

Kosovo Tax Alert

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The Government of Kosovo recently approved a package of tax changes. With these measures, the Government of Kosovo intends to foster economic growth and create a more conducive environment for foreign direct investment. These changes were introduced in conjunction with the replacement of the United Nations Mission in Kosovo ("UNMIK") provisions, with those of the Kosovo government, now that the Republic of Kosovo is an independent state. The new laws on Corporate Income Tax, Personal Income Tax and Value Added Tax entered into force on January 1, 2009.

Corporate Income Tax

UNMIK Regulation no. 2004/51, dated December 4, 2004 "On Corporate Income Tax" was replaced by Kosovo Law no. 03/L-113, dated December 18, 2008 "On Corporate Income Tax". Effective January 1, 2009, the Corporate Income Tax (CIT) rate was decreased from 20% to 10%. A withholding tax (WHT) of 10% is now applied to cross-border dividend, interest, and royalty remittances, whereas a WHT of 9% is applied to certain rental payments.

Personal Income Tax

UNMIK Regulation no. 2004/52, dated December 4, 2004 "On Personal Income Tax", was replaced by Law no. 03/L-115, dated December 18, 2008 "On Personal Income Tax". Effective January 1, 2009, the progressive Personal Income Tax rates are decreased from 5% to 4%, 10% to 8% and 20% to 10%. Consequently, the maximum marginal personal income tax rate is now 10%, applicable to annual earnings in excess of 5,400 euros.

Value Added Tax

UNMIK Regulation no. 2001/11, dated May 31, 2001 "On VAT" as amended with UNMIK Regulation no. 2002/17, dated August 1, 2002, was replaced by Law no. 03/L-114, dated December 18, 2008 "On VAT". Effective January 1, 2009, the VAT rate was increased from 15% to 16%.

On Tax Administration and Procedures

The Kosovo law no. 2004/48 "On Tax Administration and Procedures" has also been amended. The amendments came into effect as from February 11, 2009 as Law no. 03/L-071 "On amendments and supplements to the Law no. 2004/48 on tax administration and procedures".

Effective February 11, 2009 the Tax Administration of Kosovo ("TAK") may issue a fiscal number for any person subject to any kind of tax administered in Kosovo. Previous to this, the business registration number served as the fiscal number as well.



Further, any non-resident person who is subject to taxation in accordance with tax legislation of Republic of Kosovo must appoint a fiscal representative prior to commencing any economic activity in the Republic of Kosovo. The fiscal representative must register with the TAK within 5 days of being named.

Temporary International Measures

Relief from Double Taxation

With the exception of the Double Tax Treaty with Albania, the Republic of Kosovo does not have any double tax treaties in effect. The Kosovo Government recently introduced article 40 of Law no. 03/L-071 to provide for relief from double taxation in the absence of a treaty. The Law provides that where the existing taxation laws of Kosovo relative to international taxation do not address taxation of international transactions, they may be supplemented by application of the principles of the OECD Model Tax Convention of Income and Capital, in order to avoid double taxation of such income and capital.

The Director General may issue public rulings, either in general or on a case-by-case basis, to supplement the provisions of existing income tax laws in accordance with this provision. However, upon entering a mutual tax convention with a contracting state, rulings under that Article with respect to transactions between Republic of Kosovo and that contracting state will no longer be authorized.

Application of EC Council Directive 2006/112/EC

Where the existing tax laws with respect to the VAT on the supply of goods and services do not address specific areas of taxation, the principles of the EC Council Directive 2006/112/EC of 28 November - Common System of Value Added Tax may be utilized to supplement the Kosovo VAT law.

As necessary for application of the EC VAT Directive, the Ministry of Economy and Finance may issue public rulings, either in general or on a case-by-case basis to supplement the provision of existing laws and these rulings can supersede the existing provisions of the Kosovo tax laws. Such rulings have to agree by the Kosovo Government. Upon adoption of new or revised VAT Law rulings under this article will no longer be authorized.

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