KEY ISSUES IN BUILDING A TAXATION POLICY IN KOSOVA

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KEY ISSUES IN BUILDING A TAXATION POLICY IN KOSOVA

I  INTRODUCTION

The Riinvest Institute for Economic Research, in cooperation with the Center for International Private Enterprise (CIPE) in Washington and with the support of the United States Agency for International Development (USAID) is implementing the project entitled “Promoting Economic Development Through Civil Society”. The overall goal of the project is to improve the policy and business environment in Kosovo by (i) enhancing the ability of local economic policy groups to develop indigineous policy prescriptions, and (ii) strengthening the ability of the Kosovar policy and business communities to participate in the policy development process. The project will research a number of key policy issues, and present recommendations in each area to a number of audiences, including at an International Roundtable forum.

The first policy issue being addressed by Riinvest is Taxation Policy. Aware that taxation policy is an element of the broader area known as fiscal policy, we have tried to distinguish the two as much as possible in this paper. However, since one of our concerns with current tax policy in Kosovo is its lack of an overall strategy and vision that if in place would balance more clearly the tax burden between the business community and the general population, this paper makes occasional references to fiscal policy as part of providing broader background information to help more fully explain and assess the tax situation.

II  OBJECTIVES OF THE REPORT

The overall objective of this initiative is to recommend and advocate for a sustainable taxation policy that, through a combination of changes to the existing system and the introduction of new components:

- balances more broadly the tax burden between the business community and the general population;
- is based to a greater extent on Kosova’s economic development needs; and
- is consistent with the objectives of post war Kosovo reconstruction.

This Report has addressed selected issues and events, including:

- Administrative structure of public finance in Kosovo;
- Taxation structure;
- Business community attitudes toward the current taxation structure; and
- Recommendations for improving tax policy

Research included the following:

- An analysis of the existing taxation structure in Kosovo and its impact on the development of small and medium size enterprises (SMEs).
- Analysis of new taxes that will likely be introduced.
A review of tax policy in transitional, neighbouring and developed economies.
Providing recommendations for combining the optimum mix of taxes through which the fiscal base will be broadened and a more balanced distribution of fiscal burdens among business and the general population will be achieved.

We believe the implementation of these recommendations will positively influence business development in Kosovo, particularly in:

- creating new employment opportunities;
- encouraging greater investment;
- an accompanying increase in fiscal discipline, and
- a reduction in the potential for fiscal evasion.

### III METHODOLOGY

Apart from the contributions of the Riinvest research staff as well as outside collaborators from the local community, a number of other well-known Riinvest research products were also utilized in developing this document. These included:

- „Economic Activities and the Democratic Development of Kosovo“;
- „The Rebuilding and Functioning of Institutions of Local Governance in Kosovo“;
- „Post-War Reconstruction of Kosovo (Strategy and Policies)“;
- Survey of 192 socially owned enterprises in 2000;
- Survey over 3500 families and family economy in 1999.

Within these activities pursuant to the preparation of this study in cooperation with CIPE, a panel of experts was assembled and participated. Significant input was obtained from representatives of the Central Fiscal Authority (CFA), USAID, Department of Trade and Industry (DTI), Chamber of Commerce of Kosovo, and other representatives from the Faculty of Economics in Prishtina, and independent experts from the field of fiscal policy.

In determining the framework of the study and to harmonize activities, two sessions took place with the Central Fiscal Authority, several sessions took place with representatives of USAID, as well as other regular contacts with representatives of CIPE.

In conjunction with utilizing the experiences of countries in transition, Riinvest undertook a case study that involved a visit to Poland, where the transition experiences of this country were thoroughly analyzed, in particular the area of fiscal policy and aspects of local taxation in the structure of revenues and expenses of local government. This study was also developed using the Institute's available literature, the Internet, and contacts with independent experts, at which we presented the experience of countries in transition from this region and against which we compared with those of developed countries within the European Union, OECD and other regions.
IV SUMMARY OF RECOMMENDATIONS

The following table summarizes the list of recommendations made in this paper, which we hope will serve as the basis for discussion and action in follow-up advocacy work involving the business community, public administration, civil society, media, and other groups.

The key expected outputs from this effort are as follows:

- Establishment of overall criteria and sustainable principles as the foundation for a new taxation policy in Kosovo.

- Broadening the taxation base and matching more closely the tax burden with abilities of various groups to meet their tax obligations.

- A tax policy that represents an investment in economic development.

- The introduction of new taxation instruments.

- Fiscal decentralization to the local level.

- Reduced tax evasion.

- Greater capacities within the tax administration to establish, implement, enforce and monitor taxation policy.
# RECOMMENDATIONS

## KEY ISSUES IN BUILDING A TAXATION POLICY IN KOSOVA

<table>
<thead>
<tr>
<th>Area</th>
<th>OUTPUT</th>
<th>Objectives</th>
<th>Operative</th>
<th>Audiences Addressed</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Formulation and implementation of taxation policy</strong></td>
<td>Developing criteria and sustainable principles – a stable tax structure</td>
<td>Compatibility with an open market economy.</td>
<td>Elaboration of a new strategy and program for sustainable taxation policy consistent with macroeconomic stability and long-term development.</td>
<td>Parliament, Government, Ministry of Finance, local government, IAC, Central Fiscal Authority (CFA)</td>
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<tr>
<td></td>
<td></td>
<td>Ensuring equality in the market and fair competition.</td>
<td>Effective combination and complementary types of customs and taxes.</td>
<td>Chamber of Commerce, Parliament, Government, CFA</td>
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<td></td>
<td></td>
<td>Transparency between the taxpayer and the tax administration.</td>
<td>Building commitment and trust towards fiscal authorities.</td>
<td>CFA, local government</td>
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<tr>
<td></td>
<td></td>
<td>Stimulation of new investment, new employment opportunities, and attracting foreign capital.</td>
<td>Defining the stimulative role of taxes.</td>
<td>UNMIK, CFA, Banks, Parliament, Government, local government</td>
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<tr>
<td></td>
<td></td>
<td>Respecting real budget needs.</td>
<td>Analysis of the effects of fiscal policy on growth and social welfare, ensuring a sufficient level of salaries in public institutions, pensions, social assistance, and</td>
<td>CFA/Government</td>
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<tr>
<td>Fiscal base</td>
<td>Broadening the fiscal base and harmonizing fiscal burdens with the capabilities of taxpayers to meet their tax obligations.</td>
<td>Tax obligations based on the ability of taxpayers to meet these obligations.</td>
<td>assistance to the unemployed</td>
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<td></td>
<td>Overcoming the concentration of tax burdens on the business community.</td>
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<td>CFA/Government</td>
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<td></td>
<td>Taxation policy that facilitates economic growth.</td>
<td></td>
<td>UnMIK, CFA, local government</td>
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<td></td>
<td>Considering a reduction in tax rates for business.</td>
<td>The harmonization of the level of taxes with incomes, assets and capacities of taxpayers.</td>
<td>CFA, Chamber of Commerce, Government</td>
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<td></td>
<td>Broadening the tax base to include personal and corporate incomes.</td>
<td>Tax policy provides incentives for the import of needed machinery, the import of raw materials for production to be exported, and for investment.</td>
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### Increase in fiscal capacity and fiscal decentralization

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<tr>
<td>New Fiscal Instruments Introduced</td>
<td>Conformity of Fiscal Instruments to Fiscal Policies in Transitional, Neighboring and Developed Countries</td>
<td>Preparations for Ensuring the Environment for the Successful Application of Value Added Tax, Taxes on Profit, and Taxes on Payroll</td>
<td>Interim Administration Council (IAC), CFA, Political Parties, Business Associations, Media, NGOs</td>
<td></td>
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<td></td>
<td>The Identification of New Sources of Finance</td>
<td>Determination of Taxation on Real Estate, Taxation on Sales of Real Estate, Taxation on Income of Population, Tax on Rental Income, Tax on Farm Income, Taxation on New Construction, Tax on Fishing and Hunting, and Administrative Taxes</td>
<td>CFA, Local Government, Government/Parliament</td>
<td></td>
</tr>
<tr>
<td>Fiscal evasion</td>
<td>Reduced tax evasion</td>
<td>The elimination of the informal economy and its conversion into legal economic activity.</td>
<td>Application and implementation of the rule of law. Enabling the operational control and implementation of rigorous penalties for avoiding tax payments. Ensuring equality to all obligated parties on customs and taxation. Ensuring a legal framework for accountancy based on international standards. Organizing customs offices and tax payments at all entry points into Kosovo; reconsidering the preferential status of Macedonia. Taxation and customs duty on the FULL amount (value) of imported goods. Building the autonomy and responsibility of taxation and customs authorities; protecting them from illegal internal and external influences in tax procedures.</td>
<td>UNMIK, Pillar IV, KFOR, World Bank, Chamber of Commerce, Parliament, institutions responsible for maintaining public order and fighting crime</td>
</tr>
<tr>
<td>Operational capacities and fiscal management</td>
<td>Advocacy and the creation of a favorable climate in the public for an effective fiscal policy that will stimulate business development.</td>
<td>A program of activities that increases the fiscal culture, communications with taxpayers, and transparency.</td>
<td>CFA, Political parties, media, NGOs, business associations, scientific institutions</td>
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<td>Further development of operational and management capacities</td>
<td>Improving the organization of the CFA and taxation administration in local government.</td>
<td>Greater involvement of Kosovar staff in preparing the concept of fiscal policy and its realization.</td>
<td>CFA, Local government, scientific institutions.</td>
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<td>Fiscal transparency</td>
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<td>Regular follow-up and monitoring indicators of macroeconomic and microeconomic development.</td>
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<td>Preparation of local administration for taxation responsibilities.</td>
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<td>Building capacities and training of local government staff.</td>
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<tr>
<td></td>
<td></td>
<td>Regular communication with the public and taxpayers about tax policy, public revenues and expenses.</td>
<td>CFA, Local government, media.</td>
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</table>
V FISCAL POLICY CHALLENGES IN KOSOVO AND THE CENTRAL FISCAL AUTHORITY (CFA)

Fiscal policy is known as a process of formulating taxation and public expenses that will stimulate economic growth and economic progress in conditions of a high level of employment and protection from inflationary cycles. Through its mechanisms, fiscal policy should contribute to the mobilization of financial resources for public needs, aggregating simultaneously major economic and social functions in allocating economic resources, redistribution of national revenue, stable prices, growth of employment and achieving economic efficiency.

Problems and Barriers to the Development of Fiscal Policy in Kosovo

The definition and formulation of a consistent long term fiscal policy in Kosovo is limited by many obstacles, including:

- The specific status of Kosovo at this moment;
- The difficult post-war economic situation;
- Lack of a statistical system, statistical institutions and macroeconomic indicators for formulating fiscal policy;
- Lack of a local taxation administration.

a) The foundation and capacity building of fiscal policy in Kosovo are being implemented under very specific conditions. Still, no general economic strategy or concept has yet been completed or implemented, even though there exists an overall orientation toward an open free market economy. Restraint of the economic system is tightly linked with the status of Kosovo, which temporarily is determined by Resolution 1244 of the Security Council of United Nations. Kosovo does not have its own currency and therefore does not provide the function of a monetary policy that would correspond closely with fiscal policy. Specific circumstances in which Kosovo is situated at the present time can be characterized by the following:

- A multinational administrative structure;
- Involvement of foreign donors in financing a considerable portion of budgetary needs.
- A budget that is financed on one side from domestic tax collection, and on the other side entirely supported by donors;
- Cash-based financial transactions based primarily on the German mark;
- Banking system that is only partially functioning.
- Lack of locally generated financial sources.
- Lack of customs tax offices at all entrances (Serbia, Montenegro) into Kosovo.
b) Kosova’s economy was destroyed by the impact of the war, by robbery, a lack of maintenance, and scarcity of appropriate investment. According to the estimates of the Riinvest Institute, damages and post-war losses in socially owned enterprises are approximately 1.3 billion DEM. Farm assets and agricultural equipment were also destroyed. It is estimated that around 92% of privately owned enterprises suffered considerable losses from the war. The supply of private housing was reduced after the war up to 40%, income from family budgets were cut by up to 70%, while the supply of household appliances fell about 70-80%. Roads and public infrastructure as well as the low level of public services require considerable investment. It is estimated that war damages to public enterprises reached 130 million DEM. Social assistance is at a very low level. The majority of the population is unemployed, while those who receive salaries cannot meet minimal needs. Another problem are the employees who were expelled from their work during the repressive Serbian regime, and who now live without any pensions or assistance. There are about 90,000 people who have not received any pensions for about three years. These circumstances have resulted in major difficulties concerning issues of fiscal policy, particularly budgetary issues.

c) Lacking in Kosovo is regular follow-up of economic indicators; appropriate institutions that could perform these functions are not organized, and a methodology for elaborating the main macro-economic indicators is not in place. In defining economic policy, it is common for incomplete data to be used, provided by fragmentary sources. Therefore, there are a lack of necessary indicators relating to economic growth, estimation of gross domestic production (GDP), national income, the share of public revenue in GDP, etc. It should be mentioned that the establishment within the CFA of its Macroeconomic Analysis Unit will help address some of the information deficiencies.

The problem of building financial infrastructure for domestic and international payments has not yet been resolved. There is only one bank operating at the present moment (MEB). There is a shortage of policy and instruments for the stimulation of economic development, while the transformation/privatization of socially-owned property has not yet been addressed. The reluctance to transform socially owned property according to known models implemented in transitional countries and in countries created out of the former Yugoslavia is creating dilemmas, misunderstandings and unnecessary problems.

With the Regulation on currency in Kosovo, the Regulation on import and sales of oil derivatives, the Regulation on regulating post and telecommunication services in Kosovo, the Regulation on establishing the Central Fiscal Authority, and that of the Authority of Banking and Payments, and the Regulation on licencing, monitoring and regulation of banks, an elementary judicial infrastructure has been created. However, certain indispensable laws have not yet
been enacted, which if so would create a more complete institutional environment. These laws include:

- Commercial law
- Financial accounting
- Privatization
- Foreign investment (prepared but not in force)

Although the development of financial infrastructure is facing serious problems, the implementation of appropriate regulations has resulted in some visible improvements. Official representatives, after utilizing the German mark as the official currency, have managed to establish a stable and secure environment in economic transactions, finance, public finance and in the effects of fiscal policy in neutralizing the negative impacts of possibly unstable fluctuation of currencies in neighboring countries.

Under these conditions, fiscal policy at present is concentrated on covering basic budget needs, and aiming for a permanent increase in the share of local (Kosovar) tax revenues in the budget. While current fiscal policy in Kosovo determines and regulates taxation and customs instruments, the application of these instruments are not sufficiently correlated to development objectives and economic growth.

The problems of recently liberated Kosovo demand multidimensional actions from both domestic and international players. To date, these activities have been oriented toward addressing the emergency post-war phase, and are now moving towards substantial capacity building of temporary institutional administrative bodies in Kosovo. In order to facilitate the effective distribution of donor funds and to create preconditions for collecting taxes, the process of building administrative financial bodies in Kosovo commenced in September 1999.

Establishing an institutional authority equivalent to a Ministry of Finance was a top priority of UNMIK. The Central Fiscal Authority (CFA) is operating to establish a system about budget management, able to ensure timely revenue inflows, and to ensure that these sources can be used more transparently and efficiently. The CFA in Kosovo is to exercise the fundamental functions of a Ministry of Finance, such as the development of general fiscal strategy with the intention of factoring in macroeconomic conditions and the impact of fiscal policy on economic development. It is also to provide programs of public expenses, (through budget planning and treasury), control actual expenses, and establishes taxation and customs policy as well as administration and control of their collection.

A significant accomplishment of the CFA, as part of establishing a taxation administration, has been to create within its structures a much more prominent Kosovar presence – much more so than in other departments of UNMIK. This is important for building Kosovar capacities within public administration.
During this period, the collection of taxes and customs and the distribution of budget revenues has been carried out by the CFA in a centralized manner. Until now, municipalities have received grants from the CFA to cover their basic operational expenses. However, there is a widespread desire for a decentralized fiscal authority between the existing 29 municipalities and the CFA. This approach probably reflects the result of the decentralized fiscal system before 1990 and the pressure of a very difficult situation of public infrastructure in various municipalities in Kosovo, an issue that must be solved by municipal authorities. Meantime, it has been estimated that a stronger fiscal decentralization has been limited because of differences in the level of economic development among municipalities, and differences in their size and territory.

**Opinions of the Business Community About Obstacles to Growth and Development**

A lack of legal framework, unfair competition, and current high taxation – all extremely relevant issues in the development of taxation policy – were seen by Kosovar enterprises, as part of survey of 300 private enterprises carried out by Riinvest in December 2000, as the greatest obstacles to business development. The following specific findings were noted:

- Of 16 possible obstacles listed, by far the greatest obstacle to business development in Kosovo is the „lack of laws“; 88% of respondents viewed the lack of laws as either an obstacle or major obstacle to business development.

- Close behind in second place was „unfair competition“; 76% of respondents viewed this as either an obstacle or major obstacle to business development. In third place was „lack of access to finance“, with 63% of respondents viewing this as either an obstacle or major obstacle to business development.

- „High taxation“ was considered the fourth most serious obstacle, with 50% of respondents viewing this as either an obstacle or major obstacle to business development.

Riinvest Survey Dec/2000 „Intensity Factors“ for Specific Business Obstacles

<table>
<thead>
<tr>
<th>Obstacle</th>
<th>Intensity Factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of laws</td>
<td>10.4</td>
</tr>
<tr>
<td>Informal competition</td>
<td>9.5</td>
</tr>
<tr>
<td>Lack of external financial sources</td>
<td>8.2</td>
</tr>
<tr>
<td>High taxes</td>
<td>7.4</td>
</tr>
<tr>
<td>Strong competition</td>
<td>7.2</td>
</tr>
<tr>
<td>Lack of information</td>
<td>7.0</td>
</tr>
<tr>
<td>Availability of raw materials and equipment</td>
<td>6.2</td>
</tr>
<tr>
<td>Insufficient capacity</td>
<td>6.0</td>
</tr>
<tr>
<td>Payment delays</td>
<td>5.8</td>
</tr>
<tr>
<td>Factor</td>
<td>Score</td>
</tr>
<tr>
<td>------------------------------------------------</td>
<td>-------</td>
</tr>
<tr>
<td>Administrative procedures</td>
<td>5.2</td>
</tr>
<tr>
<td>Insufficient demand</td>
<td>5.2</td>
</tr>
<tr>
<td>Payment arrangements with other companies</td>
<td>4.9</td>
</tr>
<tr>
<td>Export obstacles</td>
<td>4.7</td>
</tr>
<tr>
<td>Parity between currency and inflation</td>
<td>4.3</td>
</tr>
<tr>
<td>Ability of employees</td>
<td>4.1</td>
</tr>
<tr>
<td>Ability of management</td>
<td>3.9</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

We also contend that serious investors, especially those from foreign countries, are still hesitant in expanding their investment activity in Kosovo, not only because of general security reasons, but also due to the lack of a clear taxation policy, in particular the fact that Kosova is still far away from completing the legal, fiscal and tariff regulatory structure. It is still not known, for example, when taxation on corporate profits will come into effect, as well as VAT, and tax on wages.
VI THE EXISTING STRUCTURE OF TAXATION IN KOSOVA

SECTION ONE – A REVIEW OF INDIVIDUAL TAXES

The United Nations Interim Mission in Kosovo, after being installed, was entrusted to create a legal framework that would be adequate and acceptable for the new post-war situation. At first, some dilemmas were encountered in conjunction with the application of various rules of law that would be enforced. This situation was clarified when Regulations were passed according to which the laws that were in force up to March 22, 1989 would be implemented. However this was insufficient due to the fact that even though the regulation of the rule of law in Kosovo was at that time advanced in comparison with other former socialist countries, in the majority of areas it was not appropriate for a free and open market economy. The first regulations represented initial but very important steps in terms of capacity building towards a new taxation policy in Kosovo.

(i) Customs Duties and Sales Tax

One of the first regulations issued by the Special Representative of the United Nations for Kosovo concerned the establishment of tax and customs administration. The Regulation on excise as well as the Regulation on sales tax created conditions for the commencement of customs services, and began with tax collection on imported goods which represented one of the most important elements of (i) building the taxation system in Kosovo, and (ii) institutionalization and consolidation of Kosovo’s budget.

Problems

- **Linearity of existing tax instruments** - Existing taxation instruments are of a one-dimensional character. This means that they ensure budget income but have not been designed with elements of Kosovo economic policy in mind. Customs tariffs and taxes are linear, and as a result do not allow preferences for production and investment activities (raw material, equipment, etc.).

- **Impact on business development not clear** - Considering the addition of new fiscal instruments it seems that an evaluation has not yet taken place as to what extent the addition of these new instruments would facilitate or hinder business development in Kosovo.

- **Preferential treatment for Macedonia** - Keeping in force the Agreement of a preferential trading regime between the former FRY and Macedonia, according to which the goods that originate from these two countries do not pay customs tariffs but only administrative tariffs of 1% - this situation has created inequality in terms of importing into the market, and has discouraged domestic producers. The application of this kind of agreement under existing conditions does not have reciprocal benefits for Kosovo, and is not consistent with Kosovo economic development. The goods
that are imported from FYRM are, generally speaking, consumption goods, not including advanced technology or equipment. It is worth mentioning that the delay of the placement of customs offices at border crossings with Serbia and Montenegro have created an opportunity to avoid customs and tax obligations by unethical importers. On the other hand, this situation for importers that pay their tax and customs obligations creates unequal opportunities in the market.

After approval of the Regulation on the temporary registration of businesses in Kosovo (February 29, 2000), the conditions for legalizing businesses in Kosovo were established, along with the identification of potential taxpayers. This created the conditions for the collection of taxes to proceed, despite the fact that there was not yet in place a complete and consistent taxation structure.

Table 1. Structure of taxation instruments in Kosovo and their contribution to total taxes

<table>
<thead>
<tr>
<th>No.</th>
<th>Type of instrument</th>
<th>Amount of tax</th>
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<tbody>
<tr>
<td>1</td>
<td>Customs</td>
<td>10% of value</td>
</tr>
<tr>
<td>2</td>
<td>Sales tax</td>
<td>15% of value</td>
</tr>
<tr>
<td>3</td>
<td>Taxes on hotel and restaurant services</td>
<td>10%</td>
</tr>
<tr>
<td>4</td>
<td>Presumption tax (up to 15,000 DEM gross monthly sales)</td>
<td>400 DEM</td>
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<tr>
<td>5</td>
<td>Presumptive tax (gross monthly sales in excess of 15,000 DEM)</td>
<td>3% of gross sales</td>
</tr>
<tr>
<td>6</td>
<td>Taxes on the registration of automobiles</td>
<td>From 45 DEM, depending on size of motor</td>
</tr>
</tbody>
</table>

A Comparison with Other Countries

According to estimates, the share in Kosovo of customs and taxes in estimated GDP is approximately 10%, while this share is around 15% in Albania, and up to 46% in the countries of former Yugoslavia. Since almost all tax revenues in Kosovo come from taxes on business, our conclusion is that the overall tax burden in Kosovo is very unfavorable for the business community. This is more clearly seen in the following graph:
This structure is different from that in countries in transition (see annex) and from the OECD. The structure of fiscal income in Kosovo as well as public expenses are very simplified; approximately 41% of tax revenues consists of customs and excises, in contrast to countries of the OECD, in which in the year 2000 customs and excises comprised around 11% of total tax revenues. Sales tax (paid at the border for imported goods) at a rate of 15%, represent the remaining portion, or 53%, of tax revenues. Together, this demonstrates a heavy concentration of tax burdens on the business community and the need to disperse this burden to other taxpayers, in comparison to the experiences of transitional, neighboring and developed countries.
We can see from the previous graph the much broader distribution of tax obligations in OECD countries. **We estimate from the above breakdown that the share of taxes paid by business in total taxes is somewhere between 45-60%. In Kosovo this percentage is at least 95%.**

(ii) **Tax on Hotel and Restaurant Services**

UNMIK Authorities have made serious attempts to establishing a taxation administration, and considerable results have been achieved toward training professional staff. The results of implementing a tax on hotel and restaurant services for various categories of taxpayers shows that there could be advantages for some, and disadvantages for others. The regulation that determines that hotel and restaurant legal entities which do not achieve monthly gross revenue of at least 15,000 DEM are not obliged to pay taxes in the amount of 10% of gross revenues, but only an amount of 400 DEM every three months. This method of taxation does not stimulate the development of hotel and restaurant services or produce an increase in tax revenues, because from a taxation standpoint it encourages hotel and restaurant owners to maintain sales below the level of 15,000 DEM.

(iii) **Presumptive Tax**

One conclusion from discussions held by Riinvest with business owners in 7 regions of Kosovo is that the presumption tax is considered by many taxpayers as a serious obstacle. **This tax rate of 3% of turnover, while at the same time the taxation base for business includes customs and a sales tax, is considered by business as too great a burden, and their opinion that it stimulates fiscal evasion - particularly in circumstances of a deficiency in business documentation and a lack of financial bookkeeping procedures for legal entities.** The presumptive tax in particular hurts wholesalers; the application of a tax burden of 3% on turnover eats significantly into their profit margins, often representing a bite of more than 50% into their profit margins.

**Presumptive Tax and the Location of Taxpayers**

Taxpayers, depending on the location of their activity, are categorized in three areas (A - Pristhina, B - Ferizaj, Prizren, Gjakova, Peja and Gjilani, and C - all zones that are not comprised in locations A and B). Presumptive tax rates differ by region (400 DEM in A; 300 in B; 200 in C). This differential rate structure by location could create disturbances in the free movement and distribution of goods and markets.

An adequate method has not yet been selected that would favor low income regions of taxpayers. This could be more effective if the categorization of taxpayers is made according to defined zones within one region, village or city, or within a city.
(iv) **Excise Tax**

Excise tax is being applied as of January 2000. The scale of the excise tax burden is differentiated, from 10 – 50%, with lower rates on goods for family consumption, fresh drinks etc.

**Goods Subject to Excise Taxes and Rates**

- Coffee
  - 30% of value
- Soft drinks
  - 10% of value
- Beer made from malt
  - 0.3 DEM per liter
- Wine of fresh grapes, including fortified wines
  - 0.4 DEM per liter
- Vermouth and other wine or fresh grapes flavoured with plants or aromatic substances
  - 0.4 DEM per liter
- Other fermented beverages (for example, cider, perry, mead); mixtures of fermented beverages and mixtures of fermented beverages and non-alcoholic beverages, not elsewhere specified or included
  - 0.3 DEM per liter
- Ethyl alcohol of an alcoholic strength by volume of 80% or higher
  - 2 DEM per liter of alcohol
- Ethyl alcohol of an alcoholic strength by volume of less than 80%; spirits, liqueurs and other spirituous beverages
  - 2 DEM per liter of alcohol
- Cigarettes
  - 4 DEM per 1000 cigarettes
- Cigars, cigarillos, and other manufactured tobacco
  - 50% of value
- Gasoline
  - 30 pfennigs per liter
- Gas Oil
  - 25 pfennigs per liter
- Diesel for motor engines (D1 + D2)
  - 25 pfennigs per liter
- Kerosene
  - 25 pfennigs per liter
- Heating Oil
  - 25 pfennigs per liter
- Mobile phones
  - 15% of value
- VCRs
  - 15% of value
- TV sets
  - 15% of value
- Satellite dishes
  - 15% of value
- Motor cars and other motor vehicles principally designed for the transport of persons (other than those of heading no. 8702), including station wagons and racing cars
  - 20% of value + DM 1000 each

**Goods Exempt from Customs Duties**

All Exports, plus:

Imports:
Business Community Opinions on the Existing Taxation Structure in Kosovo

The main conclusion from the surveys of 192 socially owned enterprises and 300 private enterprises is that the current taxation structure does not correspond enough to economic development objectives. It is obvious that from a business perspective, there are expectations for reconsidering of the existing taxation structure and the possibility of its modification and reduction.

Managers of socially-owned enterprises were especially critical of the current tax system.

- The majority of SOEs (73.2%) declared that current customs and taxes presents obstacles for restarting their businesses; only 9.8% classify customs and tariffs as stimulative.

- Generally, surveyed SOEs recommend that the import of raw materials be exempted from customs duties as an element of the revival and restarting of enterprises for a period of at least two years.

- Surveyed SOEs stated that exemptions from customs duties should be granted to enterprises that import needed technology and equipment to repair technology that has been damaged or stolen, and for agricultural business activities.

- The paradox of paying tax on an input but not on the final output should be avoided (for example the taxing of wheat as a raw material for food products while on the other hand the final product, such as flour, is not taxed).
- Customs duties on inputs and components should be removed.
- Customs preferences being given to Macedonia are not seen as equitable.
- Also seen as unfair were the imposition of certain taxes by Montenegro and Macedonia the transit of goods to be imported into Kosovo.

Key findings from the Riinvest survey of 300 private enterprises include the following:

- 62% of respondents evaluated customs duties as either “too high” or “insurmountable”, while 37% of respondents felt that current customs duties are acceptable.
- 56% of respondents considered current excise taxes as either “too high” or “insurmountable”, while just 29% considered excise taxes acceptable.
- 49% of respondents evaluated sales tax at the border as either “too high” or “insurmountable”, while 45% considered them acceptable.
- 50% of respondents considered taxes on services as acceptable, while 37% viewed this tax as either “too high” or “insurmountable”.
- 52% of respondents considered the presumptive tax as acceptable, while 41% considered it as either “too high” or “insurmountable”.

SECTION TWO - FISCAL RESULTS ACHIEVED IN KOSOVO IN THE YEAR 2000

Estimated revenues according to the Consolidated Budget of Kosovo for the year 2000 (locally generated) from customs and taxes, as well as revenues actually received, for the period January 7 - November 18, 2000, are as follows:

<table>
<thead>
<tr>
<th>No</th>
<th>Type of Revenue</th>
<th>Estimated (DEM)</th>
<th>Collected (DEM)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Sum</td>
<td>%</td>
</tr>
<tr>
<td>1</td>
<td>Customs</td>
<td>38,000,000</td>
<td>19.10</td>
</tr>
<tr>
<td></td>
<td></td>
<td>53,264,125</td>
<td>26.27</td>
</tr>
<tr>
<td>2</td>
<td>Excise</td>
<td>21,000,000</td>
<td>10.55</td>
</tr>
<tr>
<td></td>
<td></td>
<td>30,140,499</td>
<td>14.86</td>
</tr>
<tr>
<td>3</td>
<td>Sales tax</td>
<td>104,000,000</td>
<td>52.26</td>
</tr>
<tr>
<td></td>
<td></td>
<td>107,711,163</td>
<td>53.14</td>
</tr>
<tr>
<td>4</td>
<td>Taxes on hotel and rest. services</td>
<td>11,000,000</td>
<td>5.53</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2,891,370</td>
<td>1.43</td>
</tr>
<tr>
<td>5</td>
<td>Taxes on profits</td>
<td>5,000,000</td>
<td>2.51</td>
</tr>
<tr>
<td></td>
<td></td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>6</td>
<td>Taxes on wages</td>
<td>15,000,000</td>
<td>7.54</td>
</tr>
<tr>
<td></td>
<td></td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>7</td>
<td>Taxes on the small economy</td>
<td>5,000,000</td>
<td>2.51</td>
</tr>
<tr>
<td></td>
<td></td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>8</td>
<td>Presumptive tax</td>
<td>-</td>
<td>8,710,074</td>
</tr>
<tr>
<td></td>
<td></td>
<td>199,000,000</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>Total taxes</td>
<td>202,717,231</td>
<td>100</td>
</tr>
</tbody>
</table>
During the year 2000, budget revenues were forecasted in the amount of 423,232,885 DEM. These estimates also include revenues from taxes on profit and taxes on wages, (taxes that have not yet been implemented).

Although the analysis of the Central Fiscal Authority and World Bank showed that customs and excise taxes collected for the first part 2000 were unsatisfactory, the collection of taxes through to November 18, 2000 surpassed forecasts for the entire year. Only in the category of taxation on services were forecasts not achieved.

**SECTION THREE - TAX EVASION**

Fiscal evasion during this period was influenced by the following factors:

- Insufficient number of tax and customs offices at border crossings of Kosovo. Goods subject to a high excise tax came in large quantities from Montenegro, for which border customs offices were installed by UNMIK at the end of March 2000. It is estimated that a three-month delay in the establishment of these offices (from January until March) deprived the budget of Kosovo an amount of 20 million DEM. This is the same case at border crossings with Serbia, where the customs and tax offices are not yet organized, with the result that goods are not passing through any taxation and customs procedures.

- UNMIK, in recognizing the preferential trading regime between RFY and FRYM regarding the territory of Kosovo, has left open the possibility not only of importing goods from FRYM with only symbolic tariffs, but also the possibility that various goods can enter with false certificates, while being presented as originating from Macedonia.

- Local government was not included in creating and implementing tax policy during this period.

- The high level of customs and taxes for imported goods and the concentration of tax obligations only on the business community has created several forms of fiscal evasion, including avoiding taxes completely or only paying partially. One of the main obstacles to business development, according to the Riinvest survey carried out on private enterprises in December 2000, is unfair competition. The sources of unfair competition have their origin in fiscal evasion. On the other hand, a major reason for tax avoidance, according to entrepreneurs surveyed by Riinvest, is that “others are not paying”.

- Lack of business documentation, accounting standards and bookkeeping by legal business entities, which is another result of the lack of an appropriate legal framework.

- It is obvious that the situation in which all taxpayers are not forced to respond to their fiscal obligations because of administrative problems, the consequence of which -
during the implementation of customs and taxation proceedings – is an inequality in conditions for legal business entities on the market, and an increase in the tendency to avoid these obligations.

**Business Community Opinions About Tax Evasion**

- The readiness of Kosovar businesspeople to fulfill their tax obligations is primarily at a “medium” level (64% of respondents); a further 20% of respondents consider this readiness at a “low” level, while only 15% of respondents consider their readiness to fulfill tax obligations at a “high” level.

Assessing private entrepreneurs’ views about possible reasons for tax avoidance, we note the following findings:

- 29% of respondents see the main reason for tax avoidance as the fact that “others do not pay”;
- 27% of respondents think that the main reason for tax avoidance is a “lack of necessary control”;
- 24% of respondents see the major reason for tax avoidance as the “lack of tradition in paying their fiscal obligations”;
- 21% of respondents consider “current high tax levels” as the reason for avoiding their tax obligations.

From this overview we put forward the statement that the anxiety caused by unequal conditions faced by business in the market, which could be created as a result of inconsistent adherence to their fiscal obligations, is stimulating enterprises to avoid their tax commitments.
VII LINEAR VS. DIFFERENTIATED TAX RATES

It is our contention that the current conception in Kosovo of taxation policy and tax instruments to stimulate economic development has not yet been addressed. There are also no preferential customs and tax rates for domestic or foreign investors. These measures surely could stimulate and mobilize the engagement of capital in production sectors through the development of small and medium size enterprises, as well as through joint ventures including attracting private Kosovar and foreign investors.

International Examples of Taxation Instruments to Stimulate Business Development

Within OECD countries and countries in transition, a number of stimulative tax measures to achieve development objectives have been implemented. These include:

- Full tax exemptions
- Reduced tax rates
- Subventions /subsidies

In developed countries, a number of measures are in place to stimulate investment, including:

- Lower tax rates
- Tax preferences
- Lower customs duties
- Grace periods on tax obligations
- Possibility for accelerated depreciation

Tax preferences to stimulate economic growth and the attraction of foreign investors are also in place in countries that have experienced transition, or which are still in the stage of conversion to open market economies. This includes: Argentina, Brazil, Chile, Turkey, Cyprus, Malta, Egypt, South Africa, India, Israel, South Korea, China. Examples of measures in place:

- There are no implementation of customs duties on the import of raw materials that are part of a foreign investor’s production process.
- There is not any collection of customs tariffs for equipment imported by a foreign investor.
- Tax allowances/exemptions exists on reinvested profit, and on profit for the first years of operation.
- Tax allowances also apply to:
  - investment in agriculture and tourism;
  - undeveloped regions;
old city centers; and
special economic zones.

In the post-war Kosovar situation where emphasis should be placed on the acceleration of investment activity and job creation, certain differentiations and preferences could be considered for customs and taxes in order to support investment and the development of new technologies. Exclusions from customs obligations would apply to the import of technologies and raw materials, which would not initially distort the competition in the market, due to the fact that these goods are not produced or found on the domestic market.

**Business Community Opinions About Differentiated Taxation**

There is considerable support in the local business community for differentiated taxation. Selected results from the Riinvest survey of 300 private enterprises administered in December, 2000 include the following:

- 98% of firms surveyed supported the need for differentiated taxes on specific business activities.
- 85% of respondents expressed interest in differentiated customs rates, while only 15% felt that taxes should be linear.
- Significant portions of respondents supported tax rate differentiation in several areas: 72% of respondents expressed support for differentiation in the sales tax; 64% of respondents expressed support for differentiation in taxes on hotel and restaurant services; and 65% of respondents favoured differentiation in the presumptive tax.
- 92% of enterprises surveyed supported the differentiation in customs duties for the import of raw materials; 90% for differentiation of duties in the import of production equipment; 82% for agricultural equipment; and 83% for components to be used in products intended for export.

Having in mind the necessity for stimulatory investments and post-war economic recovery through creating conditions for new employment and income generation, tax differentiation should be considered as an investment. This would create a positive future impact on the budget, and stimulate new employment. It is not always justified to take into consideration only short-term effects on the revenue side. Any preference (or differentiation) should be clearly regulated and should not depend upon the arbitrary decisions of officials that could encourage fiscal evasion and damage fair competition in the market.
VIII  NEW TAX RATES WITH EMPHASIS ON THE VALUE ADDED TAX (VAT)

The combination of (i) post-war experience in Kosovo in implementing customs duties and taxes, (ii) business community opinions, and (iii) our analyses suggests an expansion of the taxation base. Our survey-based research highlights the need for a substitution of the present sales tax with a value added tax (VAT), and a replacement of the presumptive tax with a tax on corporate profits. On the other hand, there is not any justification for further delaying the implementation of taxes on wages. This would not only improve budget revenues, but also influence development of a positive climate and constructive approach toward fiscal obligations of enterprises and citizens that would create conditions for a broader taxation base.

Business Community Opinions About the Introduction of New Taxes

The Kosovar business community is supportive of the implementation of new taxes. Findings from the Riinvest survey of 300 private enterprises include the following:

- The introduction of VAT is “acceptable” for 38% of respondents, and “partially acceptable” for a further 32%; 23% of respondents feel that there are no conditions for the implementation of VAT. This means that 70% of respondents feel that the introduction of VAT is either partially or completely acceptable.

- Taxes on profit are considered “acceptable” by 48% of respondents, and “partially acceptable” by 33%, while 13% of the business community feels that there are no conditions for implementing this tax. In other words, 81% of surveyed businesses consider the implementation of a profit tax to be partially or completely acceptable.

- The introduction of a tax on wages is considered “acceptable” by 38% of respondents, “partially acceptable” by 30%, while 26% of respondents feel that there are no conditions for implementing this tax. In other words, 68% of businesses surveyed see the introduction of a tax on salaries as either partially or completely acceptable.

VAT

The transition from the tax on sales into VAT requires special preparation. VAT is being implemented in all countries of the European Union, and in some countries of Asia and Latin America. However, its application in the EU is such that it is harmonized among countries based on the 6th EU directive. In the majority of countries where VAT is enforced, there is only one level of taxation in place. In transitional countries with the exception of Bulgaria, two levels of VAT are implemented. The EU applies an overall VAT rate of 15-20%, with the lowest rate between 4%-9%.
The highest levels are imposed in Denmark and Sweden (25%), while the lowest level is implemented in Canada (7%), Switzerland (6.5%) and Japan (5%). When VAT was implemented in the countries of the OECD, the overall average level was 12.5%, later increasing to 17%. Conditions between countries differed depending on certain factors which made difficult a comparison of their norms.

Since VAT application in Kosovo will initiate crucial changes in the taxation system, the question is how will these changes:

- impact the budget;
- stimulate economic development; and
- impact the level of prices.

The impact of these taxes on the public revenue side will depend on:

- tax rates;
- the taxation base; and
- the range of tax preferences.

Experience from other countries shows that in the initial phase of VAT introduction, the application of VAT would be followed by an immediate increase in prices, as a reflection of sellers’ intentions to transfer the effects of the tax onto consumers.

The business community had objections to the linear character of the sales tax, which at the present time is paid at the border during the completion of customs duties on goods. VAT is therefore well accepted as an alternative to this sales tax.

However, the implementation of VAT will require the following preconditions:

- Key institutional infrastructure in place, and the regulation of the legal framework for accounting standards and accountancy training for financial officers.
- Functionality of the banking system, and the move away from of cash-based transactions to a payment system.
- A high level of readiness of taxpayers, of the business community, and the tax administration.
- The need to define each important detail before applying this tax; its implementation would likely not be successful if it is done too quickly, or without the needed preparations.
IX DECENTRALIZATION OF FISCAL POLICY IN KOSOVO

With the regulation on local government in Kosovo, which was approved during July 2000, the Central Fiscal Authority has forecasted sources of financing municipalities and sources of revenue so that local government could collect on its territory. This public revenue comprises the following:

- Local taxes collected by the municipality;
- Revenue from municipal assets;
- Penalties or fines.

The 2000 municipal elections in Kosovo marked the creation of new realities in at the municipal level, which includes the expectation of the implementation of a new concept of fiscal policy at the local level. No matter how the decentralization of fiscal policy will look like, it is still going to depend on the competencies and responsibilities of municipalities in organizing and managing public services, the capability of municipal administrations to manage their assets, to collect their taxes. Their tax capacities are also related to their size and populations.

Experiences in the decentralization of fiscal policy from transitional and developed countries is diverse. The decentralization usually is linked with fiscal stability and a better redistribution of public income. Local finances also impact the macroeconomic policies of economies in transition, and create conditions for broadening the taxation base.

Certain countries in transition have transferred to the local level important components of their social security network (such as family assistance), while in other countries even pensions and unemployment have been transferred from central to local government (examples: Albania, Bulgaria, Russia, Ukraine and Hungary). However, it has been estimated that local government cannot successfully accomplish these tasks without ensuring appropriate revenues through central government transfers.

Many countries have transferred the assets of socially owned enterprises from central to local governments. In this way local government has taken a very important role in developing the privatization process. While the involvement of local government in managing these enterprises could be attractive for local governments, on the other hand it could prolong the process of privatization and could create internal protectionism and local monopoly. This situation happened in Russia.

Revenue of local government in Central European countries (in %)

<table>
<thead>
<tr>
<th>Country</th>
<th>Revenue of local government from local taxes (%)</th>
<th>State grants/subventions (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estonia</td>
<td>60.7</td>
<td>54.2</td>
</tr>
</tbody>
</table>
The majority of countries in transition have introduced various taxes to be collected and utilized by local governments. An important note must be made about taxation on property; it is estimated that the collection of this tax is very low, for two reasons: (i) the problems related to the privatization of flats and apartments; and (ii) the lack of registry documents which clarify ownership. Problems of the registry data and documents are especially evident in Kosovo due to the confiscation of entire sets of registry documents by the Serbian regime before and during the war.

Local government interests consist of organizing the life in the municipality, municipal construction, road infrastructure, maintenance and hygiene, water and power supply, maintenance of public parks, and urban transportation. To accomplish these tasks, municipalities have to rely on both grants from the central government and collecting taxes at the local level.

Locally-generated sources in should be linked to the sphere of responsibilities and authority of local government as established by central authorities. From the experiences of countries in transition, clear advantages exist for the decentralization of fiscal policy, where financial capacity and decision making will be connected not only with the central government but with local government as well. The major advantage is in increasing responsibility for tax collection and greater opportunities for local tax differentiation. Local government could be more successful in balancing local financial capacities regarding revenue and expenses. However, their disadvantage is that their capacity is limited, especially within certain municipalities in Kosovo.

Therefore, in order to ensure the achievement of macroeconomic development objectives of Kosovo and equality in the market, our recommendation is that the authority of local government should be limited to taxes on real estate property, taxes on real estate sales, tax on rental income, tax on construction, fishing and hunting license fees, and administrative taxes. This level of delegation can be a solid framework for restructuring and redistributing the tax burden between the business sector and the general population.

<table>
<thead>
<tr>
<th>Country</th>
<th>Latvia</th>
<th>Lithuania</th>
<th>Poland</th>
<th>Czech Rep.</th>
<th>Slovakia</th>
<th>Hungary</th>
<th>Slovenia</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>54.4</td>
<td>54.1</td>
<td>32.4</td>
<td>32.7</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>66.5</td>
<td>73.6</td>
<td>16.3</td>
<td>-</td>
<td>38.3</td>
<td>39.7</td>
<td></td>
</tr>
<tr>
<td></td>
<td>59.5</td>
<td>58.2</td>
<td>16.3</td>
<td>38.3</td>
<td>39.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>52.0</td>
<td>51.5</td>
<td>22.6</td>
<td>22.1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>36.7</td>
<td>39.5</td>
<td>-</td>
<td>-</td>
<td>29.2</td>
<td>31.7</td>
<td></td>
</tr>
<tr>
<td></td>
<td>35.5</td>
<td>37.2</td>
<td>29.2</td>
<td>31.7</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>42.6</td>
<td>41.2</td>
<td>21.7</td>
<td>21.5</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
X CONCLUSIONS / RECOMMENDATIONS

- The main obstacle in building a consistent ad stable taxation policy in Kosovo is the lack of an overall strategy, and a program that specifies activities and time frame. Hopefully this paper is an initial step in calling attention to the need for this framework.

- Based on the results of tax collection in the year 2000 and the evaluation by the CFA, taxpayers have responded relatively well to the existing fiscal/tax obligations. More revenues have been collected than planned. However, according to the Riinvest survey of 300 private enterprises, we can conclude that the majority of the business community considers these taxes as too high or insurmountable. The business community has also presented a generally favorable attitude towards new fiscal instruments that are likely to be introduced.

- We are still in the phase of building a tax administration in Kosovo, and training its staff. We should keep in mind that this process requires time, and as a result we suggest an approach of gradualism, and to avoid more complex procedures in tax administration.

- The actual structure of fiscal instruments is based almost entirely on burdens imposed on the business community. Capacities of other potential taxpayers have not been targeted. Therefore, it is critical to begin with the implementation of new fiscal instruments, in particular taxes on citizens' property and incomes so that a fair allocation of taxation burdens is ensured. Valuable experiences of countries in transition could be followed in establishing this broader taxation base.

- Keeping in mind the disadvantages that the Kosovar economy has inherited as a result of the war, more preferable would be lower business taxes and a broader taxation base, so that the share of business taxes in Kosovo in total taxes is similar to the level in other transitional countries.

- Taxation policy should be consistent with the principles of an open market economy, where criteria for the establishment of such a policy include macroeconomic and microeconomic development objectives.

- Transparent mechanisms and fair competition require equal treatment (business’ share of tax, customs procedures) as in neighbouring and other countries.

- As regards taxation and tariffs, fiscal policy should be combined flexibly with different types of customs duties and taxes that could include a certain degree of differentiation in accordance with objectives of stimulating new investment and job creation.
The lack of involvement of local government in taxation leaves out many potential taxpayers. Therefore, it is necessary to implement fiscal instruments at the local level as well as developing a local tax administration.

As part of the building of local government, this would include the identification of new financial sources such as taxes on real estate and other properties, taxes on citizens’ incomes, taxes on rent, taxes on advertisements, taxes on new construction, taxes on fishing and hunting activity, as well as administrative taxes.

A fair determination of distribution of public incomes between the central government and municipalities creates an important role for establishing the necessary conditions for the autonomy of local government, based on power sharing between the central and local levels.

Evasion from fulfilling fiscal obligations as an impact of the lack of necessary infrastructure of rule of law and inefficient mechanism of taxation and customs duties creates negative effects on the development of new fiscal policy and fiscal culture in Kosovo, appropriate for a market economy.

Fiscal evasion should be eliminated as soon as possible, though special policy measures. The elimination of the informal economy and its integration into the legal framework, greater coverage of border crossings with customs and tax offices and equal treatment of all countries are the most urgent and necessary measures.

In creating a positive public opinion and developing awareness of the importance of fiscal discipline, there is the need for the greater involvement of civil society (nongovernmental organizations, business associations, media and independent scientific and research institutions) in this effort, particularly in education and information campaigns.

In developing and implementing a more sustainable taxation policy in Kosovo, it is critical to maintain a strong Kosovar presence within the CFA and related entities.