European Science Review 2026,
No 5–6
ISSN 2310-5577

PREMIER Publishing
ppublishing.org

DOI:10.29013/ESR-26-5.6-21-27

FISCAL JUSTICE AND TAX GOVERNANCE IN ALBANIA: EVALUATING THE NEW FISCAL PACKAGE FOR FREE PROFESSIONS AND SMALL BUSINESSES

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Cite: *Mikel A. (2026). Fiscal Justice and Tax Governance in Albania: Evaluating the New Fiscal Package for Free Professions and Small Businesses. European Science Review 2026, No 5–6.* https://doi.org/10.29013/ESR-26-5.6-21-27

Abstract

The digital transformation of tax administration has intensified debates regarding the relationship between effective tax enforcement, taxpayer rights and institutional legitimacy. Within this context, Albania has proposed a new fiscal package introducing significant amendments to taxpayer classification, administrative sanctions, cash-holding restrictions and tax control mechanisms.

This study evaluates the proposed reforms through the theoretical perspectives of fiscal justice, tax neutrality, proportionality and risk-based tax administration. Adopting a qualitative research design based on legal analysis, comparative assessment and policy evaluation, the paper examines four key dimensions of the reform: the treatment of professional activities, restrictions on business cash holdings, the proportionality of administrative sanctions and the interaction between fiscalization and traditional enforcement mechanisms.

The findings indicate that while the proposed measures pursue legitimate objectives related to compliance enhancement and fiscal oversight, several provisions may generate tensions between enforcement objectives and established principles of effective tax governance. In particular, the proposed classification of professional activities may affect tax neutrality, while cash-holding restrictions and certain administrative sanctions may increase compliance burdens and raise proportionality concerns. Furthermore, the effectiveness of expanded tax controls depends largely on their integration with fiscalization and risk-based compliance management systems.

The study concludes that sustainable tax administration reform requires a balanced approach that combines effective enforcement with fiscal fairness, legal certainty and taxpayer trust. The Albanian case demonstrates that the long-term success of tax reform depends not only on strengthening compliance and reducing informality but also on preserving neutrality, proportionality and administrative legitimacy within an increasingly digitalized fiscal environment.

Keywords: *Fiscal justice; Tax governance; Tax neutrality; Fiscalization; Risk-based compliance; Free professions; Albania*

1. Introduction

The digital transformation of tax administration has significantly altered the manner in which governments monitor economic activity, manage fiscal risk and promote taxpayer compliance. Advances in electronic reporting systems, fiscalization and data analytics have expanded the informational capacity of tax authorities and encouraged a gradual shift toward risk-based compliance management (OECD, 2020; OECD, 2021).

Within this context, tax administration reforms are increasingly evaluated not only through their capacity to enhance revenue collection but also through their consistency with broader principles of fiscal justice, tax neutrality, proportionality and administrative legitimacy (Musgrave, 1959; Stiglitz & Rosengard, 2015).

Albania has followed this international trend through the implementation of fiscalization and a broader modernization of tax administration. More recently, the government has proposed a new fiscal package introducing significant amendments to taxpayer classification, cash-holding restrictions, administrative sanctions and tax control mechanisms. While these measures aim to strengthen compliance and reduce informality, they have also generated debate regarding their implications for free professions, small businesses and taxpayer rights.

Despite growing scholarly interest in fiscalization and digital tax administration, limited research has examined how taxpayer classification, compliance obligations, administrative sanctions and enforcement mechanisms interact within the context of digitally transforming tax systems, particularly in transition economies.

This study addresses that gap by evaluating Albania's proposed fiscal package through the perspectives of fiscal justice, tax neutrality, proportionality and risk-based tax administration. The central research question guiding the analysis is:

To what extent does Albania's proposed fiscal package align with the principles of fiscal justice, tax neutrality, proportionality and modern risk-based tax administration?

The study contributes to the literature by providing an integrated assessment of a contemporary tax reform within a transition economy and by highlighting the importance of aligning digital tax administration, taxpayer rights and enforcement strategies within a coherent framework of effective tax governance.

2. Literature Review

2.1 Fiscal Justice, Tax Neutrality and Professional Taxation

Fiscal justice represents one of the fundamental principles of public finance and serves as a key benchmark for evaluating tax policy reforms. According to Musgrave (1959), a fair tax system should allocate tax burdens in accordance with taxpayers' economic capacity while maintaining institutional legitimacy. In developing and transition economies, tax policy must simultaneously support revenue mobilization, economic competitiveness and administrative feasibility (Tanzi & Zee, 2000).

Closely related to fiscal justice is the principle of tax neutrality. Tax neutrality requires that taxpayers engaged in economically comparable activities should not be subject to substantially different fiscal treatment unless such differentiation is justified by clear policy objectives (Stiglitz & Rosengard, 2015). This issue is particularly relevant for free professions, whose activities combine human capital investment, entrepreneurial risk and market competition. As noted by Bird and Zolt (2014), tax policies affecting highly skilled professionals may influence labor mobility, entrepreneurial incentives and investment decisions.

The principles of fiscal justice and tax neutrality therefore provide an important framework for assessing reforms that introduce differentiated treatment among taxpayer categories.

2.2 Digital Tax Administration and Risk-Based Compliance

The digital transformation of tax administration has significantly altered the relationship between taxpayers and tax authorities. Electronic reporting systems, fiscalization and data analytics have improved transparency, strengthened compliance monitoring and expanded the informational capacity of tax administrations (OECD, 2021; OECD, 2022).

A central feature of modern tax administration is the adoption of risk-based compliance management. Under this approach, enforcement resources are concentrated on taxpayers presenting the highest probability of non-compliance, thereby improving administrative efficiency and reducing unnecessary interventions for compliant taxpayers (OECD, 2021).

The OECD Tax Administration 3.0 framework further emphasizes that digital technologies should support real-time reporting, automated compliance processes and evidence-based enforcement strategies (OECD, 2020). Consequently, contemporary tax administration increasingly relies on the integration of fiscalization, digital monitoring and risk assessment mechanisms.

Recent OECD research further emphasizes that digital technologies should not only strengthen enforcement capabilities but also reduce compliance burdens, improve taxpayer experience and support more cooperative relationships between taxpayers and tax administrations (OECD, 2024). Consequently, the effectiveness of modern tax administration depends not only on the availability of digital information but also on the capacity of tax authorities to transform such information into risk-based, evidence-driven and taxpayer-oriented compliance strategies.

2.3 Research Gap and Analytical Framework

Although extensive literature exists on fiscal justice, tax neutrality and digital tax administration, these dimensions are frequently examined as separate areas of inquiry. Comparatively limited attention has been devoted to understanding how taxpayer classification, compliance obligations, administrative sanctions and enforcement mechanisms interact within the broader framework of tax governance, particularly in digitally transforming tax systems.

This gap is especially relevant in transition economies such as Albania, where governments simultaneously pursue fiscal modernization, compliance enhancement and institutional reform. The interaction between fiscal justice, taxpayer rights and enforcement strategies remains an important but insufficiently explored aspect of contemporary tax policy and tax administration reform.

Accordingly, this study evaluates the proposed fiscal package through four analytical dimensions: (i) professional activities and tax neutrality; (ii) cash-holding restrictions and compliance costs; (iii) administrative sanctions and proportionality; and (iv) fiscalization and risk-based tax administration. These dimensions establish the analytical framework through which the proposed reform is assessed and provide the basis for examining its consistency with the principles of fiscal justice, tax neutrality, proportionality and modern risk-based tax administration.

3. Methodology

3.1 Research Design

This study adopts a qualitative research design based on legal analysis, comparative assessment and policy evaluation. The approach is appropriate because the proposed fiscal package consists of legislative measures whose economic and administrative effects have not yet been empirically observed. Consequently, the analysis focuses on assessing the consistency of the proposed reforms with established principles of fiscal justice, tax neutrality, proportionality and risk-based tax administration.

3.2 Research Question and Hypotheses

The study is guided by the following research question:

To what extent does Albania's proposed fiscal package align with the principles of fiscal justice, tax neutrality, proportionality and modern risk-based tax administration?

Based on the theoretical framework developed in the literature review, four hypotheses are formulated:

H1: The distinction between professional and non-professional activities may affect tax neutrality.

H2: Restrictions on business cash holdings increase compliance costs for small businesses and self-employed taxpayers.

H3: Increased administrative sanctions raise proportionality concerns.

H4: The expansion of field-based tax controls is not fully aligned with risk-based tax administration principles.

3.3 Data Sources and Analytical Framework

The study relies on primary and secondary sources. Primary sources include Albanian legislation governing taxation, tax procedures and fiscalization. Secondary sources consist of academic literature and OECD publications addressing fiscal justice, professional taxation and digital tax administration.

The proposed fiscal package is evaluated through four analytical dimensions: (i) professional activities and tax neutrality; (ii) cash-holding restrictions and compliance costs; (iii) administrative sanctions and proportionality; and (iv) fiscalization and risk-based tax administration. These dimensions provide the analytical framework for assessing the consistency of the reform with contemporary principles of effective tax governance.

4. Results and Discussion

4.1 Professional Activities and Tax Neutrality

One of the most debated elements of the proposed fiscal package concerns the distinction between professional and non-professional activities. From the perspective of tax neutrality, taxpayers operating under comparable economic conditions should not be subject to substantially different fiscal treatment unless such differentiation is justified by objective and transparent policy considerations.

Independent professionals assume entrepreneurial risk, invest in human capital and compete within market environments similarly to other business operators. Consequently, broadly defined classification criteria may create uncertainty regarding the distinction between genuine self-employment and dependent economic activity. Such uncertainty may result in differentiated treatment among taxpayers performing economically comparable functions and may influence organizational and professional choices.

Beyond fiscal considerations, the classification of professional activities may also influence broader economic behavior. Independent professionals frequently organize their activities through flexible contractual arrangements that reflect market demand, specialization and project-based work. Consequently, classification criteria that are perceived as uncertain may affect business planning, professional autonomy and long-term investment decisions. From a tax governance perspective, legal certainty is essential because taxpayers are more likely to comply voluntarily when regulatory obligations are predictable and transparent.

The analysis provides support for H1, suggesting that the proposed classification framework may affect tax neutrality. To minimize uncertainty and preserve equal treatment, the implementation of the reform should be supported by clear, transparent and objectively verifiable classification criteria.

4.2 Cash-Holding Restrictions and Compliance Costs

The proposed restrictions on business cash holdings seek to improve transparency and reduce opportunities for undeclared transactions. While these objectives are consistent with international efforts to strengthen fiscal governance and combat informality, their practical implications may vary across taxpayer categories.

For small businesses and self-employed taxpayers, mandatory cash-deposit requirements may generate additional compliance costs associated with banking services, liquidity management and administrative procedures. Although such obligations may be relatively manageable for larger enterprises, they are likely to impose proportionally greater burdens on smaller taxpayers with more limited financial and administrative resources.

The economic impact of compliance obligations should also be considered from an administrative efficiency perspective. Compliance costs represent an indirect regulatory burden that may affect business performance even when no additional tax liability arises. International experience suggests that tax reforms are generally more effective when compliance obligations remain proportionate to taxpayer size and operational capacity. Excessive procedural requirements may divert financial and managerial resources away from productive activities and reduce the overall effectiveness of the intended policy objectives.

The analysis supports H2 and indicates that the proposed measures may increase compliance burdens, particularly for small businesses and self-employed professionals. Consequently, policymakers should carefully balance transparency objectives with the need to maintain proportionate compliance obligations and administrative efficiency.

4.3 Administrative Sanctions and Proportionality

The reform also proposes stronger administrative sanctions for tax-related violations. Although effective enforcement requires credible deterrence mechanisms, sanctions should remain proportionate to both the severity of violations and the economic capacity of taxpayers.

Fixed monetary penalties may produce unequal effects across taxpayers of different sizes. While large businesses may absorb such penalties with relatively limited consequences, smaller taxpayers may face substantially greater financial impacts. As a result, identical sanctions may generate different practical outcomes depending on the economic circumstances of the taxpayer.

The relationship between deterrence and proportionality remains a central challenge in contemporary tax administration. While stronger sanctions may improve compliance in certain circumstances, their effectiveness depends largely on taxpayer perceptions of fairness and legitimacy. Excessively punitive measures may increase disputes and weaken cooperative relationships between taxpayers and tax authorities. Consequently, modern enforcement strategies increasingly seek to balance deterrence with procedural fairness, thereby strengthening both compliance outcomes and institutional trust.

The analysis provides support for H3 and suggests that a more differentiated sanctioning framework may better align enforcement objectives with principles of proportionality, fairness and legal certainty. Such an approach may contribute to both the effectiveness and legitimacy of tax administration.

4.4 Fiscalization and Risk-Based Tax Administration

The final issue concerns the relationship between fiscalization and traditional tax controls. Fiscalization has significantly expanded the informational capacity of tax administration through real-time reporting and digital monitoring systems.

Modern tax administrations increasingly allocate enforcement resources according to risk indicators and data-driven compliance strategies. Within this framework, field-based controls remain important but are expected to complement, rather than substitute for, digital risk assessment mechanisms.

The increasing availability of digital information creates new opportunities for evidence-based compliance management. Real-time reporting systems allow tax authorities to identify anomalies, prioritize high-risk cases and allocate enforcement resources more efficiently. In this environment, the strategic value of fiscalization extends beyond transaction monitoring and increasingly supports predictive and risk-oriented approaches to tax administration.

Table 1. *Assessment of Research Hypotheses*

Hypothesis	Assessment	Main Finding
H1	Supported	The classification of professional activities may affect tax neutrality.
H2	Supported	Cash-holding restrictions are likely to increase compliance costs for small businesses and self-employed taxpayers.
H3	Supported	Certain administrative sanctions may raise proportionality concerns.
H4	Partially Supported	Traditional controls are most effective when integrated with fiscalization and risk-based administration.

The analysis provides partial support for H4. Expanded control activities may contribute to compliance objectives when integrated with fiscalization and risk-based compliance systems. However, excessive reliance on traditional controls may reduce administrative efficiency, increase compliance burdens for low-risk taxpayers and limit the potential benefits of digital tax administration.

Consequently, the effectiveness of contemporary enforcement strategies depends on the successful integration of fiscalization, risk assessment methodologies and evidence-based compliance management.

5. Conclusions and Policy Implications

This study evaluated Albania's proposed fiscal package through the analytical perspectives of fiscal justice, tax neutrality, proportionality and risk-based tax administration. The objective was to assess whether the proposed reforms are consistent with contemporary principles of effective tax governance and modern tax administration.

The analysis indicates that the proposed measures pursue legitimate objectives related to strengthening compliance, reducing informality and improving fiscal oversight. However, the findings also suggest that several provisions may create tensions between enforcement objectives and broader principles of fiscal fairness, neutrality and proportionality. In particular, the proposed classification of professional activities may affect tax neutrality, while cash-holding restrictions and certain administrative sanctions may increase compliance burdens and raise concerns regarding proportionality. Furthermore, the effectiveness of expanded tax controls appears to depend largely on their integration with fiscalization and risk-based compliance systems.

From a theoretical perspective, the study contributes to the growing literature on tax governance by demonstrating that the effectiveness of tax administration reform depends not only on enforcement capacity but also on the alignment between fiscal justice, tax neutrality, proportionality and administrative legitimacy. The findings suggest that sustainable compliance is more likely to emerge when digital tax administration and enforcement strategies operate within a framework that preserves legal certainty, fairness and taxpayer trust.

The Albanian case reflects a broader challenge faced by many transition economies. As tax administrations become increasingly digitalized, the focus of reform should gradually shift from information collection toward information utilization. Fiscalization, real-time reporting and digital monitoring systems provide substantial amounts of information; however, their effectiveness ultimately depends on the capacity of tax authorities to transform information into objective, risk-based and evidence-driven compliance strategies.

The study generates several policy implications. First, taxpayer classification criteria should be based on clear, transparent and objectively verifiable standards in order to preserve neutrality and reduce legal uncertainty. Second, compliance obligations and administrative sanctions should be calibrated according to taxpayer size and economic capacity to ensure proportionality and fairness. Third, future reforms should prioritize the integration of fiscalization, digital monitoring and risk-based compliance management, thereby reducing reliance on broad field-based controls and improving administrative efficiency.

In conclusion, the long-term success of tax administration reform depends not only on strengthening enforcement mechanisms but also on preserving the institutional principles that support voluntary compliance and taxpayer confidence. Reforms that successfully balance enforcement effectiveness with fiscal justice, neutrality and proportionality are more likely to achieve sustainable compliance, institutional legitimacy and effective tax governance.

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submitted 05.06.2026;
accepted for publication 19.06.2026;
published 30.06.2026

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