

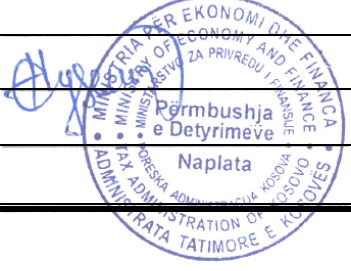


PROVISIONAL INSTITUTIONS OF SELF-GOVERNMENT  
INSTITUCIONET E PËRKOQSHME TË VETËQEVERISJES  
PRIVREMENE INSTITUCIJE SAMOUPRAVLJANJA

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



To:	Operation part
From:	Compliance Department - Audit Sector
Date:	30.06.2006
Subject:	Instruction – Construction Companies



Under respective articles of amended UNMIK Regulation No. 2001/11 (Regulation No. 2002/17) ,respectively

- **Article 12 “ Exempt supplies” Point d)** “Transfer of ownership title, rent of land and resident houses”,
- **Article 21” Input tax”** Paragraph 21.2 “ Deduction of input tax is not allowed on value added tax paid in relation to supplies which are not used for taxable supplies made by taxable person.
- Paragraph 21.4 “under article 12 is not allowed deduction of input tax in relation to exempt supplies.

Being unable to apply article 24 of Administrative Instruction No.01, dated 31/05/2001 (Administrative Instruction No.01/2004, dated 01/09/2004) due to the specific nature of this type of business activity that is related to application of “Tax Credit Coefficient”.

*(Coefficient shall be calculated at the end of tax period* and implemented in VAT paid on imports, inflows inside the country for that tax period. Result will be VAT allowed as input tax for the tax period which is deductible from output tax of same period).

**We instruct as following:**

For the cases when businesses deal with construction of collective apartments and business premises in their construction projects or within the building planned to be constructed, should be exactly determined participation by % of these categories, thus

- Apartments(residential part) as exempt supply
- Business premises as a taxable supplies

All this is made for the purpose of recognition of input VAT for the taxable supplies, and also due to impossibility of splitting which purchase category (whether with VAT or without) is used for taxable supplies and which one is used for exempt supplies. This allocation also corresponds and is in complete harmony with respective regulations of VAT.

Some examples are presented below to illustrate the above:

Business “X” planned to construct a building, where the project provides that **70% will cover apartments (residential part) and 30% will cover business premises.**

If the business is VAT filer, should for each tax period in Purchase Book make calculations based on the determined percentages in the project.

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Tax Period, January /2005

Purchase Book		input VAT
1. Purchases without VAT	5,000€	
2. Imports	10,000€	1,500€
3. Taxable supplies with 15%	20,000€	3,000€
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Total	35,000€	4,500€

In this case only **30% out of total amount of input VAT** will be recognized, and taxpayer will fill out adequate boxes as following:

[16] Imports and inflows, and

[18] Domestic taxable supplies with 15%

Since only 30% of the project is related to taxable supplies.

For the input VAT part that is related to exempt supplies, the part of imports and domestic purchases with 15% is corrected (which in this concrete case includes the balance of 70%) and presented on the box of VAT return:

[14] Purchases without VAT and with non deductible VAT.

After the correction made in the Purchase Book for the tax period January 2005, tax return will be filled out as following:

[14] Purchases without 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 not recognized as deductible will be recognized as cost for Corporate Income Tax (Profit tax)

If taxpayer has several construction projects and percentage changes, tax inspector depending on the project shall apply average percentage for all projects.

If taxpayer in addition to construction activity deals also with other activities than they are required to keep separate books for construction, where the necessary correction will be made before the tax returns is completed for respective tax period.

**Note:** In event that the ratio (percentage) between taxable and exempt supplies later changes, than despite the initial presented project the necessary correction can be made for change of such ratio between input VAT and exempt VAT.

Warning: Article 21 of the same Instruction explains:

In relation to article 12 of Regulation “Exempt Supply” transfer of title and renting of residential property and land is tax exempt supply .However “Construction” is considered a normal service supply and is taxable supply. Due to the characteristic specifics of construction “invoice of work in progress” will be recognized as a normal VAT sales invoice.

Respectfully,