2022
Tax Summary Kosovo

Table of Contents

1. Value-Added Tax (VAT)

2. Corporate Income Tax (CIT)

3. Personal Income Tax (PIT)

Contact Details

1.Value-Added Tax (VAT)

1. Value-Added Tax (VAT)

The VAT legislation in Kosovo is broadly harmonized with the EU VAT Directive (Directive 2006/112/EC as amended).

1.1 Registration for VAT

All taxable persons that are engaged in import/export activities and taxable persons with *turnover equal to or exceeding EUR 30,000* within a calendar year are required to register for VAT. Where turnover is less than this threshold, voluntary registration for VAT is possible.

Foreign entities or persons not established in Kosovo should register for VAT at the beginning of their economic activity in Kosovo, regardless of the threshold. Nonetheless, this is not required of persons making supplies for which the place of supply is considered to be Kosovo and the recipient is liable for the payment of VAT.

1.2 Object of Taxation

VAT is levied on:

1. supplies of goods or services with place of supply in Kosovo;
2. importation of goods.

1.3 VAT Rates

The *standard VAT rate* is *18%*. A *reduced rate of 8%* applies to the following supplies:

- Supply of water, except bottled water.
- Supply of electricity, including transmission and distribution services, with central heating, waste collection and other waste treatment.
- Grains such as barley, corn, maize varieties, oats, rye, rice and wheat.
- Products made from grain for human consumption, such as flour, pasta, bread and similar products.
- Cooking oils made from grains or oilseeds for use in cooking for human consumption
- Dairy and dairy products intended for human consumption.
- Salt used for human consumption.
- Eggs for consumption.
- Textbooks and serial publications.
- Supply including lending of books from libraries, including brochures, leaflets and similar printed materials, children's picture books, drawing and coloring books, music printed texts or manuscripts, maps and hydrographic charts and similar.
- Information technology equipment.
- Supply of medicines, pharmaceutical products, instruments, medical and surgical devices.
- Medical equipment, ambulances, aids and other medical devices to facilitate or treat inability for exclusive use by the disabled, including the repair of such goods and supply of children’s vehicle seats.

1.4 Chargeability of VAT

VAT generally becomes chargeable when the goods or services are supplied. Specific rules apply in cases where supply of goods or services occurs over a period of time, where successive payments are made and in the case of long-term contracts.

VAT becomes chargeable when whichever of the following conditions is fulfilled first: payment is made, invoice is issued or the supply of goods/services is carried out.

1.5 VAT Refunds

Taxable entities have the right to carry forward their VAT credit to following tax periods, or to claim a VAT refund if the following conditions are met:

1. The taxable person is in a VAT credit position for three consecutive months;
2. At the end of the third month the amount of VAT credit exceeds EUR 3,000;
3. All VAT and other tax returns for all past tax periods have been submitted.

Taxable persons that export are entitled to claim a VAT refund on a monthly basis (after each tax period) if the following conditions are met:

1. The amount of VAT credit exceeds EUR 3,000 at the end of the tax period;
2. The taxable person complies with all applicable customs and VAT provisions;
3. All VAT and other tax returns for all past tax periods have been submitted.

1.6 Invoicing

Invoices for supplies subject to VAT must be issued latest by the 15th day of the month following that in which the chargeable event occurs.

1.7 Place of Supply of Goods / Services

The place of supply of goods or services is determined in line with the provisions set out in EU Directive 2006/112/EC on the Common System of Value Added Tax.

In respect of goods, special rules apply to establish the place of supply of goods with and without transport, on ships, aircraft or trains and supply of natural gas and electricity through distribution systems.

For services, there are general and particular rules. The general rule defines the place of supply of services *to a taxable person* – which is where that person has established its business. Particular rules apply to specific services related to immovable property, passenger transport, restaurant and catering services, short-term rent of transportation equipment and educational, cultural, artistic or similar events.

For the supply of services *to a non-taxable person*, the general rule is that the place of supply is the place where the supplier has established its business. The particular rules for supplies to non-taxable persons apply for specific services as outlined above.

The place of supply of the following services to a non-taxable person established outside Kosovo is the place where that person is established: transfers of copyrights, patents and similar rights; advertising services; consultancy, engineering accounting, legal and data processing services; banking, financial and insurance transactions; supply of staff; hiring of movable tangible property (except transport); provision of access and transport or transmission through to natural gas and electricity distribution systems; telecommunication, radio and television broadcasting services; electronically supplied services.

1.8 Reverse Charge Mechanism

The reverse charge is applied on supplies of services from a taxable person not established in Kosovo.

When the recipient of such services is registered for VAT in Kosovo, the place of supply of such services is considered Kosovo and the recipient is liable for paying the VAT.

In cases where the recipient is not registered for VAT in Kosovo, the supplier is liable to pay VAT and is obliged to register for VAT in Kosovo via a tax representative.

A special reverse charge scheme is applicable in some scenarios that involve the supply of construction and construction-related works, as well as supplies where personnel are engaged in construction activities.
Similar to the standard reverse charge mechanism, the person liable to pay the VAT on the supply is the recipient of the construction services.

1.9 VAT Exemptions

VAT exemptions *without the right to deduct* are applicable to activities in the public interest, welfare, education, culture, sports and religious activities, media and public transportation. Other activities exempt from VAT include financial services, health and life insurance, lottery, land, housing for residential purposes, etc.

VAT exemptions *with the right to deduct* include exports, international transport, intermediary services and special customs arrangements. Based on the Law on Economic Recovery, raw materials produced by Kosovo registered manufacturing businesses are exempt from VAT for both internal trade and exportation, with the right of deduction (applicable until December 31, 2028).

Importing of production lines and machinery for use in production processes, raw materials used in production processes, IT equipment, newspapers and periodical publications, and equipment required for electronic and printed media benefit from *VAT exemption (with the right to deduct) on importation.*

Supplying goods and services which are co-financed by donations from foreign governments and the Kosovo government destined for projects with the public as the beneficiary are exempt from VAT (with deduction rights) if such exemption is foreseen between the parties and the financial participation of the Kosovo government is not more than 20%.

1.10 The Right to Deduct VAT

The right to deduct input VAT arises when VAT becomes chargeable and such VAT is related to goods or services obtained for business purposes.

Input VAT is non-deductible for certain luxury goods/services, including the purchase of yachts, boats, private aircraft, cars and motorcycles intended for recreation and used for non-business purposes, as well as representation costs related to entertainment during business or meetings. A taxable person can, however, deduct input VAT on advertising expenses, meals and transportation for personnel.

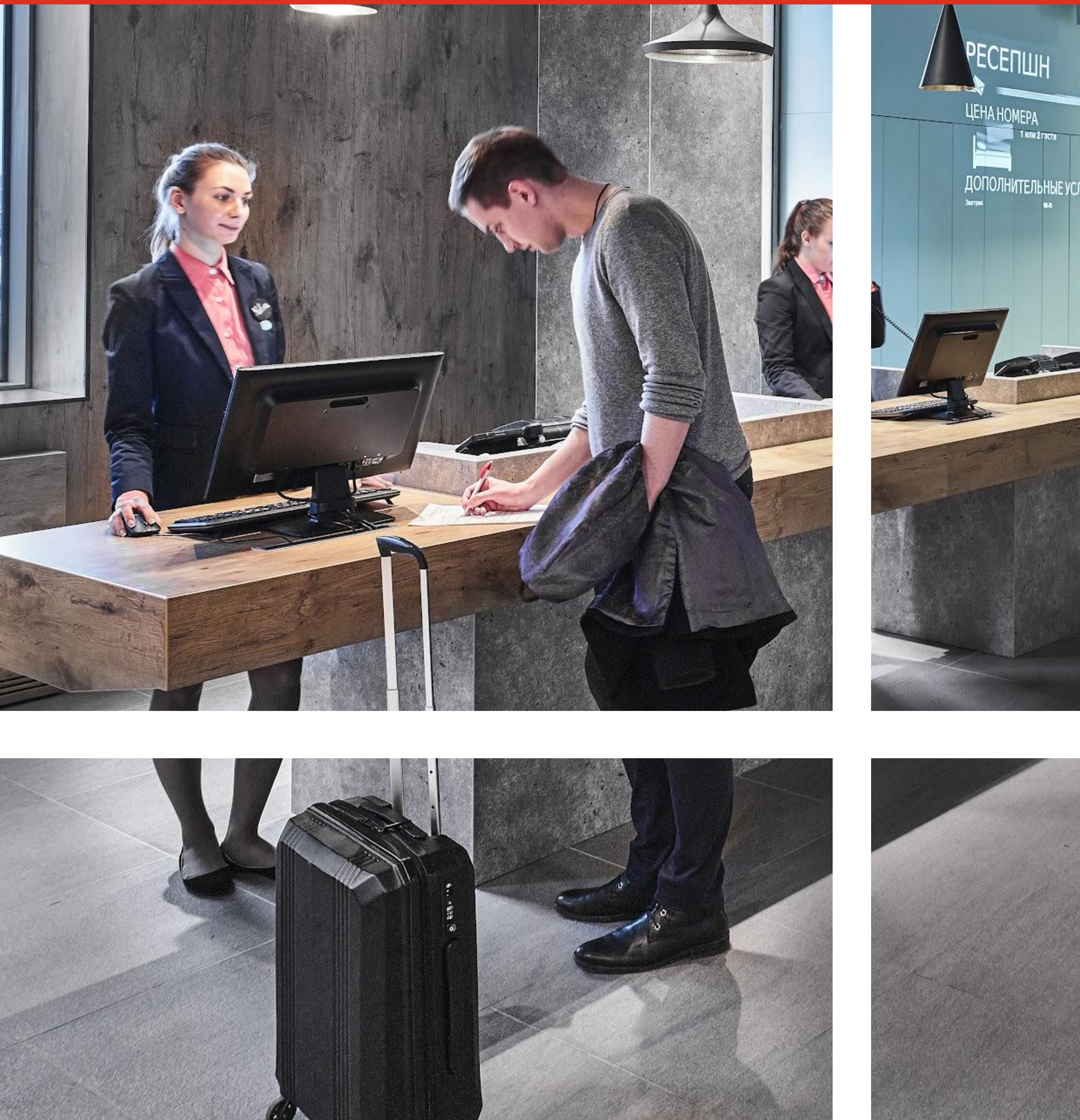
For cars used for both business and personal needs, up to 50% of input VAT can be deducted. The use of immovable property in the same manner allows VAT deductibility only up to the proportion of the property's use for business purposes.

If purchased goods and services are used to make both taxable and exempt supplies, VAT is deducted in proportion to the transactions for which VAT is deductible.

1.11 VAT Compliance

Monthly submission of VAT returns to the Kosovo Tax Administration (TAK) and monthly payment of VAT are due by the 20^{th} day of the month following the end of each tax period.In addition, VAT records have to be kept for six years after the end of the tax period to which they relate.

2.Corporate Income Tax (CIT)



2. Corporate Income Tax (CIT)

2.1 Object of Taxation

Taxpayers subject to corporate income tax are:

- Corporations and other legal persons;
- Business organisations operating with public/state-owned assets;
- Non-resident persons with a permanent establishment in Kosovo and NGOs.

Resident taxpayers (taxpayers established in Kosovo or whose place of effective management is in Kosovo) are generally subject to tax on foreign and Kosovo-sourced income.

Non-resident taxpayers are generally subject to tax on their Kosovo-sourced income, subject to the terms of any relevant tax treaty.

2.2 Corporate Tax Rate

The corporate tax rate is *10%*.

Taxpayers whose gross annual income does not exceed EUR 30,000 have to file quarterly payments of tax, as follows:

- 3% of gross income received from trade, transport, agricultural, or similar activities (subject to a minimum payment of EUR 37.50).
- 9% of gross income for the quarter from services, professional, vocational, entertainment, or similar activities (subject to a minimum payment of EUR 37.50).
- 10% of gross rent income for the quarter.

2.3 Tax Year

The taxation period for which CIT is assessed is the calendar year.

2.4 Taxable Income

Taxable income for a tax period is the difference between gross income received or accrued during the tax period and the allowable deductions in relation to such income. Taxable income also includes any capital gains for the period.

2.5 Exempt Income

Exempt income includes income from grants, subsidies and donations; income of NGOs used for public benefit purposes; income of the Central Bank of Kosovo and international financial institutions; dividends received by resident and non-resident taxpayers; interest on financial instruments issued from Kosovo public authorities; income of eligible religions of Kosovo; income of foreign prime contractors / subcontractors from contracts with foreign governments and certain international organisations.

2.6 Allowable Deductions

Expenses paid or incurred in relation to business activities are deductible for corporate tax purposes.

Business representation expenses with entertainment elements cannot exceed 1% of annual gross income. Bad debt expenses are allowable under certain conditions. Business travel expenses are allowable if documented properly.

Depreciation expenses are recognised depending on the category of asset concerned. Buildings and other immovables are depreciated at the rate of 5%; vehicles, furniture and equipment at 20%; plant and machinery at 10%. Amortisation expenses are allowed for the useful life of the intangible asset, or at most 20 years if not specified.

Repairs and improvements under EUR 1,000 are expensed, whereas those surpassing this threshold are capitalised if they also extend the useful life of the asset for at least one year.

Contributions for activities in the public interest (humanitarian, health, education, religion, culture, etc.) are allowed up to 10% of taxable income, with the possibility of an additional 10% allowance if prescribed by other laws. There are also direct tax credit provisions (20% to 30% of corporate tax liability) for eligible contributions made in the field of sports, culture and youth as per the rules laid out in Law No. 05/L-090 on Sponsorships in the fields of Culture, Youth and Sports.

Educational and training expenses are fully allowable but subject to certain conditions being fulfilled by the employer and employee.

Disallowed expenses include the acquisition and improvement costs of land and capitalised assets, fines and penalties, income taxes paid or accrued, personal, living or family expenses, loss from sale / exchange of property between related persons (if not sold at open market value), deductible VAT, amusement and recreation expenses, pension contributions above the maximum amount and expenses not properly documented.

2.7 Dividends

Dividends received by residents and non-residents are exempt from any form of taxation.

2.8 Tax Losses

Tax losses can generally be carried forward for up to 4 consecutive tax years. However, restrictions may apply in cases of change of business or change of ownership. If the business changes its type of business organisation or has an ownership change of more than 50%, the tax loss is not allowed to be carried forward.

2.9 Permanent Establishment

A permanent establishment (PE) includes any place of management, branch, office, factory, workshop, mine, oil or gas source, quarry or other place of exploitation of natural resources.

A PE is also created if any building site, construction, assembling or installation project or supervisory activity in connection therewith, but only if such site, project or activity lasts longer than 183 days within any 12-month period. Similarly, a PE is created when non-resident persons furnish consultancy services for a period of 90 days or more in a twelve month period, as well as when owning immovable property.

For countries with which Kosovo has double tax treaties (DTTs), PE rules are as per the relevant provisions in such treaties.

2.10 Double Tax Treaties (DTT)

Resident taxpayers who receive income from sources outside Kosovo and pay tax on such income are allowed the right to tax credit for the amount of the tax paid abroad but limited up to the Kosovo income tax rate.

Kosovo currently has double tax treaties in place with the following countries: Austria, Belgium, United Kingdom (UK), United Arab Emirates (UAE), Luxembourg, Finland, Germany, Netherlands, Hungary, Latvia, Malta, Croatia, Ireland (in force from 2023), Italy (not yet in force), North Macedonia, Lithuania (not yet in force), Saudi Arabia, Slovenia, Albania, Turkey, and Switzerland.

2.11 Transfer Pricing

Transfer pricing ("TP") rules have entered into force from fiscal year 2017. They are based on the OECD Guidelines on Transfer Pricing and Tax Administrations and EU TP documentation guidelines.

TP rules apply to Kosovo CIT taxpayers that have entered into controlled transactions with related parties established in foreign tax jurisdictions. Covered transactions include controlled transactions between Kosovo residents (including permanent establishments of non-residents in Kosovo) and non-residents, as well as all transactions between Kosovo residents (including permanent establishments of non-residents in Kosovo) and residents of certain low or no-tax jurisdictions.

Recognized transfer pricing methods include the Comparable Uncontrolled Price method (CUP), Resale Price method (R-), Cost Plus method (C+), Transactional Net Margin Method (TNMM), and Profit Split method (PSM). A simplified approach is applicable for low value-adding intra-group services.

Taxpayers with controlled transactions exceeding EUR 300,000 in a calendar year are required to prepare TP documentation as per EU Code of Conduct on Transfer Pricing Documentation for Associated Enterprises in the European Union (2006/C176/01) and submit an Annual Controlled Transactions Notice by March 31st of the following year, along with their statutory financial statements and CIT declaration.

Taxpayers with controlled transactions of 300,000 Euro or less in a calendar year are also required to prepare documentation but are not required to submit an Annual Controlled Transactions Notice.

2.12 Withholding Tax

Taxpayers paying rent, interest, royalties and for non-resident services have to withhold tax at the time of payment and transfer the amount of the tax withheld not later than the fifteenth day of the month following the tax period.

Taxpayers have to withhold tax at the time of payment or credit. A withholding tax obligation applies only when the underlying amount (e.g. rent, interest, etc.) is actually paid, not when it accrues.

Withholding tax rates are provided below:

- Withholding tax rate on interest paid to residents and non-residents is *10%*.
- Withholding tax on rent paid to resident or non-resident persons is *9%*.
- Withholding tax on services provided from non-resident persons is *5%.*
- Withholding tax on payments to non-business individuals, farmers, recycled materials collectors, etc., is *1%*.

For payments made to recipients in countries with which Kosovo has a double tax treaty, the rates of withholding tax may be eliminated/reduced under the terms of the treaty.

2.13 Capital Gains and Losses

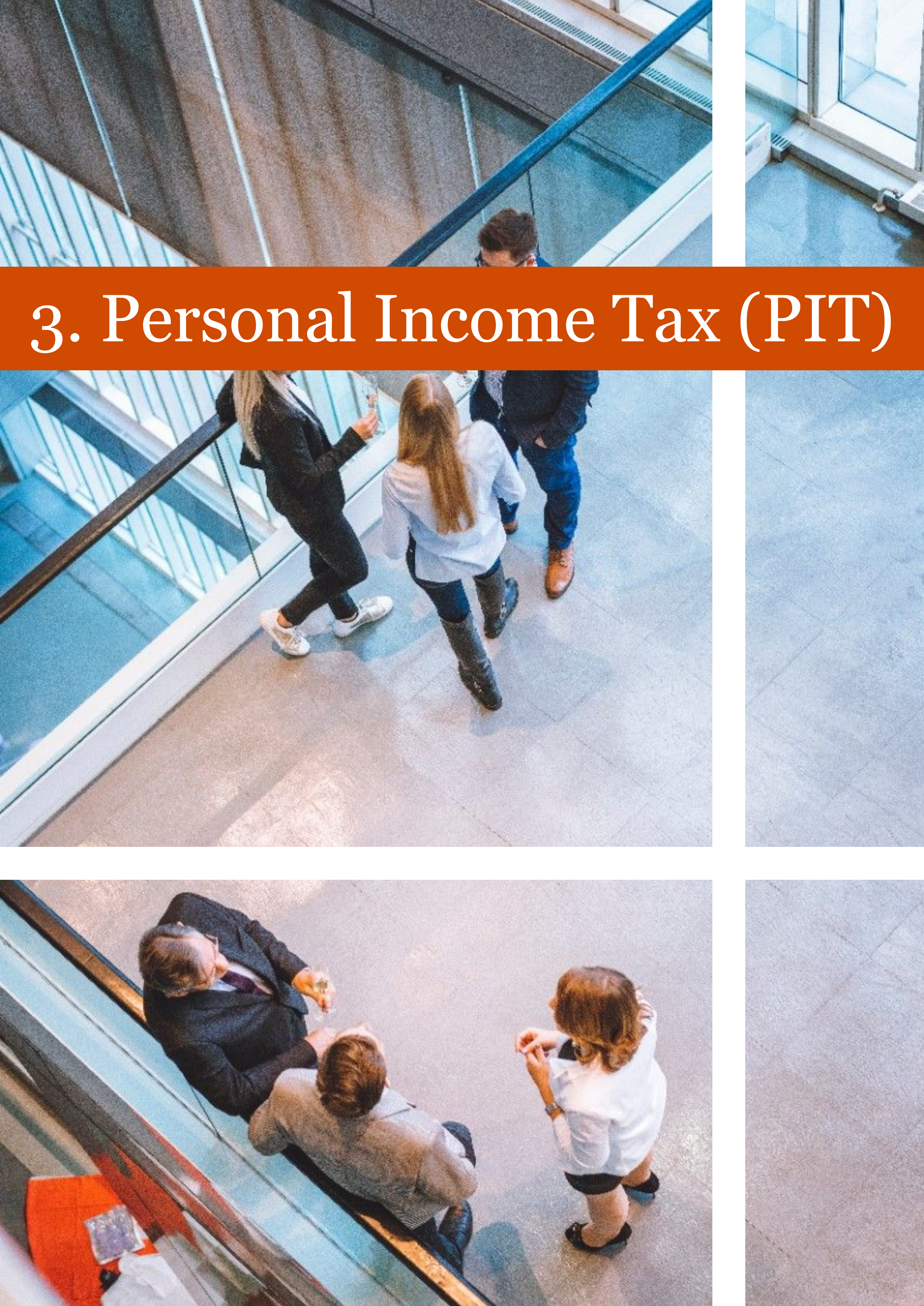
Capital gains and losses are realised through the sale or other disposal of capital assets, including real estate and securities. Capital gains and losses are recognised as business income and business losses, respectively.

2.14 Tax Declaration and Payment

Corporate income tax returns are filed annually, with a submission deadline for the annual return of 31 March of the following year.

Taxpayers with income from economic activities exceeding EUR 30,000 per year are obliged to make quarterly advance payments (latest on 15 April, 15 July, 15 October and 15 January) each amounting to ¼ of 110% of the total tax liability of the previous tax period. If it is the taxpayer's first year of business and/or a tax loss was incurred in the previous year, quarterly advance payments are made on the principle of estimation of that year's CIT liability.

3. Personal Income Tax (PIT)



3. Personal Income Tax (PIT)

3.1 Object of Taxation

Taxpayers for personal income tax (PIT) purposes are considered resident and non-resident individuals, personal business enterprise, partnerships or associations.

Resident taxpayers are taxed on foreign- and Kosovo-sourced income. Non-resident taxpayers are taxed only on Kosovo-sourced income. An individual is considered resident for tax purposes if he / she is an individual with a principal residence in Kosovo; or an individual physically present in Kosovo for 183 days or more in any tax period.

3.2 Tax Rates

Progressive tax rates ranging from *0 – 10%* are applied to gross income in the following manner:
- 0% for salaries up to EUR 960/year;
- 4% for salaries from EUR 961 to 3,000/year;
- 8% for salaries from EUR 3,001 to 5,400/year;
- 10% for salaries over EUR 5,400/year.

3.3 Exempt Income

Exempt income for personal income tax purposes includes wages earned by foreign staff of diplomatic missions, international organisations, donor agencies or their contractors, the UN and its agencies; wages of people with disabilities; compensation received from expropriation, court decisions or from state institutions for achievements in science, sports and culture; inherited assets; education, scholarship and training expenses paid for by the employer and subsistence expenses subject to certain restrictions.

3.4 Employment Income

In addition to wages, income from employment also includes bonuses, per-diems, health & life insurance premiums, employee debt forgiveness, payment of employee's personal expenses and benefits in kind exceeding EUR 65/month.
Income from wages does not include reimbursement of business travel expenses; indemnity for accidents at work; reimbursement of public transportation costs or EUR 0.16/km for distances longer than 20km; compensation for food and transportation when organised by the employer.

3.5 Non-Employment Income

Income other than wages includes income from business activities, rents, intangible property, interest, other income including gifts exceeding EUR 5,000 in a tax period.

3.6 Social Security

Both employer and employee are subject to mandatory pension contributions in Kosovo. The combined mandatory contribution is 10%, split equally between the employer and employee (5% +5%).

Employers and employees may make additional pension contributions up to 30% (15%+15%). Pension contributions are only levied from Kosovar citizens and Kosovar permanent residents.

Compulsory pension contributions are deductible for corporate income tax purposes of the employer, whereas voluntary contributions and those exceeding 15% of the annual salary are not deductible.

3.7 Tax Period

The tax period for personal income tax purposes is the calendar year. However, withholding taxes on wages and pension contributions are made on a monthly basis (i.e. upon payment).

3.8 Filing and Payment

Each employer is responsible for withholding the tax and pension contribution from taxable salaries paid to employees, including payments to non-business individuals, for professional, technical, management and financial services, payments for service contracts, payment for actors, musicians, athletes and dependent agents.

Employers are required to submit payroll records, together with pension contribution liabilities and make the respective payment to the Tax Administration of Kosovo by the fifteenth day of the following month.

Contact Details

Laureta Këlliçi
Country Managing Partner
loreta.peci@pwc.com

Gresë Rexhepi
Senior Manager
grese.rexhepi@pwc.com

PricewaterhouseCoopers Kosovo
Str. Mujo Ulqinaku No. 5 Apt. 10 Qyteza
Pejton, Prishtina, Kosovo
Telephone:+383 38 722 555
Email: al_pwc_kosovo@pwc.com
Web: www.pwc.com/ks