



kosovo business guide

2012

Independent Member of Baker Tilly International

 **BAKER TILLY**
KOSOVO





Contents

Preface	5
Our First Ten Years	5
About Baker Tilly International	5
Kosovo's Economy	5
Kosovo Profile	7
Starting your business	8
Protection of Foreign Investment	8
Public-Private-Partnerships and Concessions	9
Contracts Enforcement	9
Alternative Dispute Resolution	9
Trade Marks	9
Industrial Design	10
Patents	10
Standardization	10
Audit and Accounting Requirements	10
Corporate Income Tax	14
Personal Income Tax	18
Pension Contributions	18
Tax – exemption	19
Value Added Tax	19
Double Tax Treaties	19
Customs	20
Employment Regulations	22
Working Conditions	22
Retirement Age	23

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Baker Tilly Kosovo

Bedri Pejani 3, 10000 Prishtine, Kosove

Tel: +38138226942; +38138226946

Email: info@bakertillykosovo.com

www.bakertillykosovo.com



**BAKER TILLY
KOSOVO**

Preface

This guide 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 on Kosovo matters can be obtained from Baker Tilly Kosovo; contact details can be found at the end of this guide.

Our First Ten Years

We are delighted to provide this short business guide to our devoted clients, which is a refreshed version of BU & Partners Business Guide published in 2011. Moreover, this year's edition is of a special importance for us as it marks our tenth anniversary of operations in Kosovo and membership in Baker Tilly International Network. During these first ten years we have enjoyed working and providing services to our highly esteemed clients, and every success of our client was a big milestone achievement for firm, too. As a member firm of one the greatest network worldwide, we will benefit from the international expertise in many areas, which we will try to deploy during our service to our clients in the future in Kosovo.

Our services range from accounting, audit, tax and business consultancy to organizations on a national and international level. Our team consists of experienced professionals, including tax experts, licensed and certified auditors, and a team of sup-

porting professionals with business administration, accounting and finance degrees. Our commitment to offer high quality services is achieved by the personalized approach we provide to each client. We use our best professional resources available to provide our clients with timely and affordable professional services.

About Baker Tilly International

Through our membership of Baker Tilly International, the world's 8th largest accountancy and business advisory network, we are able to provide premier advisory services worldwide, drawing on internationally recognised industry and service line experts in 125 countries.

Each of the network's 149 member firms is independent and autonomous; however we have chosen to work together, resulting in strong professional relationships and efficient collaboration.

Baker Tilly International member firms demonstrate a high professional standard, as well as a strong commitment to the network's core values of integrity, leadership, transparency and ethics. Each member firm offers outstanding personal service combined with the expertise, strength and resources of a truly global network to support you as you grow regionally and globally.

Kosovo's Economy

The Republic of Kosovo is centrally located in Southeastern Europe, between the Northern hemisphere parallels 42° and 44°, and located in the central Balkans. Kosova represents an important link between central and southern Europe



The declaration of independence established Kosovo as a democratic, secular and multi-ethnic Republic promoting the rights of all communities. In April 2008 the Assembly of the Republic of Kosovo adopted the country's constitution that entered into force in June 2008.



Geography	Land Area	10.908 km ²
	Terrain	Low flood plains throughout central Kosovo, surrounded by mountains to the north, west and south.
	Land Use:	53% agriculture, 39% forests
	Largest City	Prishtina - est. pop. 200,000
Population	Population Description	approximately 1.7 million people composed of about 92% Albanian, 1.5% Serbs, 2.2% Muslim Slavs (Bosniaks, Gorani), 2% Roma and 1.1% Turks
	Languages	Albanian, Serbian, English
Economic Description	Currency	EURO, GDP 2009: €3,792 billion, Per capita: € 1.731
	Inflation	average 2.2 % per annum over the past five years
	Financial Sector	Two tier Banking System consisting of Central Banking Authority of Kosovo and 8 private Banks, 10 Insurance companies and 2 pension schemes
	Enterprises	87,960 SME in 2008, app. 47% of total SME engaged in trade industry. 500 Socially Owned Enterprises of which 300 already privatized
	Tariff duties	Customs duties: 10% on imports; Excise tax on fuel, tobacco alcohol and luxury goods. No duties and taxes on exports. Taxes in place: VAT 16%, Corporate Profit Tax 10 %, Wage Tax progressive max.10%
	Free trade	Customs-free access to the EU market based on the EU Autonomous Trade Preference (ATP) Regime, Customs-free access to the US market, Central European Free Trade Area – CEFTA
	Location factors	Competitive and well educated workforce, enviable natural resources (mining, agriculture), low taxes and a transparent tax system, high purchase power through remittances (app. 400 million € annually), customs free access to the EU and US market and CEFTA members market

and the Adriatic and Black Seas. Kosovo has an area of 10,908 square km. As of 2011, the population of Kosovo was estimated at 1.8 million, of which 45% lived in urban areas. With a GDP per capita of EUR 2,368, Kosovo's economic growth has been steady since the end of the conflict in June 1999, attributable in part to large public investments in post-conflict reconstruction as well as an increase in private consumption and investment. The macroeconomic data indicate that there has been recovery of economic activity and positive growth since 2000; this growth continued, although at a slower pace, during the recent financial crisis. Use of the euro as the de facto local currency has eliminated exchange rate volatility and kept inflation at a low level.

The official currency of Kosovo is the Euro. Kosovo's use of the Euro has helped keep inflation low. Kosovo has so far maintained a budget surplus as a result of efficient value added tax (VAT) collection at the borders and inefficient budget execution. Since 2006, Kosovo is part of Central Europe Free Trade Area (CEFTA). In December 2008, Kosovo was designated as a beneficiary country under the Generalized System of Preferences (GSP) program. Under this program, a wide range of products Kosovo might seek to export are eligible for duty-free entry to the United States. Current Kosovo exports that are eligible for GSP benefits include wood products, charcoal, and dried fruits. Other main exports include mineral products, base metals, leather products, machinery, and appliances. Kosovo's main export partners are Italy, Albania, Macedonia, and Greece. Imports include live animals

and animal products, fruits and vegetables and related products, minerals, base materials, machinery, appliances and electrical equipment, textiles and related products, wood and wood products, stone, ceramic and glass products, and chemical products. The country's main import partners are the EU, Macedonia, Serbia, Turkey, and Albania.

On June 29, 2009, Kosovo formally joined the global financial system when then-President Sejdiu and Prime Minister Thaci signed the articles of agreement for entry into the World Bank and International Monetary Fund (IMF). A total of 109 states supported Kosovo's membership. Since that time Kosovo has begun servicing its share of the former Yugoslavia's World Bank and IMF debt.

Kosovo Profile

Kosovo declared independence in February 2008. With the subsequent international recognition by the world's leading democracies, Kosovo has removed the remaining obstacles for foreign investors.

However, key challenges remain, such as a big trade imbalance and high unemployment. The Government views the attraction of foreign direct investment as one of the key ways in which these challenges can be met and the objective of sustainable, long-term economic development realized. It is working hard to provide better conditions for all investors, domestic and foreign alike, with a 'win, win' mentality – an investment in Kosovo is seen as a win for the investor and a win for Kosovo.

Kosovo represents a treasury of ethnic and religious heritages from various historical periods re-

Economic growth is largely driven by the private sector, mostly small-scale retail businesses. The official currency of Kosovo is the Euro. Kosovo's use of the Euro has helped keep inflation low.

109

A total of 109 states supported Kosovo's membership in IMF. Since that time Kosovo has begun servicing its share of the former Yugoslavia's World Bank and IMF debt.

sulting in a mosaic of cultures. These heritages were influenced by a variety of historical, social, economic and religious circumstances. The entire artistic value as a heritage belongs to various styles, as Albanians and other peoples were inhabitants of this region.

Starting your business

According to Law No. 02/L-123 “On Business Organizations” dated 27 September 2007, the business entities that may be registered with the Business Registry in Kosovo are:

- personal business enterprise
- general partnership
- limited partnership
- limited liability company
- joint stock company.

Apart from the above forms of establishment, foreign business organizations may also conduct business in Kosovo through a branch office, upon registration with the Registry.

The branch office is not a separate legal entity, consequently, rights and obligations pertaining to the branch office shall be deemed to pertain to the parent company.

To establish a branch in Kosovo, the foreign business organization through its duly authorized persons, should sign and submit a standard application form, a “foreign business organization memorandum” containing information and details about the organization, capital structure and scope of activity of the parent company and/or of the branch,

the registration certificate of the parent company in country of origin and the charter of the parent company

Businesses operating in Kosovo must be registered with the Ministry of Trade and Industry’s Business Registration Unit (www.arbk.org). Registering a business in Kosovo is both simple and inexpensive. All business and trade names are listed with the Registry of Business Organization and Trade Names and the basic information regarding registered companies can be transparently and freely accessed via the internet.

Protection of Foreign Investment

In order to put in place certain legal guarantees that are necessary to encourage foreign investment, in April 2006 the Government of Kosovo promulgated a Law on Foreign Investment (Law No. 02/L- 33). According to this regulation a foreign investor, defined as a physical person who is not a habitual resident of Kosovo or a business or other organization, entity or association established under a jurisdiction other than Kosovo, is to be governed by the principle of national treatment, meaning that foreign enterprises will be treated no less favourably than similar domestic enterprises.

In particular rights vested to a foreign investor are:

- Non-discriminatory treatment
- Constant protection and security
- Compensation in case of nationalization, expropriation, including payment of interest;
- Compensation in case of violation of ap-

40

According to this law a public-private-partnership and/or concession can be granted for a maximum of 40 years.



3 procedures to start a business in Kosovo

- 1** Application at the Business Registry and issuance of the registration certificate
- 2** Obtaining the fiscal number from the Kosovo Tax Administration
- 3** Obtaining the VAT-number from the Kosovo Tax Administration



FOTO LULZIM MAKOLLI / KOSOVO GUIDE

Industrial design is protected by the Law up to the point that it is still an innovation, and has a specific character.

plicable law and international law attributable to Kosovo

- Freely transferable and otherwise in an unrestricted manner used income
- Protection against retroactive application of laws

Public-Private-Partnerships and Concessions

The Law No. 03/L-090 on Public-Private-Partnerships and Concessions provides the legal framework for granting public-private partnerships and concessions. The law governs the rights to utilize and/or exploit publicly owned infrastructure and/or provide public services in all economic and social sectors including: energy, health, education, transportation, waste, production activities etc.

According to this law a public-private-partnership and/or concession can be granted for a maximum of 40 years. The duration of such agreement for additional period can be extended but cannot exceed more than one quarter of the initial duration stated in the agreement. There is a special unit Partnership Kosovo”, within the Ministry of Economy and Finance of the Republic of Kosovo, which is responsible for Public-Private-Partnership. More details can be found at: www.pppkosova.org.

Contracts Enforcement

Legal procedures concerning the enforcement of contracts are regulated by the Law on Contested Procedure (Civil Procedure Law) and the Law on Execution. In general, the municipal courts have jurisdiction to enforce contracts, with the excep-

tion of matters falling within the jurisdiction of the Commercial Court, which is responsible for enforcement.

Alternative Dispute Resolution

Alternative dispute resolution (ADR) mechanisms, such as arbitration and mediation, offer businesses an effective and efficient method for resolving a broad range of disputes. This is particularly important as Kosovo’s courts are unable to decide commercial cases in a timely manner because they are struggling under the burden of backlogs with open cases and unexecuted judgments. At the moment two centers offer ADR services, Kosovo Chamber of Commerce ADR Center and American Chamber of Commerce ADR Center.

Trade Marks

The Law on Trademarks (Law No. 02/L-54) provides the protection of trademarks and commercial designations in accordance with the requirements of international conventions and the law and practice of the EU and its member states. Any signs, particularly words, including personal names, designs, letters, numerals, audio marks, three-dimensional configurations, including the shape of goods or their wrapping or other packaging, including colours, or combinations of colours, that are capable of distinguishing the goods or services of one undertaking from those of other undertakings may be protected as trademarks in Kosovo.

Industrial Design

Industrial Design can be protected in Kosovo under the clauses of the Law on Industrial Design (Law No. 02/L-45). Industrial design is protected by the Law up to the point that it is still an innovation, and has a specific character. The design of a product is considered to be an innovation if not identical to a design previously available to the public, and that the design has a specific character if the consumers' impression differs from the impression left by any other design that was previously available to the public. Industrial design protection can be obtained by issuing a decision on the industrial design registration and the recording thereof in the register. Application for industrial design registration is to be submitted to the Patent and Trademarks Office. Protection of the industrial design lasts five years and can be extended to a maximum of 25 years.

Patents

Patent related matters in Kosovo are governed by the Patent Law (No.2004/49). According to this law, an invention shall be patentable if it is new, involves an inventive step and is industrially applicable. Patentable inventions are protected by patents in accordance with the provisions of the above mentioned Law. A patent right is granted for the duration of 20 years. The application for a patent is to be submitted to the Patent Office and shall contain:

- a. a request for the grant of a patent,
- b. a description of the invention,
- c. one or more claims,

- d. any drawings referred to in the description or the claims,
- e. an abstract of the invention.

Standardization

The certification of products, processing, services, quality and personnel systems, are regulated by the Law on Standardisation (No. 03/L-144). Under this Law, the institution responsible for the issuing, application and determination of standards is the Kosovo Standardisation Agency (KSA). Standards issued by KSA are equally determined and applicable for all legal and physical, domestic and foreign persons that do business within the territory of Kosovo. By implementing standards based on EU and international practices, KSA aims to:

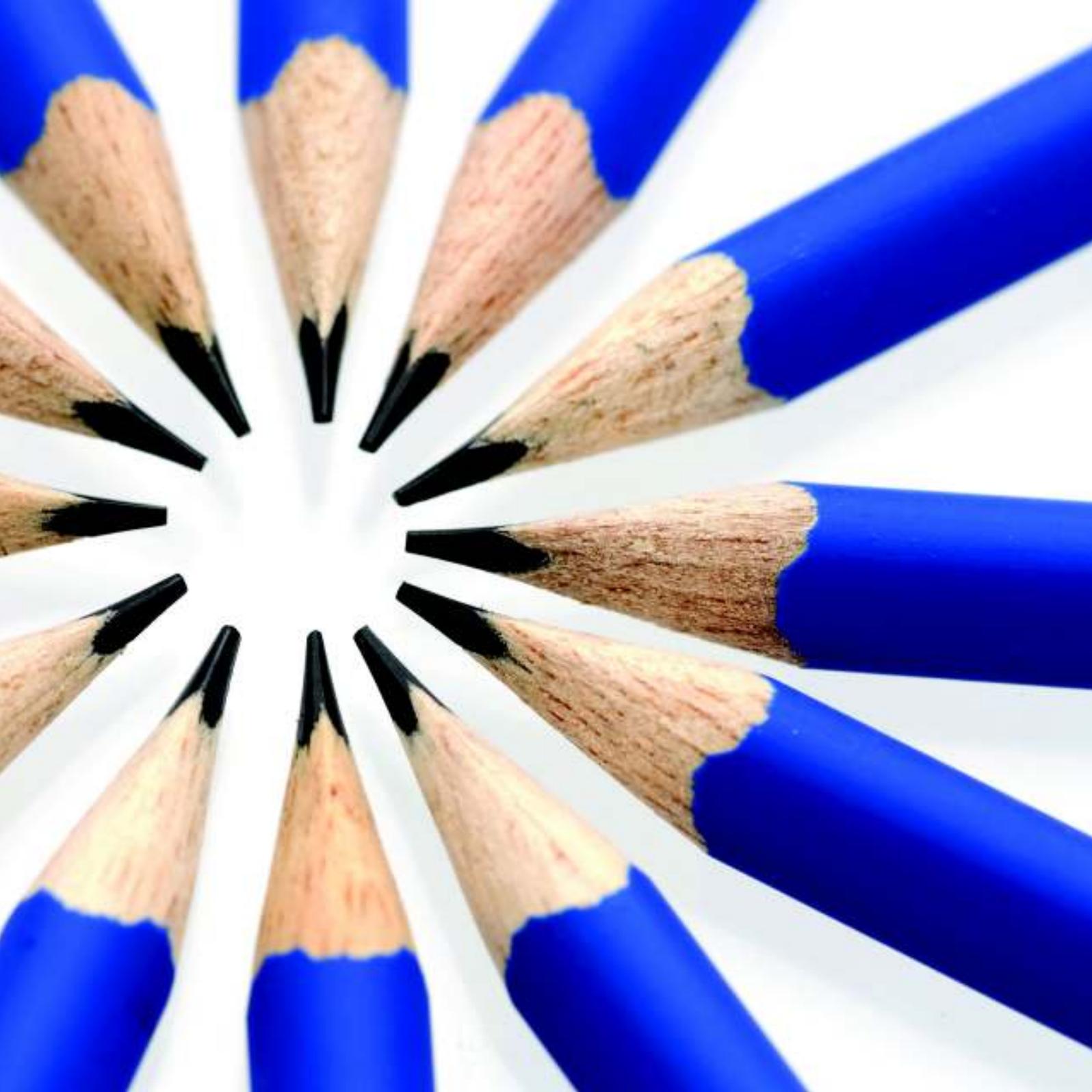
1. increase the level of safety for products and processes, in the function of requirements to protect and improve the quality of life, health safety, environment and consumer protection, by ensuring common rules;
2. promote quality of products, processes and different services according to defined standards;
3. ensure rational use of materials and energy and efficiency in performance;
4. help to abolish the technical barriers in international trade.

Audit and Accounting Requirements

All businesses must maintain proper books of account for taxation purposes and retain accounting records and associated documents for not less than six years.

10%

Companies conducting business in Kosovo are subject to corporate income tax at a rate of 10 percent, beginning from 1 January 2009. Previously, the corporate income tax rate was levied at 20 percent.



As stipulated in the law 04/L-014 for Accounting, Financial Reporting and Auditing, all large businesses regardless of their legal status and SMEs registered as LLC or JSC must prepare financial statements in accordance with International Financial Reporting Standards (IFRS).

Large business and medium entities are required to be audited.

Banks and financial institutions in Kosovo are required to report audited financial statements in accordance with IFRS

Classification of businesses

Large entities

Must satisfy two of the three following criteria

- Total assets in excess of 2 million Euro
- Total turnover in excess of 4 million Euro
- More than 50 employees

Medium entities

Must satisfy two of the three following criteria

- Total assets more than 1 million but less than 2 million Euro
- Total turnover more than 2 million but less than 4 million Euro
- More than 10 but less than 50 employees

Small entities

Must satisfy two of the three following criteria

- Total assets more than 25,000 but less than 1 million Euro
- Total turnover more than 50,000 but less than 2 million Euro
- Up to 10 employees

Micro entities

Must satisfy two of the three following criteria

- Total assets less than 25,000
- Total turnover less than 50,000
- Less than 10 employees

Filing requirements

Audited financial statements must be filed at the Kosovo Financial Reporting Council (one copy to the MTI) not later than 30 April of the following year. Consolidated financial statements must be filed not later than 30 June of the following year.

For the tax purposes, entities are required to file their annual corporate income tax return with tax authorities by 31 March of the following year.

Tax system in Kosovo

Kosovo's tax policies are simple and straightforward in compliance. Kosovo has two levels of taxes:

LOCAL LEVEL TAX These taxes are collected by the municipalities. Most municipalities have mainly two types of taxes: immovable property tax and business work permit (fixed annual fees).

CENTRAL LEVEL TAXES Central level taxes are categorized into indirect and direct taxes. The indirect tax is collected in the form of Value Added Tax. Direct taxes are present in the form of corporate income tax and personal income tax.

Fiscal Number

All business organizations registered in Kosovo must apply for, and receive, a fiscal number from Tax Administration of Kosovo - TAK before beginning any



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economic activity. Applications for the fiscal number must be made to the applicable TAK regional office within 15 days after company registration.

TAK may make an official visit to the business location prior to issuing of a fiscal number. The visit must take place within 5 business days after receiving the application. TAK must make a decision on whether to issue a number, or not, within 10 days after receiving the application.

Non-Resident Persons and Fiscal Representatives

Any non-resident operating in Kosovo and who is not obliged to have a permanent establishment in Kosovo, according to current tax laws, must appoint a local fiscal representative.

The fiscal representative appointed by the non-resident person must be a resident of Kosovo, who is qualified to perform the duties of a fiscal representative. A fiscal representative may be either a physical person or a legal person.

Corporate Income Tax

Corporations conducting business in Kosovo are subject to corporate income tax at a rate of 10%. Corporate Income Tax is governed by Law No. 03/L-162 which is effective from 1 January 2010 and amendment Law No. 04/L-103 effective from 1 July 2012.

Subject to Corporate Income Tax are:

- Business organizations that have a status of legal entity in Kosovo
- Business organizations operating with public or state-owned assets

- Non Governmental Organizations or other organizations registered under the Law No.03/L-134 on Freedom of Association in Non Governmental Organizations.

- Permanent establishments of non-resident persons in Kosovo.

Taxpayers with annual gross income up to EUR 50,000 may choose between payment of the tax on gross income or corporate income tax. The rates of the tax on gross income are:

three percent (3%) of income resulting from activities of trade, transport, agricultural and similar commercial activities, but not less than EUR 37.50 per quarter;

(ii) nine percent (9%) of income resulting from provision of services, professional/Vocational activities, entertainment and similar activities, but not less than EUR 37.50 per quarter;;

(iii) ten percent (10%) of gross income resulting from rent of properties, reduced by any amount withheld during that quarter.

Taxable profit

The determination of the taxable base starts with the profit shown in the profit and loss account. The profit calculation is made according to the accounting legislation and the tax provisions. Law "On Corporate Income Tax" provides for a list of expenses that are non-deductible for tax purposes, consisting of:

- Cost of acquisition and improvement of land (capitalized);
- Cost of acquisition, improvement, renewal and reconstruction of assets that are depreciated or amortized;



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- Fines and penalties;
- Bad debts that do not meet the following cumulative conditions: (i) the amount that corresponds to the debt has previously been included in income and (ii) the debt is written off from the taxpayer's books and (iii) there is adequate evidence of substantial unsuccessful attempts made by the taxpayer to collect the debt;

- income tax paid or accrued for the current or previous tax period and any interest or late penalty incurred for late payment of it

- pension contributions above the maximum amount allowed by the Kosovo Pension Law

- training expenses above 1,000 Euro per employee in any tax period

- Deductible and/or reimbursable value added tax;

- Contributions made for humanitarian, health, education, religious, scientific, cultural, environmental protection and sports purposes, which exceed five percent (5%) of taxable income (before the deduction of such expenses);

- representation costs exceeding two percent (2%) of total gross income (provided that only 50% of the amount paid for business entertainment is allowed)

- expenses which are not properly backed up by supporting documents

Depreciation

Entities may set depreciation rates for assets in accordance with their accounting policies, while under the provisions of the Law on Corporate Income Tax maximum annual rates allowed for tax

purposes are specified according to a separate tax depreciation schedule.

For fiscal purposes, assets are grouped in three categories and the depreciation rates are applied, using the straight-line method, on the historical value of each category at the end of tax period. Three categories of assets are provided below:

CATEGORY 1 Buildings and other construction structures are depreciated 5% rate.

CATEGORY 2 Automobiles and light trucks, heavy transport vehicles, other heavy vehicles, computers and similar office furniture, and equipment are depreciated at 20% rate.

CATEGORY 3 Plant and machinery, rolling stock and locomotives used for rail transport, airplanes, ships and all other tangible assets are depreciated at 10% rate.

Expenditures on intangible assets that have a limited useful life are deductible in the form of amortization charges. The method of amortization must be the straight-line method and the allowance shall be based on the useful life of the asset as determined by the agreement governing the acquisition and use of the intangible asset.

Depreciation allowances are not granted on land, works of art and other property, which is not subject to impairment.



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Wages received for the work performed in Kosovo by foreign diplomatic and consular representatives and foreign personnel of international governmental and nongovernmental organizations are exempt from personal income tax.

Reserves and Provisions

Reserves are not allowable deductions for tax purposes, except for the reserves and provisions of banks and insurance companies, as required by the respective regulatory authorities.

Incentives

SPECIAL ALLOWANCE FOR NEW ASSETS If a taxpayer purchases any asset belonging to Category 3 (mentioned above) for the purpose of its business activity between 1 January 2005 and 31 December 2008, a special deduction of ten percent (10%) of the cost of acquisition of the asset is allowed in the year in which the asset has been first put in operation. This deduction is in addition to the normal allowable depreciation deduction. The deduction must be allowed only if the asset is new or is used in Kosovo for the first time.

LOSSES Losses may be carried forward for seven consecutive years.

Withholding Tax

INTEREST AND ROYALTIES Interest and royalties are subject to final withholding tax at 10 percent rate.

RENT Rent payments are subject to withholding tax at 9 percent rate.

Lottery winnings and gambling - Winnings in lottery or gambling are subjects to withholding tax at the rate of 10% on gross amount of the payment

Under Kosovo tax legislation, Kosovo tax residents are obliged to withhold tax on the following

payments made to non-residents:

- 5 percent withholding tax on income paid to non-resident entertainers, artist or sportsman for their activity exercised in Kosovo
- 5 percent withholding tax on income paid to nonresidents for services performed in Kosovo (in case the value of the payments exceeds EUR 5,000 in a tax period).

TRANSFER PRICE Tax authorities have the right to make adjustments to profit arising from a transaction between related parties if the parties have concluded the transaction under conditions, which differ from those of a similar transaction between unrelated parties. To this end, the tax authorities might use the comparable uncontrolled price method and, when this is not possible, the resale price method or the cost-plus method.



Personal Income Tax

Under Law no. 03/L -161, effective from 1 January 2010 “On Personal Income Tax”, amended with the Law 04/L-104 effective from 1 July 2012, all individuals are liable to income tax. While residents pay tax on all taxable income sources, non-residents pay tax only on income generated within the territory of Kosovo. Residents are considered to be persons who stay in Kosovo, in aggregate for a period or periods exceeding 183 days in a tax year.

Taxable Income

Personal income tax is levied on the following categories of income:

- Wages
- Business activities
- Income from rent;
- Income from use of intangible property (copyright, licenses, patents etc.);
- Interest from loans, bank deposits, bonds and

other interest bearing securities;

- Capital gains including the income from transfer of ownership on real estate (effective from 1 January 2010);

- Lottery and winnings in games of chances;

- Pensions

- Other income that increases the taxpayer’s net worth

Taxpayers with annual gross income up to EUR 50,000 may choose between payment of the tax on gross income or corporate income tax. The rates of the tax on gross income are:

(i) three percent (3%) of income resulting from activities of trade, transport, agricultural and similar commercial activities, but not less than EUR 37.50 per quarter;

(ii) nine percent (9%) of income resulting from provision of services, professional/Vocational activities, entertainment and similar activities, but not less than EUR 37.50 per quarter;;

(iii) ten percent (10%) of gross income resulting from rent of properties, reduced by any amount withheld during that quarter.

Pension Contributions

As per Law No. 04/L-101 on Pension Funds of Kosovo the employer and the employee must pay pension contributions at the level of 5% (total 10%) of the gross monthly salary. Kosovo legislation does not require the foreign individuals to pay pension contributions.

Annual Income EUR		Income Tax Rate
0 to	960	0%
960 to	3,000	4% of the amount over 960
3,001 to	5,400	81.6 + 8% of the amount over 3,000
Over 5,401		273.6 + 10 of the amount over 5,400

Tax – exemption

Wages received for the work performed in Kosovo by foreign diplomatic and consular representatives and foreign personnel of international governmental and nongovernmental organizations, donor agencies or their contractors (carrying on humanitarian aid or assistance), UN and International Atomic Energy Agency, authorized international inter-governmental financial institutions operating in Kosovo and KFOR, and are exempt from personal income tax. Additionally, the following income is also exempted from personal income tax:

Compensation for the damage or destruction of property;

Proceeds of life insurance policies payable as the result of the death of the insured person;

Reimbursement or compensation for medical treatment paid during the periods of absence from work due to sickness or injury.

Value Added Tax

All taxable persons (individuals and legal entities) are required to register for VAT from the moment when total supplies in the previous twelve (12) month period exceeds a threshold of fifty thousand (50,000) EUR. For taxable persons that operate in the import/export sector it is mandatory to be registered, notwithstanding the threshold. Taxable transactions include the supply of goods and services in Kosovo by a taxable person, as well as the importation of goods to Kosovo.

The taxable amount is the value of the goods and services supplied, excluding VAT. The taxable amount of imported goods includes transportation

and insurance costs, import costs and any applicable taxes, duties or tariffs. The standard rate of VAT in Kosovo is 16 percent.

Certain supplies are considered VAT exempt without the right to credit the input VAT (e.g. the supply of financial services, the supply of medical care services, education services, etc).

Certain supplies are considered VAT exempt with the right to credit the input VAT (e.g. the supply of services related to international transport, supply of services outside the territory of Kosovo, etc).

The taxable value of a taxable supply in Kosovo is the total consideration payable for that supply. For imports, the taxable value is the customs value plus customs duties, excise taxes and other charges levied in customs.

Double Tax Treaties

From 1st January 2006 Kosovo has entered into an agreement “For the Avoidance of Double Taxation with Respect to Taxes on Income and on Capital” with the Republic of Albania which is effective from 1st January 2006.

Kosovo has signed a Double Tax Treaty with Macedonia. However the Double Tax Treaty with Macedonia is not effective yet .Kosovo currently is working in a couple of treaties with other countries as well.

Kosovo legislation does not require the foreign individuals to pay pension contributions.

EU/ WCO

The Customs Code is based on the EU custom code and is fully compliant with WCO agreed rules on customs procedures and the Harmonized Commodity Description and Coding System.

Customs

In order to promote local production, the new Kosovo customs and excise code No. 03/L-109 applies a reduced rate of zero percent customs duty on certain capital goods, raw materials and agricultural production inputs. For more details visit: www.dogana-ks.org/tarik/. A zero tariff rate is also applied to the export of goods and services. Kosovo is an independent customs entity with a liberal trade regime.

- **Customs:** A flat rate of 10 percent is imposed on imports and zero percent on exports. Exemptions exist for imports of raw materials, a range of capital and intermediary goods, but also for pharmaceutical goods, which are zero rated.

Customs duties are charged according to classification of imported goods in a six-digit harmonized system.

The following goods are exempt from customs duties:

- exports
- pharmaceutical products
- goods imported by UNMIK, KFOR, UNHCR, ICRC, the Red Cross or by donors who have contracts with UNMIK
 - goods used for agricultural production and some listed raw materials for heavy industry; and
 - goods imported by foreign diplomatic and consular missions.

The tariff nomenclature provides for a customs rate of 10 percent for all goods imported into Kosovo.

Kosovo is a member of the CEFTA (Central Eastern Free Trade Agreement).

- **Excise tax:** Law No. 03/L-112 on Excise Tax in Kosovo contains a list of goods subject to excise tax and their corresponding excise rates. Excise tax is levied as a certain percent of the value of the goods or represents a fixed amount per specified quantity, is applied to coffee, soft drinks, beer, wines, alcohol, spirits, liquors and other spirit beverages, cigarettes, other tobacco products, cars, petrol, diesel for motor engines and kerosene.

- **Details on customs:** rates and excise taxes applied to specific goods can be found under: www.dogana-ks.org/tarik/index.

The Customs Code is based on the EU custom code and is fully compliant with WCO agreed rules on customs procedures and the Harmonized Commodity Description and Coding System. It additionally allows the use of a number of business friendly trade-facilitating instruments such as:

- **Bounded warehousing:** allowing storage in customs warehouses for non-domestic goods, without import duties being imposed. Under this procedure the goods may undergo any form of handling intended to preserve them, improve their appearance or marketable quality or prepare them for distribution or resale.

- **Inward processing relief:** allowing non-domestic goods which are intended for re-export from Kosovo to be used in Kosovo in one or more processing operations without such goods being subject to customs duties. This offers a great opportunity for outsourcing projects.

- **Processing under customs control:** The procedure for processing under customs control allows goods which are not domestic goods to be used

Calendar of due dates for payment and filing of taxes in Kosovo

1	Tax withholding on Wages and other remittances	15th of the following month, i.e. for January, 15 of February
2	Pension Contribution Withholding	15th of the following month, i.e. for January, 15 of February
3	Tax withholding on rent, interest, lottery and other gains	15th of the following month, i.e. for January, 15 of February
4	Corporate Income Tax 1st Q, 2nd Q, 3rd Q, 4th Q	Payment and filing every 15th of the Quarter (1st Q due date is 15 of April)
5	VAT	Payment and filing every 20th of the following month
6	Annual report on withheld tax on interest, rent, lottery and other gains	On or before 31 of March of every year
7	Annual Wage Tax Reconciliation Statement	On or before 31 of January of every year
8	Annual Corporate Income Tax	On or before 31 of March of every year
9	Annual Personal Income Tax	On or before 31 of March of every year
10	Report on purchases above 500 EUR	On or before 31 of March of every year

in Kosovo in operations which alter their nature or state, without being subject to import duties or commercial policy measures, and shall allow the products resulting from such operations to be released for free circulation at the rate of import duty appropriate to them.

- **Transit:** permitting the movement of the goods, which do not originate in Kosovo from one point within Kosovo to another, without such goods being subject to customs duties.

- **Temporary admission:** allowing the use in Kosovo, with total or partial relief from import duties, of goods which are non-domestic goods and intended for re-export without having undergone any change except normal depreciation.

- **Outward processing:** allowing for domestic goods to be temporarily exported in order to undergo any processing operations, with the products resulting from such operations to be released for free circulation with total or partial relief from import duties. For details concerning the import of goods please contact Kosovo Customs at www.dogana-ks.org.

In addition, Kosovo benefits from non-reciprocal, customs-free access to the EU market based on the EU Autonomous Trade Preference (ATP) Regime (EU Council Resolution 2007/2000). Quantitative and qualitative restrictions remain in force only for a very limited number of goods. Furthermore, goods produced in Kosovo enjoy a preferential treatment in the US market.

Employment Regulations

General Information

Employment in Kosovo is governed by the Law no. 03/L-212 “On Labor” published in the

Official Gazette no. 90 and entered into force on 15.12.2010 (“Kosovo Labor Law”),

Regulation No. 2001/25 “On Pension in Kosovo” as amended (“Pension Law”) and any other normative acts issued by the Kosovo legislative bodies in order to regulate different features of the employment area based on the rapid social and economical changes that occur.

Working Conditions

Minimum Age

Eighteen (18) years of age is the minimum age for employment or work. A person between 15 years of age and 18 years of age may only be employed in certain type of works that are not likely to be harmful to employee’s health or development, and in not forbidden by another law or sub legal act. Employment of persons under 15 years of age is prohibited.

Working hours and overtime

The normal weekly working hours should not exceed 40 hours for employees over 18 years of age and 30 hours for employees between 15 years of age and 18 years of age.

Employees are entitled to a rest between two continuous working days lasting for at least 12 consecutive hours. Overtime is set at a maximum of 8 hours per week.

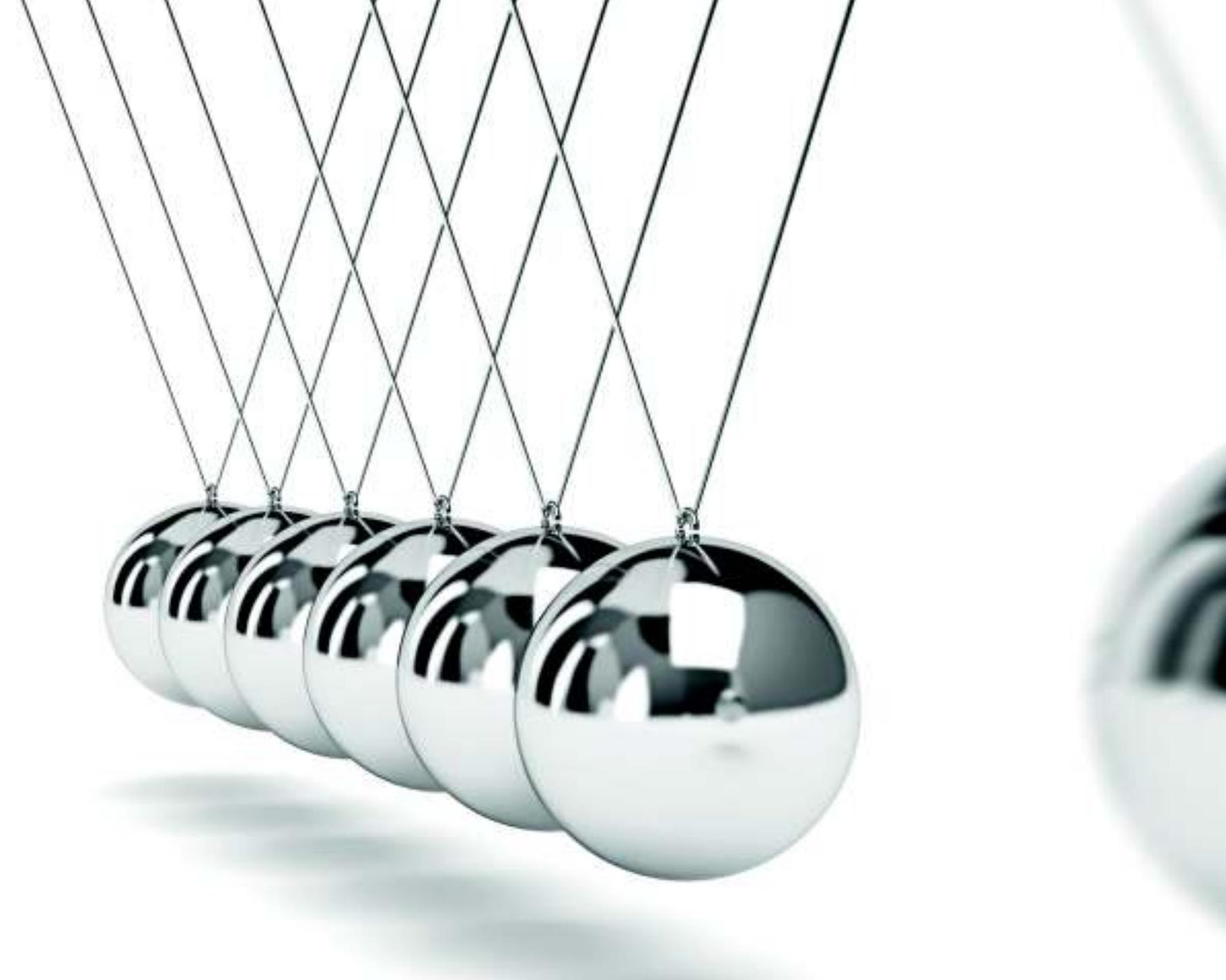
Retirement Age

Pursuant to the Pension Law the retirement age is achieved at the age of 65 years and the Regulation does not make any distinction with regard to the retirement age between women and men.

Employment Contracts

As a general rule, according to the Kosovo Labor Law, employment contracts are made in written form - may be stipulated either for limited or unlimited duration or for specific task and duties. An employment contract must include at least the following:

- a) parties, their place of residence, (for the employer the legal seat and the registration number with the Business Register)
- b) name, kind, nature of work or services and a brief description of the duties
- c) place of work, and notification that work will be performed in different locations
- d) duration and working hours
- e) date of initiation of the work
- f) duration of the employment contract
- g) amount of the base salary and any additional or other income
- h) duration of annual leave
- i) termination of the employment relational
- j) other data considered relevant for the regulation of the labor relation from the parties.



Kosovo Business Guide

Botuar nga Baker Tilly Kosovo

Dizajni Trembelat

Prishtinë

Nëntor, 2012



**kosovo
business
guide**



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