



Pursuant to Article 9 of the Law no. 03/L-222 on Tax Administration of Kosovo, General Director of Tax Administration of Kosovo, issues:

**PUBLIC RULING No. 04/2015**  
**ON**  
**MILLS TRANSACTIONS**

**PURPOSE**

This Public Ruling aims at explaining economic activity of mills upon transactions as follows:

- Services related to wholegrain grinding;
- Good exchange transactions (flour, middling/bran, etc.);
- Sale of final products (flour, middling/bran, etc.);
- Purchase of wheat from farmers.

**LEGAL BASE**

Mills economic activity regarding tax aspect is addressed pursuant to the following legal provisions:

- Article 2, paragraph 1, subparagraph 1.9 of the Law No. 05/L-037 on Value Added Tax - Barter Transaction;
- Article 10, paragraph 1 of the Law No. 05/L-037 on Value Added Tax - Supply with Goods;
- Article 14, paragraph 1 of the Law No. 05/L-037 on Value Added Tax - Supply with Services;
- Article 45 of the Law No. 05/L-037 on Value Added Tax - Content of invoices issued by taxable persons to taxable persons;
- Article 46 of the Law No. 05/L-037 on Value Added Tax - Content of invoices issued by taxable persons to taxable persons;
- Article 60 of the Law No. 05/L-037 on Value Added Tax - Flat rate scheme for farmers;

- Article 76 of the Administrative Instruction No. 03/2015 on the implementation of the Law No. 05/L-037 on Value Added Tax - The application of the flat rate for agricultural products supplied by farmers;
- Article 10 of the Law No. 05/L-028 on Personal Income Tax - Income from business activities;
- Article 40 of the Law No. 05/L-028 on Personal Income Tax - Source withholding tax for Special Categories;
- Article 5 of the Law No. 05/L-029 on Corporate Income Tax- Taxable incomes;
- Article 31 of the Law No. 05/L-029 on Corporate Income Tax- Source withholding tax for Special Categories.

## **I. SERVICES RELATED TO WHOLEGRAIN GRINDING PROCESS**

### **a) VAT treatment**

Service related to the wholegrain grinding process known as "Grinding Services" means the provision of service for grinding wholegrain by order and on account of their owner. This is a supply of services under Article 14 of Law no. 05/L-037 on Value Added Tax.

The service price (considerations) which is known as "adulterant", can be obtained in cash or non-cash, respectively, in quantities of wholegrain.

### **Example:**

A farmer or agricultural cooperative sends to a mill 100,000kg. wheat for milling. Price set for grinding services is 20% of the total amount of wheat. If the price per kg is € 0.20, then:

$100,000\text{kg.} \times 0.20\text{€} = 20,000.00\text{€}$  - total amount of wheat

$20,000 \times 20\% = 4,000.00\text{€}$  - value with VAT for wheat grinding services.

Thus, from mill is issued tax invoices for payment in accordance with Chapter 15 of Law no. 05 / L-037 on Value Added Tax, respectively, according to article 45 (for taxpayers) or Article 46 (for other persons), with the following accounting elements:

$4,000.00 / 1.18 =$	<b>3,389.83€</b>	.....	<b>Taxable amount</b>
$3,389.83 \times 18\% =$	<b>610.17€</b>	.....	<b>Calculated VAT</b>
$3,389.83 + 610.17 =$	<b>4,000.00€</b>	.....	<b>Total amount for payment.</b>

### **b) Personal Income Tax (PIT) or Corporate Income Tax (CIT) Treatment**

The value of the service (either in cash or wholegrain) related to the provision for grinding (adulterant) represents income from services of grinding (in the example above € 3,050.85 - if the service provider declares the VAT- or € 3,600.00 if the service provider is not declaring VAT).

While, deductible costs will allow all direct and indirect costs for creating these incomes.

## **II. GOODS (flour, middling/bran, etc) EXCHANGE TRANSACTIONS**

### **a) VAT treatment**

“Exchange transaction” means exchange of goods to a set equivalence. Pursuant to Article 2, paragraph 1, subparagraph 1.9 of the Law No. 05/L-037 on Value Added Tax, this transaction is considered as "barter transaction", quote:

*“1.9. Barter Transaction - a transaction including two parties, where one party provides goods, services or means excluding cash for the other party, in exchange for goods, service or mean excluding cash”.*

### **Example:**

If the farmer sends 100,000 kg. wheat to the mill, in order to exchange it with flour or middling (bran), this constitutes the exchange transaction. In this case both parties (farmer and mill) required to issue the invoice to each other for the respective goods, as follows:

- a. If the farmer is a taxable person (registered for VAT) shall issue the sale invoice for 100,000 kg. of wheat at market price of € 0.20 / per kg. to the mill.  
 $100,000 \times 0.20\text{€} = 20,000.00\text{€}$  (including VAT).  
The invoice shall contain all elements as provided by Article 45 of the Law Nr. 05/L-037 on Value Added Tax .
- b. If the farmer is a non-taxable person (not registered for VAT) issues the sale invoice for 100,000kg. of wheat at market price of 0.20€/per kg. to the mill.  
 $100,000 \times 0.20\text{€} = 20,000.00\text{€}$ .

- c. If the farmer as a natural person, not a business sign agreements with mill for the exchange of goods (wheat products with flour, middling/bran, etc.), The mill issues a internal invoice on behalf of farmer, which will be considered purchasing invoice for the mill.

**Example**  
**Calculation of exchange equivalence:**

Farmer sends 100,000 kg. wheat to the mill, in order to exchange it with the equivalent of the same me value goods.

The agreement between the farmer and the mill is concluded for exchange of goods as follows:

1. Farmer sends the wheat, as:

Description	Amount	Price per kg.	Total value
Wheat	100,000	0.20€	20,000€
<b>Total</b>			<b>20,000€</b>

2. The mill exchanges the goods, as:

- a. As equivalent gives flour and middling (bran):

Description	Amount	Price per kg.	Total value
Flour	52,000	0.3327	17,300€
Bran	30,000	0.09	2,700€
<b>Total</b>			<b>20,000€</b>

- b. As equivalent gives only flour:

Description	Amount	Price per kg.	Total value
Flour	60,115	0.3327	20,000
<b>Total</b>			<b>20,000</b>

- c. As equivalent gives only middling (bran):

Description	Amount	Price per kg.	Total value
Bran	222,225	0.09	20,000
<b>Total</b>			<b>20,000</b>

#### **b) PIT or CIT treatment**

On the occasion of the exchange transaction of goods as final products (flour or middling / bran) with wholegrain, incomes are not realized, since we only change the structure and value of merchandise goods exchanged is equivalent.

Incomes are expected to be realized in the future through the processing, i.e. wholegrain milling and sales of final products.

### **III. SALES OF FINAL PRODUCTS (FLOUR, MIDDLING/BRAN, ETC.)**

#### **a) VAT treatment**

If the mill sells its final products, such transaction is considered a supply of goods, as defined in Article 10 of Law no. 05 / L-037 on Value Added Tax.

#### **b) PIT or CIT treatment**

Incomes derived from the sale of final mill products treated like any other taxable income. Cost of goods sold is the sum of direct and indirect costs for income-related.

### **IV. PURCHASE OF WHEAT FROM FARMERS**

If mill purchase products from the farmer, the transaction is treated depending on whether the farmer is a natural person, legal person, or non-business natural person.

#### **a) VAT treatment**

If the farmer as non business person concludes an agreement for the sale of wheat to the mill, the mill issues an invoice in the name of farmer internally, which will be considered as purchasing invoice for the mill. If the farmer (the seller of wheat) possesses farmer registration document from the Ministry of Agriculture, Forestry and Rural Development, the mill shall apply the flat-rate scheme for the purchase of the wheat from the farmer.

#### **Example:**

The mill purchased 2,000 kg. wheat from the farmer (the crop producer) in a price of 0.20€ /per kg. the application of the VAT flat rate is calculated as follows:

**Flat Rate = 8%**

Amount	a	2,000 kg
Price per unit	b	0.20€
Value	c= a x b	400.00€
Deductable VAT	d= c / 13.5	29.63 €
Value without VAT	e= c-d	370.37€

**b) PIT or CIT treatment**

- ✦ If the farmer as non business person concludes an agreement for the sale of wheat to the mill, the mill issues an invoice in the name of farmer internally, which will be considered as purchasing invoice for the mill. Regardless if the farmer (the seller of wheat) possesses farmer registration document from the Ministry of Agriculture, Forestry and Rural Development, the mill is obliged to withhold tax (3%) on the payment conducted to the non-business natural person.

**Example:**

The mill purchased 2,000 kg. wheat from the farmer, with price per unit 0.20€ /per kg.

Amount	Price per kg.	Total value
2,000 kg	0.20€	400.00€

Milling is required to withhold tax (3%) to the gross payment of € 400.00. So, € 400.00 x 3% = € 12.00 tax withheld by mill. For withholding tax, mill submit a statement of withholding tax and remit the amount of withheld tax to an account designated by TAK in a bank or financial institution licensed by the Central Bank of Kosovo within fifteen (15) days after the last day of each calendar month

- ✦ If the farmer and mill are business natural persons or legal entities, the transaction will be treated as any other transaction within the regular economic activity.

Date: 01 / 12 /2015

Acting General Director, TAK

(Nahit Sharku)

