

# **THE COMPARISON OF THE TAX RATES BETWEEN THE REPUBLIC OF KOSOVO WITH COUNTRIES IN REGION AND THE EUROPEAN UNION COUNTRIES**

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## **Abstract**

This paper contains the comparative analysis of some taxes and social security contributions which are of most importance having an impact on the decisions of the investors for investments and opening new jobs and sustainable economical development.

This comparison of the tax rates and social insurances is made between the Republic of Kosovo and countries in the region and the European Union countries (Albania, Macedonia, Montenegro, Croatia, Bosnia and Herzegovina and Serbia).

The targets of the comparison are tax rates and social securities as follows:

1. The tax on income
  - a) Corporate tax
  - b) Taxed on individual – personal incomes
2. Social security
  - a) Social security paid by employees
  - b) Social security paid by employers
  - c) Health insurance paid by employees
  - d) Health insurance paid by employers
  - e) Health insurance at work
  - f) Social Security from unemployment paid by the employees
  - g) Social Security from unemployment paid by the employers
3. VAT (Value Added Tax)

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**Keywords:** Tax rates, social securities (insurances), VAT

## **Introduction**

Having in regard the fact that the Republic of Kosovo is the newest country from all other countries in the region which the comparison of the tax rates are made. The fiscal reform which has been applied in the Republic of Kosovo have made Kosovo an attractive country for investments, offering the most favorable tax rates, then unexplored natural resources and the youngest working force in the report of comparable countries are characteristics which rank the Kosovo among first countries offering and providing favorable conditions for investments and guarantees for the sustainable economical development.

For the users of this information, this paper presents an important study completing the information gap regarding to the comparison of the tax rates and social security schemes of the Republic of Kosovo with countries in the region and the countries of the European Union.

The tax rates and social security schemes offer the newest information from October 1<sup>st</sup> 2012, so here are included the last updates published on the Web sites.

## **The comparison of the tax rates and social security schemes between the Republic of Kosovo and countries of the European Union**

Even that among the European Union countries exist a large difference in the level of the tax rate and social security schemes, The European Economic Union had not planned to establish a unique tax and social security system, and even it has not been provided by the Maastricht treaty in 1992 on European Union and lately by the Constitution of Europe drafted in 2004 in Rome, a constitution which supposed to be ratified by the parliaments of the Member countries, but it has not happened because the constitution of the European Union has not been ratified by the citizens of France and Netherland. Non-ratification of the European constitution has not enabled the establishment of the Federation of the European countries. Non-ratification of the constitution has limited EU bodies in their right of standardization and unification of national tax systems but it has not limited the rights in attempts that these tax systems are compatible with determined objectives under the treaty of the establishment.

Having in mind the fact that the EU is not a state, it does not have the political sovereignty of imposition of a unique tax system.

EU through the Fiscalis program 2013 and by the Decision No 1482/2007/EC of the European Parliament and European Council on 11.12.2007 is preparing the member countries for unification of the taxation systems and policies. In the Article 1 of this Decision is said:

1. One action program of the Community for the period of time from 01.01.2008 to 31.12.2013 to improve the taxation system in the internal market.

2. The program includes the following activities:

- a) The communication system and exchange of information
- b) Multilateral control
- c) Seminars and project groups
- d) Study visits
- e) Training activities and
- f) Similar and appropriate activities to achieve program objectives.<sup>39</sup>

Even that the efforts have been made for unification of the taxation system EU succeeded to approximate legislative regulations only at indirect taxation (VAT), whereas the direct taxation (taxation on corporate incomes, personal incomes etc.) is continuing to have support and advisory role. From the following table we can see that direct taxation still does not have the tendency of the approximation of the taxation rates.

The European Union with bilateral agreements has achieved to avoid double taxation where the full consensus has been achieved.

There is no levelling of VAT taxation rate our registration limit on VAT.

Regarding to the tax rate under European Union Directive 2006/112/EC where article 97 of such Directive lays down the standard rate shall not to be under 15 %, whereas the low rate not to be under 5 % this rate is laid down in article 99 of such Directive<sup>40</sup> and zero rates, while the agreement has been achieved for the VAT system shall be implemented at the retail phase.

The comparison of the taxation rates and social security schemes of the Republic of Kosovo with European Union Countries based on the table 1 and table 2 we can see that Kosovo has the lowest taxation rates than all European Union countries and it has completely harmonized legislation on VAT applicable and other indirect taxations.

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<sup>39</sup> Official Journal of the European Union, L 330 / 2 , 15.12.2007

<sup>40</sup> Official Journal of the European Union, L 347/23 dhe L 347/ 24, 11.12.2006

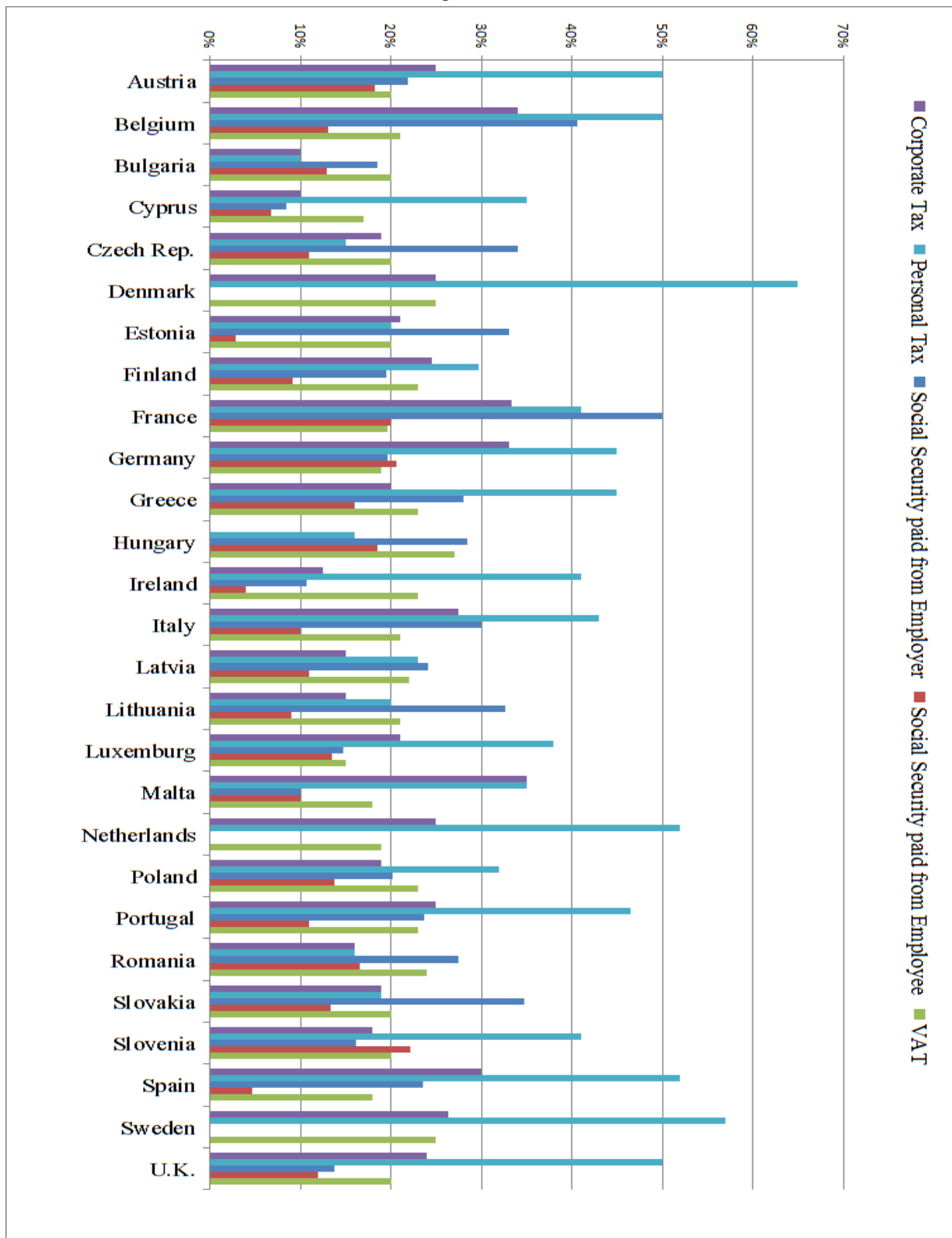
**Tab.1** The taxation rates in the countries of the European Union<sup>41</sup>

Country	Taxes		Social Security		VAT
	Corporate Tax	Personal Tax	Employer	Employee	
Austria	25%	21%-50%	21.83%	18.20%	20%
Belgium	33.99%	25-50%	40.58%	13.07%	21%
Bulgaria	10%	10%	18.50%	12.90%	20%
Cyprus	10%	0-35%	8.50%	6.80%	17%
Czech Rep.	19%	15%	34%	11%	20%
Denmark	25%	38-65%	0	DKK 900	25%
Estonia	21%	20%	33%	2.80%	20%
Finland	24.50%	6.5-29.75%	19.47%	9.14%	23%
France	33.33%	5.5-41%	50%	20%	19.60%
Germany	30-33% (effective)	14-45%	19.70%	20.60%	19%
Greece	20%	0-45%	28%	16%	23%
Hungary	10/19%	16%	28.50%	18.50%	27%
Ireland	12.50%	20-41%	10.75%	4%	23%
Italy	27.50%	23%-43%	30%	10%	21%
Latvia	15%	23%	24.09%	11%	22%
Lithuania	15%	15%/20%	32.60%	9%	21%
Luxemburg	21%	0-38%	14.69%	13.45%	15%
Malta	35%	15-35%	10%	10%	18%
Netherlands	20-25%	0-52%			19%
Poland	19%	18%/32%	20.14%	13.70%	23%
Portugal	25%	11.5-46.5%	23.75%	11%	23%
Romania	16%	16%	27.50%	16.50%	24%
Slovakia	19%	19%	34.80%	13.40%	20%
Slovenia	18%	16%-41%	16.10%	22.10%	20%
Spain	30%	24.75-52%	23.60%	4.70%	18%
Sweden	26.30%	0-57%			25%
U.K.	24%	0-50%	13.80%	12%	20%

(Last partial update, October 1, 2012)

<sup>41</sup> www.worldwide-tax.com

Graphic No. 1



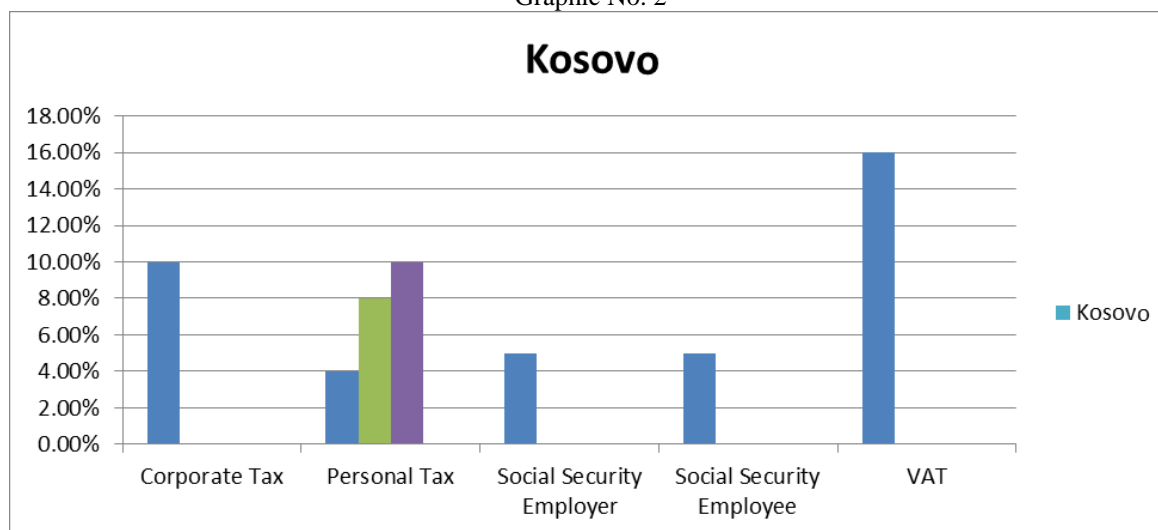
In the Graphic are presented maximum values, so minimum values have been ignored.

Table 2. Taxation rate in the Republic of Kosovo <sup>42</sup>

Country	Taxes		Pensional Contributions		Self-employed/ Small business		VAT
	Corporate	Personal	Employer	Employee	Tax	Pensional Contribution	
Kosovo	10%	4 %	5%	5%	Min. 37.5 €	Min. 1/3 of minim. Wage	16%
		8 %			3% *	≥ 1/3 min. Wage	
		10 %			9% **	≥ 1/3 min. Wage	

Note : \* For businesses having as activity trade, production , catering facilities, etc.  
 \*\*For businesses offering only services

Graphic No. 2



Graphical presentation is based on the Table 2 where the Pensional taxes and contributions have not been included for the self-employed. Regarding to the taxation it is calculated in the overall turnover.

**The comparison of the taxation rates and social security schemes between the Republic of Kosovo and Albania**

The following table shows the taxation system in Albania compared to that one in Kosovo is higher. Regarding to the tax rate the corporate tax is at the same level, whereas the tax on personal incomes is different because Albania applies the flat rate of 10 % whereas Kosovo applies progressive tax rate from 0% to 10 %. Besides this, the Albania applies obligatory pension insurances: see the Table 3, whereas Kosovo still does not apply other insurances, Albania has the standard VAT rate 20 % and low rate of 10 %, whereas the standard VAT rate in Kosovo is 16 %. According to the data from the table 3 and referring to

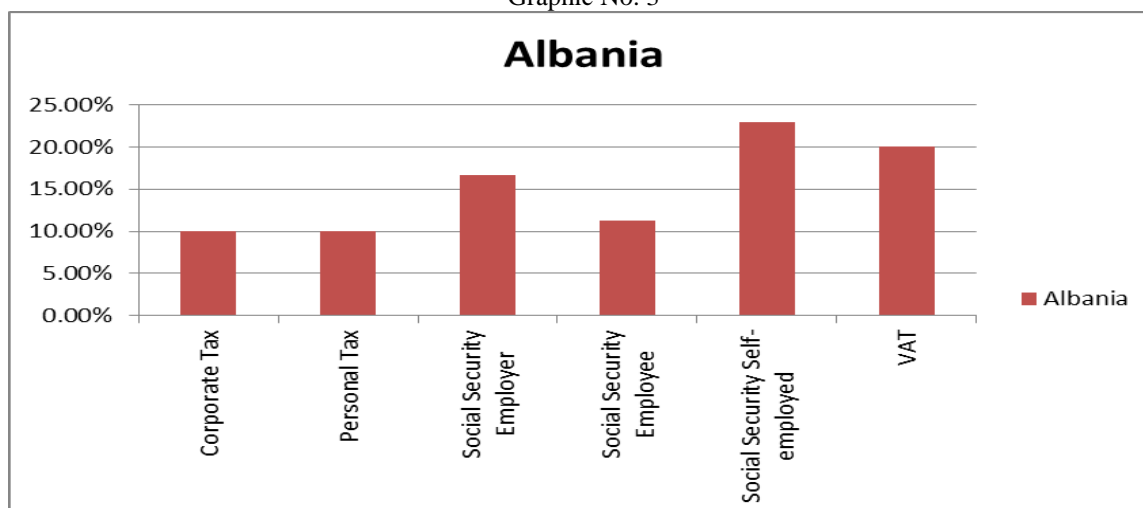
<sup>42</sup> Kosovo a taxation legislation, I First and II Second Edition ,Kosovo Tax Administration

the table 2 we can conclude that Kosovo offers more favorable conditions in the aspect of fiscal policies than Albania.

Tab 3. Taxes in Albania<sup>43</sup>

Country	Corporate Tax	Personal Tax	Social Security Employer	Social Security Employee	Social Security Self-employed	VAT
Albania	10%	10%	16.70%	11.20%	23%	20%
Note: In the group enter the social security for:						
1	Social insurance for illness (temporary disability)		0.18%	0.12%	0.00%	
2	Maternity		0.83%	0.57%	1.40%	
3	Pension		12.79%	8.81%	21.60%	
4	Accidents and occupational diseases		0.30%	0.00%	0.00%	
5	Unemployment		0.90%	0.00%	0.00%	
6	Health insurance		1.70%	1.70%	7.00%	

Graphic No. 3



The Graphic is based on the Tab 3 summarized values of the insurances from point 1 to point 6.

### The comparison of the taxation rates and social security schemes between the Republic of Kosovo and Macedonia

According to the table below the taxation system in Macedonia compared to that one in the Republic of Kosovo is based on obligatory social contributions which are higher than in Kosovo. Regarding to the corporate incomes the taxation rate is at the same level as in Kosovo, whereas the taxation on personal incomes is different because Macedonia applies the tax rate of 10 % whereas the Kosovo applies progressive tax rate from 0 % to 10 %. Besides this the pension insurance is 18 % which means that it is 8% higher than in Kosovo

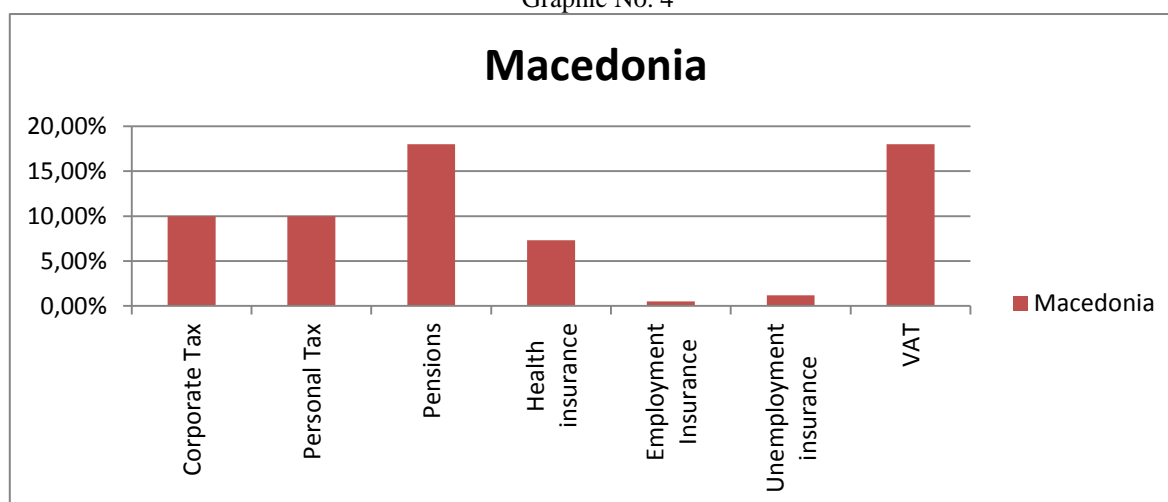
<sup>43</sup> The tax administration of Albania, "The legislation in force" Tirane, 2012 and Deloitte "Albania Highlights 2012" International Tax, 2012

Macedonia applies other obligatory social securities (Insurances): see the table 4, whereas Kosovo still does not apply other social securities (insurances). Regarding to the VAT Macedonia applies the standard rate of 18 % and the low rate 5 %. Having in regard the fact the wide range of products which indirectly have an impact on the welfare of the citizens the VAT rate in Kosovo is (0 %) which ranks Kosovo in a more favorable fiscal position than Macedonia. If we do compare details from the table 4 and 2 we can confirm this theory.

**Tab 4.** Taxes in Macedonia<sup>44</sup>

Country	Corporate Tax	Personal Tax	Pensions	Health insurance	Employment Insurance	Unemployment insurance	VAT
Macedonia	10.00%	10.00%	18.00%	7.30%	0.50%	1.20%	18.00%

Graphic No. 4



The graphical presentation is based on the Tab.4

**The comparison of the taxation rates and social security schemes between the Republic of Kosovo and Montenegro**

In the following tables we can see that the taxation system in Montenegro compared to that one in Kosovo it can be seen that taxes on corporate incomes (business operators) are lower than in Kosovo, whereas in the Montenegro the taxation rate on the individual incomes is 9 % and the value of the discharge is 70 Euro per month or 840 Euro annually. Applying fix rate of 9 % and not the progressive rate we can conclude that having the discharge of 80 Euros per month or 960 Euro annually and the applicable progressive tax rate beginning from 4 % 8 % and 10 % it has a more favorable taxation policy in the aspect of the individual incomes. Regarding to the obligatory social contributions in the Montenegro are higher than

<sup>44</sup> PRO Regional Office Skopje “ Tax System in The Republic of Macedonia” Skopje, 2012



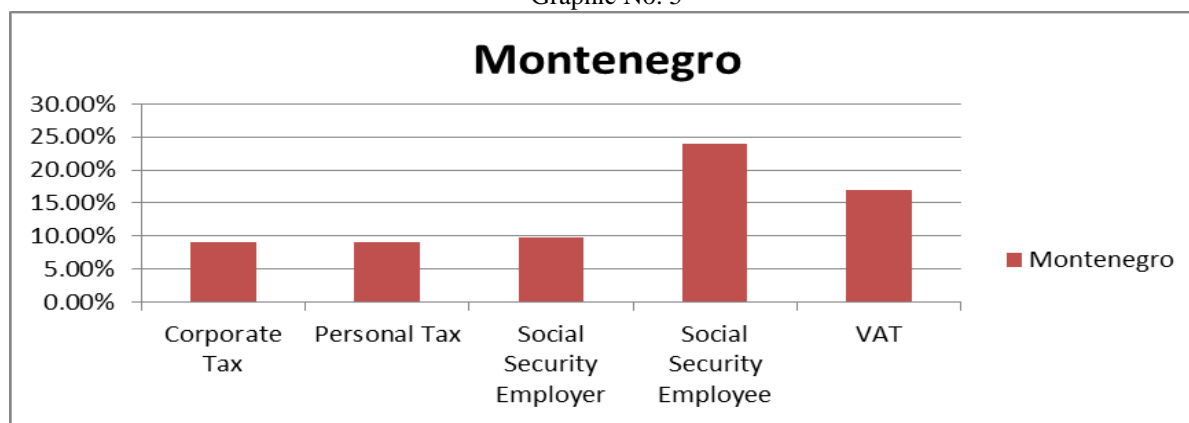
in the Republic of Kosovo which can be seen in the tables 5 and 2, whereas regarding the VAT Montenegro applies standard rate of 17 % and the low rate of 7 %, always having in regard the fact that wide range of the products have impacted indirectly on the welfare of the citizens. The VAT rate in Kosovo is (0 %) which ranks Kosovo in a more favorable fiscal position than Montenegro.

**Tab.5 Taxes in Montenegro<sup>45</sup>**

Country	Corporate Tax	Personal Tax	Social Security Employer	Social Security Employee	VAT
Montenegro	9%	9%	9.80%	24%	17%
Note: In the group enter the social security for:					
1	Pensional		5.50%	15.00%	
2	Health insurance		3.80%	8.50%	
3	Unemployment		0.50%	0.50%	

(Last partial update, October 1, 2012)

Graphic No. 5



Graphical presentation is based on Tab.5

### **The comparison of the taxation rates and social security schemes between the Republic of Kosovo and Croatia**

Croatian taxation system compared to the Kosovo taxation system is presented in the tables 6 and 2. From these tables can be seen that the tax on profit and tax in the individual (personal) tax is higher than in the Republic of Kosovo, as far as the Croatians collect the taxes in at various levels and the tax rates are from 12 to 40 % the taxes in the Republic of Kosovo are collected only at the central level with the rate from 0 to 10 %. Croatia applies the standard VAT rate of 25 % and the low rate of 10 %. Having in regard the fact that a wide range of products have impact on the welfare of the citizens, Kosovo has the VAT rate of (0 %) which ranks Kosovo in a more favorable fiscal position for all types of obligatory contributions and taxations than Croatia.

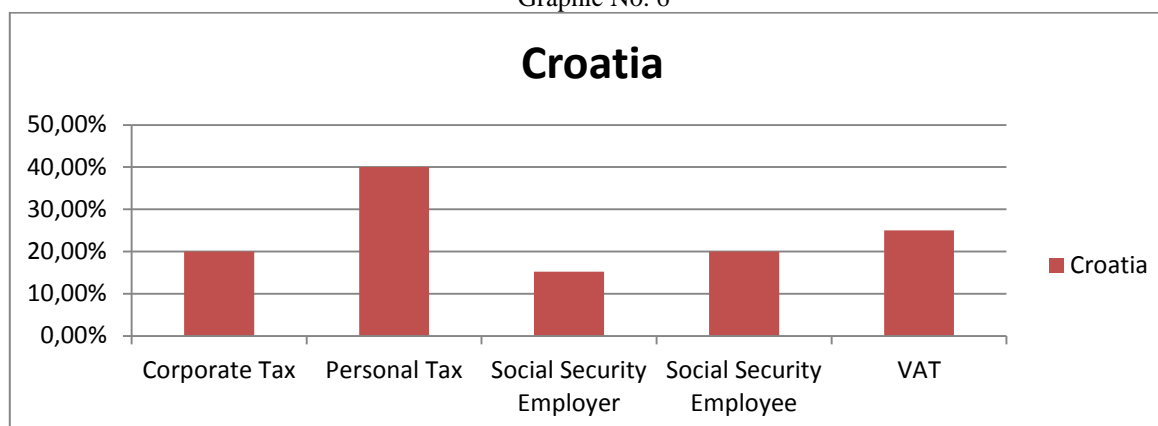
<sup>45</sup> [www.worldwide-tax.com](http://www.worldwide-tax.com)

Tab. 6 Taxes in Croatia<sup>46</sup>

Country	Corporate Tax	Personal Tax	Social Security Employer	Social Security Employee	VAT
Croatia	20%	12-40%	15.20%	20%	25%
Note: In the group enter the social security for:					
1	Health insurance		13.00%		
2	Health employment insurance		0.50%		
3	Unemployment		1.70%		

(Last partial update, October 1, 2012)

Graphic No. 6



The graphical presentation is based on the Tab.6 and in the graphic is presented only maximum values which mean that the minimum values have been ignored.

### The comparison of the taxation rates and social security schemes between the Republic of Kosovo and Bosnia and Herzegovina

As a result of the Dayton agreement on the state structure of two entities and later on the District of Brcko, the taxation system of the Bosnia and Herzegovina presents a complicated taxation system, but compared to the taxation system of Kosovo and based on the table 7 and 2 can be seen that taxations in Bosnia and Herzegovina are presented as very complex and except the indirect taxation which are unique for all country the other direct taxes are assigned and managed by entities. The tax on profit is at the same level as in Kosovo, while the taxes on individual (personal ) incomes are higher than in Kosovo because the entity of Bosnia and Herzegovina and Brcko District have the fix rate 10 %, whereas in the other entity Republika Srpska the tax on the incomes is at the proportional rate from 0 to 15 %. Social securities (insurances) in Bosnia and Herzegovina are: for the employer 10.5 % and employee 31 %. In Republika Srpska the employer does not pay any obligation but the employees pay the tax rate of 32.5 %, For the District of Brcko social securities (insurances) are paid according to the determination of the employers which entity shall pay the taxes and if it decides to pay according to the laws and legislation of the Federation of Bosnia and

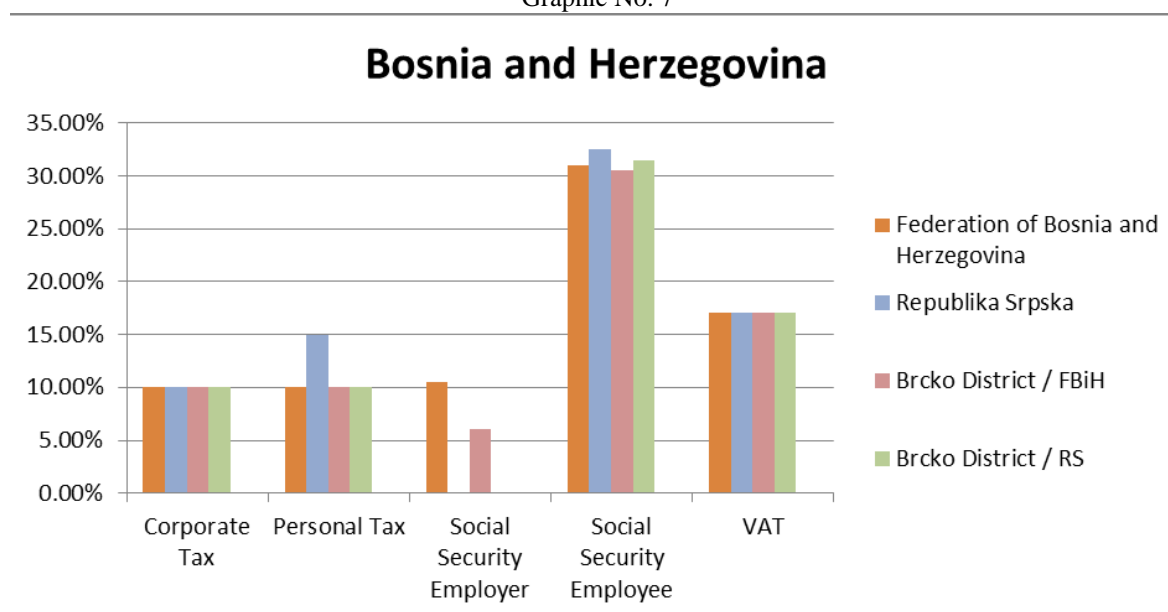
<sup>46</sup> www.worldwide-tax.com

Herzegovina the tax shall be paid by employer 6 % and employee 30.5%, while by laws of Republica Srpska shall be paid only 31.5%, for the employee. This complexity regarding to the fiscal policies and the rate of social securities (Insurances) ranks Bosnia and Herzegovina in an unfavorable position than Kosovo. Bosnia and Herzegovina apply the standard VAT rate of 17 % and the rate 0 %, while Kosovo applies the standard VAT rate of 16 % and the rate (0 %) which ranks Kosovo in a more favorable fiscal position for all types of the obligatory contributions and taxations than Bosnia and Herzegovina.

Tab. 7 Taxes in Bosnia and Herzegovina<sup>47</sup>

Country	Corporate Tax	Personal Tax	Social Security Employer	Social Security Employee	VAT
Federation of Bosnia and Herzegovina	10.00%	10.00%	10.50%	31.00%	17%
Republika Srpska	10.00%	0% - 15%	0.00%	32.50%	17%
Brcko District / FBiH	10.00%	10.00%	6.00%	30.50%	17%
Brcko District / RS	10.00%	10.00%	0.00%	31.50%	17%

Graphic No. 7



The graphical presentation is based on the Tab.7 and in the graphic is presented only maximum values which mean that the minimum values have been ignored.

### The comparison of the taxation rates and social security schemes between the Republic of Kosovo and Serbia

The taxation system in Serbia compared to that one in Kosovo is based on the Table 8 and 2. It can be seen that obligatory social securities (insurances) and taxation in Serbia are higher than in Kosovo. The taxation on the corporate incomes is at the same level, whereas

<sup>47</sup> [www.uino.gov.ba](http://www.uino.gov.ba)

the taxation on the personal incomes differs because Serbia applies the progressive rate from 10 % to 20 %, whereas Kosovo also applies the progressive rate of 0 % to 10 %. Except the pensionable insurance which applies to the employer and also for the employee and which is 6 % higher than in Kosovo Serbia applies obligatory insurances (securities) (see the table 8), whereas Kosovo still does not apply other securities (insurances). Regarding to the VAT Serbia applies the standard rate of 20 % and the low rate 8 %. Having in regard the fact that a wide range of products indirectly has an impact on the welfare of the citizens Kosovo has the VAT rate (0 %) which ranks Kosovo in a more favorable fiscal position than Serbia. This can be documented by comparative data in the tables 8 and 2 where this theory is confirmed.

Tab. 8 Taxes in Serbia<sup>48</sup>

Country	Corporate Tax	Personal Tax	Social Security Employer	Social Security Employee	VAT
Serbia	10%	10-20%	16.90%	16.90%	20%
Note: In the group enter the social security for:					
1	Pensions		11.00%	11.00%	
2	Health insurance		6.15%	6.15%	
3	Unemployment		0.75%	0.75%	

(Last partial update, October 1, 2012)

Graphic No. 8



The graphical presentation is based on the tab. 8 and in the graphic is presented only maximum values which mean that the minimum values have been ignored.

<sup>48</sup> www.worldwide-tax.com

From this comparative analysis we can come to the following conclusions:

1. The taxation rate on corporate incomes of the countries in a region is the lowest in Montenegro and the highest is in Croatia 20 %, while the European Union countries the rate is the lowest in Bulgaria and Cyprus with 10 %, while the highest rate is in Malta 35 %. Other countries in the region have the same rate of 10 %, while at the other European Union countries differs from 15 % to 33.99 %.

Having in regard the fact the taxation on corporate incomes can not function as single taxation but at least is closely associated with taxes on personal (individual) incomes and VAT, we can come to the conclusion that the Republic of Kosovo offers a more favorable taxation rate and better conditions of doing business.

2. The tax rate on personal (individual) incomes is the lowest in Kosovo because Kosovo applies a progressive rate beginning from 0 % or on annual base of 960.01 to 3.000 Euro or 2.040 Euro are taxed 4 %, from 3.000,01 to 5.400 Euro or 2.400 Euro are taxed 8 % and over 5.400,01 are taxed 10 % whereas the Croatia has the highest rate from 12 % to 40 %. In the European Union countries there is a difference in the taxation of personal (individual) incomes which vary from 10 % in Bulgaria the lowest rate and the highest rate in Denmark from 38 % to 65 % progressive rate.

At the personal (individual) taxation Kosovo offers more favorable tax rate offering in this way more favorable conditions of doing business.

3. The rate of the obligatory social securities (insurances) paid by the employees in Kosovo is the lowest in the region with a rate of 5 % paid by the employer and 5 % paid by the employee whereas the highest rate is in the Federation of Bosnia and Herzegovina where 10.5 % is paid by the employer and 31 % is paid by the employee. At the European Union countries the obligatory social securities (insurances) differs starting with Cyprus with the lowest rate of 8.5 % paid by the employer and 6.8 % paid by the employee and the France where 50 % is paid by the employer and 20 % is paid by the employee.

At the obligatory social securities (insurances) Kosovo is ranked among the countries with the lowest rates.

4. Regarding to the VAT Kosovo is ranked among the countries in the region with the lowest standard rate of 16 %, whereas Croatia with 25 %. At the European Union countries this type of the taxation differs among the countries and the lowest rate is in the Luxembourg 15 % whereas the highest rate is in Hungary 27 %.

After Luxembourg Kosovo offers the lowest rate and at the same time offers a more favorable investment conditions for potential investors.

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