Pursuant to Article 9 of the Basic Law No. 03/L-222 on Tax Administration and Procedures, amended and supplemented by Law No. 04/L-102 and the Law No. 04/L-223, the Director General of Tax Administration of Kosovo, issues:

PUBLIC EXPLANATORY DECISION No. 01/2018
ON TAX TREATMENT OF THE RESERVE FUND OF FINANCIAL INSTITUTIONS, LICENCED BY CBK

PURPOSE

The purpose of this Public Explanatory Decision is to clarify tax handling in terms of Corporate Income Tax for the reserve fund of financial institutions, licensed by the Central Bank of Kosovo (CBK).

LEGAL BASIS

Article 12 of the Law No. 03/L-113, Article 13 of Law No.03/L-162 and Law No. 05/L-029 on Corporate Income Tax, determines reserve funds, citing:

"1. Unless otherwise provided in this Law, contributions to reserve funds are not allowable as an expense.

2. Financial institutions licensed by Central Bank of Kosovo, other than those incomes deriving from life insurance, property or other risks insurance, are entitled to an expense for the creation of a special reserve fund for the institution's doubtful assets, of an amount which shall not exceed the maximum amount allowable by the Central Bank of Kosovo.

3. If a financial institution is engaged in both bank and insurance activities, the expenses for reserve fund are allowable only in relation to doubtful assets arising from bank activities.

4. Subsequent to the creation of the special reserve fund, any amount withdrawn from the fund shall be included in income and any amount placed back into the fund, to replenish it to the allowable amount that is allowed as a deduction."
TAX TREATMENT OF THE RESERVE FUND

For tax purposes, the special reserve fund is allowable only in relation to doubtful assets - credit risk arising from banking activities, up to the maximum amount allowed by CBK.

Based on explanations provided by the CBK (through Document No.306-D-2018, dated 27.11.2018), financial institutions' provisions regarding doubtful assets - credit risk, shall be considered as expenses. Moreover, pursuant to the “Regulation on Credit Risk Management”, approved by the Board of CBK on 29 August 2013, and “Regulation on Credit Risk Management” approved by the Board of CBK on 31 August 2016, financial institutions licensed by CBK shall be obliged to include such expenses in the financial statement at the end of the year.

Financial institutions licensed by CBK, for determination of taxable incomes shall be entitled to accept deductible expenses and provisions on expected credit losses in the amount not exceeding the maximum amount allowed by the CBK.

Upon accepting provisions from financial institutions licensed by the CBK, any reduced amount as a result of the payment of provisioned collected credits or correction of credit risk assessment resulting in reducing provisions, including taxable incomes, whilst any increased amount in provisions up to amounts allowed shall be accepted as a deductible expense.

In case CBK requires correction of declared provisions under the abovementioned criteria, such changes must be regulated in the tax declaration.

Expenses on doubtful assets - credit risk should be presented analytically, including the occurrence chronology.

The amount of provisions for doubtful assets - credit risk at the end of the previous year, shall be considered the initial state of the following year.

In order to align incomes and expenses, for the created difference, regardless of whether it results in a decrease or increase, necessary adjustments are required to be made.

Date: 26/12/2018
Prishtina

Mr. Sukiq Herra
Director General of TAK