

**DEVELOPMENT OF IMPORTANCE AND OBJECTIVES OF FISCAL POLITICS IN
REPUBLIC OF KOSOVO AND RECOMANDATIONS****Mr.sc. Alush Kryeziu, PhDc.**

MTI Department of Trade, Prishtine - Republic of Kosovo

E-mail: alush.kryeziu@rskgov.net

Received: 2012-10-01 Accepted: 2012-10-07 Published: 2012-11-01

Abstract

In Kosovo, fiscal policy and tax systems are relatively new. Tax system in Kosovo began initially in 1999 with the UNMIK regulation on Customs, following with other tax policies such as presumptive income tax in 2000, VAT in 2001, income tax from 1st April 2002, property tax from June 2003, corporate income tax from December 2004, road tax from March 2005, royalty tax from 2005, and other non tax revenues that are being applied.

Keywords: Fiscal policy, tax system, customs, taxes, Republic of Kosovo.

Introduction

The process of formulation of taxes and public expenditure which is in function of economic development is known as fiscal policy, respectively with the term fiscal policy means how a state government chooses to spend its budget in order to supply people with goods and services. The fiscal policy in Kosovo until 1999 corresponded with fiscal system of the former Yugoslav federation, which was built on the concept of socialist economy based on social ownership and state intervention in economy.

The establishment of fiscal policy had two main roles:

- Collection of Revenues and
- Economic development.

The main purpose of every tax system is to ensure revenues with which will support the public expenditure, therefore the domestic tax rate depends on the volume of government expenditure. In our country fiscal policy includes the construction and implementation of modern concepts of taxation and tax system is in full compliance with the European Union rules and most advanced international standards. The Republic of Kosovo has built and continues to build a functioning tax system, through application of average tax rate and a with a free trade regime (without herbs and customs restrictions).

The development of fiscal policies in the Republic of Kosovo

Kosovo after the war began to the fiscal policy, different one from the previous tax system and in accordance with the European Union regulations on taxes. In our country tax system begins with the Regulation on Customs in 1999 and then in 2001 began to be applied other forms of taxes, such as:

- Presumptive (assumed) Tax in May 2000,
- Value Added Tax (VAT), May 2001,
- Income Tax in April 2002,
- Pension Savings Scheme, 2002,
- Property Tax (June 2003)

Vol I, Nr.2, 2012.

ISSN 1857-8179 (Paper) ISSN 1857-8187 (Online)

- The Corporate Tax (December 2004,
- Street Tax (March 2005)
- Tax in Royalties (2005),
- And in a continuous manner in the application of other non-tax revenues.

At the beginning of fiscal policy the tax system was simple where the dominating were the border taxes (excise, customs duties and the VAT collected at the border), with a turnout of over 70% of total budget revenues. Since 2003 the Republic of Kosovo with its revenues was able to finance the essential needs of public administration and social transfers. Fiscal policy and tax system in Republic of Kosovo is simple, and it is divided into direct and indirect taxes. The tax and fee structure is as follows:

I. Central Taxes

- Presumptive Tax,
- Value Added Tax,
- Personal Income Tax,
- Pension Savings Scheme,
- Tax-profit corporation
- Excise,
- Customs fee

II. Fees and local taxes

- Tax on Real Estate,
- Taxes, fees and other charges.

The definition and formulation of a consistent long-term fiscal policy in Kosovo was hampered with many obstacles apparently we can specify these characteristics:

- The specific political status of Kosovo,
- Difficult postwar economic situation.

The method of statistical data and macroeconomic indicators for the formulation of fiscal policy³³. Establishment and building of fiscal policy in post-war Kosovo was achieved in quite specific conditions due to the destruction of economy from the war. After the war, UNMIK mission focused on providing grants to cover emergency needs for financing public administration and in the rehabilitation of infrastructure and public services. For this purpose, in September 1999 the United Nations Civil Administration in Kosovo established the Central Fiscal Authority (CFA) and started to build fiscal policy. The fiscal policy in Kosovo was initially focused on the filling of cash budget, leaving aside the aspect of development of Kosovo. It is very difficult to establish a sustainable fiscal policy in Kosovo, first of all due to the very specific situation which is characterized by the lack of economic development strategy, the lack of statistical information on macroeconomic indicators for the development of economic policies and cash transactions e.g. the lack of domestic financial instruments. In the economic growth of one country, significant role plays a meaningful fiscal policy.

³³ RIINVEST, study report page 25, Prishtina 2002.

The role of fiscal policies in Republic of Kosovo

With the term fiscal policy we understand public expenditure and revenues and the manner how the government chooses to manage its budget in order to supply citizens with services and public goods:

- Public Infrastructure,
- Education,
- Public safety and
- Justice.

The process of formulation of taxes and public expenditure which is in the function of economic development is known as fiscal policy. The formation of fiscal policy in Kosovo as a primary purpose has to mobilize financial resources in order to meet the public needs. Fiscal policies together with the monetary policy are the two basic components of national economic policy which are used for macroeconomic purposes. The fiscal policy has to do with the actions of the government in changing the composition of revenues and public expenditures, with the purpose of managing the aggregate demand and maintain a sustainable economic growth with employment without generating inflation, without rising the public debt and satisfactory balances of payments. The state through the government is trying to find the best methods for allocation and financing the expenditures through the application of different types of taxes and other public revenues. During the implementation of tax policies, the Government tried and intended to ensure low level of tax burdens and have equal treatment for both, for businesses and for consumers (citizens).

The objectives of fiscal policy in the Republic of Kosovo

In the process of fiscal policy formulation, the policy-makers of Government defined a series of objectives by which they aimed to accomplish them, and instruments with how those objectives would become feasible, sticking to the strict fiscal management principles. In order to set clear and feasible objectives, in advance should be determined the principles of fiscal management such as:

- Transparency regarding the objectives, implementation of fiscal policy and the publication of public accounts,
- The stability of fiscal policy-making process,
- Efficiency of the impact of fiscal policy on the economy,
- Effectiveness of the formation and implementation of fiscal policy,
- Responsibility in the management of public finances.

The objectives of Fiscal policy in Kosovo are focused through the growth of social welfare as the primary purpose of any modern society. The social welfare is obtained in conditions of an environment that is distinguished by the economic, political and social stability.

The fiscal policy in Kosovo aims to fulfill these objectives:

- Fulfillment of public needs through a sound system of public financing;
- Implementation of full employment;
- Increase rate of economic growth;
- Preservation of price stability;
- The stability of the balance of payments;

- Improvement of working conditions including improved qualification structure of the workforce and technological progress;
- Stimulation of savings;
- Investments stimulation;
- Increasing the competitiveness of domestic products and services;
- Increasing the quality of education and health services

The accomplishment of these objectives depends in the ability of the Government to coordinate the fiscal instruments. Regarding the above mentioned facts I will present some recommendations that I thought are important for the government of the Republic of Kosovo in better functioning of fiscal policy in the future and these are:

1. Having equal treatment for the businesses,
2. Better information about the changes of legal infrastructure on fiscal policy,
3. Undertaking safeguards measures for businesses,
4. Undertaking incentive measures for businesses,
5. Reducing the level of personal income by four as it is now in two scales,
6. Scalable application of the VAT rate on two scales,
7. Elimination of the informal economy,
8. Reduction of tax threshold in Corporations,
9. Reduction of punitive sanctions,
10. Fiscal reformation by the Government.

Unequal treatments of businesses - Based on the current situation in the Republic of Kosovo businesses are not equal, some businesses are privileged, and most of businesses do not have any privilege. Access and privilege have those commercial businesses which are in a way connected with the Government and they are contracted by the Government in different business agreements.

Better information of businesses - The lack of information regarding the changes in legal infrastructure on the functioning of fiscal policy, often caused considerable damage to businesses due to the delay of information. In a survey conducted with business entities regarding the question of how much are businesses informed about the functioning of fiscal policy, it was general assessment of the respondents that they lack information on due and right time on the legal infrastructure that has to do with fiscal policy. On the question from the survey that the information of business subjects regarding the functioning of legal infrastructure on fiscal policy is insufficient, we got these responses: 66% strongly agree, 22% agree to some extent and 12% do not agree at all that the Government through the Ministry of Finance made proper and timely information of changes in the laws and administrative Instructions announcing in the Official Gazette. The survey was conducted with 240 business entities regarding the functioning of fiscal policy in Kosovo by the author of this writing².

Undertaking safeguard measures for businesses - The Government through the safeguard measures does not stimulate the business entities from unfair competition. For this purpose the government has drafted legal infrastructure, but because they are in their initial phase of the implementation the results showed symbolic outcome.

Undertaking incentive measures for businesses – The Government must take incentives for businesses in general, in particular for the new business subjects. The current fiscal policy which is approved by the

Government does not foresee incentives for businesses through various tax facilities for new businesses, which for a certain time of period would be exempted from the tax obligations.

The reduction of the level of personal income from four as it is now into two degree – The reduction of tax level on Personal Income into two tax rate is justified by the fact that most of the countries in the region are moving towards simplification of income tax, if not in one scale then at least in two. Such a reduction simplifies the tax system and for the entities doing business makes it more attractive. Scalable application of the VAT rate into two degrees. The tax rate application of scaled VAT (standard, non-standard) would have been necessary, having in consideration the experience of countries in the region and also in the EU directives there is a graduated tax rate and that from the zero into medium and maximum rate depending on whether it comes for the daily goods of consumer or luxury ones. In the Republic of Kosovo the scalable application of VAT has its own positive effect given the economic level and the standard of the population.

Elimination of the informal economy - One of the obstacles for unsuccessful implementation of fiscal policy in the Republic of Kosovo is the existence of the informal economy.

Fiscal evasion is generated by the illegal activities such as: bribery, racketeering, robbery, fraud, corruption and unregistered economic activities that do not fulfill tax obligations, thus quick elimination of these activities will have positive impact in faster development of Kosovo economy.

Reduction of threshold in Corporations – The reduction of VAT threshold from € 50,000 into lower threshold would influence the growth in the number of tax filers and at the same time in budget revenues as well. The countries in the region in this direction have a lower threshold for example, Albania, Montenegro, Macedonia and Serbia.

Reduction of punitive sanctions – The reduction of punishments for failing on time to pay the tax obligations into a lower level would influence in the improvement of the awareness for doing business. Punishments for failure to pay on time tax obligations are high which would negatively influence in the business doing.

Fiscal reformation by the Government - Given the fact that any reform taken in the direction of fiscal policy changes has its importance, therefore the current fiscal policy requires changes through making a more advanced fiscal reform which should be in the context of achieving the main functions in the:

- Economic growth,
- Economic stabilization
- Employment and
- Reduction of social inequality

References

- [1] The Ministry of Economy and Finance (2005), “Fiscal Topics and analyses report of economic trends”: *January-August 2005*”, Prishtina (2005).
- [2] Administrative Direction no. 05/2005, “*On law implementation of law no. 2004/48, on Tax Administration and procedures*”, Prishtina 2005.
- [3] Dr. Sherif Bundo and Gentiana Cana (2003).”*Finances*”, Tirana, 2003.
- [4] Ahmet Mançellari, Sulo Hadri, Dhorri Kule, Stefan Qirriqi (1999). “Introduction to economy”, Tirana 1999
- [5] Dr. Sabahudin Komoni (1986). “*Finances*” Prishtina 1986.
- [5] Dr. Musa Limani (1994). “Economic policies”, Prishtina, 1994.
- [7] Dr. Bozhidar Jelaçiç (1995). “The science on finances and the financial right” Prishtina 1995



- [8] Dr. Barbara Jelačić (1997). "Public Finances" *Inofirmator*, Zagreb 1997.
- [9] Dr .sc. Fetah Reqica& Mr.sc. Bedri Millaku (2011). "The Economy of Tourism" Prishtina 2011
- [10] Harvej S Rosin, "Public finances", Prishtinë, 2011.
- [11] RIINVEST Institute (2001)., "Some key issues in the building and implementation of fiscal policies in Kosovo" Prishtine 2001.
- [12] RIINVEST Institute (2003), "The performance of policy building on taxes and fees in Kosovo" Prishtinë,, 2003.
- [13] RIINVEST Institute (2010). "Kosovo Budget system, policies and sustainability" *Prishtine*, 2003,
- [14] MTI, "Kosovo Trade Policy" Prishtinë 2010.