

International Tax Kosovo Highlights 2017



Investment basics:

Currency – Euro (EUR)

Foreign exchange control – No

Accounting principles/financial statements – Financial Statements are prepared annually using Kosovo Accounting Standards (KAS), which are based on International Accounting and Financial Reporting Standards (IAS/IFRS).

Principal business entities – These are the general/limited partnership, limited liability company, joint stock company, personal business enterprise, foreign business organization, subsidiary, branch and representative office.

Corporate taxation:

Residence – A company is considered resident in Kosovo if it is established in Kosovo or its place of effective management is in Kosovo.

Basis – Residents are taxed on their worldwide income; nonresidents are taxed only on their Kosovo-source income.

Taxable income – Taxable income is calculated as the difference between gross income received or accrued during the tax period, and the allowable deductions and allowances with respect to such gross income.

Taxation of dividends – Dividends received by resident and nonresident taxpayers are exempt from corporate income tax.

Capital gains – Realized capital gains are considered taxable income and are taxed together with other income, at a rate of 10%.

Losses – Losses may be carried forward for six consecutive tax periods. The carryback of losses is not permitted.

Rate – The standard rate is 10%.

Taxpayers with income up to EUR 50,000 may choose to pay tax on a gross income basis. The tax rates on gross income are 3% for trade, transport, agriculture and similar activities; 9% for services, professional, artisan, entertainment and similar activities; and 10% for rental activities.

Life, property or other insurance companies are required to pay tax at a rate of 5% of their gross premiums accrued during the tax period.

Surtax – No

Alternative minimum tax – No

Foreign tax credit – Resident taxpayers that receive income from a business or through a PE outside of Kosovo and that pay tax on that income to any jurisdiction are allowed a tax credit for such foreign tax paid, up to the amount of tax that would be charged in Kosovo on the same income.

Participation exemption – No

Holding company regime – No

Incentives – No

Withholding tax:

Dividends – No

Interest – Interest payments are subject to a 10% withholding tax.

Royalties – Royalty payments are subject to a 10% withholding tax.

Technical service fees – Income earned by a nonresident individual or entity from services performed in Kosovo (under an oral or written agreement) will be subject to a 5% withholding tax if the nonresident does not have a PE in Kosovo.

Branch remittance tax – No

Other – Rental payments to resident or nonresident persons are subject to a 9% withholding tax.

Income received by nonresident entertainers (e.g. an artist, singer, athlete, etc.) from personal activities exercised in Kosovo is subject to a 5% withholding tax, whether paid directly or indirectly to the nonresident.

Payments made to nonbusiness natural persons; farmers; agriculturists; and collectors of recycled materials, forest fruits, healing plants and similar items are subject to a 3% withholding tax.

Other taxes on corporations:

Capital duty – No

Payroll tax – Resident employers are required to withhold personal income tax on employee wages, including payments to nonbusiness natural persons for professional, technical, management and financial services, and payments to actors, musicians, athletes and dependent agents, and remit the tax to the tax authorities on a monthly basis.

Real property tax – Municipal authorities levy “rates” on the occupation of real property. The rate is set on an annual basis between 0.05% and 1% of the market value of the property.

Social security – There is only one mandatory social security contribution, which is mandatory only for Kosovo nationals and is levied in the form of a pension contribution. The mandatory contribution for employees is 5% of their monthly salary, matched by another 5% contribution from their employer. Employees and employers may contribute more, voluntarily, up to a maximum of 15% of the salary. As from 2017, mandatory social security contributions also will be levied for public healthcare, at a rate of 7%, with equal contributions from the employee and the employer of 3.5%.

Stamp duty – No

Transfer tax – No

Anti-avoidance rules:

Transfer pricing – The transfer pricing rules are based on the OECD transfer pricing guidelines.

Draft legislation on transfer pricing would require the submission of a “Notice of Controlled Transactions” for controlled transactions within a tax period exceeding EUR 300,000, which would be prepared and submitted along with the annual corporate income tax return. The draft legislation also would impose transfer pricing documentation requirements as per the OECD guidelines, and documentation prepared in accordance with EU resolution 2006/C176/01 “on a code of conduct on transfer pricing documentation” would be considered to fulfill local legislation requirements.

Thin capitalization – No

Controlled foreign companies – No

Disclosure requirements – No

Compliance for corporations:

Tax year – 1 January to 31 December

Consolidated returns – Each legal entity must file a separate return.

Filing requirements – Quarterly advance payments must be made on or before the 15th day of April, July, October and January for the calendar quarter immediately preceding these dates. A final annual tax return is due on or before 31 March of the following year, along with the statutory financial statements.

The payer of interest, royalties, services and rent is responsible for filing and payment of withholding taxes no later than the 15th day of the month following the month of payment. All expenses subject to withholding tax must be paid before 31 March of the subsequent period to be allowed as business expenses for that year.

Penalties – Interest and penalties are imposed for failure to submit a tax declaration and failure to pay taxes due. Failure to file is subject to a 5% penalty on the tax due for each month or part of a month that the filing is late, with a maximum penalty of 25% of the tax due. Failure to pay taxes due is subject to a 1% penalty on the tax due for each month or part of a month that the payment is late, up to a maximum of 12% of the tax due. Interest applied on the delayed tax payment is 0.91% monthly.

Other administrative penalties may be imposed, depending on the circumstances and the type of violation.

Rulings – Taxpayers may obtain individual rulings from the tax authorities.

Personal taxation:

Basis – Resident individuals are taxed on their worldwide income; nonresidents pay tax only on Kosovo-source income.

Residence – An individual is considered a resident for tax purposes if he/she is a natural person who has a principal residence in Kosovo or a natural person who is physically present in Kosovo for 183 days or more in any tax period.

Filing status – Joint filing is not allowed; each individual must file his or her own return.

Taxable income – Taxable income includes wages, rents, income from economic activity and the use of movable, immovable and intangible property, interest, capital gains and lottery winnings. Income from wages includes salaries, bonuses, per diems, income from temporary work, health and life insurance premiums, pension contributions, forgiveness of the employee's debt, payment of the employee's personal expenses and benefits-in-kind exceeding the amount of EUR 65 per month.

Capital gains – Capital gains are subject to tax at the same rates as ordinary income. Capital losses are treated as ordinary losses and may be carried forward for up to six consecutive years. The carryback of losses is not permitted.

Deductions and allowances – For individuals who earn income from economic activities, allowances for business expenses are available. Contributions for humanitarian, health, education, religious, scientific, cultural and similar purposes are allowed as a deduction, up to 10% of taxable income, with an additional allowance of 10% for specific contributions.

Rates – Progressive tax rates ranging from 0%-10% are applied to annual gross income in the following manner: 0% for income between 0 and EUR 960; 4% for income between EUR 960.01 and EUR 3,000; 8% for income between EUR 3,000.01 and EUR 5,400; and 10% for income exceeding EUR 5,400.

Other taxes on individuals:

Capital duty – No

Stamp duty – No

Capital acquisitions tax – Gifts exceeding EUR 5,000 in a tax period are included in gross income and taxed accordingly.

Real property tax – In the case of properties used as principal residences, a EUR 10,000 deduction will be allowed from the taxable value of the property. Rates range between 0.05% and 1%, depending on the zoning type of the property concerned.

Inheritance/estate tax – No

Net wealth/net worth tax – No

Social security – There is only one mandatory social security contribution, which is mandatory only for Kosovo nationals and is levied in the form of a pension contribution. The mandatory contribution for employees is 5% of their monthly salary, matched by another 5% contribution from their employer. Employees and employers may contribute more, voluntarily, up to a maximum of 15% of the salary. As from 2017, mandatory social security contributions also will be levied for public healthcare, at a rate of 7%, with equal contributions from the employee and the employer of 3.5%.

Compliance for individuals:

Tax year – 1 January to 31 December

Filing and payment – Withholding tax on salaries and pension contributions must be declared and paid by the employer within 15 days after the last day of each calendar month. Annual personal income tax returns are due on or before 31 March of the year following the tax period.

Penalties – Failure to file a tax return and failure to pay tax due are subject to a 5% per month penalty on the tax due (up to a maximum of 25%), and a 1% per month penalty on the tax due (up to a maximum of 12%), respectively. Interest is applied at a monthly rate of 0.91%.

Other administrative penalties may be imposed, depending on the circumstances and type of violation.

Value added tax:

Taxable transactions – VAT is applied on the supply of goods and services and on the importation of goods.

Rates – The standard rate is 18%; the reduced rate is 8% and a 0% rate applies to exports. The reduced rate of 8% is applied on the supply and import of basic foods (eggs, dairy, oil, and grain-based products), utilities, medicinal products, information technology equipment, textbooks, etc.

Registration – A taxable person is required to register for VAT from the date when its total supplies within a calendar year exceed a threshold of EUR 30,000.

Filing and payment – The VAT tax period is a calendar month. The VAT declaration and payment must be made no later than the 20th day of the calendar month following the end of each tax period.

Source of tax law: Corporate Income Tax Law, Personal Income Tax Law, Value Added Tax Law, Law on Business Organizations, Law on Tax Administration and Procedures, Pensions Law, Law on Taxes on Immovable

Property, Law on Health Insurance, Law on Foreign Investment

Tax treaties: Kosovo has signed 10 tax treaties, and they are formulated in line with the OECD Model Tax Conventions.

Tax authorities: Tax Administration of Kosovo, Ministry

of Finance, Ministry of Trade and Industry, Kosovo Business Registration Agency

Contact:

Afrore Rudi (arudi@deloitteCE.com)

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see <https://www.deloitte.com/about> to learn more about our global network of member firms.

Deloitte provides audit, consulting, financial advisory, risk management, tax and related services to public and private clients spanning multiple industries. Deloitte serves four out of five Fortune Global 500® companies through a globally connected network of member firms in more than 150 countries and territories bringing world-class capabilities, insights, and high-quality service to address clients' most complex business challenges. To learn more about how Deloitte's approximately 225,000 professionals make an impact that matters, please connect with us on [Facebook](#), [LinkedIn](#), or [Twitter](#).

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the "Deloitte Network") is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.