COMPLIANCE STRATEGY 2021-2025

April, 2021
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The purpose of the Compliance Strategy is to create a compliant environment, facilitating the compliance process through continuous improvement of the quality of services for all taxpayers who voluntarily fulfill their legal obligations, while on the other hand implementing the rule of law based on risk through the identification and treatment of all those taxpayers who are hesitant or have decided not to fulfill their legal obligations.

We are aware that we need to create conditions within the Tax Administration of Kosovo (TAK), to achieve the easiest compliance, in order to gain public confidence in our ability to administer the tax system in a fair and transparent manner. Without public trust, we will find it difficult to implement a system of self-assessment and voluntary compliance.

We believe that the most effective way to gain and maintain voluntary compliance is through building relationships of trust and mutual respect between the Tax Administration and Kosovo taxpayers. This is why our strategy contains an emphasis on improving our services to the public, so that we fulfill expectations, as well as deliver the services they deserve.

Our operating environment is constantly changing and presents us with many challenges. To overcome these challenges, we need new approaches, regulations and effective skills that are able to anticipate and respond in ways that support our aspirations to create an environment where taxpayers act in accordance with the law.

In carrying out our compliance activities, we will endeavor to ensure that our approach does not unnecessarily impede the efficient functioning of taxpayers by applying a risk-based and proportionate approach. We will carry out compliance activities in a coordinated, efficient and effective way by applying our resources, where they will have the greater impact.

We will focus our interventions on high-risk, low-compliance operations while supporting compliant taxpayers with timely, appropriate, and accurate information that allows them to voluntarily fulfill their obligations.

Implementation of this strategy will require a partnership between TAK and all stakeholders, including the taxpayers themselves and the various forms of their organization, because we cannot achieve our goal without the support of others. I am confident that you will join me in efforts for improvement, which will have a continuous impact on raising the voluntary compliance.

[signed]

April, 2021
I. EXECUTIVE SUMMARY

The Compliance Strategy 2021-2025 is a document drafted by TAK in full cooperation with its partners. This document covers all the measures that TAK intends to implement in order to continuously increase the fulfillment of tax obligations by taxpayers.

**Voluntary compliance** means the declaration and payment of tax obligation by the taxpayer, respecting the legal provisions regarding the amount of tax to be paid and compliance with the deadline for payment of this amount, without the intervention of TAK.

In the Tax Administration we are convinced that most taxpayers honestly fulfill their tax obligations thus contributing to the increase of state revenues to cover public expenditures. The number of conscientious and honest taxpayers, who voluntarily fulfill their legal obligations, is constantly increasing and TAK intends to provide assistance to these taxpayers to facilitate the fulfillment of tax obligations. However, it is known that some individuals still do not want to fulfill their tax obligations.

The main challenge of TAK is to identify and treat individuals or businesses that do not voluntarily fulfill their tax obligations, which are defined by tax legislation. Regarding this group, the Tax Administration will take over the efforts to detect and treat such taxpayers by taking forced measures so that this group also moves towards fulfilling the tax obligations.

Failure to meet tax obligations by these individuals or businesses, in addition to having an extremely negative effect on revenues to the Kosovo budget, it also severely damages fair competition and beyond.

**The purpose** of this Strategy is to create an environment that strongly supports the fulfillment of tax obligations by taxpayers, thus reducing the tax gap. The Compliance Strategy describes our approach to compliance in general and actions on how the response can be done in order to achieve the highest possible effect on the behavior of taxpayers, so that even non-compliant taxpayers fulfill their tax obligations.

So, this Strategy will guide TAK to direct compliance capacity towards **reducing the tax gap**, which represents the difference between potential revenues and collected revenues.

**The vision** of the Compliance Strategy 2021-2025 is to develop a sustainable system, which will raise the level of fulfillment of tax obligations by taxpayers to the same level as that of the best European countries, thus reducing the tax gap to the level of these countries.

This is the vision that orients the measures and activities foreseen in this document. Changing the taxpayers attitude towards compliance is intended to be achieved through the provision on the one hand of quality services and various facilitations in fulfilling tax obligations, for all compliant taxpayers, while on the other hand increasing the overall capacity of TAK based on the risk approach to prevent, detect and treat all those taxpayers who choose not to fulfill their obligations.

The strategic **objectives** that are intended to be achieved through this Strategy are to maximize the fulfillment of tax obligations by taxpayers, by providing an effective and efficient service of tax collection and contributions. The pursuit of this objective aims to protect the revenues of the Government and encourage the observance of the voluntary compliance with tax obligations, by building the trust of the community on a tax system of the country, which is widely implemented.
II. INTRODUCTION

Context

The Tax Administration of Kosovo, as an Executive Agency with full operational autonomy within the Ministry of Finance, is responsible to administer the applicability of any type of tax applied by tax legislation in the Republic of Kosovo.

TAK's mission is to collect revenues, which enable fair and transparent financing of public services, such as: infrastructure, security, education, health, social welfare programs, etc. Therefore, it is the responsibility of taxpayers to help the economic development of our state through the declaration and payment of tax obligations.

In function of fulfilling its mission, TAK continues to improve revenue collection year after year to support the aspirations of the Government of the Republic of Kosovo and its people in increasing social welfare and economic development in Kosovo.

The art of good Tax Administration lies on creating an environment that strongly supports the fulfillment of tax obligations by the taxpayer. This Compliance Strategy explains how TAK will achieve its goal.

The Compliance Strategy 2021-2025 follows the previous Strategy 2012-2015, which shows an overall success in TAK by increasing revenues more than double the economic growth, thus collecting a significant amount of revenues in the same time and reducing the tax gap in the country. Most of the success was achieved through measures designed to improve voluntary compliance, both through the provision of new services and the application of a risk-based approach, through the identification of key risks and defining of measures to address them.

This strategic document describes our approach to compliance in general and in particular the actions we will take to provide on the one hand quality services and various facilities in fulfilling tax obligations, for all compliant taxpayers, while on the other hand, general TAK capacity building based on risk approach to prevent, detect and treat those who choose not to fulfill their obligations.

This document provides for linking to other strategic documents, existing or future TAK commitments in order to avoid overlaps, additional costs due to duplication of effort at different levels of function or financial and human resources used.

Find below a list of strategic documents which this document refers to:

- "TAK Strategy 2021-2025";
- "Strategy for Improving Control 2020-2022";
- “TAK Compliance Strategy 2012-2015”;
- "Handbook regarding control procedures and techniques".
In carrying out its activities, TAK is committed to being a modern regulator that supports taxpayers in meeting tax obligations. TAK has successfully completed its mission for 20 years and has achieved an extraordinary level of expertise and professionalism. We emphasize the following values and ethical principles on which the work is based in the realization of daily activities, as follows:

- **The principle of legality:** the actions taken are based on the provisions provided for in the Constitution of the Republic of Kosovo, the legislation in force and international agreements.

- **The principle of proportionality:** our activities will be based on the risk posed, which means exercising authority only when necessary and only to the extent necessary to achieve legitimate objectives, with appropriate means and methods, as soon as possible.

- **The principle of reliability:** to strive to gain the trust and respect of the community by being consultative and cooperative, our communications will be strong and reliable and we will respect the advice given by others. Our rules and standards will be incorporated and applied fairly.

- **The principle of impartiality:** Employees of the Tax Administration are impartial, selfless, trustworthy and respect the principles of professional ethics in cooperation with taxpayers. They perform their duties without any undue influence.

- **The principle of transparency:** our activities will be justifiable and open to public scrutiny, with clear and achievable policies and a fair and efficient complaint procedure. We will aim to keep our published guidelines simple and user-friendly to help taxpayers understand what is expected of them and what they can predict in return.
IV. OUR METHODOLOGY OF COMPLIANCE

Meaning of compliance

- **What is compliance?** Compliance is the extent to which taxpayers implement or do not implement the applicable tax legislation.

- The non-compliance rate is called the tax gap and represents the amount of tax obligation faced by taxpayers that are not paid on time, i.e. represents the difference between potential revenue and revenue collected.

One of the core strategic objectives of this Compliance Strategy is to increase voluntary compliance. TAK strives to be able to ensure the continuous implementation of legislation, with a professional approach and in order to maintain confidence in the tax system. It is important to encourage voluntary compliance with tax obligations for the main types of taxes leading to an increase in fiscal discipline, in order to increase budget revenue collection, while consequently reducing the tax gap.

Requests to taxpayers for meeting tax obligations can be categorized into four main tax obligations, as follows:

Fulfilling the tax obligations is related to the extent to which taxpayers meet these four main obligations mentioned above. Taxpayers who fail to comply with any of them may be considered non-compliant, although the reasons for non-compliance can range from unintentional error to intentional actions.

We at TAK believe that most taxpayers are willing to do the right thing and take the necessary steps to meet their tax obligations. A smaller number of taxpayers want to be compliant, but do not always succeed, and an even smaller number either do not want to comply or have decided not to comply.
Our compliance methodology seeks to reflect a structured way of understanding what motivates people to be compliant, or non-compliant, and this helps us tailor our responses and interventions in order to influence taxpayer behavior in a positive way.

We adopt a compliance approach that responds to different categories of taxpayer behavior and seeks to influence that behavior by encouraging and assisting them for compliance. In this context, there are two basic elements on which the Compliance Strategy is based:

- **Voluntary Compliance** - Our goal is to increase voluntary compliance by ensuring that taxpayers properly understand their rights and responsibilities, providing them with accurate and timely information, quality services, providing fiscal incentives, establishing simple and clear administrative procedures in order to prevent legal violations, clarifying the law and clearly expressing our opinion on the law.

- **Enforced legal measures** - The measures and activities envisaged in aim to increase the efficiency of the implementation of the existing legal framework, thus resulting in increased voluntary compliance through discouraging non-compliance by implementing enforced legal measures for all non-compliant taxpayers.

Our compliance approach depends on the TAK compliance model (below) that recognizes the taxpayer's different attitudes toward compliance, ranging from willing to do the right thing, to those who have decided not to comply. Taxpayer behavior is influenced by a number of factors, such as: Industry, Economic, Psychological, Sociological and Business factors.

The compliance pyramid in the figure shows the taxpayers attitudes and the TAK respective strategy, towards different taxpayers’ behaviors. As can be seen from the pyramid, most taxpayers fall into the bottom two parts of the pyramid and are willing to do the right thing, while a smaller number of taxpayers make up the two main parts where taxpayers behavior becomes less compliant.

According to our approach, the purpose of compliance is to put pressure at the bottom level and push taxpayers towards being willing to do the right thing voluntarily.
V. MISSION, VISION, VALUES AND STRATEGIC OBJECTIVES

Our mission
"We are here to collect taxes and contributions, to support the economic development and well-being of the citizens of Kosovo."

We will be successful if the expected government revenues are collected to provide important government services, largely through the taxpayers voluntary compliance under Kosovo tax laws, and if employers provide the required contributions for pension savings and other contributions to their employees.

Our vision
"To be credible and respected, as well as to be well comparable to the leading tax administrations in Europe."

A good tax system is a product of good tax policies and legislation, and of a good administration. We have described our vision in this way because experiences around the world show that revenue collection is most effective in case of taxpayers voluntary compliance and this is achieved when they have confidence and respect the tax authority, as well as consider it to be very competent.

Our values
1. Transparency
2. Integrity
3. Professionalism

We have selected these values because we consider them to reflect what we believe will be most important as we strive to carry out our mission and achieve our vision.

We believe that these values should be applicable in the way we treat taxpayers and the various partners we work with, and will work with each other and other TAK members. We want these values to be evident in everything we do.
Strategic Objectives

1. Information, education and provision of quality services

Strategic Objective - Provide clear and effective channels of communication with taxpayers, helping them to meet tax obligations as easily as possible and at a low cost.

- Providing advanced on-line systems which enable easy access to all elements of the law;
- Providing on-line all services, as well as creating additional channels and forms of communication;
- Engage all stakeholders in order to seek ways to alleviate compliance problems and continually simplify administrative procedures;
- A comprehensive website with detailed information about the taxes and the various circumstances in which a tax obligation will arise;
- Regular webinars that enable taxpayers as well as other parties to attend online seminars from their offices/homes;
- A professional staff, dedicated to educating and assisting taxpayers in fulfilling legal obligations;
- A Call Center to answer taxpayer questions.

2. Risk-based approach

Strategic Objective - A risk-based approach, to identify and prevent non-compliance by defining and prioritizing our actions according to risk factors.

- Continuous expansion of data source and programs to identify non-compliance in different sectors or groups of taxpayers;
- Application of sophisticated systems for identification of high risk non-compliance;
- We will develop specific compliance plans for sectors or groups of taxpayers at high risk of non-compliance, where all TAK field activities will be oriented in order to address these risks;
- Use and analyze different data to better understand non-compliant behavior;
- We will regularly review our compliance risks as new information and evidence is identified.

3. Implementation of enforced measures

Strategic Objective - Enforce the rule of law in order to discourage non-compliance and collect unpaid taxes.

The purpose of our Strategy is to increase or maximize voluntary compliance by encouraging, assisting and facilitating the compliance process so that all taxpayers voluntarily meet their tax obligations. In circumstances where taxpayers intentionally seek to evade or exploit the system for the purpose of non-compliance, we will use the full force of law to achieve enforcement of law regarding compliance. These measures include:
• Initiation of tax assessment by TAK through the tax audit procedure, in all cases where the risk assessment results in suspicions of inaccurate tax declaration;
• Application of legal provisions related to tax risk assessment, initiating immediate assessment of tax obligation to taxpayers;
• In cases where it is deemed necessary, the use of the legal power of the TAK to conduct a legal investigation into tax evasion;
• Confiscation of the taxpayer's property in all cases when other measures with the purpose of collecting the debt from the taxpayer have failed.

4. Human capacity building

Strategic Objective - Increase the compliance skills and competencies of TAK staff in order to increase taxpayers' confidence that compliance activities reflect TAK values.

• Allocate sufficient resources to ensure the proper functioning of TAK compliance functions;
• Continuous education, profiling and training of TAK staff, motivation and reward of excellence;
• Support the compliance functions with appropriate systems and methods;
• Investing in systems, expanding data source, building analytical and forecasting skills.

VI. IMPLEMENTATION MONITORING, REPORTING AND EVALUATION

Monitoring, reporting and evaluation of the implementation of the Compliance Strategy will be done through the action plan for the implementation of the TAK Strategy. Monitoring will be an ongoing process, which will be carried out by the Department of Risk Management and Planning.

The report on the implementation of the action plan will take place on a regular quarterly basis.

Reports will be submitted to TAK Senior Management for approval.