

CHALLENGES OF DOING BUSINESS IN THE CONTEMPORARY WORLD

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Abstract

Doing business is an activity that means offering a product or a service to generate profit. The importance of managing business is generating profit and to raise the possibility to increase the level of the profit by the experience of the business. In their daily activities, businesses face with challenges of macroeconomic and microeconomic aspect. Some of the challenges that one business face can be mentioned as above: costs of starting up a business, registering property, getting credit, level of taxes, employee contributions, competition etc.

In this paper we will describe in short points the challenges that one business in Macedonia face, and that from the moment of registration till the end of the company describing in short points the process of bankrupt. At the beginning we will describe the facilitations that our country offers to the new businesses, the grants it offers, facilitations in employee contributions etc. The scientific method that we will use in this paper is the comparative analysis and the descriptive method. We will focus on comparing the level of tax in income, value added tax and the employee contributions in our country with the neighbor countries like Albania and Kosovo and finding out which country offers better business conditions in the aspects of the points mentioned above.

Keywords: Income tax, value added tax, employee contributions.

1. INTRODUCTION

The rapid changes made because of technology advancement make firms face a rapidly changing environment and therefore they need to be more proactive and responsive to changes in order to be more competitive in the market.

From the moment of registration companies face different challenges including property registration, payment of taxes, payment of contributions, link management with suppliers, meeting customer needs and requirements etc. Although there are many challenges, in this study, we have briefly analyzed only three business challenges: business registration, tax payment and bankruptcy process. These three elements have been analyzed in the case of Macedonia, compared to the situation in Albania and Kosovo.

The purpose of this study is to analyze the costs of doing business in our country compared to Kosovo and Albania.

The basic hypothesis on which this study is based is that Macedonia has lower business-to-business costs compared to neighboring countries.

1.1.BUSINESS REFORMS IN MACEDONIA

Before analyzing the three above mentioned elements and how they compare to other countries, we will briefly present the data processed by the World Bank on business reforms in Macedonia in the period from 2008 to 2017.

In the chart below we have chronological data on how the business process in Macedonia was developed in terms of improving business start-up, tax payment and implementation of bankruptcy. Analyzing the ease of business start-up includes business registration procedures, the time needed to execute the procedures, the firm registration costs, and the minimum needed capital. Regarding the payment of taxes, we have analyzed the time needed to calculate, record and pay the necessary taxes. When analyzing the ease of carrying out the bankruptcy procedure, account is taken of the timing of the bankruptcy process and the functioning of the law.

	BUSINESS START-UP	TAX	BANKRUPTCY RESOLUTION
2008	Elimination of prepayment of minimal capital.	Electronic system of tax payments and reduction of the profit tax norm.	/
2009	Reduction of time and amount of procedures	Reduction of the profit tax norm.	/
2010	Integration of procedures in one-stop-shop	Reduction of norms of social security	/
2011	Further development of one-stop-shop	/	/
2012	/	/	Increased transparency of bankruptcy procedures by the changes in the laws on companies and bankruptcy.
2013	Simplification of procedures for acquiring company seals	/	/
2014	/	Encouragement of fulfillment and electronic payments of the tax on profit and VAT	/
2015	Online free registration of the business	/	Facilitated the resolution of payment insolvency by creating a framework for debtors' electronic auctions, by reorganizing and tightening the timeframes for bankruptcy procedures and appeals process and creating a framework for off-court restructuring.
2016	Mandatory online registration carried out by agents	/	/
2017	/	/	Voting procedures for reorganization plans by allowing the creditors greater participation from the bankruptcy.

Chart 1¹

¹World Bank, 2017. *Business Reforms in Macedonia*.

<<http://www.doingbusiness.org/reforms/overview/economy/macedonia-fyr>>

2. COMPARATIVE ANALYSIS OF THE BUSINESS CONDITIONS IN MACEDONIA, ALBANIA AND KOSOVO

Macedonia is a country with about 2 million inhabitants. It has a suitable geographic position for doing business because it is on the crossroads between the east and the west, connecting Europe with the Adriatic, the Aegean and the Black Sea. It has a stable microeconomic situation that tends to keep inflation under control by maintaining the stability of its currency, low tax norms, support for business start-ups, etc.

2.1.BUSINESS REGISTRATION

The Law on Trade Associations in the Republic of Macedonia divides those into two categories, as follows:

1. Trade associations
2. Individual traders

In order to establish a firm in our country, the interested person must first appear in the Central Register. The process of registration is done electronically through the single-counter system. This is a relief for both companies to register as soon as possible, and for other parties outside the company who can quickly obtain the necessary data for the companies.

The Employment Agency in R.M. in its action plan for 2017 envisions some facilitation for the establishment of new businesses and the functioning of the existing businesses. This is to reduce the unemployment rate in the country. The state offers grants for the establishment of new firms in the amount of MKD 263,000, of which MKD 246,000 for the supply of equipment and materials and MKD 17,940 for the support of the type of basic training for undertaking and running the business.² The country also offers facilities for people with disabilities and people with social risks.

The self-employment program is also implemented in Kosovo. New businesses there are given grants between 3,000 and 6,000 Euros. All the unemployed with business ideas have the right to apply in this program; however, advantage is given to the following categories:

1. Long-term unemployed people (more than 12 months)
2. Young people (18 – 29 years of age)
3. Women
4. Beneficiaries of social assistance
5. Single parents
6. People from rural areas
7. People with disabilities
8. Ethnic minority groups³

The registration of businesses in Kosovo is done by the Business Registration Agency, where the rule of electronic registration and the one-stop-shop system applies, which follows the rules of the European Union.

In Albania, the registration of the companies is done by the National Business Center. Persons interested in registering their businesses complete the application forms and submit them to the nearest business registration center. After submitting the documents, the person should wait a day to receive a reply regarding the registration of their firm. The

²Employment Agency in Macedonia 2017, *Operational plan for active programs and measures for employment and services in the labor market for 2017*

³ Ministry of labor and social welfare, *Self-employment program*

aforementioned grants offered to new businesses in Macedonia and Kosovo are offered in Albania to people aged 18-30 in the amount of 500,000 ALL.

Albania Facilitations provides employment for women and young persons, up to the age of 30, persons with disabilities, employment facilitation for young people who have gained the status of orphans, etc.

2.2.THE VALUE ADDED TAX (VAT)

With regard to this type of consumption tax, there are two norms in the case of Macedonia – 18% and 5%. The VAT is calculated on goods and services provided within the country as well as on the goods imported from abroad. The tax norm of 5% is assigned to certain products such as food items, publications, medications, baby products, stationary, etc.

A company which has the following the traits is obliged to pay the VAT:

1. Having realized an annual turnover of more than 1,000,000 MKD
2. If the turnover from the beginning of its activity is envisaged to exceed 1,000,000 MKD
3. Exceeding the turnover of 1,000,000 MKD within e year.⁴

As far as companies with less than 1,000,000 MKD are concerned, they are given the possibility to choose if they want to be taxpayers.

The VAT in Kosovo is 18%, followed by a reduced norm of 8%, which applies to certain products such as food articles, water supply, road cleaning, etc.

The minimal limit for a company to become a taxpayer in Kosovo since 2015 is the realization of a turnover of 30,000 Euros on annual bases (12 months). There is also a possibility for other companies which do not reach this limit to become taxpayers if they decide to do so.

According to the Law on VAT in the Republic of Albania, the VAT rate is 20%. In order for a business to become a taxpayer, the minimum limit is determined by the Council of Ministers and it is Lek 5,000,000 for an annual turnover. In certain cases, the VAT rate of 0% applies, including supplies of non-profit goods, supplies of goods and services rendered in the framework of diplomatic and consular relations, supplies of goods and services to the armed forces of NATO member states, supplies of gold to the Bank of Albania, etc.⁵

We can therefore conclude that among the countries in question, Albania has the highest VAT rate, whereas the lowest is in Macedonia.

2.3.THE TAX ON PROFIT

The tax on profit is the tax allocated to legal entities and which is calculated on the tax profit ascertained in the tax balance, which represents the residual value after the costs have been deducted from revenues of the company, adding those expenses that are not recognized as expenses when calculating the tax, and by deducting the receivables that have previously been accounted for as unacceptable costs.

In Macedonia, the tax on profit rate is 10%. However, in order to stimulate business growth, companies that will reinvest their profits either in material or intangible assets will be exempted from this tax.

⁴Law on VAT, 2016

⁵Directorate General on Taxes, *the Value Added Tax*, <<https://www.tatime.gov.al/c/4/96/110/tatimi-mbi-vleren-e-shtuar>>

Small companies which realize a turnover up to 3,000,000 MKD are not obliged to pay the tax on profit, whereas companies with a turnover between 3,000,001 and 6,000,000 MKD can choose to pay 1% of the value of their overall turnover instead of the set amount of 10%.

According to the Law Nr. 05/L-029 regarding the income tax for corporations in Kosovo, this type of tax is applied on taxable corporation incomes. Taxpayers with gross annual incomes of €50,000 or less are taxed at the amount of 3% for activities such as trade, transportation, agriculture, and similar commercial activities and 9% for professional service activities, craftsmanship, entertainment, etc. In both cases the rule which says that the payment value of the tax should not be less than 73.5€ in three months applies. Taxpayers with annual gross incomes higher than 50,000€ are taxed with 10% of their income.

The income tax or the tax on profit according to the General Directorate of Taxation in Albania has a rate of 15%. This tax is paid monthly or every three months in advance. For small businesses the simplified tax is applied; this includes businesses with a turnover of less than or equal to 8,000,000 ALL. There are two business groups: businesses with an annual turnover of 5,000,000 - 8,000,000 ALL, for which the income tax rate is 5% and businesses with annual turnover of less than 5,000,000 ALL, for which the income tax rate is 0%.⁶

Based on the data mentioned above, we can conclude that Albania has the highest income tax rate; however, the minimal limit for calculating this type of tax is also higher.

2.4.WORKERS' CONTRIBUTIONS

Based on the changes of the Law on the minimal salary in R.M. as of September 2017, the minimal gross salary for workers is 17,130MKD, whereas the net minimal salary is 12,000MKD.

The types of contributions along with the percentage of their calculation in Macedonia have been given below:

1. 18% for the mandatory pension and invalidity insurance
2. 4% for disabilities and physical injuries caused by an injury at the workplace or work-related illness
3. 7.3% for the mandatory health insurance
4. 0.5% additional contributions for health insurance in cases of injuries or work-related illnesses
5. 1.2% for mandatory contributions in cases of unemployment.⁷

Based on the Law Nr. 04/L-101 on pension funds in Kosovo, companies pay pension insurance only for their employees. The pension insurance functions upon the principle 5% + 5%, meaning that 5% is paid by the company and another 5% by the workers themselves. In addition, it is allowed for the employers to raise this percentage up to 10% of their workers' salary in order to achieve 15% of contributions. The same possibility is given to the employees themselves so that they can also achieve the 15% of their salary in the form of contributions. The minimal salary in Kosovo is calculated based on the employee's age, and it varies from 130 Euros for persons up to 36 years of age to 170 Euros for those above 36.

Based on the data published by the General Directorate on Taxes in Albania, the minimal salary since 2017 in Albania is 24,000ALL.

The Law on social insurances in Albania sets the following norms for the calculation of contributions:

- a) The branch of illness insurance – 0.3%
- b) The branch of maternity/births – 1.4%

⁶Directorate General on Taxes, *The Simplified tax on profit for small businesses*

<<https://www.tatime.gov.al/c/4/96/109/tatimi-i-thjeshtuar-mbi-fitimin-e-biznesit-te-vogel>>

⁷Law on Mandatory Social Insurance

- c) The branch of pension insurance – 21.6%
- d) The branch of accidents insurance and work-related illnesses – 0.3%
- e) The branch of unemployment insurance – 0.9%⁸
- f) The branch of health insurance – 3.4%

Based on the data above, we can see that Kosovo has the lowest contribution norms and minimal salary compared to Macedonia and Albania.

2.5.THE PROCESS OF BANKRUPTCY

The process of bankruptcy in Macedonia can be initiated by businesses in cases where the company cannot pay its debts and when there is no turnover in its accounts as revenue in a period of 45 days. When the company expresses the inability to pay debts, it sells all its assets. Debt payment of creditors is made on the principle of parity or the principle "pari passu", which means that coverage of debts, is done in a proportional way.

The Law on Bankruptcy in Kosovo foresees that the initiation of bankruptcy proceedings be done voluntarily or involuntarily. The procedure is voluntarily initiated at the request of the debtor, and involuntarily when two or more creditors submit a claim for bankruptcy of the business. This requirement is taken into account when the total value of the debt is over 5,000 Euros and when the debt has exceeded the term of 90 days for the realization of the payment. The law on payment of creditors based on the principle "Pari passu" is also valid in Kosovo.

In Albania, the bankruptcy process can be initiated in cases of debtor's inability to pay debts and in cases of debtor's overload. It can also be initiated at the request of tax authorities in cases where there is a loss for 3 years in the tax balance. Creditors are paid in such a way that insured creditors are first paid, and they are also called bankruptcy creditors.

As far as the above-mentioned challenges are concerned, based on the studies carried out by the World Bank, the following ranking has occurred:

	Business start-up	Tax payment facilitation	Bankruptcy
Macedonia	22	29	30
Albania	45	125	41
Kosovo	10	45	49

Chart 2⁹

We can therefore see that Macedonia compared to other countries examined by the World Bank has been ranked 22nd, Kosovo 10th and Albania 45th. Tax payment facilitation in Macedonia place it on the 29th position, followed by Kosovo in the 45th position and the last is Albania. As far as bankruptcy procedures are concerned, it has been ascertained that they are clearer and faster in Macedonia followed by Albania and Kosovo.

3. CONCLUSION

Based on all of the above-mentioned, we can conclude that:

- Macedonia, Kosovo and Albania provide facilitation for new businesses;

⁸Law Nr.7703 On the Social Insurance in Albania

⁹ World Bank, *Economy rankings*, <<http://www.doingbusiness.org/rankings>>

- Albania has the highest VAT norm of 20%, whereas Macedonia and Kosovo have the same VAT norm, i.e. 18%.
- Albania also has the highest norm of the Tax on Profit, compared to Macedonia and Kosovo;
- The employees' contributions are lower in Kosovo, and they are approximately equal in Macedonia and Albania.

Finally, we can say that having in mind the challenges mentioned above, which we somehow analyzed in a separate manner, we can say that in general the expenses for a company in Albania are higher compared to those operating in Macedonia and Kosovo. However, we should keep in mind that these companies face numerous other challenges in their everyday functioning as such.

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