>Compliance Risk Management</td>
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<tr>
<td>DG</td>
<td>Director General</td>
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<tr>
<td>EU</td>
<td>European Union</td>
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<tr>
<td>FAD</td>
<td>Fiscal Affairs Department</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<tr>
<td>GDT</td>
<td>General Directorate of Taxation</td>
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<tr>
<td>HQ</td>
<td>Headquarters</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>IT</td>
<td>Information Technology</td>
</tr>
<tr>
<td>LTO</td>
<td>Large Taxpayer Office</td>
</tr>
<tr>
<td>MOFE</td>
<td>Ministry of Finance and Economy</td>
</tr>
<tr>
<td>MTRS</td>
<td>Medium-term Revenue Strategy</td>
</tr>
<tr>
<td>NACE</td>
<td>Classification of Economic Activities</td>
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<tr>
<td>NAIS</td>
<td>National Agency for Information Society</td>
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<tr>
<td>NBC</td>
<td>National Business Center</td>
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<tr>
<td>OECD</td>
<td>Organization for Economic Cooperation and Development</td>
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<td>PIT</td>
<td>Personal Income Tax</td>
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<td>RDF</td>
<td>Risk Differentiation Framework</td>
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<tr>
<td>RMD</td>
<td>Risk Management Directorate</td>
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<tr>
<td>RMU</td>
<td>Risk Management Unit</td>
</tr>
<tr>
<td>RTO</td>
<td>Regional Tax Office</td>
</tr>
<tr>
<td>SECO</td>
<td>State Secretariat for Economic Affairs (Swiss Government Agency)</td>
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<tr>
<td>SMG</td>
<td>Senior Management Group</td>
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<tr>
<td>TADAT</td>
<td>Tax Administration Diagnostic Assessment Tool</td>
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<td>VAT</td>
<td>Value Added Tax</td>
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PREFACE

As a component of the IMF Fiscal Affairs Department’s (FAD) capacity development (CD) program concerning revenue administration in Southeast Europe, in response to a request from Ms. Delina Ibrahimaj, Director General of the General Directorate of Taxes (GDT), a tax administration mission was delivered remotely to the Albanian authorities during the period of January 11 – February 3, 2021 using online video conferencing tools. This activity was to assist the authorities in taking stock of development efforts in the GDT and provide advice as required on future efforts.

The mission was led by Mr. Frank van Brunschot and comprised Mr. Stephen Vesperman (both FAD); Mr. Allan Jensen (FAD Regional Revenue Administration Advisor); and Messrs. Michael O’Grady and Paul Dempsey (FAD external experts).

Meetings were held with Ms. Delina Ibrahimaj, Director General (DG), and many managers and staff from the GDT’s Headquarters (HQ) and the Regional Tax Offices (RTO); Mr. Ervin Muca, National Agency for Information Society (NAIS); and representatives from the development partner community providing support to the GDT; Mr. Patrik Meier, Deputy Head of Mission, Embassy of Switzerland; Ms. Ledia Mucu, Delegation of the EU to Albania; Mr. Tommy Carlson, Skatteverket (Swedish Tax Administration); and Mr. Erison Kotini, Financial Services Volunteer Corps, USA.

The mission wishes to express its sincere appreciation for the excellent cooperation and kind hospitality that it received from the GDT. Thanks are also extended to Ms. Irena Xhafa, Chief of Cabinet, for the excellent mission support.

This report sets out the mission’s findings and provides recommendations for further reforms in the GDT. It consists of an executive summary and eight sections: (i) Context of Reform; (ii) Strengthening Governance and Organizational Arrangements; (iii) Improving Compliance Risk Management; (iv) Strengthening the Tax Audit Function; (v) Enhancing the Capacity of the Large Taxpayer Office; (vi) Consolidating and Strengthening the Debt Collection Function; (vii) Improving Register Accuracy, Taxpayer Services, and VAT Refund Processes; and (viii) Mobilizing Capacity Development Support.
EXECUTIVE SUMMARY

The purpose of this mission was to assist the General Directorate of Taxes (GDT) in taking stock of reform efforts and provide advice on future efforts. In recent years, the GDT made solid progress in realizing its reform agenda. The mission took stock of the reform achievements and identifies areas which require further improvement.

Reform Progress

Tax administration progress continues to be encouraging, despite the pandemic disruption. The GDT made solid progress during 2020 in areas such as consolidation of the tax debt management function, expansion of third-party data sources for risk management, improvement in value added tax (VAT) refund processes, additional electronic services, and implementation of automatic reporting of non-resident financial account information. The pandemic impact was managed with resilience and agility—the GDT pivoted to deliver financial supports to affected businesses while managing its core activity with limited disruption.

The Government expects tax administration improvements to play a key role in generating additional revenues to finance Albania’s medium-term spending needs. Even before the sharp fall in 2020 tax revenues, caused by the dual shocks of the end-2019 earthquake and the pandemic, the Government's assessment was that an increase in the tax-to-Gross Domestic Product (GDP) ratio of 2.3—3.0 percent was needed under its proposed medium-term revenue strategy (MTRS). In addition to tax policy changes, the Government’s expectation is that a large element of the required revenue uplift will need to come from improved tax administration. To meet this expectation, and to make a significant impact on the tax gap, the GDT needs to continue—and accelerate—its reform efforts.

The GDT faces some big challenges for 2021, including implementation of fiscalization and the administration of a new central registry of bank accounts. Phased implementation of the Government’s headline anti-informality “fiscalization” measure—the real-time monitoring of electronic invoices and cash transactions—will involve major changes for both businesses and GDT operations during 2021. The authorities expect that fiscalization will, over time, deliver an uplift of 10 percent in VAT revenues. The GDT has also been given a new (non-tax) function of administering a central registry of bank accounts as an anti-money laundering measure. The establishment and the administration of the register, which will be utilized by several government agencies, requires significant GDT resources and management time.

Key Areas for Further Development

This report provides advice on a range of improvements needed to further develop core tax functions and institutional capacity. All recommendations are listed in Table 1 and elaborated upon in the body of the report. The key areas for further development are:
- **Organizational Flexibility and Upskilling of Staff**—The GDT needs to better match its resources to emerging risks and operational needs and should have more autonomy and flexibility in staff deployment, work allocation, and organizational change, without always needing Ministerial approval. The level of technical skills and competencies across the workforce needs to be significantly improved—most critically in the areas of tax audit, data analytics, tax debt enforcement, Large Taxpayer Office (LTO) functions, and tax law interpretation.

- **Compliance Risk Management (CRM) and Reporting of Bank Information**—Data analytics should be intensified to identify the major compliance risk clusters that make up the bulk of the tax gap. Automatic reporting to the GDT of key financial account information of Albanian residents (like the current reporting arrangements for non-residents) would greatly enhance risk profiling and would improve tax declaration accuracy.

- **Audit and Management of Large Taxpayers**—Audit activity and outcomes should be more systematically evaluated, particularly as focus shifts to desk audit post-fiscalization. Risk profiling of all LTO companies needs to be finalized (using the differentiation framework advised by the Fiscal Affairs Department (FAD). Decisions on LTO audit case selection should mainly be made by the LTO’s risk management unit (instead of the central risk department).

- **Tax Debt Management and Arrears Reduction**—The growing level of tax arrears needs to be stabilized and put on a downward trajectory. The use of tax payment installment arrangements should be expanded, and the uncollectible debt should be written off, as allowed for in the Tax Procedure Law. Arrangements for taking insolvency actions, and developing the necessary staff expertise, need to be improved.

- **Taxpayer Service and VAT Refunds**—The range, depth, and clarity of guidance on tax law interpretation and procedures needs to be improved. Progress on reducing VAT refund arrears should continue with the objective of settling the arrears in full as soon as possible and paying all valid claims within statutory time limits. Refund-by-instalment arrangements should be abolished and businesses with negative VAT in any period should be eligible for refund without overly restrictive preconditions.

**Mobilizing Capacity Development Support**

Continued (and coordinated) external support is required to consolidate the GDT achievements to date and further strengthen the administration. The current FAD capacity development (CD) project has been agreed with the authorities up to April 2022. This CD support will continue to focus on improving tax debt collection, data analytics, compliance of high wealth individuals, development of future compliance risk management (CRM) projects, and the organization and management of operational activities. The GDT needs to ensure that appropriate arrangements are in place to coordinate all external support, including from the Swedish Tax Agency and directly from the EU, to avoid duplication. The GDT should also explore external support options for large-scale upskilling of auditors and for leadership training.
### Table 1. Albania: Mission Recommendations

<table>
<thead>
<tr>
<th>Sections/Recommendations</th>
<th>Short-term (1-12 months)</th>
<th>Medium-term (1-2 years)</th>
</tr>
</thead>
</table>

#### II. Strengthening Governance and organizational arrangements
- Seek more autonomy for the GDT in organizational design, staff deployment, and work allocation. **X**
- Fill vacant staff positions that are critical, particularly the third Deputy Director General position. **X**
- Further strengthen integrity assurance measures. **X**
- Deliver a comprehensive upskilling program to improve the competencies of the workforce in partnership with universities, other tax jurisdictions, and professional associations. **X**

#### III. Improving Compliance Risk Management (CRM)
- Finalize and commence implementing a comprehensive CRM strategy. **X**
- Intensify the focus on data analytics and undertake tax gap analyses to identify the major compliance risk clusters that make up the bulk of the tax gap. **X**
- Seek a law change to require automatic reporting to the GDT of key bank and other financial account information of Albanian residents. **X**
- Systematically evaluate the impact of compliance activities. **X**

#### IV. Strengthening the Tax Audit Function
- Consider removing obstacles that hinder the assignment of cases to auditors based on their skills and abilities, including between regional offices. **X**
- Systematically evaluate the performance of the audit program to improve compliance impact. **X**
- Develop and implement a strong upskilling program, for tax auditors to improve their capacity in modern audit techniques, including advanced skills required by the Large Taxpayer Office (LTO). **X**

#### V. Enhance the Capacity of the LTO
- Implement fully the Risk Differentiation Framework Implementation Plan, ensuring all LTO taxpayers are risk profiled. **X**
- Ensure that decisions of LTO audit case selection are mainly made by the LTO’s Risk Management Unit (RMU). **X**
### VI. Consolidating and Strengthening the Debt Collection Function

- Immediately commence a project to write-off uncollectable debt. **X**
- Continue to expand the use of payment instalment agreements including implementing a web based (taxpayer self-service) facility. **X**
- Assign responsibility for approving payment installment agreements to the Debt Collection Department. **X**
- Develop procedures and expertise for taking insolvency/bankruptcy action. **X**

### VII. Improving Register Accuracy, Taxpayer Services, and VAT Refund Processes.

- Ensure that operational plans put more emphasis on improving register completeness and accuracy, including systematic cross-checking of relevant third-party data. **X**
- Develop a program (in cooperation with the National Business Center (NBC) to test, on an ongoing basis, the accuracy of economic activity codes recorded on the register. **X**
- Develop and publish a taxpayer service and communications strategy by end-2021. **X**
- Improve the range, depth, and clarity of published tax law interpretation and procedural guidance and provide a dedicated website area for tax advisors. **X**
- Pay all valid VAT refund claims within the prescribed legal time limits and reduce the payment-by-installment arrangements to zero as soon as possible. **X**
- For the Ministry of Finance and Economy (MOFE): Seek a legislative amendment to refund credits without any minimum carry forward period and without a requirement for taxpayer to submit a separate refund claim. **X**
I. CONTEXT OF REFORM

A. Introduction

1. The IMF Fiscal Affairs Department (FAD) provides support to the General Directorate of Taxes (GDT) under a capacity development (CD) project that commenced in 2019. The focus of this project, which runs until April 2022, is on strengthening the GDT’s governance, management, and core tax administration functions. This mission, conducted remotely, (i) reviewed progress in achieving the project outcomes, (ii) identified the main areas where operational performance and institutional capacity need to be further improved (taking account of the challenges presented by the Covid-19 pandemic), and (iii) developed with the authorities a targeted CD assistance workplan until the end of the project.

B. Tax Revenues

2. Tax revenues declined sharply over the past year, reflecting the dual shocks to the economy of the pandemic and the end-2019 earthquake, plus tax deferrals offered to support business. The economy is expected to have contracted by 7½ percent in 2020.¹ This steep fall in economic activity, together with a deferral of profit tax prepayments into 2021, resulted in an overall drop in 2020 tax revenues of ALL 28.6 billion year-on-year, with the largest percentage falls in Personal Income Tax (PIT) and Profit Tax (Table 2). The GDT collects close to 60 percent of combined taxes and social contributions; most of the balance is collected by the General Directorate of Customs. The authorities have indicated that they aim to increase revenues by between 2.3 and 3 percent of GDP as part of a medium-term revenue strategy (MTRS) to be developed later in 2021. This strategy will include tax administration improvement measures as well as policy changes.²

¹ Estimated GDP figures for 2020 and authorities’ MTRS target revenue increases are taken from IMF Country Report 20/309, November 2020.
² FAD provided the authorities with a range of MTRS options in February 2020 – covering both tax policy and tax administration (see reports by Benedek et al, and Vesperman et al).
Table 2. Albania: Tax and Social Contribution Revenues, 2018 to 2020

(Revenue amounts in ALL billions)

<table>
<thead>
<tr>
<th>Tax Type</th>
<th>2018 Revenue</th>
<th>GDP %</th>
<th>2019 Revenue</th>
<th>GDP %</th>
<th>2020 (Preliminary) Revenue</th>
<th>GDP %</th>
</tr>
</thead>
<tbody>
<tr>
<td>PIT</td>
<td>36.5</td>
<td>2.2</td>
<td>46.1</td>
<td>2.7</td>
<td>33.7</td>
<td>2.1</td>
</tr>
<tr>
<td>Social contributions</td>
<td>93.2</td>
<td>5.7</td>
<td>98.4</td>
<td>5.9</td>
<td>97.7</td>
<td>6.2</td>
</tr>
<tr>
<td>Profit tax</td>
<td>34.5</td>
<td>2.1</td>
<td>36.6</td>
<td>2.2</td>
<td>28.4</td>
<td>1.8</td>
</tr>
<tr>
<td>VAT</td>
<td>143.5</td>
<td>8.8</td>
<td>132.4</td>
<td>7.9</td>
<td>*130.4</td>
<td>8.3</td>
</tr>
<tr>
<td>Excises</td>
<td>45.0</td>
<td>2.8</td>
<td>46.7</td>
<td>2.8</td>
<td>44.5</td>
<td>2.8</td>
</tr>
<tr>
<td>Customs duties</td>
<td>6.2</td>
<td>0.4</td>
<td>6.5</td>
<td>0.4</td>
<td>6.2</td>
<td>0.4</td>
</tr>
<tr>
<td>National etc. taxes</td>
<td>38.6</td>
<td>2.4</td>
<td>36.4</td>
<td>2.2</td>
<td>35.8</td>
<td>2.3</td>
</tr>
<tr>
<td>Local govt.</td>
<td>21.9</td>
<td>1.3</td>
<td>23.1</td>
<td>1.4</td>
<td>22.0</td>
<td>1.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>419.3</strong></td>
<td><strong>25.8</strong></td>
<td><strong>426.3</strong></td>
<td><strong>25.4</strong></td>
<td><strong>397.7</strong></td>
<td><strong>25.3</strong></td>
</tr>
</tbody>
</table>

Source: MOFE and IMF staff calculations and estimates. *VAT revenues do not reflect ALL 9.8 bn. in refund arrears at end-2020.

C. Impact of the Pandemic on Operations

3. The GDT played a key role in implementing various pandemic-related financial assistance packages. Starting in March 2020, the government introduced a series of support packages to individuals and businesses in sectors adversely affected by the pandemic. Applications under these programs were made online to the GDT, who validated eligibility and processed claims prior to transmission to the Treasury for payment. The government’s policy response to the pandemic also included the postponement of Profit Tax payments to 2021 and a loan guarantee scheme.

4. Overall, the GDT demonstrated a high level of resilience and agility during the pandemic—its business continuity systems had already been tested following the earthquake in late 2019. Some 80 percent of staff were able to work remotely. While walk-in service desk facilities were limited, call center and regional office telephone services were kept operational. Field audits were reduced in favor of desk-based controls. A public perception survey (taken in late-2020) of the GDT’s overall service performance during the pandemic was, with some exceptions, generally favorable.

D. Other Developments

5. While the pandemic has been the dominant factor over the past year, several other developments have impacted the GDT’s operations. Key developments are:

- **Fiscalization implementation schedule**—A headline anti-informality initiative involving real-time monitoring of (mandatory) electronic invoices, scheduled for implementation in 2020, was postponed until 2021 and is being implemented in phases: business to
government from January; cashless business to business (B2B) from July; and cash transactions from September. The authorities expect that, when fully implemented, fiscalization will increase VAT revenues by 10 percent.

- **Exemption for smaller businesses**—From January 2021 (and extending to 2029), the VAT turnover threshold is increased from ALL 2 million generally (and zero for regulated professions)\(^3\) to ALL 10 million for all categories, removing some 32,000\(^4\) cases from the active VAT register. Also, from 2021, enterprises with an annual turnover of less than ALL 14 million are exempt from Profit Tax. Some 12,000 businesses in this category are expected to benefit.\(^5\) While simplifying compliance for small businesses, these changes will most likely give rise to tax arbitrage and other abuses, such as “business splitting” (to stay below the thresholds) and artificial shifting from employment to self-employment.\(^6\)

- **VAT-exempt earthquake reconstruction**—Compliance challenges for the GDT also arise from the decision in 2020 to exempt from VAT earthquake reconstruction activity, including for sub-contractors and suppliers. The GDT is required to approve eligible entities. This large-scale expansion of VAT exemption and breach of the normal VAT “chain” for large numbers of operators poses major risks of tax leakage and will be difficult for the GDT to effectively control.

- **Offshore accounts: automatic exchange of information**—With assistance from the Italian tax administration, the GDT implemented in 2020 the automatic reporting by Albanian banks to it of financial account information of non-residents and began exchanging this information with 72 foreign jurisdictions.\(^7\) The GDT expects to receive reciprocal information, starting in September 2021, about offshore accounts held by Albanian tax residents.

- **Tax amnesty proposal**—A draft tax amnesty law published in July 2020 was not supported by FAD or the EU, as it did not conform with international good practice on voluntary disclosure schemes. The draft law has not been enacted and no information was made available to the mission on the present status of the amnesty proposal.

- **Central register of bank accounts**—Under an anti-money laundering law recently enacted, the GDT will be the administrator of a new central register of bank accounts. It will also be

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\(^3\) Such as notaries, lawyers, dentists, nurses, doctors, pharmacists, engineers, architects, accountants, auditors, etc.

\(^4\) Source: GDT. From January 2021, 31,834 businesses were de-registered for VAT.

\(^5\) See statement by Deputy Finance Minister reported under web-link albaniadailynews.com/news/44257.

\(^6\) Profit Tax applies to all self-employed activity, including professions (irrespective of legal form). While employee income above ALL 360,000 per annum is taxed at 13%, and at 23% above ALL 1.8 million, a self-employed or personal services company pays no income tax where the annual turnover is less than ALL 14 million.

\(^7\) Under a multi-lateral international agreement, using the common reporting standard developed by the OECD.
one of the state bodies allowed access to data in the register, subject to bylaws yet to be agreed. This non-tax function will require significant resources and management time.

E. Reform Progress

6. The GDT still managed to advance some of its development agenda in 2020, despite the impact of the pandemic. Notable positive achievements included consolidation of the debt management function, expansion of third-party data sources, improvement in VAT refund processes, additional electronic services, and implementation of automatic reporting of non-resident account information.

7. The GDT already has a challenging agenda for 2021 and is developing a medium-term strategy for 2022-2025. For 2021, the most significant task is the implementation of fiscalization, which will involve intensive support and engagement with business, and a change in audit selection processes (including a shift to more desk audits). Establishing and administering a new central register of bank accounts will also be challenging. Other major changes planned for 2021 include establishing a specialized unit for high-wealth individuals, consolidating databases, developing an asset register, and completing the reorganization of the Tax Debt Collection Department. Development of a medium-term strategy for the GDT is under way and will be finalized in tandem with the governments' proposed MTRS strategy.

8. A stock-take of progress in implementing recommendations in the FAD mission report of January 2019\(^8\) is in Appendix 1. As outlined in Appendix 1, 50 percent of the recommendations were implemented or partially implemented. The remaining recommendations are updated and integrated with the recommendations in this report.

II. STRENGTHENING GOVERNANCE AND ORGANIZATIONAL ARRANGEMENTS

A. Current situation

Governance

9. The GDT has a governance framework based on several senior management committees. There are three senior management committees that control the operations of the GDT: (i) the Reform Management Committee responsible for the strategic direction of the GDT and the supervision of the reform plan; (ii) the Operational Management Committee responsible for managing the annual planning process and monitoring the GDT’s performance; and (iii) the

\(^8\) “Albania: Revenue Administration – Supporting the Delivery of the Reform Agenda”, January 2019, Vesperman et al.
Compliance Management Committee responsible for the implementation of a compliance risk management (CRM) system. The three committees are chaired by the Director General (DG). A Strategic Management Group (SMG), also chaired by the DG, has responsibility for the overarching governance of the GDT. Approved mandates are in place for each committee and the SMG.

10. **Several working groups support the work of the senior management committees.** The working groups have been established to guide and monitor progress of key reform projects and significant operational initiatives and are usually chaired by a senior leader. Examples of the focus areas for the working groups include the fiscalization project, automatic exchange of information with other jurisdictions, central register of bank accounts, consolidation of arrears collection, the oversight of operational activities, including the pandemic response, and the prioritization of information technology (IT) changes.

11. **There is overlap in the focus of the senior management committees.** The Reform Management Committee and the Compliance Management Committee have the same members. In practice, topics are not always discussed in the designated committee, e.g. the GST’s performance is discussed in the meetings of the reform management committee. It would be prudent for the committees to operate as close as possible to their mandates.

12. **A comprehensive reporting framework is used to monitor the operational performance.** There is an extensive suite of operational reports that are monitored by the management committees and the senior leadership team.

**Organizational Structure**

13. **A function-based headquarters (HQ) structure is 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 DG (however the Deputy DG position for program design is currently vacant).

14. **The organizational structure includes a network of 13 Regional Tax Offices (RTO) and a Large Taxpayer Office (LTO).** Some consolidation of functions had earlier been made through the establishment of a centralized Call Center and a Payment Center. Over the last 12 months, the GDT implemented several organizational changes recommended by FAD. They include:
   - Consolidating most of the arrears collection activities into fewer sites (see Section IV).
   - Separating the field monitoring and verification work from the Tax Investigation Department.
   - Consolidation of the three Transfer Pricing Units into the LTO organizational structure.

15. **The consolidation of the debt collection function is a welcome organizational change initiative and in line with international trends.** The tax debt collection activities, which
were based in the 13 RTOs have been consolidated into three regional collection offices and in the LTO. This initiative provided for improved business processes. This initiative can be a model for consolidating other core functions.

**Improving the Integrity Framework**

16. Some progress has been made to strengthen the GDT’s integrity assurance and reduce the opportunity for corrupt behavior. The following measures have been implemented over the last 12 months:

- Expanding the use of desk audits and electronic services to reduce the need for face to face contact.
- GPS tracking is now being used for some field officers and the use of video cameras is also being piloted.
- A culture change program of training and information to emphasize the importance of integrity in all aspects of revenue administration is being developed.
- A new position at senior level has been established (jointly reporting to the DG and the Ministry for Justice) for promoting, monitoring, and enforcing the government’s anti-corruption strategy.

**Information Technology**

17. The GDT relies on the National Agency for Information Society (NAIS) to provide all IT services including reform system changes and IT systems maintenance. NAIS is a standalone government agency that provides IT services to government departments. The arrangement with NAIS provides for the maintenance of both software and hardware, software changes to accommodate legislative amendments, and any development needs required. To date, this arrangement is meeting the needs of the GDT.

18. NAIS manages the platform for the new fiscalization system. This system requires businesses that make sales to government, other businesses and consumers to provide sales data in real time to the GDT. It also provides the platform for the mandatory use of e-invoicing—a significant modernization of all business transactions in Albania. This system includes risk analysis and data warehouse functionality, which is a critical reform initiative to modernize compliance risk management processes.

**B. Areas Needing Improvement**

**Organizational Arrangements**
19. The GDT needs greater autonomy to enable it to adjust its organization structure as required to respond to risk and operational needs. The allocation of staff to the smaller regional offices does not appear to be consistent with the work throughput and level of risk-to-revenue for those offices. Although some progress has been made with the consolidation of the arrears collection function, Table 3 shows a mismatch in the ratios of tax revenue to staff deployment in the regional offices particularly for field staff. The mission was made aware of significant work backlogs in the Tirana office. Modern tax administrations allocate staff to the workloads based on the greatest risk to revenue and have the flexibility to adjust their structures to match changes to risks and operational needs without the need to seek Ministerial approval in all cases.

Table 3. Albania: Comparison of Field Resources and Collection

<table>
<thead>
<tr>
<th>Area of Work</th>
<th>LTO</th>
<th>Tirana</th>
<th>Durres</th>
<th>Fier</th>
<th>Other RTOs*</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Field Staff</td>
<td>119</td>
<td>291</td>
<td>79</td>
<td>108</td>
<td>629</td>
<td>1,226</td>
</tr>
<tr>
<td>Service</td>
<td>6</td>
<td>33</td>
<td>20</td>
<td>11</td>
<td>113</td>
<td>183</td>
</tr>
<tr>
<td>Collection</td>
<td>10</td>
<td>48</td>
<td>0</td>
<td>17</td>
<td>22</td>
<td>97</td>
</tr>
<tr>
<td>Audit</td>
<td>73</td>
<td>118</td>
<td>39</td>
<td>41</td>
<td>173</td>
<td>444</td>
</tr>
<tr>
<td>Other Support</td>
<td>30</td>
<td>92</td>
<td>20</td>
<td>39</td>
<td>321</td>
<td>502</td>
</tr>
<tr>
<td><strong>Tax Collected 2020</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Net ALL Billion)</td>
<td>78.0</td>
<td>92.0</td>
<td>12.2</td>
<td>6.6</td>
<td>33.3</td>
<td>218.9</td>
</tr>
<tr>
<td>Percent of collection</td>
<td>35</td>
<td>42</td>
<td>5</td>
<td>3</td>
<td>15</td>
<td>100</td>
</tr>
<tr>
<td>Percent of field staff</td>
<td>10</td>
<td>24</td>
<td>6</td>
<td>9</td>
<td>51</td>
<td>100</td>
</tr>
</tbody>
</table>

*Includes the three new debt collection sites

Source: GDT/FAD Questionnaire

Workforce Management, Competency, and Integrity

20. The GDT has many unfilled vacancies for managers and key employees. Currently there are around 200 vacancies including a Deputy DG position in HQ. This vacant Deputy DG position has at least 12 direct reports (including the Taxpayer Services and Debt Collection Departments) who are currently accountable directly to the DG. It is recognized that the other Deputy DGs are assisting with this workload. However, this is unsustainable, as the DG must maintain a significant strategic focus and should not be distracted by daily operational matters.

21. The level of technical skills and competencies across the GDT workforce must be significantly improved. The lack of technical expertise reduces productivity and quality and can have an adverse impact on the delivery of assistance to taxpayers and intermediaries. Lack of knowledge of how key industries operate, especially in the LTO, reduces the ability of the GDT to understand the issues they face, provide meaningful assistance, and monitor tax performance. Taxpayer compliance behavior is influenced by the level of competency they experience in their
interactions with tax administration officials. If taxpayers do not believe that the administration has the expertise to provide sound technical advice or follow through with stronger enforcement action, it can adversely influence taxpayers' willingness to comply with their tax compliance obligations.

22. **The most critical areas in need of upskilling are in the audit, data analytics, debt collection, legislation interpretation, and LTO functions.** For example, auditors focus almost exclusively on reconciling accounting records to tax returns—they are not trained in the use of indirect audit methods and have little capacity to establish the level of unrecorded business transactions or ascertain the potential liability represented by unexplained wealth. Debt collection staff are not sufficiently skilled in taking firmer enforcement measures (e.g., bankruptcy and liquidation action). The current training program is not based on a strategic assessment of the gap between the existing workforce skills and the competencies needed to deliver an effective administration of the tax system.

23. **There is an urgent requirement for an upskilling training program to be developed and delivered.** This plan should reflect the assessed skills gap for each of the functional areas and set out a comprehensive training curriculum and timeline to progressively improve competencies across the GDT. Contracting expertise from local universities, professional associations (as currently being arranged with the Institute of Certified Accountants), and other tax jurisdictions, with the support of the EU and other donors, will assist in accelerating the training program.

24. **There is a need to further strengthen the integrity measures.** The GDT understands that each integrity breach undermines efforts to gain the confidence and trust of the community. The recent measures already highlighted in subsection A are components of an ongoing program to improve tax administration integrity. While these are welcome developments, more needs to be done. The planned appointment of a senior leader who will be responsible for developing the GDT’s integrity framework should be put in place as soon as practicable.

C. **Recommendations**

25. **These are the recommendations for improving the governance and organizational arrangements:**

   - Seek more autonomy for the GDT in organizational design, staff deployment, and work allocation.
   - Fill vacant staff positions that are critical, particularly the third Deputy Director General position.
   - Deliver a comprehensive upskilling program to improve the competencies of the workforce in partnership with universities, other tax jurisdictions, and professional associations.
   - Further strengthen integrity assurance measures.
III. IMPROVING COMPLIANCE RISK MANAGEMENT

A. Current Situation

26. **The GDT has steadily improved its CRM governance.** The Compliance Committee is tasked with implementing modern CRM methodology; promoting the development of integrated compliance improvement strategies; and approving the design and launch of compliance projects. The Committee is supported by the Risk Management Directorate (RMD), which is responsible for the identification of tax risks, the development of CRM projects, and the selection of audit cases. Although the GDT’s ambition is that all operational activities should be risk-based, a substantial number of non-risk/low-risk based audit activities are mandatory, due to legal obligations that are disproportionate to the level of risk (Section IV provides examples).

27. **The GDT succeeded in progressing CRM projects during the pandemic.** A mix of compliance instruments are in use. Along with audit as its main tool for improving compliance, the GDT has started to use a broader range of “risk treatment” methods. For example, it implemented a successful letter campaign to address under-declaration of wages by employers. It has continued to progress the implementation of the national compliance projects in the construction and tourism sectors and is currently designing a sectoral compliance project concerning the energy sector.

B. Areas Needing Improvement

28. **Work on developing a comprehensive compliance strategy has started but needs to be finalized so that implementation can commence.** The Compliance Committee will have a key role in developing the new strategy and overseeing its implementation. The medium-term strategic goal should be to ensure that all compliance activities are risk based and designed to deliver the appropriate treatment of identified major risks. The strategy should also address the need for enhanced cooperation with other relevant agencies and access to a wider range of third-party data. To improve ownership of the strategy and GDT wide commitment to the national compliance projects, the RTOs should be involved in developing the strategy and the new compliance projects. There is little sign of any decline in overall levels of informality in Albania, and in the case of “envelope wages,” the position appears to have worsened since 2016.9 Options for addressing informality on a holistic basis are in the January 2020, FAD mission report10 and may be considered in the context of the strategy development.

29. **The RMD should be adequately resourced with specialist staff.** A fully staffed RMD is critical to developing a risk driven organization. It is important that the three current vacancies are promptly filled by suitable staff, ideally by post-graduates who have economics and data management backgrounds. In the longer term, the RMD should include personnel with a wider range of skills, for example, behavioral experts. Development of RMD staff skills would benefit from ongoing cooperation with universities, including continuing the valuable “excellence” internship program.

30. **The GDT needs to develop capacity in data analytics and undertake tax gap analyses to help identify existing and emerging risks.** With the availability of the new data warehouse and more data sources, it will be important to develop a clear data management strategy. This should include how data analytics will be governed, developed, and used within the administration. Tax gap analyses and environmental scans (to include new risks stemming from the pandemic)\(^\text{11}\) are needed to complement the current work on identifying the major risk clusters that make up the bulk of the tax gap.

31. **Access is needed to a wider range of third-party data, particularly automatic reporting of bank information.** Good progress has been made on increasing the inflow and range of third-party data, including from electricity and water utility companies, General Directorate of Customs, and Tirana Municipality. From September 2021, offshore bank account data for Albanian residents will be available from 72 jurisdictions under the OECD Common Reporting System Standard. Similar financial information is not yet automatically available in relation to the domestic bank accounts of Albanians, which is a major inconsistency when compared to the reporting system for offshore accounts. The GDT needs to continue pressing for a law change to require automatic reporting of key financial account information of Albanian residents.

32. **The risk feedback loop from tax auditors to the RMD needs to be enhanced using the IT systems’ case management system.** The current case management system, which includes a risk feedback loop, is not fully used by auditors. On a limited basis, auditors are manually providing the RMD with feedback on the effectiveness of the risk selections. Ongoing work on standardizing and computerizing the audit reports should help address this issue.

33. **The GDT needs to improve its evaluation of the entire compliance outcomes.** The RMD compiles statistics on their compliance activities (e.g. tax audit) in terms of the number of actions and the direct yield outcomes. However, there is only limited evaluation of the relative effectiveness of the different types of interventions in terms of compliance impact. A more systematic approach should be adopted to evaluating the compliance impact of operational activities.

C. Recommendations

34. These are the recommendations for Improving Compliance Risk Management:

- Finalize and commence implementing a comprehensive CRM strategy.
- Intensify the focus on data analytics and undertake tax gap analyses to identify the major compliance risk clusters that make up the bulk of the tax gap.
- Seek a law change to require automatic reporting to the GDT of key bank and other financial account information of Albanian residents.
- Systematically evaluate the impact of compliance activities.

IV. STRENGTHENING THE TAX AUDIT FUNCTION

A. Current Situation

35. The organization of the audit and field monitoring functions has been improved.
The organizational structure has continued to evolve, including the separation of field monitoring\(^{12}\) from tax investigation and the new monitoring unit for desk audit. A significant new development is the establishment of a specialized department with a focus on high-wealth individuals and tax avoidance. The centralization of the audit case selection is also good practice.

36. The GDT continued audit activities during the pandemic. The number of audits declined, reflecting the impact of the pandemic and the need to reduce personal contact with taxpayers (see Table 4).

<table>
<thead>
<tr>
<th>Audit Type</th>
<th>2019 Number of Audits</th>
<th>Number with Results above ALL30,000</th>
<th>Average Monetary Value ALL1000</th>
<th>2020 (11 Months) Number of Audits</th>
<th>Number with Results above ALL30,000</th>
<th>Average Monetary Value ALL1000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Desk</td>
<td>26,668</td>
<td>4,720</td>
<td>4,896</td>
<td>18,872</td>
<td>3,608</td>
<td>5,352</td>
</tr>
<tr>
<td>Vat Refund</td>
<td>829</td>
<td>431</td>
<td>1,367</td>
<td>648</td>
<td>287</td>
<td>1,017</td>
</tr>
<tr>
<td>Comprehensive</td>
<td>1,221</td>
<td>1,095</td>
<td>7,324</td>
<td>616</td>
<td>467</td>
<td>5,956</td>
</tr>
<tr>
<td>Single Issue</td>
<td>925</td>
<td>689</td>
<td>1,110</td>
<td>664</td>
<td>298</td>
<td>1,383</td>
</tr>
<tr>
<td>Total</td>
<td>29,643</td>
<td>6,935</td>
<td>-</td>
<td>20,800</td>
<td>4,660</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: GDT

\(^{12}\) Unannounced checks of businesses looking for violations concerning, for example, failure to issue tax receipts, unreported employees, and possession of inventory without documentation.
37. **The introduction of the e-inspector system for field staff monitoring and case management is a novel development.** E-Inspector is a system that automates and monitors the activities of field monitoring staff. It enables the allocation and tracking of work and includes the use of GPS trackers and video cameras. Case management data can be uploaded to the main IT system. The introduction of GPS tracking and video cameras is intended to strengthen the evidence from field monitoring and reduce the risk of false accusations of maltreatment from taxpayers. It is also hoped to dampen opportunities for corruption.

**B. ** **Areas Needing Improvement**

38. **The lack of flexibility in assigning cases across RTOs, and to staff with different skills levels, a serious impediment to the effective use of scarce audit resources.** There is currently an imbalance between the resources allocated to each RTO and the risk-based case load for each RTO. As a result, high-risk cases at some RTOs cannot be audited due to resource and skills limitations. This leads to inconsistent treatment of taxpayers with similar risks across Albania. Consolidation of the audit function and greater flexibility in auditor deployment or work allocation would reduce this problem.

39. **While progress has been made on audit case selection based on risk, too many low-risk cases are audited.** Currently, 70 percent of cases are selected centrally by the RMD, while the remaining 30 percent are selected by the RTOs. These selections are largely risk-based; however, a significant number of cases are still selected due to mandatory audit obligations such as in situations of taxpayer deregistration, bankruptcy, and audit requests from other agencies. Many of these cases do not necessarily present substantial tax risk. The GDT should review mandatory audit obligations to ensure that there is no obligation to undertake audits unless there is significant tax risk.

40. **Some elements of the desk audit program should be re-evaluated to minimize the use of resources that have low compliance impact.** Desk audit functions include a range of tasks that are not audit related. These include following up on taxpayers who have not submitted returns, pursuing collection of new debts, agreeing installment arrangements, helping taxpayers to make corrections to earlier returns, conducting “other validations” such as verifying taxpayers’ financial statements, and responding to taxpayer queries. Many of these audits add little value in terms of compliance impact, such as deregistration and bankruptcy cases. The new desk audit monitoring unit 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.

41. **The skills and competencies of auditors need to be enhanced to enable them to perform audits of high quality and address emerging risks.** The GDT is planning to test the skills of auditors to establish their training needs. The introduction of fiscalization and the increase of third-party data will lead to a reduction of verification work, especially for field audit.
This will enable the GDT to increase comprehensive audit and investigation activities for serious tax evasion and avoidance, which will require more advanced skills.

42. The GDT needs to develop a training and development program, tailored to the needs of auditors. Auditors need to be upskilled in modern audit techniques, analysis of financial statements, and advanced tax interpretation. The proposed development of the Tax and Customs Academy, with the support of the EU, should prioritize the delivery of a multi-year comprehensive training plan with modules tailored to meet the needs of auditors.

C. Recommendations

43. These are the recommendations for improving Tax Audit Function:

- Consider removing obstacles that hinder the assignment of cases to auditors based on their skills and abilities, including between regional offices.
- Systematically evaluate the performance of the audit program to improve compliance impact.
- Develop and implement a strong upskilling program, for tax auditors to improve their capacity in modern audit techniques, including advanced skills required by the LTO.

V. ENHANCING THE CAPACITY OF THE LARGE TAXPAYER OFFICE

A. Current Situation

44. A special compliance focus on the large taxpayer segment is essential to ensure that the bulk of the tax revenue is protected and increased. The amount of tax revenues paid by this taxpayer segment is significant—over 40 percent of total GDT collection—and their business arrangements tend to be more complex than smaller businesses’. There are increased compliance risks in areas such as international taxation, related party transactions, and tax avoidance. In line with good international practice, the GDT has a long-established LTO to manage the unique risks associated with its large taxpayer segment.

45. The GDT has continued to develop the operations of the LTO. Progress has been made on implementing many of the recommendations from the December 2019 FAD expert report. The large case allocation criteria have been updated, leading to the transfer of

additional cases from the RTOs. The LTO has established its own Risk Management Unit (RMU). A single Transfer Pricing Team is now in place within the LTO and the number of audit sections has increased from three to four, while the number of industry specializations has reduced from 22 to 10.

B. Areas Needing Improvement

46. **The LTO needs to finalize the risk profiling of the large taxpayer segment.** This means full implementation of the Risk Differentiation Framework (RDF) plan. The RDF is a framework to analyze and assess a taxpayer’s tax risk and determine the appropriate treatment by the tax administration. The LTO has made limited progress on the RDF implementation plan. Risk profiles for 430 cases were scheduled to be completed by October 2020, with a further 100 to be completed each quarter until all 882 taxpayers are profiled. To date only 100 cases have been profiled.

47. **Compliance improvement treatments need to be tailored to the specific risk profile of each taxpayer.** Treatment approaches are still primarily focused on audit. Where taxpayers are profiled as low risk, the treatment should focus on taxpayer support. For medium risk cases, the treatment should focus on selective audit of any specific issue(s) identified and engagement to encourage voluntary compliance. For higher risk cases, appropriate treatment, including audit, should be focused only on the risks identified. The recent success of the letter campaigns on underdeclared wages and the construction project should be replicated for other compliance initiatives. Taxpayer behavior should determine the most appropriate risk treatment by the LTO.

48. **The LTO needs to continue to evaluate and develop the effectiveness of alternative audit approaches.** The LTO has started to use desk audits and increase the number of single-issue audits. Further work is needed to evaluate and ensure the effectiveness of these alternative approaches. In addition, there is a need to determine a taxpayer’s compliance using a wider range of audit methods, including indirect audit techniques and the use of computer assisted audit tools.

49. **The newly formed LTO RMU should be responsible for the selection of cases for audit or other treatment in the large taxpayer segment.** Currently, the LTO RMU does not select the cases for treatment. Cases are selected centrally by the RMD. The LTO RMU has the potential to provide a more focused risk analysis of the large taxpayer segment. It can use more appropriate financial and tax specific indicators relevant to large taxpayers in developing risk profiles within the RDF. The LTO RMU should have the main responsibility for deciding which LTO taxpayers to select for treatment. The LTO audit results, particularly for VAT refund, desk, and single-issue audits, which remain low (Table 5), should improve if selected by the RMU.
Table 5. Albania: LTO Audits 2018 - 2020

<table>
<thead>
<tr>
<th>Audit Type</th>
<th>2018 Number of Audits</th>
<th>2018 Number with Results above 100,000 ALL</th>
<th>2019 Number of Audits</th>
<th>2019 Number with Results above 100,000 ALL</th>
<th>2020 Number of Audits</th>
<th>2020 Number with Results above 100,000 ALL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Desk</td>
<td>5</td>
<td>-</td>
<td>8</td>
<td>-</td>
<td>154</td>
<td>-</td>
</tr>
<tr>
<td>Vat Refund</td>
<td>112</td>
<td>54</td>
<td>144</td>
<td>65</td>
<td>129</td>
<td>34</td>
</tr>
<tr>
<td>Comprehensive</td>
<td>120</td>
<td>113</td>
<td>139</td>
<td>135</td>
<td>114</td>
<td>103</td>
</tr>
<tr>
<td>Single Issue</td>
<td>88</td>
<td>43</td>
<td>157</td>
<td>41</td>
<td>328</td>
<td>32</td>
</tr>
<tr>
<td>Total</td>
<td>325</td>
<td>210</td>
<td>448</td>
<td>241</td>
<td>725</td>
<td>169</td>
</tr>
</tbody>
</table>

Source: GDT

50. The LTO needs to enhance the capacity of its staff, through the recruitment of specialists for critical vacancies and a training program tailored to the needs of LTO staff. The capacity and capability of the LTO staff will be a key determinant of its success. The authorized staffing level for the LTO is 128, with eight vacancies. However, there are some critical positions unfilled, including the head of the RMU and a transfer pricing specialist. It is important that these are filled promptly by appropriately qualified staff. The technical expertise and skills of the LTO staff is limited and needs to be strengthened. The more complex risks of the LTO segment include sophisticated planning to avoid tax and international tax risks, such as base erosion and profit shifting. The LTO audit function needs to strengthen audit examination techniques, including indirect methods and use of eAudit, and to develop more advanced expertise in accounting, financial statement analysis, tax technical, international tax, anti-avoidance, and commercial awareness. Significant investment is required in a training program tailored to the higher levels of expertise needed by LTO staff.

51. The GDT should continue to implement the recommendations from the FAD expert report mentioned earlier in this section. While many of the report’s recommendations have been adopted, it is important that others are also implemented. Recommendations that should be pursued include allocating affiliated companies to the LTO case base, improving liaison with representative bodies, providing LTO auditors with computer aided audit tools, and establishing a specialist anti-avoidance unit.

C. Recommendations

52. These are the recommendations for enhancing the capacity of the LTO:

- Implement fully the Risk Differentiation Framework Implementation Plan, ensuring all LTO taxpayers are risk profiled.
- Ensure that decisions of LTO audit case selection are mainly made by the LTO’s RMU.

14 ‘Albania: Improving the Effectiveness of the Large Taxpayer Office; Keith Cartwright, FAD, December 2019.'
VI. CONSOLIDATING AND STRENGTHENING THE DEBT COLLECTION FUNCTION

A. Background and Recent Developments

53. Despite the recent improvements to the arrears function, the stock of tax arrears has maintained an upward trend. Over the last three years, efforts have focused on strengthening the legislative framework, improving business processes, and optimizing the use of stronger collection enforcement strategies. The total tax arrears were ALL 122.4 billion at end September 2020 compared to ALL 116.9 billion at end December 2019. Of the total stock of arrears, ALL 15.5 billion is subject to dispute. A large percentage of debt (approximately 70 percent) is overdue by more than two years (see Table 6). The tax debt amount includes over 96,500 inactive taxpayers collectively owing ALL 83.3 billion (approximately 68 percent of the total tax inventory). A relatively small number of taxpayers (4,040) collectively owe more than ALL 92.1 billion. The September 2020 stock of tax arrears includes a component resulting from the economic impacts of the pandemic and the GDT’s consequential relief measures.

Table 6. Albania: Tax Debt 2017 - 2020

<table>
<thead>
<tr>
<th>(Amounts are in ALL millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Key information tax arrears</td>
</tr>
<tr>
<td>Number of taxpayers with tax arrears</td>
</tr>
<tr>
<td>Total stock of tax debt</td>
</tr>
<tr>
<td>Of which: debts over two years</td>
</tr>
</tbody>
</table>

Source: GDT Debt Collection Department

54. The GDT has largely implemented new organizational arrangements for the arrears collection function. This restructuring follows FAD advice recommending the consolidating of arrears activities into fewer sites. The consolidation of core functions has become a common approach in many tax administrations to increase operational efficiency by consolidating expertise and knowledge, facilitating consistency in delivery, improving workload management, and delivering economies of scale.

55. The consolidation of the arrears function is a positive organizational development initiative. The tax debt collection activities, which were based in the 13 RTOs have been consolidated into three regional collection offices and in the LTO. This is more than just a relocation of staff and their work to a new location. The structure incorporates the establishment of three distinct work streams—each with clear areas of functional specialization: (i) Monitoring, Analysis and Enforcement Measures; (ii) Field Implementation; and (iii) Legal Proceedings and
Enforced Collections. To support the new structural arrangements, a project working group is driving the design of IT changes and the updating of the debt collection manual.

56. **Priority is increasingly being given to managing higher risk collection cases.** The detailed analysis of active cases assists in making informed decisions on the prioritizing of casework. There is currently a specific focus on managing new debt cases (and reducing the likelihood that it will escalate). Following recent FAD advice\(^{15}\), the GDT is sharpening its focus on the top 100 highest debt cases to ensure these cases are under intensive active management. In addition, an increased focus on managing tax debt owed by State Owned Enterprises is achieving positive outcomes.

57. **Taxpayers are taking advantage of the availability of payment installment agreements, which is a positive development.** The GDT’s use of installment agreements is broadly consistent with international good practice; however, further improvements to optimize the use of these agreements are necessary. Payment installment agreements are a useful option to assist taxpayers who are facing cash flow difficulties, particularly in the current pandemic period.

B. **Areas Needing Improvement**

**Effectiveness of the Arrears Collection Function**

58. **A more strategic approach to managing the arrears collection function is required.** Although there has been some effort to prioritize the management of arrears cases based on risk, it is not yet done in a systemic way. More needs to be done at the HQ level to actively plan the strategic allocation of resources based on comprehensive analysis to achieve the optimum return on the use of those resources (see section II.B above for a discussion on organizational arrangements). This view is consistent with preliminary findings made from a recent audit undertaken by the Supreme State Audit Institution.\(^{16}\) The HQ debt collection team is largely focused on monitoring and reporting and not taking an active role in improving the effectiveness of the operational areas of the arrears collection teams. The GDT needs to allocate resources based on an assessment of risk and identify high risk debt cases that require proactive management.

59. **The under resourcing of the debt collection function represents a significant risk.** There are over 45 staff vacancies across the three regional collection offices. Understaffing of this key function can have a detrimental impact on work output, creating pressure for employees and impacting on the quality of work. In addition, a key principle in managing tax arrears cases is to respond to new debt cases as soon as possible, as early intervention increases the likelihood that the tax debt can be collected. The ability to respond quickly to the new debt cases is impeded if

\(^{15}\) ‘Albania: Strengthening Tax Debt Collection’, Paul Duffus, December 2020

staffing levels are not maintained. A recruitment process is underway, managed centrally by the Department of Public Administration. All efforts should be made to expedite this recruitment process.

Writing-off Uncollectable Tax Arrears

60. A significant proportion of the stock of tax debts are not collectable. As shown in Table 7, 68 percent of the tax arrears relates to inactive taxpayers. In addition, 70 percent of the total arrears inventory is aged over two years.

Table 7. Albania: Active and Inactive Taxpayers with Arrears – September 2020

<table>
<thead>
<tr>
<th>Status</th>
<th>Number of taxpayers</th>
<th>Tax arrears ALL Billions</th>
<th>Percent of total arrears</th>
</tr>
</thead>
<tbody>
<tr>
<td>Active</td>
<td>74,964</td>
<td>39.1</td>
<td>32</td>
</tr>
<tr>
<td>Inactive</td>
<td>96,546</td>
<td>83.3</td>
<td>68</td>
</tr>
<tr>
<td>Total</td>
<td>171,510</td>
<td>122.4</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: GDT Debt Collection Department

61. There is a critical need to write off uncollectable debt when it is uneconomical to pursue or not legally recoverable. There will always be a percentage of the stock of arrears that cannot be collected. International good practice is for debt write-off to be an ongoing action once all reasonable steps to collect the debts are taken. The Tax Procedure Law provides the authority to write off uncollectable tax debt after relevant enforcement measures have been taken. To date, no debt has been written off using this provision. A project approach should be immediately adopted with the initial focus on the largest and oldest debts. A recommended approach has been set out in detail in a recent FAD expert’s report.17

Payment Installment Agreements

62. Payment installment agreements should be more widely used. The availability of installment agreements represents a useful service to taxpayers experiencing cash flow difficulties (particularly in the current pandemic environment). Used correctly, agreements can be a positive taxpayer service, while at the same time increasing the likelihood that the debt will be collected. For this reason, to improve the availability of installment agreements, a web-based (taxpayer self-service) facility should be designed and implemented as soon as practicable.

63. The Debt Collection Department should be responsible for approving payment installment agreements. The current procedures require that installment agreements be signed by the taxpayer and the Director of the RTO. Because of this procedure, the processing of requests for installment agreements is currently assigned to the desk audit section. This approach can result in inconsistencies in approval decisions and provides an unnecessary

opportunity for integrity breaches. Action should be taken to transfer the approval of payment agreements to the Debt Collection Department. This is currently being considered by the GDT.

**Stronger Enforcement Measures**

64. **The GDT needs to use the full range of available enforcement tools.** Good use is made of the outbound call facility as an early intervention measure to minimize tax arrears. Garnishee action is taken to recover money from taxpayers’ bank accounts and to block bank accounts. Suspension of import/export licenses are also used. However, action beyond these interventions is limited. Bankruptcy or insolvency proceedings should also be used where other collection enforcement actions have been exhausted, particularly if the business continues to trade. As a next step, the GDT should develop policies and procedures and develop expertise for taking insolvency/bankruptcy action.

**C. Recommendations**

65. **These are the recommendations for improving the Arrears Collection function:**

- Immediately commence a project to write-off uncollectable debt.
- Continue to expand the use of payment instalment agreements including implementing a web based (taxpayer self-service) facility.
- Assign responsibility for approving payment installment agreements to the Debt Collection Department.
- Develop procedures and expertise for taking insolvency/bankruptcy action.

**VII. IMPROVING REGISTER ACCURACY, TAXPAYER SERVICES, AND VAT REFUND PROCESSES**

**A. Taxpayer Register Accuracy**

**Current Situation**

66. **Recent developments will help to further improve register accuracy.** These include new online facilities for taxpayers to update their register details and increased cooperation with the National Business Center (NBC). While the GDT still cannot unilaterally update the register where primary data (e.g., address or economic code) is found to be incorrect, arrangements are now in place whereby the NBC will verify and correct the register where GDT field staff report
inaccuracies to it. The most recent cooperation agreement with the NBC\textsuperscript{18} also provides for a wider range of data to be exchanged electronically (including on liquidations, mergers, and divisions).

67. **Fiscalization law requirements and the GDT’s growing access to third-party information sources will also provide more opportunities for assuring register integrity.** The GDT will receive extensive additional data relating to business activity locations and descriptions under the fiscalization law (to come into effect in phases in 2021). The GDT is also gaining access to many additional third-party sources (including electricity and water providers), and an Albanian national electronic address register is being planned. Systematic cross-checking of the register against relevant databases (government agencies, utility providers, and other relevant sources) and the newly available fiscalization register information will help to ensure that the main GDT register is kept accurate, complete, and up to date.

**Areas Needing Improvement**

68. **Weaknesses in the accuracy of economic codes were exposed during the GDT’s implementation of pandemic-related financial support programs.** Eligibility for these supports depended on claimants coming within specific economic sectors, so that the accuracy of the relevant NACE code\textsuperscript{19} classifications was key to validation of claims (which were made online to the GDT). For some 6,200 businesses, the economic activity classifications on the GDT register were found to be incorrect and needed to be changed during the administration of these support programs. This experience highlights the need for regular testing (in cooperation with the NBC) of the accuracy of economic codes recorded in the register. Accuracy of economic codes is essential for effective CRM.

69. **The GDT’s operational plans need to place greater emphasis on activities aimed at improving register completeness and accuracy.** Elements of current operational plans include some projects to identify unregistered businesses and employees through field monitoring. There is scope for greater emphasis, focus, and coordination of planned activities that are aimed specifically at improving register completeness and accuracy. This should include systematic cross-checking of available data sources in addition to field work.

**B. Taxpayer Services**

**Current Situation**

70. **Much of the GDT’s taxpayer service effort in 2020 pivoted to supporting pandemic-related financial assistance programs for businesses and employees.** This was a major

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\textsuperscript{18} Dated 29 August 2019.

\textsuperscript{19} NACE (European Classification of Economic Activities) is the European reference framework for the production and dissemination of statistics related to economic activities.
undertaking, which involved dedicated website support, rapid IT systems development, and extensive contact with the call center and RTOs. A GDT public perception survey\textsuperscript{20} (taken in November-December 2020) of its service performance during the pandemic was, with some exceptions, generally favorable.

71. **Some improvements in taxpayer service and simplification of compliance obligations were made in 2020, despite the pandemic.** These included additional online services through the e-Albania portal.\textsuperscript{21} The format of annual financial statement reporting to both the NBC and the GDT has been standardized. New arrangements to pre-populate the monthly VAT declaration of purchases and sales books will come into operation under fiscalization. The DIVA personal income tax declaration form\textsuperscript{22} is also being pre-populated. While the fiscalization implementation timetable was delayed until 2021, extensive consultation with business and tax professionals took place in 2020 about the impact of this change.

**Areas Needing Improvement**

72. **GDT management is committed to developing and publishing a taxpayer service and communications strategy.** There is a good understanding in the GDT of the central importance of using taxpayer services and communications to build public trust and support compliance. However, there is a need, which GDT management acknowledges, to draw together the various stands of service and communication policies into an overarching strategy to chart future directions and guide operational planning. The GDT’s intention is that this strategy document will be developed later in 2021, with assistance from the Swedish Tax Agency.

73. **There are some ongoing issues with the quantity, depth, and clarity of GDT communications and guidance on tax legislation and tax procedures.** Businesses have concerns about the clarity of legislative and procedural guidance. This is evident from an Albanian Investment Council survey published in December 2019, which indicated little improvement in this area over recent years.\textsuperscript{23} Notwithstanding some developments since 2016 in publishing twice-yearly bulletins covering technical rulings and court decisions, tax advisors have expressed dissatisfaction with the quantity and depth of interpretive guidance available to them, given the many “grey areas” in the tax code.\textsuperscript{24}

74. **Support for and engagement with accountants and other tax advisors can be improved.** Accountants and other tax advisers play a key role in the smooth running of any tax

\textsuperscript{20} GDT: Survey – taxpayers in relation to the pandemic, December 2020

\textsuperscript{21} 90 percent of tax-related certificates that previously (before development the e-Albania platform) required a “rubber stamp” at GDT service counters can now be issued via online self-service.

\textsuperscript{22} This annual declaration is completed by individuals having income of more than ALL 2 million or having more than one employment.


\textsuperscript{24} Interview between FAD mission team and representatives of Albanian accountancy bodies in November 2018.
system, which is why tailored communications channels and regular engagement mechanisms are needed for this important intermediary group—and such arrangements are in place in most modern tax administrations. A welcome development is the recent cooperation arrangement between the GDT and the Institute of Certified Accountants (although the formal agreement is not yet signed). The GDT should also consider introducing a separate area of the website for tax professionals.

C. Timely Payment of VAT Refunds

Current Situation and Issues

Stock of Unpaid VAT Refund Arrears

75. The stock of VAT refund arrears is on a downward trend. The stock of unpaid VAT refund arrears at end-2020 stood at ALL 9.8 billion—reduced from ALL 11.3 billion at end-2019 (and ALL 16.8 billion at end-2018). Non-payment of approved VAT refunds has been an ongoing problem for many years—reflecting over-optimistic revenue forecasting, with budget gaps being partially financed by delaying payment of legitimate VAT refunds. In recent years, refund arrears have been mainly concentrated in three companies (involved in pipeline construction, hydropower generation, and oil exploration). Table 8 shows the breakdown of refund arrears between these three companies, exporters, and other businesses at end-December 2020. The GDT publishes quarterly, on its website, information on the VAT refund arrears stock position.

Table 8. Albania: VAT Refund Situation at End-December 2020

<table>
<thead>
<tr>
<th>Businesses</th>
<th>Stock of VAT refund claims in payment arrears</th>
<th>Stock of VAT refund claims not in payment arrears*</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of cases</td>
<td>Number of taxpayers</td>
</tr>
<tr>
<td>Pipeline</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Hydro power</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Oil exploration</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Exporters</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Other businesses</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>12</strong></td>
<td><strong>9</strong></td>
</tr>
</tbody>
</table>

Source: GDT

76. VAT refund payment-by-installment arrangements for high-value claims, although incompatible with VAT principles, have recently been formalized. Prior to February 2020, the three companies with the largest refunds due were being paid by installments under bi-lateral agreements with the GDT. A Council of Ministers decision of 13 February 2020 provided a formal basis for VAT refund-by-installment agreements—specifically where claims exceed ALL 150
million. No interest is payable under these arrangements, which can extend for up to two years, and there are special provisions for treating the refund arrears as collateral for a bank loan. The GDT has entered into five new installment agreements (in addition to the three “legacy” agreements) for such cases since the Council of Ministers decision came into effect. Refund-by-installment arrangements have no place in a fully functioning VAT system. The Council of Ministers decision of February 2020 should be rescinded once the three legacy arrears cases have been settled. All valid refund claims, regardless of amount, should be repaid in full within the statutory time limits.

77. **The GDT has indicated that it has a target of zero VAT refund arrears by end-2021.** The mission was told that the GDT is committed to settling in full the largest refund arrears case (the pipeline company) by end-June 2021. If this commitment is met, it will reduce the end-2020 arrears stock by some 73 percent. The GDT has also indicated that it is targeting a zero overall refund arrears stock position by end-2021. This is notwithstanding that new cases with claims over ALL 150 million are not being repaid in full as the claims are approved but instead are being placed on installment arrangements that can extend beyond 2021.

**Processing of VAT Refund Claims**

78. **Process improvements have halved the time for approving VAT refund requests.** In 2020, the average interval between a VAT refund request and the transfer by the GDT to the Treasury for payment was 83 days; the equivalent time in 2019 was 170 days. This improvement was largely due to more streamlined (risk-based) decision-making and workflows introduced in April 2020. Changes planned for 2021 include a new IT platform for VAT refunds, which will allow for refund requests to be made online and will automatically apply interest where the refund is not made within the legal time limits.25

**Eligibility requirements for VAT Refund**

79. **Current eligibility requirements for VAT refund are overly restrictive and incompatible with EU norms.** Except for exporters, a taxpayer must be in a VAT credit situation for three consecutive months before a VAT refund can be claimed—and the credit amount must exceed ALL 400,000 at the end of the third month. This means that a business with one-off or irregular significant purchases or investments resulting in negative VAT cannot get the opportunity to claim a refund. This is at odds with the general principles of VAT: if a taxpayer is in credit, he should be able to claim a refund without pre-conditions (unless other tax is owed). Furthermore, a declaration showing negative VAT should automatically be regarded as a refund claim, without the need for an explicit claim.

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25 60 days generally, and 30 days for certain exporters.
D. Recommendations

80. These are the recommendations for improving Taxpayer Registration, Taxpayer Services, and VAT Refund Processes:

Tax Register Accuracy

• Ensure that operational plans put more emphasis on improving register completeness and accuracy, including systematic cross-checking of relevant third-party data.

• Develop a program (in cooperation with the NBC) to test, on an ongoing basis, the accuracy of economic activity codes recorded on the register.

Taxpayer Services

• Develop and publish a taxpayer service and communications strategy by end-2021.

• Improve the range, depth, and clarity of published tax law interpretation and procedural guidance and provide a dedicated website area for tax advisors.

Timely Payment of VAT Refunds

• Pay all valid VAT refund claims within the prescribed legal time limits and reduce the current payment-by-installment arrangements to zero as soon as possible.

• For the Ministry of Finance and Economy (MOFE): Seek a legislative amendment to refund credits without any minimum carry forward period and without a requirement for taxpayer to submit a separate refund claim.

VIII. MOBILIZING CAPACITY DEVELOPMENT SUPPORT

A. Background and Issues

81. For more than a decade, the authorities have received support from several external providers to facilitate the GDT’s reform efforts—with good progress as the result—as is evident from this and previous FAD mission reports. During 2020, in addition to FAD, the WB provided support to the development of a compliance project concerning the under declaration of wages (“Letter Project”).

82. The FAD CD support during the period of May 1, 2020 to April 30, 2021 is summarized below:
• One remote FAD mission delivered in January/February 2021 to take stock of GDT development efforts and to provide recommendations on the way forward.
• Ongoing support throughout the year from the Slovenia-based regional FAD advisor.
• Remote short-term expert assignments planned/delivered as shown in Table 9.

Table 9. Albania: Short-Term Expert Assignments to the GDT, May 1, 2020 – April 30, 2021

<table>
<thead>
<tr>
<th>Delivery period</th>
<th>Area of support</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>September/December 2020</td>
<td>Consolidation and reengineering of tax debt collection</td>
<td>Delivered</td>
</tr>
<tr>
<td>November 2020 – January 2021</td>
<td>Compliance management of high-wealth-individuals</td>
<td>Delivered</td>
</tr>
<tr>
<td>March/April 2021</td>
<td>Development of capacity in data analytics</td>
<td>Confirmed</td>
</tr>
<tr>
<td>March/April 2021</td>
<td>Compliance management of high-wealth-individuals</td>
<td>Confirmed</td>
</tr>
<tr>
<td>March/April 2021</td>
<td>Development and implementation of CRM projects</td>
<td>Confirmed</td>
</tr>
<tr>
<td>March/April 2021</td>
<td>Consolidation and reengineering of tax debt collection</td>
<td>Confirmed</td>
</tr>
</tbody>
</table>

83. Continued external support is required to facilitate the consolidation the GDT achievements so far and to further strengthen the administration. Going forward, the authorities have secured much needed support from several external providers, including from the Swedish Tax Administration,26 the EU,27 and FAD.28

84. FAD’s preliminary CD plan during May 2021 to April 2022, which has been agreed in principle with the GDT, is as follows:

• One FAD HQ mission (likely a Tax Administration Diagnostic Assessment Tool (TADAT29) to be delivered in January/February 2022.
• Ongoing support from the Slovenia-based regional FAD advisor.
• Short-term expert remote assignments and visits planned as shown in Table 10.

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26 Following several meetings with the Albanian authorities, the Swedish Tax Agency is currently drafting a project proposal for an inception phase of one year of CD support to the GDT. The preliminary thoughts are that the focus may be on taxpayer services; integrity enhancements; CRM (“soft components” like communication and services); tax audit and investigations; automatic information exchange with authorities abroad; VIES (VAT Information Exchange System, an electronic means of transmitting information relating to VAT registration of companies registered in the European Union); and business process redesign. This initial cooperation is expected to develop into an agreement on a more long-term cooperation for about 3 years that would commence in 2022.

27 The EU has financed activities by a Netherlands’ consultancy that in 2020 developed a broad roadmap for the establishment of a Tax and Customs Administration Training Academy. It is foreseen that components of the training will be outsourced to, for example, universities. It is expected that the implementation of components of this roadmap to establish a proper and much needed Training Academy will commence during 2021.

28 The FAD CD support shown in Tables 9 and 10 is delivered by FAD with financial support from the EU and SECO.

29 The Tax Administration Diagnostic Assessment Tool (TADAT) is designed to provide an objective assessment of the health of key components of a country’s system of tax administration. See www.tadat.org.
### Table 10. Albania: Short-Term Expert Assignments to the GDT, May 1, 2021 - April 30, 2022

<table>
<thead>
<tr>
<th>Delivery period</th>
<th>Area of support</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>June/July 2021</td>
<td>Compliance management of high-wealth-individuals</td>
<td>All activities are in the planning state (*)</td>
</tr>
<tr>
<td>June/July 2021</td>
<td>Development of capacity in data analytics</td>
<td></td>
</tr>
<tr>
<td>September/October 2021</td>
<td>Field organization structure and workload allocation</td>
<td></td>
</tr>
<tr>
<td>September/October 2021</td>
<td>Development of annual compliance plan 2022</td>
<td></td>
</tr>
<tr>
<td>January/February 2022</td>
<td>Development of capacity in data analytics</td>
<td></td>
</tr>
<tr>
<td>January/February 2022</td>
<td>Compliance management of high-wealth-individuals</td>
<td></td>
</tr>
<tr>
<td>March/April 2022</td>
<td>Field organization structure and workload allocation</td>
<td></td>
</tr>
</tbody>
</table>

(*). Depending on FAD and GDT delivery/absorption capacities, it may be possible to deliver a few additional short-term expert assignments/visits.

### 85. A couple of priority areas are currently without the level of CD support needed.

As is evident from the body of this report, the tax audit function is weak and would require considerably more external input than is possible through the current FAD CD project. The GDT would need to explore options for large-scale external support over several years (probably from a single provider and the new Tax and Customs Academy) to overhaul both the theoretical and the practical upskilling of auditors to achieve a complete shift in audit approach and focus. Only when this is achieved will the implementation of compliance strategies have a lasting impact on taxpayer compliance and the tax gap. Providing emerging and new managers with leadership training and/or executive coaching would also be very beneficial for the GDT’s reform and operational efforts, as well as employee relationships.
## Appendix I. Implementation of the January 2019 FAD Mission Report Recommendations

### Section II: Improving Governance and Organizational Arrangements

<table>
<thead>
<tr>
<th>Mission Recommendations</th>
<th>Status of Implementing the Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Schedule more regular meetings of the Reform Management Committee to drive the reform agenda and keep the strategic plan under review.</td>
<td><strong>Implemented.</strong></td>
</tr>
<tr>
<td>2. Appoint a third Deputy Director into the vacant role as soon as possible and accelerate the filling of other vacancies across the organization.</td>
<td><strong>Not Implemented.</strong> There are still only two Deputy DGs and there are approximately 200 other vacancies.</td>
</tr>
<tr>
<td>3. Pursue options to give the GDT greater autonomy to adjust organizational structures and deploy resources.</td>
<td><strong>Not Implemented.</strong></td>
</tr>
<tr>
<td>4. Establish a strong governance process for the management of the new IT contract at the senior level in the GDT.</td>
<td><strong>Implemented.</strong> Managed through the Strategic Management Group.</td>
</tr>
<tr>
<td>5. Develop an overarching strategy to build a strong integrity culture across the workforce and address corruption risks.</td>
<td><strong>Not Implemented.</strong> However, several measures have recently been implemented to strengthen integrity assurance. A new position at senior level has been established (jointly reporting to the DG and the Ministry for Justice) for promoting, monitoring and enforcing the government’s anti-corruption strategy.</td>
</tr>
</tbody>
</table>

### Section III: Strengthening the Large Taxpayer Office

<table>
<thead>
<tr>
<th>Mission Recommendations</th>
<th>Status of Implementing the Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>6. Revise the large taxpayer criteria to ensure that all the largest taxpayers are managed by the LTO.</td>
<td><strong>Implemented:</strong> However, affiliates are not yet included.</td>
</tr>
<tr>
<td>7. Establish a risk management unit in the LTO to support implementation of the risk differentiation framework, including tax revenue analysis and taxpayer profiling.</td>
<td><strong>Partially Implemented:</strong> Risk management unit has been established, but its main task to risk profile the taxpayer segment has not progressed sufficiently.</td>
</tr>
<tr>
<td>8. Review the range of tasks undertaken by LTO Desk Audit and determine more appropriate organization arrangements for non-audit work.</td>
<td><strong>Not Implemented:</strong> While LTO has started to use desk audits and increase the number of single issues audits, the review of tasks for non-audit work has not yet been undertaken.</td>
</tr>
</tbody>
</table>

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<table>
<thead>
<tr>
<th>9. Finalize the arrangements to consolidate the three existing transfer pricing teams into a single unit within the LTO.</th>
<th>Implemented: There is now one transfer pricing team within the LTO.</th>
</tr>
</thead>
</table>

**Section IV: Strengthening Compliance Risk Management**

<table>
<thead>
<tr>
<th>10. Broaden the access to and use of third-party data, including automatic reporting of bank data—and procure a data-warehouse and analytical tools.</th>
<th>Partially Implemented. There is an increase in available third-party data: e.g. information from electricity and water utility companies, Customs, and Tirana Municipality. There is no automatic reporting of domestic bank account data. A data warehouse has been procured but is not yet operational.</th>
</tr>
</thead>
<tbody>
<tr>
<td>11. Develop a data management strategy that optimizes the use of data from all sources, including the data from e-fiscalization.</td>
<td>Not implemented.</td>
</tr>
<tr>
<td>12. Enhance the CRM work to progress the development of a multiyear compliance improvement plan.</td>
<td>Partially implemented. Work on developing a comprehensive compliance strategy has started.</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>13. 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.</th>
<th>Partially Implemented: While the law still provides that the GDT cannot unilaterally update the register where primary data (e.g., address or activity code) is found to be incorrect, arrangements are now in place whereby NBC will verify and correct the register where GDT field staff report inaccuracies to it.</th>
</tr>
</thead>
<tbody>
<tr>
<td>14. Develop a program to test the accuracy of the register, in cooperation with the NBC, including the accuracy of the passive register.</td>
<td>Not implemented: There is no structured program to test register accuracy (the scale of incorrect activity codes was highlighted during the GDT's administration of sector-based pandemic financial support programs).</td>
</tr>
<tr>
<td>15. Develop a taxpayer service strategy and put in place clear governance arrangements to steer its coordinated implementation.</td>
<td>Not implemented: However, a taxpayer service and communications strategy document is planned for 2021—with assistance from the Swedish Tax Agency.</td>
</tr>
<tr>
<td>16. Engage and involve taxpayers and tax intermediaries in tax product and process design with a view to simplifying compliance and reducing costs.</td>
<td>Partially implemented: There is engagement with businesses and tax advisors on major tax changes (e.g., fiscalization) and new cooperation arrangements are in place with the Albanian Institute of Certified Accountants. However, these focus more on implementation of settled policy rather than engagement on tax product and process design.</td>
</tr>
<tr>
<td>17. Expand the range of published technical interpretive guidance.</td>
<td>Not implemented: No significant improvement—there are ongoing concerns about the quantity,</td>
</tr>
</tbody>
</table>
## Section VI: Improving Tax Arrears Collection

| 18. | Develop a strategy to write-off uncollectable tax arrears following the legislative amendments. | Not implemented. There is no write-off strategy and no write-offs have taken place, although some work has been done to develop necessary procedures. |
| 19. | Appoint the project manager of the consolidated tax arrears pilot and progress the work to develop the detailed design. | Implemented. The consolidation of most debt collection activities into three sites has been completed. |

## Section VII: Improving Audit

| 20. | Undertake analysis to understand the reasons for the low collection rates on audit assessments and develop appropriate responses. | Not implemented. Efforts have commenced to develop a system to monitor the collection of audit assessment. |
| 21. | Undertake analysis of the role and performance of the desk audit function to improve audit outcomes and eliminate low value work. | Partially implemented. A separate unit in the audit department now monitors the desk audits. The analysis to improve the desk audit function is at an early stage. |

## Section VIII: Getting Taxpayer Appeals Right

| 22. | Transfer the MOFE’s taxpayer appeal function back to the GDT. | Not reviewed |
| 23. | Improve transparency by publishing anonymized summaries of administrative appeal outcomes, and statistics relating to appeals and outcomes. |  |
| 24. | Improve procedural fairness by allowing, for genuine cases in exceptional circumstances, some flexibility to the tax payment/guarantee and appeal time limit pre-conditions. |  |
| 25. | Reduce the time taken to finalize appeals and review procedures for dealing with low-value penalty appeals. |  |

## Section IX: Timely Payment of VAT Refunds

<p>| 26. | Pay the outstanding stock of VAT claims as quickly as possible. | Partially implemented: The stock of refund arrears was ALL 9.8 bn at end-2020 – reduced from ALL 11.25 bn at end-2019 (and ALL 16.8 billion at end-2018). The GDT has committed to refunding 73 percent of the end-2020 arrears (the pipeline company) by June 30, 2021. Process improvements |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>27. MOFE to improve the forecasting of net tax revenue to ensure that funds are available to pay all legitimate VAT refund claims immediately.</strong></td>
<td><strong>Not implemented:</strong> While there is a target to have zero refund arrears by end-2020, new high-value refund claims (&gt; ALL 150 m) are not being refunded once approved but are being paid by instalments (which can extend up to 2 years) under a legal provision introduced in February 2020.</td>
</tr>
<tr>
<td><strong>28. 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.</strong></td>
<td><strong>Not implemented:</strong> Except for exporters, a taxpayer still needs to be in a VAT credit situation for three consecutive months before a VAT refund can be claimed – and the credit amount must exceed ALL 400,000 at the end of the third month. Also, an explicit VAT refund claim must still be made.</td>
</tr>
</tbody>
</table>