



Research Article

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Comparative Study on Flat Tax and Progressive Tax in Albania

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Abstract

The choice between progressive and flat tax systems is widely debated not only in the public finance but usually associated with political and government issues. The fiscal policies are essential key points of political platforms because of their role on the public life. Albania for several years has applied the flat tax which from that government was called the revolution tax, while since 2014 up to now is applied the progressive taxation. While the flat tax system is often highlighted for its simplicity and the administration facilities, the progressive tax system is favored for its ability to reduce income inequality and promote social justice. This paper presents a comparative study of the advantages and disadvantages of progressive and flat tax systems in Albania, with a focus on the policy implications for sustainable economic and social development. This study initially realizes a literature review on the main theoretical considerations for progressive taxation and flat taxation also reflecting the advantages and the disadvantages for each of these forms of taxation. From the practical point of view this article compares flat taxation and progressive taxation through the available data investigating the progress of each of them and the impact they have had on economic growth.

Keywords: flat tax, progressive tax, economic growth, equity and equality, social justice

1. Introduction

The tax system is an essential tool for promoting sustainable economic and social development. In Albania, the tax system has undergone significant changes in recent years, with the introduction of a flat tax system in 2007 and a transition to a progressive tax system in 2014. The choice between progressive and flat tax systems has important implications for income distribution, economic growth, and social justice, and requires careful evaluation of the advantages and disadvantages of each system. The debate of the fiscal policies of the government confronts the political forces of a country but specially it affects the interests of the citizens, their family budget, business interest, state budgets, and the interests of the economy and the country development in general. The fiscal policies ensure the state functioning, the offer of the public good and the sustainability of the future development. The type of economy that will be developed in the future and the vision for the fiscal policy and can lead to the ways and strategies through which can be obtained the model of the sustainable economy. Every tax system is applied to a certain situation of the real economy, which is an income source. The system chosen to be used maximizes and guarantees or not economic and social justice. A proper system of taxation must balance different values such as equality, fairness, justice, impartiality through the economic concept of effectiveness and efficiency. On its fiscal policies Albania has been between two paths, that of the flat and progressive tax. The path of the flat tax provides the same percentage for all categories of income, while it is the progressive tax which increases progressively with the income and revenue increasement. Albania differs in many aspects form developed countries as in the aspect of rule of law, government, state, and politic specifics the structure of the economy and other economic characteristics. These differences lead to different tax policies also. Progressive taxation is used in Albania since 2014, while in the previous years was applied the flat tax regime. This study aims to analyze the theoretical advantages and disadvantages of the flat and progressive tax, to analyze the impact of each type of tax in the economic growth in Albania. Through econometric methods will be analyzed the possible impact of budget incomes, disposable incomes in the family with flat taxation and the progressive one.

1.1 Theoretical considerations of Flat and Progressive tax

The literature on the comparative study of progressive and flat tax systems highlights the advantages and disadvantages of each system. The flat tax system is often favored for its simplicity and administration facilities, as well as its ability to reduce tax evasion and promote investment and entrepreneurship. However, critics of the flat tax system argue that it can aggravate income inequality and reduce tax revenue for the government. In contrast, the progressive tax system is favored for its ability to reduce income inequality and promote social justice, as well as its potential to generate more tax revenue for the government. However, critics of the progressive tax system argue that it can reduce incentives for investment and entrepreneurship and create disincentives for high-income earners.

It is usual for countries that are passing the transition process and are developing to move away from complex, progressive tax systems to simpler tax regimes, with fewer tax brackets and lower top statutory marginal tax rates (Peter, Buttrick, Duncan 2010). As shown in the study of Keen, Kim, and Varsano (2008) this is especially found as a strategy in Central and Eastern European countries. The flat tax is used specially in transition economies with the simple reasoning that it simplifies the tax system, improves the economy because of the lower tax deviation or distortion and reduces tax evasion. In their study Filer et al. (2019) which includes a larger set of transition countries, find no significant effect of flat tax reforms on income underreporting. In Central and Eastern European countries, the effects of flat tax reforms on tax revenues, tax structures, and tax compliance were previously studied. While it was not found any effects on tax revenues, they did find that the tax system shifted away from direct taxes because of flat tax reforms. (Saavedra, Marcincin, Valachy

2007). Studies also make in evidence a beneficial effect on tax compliance as well, but only when the flat tax rates for personal and corporate income were in line.

The fiscal system of Albania as Eastern European country, in this thirty last years of transition, has undergone its own revolution. It has changed and developed in according to the phases, changes, transformations, and developments that the market economy has undergone in our country and naturally according to the governmental and political changes, in accordance and in function of their programs. Here we can also add and evaluate the technical assistance and the advice given from financial international institutions or special missions of the EU. Thus, the fiscal system has had its advantages and disadvantages precisely linked with these changes, as much as sometimes, what was considered positive for one system is considered negative for the other. The evaluation of the benefits and the disadvantages is done when the systems are proved for a time, in a certain economic environment (development phase) and the influence of the other internal economic and financial actors (the development policies that are applied or are planned to be applied) and the factors of the external development and their impact in the internal economy. So, except for the classical differences through systems, the evaluation of the differences is done in the moment and in the certain economic terrain.

1.2 Progressive Tax

Angjeli (2020) in its comparative analyses through the two fiscal policies in Albania stated that the progressive tax is the tax where the fee is not constant, but changes increasing, parallel to income increasement. In the same study he stated some of the advantages of this form of taxation in Albania, through which the development of small and large business and therefore the increasement of the state budget, the reduction of the informality through the modernization of the fiscal digitalization. Man & Bolgea (2013) stated that the progressive tax requires different percentage rates according to the taxable base amount variation. It allows the division of taxable base using tax brackets, which are cutoff values for taxable income. If we compare the effects of the two systems, we can deduce their advantages and their disadvantages. Let us begin going through to some of the advantages and disadvantages of the progressive tax. Through the application of progressive tax find better application of the principle "who owns more income, contributes more to the state budget". Another advantage of the progressive tax is the "blooming" of the business in general and specially the small business (Bardhi, 2017). The application of a progressive tax has impacted positively on the job offer because of the performance improvement of the small business. Progressive taxation can contribute to a more equitable distribution of income, which will result in a more equitable distribution of consumption, wealth, and overall wellbeing. (See Conesa, Krueger 2006). As a result, it is determined that progressive taxation significantly improves the achievement of the goal of social justice because those with low incomes pay less in taxes than those with high incomes, indirectly this leads to social welfare (Shapiro, 1996). In this context recent study proves the stabilizer role of progressive taxation (Popescu et al. 2019). According to the literature, a progressive tax results in more equitable income distribution, which raises citizen wealth, and a far greater fulfillment of social justice aims. According to Angjeli (2020) all this led to an average increase of 4% of the economic growth in the period 2014-2019, with a significant impact on the economic and social development of the country. The progressive taxation system is used and continuous to be applicable from the current majority in Albania it is sanctioned by law nr. 156 dates 27.11.2024. In the past years, when our country was governed by the opposition was applied the flat tax. So, both systems are proved in Albania.

The literature's principal conclusion on this tax system's challenges is that more income results in a bigger tax burden; in other words, higher income equals higher taxes (Husman, Brezeanu 2019). As discussed in the literature the two system of taxation are parallelized with the concepts of equality and equity, so the flat tax system is assigned the concept of equality, and the progressive tax system is assigned the concept of equity (Husman, Brezeanu 2021). From this perspective, Bikas et al. (2014) lay in their study the idea that income disparities among citizens increase with progressive taxes, and

vice versa. Because of its intricacy and the fact that the individuals with high income are subject to the highest tax rates, the system has negative consequences on economic growth. (Godar et al., 2015). As a result, we can see that different authors question whether a progressive tax structure can promote economic growth. The progressive taxation is often accused that uses fixed arbitrary rates, which serve the government for more funds at time of crises. Another classic disadvantage is that this kind of taxation discourages productive activities because it reduces the interest of earning more. Precisely the main advantage of this taxation model, which is the scaling of the taxation rate, can be considered as biased because who earns more is subject to biased treatment. It develops a system full of administrative difficulties. The scaling of the rate and the bureaucracy makes the process more complicated, more expensive and lower the level of practicality with which the structures should operate and creates a closure of the system and a lack of the accountability versus the public. Kyj et al. (2015) argue that progressive taxation leads to lower savings and, therefore, lower capital accumulation and investment. Arguments in favor of the progressive tax have included redistribution of income, equality of sacrifice, ability to pay, and beneficial taxation.

Returning to the case of Albania, according to the IMF country report (2022) while Albania has the ingredients of a modern tax system, the design of certain features—for example, a progressive personal income tax, the general business profits tax, a simplified profits tax, social security contributions, and the way they interact, make it overly complex, generating distortions and non-neutrality. For example, multiple thresholds, fragmentize the income tax bases and the applicable tax rates. The complex set of rules provides incentives and opportunities for taxpayers to minimize or avoid payment. Therefore, such non-neutrality, the tax system is struggling with a high degree of informality which is encouraged by the high compliance costs and excessive complexity.

1.3 Flat tax

Flat tax is a tax which means that all pay the same tax rate for all subjects (proportional tax) without considering the level of income that they create. In this kind of tax, the fee of the taxation remains constant, while the tax amount increases in direct proportion to the taxable income. In their study Adikari and Alm (2016) claimed that flat tax policies apply a single tax rate to all income for taxpayers of all income levels. There are no exceptions, and all loopholes are closed. Flat tax is usually levied only on wages (income), which means that that there is no tax on the capital profits or investments. Russia is the world's largest economy in the world with a flat tax (some of the Baltic countries also have a flat tax). The principle behind both Hall and Rabushka's flat tax proposals is that people are taxed on their consumption. So, they argue that taxation is not on their saving or on their investments. It is concluded that a flat tax with a single marginal tax rate will raise work incentives, boosting entrepreneurship, capital formation, and national output in the process (Greenberg, 2009). According to Hall and Rabushka the main advantages of flat taxation consist of economic growth, simplicity, and equity. The flat tax is meant to encourage greater productivity and increased risk-taking (Forbes, 2005). The primary arguments in favor of a flat tax center on the claims that it will simplify government operations, boost administrative effectiveness, and provide stronger incentives for saving, investing, and the participation of the labor force due to lower marginal tax rates. Theoretically, a tax rate is more effective if it has insignificant impact on an individual's economic decisions (Saavedra, 2007).

When referring to flat tax, according to some scholars' study, is explained that it entails switching from a system in which the state proclaims a single tax rate for all income surpassing a specific fixed level to one in which it replaces the complicated set of numerous taxation kinds based on income (Man, Bolega 2013). This philosophy reduces the will to avoid tax obligations. Economy researchers believe that placing a progressive taxation system will harm the economy. Increased investment and consumption are necessary for economic recovery, but higher tax rates have the contrary effect. Benefits of this approach often include simplicity, increased payer compliance, and fewer effects on employment and economic growth distortion. (Rogers, Philippe 2019).

Other researchers consider that the flat tax policies may offer taxpayers benefits like lower tax levels, lower compliance costs, increased incentives, and, most importantly, honest treatment, while governments may have interest from lower compliance control costs and higher tax revenue (Rabushka, 2009). Because of the following factors: (1) higher incentives; (2) resources being used for more productive purposes rather than tax planning; and (3) direct and indirect efficiency impacts, flat tax schemes may thus have a less detrimental effect on the economy than progressive tax schemes (Cullena, Gordon 2007). Regarding Popescu et al. (2019) the flat tax system sanctions the concept of equality regarding the taxes by maintaining a constant tax ratio, meanwhile infringes the rule of fiscal equity, because it ignores the fact that when different socioeconomic categories' incomes rise, so do their contributions.

In Albania, the flat tax was applied during the period 2007 – 2013 based on the law nr. 8438 dates 28.12.1998 changed with the law nr. 9766 dates 09.07.2007. According to Holzner (2007) the personal income tax, which is a progressive tax rising from 1% to 20%, as well as the current profit tax of 20% (i.e., corporate tax), were both replaced by the government's intention to implement a flat tax by the end of May 2007. The rate of 10% flat tax is intended to replace both taxes. Since the first 10,000 lek are excluded for incomes below 30,000 lek, the income tax is not a true flat tax. The new income tax became effective in July 2007. According to Angjeli (2020) the application of the flat tax in Albania included a larger number of taxpayers (enlargement of the tax base) and created facilities in the calculation and collection of the tax incomes from the fiscal structures, compared to the progressive system. According to the same author the main disadvantage of the flat tax weighs the same both on those who have low income and on those with higher income without considering the "poor" individuals or small businesses limiting their vital needs or the possibility to develop their activity.

2. Data and Methodology

This study employs a comparative analysis of the revenue collected from taxpayers under the flat and progressive tax systems in Albania. The analysis is based on the data collected from the Albanian Tax Administration, the National Institute of Statistics, and the Ministry of Finance. Econometric methods are used to model the relationship between tax revenue, economic growth, and income distribution, and to identify the factors that influence tax revenue collection under each system. Based on statistics, a comparative analysis of two fiscal regimes during a fifteen-year period was conducted. The flat fiscal system was analyzed for the first seven years (2007–2013) and a progressive fiscal system for the subsequent four years (starting in 2014). The Albanian fiscal policy is led by the progressive fiscal system. In addition to the theoretical and practical comparative analysis, descriptive statistics analyses, the Ordinary Least Square Regression approach is utilized for the empirical study. The software used is Eviews 10. Through the analyses we have tried to explain the impact on the economic growth represented by the GDP of the independent variable which is the tax income. In this study is realized a descriptive analyses through the data set taken from the Ministry of Finance and the Albania Tax Administration for the variables of the model which are the tax income and the economic growth represented by the GDP. The tax income is represented as a cumulative tax of profit tax; excise tax; personal income tax; national taxes and others; custom duties; local taxes; property tax (buildings); small business tax. In the table below is presented a summary of descriptive statistics of the variables of interest, tax income and the specific weight they have in the GDP.

3. Data Analyses and Discussions

As mentioned before Albania applied for the first time the flat tax system in 2007th sanctioned by Law nr. 9766 dates 09.07.2007. The application of the flat tax came as a necessity as we were considered a transition country and was considered a revolution for Albania which had one of the lowest tax rates in the world for that time. The application of the flat tax system was believed by the

government to decrease the informal sector, and to generate double-digit economic growth rates (Holzner, 2007). And in fact, as shown in the table below the impact on the GDP increased compared to the previous period although not at the levels expected. As we can analyze from the values in the table that the application of the flat tax marked a positive development of the tax revenues in Albania compared to the previous 10 years, period during which the mean contribution of the tax revenues on the GDP was 15%. So, the tax income had a consistent increasement and a good impact on the GDP compared to the previous periods.

Table 1. Tax and % GDP period 2007 – 2013 flat tax period. (Source: Ministry of Finance and Albanian Tax Administration)

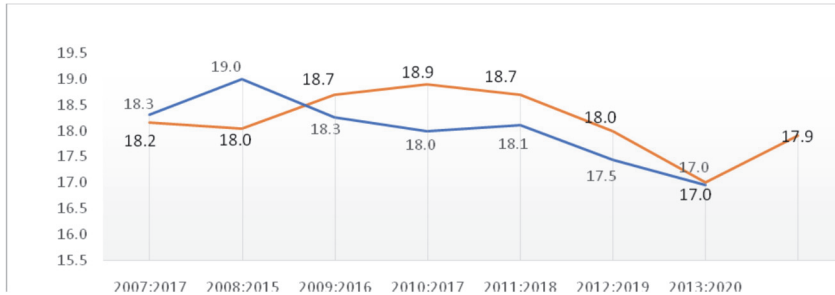
Tax	Flat tax period						
	2007	2008	2009	2010	2011	2012	2013
From tax offices and customs	176,808	205,292	208,870	223,019	235,509	232,591	229,031
% GDP	18.3	19.0	18.3	18.0	18.1	17.5	17.0
Revenues from Local Gov.	9,366	11,307	12,149	11,898	11,791	10,859	10,825
% GDP	1.0	1.0	1.1	1.0	0.9	0.8	0.8
GDP	965,528	1,080,676	1,143,936	1,239,645	1,300,624	1,332,811	1,350,053

In the table below we have reflected the progress of the tax income during the period 2014-2021 period in with was applied the progressive tax scheme. As we can analyze the data in the table the tax income during the first 3 years of the progressive tax scheme the values of the tax income are lower than the period of the flat tax, but after the first three years the values marked a slight increasement which is explained by the application of the progressive tax, the handicap in the first period came from the difficulty of implementing the system and making the structures aware of the new scheme.

Table 2. Tax and % GDP period 2014-2021 progressive tax period. (Source: Ministry of Finance and Albanian Tax Administration)

Tax	Progressive tax period							
	2014	2015	2016	2017	2018	2019	2020	2021
From tax offices and customs	253,413	258,882	275,780	293,386	304,318	304,758	278,984	338,074
% GDP	18.2	18.0	18.7	18.9	18.7	18.0	17.0	17.9
Revenues from Local Gov.	12,447	11,700	14,951	18,447	21,863	23,102	21,975	26,666
% GDP	0.9	0.8	1.0	1.2	1.3	1.4	1.3	1.4
GDP	1,395,305	1,434,307	1,472,479	1,551,281	1,626,196	1,691,903	1,644,077	1,890,280

To better visualize the difference between the two periods of taxation we have overlapped the graphs built for each period. The blue line represents the flat tax period, and the orange color line represents the progressive taxation. From the graph we can explain that the progressive tax shows a better performance than the flat tax, although the differences in relative terms are small.



Graph 1. Tax income % GDP per period 2014-2021 (progressive tax period) overlapped with the graph of tax income % GDP per period 2007-2013 (flat tax period)

If we look a little further in the data set as in the Appendix 1 the element that contribute mostly to the tax incomes are the revenues from the VAT (value Added Tax) which is definitively lower in the progressive tax compared to the flat tax, after the VAT the next greater contributor on the tax revenues is the Excise tax which is slightly decreased in the progressive tax. In the other hand the Profit Tax has improved its performance by approximately 0.5 % of GDP. Personal tax income has had no meaningful change from flat taxation to the progressive one. The National Taxes and Other has improved in the progressive tax scheme with 1.8 % of GDP. While the revenues from the local government have significantly improved in the progressive tax compared to the flat tax.

The results of the analysis show that the progressive tax system in Albania generates more tax revenue for the government than the flat tax system, while also reducing income inequality. However, the analysis also shows that the progressive tax system may reduce incentives for investment and entrepreneurship, and that tax evasion remains a significant problem under both systems.

3.1 Regression Analyses

3.1.1 Progressive tax regression

For the empirical data analysis, we have run two regressions, the first to investigate the relation through the GDP and the tax incomes (Revenues from Local Government and Taxes from Tax Office and Customs) during the progressive period and the second one to investigate the same relation during the flat tax. So, the dependent variable is the economic growth represented by the GDP and the independent variable are Tax revenues from the tax office and the customs and the revenues from the Local Government. The software used is Eviews 10.

Table 3:

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Revenues from local government	18.87543	7.415828	2.545289	0.0316
Taxes from tax offices and customs	3.101029	1.452447	2.146545	0.0277
C	625557.6	296849.1	2.107325	0.0389
R-squared	0.748788	Mean dependent var		1588229.
Adjusted R-squared	0.728303	S.D. dependent var		161342.0
F-statistic	46.31656	Durbin-Watson stat		1.019740
Prob(F-statistic)	0.000594			

Dependent Variable: GDP, Method: Least Squares Sample: 2014 2021, quarterly, Included observations: 32 (3 months period, 4 periods per year)

Once we have obtained it, the least squares estimates are interpreted in the context of the economic model under consideration. In the first place we must prove if this model is statistically significant to show the impact that have the taxes on the economy. For this the hypothesis are: *Null hypothesis:* $\beta_1 = \beta_2 = 0$. *Alternative hypothesis:* at least one of the coefficients is different from 0, $\beta_i \neq 0$. For the test of the hypothesis the Fisher Test is used. This test serves to verify if the model is suitable to explain the economic growth in Albania, the greater the value of the F-Test (calculated), the better the model is considered. The model is statistically significant for a level of significance $\alpha = 1\%$ ($F\text{-calc} = 46.31656 > F$ and significant for $p\text{-value} < 1\%$). So, the Null hypothesis is rejected, according to which it was supposed that none of the factors does not impact the GDP. If the Hypothesis H_0 is rejected means that the hypothesis H_a is accepted (alternative hypothesis), we simply conclude that at least one of the variables is statistically related to GDP. After testing the model, the next hypothesis is the relation "Revenues from local government" - GDP, in this case Null Hypothesis: *The variation of "Revenues from local government" doesn't impact GDP.* $\beta_1 = 0$. *Alternative Hypothesis:* *The variation of "Revenues from local government" impacts positively GDP.* $\beta_1 \neq 0$. *The test used is the student's t-test. This test serves to prove if one coefficient is statistically significant, so if the included variable impacts on the dependent variable. From the tables above we can see that "Revenues from local government" have a positive statistically significant impact (estimated coefficient $b_1 = 18.8$) in the GDP growth in the level $p=1\%$. A variation with one unit of "Revenues from local government" increases with 18.8 unit the GDP. The next Hypothesis in this study is that the relation "Taxes from tax offices and customs" - GDP, where we want to evaluate if "Taxes from tax offices and customs" Albania has impacted the economic growth. Null hypothesis: *The increasement of "Taxes from tax offices and customs" does not impact economic growth.* $\beta_2 = 0$. *Alternative Hypothesis:* *The increasement of "Taxes from tax offices and customs" impacts positively the economic growth so $\beta_2 \neq 0$. The test used is the student's t-test. From the table above we can analyze that "Taxes from tax offices and customs" have a positive statistically significant impact (estimated coefficient $b_2 = 3.101029$) in the increasement of GDP in the level $p=1\%$. An increasement with 1 unit of the variable "Revenues from local government" increases with 3 units the GDP.**

So, in summary the model is statistically significant, the independent variables have a positive statistically significant impact on the dependent variable which is the economic growth represented by the GDP, since the multiple regression coefficient adjusted $R^2 = 0.728303$ means that approximately 72% of the variation of the GDP is explained form the tax incomes (Revenues from Local Government and Taxes from Tax Office and Customs)

3.2 Flat tax regression

Table 4:

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Revenues from local government	-34.00990	17.85327	-1.904967	0.1295
Taxes from tax offices and customs	7.624372	0.814412	9.361814	0.0007
C	-64093.81	170839.6	-0.375170	0.7266
R-squared	0.664381	Mean dependent var		1201896.
Adjusted R-squared	0.646571	S.D. dependent var		143866.3
F-statistic	54.14914	Durbin-Watson stat		2.198173
Prob(F-statistic)	0.001269			

Dependent Variable: GDP, Method: Least Squares, Sample: 2007 - 2013 quarterly, Included observations: 28(3 months period, 4 periods per year)

Once we have obtained it, the least squares estimates are interpreted in the context of the economic model under consideration. In the first place we must prove if this model is statistically significant to

show the impact that have the taxes on the economy. For this the hypothesis are: *Null hypothesis: $\beta_1 = \beta_2 = 0$. Alternative hypothesis: at least one of the coefficients is different from 0, $\beta_i \neq 0$. For the test of the hypothesis the Fisher Test is used. This test serves to verify if the model is suitable to explain the economic growth in Albania, the greater the value of the F-Test (calculated), the better the model is considered. The model is statistically significant for a level of significance $\alpha = 1\%$ ($F\text{-calc} = 54.14914 > F$ and significant for $p\text{-value} < 1\%$). So, the Null hypothesis is rejected according to which it was that none of the factors does not impact the GDP. If the Hypothesis H_0 is rejected it means that the hypothesis H_a is accepted (alternative hypothesis), we simply conclude that at least one of the variables is statistically related to GDP. After testing the model, the next hypothesis is the relation "Revenues from local government" - GDP, in this case Null Hypothesis *the variation of "Revenues from local government" doesn't impact GDP $\beta_1 = 0$ Alternative Hypothesis: the variation of "Revenues from local government" impacts positively GDP. $\beta_1 \neq 0$. The test used is the student's t-test. This test serves to prove if one coefficient is statistically significant, so if the included variable impacts on the dependent variable.**

From the tables above we can see that "Revenues from local government" have statistically insignificant impact in the increasement of the GDP in the level $p=1\%$. The next hypothesis of this study is to test the relation "Taxes from tax offices and customs" - GDP, where we want to evaluate if "Taxes from tax offices and customs" in Albania has an impacted on the economic growth. Null hypothesis: the increasement of "Taxes from tax offices and customs" *does not impact economic growth. $\beta_2 = 0$. Alternative Hypothesis: the increasement of "Taxes from tax offices and customs" impacts positively the economic growth so $\beta_2 \neq 0$. The test used is the student's t-test. This test serves to prove if one coefficient is statistically significant, so if the included variable impacts on the dependent variable. From the table above we can analyze that "Taxes from tax offices and customs" have a positive statistically significant impact (estimated coefficient $b_2 = 7.624372$) in the increasement of GDP in the level $p=1\%$. An increasement with 1 unit of the variable "Revenues from local government" increases with 7.6 units the GDP.*

So, in summary the model is statistically significant, one of the independent variables is statistically insignificant for the model (Revenues from local government) on the other hand the other variable have a positive statistically significant impact on the dependent variable which is the economic growth represented by the GDP, since the multiple regression coefficient adjusted $R^2 = 0.646571$ means that approximately 64% of the variation of the GDP is explained form the tax incomes (Revenues from Local Government and Taxes from Tax Office and Customs).

4. Conclusions

The results of this study have important implications for tax policy in Albania. The analysis suggests that the progressive tax system may be more effective in achieving policy goals of reducing income inequality and generating more tax revenue for the government. However, policymakers should carefully consider the potential impacts of the progressive tax system on investment and entrepreneurship, as well as the need for strong tax administration and enforcement capacity to reduce tax evasion.

The choice between progressive and flat tax systems in Albania requires careful consideration of a range of factors, including economic growth, income distribution, social justice, and tax administration. While the progressive tax system may be more effective in achieving policy goals of reducing income inequality and generating more tax revenue for the government, policymakers should carefully consider the potential impacts of the progressive tax system on investment and entrepreneurship. By designing tax policies that are effective, equitable, and transparent, policymakers can promote sustainable economic growth and social development, reduce income inequality, and ensure social justice for all.

The difference between the flat and the progressive taxation in Albania is very slight in terms of tax income and also in term on the specific weight in the impact of the economic growth represented by the GDP, so the choice through them should be taken considering more the other factors as social

justice, the way each of them incentives the investments, or stimulates the business, or administrative cost.

Since progressive tax is often accused to be complicated and have more additional administrative costs than the flat tax, for further future studies is suggested to investigate if the financial advantage that progressive taxation shows in Albania is justified from the administrative cost that derive from it but if these costs are more than its financial advantages especially considering all the difficulties that emerge from applying it practically, then should be considered the modification or the switching to another system.

The principles of equality and equity of the taxation process should also reflect the society and revenue escalation. The horizontal equity shows that the taxation should be equal to individuals, while a vertical equity shows that the taxation should vary as their inequalities vary. Since this equilibrium is exceedingly difficult to be found the risk is that the taxes avoided from one group rank on another group which in the Albanian case is the middle class of the society.

As predicted from the theoretical approaches discussed in this paper the tax income impacts the economic growth, but in the empirical analyses we have found that in Albania the tax income has a significant impact on the economic growth represented from the GDP. So, the Albania needs a particularly important and careful fiscal policy that reflects the social justice, which can solicitate other sources of income, which reduces the informality and with minimal administrative costs. As can be analyzed, progressive taxation better serves the economic growth as it explains better the GDP in the econometric models discussed. Although there is much to be improved in progressive taxation to meet the up mentioned qualities.

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Appendix 1

Tax	Flat tax period						
	2007;2017	2008;2015	2009;2016	2010;2017	2011;2018	2012;2019	2013;2020
From tax offices and customs	176,808	205,292	208,870	223,019	235,509	232,591	229,031
% GDP	18.3	19.0	18.3	18.0	18.1	17.5	17.0
V. A. T	87,771	107,094	110,062	113,998	119,189	116,533	111,940
% GDP	9.1	9.9	9.6	9.2	9.2	8.7	8.3
Profit Tax	21,077	18,108	17,149	17,606	19,712	16,853	15,119
% GDP	2.2	1.7	1.5	1.4	1.5	1.3	1.1
Excise Tax	28,731	32,510	33,504	38,788	40,403	36,421	38,151
% GDP	3.0	3.0	2.9	3.1	3.1	2.7	2.8
Personal Income Tax	14,850	24,498	26,820	27,058	27,967	27,989	29,570
% GDP	1.5	2.3	2.3	2.2	2.2	2.1	2.2
National Taxes and others	14,531	14,423	13,405	18,295	21,388	28,677	28,454
% GDP	1.5	1.3	1.2	1.5	1.6	2.2	2.1
Custom Duties	9,848	8,660	7,929	7,274	6,850	6,118	5,797
% GDP	1.0	0.8	0.7	0.6	0.5	0.5	0.4
Revenues from Local Gov.	9,366	11,307	12,149	11,898	11,791	10,859	10,825
% GDP	1.0	1.0	1.1	1.0	0.9	0.8	0.8
Local Taxes	7,134	7,137	8,154	7,684	7,279	6,210	6,396
% GDP	0.7	0.7	0.7	0.6	0.6	0.5	0.5
Property tax (buildings)		1,586	1,509	1,896	1,942	2,506	2,454
% GDP		0.1	0.1	0.2	0.1	0.2	0.2
Small Business Tax	2,232	2,584	2,486	2,318	2,570	2,143	1,975
% GDP	0.2	0.2	0.2	0.2	0.2	0.2	0.1
GDP	965,528	1,080,676	1,143,936	1,239,645	1,300,624	1,332,811	1,350,053

Tax	Progressive tax period							
	2014	2015	2016	2017	2018	2019	2020	2021
From tax offices and customs	253,413	258,882	275,780	293,386	304,318	304,758	278,984	338,074
	18.2	18.0	18.7	18.9	18.7	18.0	17.0	17.9
V. A. T	123,730	125,783	131,390	139,541	143,464	132,412	130,354	161,536
	8.9	8.8	8.9	9.0	8.8	7.8	7.9	8.5
Profit Tax	28,852	24,968	29,151	31,645	34,461	36,575	28,381	35,610
	2.1	1.7	2.0	2.0	2.1	2.2	1.7	1.9
Excise Tax	32,606	39,027	41,896	45,105	44,987	46,742	44,521	51,637
	2.3	2.7	2.8	2.9	2.8	2.8	2.7	2.7
Personal Income Tax	21,479	29,661	31,412	32,102	36,517	46,124	33,658	39,312
	1.5	2.1	2.1	2.1	2.2	2.7	2.0	2.1
National Taxes and others	40,894	33,647	35,794	38,502	38,673	36,423	35,829	42,521
	2.9	2.3	2.4	2.5	2.4	2.2	2.2	2.2
Custom Duties	5,852	5,796	6,137	6,492	6,217	6,482	6,241	7,457
	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Revenues from Local Gov.	12,447	11,700	14,951	18,447	21,863	23,102	21,975	26,666
	0.9	0.8	1.0	1.2	1.3	1.4	1.3	1.4
Local Taxes	7,060	5,746	9,675	13,273	16,354	17,539	16,468	20,166
	0.5	0.4	0.7	0.9	1.0	1.0	1.0	1.1
Property tax (buildings)	3,678	3,921	4,678	4,879	5,192	5,208	5,124	6,116
	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Small Business Tax	1,709	2,033	598	296	316	355	384	385
	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
GDP	1,395,305	1,434,307	1,472,479	1,551,281	1,626,196	1,691,903	1,644,077	1,890,280