



Weekly Briefing

**Albania economy briefing:
Fiscal amnesty in Albania:
the next threshold of economic derangement**
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Fiscal amnesty in Albania: the next threshold of economic derangement

Summary

Informality in the economic system of the last three decades in Albania has been, and still is, one of the most difficult problems to eliminate, or at least downsize. It has brought much confusion to the market and out-of-system cash flows have impacted every cell of the local economy. While most of the informal market is present due to the lack of ability (especially in small businesses) to pay taxes, it is believed that the majority of the informal money in circulation is done with the source of illegal activities.

“Follow the money” is the phrase used when wanting to find the financial source of a given activity; in Albania, apparently there is no need for the source, for as long as it is less than 2 million euros (€) per person. The government names it “fiscal amnesty” – experts say it is simply “legalized money-laundering”.

Introduction

According to a survey from government authorities, 66% of the Albanians are in favor of the amnesty of emigrants' savings. After the publication of this result, the government returned to consultation on the draft law that has been blocked for years on the legalization of undeclared money, not only for emigrants but also for Albanian citizens who are residents in the territory. Furthermore, it extends to undeclared income and assets of businesses and foreign citizens who are taxpayers in Albania. This has attracted criticism and attention, as well as confusion and disbelief. Authorities argue that through this initiative, they will make possible the reduction of cash, and formalize the economy, as the money will be declared while providing income to the state budget due to the tax that will be collected. Yet, Albanians do not think this is the case.

Background

It is a well-known fact that hundreds of thousands of Albanians have emigrated abroad. Many of them have worked illegally, brought money back home, invested, built houses, started businesses, and bought properties. Illegal work abroad for Albanian citizens is mainly linked to their immigrant status in the host country. Illegal here is meant not as criminal activities per se, but as being paid cash for their work instead of being employed with proper social security and taxes applications.

By end of June 2022, the Albanian Ministry of Finance and Economy, issued a draft law “On fiscal and criminal amnesty of entities that make a voluntary declaration of assets”, which allows the voluntary declaration of an asset with a monetary value of up to 2 million euros. The tax defined in the draft law for declared money and assets varies from 7-10%. This law defines the rules, guarantees, and actions of entities that benefit from the process of a voluntary declaration of assets, the powers of public administration bodies and non-public bodies that participate in this process, as well as the activities related to this process. Subjects of this law are individuals who are Albanian citizens, regardless of whether they are tax residents or not in the Republic of Albania, natural and legal persons, taxpayers resident in Albania, as well as individuals who are tax residents in Albania, regardless of their citizenship¹

The idea of this kind of amnesty has been floating around for a long time. Indeed, the Albanian government presented the fiscal amnesty to the parliament a year and a half ago, where authorities were trying to present it as an initiative to help Albanian emigrants. In the first half of 2022, the government organized the so-called “National Consultation” asking the opinion of Albanians online on several matters of governance in the country. One of the questions directly affected the idea of fiscal amnesty, and the report states that there are plenty who agree that Albanian emigrants (who want to deposit their savings in Albania) should be given a full amnesty. The votes, which were counted without outside scrutiny or supervision, were 66% in favor, or 330,000 positive responses. No one knows who truly voted online, and yet, the results were presented to the public as something that Albanians want.

The government’s approach to the matter

The Albanian Prime Minister (PM) has not hidden his ambition for a fiscal amnesty. According to the PM, citizens in emigration have worked in a variety of jobs, have plenty of savings, and still find it impossible to deposit in banks. The proposed draft law of June 2022 aims to guarantee transparent procedures to enable the legalization of undeclared and/or unregistered assets, in whole or in part, as well as for the reassessment of financial statements of entities.

Yet, even though it was started as a support for Albanians living and working abroad, the report states that the government's initiative aims to help overcome the consequences of the 2019 earthquake and the novel coronavirus pandemic. According to the final draft, the Albanian government argues: “It is necessary to overcome this situation and to support enterprises in

¹ Argumentum (2022, June 24). Projektligji “Për amnistinë fiskale”, deklarim vullnetar deri në 2 milionë euro, tatimi deri 10%. Available at <https://www.argumentum.al/projektligji-per-amnistine-fiskale-deklarim-vullnetar-deri-ne-2-milione-euro-tatimi-deri-10/>

these difficult conditions. In addition to the fiscal incentives that have been approved and will be approved in the future, opportunities should also be created for the legalization of capital and assets, which, for various reasons have not been declared or legislated.”

In short, the draft law is a request of representative business organizations and aims, among other things, to re-evaluate financial statements.²

International organizations’ criticism

The main concern of international organizations has been the lack of controls on the origin of the wealth invested in Albania, wealth that often amounts to tens of millions of euros, and which is not the product of the non-documented work of any Albanian emigrant (who are usually working low-income jobs). However, PM Rama and his supporters are trying to claim that this initiative, although much criticized by the European Union (EU) and the International Monetary Fund (IMF) is a way for Albanians to legalize their income from undeclared jobs. Soon after, the head of the mission of the IMF asked the Albanian government for effective systems to detect fiscal evasion and prevent the laundering of corruption money. They reiterate their advice against a possible fiscal amnesty, as it would affect the fulfillment of tax obligations. Meanwhile, the European Commission (EC) has not hidden its concern that the amnesty would be used to launder money from criminal activities. According to EC’s Moneyval, it was unclear how the Anti-Money Laundering Law will be implemented in the context of such an amnesty.

Yet, this time around, there are fewer inhibitions when facing international financial institutions, especially from the EU. The latest refusal of the EU for Albania to join the Union has given the government more audacity than before when dealing with suggestions coming from Brussels. The PM has stated that the Albanian government will proceed with the fiscal amnesty because it is the wish of the majority of Albanians. “The citizens of the country will build the future of the nation, not the international community. – Rama stated – Gone are the days when Albania was a vassal [state].”³

Who truly benefits from this fiscal amnesty?

The draft law predicts that politicians and their close family members will not be able to benefit, but in terms of close family members, they have set the criterion of the civil status

² Erebara, GJ. (2022, April 14). Amnistia fiskale për emigrantët, një alibi jobindëse. Available at <https://www.reporter.al/2022/04/14/amnistia-fiskale-per-emigrantet-nje-alibi-jobindese/>

³ Standard (2022, June 25). Amnistia fiskale/ Lavatriçe e parave të pista apo lehtësi për emigrantët? Available at <https://www.standard.al/2022/06/25/amnistia-fiskale-lavatrice-e-parave-te-pista-apo-lehtesi-per-emigrantet/>

moment of entry into force of this law. “Family status” is the family registered in the civil status offices and it changes at the request of the interested party at any time. Nevertheless, brother, sister, life partners, and first cousins for example are not legally in the family tree and there is much space for speculation here.

Beneficiary entities of this law will have 9 months to declare their assets. There will be two tax brackets for both money and real estate. 7% tax for those who make the declaration for the first 4 months and 10% tax for those who make the declaration for the second 4 months. The same tax will be applied to businesses. While currently, the tax is 15% for the declaration of wealth.

All entities that will declare their assets are exempted from the obligation to provide information to the relevant administrative institutions regarding the time, manner of creation, holding, or possession of the declared assets. Through the law, they are guaranteed also non-discrimination in the future, in the procedures for calculating tax liabilities, confidentiality is preserved, they are excluded from the tax investigation for evasion and criminal prosecutions, and no sequestration or confiscation measures will be imposed voluntarily declared assets. 4

Currently, there is a legal obligation for every citizen to declare that they have with them amounts over 10,000 US dollars (\$) when crossing the border. Banks also must report cases when citizens appear at the counter and wish to deposit large sums. However, going from 10,000 to 2 million is an immense change.

Conclusion

This fiscal amnesty for immigrants seems more of an alibi for a money-laundering operation at an industrial/governmental scale, rather than an initiative to help Albanian emigrants. Economists in the country argue that it is highly likely to aid the legalization of crime and corruption money. Some simple economic logic would determine immediately that no immigrant work, even if it spread over decades can accumulate savings up to 2 million euros. Furthermore, the most disturbing issue in this stance is that the criminal offense of money laundering would be amnestied together with the legalization of money.

⁴ Gjediku, E. (2022, June 24). Amnisti fiskale e penale për pasurinë e emigrantëve, rezidentëve, bizneseve e shtetasve të huaj që janë tatimpagues në Shqipëri. Available at <https://shqiptaria.com/lajm/drafti-amnisti-fiskale-e-penale-per-pasurine-e-emigranteve-rezidenteve-bizneseve-e-shtetasve-e-huaj-qe-jane-tatimpagues-ne-shqiperi>

Last but not least, the honest taxpayers and businesses that for years have paid 15-23% in taxes feel deceived and victimized, because their peers in illegal and unknown sources of wealth are being treated fiscally and legally better.