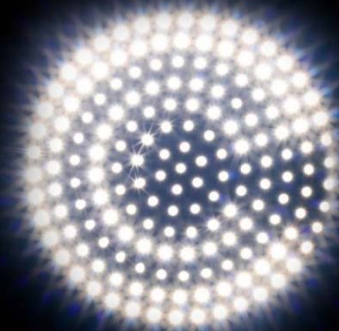


International Tax Kosovo Highlights 2018



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 allowable deductions and allowances.

Taxation of dividends – Dividends received by resident companies from other Kosovo companies are exempt from corporate income tax.

Capital gains – Realized capital gains are considered taxable income and are taxed 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 corporate tax rate is 10%. Taxpayers with income up to EUR 50,000 may elect to pay tax on a gross income basis. The tax rates on gross income are 3% for trade, transport, agricultural and similar activities; 9% for services, professional, artisan, entertainment and similar activities; and 10% for rental activities.

Life, property and 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 permanent establishment (PE) outside Kosovo and that pay tax on that income in another 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 – Kosovo does not levy withholding tax on dividends paid to nonresidents unless the rate is reduced under a tax treaty.

Interest – Interest paid to a nonresident are subject to a

10% withholding tax unless the rate is reduced under a tax treaty.

Royalties – Royalties paid to a nonresident are subject to a 10% withholding tax unless the rate is reduced under a tax treaty.

Technical service fees – Payments made to a nonresident individual or entity for services performed in Kosovo (under an oral or a written agreement) are subject to a 5% withholding tax if the nonresident does not have a PE in Kosovo.

Branch remittance tax – No

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

Payments made to nonresident entertainers (e.g. artist, singer, athlete, etc.) for personal activities carried out in Kosovo are subject to a 5% withholding tax, regardless of whether the payments are made directly or indirectly to the nonresident.

A 3% withholding tax applies on payments made to nonbusiness individuals; farmers; agriculturists; and collectors of recycled materials.

Other taxes on corporations:

Capital duty – No

Payroll tax – Resident employers are required to withhold personal income tax from the wages of employees, including payments made to nonbusiness individuals for professional, technical, management and financial services, and payments made to actors, musicians, athletes and dependent agents. The tax must be remitted 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 one mandatory social security contribution, which applies only for Kosovo nationals and is levied in the form of a pension contribution. The mandatory contribution is 5% of the monthly salary for both the employee and the employer. However, employees and employers may contribute more, voluntarily, up to a maximum of 15%. Mandatory social security contributions are expected to 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.

Taxpayers with controlled transactions within a tax period exceeding EUR 300,000 must submit a “notice of controlled transactions” with the annual corporate income tax return.

Taxpayers have the initial burden of proof regarding the arm’s length nature of their related party transactions. Documentation requirements apply (although documentation prepared in accordance with the EU code of conduct on transfer pricing documentation and the OECD transfer pricing guidelines is deemed to fulfill local requirements). Transfer pricing documentation must be made available to the tax authorities within 30 days of a request. The documentation must be submitted in one of the official languages of Kosovo, although the tax authorities may accept documentation prepared in English in certain cases.

Thin capitalization – No

Controlled foreign companies – No

Disclosure requirements – No

Compliance for corporations:

Tax year – Calendar year

Consolidated returns – Consolidated returns are not permitted; 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, together with the statutory financial statements.

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

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 applies at a monthly rate of 0.65%.

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 has a principal residence in Kosovo or is physically present in Kosovo for 183 days or more in any 12-month period.

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

Taxable income – Taxable income includes wages, rents, income from economic activities 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.

Deductions and allowances – Allowances for business expenses are available to individuals who earn income from economic activities. Contributions for humanitarian, health, education, religious, scientific, cultural and similar purposes are deductible 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 – The taxable value of a property used as a principal residence may be reduced by EUR

10,000. 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 one mandatory social security contribution, which applies only for Kosovo nationals and is levied in the form of a pension contribution. The mandatory contribution is 5% of the monthly salary for both the employee and the employer. However, employees and employers may contribute more, voluntarily, up to a maximum of 15%. Mandatory social security contributions are expected to 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 – Calendar year

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 year.

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 applies at a monthly rate of 0.65%. 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 import of goods.

Rates – The standard rate is 18%, with a reduced rate of 8%. A 0% rate applies to exports. The reduced rate 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 as from the date 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, which are formulated in line with the OECD model treaty.

Tax authorities: Tax Administration of Kosovo, Ministry

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

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