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Potential Additional Revenues for Kosovo

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Outline



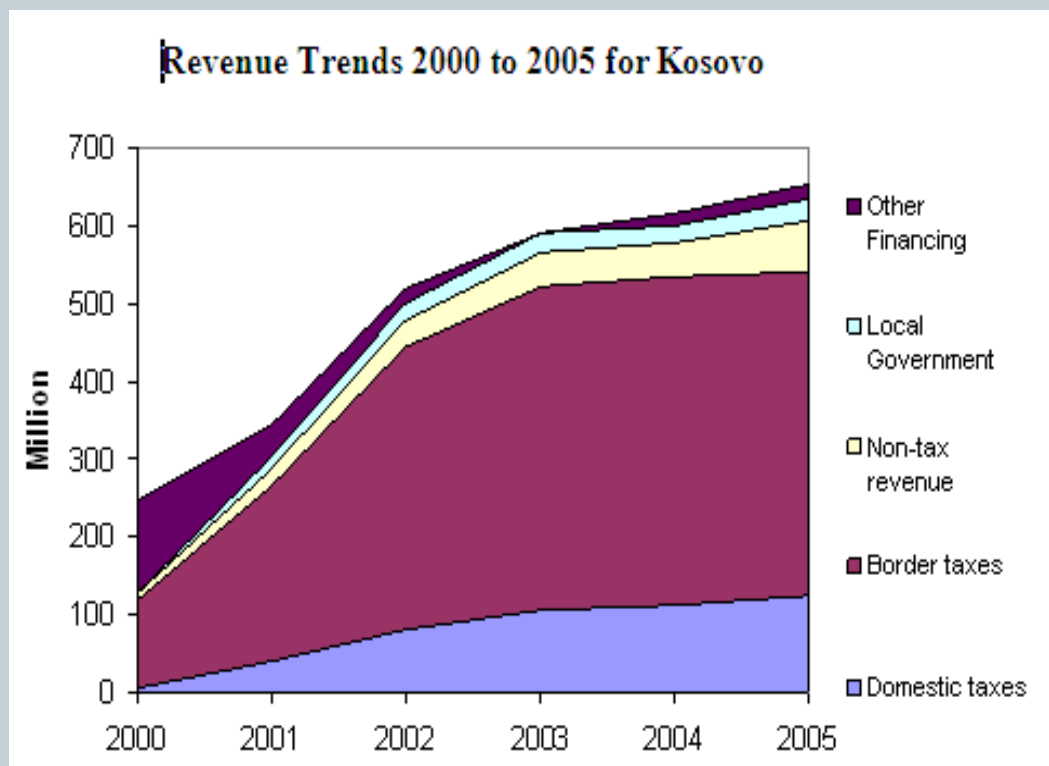
- Historic on tax system in Kosovo
- Current Tax system in Kosovo
- Changing the Value Added Tax in Kosovo
 - The scenarios with VAT differentiation
 - High Scenario
 - Medium Scenario
 - Low Scenario
 - Lowering VAT Threshold
- Excise tax on luxury goods
 - Increase on Tobacco Excise duty
 - Increase of Excise duty for alcohol beverages
 - Change of Excise duty for Vehicles
- Tax on transfer of real estate and vehicles
 - Tax on transfer of real estate transaction
 - Tax on vehicle Transaction

Historic of tax system in Kosovo



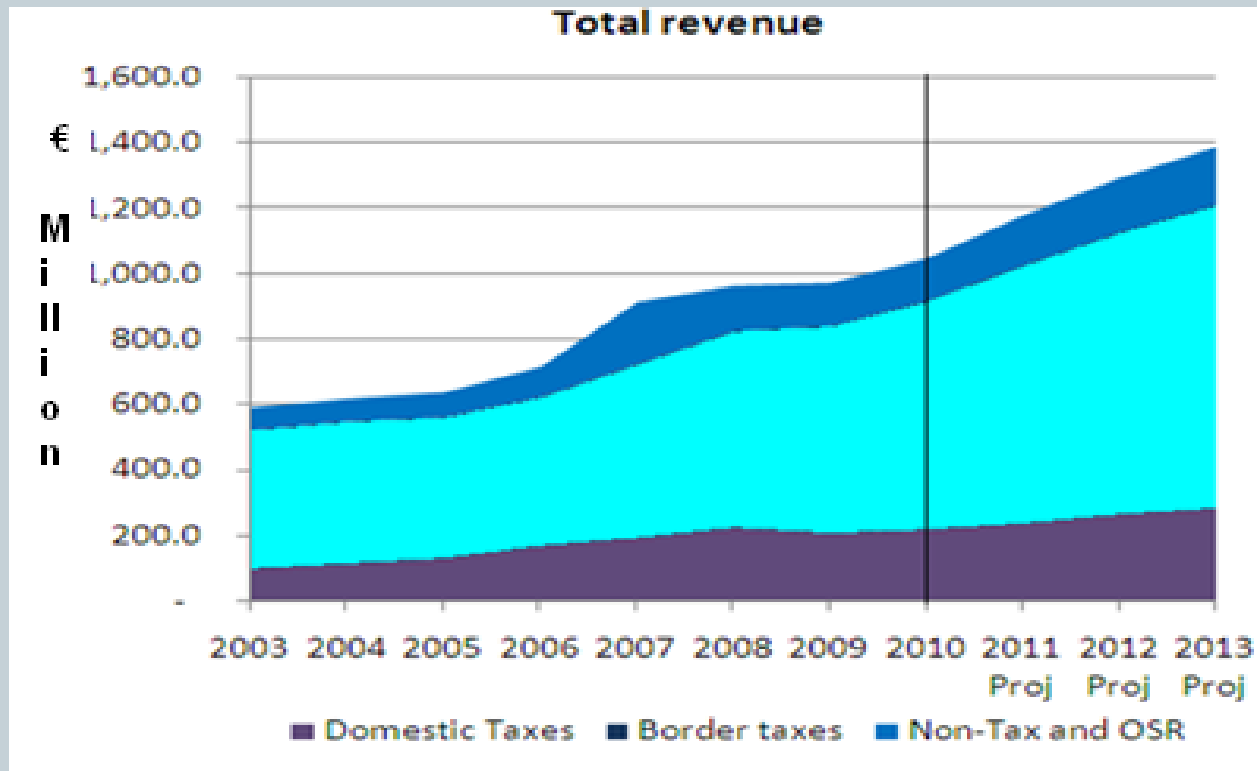
- Kosovo (UNMIK) was authorized by United Nations Security Council in 1999
- Pillar IV was for Economic Development
- Kosovo Government was appointed in 2002
- Newly created Ministry of Economy and Finance (MEF) of the Central Fiscal Authority and Pillar IV
- The revenue in Kosovo is collected in three administrative levels that include the central level, regions, and municipalities
- Sources of the revenue in Kosovo : Presumptive taxes, Value Added Taxes (VAT), Personal income taxes , Custom taxes and other taxes

Historic on tax system in Kosovo cont'd



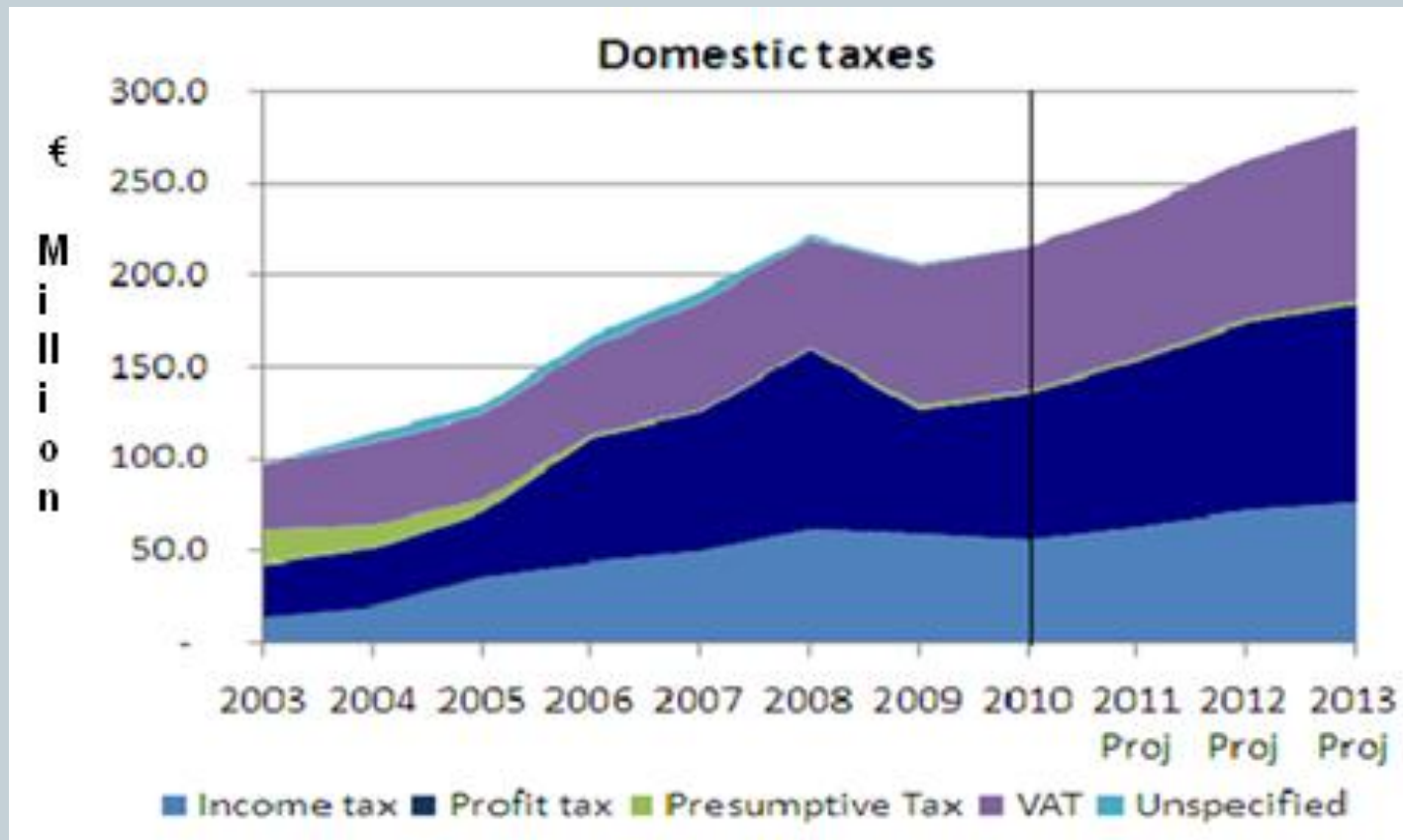
Sigma Balkans Report (2002) : the Revenue collected in Kosovo in 2001 was 16.4 percent of GDP, while the highest taxes were collected at the border .

Historic on tax system in Kosovo cont'd



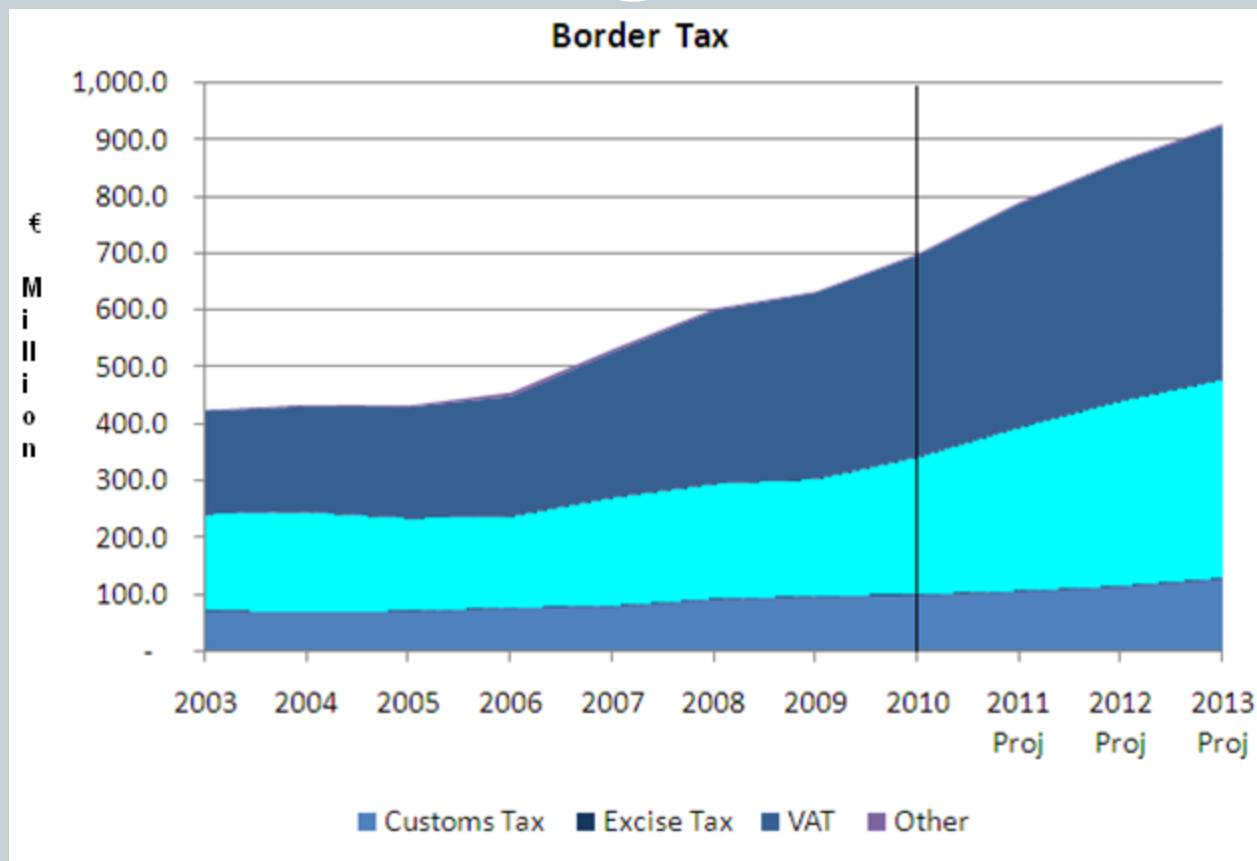
The domestic taxes constitute about 25% of total revenue from taxes while the border taxes constitute on average about 75%.

Historic on tax system in Kosovo cont'd



Projected domestic taxes from 2010 up-to 2013

Historic on tax system in Kosovo cont'd



Projected border taxes from 2010 up-to 2013

Current Tax System in Kosovo



- Since January 1 2009, Kosovo has introduced a package of changes in tax rates
- Reduction in corporate tax rate from 20% to 10%
- Increase of VAT to 16%
- Excise on tobacco imports has increased from €17 to €21 per unit
- Change in the progressive rate in personal income tax
 - The progressive rate in personal income tax

Table 2.1 The progressive rate in personal income tax

0% to 960 € per year
5% for annual wages from 961 to 3000 €
Between 3000 € and 5400 €, 102 € plus 10% over 3000 €
Over 5400 euro, 342 euro plus 20% over 5400 euro

Source Law on Personal Income Tax

Table 2.2 Change in the progressive rate in personal income

The progressive rates were reduced to; 0% to 960 € per year
4% for annual wages from 961 to 3000 €
Between 3000 € and 5400 €, 81.6 € plus 8% over 3000 €
Over 5400 euro, 273.6 euro plus 10% over 5400 euro

Source Law on Personal Income Tax

Changing the Value Added Tax in Kosovo



- Differentiation of VAT :
- High Scenario :
 - Increasing standard rate from 16% to 20% and reduced rate to 10%

Table 3.5 VAT rate increase to 20%, with a reduced rate of 10%. (2011)

	2010	2011	2012	2013
Revenue from VAT (million euro)	428.69	591.87	634	676.25
Revenue Increase (million euro)		163.18	205.3	247.56
Losses from the reduced rate from (16%) to (10%) for bread, milk, oil, sugar		8.41	9.25	10.09
Losses from the reduced rate from (16%) to (10%) for fruits and vegetables		7.02	7.69	8.36
Losses from the reduced rate from (16%) to (10%) of supply of electricity		3.87	4.33	4.8
Losses from the reduced rate from (16%) to (10%) of supply of drinking water		0.9	0.99	1.09
Net Revenue Increase Compared with 2010		142.99	183.05	223.22

Source tax administration and Kosovo Customs

Changing the Value Added Tax in Kosovo cont'd

- Medium Scenario
 - An increase of VAT rate from 16% to 18% and reduced rate of 9%,

Table 3.6 VAT rate increase to 18%, with a reduced rate of 9%. (2011)

	2010	2011	2012	2013
Revenue from VAT (million euro) 16%	428.69	532.69	570.6	608.63
Revenue Increase (million euro) 18%		104.00	141.91	179.94
Losses from the reduced rate from (16%) to (9%) for bread, milk, oil, sugar		8.33	9.16	10.00
Losses from the reduced rate from (16%) to (9%) for fruits and vegetables		6.96	7.62	8.28
Losses from the reduced rate from (16%) to (9%) of supply of electricity		3.83	4.29	4.76
Losses from the reduced rate from (16%) to (9%) of supply of drinking water		0.89	0.99	1.08
Net Revenue Increase Compared with 2010		83.98	119.85	155.82

Source tax administration and Kosovo Custom

Changing the Value Added Tax in Kosovo and reducing VAT Threshold



- Low Scenario
 - An increase of VAT rate from 16% to 17% and reduced rate of 7%

Table 3.7 VAT rate increase to 17%, with a reduced rate of 7%. (2011)

	2010	2011	2012	2013
Revenue from VAT (million euro) 16%	428.69	503.09	538.90	574.81
Revenue Increase (million euro) 17%		74.40	110.21	146.12
Losses from the reduced rate from (16%) to (7%) for bread, milk, oil, sugar		8.18	8.99	9.81
Losses from the reduced rate from (16%) to (7%) for fruits and vegetables		6.83	7.48	8.13
Losses from the reduced rate from (16%) to (7%) of supply of electricity		3.76	4.22	4.67
Losses from the reduced rate from (16%) to (7%) of supply of drinking water		0.87	0.97	1.06
Net Revenue Increase Compared with 2010		54.76	88.55	122.45

Source tax administration and Kosovo Customs

- Lowering VAT Threshold from €50,000 to €30,000

Excise tax on luxury goods



- Increase of Tobacco Excise duty

Table 4.1 Revenues for tobacco excise scenarios from 21 existing rate to 25, 35 or 50 €

2009						
Excise	Quantity in kg.	Customs base	Customs duty	Excise	VAT	TOTAL
21 Euro	2,833,363.67	38,401,470.16	3,840,147.02	59,500,637.07	16,278,760.68	79,619,544.77
25 Euro	2,748,834.98	37,255,826.31	3,725,582.63	68,896,543.22	17,580,472.35	90,202,598.19
35 Euro	2,536,332.68	34,375,716.06	3,437,571.58	92,342,627.57	20,824,946.45	116,605,145.59
50 Euro	2,217,579.23	30,055,550.68	3,005,555.07	110,878,961.33	23,030,410.73	136,914,927.13

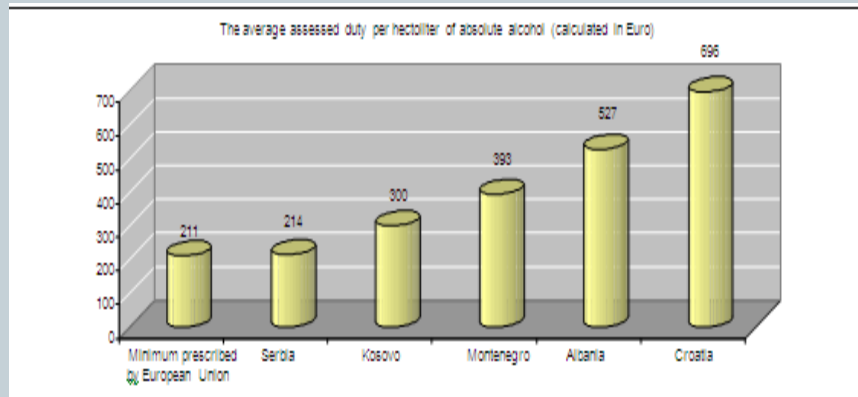
- Three scenarios low, medium, and high; the first scenario is an increase with €4; the second €10; and the third an increase with €29.

Excise tax on luxury goods cont'd



Increase of Excise Duty for alcohol beverages

Hypothetical application of alcohol excise duty rates from other countries to Kosovo (€ per hectoliter):



Most of other countries have higher average of excise duty than Kosovo.

Scenarios of Alcohol Beverages:

	Excise rate	Project excise revenues
Current excise duty	300 euro per hectolitre	3.5 million
Low scenario	400 euro per hectolitre	4.4 million ²⁴
Medium scenario	500 euro per hectolitre	5.5 million ²⁵
High scenario	600 euro per hectolitre	6.5 million ²⁶

Change of Excise Duty for Vehicles



- Scenario 1:
 - The assumption that the allowed vehicle age is 8 to 10 years would bring 3000 vehicles more per year and with no changes to excise duties,
 - Revenue increase of 2.5 million Euros is projected.

Age	Price at time of import (assessment)	Custom duties	Excise	Value	VAT	Total average revenue by vehicle	Number of imported vehicles (assessment)	Total revenues
10	3000	300	500	3,800	608	1,408	2550	3,590,400
9	3500	350	500	4,350	696	1,546	2465	3,810,890
8	3,421	342	500	4,263	682	1,524	2295	3,498,216
7	4,277	428	500	5,204	833	1,760	2125	3,740,736
6	4,277	428	500	5,204	833	1,760	1870	3,291,848
5	5,987	599	500	7,086	1,134	2,232	1955	4,364,508
4	5,987	599	500	7,086	1,134	2,232	1275	2,846,418
3	8,553	855	500	9,909	1,585	2,941	935	2,749,548
2	8,553	855	500	9,909	1,585	2,941	850	2,499,589
1	11,119	1,112	500	12,731	2,037	3,649	765	2,791,409
0	11,975	1,197	500	13,672	2,188	3,885	1013	3,935,475

Total 37,119,037

Change of Excise Duty for Vehicles cont'd



- Scenario 2:
 - The assumption that the allowed vehicle age is 8 to 10 years would bring 3000 vehicles more per year and with moderate raise in excise duty
 - Generates revenue of 9,9 million Euros more.

Age	Price at time of import (assessment)	Custom duties	Excise	Value	VAT	Total average revenue by vehicle	Number of imported vehicles (assessment)	Total revenues
10	3000	300	1,100	4,400	704	2,104	2550	5,365,200
9	3500	350	1,100	4,950	792	2,242	2465	5,526,530
8	3,421	342	900	4,663	746	1,988	2295	4,563,096
7	4,277	428	900	5,604	897	2,224	2125	4,726,736
6	4,277	428	900	5,604	897	2,224	1870	4,159,528
5	5,987	599	700	7,286	1,166	2,464	1955	4,818,068
4	5,987	599	700	7,286	1,166	2,464	1275	3,142,218
3	8,553	855	700	10,109	1,617	3,173	935	2,966,468
2	8,553	855	500	9,909	1,585	2,941	850	2,499,589
1	11,119	1,112	500	12,731	2,037	3,649	765	2,791,409
0	11,975	1,197	500	13,672	2,188	3,885	1013	3,935,475
							Total	44,494,317

Change of Excise Duty for Vehicles cont'd

- Scenario 3:
 - Revenues from combined revenues by cubic volume and age

	Number of vehicles	Price at import	Aggregate value	Aggregate customs	Aggregate excise duty	VAT	Revenues
Excise on age							
0	700	12,000	8,400,000	840,000	0	1,386,000	2,226,000
1 to 4 years	4,000	10,000	40,000,000	4,000,000	600,000	7,136,000	11,736,000
5 to 8 years	5,400	4,000	21,600,000	2,160,000	1,620,000	4,060,800	7,840,800
9 to 12 years	4,300	3,000	12,900,000	1,290,000	3,010,000	2,752,000	7,052,000
13-16 years	2,700	2,000	5,400,000	540,000	2,970,000	1,425,600	4,935,600
Over 17	900	1,000	900,000	90,000	1,395,000	381,600	1,866,600
							<u>35,657,000</u>
Excise on cubic volume							
Up to 1600	4,000	800	3,200,000	320,000	0	563,200	883,200
Up to 2000	9,000	1,000	9,000,000	900,000	100,000	1,600,000	2,600,000
2001-2500	2,769	2,000	5,538,000	553,800	400,000	1,038,688	1,992,488
2501-3000	700	3,000	2,100,000	210,000	1,050,000	537,600	1,797,600
3001-3500	372	4,000	1,488,000	148,800	2,000,000	581,888	2,730,688
Over 3501	1,159	10,000	11,590,000	1,159,000	6,500,000	3,079,840	10,738,840
							<u>20,742,816</u>
Total revenues							56,399,816

Tax on transfer of real estate and vehicles



Tax on real estate transactions

The number of real estate transactions (estimated)	11037
Average value of transaction (estimated)	40000
Total transactions value	441,480,000.00
Low scenario 1: revenues from 2% tax on transactions	8,829,600.00
Medium scenario 2: revenues from 3% tax on transactions	13,244,400.00
High scenario 3: revenues from 5% tax on transactions	22,074,000.00

Tax on vehicle transaction

Number of vehicle transactions	55,700.00€
Average value per transaction	1,500.00€
Total value of transactions	83,550,000.00 €
Law scenario 1. Revenues from 2% tax	1,671,000.00€
Medium scenario 2. Revenues from 3% tax	2,506,500.00 €
High scenario 3. Revenues from 5%	4,177,500.00€

Final discussions and Recommendations



- Concerning the economic situation of Kosovo from all three proposed scenarios the best is the ***Low scenario***;
 - To increase the standard VAT rate from 16% to 17% and the low rate 7%.
- **Advantages of VAT differentiation:**
 - Good step for the leaving standard for the population and does not affect too much in prices.
 - Calculations of the CPI show that the prices of this scenario do not increase the prices.
 - essential goods will become cheaper and VAT does not increase by large percentage.
 - By applying a new law ,Kosovo will be in line with EU standards and VAT Directive.
 - VAT will generate more revenues by raisin consumption.

Final discussions and Recommendations cont'd



- **Disadvantages of VAT increase:**

- Reactions by the media on the price increases that will affect the population;
- Businesses will increase the price because of VAT increasing;
- KTA cost.

- **Lowering VAT Threshold:**

- By raising the tax base for collecting this tax and fighting business informality will generate 8 million euro revenues CAFAO Cost benefit analysis.

Intervention of Excise on Luxury Goods



- **Excise's purpose :**
 - Fiscal instrument of the government ;
 - To discourage consumption of some specific products ;
 - To ensure equality of consumption taxes ;
 - To push customers to the products select supply or use.
- **Increase of Excise tax in Tobacco:**
 - The best scenario is considered the low scenario which goes increase on 25 euro per unit and this increase will bring more revenues from this tax 11.75 mil euro;
 - Avoids fiscal evasion;
 - Reduces cigarette consumption and this will result on health of population;

Increase of excise duty for alcohol beverages



- An increase from 300 to 400 Euros per hectolitre would *increase* the revenues for around 1.26 million Euros under assumption that this change *will not* exacerbate the fiscal evasion
- Will not only enhance revenues but also protect the health of our citizens and decrease additional health care costs for the Government.
- Domestic alcohol production in Kosovo
- Uncompetitive market

Excise Tax on Vehicles



- The allowed vehicle age is *8 to 10 years* would bring *3000 vehicles more* per year and with moderate raise in excise duty this scenario would *generate 9,9 million Euros more*;
- Amount of new imported vehicles is 1013 and second hand imported vehicles is 14125;
- Clear preference for second-hand vehicles and the goal of increased revenues;
- Discourages import of second hand vehicles;
- Distribution of vehicle age frequency;

Tax on transfer of real estate and vehicles



Tax on transfer of real estate

- New introduced tax rate 3%
- Achieving balanced distribution of taxes
- Introducing 3% tax on transfer of real estate we will have revenues about 13.24 million€

Tax on transfer vehicles

- New introduced tax rate 3%
- Introducing 3% tax for transaction of vehicles the revenues from this tax would be 2.51 million€

Aggregated scenarios cont'd



- Three calculations are made using matrix based on results from calculations made using different rates in each scenarios

Table 6.1 The total of high medium and low scenarios

	High scenario	Medium scenario	Low scenario
VAT	142.99	83.98	54.76
Excise	164.41	132.01	97.10
Tax on transfer of real estate and vehicles	26.25	15.75	10.50
Total	333.66	231.74	162.36

Aggregated scenarios



- Matrix if the VAT is high:

Total revenues	High	Medium	Low
High	333.66	274.65	245.43
Medium	290.75	231.74	202.52
Low	250.59	191.58	162.36

- Matrix if the Excise tax is high:

Total revenues	High	Medium	Low
High	333.66	231.74	266.34
Medium	264.15	231.74	196.83
Low	229.68	197.27	162.36