Annual Revenues from Kosovo’s Value Added Tax

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Executive Summary

This capstone project assesses the current system of Value Added Tax in Kosovo and its impact on the national revenues. This topic is very important because the current government is implementing the VAT system for supplies related to goods and services, which are sold and imported into Kosovo. VAT tax is the biggest potential source for increasing revenue in the Kosovo budget. As a result there is a need to change the law related to this tax. The main goal of this project was to assess possible changes to the VAT system, and provide suggestions how to ensure a positive impact on the Kosovo budget.

In order to accomplish this goal six questions were raised. To gain potential answers, an extensive survey was conducted. There were distributed 100 questionnaires to businesses and other 100 questionnaires to individual consumers. 61 completed questionnaire from businesses and 50 completed questionnaires from individual customers were received back. An interesting finding are different identified advantages of VAT implementation from businesses and from individual taxpayers.

Those questionnaires were analyzed with SPSS and MS Excel. For this project, government data was collected from different ministries and from Kosovo Customs. In addition, a comparative method, comparing the tax system of Kosovo with countries in the region, tax rates, and their participation in the general revenue budget was used.

Summarize main recommendations:

1. **Reduce entry level for becoming registered VAT taxpayer.** During the research, it was discovered that 1,352 companies have a turnover between € 30,000 and € 50,000 and that entry level for VAT is € 50,000. Based on the current situation and on the results of the scenario recommendation from this research is that the Ministry of Finance and Tax Administration of Kosovo should change the entry level for VAT from € 50,000 to € 30,000. With this step the number of VAT taxpayer companies will increase by 16%.

2. **Exclude from VAT payment for equipment and machinery.** During the research it was discovered that businesses are paying VAT for
equipment and machinery, which is used, for new production and that this VAT is reversal. It is recommended that equipment and machinery is excluded from VAT payment when businesses are importing those items that fall under capital investment. The positive impact based on this will be the attraction of new investment and will create new work places. According to the Tax Administration of Kosovo (TAK) requests for the reversal of VAT from new imported machinery for production in 2010 were €332,659.47 and this amount of VAT contributed in total collected VAT for year 2010 was 1%.

3. **Implementing two different rates for VAT, low and high rate.** During the research it was discovered that TAK is implementing one VAT rate and that rate is 16%, and based on the regional experience regarding VAT implementation and its rates, recommendations are that the Tax Administration of Kosovo and Ministry of Finance should implement two different VAT rates in Kosovo: Low and High (or Standard) VAT rate. This research, proposes two suggestions, based on these suggestions 11% increased has been introduced for the country budget. Scenarios are shown in figure 1.

4. **Implementing VAT for gaming.** During the research process it was discovered that in Kosovo 46 businesses are operating in the field of gaming and those businesses are not obliged to pay VAT. It is recommended to implement VAT for gaming and as a result of this step TAK would collect €1,5 million per year.
**Acronyms**

**AFAS**: Association for Finance & Accounting Services

**EU**: European Union.

**EULEX**: Kosovo - European Union Rule of Law Mission in Kosovo

**FDI**: Foreign Direct Investment

**FRY**: Federal Republic of Yugoslavia.

**KFOR**: Kosovo Force

**LTU**: Large Taxpayer Unit.

**MEF**: Ministry of Economy and Finance

**QAP**: Qendra per Arsim Profesional (Professional Education Centre)

**TAK**: Tax Administration of Kosovo.

**UNMIK**: United Nations Mission in Kosovo

**VAT**: Value Added Tax.
1. VAT and the Kosovo Budget

1.1. Value Added Tax and its impact on Kosovo Budget

According to the MEF, (2008) the strategic goal of the Kosovo Government is the development a tax system which will make it easy for investment, promote economically efficiency, appears fair, provides stability, simple to implement, and promotes economic growth.

Over the years, the fiscal system reached an increase in self-sustainability in comparison with donor dependence of 50% in 2000 to current budget in 2003 the incomes were 95%, while in the 2004 budget since the course is provided entirely by own revenues. The current data in 2009 show that about 75% of central government revenues are collected from the borders of Kosovo (import VAT, customs duties and excise).

From 2001 until 2009, there is a growing tendency for collected VAT amount from TAK. Figure 1-1 is showing this growing tendency.

![Figure 1 VAT Contribution on internal incomes in (millions) €](image)

Figure 1-1, VAT Contribution on internal incomes in (millions) €

The main challenge for fiscal policy makers is to accelerate the development of internal revenue sources in Kosovo such as VAT, income tax, profit tax, tax on immovable property, etc. VAT has been identified as the main source of revenues for the future, but, at the same time Bellak &

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1 Regulation no. 2001/11 on “The Value Added Tax”, Pristina, 2001
Leibrecht, (2009) are stating that “the profitability of FDI is expected to decrease with increases in energy prices, taxes, labor costs” (p.2691). In addition, Separovic, (2009) is concluding that “a high tax wedge demotivates employees in seeking work due to the large payments to the state” (p.461), so there is a correlation with businesses which are paying high VAT rates for all imported products.

Application of VAT in Kosovo in 2001 has ensured Kosovo to reduce dependence on donations, and it has introduced a stable source of income and reduced the dependency on border taxes (Lewis, 2009).

The tax rate is a key element of VAT, (expressing the relationship between tax base and fiscal debt). As a broad-based tax on consumption of local goods and services, the VAT collected on the rate today 16% of the taxable value of imports, 0% rate and exempt supplies. Regarding VAT rate Jacquot, (2008) is stated that “the European Commission made a proposal to change the VAT rates directive so as to provide member states with the flexibility to apply reduced rates for some specific services” (p.97), and since one of the priorities of Kosovo Government is EU integration, this policy could be implemented in Kosovo.

The Government implemented VAT in order to increase the budget revenues. On the other hand many businesses have remarked due to the high level of VAT rate, since that rate is the same for all items without any selective policy in order to take into consideration some of the products that are essential for public consumption.

From 2001 until now, the collected amount of VAT during the process of custom clearance off goods has increased. While in 2001, € 78 million were collected, in 2009 collected VAT amount was € 315 million, which is shown in the figure 1-2.
In addition, the requested and approved reimbursable VAT had increased in last seven years but there is no growth tendency. For example in 2008, TAK had approved € 23.2 million as reimbursable VAT, while in 2010 this amount was € 22 million. Detailed information's regarding reimbursable VAT is shown in figure 1-3.

The number of VAT taxpayer companies had grown during the last seven years. In 2003, 3,146 companies were obliged to implement VAT. As a result of turnover and 2,027 companies had implemented VAT because those companies had imported goods. In 2009 this number was 4,347 (turnover) and 3,415 importing companies. During this period, also the
number of voluntary VAT taxpayers had increased from 486 in 2003 to 4,103 companies in 2009. Details are in the figure 1-4.

![Graph showing Number of VAT taxpayer companies](image)

**Figure 1-4, Number of VAT taxpayers (Source ATK)**

VAT is having a major impact on the amount of collected taxes from the Tax Administration of Kosovo, while in 2001 TAK had collected €12.5 million in 2009 collected VAT amount was €81.9 million. Details are shown in a figure 1-5.

![Graph showing VAT from TAK (in Millions €)](image)

**Figure 1-5, Collected VAT from Tax Administration of Kosovo (Source ATK)**
The main goal of this capstone project it was to address the research question: if the application of VAT system will have positive impact on the Kosovo budget. It will reduce fiscal evasion and the grey market, which is present due to VAT system in Kosovo. This is also the fact which (Faith, 2008) is stating, ”Reduced VAT rates will have an impact on job creation and in combating the black economy” (p.6)

Also an aim of this capstone project is to investigate the current VAT system in Kosovo by using theoretical as well as empirical analysis. In this project, it was compare Kosovo Tax System to the countries of the region as well as EU countries. Finally based on analyses conclusions and recommendations have been produced with regard to possible changes of VAT rates, level of registries, excluding from VAT payment for machinery and excluding from VAT the international transport for goods and passengers within the Tax system in Kosovo.

According to the Law 03/L-146, (2010), “Value Added Tax includes the application of general consumption tax on goods and services, which is exactly proportional to the price of goods and services”. Value Added Tax is calculated at this price at the rate applicable, charged at different periods of production, distribution and life cycle of goods and services, and finally transferred from the final customer, based on Law. This tax form is quite complex both in theory and in practice.

Value added tax (VAT) began to be applied on imports and local supplies of goods and services from 1 July 2001. In December 2008 it adopted the law of VAT Nr. 03/L-114 and is in force since January 2009. Change is based on raising the tax rate from 15% to 16%. VAT standard rate applied was 16% and a zero (0%) which applies to exports, international passenger transport, irrigation and certain agricultural inputs and other supplies are exempt. In December 2009 it adopted a new law of VAT Nr. 03/L-146 which was effective from July 2010. This law contains substantial

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2 Law no. 03/L- 146 for "value-added", Pristina, 2010
3 According to UNMIK Regulation no. 2001/11 "On Value Added Tax", this was changed with UNMIK Regulation no. 2002/17, Reg. no. 2004/35 and Reg. no. 2005/40).
changes compared with the previous law on VAT. Key elements of the application of VAT are:

**Object of Taxation**

VAT shall be charged in harmony with the provisions of the law, on: “Supply of goods and services made for consideration within the territory of Kosovo by a taxable person acting as such” (Law 03/L-146, 2010), and

- Importation of goods into Kosovo.

VAT on imports should be charged and payable in accordance with regulations for duties as^4:

**Taxpayers-registration on VAT**

It is every natural (individual person) or legal person (legal entities) that performs economic activity and has set limits of revenues derived within a calendar year (today in Kosovo is the threshold up to €50,000^5).

**Place of taxation**

(Law 03/L-146, 2010), is defining the place of taxation as “the place of supply of goods and services, which means the place where it is in the case of goods where the supply or service”.

**Tax Base**

The tax base is one of the most important taxes by determining the tax base depends on the success of tax policy and more tax principles.

Basis of taxation during the application of VAT is the difference between import and export of taxpayers.

**Rates**

In theory and practice, there are 4 tax rates

- Standard rate
- Low level
- High rate
- Degree zero

In Kosovo, the tax authorities are applying standard VAT rate 16%, but referring to the VAT law that the Minister of Economy and Finance with the

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^4 Law no. 03/L-146 for "Value Added Tax", Pristina, 2010

^5 Law no. 03/L-146 for "The Value Added Tax", Pristina, 2010
decision of the Government and after the approval by the Assembly, may issue a sub-legal for the introduction rate sitting no lower than five percent (5%) for supplies of goods and services defined\(^6\). Based on this may introduce in use even higher rate up to 21%.

**Exceptions / VAT EXEMPTIONS**

Mainly all countries applying VAT are very careful to build the limited exemptions in some areas as health, education, financial services, and insurance transactions. Given the tendency on the road to the development of open market economy and revenues that our economy needs a purpose to a greater development cannot be successful without the efficient functioning of the tax system. This system was one of the preconditions for successful operation of our economy at a time when we still largely undeveloped production and the possibility of creating other state revenue is still small.

Work features, which belong to our everyday modern literature in most cases, did not fit the real situation in our country. Having discussed this issue must find a response for that which results in that the application of the tax system in Kosovo, in particular Value Added Tax, is still at the stage of perfection.

Consider it reasonable that any initiative directed at the organization and analysis of any research method work in this area should be considered reasonable and welcome to our country’s tax system, considering its position in which is the present.

The tax system in general is a very wide area, and that somehow considered overview of the functioning of the state. This in itself involves many segments, where one of the main segments and it is important VAT issues and the specifics of which will evolve in the context of this capstone project. In this regard, the tax system in Kosovo, in particular VAT, will try to share the points most relevant to its characteristics arguing about VAT. In the beginning of understanding the types of VAT, purpose, importance, its application in our country, the disadvantages and advantages, and the results after its practical implementation.

\(^6\) Law no. 03/L-146 for ”Value Added Tax”, Pristina, 2010
Value Added Tax (VAT) has a significant role in the functioning of the
tax system and implementation of fiscal policies in the economies of each
country. This role is important especially in our economy, which is
experiencing a slow stage of economic development and which is considered
as the largest filling of state cash, which survives mainly on development of
trade relations. This is achieved by passing the local production and
development of export of local products, which are considered generators of
the development of a country.

Clausing, (2008) is stating that "In turn, governments may Respond
to increasing mobility by changing their tax systems; such responses Can
Have Important Effects on the Efficiency, equity, and revenue Generating
Capacity of the tax system"(p.1).

Finally, consider that VAT, as a segment of the tax system to change
and in relation to all other taxes, the tax is the most important and most
influential mechanism in financial theory and practice by which successful
operation carried sustainable tax system of each country's economy. Rincke,
(2009) That is stating “The underlying idea is to determine the Effective Tax
level of a hypothetical, standardized Investment Project.” (p.1355).

Capstone project consists from eight chapters, and in chapter, two is
described implemented research methodology, conducted research in
government institutions. As the part of the research process, two different
questionnaires were been used, one for businesses and for individual
customers.

In a third chapter are the results from the survey and company
ranges, while in chapter four are the results and VAT assessment from
businesses. In chapter, five are described the results from the survey of
individuals and range of interviewees. In chapter, six are the results and
VAT assessment from individuals, while in chapter seven, are proposed
scenarios regarding VAT, like reducing entry level for VAT, implementation
of two VAT rates, implementation of VAT rate of neighboring countries,
removing VAT rate for base materials and impact of implementation of VAT
for gaming. In the last chapter, are final discussions and recommendations
that had derived from capstone project.
Figure 1-6, Organizational Structure of the Large Tax Payer Unit - LTU
Figure 1-7 Organization Structure of Tax Administration of Kosova

Diamanta Shenderi Team Leader of Audit on LTU
2. Research Methodology and VAT in Kosovo

2.1. The Current System of VAT in Kosovo and followed research methodology

In order to address the current system of Value Added Tax in Kosovo and its impact on the economy and social welfare the following areas have been considered:

1. The Analysis of the development of Kosovo tax policy on western and neighboring countries.
2. Assessment of the impact of VAT in total Kosovo revenue budget.
3. Comparative analysis on the effects of tax policies in the overall development of a Kosovo.
4. Analysis of the amount of VAT collected from custom services and Tax Administration of Kosovo for the last five years.
5. As the research instrument questionaries’ were used
6. It was conducted test of the hypothesis and it was created scenarios with different VAT rates in collected data from customs and Tax Administration of Kosovo and analyzes its impact on country budget.

Methodology of research

The empirical analysis was based on a questionnaire survey. It was conducted a survey with a random sample of 100 entrepreneurs in different regions in Kosovo

Secondly, it was conducted a survey with 100 consumers in the different regions and it was employed descriptive statistics techniques using SPSS statistical packages and MS Excel.

For the research two different surveys were used, one for businesses and one for individual customers.

2.2. Research from Government Institutions

It was received data from governmental institutions and that from:

a. Tax Administration of Kosovo
b. Kosovo Customs

c. Ministry of Economy and Finance

In addition, it was also used the comparative method, comparing the tax system of our country with countries in the region, tax rates, and their participation in the general revenue budget. The results of these surveys helps to build the scenarios which were described in Chapter Seven.

2.3. **Project Results**

The survey helps to provide an analysis of the tax system, budgetary revenues and the policies of the tax system in Kosovo, with special emphasis on VAT and its impact on the economy.

The outputs of this research project could effect:

- Identifying the proper tax policies in which case VAT will be of scientific interest because it will identify factors that determine the effects of achieving the economic development of a country.
- Identify the main obstacles towards reducing the fiscal evasion in Kosovo.
- Support Tax Authorities to establish the most efficient tax rates in Kosovo.
- Adjust the current VAT system according to best practices.
- Compile a paper, which includes the theoretical and empirical conclusion and recommendations with regard to tax policies that enable sustainable economic development as well. Regarding this issue (Primoz, 2010) is concluding that “proper analysis are usually performed several years after the tax reform” (p.80).

**Questionnaires for businesses**

In the questionnaires for businesses, participants have answered questions like: age, gender, and reason for asking those questions were the possibility to have an overview regarding gender and age with positions within companies in Kosovo. Then in the questionnaires were questions regarding education and position of the participants on the survey. Answers from those questions had provided validity for the research, since based on
those answers it was possible to understand knowledge and level of the responsibility of the participants.

Questions regarding the field in which businesses were operating have provided the clear picture regarding field of operation and implementation of the VAT. In the research instrument, it was asked the question “indicate for how long your business is VAT payer?” this question has provided information was regarding the status of the import and regarding the yearly turnover of the businesses.

For the survey, an open-ended question was asked regarding the problems with which businesses were facing during the implementation of the VAT. During the process of the analysis it was categorizing the answers. Another question in the instrument was a question regarding formal training for VAT implementation in which participants of the survey had attended. An answer from this question has provided the information regarding readiness of the businesses to learn and those answers has provided information regarding the institutions that are offering trainings regarding the VAT.

Questions regarding VAT prepaid credit and import status of the companies has provided the information’s which type of industry is importing goods and which type of industry has higher amount of prepaid VAT credit.

In addition, in the last part of the questioner were questions with liker scale where participants of the survey had express their agreement with provided statements regarding VAT like “If entry level for VAT is reduced from €50,000 to €30,000 more businesses will be eligible for VAT”, opinions regarding this statement has provided general impression of businesses regarding VAT. In the research instrument for businesses, it was also a statement “If entry level for VAT is reduced from €50,000 to €30,000. Kosovo budget will increase” and that fiscal evasion will reduced. In addition, in the questionnaires business, which has participated on the research, were asked to identify three main advantages and three main disadvantages of VAT implementation. For those questions, participants were selected three options from six offered options. In the questionnaires
were also questions related to VAT implementation where the entire answers have been analyzed on the chapter Project Results, also questionnaires can be found in Appendix1.

2.4. Questionnaires for Individual Customers

In the questionnaires for the individuals, participants have provided their demographic data like gender, age group, level of education, their current position, and level of their monthly incomes.

Another question in the questionnaires was question “Are you a taxpayer?” answers from this question has pride us with the information regarding their legal status of employment. In the questionnaire, participants of the survey were asked about number of their dependents. In the questionnaires it was collected, also the information’s regarding years of employment in order to get the information regarding participant’s professional experience.

It was asked questions regarding participant’s knowledge for VAT and about their attitude regarding the fiscal receipts. Participants of the survey where asked to select three main advantages and three main disadvantages of VAT implementation, they had to select three options from six offered options.

In addition, it was asked participants of the survey about their opinion regarding significance of VAT for the government budget and it was asked them about alternative sources for government revenue to VAT. Participants of the survey were asked to select which commodities should have and which commodities definitively should not have VAT. In addition, in the last part of the questioner are questions with liker scale where participants of the survey had express their agreement with provided statements regarding VAT.
3. Results from the Survey and Company Ranges

3.1. Results from the business sector, survey and range of companies

The results regarding demographic data like age, level of education, current occupation, field in which the businesses are operating, years of experience with VAT implementation, identified problems during the VAT implementation, level of formal and professional training regarding VAT are described in detail in this chapter.

In our research, from the business sector we have received back 61 filled questionnaires and those questionnaires are used to conduct the analysis.

Age
Regarding the age 1 person didn't provide the information and 44.3% of respondents fall in the age group <20-29 years. This is showing that most of participants of the research are young professionals which already are familiar with taxation system.

![Figure 3-1, Age (Businesses)](image)

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;20-29 years</td>
<td>45%</td>
</tr>
<tr>
<td>30-39 years</td>
<td>35%</td>
</tr>
<tr>
<td>40-49 years</td>
<td>18.30%</td>
</tr>
<tr>
<td>50-59 years</td>
<td>1.70%</td>
</tr>
</tbody>
</table>

Level of education
Regarding the level of education, 81.7% of respondents poses higher education (60% BSe and 21.7% MBA-MSC or higher education) which is giving higher validity of the findings since all of them had have some formal education regarding taxes.
39.3% of responders are working in the accounting, and 36.1% hold managerial positions. This is important because the aim of the research was to collect valid information’s regarding the VAT and most of participants in the research are experienced with VAT system in Kosovo.

50% of selected companies for our research are operating in a field of trade, and 10.3% of them are operating in the field of services, this is acceptable since the trade is most speeded business occupation in the country.
Please indicate how many years your business is VAT payer

Since VAT was introduced in Kosovo in (2001) the results from this question were predictable. However, interesting findings is that 8.2% (over 20 years 3.3%, 16-20 years 4.9%) have answered that they are paying VAT for more than 15 years, and this findings show the presence of foreign companies in Kosovo.
What problems you are facing when implementing VAT?
One of the major problems which businesses are facing during VAT implementation is the fact that it is very difficult to receive regular VAT invoices since many businesses are not declaring the incomes and this is confirming that level of corruption and gray economy in Kosovo is high.

What problems are you facing when implementing VAT?

<table>
<thead>
<tr>
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<td>VAT is high for agriculture</td>
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</tr>
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<td>4.9</td>
<td>6.7</td>
<td>71.1</td>
</tr>
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<td>2.2</td>
<td>73.3</td>
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<td>High VAT rate</td>
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<tr>
<td>VAT payments are not registered in IT system of TAK</td>
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<tr>
<td>Total</td>
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</tr>
</tbody>
</table>

Table 3-1, Identified problem during VAT implementation
Figure 3-6, Identified problem during VAT implementation

- **VAT Credit**
  - Many companies are importing goods and during the process of custom clearance business are paying VAT. Despite this cost all business need to clear goods from the customs through third party companies and cost for clearing one shipment is 40 €. In order to decrease costs businesses are ordering large quantity of goods, they are creating large quantity of stocks and because of those reasons, and businesses have prepaid VAT.
  - If one business is deciding to open abounded custom warehouse, that business must pay deposit to the government and this deposit is 27.5% of value of the stock and it is not the preferred a lot by companies.
  - Many business are selling goods to VAT free customers like UNMIK, EULEX, NATO, Diplomatic Missions and foreign government founds, and because off that business have prepaid VAT credit.

- **Legal Issues & Customer relationship**
  - Because of grey economy and fiscal evasion, businesses are having problems during the VAT implementation. This is happening because when one company is selling goods it is obliged by law to issue VAT invoice and to keep records for buyers and since in many cases buyers are not registered as
businesses they are hesitating to purchase goods from businesses that are following government rules and this is having negative impact in relation with customers.

- **Doing business with no VAT businesses**
  - To be registered for VAT one business should import goods or should have yearly turnover from €50,000. Businesses are having problems when they are doing business with non-VAT registered businesses since they cannot claim back VAT and unregistered VAT businesses are complaining when they receive invoice with calculated VAT.

- **Receiving regular VAT invoices**
  - Since some businesses are smuggling goods and some of them are not declaring the correct amount of sale to Tax Administration of Kosovo, it is difficult to receive regular VAT invoice.

- **Prices are higher**
  - Because of VAT implementation, all offered service and products are more expensive (16%) and this is creating competitive disadvantage for VAT registered businesses.

- **VAT is high for agriculture**
  - Since VAT is implemented for all imported goods, this is affecting also seeds, which are used for agriculture, and it is increasing the cost of fertilizers.
  - Because of VAT, domestic agriculture products cannot compete with imported agriculture products.

- **Payment during the import**
  - VAT and custom is paid during the custom clearance (in some cases businesses are paying suppliers after 30 or 45 days) and this is creating a presale cost for businesses.

- **Low entry level for VAT**
  - Since the entry level for businesses to become VAT registered companies is €50,000, some businesses may consider this as a low entry level.

- **Lack of knowledge for VAT**
  - VAT as tax is relatively new for Kosovo businesses and some business do not have enough knowledge regarding benefits and VAT implementation.

- **Gray Economy**
  - Since smuggling is present in Kosovo and

- **Fake VAT Invoices for Import**
  - In order to pay less VAT and customs some businesses are presenting fake VAT invoices at the customs. This is creating unfair competition for businesses, which are operating according to the law.

- **High VAT rate**
  - VAT rate in Kosovo is 16% and all imported products are more expensive, this is affecting also the annual turnover for businesses.
- VAT payments are not registered in IT system of TAK
  - IT system in Tax Administration of Kosovo is not function as it should and because of this malfunction sometimes VAT payments for businesses are not up to dated.

- VAT for base materials and manufacturing parts
  - Since VAT is implemented for all imported products, VAT rate is increasing price for base materials and for manufacturing parts. And because of this production in Kosovo is not stimulated by the government.

**Have you finished any training on managing taxes?**
Even that many companies are implementing VAT only 23% of them had attended to any formal training regarding VAT

**If yes which training have you attended**
53.8% (VALID PERCENT) of trained companies VAT are trained by TAK (Tax Administration of Kosovo) and others had attend trainings from other institutions

**Acronyms:**
- **TAK** – Tax Administration of Kosovo
- **QAP** – Qendra e Arsimit Profesional (Center for Professional Education)
- **AFAS**- Association for Finance & Accounting Services

**If yes which training have you attended**

<table>
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<th>Cumulative Percent</th>
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<td>Certified Auditor</td>
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<tr>
<td>Total</td>
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<td>61</td>
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<td></td>
</tr>
</tbody>
</table>

Table 3-2, Type of training which businesses had attended
**Is your company in advance paying for VAT?**

73.8% of companies have VAT prepaid credit for VAT, this is because of the fact that some of them are working with VAT free customers, like UNMIK, EULEX, KFOR and that companies are possessing large quantity of stock because in this way companies are reducing costs of the transport.

**Are you importing goods?**

68.9% of the businesses are importing and this is automatically qualifies businesses for VAT implementation.
4. Results and VAT Assessment from Businesses

4.1. Results from the businesses sector survey and VAT assessment

In our research we had, from the business sector we had received back 61 filled questionnaires and those questionnaires are used to conduct the analysis. In this chapter are analyzed results from the business sector and VAT assessment.

If entry level for VAT is reduced from €50,000 to €30,000 more businesses will be eligible for VAT

49.2% of businesses strongly agree and 24.6% agree with the statement that if VAT is reduced from €50,000 to €30,000 more businesses will be eligible for VAT, while 8.2% strongly disagree and 9.8% disagree with the statement, the rest 8.2% are having neutral opinion. Considering the fact that 68. % of businesses is registered importers conclusion is that if entry level for VAT is reduced VAT would be the most applicable tax in Kosovo.

If entry level for VAT is reduced from €50,000 to €30,000 Kosovo budget will be increased

31.1 % of businesses agree and 45.9 strongly agree that if entry level for VAT is reduced from € 50,000 to € 30,000 Kosovo budget will be increased, and 6.6 % of the businesses disagree and 9.8% strongly disagree. do not agree while 6.6% have neutral opinion.
If entry level for VAT is reduced from € 50,000 to € 30,000 fiscal evasion will be reduced
Regarding this question 34.4% strongly agree and 32.8 % agree with the statement that reduced entry level for VAT will reduce fiscal evasion. 8.2% disagree and 11.5% strongly disagree while 13.1% are having neutral opinion.

Please Identify 3 main advantages of VAT
Main identified advantages of VAT implementation are
   1. Reversal VAT 40%
   2. Reimbursable VAT in time periods 30.5%
   3. Some products and services are free VAT 47.6%
Choice one
As the first choice regarding three main advantages of VAT implementation 40% of businesses had selected option Reversal VAT and 26.7% had selected option Same VAT rate for all businesses, same number of businesses had also selected the option increasing state budget, while 6.7% had selected option No impact on company profit.

Choice two
As the second choice regarding three main advantages of VAT implementation 30.5% business have selected option Reimbursable VAT in time periods and 28.8% had selected option No impact on company profit. 27.3% of respondents had selected the option increasing state budget and
13.6% had selected option Same VAT rates for all businesses, while 3.4% have selected option same products and services are VAT excluded.

Figure 4-6, Second choices regarding main advantages of VAT

Choice three

As the third choice regarding three main advantages of VAT implementation businesses which had participated on the research 47.6% selected option some products and services are VAT excluded and 31% selected option Reimbursable VAT in time periods (this option was also selected as the second choice 30.5%). Another selected option as a third choice is option No impact on company profit 19%, while only 2.4% selected option Increasing State Budget.

Figure 4-7, Third choices regarding main advantages of VAT
Please Identify 3 main disadvantages of VAT
Identified main disadvantage of VAT implementation is
1. Prices are increasing 78.7%
2. Base materials are more expensive 26.7%
3. Difficult to receive regular VAT invoices 60.5 %

As the first choice regarding three main disadvantages of VAT implementation 78.7% of businesses had selected option Price are Increasing, and 13.1% had selected option Base materials are more expensive while 8.2% had selected the option Prepaid VAT.
As the second choice regarding three main disadvantages of VAT implementation option Base materials are more expensive was selected from 26.7% of businesses that participated in the research and 21.7% had selected option Prepaid VAT. 20% of businesses selected option Same VAT rate for all businesses and also the option Entry level is creating unfair competition was selected by 20% of businesses while 11.7% selected option Difficult to get regular invoices.

**Choice two**

![Figure 4-10, second choices regarding disadvantages of VAT implementation](image)

<table>
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<tbody>
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<td>Base materials are more expensive</td>
<td>26.70%</td>
</tr>
<tr>
<td>Prepaid VAT</td>
<td>21.70%</td>
</tr>
<tr>
<td>Same VAT rate for all businesses</td>
<td>20%</td>
</tr>
<tr>
<td>Entry level is creating unfair competition</td>
<td>20%</td>
</tr>
<tr>
<td>Difficult to get regular invoices</td>
<td>11.70%</td>
</tr>
</tbody>
</table>

As the third choice regarding three main disadvantages of VAT implementation option Difficult to get regular invoices was selected from 60.5% of businesses that had participated in the research (11.7% had selected this option as a second choice). 20.9% selected option Same VAT rate for all businesses, (20% selected this option as a second choice), and 14% selected the option Base materials are more expensive (this was also the most selected option as a second choice 26.7%), while option Entry level is creating unfair competition was selected from 4.7% of businesses (this option was also selected as a second choice 20%).

**Choice three**
Please indicate how you agree with following statement: VAT should be lower for new equipment

39.38% of companies’ agree and 55.81% strongly agree that VAT should be lower for new equipment (which will be used in production), while 1.6% disagree and strongly disagree and 1.6% have neutral opinion.

Please indicate how you agree with following statement: VAT should not be implemented at all

42.64% of companies had declared that they disagree and 49.25% strongly disagree with a statement that VAT should not be implemented at all. Regarding this statement 4.9% of businesses are having neutral opinion and 1.6% agrees and 1.9% strongly agrees that VAT should not be implemented at all.
Figure 4-13, how you agree with following statement: VAT should not be implemented at all

Please indicate how you agree with following statement: VAT should be higher

Regarding the statement, that VAT should be higher only 1.6% of businesses agree, while 4.9% are having neutral opinion and 47.55% strongly disagree and 45.95% disagree that VAT should be higher.

Figure 4-14, indicate how you agree with following statement: VAT should be higher

Please indicate how you agree with following statement: VAT should remain the same

14.79% of businesses agree and 8.19% strongly agree that VAT should remain the same, and 17.98% of businesses have neutral opinion regarding this statement, while 36.06% disagree and 22.98% strongly disagree that VAT rate should remain the same.
Please indicate how you agree with following statement: Government should implement flat VAT rate

49.15% of businesses agree and 36.06% strongly agree that government and tax administration of Kosovo should implement VAT flat rate. Regarding this statement 3.3% disagree and 6.59 strongly disagree while 4.9% of businesses are having neutral opinion.

Please indicate how you agree with following statement: Government should implement two types of VAT high and low

41% of businesses agree and 21.3% strongly agree that in Kosovo should be implemented two types of VAT rate. Findings show that there is large number of businesses, which are having neutral opinion regarding this issue 21.3%, while 13.1% strongly disagree and 3.3% disagree that there is a need for two types of VAT.
Please indicate how you agree with following statement: Government should implement two types of VAT high and low

Please indicate how you agree with following statement: VAT have positive impact on agriculture

24.6% of businesses agree and 9.8% strongly agree that VAT have positive impact on agriculture and 27.9% disagree and 18% strongly disagree, while 19.7% of them have neutral opinion.

Would it be easier to administer VAT if export of travelers and products will be excluded from VAT?
Regarding VAT administration, 78.7% of businesses agree that export of travelers and products should be excluded from VAT.

Is there any advantage of using flat tax rate for farmers?
78.7% of companies believe that flat tax rate for farmers will create an advantage.
5. Survey and Range of Interviewees’

5.1. Results from the survey of individuals and range of interviewees’

We have received 50 filled questionnaires from individuals, we had distributed questionnaires in Tax Administration of Kosovo, Post and Telecom of Kosovo and we had distributed questionnaires in private sector. The reason why we had distributed the questionnaires in Post and Telecom of Kosovo is fact that this company is paying the highest salaries in Kosovo. In this chapter are analyzed findings regarding demographic data like gender, age, level of education, occupation, level of salary and number of dependents, years of employment and their general knowledge regarding VAT.

Gender

60% of participants on the survey are male, 40% are females, and from this figure, we can see the gender balance of employees in Kosovo.

Age

Regarding the age of the participants on the survey 73.4% of them fall in the age group 30 to 49 years. This information provides the opinions regarding VAT based on the age group.

<table>
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<td>30-39 years</td>
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<tr>
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Table 5-1, Age breakdown structure for individual customers
Level of education

Regarding the level of educating findings show that 64.6% of participants have bachelor degree and 20.8% of participants have MBA-MSc or higher education, this is important for our research since those participants had given answers based on their theoretical knowledge and based on their experience and 14.6% of them had finished only high school.
Occupation

Regarding the occupation of survey participant's findings shows that 52% of them are economists, this is valuable since they are more aware regarding taxes then people from other professions.

<table>
<thead>
<tr>
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<th>Frequency</th>
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<th>Valid Percent</th>
</tr>
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<td></td>
<td>Economist</td>
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<td>Manager</td>
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<td>2.0</td>
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<td></td>
<td>Meteorology</td>
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<td>Professor</td>
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<td></td>
<td>Technician</td>
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<tr>
<td><strong>Total</strong></td>
<td></td>
<td>50</td>
<td>100.0</td>
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</tbody>
</table>

Table 5-2, Occupation for Individual Customers

Figure 5-3, Occupation for Individual Customers

Level of salary per month

30% of participants of the research are receiving between 1001-300 € salaries, 28% are receiving between 301-600 € and 42% of them are earning over 600€ per month.

Regarding the monthly salary 42% of participants have salary higher than 600 € and 28% have salary higher than 300 €. So in total 70% of survey participants have salary higher than average salary in Kosovo which is 170 €.
Are you a taxpayer?

All participants of the survey are taxpayers and this information is showing that all of them are working according to predicted laws (income tax and pension contribution)

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
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<tr>
<td>Valid</td>
<td>Yes</td>
<td>50</td>
<td>100.0</td>
<td>100.0</td>
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</tbody>
</table>

How many dependents do you provide for?

Regarding the number of dependents findings shows that 84% of participants have dependents; conclusion is that unemployment rate in Kosovo is high and in a same time is showing also that most of employees are depending from their salaries and that staff turnover within companies in Kosovo is low.

<table>
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<th>Frequency</th>
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</tr>
<tr>
<td>Total</td>
<td>50</td>
<td>100.0</td>
<td>100.0</td>
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</table>
Figure 5-5, How many dependents do you provide for?

Please indicate since how many years you are employed:

54% of respondents have working experience between 6 and 10 years and 32% have working experience between 11 and 20 years. Answers from these questions are providing information regarding employee’s experience.

Figure 5-6, Please indicate since how many years you are employed

Do you know that you are paying VAT on every imported product, which you are purchasing?

98% of respondents are aware that customer for every imported goods that is purchased by them in Kosovo pays VAT; this is showing that most of the people in Kosovo are aware for VAT.
Do you know which current VAT rate in Kosovo is?

82% of respondents had declared that they know which current VAT rate in Kosovo is.

If you now please write

Even that 82% of respondents had declare that they know which is current VAT rate, 20% of them didn’t tell which is VAT rate, and 6% had provide wrong answer. Considering the level of education and profession (52% are economists) of participants on the survey conclusion is that 6% with wrong answer is too high.
Do you ask for fiscal receipt when you are purchasing some product or service?

Findings show that only 78% of respondents are asking for fiscal receipt when they are purchasing some product or service, this finding shows that people hesitate to ask for the receipt. Conclusion is that people are not asking for the fiscal receipt because of their culture.

Do you consider that VAT advantage is?

Findings show that participants of the survey believe that three main advantages of VAT are:

1. Equal payment for taxes for everybody 48%
2. Budget for social welfare 32%
3. Tax payment at the moment of purchasing 57.1%
As the first choice regarding three main advantages of VAT implementation findings shows that 48% of the participants had selected Equal payment for taxes for everybody, 26% had selected option Presented in the invoice, 16% had selected the option Budget for social welfare and 8% of them had selected option Tax payment at the moment of purchasing.

![Figure 5-11, First Choice regarding VAT Advantage](image)

Most selected option as the second choice regarding advantages of VAT implementation is Budget for Social welfare 32%, while 28% of participants of the survey had selected option Easy Identified and 26% had selected option Presented in the Invoice. As the second choice, participants had selected also the other options that are presented in the chart below.

![Figure 5-12, Second Choice regarding VAT Advantage](image)

As the third choice regarding advantages for VAT implementation is option Tax payment at the moment of purchasing, this option was selected from 57.10% of
participants, while 14.3% had selected option Presented in the invoice and Easy identified. 10.2% of the participants of the research had selected option Wide tax base and 2% had selected option Equal payment for taxes for everybody and option Budget for social welfare.

![Figure 5-13, Third Choice regarding VAT Advantage](image)

**Do you consider that VAT disadvantage is?**

Findings show that participants of the survey believe that three main disadvantages of VAT are:

1. Increasing living costs 64%
2. Higher Prices 46%
3. Taxing essential basic 42.9%

![Figure 5-14, Three Main Identified Disadvantages for VAT Implementation in Kosovo (Individuals)](image)

Regarding the first choice for disadvantages of VAT implementation the
most selected option is option increasing living costs 64%, followed by option VAR rate is high for basic products 14%, then option higher prices 12%. Option taxing essential basic was selected from 6% and option Noncompliance was selected by 4% of the participants of the research.

As the second most selected option, regarding disadvantages of VAT implementation is option Higher prices with 42.9%, followed by the option VAT rate is high for basic products 34%, other selected options are shown in the chart below
The most selected option as the third choice for disadvantages of VAT implementation is option Taxing essential basic, 42.9% had selected this option, and the option Not clear which products are released from VAT was selected from 24.5% of respondents, other selected options are shown in the chart below.

![Bar chart showing third choices regarding disadvantages for VAT implementation in Kosovo](image)

*Figure 5-17, Third Choices Regarding Disadvantages for VAT Implementation in Kosovo*

**How significant do you consider VAT to be for the Government budget?**

A finding shows that 59.2% of participants of the survey consider VAT very significant for the country budget and 20.4% are consider that VAT is significant reasonable for country budget.

![Bar chart showing significance of VAT for country budget](image)

*Figure 5-18, Significance of VAT for country budget*

**What alternative sources for government revenue would you prefer to?**

34% of participants of the survey are recommending increase of excise as
alternative source for increasing government’s revenues and 30% are recommending Alternative VAT rate. Another interesting finding is that 14% of respondents are recommending to increase road tax (at this stage road tax is 40 € for every civilian vehicle).

Figure 5-19, Proposed alternative sources for government revenue
6. Results & VAT Assessment from Individuals

6.1. Results from the survey of individuals and VAT assessment

We had received 50 filled questioners from individuals, we had distributed questionnaires in Tax Administration of Kosovo, Post and Telecom of Kosovo and we had distributed questionnaires in private sector. The reason why we had distributed the questionnaires in Post and Telecom of Kosovo is fact that this company is paying the highest salaries in Kosovo. In this chapter are analyzed opinions of individuals regarding VAT and in this chapter is conducted VAT assessment from the perspective of the individual VAT taxpayer.

Which commodities should have VAT?

Findings shows that participants are recommending that luxury and gambling games should have VAT, 66% are recommending VAT for luxury items and 34% are recommending implementation of VAT for gambling games. Regarding this question, our conclusion is that most of people in Kosovo are considering beer and wine as luxury as a food and most of people in Kosovo are living in poverty and because of this they are recommending VAT for luxury items.

<table>
<thead>
<tr>
<th>Commodities</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Luxury (tobacco, alcohol)</td>
<td>66%</td>
</tr>
<tr>
<td>Gambling games</td>
<td>34%</td>
</tr>
</tbody>
</table>

Figure 6-1, Commodities which should have VAT

Which commodities definitively should not have VAT?

64% of participants on the survey agree that Schoolbooks should be VAT excluded and 34% agree that medical equipment should be VAT free, while only 2% of participants on the survey think that machinery for new production should be VAT free. This finding is interesting and we believe
that people had answered this question with inert ion, because since 2 years Kosovo government is giving books for free for primary schools and government had already approved the law that books are released from VAT payment.

Figure 6-2, Commodities which should not have VAT

Please indicate how you agree with following statement: VAT should be lower for new equipment for manufacturing purposes

Findings shows that 42% of participants of the survey strongly agree that: VAT should be lower for new equipment for manufacturing purposes and 42% agree, while 8% of them have neutral option and 6% disagree and only 2% of the participants strongly disagree that VAT should be lower for new equipment for manufacturing purposes.

Figure 6-3, VAT should be lower for new equipment for manufacturing purposes

Please indicate how you agree with following statement: VAT should not be implemented at all
For this questions findings shows that 47.9% of participants of the survey strongly disagree that VAT should not be implemented at all, and 41.7% disagree, while 8.3% are having neutral opinion and only 2.1% strongly agree that VAT should not be implemented at all. That information is showing that people in Kosovo are aware of the importance of VAT.

Please indicate how you agree with following statement: VAT should be higher

For this questions findings shows that 50% of participants of the survey disagree that: VAT should be higher, and 28% strongly disagree, while 12% are having neutral opinion and 6% agree and 4% strongly agree that VAT should be higher and conclusion is that new VAT rate will not be easily accepted
Please indicate how you agree with following statement: VAT should have two rates Low and High

For this questions findings shows that 51.05% of participants agree that VAT should have two rates low and high and 20.42% strongly agree. Findings show that 22.42% of the participants of the research have neutral opinion and 4.1% disagree and 4.1% strongly disagree with the statement that VAT should have two rates, low and high.

Figure 6-6, VAT should have two rates low and high

Please indicate if you agree with the following statement: VAT should remain the same

20% of respondents of the research strongly disagree and 50% disagree that VAT should remain the same, while 20% agree and 2% strongly agree that VAT should remain the same. Regarding this statement, 8% of the participants of the research have neutral opinion.

Figure 6-7, Should VAT remain the same
Please indicate if you agree with the following statement: VAT have positive impact on agriculture

For this questions findings shows that 58% of participants of the survey do disagree with a statement that VAT is having positive impact on agriculture, and 20% strongly disagree, while only 4% agree and 2% strongly agree. 16% of the respondents are having neutral opinion.

Figure 6-8, Does VAT have positive impact on agriculture

Please indicate if you agree with the following statement: VAT have negative impact on agriculture

For this questions findings shows that 54% of participants of the survey agree and 18% strongly agree that: VAT have negative impact on agriculture, while only 4% disagree and 4% strongly disagree. Interesting fact is that 20% of participants are having neutral opinion regarding this question.

Figure 6-9, Does VAT have negative impact on agriculture
7. Proposed Scenarios

7.1. Reducing entry level for VAT

Based on the results from chapter three, chapter four, chapter five and chapter six we had created scenarios with different VAT tax rates.

At this stage the entry level to become a VAT Taxpayer Company there is yearly turnover of €50,000, and at this stage this condition is met by 8,637 companies, while 50,453 companies are not eligible for VAT implementation. From those ineligible companies 1,352 are having yearly turnover between €30,000 and €50,000.

![Figure 7-1, Actual status of companies regarding VAT entry level](image)

In case if the government will change the entry level from €50,000 to €30,000 the actual situation will be as in the figure below.

![Figure 7-2, Situation after changing of the entry level for VAT from €50,000 to €30,000](image)

So number of VAT registered companies will be increased by 1,352 or by 16%, or based on created scenario yearly turnover of businesses which are having turnover between €30,000 and €50,000 is €54 million, and if VAT would be
implemented in these companies, Tax Administration of Kosovo would collect €8,60 million VAT.

![Figure 7-3, Amount of collected VAT if entry level for VAT will be changed from €50,000 to €30,000](image)

### 7.2. Implementation of two VAT rates

Based on the received results from the distributed questionnaires where, findings that show that participants of the survey have recommended the implementation of two different VAT rates low and high and based on those recommendations in the table below is shown actual situation where VAT rate is 16% and prediction if two vat rates are implemented.

<table>
<thead>
<tr>
<th>Item</th>
<th>Base for VAT</th>
<th>VAT Amount 16%</th>
<th>Scenario with Two VAT rates 5% and 21%</th>
<th>Scenario with Two VAT rates 10% and 20%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base material for production</td>
<td>€50,032,355.59</td>
<td>€8,005,178.46</td>
<td>€2,501,618.27</td>
<td>€5,003,236.54</td>
</tr>
<tr>
<td>Biscuits</td>
<td>€19,889,213.39</td>
<td>€3,150,274.14</td>
<td>€4,134,734.81</td>
<td>€3,978,842.68</td>
</tr>
<tr>
<td>Building material for construction</td>
<td>€44,616,286.29</td>
<td>€7,138,605.81</td>
<td>€9,569,420.12</td>
<td>€8,923,257.26</td>
</tr>
<tr>
<td>Flour</td>
<td>€6,162,315.92</td>
<td>€985,970.55</td>
<td>€508,115.80</td>
<td>€616,231.59</td>
</tr>
<tr>
<td>Ice cream</td>
<td>€7,548,874.28</td>
<td>€1,207,819.88</td>
<td>€1,585,263.60</td>
<td>€1,509,774.86</td>
</tr>
<tr>
<td>Milk and dairy products</td>
<td>€25,648,279.31</td>
<td>€4,103,724.67</td>
<td>€1,282,415.96</td>
<td>€2,564,827.92</td>
</tr>
<tr>
<td>Oils and fats for food</td>
<td>€12,629,728.81</td>
<td>€2,020,756.61</td>
<td>€631,486.44</td>
<td>€1,262,972.88</td>
</tr>
<tr>
<td>Perfumes and cosmetics</td>
<td>€17,101,605.15</td>
<td>€2,756,256.82</td>
<td>€3,591,137.08</td>
<td>€3,420,321.05</td>
</tr>
<tr>
<td>Salt</td>
<td>€1,178,654.74</td>
<td>€188,266.36</td>
<td>€58,835.24</td>
<td>€117,866.47</td>
</tr>
<tr>
<td>Seeds and fruits</td>
<td>€8,064,033.00</td>
<td>€1,290,245.28</td>
<td>€403,201.65</td>
<td>€806,403.30</td>
</tr>
<tr>
<td>Sugar</td>
<td>€19,157,324.42</td>
<td>€3,065,171.91</td>
<td>€4,023,038.13</td>
<td>€3,851,464.68</td>
</tr>
<tr>
<td>Water and non alcoholic drinks</td>
<td>€31,210,084.50</td>
<td>€4,993,613.52</td>
<td>€1,560,504.23</td>
<td>€3,121,008.45</td>
</tr>
<tr>
<td>Wheat and Corn</td>
<td>€18,403,451.07</td>
<td>€2,944,552.17</td>
<td>€920,172.55</td>
<td>€1,840,345.11</td>
</tr>
<tr>
<td>Alcohol Drinks</td>
<td>€13,209,710.06</td>
<td>€2,113,553.61</td>
<td>€2,774,099.11</td>
<td>€2,641,942.01</td>
</tr>
<tr>
<td>Coffee</td>
<td>€5,044,249.66</td>
<td>€807,086.99</td>
<td>€1,059,301.67</td>
<td>€1,008,858.73</td>
</tr>
<tr>
<td>Diesel</td>
<td>€269,449,923.96</td>
<td>€43,111,987.85</td>
<td>€56,584,484.03</td>
<td>€53,889,984.79</td>
</tr>
<tr>
<td>Cans</td>
<td>€10,190,955.87</td>
<td>€1,630,559.34</td>
<td>€2,140,109.13</td>
<td>€2,038,199.17</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>€ 89,493,623.96</strong></td>
<td><strong>€ 92,928,073.82</strong></td>
<td><strong>€ 96,534,337.68</strong></td>
<td><strong>€ 96,534,337.68</strong></td>
</tr>
</tbody>
</table>

Table 7-1, Scenario with two VAT rates vs. actual VAT rates
If two VAT rates would be implemented (5% and 21%) the incomes from VAT would be increased for 4% or for €3.4 million.

If two VAT rates would be implemented (10% and 20%) the incomes from VAT would be increased for 7% or for €7 million.

This scenario was created based on the data of 2010 received from Kosovo Custom.

![Figure 7-4 Scenario with two VAT rates vs. actual VAT rates in value](image)

### 7.3. Implementing VAT rates of other regional countries

VAT is implemented also in the neighboring countries of Kosovo; from those countries only Albania is using one VAT rate, while other countries are implementing two different VAT rates low and high. In table below are shown VAT rates in different countries.

<table>
<thead>
<tr>
<th>Country</th>
<th>Standard VAT rate</th>
<th>Alternative VAT rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kosovo</td>
<td>16%</td>
<td>NA</td>
</tr>
<tr>
<td>Albania</td>
<td>20%</td>
<td>NA</td>
</tr>
<tr>
<td>Montenegro</td>
<td>17%</td>
<td>7% for basic products like bread, milk and sugar; orthopedic equipment, pharmacies</td>
</tr>
<tr>
<td></td>
<td></td>
<td>products for livestock, school books and daily newspapers.</td>
</tr>
<tr>
<td>Serbia</td>
<td>18%</td>
<td>8% applied to the supply of goods and services for bread, milk, flour, sugar, oils,</td>
</tr>
<tr>
<td></td>
<td></td>
<td>fruits and vegetables, meats, fish, own, etc. artificial fertilizers, pesticides</td>
</tr>
<tr>
<td></td>
<td></td>
<td>seeds, textbook, newspapers, etc.</td>
</tr>
<tr>
<td>Country</td>
<td>Standard VAT rate</td>
<td>Alternative VAT rate</td>
</tr>
<tr>
<td>-----------</td>
<td>-------------------</td>
<td>----------------------</td>
</tr>
<tr>
<td>Macedonia</td>
<td>18%</td>
<td>5% rate applies to the sale and import of foodstuffs, drinking water from public suppliers, publications of books, brochures, newspapers, etc.. Seeds for sowing, fertilizers, protection products in agriculture, agricultural machinery etc.</td>
</tr>
<tr>
<td>Croatia</td>
<td>22%</td>
<td>10% for hotel accommodation</td>
</tr>
<tr>
<td>Slovenia</td>
<td>20%</td>
<td>8.5% applies to food, soft drinks, live animals, seeds, water service, pharmaceutical tools for healing and prevention, medicinal equipment, passenger transportation, books, flyers, etc..</td>
</tr>
</tbody>
</table>

Table 7-2, VAT standard and alternative rate for the ex-Yugoslavian countries, source TAK

In the figure below is shown impact on the amount of paid VAT during the import of goods in case of implementing VAT rates of Kosovo neighboring countries.

![Figure 7-5, Impact of implementation of other countries VAT rate](image-url)
<table>
<thead>
<tr>
<th>Item</th>
<th>Kosovo VAT rate</th>
<th>Albania VAT rate</th>
<th>Montenegro VAT rate</th>
<th>Serbia VAT rate</th>
<th>Macedonia VAT rate</th>
<th>Croatia VAT rate</th>
<th>Slovenia VAT rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base material for production</td>
<td>€ 8,005,178.46</td>
<td>€ 10,006,473.08</td>
<td>€ 3,502,265.58</td>
<td>€ 9,005,825.77</td>
<td>€ 9,005,825.77</td>
<td>€ 11,007,120.39</td>
<td>€ 10,006,473.08</td>
</tr>
<tr>
<td>Biscuits</td>
<td>€ 3,150,274.14</td>
<td>€ 3,937,842.68</td>
<td>€ 3,347,166.28</td>
<td>€ 3,544,058.41</td>
<td>€ 3,544,058.41</td>
<td>€ 4,331,626.95</td>
<td>€ 1,673,583.14</td>
</tr>
<tr>
<td>Building material for construction</td>
<td>€ 7,138,625.81</td>
<td>€ 8,923,257.26</td>
<td>€ 7,584,768.67</td>
<td>€ 8,030,931.53</td>
<td>€ 8,030,931.53</td>
<td>€ 9,815,582.98</td>
<td>€ 8,923,257.26</td>
</tr>
<tr>
<td>Flour</td>
<td>€ 985,970.55</td>
<td>€ 1,232,463.18</td>
<td>€ 431,362.11</td>
<td>€ 492,985.27</td>
<td>€ 1,109,216.87</td>
<td>€ 1,355,709.50</td>
<td>€ 523,796.85</td>
</tr>
<tr>
<td>Ice cream</td>
<td>€ 1,207,819.88</td>
<td>€ 1,509,774.86</td>
<td>€ 528,421.20</td>
<td>€ 1,358,797.37</td>
<td>€ 1,358,797.37</td>
<td>€ 1,660,752.34</td>
<td>€ 641,654.31</td>
</tr>
<tr>
<td>Milk and dairy products</td>
<td>€ 4,103,724.67</td>
<td>€ 5,129,655.84</td>
<td>€ 1,795,379.54</td>
<td>€ 2,051,862.34</td>
<td>€ 4,616,690.26</td>
<td>€ 5,642,621.43</td>
<td>€ 2,180,103.73</td>
</tr>
<tr>
<td>Oils and fats for food</td>
<td>€ 2,020,756.61</td>
<td>€ 2,525,945.76</td>
<td>€ 2,147,053.90</td>
<td>€ 1,010,378.30</td>
<td>€ 2,273,351.19</td>
<td>€ 2,778,540.34</td>
<td>€ 1,073,526.95</td>
</tr>
<tr>
<td>Perfumes and cosmetics</td>
<td>€ 2,736,256.82</td>
<td>€ 3,420,321.03</td>
<td>€ 2,907,272.88</td>
<td>€ 3,078,288.93</td>
<td>€ 3,762,353.13</td>
<td>€ 3,420,321.03</td>
<td>€ 100,016.50</td>
</tr>
<tr>
<td>Salt</td>
<td>€ 188,266.36</td>
<td>€ 235,332.95</td>
<td>€ 200,033.01</td>
<td>€ 211,799.65</td>
<td>€ 211,799.65</td>
<td>€ 258,866.24</td>
<td>€ 100,016.50</td>
</tr>
<tr>
<td>Seeds and fruits</td>
<td>€ 1,290,245.28</td>
<td>€ 1,612,806.60</td>
<td>€ 1,370,885.61</td>
<td>€ 1,451,525.94</td>
<td>€ 1,451,525.94</td>
<td>€ 1,774,087.26</td>
<td>€ 1,612,806.60</td>
</tr>
<tr>
<td>Sugar</td>
<td>€ 3,065,171.91</td>
<td>€ 3,831,464.88</td>
<td>€ 1,341,012.71</td>
<td>€ 1,532,585.95</td>
<td>€ 3,448,318.39</td>
<td>€ 4,214,611.37</td>
<td>€ 1,628,372.58</td>
</tr>
<tr>
<td>Water and non alcoholic drinks</td>
<td>€ 4,993,613.52</td>
<td>€ 6,242,016.90</td>
<td>€ 5,305,714.36</td>
<td>€ 5,617,815.21</td>
<td>€ 5,617,815.21</td>
<td>€ 6,866,218.59</td>
<td>€ 2,652,857.18</td>
</tr>
<tr>
<td>Wheat and Corn</td>
<td>€ 2,944,552.17</td>
<td>€ 3,680,690.21</td>
<td>€ 3,128,586.68</td>
<td>€ 1,472,276.09</td>
<td>€ 3,312,621.19</td>
<td>€ 4,048,759.24</td>
<td>€ 1,564,293.34</td>
</tr>
<tr>
<td>Alcohol Drinks</td>
<td>€ 2,113,553.61</td>
<td>€ 2,641,942.01</td>
<td>€ 2,245,650.71</td>
<td>€ 2,377,747.81</td>
<td>€ 2,377,747.81</td>
<td>€ 2,906,136.21</td>
<td>€ 2,641,942.01</td>
</tr>
<tr>
<td>Coffee</td>
<td>€ 807,086.99</td>
<td>€ 1,008,858.73</td>
<td>€ 857,529.92</td>
<td>€ 907,972.86</td>
<td>€ 907,972.86</td>
<td>€ 1,109,744.61</td>
<td>€ 1,008,858.73</td>
</tr>
<tr>
<td>Diesel</td>
<td>€ 43,111,987.83</td>
<td>€ 53,889,984.79</td>
<td>€ 45,806,487.07</td>
<td>€ 48,500,986.31</td>
<td>€ 48,500,986.31</td>
<td>€ 59,278,983.27</td>
<td>€ 53,889,984.79</td>
</tr>
<tr>
<td>Cars</td>
<td>€ 1,630,559.34</td>
<td>€ 2,038,199.17</td>
<td>€ 1,732,469.30</td>
<td>€ 1,834,379.26</td>
<td>€ 1,834,379.26</td>
<td>€ 2,242,019.09</td>
<td>€ 2,038,199.17</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>€ 89,493,623.96</strong></td>
<td><strong>€ 111,867,029.95</strong></td>
<td><strong>€ 84,232,059.53</strong></td>
<td><strong>€ 92,480,217.01</strong></td>
<td><strong>€ 100,680,326.95</strong></td>
<td><strong>€ 123,053,732.94</strong></td>
<td><strong>€ 95,580,047.27</strong></td>
</tr>
</tbody>
</table>

Table 7-3, Impact of implementation of other countries VAT rate
7.4. **Removing VAT for Base Material for Production**

According to the Tax Administration of Kosovo, request for reversal VAT from imported new machinery for production in (2010) were €332,659.47. And this amount of VAT had contributed in total collected VAT for (2010) 1% and conclusion is that this is not significant tax.

![Figure 7-6, Required VAT reimbursement in 2010 from new machinery for production](image)

7.5. **Implementing VAT for gaming**

In Kosovo are registered 46 businesses, which are operating in the field of gaming. At this stage, Tax Administration of Kosovo is not implementing VAT for this type of businesses. According to the TAK data, yearly turnover for year 2010 from gambling games was €9.9 million.

If TAK would implement VAT for gambling games, the amount of collected VAT would be €1.5 million.

![Figure 7-7, Turnover in 2010 from gambling games and potential of collected VAT](image)
8. Final Discussion and Recommendations

8.1. VAT in Kosovo and Research Methodology

In this chapter are discussed recommendations based on received data and based on the results of conducted field research. This chapter contains identified advantages and disadvantages of VAT implementation, recommendations for implementation of two VAT rates, recommendations and discussion regarding changing the entry level for VAT from €50,000 to €30,000. Here is also discussed the exclusion for equipment and machinery from VAT and implementation of VAT for gaming.

For this capstone, project analyses were conducted of the Value Added Tax and Kosovo’s budget and the conclusion is that the goal of Kosovo’s government is the development of a tax system in order to apply a modern tax regime.

The findings show that in Kosovo there already exists a willingness of businesses to pay VAT. Tax Administration of Kosovo already possess as the necessary skills and logistics to implement a modern tax regime, for example in the 2003 in Kosovo there were 6,717 VAT tax payer companies while in the 2009 there were 11,943 VAT registered tax payer companies. In addition, the findings show that 34.4% of businesses strongly agree that the VAT entry level should be changed from €50,000 to €30,000, and 38.2% of business agree regarding the change of entry level for VAT.

During 2010, the amount of VAT collected in Kosovo was €483, 4 million and 82% of collected VAT was from imported goods, while 18% was collected from in domestic transactions.

![Figure 8-1, Collected VAT in Kosovo in year 2010](image)
In order to address the current system of VAT in Kosovo and its impacts on the economy and social welfare, the following steps have been conducted:

1. Analysis of the development of Kosovo tax policy on western and neighboring countries.
2. Assessment of the impact of VAT in the total Kosovo revenue budget.
3. Comparative analysis on the effects of these policies in the overall development of Kosovo.
4. Analysis of the amount of VAT collected from custom services and TAK for the last five years.
5. Questionaries' were used as a research instrument.

In this capstone project, a scenario has been created, using different VAT rates in collected data from customs and the TAK and analyzing its impact on the country’s budget.

For the research two different questionnaires were used, one for businesses and one for individual customers. The empirical analysis was based on a questionnaire survey conducted with a random sample of 100 entrepreneurs in different regions in Kosovo. 61 valid questionaries’ had been received and they had been analyzed.

Second, in this capstone project, a survey has been conducted with 100 consumers in the different regions and descriptive statistics techniques using SPSS statistical packages and MS Excel were implemented.

For the capstone project 50 filled questioners from individuals were received, from Tax Administration of Kosovo, Post and Telecom of Kosovo and we had distributed questionaries’ in private sector. The reason why we had distributed the questionnaires in Post and Telecom of Kosovo is fact that this company is paying the highest salaries in Kosovo.

Regarding the level of educating findings show that 64.6% of participants have bachelor degree and 20.8% of participants have MBA-MSc or higher education, this is important for our research since those participants had given answers based on their theoretical knowledge and based on their experience and 14.6% of them had finished only high school. Regarding the occupation of survey participant's findings shows that 52% of
them are economists, this is valuable since they are more aware regarding taxes then people from other professions.

All participant of the survey are taxpayers and this information is showing that all of them are working according to predicted laws (income tax and pension contribution).

To finish the capstone project VAT data was collected from the following institutions:

- Tax Administration of Kosovo
- Kosovo Customs
- Ministry of Economy and Finance

All received data were analyzed and based on the received data scenarios were created. As a created scenarios is scenario for reducing entry level for the VAT and its impact on the budget, another created scenario based on received data from government institutions was scenario of implementing other countries VAT rates in Kosovo and what would be the impact of implementing two different VAT rates in Kosovo.

Based on the received data from Kosovo Customs and Tax Administration of Kosovo it was analyzed impact of removing VAT for base materials for production and based on this analyze recommendations were written. Received data from Ministry of Economy and Finance and Tax Administration of Kosovo were used to create scenario and to create recommendations regarding implementation of VAT for gaming.

### 8.2. Identified advantages and disadvantages of VAT implementation

![Bar chart](image)

Figure 8-2, three main identified advantages of VAT (Businesses)
In order to identify advantages and disadvantages of VAT implementation in Kosovo, the instrument of questionnaires had been used. After the process of analyzing received questionnaires was finished, conclusion is that one of the most problems which businesses are facing during VAT implementation is the fact that it is very difficult to receive regular VAT invoices.

This is happening because, many businesses are not declaring the incomes and this is confirming that level of corruption and gray economy in Kosovo is high. Regarding this issue findings show also that some businesses are smuggling goods and some of them are not declaring the correct amount of sale to Tax Administration of Kosovo, it is difficult to receive regular VAT invoice. Findings shows that 50% of selected companies for our research are operating in a field of trade, and 10.3% of them are operating in the field of services; this is acceptable since the trade is most speeded business occupation in the country.

From all businesses which was the subject of the research 73.8% of companies have VAT prepaid credit for VAT, this is because of the fact that some of them are working with VAT free customers, like UNMIK, EULEX, KFOR and that companies are possessing large quantity of stock because in this way companies are reducing costs of the transport.

The three main advantages of VAT implementation have been identified from businesses:

1. Reversal VAT
2. In monthly or biannual periods and
3. Some products and services are VAT free

Regarding identified disadvantages of VAT implementation, businesses had identified the following three main disadvantages:

1. Prices are increasing
2. Base materials are more expensive
3. Difficulties in receiving regular VAT invoices

Individual taxpayers identified three main advantages:

1. Equal payment of taxes for everybody
2. Budget for social welfare,
3. Tax payment at the moment of purchasing

Individual taxpayers identified three main advantages:

1. Increasing living costs
2. Higher prices
3. Taxing essential goods

In conclusion, the identified disadvantages of VAT implementation in general are related to higher prices.

### 8.3. Recommendations for the VAT Rates

Based on the regional experience regarding VAT implementation and its rates, recommendations from our research are that the Tax Administration of Kosovo and Ministry of Finance should implement two different VAT rates in Kosovo: Low and High (or Standard) VAT rate.

1. Benefits of two VAT rates
   a. The high VAT rates will accelerate a positive impact on a Kosovo budget.
   b. The lower VAT rates will increase the social welfare of the country.

2. Starting the implementation of a new flat rate for agriculture which will have a positive impact on reducing the black market sale of goods that are present in Kosovo’s market and will also stimulate agriculture.

If two VAT rates were implemented (5% and 21%), the incomes from VAT would increase by 4% or by €3,4 million.
If two VAT rates were implemented (10% and 20%), the incomes from VAT would increase by 7% or by €7 million.

<table>
<thead>
<tr>
<th>Item</th>
<th>VAT 5% and 21%</th>
<th>VAT 10% &amp; 20%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base material for production</td>
<td>5%</td>
<td>10%</td>
</tr>
<tr>
<td>Biscuits</td>
<td>21%</td>
<td>20%</td>
</tr>
<tr>
<td>Building material for construction</td>
<td>21%</td>
<td>20%</td>
</tr>
<tr>
<td>Flour</td>
<td>5%</td>
<td>10%</td>
</tr>
<tr>
<td>Ice cream</td>
<td>21%</td>
<td>20%</td>
</tr>
<tr>
<td>Milk and dairy products</td>
<td>5%</td>
<td>10%</td>
</tr>
<tr>
<td>Oils and fats for food</td>
<td>5%</td>
<td>10%</td>
</tr>
<tr>
<td>Perfumes and cosmetics</td>
<td>21%</td>
<td>20%</td>
</tr>
<tr>
<td>Salt</td>
<td>5%</td>
<td>10%</td>
</tr>
<tr>
<td>Seeds and fruits</td>
<td>5%</td>
<td>10%</td>
</tr>
<tr>
<td>Sugar</td>
<td>21%</td>
<td>20%</td>
</tr>
<tr>
<td>Water and non-alcoholic drinks</td>
<td>5%</td>
<td>10%</td>
</tr>
<tr>
<td>Wheat and Corn</td>
<td>5%</td>
<td>10%</td>
</tr>
<tr>
<td>Alcohol Drinks</td>
<td>21%</td>
<td>20%</td>
</tr>
<tr>
<td>Coffee</td>
<td>21%</td>
<td>20%</td>
</tr>
<tr>
<td>Diesel</td>
<td>21%</td>
<td>20%</td>
</tr>
<tr>
<td>Cars</td>
<td>21%</td>
<td>20%</td>
</tr>
</tbody>
</table>

Table 8-1. Proposed VAT rates

Based on the findings from the research instrument 49.15% of businesses agree and 36.06% strongly agree that government and tax administration of Kosovo should implement VAT flat rate and 51.05% of participants agree that VAT should have two rates low and high and 20.42% strongly agree.

8.4. **Changing the entry level for VAT**

Based on the current situation and on the results of the scenario recommendation from this research, the Ministry of Finance and Tax Administration of Kosovo should change the entry level for VAT from €50,000 to €30,000, with this step the number of VAT taxpayer companies will increase by 16% and thereby produce an extra amount of €8.6 million. This recommendation is also supported by the results of the analyzed data from the business sector, individuals and the VAT assessment. Findings shows that 49.2% of businesses strongly agree and 24.6% agree with the statements that if VAT is reduced from €50,000 to €30,000 more businesses will be eligible for VAT, while 31.1 % of businesses agree and 45.9%
strongly agree that if entry level for VAT is reduced from €50,000 to €30,000 Kosovo budget will be increased.

8.5. **The exclusion for equipment and machinery from VAT payment which will be used for new production**

Excluding equipment and machinery from VAT payment when business are importing those items that fall under capital investment. The positive impact based on this will be the attraction of new investment and will create new work places. According to the Tax Administration of Kosovo, requests for the reversal of VAT from new imported machinery for production in 2010 were €332,659.47 and this amount of VAT contributed in total collected VAT for year 2010 was 0.19%.

Based on the findings from the research instrument 39.38% of companies’ agree and 55.81% strongly agree that VAT should be lower for new equipment (which will be used in production), while responses from individual consumers regarding the same issue shows that 42% of participants of the survey strongly agree that: VAT should be lower for new equipment for manufacturing purposes. The conclusion is that this is not a significant tax.

8.6. **Implementing VAT for gaming**

In Kosovo 46 businesses are operating in the field of gaming are registered. At this stage, the Tax Administration of Kosovo is not implementing VAT for this type of business. According to the TAK data, yearly turnover for, 2010 from gaming was €9,931,513.49. If the TAK implemented VAT for gaming the amount of collected VAT would be €1,589,042.16.

Also findings from the questionnaires’ shows that participants are recommending that luxury items and gaming should have VAT, 66% are recommending VAT for luxury items and 34% are recommending implementation of VAT for gaming. Regarding this question, our conclusion is that most of people in Kosovo are considering beer and wine as luxury as a food and most of people in Kosovo are living in poverty and because of this they are recommending VAT for luxury items.
References


Sources

1. (Regulation no. 2001/11 on "The Value Added Tax", Pristina, 2001)
2. (Regulation no. 2002/17 for "value-added” Pristina, 2002)
3. (Law no. 03/L-114 for "value Added Tax", Pristina, 2008)
4. (Law no. 03/L-146 for "Value Added Tax", Pristina, 2010)
5. (Law no. 03/L-071 on Amendments to the Law no. 2004/48 for "Administration and Procedures", Pristina, 2009)
Appendix 1. Questioner for Businesses

1. Gender  Male □    Female □
2. Age  
   
   a) < 20-29;  b) 30-39;  c) 40-49) d) 50-59;  e) 60 +

3. Level of Education : (MBA /MSc) □  BSe □  High school □
4. Position  ________________________________

5. In which fiels is operating your company?

    ________________________________

6. Please indicate how many years your business is VAT payer:

   A. Under 1 year       D. 11-15 years
   B. 1-5 years          E. 16-20 years
   C. 6-10 years         F. Over 20 years

7. What problems are you facing when implementing VAT?

   ________________________________

8. Have you finished some formal training for managing taxes

   Yes □    No □
9. If you have answered with Yes the question 11, please write down which training you have attended

_________________________________________________________________

10. Is your company in advance payment for VAT?

Yes ☐ No ☐

11. Are you importing goods?

Yes ☐ No ☐

12. Please indicate the extent to which you agree with the following:

<table>
<thead>
<tr>
<th>If entry level for VAT is reduced from 50000 € to 30000 €</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. More businesses will be eligible for VAT</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

13. Please indicate the extent to which you agree with the following:

<table>
<thead>
<tr>
<th>If entry level for VAT is reduced from 50000 € to 30000 €</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Kosovo budget will be increased</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

14. Please indicate the extent to which you agree with the following:

<table>
<thead>
<tr>
<th>If entry level for VAT is reduced from 50000 € to 30000 € fiscal evasion will be reduced</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>3. Fiscal evasion will be reduced</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
15. Please identify 3 main advantages of VAT implementation

<table>
<thead>
<tr>
<th>Advantage</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Refundable VAT</td>
<td>4. Doesn’t have any impact of profit</td>
</tr>
<tr>
<td>2. Same rate for all businesses</td>
<td>5. It is reimbursable for investment periods</td>
</tr>
<tr>
<td>3. Filling the state budget</td>
<td>6. Some products and services are free VAT</td>
</tr>
</tbody>
</table>

16. Please identify 3 main disadvantages of VAT implementation

<table>
<thead>
<tr>
<th>Disadvantage</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Prices increase</td>
<td>4. Same rate for all business</td>
</tr>
<tr>
<td>2. Prepaid VAT</td>
<td>5. Because of registration limits there is unfair competition on the market</td>
</tr>
</tbody>
</table>

17. Please indicate how do you agree with following statement

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. VAT should be lower for new manufacturing equipment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

18. Please indicate how do you agree with following statement

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. VAT should not be implemented at all</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

19. Please indicate how do you agree with following statement

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. VAT should be higher</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
20. Please indicate how do you agree with following statement

<table>
<thead>
<tr>
<th></th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. VAT should remain the same</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

21. Please indicate how do you agree with following statement

<table>
<thead>
<tr>
<th></th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. VAT should have two rates (lower and higher)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

22. Please indicate how do you agree with following statement

<table>
<thead>
<tr>
<th></th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Government should implement flat VAT rate (for agriculture)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

23. Please indicate how do you agree with following statement

<table>
<thead>
<tr>
<th></th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. VAT have positive impact on agriculture</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

24. Would it be easier to administer VAT if export of travelers and products will be excluded from VAT?
   a. Yes
   b. No

25. Is there any advantage of using flat tax rate for farmers?
   a. Yes
   b. No
   c. Comment ________________________________
Appendix 2. Questioner for Individuals (Consumers)

1. Gender  Male □ Female □

2. Age  a) < 20-29; b) 30-39; c) 40-49; d) 50-59; e) 60 +

3. Level of Education: (MBA/MSc) □ BSe □ High school □

4. Occupation: ____________________________

5. Level of salary per month
   a) < 100; c) 301-600;
   b) b) 101-300; d) > 600;

6. Are you a taxpayer: Yes □ No □

7. How many dependents do you provide for?
   ____________________________

8. Please indicate since how many years you are employed:
   A. Unemployed                       D. 11-20 years
   B. 1-5 years                        E. Over 20 years
   C. 6-10 years                       F. Retired
9. Do you know that you are paying VAT on every imported product which you are purchasing

Yes [ ] No [ ]

10. Do you know which is current VAT rate in Kosovo, if you know please write it down

_________________________________________________________________

11. Do you ask for fiscal receipt when you are purchasing some product or service? Yes [ ] No [ ]

12. What do you consider to be the three main benefits of VAT?

<table>
<thead>
<tr>
<th>Advantage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Equal payment for taxes for everybody</td>
</tr>
<tr>
<td>2. Budget for social welfare</td>
</tr>
<tr>
<td>3. Presented in the invoice</td>
</tr>
<tr>
<td>4. Easy identified</td>
</tr>
<tr>
<td>5. Wide tax base</td>
</tr>
<tr>
<td>6. Tax payment at the moment of purchasing</td>
</tr>
</tbody>
</table>

13. What do you consider to be the three main disadvantage of VAT?

<table>
<thead>
<tr>
<th>Disadvantage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Increasing living costs</td>
</tr>
<tr>
<td>2. Non compliance</td>
</tr>
<tr>
<td>3. Higher prices</td>
</tr>
<tr>
<td>4. VAT rate is high for basic products</td>
</tr>
<tr>
<td>5. Taxing essential basic</td>
</tr>
<tr>
<td>6. Not clear which products are released from VAT</td>
</tr>
</tbody>
</table>
14. Prioritize your three main benefits (consist of appropriate number)

(1st)
(2nd)
(3rd)

15. Prioritize your three main disadvantages (consist of appropriate number)

1st
2nd
3rd

16. How significant do you consider VAT to be for the Government budget?

(a) Not so significant
(b) It's a little helpful
(c) Reasonable significant
(d) It helps a lot
(e) Extremely significant

17. What alternative sources for government revenue would you prefer to VAT?

(a) Increase Corporate Tax
(b) Increase Excise Tax
(c) Increase Road tax
(d) Real estate transactions Tax
(e) Alternative VAT rates

18. Which commodities should have VAT?

a. Luxury items (Tobacco, alcohol drinks, diesel, jewelry, cars, cosmetic)
b. Gambling games
c. Real estate transactions

19. Which commodities definitively should not have VAT?

a. Education books
b. Medical equipment
c. New machinery for manufacturing purposes
20. Please indicate how do you agree with following statement

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. VAT should be lower for new equipment for manufacturing purposes</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

21. Please indicate how do you agree with following statement

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. VAT should not be implemented at all</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

22. Please indicate how you agree with following statement

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. VAT should be higher</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

23. Please indicate how you agree with following statement

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. VAT should have two rates(lower and higher)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

24. Please indicate how do you agree with following statement

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. VAT should remain the same</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
25. Please indicate how you agree with following statement

<table>
<thead>
<tr>
<th></th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. VAT have positive impact on agriculture</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

26. Please indicate how you agree with following statement

<table>
<thead>
<tr>
<th></th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. VAT have negative impact on agriculture</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Appendix 3. Project Consultants

Project Consultant are:

**Ekrem Hysenaj, MSc**
Tel. 00386 38 200 25 047
Email: Ekrem.Hysenaj@atk-ks.org
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GOVERNMENT OF TAX Administration / OFFICE OF LEGAL AND Appeals

**Director**
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Entrepreneurship
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**Deputy Director of General Director of Tax Administration**/
Compliance Department
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ASAU (Advanced Studied Academy of University) Prishtina 2008 – Master for accounting and auditing
Association of Certified Accountants of Kosovo Prishtina 2008 - Certificated Accounting and Certificated Auditor

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Email: shyqib@gmail.com
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**Vala Consulting Company- Managing Partner**

Graduate
University of Prishtina - Graduated Economist
Association of Certified Accountants of Kosovo Prishtina - Certificated Accounting and Certificated Auditor