

Annual Risk Treatment Plan for 2018

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January 2018, Prishtina

Annual Risk Treatment Plan 2018 outlines response actions that will bring outputs expected to have an impact on the taxpayer behaviour with regards to tax compliance.

This plan outlines how the response shall take place in order to achieve the highest effect possible on taxpayer behaviour among the target group by using least sources possible and thus providing orientations for the Operational Plan, LTD and Regional Offices on how to carry out activities for tax compliance by taxpayers.

Key Performance Indicators outlined in this plan will be used to determine whether we are successful in meeting our objectives and these indicators will serve also for appraisal of staff directly engaged in compliance operations.

This plan has been approved in the regular meeting of TAK high-level management held on 31.01.2018 and as such is considered as final version and ready for implementation.

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1. Compliance Risks Mapping

1.1 Registration: It is the first compliance requirement and as such is of great significance as the entry of taxpayers to taxation system depends on this. Based on the analyses carried out, the following risks can be summarised within this field:

- *Failure to register taxpayers*
- *Failure to register in relevant tax accounts*
- *Absence of taxpayer related specific data*
- *Inaccurate data in data register*
- *Failure to update taxpayer data*



1.2 Documentation: The following main risks have been identified within this compliance field related to the keeping of books and records by taxpayers, pursuant to the tax legislation in force:

- *Non-equipment with fiscal cash registers*
- *Failure to issue fiscal receipts*
- *Failure to keep records*
- *Erroneous records*
- *Fictitious records*



1.3 Declaration: A significant number of taxpayers submit late declaration, some of them do not declare at all, a significant under-declare, and the latter have a direct impact on the increase of tax gap. Find below a summary of risks:

- *Failure to declare incomes*
- *Under-declaration*
- *Inadmissible deductions*
- *Ungrounded reimbursement claims*
- *Failure to submit tax declaration*
- *Late submission of declarations*



1.4 Payments: The following risks have been identified within this field:

- *Failure to pay tax obligations*
- *Old debts*
- *Critical debts*
- *New debts*
- *Late payment*

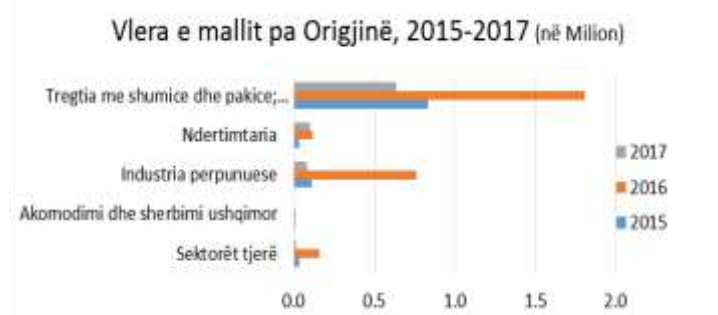


2. VAT Compliance Risks

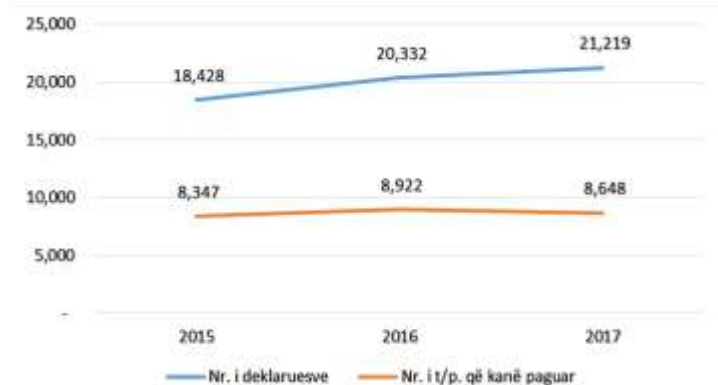
VAT Compliance Risks:

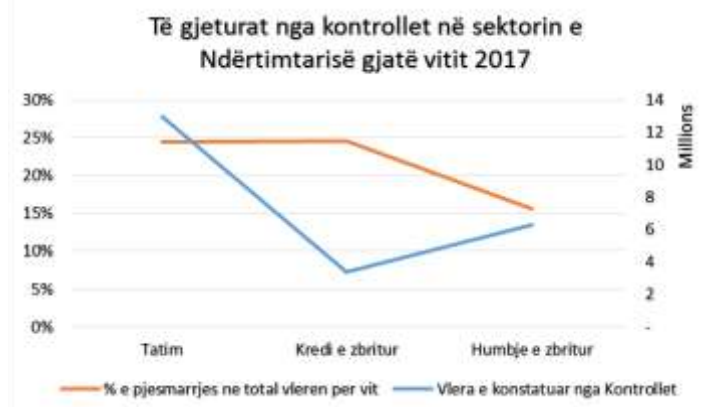
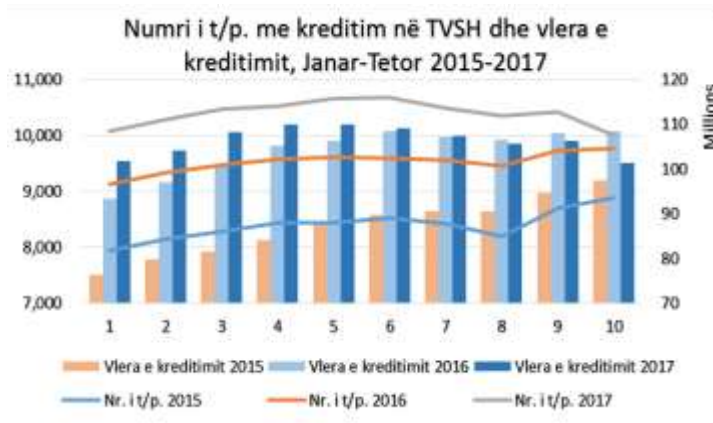
- *Goods without origin & shortage in stocks;*
- *Continuous lending;*
- *Failure to apply reverse charge in construction sector;*
- *Non-compliance between declaration and information available at TAK;*
- *Under-declared sale prices.*

Goods without origin & shortage in stocks: There is still a significant number of taxpayers facing the problem of goods without origin as a result of purchases without invoice and non-declared sales, thus reflecting in the shortage in stocks. Such risk is mainly present in sectors with high stocks values, as: Trade, Processing Industry, Construction, etc. Find below results of field visits with regards to the goods without origin & shortage in stocks for periods 2015-2017.



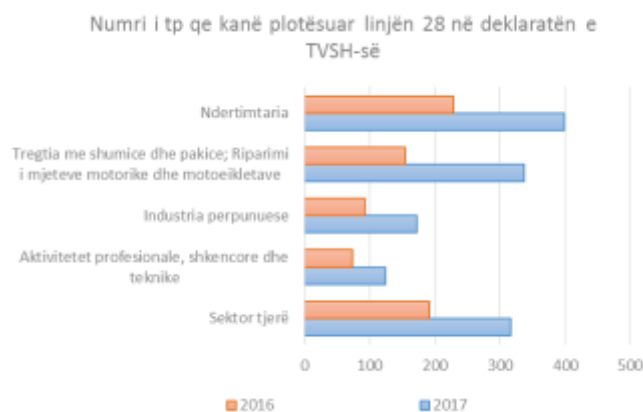
Continuous lending: From 21,219 taxpayers who declared VAT during 2017, only 40% of them had the payment obligation at least one time during the entire relevant year.

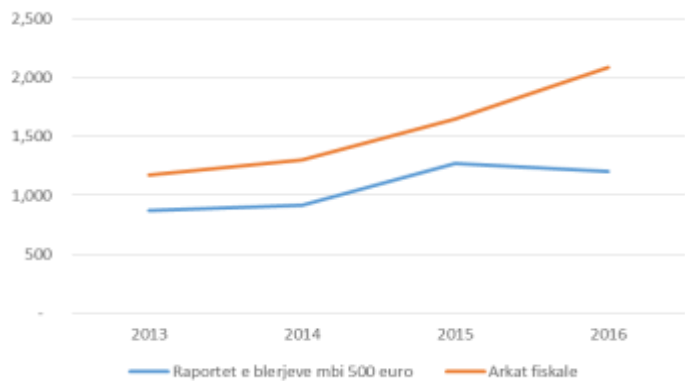




Failure to apply reverse charge in the construction sector: There is a number of businesses in the construction sector who fail to comply with the legal basis, thus making under-declarations. From the total number of VAT declarers, 1,350 t/p have filled line 28 in VAT declaration.

Non-compliance between declaration and information available at TAK: There is also a number of taxpayers who did not declare in their VAT monthly declarations the accurate amount of imports or exports, or have non-compliance between turnover in fiscal cash register and that declared in VAT declaration. Based on reports for purchases above EUR 500 and data from fiscal cash registers, the number of t/p with non-compliances by years is as follows:





Under-declared sale prices: This treatment aims all those businesses which do not declare the accurate goods sale price, according to the open market value. From 1,350 completed audits, 10% of them, namely 135 cases, resulted in findings related to the under-declared sale price.

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3. CIT/PIT Compliance Risks

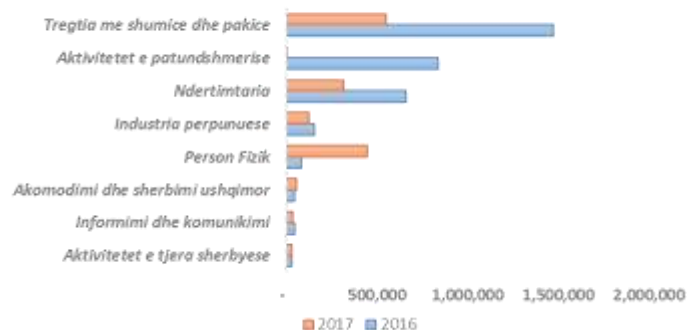
CIT/PIT Compliance Risks:

- Failure to keep or inaccurate keeping of records;
- Failure to withhold taxes;
- Inadmissible deductions;
- Failure to record;
- Failure to submit & delays in submitting a declaration.

Failure to withhold taxes: Based on analyses carried out, and report for assessing the expansion of informal economy in Kosovo, published in November of this year, around 45 thousands full-time employees are employed in informal economy and the vast majority in the agriculture sector. Based on the data available at TAK, the number of employees declared during the period 2015-2017 marked an average increase of 7.2%, whereas filings from self-employees and natural persons marked a significant decrease. During the period January – November 2017, based on the field activities, around 1,363 employees have been registered in different sectors. If we compare with other years as 2015 and 2016, the vast majority of records from visits has taken place in the Accommodation and Food Service and Wholesale and Retail Sale sector.

An additional turnover of more than EUR 1.6 million and additional taxation of more than EUR 260 thousands resulted from field visits for the period January – November 2017 for failure to withhold rent tax. From more than 16 thousands filers in WR for 2017, 40% of those who have withheld the rent tax falling under Wholesale and Retail Sale sector, 10% to the Processing Industry, 7% Professional Activities and 4% to the Construction, as sectors mentioned even in the recent publications on informal economy.

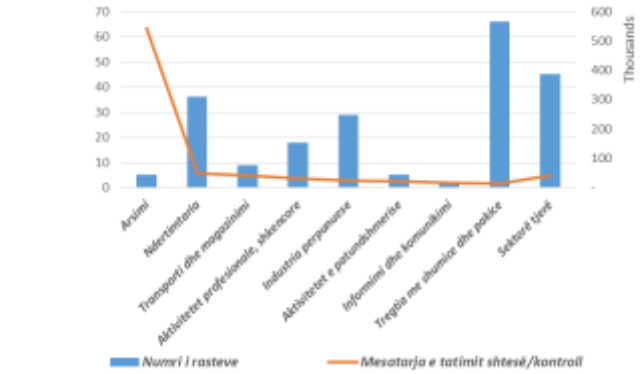
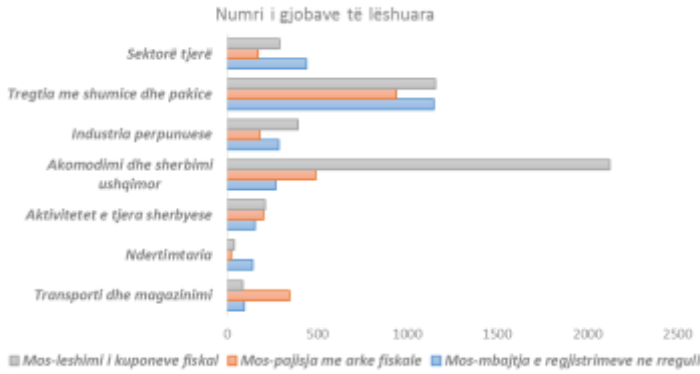
Qarkullimi shtesë nga vizitat për mosmbajtje në burim të tatimit në qera



Unduly record keeping: Based on the risk treatment reports, the annual plan on equipment of businesses with fiscal cash registers for 2017 has been implemented for 69%. Based on field activities carried out during this year, the largest number of fines for failure to install fiscal cash registers has been imposed in the Wholesale and Retail Sale sector. Find below the graphical presentation of sectors with the highest number of fines imposed for failure to install fiscal cash registers, failure to issue fiscal receipts and unduly record keeping.

Punëtorët e regjistruar nga aktivitetet në terren sipas sektorëve





Inadmissible deductions: Based on the results of audits carried out during the period January – November 2017 to verify whether expenditures are accurate or have been over-declared, the construction and wholesale and retail sale are two sectors with the highest average of additional tax per audit.

Facts from audits: Find below all facts that contributed to the additional tax.



Under-declarations: Another frequent phenomenon are inaccurate declarations or under-declarations. Referring to the results from field visits, education and constructions sectors have the highest average of additional tax per audit.

4. Non-filers

Risks for non-filers:

- *Non-filers of VAT;*
- *Non-filers for quarterly declarations and advance payments of tax in PIT and CIT;*
- *Non-filers for WM/CM and WR*
- *Non-filers for PD, CD and DO*

One of the phenomena that is a high concern for TAK is **non-filers and stop filers**. While non-filers are taxpayers who have never submitted a tax declaration, stop filers are those taxpayers who have declared but have stopped declaration.

Based on the Administrative Instruction on treatment of non-filers, dated 29.11.2017, the types of non-filers and stop filers identified by TAK are:

- Active persons who carry out economic activities, but who do not declare,
- Persons whose tax accounts have not been closed on the date of issuance of the tax certificate for closure,
- Persons deregistered in KBRA, but not closed by TAK,
- Non-active persons, but whom have initiated no procedure for business closure,
- Persons who have changed their status and declare with a new fiscal number,
- Persons who are temporarily non-active and do not inform TAK for temporary passivation,
- Persons with open IS/QS accounts, whereas are taxed in real incomes and vice versa,
- Persons with active tax account and not obliged to declare via that account.

- Non-business natural persons who have active account and not obliged to declare via that account.

Given the fact that there is an ongoing increase of missing tax declarations, as defined in the AI, TAK should identify those taxpayers who do not declare or stop declaration and creating an on-going process to track non-filers and stop filers.

Treating non-filers pursuant to the Administrative Instruction for **monthly declarations** will include the following steps:

1. In case of non-declaration for the first time for the relevant period, the taxpayer is informed via message or electronic mail (e-mail), whereby reminding him of the declaration for the relevant period.
2. In case of non-declaration for two subsequent periods, the taxpayer is contacted by the Call Centre whereby requesting the submission of declarations for undeclared periods.
3. In case of non-declaration for three subsequent periods, the Regional Directorate should contact the taxpayer and verify the taxpayer status in order to ensure declarations and process them.
4. In case of non-declaration for four subsequent periods, the Regional Directorate approves the deactivation of tax account, withdrawal of VAT certificate, as well as takes all other actions, as informing customs, publishing lists and other actions pursuant to the procedures for withdrawing VAT certificate.

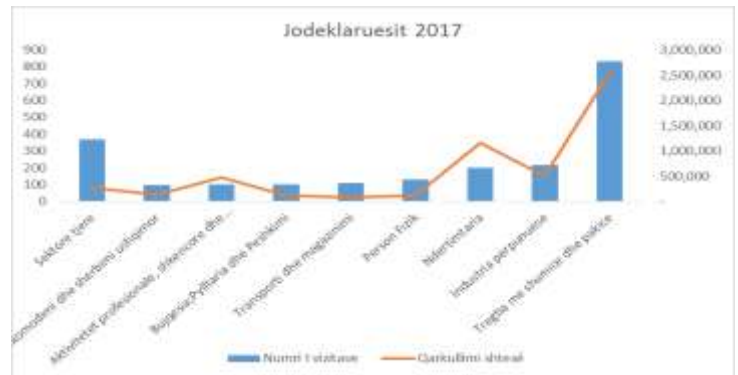
Treatment of non-filers pursuant to the Administrative Instruction for **quarterly and annual declarations** will include the following steps:

1. In case of non-declaration for the relevant period, the taxpayer is informed via message or electronic mail (e-mail), whereby reminding about the declaration for the relevant period.

2. Then the taxpayer is contacted by the Call Centre whereby requesting the submission of declaration for the non-declared period.
3. Regional Directorate should contact the taxpayer and verify the taxpayer status in order to ensure and process declarations.
4. In case of non-declaration, the Regional Directorate approves deactivation of tax account after the completion of all procedures by Operations, including compulsory collection procedures.

EUR 2.5 million; then the construction sector with 200 visits conducted and additional turnover of more than EUR 1.1 million; processing industry with 216 visits conducted and additional turnover of EUR 503,038; professional – scientific and technical activities with 100 visits conducted and additional turnover of EUR 479,671, and so on.

Based on the data of reports in VKME, the number of visits for non-filers in the period January – November 2017, with increase in turnover, leads the wholesale and retail sale sector with 832 visits conducted and additional turnover of more than



5. Distribution of risk-based audits and visits

Compulsory audits 10%	Random audits 5%	Reimbursement audits 10%	RISK-BASED AUDITS & VISITS 75%							
Deregistration audit, etc.	Random audits	Reimbursement audits	Sector coverage							
			Construction sector 20%	Wholesale and retail sale sector 20%	Processing industry sector 15%	Real estate activities sector 5%	Financial and insurance activities sector 5%	Accommodation and food service 5%	Other service activities 10%	Other sectors 15%
			Taxpayers size							
			Micro 5%		Small taxpayers 10%		Medium taxpayers 35%		Large & LTD 50%	
			Types of audits							
			Monthly audits 25%			Annual audits 45%			Long audits 30%	

6. 2018 Risk Treatment overview

<i>Compliance field</i>	<i>Compliance risk</i>	<i>Description</i>	<i>Treatment measures</i>	<i>Time limits</i>	<i>Success milestone</i>
Declaration	Continuous lending	Treating businesses operating with continuous lending from 21,219 taxpayers who have declared in VAT during 2017, only 40 % of them have been obliged to pay at least one time during the entire relevant year.	<ul style="list-style-type: none"> • Info. & education • Visits • Audit • Risk Module 	January - December	<ul style="list-style-type: none"> • 10% increase in the number of taxpayers making payments in VAT during one annual period. Baseline 2017.
Registration	Non-registration	Taxpayers who pursuant to the tax legislation are required to be registered and equipped with fiscal number and who did not do that, or taxpayers who have been registered and equipped with fiscal number but have not been registered for VAT or another relevant account and are obliged to do so.	<ul style="list-style-type: none"> • Information & education • Visits • Audits • Call Centre • Risk Module 	January - December	<ul style="list-style-type: none"> • Increase of the number of VAT filers for 15% without changing registration threshold; • Increase for 100% of the number of taxpayers registered by TAK through operational activities. Baseline year 2017.
Declaration	Non-compliance between declaration and information available at TAK	Taxpayers who in their declarations report different data from those available at TAK. This risk includes the following taxpayers: <ul style="list-style-type: none"> - Non-compliance between the amount presented in the VAT declaration and data from Customs on conducted imports/exports, - Non-compliance between the turnover declared in VAT declaration and turnover in fiscal cash registers; - Non-compliance between report of purchases above EUR 500 and declared purchases; - Non-compliance between reported and declared transactions (purchase/sale books). 	<ul style="list-style-type: none"> • Information & education • Visits • Audits • Risk Module 	January - December	<ul style="list-style-type: none"> • Treatment of 90% of cases identified with incorrect reports. Baseline year 2017.

Declaration	Non-filers and late declarations	Treatment of all registered businesses and natural persons with small and large incomes who do not declare, stop declaration or file late declaration and taking necessary steps by TAK so the abovementioned taxpayers file their declarations within the legal time limits. This treatment covers in particular trade, service, artistic, construction sectors, etc.	<ul style="list-style-type: none"> • Information & education • Visits • Audits • Call Centre • Risk Module 	Time limits will be based on the AI for treatment of non-filers dated 29.11.2017	<ul style="list-style-type: none"> • Treatment for 90% of all stop-filers; • Reduction of the number of non-filers as follows: <ul style="list-style-type: none"> - 70% in VAT; - 90% in PIT and CIT. • Reduction of the number of late declarations for 40%. Baseline year 2017.
Documentation	Goods without origin & shortage in stocks	Taxpayer identification and treatment, as follows: <ul style="list-style-type: none"> - Taxpayers possessing goods and pursuant to the legislation in force, these goods are not documented with regards to their origin and under-declare them or are not able to provide the supporting documentation for goods whereby justifying the origin and location of goods; - Taxpayers who are not able to provide supporting documentation with regards to the goods in circulation (outside location(s) of taxpayer); - Taxpayers who should be able to document all goods from the moment of receipt and until they are sold or systemised, including sale or systemization documentation. The concerned treatment will mainly cover sectors as: trade, processing industry, construction, etc. 	<ul style="list-style-type: none"> • Information & education • Visits • Audits • Risk Module 	January-April September-December	<ul style="list-style-type: none"> • Increase of the value of goods without origin for 40% based on TAK operational activities in the field; • Increase of value of shortage in stocks for 30% based on TAK operational activities in the field; Baseline year 2017.
Declaration	Failure to apply reverse charge in construction	The concerned treatment includes businesses in the construction sector, which do not respect the legal basis related to the application of reverse charge, thus making under-declaration.	<ul style="list-style-type: none"> • Information & education • Visits • Audits • Risk Module 	January - December	<ul style="list-style-type: none"> • Increase of the number of businesses applying the reverse charge for 15%. Baseline year 2017.

Declaration	Under-declared sale prices	Businesses which do not declare the correct goods sale price, according to the arm's length market <ul style="list-style-type: none"> • Whole sale and retail sale, • Service activities, • Real estate activities • Human health activities 	<ul style="list-style-type: none"> • Information & education • Visits • Audits • Risk Module 	February - March July - August October - November	<ul style="list-style-type: none"> • Increase for 50% of results from TAK operational activities in the field. Baseline year 2017.
Declaration	Failure to withhold taxes	Based on the recent assessment related to the expansion of informal economy in Kosovo carried out by EU, the number of employees in informal sector in Kosovo amounts to 45,000 employees. The number of businesses, even though declare employees, pay their salaries in cash and those are not reported to pay the withholding tax. All this has a significant impact on revenues and contributions for social assistance funds. It is worth mentioning that so far, based on the visits and audits conducted during the period January - November 2017; only 1,363 employees have been identified.	<ul style="list-style-type: none"> • Information & education • Visits • Audits • Call Centre • Risk Module 	January - December	<ul style="list-style-type: none"> • Increase for 100% of the number of employees registered due to field activities. Baseline year 2017.
Documentation	Failure to keep records or incorrect of keeping records	Businesses which with records kept unduly avoid tax obligations, as: <ul style="list-style-type: none"> - Failure to install fiscal cash registers; - Failure to issue fiscal invoices during the sale; - Use of non-fiscal equipment, non-fiscal printers; - Keeping double records; - Failure to inform TAK for changes, as: NACE code, address, etc. 	<ul style="list-style-type: none"> • Information & education • Visits • Audits • Call Centre • Risk Module 	January - December	<ul style="list-style-type: none"> • Treatment of 20% of cases with a history of unduly kept records (mandatory fines); • Increase for 20% of fiscalised businesses. Baseline year 2017.
Declaration	Inadmissible deductions	Identification of businesses with low payment coefficient compared to the declared turnover; therefore, in order to treat these cases, TAK should conduct visits and audits in order to verify whether incurred expenses are correct or there are inadmissible deductions.	<ul style="list-style-type: none"> • Information & education • Visits • Audits • Risk Module 	April-July	<ul style="list-style-type: none"> • Treatment of all cases with high degree of risk based on risk analysis.

Declaration	Under-declarers	Businesses within the segment of medium and large-sized businesses, in particular activities of trade, service, construction and production, who do not file correct declarations - Businesses registered for VAT and declare with zero and those who declare and pay € 37.5 on quarterly basis, as well as businesses which stay for a long time near the threshold to enter the scheme of real income and VAT taxation, in particular for businesses with trade, professional services, entertaining – artistic activities, etc.	<ul style="list-style-type: none"> • Information & education • Visits • Audits • Risk Module 	January - December	<ul style="list-style-type: none"> • Treatment of all cases with high degree of risk based on risk analysis.
Payment	Failure to pay tax obligations	Taxpayers who have outstanding obligations to TAK, regardless tax types	Taking all actions pursuant to the tax legislation	January - December	<ul style="list-style-type: none"> • Treatment of all cases
Payment	Delays in paying tax obligations	Taxpayers delayed in fulfilling tax obligations, namely late payments to TAK, regardless of tax types	Taking all actions pursuant to the tax legislation by the Forced Collection	January - December	<ul style="list-style-type: none"> • Treatment of all cases

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