

Issue 02/15

To keep you up-to-date with the latest economic and financial developments, this bulletin prepared by our Tax Team provides information that may affect the operation of your business in Kosovo.

Kosovo Parliament has recently approved a new fiscal package covering VAT, Corporate Income Tax and Personal Income Tax.

The new fiscal package will enter into force on 1st of September 2015.

VALUE ADDED TAX

New VAT Law no. 05/L-037 replaces the previous VAT Law no. 03/L-146. The main changes introduced in the New VAT Law are summarized below.

- **VAT threshold** is reduced to EUR 30,000 (previously EUR 50,000). The law specifies that the registration is required from the moment when total supplies within a calendar year exceed the VAT threshold.
- **Standard VAT rate** is increased from 16% to 18%.
- **Reduced VAT rate of 8%** is used for some specific supplies such as electricity, water, grains, products made from grain, salt, eggs and dairy for human consumption, textbooks and serial publications, information technology equipment, medicines, pharmaceutical products, instruments, medical and surgical devices, ambulances etc.
- **Foreign persons engaged in an economic activity in Kosovo** are considered taxable persons from the beginning of the economic activity, regardless of the VAT threshold.
- **Non-profit organizations shall not be considered as taxable persons** for payments deriving from membership, funds, grants and donations received for the purpose of their non-profit activity, unless the organization receives payments as a result of an economic activity.
- **Taxable persons cannot be de-registered** from the VAT register at least for one calendar year after the registration year.
- **Refund of VAT credit amount** may be claimed when all the below conditions are simultaneously met:
 - (i) VAT credit amount is carried forward for 3 consecutive months;
 - (ii) at the end of the third month the VAT credit amount exceeds the value of EUR 3,000; and
 - (iii) all VAT and other tax returns for all past tax periods have been submitted.
- **Exemptions for certain activities** with public interest and for other activities include new categories such as:
 - Newspapers and periodic publications;
 - Supply of services from electronic medias of radio and television;
 - International road transport of passengers and transport of accompanying goods, such as suitcases or supply of services related to passenger transport.

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- **New categories for exemption on importation** include:
 - Production lines and machinery for use in production process;
 - Raw materials used for the production process;
 - Information technology equipment;
 - Newspapers and periodic publications.
 - **New categories for exemptions relating to certain transactions** treated as exports include:
 - Supply of goods and public services to Kosovo Religious Communities in accordance with the respective legislation on religious freedom and other applicable legislation;
 - Supply of goods and services co-financed by the proceeds of donations from foreign governments and the Kosovo budget for public benefit projects, if the exemption is provided upon an agreement entered into between the parties and the payment from the Kosovo budget is not more than 20%.
 - **Taxable persons have to keep all documents**, books, records and registers for at least 6 years (20 years for the immovable property), which starts on the 1st of January after the year in which the taxable event took place. The same rules are valid in respect of electronic storage.
- iv. Losses in specific weight or substance, damages, remains, surplus, destructions or demolitions during production, transport and storage, beyond the norms set forth in the special legal and sub-legal acts;
 - v. Expenditure covered from grants, subsidies and donations, in compliance with regulations and earning criteria;
 - vi. Contributions made by the taxpayer in form of donations or sponsorship for humanitarian, health, education, religious, scientific, cultural, environmental protection and sports which are considered as contributions given for public interest exceeding 10% of taxable income;
 - vii. Representation expenses which include costs such as organization of meetings, presentation of new projects, inauguration of new production lines, treats and receptions related to business activity will be limited to 1% of annual gross income.
- **Training expenses** paid by an employer for an employee related to the work are fully deductible (previously limited to EUR 1,000/year) in the year in which such training expenses occurred.
 - **The advertising and promotion costs made through some forms of information** will be fully deductible business expenses.
 - **Some additional provisions are introduced on bad debt deductibility:**
 - i. The amount shall not be deemed as uncollectable bad debt if:
 - the transactions with the same debtor are repeated after the bad debt is declared, except for the public services,
 - bad debt results from a transaction between related parties,
 - there is no sufficient evidence that substantial efforts were made to collect the debt, including any applicable actions to maximize collection of the debt, and
 - over 24 months have passed from the date when it should have been paid.

CORPORATE INCOME TAX

New Law no. 05/L-029 “On Corporate Income Tax” replaced Law no. 03/L-162. Here below there is a summary of the main amendments introduced with the New Law.

- **Income earned from grants, subsidies and donations**, in compliance with the regulations and earning criteria, is exempt from corporate income tax.
- **The following expenses are included in the list of non-deductible expenses:**
 - i. Expenses on rents of apartment serving for accommodation and lodging of resident and non-resident employees, irrespective of the terms of employment contract.
 - ii. Expenses for presents, other than those with the name and logo of the business, which are part of the expenses of representation;
 - iii. Benefits in kind in the form of meals and transport tickets, unless it is organized by the business;

- ii. For the amounts up to EUR 500 treated as bad debt, it is not required the initiation of judicial procedures.
 - iii. The taxpayer must issue an invoice for the uncollected amount treated as bad debt.
 - **Losses may be carried forward** for six consecutive tax years (previously seven years) and are available as a deduction against any income in those years.
 - **Taxpayers who make payments to individuals** (non-business natural persons), farmers, agriculturist, collectors of recycle materials, forest fruits, healing plants and similar, are obliged to withhold tax at the rate of 3% of gross payment, at the moment of payment.
 - **For the first business period**, the taxpayer is not penalized if the amount of quarterly prepayments including the fourth quarter is over 80% of the final tax obligation for that tax period.
 - v. Compensation benefits received through final decisions by courts and certain compensation for court costs;
 - vi. Income in the form of remuneration from state institutions for achievements in science, sports and culture;
 - vii. Income received as a result of financial compensation to former political prisoners and other compensations for similar categories;
 - viii. Income received from grants, subsidies and donations in accordance with the terms and conditions of their benefit;
 - ix. Tax holidays and other special facilities for new businesses as defined by sub-legal acts.
- **Allowable business expenses include also:**
 - i. The amortization charges are allowed up to 20 years in cases when the terms of use of the fixed assets are not defined by an agreement;
 - ii. Contributions given for public interest are allowed as expenditure up to a maximum of 10% of taxable income. For contributions in certain areas an additional allowance of 10% will be provided.
 - **Each business natural person who makes payments to non-business persons**, farmers, collectors of recycling materials, berries, herbs and similar, is obliged to withhold tax at the rate of 3% of gross payment, at the moment of payment.
 - **Other amendments** related to training expenses, representation expenses, advertising and promotion as well as bad debts and losses carried forward are similar to those introduced in the New Corporate Income Tax Law.

PERSONAL INCOME TAX

New Law no. 05L-028 "On Personal Income Tax" which overrides Law no. 03/L-161 provides the following main changes.

- **New categories of exempted income include:**
 - i. Wages of persons with disabilities as provided under relevant laws for these categories;
 - ii. Assets received or value of assets received as a result of inheritance, when the inheritor is a spouse, biological or adopted child, or parent of the deceased. When the inheritor is another person the exemption is limited to Euro 5,000;
 - iii. Income received in cash or in kind by a non-business natural person, for expropriation made by the state for public interest;
 - iv. Mandatory contributions paid by the employer for health insurance of the employee;

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Boga & Associates

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The firm maintains its commitment to quality through the skills and determination of a team of attorneys and other professionals with a wide range of skills and experience. The extensive foreign language capabilities of the team help to ensure that its international clientele have easy access to the expanding Albanian and Kosovo business environment.

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