

CHANGES OF TAX RATES AND THEIR IMPACT ON REVENUES OF THE TAX ADMINISTRATION OF KOSOVO

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ABSTRACT

In the early postwar years, Kosovo was faced with a destroyed economy and an inexperienced tax system and was mainly based on the experiences of other countries and not in accordance with the real situation and needs of post-war Kosovo which had to start from "zero" in many areas.

The post-war tax policy in Kosovo started with the tax system in accordance with UNMIK Regulations, which were almost all copied from other countries such as from countries in transition as well as from EU Countries, therefore these regulations were inconsistent with the current situation in Kosovo.

The Agency which deals with tax administration is the Tax Administration in Kosovo (TAK). From the beginning of the work of TAK, from 2000 until today, Kosovo's tax system has been constantly adapting changes in tax laws as well as in tax rates. The main focus of this paper is how changes affect the applicable tax rates in Kosovo and how much impact has this change on the TAK revenues. The current applicable taxes in Kosovo are: Value added tax (VAT); Personal income tax (PIT), and Corporate income tax (CIT). All these different kinds of taxes have undergone changes in their application as well as in their level of tax rates.

JEL CLASSIFICATION & KEYWORDS

■ H23 ■ K34 ■ TAX ■ TAX REVENUES ■ TAX RATES

INTRODUCTION

Fiscal policy together with monetary policy are the two basic components of state economic policy which are used for macroeconomic purposes (Govori, 2010).

The term public finance is defined as the study of how the government through rationing the use of government goods and services and funding their resource costs affects price incentives, production possibilities, and resource utilization (Hyman, 2005). The fiscal policy parameters are in more cases the rate of tax (Hansen, 2003).

The main sources of the the public revenues and the government revenues are taxes and duties. Taxes are the essential financial instrument of obtaining income of the state budget (Bundo, 2007).

Tax is a mandatory cash award of one part of the income or assets to the state that are used for the overall coverage of public spending and without disproportionate direct service (Komoni, 2008).

Taxes are the underlying financial instrument of collecting revenues, on which modern states cover the costs of their competences. As employees cannot exist without salaries, as state cannot exist without the citizens paying taxes.

Taxes are special kinds of fees or charges that the government requires people to pay in order to live and work

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in their state or country, the government needs money to operate and taxes are a way for it to get this money. This money goes to fund many different types of programs and it can be used for financing public expenditure.

The main agencies for the internal tax collection for the budget of the Republic of Kosovo are Kosovo Custom Agency and the Tax Administration of Kosovo. Kosovo Custom currently collects most of the revenues at the frontier border crossings, airports and inland offices, and then manage the custom tax, excise and value added tax. Whereas, TAK manages all types of taxes within the territory of Kosovo.

The current tax administration in Kosovo applies three main tax regimens: Value added tax; Corporate income tax that has to do with legal entities, and Personal income tax that has to do with natural persons.

Since the establishment of TAK on 17/01/2000, until now, there has been constant changes of laws, initially it operated under the direction and administration of UNMIK, then it was under the administration of the Central Fiscal Authority, and since February 2003, TAK transferred the powers of leadership to the Ministry of Economy and Finance.

By January 2005, became a tax reform, replacing the old types (presumptive tax, wage tax, income tax) with the new types of taxes, such as Personal income tax (PIT), and Corporate income tax (CIT) and this situation continued until the end of 2008 respectively the beginning of 2009. From January 2009, has started to apply the new law to discount the tax rates in Kosovo. There is also a decrease of the tax rates for dividends, interest, rents, lottery and other game of chance winnings, wages, business activities, the use of intangible property etc. from 20% to 10%. Meanwhile, VAT undergoes an increase of 15% to 16%, While it is undergoing a VAT increase from 15% to 16% which actually causes the slight increase of the prices in the country. While in 2012, there was an increase in the tax rate from 5% to 9% for businesses involved in service activities (such as professional services, vocational services, entertainment services, and similar) whose annual turnover does not reach the amount of above 50.000.00 €.

Reforming the tax system is one of the most important segments of the countries in socio-economic transition led by the aspiration to join the European Union.

The purpose of this paper is to analyze the changed tax rates and how these changes have affected the revenues of TAK.

Tax Administration of Kosovo

Tax Administration of Kosovo is an Executive Agency, which functions with full operational autonomy within the Ministry of Finance and Economy. TAK was founded on 17/01/2000 within the Central Fiscal Authority under the guidance and administration of UNMIK. On 18 February 2003, the tax administration authority was transferred from Unmik to

Ministry of Economy and Finance. From a small number of employees now TAK has grown into a modern agency which together with the Kosovo Customs are the main budget revenues of the Republic of Kosovo.

Since its establishment until today there have been many changes in tax legislation adapting economic circumstances and increasingly offering tax legislation towards the European Union.

TAK has defined its vision and its mission.

The Vision of TAK is:

- to establish and maintain a positive image for the benefit of the state of Kosovo;
- To be respected by our customers and recognized by international organizations and institutions;
- to consist of professional and energetic staff that will guarantee a high level of transparency and modernization of our services in relation to our customers, through which we will become the main source of revenue for the state of Kosovo.

The mission of TAK is:

- to increase the voluntary compliance of obligations to the maximum, with full concentration on tax legislation;
- to provide professional, transparent and effective services for the community of taxpayers so they understand their obligations to pay taxes, and
- to ensure proper and uniform application as well as strengthening of tax laws in order to collect revenue for the budget of Kosovo efficiently and at a low cost.

TAK is based on values that aim to achieve with integrity and sincerity, professionalism, transparency, respect and flexibility.

With UNMIK Regulation 01/2000 from 01/07/2000, TAK has started to collect sales taxes regardless the size of the business and their profits, the tax rate was 3% of gross turnover for the quarterly period, but not less than 37.50 €. Value added tax (VAT) started to be applied on 1 July 2001. The VAT rate was 0% for exports and domestic sales for UNMUK, KFOR, EU Agencies, and for humanitarian needs, and 15% for all other sales. This VAT rate has continued to be active until 2009. From 2009 until 31/08/2015 the VAT rate was 15%. From 01/09/2015, the VAT rate has changed to 8% for certain goods and services and 18% for other sales.

Since the gross turnover tax has burdened the large businesses, from 01/04/2004, it has begun to apply the profit tax under UNMIK Regulation 17/2002. The profit tax rate was 20%, and it has been like this until 2008. From the beginning of 2009 the profit tax rate is 10%. This tax rate is the lowest in the region and it is very stimulating for foreign and local investors but the lack of investment is not due to the fiscal policy but for other reasons, which are not the subject of this study.

By 01/04/2002 it has begun to apply the personal income tax on public organizations whereas from 01/04/2003 also in business organizations and the tax rates were 5%, 10% and 20%.

By 01/01/2005 some new laws were issued on Personal Income tax and Corporate Income tax, which have much in common but with a difference that taxpayers who declare personal income were entitled to utilize the tax rate for annual income up to 960 euros have been exempted from tax, thus the rate was 0%, from 960-3000 Euros, the rate

was 5%, from 3000-5400, the rate was 10% and for the profit over 5400 €, the tax rate was 20%. Since 2009 these rates have been changed and the rate of corporation income tax has fallen from 20 % to 10 %. And by the income tax rates from 0%, 5%, 10% and 20%, has been dropped to 0%, 4%, 8% and 10%.

This was a short description of the changes of tax rates for three major types of taxes. Therefore, in Kosovo, there are currently three main tax regimens: VAT (until 2008, it was 15%, then from 01/01/2009, it was 16%, and the current tax rate, from the 01/09/2015, it is 8% and 18%).

The Corporate Income tax (which is 10%), and the Personal Income tax (0% on net income for the year until 960 Euros, 4% for 960-3000 Euros, 8% for 3000-5000 Euros and 10% for over 5400 Euros).

TAK also manages the Pension Contributions of employees, because it is authorized by the Kosovo Pension Savings Fund who is responsible for administering and managing the individual pension saving accounts. The tax obliges employee and the employer to contribute in financing the employee's pensions at the rate of 5% from the employee's salary and 5% from the employer, potentially up to 15% on a voluntary basis, which in total it could be 30%. Pension Contributions are not a subject of this paper study.

Scope and the methodology

The purpose of this paper is an analysis of the revenues to TAK through the years, the tax rate through the years, and to analyze the impacts that decreases and increases of these tax rates could have on the TAK incomes, which also reflects on the revenues of the budget of Kosovo.

The methodology of this paper is based on the data collection from TAK, that has to do with revenues of TAK through the years, where the TAK manuals and annual reports have been also used.

It has been also analyzed the tax legislation ranging from the founding of the TAK up to the present day which has undergone constant changes both in terms of types of taxes as well as in changes of the tax rates.

Data Analysis

From the data obtained from TAK sources we have analyzed the revenues on TAK through the years and also by comparing the revenues, taking into account changes in tax rates.

First I did some analysis of the years from 2000 to 2004 because at that time we did not have changes on tax rates, but we had some emplacements of new taxes.

In the table below there are some given information regarding the performance of tax revenues for the years 2000-2004.

Years	Presumptive tax	Tax on wages	Tax on profit	Valued added tax
2000	4,532,824	0	0	0
2001	27,816,211	0	0	12,570,525
2002	34,512,059	9,742,570	8,238,528	28,563,632
2003	19,751,741	17,812,422	30,578,271	38,628,187
2004	13,142,172	21,771,659	31,483,679	45,187,204

Source: Author's purpose worksheet (based on TAK, annual reports 2000-2004)

I have done the 2000-2004 partition because we had some consolidation of the tax system and the TAK in the first four years. Then from the July 2001, the beginning of the VAT application and from the 01/04/2002 the beginning of tax on wages and tax on profit. In this period there are no changes of the tax rates, but already we had some new types of taxes. As shown in the table below, until 2002, and until the application of the tax on profit, we had some increasing of the presumptive tax rates and then we had only continuous decreasing of this tax, which was later replaced by the tax on profit, this kind of the tax were entitled to apply only businesses with turnover above 100,000 € so its application ended in 2005. From the beginning of its application, in 2002, compared with 2003 there was a large growth of the tax on profit. This growth has been made in the first year of application, because the businesses were not enough prepared, even though some seminars and workshops were held with businesses.

The table shows that in 2000 we only have some revenues from the presumptive tax or sales tax of 3%.

In 2005 some legislation changes were made, so the presumptive tax and the tax on profit were replaced by the Corporation income tax and the Personal income tax. Then until 2009, we did not have any change of the tax rates. In 2009 we had a slight increase of the VAT tax rate from 15% to 16%, but at the same time also a decrease of the Personal income tax rates from 0%, 5%, 10% and 20%, to 0%, 4%, 8%, and 10% as well as the decrease of the Corporation income tax rates from 20% to 10%. How these changes will impact the tax rates we will notice later on this paper. In the following table we will see some data which were taken from the TAK, and the data were obtained on the basis of payments effected within years.

Table 2: Revenue TAK from 2005-2015

Years	VAT	PIT	CIT	WHT	RIDT	PT
2005	44,975,172	8,273,318	19,936,206	25,733,569	3,701,185	4,347,067
2006	46,409,519	13,452,609	31,357,616	29,318,039	5,300,637	1,524,005
2007	57,945,516	16,444,813	44,378,344	33,673,280	7,039,937	933,332
2008	59,447,592	18,687,194	55,850,906	41,105,404	7,776,197	1,103,125
2009	79,419,240	22,080,221	39,970,255	35,277,966	8,703,626	2,055,572
2010	95,389,745	27,408,910	40,195,457	41,399,356	9,426,137	488,559
2011	129,231,312	26,248,652	41,876,857	51,735,655	14,322,695	246,312
2012	131,746,921	28,353,197	47,619,070	55,735,655	14,660,386	132,392
2013	149,184,989	28,309,705	64,110,877	61,962,028	1,650,280	70,831
2014	136,939,023	32,922,697	55,303,459	67,857,126	10,499,432	157,832
2015	151,429,435	31,568,019	59,704,464	71,095,518	13,068,136	7926

Source: Author's purpose worksheet (based on TAK, annual reports 2005-2015)

The meaning of abbreviations, tax rates and years of application:

VAT - value added tax (until 2008 the rate was 15%, then from 2009 the rate was 16%),

PIT - personal income tax (until 2008 the rate was 20% then from 2009 the rate is 10%),

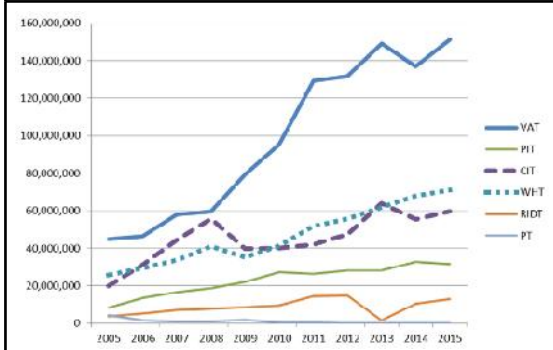
CIT - corporate income tax (until 2008 the rate was 20% then from 2009 the rate is 10%),

WHT - A withholding tax (until 2008 according to the tax rates 0%, 5%, 10% and 20% then from 2009 0%, 4%, 8% and 10%),

RIDT - rent, interest and dividend tax rate (10%),

PT - presumptive tax (this tax was applicable until 2004 and revenues from this tax are derived only from the remaining obligations.

Figure 1: Graphical presentation of revenues from 2005-2015 year



Source: Author's purpose worksheet (based on TAK, annual reports 2005-2015)

The data obtained have shown the gradual and continuous increase of revenues to ATK. When analyzing tax revenues over the years, tax rates have had an impact on revenues.

We see from the table above that there is a continuous growing revenue from VAT, but there is also a huge difference in VAT revenues when the rates were changed in 2009. Revenues in 2009 were increased by 33.6%.

We had no impact on revenues from the personal income tax although the tax rate has been decreased from 20% to 10%. But in general, we have a continuous increase of revenues from this tax. There has been a continuous increase of revenues of the Corporation income tax, except in 2009, where the tax rates were decreased from 20% to 10%, so compared to 2008 we have declining revenues from this type of tax to 28.43%. So the changing of the tax rates have had a great impact. So in the following years we can see the trend of increasing revenues from this kind of tax.

There has been changing of the tax rates also at the withholding tax from wages, so from 2005 until 2008 it was 0% for a salary until 80 Euros, 5% for salary from 80-250 Euros, 10% for salaries from 250-450 Euros and 20% for salaries over 450 Euros. After 2009 we have rate decreasing to 0%, 4%, 8% and 10%. So this has an impact on revenues from this kind of tax and they have been decreased in 2009 comparing with 2008 for 14.18%.

CONCLUSION

TAK as an Agency, which functions within the Ministry of Finance and Economy together with the Kosovo Custom Agency, are the main agencies for the internal tax collection for the budget of the Republic of Kosovo. It has a formulated vision on establishing and maintaining a positive image for the benefit of the state of Kosovo; as cope to be respected by our customers and recognized by international organizations and institutions; as well as to consist of professional and energetic staff that will guarantee a high level of transparency and modernization of our services in relation to our customers, through which we will become the main source of revenue for the state of Kosovo.

The mission of TAK is: to increase the voluntary compliance of obligations to the maximum, with full concentration on tax legislation; to provide professional, transparent and effective services for the community of taxpayers so they understand their obligations to pay taxes, and to ensure proper and uniform application as well as strengthening of tax laws in order to collect revenue for the budget of Kosovo efficiently and at a low cost.

The Changing of tax rates were more significant in 2009 where there was a reduction of tax rates for Corporative income tax from 20% to 10%, and in the Personal Income tax where the net income tax rates were 0% until 960 Euros, 5% for 960-3000 Euros, 10% for 3000-5000 Euros and 20% for over 5400 Euros. In 2009, these rates were decreased in 0%, 4%, 8%, and 10%.

The analysis conducted on the TAK revenues through the years, can conclude that the change of tax rates has an impact on the TAK revenues.

Since from the foundation, the Revenues have continuous growth trend of all kinds of taxes , reducing the tax gap, this growth was also influenced by the informal economy , a special kind of impact has also the professionalism of the employees, so all these factors have contributed to the growth of the revenues, but also the changing of the tax rates have a large impact.

Taxes which have the increasing of the rates, such as VAT, has an impact on the growth of revenues, while at the corporate income taxes and in the withholding tax from wages, the decreasing of the tax rates has an impact on the reduction of the revenues from these kind of taxes.

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