

# Doing Business in Kosovo





# Preface

This guide has been prepared by Baker Tilly Kosovo, an independent member of Baker Tilly International. It is designed to provide information on a number of subjects important to those considering investing or doing business in Kosovo.

Baker Tilly International is the world's 8<sup>th</sup> largest network of independent accounting and business advisory firms by combined fee income, and is represented by 154 firms in 133 countries and 27,000 people worldwide. Its members provide high quality accounting, assurance, tax and specialist business advice to privately held businesses and public interest entities.

This guide is one of a series of country profiles compiled for use by Baker Tilly International member firms' clients and professional staff. Copies may be downloaded from [www.bakertillyinternational.com](http://www.bakertillyinternational.com).

Doing Business in Kosovo has been designed for the information of readers. Whilst every effort has been made to ensure accuracy, information contained in this guide may not be comprehensive and recipients should not act upon it without seeking professional advice. Facts and figures as presented are correct at the time of writing.

Up-to-date advice and general assistance can be obtained from Baker Tilly Kosovo, contact details can be found at the end of this guide.

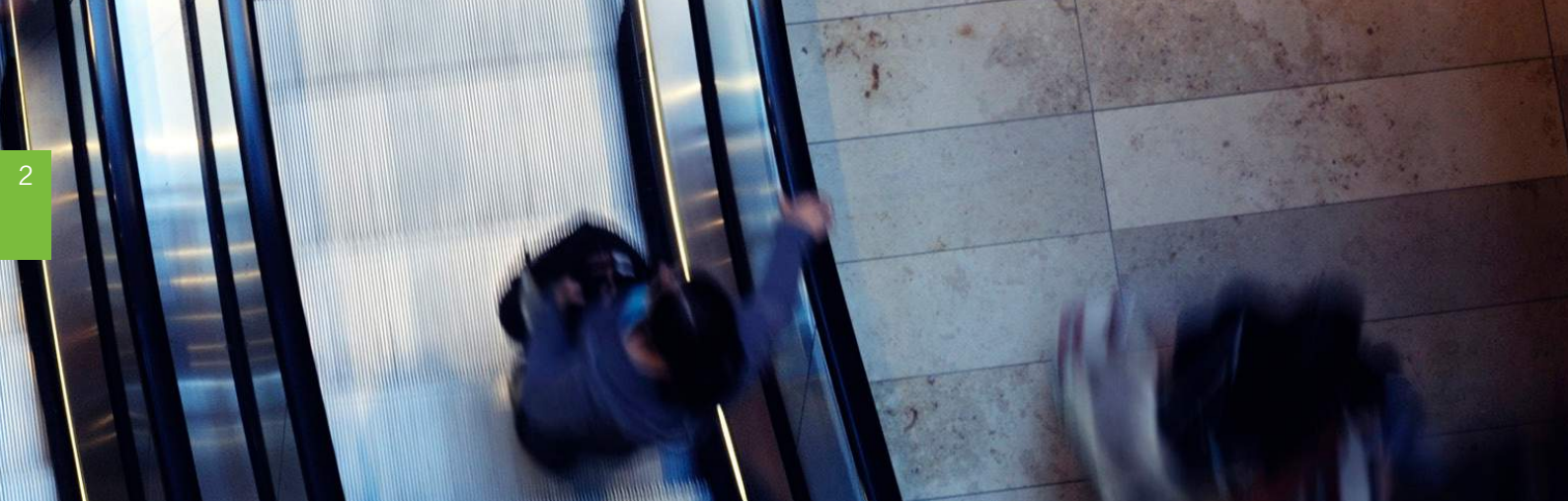
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# Contents

<b>1 Fact Sheet</b>	<b>2</b>
<b>2 Business Entities and Accounting</b>	<b>4</b>
2.1 Companies	4
2.2 Partnerships	5
2.3 Foreign Business Organisations	5
2.4 Individual Businesses	6
2.5 Audit and Accounting Requirements	6
2.6 Filing Requirements	7
<b>3 Finance and Investment</b>	<b>8</b>
3.1 Exchange Control	8
3.2 Banking and Sources of Finance	8
3.3 Investment Incentives and Restrictions	9
<b>4 Employment Regulations</b>	<b>10</b>
4.1 General Employment Matters	10
4.2 Visas	11
4.3 Trade Unions	11
<b>5 Taxation</b>	<b>12</b>
5.1 Corporate Income Taxes	12
5.2 Personal Taxes	13
5.3 Employment Related Costs and Taxes	13
5.4 Withholding Taxes on Payments Abroad	14
5.5 Value Added Tax (VAT)	14
5.6 Other Taxes	15
5.7 Tax Incentives for Businesses	15





# 1 Fact Sheet

Facts and figures as presented in sections 1 through 4 are correct as at 29 September 2015.

## Geography

Location:	Southeast Europe
Area:	10,887km <sup>2</sup>
Land boundaries:	Albania, Macedonia, Montenegro, and Serbia
Coastline:	None
Climate:	Relatively cold winters with heavy snowfall and hot, dry summers and autumns
Terrain:	Flat fluvial basin at an elevation of 400-700m above sea level surrounded by several high mountain ranges with elevations of 2,000-2,500m
Time zone:	GMT +1 (GMT +2 during daylight saving time)

## People

Population:	1.8 million (2014)
Religion:	Muslim 95.6%, Orthodox 1.5%, Roman Catholic 2.2%, other/none/unspecified 0.74% (2011 estimates)
Language:	Albanian and Serbian are the official languages

## Government

Country name:	Republic of Kosovo
Government type:	Republic
Capital:	Pristina
Administrative divisions:	There are 38 municipalities

**Political situation**

The unicameral Assembly has 120 seats. The Head of State is the President, who is indirectly elected for a term of five years by a two-thirds majority vote of the Assembly. The Head of Government is the Prime Minister, who is indirectly elected by the Assembly. The Cabinet is elected by the Assembly.

**Economy**

GDP – per capita:	US\$2,863.47 (2014)
GDP – real growth rate:	0.2% (Q1 2015)
Labour force:	482,610 (2013)
Unemployment:	35.3% (2014)
Currency (code):	Euro (EUR)



## 2 Business Entities and Accounting

The business organisational forms available in Kosovo include the limited liability company, the joint stock company, the general partnership, the limited partnership, and the individual business.

Business organisations and foreign business organisations are generally required to be registered with the Kosovo Business Registration Agency (ARBK) in order to undertake business activities in Kosovo (limited exceptions apply).

### 2.1 Companies

#### 2.1.1 Limited liability companies

A limited liability company may be formed by one or more natural or legal persons (excluding non-governmental organisations (NGOs)). A limited liability company is a separate legal entity. The company owners are not liable for the debts and obligations of the company.

Limited liability companies are governed by the shareholders assembly and by a director or managing directors.

#### 2.1.2 Joint stock companies

A joint stock company may be formed by one or more individuals, business organisations, and/or other organisations. A joint stock company is a separate legal entity. The company shareholders are not liable for the debts and obligations of the company.

The minimum initial charter capital for a joint stock company is the greater of EUR10,000, or the aggregate par value of all shares issued by the company at the time of its registration. Higher charter capital requirements may apply to banks, financial institutions, and insurance organisations.

Joint stock companies are required to hold an annual shareholders assembly, and are managed by a board of directors. Directors must be natural persons. There must be at least one director if there are less than 10 shareholders, at least three directors if there are 10 or more shareholders, and at least seven directors if there are 500 or more shareholders.

#### 2.1.3 Company names

The company name must include its organisational form or relevant abbreviation, and must be reasonably distinguishable from the names of other business organisations already registered (limited exceptions apply).

## 2.2 Partnerships

### 2.2.1 General partnerships

A general partnership may be formed by two or more persons or organisations (including business organisations). The partners are jointly and severally liable to an unlimited extent for the debts and obligations of the partnership. A general partnership is not a separate legal entity.

### 2.2.2 Limited partnerships

A limited partnership may be formed by one or more general partners with one or more limited partners. Partners may be individuals and/or business organisations (including companies). General partners are jointly and severally liable to an unlimited extent for the debts and obligations of the partnership. Limited partners are not liable for the debts and obligations of the partnership, but are required to pay their contribution. Limited partners are not allowed to take part in the management or control of the partnership; however, if they do so, they become liable for the debts and obligations of the partnership as if they were a general partner. A limited partnership is not a separate legal entity.

### 2.2.3 Partnership names

The partnership name must include its organisational form or relevant abbreviation, and must be reasonably distinguishable from the names of other business organisations already registered (limited exceptions apply).

## 2.3 Foreign Business Organisations

A foreign business organisation may generally undertake business activities in Kosovo on the same basis as a Kosovo business organisation through a branch. A branch is not a separate legal entity.

Registration with the ARBK as a foreign business organisation is generally required. However, registration is not required if the activities of the foreign business organisation are limited to:

- Exporting to Kosovo, from a territory outside of Kosovo, products or services that are imported into Kosovo by a purchaser or consumer who is resident or established in Kosovo, and/or
- Submitting, from a territory outside of Kosovo, an offer to sell, provide or produce goods, works or services to a potential consumer or purchaser in Kosovo.

## 2.4 Individual Businesses

A person may generally undertake business activities in Kosovo as an individual business. An individual business is not a separate legal entity, and the owner has unlimited personal liability for the debts and obligations of the business with all of their assets.

The name of the individual business must include its organisational form or relevant abbreviation, and must be reasonably distinguishable from the names of other business organisations already registered (limited exceptions apply).

## 2.5 Audit and Accounting Requirements

Business organisations are required to prepare general purpose financial statements (GPFS), including the balance sheet, income statements, cash flow statements, statement of changes in equity, supplementary data, and explanatory materials.

Large business organisations (as defined) are required to prepare their financial statements in accordance with the International Financial Reporting Standards (IFRS), and their consolidated financial statements in accordance with IFRS and applicable EU directives. Small and medium sized business organisations (as defined) may use IFRS or IFRS for SMEs. Micro sized business organisations (as defined) are required to use the standards issued by the Kosovo Council for Financial Reporting (KCFR).

The financial statements of large business organisations must be audited by a statutory firm of auditors that is licensed to carry out statutory audits. The financial statements of medium sized business organisations must be audited by a statutory firm of auditors or auditors that are licensed to carry out statutory audits.

Financial statements and supporting documentation must be kept for a period of 10 years.



## 2.6 Filing Requirements

The audited financial statements of large business organisations must be submitted to the KCFR by 30 April following the accounting year end. The audited consolidated financial statements of large business organisations must be submitted to the KCFR by 30 June following the accounting year end. Copies of these documents must also be submitted to the Ministry of Trade and Industry (MTI) by the same deadlines.

# 3 Finance and Investment

## 3.1 Exchange Control

There are no foreign exchange controls.

Anti-money laundering legislation requires reporting subjects, including banks, financial institutions, casinos, real estate agents and brokers, certified accountants, licensed auditors, and lawyers and notaries in respect of certain transactions, to undertake customer due diligence and to report suspicious transactions and single transactions exceeding set limits to the Financial Intelligence Unit (FIU).

## 3.2 Banking and Sources of Finance

The Central Bank of Kosovo (BQK) is responsible for (amongst others) domestic price stability, financial stability, payment systems, and regulating and supervising financial institutions.

Commercial banks operating in Kosovo provide the majority of financial services.

There are generally no restrictions on foreigners opening bank accounts in Kosovo (certain documentation and a minimum deposit may be required), or on accounts containing foreign currency.

There is no stock exchange.

Private equity investors provide investment in Kosovo.

### **3.3 Investment Incentives and Restrictions**

For business related incentives, see 5.7.

Legislation provides that foreign investors have the same rights and obligations as domestic investors.

# 4 Employment Regulations

For employment tax considerations, see 5.3.

## 4.1 General Employment Matters

### 4.1.1 National employment standards

Legislation provides minimum rights and conditions of employment in Kosovo (certain exceptions apply), including maximum weekly working hours, rest periods, paid annual leave entitlement, and maternity leave rights.

A contract of employment must be concluded in writing and be signed by both the employer and the employee. A contract of employment must include:

- Employer's designation, residence and business registration number
- Employee's name, qualification and residential address
- Job title and description
- Place of work, or an indication that work is to be undertaken at different locations
- Working hours and schedule
- Commencement date of employment
- Duration of the contract
- Salary and any allowances or other income, and
- Holiday entitlement.

A contract of employment may include a trial period of employment not exceeding six months in duration. Either party may terminate the contract of employment during the trial period by providing seven days' notice.

An employer may terminate a contract of employment in certain circumstances, including justified economic, technical or organisational reasons, where the employee is no longer able to perform their job, and in cases of serious misconduct by the employee. The notice period required to be provided by the employer to terminate a contract of indefinite duration varies depending on the employee's length of employment. An employer may terminate a contract of employment without providing notice if the employee has committed less serious misconduct or breach of obligations for a second time, or if the performance of the employee remains unsatisfactory even though a written warning has already been given.



An employee may terminate a contract of employment by providing 15 days' written notice (for fixed term contracts of employment), or 30 days' written notice (for indefinite contracts of employment). An employee may terminate a contract of employment without providing notice if the employer has breached the obligations under the contract of employment.

#### 4.1.2 Pensions and other benefits

Social security contributions (see 5.3.2) generally provide associated benefits.

## 4.2 Visas

Citizens of certain countries (including EU member states and Schengen Area countries) do not generally require a visa for short term visits to Kosovo. The visa types available for entry into Kosovo are the air-transit visa and the entry visa.

The types of residence permit available to foreigners are the short-term residence permit, the temporary residence permit, and the permanent residence permit. Foreigners who have had a temporary residence permit in Kosovo for a continuous period of at least five years may be granted a permanent residence permit.

Foreigners generally require a residence and employment permit, or a certificate for employment notification, in order to work in Kosovo. Certain exceptions apply, including foreigners with permanent residence and those with refugee status.

For further information on visa requirements, visit [www.mfa-ks.net](http://www.mfa-ks.net).

## 4.3 Trade Unions

Employees' organisations or representatives of employees may negotiate and conclude collective contracts with employers' organisations. Collective contracts may be concluded at the state level, branch level, or enterprise level.



# 5 Taxation

Facts and figures as presented in section 5 are correct as at 29 September 2015.

## 5.1 Corporate Income Taxes

Resident taxpayers, who are taxpayers that are established in Kosovo, or whose place of effective management is in Kosovo, are generally subject to tax on their worldwide income.

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

The standard corporate income tax rate is 10%. Certain insurance and reinsurance companies that are licensed by the Central Bank of Kosovo are subject to tax at the rate of 5% of gross premiums. Taxpayers whose gross annual income does not exceed EUR50,000 are subject to tax on their gross income unless they choose to be subject to the standard corporate income tax. Such taxpayers are required to make quarterly payments of tax as follows:

- 3% of gross income from trade, transport, agricultural, or similar activities (subject to a minimum payment of EUR37.50)
- 9% of gross income from services, professional, vocational, entertainment, or similar activities (subject to a minimum payment of EUR37.50)
- 10% of gross rent income.

Taxable income must generally include any taxable capital gains.

Dividends are tax exempt.

Unutilised losses can generally be carried forward for up to six consecutive tax years (restrictions may apply in cases of change of business or change of ownership). There are no provisions for the carry back of losses.

Group tax consolidation is not available in Kosovo; consequently losses cannot be offset against the profits of another company in the same group.

The tax year is the calendar year.

Tax returns (with financial statements) are generally due for filing by 31 March of the following year. Taxpayers whose gross annual income does not exceed EUR50,000 are not required to file tax returns unless they choose to be subject to the standard corporate income tax.

Advance payments of corporate income tax are generally payable in respect of each calendar quarter by 15 April, 15 July, 15 October, and 15 January. If the advance payments exceed the eventual tax liability, the taxpayer is entitled to a refund, or may carry forward the excess for offset against future corporate income tax.

## 5.2 Personal Taxes

Resident individuals are generally subject to tax on their worldwide income.

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

Individuals are subject to personal income tax at the following rates (subject to exemptions and deductions):

Taxable Income	Rate
Up to EUR960	0%
Over EUR960 – EUR3,000	4%
Over EUR3,000 – EUR5,400	EUR81.60, plus 8% on the amount exceeding EUR3,000
Over EUR5,400	EUR273.60, plus 10% on the amount exceeding EUR5,400

Taxable income must generally include any taxable capital gains.

Dividends are tax exempt.

Inheritances received by a spouse, child (biological or adopted), or parent of the deceased are tax exempt. For other heirs, inheritances received are tax exempt if the value does not exceed EUR5,000.

Gifts between spouses, gifts between parents and their children (biological or adopted), and gifts for qualifying educational purposes are tax exempt. In other cases, gifts received in excess of EUR5,000 in a tax period are subject to tax.

## 5.3 Employment Related Costs and Taxes

### 5.3.1 Fringe benefits

There is no separate fringe benefits tax. Unless specifically exempt, the taxable value of benefits-in-kind form part of the taxable income of individuals and are subject to personal income tax.

### 5.3.2 Social security costs

Employers and employees (payable by the employer on behalf of the employee) are generally required to make pension contributions. The rate for employers is 5% of the total wages of all employees. The rate for employees is 5% of their total wages. Employers and employees may make additional voluntary contributions of up to 10% of salary, resulting in a maximum possible contribution of 15%.

Legislation provides that employers and employees will be subject to mandatory health insurance premiums. The legislated rate is 7% of gross income, which is divided equally between the employer and the employee. An effective date for this contribution has not yet been reported.

## 5.4 Withholding Taxes on Payments Abroad

The rates of withholding tax on the following payments made abroad are generally:

	Rate
Dividends	N/A
Interest	10%; certain interest payments are exempt
Royalties	10%
Rent	9%
Service fees	5%

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

## 5.5 Value Added Tax (VAT)

VAT is generally levied on the supply of goods and services in Kosovo, and on the importation of goods.

The standard VAT rate is 18%. A reduced rate of 8% applies to certain supplies, including water (excluding bottled water), electricity, certain grains and products made from grains for human consumption, dairy and dairy products for human consumption, textbooks, information technology equipment, medicines, and medical equipment. Certain supplies are VAT exempt without the right to deduct input VAT, including hospital services, medical care, dental services, social services, educational services, newspapers, health and life insurance and reinsurance services, and certain financial services. Other exempt supplies include exports, and certain supplies relating to international transport.



The VAT registration threshold is annual turnover exceeding EUR30,000. Traders can apply for VAT registration voluntarily if compulsory registration does not apply.

Registered traders can generally recover the VAT with which they themselves are charged on their purchases of goods and services, subject to conditions and possible exceptions.

## 5.6 Other Taxes

### 5.6.1 Immovable property tax

Property tax is generally imposed on all immovable property in Kosovo, subject to exemptions. The tax is imposed on the owner or user of immovable property. The tax is based on the market value of the property, and the rates are set each year by municipalities from a range of 0.15% to 1%.

### 5.6.2 Excise taxes

Excise taxes are imposed on certain goods, including alcohol, alcoholic beverages, coffee, tobacco products, petroleum oils, and passenger transportation motor vehicles.

### 5.6.3 Other taxes

Other taxes in Kosovo include vehicle road tax, vehicle ecological tax, and hotel and tourist facility accommodation tax.

## 5.7 Tax Incentives for Businesses

### 5.7.1 Special allowance for new assets

A special allowance of 10% of the acquisition price of certain assets is allowed in the year in which the asset is first put into use. This allowance is in addition to standard depreciation allowances. Qualifying assets include production lines for plant and machinery, locomotives and rolling stock for use in railway transportation, aeroplanes, ships, heavy machines for transport, equipment for the transportation of soil, bulldozers, digging machines, and other heavy machines used for the taxpayer's economic activities.

# Member Firm Contact Details

Baker Tilly Kosovo  
[www.bakertillykosovo.com](http://www.bakertillykosovo.com)

T: + 381 (0)38 226 942  
[info@bakertillykosovo.com](mailto:info@bakertillykosovo.com)

Global Office  
Juxon House  
100 St Paul's Churchyard  
London EC4M 8BU  
United Kingdom

**T:** +44 (0)20 3102 7600  
**F:** +44 (0)20 3102 7601

[info@bakertillyinternational.com](mailto:info@bakertillyinternational.com)

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[www.bakertillyinternational.com](http://www.bakertillyinternational.com)

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