

# **EFFECTS OF THE FISCAL PACKAGE FOR 2009 IN THE BUDGETARY INCOMES INTO THE REPUBLIC OF KOSOVO**

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## **Abstract:**

In this study paper has been discussed the analyze of modification effects of the fiscal package done in 2009 by the Government of the Republic of Kosovo and the Ministry of Finance as well as the effects of these modifications in realization of the budgetary revenues as regards to the periods of fiscal years 2007, 2008 and 2009. In the analyses are included direct and indirect revenues, realized in 2009 because in the 2009 have been made modifications in tax ratings and their effects in budgetary revenues as well as the comparison of each tax rate. In particular in this study paper has been analyzed effects of these modifications. Adoption of the fiscal package which entered into force on 01.01.2009 contains modifications of the tax rates as follows:

1. Value Added Tax from 01.01.2009 is increased the tax rate from 15% which was in the period of time from 01.07.2001 until 31.12.2008 in the tax rate of 16 %,
2. Tax ratio in the incomes of the corporate is decreased from 20% which was from 01.01.2005 until 31.12.2008 in the percentage of 10%,
3. The tax rate in personal income tax were decreased from 5 %; 10 % and 20 % which were in the period of time from 01.01.2005 until 31.12.2008 in 4 %; 8% and 10% ,
4. The Tax Rate in Interest, dividend, gambling games and rent were decreased from 16% & 20% into 9% & 10%. Therefore in this study paper shall be analyzed if there was any effect in increase or decrease of the budgetary incomes by modifications made in the fiscal package.

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**Keywords:** Fiscal Package, tax reform, budgetary incomes

## **Introduction:**

Taxation is an inseparable part of the state existence and its institutions. The state shall not be able to exist without payment of the tax ratings by its citizens and business operators. In this context there are two questions to be answered: a) what should be the rating limit, and b) what fiscal instrument should be used without harming activities of the business operators and economic development in general. The answer in the first question is easy: the tax rating limit must cover expenses and investments of the government. Concerning to the second question the answer is very contradictory because the determination of the tax ratings depends on the size of the government and functions carried out by the government. More completed answers can be found in principles of the optimal tax ratings, under which:<sup>1</sup>

- (1) It must provide stabile and optimal amount of the funds to finance the public expenditures
- (2) Must provide the withstand charge for tax payers, tax rating limit should be shared in a real manner
- (3) Taxation system must not interfere in optimal allocation of resources and must be neutral as much as possible
- (4) Taxation system must be flexible and react in inflections of economic conditions
- (5) Must be as simple as possible, understandable, and available in application,

Therefore the main objective of every fiscal system is to provide revenues (incomes) to cover public expenditures. From this derives that taxation rate in the country depends from the volume of the public expenditures and productive expenditures improve the rate of the economic growth, while the growth of taxation rate results with poor economic performance. Effects of rising of the taxation rate are: They decrease consumption power of the tax payers, causing in this way effects of social, economical, financial and of moral nature, whereas the contra effects are if the taxation rate is decreased. Important factors in economic development of one country are taxation policies in which their effect improves the well-being of society. The analyses of these effects in changing of the taxation rate which have been changed on 01.01.2009, demonstrate an important approach about the effect in revenues (incomes) in general. In this context there may bring many questions which require the answer by a scientific study paper (research).

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<sup>1</sup> "The role of taxation reform in economies of the Eastern and Central Europe", OECD. Marek Dubrowski, Magdalena Tomczyńska, taxation reforms in economies in transition, Varshavě, viti 2001.

**The revenues (incomes) realized in 2007, 2008 and 2009**

In the table below are presented data and figures taken from official sources of the Ministry of Economy and Finance of Kosovo, Kosovo Tax Administration and Kosovo Customs, regarding to the revenues ( incomes) realized for the respective years (see: tab. 1 and tab.2).

**Table No. 1.**

| <b>Years</b>                                       | <b>2009</b> | <b>2008</b> | <b>2007</b> |
|--|-------------|-------------|-------------|
| Description  | '000 €      | '000 €      | '000 €      |
| External Excise at the border                      | 150,694     | 132,498     | 129,395     |
| Customs ax in imports ,cigarettes (tobacco)        | 56,223      | 70,817      | 61,988      |
| Custom tax in imports                              | 98,312      | 93,350      | 81,208      |
| Value added tax at the border                      | 327,662     | 304,760     | 255,039     |
| Specific (Special ) tax at the border              | -           | 168         | 1,513       |
| Different custom taxes                             | 810         | 647         | 558         |
| Sales of goods                                     | 415         | 1,217       | 742         |
| Other customs taxes                                | 340         | -           | -           |
| Comp. of impairments by compensation of insurances | 19          | -           | -           |
| Banderols  | 325         | 542         | 650         |
| External customs checks                            | 325         | 805         | 2,555       |
| Fast-Customs                                       | 90          | 174         | 107         |
| Revenues (incomes) at the customs                  | 635,214     | 604,979     | 533,755     |
| VAT Reimbursement from Customs                     | (374)       | (362)       | (279)       |
| Reimbursements of Excise in customs                | (337)       | (114)       | (272)       |
| Customs reimbursements                             | (263)       | (233)       | (208)       |
| Reimbursement of different Customs Taxes           | (93)        | (75)        | (1,405)     |
| Customs reimbursements in total                    | (1,068)     | (783)       | (2,164)     |
| Net customs revenues (Incomes)                     | 634,146     | 604,196     | 531,591     |

Resource: Annual financial report 2009 – Ministry of Economy and Finance of the Republic of Kosovo, 25.03.2010 page. 12

In the table No.2 are presented data and figures from the report in realization of the revenues (incomes) by Kosovo Tax Administration.<sup>2</sup>

<sup>2</sup> Annual financial report 2009 – Ministry of Economy and Finance of the Republic of Kosovo, Prishtinë 2010

**Table No. 2**

| <b>Years</b>   | <b>2009</b> | <b>2008</b> | <b>2007</b> |
|--|-------------|-------------|-------------|
| Description  | '000 €      | '000 €      | '000 €      |
| Presumptive tax                                      | 2,794       | 1,328       | 997         |
| Tax on profit  | 8,407       | 4,425       | 3,441       |
| Tax on incomes of corporate                          | 55,355      | 64,982      | 53,728      |
| Personal income tax                                  | 39,227      | 43,524      | 33,968      |
| Value Added Tax collected within the country         | 75,825      | 59,023      | 58,783      |
| Tax for Individual small businesses                  | 20,566      | 16,034      | 16,034      |
| Tax on interests, dividends, gambling games and rent | 2,906       | 1,793       | 1,966       |
| Tax in additional profit                             | 0           | 26,474      | 16,612      |
| Unspecified taxes                                    | 1,388       | 1,855       | 6,317       |
| Acceptances  | 206,469     | 222,158     | 191,845     |
| Reimbursements of Local VAT                          | (24,810)    | (21,324)    | (9,303)     |
| Reimbursements                                       | (24,810)    | (21,324)    | (9,303)     |
| Net Acceptances                                      | 181,659     | 200,834     | 182,542     |

Resource: Annual Financial report 2009– The Ministry of economy and finance of the Republic of Kosovo, 25.03.2010.

Having in regard that on 01.01.2009 have entered into the force these changes in the taxation rate mentioned above they shall be analyzed by comparing in a horizontal line of each type of the tax rate always taking as a base the year 2008. By using the horizontal comparative method, objective of which is to determine increases and decreases which have happened in periods included in the analyses, we can have a clear review of the impact of these effects.

Data and figures in the table No.3 are based in the data and figures of table 1 and in this way we can come up with the conclusions about the increase and decrease in realization of the revenues (incomes) from Kosovo customs. <sup>3</sup>

<sup>3</sup> Annual financial report 2009 – Ministry of Economy and Finance of the Republic of Kosovo, Prishtinë 2010

**Table No. 3**

| Years  | 2009    | 2008    | Increase/decrease |
|--|---------|---------|-------------------|
| Description                                    | 000€    | 000€    | 000€              |
| External excise at the border                  | 150,694 | 132,498 | 18,196            |
| Custom tax on imports cigarettes (tobacco)     | 56,223  | 70,817  | -14.594           |
| Custom tax on imports                          | 98,312  | 93,350  | 4,962             |
| Value added tax at the border                  | 327,662 | 304,760 | 22,902            |
| Other Customs taxes                            | -       | 168     | -168              |
| Different Custom taxes                         | 810     | 647     | 163               |
| Sale of goods                                  | 415     | 1,217   | -802              |
| Other custom taxes                             | 340     | -       | 340               |
| Comp. of the damage. by the insuran. companies | 19      | -       | 19                |
| Banderols                                      | 325     | 542     | -217              |
| External customs checks (inspections)          | 325     | 805     | -480              |
| Fast-Customs                                   | 90      | 174     | -84               |
| Incomes of customs                             | 635,214 | 604,979 | 30,235            |
| VAT reimbursements by customs                  | (374)   | (362)   | 12                |
| Reimbursements of excise at the customs        | (337)   | (114)   | 223               |
| Customs reimbursements                         | (263)   | (233)   | 30                |
| Reimbursements of different customs taxes      | (93)    | (75)    | 18                |
| Customs reimbursements in total                | (1,068) | (783)   | 285               |
| Net customs revenues (incomes)                 | 634,146 | 604,196 | 29,950            |

Resource: Annual Financial report 2009– The Ministry of economy and finance of the Republic of Kosovo, 25.03.2010

Having in regard that the target of this study paper is only the effect of the changes of the taxation rate now we are focused only in the analyzes of:

**1. Value Added Tax collected at the border by Kosovo customs** indicates the increase of the revenues of 7.51 % comparing to 2008 or said in the figures 22,902,000 €. In 2008 we have had taxable base of imports of 2,031,733,333 € with the taxation rate of 15 %, when this base of taxable value is multiplied with 15 % we have 304,760,000 € of VAT collected at the border, while if we had had the same taxation rate in 2009 as in the 2008 we would have a

growth of import for only 2,423,130 € or in percentage 0, 80 %. Rising of the VAT rate from 15 % as it was in 2008 into 16 % in 2009 brings an increase of the base of import value 2,047,887,500 € taxable with the rate of 16 %. If this base of the taxable value is multiplied with the rate of 16 % we get 327,662,000 € VAT collected at the border.

If we do compare the trend of VAT collection on imports for 2008 and comparing to 2007 we have had an increase of 19,50 %, therefore the increase of the VAT rate from 15 % into 16 % has had an effect of decrease of the trend of import from 19,50 % into 7,51% for the 2009 or said in percentage 11,99 %.

However there was an increase of incomes (revenues) from Value added tax at the border in 2009 comparing to 2008 but there was not an expected increase. The taxable base in 2009 was 2,047,887,500 € while in 2008 was 2,031,733,333 € or 16,145,167 € was an increase of the base of taxable value.

Table No.4 is based on data of table No.2 and from the table we can come to conclusions about the increase and decrease in collection of the revenues (incomes) by KTA.<sup>4</sup>

**Table No.4**

| Years  | 2009     | 2008     | Increase /decrease |
|--|----------|----------|--------------------|
| Description                                      | '000 €   | '000 €   | '000 €             |
| Presumptive tax                                  | 2,794    | 1,328    | 1,466              |
| Tax on profit                                    | 8,407    | 4,425    | 3,982              |
| Tax on corporate incomes                         | 55,355   | 64,982   | -9,627             |
| Personal income tax                              | 39,227   | 43,524   | -4297              |
| Value Added Tax collected within the country     | 75,825   | 59,023   | 16,802             |
| Tax on individual small businesses               | 20,566   | 16,034   | 4,532              |
| Tax on inter, dividends, gambling games and rent | 2,906    | 1,793    | 1,113              |
| Tax in additional profit                         | 0        | 26,474   | -26,474            |
| Unspecified taxes                                | 1,388    | 1,855    | -467               |
| Acceptance                                       | 206,469  | 222,158  | -15689             |
| Reimbursements of Local VAT                      | (24,810) | (21,324) | -3,486             |
| Reimbursements                                   | (24,810) | (21,324) | -3486              |

<sup>4</sup> Annual financial report 2009 – Ministry of Economy and Finance of the Republic of Kosovo, Prishtinë 2010

|                 |         |         |         |
|-----------------|---------|---------|---------|
| Net Acceptances | 181,659 | 200,834 | -19,175 |
|-----------------|---------|---------|---------|

**Effects of changes on incomes collected by KTA are as follows:**

**1. Presumptive tax and Tax on profit** represent the taxes which are in process of collection from previous periods which means for years we are performing the study. These taxes are not in function but they are replaced with Taxes on corporate incomes, personal income tax and taxes from individual small businesses.

**2. Tax on corporate incomes has indicated a decrease in the collected value as a reason of the decrease of taxation rate from 20 % into 10 %** and that for -9,627,000 € or said in percentage % from -14.81% comparing to 2008. In 2008 corporate incomes were 324,910,000 € multiplied to 20 % there is 64,982,000 € taxes while in 2009 we have 553,550,000 Euro multiplied with 10 % we get 55,355,000 €. If in 2009 we had had the tax rate of 20 % then we would had 110,710,000 euro of the collected taxes. Taxable revenues of corporate have indicated a growth of 228,640,000 € or 70, 37 % comparing to 2008.

By studying the trend of increase of the taxable incomes of corporate for 2008 comparing to 2007 we can see that there was an increase of 20, 95 %. This increase is in aspect of taxable value, whereas in aspect of collection in a value of 11,254,000 €. If we do compare 2009 with 2007 then there is an increase of 106, 06 % in the aspect of taxable value, while in aspect of collection of the incomes from taxes we can see that there is an increase of collection of incomes in a value of 1,627,000 € or said in percentage only 3.03 %.

The decrease of the tax rate from 20 % into 10 % has had effects on increase of declarations of profit of tax payers and decrease of the fiscal evasion, making in this way more favorable conditions to make business into the Republic of Kosovo.

**3. Taxation on personal incomes** In this type of tax there is a decrease of the collected value of taxes because the taxation rates are decreased from (20, 10 and 5) % as they were in 2008 into (10, 8 and 4) % in 2009, having in mind the fact that this taxation is ranged in three taxation rates and there is another annual value which is released from taxation (960 €). The decrease of collection of the taxes in value 4,297,000 € does not present a decrease of taxation base but on the contrary presents an increase of this base. By using the method of average percentage of taxation (%),  $(20, 10 \text{ and } 5) / 3 = 13 \%$  for 2008 we can conclude the calculation base of taxes was 373,062,856 € (*Remark : calculation made by fixation of the of this average percentage of taxation rate serves only for the current study and values gained*

*for determination of the taxation base which are obtained are based in this calculation, therefore these information are only for this study which in comparative aspect may be taken as relevant, whereas in fact may oscillate in a percentage which would not have effect that may lead to other conclusions. So, possible differences which may result would not have impact in the study).* When this base is multiplied with 13 % we get 43,524,000 euro of the collected taxes for 2008, while by using the same method of calculation for 2009 we have  $(10, 8 \text{ and } 4) / 3 = 7.33 \%$  then we can come to a conclusion the calculation base of the taxation 534,913,660 € multiplied with 7,33 % we get 39,227,000 € of the collected taxes, said in the value of 161,850,805 €. In this way there was an increase in declaration of the taxes for 2009 comparing to 2008 or said in percentage 43.38 %.

The decrease of the taxation rates from (20, 10 and 5) % in (10, 8 and 4) % has had effects in increase of the declarations of the profit of the tax payers, real declaration of the employees' salaries and decrease of the fiscal evasion ,making in this way more favorable conditions to make business into the Republic of Kosovo.

**4. Local value added tax collected by the sale of goods and services** indicates an increase of incomes in 2009 in a percentage of 28.50 % comparing to 2008 or said in the values 16,802,000 €. In 2008 we have had a taxable value base 393,486,667 € with the tax rate of 15 % when this base of taxable value is multiplied with 15 % we get 59,023,000 € of VAT collected within one year, but if we have had in 2009 the same taxation rate as in 2008 then there would had been the increase of the incomes for only 80,419,583 € or said in percentage 20, 40 %. The increase of the VAT rate from 15 % as it was in 2008 into 16 % in 2009 brings an increase of the base of the taxable value to 473,906,250 €, if this taxable value base is multiplied with 16 % we get 75,825,000 € of the collected VAT.

If we do study the trend of increase of collection of local VAT for 2008 and comparing to 2007 we have had an increase of 0, 41 %, here we can see that as a reason of this increase of the VAT rate from 15 % in to 16 % has had the effect in increase local VAT collection from 0, 41 % in to 20, 40% for 2009, or said in percentage there was a decrease of 19, 99%. Incomes from VAT collected at the border in 2009 comparing to 2008 were increased.

Factors which have had impact in increase of the local VAT collection are:

- a) Increase of taxation rate from 15 % in to 16 %
- b) Increase in declaration of the taxes in corporate incomes
- c) Increase of the tax declaration of real incomes of individual businesses



- d) Increase under b and c points is as a reason of profits (price differences –applied profit margins) realized during these years. The nature of this tax itself (VAT as indirect tax because this tax is carried forward to the final consumer) means that this tax is based only in VAT and the cycle of the closure ends to final consumer.
- e) In this increase has impacted the number of tax payers' in declaration of VAT and that always based on legal limits.

**5. Tax on Individual Small Businesses** –According to fiscal package of 2009 there was no changes in this type of taxation; increase of the collection of this type of taxation is more linked on awareness of tax payers' because taxes shall be returned indirectly to them.

**6. Taxation on interest, dividend, gambling games and rent** This type of tax has been evidently increased even that under fiscal package of 2009 it has undergone changes of the taxation rate from 16 % and 20 % as it was in 2008 in taxation rate 9 % and 10 % in to 2009. Even though there was a decrease we can see from the comparative reports of 2008 and 2009 there was an increase in collection for 1,113,000 € or 62.10 %, the taxable base for 2008 of this tax is 9,961,111 € multiplied with par  $(16 \% + 20 \% / 2 = 18 \%)$  18 % we get 1,793,000 € of the collected incomes for 2008, whereas for 2009 the taxable base of this tax is 30,589,474 € multiplied with the par  $(9 \% + 10 \% / 2 = 9.50 \%)$  9.50 % we get 2,906,000 € collected during the year. Studying the trend of the increase of the tax on interest, dividend, rent and gambling games and if we compare the taxation periods 2007 and 2008 we can see a decrease of this type of tax in 2008 in value collected for 173,000 € or 8.80 % decrease, while the report between 2009 and 2007 then there is an increase of 940,000 € or 47.81 %.

**From this study we can come to the following conclusions:**

1. The fiscal package of 2009 has not produced negative effects in collection (realization) of the incomes from taxes in to the Republic of Kosovo.
2. Increase of the collection of taxes within the territory of the Republic of Kosovo by Kosovo Tax Administration (KTA), not included collection of incomes by Kosovo Customs. Therefore these 4 taxes of the fiscal package studied in this study paper resulting that they indicate an increase in collection of incomes for 3,991,000 €. So we can come to a conclusion that the effect is positive.
3. The fiscal package has effected to a large number of the tax payers in rising the awareness that taxes must be paid as laid down by the law In his book “Public Finances” the author

Harvey S. Rosen cites a declaration of the Supreme Court of the USA: “The government power to set the taxes is a strong power on which is based the whole national factory. This power is such necessary for the existence and prosperity of one nation like the air is for human .The power is not only to destroy, but the power keeps you alive.

4. The fiscal policy has made more favorable conditions in encouragement of local and foreign investments which should be supported in the aspect of offering other institutional guaranties enabling realization of these objectives.

5. The fiscal policy of 2009 puts the Republic of Kosovo among the most favorable countries to make business and among the countries with the lowest taxes in the region and worldwide.

6. By this fiscal package the state realizes its objectives. In the book “Public Finances” the author Prof. Dr. Sabahudin Komoni says: “The objective of taxation is collection of monetary funds for state and other public bodies needful for funding of their functions. This is the fiscal goal of taxation.

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