

THE DEVELOPMENT AND SUPPORT OF LITTLE BUSINESSES BY LOCAL GOVERNMENT IN ALBANIA

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Abstract

In this article I would like to highlight this topics which I find very favorable: To be "a small business" in Albanian legislation it means: To realize a yearly turnover up to 5 mln leke. so another condition is that they are not subject of VAT, therefore they are subject of income tax and profit tax of 10% fee. In Albania we apply flat tax on the incomes. They should register near QKR. They should be register as a physical person or a legal entity. Until the end of the January all the little businesses should be provided with fiscal boxes. Little businesses should have by the maximum 4 employees. They should all be register in the social insurance scheme and they all have an minimum wage of 190.000 leke. I want to emphasize that countries in transition or under development should promote and support the opening of small businesses. And the best way of doing that is to have a sustainable, effective and a simple to apply legislation. And this means a better cooperation between the central and the local government. According to law the percentage by which the local government plays is up to 30%, But this only in some local tax like: television, clearance, housing.etc.. As many little businesses the more will be the incomes of the local government. And at the end, In my theses I would mention all the latest development and discussions of the fiscal law in my country. I will be delighted to be a participant in this conference.

What should an individual take into consideration when aiming to open a small business in Albania? *Someone who wants to start a small business should at first look for a successful business idea, ask oneself if he is capable of dedicating to this business and build a business plan. A person aiming at starting a small business, should do 3 things before securing the necessary funds and finding the adequate spot for his business: determine his interests and abilities, look for a successful business opportunity and build a business plan.*¹

Personal Assessment To minimize the chances for failure, the future owners of the business should start from evaluating their strengths and weaknesses. Some owner of small businesses try several number of business opportunities before deciding on what interests them the most. An honest assessment of one's self may help in eliminating experiments that waste money and are potentially cost bringing (as in money, as well as in personal pride). An honest assessment helps a possible owner to decide if he is capable or not of running a business. For example, an owner of a small business works on an average 70-80 hours a week². A person, who views the opportunity to get into this business, should ask his self if he wants to work long hours. Even if the answer is yes, it should proceed to the question: Am I capable of working long hours? Good physical and mental health and the dedication full time are obligatory in order to be successful. For example it would be difficult, but not impossible for a full time student to start a business just because of the long hours and physical and mental energy it requires. The same think applies for some full time individuals who want to run a business as a second chance. These enterprises usually fail because the owner can not pay enough attention.

Identifying the opportunity

Businesses do not succeed only because their owners are hard workers, but because the product of this business fulfills with a specific need. Therefore the next step before

starting a business is to identify the possibility to fulfill a certain need. A way to do this is to spend a few years working in a field of interest. What are the products and services the company offers? Who buys them? Are the clients happy? Are they looking for something the company cannot offer? The answer to these questions may suggest an opportunity for a new business. You may also chose a field based on your knowledge, interests, abilities or personal connections.

Business Plan

Most of the people in small businesses usually build a business plan.³ Truth is told, most of the banks decide to loan to such businesses. The financial part of the plan is more important to the creditor since it explains how the owner will secure the continuity of the business. Even though the main cause for the failure of small businesses is bad management, the other reason is the lack of funds to carry on the activity. A business plan must include all the most relevant indices to secure the needed funds at the beginning and then the continuity of the activity.

Small businesses, the most popular

Small businesses, in most of the cases, operate in one of these fields: manufacturing and construction, trading (wholesale and retail) as well as small companies operating in the service sector.

Manufacturing and construction

Small businesses are more spread in: manufacturers, machine-shops, bakeries, joineries etc. They use the raw material and convert it into the final product. For example machine-shops convert steel into specific components which are used in automobiles industry, bakeries convert flour into bread etc. Most of these companies employ less than ten employees.

Trading- Sales

Traders are two kinds: retail, which sale their products to the final clients and wholesale which buy their merchandise

¹ "The small business start-up kit: A step by step guide" by Peri H. and Pakroo J.D (12 March 2010).

² "The truth about starting a Business" by Bruce R. Barringer (Decemer 26, 2008).

³ "Start your own business" fifth edition (31 August 2010).

to sell it to retails.⁴Retails outnumber the wholesales. Retails include: car salesmen, outlets, stores, drugstores, supermarkets etc. Most of these stores employ less than 4 employees. On the other hand, the wholesales are a bit bigger and employ from 4 to 10 employees.

Services

Modern economy includes a variety of little service businesses like restaurants, dry-cleaning, car services and accounting. Most of these companies take great advantage of the employment force meaning that a big percentage of their costs come from expenses due to the labor.⁵ Restaurants are a great example of this. A waiter may serve a limited number of tables. By expanding the restaurant the owner has to employ more waiters. With economical growth of the last years, services are on of the sectors that have had the fastest increasing. Experts predict that small businesses, most of which in the service area will be responsible for the majority of new jobs. This part of the economy also implies a good chance of success for small businesses. An important incentive for the growth within the service businesses is and has been commodity services. The growth of the number of people living alone and in particular the number of families with only two employed members has generated gaps for the growth of homemaking businesses. For a growing mass of people the time to dedicate to the family is always less and they are able and capable to spend just to ease their lifestyle. This has resulted in a growing number of the service offered in this field.

II. Registering of the taxpayers

When a taxpaying body is registered for the first time he must present to the municipal tax office the below mentioned documents:

- The registration application where it is stated the name and address of the taxpayer, the whereabouts of the business and the type of business taking place
- ID
- Registration at the NRC (National Registration Centre)

The taxpayer must register every location of the business in the municipal tax office in which it is located. If the same taxpayer has businesses outside the jurisdiction of the municipality, he must register all the locations of his business in the tax office of the respective municipality.

In case of changing

When a taxpayer changes his location or the type of business, is obliged to register to the competent tax office. If that is the case he must present the following documents:

- Registration application with the name, address of the taxpayer, address of the new location of the business and the new type of business.
- Certificate of the previous year

Registration Certificate

⁴ Legal guide for starting and running a small business" by Fred S. Steingold

⁵ "The Big Book of small Business" by Tom Gegax and Phil Bosta (Feb 6, 2007).

The municipal tax office after verifying the liability of the documents and the data above mentioned submitted by the taxpayer, within 3 working days registers it in the taxpayer's register of the municipality according to the respective registration number and awards it with a registration certificate. ⁶The registration certificate contains the name of the taxpayer, registration number he has been awarded, NIPT number, registering in the NRC, address of his business and the day it has been awarded. The Registration Certificate is obligatory to be put in visible location with the intention of identifying the registration of the business. The certificate is entity to inspections from the tax office and the impost office under whose jurisdiction the municipality is. Taxpayer exercising in more than one location within different municipalities are awarded registration certificate by each of the tax offices their business is located. If 30 days have already passed from the deadline within which the taxpayer must have registered and be awarded with a certificate and the taxpayer is operating in a business location without being registered, the tax office of the municipality makes the registering and imposes the adequate legal sanctions. The tax offices in local governments send the central offices, once every 15 days a list of the certificates issued for the different business locations within their jurisdiction.

Calculating the amount of tax liability

The annual obligation is determined by the tax office in the respective municipal offices on the basis of the foreseen circulation during the following year. That is why the taxpayer must submit within the 1st of March of every year the declaration of foreseeable imposts. The calculation of the obligation is done by taking into consideration the declaration, type of activity, category of business and the level of the tax. The amount of the yearly obligation is divided by 4 and the result represents the 3 months premium the taxpayers must pay. Within the 15-th of March of every year the municipal tax offices send officially every taxpayer within their jurisdiction the notice about their annual due, divided in premiums. For taxpayers that have not submitted their declaration within 1st of March, the calculation of the annual due is done based on the best judgment of the municipality itself.

III. What are the financial obligations the small businesses should comply towards the local authorities?

Going from a centralized economy to one where the principle of free initiative and market trade and the existence of competition in all the fields of economical and trade development has been a long and difficult journey. Being a country in transition is understandable to think that if we talk about development and exercising business is natural to come to the conclusion that this type of activity is far more spread in our country- referring to small business. To come to a balance between local and central government from 1 January 2007, tax liability for a certain

⁶ "Law Nr. 9632 "On the local tax system in the Republic of Albania ", dated 30.10. 2006, published in the . Official sheet no. 126 Page 3.

category of entities is done with the respective authorities of local government (municipalities):

- 1- Small Business (turnover of less than 5 mil in a year) ⁷
Tax liability paid with the local authorities
- 2- Middle Business (turnover of 5 mil or more in a year)
Tax liability paid with the regional authorities
- 3- Big Business (turnover of considerable amounts and pay as a consequence big liabilities in a year) This category pays their liabilities with the central offices of Tax Directory General in Tirana

Which are the entities that will be included within the category of small business? By the above classification and by the definition of law no. 9632. Results that we will consider as small business all those businesses that realize a yearly turnover of less or up to 5 mil lek

1- Entities classified as small businesses by consequence are not entity to VAT. According to our legislation the verge of 5 mil lek served as well as a border between entity that have the legal obligation to register in order to pay VAT and entities who are excluded from this legal obligation. This means that small businesses have the liberty and space to develop and to grow by excluding them from a tax that in our country is at a level of 20%. Paying such obligation would definitely burden this category of business. In our country there is also another phenomenon which relates to the fact that Albanian legislation has given the right to all the entities to register in order to pay VAT. So the legal obligation is for all the entity which has a turnover of more than 5 mil leke but the legislation does not forbid any entity who wishes to register for the payment of VAT from doing so, despite their yearly turnover. Based on this fact in recent years in our country it has been noticed that a considerable part of small businesses have registered to pay VAT. why is such tendency? This has occurred because small businesses see it as a way to avoid bureaucracy and arbitrariness and to avoid liabilities imposed on the basis of a foreseen turnover.

2- Small businesses also have the right and obligation to have 1-4 registered employees. These employees must be registered even with the scheme of social and health insurance and by being registered with the tax authorities it is obligatory for the employer to pay as well a tax on profit on the amount of 10% of the salary.⁸

3- The minimal salary established by Decision of Council of Ministers from July 2010 is 1900 lek. This means that all employees even those registered and working in small businesses must have at least this earnings.

4- Small businesses deposit their liabilities with the local authorities opposite to other businesses. Together with the taxes imposed by the municipality they constitute the main source of revenue for the municipality as part of their budget.

5- This type of business deposits their liabilities every 3 months and not once a month as other businesses. The liabilities they have to pay are based on a supposed

turnover and not on the de facto turnover these businesses may produce.

6- These entities must register in the NRC as physical or legal entities depending on the economical activity they will operate.

7- By the end of January of this year all entities registered as small businesses had the legal obligation to be notified Or they would be fined.

8- when an entity starts operating at the middle of the year then it is excluded from the rest of the liabilities for the remaining part of that year.

How can and must the local governments (and not only) help the development of small businesses?

As above mentioned, for a small country with a not that vast market, as well as a fragile economy it is natural that small business will be the most extended economical activity in the private sector. At the same time the fact that our democracy is a fragile one where the legal framework, non only in the taxation field, but even in the other fields is changing quite rapidly, this even come step by step up to date with the Directives, Principles and Recommendations of the European Union. This shows that the journey of all businesses and economical activities in our country has not been an easy one, under each aspect. Even so the mutual efforts of the business as well as of the state have brought to an interaction resulting in development and progress.

a) At the same time the government as part of achieving the decentralization of local government decided that the income from small businesses would go to increasing the income of municipalities through the whole country. So the greatest amount of income of the municipalities are composed of the revenue coming from the taxes from this business but even from the taxes paid by each citizen for example: taxes on real estate, TV etc. As far as these taxes are concerned, the legislation itself recognizes the right of the municipalities to budge with a margin of 30%. This means that the local authorities have the right to accordingly rise or low the taxes until 30% from the taxes expressed in the law (because every tax or tariff is decided by law).

The respective municipality has the obligation that within the 15th of December of each calendaric year to notify by every mean of communication the public about the level of taxes and tariffs that the municipality intends to applies the coming year. Everyone is obliged to receive such notification, because not receiving it on due time does not exclude these entities from paying the tax.

b) In my opinion rising or lowering the level of compulsory payment of VAT, must not be decided just by decision of the Council of Ministers, but the necessities of the municipalities must be taken into consideration. Precisely lowering the level from 8 mil lek to 5 mil lek and actually there is a proposition to bring it down to 2 mil lek, will result in a shrinking of the incomes of the municipalities bringing less investments, the decrease of local autonomy and above all the decrease of the number of activities organized as small businesses, causing at the same time the bankruptcy of a considerable part of this category due to the ever growing liabilities not possible to pay. c) What the government should have present in establishing the level of taxes is to

⁷ Law Nr. 7777, "On the tax system in the Republic of Albania", dated 22.12.1993, DT. Approval 06.04.1994, Published on the official sheet no. 15 Page 900

⁸ Law no. 8438, dt. 28.12.1998 "For the income tax in Albania"

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take into consideration during the redaction of the legal framework even the principle of "paying capacity"⁹ of the entities obliged to pay these liabilities. This principle is very important as far as it concerns public finances and in all of Europe this is a very important constitutional principle. As a matter of fact in our country this principle is not part of our constitution which a significant minus. Even so if we take into consideration the whole spirit of our legislation and the principles expressed in it this principle exists, but it's precisely such a principle that should be taken into consideration in every level, central or local.d) At the moment there are 9 types of taxes that the citizens and small businesses pay to local authorities. This without a doubt is a burden to the citizens. It is my belief that we need not to burden the citizen with unnecessary taxes but the number and type of taxes to be in proportion with the services offered to the community.

⁹ G.Jyli. Kristaq, "Science on finance and the finance Law".

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