





# Taxation of Agricultural Sector in Albania

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**Abstract:** Agriculture contributes about 20% to the Gross Domestic Product in Albania. It is one of the main sectors of the Albanian economy, which supports and impacts other important sectors such as tourism, product processing and exports.

*In the conditions of the globalization of the economy, the free movement of goods and capital, and multilateral and bilateral agreements for the removal of tariff barriers, Albanian agriculture faces the challenges of very strong competition from the countries of the region, EU countries and beyond. In these conditions of strong competition, what can make Albanian agriculture survive, is that its products appear not only in the domestic market and those of the region but also in the international markets of goods and products. The ambitions of our country for the development of intensive, year-round, coastal and mountain tourism, elite and agrotourism, requires the increase of the quantity, quality and lowest possible prices of agricultural and livestock products, in order to avoid the competition of imported goods that can be traded at lower prices.*

*How should agriculture, farmers, livestock, agricultural and livestock production be stimulated? Should they be incentivized through exemptions from the tax system or should the process of stimulating production through subsidizing the elements of agricultural and livestock production be used more efficiently?*

*The strategy implemented in our country has strengthened tax exemptions for inputs, agricultural and livestock products, farmers' income, etc. This strategy intends to promote the cooperation of agricultural and livestock production in Agricultural Cooperation Societies by offering minimum tax rates.*

*Considering the great impact that agriculture has on the economy, especially in the tourism sector, we will deal with the tax policies applied in the agriculture and livestock sector and the effects of tax incentives over the years. The objective is not only to support the farmers and livestock farmers with funds but also to ensure tax relief and stimulate tax treatment for agricultural and livestock production, aiming to increase competitiveness not only in the regional market but also in the EU market, without compromising the quality of the product.*



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## 1. INTRODUCTION

Agriculture has been the main branch of the Albanian economy in most of the periods that our country has gone through after the declaration of independence. From 1912 till the end of the Second World War, Albania was an entirely agrarian backward country. Even during the 45 years of communist rule, agriculture was still the dominant sector of the economy, especially in the first 20-25 years. The regime of the time, based on its interests, undertook very deep reforms in the field of stimulating agricultural production, starting with the draining of marshlands and the benefit of agricultural land, its reclamation and systematization, the construction of a national land irrigation network, the construction of dams, reservoirs and canals for irrigation and

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drainage. Initially, the agricultural land was divided between the peasants through the Agrarian Reform, to pass in the following years and decades to the total collectivization of the agricultural sector, which, despite increasing agricultural production through concentrated work, mechanization, and the use of chemical fertilizers, did not make possible an intensive sustainable development of agriculture sector, due to the mechanism of the centralized economy itself, which stimulated laziness and the waste of common property, completely inhibited private initiative and the peasant's interest in increasing agricultural and livestock production.

The year 1990 found Albania in a problematic economic stagnation, with an agricultural sector that not only did not meet the needs of the population with agricultural and livestock products but also, due to the organization of agricultural cooperatives and state farms, had resulted in the apparent impoverishment of population in the village, which made up 65% of the population in the country. The first reform undertaken by the Albanian political class in the new conditions of political pluralism was the dissolution of cooperatives and agricultural farms and the granting of land owned by former cooperatives and used by former farm workers. The agricultural land was thus fragmented into tens of thousands of small parcels, where in the following years it would be impossible to apply modern methods for increasing production. Albanian agriculture has been organized in this way since 1990. The various governments that ruled the country, have tried to stimulate and support agriculture, but within the limits allowed by a modest income budget such as the Albanian state budget (Bank of Albania, 2000).

The agricultural sector is considered one of the priority sectors for the development of the country. This is because a large part of the population still lives in the village side, whereas about 40% of the labor force is employed in the private sector of agriculture, approximately 460 thousand farmers. Apart from the fact that it forms 20% of the country's Gross Domestic Product, agriculture is meanwhile a very important factor in the supply of the tourism industry. At the same time, the development and growth of agricultural production affect the increase of agricultural exports and the decrease of imports, gradually improving the balance of payments.

In the last 5 years, exports of agricultural products have increased by an average of +10.07% compared to the previous year, while imports of agricultural products have been generally stable and without growth during the years 2017-2020. Only in 2021, they are presented with an increase of 12.8%, but this is conditioned by the very large increase in the prices of food goods in international markets due to the war in Ukraine. However, the average increase in imports in the last 5 years is 5.4%. So, the exports of food products have increased with a growth 2 times higher than imports, which shows that Albanian agriculture is meeting the needs of the local market in sustainable growth.

If in 2017, exports of agricultural products were as much as 28% of the volume of imports of the same products, in 2020 and 2021, they were as much as 35% of the volume of imports, this indicates the gradual reduction of dependence on imports of goods for food and livestock consumption.

**Table 1.** Import and export 2017-2021

Year	2017	2018	2019	2020	2021
<b>Import</b>	106,738,000,000	106,508,000,000	110,365,000,000	110,927,000,000	130,017,000,000
<b>Export</b>	30,081,000,000	32,334,000,000	35,374,000,000	39,050,000,000	44,469,000,000

Source: Institute of Statistics, 2022.

As we pointed out, the development of the agricultural sector has been the priority of the Governments after the 90s, which have tried to support agriculture with various subsidizing, stimulating and facilitating measures such as:

- Investments in the improvement of agricultural land;
- Investments in drainage and sewerage networks;
- Supporting farmers with funds from EU support programs;
- Support with subsidies from the state budget;
- Support through exemption from taxes and duties;
- Support through the fiscal system by relieving the agricultural sector from taxes and duties;
- Support through the farmer's compensation scheme.

## 2. RESEARCH DATA AND METHODS

Agriculture constitutes one of the most dominant and potential sectors of the Albanian economy, as a result, the exemptions or fiscal incentives for this sector have been greater or more frequent in relation to other sectors. To measure the effects of fiscal incentives, in order to ensure a facilitating and stimulating fiscal treatment of agricultural and livestock production, data for the period 2015 - 2021 were used.

## 3. RESULTS

### 3.1. Fiscal Measures Taken to Stimulate Agriculture

The agricultural sector has generally been outside the focus of taxation as a sector. This is with the good intention of stimulating it, and increasing investments and production. Fiscal measures have been numerous and for long periods, among which we can mention the most important:

- a. Exemptions from Value Added Tax in support of the agricultural sector for:
  - importing animals for fattening;
  - animal feed and equipment needed during animal transport;
  - machines and equipment in the function of realizing investment contracts in the active processing and agribusiness sector;
  - agricultural machinery imported by farmers and merchants;
  - live animals of the breed, donated by different donors.
- b. Exemption from Excise
  - reimbursement of excise duty for fuels used in greenhouses with heating for agricultural production;
  - excise-free diesel for farmers.
- c. Exemptions and reduced fees for agricultural enterprises (Agricultural Cooperation Societies).
  - reducing the income tax of enterprises organized in Agricultural Cooperation Societies from 15% to 5%;
  - there is no turnover limit for benefiting compensation under the scheme.
- d. Exemptions and reduced tariffs for agricultural inputs
  - Reduced VAT by 10% for the import and sale within the country of agricultural inputs, earlier its total exemption.
- e. Incentives for the individual farmer
  - VAT compensation for the farmer in years: 20% and 6% of the selling price of the product to traders and producers;

- increasing the registration limit in the VAT scheme for farmers from 5 million to 10 million ALL. So, for sales up to 10 million ALL per year, the farmer uses only the auto-invoicing scheme, without having to register as a taxpayer or to pay income tax as a business.

In international practices, which aim to support the agricultural sector and farmers, one of the following mechanisms is generally applied:

1. The inclusion of farmers in the VAT scheme, allows them to credit (deduct) the VAT paid on the purchase of inputs from the VAT calculated for the sale of agricultural products.
2. The non-inclusion in the VAT scheme of farmers, but exemption from VAT of inputs that participate in the production of agricultural and livestock products, or;
3. The non-inclusion in the VAT scheme of farmers, as well as compensation of the VAT that the farmer pays in the purchase of inputs, through the auto-invoicing system from his buyer.

Mechanisms 2 and 3 have been adopted due to the fact that the farmer in these cases is not a VAT-taxable person and there is no mechanism to release the VAT paid on the purchase of inputs from the VAT calculated for the sale of agricultural products and livestock, as it happens in the case of scheme 1. However, the scheme implemented in our country includes all possible stimulating elements:

- a) The exclusion of farmers from the VAT scheme for turnover up to 10 million ALL per year;
- b) The return of VAT paid on the purchase of some inputs;
- c) The exemption from VAT of agricultural inputs;
- d) The exemption from VAT and excise duties of many other goods (live animals, fuel, etc.)

The farmers' VAT compensation scheme is designed to support (compensate) the agricultural producer, thus aiming to reduce production costs. Then, by offering agricultural products at competitive prices, it also impacts the growth of exports or domestic production. EU countries apply a certain methodology in calculating the specific importance of the agricultural product, inputs and outputs used for it, resulting in a necessary compensation level of around 6% which is sufficient to cover that part of the VAT paid on the purchase. Meanwhile, the VAT compensation scheme with the level of 20% that was applied in our country, represented the highest rate applied, not only in the countries of the region but also beyond them.

Until 2014, the VAT compensation scheme in agriculture was applied at the rate of 6%. In 2014 the fees increased from 6% to 20%. In 2019, fees were reduced again to 6% after another fiscal incentive was undertaken, through the exemption from VAT of agricultural inputs.

The 2019 fiscal package, starting from the strategy for further incentivizing the agricultural sector and finding new effective schemes, which bring these incentives and benefits to the farmer, as they were designed for, it is intended to stimulate the reduction of costs of agricultural products. This cost reduction is intended through the revision of the fiscal treatment of agricultural inputs, using a reduced rate of VAT on their import, or exemption from VAT, as a measure that will lead to the reduction of production costs. At the same time, besides the revision of the agricultural input handling policy, the parallel compensation scheme would also be revised. This is due to the fact that the compensation was given explicitly for the compensation of VAT paid for inputs. By this logic, in December 2018, the Assembly decided to exclude agricultural

inputs from VAT and at the same time to apply VAT compensation to the vehicle invoice at the rate of 6%. This compensation at the level of 6% will balance some other tax costs charged to the farmer, which are not resolved through the exclusion of inputs from VAT, such as VAT on fuel or electricity.

**Table 2.** Level of VAT compensation

Year	No. of taxpayers who have submitted their VAT return	No. of taxpayers with purchase from the farmer	Buying from local farmers	Farmer compensation rate	VAT received by the farmer
2015	38,081	827	4,667,517,055	20%	933,506,270
2016	40,976	1,376	10,489,013,588	20%	2,097,802,721
2017	42,898	1,230	11,814,280,177	20%	2,362,856,042
2018	59,018	1,397	14,107,557,453	20%	2,821,511,463
2019	61,081	638	12,895,817,129	6%	773,749,031
2020	62,577	603	13,604,322,300	6%	816,259,385
2021	35,000	580	11,215,660,410	6%	672,940,000

Source: Author's Calculation

The table above shows that, despite the fact that the VAT compensation level was reduced from 20% to 6%, the purchases of economic operators from farmers have not decreased, on the contrary, they have increased in 2019 and 2020. So, the decrease in the compensation rate has not inhibited the production and sales of agricultural products. For the period from January 2014 - June 2021, farmers were subsidized by the state budget through the VAT compensation scheme for about 9.98 billion ALL or 99.8 million USD.

The change in the farmer's compensation scheme and the reduction of the compensation from 20% to 6% does not impact collectors, local producers of agri-food products and exporters.

- VAT is a consumption tax, it is paid by the final consumer, not by the collector, nor by the agro-processing producer, or the exporter.
- The change in the VAT level of the auto invoice, both in the case of its reduction and in the case of an increase, even increases or decreases the subsidy for the farmer, it does not affect the costs and profits of the trader or exporter.

### 3.2. Effects of Stimulus Fiscal Measures

- a) Imported agricultural machinery without paying VAT. The effect of the VAT exemption for the years 2019 - 2021 is ALL 922 million (Table 3).
- b) Agricultural inputs exempted from VAT. The effect of the VAT exemption for the years 2019 - 2021 is ALL 4.86 billion (Table 4).
- c) Live animals for fattening exempted from VAT payment. For the period from 2017-2021, the unpaid VAT for their import is 1.45 billion ALL (Table 5).
- d) Other tax exemptions (Table 6).
- e) Excise-free oil subsidy for farmers in the amount of 800 million ALL/year.
- f) Subsidizing livestock farmers with 10 ALL/liter of milk delivered, paying an amount of 300 million ALL/year.

Total of Tax Exemptions for 2021 (Table 7).

**Table 3.** The effect of VAT exemption on imported agricultural machinery

Year	VAT excluded	VAT paid
2017		151,423,000
2018		124,012,000
2019	183,317,000	
2020	343,545,000	
2021	395,280,000	

Source: Author's Calculation

**Table 4.** The effect of VAT exemption for agricultural inputs

Year	VAT excluded	VAT paid
2017		1,163,927,000
2018		987,799,000
2019	1,530,091,000	
2020	1,429,990,000	
2021	1,932,385,000	

Source: Author's Calculation

**Table 5.** The effect of the VAT exemption for live animals

Year	VAT excluded
2017	254,359,000
2018	272,564,000
2019	316,441,000
2020	249,325,000
2021	328,943,000

Source: Author's Calculation

**Table 6.** Effects of other tax exemptions

Year	Unpaid excise tax from fishing	Unpaid excise duty on heated greenhouses
2016	263,000,000	214,000,000
2017	302,000,000	242,000,000
2018	363,000,000	280,000,000
2019	351,000,000	310,000,000
2020	478,000,000	334,000,000
2021	384,000,000	292,000,000
<b>Total</b>	<b>2,141,000,000</b>	<b>1,672,000,000</b>

Source: Author's Calculation

**Table 7.** Tax exemptions for 2021

Tax exemptions/benefits	Billion All
The farmers' VAT compensation scheme of 6%	0.67
VAT exemption for imported agricultural machinery	0.4
VAT exemption for agricultural inputs	1.9
VAT exemption for Live Animals	0.3
Unpaid excise tax from fishing	0.38
Unpaid excise duty on heated greenhouses	0.92
Excise-free oil	0.8
Subsidizing livestock farmers with 10 ALL/liter of milk delivered	0.3
<b>Total amount of benefits</b>	<b>5.1</b>

Source: Author's Calculation



#### 4. FUTURE RESEARCH DIRECTIONS

The data used in this paper are secondary data, without the possibility of obtaining data from farmers and collectors. One of the biggest problems of the agricultural sector in this country is the lack of registration of farmers as well as the non-declaration of activity on their part, so the only access to data from public institutions may not fully reflect the reality.

In order to expand this work, to measure the real effect that the fiscal changes over the years have had on the category of farmers, as well as to determine which is the most effective government incentive, direct contact with farmers would be necessary.

#### 5. CONCLUSION

This study aims to measure the effects of fiscal incentives in the agricultural sector. Due to the role of this sector in the economy, employment and well-being of Albania, as well as the high contribution to GDP, the Albanian government over the years has been oriented towards fiscal policies that help and encourage agriculture.

Based on the analyzed data, tax exemptions for the agricultural sector resulted in continuous growth after 2014, and for the year 2021, this sector is exempted from taxes and duties with 5 billion All or 50 million USD.

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