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MINISTRY OF ECONOMY AND FINANCE/TAX ADMINISTRATION OF KOSOVO
MINISTRIA PËR EKONOMI DHE FINANCA/ADMINISTRATA TATIMORE E KOSOVËS
MINISTARSTVO ZA PRIVREDU I FINANSIJE/PORESKA ADMINISTRACIJA KOSOVA

TAX ADMINISTRATION OF KOSOVO

HANDBOOK ON TAXES IN KOSOVO

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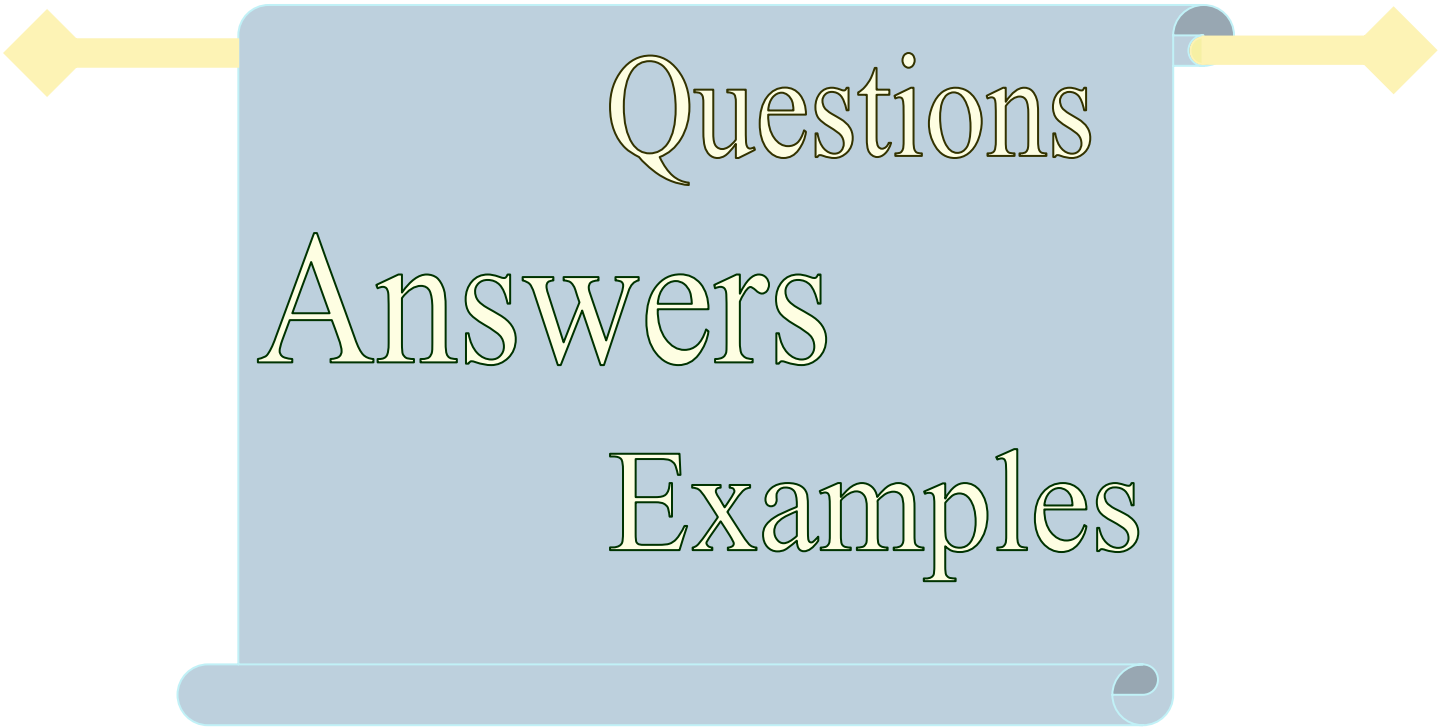
info@atk-ks.org
www.atk-ks.org

HANDBOOK ON TAXES IN KOSOVO



FIRST EDITION

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INTRODUCTION

Tax Administration of Kosovo is the sole authority for administering taxes, issuing general administrative rules which are binding on both, the Tax Administration and taxpayers. TAK ensures that there is a uniform application of laws and regulations related to taxes. The responsibilities of Tax Administration of Kosovo are specified in these laws. These responsibilities are related to the administration of taxes at government levels such as: VAT in local business community, Personal Income Tax, Corporate Income Tax and Pension Contributions.

The mission of the Tax Administration of Kosovo is "**To develop voluntary compliance to the highest level in compliance with the laws and regulations in force, to provide professional, transparent and effective services for the Taxpayers".**

Department of Compliance gives strong support towards achieving this mission. This Department is responsible for providing better support, in an efficient, comprehensive and timely manner, for carrying out taxpayer education function, enforced collection, pension contribution collection, in determining the development risk of activities with the taxpayers, in compliance with law 2004/48 on Tax Administration and Procedures, and in compliance with all tax regulations and relevant administrative directions applicable in Kosovo.
To enable implementation of each regulation explanatory instructions have been drafted. Constant amendments and revisions of tax legislation in Kosovo and expansion of tax scheme enable the compatibility with best international practices in the fiscal field.
In order to accomplish TAK's mission, the Department of Compliance has prepared "HANDBOOK ON TAXES IN KOSOVO" which is the first of a kind in Kosovo. It is simple, comprehensive and explanatory and includes all tax categories which are applicable in Kosovo.
The idea behind this handbook is to offer basic information on taxpayer liabilities, in a summarized way, with a single text, subject to the status of taxpayers in the business development from which tax liabilities arise.

Prishtina , January 2007 Sakip Imeri , Dep/Director TAK

GENERAL INFORMATION ON BUSINESSES AND TAXES IN KOSOVO

Any person who is planning on starting an economic activity in Kosovo is required to register a business or a business branch in the Business Registration Office, as provided for in the Regulation No. 2001/6, and Administrative Instruction No. 2002/22

The objective of this regulation is to enable proper establishment of commercial profitable organizations in Kosovo; determine their ownership, liabilities and powers related to them; methods, means and procedures for their organization, structure and administration; methods, means and procedures for termination and liquidation; rights and liabilities related to them; granting powers and authorizations to responsible persons and relevant authorities (and their successors) for application of provisions of this regulation. This regulation regulates only profitable commercial organizations.

Registration certificates required for developing any economic activity may be obtained at the Business Registration Office within the Ministry of Trade and Industry

Which categories of business organizations may be established in Kosovo?

Businesses (commercial organizations) which may be established in Kosovo are any of the following:

- *General partnership*
- *Limited partnership*
- *Limited liability company*
- *Joint-stock company*
- *Permanent establishments of non-residents*
- *Personal enterprises, or individual businesses*

Which are the categories of taxes applied on businesses?

There are a number of taxes charged on businesses, subject to the type of business entity or their status and annual turnover of that business. Taxes applicable in Kosovo as of 01.01.2005, which are administered by the Tax Administration, are:

1. Corporate Income Tax
2. Personal Income Tax.
3. Value Added Tax (consumption tax)

Tax Administration of Kosovo is an authorized agency by the Kosovo Pension Savings Trust for collecting pension contributions, as provided for in the Regulation No. 2001/35, on Pensions in Kosovo.

Who is subject to Corporate Income Tax?

As of January 1st 2005 Corporate Income Tax (UNMIK Regulation No. 2004/51 "On Corporate Income Tax") shall be applied on:

- *Corporate business organizations (including non-individual legal entities, L.L.C, J.S.C.),*
- *Permanent establishments of non-residents,*
- *Public Enterprises*
- *Socially Owned Enterprises*
- *Non-Governmental Organizations (NGO)*

Who is subject to Personal Income Tax?

Until 31st December 2004, Personal Income Tax in Kosovo was applied only on personal income from wages.

As of 1st January 2005, Kosovo has a comprehensive income tax (according to UNMIK Regulation No. 2004/52 "On Personal Income Tax").

Personal income tax is charged on all individuals, including partners of non-corporation partnerships, who shall be charged accordingly with their participation in income generated from the partnership.
It is applied on wages, income from business activities and from rents generated by individuals (which were previously covered under Presumptive Tax), interests, dividends, income from intangible property, lottery gains and pension annuities, (tax on capital gains/losses of individuals shall be applied as of year 2010).

Wage tax is withheld and transferred every month by employers.

Tax on interest, dividend and lottery gains is paid monthly by withholding 20% tax from payment of this income, if income is paid by a legal person.
Also any legal person paying rent for premises they have rented for their use, are required to withhold 16% tax from the payment and each month transfer it to Kosovo Consolidated Budget.

Tax on income from business, rents and income from intangible property, is paid every quarter (with the exception of cases when tax is withheld).

Tax rates 0%, 5%, 10% and 20% of personal income groups are presented below:

Monthly income from wages	Tax
Up to 80 €	0%
80.01€ – 250 €	5%
250.01€ – 450 €	10%
Over 450 €	20%

Annual personal income from wages and economic activity	Tax
Up to 960 €	0%
960.01€ – 3,000 €	5%
3,000.01€ – 5,400 €	10%
Over 5,400 €	20%

What is Value Added Tax?

Value Added Tax (VAT) was initially charged on imports and local supplies of goods and services on July 1st 2001 (under UNMIK Regulation No.2001/11 "On the Value Added Tax" as amended with UNMIK Regulation No.2002/17 and 2004/35).

It is charged at the rate of 15% and zero (0%)

Entities which are required to be registered as taxable persons are persons with annual turnover exceeding 50,000 € (and those below this threshold who wish to be registered for VAT) and they shall charge and collect VAT from their buyers or consumers and shall receive input tax credit for VAT paid on imports and local purchases made by them .

VAT declaration forms are required to be completed every month. When input VAT has exceeded output VAT collected, the taxable person shall be entitled to VAT credit.

What is a Tax Declaration?

Tax principles in Kosovo are based on taxpayer making a self-declaration of his income. Therefore, any taxpayer should be self-declaring all his income by completing his tax return in due time, subject to types of income he declares.

Any person liable to pay taxes, according to applicable legislation in Kosovo, shall submit to TAK or to an agent a declaration completed according to requirements of the Law on Tax Administration and Procedures (Law No. 2004/48).

Which tax declarations are being used?

1. Personal Income Tax Declaration,
2. Corporate Income Tax Declaration,
3. VAT Declaration and
4. Pension Contribution Declaration

According to tax laws, if TAK finds that any taxpayer has failed to deliver a tax declaration, or has declared less or more income, they are required to make a tax assessment. TAK is entitled to make a tax assessment throughout control.

PIT

PERSONAL INCOME TAX

WHAT IS PERSONAL INCOME TAX AND WHICH SOURCES OF INCOME IT INCLUDES?

Personal Income Tax, which became applicable on April 1st 2002, has charged tax on wages only. As of 1st of January 2005, it is a more comprehensive tax and charges other sources of income such as:

- Wages
- Income from business activities,
- Income from rents,
- Games of chance,
- Dividends,
- Interest,
- Capital gains, and
- Any other income that increases taxpayer's net worth.

Who is liable to personal income tax and what is the object of taxation?

According to Regulation on PIT No.2004/52, any natural person, resident and non-resident of Kosovo who receives or generates gross income is considered to be a taxpayer.

Object of taxation for any resident taxpayer is income generated in Kosovo and any foreign source income.

Object of taxation for any non-resident taxpayer is taxable income originating in Kosovo.

QUESTIONS- ANSWERS AND EXAMPLES
CONCERNING TAX ON INCOME FROM WAGES

1. *What is included in gross income from wages?*

Answer:

- Gross income, according to Regulation No.2004/52 "On Personal Income in Kosovo", includes the total of income received or accrued as wages in a tax period;
- Gross income from wages includes, but is not limited to: salaries paid by or on behalf of an employer for the work performed by an employee under the direction of the employer;
- Bonuses, commissions, and other forms of compensation that an employer, or any other person on behalf of the employer, pays to an employee in addition to the salary;
- Income received from temporary work contracts;
- Pensions and other income paid from previous employer or from the government;
- Income from prospective employment, such as a bonus for signing the contract;
- Insurance premium that employer pays for the employee;
- Remission of any employee's debt or a liability by an employer;
- Payment of personal expenses to an employee; and other in kind benefits that an employer grants to an employee, which exceeds the minimum amount specified in the administrative instruction.

2. *Who is required to pay Personal Income Tax from wages*?

Answer: Any individual, both resident and non resident, who makes income from wages in Kosovo shall be considered as an employee and is required to pay personal income tax from wages, except for foreign employees of the authorities specified in Article 7 of the Regulation No. 2004/52 'On Personal Income Tax in Kosovo'.

3. *What steps are to be undertaken at the start of the employment?*

Answer: Every employee, whether working for one or more employers, is required to designate the principal employer by completing the principal employer designation form within 15 days from the first day of employment. This form is to be submitted to Taxpayer Service Office in Tax Administration of Kosovo.
Any employer who is not appointed as a principal employer by their employee shall be treated as a secondary employer for tax purposes.

a) ***Principal employer*** is required to calculate (and withhold tax each month) and pay tax according to the wage group and tax rates as presented in the following table:

Monthly income wage groups and related tax rates	
0 € - 80 €	**0 %**
80 € - 250 €	**5 %**
250 € - 450 €	**10 %**
Over 450 €	**20 %**

b) ***Secondary employer*** is required to calculate (and withhold tax each month) and to pay the tax at the maximum rate of 20% only.

4. *Who is required to contribute for pension savings?*

Answer: Starting from August 1st 2003, any employee who is a permanent resident in Kosovo is required to pay contributions for pension savings.
Employers are also required to pay a certain amount of pension contributions to the benefit of their resident employees. (Regulation No.2001/35 on Pension Contributions in Kosovo).
Pension savings scheme covers all locally employed people in Kosovo.

5. *What is the rate for mandatory contribution to the pension savings?*

Answer: Any employer (both primary and secondary) should contribute with 5% to employee's gross wage on behalf of the employee. In addition to this, the employer shall withhold 5% from employee's gross wage and pay immediately this amount in form of pension contributions. Both, the employer and employee may increase voluntarily the amount of contribution for an additional 10%. Joint contribution, employee's and employer's percentage may not be less than 10% but not more than 30%. Only employee's contribution shall be deducted for tax purposes from his/her wage. Employer's contribution shall be considered as a deductible expense for tax purposes of that employer.

6. *How is Personal Income Tax from wages calculated?*

Answer: - Pension Contributions and Personal Income Tax shall be calculated as in following examples.

EXAMPLE 1:

An employee is working with one employer only and he designated him as the principal employer by completing and submitting to Tax Administration of Kosovo the relevant form for designation of the principal employer.

***Assuming that*:**

Monthly wage	**450 €**
Travelling (personal) expenses	**22 €**
Meal allowance	**66 €**
Gross monthly income	**538 €**

Pension Savings Contributions and Personal Income Tax shall be calculated monthly in the following way:

Taxable income =Gross income – approved deductions

538 € x **5%** (employer contributions) = **26.90 €**
538 € x **5%** (employee contributions) = **26.90 €**

538 € *(Gross income)* – **26.90 €** (Employee contributions) = **511.10€**
511.10 € Taxable income

0 € – 80 € = 80 € x 0% = **0.00 €**
80 € – 250 € = 170 € x 5% = **8.50 €**
250 € – 450 € = 200 € x 10% = **20.00 €**
450 € – 511.10 € = 61.10 € x 20% = **12.22 €**
Total tax per month: = 40.72 €

Pension Savings Contributions and Personal Income Tax from wages shall be calculated annually in the following way:

Assuming that monthly wage is the same throughout the year.

Monthly gross income **538 €** x 12 (months) = **6456 €** Gross/annual income
6,456 € x 5% (employee contribution) = **322.80 €**

Taxable income = Gross income – approved deductions
6,456 – 322.80 = **6,133.20 €**

0 €	–	960 €	=	960 €	x	0%	=	**0.00 €**
960 €	–	3,000 €	=	2,040 €	x	5%	=	**102.00 €**
3,000 €	–	5,400 €	=	2,400 €	x	10%	=	**240.00 €**
5,400 €	–	6,133.20 €	=	733.20 €	x	20%	=	**146.64 €**
Total annual tax liability							=	**488.64 €**

EXAMPLE 2:

An employee works for two employers. He designated one of them as the principal employer, and the other is treated as a secondary employer.

His salary with the employer he designated as the principal employer is 300 €, and secondary employer pays him 100 €.

Pension Savings Contributions and Personal Income Tax shall be calculated monthly by the principal employer in the following way:

300 € x 5% (employer contributions) = **15 €**
300 € x 5% (employee contributions) = **15 €**

Taxable income = Gross income – approved deductions
300 € – **15 €** (employee contribution) = **285 €**

0 €	–	80 €	=	80 €	x	0 %	=	0.00 €
80 €	–	250 €	=	170 €	x	5%	=	8.50 €
250 €	–	285 €	=	35 €	x	10%	=	3.50 €
Total monthly tax							=	**12.00 €**

Pension Savings Contributions and Personal Income Tax shall be calculated monthly by the secondary employer in the following way:

100 € x 5% (employer contribution) = **5 €**
100 € x 5% (employee contribution) = **5 €**

Taxable income = Gross income – approved deductions
100 € Gross income – **5 €** (employee contribution) = **95 €** Taxable income

95 € Taxable income **x 20 %** = **19 €** total monthly tax

Annual calculation of Pension Savings Contributions and Personal Income Tax from wages at the end of the year shall be made as follows:

Gross income from principal employer **300 € x 12 months = 3600 €**
Gross income from secondary employer **100 € x 12 months = 1200 €**

Gross annual income **400 €** x **12** months = **4800 €**

4,800 € x 5% employee contribution = **240 €**
4,800 € – 240 € = 4,560 €

4,800 € – 240 € (employee contribution) = **4,560 €**
Taxable income = 4,560 €

0 € – 960 €	= 960 €	x 0%	=	0,00 €
960 € – 3,000 €	= 2,040 €	x 5 %	=	102.00 €
3,000 € – 4,560 €	= 1,560 €	x 10 %	=	156.00 €
			Total: =	**258.00 €**

As a result of monthly calculations the employee with his principal employer he designated as such has paid 180 € contributions and an additional 180 € (15 € x 12 month) was paid by his employer, and the amount of 144 € (12 € x 12 months) is withheld as tax.

With the secondary employer the employee concerned has contributed with 60 € (5 € x 12 month), whereas the amount of tax withheld is 228 € (19 € x 12 months).

Tax withheld during the tax period	372 €
Tax liability for annual income from wages	258 €
	114 € (Payment in advance)

In this case the employee is required to submit the tax declaration and is entitled to either reimburse, or to leave as credit for any future instalment, the amount of 114 € paid in advance.

EXAMPLE 3:

An employee within one year has worked only two months with an employer who he designated as his principal employer. His monthly salary was 450 €, and during the year he did not generate any other personal income.

Monthly calculation of Pension Savings contributions and Personal Income Tax from wages is as follows:

450 € x 5% (Employer contributions)	=	22.50 €
450 € x 5% (Employee contributions)	=	22.50 €

Taxable income = Gross income – approved deductions
450 € Gr/In – 22.50 € Employee contributions = 427.50 €, Taxable income

0 € – 80 €	= 80 €	x 0 %	=	0.00 €
80 € – 250 €	= 170 €	x 5 %	=	8.50 €
250 € – 427.5 €	= 177.5 €	x 10 %	=	17.75 €
			Total monthly tax:	**= 26.25 €**

26.25 € x 2 months = 52.50 € (Total of tax withheld within the tax period)

Annual calculation of pension savings contributions and personal income tax from wages is as follows:

Gross income 450 € x 2 (months) = 900 €
900 € x 5% (employee contributions) = 45 €

900 € – 45 € = 855 €
0 € – 855 € = 855 € x 0 % = 0 €

In this case the employee is required to declare until April 1st of the subsequent year and is entitled to reimbursement of tax at the amount of 52.50 €

7. *How is the payment of personal income tax from wages made?*

Answer: Employer is required to complete the form "Wage Tax Withholding and Remittance Statement" every month and deliver this form to one of the commercial banks of Kosovo in order to pay the tax on or before 15th of the month following the month when wages are paid. Employer is required to have a business registration number in order to make the payment of personal income tax.

8. *When and where are pension contributions to be paid?*

Answer: At the end of each month, employer shall complete "Pension Contribution Declaration and Remittance Form" and submit it to one of the licensed commercial banks in Kosovo. This form may be obtained in any of the regional offices of Tax Administration of Kosovo in: Prishtinë, Prizren, Pejë, Gjilan, Mitrovicë, Gjakovë, Ferizaj and in all commercial banks in Kosovo. Deadline for carrying out the payment is 15th of the subsequent month.

9. *What is the procedure of reporting the contributions?*

Answer: In addition to the payment, the employer is also required to report about the contributions paid. Employee shall assist his employer by providing his/her exact ID number. Reporting may be performed in two ways: monthly and quarterly.

- *Quarterly report* is made by submitting to TAK "Pension withholding and payment Form" with the payroll attached to it. This report is to be submitted by 15th of the month following the end of the quarter.

- *Monthly report* electronically is made in such a way that the employer sends the payroll in electronic manner to KPST, either in person or through internet. Employer afterwards shall receive the generated monthly declaration form in order to do the payment of pension contributions. KPST, then reports quarterly to TAK on behalf of the employer.

10. *How is the refund to non-residents or to persons who made incorrect payment completed?*

Answer: If an employer has made the payment on behalf of non-residents or amount paid is incorrect, then the form "Claim for refund of pension contributions" is to be completed and may be obtained from all regional offices of TAK as well as in KPST main office. Refund may be done in two ways: Bank refund and transferring the payment to other liability periods. In case of refund through bank, contributor should possess the following documents:

1. Refund claim completed with detailed information about the periods for which the refund/transfer is claimed
2. Photocopies of pension contributions statements and payment form, photocopies of quarterly report for contributions withheld and list of employees
3. An official document from the bank which proves that the person in question is in possession of an account number presented by the contributor in refund claim.
4. An explanatory letter about the nature of refund.
5. Revised pension contribution statements and payment form, revised quarterly report of withheld contributions and list of employees.

The claim should be delivered to the tax inspector monitoring the business who is also contacted if the amount of refund is transferred to future liability periods.

11. *What actions are to be taken if quarterly report is not processed yet?*

Answer: If for any reason, quarterly pension contributions report has not been processed yet, then this should be addressed to regional TAK office and present a copy of the report concerned to inspected with pension officials and rectify any potential errors. Most frequent errors occur with ID numbers which need to be 10 digits and correct.

12. *What are the requirements upon the employer?*

Answer: For the purposes of Personal Income Tax the employer is required to keep the following records and books:

a) A monthly pay book;
b) A monthly payroll;
c) An annual payroll

In addition to this, he shall:

d) Submit summary annual tax report to TAK, with the annual payrolls.
e) Provide for his employees a 'Pension contribution and tax withholding certificate" until March 1st of the following tax period.

13. *What is required from the employee?*

Answer: Each employee should:

- Have an UNMIK personal number which he uses to pay the personal income tax. Temporary personal tax number may be obtained also in the regional TAK offices, if in no possession of UNMIK ID.

- Within 15 days from the start of his work, inform TAK about his principal employer. This notification is made by completing the "Designation of Principal Employer" form. This form may be obtained in all regional offices.

Until the 1st April of the subsequent year he needs to complete and deliver the "Personal Income Tax Declaration and Remittance Form", if his employer is not required to withhold tax or if he is liable to pay any additional tax or to claim reimbursement for tax paid in excess.

- Therefore, in these cases the employee should declare his total income generated from wages using final declaration of personal income tax form which will be presented below.

14. *Where are pension savings funds allocated?*

Answer: Funds collected from Kosovo Pension Savings Trust are invested to the benefit of contributors. The whole profit generated from investment of funds is distributed further to contributors proportionally, i.e. according to the portion of individual funds within the invested funds.

15. *How secure are the funds of pension contributions?*

Answer: Kosovo Pension Savings Trust is an independent financial institution under supervision of the Banking and Payment Authority of Kosovo.

All transactions carried out by the Trust are controlled by the abovementioned authority. In addition, all international financial institutions cooperating with KPST are subject to banking and financial regulators acting in the countries they perform their business.

In order to increase the security of funds, KPST under the Regulation No. 2001/35 is required that when investing the funds to follow constantly the criteria for useful investments as set by this Regulation.

Funds for future pensions of Kosovars, as a result, are invested into secure capital markets and only in those investment instruments that have proved long-term stability in the market.

Another aspect of the security of these funds is the allocation. During the investment they are distributed throughout a wider spectre of different instruments constantly having consideration the above rules, and as a result they are not kept all in the same place.

16. *How is the pension from Kosovo Pension Savings Trust to be received?*

Answer: Any person who has contributed to the Trust who has reached the age of 65 (retirement age as set by the law) is entitled to pension, except in special cases such is death of contributor or his/her disability.

When reaching the retirement age, the contributor shall choose the insurance company and sign a contract with it for purchasing the annuity (converting the accumulated fund into monthly instalments).

For further information please see Article 12.5 of Regulation No. 2001/35 on Pensions in Kosovo.

17. *How is the pension to be calculated?*

Answer: The amount of contributions plus the return rate of investment which is applied as an interest, is the total amount accumulated on the personal account with the Trust.

18. *How will I receive the pension from KPST?*

Answer: Any individual who has contributed to KPST and who has reached the age of 65 (retirement age set by the law), is entitled to pension benefit. At the age of 65, the amount of money in the individual account in KPST is converted into monthly payment by purchasing the annuity with any of the insurance companies. If the amount in the account is not sufficient for buying the annuity that sum will be paid as a lump sum. There are two situations when pension savings may be collected before the age of 65: when the individual dies, then his heir is entitled to benefit, or if an individual becomes permanently disabled. For more details please refer to Article 12.5 of Regulation No. 2001/35 on Pensions in Kosovo.

19. *Which documents are required for applying for pension benefits?*

Answer: Documents required for application by the elderly are:

- Applicant's (beneficiary) identification card
- Valid bank card (with the account number)

Documents required for application for pension on behalf of the deceased beneficiary are:

- Death certificate of the deceased
- ID card of the deceased
- ID card of the spouse who is making the application
- Marriage certificate
- Valid bank card of the person who is applying
- A letter from employer to confirm the employment of the deceased.

20. *Where can I get information about pension contributions?*

Answer: Information on procedures, forms, regulations and other information can be found in Kosovo Pension Savings Trust website at www.kpst.org, Ministry of Economy and Finance website www.mfe-ks.org, and Tax Administration of Kosovo website www.atk-ks.org .

What is the meaning of income from business activities?

General income from business activities means income generated by any natural person engaged in such activities.

Any taxpayer generating income from business activities shall pay tax every quarter in a designated account by the Tax Administration at any of the banks licensed by Banking and Payment Authority of Kosovo not later than fifteen days after the end of each calendar quarter (15 April, 15 July, 15 October, 15 January).

The amount for each quarterly payment of tax is as follows:

a) Taxpayer making 5,000 €, or less annual gross income from business activities, shall pay 37.5€ for each quarter.

b) Taxpayer making from 5,000€ - 50,000€, gross annual income from business activities:
- Three percent (3%) of gross income from trade, transport, agriculture and similar commercial activities, for each quarter.
- Five percent (5%) of gross income from services, professional activities, crafts, entertainment and similar activities, for each quarter

c) Taxpayers with gross annual income exceeding 50,000€ from business activities:
- One quarter (1/4) of total tax liability for the current tax period based on calculated taxable income or
- For the second tax period and subsequent ones for which taxpayer carries out the payment according to this paragraph, one fourth (1/4) of 110% of total tax liability for the tax period preceding the current tax period

What is included in income from rent?

Gross income from rent includes:

a) Income generated from renting immovable property such as buildings, land and apartments.
b) Income generated from leasing equipment, transport vehicles and other types of property.

Each taxpayer generating income from rent shall pay the tax each quarter to a bank account. The amount of each quarterly payment is 20% of the taxable income.

What is included in income from intangible property?

Income from intangible property includes income generated from patents, royalties, licenses, exclusive rights and other property which consists of rights only and has no physical form.

Any taxpayer generating income from intangible property pays the tax for each quarter and deposits it in a bank account. The amount of each quarterly payment is 20% of taxable income.

Income from interest

Gross income from interest includes:

a) Interest from the loans given to natural or legal entities,
b) Interest from bonds or securities issued by public authorities and business organizations,
c) Interest from (savings) accounts which generate interest and are deposited into a bank and other financial institutions.

Any public authority, business organization, bank or other financial institution, that pays interest, shall withhold tax at the amount of 20% of the amount paid or credited as interest.

Income from dividends

Gross income from dividends includes dividend and other profit distributed to taxpayers.

Any business organization that pays dividend shall withhold 20% tax from the amount dividend paid or credited.

Income from capital gains

Gross income from capital gains means the income generated by selling or by any other form of disposal of capital, including real estate and stocks.

Income from games of chance

Any organizer of a lottery or of any other prize game shall withhold 20% tax from any payment of winning, and shall submit a tax withholding declaration and deposit the amount of tax withheld to a bank account.

Tax declarations and remittance

Except in cases where Articles 26.2 and 26.3 Regulation No. 2004/52 shall apply, all taxpayers shall prepare an annual tax declaration on or before 1st of April of the year following the tax period. Declaration shall be made in the forms as set by the Tax Administration and includes, among other things, gross income from all sources, allowable deductions, taxable income and tax to be paid in compliance with Article 5 of Regulation No. 2004/52.

QUESTIONS- ANSWERS AND EXAMPLES
CONCERNING PERSONAL INCOME TAX

1. Are the contributions paid by the owner on his own behalf and contribution of the employer paid on behalf of his employee deducted from annual income when calculating tax on income from individual business?

Answer: If your business is subject to real taxation then contribution paid on behalf of an employee by the employer and the contribution paid by self-employed shall be deducted from income when making the annual declaration. Contribution paid for self-employed is presented in box [23], in the annual declaration, while employer's contribution for the employee is included as part of other costs in box [21].

E.g. If contribution by the self-employed for a quarter is 600€ (max)x4 quarters = **2,400**€ per year, then the amount of **2,400 €** is placed in box [23]of the annual declaration, while the contribution paid for employee by the employer is **900 €** per year (gross wages during the year are 18,000 €), then the amount of **900 €** is placed in box [21], with the other costs.

2 . *I am employed in a socially owned enterprise and my monthly wage is 50 €. Are pension contributions and tax to be withheld as this enterprise is my principal employer?*

Answer: As your wage is less than 80€, then you do not fall into the category of tax withholding while pension contributions are paid according to minimum wage in Kosovo, which is 78€.

E.g. 78 € x 5 % = 3.9 € on behalf of employer and
78 € x 5 % = 3.9 € on behalf of employee
7.8 € total

3. *I am an English professor and teach in a secondary school, in the meantime I work also as a translator for a lawyer and receive 70€ for translations. Am I liable to pay pension contributions as well as income tax? My employer (lawyer) withholds only the wage tax and does not pay any pension contributions.*

Answer: Yes. Both pension contributions and wage tax should be withheld from your wage. Your question will be demonstrated in the following example:

70 € x 5% = 3.50 € pension contribution paid by employer
70 € x 5% = 3.50 € pension contribution on behalf of employee
70 € - 3.5€ = **66.50 €** taxable income
66.50 € x 20% = **13.30 €** tax withheld

4. *We run an individual business that is making more than 50,000 € per year turnover and in 2005 the turnover made was 200,000 €. Is depreciation of assets accepted as cost when making the annual declaration?*

Answer: As an individual business you need to make an annual declaration by April 1st of the subsequent year (*article 26, paragraph 26.1 Regulation No. 2004/52*), where you need to include income generated during the year from all sources and allowed deductions. Costs should be included in box [21], in annual declaration after the appropriate adjustments. Depreciation costs are included in this category of costs.

5. *Box [8] in the personal income tax declaration refers to what wage?*

Answer: Box [8] in the PIT declaration includes the wage you receive from your principal and secondary employer.

EXAMPLE: If your wage with the principal employer is 400 € per month and your secondary employer pays you 150 € per month, then the following calculations are to be applied:

400 € x 12 months =**4,800** € gross wage with the principal employer
150 € x 12 months =**1,800** € gross wage with the secondary employer
6,600 € gross wage received in one year from both employers

The amount of **6,600€** is to be entered in box [8] of the annual declaration.

6. *Should all small and large individual businesses submit an annual declaration?*

Answer: Large individual businesses and those making less than 50,000 € turnover, who wish to be subject to real taxation, are required to make an annual declaration. Whereas those businesses which make less than 50,000 € turnover, but who are subject to presumptive taxation, may choose to prepare and submit an annual declaration until 1st of April of the following year (Article 26, paragraph 26.4 of Regulation No. 2004/52).

7. *An individual business- voluntary VAT filer has had 42,000 € sales in the year 2005. During the year they have declared using declarations for small businesses. Can they be transferred to real income?*

Answer: To answer this question we refer to Article 30 of Administrative Instruction No. 02/2005 on Personal Income, where it is specified that any taxpayer with annual gross income from 5,000€ to 50,000€, may choose to be charged with tax according to real income taxation scheme instead of presumptive taxation. Any such taxpayer may do so by completing an application form within the tax period and submit it to Tax Administration. Application form is presented in Article 30 of Administrative Instruction No. 02/2005 'On Personal Income'.

8. *If for the first two periods tax instalments are paid under presumptive method of 3%, and in two last periods instalments are paid under group income method, how is the personal income tax to be calculated for this taxpayer at the end of the year?*

Answer: In this case, this taxpayer shall make an annual declaration and during the processing all his payments are to be transferred as part of the annual period, regardless of whether he is using different forms (due to increase in turnover). Also the calculation of the annual declaration will be made according to Regulation No. 2004/52, by applying all necessary penalties and interests.

There is no need for the taxpayer to correct first two periods with a declaration for large individual businesses.

9. *A football club pays by contract their players, and in addition to the wage they are also paid for:*

a) trainings
b) bonus payment (when winning a match)
c) meals
d) transport

Is the income tax to be calculated as in the example above?

Answer: According to Article 8 of Regulation No. 2004/52, gross wage incorporates all kinds of remuneration, bonuses, payment of personal expenses to the employee and other forms which increase the gross wage. In this case all forms of payment for players make gross wage therefore are taxable. This is for both resident and non-resident players, as according to Article 2 of Regulation No.2004/52 a taxpayer is considered any resident and non-resident natural person.

E.g. payment of trainings is 400 €, payment of bonuses 800€, for meals 50 €, for transport 60 € and payment by contract is 1,000 €. Total income is:

400 € + 800 € + 50 €+ 60 € + 1,000 € = **2,310 €** - gross wage.

If this player has designated the club as his principal employer, then this income shall be taxed according to tax rates, while if the club is the secondary employer then this income shall be taxed at the maximum rate of 20%, after having applied deductions for pension contributions.

2,310 € x 5% = **115.50 €** employee pension contribution

2,310 € - 115.50€ = **2,194.50** € taxable income

2,194.5 € x 20% = **438.90** € wage tax

10. *If for small individual businesses with a turnover of 5,000 € -50,000 € when wishing to make an annual declaration 25% may be accepted as expenses, how is this to be deducted?*

Answer: Article 26, paragraph 26.4 of Regulation No. 2004/52, enables businesses with an income 5,000€ -50,000€, to make an annual declaration and in this case 25% of gross income is recognized as deductible expenses.

E.G. If gross income in one year are 45,000€, which is entered in box [9] of the annual declaration, then 45,000 € x 25% =**11,250** € are to be recognised as expenses and this amount is to be entered in box [21] of the annual declaration.
45,000 € - 11,250 € costs = **33,750 €** taxable income (is entered in box [27] of the annual declaration), on which annual tax rates are to be applied.

11. *An owner of a personal enterprise has paid contributions and withheld tax on monthly basis. He also paid 10% tax in the personal income tax declaration. Is the owner of this enterprise liable to these taxes?*

Answer: The owner of the enterprise is not liable to wage tax. The owner is liable for pension contributions as self-employed i.e. 10% of net income (each quarter), if it is a business with over 50,000 €, or 1/3 of the tax, if it is a business below 50,000 € (max 600 €)

12 . *Is property tax a business expense?*

Answer: If your business unit for which you pay property tax is in the name of your business i.e. is used for business activities, property tax that you pay for it should be deducted for tax purposes, of course, if you are subject to real taxation.

13. *If the bank fails to transfer tax on interest, who is liable for overdue payments?*

Answer: As Article 18, paragraph 18.1 and 18.2 of Regulation No. 2004/52, requires from the bank to withhold 20% tax from the interest they pay, therefore if the tax is not withheld and transferred, then the bank shall be held responsible.

14. *I run an individual business and pay the rent for 7 business premises. All lessors are natural persons. Am I required to withhold tax or should the tax on rent be paid by the owners of premises?*

Answer: When tax on rent is concerned it is important to know the status of lessee. If lessee is a legal entity he is required to withhold 16% tax. If lessee is a natural person then he is not required to withhold tax, but the lessor is liable to pay tax on rent every quarter at the rate of 20% from net income from rent. We say net income as the Regulation No.2004/52 enables the deduction of 20% of expenses or real costs from gross income (if there are books and records). Therefore you as an individual business should not withhold tax but the liability is on the owner of the premises.

15. *I own a number of premises which I have leased and two of them are used by natural persons and one from a non-governmental organization. How is the tax to be declared?*

Answer: As the owner of rented premises you are liable to rent tax and you shall do so every quarter, by the 15th of the month following the quarter. However, you should be aware that the non-governmental organization as a legal person, when paying the rent shall withhold tax at the rate of 16%. Therefore, you should consider that, when making your declaration you need to deduct tax withheld by the non-governmental organization.

E.g.: If income from renting premises to natural persons is 2,000 € per month and 3,000 € from a legal person, then the following calculations are applied:

2,000 € x 3 months = 6,000 € per quarter from natural persons
3,000 € x 3 months = 9,000 € per quarter from legal person
15,000 € gross quarterly income (enter the amount in box **[8]** of the Tax on rent and intangible property statement).

15,000 € x 20% = 3,000 € on behalf of expenses (enter in box [9] of the statement)
15,000 € - 3000€ = 12,000 € taxable income (enter in box [10] of the statement)
12,000 € x 20% = 2,400 € tax on rent (enter into box [11] of the statement)

Non-governmental organization has withheld tax each month on your account:
3,000 € x 16% = **480 €** every month
480 € x 3 months = **1,440 €** tax withheld by the non-governmental organization, and this is to be deducted from the amount 2,400 €.
2,400 € - 1,440 € = **960 €** payable tax (enter in box [12]).

Below we will present this example on a Tax on Rent and Intangible Property Statement:

UNMIK

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INSTITUCIONET E PËRKOHSHME TË VETËQEVERISJES
PRIVREMENE INSTITUCIJE SAMOUPRAVLJANJA

MINISTRY OF ECONOMY AND FINANCE/TAX ADMINISTRATION OF KOSOVO
MINISTRIA PËR EKONOMI DHE FINANCA/ADMINISTRATA TATIMORE E KOSOVËS
MINISTARSTVO ZA PRIVREDU I FINANSIJE/PORESKA ADMINISTRACIJA KOSOVA

TAX ON RENT AND INTANGIBLE PROPERTY STATEMENT

[1] Filing Period	Q1/ 2006	[2] Serial Nr. :	[2] IR

[3] Taxpayer Identification Number :	1	2	3	4	5	6	7	8	9	0

[4] Taxpayer's Name	[4] Andi Guri		
[5] Taxpayer Address (only if it is different from the last form)	[5] Lidhja e Prizrenit p.n	Telephone	
[6] Contact Person's Name	[6]	Telephone	

[7] Put **'X'** on the appropriate box if not filing for the first time for this filing period.

☐ **Addition** ☐ **Correction** ☐ **Payment only**

	Income	Tax
a. Tax on Rental Income		
[8] Gross Rental income received for the quarter (Note: this will be higher than rental income actually received where a non-individual tenant withholds tax on your behalf)	[8] 15,000 €	
Less: Allowed deduction against rental income; **Either**-20% where no records of expenses are kept, [9]=[8] x 20%; **Or**-where records of expenses have been kept,[9]=Actual rental expenses	[9] 3,000 €	
[10] Net Rental Income [10]=[8]-[9]	[10] 12,000 €	
[11] Tax on Net Rental Income [11]=[10] x 20%		[11] 2,400 €
[12] Less: Tax withheld by non-individual tenants on your behalf		[12] 1,440 €
[13] Tax Payable for this quarter [13]=[11] –[12]		[13] 960 €
b. Tax on Intangible Property		
[14] Income from Intangible Property	[14]	
[15] **Less**: Expenses incurred in receiving income [15]	[15]	
[16] Net Income from Intangible Property [16]= [14]-[15].....	[16]	
[17] Tax on income from intangible property [17]=[16] x 20%		[17]
[18] Tax Payable for this quarter [18]=[13]+[17]		[18] 960 €

I declare that facts reported in this Statement are true.
First Name/Last Name/Signature and Stamp
(_____)

dd/mm/yy
___/___/_____

Section of the Bank

Signature and Stamp	*Account Number:* 1000420070000373	*Amount of Tax paid*
_____	**Text:**	_____€
	*Date*____/___/_____	

Form No. IR-E-1; Revised 03.03.2005

Instructions on completion of the Tax on Rent and Intangible Property Statement

Box [1] Enter the tax period for which the statement is filed, i.e. Q-1. 2005

(January,February,March)=**Q1**, (April,May,June)=**Q2**, (July,August,September)=**Q3**, (October,November,December)=**Q4**

Box [2] The serial number of statement will be preprinted, so don't write in box [2]

Box [3] Enter the UNMIK Personal ID Number, i.e. 1234573789

Box [4] Enter the name of individual earning income from rent and intangible property

Box [5] Enter the address of individual, i.e. Barrikadat Street No.87 Gjakove and the telephone number of the individual

Box [6] Enter the name of the contact person and give the telephone number of this person.

Box [7] On box [7], if this statement is not submitted for the first time in a given month put an `X` in one of the boxes:

Addition – means additional filing within the same month.

Correction – means you want to change the data that was reported before for the same calendar month.

Payment Only – means you only want to make additional payment without changing any of the previous data that was reported for the same calendar month.

Box [8] Enter gross rental income for the quarter. In cases when the tenant is a non-individual tax should be withheld so the gross income is to be higher than the income you have actually received.

Box [9] There are two possibilities for the entry in box [9]. Depending on the costs you want to deduct, if you have kept all the necessary documents to support expenses incurred for realization of the rent enter the amount of real expenses in box [9]. If you do not have any document to support the expenses you may deduct 20% of the gross rental income and enter that amount in box [9].

Box [10] Make the difference between gross rental income entered in box [8] and allowed deductions indicated in one of the boxes [9] and enter the result in box [10]

Box [11] Multiply the amount entered in [10] by 20% and enter the result in box [11].

Box [12] Enter any tax withheld by non-individual tenants

Box [13] Enter in box [13] the difference between amount entered in box [11] with box [12]

Box [14] Enter the income received from intangible property in box [14]

Box [15] Enter any documented expense related to generation on income from intangible property in box [15]

Box [16] Enter the difference between amounts entered in box [14] and box [15] in box [16]

Box [17] Multiply the amount entered in box [16] by 20% and enter the result in box [17]

Box [18] Enter the sum of box [13] and box [17] in box [18] if you have income from both rent and intangible property.

Box [19] The teller of the bank will enter the amount of tax paid with this form

The statement has to be signed and dated by the individual or a person designated by him and submitted to the bank up to 15 days following the end of calendar quarter

Leave the **"section of the Bank"** part to be completed by the person authorized by the bank.

16. We are in a partnership. How will we pay the tax?

Answer: According to Article 1 paragraph 1. c of Regulation No. 2004/52 on PIT and Article 31 of Administrative Instruction 02.2005 of this Regulation, partners are required to submit quarterly income statements, make advance quarterly payments in relation to their contribution in the partnership, submit off-setting declarations for the tax period and pay any tax liability or claim reimbursement for any tax paid in excess.

17. Do individual businesses pay any dividend?

Answer: In order to respond to this question first we need to look at what is a personal business enterprise (Regulation No 2004/52). Personal business enterprise means a **natural person** engaged in a business, while **dividend** means distribution by a company of cash or shares to its shareholders. From these two terms we understand that personal business does not distribute dividend, however if the owner of this business is a shareholder of another company then he shall declare these income when making an annual declaration in the box [14] and the tax that is withheld by that company in box [37], of the annual declaration.

18. Is any interest imposed by TAK considered a deductible expense?

Answer: Any business activity is accompanied with a number of expenses they make. However, for tax purposes, Regulation No. 2004/52 on PIT has classified these expenses into three groups:

- deductible expenses
- partly deductible expenses and
- non-deductible expenses

Fines and penalties are included as part of non-deductible expenses (Article 9 paragraph 9.9 item c of Regulation No. 2005/52).

19. Is the rent paid for the premises I use for business purposes accepted as expenditure?

Answer: Tax is only withheld by legal persons; therefore you as a personal business are not required to withhold tax. The owner of premises is liable for tax on rent.

However, if you possess a contract and proof of payment of rent on premises in the name of your business then of course you may deduct this expense if you are subject to real taxation.

20. *If a business in 2005 has made higher representation costs such as advertising, representation, whereas in 2006 these costs were low compared to costs approved by the Regulation (2% of gross income).*
Is it possible for expenses which are not used in 2005 to be used in 2006 for tax purposes?

Answer: Article 9 paragraph 9.2 of Regulation No. 2004/52 provides that, there shall be allowed as a deduction from gross income generated from business activities the expenses paid or incurred during the tax period that are wholly, exclusively, and directly related to carrying out such business activities, therefore representation costs, according to Article 9.3 paragraph a., can be deducted up to a maximum of 2% of gross income which relate to that tax period.

21. *A natural person is not registered as a business, but income he generates from rent are more than 50,000 € in a year. What tax is this person required to pay?*

Answer: This person is required to pay tax on income from rent every quarter at the rate 20 % from his net income. Personal Income Tax Regulation does not set any limit as to what amount of income shall be treated as income from rent, but specifies that any taxpayer generating income from rent is required to pay tax on rent.

However, as the limit of 50,000 € is exceeded, he is required to be registered also for VAT.
But, when calculating tax, first he should deduct VAT part from his income, and then calculate the tax on rent.

E.g. income from rent per month is 10,000 €.

10,000 €: 7.66666666 =**1,304.34 €** VAT paid every month (after he became a VAT filer).

10,000 € - 1,304.34 € = 8,695.66 €

The amount of 8695.66 € shall serve as a basis for applying tax on rent. However, as rent tax is declared quarterly, it results:

8,695.66 € x 3 months = 26,086.98 €
26,086.98 € x 20% expenses =5,217.39 € on behalf of expenses
26,086.98 € - 5217.39 = 20,869.59 € taxable income
20,869.59 € x 20% =**4,173.91** € tax on rent

22. *We run a public company and we have a foreign expert working for us. When making the payment we did not withhold tax for the reason that he is a non-resident.*

Answer: As a public company, you are required to withhold tax from income you pay to your foreign expert, as Article 2 of Regulation No. 2004/52 on PIT, specifies that a taxpayer is a natural person, both a resident and a non-resident.
Only those persons who are part of Article 7 of Regulation No. 2004/52 on PIT are excluded from income tax.

23. *I own a restaurant and organize entertaining evenings with various artists. When making the payment according to the contract I have made with the artist, do I have any liabilities or is the artist responsible for the tax?*

Answer: As the owner of the restaurant, when making the payment for the artist, you are required to withhold wage tax and pension contributions. In this case you are to be treated as a secondary employer and apply the maximum rate of 20%, after 5% as pension contributions have been deducted.

24. *An employee works for two employers. One of them he designated as the principal employer, while the other is to be treated as secondary employer.*
His monthly pay with the employer he designated as the principal one is 300 €, while with the secondary employer his pay is 100 €.

Answer: Monthly calculation of Pension Savings Contributions and of Personal Income Tax by the principal employer is as follows:

300 € x 5% (employer contributions) = 15 €
300 € x 5% (employee contributions) = 15 €

Taxable income = Gross Income – approved deductions
300 € - 15 € (employee contribution) = 285 €

0 € --------- 80 € = 80 € x 0% = 0 €
80 € ------- 250 € = 170 € x 5% = 8.5 €
250 € ------ 285 € = 35 € x 10% = 3.5 €
Tax withheld = 12.00 €

Monthly calculation of Pension Savings Contributions and Personal Income Tax from the secondary employer is:

100 € x 5% = (employer contribution) = 5 €
100 € x 5% = (employee contribution) = 5 €

Taxable income = Gross Income – approved deductions

100 € gross income – 5€ (employee contribution) = 95€ Taxable income
95 € taxable income x 20 % = 19 € total tax withheld

Annual calculation of pension savings contributions and Personal Income Tax at the end of the year is as follows:

Gross income from principal employer	300 x 12 months = 3,600€
Gross income from secondary employer	100 x 12 months = 1,200€
Gross annual income	**400 x 12 months= 4,800€**

We shall calculate pension contributions**:**

4,800 € x 5% (employee contributions)= **240 €**
4,800 € - 240 € (employee contributions) =
4,560 €

Taxable income 4,560 €

Next, we shall apply annual tax rates:

0 € ---------- 960 € = 960 € x 0 % = 0.00 €
960 € ---------- 3,000 € = 2,040 € x 5% = 102.00 €
3,000 € ---------- 4,560 € = 1,560 € x 10% = 156.00 €
Total: 258.00€

Monthly calculations show that this employee, with the employer he has designated as the principal employer, has paid 180 € contributions. Also, his employer has paid 180 € (15€ x 12 months) and 144€ (12 € x 12 months) has been withheld.

With the secondary employer, the employee has contributed with 60 € (5 x 12 month), whereas the tax withheld is 228 € (19 x 12 months).

Tax withheld during the tax period 372€
Tax liability for annual income from wages 258 €
(Payment in advance) 114 €

In this case, the employee is liable for submitting tax declaration and is entitled to either reimburse the advance payment of 114 € or carry forward this amount to cover liabilities for any future instalment.

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ANNUAL DECLARATION AND PAYMENT FORM FOR PERSONAL INCOME TAX

[1] Tax Period :	**2005**

[2] Serial Number :	**[2] PD**

[3] Business Registration Number :

[3a.] Individual Registration Number :

1	2	3	4	5	0	0	0	0	1

[4] Taxpayer's Name	**[4]**
[5] Taxpayer's Address (if different from last form)	**[5]**
[6] Telephone	**[6]**

[7] Put 'X' on the appropriate category if not filing for the first time for this tax period.

☐ **Addition** ☐ **Correction** ☐ **Payment only**

[50] Amount due ..... **[50]**
(Transfer the amount from box**[45]**)

[51] Amount of tax paid ..... **[51]**

I declare that facts reported in this Statement are true.
First Name/Last Name/Signature and Stamp
(_____)

dd/mm/yy
___/___/_____

Section of the Bank

Signature and Stamp	***Account Number:*** **1000420070000373**	**[52]** ***Amount of Tax paid***
_____	**Text:**	_____€
	Date____/___/_____	

Form No. PD-E-1; Revised 06.03.2006

Taxable Income			
[8] Gross Wages	**[8]**	4,800 €	
[9] Gross business income	**[9]**		
[10] Gross income from partnership	**[10]**		
[11] Gross Rents	**[11]**		
[12] Gross income form pension payments	**[12]**		
[13] Gross income from interest	**[13]**		
[14] Gross income from Dividends	**[14]**		
[15] Gross income from Lottery Winnings	**[15]**		
[16] Gross Income from Intangible Property	**[16]**		
[17] Capital gain (to be applied after 2010)	**[17]**		
[18] Foreign Source Income	**[18]**		
[19] Other Income (specify)	**[19]**		
[20] Total Taxable Income (add 8 to 19)			**[20]** 4,800 €
Deductions			
[21] Business expenses, actual or 25% of business income	**[21]**		
[22] Deduction for rents expenses, actual or 20% of gross rents	**[22]**		
[23] Deductions for pension contributions(attach documents)	**[23]**	240 €	
[24] Deductions for expenses related to intangible property income	**[24]**		
[25] Other allowed deductions (specify)	**[25]**		
[26] Total deduction (add 21 to 25)			**[26]** 240 €
[27] Taxable amount (20-26) if negative put the amount in brackets			**[27]** 4,560 €
Additional Deductions			
[28] Losses Carried Forward	**[28]**		
[29] Deduction for Charitable Contributions (max 5% of taxable amount)	**[29]**		
[30] Total Additional Deductions			**[30]**
[31] Taxable Income before tax [27]-[30] (if negative put the amount in brackets)			**[31]** 4,560 €
[32] Tax on Taxable Income as per tax brackets (if negative put zero)			**[32]** 258 €
Tax withhold during the year			
[33] Tax Withheld on wages by employers (attach certificates)	**[33]**	372 €	
[34] Tax Withheld on interests by banks (attach certificates)	**[34]**		
[35] Tax Withheld on dividends by companies (attach certificates)	**[35]**		
[36] Tax Withheld on rents (attach certificates)	**[36]**		
[37] Tax Withheld on lottery gains (attach certificates)	**[37]**		
[38] Foreign Tax Credit (attach relevant certificates)	**[38]**		
[39] Total tax withheld and Credit			**[39]** 372 €
[40] Total tax to pay for the period [32]-[39]			**[40]** - 114 €
[41] Quarterly advance payments on business income	**[41]**		
[42] Quarterly advance payments on rental income and intangible property	**[42]**		
[43] Total advance payments for periods **[41]+[42]**			**[43]** 0.00 €
[44] Total Tax Payable [44]=[40]-[43]			**[44]** -114 €

If the result on line **44** is (+) you have an **Amount Due**. If the result on line **44** is (-) you have a **refund.** Write the amount in the appropriate box. Fill the items 47, 48, 49 if you have a refund

[45] Amount Due ..... **[45]** 0.00 €

[46]] Refund ..... **[46]** 114 €

[47] Bank Name ..... **[47]**

[48] Account Holder .....

[49] Account Number .....

25. *An employee during the period from 01.01.2005-31.12.2005 has received the following income:*

a. From principal employer, 3.600 € gross income (300 € x 12 months)

The principal employer has withheld and paid 5% as pension contributions and wage tax according to monthly rates.

He has received a certificate of pension contributions and tax withheld for 2005 from his principal employer, according to which employee's contributions withheld in a year is **180 €** (15 € x 12 months), employer's contribution is 180 €, whereas wage tax withheld and paid for the whole year is **144 €** (12 € x 12 months).

b. From secondary employer, 2,500 € gross income during 2005. 5% pension contributions and a wage tax at the maximum rate of 20% are withheld by the secondary employer, after 5% employee contributions has been deducted.

He has received a certificate of pension contributions and tax withheld for the whole year, from the secondary employer for the amount of 125 € (2,500 € x 5%) and employer's contribution 125€ (2,500 € x 5%), while wage tax withheld and paid for the whole year is **475€** (375 € x 20%)

c. From rent **3400€** gross income (1,800€ from personal business enterprise and 1,600€ from a legal person –NGO).

- For the premises rented to a personal business enterprise, for 6 months (April-September) of 2005, 300 € per month (6 months x 300 € = 1,800 €)
- For other premises rented to a NGO for 4 months for 400 € monthly (400 € x 4 months = 1,600 €). This NGO (legal person) has withheld and paid every month 16% rent tax. NGO has provided a certificate of the tax withheld from the rent for 2005 which is 256 € **(**1,600 € x 16%= 256 €)

The person concerned has submitted quarterly statement of income from rent and paid rent tax using his ID.

He receives 500 € from the bank as income from interest. The Bank has withheld and paid 100 € (500 € x 20%) as tax on interest.

The Bank has delivered a certificate of the interest tax withheld at the amount of 100 € (500 € x 20%).

d. He has won in lottery 2,000 € and the organizer of the prize games has withheld 400€ as tax (2,000 € x 20%). He received from the lottery the certificate of tax withheld from winnings at lottery games.

Explanatory notes of calculation pf personal income tax by groups.

EXAMPLE 1. Employee X. Y.

Calculations, by groups for box (32) of Personal Income Tax Declaration.

0 € -	960 € =	960 €	x	0%	=	0.00 €
9,60 € -	3,000 € =	2,040 €	x	5%	=	102.00 €
3,000 € -	5,400 € =	2,400 €	x	10%	=	240.00 €
5,400 € -	11,015 € =	5,615 €	x	20%	=	1,123.00 €
				Box [32]		**1,465.00 €**

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ANNUAL DECLARATION AND PAYMENT FORM FOR PERSONAL INCOME TAX

[1] Tax Period :	**2005**
[2] Serial Number :	**[2] PD**

[3] Business Registration Number :							
7	**0**	**1**	**1**	**1**	**1**	**1**	**1**

[3a.] Individual Registration Number :									

[4] Taxpayer's Name	**[4]** **X.Y**
[5] Taxpayer's Address (if different from last form)	**[5]**
[6] Telephone	**[6]**

[7] Put 'X' on the appropriate category if not filing for the first time for this tax period.

☐ **Addition** ☐ **Correction** ☐ **Payment only**

[50] Amount due ..... (Transfer the amount from box **[45]**)	**[50]**
[51] Amount of tax paid	**[51]**

I declare that facts reported in this Statement are true.
First Name/Last Name/Signature and Stamp
(_____)

dd/mm/yy
___/___/_____

Section of the Bank

Signature and Stamp	*Account Number:* **1000420070000373**	**[52]** *Amount of Tax paid*
_____	**Text:**	_____€
	*Date*____/___/_____	

Form No. PD-E-1; Revised 06.03.2006

Taxable Income				
[8] Gross Wages	**[8]**	6,100 €		
[9] Gross business income	**[9]**			
[10] Gross income from partnership	**[10]**			
[11] Gross Rents	**[11]**	3,400 €		
[12] Gross income form pension payments	**[12]**			
[13] Gross income from interest	**[13]**	500 €		
[14] Gross income from Dividends	**[14]**			
[15] Gross income from Lottery Winnings	**[15]**	2,000 €		
[16] Gross Income from Intangible Property	**[16]**			
[17] Capital gain (to be applied after 2010)	**[17]**			
[18] Foreign Source Income	**[18]**			
[19] Other Income (specify)	**[19]**			
[20] Total Taxable Income (add 8 to 19)			**[20]**	12,000 €
Deductions				
[21] Business expenses, actual or 25% of business income	**[21]**			
[22] Deduction for rents expenses, actual or 20% of gross rents	**[22]**	680 €		
[23] Deductions for pension contributions(attach documents)	**[23]**	305 €		
[24] Deductions for expenses related to intangible property income	**[24]**			
[25] Other allowed deductions (specify)	**[25]**			
[26] Total deduction (add 21 to 25)			**[26]**	985 €
[27] Taxable amount (20-26) if negative put the amount in brackets			**[27]**	11,015 €
Additional Deductions				
[28] Losses Carried Forward	**[28]**			
[29] Deduction for Charitable Contributions (max 5% of taxable amount)	**[29]**			
[30] Total Additional Deductions			**[30]**	
[31] Taxable Income before tax [27]-[30] (if negative put the amount in brackets)			**[31]**	11,015 €
[32] Tax on Taxable Income as per tax brackets (if negative put zero)			**[32]**	1,465 €
Tax withhold during the year				
[33] Tax Withheld on wages by employers (attach certificates)	**[33]**	619 €		
[34] Tax Withheld on interests by banks (attach certificates)	**[34]**	100 €		
[35] Tax Withheld on dividends by companies (attach certificates)	**[35]**			
[36] Tax Withheld on rents (attach certificates)	**[36]**	256 €		
[37] Tax Withheld on lottery gains (attach certificates)	**[37]**	400 €		
[38] Foreign Tax Credit (attach relevant certificates)	**[38]**			
[39] Total tax withheld and Credit			**[39]**	1,375 €
[40] Total tax to pay for the period [32]-[39]			**[40]**	90 €
[41] Quarterly advance payments on business income	**[41]**			
[42] Quarterly advance payments on rental income and intangible property	**[42]**	288 €		
[43] Total advance payments for periods **[41]+[42]**			**[43]**	288 €
[44] Total Tax Payable [44]=[40]-[43]			**[44]**	-198 €

If the result on line **44** is (+) you have an **Amount Due**. If the result on line **44** is (-) you have a **refund.** Write the amount in the appropriate box. Fill the items 47, 48, 49 if you have a refund

[45] Amount Due	**[45]**	0.00 €
[46]] Refund	**[46]**	198 €

[47] Bank Name	**[47]**
[48] Account Holder	
[49] Account Number	

32. Completion of the Annual Declaration of Personal Income Tax- year 2005. Personal business Y. Z.

Company Y. Z., as a personal business, during 2005 has presented the following data:

Proceeds from sale of goods and provision of services		160,000 €
Gross income from renting the premises to a legal person		12,000 €
Income from interest		4,000 €
Income from dividend		3,000 €
Costs after adjustments		113,000 €
Advance payment for PIT.	(1,800 € x 4)	7,200 €
Pensions contributions payment	(600 € x 4)	2,400 €
Payment of charity contributions to humanitarian associations		5,000 €

Explanations:

- This business for 2005, as a large personal business, has paid Personal Income Tax for every quarter 1,800 € and pension contributions 600 €. i.e. in 2005, the total of advance quarterly payment for PIT is 7,200 € and the total of pension contributions is 2,400 €.

- Income from rent is 12,000 €. The premises are leased to a legal person. Rent tax is withheld and paid at the amount of 1,920 € (12,000 € x 16%). Therefore he received certificate of tax withheld on rent.

- On behalf of interest the bank has delivered a certificate of tax withheld on interest at the amount of 800 € (4,000 € x 20%).

- For dividend he received a certificate of tax withheld on dividend at the amount of **600€** (3,000 € x 20%).

- During 2005, on behalf of contributions for charity donated to humanitarian associations 5,000 €. These contributions are not to be included in box (21). When business expenses are established, these contributions are accepted as deductible expenses only **3,060** € (61,200 € x 5%).

Instructions:

In order to complete Box [21], it would be of a great assistance if relevant tables of Corporate Income Tax Statement are used for adjustment of expenses.

UNMIK

PROVISIONAL INSTITUTIONS OF SELF-GOVERNMENT
INSTITUCIONET E PËRKOHSHME TË VETËQEVERISJES
PRIVREMENE INSTITUCIJE SAMOUPRAVLJANJA

MINISTRY OF ECONOMY AND FINANCE/TAX ADMINISTRATION OF KOSOVO
MINISTRIA PËR EKONOMI DHE FINANCA/ADMINISTRATA TATIMORE E KOSOVËS
MINISTARSTVO ZA PRIVREDU I FINANSIJE/PORESKA ADMINISTRACIJA KOSOVA

ANNUAL DECLARATION AND PAYMENT FORM FOR PERSONAL INCOME TAX

[1] Tax Period :	**2005**
[2] Serial Number :	**[2] PD**

[3] Business Registration Number :

7	0	2	2	2	2	2	2

[3a.] Individual Registration Number :

[4] Taxpayer's Name	**[4]** **Y. Z**
[5] Taxpayer's Address (if different from last form)	**[5]**
[6] Telephone	**[6]**

[7] Put 'X' on the appropriate category if not filing for the first time for this tax period.

☐ **Addition** ☐ **Correction** ☐ **Payment only**

[50] Amount due ..... **[50]**
(Transfer the amount from box**[45]**)

[51] Amount of tax paid ..... **[51]**

I declare that facts reported in this Statement are true.
First Name/Last Name/Signature and Stamp
(_____)

dd/mm/yy
___/___/_____

Section of the Bank

Signature and Stamp	***Account Number:*** **1000420070000373**	**[52]** ***Amount of Tax paid***
_____	**Text:**	_____€
	Date____/___/_____	

Form No. PD-E-1; Revised 06.03.2006

Taxable Income				
[8] Gross Wages	**[8]**			
[9] Gross business income	**[9]**	160,000 €		
[10] Gross income from partnership	**[10]**			
[11] Gross Rents	**[11]**	12,000 €		
[12] Gross income form pension payments	**[12]**			
[13] Gross income from interest	**[13]**	4 ,000 €		
[14] Gross income from Dividends	**[14]**	3, 000 €		
[15] Gross income from Lottery Winnings	**[15]**			
[16] Gross Income from Intangible Property	**[16]**			
[17] Capital gain (to be applied after 2010)	**[17]**			
[18] Foreign Source Income	**[18]**			
[19] Other Income (specify)	**[19]**			
[20] Total Taxable Income (add 8 to 19)			**[20]**	179,000 €
Deductions				
[21] Business expenses, actual or 25% of business income	**[21]**	113,000 €		
[22] Deduction for rents expenses, actual or 20% of gross rents	**[22]**	2,400 €		
[23] Deductions for pension contributions(attach documents)	**[23]**	2,400 €		
[24] Deductions for expenses related to intangible property income	**[24]**			
[25] Other allowed deductions (specify)	**[25]**			
[26] Total deduction (add 21 to 25)			**[26]**	117,800 €
[27] Taxable amount (20-26) if negative put the amount in brackets			**[27]**	61,200 €
Additional Deductions				
[28] Losses Carried Forward	**[28]**			
[29] Deduction for Charitable Contributions (max 5% of taxable amount)	**[29]**	3,060 €		
[30] Total Additional Deductions			**[30]**	3,060 €
[31] Taxable Income before tax [27]-[30] (if negative put the amount in brackets)			**[31]**	58,140 €
[32] Tax on Taxable Income as per tax brackets (if negative put zero)			**[32]**	10,890 €
Tax withhold during the year				
[33] Tax Withheld on wages by employers (attach certificates)	**[33]**			
[34] Tax Withheld on interests by banks (attach certificates)	**[34]**	800 €		
[35] Tax Withheld on dividends by companies (attach certificates)	**[35]**	600 €		
[36] Tax Withheld on rents (attach certificates)	**[36]**	1,920 €		
[37] Tax Withheld on lottery gains (attach certificates)	**[37]**			
[38] Foreign Tax Credit (attach relevant certificates)	**[38]**			
[39] Total tax withheld and Credit			**[39]**	3,320 €
[40] Total tax to pay for the period [32]-[39]			**[40]**	7,570 €
[41] Quarterly advance payments on business income	**[41]**	7,200 €		
[42] Quarterly advance payments on rental income and intangible property	**[42]**			
[43] Total advance payments for periods **[41]+[42]**			**[43]**	7,200 €
[44] Total Tax Payable [44]=[40]-[43]			**[44]**	370 €

If the result on line **44** is (+) you have an **Amount Due**. If the result on line **44** is (-) you have a **refund.** Write the amount in the appropriate box. Fill the items 47, 48, 49 if you have a refund

[45] Amount Due	**[45]**	370 €

[46]] Refund	**[46]**	0.00 €

[47] Bank Name	**[47]**
[48] Account Holder	
[49] Account Number	

CIT

CORPORATE INCOME TAX

1. Introduction

Corporate Income Tax was first applied in Kosovo on January 1st 2005, under Regulation No. 2004/51.
Corporate Income Tax has substituted the Profit Tax that has started to be applied in Kosovo as of 01.04.2002 under Regulation No. 2002/3. Legal persons and personal businesses were registered for Profit Tax. With the Corporate Income Tax becoming applicable, as a condition to be registered is the establishment of the legal status.

The present Tax Handbook on Corporate Income Tax in Kosovo is prepared by Tax Administration of Kosovo in order to facilitate understanding by taxpayers of the Corporate Income Tax and to give a general view of the concept, terms, definitions and rules which are included in the Regulation No. 2004/51 "On Corporate Income Tax in Kosovo" and the relevant Administrative Instruction.

QUESTIONS AND ANSWERS
CONCERNING CORPORATE INCOME TAX

***1.** What is Corporate Income Tax and what are the differences from Profit Tax?*

Answer: As can be understood by the name, Corporate Income Tax is a tax charged on actual income of corporations. One of criteria to be liable to this tax is the legal form of the business organization.

Previously with the Profit Tax only taxable profit of large corporations was charged with tax. For example, corporations with turnover which exceeds 100,000 € or corporations with asset value of over 50,000 € were required to prepare financial statements. According to the previous scheme, corporations having turnover below 100,000 € were not required to prepare financial statements and they were subject to presumptive tax which was applied on an estimated profit.

According to the new system of Corporate Income Tax, any small corporation who opts to become subject to real profit tax, may carry forward the losses differently from presumptive tax which was applied only on gross sales of corporation. However a number of very small corporations will continue to be subject to 'presumptive' tax. For example, they pay a fixed amount for a quarter, if their gross sales are below 5,000 € in a year, and they pay 3% tax (trade etc.) and 5% (services etc.) on gross sales, if their turnover is between 5,000.01 € - 50,000 € annually and if they choose not to become subject to real income taxation.

***2.** Is my company liable to Corporate Income Tax?*

Answer: If you represent a business organization (L.L.C., J.S.C.), including a public and socially-owned enterprise, having a status of a legal person, then the answer to your question is yes.

If you represent an organization registered with UNMIK as a non-governmental organization (NGO), then the answer is yes. Income of NGO's with public benefit status is exempted from Corporate Income Tax provided that income is to be used for humanitarian purposes only (for public benefit purposes).
If you represent a permanent establishment of a non resident in Kosovo, the answer is yes.

If you are self-employed, run a private (personal) business or are an individual partner in a partnership, the answer is no. Instead of Corporate Income Tax you shall be liable to Personal Income Tax.

3. What is the meaning of a non-resident and what is a permanent establishment?

Answer: 'Non resident' means any person or group of persons whose effective management is located outside Kosovo or who are established by the laws of another country. Therefore a non-resident, merely, is a person who is not a resident of Kosovo. For example, "X" is an American company incorporated in USA whose effective management is established in New York. "X" has decided to open a store in Prishtina. "X" is considered to be a 'non-resident'. The store opened by "X" is a 'permanent establishment'.
'Permanent establishment' means any workplace through which a non-resident carries out business in Kosovo. It may be a plant, branch office, representative office, factory, workshop, construction site, quarry, means of transport, a shop, warehouse etc. Profit generated from permanent establishment of a non-resident in Kosovo is subject to corporate income tax in Kosovo. Any non-resident, who runs a permanent establishment in Kosovo, is entitled to credit in his resident state the amount of corporate income tax that he has paid in Kosovo. He may receive an official document issued by Tax Administration of Kosovo to prove the amount of tax that has been paid.

4. Which expenses are subject to limitations or adjustments?

Answer: There are a number of expenses registered in financial statements which are subject to limitations or adjustments for tax purposes. For example, they are:

- Charitable donations;
- Representative costs;
- Bad debts;
- Reserve funds;
- Payment to related persons;
- Depreciation;
- Capital repairs;
- Amortization;
- Research and development costs.

5. What are non-deductible expenses?

Answer: The following expenses are not approved to be deducted from gross income when calculating the corporate income tax:

- Cost of acquisition and improvement of land;
- Cost of acquisition, improvement, renewal and reconstruction of assets that are depreciated or amortized
- Fines and penalties;
- Corporate income tax;
- Input VAT and refundable VAT;
- Costs that have not been used completely and exclusively in relation to economic activities;
- Costs which are not supported with the necessary documentation as required with the administrative instruction issued by MFE.

6. *I represent a small corporation making gross annual income of 3,000 €. May I decide to be liable for real profit tax?*

Answer: No. This option is only possible for corporations having gross income between 5,000€ - 50,000 € and not for small corporations. The latter have only one option: to pay a fixed amount for a quarter of 37.50 €, until the certain limit is reached.

7. *Our corporation is liable for withholding tax on dividend from our shareholders. A number of them are residents of foreign countries. Do the same rules apply for non-resident shareholders?*

Answer: Yes. Regardless of whether the shareholder is or is not a resident, authority responsible for distribution is required to withhold tax at the rate of 20% in gross dividend. Non residents may credit the tax in their countries and for this you shall need a tax certificate issued from Tax Administration of Kosovo, which proves that the tax is paid.

8. *Gross income for last year was over 100,000 €. According to the new Regulation, a large corporation may pay in advance on presumptive basis or based on the tax liabilities of the preceding year. Is this applicable also for my corporation?*

Answer: Yes. You may choose to make the payment based on the presumed tax liabilities for the current year. You need to calculate taxable profit and tax liability. You shall pay ¼ of your estimation every quarter or you may choose to be based on tax liabilities paid in the previous year. You should be aware that with the first option, the rate of inaccuracy may not be higher than 10% of the final payable tax. Otherwise, you shall be liable to penalties for insufficient payment. According to the second option, you shall pay ¼ of 110% of tax liabilities of the previous year. By acting so, you may avoid paying any potential penalty which may occur if choosing to pay according to the first option and if the rate of inaccuracy is higher than 10%.

9. *When are the quarterly payments to be made and when is the final declaration for corporate income tax to be delivered?*

Answer: You are required to make advance quarterly payments, within 15 days after the end of the calendar quarter. Quarterly statements are submitted in any of the authorized banks in Kosovo. The final tax statement should be submitted and any tax to be paid not later than April 1st, after the end of the tax period.

10. *As a corporation we have leased our commercial premises to an individual and we apply VAT on that rent. Is the tax on rent to be withheld from gross amount with VAT included or excluded? If we have rented premises and done renovation work on them and improved these assets which we have leased, how are costs for this to be covered?*

Answer: Concerning the first question, if you are VAT filer, you should apply VAT on your taxable supplies. VAT applied on rent does not represent an income to your company. Therefore, VAT is to be excluded from withholding basis. Concerning the second question, the method for covering improvement costs of rented assets is the straight line method, subject to duration of the tenancy agreement.

11. *If I sell my shares to my corporation with the same price, and by doing so I have either gained or lost, am I liable to any tax?*

Answer: Capital gains are to be included in the taxable income and capital losses may be carried forward to subsequent years as other business losses. In this case, as there are no gains or losses, such transaction does not affect your tax status.

12. *My organization has organized seminars with our clients and pays for meals or cocktails. Are these costs deductible or they are to be treated as representation costs?*

Answer: If you invite your clients to participate in seminars this is in order to promote your business. Therefore such costs are representation costs and they are subject to 2% limitation over gross income of corporation within a tax period.

13. *Are expenses for fuel for the vehicle of the Director to be accepted as deductible expenses for Corporate Income Tax? The vehicle is registered in the name of the enterprise.*

Answer: Yes. They are accepted if associated with the period concerned and if the vehicle is used as part of the economic activity**.** These expenses however should be supported with evidence.

14. *Transport costs for tax period 2004 presented upon importation were not accepted by Customs, but after we made an appeal and won the dispute they have been accepted by Customs for the tax period 2004.*

Answer: As you have won the dispute and if transport costs for 2004 are registered as such in the year 2004, then they shall be accepted for that period, whereas customs duties paid will be accepted as expense for the period when they have been paid. Also VAT paid in relation to this will be accepted as input tax in the same period when it was paid.

15. *We run a travel agency and goods of the passengers are customs cleared in the name of the Agency as this is our agreement with the passengers. Afterwards each of the passengers claims their goods.*

Answer: Customs clearance should be done in the name of the person to whom the goods belong. With this action you assume that goods are yours. Upon sale, you shall be required to prove to whom these goods are sold using open market value.

16. *For Agencies dealing with transport of passengers abroad are the costs for fuel purchased outside Kosovo to be accepted?*

Answer: Yes. They shall be accepted provided that the fuel is consumed for economic activities and should be supported with reliable documentation.

17. *If upon acquiring a tender procedure, 10% of the value is withheld as a guarantee, what will be the basis of income for VAT and CIT purposes?*

Answer: In your case, the basis for calculation of the tax liability for CIT and VAT purposes is the invoicing.

18. *An entity is importing excise goods however the excise tax will be refunded later. What actions should be taken?*

Answer: If upon importation (e.g. in November 2005) you have been charged with excise tax, you have recognized it as an expense or included it in the price of those goods, then when claiming back the excise tax, you need to make the necessary adjustments.

If excise if refunded within the same tax period as paid (e.g. payment is made in November 2005 and in December 2005 it has been refunded), then you may do the necessary adjustment by recording it as an income or by reducing the expenses. If excise tax is refunded in the subsequent tax period (e.g. paid in November 2005 and refunded in January 2006), the adjustment should be recognized as income in the tax period 2006.

19. *Regarding goods that are not covered with an invoice, is the Cost of Sold Goods to be accepted?*

Answer: Based on Article 7.2 of Regulation No. 2004/51, no expense shall be allowed unless they are properly covered with necessary documentation and CSG of the goods not covered with an invoice shall not be accepted.

20. *We have concluded a contract with a foreign company who carries out a number of services for us. However, this company is not registered in Kosovo.*

Answer: Any foreign company should be registered as a permanent establishment in Kosovo. This may be proved by requesting business registration certificate which may be confirmed in the following website address www.arbk.org

21. *The enterprise has a contract with a restaurant for preparing meals for employees. Are the costs of meals for employees to be accepted as deductible expenses for Corporate Income Tax purposes?*

Answer: Yes. These expenses will be accepted as deductible expense for your enterprise, however for the restaurant they represent income.

22. *Is the property tax to be accepted as deductible expense for Profit Tax or CIT purposes?*

Answer: Property tax when paid on behalf of an entity is accepted as an expense to be deducted for Profit Tax purposes.

23. *At the end of Q4/2005, our liability for CIT, for the whole period in 2005 is 4,200 €. We have paid in advance 1,500 € x 3 = 4,500 € (Q1/05= 1,500 €, Q2/05 = 1,500 € and Q3/05 = 1,500 €). As the amount we have paid for three quarters is more than the total tax liability for the whole period 2005, are we required to pay for Q4/2005?*

Answer: At the office for taxpayer services or in one of commercial banks licensed by CBAK, you need to submit the form "Advance Payment Statement for Large Corporations" for Q4/05, however you are not required to pay, as with the previous quarterly payments you have paid 4,500 € and according to your calculations CIT liability is 4,200 € which means that you are entitled to 300 € reimbursement.
Reimbursement will be noticed upon the submission of CIT declaration for tax period 2005.

24. *Our entity has the status of a personal business and for tax periods 2002, 2003 and 2004 we were registered for Profit Tax, according to Regulation No. 2002/3. During the control, in accordance with TAK, the entity has become liable for Presumptive Tax. We would like to know whether the advance payments of Profit Tax can be transferred to advance payments of Presumptive Tax, in order to prevent penalties and interest for failure to declare on due time the Presumptive Tax?*

Answer: If for periods 2002, 2003 and 2004 the entity has become liable for Presumptive Tax instead of Profit Tax, whether as a result of control or not, then instalments paid for Profit Tax are to be transferred to respective quarters for Presumptive Tax and will be recognized as payments of Presumptive Tax, on the date when the instalment (quarter) is paid for Profit Tax. If payments of Profit Tax are done in due time and after transfer, they are sufficient to cover relevant quarters for Presumptive Tax, no penalties and interest are to be imposed, and if they are not sufficient then relevant penalties and interest as applicable for Presumptive Tax will be imposed.

25. *Our entity has hired an external expert to carry out recruitment services in Kosovo. Are the payments made for that expert to be accepted as deductible costs, for CIT purposes?*

Answer: First you need to withhold and pay wage tax. After this, gross wage is to be accepted as deductible expense for CIT.

26. *If during the year (tax period), an entity is transformed from small business entity to a large business entity, with annual turnover exceeding 50,000€, is there a need to do adjustments in instalments. How should we act in this case?*

Answer: Quarterly payments made by small entities that are transformed into large entities, will automatically be recognized as large business instalments, after the declaration is submitted.
These entities are not required to make adjustments concerning the transfer of quarterly payments.

27. *The equipment and machinery that we possess are not covered with the relevant documentation. Is the depreciation of these assets to be accepted?*

Answer: According to Article 7 of Regulation 2004/51, on Corporate Income Tax, no deduction of any expense is to be allowed unless properly documented.

28. *Our building is assessed by the municipality for property tax purposes. Can we take the assessment of Municipality as a basis for calculation of depreciation costs?*

Answer: The assessment made by Municipality for property tax shall not be accepted as a basis for calculating the depreciation.

29. *Should insurance companies for CIT make a self-evaluation, considering the exact amount of income from gross premium is identified, payment of profit tax i.e. 7% of gross premium. Should the real amount be paid or income should be anticipated?*

Answer CIT for insurance companies is paid at the rate of 7% of the premiums for every quarter.
If there is an adjustment it should be done in the quarter in which it was made.
Annual declaration should be the total of quarters.

30. *An asset (capital asset) e.g. a truck is worth 1,000€ according to accounting books, however as a result of damages and long age during 2005 it was sold by kg for 600 €. Is the difference of 400 € accepted as deductible expense?*

Answer: The group of assets should be reduced for 600€ and is not recognized as loss (deductible expense), considering it belongs to the second or third group, Article 19.8 of Regulation No.2004/51.

31. *A bank has generated income from interest on the funds deposited with another local bank. Who is liable for this tax?*

Answer: The Bank which pays the interest is required to withhold and pay tax on interest at 20% rate.

32. *In case of vehicle maintenance costs occurred during 2005, is the total or just 5% of the repair value to be accepted considering they belong to the second group?*

Answer: Maintenance costs shall only be accepted 5% of the net value of the group and the part exceeding 5% needs to be capitalized. E.g. if in the beginning of 2005, net value of the total assets in the second group is 16,000 €, and for the whole group they were 1,500 € for maintenance and repair costs. This means that only 800 € (16,000 € x 5% = 800 €) will be accepted as expenditure, and the other part of 700 € (1,500 € - 800 € = 700 €) will be capitalized i.e. will be added to the net value of second group assets. And we shall have 16,700€ (16,000€ + 700€) which is to be taken as a basis for depreciation calculations.

33. *Our company has amended the accounting policy from cash-based to accrual and for this we have made an adjustment of income and expense for the years 2003-2005. In 2003 and 2004, according to IAS, we have affected the claims or liabilities in one hand and profit withheld and corporate tax on the other. Can we present in the adjustment table for year 2005, income or expenditure that already are considered as a liability or claim for corporate tax for years 2003 and 2004?*

Answer: For the year 2005, you need to carry on with the adjustments, as required with the adjustment tables. E.g. with the expenses you need to start from net value of assets for tax purposes, at the end of 2004.

34. *In order to be supplied with goods from recognized foreign companies, our entity has made an agreement with an intermediary entity (agent) who on behalf of our company is concluding contracts for purchasing goods and who secures the bank guarantee. For carrying out these services the agent charges 10% of the cost price of the goods purchased. The goods are cleared through customs in the name of our company. For the services he carried out on our behalf the agent once the goods arrive, sends the invoice for the services, which is not entered through customs procedure.*

Answer: If the agent is local, these are recognized as income for the agent and expense for you. If the agent is a non-resident then Article 27 of Regulation Nr. 2004/51 is to be applied and 20% of commission (interest) shall be withheld.

35. *For control of profit tax for the period from 01.04.2002 to 31.12.2002 should Tax Administration during the control check income and expenses from 01.01.2002 to 31.12.2002? VAT was subject to control for the year 2002, during 2003. One transaction is dated in year 2001, however it is entered incorrectly in the sales of January 2002. How is this position to be treated for profit tax purposes for 2002?*

Answer: Income and expenditure for the whole 2002 need to be inspected and in the end 75% quote to be used. Transaction which is entered by error into the sales of following tax period needs to adjust and to be transferred to the period it relates. Also the period in which the transaction is entered by error is to be corrected.

36. *An Electric mill generates income from multure it grinds for its customers. The same multure when is grounded and sold as flour and bran again generates income as a final product. Can two incomes be registered into the book of sales or only income created from selling the flour and bran, as we have a duplication of income?*

Answer: Multure received for grinding is registered in both sale and purchase. Afterwards, flour and bran are produced. When flour and bran are sold they are entered as sale, while multure received for milling is accepted as expense (Cost of sold goods). In this case we do not have a duplication of income as multure registered as purchase is taken as an expense (CSG).

PRACTICAL EXAMPLES
CONCERNING CORPORATE INCOME TAX

1. Withholding and payment of the tax on dividend, interest, royalties, rent and lottery gains.

EXAMPLE:

Bank XYZ L.L.C during March 2006 has paid interest at the amount of 12,000 €. They withheld and paid tax on interest at 20% (12,000 € x 20% = 2,400 €)
The amount of dividends paid is 5,000€ and withheld tax on dividend at 20%
(5,000 € x 20% = 1,000 €.)

For premises they have rented from March, Bank XYZ pays 2,600 € monthly (i.e. including March 2006) and withheld tax on rent at the rate of 16% (2,600 € x 16% = 416€).

By the 15.04.2006, the Bank is required to submit:

Interest, dividend, royalty, rent, lottery winnings and games of chance tax withholding and remittance monthly statement.

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MINISTARSTVO ZA PRIVREDU I FINANSIJE/PORESKA ADMINISTRACIJA KOSOVA

INTEREST, DIVIDEND, ROYALTY, RENT, LOTTERY WINNINGS AND GAME OF CHANCE TAX WITHHOLDING AND REMITTANCE MONTHLY STATEMENT

[1] Filing Period :	**March/ 2006**	Serial Nr. :	**[2] WR**

[3] Employer's Registration Number	**7**	**0**	**2**	**5**	**6**	**1**	**4**	**6**		

[4] Employer's Name	**[4] Bank XYZ Shpk**		
[5] Employer's Address (only if it is different from the last form)	**[5] Dëshmoret e Kombit Nr.12 Prishtinë**		
		Telephone	
[6] Contact Person's Name	**[6]**	Telephone	

[7] Put **'X'** on the appropriate box if not filing for the first time for this filing period.

☐ **Addition** ☐ **Correction** ☐ **Payment only**

a. Tax Withheld on Interest, Dividends, Royalties and Lottery Earnings		
[8] Gross interest paid for the month ----------	**[8] 12,000 €**	
[9] Gross dividends paid for the month ----------	**[9] 5,000 €**	
[10] Gross royalties paid for the month (non-individuals only) --	**[10]**	
[11] Gross lottery winnings paid for the month (individuals only)	**[11]**	
[12] Total gross amount paid for the month [12]=[8]+[9]+[10]+[11]	**[12] 17,000 €**	
[13] Tax withheld on income other than rent **[13]=[12] x 20%** ----------		**[13] 3,400 €**
b. Tax Withheld on Rental Income		
[14] Gross rent paid for the month ----------	**[14] 2,600 €**	
[15] Tax withheld on rents paid **[15]=[14]x16%** - **(**non individual tenants only) ----------		**[15] 416 €**
[16] Total tax withheld **[16]=[15]+[13]** ----------		**[16] 3,816 €**

I declare that facts reported in this Statement are true.
First Name/Last Name/Signature and Stamp
(_____)

dd/mm/yy
___/___/_____

Section of the Bank

Signature and Stamp	*Account Number :* **1000420070000373**	*Amount of Tax paid*
_____	**Text:**	_____€
	*Date*____/___/_____	

Form No. WR-E-1; Revised 25.01.2005

Instructions on completion of Interest, Dividend, Royalty, Rent, Lottery and Game of Chance Winnings Tax Withholding and Remittance Statement

Box [1] Enter the filing period, e.g. March 2006

Box [2] Serial number in box [2] will be preprinted so do not write on that box

Box [3] Enter the registration number of tax withholder, e.g. 70256146

Box [4] Enter the name of the tax withholder, e.g. Bank XYZ

Box [5] Enter the address of withholder, e.g. Rr. Dëshmorët e Kombit , Nr. 12, Prishtinë

Box [6] Enter the contact person's name and telephone number

Box [7] If not filing for the first time for this filing period put a 'X' in one of two boxes:

Addition – means additional declaring within the same month.
Correction – means when wishing to change the data declared earlier for that calendar month.
Payment only – means you only want to make an additional payment without changing any of the data declared earlier for the same calendar month.

Box [8] Enter gross interest paid for the month, e.g. 12,000 €

Box [9] Enter the dividend paid for the month, e.g. 5,000 €

Box [10] Enter royalties paid to business organizations only, e.g. 0€

Box [11] Enter lottery winnings paid to individuals only, e.g. 0 €

Box [12] Add the amounts entered in boxes 8, 9, 10 and 11, e.g. 17,000 €

Box [13] Enter the amount of tax withheld from the total amount paid in **Box** [12] It should result with 20% of the amount in box [12], e.g. 17,000 € x 20%=3,400 €

Box [14] Enter the amount paid as rent to lessor for the month, e.g. 2,600 €

Box [15] Enter the amount of tax withheld from the rent paid (as you represent a non-individual). It should result with 16% of the sum entered in box [14],

e.g. 2,600 € x 16% = 416 € .

Box [16] Add the amount entered in box [13] and box [15], e.g.
3,400 € + 416 € = 3,416 €

The statement should be signed and dated by the withholder or by a person authorized by him and submitted to the bank within 15 days following the end of the month when payments are made and tax is withheld.

2. Advance quarterly payments for small business activities

In accordance with Article 31.2 (a) and (b) of the Regulation, any taxpayer making less than 5,000 € gross income and those who choose not to prepare financial statements, are required to submit a Quarterly Advance Payment Statement to any of the authorized banks on or before 15 April, 15 July, 15 October and 15 January, in relation to calendar quarters preceding these dates.

Quarterly advance payment statement is prepared in three original copies. First and second copy remains with the bank, and the third copy is returned to the taxpayer after being endorsed by the bank. Below you will find a sample of the Advance payment quarterly statement form with the instructions for its completion:

EXAMPLE A:

If the annual turnover of a legal person is below 5000€

L.L.C. "AGIMI" was established on February 2006. In this year the turnover will not exceed 5,000 €. As a result, for each quarter they need to declare and pay 37.50€.

For this quarter, from the date it was established until end of March 2006, the turnover created is 800 €.

As of February they have rented a business unit (office) to an individual business for the payment of 100€ for each month. Personal business does not withhold tax on rent.

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QUARTERLY ADVANCE PAYMENT STATEMENT FOR SMALL CORPORATIONS

[1] Filing Period:	**Q1/ 2006**	**[2]** Serial Nr:	**[2] QS**

[3] Business Registration Number : **7 0 6 5 3 2 1 6**

[4] Business Name	**[4] AGIMI shpk**		
[5] Business Address. (only if it is different from the last form)	**[5] Street "QLIRIMI" No.68 Prishtina**		
		Telephone	
[6] Contact Person's Name	**[6]**	Telephone	

[7] Put **'X'** on the appropriate box if not filing for the first time for this filing period.

☐ **Addition** ☐ **Correction** ☐ **Payment Only**

[8] Gross Income for the quarter ..... **[8] 800 €**
(This entry is in common for all categories of business income earners)

I. Taxpayers with annual gross income less than 5,000 euro

[9] Enter 37,5 euro in box [9] ..... **[9] 37.50 €**

II. Taxpayers with gross income from 5,000.01-50,000 euro who opt to pay tax 'presumptively'. (If opting to pay on 'net income' complete the Quarterly Advance Statement for Large Businesses)

[10] Advance Payment [10]=[8] x 3% (retail, manufacturing, trade, transport, agriculture and other commercial activities) **[10]**

[11] Advance Payment [11]= [8] x 5% (professional, vocational, entertainment, other service activities) **[11]**

III. Taxpayers who earn Rental Income

[12] Gross Rental Income ..... **[12] 200 €**

[13] Tax on Rental Income [13]=[12] x 16%..... **[13] 32 €**

[14] Tax on Rental Income Withheld by Others ..... **[14]**

[15] Final Tax on Rental Income [15]=[13]-[14]..... **[15] 32 €**

[16] Total Tax to be Paid with this Statement [16]=[9]+[15] or [10]+[15] or [11] +[15] or [10+11+15] **[16] 69.50 €**

I declare that facts reported in this Statement are true.
First Name/Last Name/Signature and Stamp
(_____)

dd/mm/yy
___/___/_____

Section of the Bank

Signature and Stamp	*Account Number:* **1000420070000373**	*Amount of Tax paid*
_____	**Text:**	_____ €
	*Date*____/___/_____	

Form No. QS-E-1; Revised 03.03.2005

Instructions on completion of Quarterly Advance Payment Statement for Small Corporations

Box [1] Enter the tax period for which the statement is filed, e.g.Q/1 2006
Box [2] The serial number of the statement will be pre-printed, so please do not write in box[2]
Box [3] Enter business registration number, e.g. 70653216
Box [4] Enter the name of business organization, e.g, "AGIMI"L.L.C
Box [5] Enter the address of business organization, e.g. 'ÇLIRIMI" No 68 Prishtine and telephone number
Box [6] Enter the contact person's name and telephone number
Box [7] In box [7], if this statement is not submitted for the first time in the given month, put a X in one of following boxes:

Addition – means additional filing within the same month.
Correction – means you want to change the data reported before for the same calendar month.
Payment only – means you only want to make an additional payment without changing any of the data reported before for the same calendar month.

Box [8] Enter gross income for the quarter in box [8] e.g 800 €
Box [9] If annual gross income are below 5,000 €, enter 37.5 € in box [9]
Box [10] If you are involved in trade, retail, manufacturing, transport, agriculture and other commercial activities, multiply the amount entered in box [8] by 3% and enter the result in box [10]
Box [11] If you are involved in professional, vocational, entertainment and other service activities multiply the amount entered in box [8] by 5% and enter the result in box [11]
Box [12] Enter gross income from rent in box E.g. 200 € for this quarter. [12] (100 € for February plus 100 € for March.)
Box [13] Multiply the amount in [12] by 16% and enter the result in the box in this case 32.00 € [13]
Box [14] Enter the amount of tax withheld by others on the income from rent in box 14. There are no such in this case as private business does not withhold tax on rent.
Box [15] Deduct the amount of tax withheld by others as shown in box [14] from the amount of tax reported in box [13] and enter the result in box [15]. In this example it is 32.00 €.
Box [16] If you have multiple income from business activities and rent, then sum up one of amounts entered in [9] [10] or [11] with the amount entered in [15] and enter the result in box [16]. In this example it is 69.50 €.

The statement should be signed and dated by the individual by a person authorized by him and submitted to the bank within 15 days after the end of the calendar quarter

Leave the bank information blank for the bank teller to fill out.

EXAMPLE B:
If annual turnover of a legal person is between 5,000 € and 50,000€

"BESA" L.L.C was established in January 2006 with BRN 70865432. It is estimated that turnover for this year will be below 50,000€
Within period January-March 2006 company's turnover was around 8,000 € (6,000 € trade and 2,000 € services.)

From February to December they have rented two business premises:

- One business unit (office) rented to a private business for 200 € a month
- The other business unit (office) rented to e legal person (NGO) for 300 € per month.

Individual business does not withhold tax on rent, whereas NGO as a legal entity withholds tax on rent and pays every month. (300 € x 2 months = 600 € x 16% = 96 €)

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QUARTERLY ADVANCE PAYMENT STATEMENT FOR SMALL CORPORATIONS

[1] Filing Period:	**Q1/ 2006**	**[2]** Serial Nr:	**[2] QS**

[3] Business Registration Number : **7 0 8 6 5 4 3 2**

[4] Business Name	**[4] BESA shpk**		
[5] Business Address. (only if it is different from the last form)	**[5] Street "Mather Teresa" No.84 Prishtina**		
		Telephone	
[6] Contact Person's Name	**[6]**	Telephone	

[7] Put **'X'** on the appropriate box if not filing for the first time for this filing period.

☐ **Addition** ☐ **Correction** ☐ **Payment Only**

[8] Gross Income for the quarter ..... **[8] 8,000 €**
(This entry is in common for all categories of business income earners)

I. Taxpayers with annual gross income less than 5,000 euro

[9] Enter 37,5 euro in box [9] ..... **[9]**

II. Taxpayers with gross income from 5,000.01-50,000 euro who opt to pay tax 'presumptively'. (If opting to pay on 'net income' complete the Quarterly Advance Statement for Large Businesses)

[10] Advance Payment [10]=[8] x 3% (retail, manufacturing, trade, transport, agriculture and other commercial activities) **[10] 180 €**

[11] Advance Payment [11]= [8] x 5% (professional, vocational, entertainment, other service activities) **[11] 100 €**

III. Taxpayers who earn Rental Income

[12] Gross Rental Income ..... **[12] 1,000 €**

[13] Tax on Rental Income [13]=[12] x 16%..... **[13] 160 €**

[14] Tax on Rental Income Withheld by Others ..... **[14] 96 €**

[15] Final Tax on Rental Income [15]=[13]-[14]..... **[15] 64 €**

[16] Total Tax to be Paid with this Statement [16]=[9]+[15] or [10]+[15] or [11] +[15] or [10+11+15] **[16] 344 €**

I declare that facts reported in this Statement are true.
First Name/Last Name/Signature and Stamp
(_____)

dd/mm/yy
___/___/_____

Section of the Bank

Signature and Stamp	*Account Number:* **1000420070000373**	*Amount of Tax paid*
_____	**Text:**	_____€
	*Date*____/___/_____	

Form No. QS-E-1; Revised 03.03.2005

Instructions on completion of Quarterly Advance Payment Statement for Small Corporations

Box [1] Enter the tax period for which the statement is filed, e.g.Q/1 2006
Box [2] The serial number of the statement will be pre-printed, so please do not write in box [2]
Box [3] Enter business registration number, e.g. BRN 70865432
Box [4] Enter the name of business organization, e.g, "BESA"L.L.C
Box [5] Enter the address of business organization, e.g. 'Nëna Tereze" No 84 Prishtinë and telephone number

Box [6] Enter the contact person's name and telephone number
Box [7] In box [7], if this statement is not submitted for the first time in the given month, put a X in one of following boxes:

Addition – means additional filing within the same quarter.
Correction – means you want to change the data reported before for the same quarter.
Payment only – means you only want to make an additional payment without changing any of the data reported before for the same quarter.

Box [8] Enter gross income for the quarter in box [8]. In this example 8,000 €
Box [9] If annual gross income are below 5,000 €, enter 37.5 € in box [9]
Box [10] If you are involved in trade, retail, manufacturing, transport, agriculture and other commercial activities, multiply the amount entered in box [8] by 3% and enter the result in box [10]. In our case 6,000 € x 3 = 180 €
Box [11] If you are involved in professional, vocational, entertainment and other service activities multiply the amount entered in box [8] by 5% and enter the result in box [11]. In our case 2,000 € x 5% = 100 €
Box [12] Enter gross income from rent in box [12] for this quarter. In this case (200 € x 2 months) + (300 € x 2months) = 400 € + 600 € = 1,000 € gross income from rent.
Box [13] Multiply the amount in [12] by 16% and enter the result in the box [13.In this case 1,000 € x 16% = 160 €
Box [14] Enter the amount of tax withheld by others on the income from rent in box [14]. In our case 600 € x 16% = 96 €.
Box [15] Deduct the amount of tax withheld by others as shown in box [14] from the amount of tax reported in box [13] and enter the result in box [15].In this example 160 € - 96 € = 64€.
Box [16] If you have multiple income from business activities and rent, then sum up one of amounts entered in [9], [10] or [11] with the amount entered in [15] and enter the result in box [16]. In this example it is 180 € + 100 € + 64 € = 344 €.

The statement should be signed and dated by the individual by a person authorized by him and submitted to the bank within 15 days after the end of the calendar quarter

Leave the bank information blank for the bank teller to fill out.

3. Advance quarterly payments for large business activities

As provided for in Article 31.2.(c) of the Regulation, any taxpayer making 50,000 euro and more gross income, and the ones who choose to prepare financial statements, are required to submit an Advance Payment Quarterly Statement to any of authorized banks, on or before 15 April, 15 July, 15 October and 15 January, in relation to calendar quarters preceding these dates. Quarterly advance payment Statement is prepared in three original copies.
First and second copy remains with the bank, and third copy is returned to taxpayer after being endorsed by the bank. Below you will find a sample of the Advance payment quarterly statement form with the instructions for its completion:

EXAMPLE
Business entity "Përparimi" LLC with BRN 72456123 is registered on January of 2006.

According to their business plan they will have:

Taxable income	120,000 €
Deductible costs	100,000 €
Taxable profit	20,000 €
Profit tax 20%	4,000 €

As this is the first year of their activity this entity shall pay based on their real income

Each quarter in 2006, they shall submit a Quarterly Advance Payment Statement for Large Corporations and pay 1,000 € for each quarter.

This business, for the funds they've deposited in the bank, has generated income from interest from January for each month 800€, and bank withholds tax on interest every month at the amount of 160 €. Therefore for three months, the results are:
(800 € x 3 months) x 20% = 2400 € x 20% = 480 €.

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QUARTERLY ADVANCE PAYMENT STATEMENT FOR LARGE CORPORATIONS

[1] Filing Period:	**Q1/ 2006**	**[2]** Serial Nr:	**[2] QL**

[3] Business Registration Number :	**7**	**2**	**4**	**5**	**6**	**1**	**2**	**3**

[4] Business Name	**[4]**	**PERPARIMI shpk**	
[5] Business Address. (only if it is different from the last form)	**[5]**		
		Telephone	
[6] Contact Person's name	**[6]**	Telephone	

[7] Put **'X'** on the appropriate box if not filing for the first time for this filing period.

☐ **Addition** ☐ **Correction** ☐ **Payment Only**

Option A, based on the estimation of current year tax liability	**Item**	**Tax**
[8] Estimated Income for the Tax Period divided by 4	**[8] 30,000 €**	
[9] Estimated Expenses for the Tax Period divided by 4	**[9] 25,000 €**	
[10] Estimated Profit for the Tax Period divided by 4, [10]=[8]-[9] (If negative enter 0)	**[10] 5,000 €**	
[11] Installment for the Quarter [10] x 20% (If negative enter 0)		**[11] 1,000 €**
Option B, based on past year tax liability		
[12] 110% of assessed tax liability for the previous year divided by 4		**[12]**
[13] Installment Payment to be paid with this form (Enter either amount from **[11]** or **[12]**)		**[13] 1,000 €**
[14] Tax Withheld on Dividends, Royalties, Interest and Rent by resident payers		**[14] 480 €**
[15] Total payment with this form [15]=[13]- [14]		**[15] 520 €**
(The following section is to be completed by Insurance Companies only)		
[16] Gross premiums for the quarter		**[16]**
[17] Installment for the quarter [16] x 7%		**[17]**
[18] Tax Withheld on Dividends, Royalties, Interest and Rent by resident payers		**[18]**
[19] Total payment with this form [19]=[17]- [18]		**[19]**

I declare that facts reported in this Statement are true.
First Name/Last Name/Signature and Stamp
(_____)

dd/mm/yy
___/___/_____

Section of the Bank

Signature and Stamp	*Account Number:* **1000420070000373**	*Amount of Tax paid*
_____	**Text:**	_____€
	*Date*____/___/_____	

Form No. QL-E-1; Revised 03.03.2005

Instructions on completion of Quarterly Advance Payment Statement for Large Corporations

Box [1] Enter the tax period for which the statement is filed, e.g.Q/1 2006
Box [2] The serial number of the statement will be pre-printed, so please do not write in box [2]
Box [3] Enter business registration number, e.g. 72456123
Box [4] Enter the name of business organization, e.g. 'PERPARIMI" LLC
Box [5] Enter the address of business organization and business telephone number
Box [6] Enter the contact person's name and telephone number
Box [7] In box [7], if this statement is not submitted for the first time in the given month, put a X in one of the following boxes:

Addition – means additional filing within the same quarter.
Correction – means you want to change the data reported before for the same quarter.
Payment only – means you only want to make an additional payment without changing any of the data reported before for the same quarter.

Box [8] Enter estimated income for the tax period divided by 4. In this example 30,000 €
Box [9] Enter estimated costs for the tax period divided by 4. In this example 25,000 €
Box [10] Enter estimated profit for the tax period divided by 4. In this example 5,000 €
Box [11] Calculate estimated instalment by multiplying the value in box [10] with 20%. In this example 5,000 € x 20% = 1,000€
Box [12] If you are not certain with your estimations and if you have a previous year of activity in the history of your business, in order to prevent any penalty and interest to be imposed for insufficient payment, you may enter in box[12] 110% of the tax assessed for the previous year divided by 4.
Box [13] Enter the amount of instalment you are paying with this form, it should be either from amounts entered in box [11] or box [12]. In this example 1,000 €.
Box [14] Enter the amount of tax withheld from your income from dividend, interest, royalties and rent from residential withholders. 2,400 € x 20% = 480 €.
Box [15] Apply the difference between [11] - [14] or [13] – [14] and enter the result in box [15]. In this example 1,000 € - 480 € = 520 €.
Box [16] This box is reserved for insurance companies only. Enter gross premiums for the quarter in this box.
Box [17] Enter the amount of tax by [16] x 7% in box [17]
Box [18] Enter the amount of tax withheld from your income from dividend, interest, royalties, and rent by resident withholders for this quarter
Box [19] Enter the difference between [17] –[18] in box [19]

The statement should be signed and dated by the individual by a person authorized by him and submitted to the bank within 15 days after the end of the calendar quarter

Leave the bank information blank for the bank teller to fill out.

4. Tax liability for CIT according to Final declaration and payment of CIT instalments for the following year

With the ending of tax period 2006, final date for submitting CIT Declaration for 2006 is from 01.01.07 until 01.04.2007.
Final CIT Declaration will establish the exact annual tax liability for CIT.

a) If CIT liability for tax period 2006 is	**4,300 €**
Instalments paid for CIT for tax period 2006	4,000 €
The amount to be paid with statement for tax period 2006	300 €

In this case there will not be penalties imposed as over 90% of CIT liability is already paid for tax period 2006. (400/4, 300) x 100 = 93.02%.

Instalment payments of CIT for 2007
For the subsequent year 2007, if the entity concerned has based the payment of instalment for CIT for 2007 on the previous year 2006, where the CIT liability for 2006 is 4,300 €, then payment of instalments for 2007 should be 10% higher than tax liability in 2006.

This means that for each instalment the business is required to pay 1,182.5€

Calculations: 4,300€ x 110% = 4,730 €
4,730 € / 4 = 1,182.5€

b) If CIT liability for tax period 2006 is	**3,800 €**
Instalments paid for CIT for tax period 2006	4,000 €
CIT paid in excess for tax period 2006	200 €

Tax paid in excess of 200 € for CIT for tax period 2007, after necessary verifications, may be reimbursed by refunding the amount to the account of the entity concerned or it may be used for covering any other current or future tax liabilities ~~due.~~

Payment of CIT instalments for year 2007

For the subsequent year 2007, if the entity concerned has based the payment of instalment for CIT for 2007 in the previous year 2006, where the CIT liability for 2006 is 3,800 €, then payments of instalments for 2007 should be 10% higher than tax liability in 2006

This means that for each instalment the business is required to pay 1,045 €

Calculations: 3,800 € x 110% = 4,180 €
4,180 € /4 = 1,045 €

c) If CIT liability for tax period 2006 is 0 (due to entity having negative balance)

Instalments paid for CIT for tax period 2006	4,000 €
CIT paid in excess for tax period 2006	4,000 €

Payment of CIT instalments for year 2007

For the following year 2007, based on previous year, entity concerned is not required to pay CIT instalments as in 2006 he has had business losses. However, with the final declaration of the year 2007, if any tax liability occurs, he is required to pay.

EXPLANATORY NOTES ON THE CALCULATION OF PENALTIES AND INTERESTS FOR INSUFFICIENT PAYMENT OF PROFIT TAX INSTALMENTS FOR TAX PERIOD 2004

Tax Administration of Kosovo (TAK) takes into consideration the following explanatory notes and interpretations when calculating penalties and interest for insufficient payment of Profit Tax instalments for tax periods 2002, 2003 and 2004, as provided for in Article 29.1 and 29.5 of Regulation No. 2002/3 on the Profit Tax in Kosovo.

According to **Article 29.1** of Regulation No. 2002/3 on Profit Tax

- Instalments are due to be paid until 15th of the month following the end of the quarter
- Instalment due to be paid is equal to ¼ of the tax liability for the period.
- Instalment may be paid each quarter:
  - according to previous tax period, or
  - according to estimated profit for the tax period

According to **Article 29.5** of Regulation No. 2002/3 on the Profit Tax
If payment of instalment is made on due time, no penalties or interests shall be imposed for insufficient payment of instalments, provided that:

a. the difference between the amount due for each instalment and the amount paid for each instalment is less than 10%
b. The amount paid in **each** instalment is 10% higher than ¼ of the amount of tax assessed by the Tax Administration for previous tax period.

Interpretations by Tax Administration:

1. Penalties and interests for differences between amount due to be paid for an instalment and the actual amount paid for an instalment are calculated during the processing of the annual declaration.
2. For first year declaration, the following rule is applied:
   - If the difference between tax liability for the period concerned and the amount of instalments paid is less than 10%, no penalties shall be applied for underpayment of instalments ~~paid less~~
   - If the difference exceeds 10 %, the taxpayer is charged with penalties and interest for underpayment, based on the difference between 90% of annual tax and the amount of instalment payments, as of the date when payment of fourth instalment becomes due.

EXAMPLE

1. A taxpayer has started his activity for Profit Tax purposes in 2004.
   He has paid in 3 instalments (2, 3, 4) respectively 100 €, 200 €, 620 €
   Liability for tax period 2004 is 1,000 €.
   Difference 0.9 x 1,000 € < (100 € + 200 € + 620 €)
   No penalties and interests are to be applied for instalment.

2. A taxpayer has started his activity for Profit Tax purposes in 2004.
   He has paid in 2 instalments (3, 4) respectively 200 €, 500 €
   Liability for tax period 2004 is 1,000 €.
   Difference 0.9 x 1,000 € > (200 € + 500 €)
   For difference 900 € - 700 € = 200 € penalties and interest shall be charged starting from January 15 2005.

January	Penalty:	200 € x 0.02 = 4 €,	Interest:	200 € x 0.015 = 3 €
February	Penalty:	200 € x 0.02 = 4 €,	Interest:	200 € x 0.015 = 3 €
March:	Penalty:	200 € x 0.02 = 4 €,	Interest:	200 € x 0.015 = 3 €
Total	**Penalty:**	**12 €,**	**Interest**	**9 €**

3. Subsequent years:
   a) The amount of instalment to be paid is considered ¼ of the tax liability calculated during the processing of annual declaration.
   b) If entity for the tax period concerned has no taxable income, no penalties and interest are to be applied for instalments
   c) If for the previous tax period the entity had no taxable income, no penalties and interests are to be applied on instalments
   d) If for each instalment an entity has paid 110% of the tax from previous tax period divided by 4, no penalties and interests are to be applied on instalments
   e) If for each instalment an entity has paid more than 90% of the amount due for instalment, no penalties and interests are to be applied on instalments.
   f) If for a number of instalments taxpayer has paid more than the amount due, the difference shall be used for covering those instalments in which taxpayers has paid less than the amount due

EXAMPLE

1. In 2003 taxpayer's business resulted with losses.
   In 2004, Profit Tax was 1,000 €.
   No penalties are to be imposed on instalments
2. In 2003 taxpayer has resulted with profit tax of 1,000 €.
   In 2004 the balance was negative.
   No penalties are to be imposed on instalments.
3. In 2003 taxpayer has paid for profit tax the amount of 1,000 €.
   In 2004 the amount of profit tax was 2,000 €.
   For each instalment in 2004 he has paid 280 €.
   No penalties are to be applied on instalments, because the taxpayer paid more than 110% of the previous year tax in each instalment.

4. In 2003 taxpayer has had a Profit Tax of 2,000 €.
   In 2004 the resulting Profit Tax was 1,000 €.
   For each instalment in 2004 he has paid 230 €.
   There are no penalties to be applied on instalment according to correct application in this year (> 90% of due instalment)
5. In 2003 taxpayer has had a Profit Tax of 1,000 €.
   In 2004 Profit Tax results in 2,000 €.

First instalment	200 €
Second instalment	300 €
Third instalment	not delivered
Fourth instalment	400 €
Previous year correctly applied	(1,100€ / 4) = 275 €
Instalment due for 2004	2,000€/4 = 500 €

Penalties and interest to be applied for:

First instalment for difference 500 € - 200 € = 300 €:
Penalty for period April 2004 - March 2005 (300€ x 2%)x 12months= 72€
Interest for period April 2004 - March 2005 (300€ x 2%) x 9months + (300€x1.5%) x 3 months = 67.5 €

Second instalment for difference 500 € - 300 € = 200 €
Penalty for period July 2004 - March 2005 (200€ x 2%)x 9 months = 36€
Interest for period July 2004 - March 2005 (200€ x 2%)x 6 months +(200€ x 1.5%) x 3months = 33€

Third instalment for difference 500 € - 0 € = 500 €
Penalty for period October 2004-March 2005 (500€ x 2%)x 6 months= 60€
Interest for period October 2004-March 2005 (500€ x 2%)x 3 months + (500€ x 1.5%)x 3 months =52.5 €

Fourth instalment for difference 500 € - 400 € = 100 €
Penalty for period January 2005 – March 2005 (100€ x 2%)x 3 months = 6€
Interest for period January 2005 – March 2005 (100€ x 1.5%)x 3 months = 4.5€

Total: Penalties: 72 € + 36 € + 60 € + 6 € = 174 €
Interest: 67.5 € + 33 € + 52.5 € + 4.5 € = 157.5 €

6. In 2003 taxpayer has had a profit tax of 1,000 €
   In 2004 it resulted with Profit Tax of 2,000 €

First instalment	800 €
Second instalment	100 €
Third instalment	not delivered
Fourth instalment	850 €
Previous year correctly applied	(1,000€ x 110%)/4 275 €
Instalment due for 2004	2,000€/4 = 500 €

Penalties and interest to be applied for:

First instalment no penalties, 800 € - 500 € = 300 € used for covering other periods
Fourth instalment no penalties, 850 € - 500 € = 350 € used for covering other periods

Second instalment for difference 500 € - 100 € = 400 €
Excess payment in first instalment 300 €
Penalties applied over the difference 400 € - 300 € = 100 €

Penalties For period July 2004 – January 2005 (100€ x 2%)x 7 months = 14€
Interest
For period July 2004 - January 2005 (100€ x 2%)x 6 months +(100€x1.5%)x1month = 13.5€
Credit from fourth period: 350 €

Remaining Credit 350€ - 14€ - 13.5€ - 100€= 222.5 € used for third instalment

Third instalment for the difference 500 € - 0 € = 500 €
Penalty for period October 2004 - January 2005 (500€ x 2%)x 4 months = 40 €
Interest for period October 2004 – January 2005 (500€ x 2%)x 3 months +(500€ x 1.5%) x 1 month = 37.5€

In January remaining credit is used: 222.5 €
(40 € + 37.5€ + 500€) - 222.50€ = 355€ .
Therefore Penalty for February March 2005 (355€ x 2%)x 2 months = 14.2€
Interest for February March 2005 (355€ x 1.5%)x 2 months = 10.65€

Total: Penalty: (14€ +40€ + 14.2€)= 68.2 €
Interest: (13.5€ + 37.5€ + 10.65€)= 61.65 €

Additional explanatory note:
Explanatory notes above can be equally applied for:

1. Corporate Income Tax for large businesses, according to Article 31.2 (e) and 31.6 of Regulation No. 2004/51 on Corporate Income Tax
2. Personal Income Tax for large businesses based on Article 21.2 (c) and 21.3 of the Regulation No. 2004/52 on Personal Income Tax

VAT

VALUE ADDED TAX

The purpose

The purpose of the part of handbook dedicated to **Value Added Tax** is to assist those who are interested in understanding VAT system. The handbook is written in the form of questions and answers, taking into consideration requests by taxpayers for explanations regarding problems and issues related to the implementation of the Regulation on Value Added Tax.

This handbook includes steps to be undertaken when any taxpayer is required or wishes to be registered for Value Added Tax. In addition to this, you can find also a background of VAT application in Kosovo and changes made within this period.

VAT operation and application in Kosovo

When VAT was first applied in Kosovo?

In Kosovo, Value Added Tax has started to be applied as of 1st July 2001, under Regulation 2001/11 on Value Added Tax, as amended with Regulation 2002/17 on August 1st 2002, and Administrative Instruction 01 of 05/31/2001, Administrative Instruction 01/2004, implementing this Regulation.

In 2004, with a purpose of enabling tax facilities in agricultural section Regulation 2004/35 entered into force, amending Article 10 of Regulation 2001/11, on Value Added Tax, concerning agricultural inputs, whereas as of 1 January 2006, Regulation 2005/40 became applicable, under which the entitlement of NGO's to repayment has been removed (Article 13.2 b has been deleted).

QUESTIONS, ANSWERS AND EXAMPLES CONCERNING VALUE ADDED TAX

***1.** Value Added Tax – Who is liable to VAT?*

Answer: Value Added Tax or VAT is a tax on consumption. VAT is paid by the consumer at the time he purchases goods and services from a taxable person (Entities registered as VAT filers).

***2.** Time when liability becomes due – Who should collect VAT?*

Answer: VAT may only be collected by a taxpayer who is registered as a VAT filer and at the time when goods or services are sold. Time when VAT liability occurs is in the following cases:

- When an invoice has been issued
- When goods or services are delivered to the client
- When payment is received

***3.** Registration –Who is required to be registered for VAT?*

Answer: Any taxpayer engaged in an economic activity (production, trade and services) and who makes 50,000 € or more turnover in a calendar year, is required to be registered for VAT. An entity that has reached the threshold and who is registered for VAT, becomes a taxable person as of the time of registration.

***4.** Voluntary registration – Who may be registered as voluntary filer, although not required to do so?*

Answer: Entities which have a turnover below the threshold of 50,000 €, are not required to be registered as VAT filers, however, if they choose to do so, they can be registered as voluntary filers. From the time when they become taxable persons in a voluntary manner, they also gain the rights and responsibilities as any other VAT filer.

5. Registration procedure – Where should I register for VAT?

Answer: Any entity, which is required or wishes to be registered for Value Added Tax, should make a request by completing an application form with the Tax Administration office in the region concerned.
At the time when your request is accepted and is being reviewed by TAK, you shall receive a registration certificate with a single identification number, as a proof that you are a taxable person (VAT filer).
Tax Administration may register any taxable person for the purpose of payment of value added tax, whether or not that person has applied for registration, as of the date when that person is required to be registered.

6. VAT rate in Kosovo – What is the applicable VAT rate?

Answer: In Kosovo, the standard rate of 15% for each sale of goods and services in the Kosovo market is charged. Exports, international transport and agricultural inputs are zero-rated; in other words, the Value Added Tax rate is zero percent (0 %) of the taxable value. The value on which VAT is applied is called taxable value.

7. Application – How does VAT function?

Answer: Any taxpayer, who is registered as a VAT filer, is required to keep records and books in compliance with applicable Regulation 2002/17 and Administrative Instruction 01/2004.

Sales Book

Any taxable person, for each sale of goods and services, is required to collect 15 % VAT from the consumer. An invoice should be issued to the consumer for goods and services sold and the same invoice should be registered in the book of sales. Sales with VAT included are called taxable sales. Tax collected from the consumer based on applicable Regulation is called output VAT.

Taxable Value	+	Output VAT	=	**Total value**
10,000 €	+	1,500 €	=	**11,500** €

Purchase Book

The entity registered as a VAT filer shall register all his purchases in the book of purchases and any VAT paid on purchase which is allowed according to Regulation, will be used as Input VAT, against Output VAT.

Taxable Value	+	Input VAT	=	**Total value**
5,000 €	+	**750** €	=	**5,750** €

Every month, entities to which this Regulation relates, are required to complete a VAT declaration form. This form is made of two main parts:

1. First part is related to supplies (sales) or output tax and
2. Second part is related to purchases or input tax.

Output tax is any tax collected from the consumer (sales). Input tax is the tax that is paid for local purchases (Purchases from VAT filers) and on imports.
The difference between Output VAT and Input VAT is VAT payable, or credited (Tax paid in excess).

EXAMPLE:

a) First case when the taxpayer pays VAT at the end of the period:

	Taxable value	**VAT**
Output VAT	**10,000 €**	**1,500 €**
Input VAT	**5,000 €**	**750 €**
VAT payable	**15.000 €**	**750 €**

b) Second case when taxpayer has a credit balance (tax paid in excess):

	Taxable value	**VAT**
Output VAT	**5,000 €**	**750 €**
Input VAT	**10,000 €**	**1,500 €**
Credit balance		**750 €**

VAT paid for goods and services acquired for personal use shall not be allowed to be used as input VAT. Only input tax on goods and services used for business purposes is allowed to be deducted. Supplies for business include goods like machinery, furniture, premises or services like insurance, construction, cleaning, accounting, safeguarding (protection) etc.

When taxpayer is in credit balance (Tax paid in excess), such credit may be carried forward to subsequent periods for deduction of output tax, or it may be refunded provided that the requirements of applicable legislation have been met. It should be noted that when dealing with excluded sales this rule differs, as for excluded sales tax paid upon purchase is not allowed to be used as input tax.

8. Refund – When is Refund to be claimed?

Answer: Any taxable person (VAT filer) may claim refund (return of tax paid in excess) if credit amount is carried forward for a consecutive period of six months and if the amount of tax paid in excess is above 5,000 €. If the taxpayer is an exporter, refund may be claimed once in a quarter ~~also in case that~~ the amount of excess tax carried forward is below 5,000 €.
Taxpayer dealing with exports and whose amount of tax paid in excess is above 5,000 €, may claim refund every month, provided that number of claims in a month is not more than one.

***9. Rebate** –Who is entitled to claim a rebate?*

Answer: Contractors to UNMIK, Specialized Agencies of UN, KFOR, World Bank, Inter-Governmental Organizations, are entitled to claim rebate for VAT paid on imports provided that they present original copies of Single Administrative Documents to Tax Administration to prove that VAT is paid on imports and copies of contracts with the above mentioned bodies.

With the Regulation 2005/40 entering into force, with a purpose of removing the right to VAT rebate for NGO's with public benefit status, Article 13.2 (b) of UNMIK Regulation No.2001/11, as amended, has been deleted.

***10. Deferral of VAT payment** – What is required from the taxpayer to apply for VAT deferral?*

Answer: Any taxable person (VAT filer) who starts a new business and imports capital goods is entitled to request a deferral of payment of any VAT to be paid on that import. Taxpayer, to whom the deferral is approved, shall pay deferred VAT through output tax.

Deferral shall only be approved for a taxable person who meets the following requirements:

1. A Bank Guarantee to cover VAT part.
2. A copy of the business plan.
3. A copy of the contract with the supplier of machinery or equipment.
4. Plan of the plant or factory.
5. Construction license issued by authorized agencies.

***11. Review** – How long is needed after the application for deferment?*

Answer: Tax Administration will review the application of taxpayer within the shortest time possible and will approve deferral of VAT payment for any applicant who complies with the requirements provided for in the Regulation. The application will be reviewed by the Commission of three members and ultimately will be approved by the Director of Tax Administration.

Tax Administration shall notify in writing taxpayer concerned about the approval or refusal of the application. If the deferral is approved, a copy of the approval form will be sent to taxpayer, whereas the original will remain with Customs Service with the dates and place of entry of goods into Kosovo included.

At the time of importation Customs Service will request the owner to present a copy of the approval form issued by TAK in order for them to compare with the form sent by TAK. Taxable person within 6 months is required to compensate VAT with the tax collected on sales. If taxpayer fails to collect VAT on sales within this period, he is required, before the end of the time limit set in the approval form, to make the payment in one of authorized banks in Kosovo. The Bank will cover the part of VAT if taxpayer does not pay within specified time limit.

***12.** How the VAT paid at the border should be treated?*

Answer: According to Article 21.2 of Regulation Nr. 2002/17 and Administrative Instruction No. 01/2004 Article 16, VAT paid for vehicles shall not be allowed as input VAT, unless:

a) Taxpayer's activity is vehicle trade (sale of vehicles), or
b) Use of vehicles is the sole activity of that taxable person, like in rent-a-car services, taxi services, ambulance services and funeral services.

***13.** If a foreign (German) company, which is not registered in Kosovo, carries out services in Kosovo, whereas a local company as a VAT filer carries out services for the German company, is the local company required to charge VAT?*

Answer: The local company that carries out services for the German company is required, as provided for in Regulation No. 2002/17 on VAT, to issue an invoice with VAT included, as the place of supply is the place where the service is carried out and after VAT paid on purchase is deducted, the remaining part is paid to Kosovo Consolidated Budget. The German company as it is operating in Kosovo is required to be registered and pay all taxes required by law.

***14.** If businesses receive income from renting business premises, should they apply VAT?*

Answer: If taxpayer is already a VAT filer and receives income from rental of a business premises, he is required to issue an invoice with VAT included, which will show the amount of rent and the amount of VAT applicable to that rent.

***15.** Is a Non-Governmental Organization with public benefit status required to pay VAT if project funds are a donation from World Bank, Government or UNDP (infrastructure project) and with the participation of municipality or community?*

Answer: According to Regulation No. 2001/11, as amended with Regulation No. 2002/17 on VAT, NGO's are not exempted from VAT for local purchases. Prior to 1 January 2006, Non-Governmental Organization with public benefit status paid VAT at the border and wasentitled to a rebate, if it proved that the destination of these imports was for public benefit purposes. As of January 2006, under Regulation 2005/40, Article 13.2 b) has been removed and as a result NGO's entitlement to claim VAT rebate has been removed. As of January 1st 2006, NGO's shall pay VAT on all their purchases.

16. *What is the procedure at the time of removal from the stock register of the goods due to expiry date, breaking, destroying etc., in relation to which input VAT was applied at the time of purchase?*

Answer: If it is established that goods are missing in a warehouse for various reasons, taxpayer should provide evidence of the goods missing, otherwise they will be considered as sold goods.

17. *A natural person is not registered as a business entity however he is receiving income from renting business premises at the amount of more than 50,000 euro per year. What tax liability is this person required to pay?*

Answer: As VAT is concerned, this person is required to be registered for VAT within 15 days after he has reached the limit of 50,000 €. As of the registration time, the person concerned shall become a taxable person and is required to collect VAT. Therefore he should charge VAT on the sale and deduct VAT on purchase, and the difference is to be paid to Kosovo Consolidated Budget.

18. *A business entity is not registered as a VAT filer and has a contract with a foreign Governmental Organization. How are the supplies to be treated in this case: as excluded supplies or taxable supplies?*

Answer: According to Regulation No. 2001/11, as amended with Regulation No. 2002/17, Article 11 "Exclusions" it can be noticed which bodies are excluded from VAT.
In your case as a VAT filer and if supplies (sales) are made for a foreign governmental organization included in Article 11, such supplies are to be treated as supplies (sales) charged with 0% tax and the taxpayer is entitled to use VAT paid on purchase as input VAT.

EXAMPLE:

Further we present a practical example of registration of transactions in the sales and purchase book.

Sales Book:

1. Taxpayer has made local sales with 15 % at the value of 10,000 € , VAT 1,500 €.

2. Taxpayer exports goods at the value of 20,000 €, VAT 0 %.

3. Taxpayer supplies (sells) seeds at the value of 5,000 €, VAT 0%.

Purchase Book:

1. Taxpayer has received an invoice from a registered VAT filer within the country. The value of invoice is 20,000 €, VAT 3,000 €.

2. Taxpayer has received an invoice for purchasing fuel at the value of 4,000€, VAT 600 €.

3. Taxpayer has purchased goods from an entity not registered as a VAT filer. The value of invoice is 8,000 €.

4. Taxpayer has made purchases of seeds as goods for further sale. The value of invoice for seeds is 10,000€, VAT 0 %.

5. Taxpayer has made imports for the value of 30,000 € , VAT 4,500 € .

The above information should be registered in the sales and purchase book and should be declared in Tax Administration, by completing Value Added Tax Declaration. Tax period for VAT is every month and time limit for submitting the declaration is the end of the following month. E.g., for January /2006, time limit for declaration is 28 February 2006. If the last day for declaration is a holiday, time limit for submitting declaration is the first working day after the holiday.

Form of Book of sales:

Invoice				Total sales	Excluded sales	Taxable sales			
Date	Number	Buyer	TID of buyer (if applicable)	(Taxable value for Presumptive Tax)		Supplies (sales) of agriculture inputs with 0%	Exports, out-flows and sup-plies with 0%	Taxable value with 15%	VAT
a	b	c	d	e=f+g+h+i	f	g	h	i	j
xxxx	xxxx	**Entity** " x "	7000….	10.000				10.000	1.500
xxxx	xxxx	**Entity** " y "	…….	20.000			20.000		
xxxx	xxxx	**Entity** " z "	8000….	5.000		5.000			
Total									
Total				35.000		5.000	20.000	10.000	1.500
Box number in Tax Declaration					**9**	**10**	**11**	**12**	**13**

Form of Book of purchases

Invoice				Total purchase with VAT	Excluded sales and with non-deductible VAT	Purchases subject to VAT					
						Purchases of agri-culture inputs tax-able with 0%	Imports		Local purchases		
Date	Number	Name of seller	Seller's TID				Taxable value	VAT	Taxable value	VAT	
a	b	c	d	e	f	g	h	i	j	k	
xxxx	xxxx	**Entity** " A "	7000….	23.000					20.000	3.000	
xxxx	xxxx	**Entity** " B "	8000….	4.600					4.000	600	
xxxx	xxxx	**Entity** " C "	7000….		8.000						
xxxx	xxxx	**Entity** " Ç"	7000…	10.000		10.000					
xxxx	xxxx	**Entity** " D "	7000….	30.000			30.000	4.500			
Total					8.000	10.000	30.000	4.500	24.000	3.600	
Box number in Tax Declaration					**Box 14**	**Box 15**	**Box 16**	**Box 17**	**Box 18**	**Box 19**	

The following is an example of a completed declaration based on the records from the book.

UNMIK

PROVISIONAL INSTITUTIONS OF SELF-GOVERNMENT
INSTITUCIONET E PËRKOHSHME TË VETËQEVERISJES
PRIVREMENE INSTITUCIJE SAMOUPRAVLJANJA

MINISTRY OF ECONOMY AND FINANCE/TAX ADMINISTRATION OF KOSOVO
MINISTRIA PËR EKONOMI DHE FINANCA/ADMINISTRATA TATIMORE E KOSOVËS
MINISTARSTVO ZA PRIVREDU I FINANSIJE/PORESKA ADMINISTRACIJA KOSOVA

VAT DECLARATION AND REMITTANCE FORM

[1] Tax Period :	**January / 2006**	**[2]** Serial No:	**[2] TV**

[3] Business Registration Number	**[4]** Tax Temporary Number
8 0 0	

[5] Name of the Busines	**[5]** X		
[6] Business New Address (If it is different from last declaration)	**[6]** Këndi i dëshmorve No.12 Prishtina	Telephone	038/000-000
[7] Name of the Owner	**[7]**	Telephone	044/000-000

[8a] Put a Cross here ☐ if no transactions happened during the previous tax period. Just sign and submit the declaration at the authorized bank.
[8b] Put **'X'** in the appropriate box if not filing for the first time for this tax period

☐ **Addition** ☐ **Data Correction** ☐ **Payment Only**

Output VAT for the month	**Taxable Value**	**Output Tax**
[9] Exempt Supplies	**[9]**	
[10] 0 Rated Agriculture Supplies	**[10] 5,000 €**	
[11] Exports, intra FRY outflows and 0% Rated Supplies	**[11] 20,000 €**	
[12] Taxable Supplies at Normal Rate of 15%	**[12] 10,000 €**	**[13] 1,500 €**

Input VAT for the month	**Taxable Value**	**Input Tax**
[14] Purchases with no VAT and with nondeductible VAT	**[14] 8,000 €**	
[15] 0 Rate Agriculture Purchases	**[15] 10,000 €**	
[16] Imports and intra FRY inflows	**[16] 30,000 €**	**[17] 4,500 €**
[18] Domestic Taxable Purchases at normal Rate of 15%	**[18] 24,000 €**	**[19] 3,600 €**

Adjustments		**VAT Credit Balance**
[20] VAT Credit Carried Forward from the previous month	**[20]**	
[21] Request for refund of the excess tax made during month	**[21]**	
[22] Credit Balance from the previous month **[20]-[21]**		**[22]**
[23] Total Credit Balance for the month **[23]=[17]+[19]+[22]**		**[23] 8,100 €**
[24] Remaining Credit Balance **[24]=[23]-[13]** if **[23]>[13]** (send it to box**[20]** of the next tax period declaration)	**[24] 6,600 €**	
[25] VAT Remittable **[25]=[13]-[23]** if **[13]>[23]**		**[25]**
[26] Penalties for late Filing and Payment		**[26]**
[27] Total Liability Remittable **[25]+[26]**		**[27]**
[28] Amount Payable		**[28]**

I, declare that the information included is accurate.
Name and Signature
(_____)

dd/mm/yy
___/___/_____

Bank Payment Part

Signature and Stamp	*Account Number :* **1000420070000373**	*Amount of Tax paid*
_____	**Text:**	_____€
	*Date*____/___/_____	

Form No. TV-E-2; Revised 01.09.2004

First section

Box [1] Enter the tax period, for example: July 2004
Box [3] Enter: Business Registration Number
Box [4] Enter Temporary Tax Number, if you have one
Box [5] Enter the name of the business
Box [6] Provide your latest Business Address
Box [7] Provide the name of the owner/manager
Box [8a] If there are no transactions during the month, put a 'X', sign and submit the return at the bank counters.
Box [8b]- In box [8b], if this return is not submitted for the first time, you may put an 'X' in one of the following boxes:

Addition- means additional declaration within the same month.
Data correction-means you wish to change data entered previously for the same calendar month.
Additional payment- means you wish only to make an additional payment, without changing any of previously entered data, for the same calendar month.

Second section

Box [9] Enter your exempt supplies. Take it from the column 'f' of the Sales Book
Box [10] Enter 0 rated supplies, agricultural inputs
Box [11] Enter 0 rated taxable supplies; exports and intra-FRY outflows. Take it from column 'h' of the Sales Book
Box [12] Enter taxable value of supplies charged with normal rate of 15%. Take it from the column 'i' of the sales book
Box [13] Enter VAT charged within the month. Take it from column 'j' of the Sales book
Box [14] Enter exempted purchases and those without VAT. Use the column 'f' of the Purchase Book
Box [15] Enter the value of purchases for agricultural inputs
Box [16] Enter the taxable value of imports and intra-FRY Inflows. Take it from the column 'h' of the Purchase Book
Box [17] Enter VAT paid on imports and intra-FRY Inflows. Use column 'i' on the Purchase Book
Box [18] Enter taxable value of local purchases. Take it from column 'j' of the Purchase Book
Box[19] Enter VAT paid on local taxable purchases. Take it from column 'k' of Purchase Book
Box [20] Enter excess VAT carried forward from the previous month. Take it from box [24] of the previous month tax return
Box [21] If the balance showed in box [20] is carried forward for six consecutive months and the value is higher than 5,000 euro, you are entitled to a refund
Box [22] If [20]> [21] deduct [20]-[21] and enter the result in box [22]
Box [23] Enter the total of Tax Credit [23] = [17]+[19]+[22]
Box [24] Calculate the remaining Credit Balance [24] =[23]-[13] if [23]>[13]
Box [25] Calculate VAT Remittable [25] =[13]- [23] if [13]>[23]
Box [26] Enter any penalty and interest for late filing and payment
Box [27] Total Liability = [25] + [26]
Box [28] Enter the amount you are paying with this return

Third Part

Sign and date the Tax Return and leave the third part blank to be filled out by the tellers of the Bank. After the three copies are signed and stamped the teller will keep the first two copies and return the third copy to you. Note that the date of submission at the bank will be automatically scanned by our computers to charge or not penalties and interest for late filing and payment.

REFUND AND REBATE AS PART OF LEGISLATION

1. *Our company has a contract for building a business (production) facility with the executor of works with who we are shareholders with 49% of the shares. As we haven't started the production yet and we do not know when this will happen, we have paid VAT part to the executor of works. Are we entitled to refund that?*

Answer: According to VAT Regulation 2002/17, Article 1 paragraph 1.21, Article 5 of Administrative Instruction No. 01/2004, implementing this Regulation and Article 1 of the Law No.2004/48 on Tax Administration and Procedures, you are considered as related persons. As you are related persons, transactions should be made according to open market value.

Invoices issued by the contractor for construction works you should register in the book of purchase and since you haven't started with the production, and with your investments you are not collecting VAT (which was the intention of the investment), you may carry forward input VAT as a credit and use it against output VAT, or claim refund provided that you fulfil the requirements set in Article 23 of Regulation No.2002/17 and Article 24 of Law No. 2004/48 "On Tax Administration and Procedures"**.**

2. *We run a business of providing medical services. According to regulation, supplies of medical services are excluded supplies. We a have a lease agreement with another business who charges VAT every month and we have purchased a number of equipment for office also with VAT included. After few months, input VAT is accumulated and we intend to claim refund.*

Answer: Based on VAT Regulation No. 2001/11 of 31.05/2001, as amended with Regulation No. 2002/17 of 01/08/2002, Article 12 - paragraph 12.1 specifies which medical supplies, goods or services are excluded from VAT.
As the claim for VAT refund concerns the rent and office equipment, for which VAT is paid and which are exclusively related to services (goods) that are part of this Article, therefore Article 21, paragraph 21.2 and 21.4 limit such entitlement by not allowing deduction of input tax paid in relation to supplies which are not used for taxable supplies, carried by taxable person. In this case, Article 21.4 goes further with this issue where in a decisive manner it is specified that input tax credit is not allowed for taxable supplies referred to in Article 12.

3. *We are an agency dealing with international transport of goods and passengers. Based on VAT declarations, we have a credit balance which we intend to claim as refund?*

Answer: Based on VAT Regulation No. 2002/17, Article 10 paragraph 10.1(b), goods and services related to international transport of goods and passengers, you need to provide original invoices (documents) of purchases with VAT included, which are related exclusively to primary activity of your business and as supplies related to transport of goods and passengers are zero-rated supplies, i.e. no VAT is to be charged, you may claim refund if you meet the requirements of Regulation No. 2002/17, Article 23 paragraph 23.2.

4. *We have a contract with KFOR. Based on our records, input VAT is accumulated and we intend to claim refund.*

Answer: Based on TAK's interpretations in relation to 'Excluded purchases" from the buyer's perspective, it was explained that supplies made for EAR, UN bodies, KFOR etc., are to be treated as zero-rated supplies which means that you may claim refund for the excess VAT, if you provide the necessary documentation as required with Regulation 2002/17, in relation to refunds.

5. *We are registered as a taxable person with turnover above 50,000€, but after an examination we have established that we were not entitled to do so as we did not reach that turnover. As during the period we have made a number of importations before we could meet the requirement for registration as a taxable person, are we entitled to claim refund for VAT paid on imports?*

Answer: You need to refer to Article 7.2 (Administrative Instruction No: 01/2004 of 01.09.2004).
Supplies (sales) carried out by taxable persons who import or make an inflow from FRY, whose annual turnover is not higher than the limit of 50,000 €, are excluded supplies (sales) for Article 12 (e) of Regulation No. 2002/17.
Taxable persons, who make these supplies, are required to register according to Article 3.6 of Regulation and pay VAT on imports and inflows from FRY. They are not allowed to charge VAT nor deduct input VAT.
So, you are registered correctly and by referring to your earlier explanation you may not claim VAT refund for imports as you did not have the status of a taxable person at the time of import.

6. I am a producer and the goods that are to be produced are not destined for local market but for export only. According to my records credit balance was 38,500 €. After TAK inspections it was established that credit balance 31,200 € is the amount I am entitled to refund. Only 29,375 € have been transferred to my bank account. I would like to know the reason why the whole amount of refund was not transferred.

Answer: According to Law No. 2004/48 On Tax Administration and Procedures, Article 45, tax understatements and overstatements, Paragraph 45.1 provides that you have overstated the refund claim and it was established that overstatement of your claim is due to negligence (unintentional overstatement). You have received a penalty of twenty-five % (25 %) of the difference between the correct amount of tax to be declared and the actual amount that was declared.
See the following example:

The first case is when the overstated amount is charged with 25% penalty

Amount claimed	Amount approved	Amount overstated	Penalty on the overstated amount 25%	Amount to be refunded
(a)	(b)	c = (a – b)	d = (c * 25 %)	e = (b – d)
38,500.00 €	31,200.00 €	7,300.00 €	1,825.00 €	29,375.00 €

If it would be established that the overstatement is made deliberately or intentionally, then the penalty would be (100%) of the difference between the correct amount of tax to be declared and the actual amount that was declared.

The second case when overstated amount is penalized with 100%

Amount claimed	Amount approved	Amount overstated	Penalty on the overstated amount 25%	Amount to be refunded
(a)	(b)	c = (a – b)	d = (c * 100 %)	e = (b – d)
38,500.00 €	31,200.00 €	7,300.00 €	7,300.00 €	23,900.00 €

If a taxpayer has made a request in TAK for refund to a value of 20,000 € but only 15,000€ was approved, and according to general balance this taxpayer has the following liabilities against TAK: Presumptive Tax 3,000 €, Profit Tax 5,000 €, Personal Income Tax 2,000 €, then we shall have:

The first case when the overstated amount is punished with 25%

Amount claimed	Amount approved	Liability in TAK	Overstated amount	Penalty 25%	Amount to be refunded
a	b	C	d = (a – b)	e = (d * 25 %)	f = (b-c-e)
20,000.00 €	15,000.00 €	10,000.00 €	5,000.00 €	1,250.00 €	3,750.00 €

The second case when overstated amount is charged with 100% penalty

Amount claimed	Amount approved	Liability in TAK	Overstated amount	Penalty 25%	Amount to be refunded
a	b	C	d = (a – b)	e = (d *100 %)	f = (b-c-e)
20,000.00 €	15,000.00 €	10,000.00 €	5,000.00 €	5,000.00 €	0.00 €

As a result, you will be refunded with the amount of 4,250.00 € if your overstatement is made unintentionally (you will be charged with 25% of the overstated amount as a penalty), whereas if your overstatement is made deliberately, then you will not have any amount to be refunded as you will be charged with 100% of the overstated amount.

7. *We are in a corporation. According to financial statements and adjustment made for tax purposes we have estimated that instalment payments exceed the final tax liability. We request for this part paid in excess to be refunded to us.*

Answer: If you provide sufficient facts, i.e. your records are in compliance with accounting standards and you have made adjustments as provided for in tax regulations, TAK shall, within 60 days from the date of declaration, review you request and approve the refund.
If the request is not reviewed within 60 days then TAK shall pay interest at the rate of 0.15% per month.

8. *I run a business which is liable for paying Personal Income Tax on real income and based on my estimations I have paid more than I was liable for. I intend to claim this excess (extra payment) tax as a refund.*

Answer: If you are a business liable for paying Personal Income Tax on the actual profit and advance payments you have made are higher than the tax due, you may claim reimbursement. Declaration is done using the form and annual tax statements which need to be submitted not later than 1 April of the subsequent year.

9. *Our company is dealing with building of apartments and in addition to residential units, in the ground floors of the building are built business premises. Upon purchasing material for building the apartments, Input VAT paid has exceeded output VAT.*
As the majority of supplies are exempted, can we claim refund of VAT credit?

Answer: For excluded supplies, you are not entitled to refund. Instructions on the steps to be undertaken in this case are presented below.

INSTRUCTIONS FOR CONSTRUCTION ENTERPRISES

Based on relevant Articles of UNMIK Regulation No. 2001/11, as amended (Regulation No. 2002/17) respectively,

- **Article 12 "Exempt supplies"**
  (paragraph d) "Transfer of title or lease of land and residential property",
- **Article 21 "Input tax"**
  paragraph 21.2 "A credit of input tax shall not be allowed for value added tax paid in respect of supplies that are not used for the taxable supplies made by the taxable person."
- *paragraph 21.4 "A credit of input tax shall not be allowed in respect of an exempt supply referred to in section 12,*

due to inapplicability of Article 24 of Administrative Instruction No.01 of 31/05/2001 (Admin. Instr. No.01/2004 date 01/09/2004), because of specifics of this business activity, which concerns the application of "Coefficient of Tax Credit",

*(**Coefficient to be calculated at the end of tax period** and to be applied on VAT paid on importation, inflows, and local purchases for the same tax period. The result would be VAT allowed as Input Tax for the tax period which is to be deducted from Output Tax of the same period),*

OUR INSTRUCTION would be as follows:

In case when entities are dealing with building residential areas and business premises, it should be specified correctly in their building projects or as part of the building planned to be constructed, the participation in percentage (%) of the following two categories. Therefore,

- apartments (residential part) as an excluded supply, and
- business premises as taxable supplies.

All this is made in order to accept deductible part of VAT, when taxable supplies are included as well and as it is not possible to identify which category of purchases, with or without VAT included, is used on taxable supplies and which category on excluded supplies. This distribution corresponds and is in full agreement with relevant articles of VAT Regulation.

In order to illustrate this we present the following example:

Entity "X" is planning to build premises and the plan is for **70% of it to be apartments** (residential area) and **30% business premises.**
If the entity is a VAT filer, in the Purchase Book for each tax period he will estimate according to percentage as set in the project plan.

Tax period, JANUARY/ 2005

Purchase Books

		Input VAT
1. Purchases without VAT	**5,000 €**	**/**
2. Imports	**10,000 €**	**1,500 €**
3. Purchases charged with 15 % tax	**20,000 €**	**3,000 €**
Total	**35,000 €**	**4,500 €**

In this case only **30% of the total input VAT** will be accepted and the taxpayer will complete the following boxes in the VAT Declaration form:

[16] Imports and inflows, and
[18] Domestic purchases charged with 15% tax.

considering that only **30% of the project is related to taxable supplies.**

For the part of input VAT which is related to exempt supplies, part of imports and domestic purchases charged with 15% is adjusted (in this example it is the remaining 70%) and in the VAT Declaration form it is presented in the following box:

[14] Purchases with no VAT and with non-deductible VAT

After the related adjustments are done in the Purchase Book for tax period JANUARY/2005, the tax declaration should be completed as follows:

[14] Purchases with no VAT and with non-deductible VAT	[14]	29,150 €	
[16] Imports and inflows	[16]	3,000 €	[17] 450 €
[18] Domestic taxable purchases with 15 %	[18]	6,000 €	[19] 900 €

VAT that is not accepted as input tax will be recognized as expenditure (costs) for Corporate Income Tax (Profit Tax) purposes.

If a taxpayer has several construction projects and the percentage is different for projects, the inspector should apply the average ratio on all projects.

If the taxpayer, in addition to construction activities, is engaged in other activities, he is required to keep separate records for construction, where necessary adjustments should be done before the tax declaration for the period concerned is to be completed.

Note: If the percentage (%) of the proportion between taxable and exempted supplies changes then regardless of the initial project presented, necessary adjustment can be made for changing this proportion between input VAT and exempted VAT.

Remark: *Article 21 of the same Instruction explains:*
In respect of Article 12 of Regulation "Exempt supply", transfer of title and lease of residential property and land is an exempt supply. However ***'Construction'*** *is considered a normal supply of services and is a taxable supply. Because of the specific characteristics of construction the "Situation of Progress of Works" shall be recognized as a normal VAT Tax Invoice.*

10. *As a Liaison Office Mission in Kosovo we are exempted from VAT for imports or intra-FRY inflows made for diplomatic representatives or liaison offices. Kosovo Post and Telecom, Energy Corporation of Kosovo and Grand Hotel Prishtina, have included VAT in their final invoice price.*

Answer: According to Regulation No. 2001/11 on VAT, as amended with Regulation No. 2002/17, Article 11 paragraph (d):
Imports or intra-FRY inflows made by, or supplies made to, diplomatic representatives or liaison offices in accordance with UNMIK Regulation No. 2000/42 of 10 July 2000 on the Establishment and Functioning of Liaison Offices in Kosovo,

Excluded purchase means:
Any time an excluded purchase is done locally by Liaison offices or office representatives, they need to provide for the registered supplier, their personal identification details and authorization by the organization that he/she is authorized to execute the official purchase.
Local vendors shall not charge VAT on excluded supplies for organizations listed above. Vendors need to invoice using 0% tax rate and may claim input tax credit for any tax paid for that supply.

Office Representative shall confirm that no VAT is paid on that supply by placing his/her signature on invoice. Exempted authorities shall make copies of VAT exempted invoices every month, verify the authenticity and send them to Regional Tax Office.

Liaison Office may require from entities that have charged VAT on their invoices to adjust their invoices and return VAT paid, once the office provides necessary forms and evidence.

TK

TAX CONTROL

The role and importance of Tax Control

Control is a group of actions or activities undertaken by TAK Management to ensure that legal procedures are being applied and to detect any non-compliance with the approved standards and violations of legal principles.

During the control, tax authorities are required to comply with tax rules as set in the law on TAK Procedures. These rules specify the time limits, access to official documents, requirement for keeping official confidentiality and for acting in full reliability on the facts. Application of tax procedures ensures that fiscal interests of the Government are being secured and that the rights and responsibilities of the taxpayer are being protected.

In order to be as effective and practical as possible with the objectives and management of control activities and with the time limits for accomplishing the program and for establishing main directions of control, it is essential to focus on a detailed study of control scopes and objectives, by making a real assessment of taxpayers' situation.

Main principles of tax control

Competent tax authorities, of all types of tax controls, need to consider the following principles:

- **Integrity-** is the principal value of the code of ethics. Tax Authorities are required to be in full compliance with high standards of conduct such as honesty, fairness, correctness and reliability in carrying out their duties.

- **Independence and objectivity-** tax authorities should be and maintain independence and objectivity in relation to the entity they are controlling. As a result they should in no way be affected by any personal or external interest and should not allow any prejudice or favouritism to prevent them from being objective.

- **Competence and proper attention -** tax authorities are required to act with competence and professionalism at any time, and apply high professional standards when carrying out their work with competence and unbiased. Tax Authorities should collect information on the entity and its units and support conclusions and opinions with the necessary facts.

- **Professional conduct-** tax authorities should maintain a professional conduct and avoid situations that may discredit their profession and act in compliance with the principles of professional ethics, i.e. they are required to provide professional services with great attention and in full compliance with the legal framework.

- **Confidentiality-** tax authorities should respect the confidentiality of information and should not use or make public any information without being authorized to do so, except in cases when they are entitled or legally required.

Self-assessment

- Where a person is submitting a tax declaration as required with the applicable legislation, any tax declared as liability in the tax form shall be treated as payable and correct tax liability as a result of self-assessment made by that taxpayer.

- Any taxpayer may deliver an amended tax declaration provided that afterwards he or she has found errors in the declaration he/she already submitted. Time limit for submitting an amendment to declaration should not exceed five years from the date when declaration was first submitted.

- The amended declaration shall not have any effect after tax authorities have exercised their powers according to Article 13 or 14 of the Law No. 2004/48 "On Tax Administration and Procedures", in relation to that tax period and initiated a tax investigation for the tax period in question.

Assessment by the tax authorities

Assessments by the office- where tax authorities consider that information provided by any person in a tax declaration does not correspond to the correct amount of tax liability of that person, or when a taxpayer did not submit the legally required declaration, they may carry out an assessment of the tax liability due from that person.
The assessment shall be done based on the best judgment and will be based on all proofs at his/her disposal including:

a) Books, registers, invoices or other relevant information by the taxpayer;
b) Books, registers, invoices or other relevant information by third persons;
c) Other objective information about income or transactions carried out by taxpayers which are related to his liability.

- If the books or records are lost or damaged, or other circumstances prevent the assessment of the tax liability, tax authorities will make an assessment based on estimation. The estimation will be based on the assets, current assets, production costs, comparative expenditure and other direct or indirect methods related to calculation of tax liability.
- Time limit for assessing all taxes is six years from the date when tax declaration corresponding to that assessment, becomes due for payment.

Tax authorities may perform an assessment any time if:

a) Any person, with the intention to avoid taxes, has not submitted a tax declaration;
b) Any person, with the intention to avoid taxes, has submitted a tax declaration which is considered as incorrect by the tax authorities;
c) A fraud is committed by or on behalf of a person in relation to a tax liability.

Taxpayer has the burden of proof when proving that an assessment performed by tax authorities is incorrect.

Tax control process

When performing any type of controls, tax authorities (TAK) should take into account:

1. Information on compliance with tax rules,
2. Preparation of the inspector who is conducting the tax control,
3. Cost-effectiveness and rationality of the action,
4. Confidentiality of information in compliance with the law and other applicable acts (professional ethics)

Risk analysis

Drafting the control program requires a detailed risk analysis and as a result risk analysis serves as a tool for deciding about the procedures needed to be undertaken. For this analysis TAK uses the information, previously collected data and any information resulting from any previous analytical review.

Based on this information, TAK reviews the possibility for the tax declaration to contain incorrect data which affects the control objective. This underlines the elements on which this assessment is based, to be included later in the control.

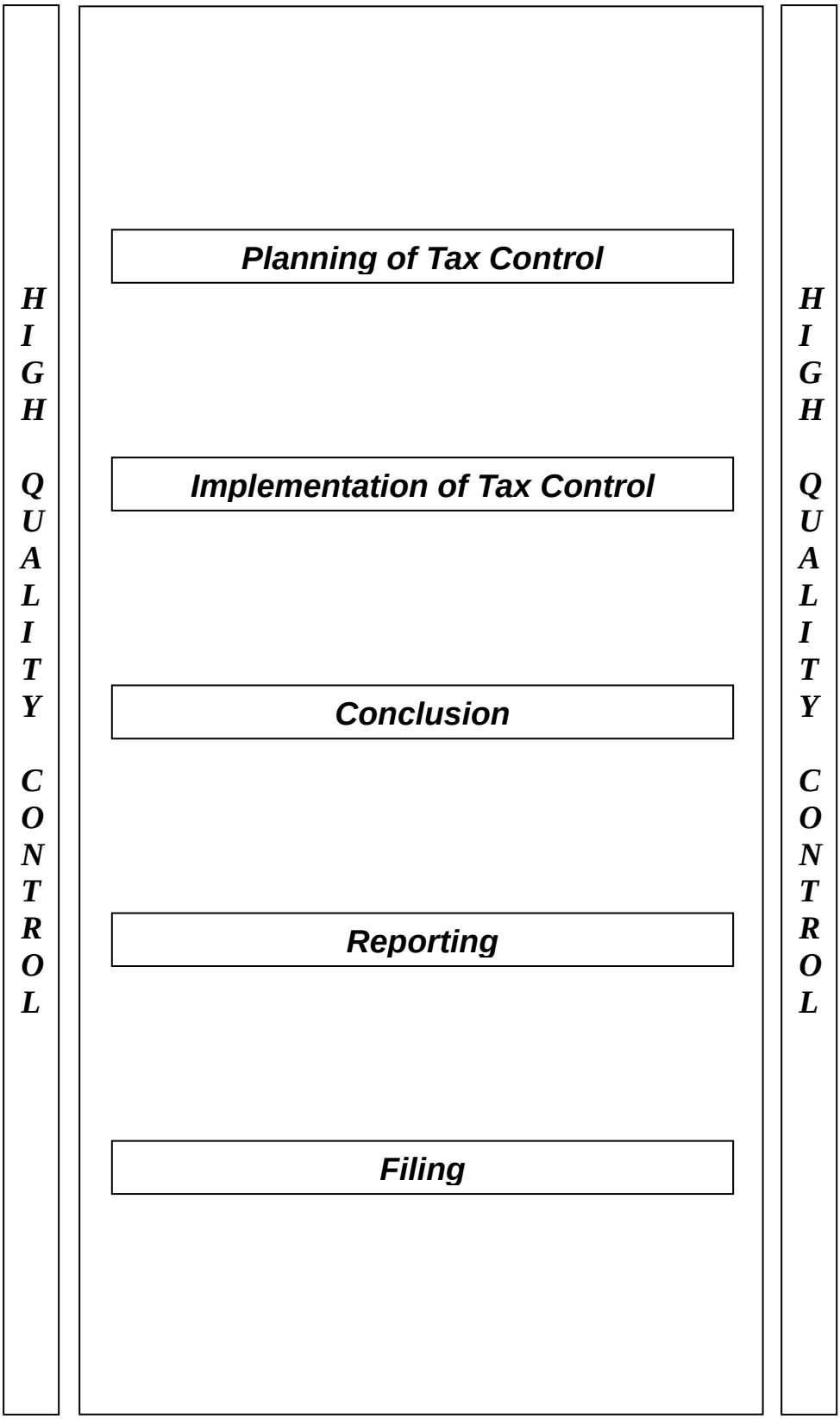
Tax authorities assess the control risk using a risk analysis. In the risk analysis are included: identification, calculation and assessment of risk that a tax declaration contains material errors as for example:

- *failure to register invoices;*
- *fictitious purchases and costs;*
- *claiming a tax credit for which the person is not entitled to;*
- *miscalculated wages;*
- *applying incorrect depreciation rates;*
- *presenting unusual budget entries etc.*

Tax control process goes through the following phases:

- *Planning of tax control;*
- *Implementation of tax control;*
- *Conclusion;*
- *Reporting and*
- *filing.*

Management and organization



Planning of Tax Control

TAK is authorized to do the inspection and control of taxpayers' books and records for official purposes. Tax authorities carry out the control based on:

- *General control plan for one year*
- *Quarterly control plan.*
- *Monthly control plan.*

- General annual plan is prepared by control department, in cooperation with relevant TAK regions. In the general plan are included controls of large and medium taxpayers, period and time of control and planning the staff needed for control implementation.

- Quarterly and monthly plan is prepared by regional managers and team leaders in accordance with the general yearly plan and subject to priorities it is further divided into weekly and daily plans.

- Each time when making the plan there is a possibility left for contingency cases, subject to requests by any law enforcement agency (Police Service, Customs etc.).

• *Selection of cases subject to control*

Preparation of cases for control means a group of actions or activities that enable an efficient implementation of tax control, such as:

- Identification of taxpayers according to records from taxpayer's file;
- Identifying taxpayers by his status (declarations, control reports, books and records);
- Identification of taxpayer from previous controls and visits etc.
- Individual preparation of the tax official subject to the type and capacity of tax control.

Cases to undergo control are to be selected among entities with high and medium risk, not excluding other businesses which need to be visited in order to let them know that they are not being ignored.

Implementation of tax control

- ***Tax control***

Starting the tax control – For this specific reason, tax authorities, except if otherwise required by the situation, at any time and with prior notification will be allowed access to any premises where business activities are carried out, including access to books, records, computers or similar data storage media, to establish that access to any of above may provide relevant material in relation to any tax liability.

The control is started by issuing a written order from TAK, whereas with this mandate tax authorities may:

a) make copies from any book, register, computer or similar data storage media,
b) retain any book or register for as long as required to establish liability or for any other action as provided by this law,
c) to ask for removal of any possession from a book or register which might secure material proof for tax authorities in establishing the tax liability.
d) Ask for any computer to be removed or retained for as long as it is necessary to copy required information;
e) Ask for provision of passwords which protect information in computer or in other data storage media.

- ***Initial interview***

One of important stages in a control is the initial interview with the taxpayer. First objective of an interview is for tax officials to be introduced with taxpayer's activity, and will provide a general view of the taxpayer, a general understanding of taxpayer's operations and an introduction to record-keeping.

Opening discussion (initial interview) with individual businesses should be done with the business owner or with his representative.

In a partnership all partners are to be interviewed, whereas in corporations the interview is to be conducted with Directors of the corporation as they are legal representatives managing the corporation.

Questions and answers from an interview should be written in an AU 005 Form and in working papers which should be transparent to taxpayer.

- ***Analytical examination process***

Analytical examination process includes:

- Review of tax declarations;
- Examination of taxpayers' books and registers;
- Examination of invoices and other records;
- Obtain information from third parties;
- Review and analyse information gathered before and during control process etc.

After above steps have been undertaken, tax authorities shall make the conclusions.

Conclusion

At this stage of control process, the control inspector summarizes all findings during the control and makes a conclusion based on these findings.

If specific data registered are incorrect, tax authorities should act in full compliance with the rules as set out in the Law No. 2004/48 on Tax Administration and Procedures.

Tax authorities, prior to making the final determination, should discuss with the taxpayer about the ruling and conclusion. If the taxpayer disagrees with statement by tax authorities he shall provide evidence to prove the opposite.

Once the conclusions are discussed with the taxpayer, tax authorities make a final determination of his position.

If during the control it is established that additional tax is to be paid, then tax authorities shall complete AU010 forms to be submitted to IT for processing. If there is no additional tax to be paid the form AU008 is to be completed.

Basis for calculating penalties and interest is any additional tax to be paid identified with taxpayers.

In order to calculate penalties and interest a special attention should be paid to:

- *which tax should be paid additionally;*
- *which is the tax period corresponding to this additional tax that was identified;*
- *when is this tax due to be paid;*
- *when is the control carried out with the taxpayer that identified the additional tax to be paid*
- *what is time period for calculation of penalties and interest.*

Based on Law 2004 /48 on Tax Administration and Procedures, the following penalties and interest are to be applied for failure to pay tax liabilities:

Penalties and interest for failure to submit a tax declaration on due time and failure to pay;

- ***For failure to submit a tax declaration on due time (failure to declare on time)*** *taxpayer shall be liable to a penalty of 5% per month or for the part of the month to a maximum of 25% (5 months x 5% = 25%)*

- ***For failure to pay on due time****, taxpayer is liable to a penalty of 2 % per month or part of a month. This penalty is to be paid to a maximum of 12 months (12 x 2%= 24%);*

- ***For late payments interest is imposed*** *on monthly basis, for each month or part of the month from the day when tax became due for payment. Interest rate is 1.5 % per month or part of the month. Interest is to be applied until the total amount of liability is paid.*

Understatement of tax and overstatement of tax refunds.

- When a person who is legally required by the applicable law in Kosovo to complete a tax declaration, makes an understatement of correct tax liability, or claims a higher amount of tax refund from what he is entitled to, he shall be liable to a penalty of:

  a) *twenty-five percent (25%) of the difference between correct amount of taxes to be declared and the amount actually declared in case of understatement or as the case may be, overstatement is a result of a negligence or serious carelessness by that person; or*
  b) *hundred percent (100%) of the difference between correct amount of taxes to be declared and the amount actually declared in case of understatement or as the case may be, overstatement is a result of an intentional act by that person to evade the correct amount of tax to be declared with a purpose of evading the payment, or claim for refund, of that difference.*

Failure to deliver, create or present information

- Any person who is required to create or keep records by the applicable legislation in Kosovo and who fails to do so, shall be liable to;

  a) *twenty-five percent (25%) of the assessed tax to which records relate if failure is as an act of serious negligence by that person; and*

  b) *hundred percent (100%) of the assessed tax to which records relate if failure is due to deliberate act to avoid payment of tax.*

Value Added Tax offences

- Any taxpayer who is required to be registered for VAT and who makes supply without being registered for VAT shall be responsible for VAT liability on those supplies and for a penalty of:

  a. *twenty-five percent (25%) of tax liability on those supplies if failure to register is due to a serious negligence by the taxable person; or*

  b. *hundred percent (100%) of the tax liability on those supplies if failure to register is a deliberate or intentional act by the taxable person in order to avoid payment of VAT on those supplies.*

- A taxable person who does not issue a VAT invoice or who issues an incorrect invoice which evidently reduces the amount of VAT liability or evidently increases the amount of credit claimed, shall be liable for the amount of reduced tax or the amount of increased credit claimed in relation to the invoice or transaction, and a penalty of:

    a. *twenty-five percent (25%) of the apparent reduction or increase in the amount of VAT liability where failure to issue a VAT invoice or issuing an incorrect invoice is due to negligence or serious negligence by the taxable person; or*

    b. *hundred percent (100%) of the apparent reduction or increase in the VAT liability amount in case failure to issue a VAT invoice or issuing an incorrect invoice is due to deliberate intention by the taxable person to either not issue a VAT invoice or to issue a false invoice.*

Failure to withhold tax on wages, failure to collect or pay any tax or other amounts

- Any person responsible for withholding tax from wages, collecting or paying any tax and who deliberately does not withhold tax from wages, does not collect or pay that tax, shall be liable to penalty equal to the amount of tax to be withheld from wages, or the amount of uncollected or unpaid tax.

- Any employer responsible for withholding wage tax and for paying pension contributions to Kosovo Pension Savings Fund on his or his employee behalf and who intentionally does not withhold such contributions from wages or who deliberately does not pay withheld contributions shall be liable to a penalty equal to the amount of contributions which were not withheld or paid to the Fund.

According to the law in force the order of payments is additional liabilities, if applicable, to be paid first and then principal debt occurred with tax.

Reporting

Control report- with the conclusion of every control, tax authorities are required to prepare a written report on the findings established during the control.

- ***Control report should contain the following:***

    - *Name/address/telephone of the business;*
    - *Business registration number (BRN);*
    - *Business owner/ address/telephone;*
    - *Control objectives and scope;*
    - *Taxes and tax periods controlled;*
    - *Changes with the conclusion of control;*
    - *Name of the inspector performing the control.*

- ***Report content***

Content of the report should be in that way to enable for the report to be understood independently from any other document, i.e.:

- *Results in report should be included in a convincing, clear, organized and fact supported way;*
- *Report should be clear and not ambiguous so that it can only be interpreted in one way;*
- *It should include information supported with relevant and competent facts, to be independent, objective, fair and constructive;*
- *Control report should be fully supported by TAK laws and regulations, and by work papers, calculations and copies attached as evidence.*

In the end, control report should be signed by the tax inspector, team leader and relevant regional manager.

- ***Report delivery***

- *The report should be delivered to taxpayer after control is finished together with any other supporting documentation such as: (Forms AU -011, AU-014 etc.);*
- *An **accompanying letter** should be attached to the control report;*
- *Accompanying letter is signed by taxpayer to prove that the report is delivered to taxpayer;*
- *If taxpayer does not sign the accompanying note, inspector who delivered the report shall record reasons why taxpayer did not sign it;*
- *If a taxpayer does not receive Control Report, then it can be send by mail or other forms specified by law.*

- ***Post-control assessments***

Form AU011- Notification about tax imposition and request for payment with the completed data should be supported with clarifications of the control report about:

- Additional turnover,
- additional tax, and
- Penalties.

At the time of submission of AU011 and of **control summary report** with the taxpayer, tax authorities should be ready to provide explanations to taxpayer in relation to additional tax, sanctions, interest, tax periods, payment and appeals procedure.

As provided for in the provisions of Article 20 of the Law No.2004/48 "Tax Administration and Procedures", Assessment- Note and request for tax payment should contain the following information:

- taxpayer's name;
- taxpayer's identification number;
- notification date,
- subject and tax periods concerning the notification;
- the amount of tax assessed, penalties and interest for late payment;
- request for payment of due amount;
- place and method of payment of due amount and
- a brief explanation of the assessment.

- ***Appeals to Tax Administration***

After assessments and final control report is delivered, tax authorities should provide the taxpayer with an AU 014 form on the right to appeal in case they oppose the determination by tax authorities.

The appeal should be submitted within 60 days from the date when taxpayer has received assessment note or any other official determination. The appeal should be made in writing and should contain reasons and evidence which support the appeal by taxpayer.

The Appeals Department will review the taxpayer's appeal and issue a decision. The appeal should be reviewed as soon as possible but not later than 60 days from the date of appeal.

The decision by the Appeals Department is the final decision of tax authorities and shall be binding on TAK.

Any taxpayer who does not agree with the decision of Appeals Department may appeal to the Independent Review Board within 60 days from the date of notification of decision by Appeals Department.

If the Appeals Department does not deliver the decision within 60 days from the date when the appeal is submitted, taxpayer may appeal directly to the Independent Review Board.

An appeal against the decisions of the Board may be addressed to the Court of competent jurisdiction, provided that this appeal is received within 60 days after the day of notification of the Board's decision

Filing

In order for the work documentation of the inspector to be organized and properly recorded, control files should be created.

- These files have a standard form to enable easy tracking of the documentation required, i.e. contain comprehensive information, explanation and additional comments to allow correct understanding of the activities, procedures and processes undertaken within a control process.

- Tax authorities should respect the confidentiality of information in the taxpayer's file and should not use or make public any information from this file, except if entitled or legally required to do so.

EXAMPLE:

The following example illustrates the procedure of a VAT control where it is included: assessment of additional tax, imposition of penalties and content of control report.
Values and rates presented in this example are assumed.

Assuming that enterprise "NN" during period July-September / 2005 has had the following transactions:

1.*Purchases of cement for period July-September were:* ***85,329.60€ x 15 % = 12,799.44€***
2.*Purchases of grit for period July-September were:* ***56,441.39€ x 15 % = 8,466.21€***
3.*Sales as presented by taxpayer for July-September:* ***203,314.88€ x 15 % = 30,497.23€***
4.*Stocks at the end of tax period June/2005 were:* ***00€***
5.*Stocks at the end of tax period September /2005 were:* ***00€***

Purchases for tax period as presented by taxpayer

Tax period	*Description of goods*	*Measurement Unit*	*Quantity*	*Purchase price per unit*	*Purchases-Taxable value*	*Input VAT*	*Value including VAT*
1	*2*	*3*	*4*	*5*	*6*	*7*	*8*
July /2005	*Cement*	*kg*	*61000*	*0.0696*	*4,245.60 €*	*636.84 €*	*4,882.44 €*
	Grit	*m3*	*215*	*13.044*	*2,804.46 €*	*420.67 €*	*3,225.13 €*
August/2005	*Cement*	*kg*	*433000*	*0.0696*	*30,136.80 €*	*4,520.52 €*	*34,657.32 €*
	Grit	*m3*	*1529*	*13.044*	*19,944.28 €*	*2,991.64 €*	*22,935.92 €*
September/2005	*Cement*	*kg*	*732000*	*0.0696*	*50,947.20 €*	*7,642.08 €*	*58,589.28 €*
	Grit	*m3*	*2583*	*13.044*	*33,692.65 €*	*5,053.90 €*	*38,746.55 €*
Q 3/ 2005					***141,770.99 €***	**21,265.65 €**	***163,036.64 €***

Sales for tax period as presented by taxpayer

Tax period	*Description of goods*	*Buyers*	*Quantity in m^3 concrete by taxpayer*	*Average selling price excluding VAT*	*Selling value without VAT*	*Output VAT*	*Selling value including VAT*
1	***2***	***3***	***4***	***5***	***6***	***7***	***8***
July /2005	*concrete B25*	*Entities*	*50*	*62.609*	*3,130.45 €*	*469.57 €*	*3,600.02 €*
	concrete B25	*Natural person*	*70*	*63.479*	*4,443.53 €*	*666.53 €*	*5,110.06 €*
August/2005	*concrete B25*	*Entities*	*400*	*62.609*	*25,043.60 €*	*3,756.54 €*	*28,800.14 €*
	concrete B25	*Natural person*	*700*	*63.479*	*44,435.30 €*	*6,665.29 €*	*51,100.59 €*
September/2005	*concrete B25*	*Entities*	*800*	*62.609*	*50,087.20 €*	*7,513.08 €*	*57,600.28 €*
	concrete B25	*Natural person*	*1200*	*63.479*	*76,174.80 €*	*11,426.22 €*	*87,601.02 €*
Q 3/ 2005			***3220***		**203,314.88 €**	**30,497.23 €**	**233,812.11 €**

Sales as established by control

Tax period	*Quantity of cement in* kg	*Quantity in m^3 of concrete accord. to control*	*Quantity in m^3 concrete accord. to taxpayer*	*Difference according to control*	*Selling price excluding VAT*	*Selling value without VAT*	*Output VAT*
1	***2***	***3=(2:340)***	***4***	***5=(3-4)***	***6***	***7= (5x6)***	***8=(7 x 15%)***
July /2005	*61000*	*179*	*120*	*59*	*63.479 €*	*3,745.26 €*	*561.79 €*
August/2005	*433000*	*1274*	*1100*	*174*	*63.479 €*	*11,045.35 €*	*1,656.80 €*
September/2005	*732000*	*2153*	*2000*	*153*	*63.479 €*	*9,712.29 €*	*1,456.84 €*
Q 3 / 2005	***1226000***	***3606***	***3220***	***386***	***63.479 €***	***24,502.90 €***	***3,675.43 €***

Note:

- *Additional turnover is determined by taking as a basis the amount of cement that is purchased divided by the normative of 340 kg cement per 1 m^3 concrete.*
- *Normative provided by the company for production of concrete type MB-25 is 340 kg per m^3.*
- *Therefore as a result of this: 1226000 kg cement / 340 = 3606 m^3 concrete.*

Taxpayer's Name:	**NN**	BRN:	**80000000**
Tax Period:	**July/ 2005**	Tax Inspector:	**A.Gashi**
Control ending date:	**15.12.2005**	ID.:	**298**
		Place of control:	**Prishtinë**

No.	*Estimated differences*	*Taxpayer [A]*	*Control [B]*
1	*Taxable sale at normal rate 15%*	7,573.98 €	11,319.24 €
2	*Output VAT*	1,136.10 €	1,697.89 €
3	*Taxable domestic purchases at 15%*	7,050.06 €	7,050.06 €
4	*Input VAT*	1,057.51 €	1,057.51 €
5	*VAT credit carried forward from previous month*	0 €	0 €
6	*Payable VAT*	78.59 €	640.38 €
7	*VAT paid for the month*	78.59 €	78.59 €
8	***Additional tax***		**561.79** €
9	***Penalties***		
10	*Deliberate tax avoidance 100 %, Article 49.2(b) Law 2004/48*		561.79 €
11	*Tax not paid on due time 2% per month, Article 44 Law 2004/48 (4 months x 2 % = 8 %)*		44.94 €
12	*Interest (Article 22, Law 2004/48) (4 months x 1.5 % = 6 %)*		33.71 €
13	***Total: Additional tax, penalties and interest***		**1,202.23 €**

Taxpayer's Name:	**NN**	BRN:	**80000000**
Tax Period:	**August/ 2005**	Tax Inspector:	**A.Gashi**
Control ending date:	**15.12.2005**	ID.:	**298**
		Place of control:	**Prishtinë**

No.	*Estimated differences*	*Taxpayer [A]*	*Control [B]*
1	*Taxable sale at normal rate 15%*	69,478.90 €	80,524.25 €
2	*Output VAT*	10,421.84 €	12,078.64 €
3	*Taxable domestic purchases at 15%*	50,081.08 €	50,081.08 €
4	*Input VAT*	7,512.16 €	7,512.16 €
5	*VAT credit carried forward from previous month*	0 €	0 €
6	*Payable VAT*	2,909.68 €	4,566.48 €
7	*VAT paid for the month*	2,909.68 €	2,909.68 €
8	***Additional tax***		**1,656.80** €
9	***Penalties***		
10	*Deliberate tax avoidance 100 %, Article 49.2(b) Law 2004/48*		1,656.80 €
11	*Tax not paid on due time 2% per month, Article 44 Law 2004/48 (3 months x 2 % = 6 %)*		99.41 €
12	*Interest (Article 22, Law 2004/48) (3 months x 1.5 % = 4.5 %)*		74.56 €
13	***Total: Additional tax, penalties and interest***		**3,487.57 €**

Taxpayer's Name:	**NN**	BRN:	**80000000**
Tax Period:	**September/ 2005**	Tax Inspector:	**A.Gashi**
Control ending date:	**15.12.2005**	ID.:	**298**
		Place of control:	**Prishtinë**

No.	Estimated differences	Taxpayer [A]	Control [B]
1	*Taxable sale at normal rate 15%*	126,262.00 €	135,974.29 €
2	*Output VAT*	18,939.30 €	20,396.14 €
3	*Taxable domestic purchases at 15%*	84,639.85 €	84,639.85 €
4	*Input VAT*	12,695.98 €	12,695.98 €
5	*VAT credit carried forward from previous month*	0 €	0 €
6	*Payable VAT*	6,243.32 €	7,700.16 €
7	*VAT paid for the month*	6,243.32 €	6,243.32 €
8	***Additional tax***		**1,456.84 €**
9	***Penalties***		
11	*Deliberate tax avoidance 100 %, Article 49.2(b) Law 2004/48*		1456.84 €
12	*Tax not paid on due time 2% per month, Article 44 Law 2004/48 (2months x 2 % = 4%)*		58.27 €
13	*Interest (Article 22, Law 2004/48) (2 months x 1.5 % = 3 %)*		43.71 €
14	***Total: Additional tax, penalties and interest***		**3,015.66 €**

Additional tax to be paid which is found during the control shall serve as a basis for calculation of penalties and interest by the Tax Administration.

Once forms AU-010 are processed by Information Technology, AU -011 forms (Assessment -notes) are generated which notify that Tax Administration has imposed additional tax, penalties and interest on your behalf and account.

UNMIK

PROVISIONAL INSTITUTIONS OF SELF-GOVERNMENT
INSTITUCIONET E PËRKOHSHME TË VETËQEVERISJES
PRIVREMENE INSTITUCIJE SAMOUPRAVLJANJA

MINISTRY OF ECONOMY AND FINANCE/TAX ADMINISTRATION OF KOSOVO
MINISTRIA PËR EKONOMI DHE FINANCA/ADMINISTRATA TATIMORE E KOSOVËS
MINISTARSTVO ZA PRIVREDU I FINANSIJE/PORESKA ADMINISTRACIJA KOSOVA

Date : 15.12.2005

File no.: 76

Control Report

Business no. –BRN	*80000000*
Business name/address/ telephone	*“ NN “*
Business legal status	*Personal Business*
Business owner, name and surname/ Personal number/ address / telephone	*S. Berisha* *1111111111 - Prishtinë*
Business representative, name and surname/ personal no.	*Financial Director – B. Krasniqi* *1000000000 – Prishtinë*
Region	*Prishtinë*
Control subject	*Turnover and purchases*
Tax(es)-control period (s)	*VAT – 01.07. 2005 – 30.09.2005*
Differences after control	*Increase in turnover*
Tax insector (s), Name and Surname / ID No.	*A. Gashi ID 0298*

1. Purpose of control and control results

Purpose of control
Selection for control is based on:

- [X] Risk analysis;
- [ ] Random selection;
- [ ] Third party information;
- [ ] Other (explain……..

Control results:

Control carried out for Value Added Tax purposes, has resulted with an increase in turnover for the amount of 24,503.28 €, which required imposing additional tax at the amount of: 3,675.43 €, penalties and interest at the value of 4,030.03 €.

2. Business description

Enterprise “NN" is organized as personal business with a single owner. The owner of this business is S. Berisha, resident in Prishtinë. This enterprise was established on 01.03.2004. At the beginning this entity was dealing with selling building material only, and later from 01.03.2005, this activity was no longer carried out and they started dealing with production and selling of concrete only.
Head office of the company is in Prishtinë, Dardania area, production line for concrete is located in village Bardhosh, and they are a property of the owner. Enterprise employs a total of 13 employees, who work in one shift only, including: one sales manager, one production and maintenance engineer, one accountant, 6 production workers one of whom is shift supervisor, two guards, and two drivers. Gross wages of the employees are: Sales Manager and Engineer receive 450 € each, accountant 350 €, drivers 300 €, production workers receive 250 €, shift supervisor 300 €, guards 200 €. Accounting records include Sales and Purchase Book, Payroll Book and Expenditure Book. Capital assets include: concrete production equipment, two trucks for transport of concrete, one pump truck for unloading the concrete, one carrier truck.

3. Preliminary controls

Preliminary control has ended on 15.08.2005 and resulted with additional tax being imposed for not presenting the actual turnover. Control period includes the period 01.03.2004 - 30.06.2005.

4. Control in practise and the extent

Control started with an initial interview conducted on 15.11.2005, with the owner S. Berisha and financial director in this enterprise B.Krasniqi. The initial interview took place at the head office of the business located in Prishtinë. This meeting was an introduction to the activities this company is dealing with, including discussions about the production line, job distribution form for the employees, partners of the enterprise, competition and a general financial view of this enterprise.
Control period includes the period from 01.07.2005 - 30.09.2005. Documents presented during the control were books and registers, including Sales and Purchase Books, buying and selling invoices, accounting records, and normative which is used by the company subject to production type of concrete.
Buyers of company's products are natural persons and entities subject to demands.
The company purchases cement and grit from local enterprises.
Quantity of stock remaining from previous periods is zero as are the stock remaining at the end of the period September/2005.
There are no remains during the processing of cement as they possess a sophisticated technology and sales are done by order.
The enterprise has capacities for producing concrete of the following brands: MB-20, MB 25 and MB- 30, however demands in the market are oriented for production of concrete of brand MB-25. Normative used by the enterprise for production of concrete, is around 280 - 380 kg cement in one m^3 subject to the brand of concrete.

Purchases for period July-September/2005 as presented by taxpayer are:
Cement 1226000 kg, Value without VAT is, 85,329.60 x 15 % = 12,799.44 €
Grit 4327 m^3 , Value without VAT is , 56,441.39 x 15% = 8,466.21 €
Sales for period July-September/2005 as presented by taxpayer are;
Concrete MB- 25 3220 m^3 , taxable value is, 203,314.88 x 15 % = 30,497.23 €

5. Description of control

Facts related to the case

When examining the documentation, we have taken for a detailed analysis sales and buying invoices which were recorded by the enterprise on their registers for this period.
From sales records it was established that concrete which was produced and sold was of brand MB-25, and normative to be applied for this type of concrete is 340 kg cement for 1m3 concrete. Calculating the quantity of produced concrete and quantity sold, according to normative we have taken as a basis, we have concluded that the enterprise did not present its real turnover. This result has arrived based on the normative provided by the enterprise and used during the production, in proportion with the quantity of cement which was purchased in one side and quantity of produced concrete that was sold on the other.

Detailed explanations are presented in the working papers which give a reflection of actions taken and results coming out of control which are attached to this report.

Applicable law

TAK's legal basis for carrying out an assessment which is different from taxpayer's assessment is set by Law 2004/48, on Tax Administration and Procedures, Article 17, and Article 13 and 14, which reserves the right to have access to the books and registers of taxpayers.
Legal basis of Tax Administration to make a determination on the turnover is provided for in VAT Law, UNMIK Regulation No. 2002/ 17, Article 8 paragraph 8.1, and Article 16 paragraph 16.1.

Prior notification

Taxpayer is notified in details on all the findings resulting from the control where facts on the case, legal basis, additional tax and penalties are included.

Taxpayer's opinion and justification

After being informed on the findings, taxpayer's opinion was that this situation is a result of negligence. Although taxpayer expressed his discontent about the situation, he did not oppose the conclusion given by TAK.

Final determination

TAK's decision, after prior notification and taxpayer's opinion, shall remain unchanged.

6. Sanctions

Sanctions are provided for in Law No. 2004/ 48 on the Tax Administration and Procedures:

- According to Article 44 of this Law any taxpayer who fails to pay the tax on due time is liable to a penalty of 2% for each month or part of the month. This penalty is paid up to a maximum of 12 months (12 x 2%= 24%);

- According to Article 22 of this Law for late payments of tax interest shall be applied on monthly basis, for each month or part of month from the date when tax is due to be paid. Interest rate is 1.5 % each month or part of month. Interest is to be applied until the total amount of liability is paid.

- According to Article 49.2 (b) of this Law, any taxable person who does not issue a VAT invoice or who issues an incorrect invoice which results in an apparent reduction of tax liability, or in an apparent increase of tax credit claimed in relation to an invoice or transaction, is liable to a penalty of 100 %, when failure to issue an invoice or issuing an incorrect invoice is done intentionally.

7. Instructions / advice / other issues

Instructions provided for taxpayer were mainly concerning the warning about additional turnover for VAT purposes and its implications in other taxes (Personal Income Tax)

8. Annex

Annexes attached to this report are:
- AU-011 forms, from IT
- AU-014 form, on the right to appeal
- Working papers.

Date 15.12.2005	***Date 15.12.2005***	***Date 15.12.2005***
Tax inspector	*Team leader*	*Manager*

TCC

TAX COLLECTION AND COMPLIANCE

TAX COLLECTION AND COMPLIANCE

The following is a brief description of duties related to carrying out a professional collection in the Tax Administration of Kosovo. It is clear that many activities are important for a better Tax Administration, including Taxpayer Control and Education. The purpose of all these tasks is to have a higher level of compliance and collection of tax liabilities.

All functions within TAK should provide assistance in this direction. If no revenue is collected for Budget of Kosovo then TAK's mission is not accomplished. Professional collection activities are of a vital importance for TAK. Therefore, we present a number of basic tasks required from the function of collection and the ways how they can be achieved.

FINDING SOLUTION TO TAX COLLECTION PROBLEMS

There are only five methods to settle a liability. These five methods remain the same whether it concerns a private or a public collector.

- The first and the best way of settling a liability is to collect the total amount of liability. This may occur immediately after sending first notice to taxpayer or until any other means of collection are to be applied. It sometimes occurs that taxpayer claims that he is incapable of making the total payment although the financial reviews we have made prove the opposite. In cases like this, TAK insists on making the whole payment of liability. An unfavourable financial situation does not mean he is entitled to pay no tax.

- The second method to settle a tax liability is to enable a deferment of payment for a long or short period of time for any taxpayer. There are cases when a financial assessment establishes that a total payment is not possible at once. This is usual for those businesses which are dependent on seasonal or periodic work like farms, construction etc. therefore it is possible to extend the time of payment from 30-90 days.

- Third method for settling a liability in total is through an agreement for payment in instalment. When a financial review establishes that this is the only possible way for paying a liability, then it is made by paying equal amounts per instalments for a number of months, within a specified period of time.

- Fourth method for settling a liability is by declaring this liability as uncollectible because taxpayer concerned cannot be located (based on document research) or that there is no possibility at all for this liability to be paid (according to financial analysis). In both cases TAK should establish whether there is any possibility for this situation to be improved in the future. If so then this case is to be kept as a pending file for a later review. If not, again it is placed in the file and will not be reviewed as no cause can be identified.

- The fifth and last method is for the liability to be collected through enforced collection. Levies, liens, declaring tax at risk, import and export bans, prohibition of movement, criminal charges etc. are forms applied by TAK.

Enforced collection activity is described below in more details:

When does any tax become liable?

In order for the tax collection and compliance process to start, there must be a tax liability due to be paid to TAK and which is not yet paid, whether self-assessed by the taxpayer (when taxpayer makes a declaration of tax but does not make the payment) or assessed by TAK (after 60 days period for appeal has expired after the assessment date). For the tax not paid and that is become payable, we apply collection procedures as provided for in Law No. 2004/48 on Tax Administration and Procedures

Application of collection procedures according to Law No.2004/48 on Tax Administration and Procedures.

Imposing a lien on taxpayer's property

"**Tax lien**" means the right of Tax Administration to take and hold property of the taxpayer as a security of payment of any tax and the right to sell such property and apply proceeds of that sale for paying that tax.

Tax lien is an instrument binding on taxpayer for paying unpaid tax liabilities. By imposing a lien on the property of a tax debtor, TAK ensures that that property is not to be transferred, sold or placed on sale by that taxpayer. A lien may be submitted to each responsible office for property registration in Kosovo like: Kosovo Agency for Land Registry, Residential Registry, Vehicle Registration Unit, Insured Transactions Registry etc. and shall serve as evidence that the owner of that property has a tax debt in TAK. Registration offices above are required to register every transaction related to that property on which lien is imposed, until they receive an official notification for lien imposed by TAK being released.

Levy of the property

Levy is a seizing instrument under which the right of ownership over a property, assets or income are transferred from tax debtor to TAK.

If any person liable for paying any tax, fails or refuses to pay within 10 days after assessment notice is delivered, TAK has a legal right to collect such amount (and other amounts which satisfy costs of seizure measures), applying property seizure measures of the property belonging to that person (whether actually owned by taxpayer or located with a third person).

Levy of property of the taxpayer located with third parties

In order to enforce levying measures, TAK shall deliver a seizure notice to the person (including employers, banks, other financial institutions) who holds the control or is in possession of the property owned by taxpayer (whether movable, immovable, tangible or intangible) or who has a liability towards the taxpayer at the time when levy measure is imposed.

If the property consists of wages or payments, TAK will deliver a seizure notice to the official or employer who is liable for paying the wage or payment.

When any property on which the levy has been imposed is not sufficient to satisfy the claim for which levy is made, TAK may, thereafter, and as often as may be necessary, proceed to levy other property liable to levy until the amount due from such person, together with all expenses, is fully paid.

TAK may collect from any of the partners in a partnership, any tax which is a partnership liability (with expenses and penalties included).

TAK may collect any tax which is a liability of an association or organization from any member, manager or director of a non-corporate association or organization (including costs, penalties and interest). A member of non-corporate association or organization shall be liable for paying tax liability to the extent of that member's awareness of the tax liability of that association or organization or when reasonable for that member to have known about that tax liability.

Declaring tax at risk

TAK may perform a risk assessment when it considers that collection of tax which has become payable is at risk, as the person intends to avoid taxes, by departing from Kosovo, transferring assets, terminating his business or taking other actions which would jeopardize tax collection, unless a risk assessment is made.

Notification to Customs Authorities about a ban on imports and exports

In any case when a person liable for payment of any tax, ignores or refuses to pay the liability within 10 days after the assessment note is delivered or when TAK considers that payment of tax is at risk, according to Article 33 it shall be lawful for TAK to request in writing from Customs Service to impose a ban on imports or exports made by that person, in compliance with the Memorandum of Understanding concluded between TAK and UNMIK Customs Service.

Departure prohibitions

When TAK informs Border Police in writing that a person who is liable to pay taxes under this regulation did not pay, Border Police shall undertake necessary steps to prevent person concerned leave Kosovo for a period of 72 hours from the time when the note was issues, except person concerned within this period shall:

a. make the full payment;
b. make a satisfactory arrangements with TAK Director for the payment of tax.

In relation to tax liability which has not been paid when it became due and payable, TAK may raise charges and request payment of that liability to a court of competent jurisdiction.

Seizure procedures

Before making the arrangements for starting the seizing process, it is necessary first to collect financial information on the financial situation of the taxpayer, in order to be able to organize the work and to obtain evidence to support the collection order. The method of collecting the debt will be selected according to information gathering declaration.

Before any enforcement collection action is to be undertaken it is essential to identify taxpayer's situation. The best way to do so is by conducting an interview with the taxpayer. The questions should remain simple and understandable.

A financial analysis of the situation is used:

1. Any time when information we possess are not clear and sufficient to carry out the collection.
2. For all large taxpayers
3. Any time when is considered necessary by TAK.

Initial seizing procedures

Every time when preparations for taking seizing action are being made, it should be verified if a "Final warning for tax payment" has been delivered to the taxpayer. If taxpayer did not make the payment ten days after receiving this form, then a "Notice for seizure" form should be prepared for each tax period and to be delivered to taxpayer.

Any time seizing action is taking place, TAK should be accompanied by at least two members of Police forces.
If taxpayer immediately makes the due payment in full, the seizure should be terminated.

If location of taxpayer cannot be established and if he has no permanent business address in Kosovo, seizure notice is delivered to the last known address of taxpayer.

If taxpayer's property is in control of any third party, then notice of seizure is delivered to this party.

TAK has legal rights to seize as much property as it is necessary, when seized property is sold, to cover the tax liability due (whether owned by taxpayer or in control by a third person).

First activity to complete the seizure is to identify property seized by placing labels on the property which prove that this property is owned by the Tax Administration. The form "Warning" is attached to the property that is seized where it is written that this is a property of Tax Administration due to failure to pay the taxes. The price used for seizing the property, shall be a price that guarantees a secure sale. The price of seizing the property should be 50% of the price of that property in the open market, or 30% less than the purchase price of those goods. Decision about which property (goods) is to be seized is always taken by TAK and never by the taxpayer.

Taxpayer may be requested to provide assistance to undertake all preliminary measures for securing the property. If deemed necessary by TAK, taxpayer may be contacted for safety of seized property. After any seizing action or closure of premises have been completed, nearest Police Station should be informed about the location and the address of seized property in order for them to patrol in that location and to ensure safety of the property seized by Tax Administration.

Selling procedures

According to Law on Tax Administration and Procedures No. 2004/48, Article 30, Tax Administration is allowed to sell any seized property at public auction.

Selling of any property seized may be done at a public auction or with sealed bid auction. Which method will be selected by TAK for selling property seized is subject to which method is expected to give the best price of the property offered on sale.

If property may not be divided or partially sold it can be sold in its entirety and proceeds of the sale which are in excess are returned to taxpayer. Taxpayer's tax liability will be paid up to the amount of the proceeds of the sale of seized property.

Notice of sale is issued 60 days from the day when property was seized. Notice of sale should be delivered to taxpayer to his place of residence or his business residence. If his place of residence is not known the notice shall be mailed to his last known address. A copy of the Notice of Sale should be delivered to co-owners of the property or lien holder. Notice for

Sale should be published in local newspapers. If an announcement may assist the sale then it can be placed in other locations where there is no seizure.

If it is necessary to postpone the sale it can be done at any time before the sale has begun. Postponement is advised when TAK considers it would be for the benefit of state institutions. TAK can postpone the sale also in cases when considers that taxpayer's interest is being protected.

Before the sale, bidders will be given the chance to examine the property and ask questions related to that property.

Sale at the Public Auction. Initially a minimum offer for the property is established based on the value of enforced sale, and then the time and venue where the sale will take place is to be determined not less than 10 days and not later than 40 days from the date of publication.

The auction will be opened to all participants who will bid the amount of money for the property on sale.

TAK will declare property for sale to the bidder offering the highest price.

The property will not be handed over to the most successful bidder until full payment is made.

Any taxpayer, whose property has been seized, may pay the full amount of tax, penalties and interest plus costs associated with the collection process, any time before TAK has received the highest bid. Before the property seized is returned to taxpayer, the full payment should be verified.

Announcement of sale with sealed bids: In this form, the sale will occur when the bidder makes his offer in a sealed envelope addressed to TAK specifying that sealed bid may be opened by the receiver only. TAK should keep offers, register them in a list following the order as received, and mark an identification number on each envelope. It is possible for the bidder to withdraw his offer only if this occurs before the specified time for opening bids.

At the specified time and venue the opening of envelopes starts in the bidders' presence that are required to be recorded in the list of participants in the auction. TAK should make a list of offers following the order they are being opened, reading out and looking at all participants in the auction. Once all bids have been read, TAK will announce the highest offer and the name of the winning bidder.

If it is established that there are safety costs associated with the property seized, or the property will be damaged or reduced in value, this property may be sold only by informing the owner without waiting for 60 days limit. This procedure will be applied in case of goods required to be kept in cool locations, perishable goods, goods with short expiry date or in cases when during the time of storage costs will be disproportionate to the final proceeds of the sale of seized goods. TAK shall decide when this procedure (before the expiry of 60 days period) is to be applied.

Calculation of costs associated with seizing and auction sale procedure and distribution of payment

Article 23 of Law No. 2004/48 on Tax Administration and Procedures, specifies the order by which the payment is distributed when TAK sells on auction the property of taxpayer which was seized for unpaid liabilities:

1. *Collection costs*
2. *Penalties*
3. *Interest*
4. *The amount of tax due*

Collection costs include, administrative cost for seizure, safeguarding services, transport, handling services and auction costs.

We present an example:

EXAMPLE 1. A taxpayer has an unpaid tax liability at the amount of 10,000.00€. Tax Administration has seized an asset of the debtor and sells it at auction for 9,500.00€.

Administrative costs of seizure are:

• For safeguarding services	1,200.00 €
• For transport services	100.00 €
• For announcement services	50.00 €
TOTAL	**1,350.00€**

According to above law, the order of payment is:

1. Collection costs	1,350.00 €
2. Tax, penalty & interest	10,000.00 €
3. Payment (selling of assets)	9,500.00 €

The remaining balance of tax liability is 1,850.00 € (from the amount paid for selling the asset 9,500.00 €, taxpayer has first paid collection expenses at the amount of 1,350.00€, and second, tax liability is paid at the amount of 8,150.00 €).

EXAMPLE 2. A taxpayer has an unpaid tax liability of 10,000.00€. Tax Administration has seized an asset of the debtor and sold it in auction for 12,000.00€.

Administrative costs of seizure are:

•	For safeguarding services	0.00 €
•	For transport services	0.00 €
•	For announcement services	150.00 €
	TOTAL	**150.00 €**

According to above law, the order of payment is:

1.	Collection costs	150.00 €
2.	Tax, penalty & interest	10,000.00 €
3.	Payment (selling of assets)	12,000.00 €

Remaining balance of tax credit 1,850.00€ (from the amount paid and proceeds of sale 12,000.00€, taxpayer has first paid collection costs of 150.00 €, and second the tax liability of 10,000.00€).

TAK is required to refund the amount of 1,850.00€, to taxpayer.

REFERENCE DOCUMENTS

TAX ADMINISTRATION AND PROCEDURES

- REGULATION..... NO.2000/20
- ADMINISTRATIVE DIRECTION.....NO.2000/06
- ADMINISTRATIVE DIRECTION.....N0.2000/07
- LAW NO.2004/48
- ADMINISTRATIVE INSTRUCTION.....NO.01/2000
- ADMINISTRATIVE INSTRUCTION.....NO.05/2005

PRESUMPTIVE TAX

- REGULATION NR.2000/29
- REGULATION NR.2001/40
- ADMINISTRATIVE INSTRUCTION.....NR.2000/03

VALUE ADDED TAX

- REGULATION.....NO.2001/11
- REGULATION.....NO.2001/41
- REGULATION.....NO.2002/17
- REGULATION NO.2004/35
- ADMINISTRATIVE INSTRUCTION.....NO.01/2001
- ADMINISTRATIVE INSTRUCTION.....NO.01/2004

PERSONAL INCOME TAX

- REGULATION.....NO.2002/04
- REGULATION.....NO.2003/03
- REGULATION.....NO.2004/52
- ADMINISTRATIVE INSTRUCTION.....NO.01/2002
- ADMINISTRATIVE INSTRUCTION.....NO.02/2005

PROFIT TAX

- REGULATION.....NO.2002/03
- ADMINISTRATIVE INSTRUCTION NO.02/2002

CORPORATE INCOME TAX

- REGULATION NO.2004/51
- ADMINISTRATIVE INSTRUCTION.....NO.01/2005
- ADMINISTRATIVE INSTRUCTION NO.03/2005

WORKING GROUP

Sakip Imeri
Dep.Director – Compliance Department

Ekrem Hysenaj
Dep.Director – Department of Games of Chance

Naser Prapashtica
Manager, Taxpayer Education Section

Osman Neziri
Manager, Enforced Collection Section

Nahit Sharku
Manager, Control Section

Sami Gjyrevci
Advisor, selection of cases for control

Bejt Kapiti
Advisor, Corporate Income Tax

Magbule Shala
Advisor, Personal Income Tax

Ramadan Matarova
Manager, of pension sector

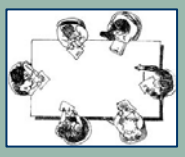
Ruzhdi Zenelaj
Advisor, Value Added Tax

Sevdie Namani
Advisor, Refund and Rebate

Sadije Kosumi
Advisor, Enforced Collection Section

Rexhep Krasniqi
Designer, Taxpayer Education Section

Xhemail Bajrami
Editor



INFORMATION:

Region	Telephone Number
Prishtinë	038/200-255-17
Prizren	029/44-901
Pejë	039/32-124
Gjilan	0280/26-967
Mitrovicë	028/30-059
Ferizaj	0290/20-387
Gjakovë	0390/30-021

Web:	www.atk-ks.org
E-mail:	info@atk-ks.org

TERRITORIAL ORGANIZATION OF TAK