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Submitted: 11/04/2024 - Accepted: 12/05/2024 - Published: 28/06/2024

Development of Value Added Tax in Kosovo – Comparative and Research Aspects 2006-2017

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DOI: 10.26417/ejme.v1i3.p102-109

Abstract

This paper aims to present the progress and effects that Value Added Tax (VAT) may have on a country's economy. The efficient fiscal policies would enable a country to develop more rapidly, however it will all depend on the situation, economic state, and the power that the Republic of Kosovo has. VAT is a tax on consumption, and if seen from the buyer's point of view, it is a tax on the purchase price; while from the seller's point of view, it is a tax on the added value of the product or service. VAT revenues comprise the main part of Kosovo's budget financing, where comparative data from 2006 to 2017 are given in this paper, showing the extent of VAT participation in the total revenues of the state of Kosovo. Due to this, the tax system including the VAT, which was established by advancing in harmony with the EU directives and regulations, but maintaining the specific features of the state of Kosovo, has recently changed. Owing to legal changes, among others, the Government of Kosovo raised the VAT tax rate from 16% to 18% in most products, while reduced the VAT from 16% to 8% mainly on basic food products, medications. The state of affairs between the states is relatively different, being influenced by many factors, making it impossible to present consistent scale-level comparisons between them.

Keywords: VAT, tax rates, reimbursement, VAT exemptions, financial effects.

Introduction

Value Added Tax is a tax on consumption and/or expenditures, which is applicable in 158 countries worldwide. This type of tax has been applied for the first time in France since 1954. In 1968, the Council of the European Union approved the first VAT Directive, according to which the countries that wish to be in the EU, must first establish a VAT system which is in compliance with the Directive.

When it comes to establishing a new tax system in Kosovo, the conditions imposed to commence with a simple tax system. It was initially based on sales tax, at a rate of 15%. In Kosovo, the value added tax for the first time was applied on 1 July 2001, which had a rate of 15% and was applied to all imports and domestic products of firms with a gross turnover above € 100,000, where the changes to VAT have been made many times. The last applicable Law on VAT dates from September 2015. The Value Added Tax (VAT) is the main source of tax revenues in Kosovo.

VAT comprises about 40% of tax revenues. The Government of Kosovo facing an expected increase of the budget deficit, as a result of the increase in public expenditures, has made a number of legal changes in VAT.

VAT is collected and deposited into the state every time there is trading in the chain of product distribution, service, supplies, and works. As a result, the VAT is a multi-stage tax. Value added is the value newly added to the goods, product, service, from each subject, at each stage of trading. Value added is the difference resulting between the value of the products for sale (sales receipt) and the value of the products for purchase (purchase receipt), where this difference is the gross margin of the enterprise. With this margin, the enterprise is required to withstand internal cost factors, as well as some external factors that are not related to its trading activity. If the enterprise has a positive gross margin, i.e. it has a higher added value, and it is obliged to carry out its obligations towards the state.

Formulation and research of the problem

Since the public goods are offered by the Government to all its citizens, implying that the consumption of a public service or a public good can be used by all citizens without additional costs.

In terms of their volume and structure, the public revenues are not only fiscal components, but in contemporary states, they have effects on economic development, stabilization and social policy.

The fact that there is no state without a budget and that there is no budget without an adequate revenue system to meet public needs, served us as the main and reasonable argument for addressing this problem in this paper. It is important to establish a sustainable tax and fee policy in Kosovo that can serve the future development of the

society with a view to advancing an adequate system of value added tax application, and all this in the function of economic and social development of the country.

The research question put forward is: How can the Government, through the most advanced Value Added Tax application, affect the increase of general revenues and simultaneously with the increase of revenues, also increase the public goods for the citizens of Kosovo.

Research Methodology

The paper was done based on some tax system researches that address and analyse, with particular emphasis, the issue of value added tax, the applicable regulation for the regulation of this tax.

During this research, I have used the deduction method, as well as methods of comparative analysis. I have used the notes and publications from the official websites of the IMF, Division on Macroeconomics and Division on Fiscal and Public Policies (MoF), Department for Budget (MoF), Tax Administration, Customs, Riinvest Institute and other relevant institutions. This paper also takes into account the estimates of business representatives and tax area professionals.

With the method of analysis and comparison of VAT revenues over the years, it is intended to determine alternative methods, which at the lowest costs ensure the realization of the purpose to increase the collection of revenues for Value Added Tax

Value Added Tax in Kosovo

Value Added Tax - VAT, includes the application of the total tax on goods and services consumption, which is exactly proportional to the price of goods and services. The VAT is calculated at this price according to the applicable rate, it is charged at different stages of production, distribution, and lifecycle of the trade of goods and services, and ultimately charged to the consumer.

For the purposes of Value Added Tax (VAT), a taxable person is any person who is, or is required to be registered for VAT, and who independently conducts an economic activity on a regular or irregular basis, regardless of the purpose or outcome of that economic activity.

Value Added Tax (VAT) is a tax on consumption. If seen from the buyer's point of view, it is a tax on the purchase price, but if seen from the seller's point of view, it is a tax on the added value of the product or service.

Each person meeting all the terms of the definition on the taxable person is required to be registered for VAT, if within the calendar year exceeds the turnover of thirty thousand euros (30,000 €).

VAT in Kosovo is differentiated into two rates, the standard of 18% and the reduced one of 8% of the value of imported supplies and domestic taxable supplies, except for exempt supplies and supplies treated as exports.

A transaction is subject to VAT taxation in Kosovo, if it is a supply with goods or a supply with services made against a payment, within the territory of Kosovo, by a taxable person acting as such. Similarly, the import of goods is subject to VAT taxation.

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A taxable person is any person, whether a natural or legal person or organized in any other form recognized by law in Kosovo, who independently carries out economic activities in terms of the Law, regardless of place, purpose or outcome of this activity. The outcome (loss/profit) of the economic activity is not significant to VAT.

The obligation to charge VAT arises when the supply of goods or services takes place. The VAT becomes chargeable depending on which of the three moments occurs first: Supply of goods or service; Issuance of receipt related to the supply of goods or services; or acceptance of the payment in advance/advance payment, prior to the supply of goods or services.

The taxable amount of the supply of goods or the supply of services consists of all amounts, values, payments, goods or services received or to be received by the goods/service provider as an equivalent of these supplies, against the buyer, the customer or a third party, including the subsidies directly related to the price of these supplies. Thus, the taxable amount of a taxable supply in Kosovo with regard to the supply of goods and services includes everything that constitutes the consideration received or to be received from the supplier, foreseen for that supply. Central and local level authorities and other bodies regulated by law shall not be considered as taxable persons in relation to activities or transactions in which they are engaged as public authorities even when they collect taxes, contributions or payments related to those activities or transactions.

In accordance with the EU and VAT principles, the exports are exempt from VAT with the right to deductible VAT. The VAT on imports is collected at the state borders of Kosovo. The transaction holder pays the VAT based on the customs value and any other import tax (customs duty and excise duty, if applicable) irrespective of their origin. VAT is applied to imports and to any supply of goods and services, except from those which, according to the law, are deemed as exempt supplies. Under the VAT rules, some supplies are exempt from VAT with the right of reduction of deductible VAT and some supplies are exempt from VAT without the right of reduction of deductible VAT.

Revenues from VAT in Kosovo for the period 2006 – 2017

Incomes from VAT comprise about 40% of Kosovo's total budget revenues. From the point of view of the fiscal burden, the value added tax affects all citizens of Kosovo where the VAT is applied. The VAT revenues for the period 2006 – 2017 are presented below.

Table 1: Revenues from VAT in Kosovo from 2006 to 2017

The values are in 000 €

Years	Total revenues in the Budget	Total VAT	Domestic VAT	Cross border VAT	VAT share in %	Domestic VAT share in %	Cross border VAT share in %
1	2	3 = 4 +5	4	5	6 = 3/2	7 = 4/2	8 = 5/2
2006	712,012	258,554	47,772	210,782	36.31	6.71	29.60
2007	902,998	313,822	58,783	255,039	34.75	6.51	28.24
2008	942,525	363,167	58,407	304,760	38.53	6.20	32.33
2009	1,146,817	390,620	62,959	327,662	34.06	5.49	28.57
2010	1,178,589	454,937	93,617	361,321	38.60	7.94	30.66
2011	1,303,328	540,923	121,438	419,485	41.50	9.32	32.19
2012	1,537,955	548,887	129,960	418,927	35.69	8.45	27.24
2013	1,428,704	559,959	147,679	412,280	39.19	10.34	28.86
2014	1,448,957	559,991	136,056	423,935	38.65	9.39	29.26
2015	1,691,849	611,319	154,800	456,518	36.13	9.15	26.98
2016	1,767,114	693,754	179,293	514,461	39.26	10.15	29.11
2017	1,912,521	756,117	198,341	557,776	39.54	10.37	29.16
Total:	15,973,369	6,052,050	1,389,105	4,662,946	37.89	8.70	29.19

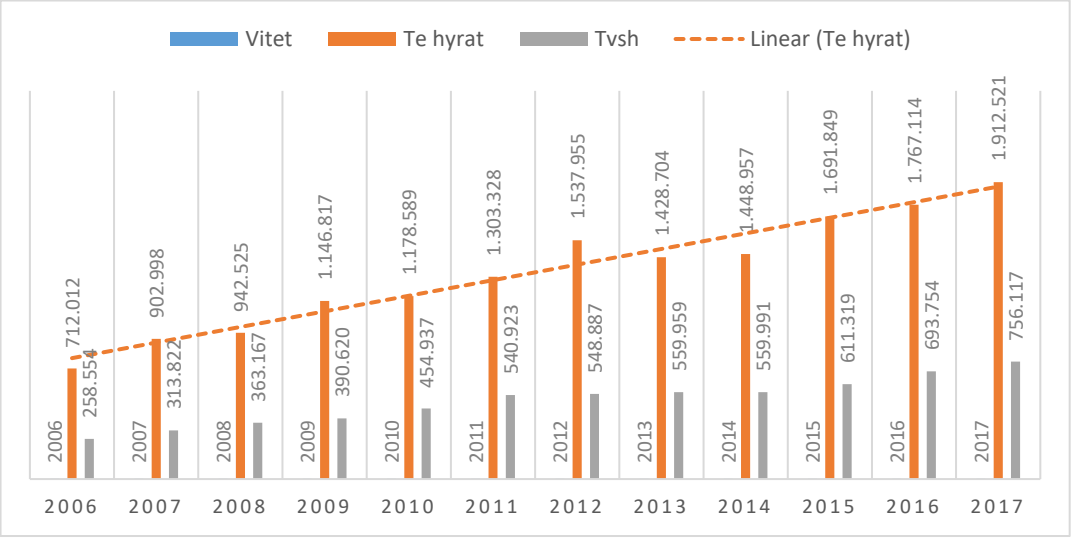
Source: Ministry of Finance, https://mf.rks-gov.net/

From the above data, it can be seen that the revenues from VAT in 2016 were 258,554,000 million €, which revenues have continued to increase every year and in 2017 they amounted to 756,117,000 million €, where VAT accounts for about 38% of total state budget revenues, as the main revenue in the state budget.

Following the entry into force of the new Law on VAT, the standard VAT rate on most products increased from 16% to 18%.

In order to measure the effect of the increased VAT, based on the amount of import over which the standard VAT of 18% has been set during the abovementioned period, it can be seen that the VAT revenues for 2016 have increased around 24.5 million € compared to 2015, while in 2017 they increased for about 43.5 million € compared to 2015 when the standard VAT rate was 16%. Thus, the increase in VAT has positively impacted the total revenues in the state budget.

Figure 1: Revenues from VAT in Kosovo from 2006 until 2017



Source: Ministry of Finances, https://mf.rks-gov.net/.

Therefore, from the figure it can be seen that there is a linear increase in revenues from VAT each year.

Regarding the effect of reduced VAT on consumer prices, given that Kosovo's economy functions on market principles, the state cannot directly affect consumer prices through VAT reductions. Regarding the effect of VAT reduction as a means of income redistribution, the findings show that the VAT reduction is not an effective instrument to achieve this goal. Given the high import level, consumer prices in Kosovo are more affected by international market prices rather than domestic, economic or social factors.

Reimbursements and Refunds

In cases where the amount of the deductible tax exceeds the VAT liability, the taxpayer's right to reimbursement arises. As soon as this happens, a business can claim VAT reimbursement. Upon submission of a business request for reimbursement, TAK will review business documents and if they are complete TAK will reimburse the funds within 60 days.

Table 2, Reimbursement according to tax type, amount in €

Tax type	2014	2015	2016	Approved requests 2016	TAK Obligations 2016	Structure	Comparison
1	2	3	4	5	6	7=4/ Σ	8=6/4
VAT Reimbursements	31,003,893	22,900,734	17,482,519	268	1,969,522	52.6%	11.3%
VAT Refunds	200,149	1,803,099	445,810	34	41,099	1.3%	9.2%
PIT Reimbursements	121,357	170,320	49,029	300	9,181	0.1%	18.7%
PIT Refunds	193,468	23,591	177,190	21	22,118	0.5%	12.5%
CIT Reimbursements	-	611,310	8,047	1	8,047	0.0%	100.0%
CIT Refunds	89,006	534,640	735,431	25	83,710	2.2%	11.4%
WR Refunds	-	250,751	-	-	-	0.0%	-
TF Refunds	-	333	-	-	-	0.0%	-
TP Refunds	-	80,117	-	-	-	0.0%	-
KP Refunds	-	-	68,239	25	65,763	0.2%	96.4%
Deposit returns	-	2,112,264	-	-	-	-	-
Refund for fiscal receipts	-	1,252,875	14,289,350	774,977	-	43.0%	0.0%
Total	31,607,873	29,740,034	33,255,614	775,651	2,199,440	100%	6.6%

Source: TAK. Annual report 2016.

775,651 claims were approved for reimbursements and refunds, whereby 674 are for businesses and natural persons, while the other part of 774,977 is for the reimbursement of fiscal receipts, whereby the approved total reimbursement amount is 33.3 million €, of which 31.1 million € were transferred in the accounts for all kinds of taxes, while 2.2 million euro were transferred for the coverage of tax obligations.

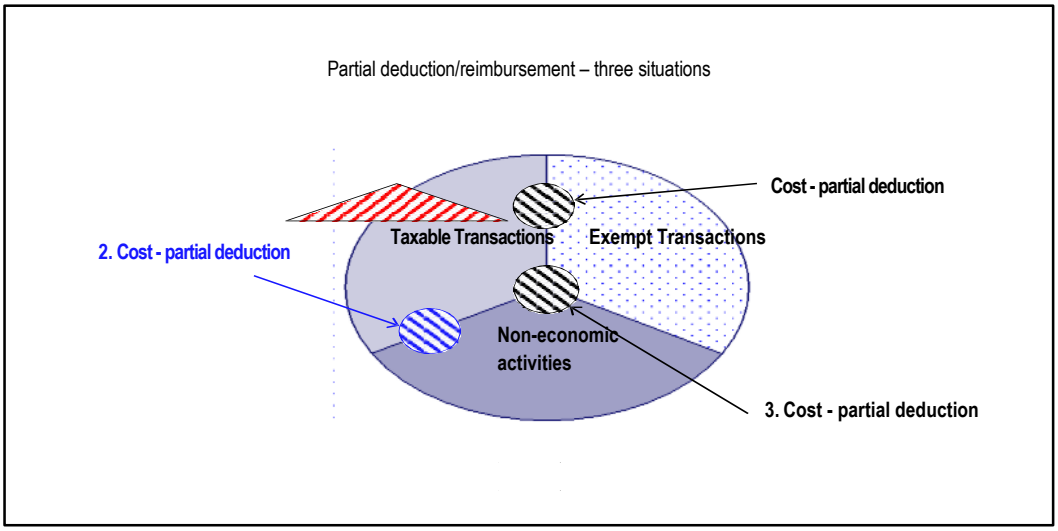
According to tax types, the highest approved amounts are 17.9 million € for VAT reimbursement and refund, 14.3 million euro for fiscal receipts, 743 thousand € for Corporate Tax, 226 thousand € for Personal Income Tax, 68 thousand euro € for Pension Contributions.

In regard to the project "Incentives and Motivation for Obtaining Fiscal Receipts", TAK has reimbursed funds for the citizens who have submitted fiscal receipts. The Division of Fiscal Cash Register in cooperation with other Departments within the TAK, Post of Kosovo, Treasury and the CBK were able to successfully manage this project even during 2016. During 2016, 775,416 envelopes were received, 774,977 envelopes were verified, 770,906 citizens were referred to for reimbursement, 6,714 citizens were rejected for various reasons, such as: wrong bank account, incorrect personal information, etc.

The amount of reimbursements for fiscal receipts, since the beginning of this project is 15.5 million euros with 851,850 envelopes verified, while during 2016 14.3 million euro was reimbursed, with 774,977 envelopes verified.

VAT exemptions. Production lines and machinery for use in the production process, raw material used for the production process and information technology (IT) equipment are all exempt from the VAT. The right to VAT exemption, on raw materials, belongs only domestic producers, while in technology only businesses that conduct IT activity or deal with IT resale are exempt. The businesses must apply to TAK for exemption. The exemption of these products from VAT does not represent any loss to the budget because in the previous periods this amount was reimbursed to businesses. However the businesses do not need to wait for VAT reimbursement any more until they sell their products. This increases the liquidity of Kosovar businesses and may also have increased effects on the efficiency. This is because businesses are able to provide a larger amount of raw material in stock. The list of businesses that have been exempt from VAT for 2016 includes 239 businesses.

Figure 2, Partial reimbursement/deduction in three situations



VAT rates in EU countries

Council Directive 2006/112/EC, 28 November 2006 on the common system of value added tax. The VAT standard rate applicable in different Member States, mixed with the provisional system mechanisms, provides that this system operates to an adequate extent. In order to avoid the divergences in the VAT standard rates, applicable from the Member States, that drive to structural imbalances in the Community and competition disruption in certain activity sectors, it should be set a 15% minimal standard rate, subject matter. In order to better understand the impact of reduced rates, it is necessary for the Commission to prepare an assessment report on the impact of reduced rates application on local supply services, in particular in terms of generating new jobs, economic growth and proper functioning of the internal market.

In order to address the unemployment issue, certain Member States willing to act accordingly should be permitted to experiment with the functioning and influence, in relation to generation of jobs, reduction of the VAT rate implemented to services of intensive work. Similarly, the reduction may decrease incentives for interested businesses to enroll or stay in the non-formal economy.

Member States will implement a standard VAT rate, set by every Member State as a taxable amount percentage and which will be identical for the provision with goods and services. As of 1 January 2011 to 31 December 2015, the standard rate cannot be lower than 15 %.

Member States can implement one or two reduced rates. The reduced rates will be set as a taxable amount percentage, which cannot be lower than 5%.

Table 3, VAT rates applicable with the EU Member States

Country	Code	Super-reduced rate	Reduced rate	Standard rate
Belgium	BE	-	6 / 12	21
Bulgaria	BG	-	9	20
Czech Republic	CZ	-	10 / 15	21
Denmark	DK	-	-	25
Germany	DE	-	7	19
Estonia	EE	-	9	20
Ireland	IE	4,8	9 / 13,5	23
Greece	EL	-	6 / 13	24
Spain	ES	4	10	21
Franc	FR	2,1	5,5 / 10	20
Croatia	HR	-	5 / 13	25
Italy	IT	4	5 / 10	22
Cyprus	CY	-	5 / 9	19
Latvia	LV	-	12	21
Lithuania	LT	-	5 / 9	21
Luxembourg	LU	3	8	17
Hungary	HU	-	5 / 18	27
Malta	MT	-	5 / 7	18
Netherlands	NL	-	6	21
Austria	AT	-	10 / 13	20
Poland	PL	-	5 / 8	23
Portugal	PT	-	6 / 13	23
Rumania	RO	-	5 / 9	19
Slovenia	SI	-	9,5	22
Slovakia	SK	-	10	20
Finland	Fl	-	10 /14	24
Sweden	SE	-	6 / 12	25
United Kingdom	UK	-	5	20

Source: VAT rates applied in the Member States of the European Union, January 2018

Conclusions and recommendations

In Kosovo, the VAT plays an important role in the revenue system and it has supported Kosovo to replace international aid with sufficient domestic revenue sources. Revenues collected from the VAT in the total revenues comprise around 40% and represent one of the most important tax forms in all countries regardless of the development stage. Currently, the VAT is implemented in approximately 158 countries of the world.

Adequate tax system and favorable business environment are the most important pillars for the sustainable development of the private sector in the country. In this regard, fiscal policy reforms include VAT differentiation, lowering VAT threshold, VAT exemption of production lines and machinery, VAT exemption and customs duty on key inputs of priority competitive sectors, and functionalization of industrial and technological parks within which the provision of various tax incentives is foreseen.

Lowering VAT thresholds for business registration is welcome for businesses due to lower informality and hence creating prerequisites for fair competition among businesses.

In the future, it would be necessary to assess the possibility to better harmonize the definition of a taxable person (taxable business), in particular to determine the country of service supply, respectively a definition as clear as possible.

It may be useful to apply more explicit rules regarding the determination of country of service supply by the country of effective use of services.

Improvements should be made to the VAT administration in case of bad debts, for the assessment of the implementation of some additional terms in the applicable VAT rules in Kosovo regarding bad debts. In order to set the time limit when bad debt has arisen, it is necessary to improve the administration of VAT. It may be useful to have a time limit for the recognition of bad debt, for example, bad debt cannot be recognized earlier than 2-3 years in advance.

In order to harmonize the Kosovo VAT rules with the Directive, it is also necessary to determine that the VAT receipt is issued even if the recipient is a non-taxable legal entity.

Certain restrictions should be added on goods purchased before the registration of the business for VAT, respectively determining that such goods, for which the VAT deductions are made, cannot be purchased earlier than a certain period of time (for example, if, according to business data, the goods that are in the warehouse at the moment of VAT registration are purchased earlier than the VAT registration date).

The registration threshold and the calculation method for VAT business registration should change and all the businesses, which within the calendar year exceed 20,000 euros turnover, should register for VAT.

By approval, the production lines and machinery for use in the production process, the raw material being used for the production process, the information technology equipment should be exempt from the VAT. The Ministry of Finance should start implementing tax breaks, as a way to boost new investments that can generate new jobs and mitigate trade deficit.

In addition to reducing the VAT on certain products and services, the Ministry of Finance should present direct tax relief to citizens as the most effective measure of

revenue redistribution; it should be continued with the reimbursement of citizens at a pre-determined monetary value in the collection of fiscal receipts, obtaining information from citizens in regard to non-issuance of fiscal receipts, tax receipts, corrupt information, and other information that help combat fiscal evasion, thus, ways should be found to stimulate information-providing citizens to help combat fiscal evasion and have an effect on revenue growth in the state budget.

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