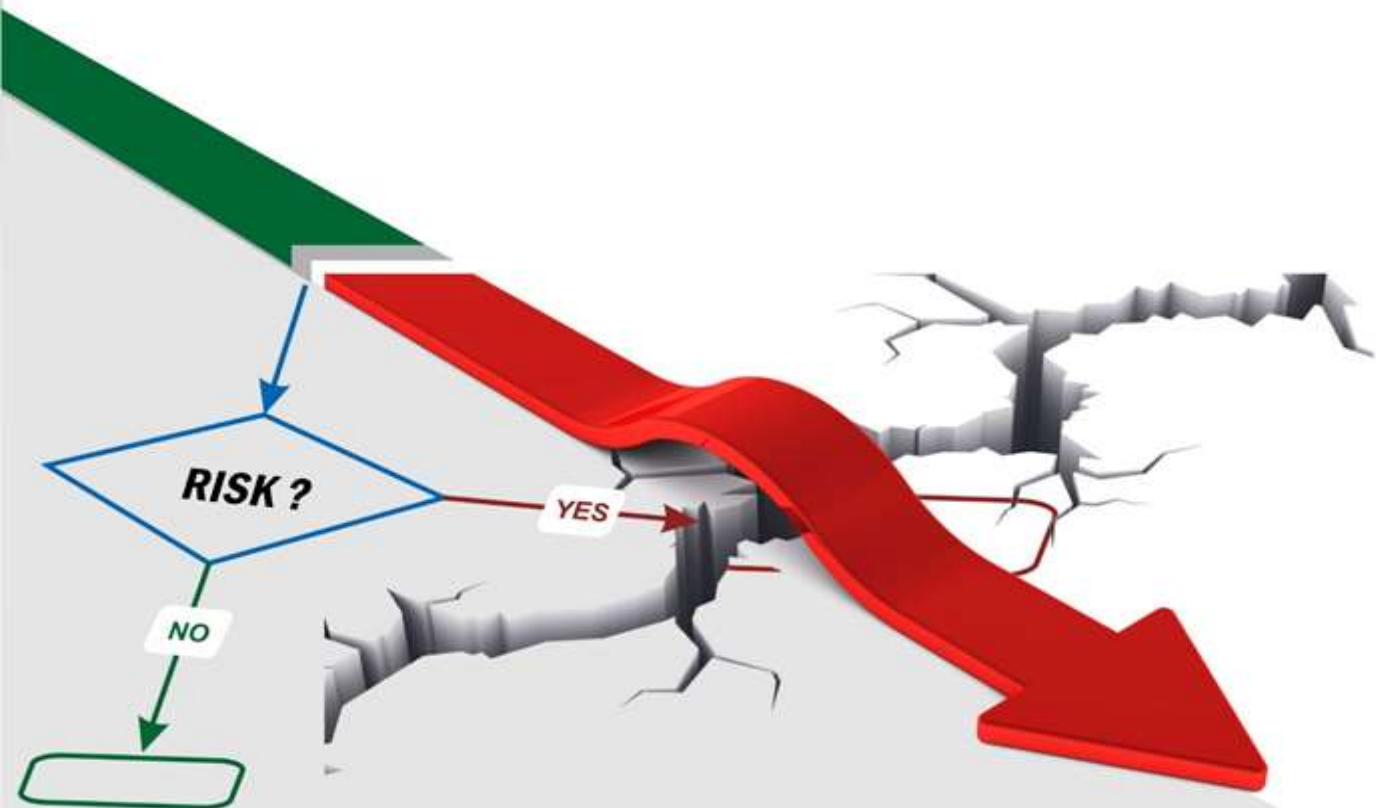




Administrata Tatimore e Kosovës
Poreska Administracija Kosova
Tax Administration of Kosovo



PLANI VJETOR I TRAJTIMIT TË RREZIQEVE PËR VITIN 2019

Annual Risk Treatment Plan for 2019

February 2019, Prishtina

Annual Risk Treatment Plan for 2019 outlines response actions that will bring forth outputs, which are expected to have an impact on the taxpayers' behaviour with regards to tax compliance.

This plan outlines the manner how the response can be addressed in order to achieve the highest effect possible on the taxpayers' behaviour among the target group, by using least sources possible and thus providing orientations for the Operational Plan, LTD and Regional Offices, on how to carry out tax compliance activities by the taxpayers.

Key Performance Indicators outlined in this plan will be used to determine whether we are successful in meeting our objectives and at the same time, these indicators will serve for the appraisal of staff directly engaged in compliance operations.

This plan has been approved in the regular meeting of TAK high-level management held on 08.02.2019 and as such is considered as a final version and ready for implementation.

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1. Compliance Risks Mapping

It is a responsibility of the Tax Administration of Kosovo to treat the applicability of all types of taxes, foreseen by the tax legislation in Kosovo, which as such is synthesized in four separate requirements:

1.1 Registration: *Each person, subject to any tax type administered by the Tax Administration, shall have registration as a primary obligation;*

1.2 Documentation: *Each taxpayer shall be obliged to keep record of the activities he is developing, as required by tax legislation;*

1.3 Declaration: *Taxpayers have to submit to TAK tax declarations according to the tax legislation, accurately and within the prescribed time limit;*

1.4 Payment: *Taxpayers have to pay tax liabilities within the prescribed time limit.*

Below you may find all the risks identified for 2019, broken down by four compliance areas:

	Main Risks	Size	Non-compliance rates ¹		
			2016	2017	2018
Registration	Failure to register taxpayers	Micro	2.0%	1.5%	1.7%
	Failure to register to relevant tax accounts	Mic/S/Med.	5.1%	3.5%	4.1%
	Failure to register employees	All	10-13%	10-13%	10-13%
	Absence of taxpayer related specific data	Mic/S/Med.	1.4%	1.4%	1.4%
	Failure to update taxpayer data	All	11.4%	10.3%	10.0%
Documentation	Non-equipment with fiscal cash registers	Mic/S/Med.	62.1%	60.4%	55.5%
	Failure to issue fiscal receipts ²	All	9.1%	7.5%	6.1%
	Failure to keep records ²	Small, Medium	8.6%	10.6%	9.6%
	Erroneous records ²	All	2.1%	1.7%	2.0%
	Fictitious records ³	All	1.1%	1.6%	1.4%
Declaration	Failure to declare incomes ³	All	43.8%	36.0%	34.8%
	Under-declaration ³	All	21.4%	21.6%	24.4%
	Inadmissible deductions ³	Me/La/LTD	26.4%	26.6%	27.9%
	Ungrounded reimbursement claims ³	Me/La/LTD	24.5%	38.9%	47.1%
	Failure to submit tax declaration	All	29.7%	33.1%	37.9%
	Late submission of declaration	All	28.6%	25.7%	19.6%
Payments	Old debts	All	35.2%	20.8%	9.6%
	Critical debts	All	1.6%	1.5%	1.2%
	New debts	All	5.2%	7.1%	16.4%
	Late payment	All	17.0%	13.0%	12.0%

¹ These data represent the data generated by the VKME module and represent **orienting** data for the risk trend by respective fields.

² Data on non-compliance rates related to: Failure to issue fiscal vouchers, Failure to keep books and records, and Erroneous registrations, represent the number of fines issued for these issues compared to the total number of visits per each relevant year.

³ Non-compliance data rates related to: Fictitious records, Failure to declare income, Under-declaration, Inadmissible deductions, ungrounded reimbursement claims, represent the number of audits with these cases from the total number of audits per the corresponding year.

2. VAT Compliance Risks

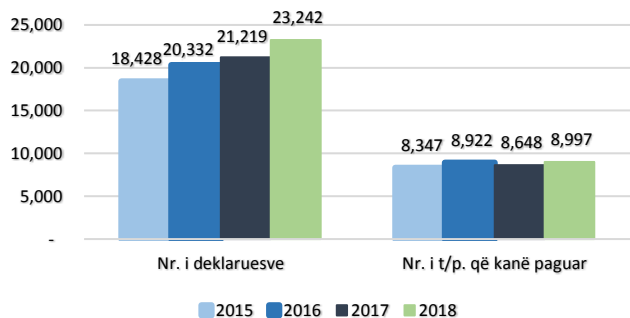
A total of 5 different risks were identified on VAT:

➤ Continuous lending

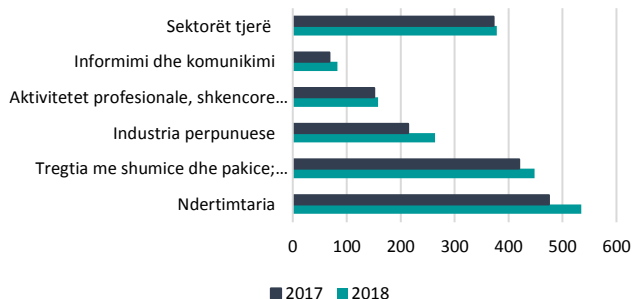
Out of 23,460 taxpayers who declared VAT during 2018, only 40% of them had payment obligation at least once during the entire relevant year.

➤ Failure to apply reverse charge in the construction sector

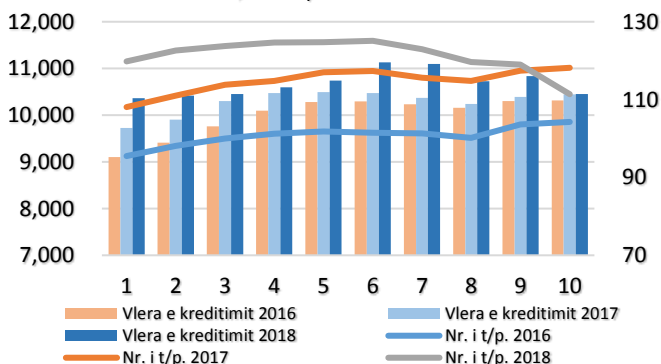
There are a number of businesses in the Construction sector who fail to comply with the legal basis, thus making under-declarations. Out of the total number of the VAT filers, 1,866 t/p have filled in the line 28 in the VAT declaration.



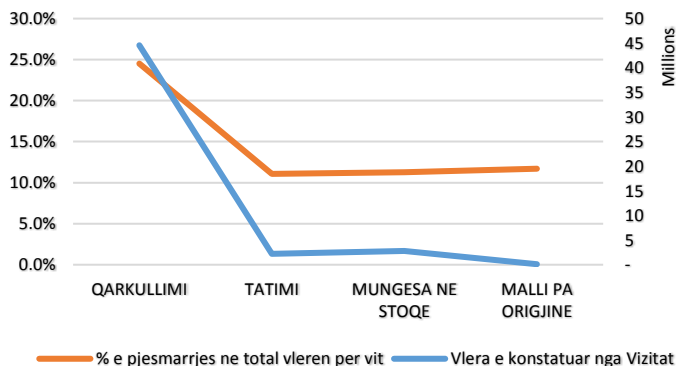
Number of tp that have filled in the line 28 in the VAT declaration



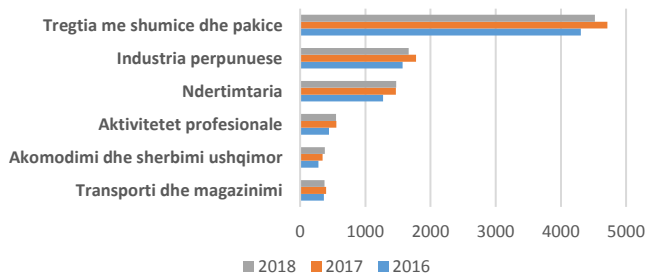
Number of t/p. with lending in the VAT and lending amount, January-October 2016-2018



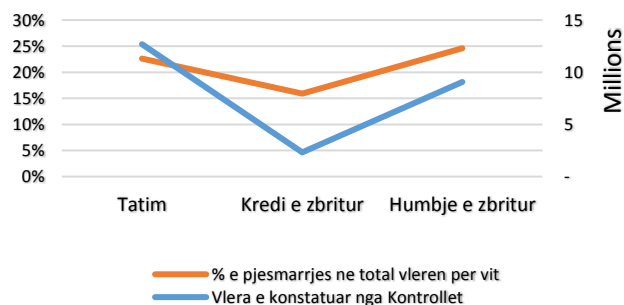
Findings from the visit in the construction sector during 2018



N. of tp. with lending by main sectors for the period October/2016-2018.

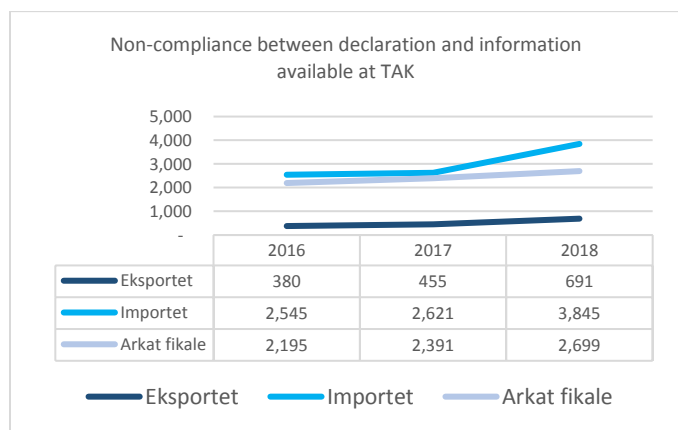


Findings from the audits in the Construction sector during 2018



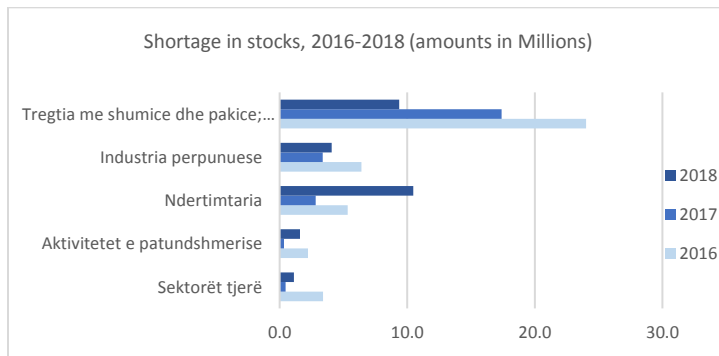
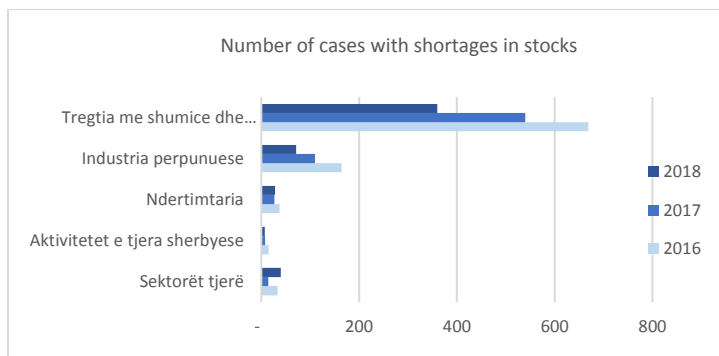
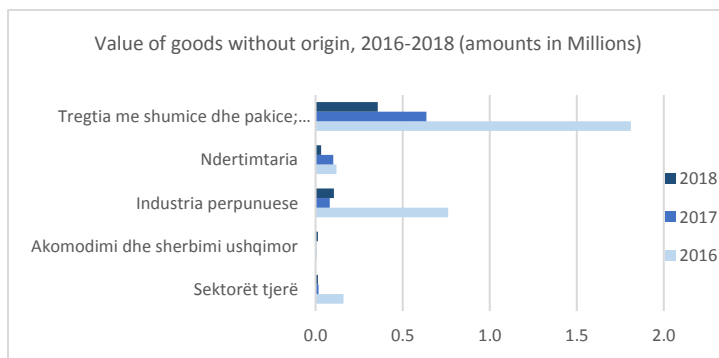
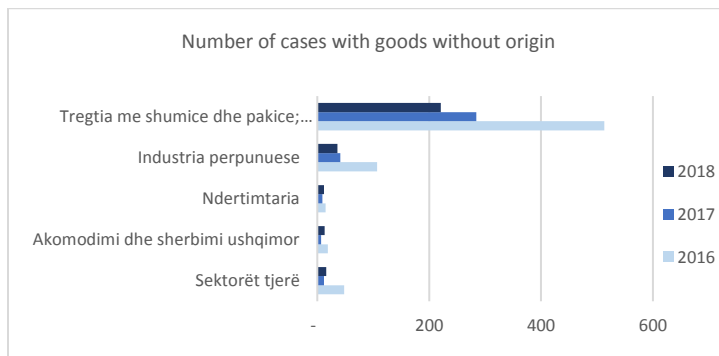
➤ Non-compliance between declaration and information available at TAK

There are also a number of taxpayers who did not declare the accurate amount of imports or exports in their VAT monthly declarations, or have non-compliance between turnover in fiscal cash register and that declared in VAT declaration. Based on data reports by third parties and the data from the fiscal cash registers, the number of non-compliant t/p by years is as follows:



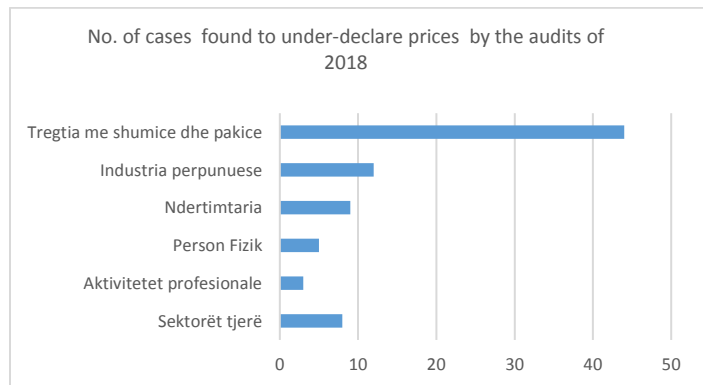
➤ Goods without origin & shortage in stocks

There are still a significant number of taxpayers facing the problem of goods without origin as a result of purchases without invoice and non-declared sales, thus reflecting in the shortage in stocks. Such risk is mainly present in sectors with high stocks values, such as: Trade, Processing Industry, Construction, etc. Find below the results of field visits with regards to the goods without origin & shortage in stocks for the period 2016-2018.



➤ Under-declared sale prices

This treatment is aimed at all those businesses which do not declare the accurate sale price of the goods, according to the open market value. Out of 1,714 completed audits, 5% of them, namely 81 cases, resulted in findings related to the under-declared sale price.

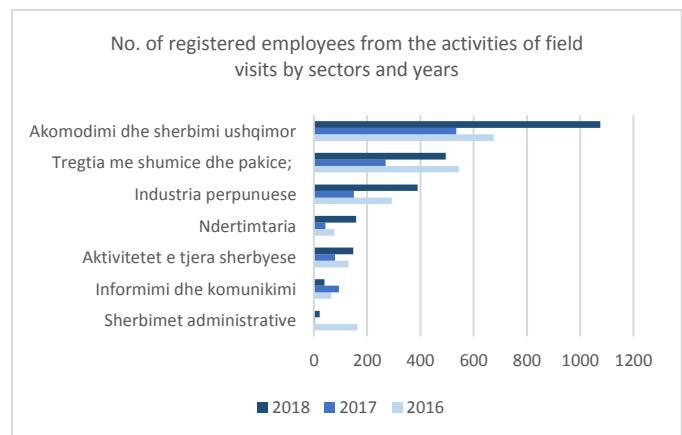


3. CIT/PIT Compliance Risks

Risk identification was also carried out for two other types of taxes, Personal Income Tax and Corporate Income Tax, which include the following:

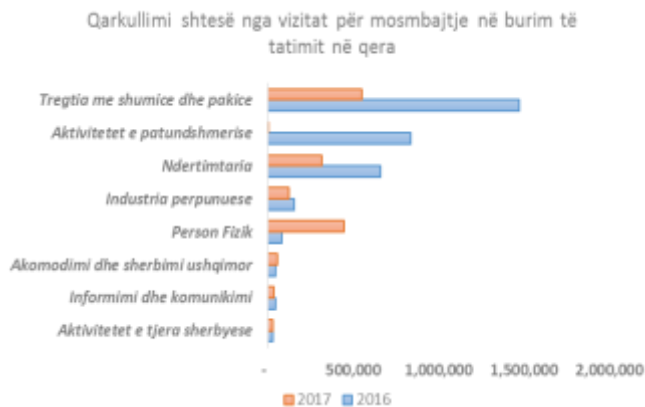
➤ Failure to withhold taxes

Based on the analyses carried out, and the report for assessing the expansion of informal economy in Kosovo, published in November 2017, around 45 thousands fulltime employees are employed in informal economy and the vast majority in the agriculture sector. Only, during January -December 2018, based on the field activities, around 2,329 employees have been registered in different sectors. When compared to other years 2016 and 2017, the vast majority of records from visits have taken place in the Accommodation and Food Service and Wholesale and Retail Sale sector.



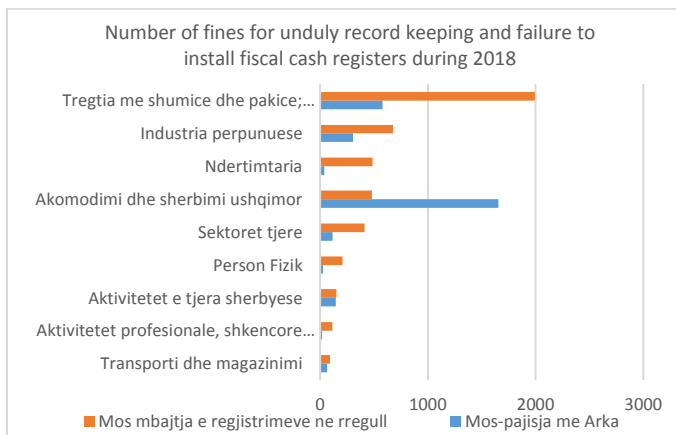
An additional turnover of more than 1.6 million euros and additional taxation of more than 260 thousand euros have resulted from the field visits for the period January-November 2017, for failure to withhold rent tax. From over 16 thousand filers in WR for 2017, 40% of those who have withheld the rent tax pertain to Wholesale and Retail Sale sector, 10% to the Processing Industry, 7%

Professional Activities and 4% to the Construction, as sectors mentioned in the recent publications on informal economy too.



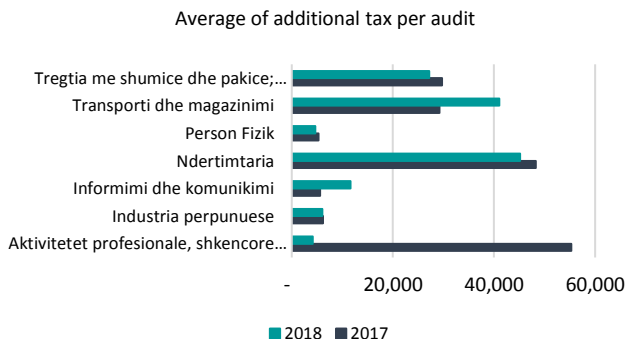
➤ Failure to keep or inaccurate keeping of records

Based on field activities carried out during this year, the largest number of fines for failure to install fiscal cash registers has been imposed in the Accommodation and Food service sector. Find below the graphical presentation of sectors with the highest number of fines imposed for failure to install fiscal cash registers, failure to issue fiscal receipts and unduly record keeping for 2018.



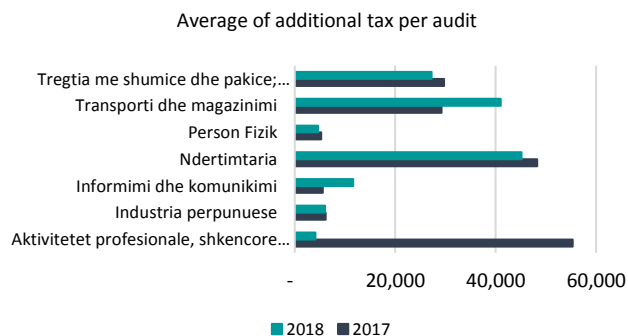
➤ Inadmissible deductions

Based on the results of audits carried out during the period January - December 2018, in order to verify whether the expenditures are accurate or have been over-declared, it results that Construction, Transport and storage are the two sectors with the highest average of additional tax per audit.

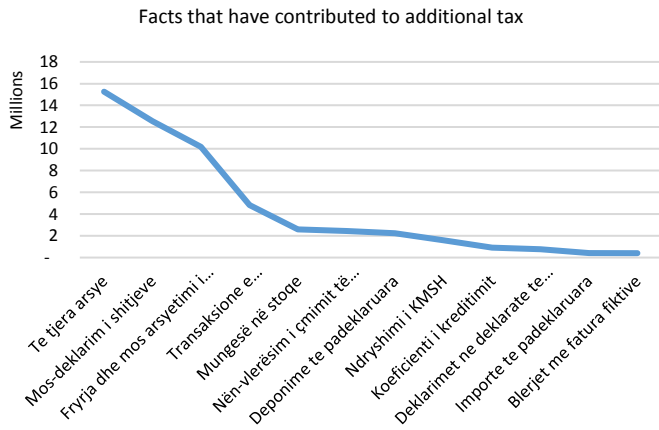


➤ Under-declarations

Another frequent phenomenon includes the inaccurate declarations or under-declarations. Referring to the results from field visits, Transport, storage and Human health activity sectors have the highest average of additional tax per audit.



Facts from audits: Find below all facts that contributed to the additional tax.



4. Non-filers

A phenomenon representing a high concern for TAK includes **non-filers and stop filers**. While the non-filers are the taxpayers who have never submitted a tax declaration, the stop filers are those taxpayers who have declared but have stopped declaration.

Pursuant to the Administrative Instruction on treatment of non-filers, dated 29.11.2017, the types of non-filers and stop filers identified by TAK include the following:

- Active persons who carry out economic activities, but who do not declare,
- Persons whose tax accounts have not been closed on the date of issuance of the tax certificate for closure,
- Persons deregistered in KBRA, but not closed by TAK,
- Non-active persons, but whom have initiated no procedure for business closure,
- Persons who have changed their status and declare with a new fiscal number,
- Persons who are temporarily inactive and do not inform TAK for temporary passivation,
- Persons with open IS/QS accounts, whereas are taxed in real incomes and vice versa,
- Persons with active tax account, who are not obliged to declare via that account,
- Non-business natural persons who have active account, who are not obliged to declare via that account.

Given that there is an on-going increase of missing tax declarations, as defined in the AI, TAK should identify those taxpayers who do not declare or stop declaration and establish an on-going process to track non-filers and stop filers.

Treating non-filers pursuant to the Administrative Instruction **for monthly declarations** will include the following steps:

1. In case of the failure to declare for the first time for the relevant period, the taxpayer shall be informed via a message or electronic mail (e-mail), whereby reminding him about the declaration for the relevant period.
2. In case of the failure to declare for two subsequent periods, the taxpayer shall be contacted by the Call Centre, whereby requesting the submission of declarations for undeclared periods.
3. In case of the failure to declare for three subsequent periods, the Regional Office should contact the taxpayer and verify the taxpayer status in order to ensure declarations and process them.
4. In case of the failure to declare for four subsequent periods, the Regional Office shall approve the deactivation of tax account, withdrawal of VAT certificate, as well as take all other actions, such as informing customs, publishing the lists and other actions pursuant to the procedures for withdrawing the VAT certificate.

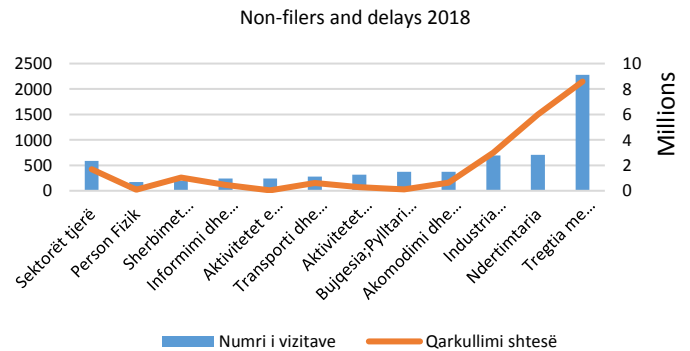
While the treatment of non-filers pursuant to the Administrative Instruction for **quarterly and annual declarations** will include the following steps:

1. In case of failure to declare for the relevant period, the taxpayer shall be informed via a message or electronic mail (e-mail), whereby reminding him about the declaration for the relevant period.
2. Then the taxpayer shall be contacted by the Call Centre whereby requesting to submit a declaration for the non-declared period.
3. Regional Office should contact the taxpayer and verify the taxpayer status in order to ensure and process the declarations.

4. In case of the failure to declare, the Regional Office shall approve deactivation of tax account, following the completion of all the procedures by Operations, including compulsory collection procedures.

conducted visits and additional turnover of 3 million euros; accommodation and food service with 374 conducted visits and additional turnover of 632,791 euros, and so on.

Based on the report data in the VKME, the number of visits for non-filers and delays in the period January – December 2018 in different sectors, the leading sector with an increase in turnover is the Wholesale and retail sale with 2,278 visits, then the construction sector with 704 visits carried out and additional turnover of more than 8.5 million euros; carried out with an additional turnover of over 6 million euros; processing industry with 695



5. Specific compliance plans for Risk Groups for 2019

Based on the compliance data analysis during 2018, these analyses are also reflected in the risk identification section reflected in this document by various divisions such as: scope of fulfilment, tax types, size of businesses or industries, as well as based on the IMF's recommendations of the December 2018 mission, the following are the specific compliance plans to be drafted based on compliance analysis and to be implemented during 2019.

Construction Industry:

- Compliance analysis, drafted in Q1-2019
- Compliance plan implemented from Q1-2019 onwards

Accommodation & catering industry:

- Compliance analysis, drafted in Q1-2019
- Compliance plan implemented from Q2-2019 onwards

Informal employment:

- Compliance analysis, drafted in Q2-2019
- Compliance plan implemented from Q3-2019 onwards

Goods without origin & shortage in stocks:

- Compliance analysis, drafted in Q2-2019
- Compliance plan implemented from Q3-2019 onwards

Failure to register:

- Compliance analysis, drafted in Q3-2019
- Compliance plan implemented from Q4-2019 onwards

Field activities related to the selection of cases for audits or visits related to the implementation of these plans will be based on the risk analysis module, respectively cases that have high risk rating within these groups or the selection of cases that would result from other analyses that are made when drafting specific plans.

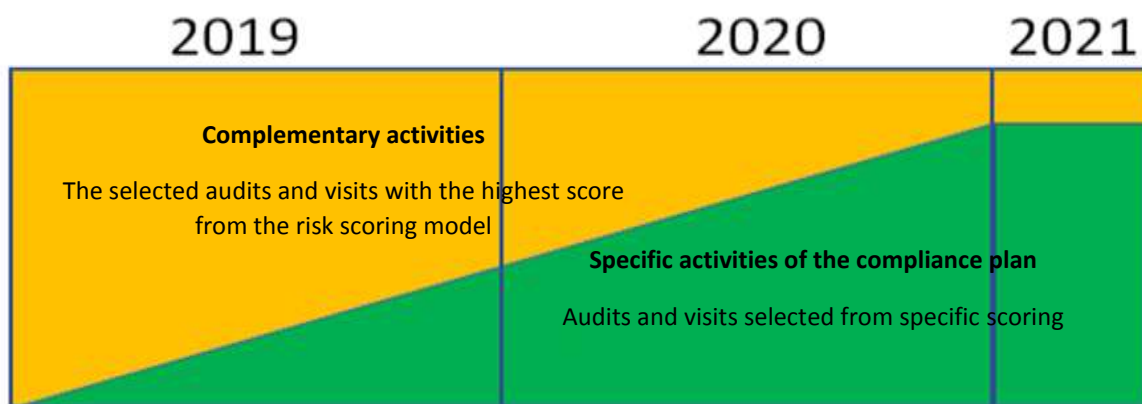
Regarding the distribution of audits and visits from the annual total of these activities, the plan foresees a continuous reduction of the assignment of cases from complementary activities which are based exclusively on high risk scoring from the risk analysis module, creating ever greater space for activities based on the implementation of Specific Compliance Plans that would also use the Risk Analysis Module, however focusing on previously targeted risk groups through the specific compliance plans.

Based on the aforementioned approach regarding the distribution of audits and visits for 2019, 30% of the total of these activities are planned for the implementation of specific

plans, with the intention that in subsequent years this percentage should increase significantly up to 90% of the cases dedicated to the implementation of these plans.

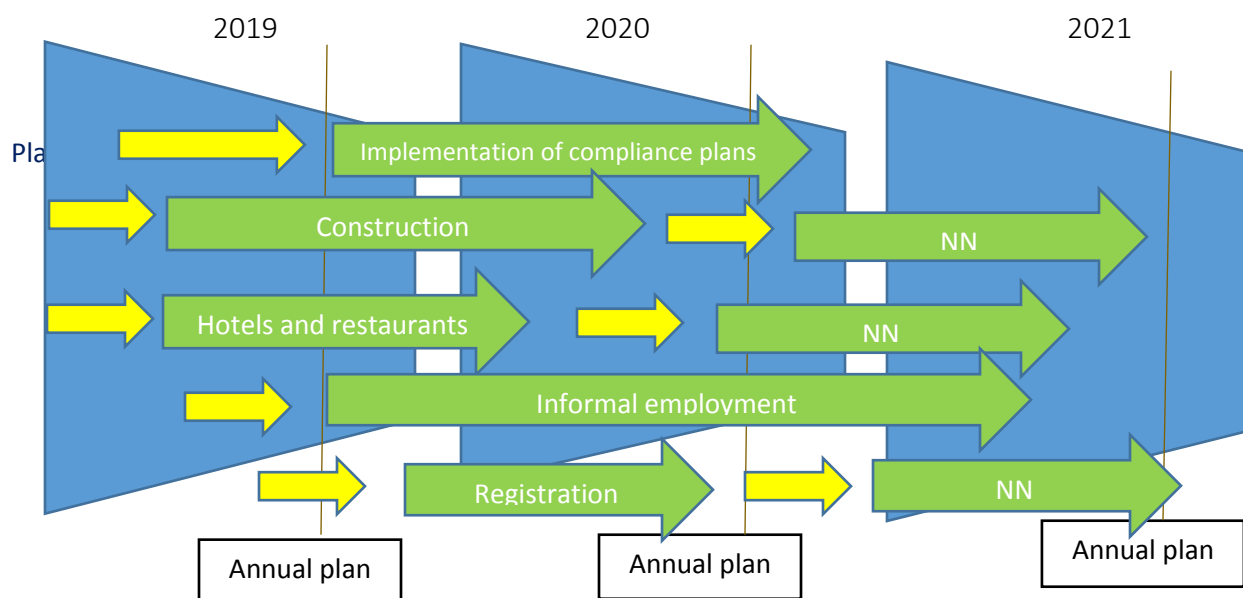
In order to elaborate the distribution approach of audits and visits, we will present the model proposed by the IMF during the December mission 2018.

Distribution of audits and visits – principles-based model



The implementation of some of the specific compliance plans, planned for 2019, may continue through the subsequent years, depending on the process of analysis while drafting these plans. An example obtained from the IMF's recommendations regarding specific plans and their implementation is presented below.

Compliance analysis, planning and implementation – example



6. Plan related to complementary compliance activities for 2019

Plan related to complementary activities includes all the audit and visit activities, which are not part of specific compliance plans for risk groups 2019.

Selection of cases for audit within this plan shall be made based exclusively on the risk module, performing thus the selection of cases which have a higher risk rating, regardless of the sector they pertain to, focusing mainly on the medium and large businesses. The visits will also be assigned from the risk module, with a more emphasised focus on small businesses, by focussing in the treatment of the risks with a high degree of risk. The table showing the distribution of visits related to the complementary compliance activities is presented below.

Distribution of visits related to the complementary compliance activities 2019						
Sector coverage						
Wholesale and retail sale sector 30%	Processing industry sector 20%	Other service activities 15%	Financial and insurance activity sector 5%	Real estate activities sector 10%	Other sectors 20%	=100%
Taxpayers size						
Micro & Small 50%		Medium 30%		Large & LTD 20%		=100%
Types of visits and their focus						
Reliability of documents 25%	Visits for fiscal cash registers 15%	Visit for monitoring & collection of info 10%	Visit for reimbursement 10%	Visit regarding the failure to declare 10%	Other visits 30%	=100%
<ul style="list-style-type: none"> • Continuous lending; • Transactions with non-active taxpayers in Purchase-Sales Books; • Frequent correction of declarations; • Noncompliance between declaration and information from third parties. 	<ul style="list-style-type: none"> • Failure of the businesses to equip with fiscal cash registers; • Failure to issue fiscal receipts; • Higher turnover in cash register than declared. 	<ul style="list-style-type: none"> • Visits to under-declaring businesses; • Visits to businesses with increased work intensity; • Other visits aimed at collecting various information. 	<ul style="list-style-type: none"> • Related visits aimed at verifying the required amount of reimbursement by taxpayers. 	<ul style="list-style-type: none"> • Non-filers of VAT, PD, CD, IS, QS, WR, IR, WM; • Late declarations of VAT, PD, CD, IS, QS, WR, IR, WM; • Declaring with zero VAT, PD, CD, IS, QS, WR, IR, WM; • Failure to declare books (PB & SB). 	<ul style="list-style-type: none"> • Continuous losses; • Turnover close to the threshold for registration in VAT or PD/CD; • Lower tax liability than the average of the sector; • Other registration or deregistration visits. 	

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