

Impact of Tax Structure on The Business Environment

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Abstract: Taxes are the main source of income for a government. The government uses tax revenues to fund infrastructure projects and other public services. For the tax system to be efficient it must distribute the tax burden fairly to both individuals and businesses. This study aims to highlight the role that the tax system and legislation have in the business climate. We will define what a tax means, what tax administration means and what are the main constituent taxes of a tax system. We will describe and analyze the questionnaire distributed to businesses to see how businesses react to the successive changes of tax legislation in the country.

Key Words: Business, Legislation, Tax

1. INTRODUCTION

The tax system is very essential for a country's economy. Many changes can take place in the tax system from year to year. These changes affect the entire economic system and the business in particular. Informing and adapting to tax legislation requires time and resources. This study will address the impact that the tax system has on business activity. We will see how changes that occur in the tax system cause changes in the business climate as well. Factors that will be considered are revenues and profits, prices of products and services, competition, relationships with customers and suppliers, etc.

(Romer & Romer, 2010) are two researchers who have proven that there is a close link between tax changes and economic growth. There are different types of econometric approaches applied. Some studies link the level of GDP growth and public spending. (Andersen & Jordan, 1968)

Another study by (Gale & Orszag, 2004) has dealt with the link that exists between changes in taxes and consumption. For example an increase in taxes would immediately lead to a negative effect on consumption. (Kormendi, 1983)

The experience of OECD countries has been analyzed by (Widmalm, 2001), (Schwellnus & Arnold, 2008) and (Vartia, 2008). (Widmalm, 2001) managed to discover a negative relationship between budget revenues collected from income taxes and the growth of economic activity. According to the findings, conventional forecasts for the negative effects of indirect taxes on the economy are not confirmed. Empirical results from the analyzes of (Schwellnus & Arnold, 2008) and (Vartia, 2008) show a negative effect of corporate taxes on the productivity of firms and industries, based on large data sets of firms and industries

across OECD countries . Developing countries in general are struggling to move towards increasing domestic revenues for development. To address this issue, researchers have discussed, among other things, that expanding the tax network is the right way to go. For business to thrive in the country, it must have a good infrastructure such as roads, telecommunications, electricity, etc. This infrastructure is developed by governments or through close government involvement. When governments raise tax money, they invest that money in developing this infrastructure and in turn promoting economic activity throughout the country. The concept of taxation is also important for businesses because governments can finance this money back into the economy in the form of loans or other forms of financing. Taxes help raise the standard of living in a country. The higher the standard of living, the stronger and higher the level of consumption. Businesses have the opportunity to thrive when there is a market for their products and services. Taxes are essential and every citizen intends to receive the benefits of these taxes. This is why it is important for citizens to try to pay taxes and understand that it is meant to be more than just a "money grab" by the government. Governments use tax policy to achieve many goals, from revenue collection to running business decisions. For business executives, taxes represent another cost involved in generating revenue.

2. MATERIAL AND METHODS

An online questionnaire was used to collect data on the impact that changes in the tax system have on the business climate. The questionnaire was distributed to businesses of different sectors and was completed by business owners, managers or economists.

In this way they can also see a point of view from individuals who have different positions and roles in business management.

Key questions relate to information about the tax system and legislation and are further considered if occasional changes affect the following issues:

- ☐ how they manage the business;
- ☐ the relationship with customers and suppliers;
- ☐ sources of business financing;
- ☐ prices of products and services;
- ☐ competition etc.

The first question of the questionnaire is related to the age of the interviewees. We note that more than half of the persons are aged 25-35, ie relatively young. It then ranks ages 36 to 45 continuing with

ages up to 55, and only 10 people are over 55 years old. The result around age is very positive for the Albanian economy, as it means that many young people are getting involved in the world of entrepreneurship which positively affects the economy. Youth entrepreneurship is an important tool in stimulating the economy of the region as each entrepreneur brings benefits not only for himself, but for the municipality, the region or the state as a whole. Youth entrepreneurship can lead to the development of more industries, especially in rural areas or regions unfavorable to economic change by encouraging the processing of domestic materials into goods ready for domestic consumption and export.

3. RESULTS AND DISCUSSIONS

Table 1: Number of business by sector

Economic Activity	Number	Tirana Municipality
Agriculture, Forests and Fishing	42099	422
Industry	10215	2905
Construction	4602	1993
Trade	46643	15538
Transport and Storage	5765	1654
Accommodation and food service	20185	5971
Communication and Information	2974	1996
Other services	30352	16078

Source : INSTAT, 2019

Table 2: Business classification based on annual turnover

Classification	Number of Employees	Annual Turnover in ALL
Microenterprise	One to nine	To ten million
Small enterprise	Ten to forty-nine	To fifty million
Medium Enterprise	Fifty to two hundred and forty-nine	To two hundred and fifty million
Big Enterprise	Over two hundred and fifty	More than two hundred and fifty million

Source: INSTAT, 2019

Figure 1: Age of the Interviewers

Mosha

96 responses

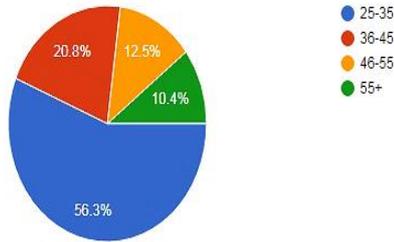
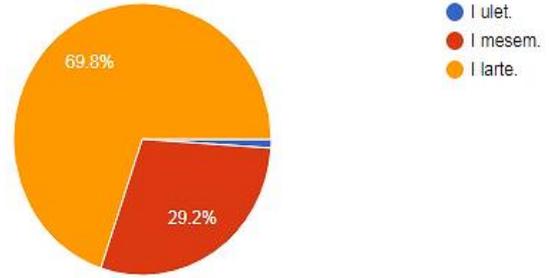


Figure 2 : Level of Education



Most of the respondents have higher education, almost 30% have secondary education (specifically 28 persons) and only 1 of the respondents has a low level of education.

Table 3: Job Position of the interviewers

Position	Number of interviewers
Owner	43
Manager	12
Assistant Manager	2
Economist	21
Other	18

The table above shows the division of respondents based on the position they hold in business. As we mentioned, these different views will give us a more accurate result and conclusion about the purpose of the study. Most of the individuals who responded are in the position of owner, followed by the position of economist and other positions.

In the following we will look at the classification of businesses taken in the study, based on the number of employees they have. The table is as follows. Most businesses have a small number of employees, with 1 to 3 employees, the second place is occupied by businesses that have more than 10 employees, followed by businesses with 4 to 5 employees and finally businesses that employ 6 to 10 individuals in their activity.

Table 4: Business division based on number of employees

Number of Employees	Number of businesses
1-3	43
4-5	16
6-10	8
More than 10	29

Table 5: Breakdown of businesses based on size by turnover

Business size	Number
Small	39
Medium	27
Huge	30

In the case of businesses that are part of the study, 63 of them are informed about the Albanian tax legislation and 47 are informed from time to time about the changes that occur. Negative answers about this question were given by only 7 businesses that have no knowledge about the legislation and 12 who are not informed when changes occur. However 26 businesses have some knowledge about the tax system and 37 businesses are only partially informed about the changes that occur in the legislation. Based on the answers given, we can say that the result is somewhat satisfactory, however we must also consider the position of the interviewees in the business, as they may be in a position in which they have other employees in charge of managing part of the tax liabilities.

Respondents were asked about the frequency of changes in Albanian tax legislation. Almost 60% think that changes are somewhat frequent, 35.4% think that they are very frequent and only 5 of the businesses say that changes are rare. Changes in the tax system are important in order to facilitate businesses and consequently tax collection. Albania is still a developing country and the tax system remains almost unknown to most businesses. Based on the answers, it can be said that businesses think that changes in legislation should be less frequent. This will make it easier for businesses to adapt and familiarize themselves with the legislation as frequent changes may even disorient business entities.

Tax planners calculate additional costs at the marginal rate of the business, the rate at which each new monetary unit would be taxed. For example, a business that is part of the 40 percent tax group would spend 40 cents on every additional dollar spent on taxes.

Regarding the question whether changes in legislation affect the profitability of their businesses, more than half answered that it has an impact, 31 out of 96 businesses said that the changes partially affect their profitability and only 14 businesses say that the changes have no impact.

The next question relates to how the business is managed. So does the tax system have an impact on how a business is managed?

A positive response was given by 41 people for yes, and 41 people for a partial impact. Meanwhile, only 14 people gave a negative answer.

The following question relates to the sources of financing a business and the impact of the tax system on this factor. Profitable businesses are created in order to generate returns on the money invested. When a business does not have enough

capital to open two ventures to make money at the same time and has to decide which one to pursue, managers examine the comparative returns offered by each venture. Comparing returns requires calculating the cash flow after tax, which depends on the tax treatment of each activity. If tax rates increase, it reduces the return offered by any taxable activity. But if the other activity can face a tax cut or can benefit from a loan, it can result in a more attractive investment. So the sources of financing are related to taxes as it affects both the choice of investments and the way the business is financed. The surveyed businesses are expressed in this form: 51 of them give a positive answer, 36 are a partially positive answer and only 9 of them say that the changes have no impact. In the same way 29 businesses express that the changes have a partial impact and only 13 businesses express negatively about the impact of the changes in their supply. Regarding the relationship with suppliers, 79 businesses give a positive and partially positive answer and only 17 businesses give a negative answer. The questionnaire further continues with the relationship that the business has with customers. 43 businesses say that the changes in the system have an impact on customer relations, 20 businesses respond negatively and 33 businesses think that the changes only partially affect this topic. The further question again relates to the prices of products and services but more specifically to the frequency of these changes. More than half, about 52% of businesses say that changes in the prices of products and services they offer are somewhat frequent, 36.5% (specifically 35 businesses) say that changes are rare and only 11.5% say that prices change infrequently of them.

4. CONCLUSIONS

The tax system is one of the most important stimulus factors of the economy and competition. Continuous improvement of fiscal policy and increasing the efficiency of the tax system can bring very favorable results. It is important that the tax system is fair to economic actors and should respond to changes in the economy with a stabilizing effect and should not distort the efficient use of factors of production. (Nagy, 2017) The decisions of economic players are undoubtedly influenced by tax regulations. Not only radical changes but also the smallest changes have an impact on their behavior. Regarding whether or not the tax system affects the competitiveness of businesses, 48 of the respondents gave a positive answer, 27 responded that the tax system partially affects this issue and 21 businesses responded that it had no impact.

Finally, to be an entrepreneur, it is important to have knowledge about the fiscal package of the country where you operate as well as the tax system. The government should try to apply a tax system that is simple to adapt and also efficient in its main purpose.

The questionnaire aimed to highlight the impact of changes occurring in the tax system on the business environment. We can conclude that businesses in Albania still have difficulties in properly informing about Albanian tax legislation and that there are somewhat frequent changes in the system. The latter makes it even more difficult for businesses to adapt to the system while also increasing the possibility of tax evasion. Legislation and the changes that accompany it also affect the business climate, the way the business is managed, the sources of financing and also the relationship with suppliers and customers. In Albania, more efforts should be made to increase the efficiency of the tax system and one of the ways to do this is the modernization and digitalization of taxes

Based on the results of the study we can say that it is necessary to take the following measures:

The tax regulations they regulate should be simplified in order to facilitate the adaptation of businesses to them;

The use of information technology should be encouraged;

Tax administrators need to perform their duties more efficiently with more care and integrity as this will help debate issues such as a high tax rate

Tax administrators need to improve their business support services (especially small and medium-sized businesses) so that landlords have the opportunity to be educated and informed about every aspect of the system.

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