

## **Business Administration and Business Economics**

### **The History of Tax Administration of Kosovo and its Efficiency**

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**Abstract:** This document provides a brief description of the work in the field of taxation and efficiency in execution of Tax Administration of Kosovo (TAK), inspired by my work in this institution. This work presents the systematic connection of taxpayers, the Tax Administration of Kosovo (TAK) and revenue growth within a 12 year period. TAK work effect is conditioned by the level of the staff engagement which leads the tax policy, honest engagement of tax officials and effective enforcement of tax laws based on international best practices. This means that countries that have promoted European Union tax rules have significantly gained better working practices but also collecting the most revenue without applying penalties or closure of businesses. This study examines the short-and long-term effectiveness of TAK. We have found complementarities tax laws of the Republic of Kosovo with EU rules, implying a positive outbreak of their administration. This paper focuses on presenting positive sides as well as opportunities for a greater engagement to a general and dynamic framework for accountability and expected results in a short term. It also treats the policies that are directly and strongly incorporated in the work of TAK. Reducing of the risk of tax evasion, full integration of electronic payment system (E-banking) of taxpayers, the successful realization of the pilot project for the establishment of electronic files is a challenge for TAK. Low level of economic integration and political risk of the north of the country are the two elements that have a negative impact on the strength and the will of businesses to pay on the one hand and the effect of collecting revenue from TAK on the other side.

**Keywords:** background the Republic of Kosovo; TAK story; TAK management and reforms; revenue collected by the Tax Administration

**JEL Classification:** H71; M

#### **1. Introduction**

In this paper we will analyze the history of the Tax Administration of Kosovo (TAK), administration, reforms, efficiency and the various factors which stand on the foundation of development of the tax system. General developments in the region in the last two decades of the twentieth century have made these countries implement deep comprehensive social and economic reforms, which are extended in the tax system, too. TAK, has made a long way since its establishment in 2000.

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It is the beginning of the second decade of tax administration and Kosovo has achieved remarkable success in revenue collection as well as in its efficiency. Government tries to find the best methods for tax inflows through various types of taxes. During the implementation of tax policies, the government tries to provide low tax burdens and equal treatment for businesses and citizens. By the time Tax system has changed, it has advanced by adapting the EU regulations, but also keeping the specifics of our country (R. of Kosovo). TAK is the only authority that administers taxes, issues general administrative rules which are mandatory to apply for Tax Administration as well as for taxpayers. TAK provides a uniform application of laws and regulations relating to taxation. Central administration of taxes is a practice that 90 percent of countries have approved it. TAK manages the Value Added Tax (VAT), Personal Income Tax (PIT), Corporate Income Tax (CIT) and Pension Contributions (CC). TAK attempts to provide world-class service to the public, which is what they expect and deserve. With friendly taxpayers, greater accountability and performance improvement of tax officials which can be measured against the objectives set out in the collection of revenue. TAK operations can be increased if you create greater equity and expansion of the tax base. A taxpayer should be aware of what he expects from the Tax Administration, but also to get familiarized with the responsibilities as a user of the services. TAK is ready to use mechanisms to respond to the concerns of taxpayers as well as the collection of debts. Service standards of each tax officer should be: conscious and professional behavior, teamwork, integrity, mutual respect, justice and accountability. TAK responds to taxpayers' reactions if they are damaged, and it sets compensation through the Department of Tax Appeals if the officer did not meet professional standards in the determination of debt to him. The taxpayer is expected to keep accurate records, to ensure that all financial transaction records are kept for a minimum of six years. This is important for control purposes. This practice makes good sense for the business, but will also help you in financial planning and business decisions.

## **2. The Political and Economic Background of the Republic of Kosovo**

With the implementation of political, economic and fiscal reforms, tax local institutions are facing a dynamic environment, more and more intense and highly competitive. Overall effectiveness of TAK is gradually increasing. This structural change has forced TAK institution to inspect the work of their branches and identify directions for improvement in order to find more successful alternatives in increasing staff engagement. Due to the elasticity of Kosovo economy, the current global financial and economic crisis, this paper has long term implications for the policy makers. Analysis of TAK efficacy, compared with countries in the region shows that it is not far from their practices. The world has been experiencing a severe economic contraction since 2007, the economies are slowing, businesses are

closed, and employment is in decline. The impact of the economic climate has not excluded Kosovo. For the problems that may arise in the context of tax administration cannot be blamed only the events in the Euro zone but also structural weaknesses of the economy of Kosovo which exist for a decade. The global crisis has revealed disparities in Kosovo too, which have remained un-addressed for a long time. Kosovo has no problem with debts or tax system, but there are problems with inefficiency wherever they work, leaving aside unemployment rate of 45%. Infrastructure and Energy are getting better thanks to capital investments made last 2 years. But the culture of corruption is not new and is being done by the Kosovars themselves. These shortcomings that Kosovo has, can not be healed from outside, but they must be confronted and fought by the Kosovars themselves. This can be done starting from the government, the opposition, civil society, the private sector but also from the individual who looks at them from a very different prism compared with the institution. Inaction and indecision in channeling issues will bear long-term consequences. If ever there was time to put aside party differences for the sake of Kosovo, now is the right moment. There is a long and difficult way to challenge these shortcomings, but Kosovo has plans to build stability, growth, development and prosperity for its citizens. Building sound foundations of Kosovo's economy can be made through:

- Establishment of fiscal discipline,
- Tax reform in terms of work efficiency,
- Keeping simple and equitable tax system,
- Fighting bureaucracy, nepotism and corruption,
- Environment and Waste Management,
- Investment Promotion,
- Alternative Energy,
- Controlling of balances and debt of the public sector,
- Rationalization of the work of public bodies,
- Improvement of the central government management,
- Increased revenue collection,
- Modernized Marketplace,
- Increased competition,
- Management of public sector payments.

### **3. Establishment and Functioning of the Central Fiscal Authority (CFA)**

In accordance with the authority granted by Resolution 1244 (1999) of United Nations Security Council, on 10 June 1999, taking into account the regulation no. 1999/1 of Nations Interim Administration Mission in Kosovo (UNMIK), as amended, dated July 25, 1999 on the Authority of the Interim

Administration in Kosovo and UNMIK Regulation no. 1999/16 of the Regulation, as amended, dated November 6, 1999 on the Establishment of the Central Fiscal Authority and other related issues, the first phase of meaningful tax system begins under the full authority of UNMIK. Central fiscal authority's strategic goal has been the development of a tax system that would make Kosovo self-sustaining from its fiscal resources, as early as possible. Just for this purpose, a modern tax regime which is suitable for investment and compatible with the EU has been developed. Central Fiscal Authority (CFA), led the tax policy and administration, treasury, customs, preparation, execution and monitoring of the budget. In late December 2001, it was announced unification of the Central Fiscal Authority with the Ministry of Economy and Finance. In the meantime specific authorizations will be defined to be maintained by UNMIK mainly those related to customs. The Ministry of Finance and Economy (MFE) plays an important role in the Kosovo government, being responsible for the financial management of the country, both at central and municipal levels. It was established through the transformation of the Central Fiscal Authority (AFQ), in September 2001 based on Regulation No. 2001/19. The scope of responsibilities is covered by a number of laws, regulations and administrative orders. Basic functions of the ministry include the creation and implementation of fiscal policies and administrative systems as well as economic analysis and macroeconomic projections, budget planning, creation and implementation of the Central Administration of Taxation (TAK and Customs), creation and implementation of the central Treasury and accounts. MFE organizational structure covers all important aspects of financial management and state revenue collection.<sup>1)</sup>

#### **4. Establishment and Functioning Revenues TAK**

Under the direction and administration of UNMIK, Tax Administration was held on 17 January 2000. The first Director of TAK was an international expert hired by a USAID contractor. On purpose of instituting tax administration and procedures, on 12 April 2000 was declared the Regulation Nr.2000/20 on Tax Administration and Procedures. From October 2001 to February 2003, there were co-directors of USAID and Kosovo, one from each side, who shared the role of director. On 18 February 2003, the tax administration authority was transferred from UNMIK to the Ministry of Economy and Finance, and the director from Kosovo took over the

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<sup>1</sup> FRIDOM - Rishikimi Funkcional dhe Organizimi, Institucional i Ministrive/ Functional Review and Institutional Ministries, p. 6.

duties of the Director of TAK. Since that time, TAK has operated as an autonomous organization, managed entirely by residents of Kosovo with the advice and assistance of international donor organizations in the first place, USAID, EU Pillar IV of UNMIK CAFAO EU.

Tax Administration is organized in two levels:

1. General Directorate
2. Regional Offices

The Central level is the General Directorate where the Director General and deputy directors compose the strategic management and have to set the vision for the development of TAK, while the local level is operational. TAK has also formed the territorial organization, which is composed of nine regions. TAK is responsible for collection of central government taxes, which include VAT in inner supplies, Income Tax Corporate, Personal Income Tax and Pension Contributions. There is a centralized document processing center, where all the declarations are processed. There has also been created a large taxpayers unit, which deals with the biggest taxpayers in Kosovo, also known as the best international practice. Tax legislation of Kosovo is recognized both by the IMF and the European Commission as a transparent legislation and at a good international level. In 2007, revenues exceeded forecast by 32%.

Annual revenues have consistently shown significant increase compared to previous years, although Kosovo has a relatively low economic development.

**Table 1. Total revenues from TAK by taxes from 2000-2010, in million euros.**

Tax type	Total
Hotels and Restaurants Tax	5,535,600.19
Presumptive Tax	114,529,529.07
Salary Tax	258,363,174.85
Value Added Tax	538,860,825.08
Pensions	479,932,246.83
Profit Tax	11,325,246.42
Tax on Rents	5,780,301.43
Personal Income Tax	81,749,524.37
Corporate Income Tax	74,247,584.26
Interest Tax, Dividend	63,130,197.61
<b>Total:</b>	<b>1,630,454,210.11</b>

**Table 2. Income Tax and Pensions, January-November/2012, TAK, November 2012**

Type of Tax	Revenues
Presumptive Tax	123,696.94
PT-Profit Tax	99,601.69
VAT -Value Added Tax	11,197,140.24
Source Tax	48,741,893.08
PD-Big Individual Business	28,215,318.76
WR –Real Estate Tax	8,276.85
CD-Corporate Tax	59,494,442.04
KP-Pension Contribution	96,211,032.99
<b>TOTAL</b>	<b>352,094,136.50</b>

Revenues collected during the period January-September 2012, are in the amount of 203.4 million euros, compared with the projection provided, they were conducted for 97% or less for 6.4 million euros. If we compare the period January-September 2012, with the same period last year, revenues in this period are higher for 10.0 million or 5.1%. So, there was 70.6% of planned revenue for 2012.

**Table 3. Revenues January-September 2009-2012 in millions (TAK, 2012)**

Years	Revenues
2009	137.9
2010	158.7
2011	193.4
2012	203.4

*Source: (TAK, 2012)*

TAK has got the work unit for plan and analysis which deals with planning, analyzing and designing of revenues in the short and long term. A projection made in 2010 looks like this:

**Table 4. Revenue projection 2007-2015 by TAK**

Years	Revenues
2007	192
2009	222
2009	206
2010	225
2011	252

2012	275
2013	297
2014	306
2015	315

Source: Plans and Analysis Division, TAK 2010.

Tax administration has successfully completed an assessment of meeting EU standards<sup>1</sup>. In an effort to achieve these values, taking care to its specifications, the tax administration to us is being governed by the principle of credibility, transparency, neutrality, efficiency and simplicity. The mission of Tax Administration in Kosovo is to increase the maximum voluntary compliance, in accordance with the laws and regulations, provide professional, transparent and efficient service for taxpayers. This can be best achieved through the Department of accomplishment which has an obligation to provide the best, efficient, complete, timely support for performing the function of Taxpayer education.

## 5. Improving the Tax System in Kosovo

Kosovo has spent a long way in improving the tax policy but there is still room for improvements, such as training of tax officials, control, department of complaints forcing the inner control and increase the transparency of administrative decisions. There is still a challenge in designing a tax system that enhances welfare and reduces distortions, realizing sufficient income. Reducing tax evasion by large businesses is a high priority on improving the income gap. Elite's failure to pay taxes will not only cause loss of revenue but it also will damage the legitimacy of TAK. In this context TAK uses information from third parties and assessing indirect tax obligation. The use of third-party information includes using data from Customs, banks, institutions that are against money laundering. A minimum of information is a signal that encourages tax control for individuals who are not registered as taxpayers. Since 2010 the legislation has required keeping the cash journal that allows knowing the origin of each transaction. Some sentence cases send a clear signal that it is being worked. Besides the legal sanctions, all those who avoid taxes should be denounced publicly by communicating their names through media, travel ban or even prison sentences. The possibility of applying these measures raised the question of forming of the investigative unit within TAK, which operates efficiently and very successful. Kosovo currently generates over 52% of revenues from VAT, which is called a successful tax indeed. Regarding Corporate Tax and Personal Income, they have lagged behind, so it is in the

<sup>1</sup> Tax Administration of Kosovo (TAK), 2000-2012

majority of countries (Arnold & Javorcik, 2009; Sjöholm & Lipsey, 2006). Many countries use tax incentives to attract investment. In Kosovo, this is not necessary because tax rates are among the lowest in the region.

The Government of Kosovo should adopt a number of financial incentives aiming the support of industries that are strategic for the national economy and promote the local development. It is also necessary to think about new business tax break and remission of old business penalties. In Kosovo, there have been two remissions of penalties since 2008 which have significantly been used by taxpayers to pay their debts. Also there have been offered tax returns and refunds of VAT to businesses that are in investment and to NGO-s which deal with non-profitable activities. To micro and small businesses should be applied a simple tax with a fixed base of 150 euros tax, and 1/3 pension for businesses with a turnover up to 25,000 euros.

This quote would have positive effects on the reduction of the administration of this tax expenditure on the one hand, and on the other hand the orientation of tax officials to more efficient control medium and large businesses with over 25,000 euro turnover would obey the VAT regime (VAT entry limit is practically over 50,000 euro). With the expansion of the VAT base, the businesses that so far have been out of this rule, have created gaps of loss of income and have used their undeserved privileges (94% of businesses) would be connected in the VAT chain. With this turnover scale, unserious businesses would be eliminated, but previously TAK should subsidize giving them favors to use a period of six months to work without paying tax (tax holiday). VAT threshold reduction should be applied since 2014 and the rate of VAT which is currently 16 percent should not increase until 2016. But in terms of reduced rates is necessary to apply the rate of 5% for food goods, energy, and water for household that would have positive social effects at the poorest layers of the population.

## **6. Improving the Efficiency of TAK**

Kosovo in support of and in cooperation with experts from Kosovo and international donors such as the IMF, USAID, has made reforms in weak organizational structures, training of tax officials, tax officials reorganization. Human Resources Management is upgraded but the compensation policy must be revised. The use of information technology has made it possible that daily work be electronically recorded, which contributes to the formation of electronic files. It should be focused on good governance and integration with the code of conduct which affects the improvement of the tax authority's reputation. TAK should begin with a broad range of tax information publications and public information programs. There are still a number of challenges for TAK regardless of the design



of tax policies that are reasonable and not far from international best practices. An advantage of TAK human resources in relation to many other countries is the level of education, higher and superior compared to others who have a college education. The payment of tax officials should be made in relation to income collected from his work. Increased flexibility of contracts of the tax officials would easily dismiss those who have poor performance and replace with young and educated people. Application of high-performance inspectors incentives and non-corruptive will develop their professional skills and motivation to work. Pilot program of disclosure and the use of cash registers has resulted successful. TAK objective is to offer payment through E-banking. Better use of information technology has made securing connections between computer programs used by TAK and Customs data and other public agencies. Although TAK has reduced the number of inspections, and their opening is made through the method of risk, there are available resources to open automatically tax audits of those businesses that have concealed the origin of sales acquisitions, capital expenditures, etc.. It is very urgent to control the wage tax where the informality is too high. Also a case for control is any requirement for the tax return to the taxpayers when they show tax overpayment. Submission of a request for refund is subject to mandatory control. TAK reforms must be accompanied by reforms in the field of law enforcement. Arrangements with the police should be made to ensure closer supervision to prevent tax fraud. This includes tax officials' assurances and assistance in finding missing people and property or even investigation of the cases when tax officials are included in bribes. Such cooperation between different public agencies exists to some extent, and appears promising in the future. Revenue efficiency will increase if TAK:

- Stimulates businesses not to pay penalties when for the first time introduce the employee;
- Stimulating of business investments;
- Increasing of the real estate control;
- Allocation of controls based on risk by eliminating the automatic controls;
- Increasing the inspectors' control;
- Greater use of information by third parties as indirect way of evaluation;
- Training of each tax official;
- Increasing the capacities of the department of complaints;
- Strengthening the system of internal control and disciplinary measures in framework of TAK.

In recent months, the department of Information Technology has been able to develop and implement a number of the following systems:

1. Electronic Declaration System - EDI
2. Integration system for business registration
3. Call Center

4. Electronic files (Dossiers)
5. Technical Support Application
6. Application for registration of daily activities
7. Training and personal development plan
8. Reports redesigning in Share Point

### **7. Microeconomic Effects of Lower Tax Rates in Kosovo**

Income Tax in Kosovo is the lowest in the region, and this affects the effect of increasing net income as tax is higher. This stimulates individuals and businesses to use the additional revenue or capital increase welfare. The government has approved lower rates for all types of taxes by encouraging workers and businesses to work and reinvest harder, increasing in this way the country's capital and employment. If additional fee were applied, then labor productivity would multiply. Low taxes are favorable for residents of Kosovo because it reduces the growth of poverty for low-income families. Indirect taxes affect the aggregate demand for goods and services. The ecologically clean goods manufacturers should be subsidized in order to increase the use of their goods. Increased obligations should be applied on harmful goods to the health of population in order to reduce demand. According to recent empirical literature, tax rates and developed infrastructure are important factors for attracting investments. Investments of the recent years in road infrastructure will have impact on reducing of the business cost transactions and creation of new business links with the countries in the region.

### **8. Tax Administration VAT in Particular**

The tax administration has the exclusive responsibility to administer the Value Added Tax and Customs Service on behalf of the Tax Administration; it will evaluate, levy and cash the Value Added Tax imports and exports, as the only bodies that are responsible for implementation of the application of VAT. These two bodies apply and implement VAT in Albania, too. In most of the countries the VAT administration is made by the bodies discussed above. Expanding the tax base with new taxes, especially the application of Value Added Tax, raised the need for capacity building of staff, information technology, organization and administration, which as a consequence are creating new expenses. Jobs of the Value Added Tax administration represent all tax administration jobs, because the application of this tax into practice requires a more prepared staff who would be able to administer and be competitive with the staff of EU member countries or the countries of the region. It is important to provide the necessary conditions for practical application of laws and regulations, so that the revenue collection becomes easier and with less expenses. Formation of organizational structures and

creation of Taxpayers Education offices since the beginning of TAK work, information of taxpayers about the procedures of application of VAT became easier as well as for final customers as the last load carriers of VAT. Reason for mobilizing staff and all legal infrastructure, is the nature of VAT, which as a tax does not endure slow, unprofessional administration. Tax payers and the general public is informed in time with the reasons of Value Added Tax implementation, the tax advantages compared with taxes it has replaced, such as the sales tax. Important is the experience of Great Britain and Germany, with the best experts in this field who are practically involved in various international organizations, fortunately providing professional and technical support for Kosovo, too. This expert help is being also used by the Customs, which is also one of the main actors in collecting VAT at the border. It is characteristic that the Kosovo Customs Department has moved forward, regarding organization, operation and administration of VAT. It should be noted that in terms of the generated expenses about education, for VAT implementation lead countries like Korea, and with regard to the longer term of the intensive campaign to make VAT functional is Great Britain. In Sweden, VAT implementation costs were enormous, more than 3% of the revenues collected from VAT, which exceeds the cost of any other countries in Europe, whereas in other states this percentage goes up to 2%. There are no such parameters for Kosovo as this tax was applied from the initial phase of TAK establishment in parallel with other taxes, but one thing is sure that there was an immediate need for staff growth to administer and manage the tax, according to estimates TAK today employs 757 workers at all levels, which means that each year about 63 new employees have been recruited. VAT administration costs in Kosovo are considered not too large, due to the high threshold of revenues in VAT (€ 50,000), while in many European countries the threshold is 10,000 € and above. In the increased costs influence the application of reduced rates, which in Kosovo is only 16% standard rate with some exemptions for certain goods. In European countries apart from the standard and zero rates, two other reduced rates are applied, not less than 5% and no higher than 8%, depending on which items the country gives priority to. The Value Added Tax (VAT) was applied on 1 July 2001, being used and applicable in almost all the countries of Europe and beyond.

## **9. Kosovo Tax Administration Employees**

Since the establishment TAK has employed skilled workers in the field of economy and law who will deal with Managing duties and tax control. In the beginning when a small number of types of taxes began to be applied for the first time, a symbolic staff was employed, in the early 2000 35 workers were self employed, where the first management structures were formed, to be known as the first generation of employees in this important institution of post-war Kosovo. Now it is known that the TAK staff has reached the number of 757 employees, with the

constant request for this number to grow. Total of 13,871 VAT registered businesses. Of them are small importer and exporter 2581, and 11289 active declaring VAT (circulation over 50,000 Euro). Total number of employees at ATK are 757 employees, 284 are tax inspector who worked in the audit department and other staff working from Director to domestic helpers. The relationship between the inspectors and businesses with a VAT is that where an inspector controls about 49 businesses. Innovation in progress of information technology system will enable improvements in data processing options which so far has not been adequate to monitor taxpayer compliance and management control procedures. The taxpayers' database has not been precisely monitored. With the implementation of fiscal numbers, it is possible to establish a reliable data base. The introduction of fiscal cash registers in use is another innovation. It is also very important to create tax officials incentive schemes depending on demonstrated performance, job responsibility, experience, training, etc. This would create an incentive and increase TAK workers engagement in education, control and annual revenue collections. Professional training of the tax administration staff of the R. of Kosovo through various trainings with local and international experts and exchange of experiences with tax institutions developed countries and developing countries that have passed the stage of transition, is a big help for Tax Administration of Kosovo. Having broaden the tax base with new taxes, especially the application of Value Added Tax, the need to improve the tax administration employees raised with rapid steps. In 2012, referring to the census of 1980s, Tax Administration in Kosovo has a tax employee for 6,689 residents in Kosovo (1,899,743 inhabitants in Kosovo, Kosovo statistics), while it is estimated that most countries have a tax employee for less than 1000 inhabitants. There were 617 tax and customs employees in Kosovo in 2001 or an employee for 3,079 inhabitants. At the same time in Latvia a respective employee is for respective employee is for 571 people. (Riinvest, 2011) From this derives that the number of tax staff in Kosovo compared to the number of population and the tasks they face is very small.

#### **10. Tax Administration and its Cooperation with the EU and USAID**

Tax Administration of Kosovo recent years has undertaken a series of reforms in order to improve the legislation. EU and USAID have provided advice and support through training that have set it up in its current state of development, the past 10 years have been challenging. Cooperation with the International Monetary Fund and the World Bank has had a positive impact in terms of implementation of advanced practice in fiscal policy and administration of laws and functioning of the Kosovo Tax Administration. Kosovo's economic integration into the EU is a desire Kosovo people but it is also a challenge which we are constantly dealing with. This integration, which will necessarily be implemented, seeks for a more modern management of TAK, because as a very important link in the implementation of

laws, regulations and guidelines, staff organization, management of policies developed within it, helps it be competitive with other countries in the region. This preparation is being done with the assistance of international experts, especially those from USAID, in collaboration with the IMF donations. In the last decade many other countries have been forced to initiate fiscal reforms. This is what is happening in Kosovo too, in the beginning very slow reforms, but in the last few years these reforms are fast and very important especially in the application of taxes, reducing tax rates and training its staff by experienced international and local experts in these areas. Dominant objective of these fiscal reforms has been minimizing of disproportions, improving the efficiency of the administration and stimulating of the economic growth. The effect these tax reforms would have is supposed to be neutrality and less intervention in the factors operating in the market. By bringing the most advanced management methods and adapting it to the its specificities, our country is trying to have a redistribution right fiscal burden, facilitating of assessment and tax collection practices and improving the distribution of income. Tax administration in our country, is oriented to move in these directions exactly:

- a) Application of the lowest rates in the region for all types of taxes;
- b) It is planned to expand the base of much greater involvement in VAT taxpayers, by reducing turnover threshold in the near future up to 25,000 or 30,000 €;
- c) Perfection of the tax administration, fighting corruption and negative elements without administrative abilities of its employees.

## **11. Administrative Costs in Particular VAT Tax**

Research undertaken for the costs of tax enforcement have been done in the most developed countries (Australia, Canada, Great Britain, Netherlands, USA, etc.), because it is part of the tax policy. Apart from experts, research has been done by scientific individuals in order to convince policy makers consider that enforcement costs participate enough compared with the income derived from taxes. In the Czech Republic there were two major reforms in 2003 and 2005, where the main goal was to reduce administrative costs, and provide an attractive basis for new investments.<sup>1</sup> Moreover, in Germany in 2002 were added to law some tax privileges. This was done in order to reduce the complexity of tax legislation, in order to reduce administrative costs as for individuals, companies and the tax administration.<sup>2</sup> Assess how much they are spending on the implementation of the VAT was impossible. This is similar to the case of Kosovo regarding these assessments have not estimated the cost of VAT implementation yet. Great Britain

<sup>1</sup> See Balco, National Report Czeek Republic.

<sup>2</sup> See Horner, National Report Germany.

has made votes for the cost of the VAT implementation, and it has concluded that the implementation cost of this tax is among the most extensive of any other taxes. Some researchers such as Sandford, Slemrod Agel, Vaillancourt, Allers, Tra Nam, have reached the following conclusions from their results, that implementation costs are relatively high as the administrative costs can reach up to 10% of tax revenues. Important estimates for VAT administration costs and other taxes come from Slovenia, where by the analyst Maja Klun, high cost may affect the international competitiveness of companies, and this affects the reduction of voluntary compliance, may cause excessive load of taxes. This assessment for VAT taxpayers was made in January-March 2001. The reasons for this assessment were considering the fact that VAT contributes in the largest part of income tax. Slovenia has made a complete analysis of tax administration costs compared to many other countries of the region, including Kosovo, and that these indicators could be used to make comparisons of our country in the future. There should be extracted TAK statistics regarding the relationship between the various expenses such as management expenses, in proportion to the percentage of income, expenses of management in relation to Gross Domestic Product (GDP), administration costs in relation to the number of Kosovo taxpayers, administration costs in relation to employees in Tax Administration. This analysis should include the costs of Taxpayer Advocate, police involvement in the collection of revenue, but it should not include other costs such as frequent changes in the law since in Kosovo there are still occurring VAT reforms. In the operating costs should be included the consulting expenses, monthly expenses for computer programs which manage VAT records and time spent preparing tax returns, establishing files.

## **12. Fiscal Reforms with Particular Emphasis on VAT**

Tax reform is an essential element of the National Strategy for the Development of Kosovo. The aim of the reform program is to ensure that Kosovo has a tax system that is simple, fair and competitive. Payment of fees should not be a physical burden, nor should it result in the loss of productive time and energy of TAK staff. Establishment of the Office large taxpayers (TTU) has been productive, involving about 4% of taxpayers who are responsible for paying 80% of taxes in Kosovo. This is nearly the same for most countries in the region and further. Fiscal reforms in 2005 and later in 2009 made the tax system in Kosovo be the most facilitating and promoting for business development compared to other countries in the region. These reforms have shown positive performance in revenue collection, but the economy is not showing positive rates. There should be taken some steps with regard to the award of investment and development priority of agriculture and manufacturing, as this positive trend can create revenue positive elements of development only in a short period of time, but it does not offer sustainable

development trends of the economy in the longer term.<sup>1</sup> Reforms are constantly taking place in institutional infrastructure, TAK staff training through various trainings by international and local experts. It is very necessary to improve the system of payments that they have to go through banks etc.. It is very important the implementation of the Law on VAT Nr.03/L-146 which entered into force on 1 July 2010. There are also issued the guidelines and public explanations that support this law, such as the Administrative Instruction 10/2010 on VAT. It is too substantial the implementation of Law Nr.03/L-222 on Tax Administration and Procedures which replaced the Law No.2004/48 on Tax Administration and Procedures. Substantial reform is done for all taxpayers, who carry the movement of goods and services and the payments for them are not carried through banks, they are required to enter and use the fiscal system through the use of fiscal devices for recording cash payments on cash and mandatory issuance of the tax voucher.

### **13. Conclusions and Recommendations**

There are a lot of debate points on the policy and economy efficiency of Kosovo which aim gathering collective capabilities to combat the economic crisis, negative phenomena such as corruption, raising morale for work, the elimination of tax evasion, good governance and sustainable development. Most importantly is creating good habits to work in public institutions and the establishment of a framework of sustainable development which will raise living standards. It is considered to be a success if this difficult period of global crisis is overcome not only by the commitment of the government, but it should be considered as a task of the society in general. Our history is full of missed opportunities in the past, now it is in our honor to work for the national interest. It is patriotism to pay voluntarily taxes without penalties. We have the potential to exploit the whole world through young population and many natural resources, but they should be used for the general welfare. If we look at our problems in a constructive way then there are good days ahead. Fiscal policy in Kosovo-oriented reforms is modeled on three priorities: simplifying the tax system, creating transparency and clear procedures and safety legislation is being implemented fairly. By the time, it is also becoming increasingly clear that raising taxes with the aim of increasing budget revenues can be self-destructive, so after receiving authority from international fiscal policy in Kosovo, it went towards reducing taxes. Creating a stable network of local institutions would affect the stimulation of savings, investments, etc.. Tax administration should have high standards to meet the staff that works, and also the salaries should be specific in relation to public service employees. These criteria will affect the work with dedication that TAK workers would make, and simultaneously the same staff would double the collected revenues. Strengthening

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<sup>1</sup> FMN, 2010.

revenue collection does not mean higher taxes for those businesses that pay their dues. Expanding the tax base eases the tax burden on the formal sector. A review on low rates of tax collection in comparison to the region shows the broad extent of evasion. Government in the framework of its tax administration should support formal private sector, and should find the ways to shut existing paths in tax legislation. It is very important for our country to have a mid-term development strategy, so that millions of euros spent could go in terms of creating a platform that brings positive results in terms of employment, as well as for economic stability. The legal framework that regulates the field of taxation in Kosovo must undergo a more profound and substantive reform, not taking steps towards raising tax rates but expanding businesses that will be included in the VAT regime, and obtain more rigorous measures regarding the prevention of fiscal evasion. Tax rates are competitive in the region and this was done with the 2009 reforms, but being fragile Kosovar business regardless tax rates have been reduced, they have not created a cyclical movement that would give us to understand that the economy is moving towards stability.

TAK reforms should be based on circular movements enabling each employee express performance there where the maximum could be given. Logistics reform would create job satisfaction. Formation of computerized files enables a quick and correct job, and it will not create stagnation in the classification and accessibility. Creating incentives to work is one of the driving factors to result which is revenue collection for the state budget, and simultaneously reducing opportunities to corrupt tax officials. According to estimates optimal threshold for VAT is 25,000 euros that would mean wide-ranging but not all inclusive, it would help VAT revenues not be increased by raising the rate of VAT, but the expansion of the threshold. Increasing the VAT rate for the next 5 years will not have a positive impact, as it will slow down the development of the economic power of businesses and it also will reduce the investments.

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