

Review Paper

The Taxation System in the International Arena

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ABSTRACT

The purpose of the article is to study the existing taxation systems in order to work out the results of their effectiveness. The following methods were applied within this article: dialectical method, historical and hermeneutic methods, systematic method, formal-legal method, logical method, direct method, induction and deduction method, modeling and system analysis method, axiomatic method, and others. The results of the study are the definition of basic concepts and terms: tax, taxation system, international taxation system; the need for the existence of an international taxation system has been established; the EU tax system has been analysed; two major international taxation systems have been characterised; a study of the Albanian tax field has been performed. The terms laid down in this article are of practical value for public authorities and people in charge whose powers include the improvement and reform of the tax system of Albania, as well as for individuals and legal entities that are, to one degree or another, participants in tax relations.

HIGHLIGHTS

- The relevance of this topic lies in the need for conducting a study of the existing taxation system in the world, in particular within countries of the European Union, with the aim of adopting their taxation experience for Albania, as well as for the implementation of the European integration course chosen by it and its economic growth.

Keywords: Tax policy, euro-integration, taxes, reforms, VAT

The tax system of any country is always developing and being reformed, adapting to new realia and the modern economic world. W.D. Samson (2002) considered that an effective and well-functioning taxation system is a guarantee and a necessary component of the country's sustainable economic development. Taxes are the basis of every country in the world, however, after the appearance of income taxes and profit tax, the importance and role of international coordination and regulation of taxes has increased.

O. Prokopchuk (2016) noted in the researches that in the modern conditions of market relations, the tax system acts as one of the major factors and elements of regulating and functioning the social and economic spheres of life. E. Lomaka (2019) also believed that in the market economy and market

relations' conditions, the taxation system acts as one of the most important regulators of the economy and finance-credit mechanism in the country.

The tax system is an essential factor that significantly affects both the country's economy in general and business activity. According to B. Roach (2019), the nation should have a tax system that looks like someone designed it on purpose. After the mission in Albania, the International Monetary Fund (IMF) (2022) has noted in its report that the taxation system of Albania is somewhat problematic to a certain extent, and needs improvement and reform, in particular regarding the abolition of some tax

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benefits, such as private education and healthcare. The taxation system is one of the fundamental components of sustainable economic development of the country. Albania actively supports the course of European integration and has been an official candidate for joining the European Union (EU) since 2014 (European Council, 2004).

The purpose of this article is to clarify the peculiarities of taxation systems in different countries of the world.

MATERIALS AND METHODS

A number of general and special scientific methods were applied within this research. Dialectical, logical and formal-legal methods of scientific knowledge became the major tools of argumentation of the obtained research results. Thus, with the help of the dialectical method, an analysis of international taxation systems, as well as tax systems of individual countries, has been done. The formal-legal method was applied in order to establish the peculiarities and legal regulation of the EU's tax system. By using the logical method, it became possible to conduct research and compare the tax systems of Great Britain and Albania. The application of the system-structural method made it possible to find out the tax system of different countries and compare it with the taxation system of Albania.

The axiomatic method contributed to clarifying the essence of the following concepts: "taxes", the taxation system and the international taxation system. By using the direct method, the peculiarities of the taxation system of the United States of America and Great Britain have been clarified. The comparative legal method of research was used to analyse and compare the tax systems of Albania and other countries of the world in order to possibly adopt these countries' experience to improve the Albanian tax system. Formal and dialectical logic methods have contributed to tracing and clarifying the possibilities of adaptation of other countries' experience regarding the regulation and functioning of the taxation system. When considering specific types of taxes, the method of systematic analysis was used, which contributed to the study of the peculiarities of individual taxes. Also, with the help of system analysis, the works of scientists who studied the issue of regulation of the tax system were analysed.

The study of the international taxation system was carried out on the basis and with the help of the scientific abstraction method, which contributed to the establishment of the legal framework for the regulation of the tax system, as well as to the definition of the major concepts. The structural-functional method was applied in order to clarify the existing problems in the tax system of Albania, as well as the implemented reforms aimed at solving problems and improving the tax field. By using the hermeneutic method, it became possible to establish the main international taxation systems and clarify their essence and purpose, as well as establish and analyse the legal acts that regulate the tax system of the EU.

The logical method was used in order to form scientific and theoretical generalisations and conclusions from the conducted research. The terms and concepts used in this study were interpreted with the help of formal and dogmatic analysis. The method was to analyse the scientists' works on the issue of international taxation systems and draw conclusions based upon these works, as well as to analyse the territorial and worldwide taxation system. The method of argumentation was used when substantiating the truth of the specified judgments within this article's statements. Using the structural-functional method, an analysis of the functioning of the tax system in Albania was carried out, and the types of taxes payable were also characterised. The methods of generalisation and complex analysis contributed to the study of the experience of the EU countries in the field of regulation of the taxation system.

RESULTS

There are several systems of taxation: worldwide and territorial, taxation based upon citizenship, taxation of residents (Asen, 2020). The essence of the worldwide taxation system is that legal entities and individuals are taxed according to the income they receive, regardless of the place of receipt of such income. The territorial tax system, which is actively used in European countries, involves the fact that international companies pay taxes to those countries in which they are located, that is, the place where they carry out their activities, and receive profits from their activities. Thus, the territorial taxation system allows companies not to include income

from taxation received abroad in the domestic tax system (An Roinn Airgeadais, 2021).

The unification of a number of countries into the EU contributed to and necessitated the harmonisation of tax legislation of EU member states, as well as the development of a single strategy for tax policy coordination. The Maastricht Treaty (Treaty on European Union, 1992) specifies the major terms on the unification and peculiarities of the payment of taxes and the tax system of the EU).

The tax policy of the EU is aimed at (Kasyanenko, 2017): harmonisation of the tax legislation of the countries that are part of the EU; ensuring the implementation, guarantee and protection of the basic freedoms enshrined in the EU Treaty, namely the freedom of movement of persons, services, goods and capital; elimination of tax discrimination and tax barriers in the internal market of the EU; creation of new mechanisms to fight double taxation; coordination of joint steps to fight tax offenses; prohibition of unfair tax competition.

One of the important tax reforms that took place on the territory of the EU was the tax reform in Germany in 2014. According to this reform, a new taxation system for small businesses has been introduced. The essence of this new system was that representatives of small businesses could get a tax holiday for a period of 3 years, while they had to have profitability for the last 3 years (Danilov, 2020). Legal regulation of the tax system and tax policy of the EU is divided into two groups of legal acts: legal acts adopted within the EU (Treaty establishing the EU (Treaty on European Union, 1992), various regulations and directives, generally accepted principles and practice of the EU on tax issues); national legal acts of each of the member countries of the EU.

Within the EU, a considerable number of regulations and directives were adopted, which are the sources of EU tax law and are designed to regulate the tax field, namely Directive from 1986 (86/560/EEC), the purpose of which is to harmonise the tax legislation of the member states of the EU, which primarily regulates turnover tax – measures to reimburse value added tax to taxpayers who are not registered on the territory of the union (Council of the European Union, 1986); Council Directive 2006/112/EC: This Directive regulates the unified value added

tax system (Council of the European Union, 2006); Council Directive 2007/74/EC: The corresponding Directive established exemption from excise duty and value added tax for goods imported from third countries (Council of the European Union, 2007).

The French tax field is characterised by the fact that France was the first country to apply the value added tax (VAT). In France, taxes are divided into two groups: direct and indirect. Indirect taxes include: VAT; excise taxes on tobacco, alcohol and matches; gasoline allowance; taxes on registration of operations and services (Lomaka, 2019). Direct taxes include: property tax; corporate income tax; income tax for individuals; general social tax.

Taxes form the basis of revenues for the national and local budget of Albania. The tax legislation of Albania mostly provides for the application of the principle of worldwide taxation. Taxation in Albania is regulated by international acts, laws, regulations, tax agreements and instructions. Albania's taxation system consists of the following taxes: personal income tax, value added tax, excise tax, national tax, local tax, real estate tax and profit tax (Koprencka *et al.* 2013).

The corporate income tax rate in Albania is fixed at 15%. Thus, the relevant rate is calculated on the basis of taxable profit calculated as taxable income excluding expenses (Albania. Corporate..., 2022). It should be noted that a significant problem of the effective functioning of the tax system in Albania is tax evasion, which severely harms tax revenues for the country's budget (Plaku, and Hysa, 2019). The major suggested changes, which directly affect citizens, are an increase in the minimum taxable salary to 40000 Albanian Lek (\$362) per month, as well as a 50% reduction in the tax rate for taxpayers with salary income of 40001 Albanian Lek (USD 362.00905) to 50000 Albanian Lek (USD 452.50) per month (Likaj, 2021).

Although Great Britain is no longer a member of the EU, the analysis of its taxation system will allow to investigate and find out ways to improve the tax system of Albania and bring it closer to the standards of the EU member states. The tax laws adopted in Great Britain are considered to be among the most voluminous in the world, as the amendments made annually to the Great Britain Finance Act are part of the tax legislation and may

change the principles and norms of taxation (Balliu, 2018). The tax system of Great Britain consists of the following groups of taxes: indirect taxes, direct taxes, local taxes, taxes on business activity. These groups of taxes include subgroups and various types of taxes. Thus, direct taxes include: income tax, and capital tax; the group of indirect taxes includes: excise tax, value added tax (Prokopchuk, 2016).

Regarding the comparison of the payment of certain types of taxes in Albania and Great Britain, the following should be noted: VAT belongs to the category of indirect taxes, and is a general tax on the consumption of services and goods. VAT is implemented as a percentage tax on the prices of goods and services (Balliu, 2018). In the UK, value added tax is largely governed by the Finance Act 2022 (2022), which sets annual VAT rates. Thus, there are three VAT rates: zero rate (0%), reduced rate (5%) and standard rate (20%). The standard rate of VAT in the UK is the most widely applied, however there are other rates of value added tax, including a reduced VAT rate of 5% applied to sanitary ware, energy saving products and child car seats, and a zero-rate applied to most food products, books, newspapers and children's clothes.

In Albania, value added tax was first introduced in 1995. The major purpose was to increase revenue and bring Albania out of the economic crisis. There are two main VAT rates in Albania: a standard rate of 20%, a zero rate of 0% and a possible reduced rate of 6%. VAT is payable on: all supplies of goods and services made against payment in the territory of the Republic of Albania by a taxpayer acting as such; all imports of goods on the territory of the Republic of Albania.

The 0% VAT rate applies to: export of goods; separate operations related to international transportation of goods and passengers; supply of goods and services to international organisations, as well as members of these organisations; supply of goods to non-profit organisations; supply of goods and services to the armed forces of other NATO member states; supply of gold to the Bank of Albania.

Experts from the International Monetary Fund noted that VAT accounts for about half of tax revenues with a relatively high standard rate (20%), but its effectiveness is low compared to others in

the region (International Monetary Fund, 2022a). It should also be noted that the exemption from payment of indirect taxes and the reduction of the rates of some goods and services lead to an economic recession and non-inflow of funds to the budget in significant amounts (Balliu, 2018).

The United States of America economy is one of the most developed and progressive in the world. Taxation in the United States of America is governed by Chapter 26 (Internal Revenue) of the United States Code (Finance Act 2022, 2022). The US tax system has three levels: federal, local, and state levels. In the United States of America, there are the following types of taxes: taxes on wages, property, income, imports, dividends, various fees (Mijatović, 2014). Citizenship-based taxation in the US is expressed in the fact that its citizens are supposed to declare their income to the US state tax authority – the Internal Revenue Service, regardless of which country in the world they are or live in (Roach, 2019).

Generally, the taxation system in the USA is characterised by a high level of decentralisation of power, that is, state taxes are separated from federal taxes, and at each level, state bodies have individual, separate powers to collect taxes. Another feature is that each state has its own tax system, which in turn means that each state may levy its own taxes in addition to the already established state taxes. Among the peculiarities of the tax system of the United States of America, it should also be noted that there is no value added tax (VAT), but almost every state in the United States has a mandatory sales tax. The federal tax in the USA forms the basis of the income of the federal budget and is paid to the Internal Revenue Service. It is also worth noting that the payment of taxes at the federal level has a progressive nature, that is, if the object of taxation increases, the tax rate automatically increases as well (Lomaka, 2019).

One of the most important taxes in the tax system is personal income tax. This type of tax in the system of tax revenues takes about 50%. Non-residents of the United States are subject to taxation according to the income received in the territory of the United States, which in most cases is received from conducting business or trade (Lomaka, 2019). Income from rent, employment, corporate rights, income from capital ownership, from self-employed people are subject to

income tax. The tax system of Albania may consider the experience of the USA in the issue of taxation of certain types of taxes; however, it is still appropriate to adopt the experience of the functioning of the tax systems of European countries.

DISCUSSION

The term “international taxation system” should be comprehended as the mechanism by which tax procedures and tax payment amounts are adjusted for corporations, enterprises and individuals engaged in cross-border activities (Kohlhase, 2020). Each country tries to tax the income that was received on its territory, sometimes regardless of the legal address of companies or the citizenship of an individual, which in turn leads to problems of double taxation (Olender, 2019). H. Balliu (2018) noted that the tax system is a broad field with great opportunities for study in all sectors it includes. It is hard to disagree with this, especially in the conditions of rapid development of various spheres of activity, globalisation processes and economic development.

Regarding the definition and importance of the tax system, B. Ermal (2019) stated that the tax system is a system in which all taxes are interdependent and affect both the taxpayer and the national economy as a whole. Both the general economic level of the country and the well-being and security of the citizens of a certain country depend on an effective and efficient tax system. The tax system is based upon two major elements: economic element – tax revenues to budgets (local, state and other budgets); application element: this element concerns expressed through the implementation by tax authorities of their powers.

D. Plaku and E. Hysa (2019) noted that the Albanian state has undergone many changes in the tax system over the years due to economic policies and different political regimes. An effective tax system, which consists of taxes and fees, will contribute to the economic development of the country and increase its role in the world, particularly, to attract investments.

While studying the international taxation system, it may be noted that it would be appropriate for Albania to adopt the experience of regulating the tax system of European countries, since they have common values, a similar legal system.

CONCLUSION

The tax system of a particular country is special and unique in its own way, with its own advantages and disadvantages. The economic growth of any country depends on the improvement and optimisation of the tax system, and Albania is no exception. In general, the “taxation system” of any country in the world should be understood as the totality of all taxes and fees that must be paid to state or local budgets.

There are two major tax systems in the world: global and territorial, which were analysed within the scope of this study. Regulation of international taxation should improve the implementation of international activities by various companies and individuals.

The tax systems and taxation experience of the developed countries of the world were analysed, however, it is worth noting that in order for Albania to join the EU, it is appropriate to take into account the experience of regulating the tax systems of the countries of the EU, and to bring Albania’s tax policy and tax system closer to the standards of the EU. It has been established that the major issue that exists in the tax sphere of Albania is the one of double taxation, which has been trying to be solved for many years. However, it should be noted that every year the reform of the tax system continues and new reforms are implemented, which were noted and analysed in this study.

It may be concluded that the tax system of Albania is improving every year, which creates an effective tax climate for taxpayers, entrepreneurs, and also for attracting investments. As a candidate country for joining the EU, Albania is supposed to meet the standards and requirements established within the union, and the tax system occupies a special place, therefore research and adoption of the taxation experience of EU countries will be a factor in bringing Albania closer to the status of a full member of the EU.

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