



REPUBLIKA E KOSOVËS - REPUBLIKA KOSOVA - REPUBLIC OF KOSOVO
QEVERIA E KOSOVËS - VLADA KOSOVA - GOVERNMENT OF KOSOVO
MINISTRIA E EKONOMISË DHE FINANCËVE - MINISTARSTVO ZA PRIVREDU I FINANSIJE - MINISTRY OF ECONOMY AND FINANCE
ADMINISTRATA TATIMORE E KOSOVËS - PORESKA ADMINISTRACIJA KOSOVA - TAX ADMINISTRATION OF KOSOVO

Under the section 9 of the Law 2004/48 on Tax Administration and Procedures, TAK Director is issuing:

Public Ruling

This Public ruling is in conformity with section 7 of the Regulation 2004/51 on Corporate Income Tax and section 9.2 of Regulation 2004/52 on Personal Income Tax. The purpose of this ruling is to explain how TAK shall interpret and implement the provisions of the legislation that administers, in order to explain the manner of the :

Treatment of the privatized enterprises for the depreciation purposes

The purchaser, in order to determine the value from the purchasing price, which is going to be used as a base for the purpose of depreciation of fixed assets, has to follow the following steps:

Step 1: Determination of the value of the fixed assets:

During the privatization the shares of NEWCO enterprise were purchased (new enterprise established by KTA). Through the purchase (privatization) process from NEWCO to purchaser there were transferred:

1. Land
2. Assets of the first category (Building and other construction structures)
3. Assets of the second category
4. Assets of the third category
5. Stocks
6. Liabilities
7. Account receivables

*Remark : **The value of the stocks** will be determined through the historical cost or through the net realizable value according to the Kosovar Accounting Standard No. 2, whichever from this two values is lower. Whereas the value of the liabilities and account receivables is known During the calculation process of the asset's value on which the depreciation will be calculated, liabilities and the account receivables will be determined based on the contracts that are signed between the KTA and the Purchaser.*

For the determination of the Value which is going to be used as a base for the depreciation of the fixed assets, the following formula should be used:

The Value of the fixed assets = the value to be paid for the shares + Liabilities – account receivables – Stocks

Then this value determined through the above mentioned formula will be used as a base for splitting of over each category of fixed assets depending on the percentage of the fixed asset's participation on the total value.

Step 2: The calculation of the percentage of fixed asset's participation in the total value as defined by the taxpayer

Groups of the splitting of the value of the Fixed Assets are:

- **Group 1:** Land;
- **Group 2:** The assets of the first category, (Building and other construction structures at the depreciation rate of 5%) ;
- **Group 3:** The assets of category two, (at the depreciation rate of 20%) and
- **Group 4:** The assets of category three, (at the depreciation rate of 15%) .

Directive for the Taxpayer-purchaser:

The method of attributing the value to each of the four groups could be the following: Using as a base the ending balance sheet of the SOE, calculation will be made on the percentage of the participation of each group. If such balance does not exist then the splitting percentage of the value can be made by the Taxpayer respecting the following rules:

- Determination of the value of the land: As there is in practice no property tax implemented on land, the value will be defined on basis of three comparables that are in conformity with the time, size, place and circumstances.
- The value of the group 2 (buildings and other constructions) will be determined based on the evaluation of the municipality Assemble made for the purpose of the Property Tax.
- Whereas the value of the assets of category 2 and 3 will be split over these categories in the most reasonable manner taking the historical cost and the useful life. In this exercise of attribution of the value for these two groups, there is no important difference between a depreciation rate of 20% and 15% - it is thus suggested to be made the most reasonable splitting

Step 3: Attribution of the fixed assets value of each group according to the participation percentage calculated under the step 2 and on the bid amount

Based on the step 2, Taxpayer will determine a value of the fixed assets, from which then will be extracted the participation percentage for each of the four categories. Based on that percentage

he will extract the base for the calculation of depreciation, for each of the four categories, multiplying those percentages with the value of the fixed assets, being calculated using the formula from the first step.

After extracting the base for the calculation of the depreciation for each category, the depreciation will be calculated following sections 14, 15 and 16 of the Regulation 2004/51 on Corporate Income Tax which has been amended with the Regulation 2005/51, following the sections 9.4 and 9.5 as well of the Regulation 2004/52 on Personal Income Tax.

Remark: If to the stocks and the land it was not given the reasonable value, than TAK through the audit process will have the right to do the evaluation of those categories, respecting the rules of this Public Ruling.

Example :

Taxpayer, based on the procedure that was provided on the step two he came up with this value of the fixed assets:

	<u>Value</u>	<u>Percentage</u>
1. Land	= 100,000 euro -----	= 14 %
2. Building	= 200,000 euro -----	= 29 %
3. Assets of Category 2	= 150,000 euro -----	= 21 %
4. Assets of Category 3	= 250,000 euro -----	= 36 %
Total	= 700,000 euro -----	=100%

From the calculation that have been made on the first step (for example: V.F.A. = Bid amount 1,150,000 + Liabilities 100,000 – account receivables 150,000 – Stocks 100,000) it was resulted that the value of the fixed assets is =1,000,000 euro. Based on this amount we can extract the base for the calculation of the depreciation:

	<u>Percentage* value of the F.A = Base for the calcul. Of depreciation</u>
1. Land	= 14 % * 1,000,000 = 140,000 Land value (not depreciable)
2. Building	= 29 % * 1,000,000 = 290,000 value of the building (depreciation 5%)
3. Assets of Category 2	= 21 % * 1,000,000 = 210,000 value of the assets (depreciation 20%)
4. Assets of Category 3	= 36% * 1,000,000 = 360,000 value of the assets (depreciation 15%)
Total	= 100 % ----- 1,000,000

This public ruling will give the right to all Taxpayers (purchaser) to retroactively recognize the depreciation of the assets of the privatized companies. Therefore, the Taxpayers who so far did not recognize the depreciation, they can make the correction of the Annual Declaration.

The value of the assets determined under this Public Ruling, will give the right to the Taxpayers (purchaser) to recognize the depreciation only for the assets which are on use or until the time when they were in use. If the asset was destroyed by the Taxpayer’s (purchaser) willingness, after the value was given under the rules of this Public Ruling, in this cases the remaining value is not going to be depreciated and the same value is not going to be recognized as expense. In the cases of non willingness destruction by the Taxpayer or in the case when the assets are sold, will

be followed section 7 and 19 of Regulation 2004/51 on Corporate Income Tax, or section 9.2 and 14 of Regulation 2004/52 on Personal Income Tax.

Calculation methods of this Public Ruling will be used for the purpose of recognition of depreciation of assets of privatized companies by KTA, and they can not be used for other purpose.

Prishtina 26.05.2008

Director of TAK-Naim Fetahu
