Investment in Kosovo 2017

KPMG in Kosovo

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Preface

Investment in Kosovo is one of a series of booklets published by KPMG member firms to provide information to those considering investing or doing business internationally.

Every care has been taken to ensure that the information presented in this publication is correct and reflects the situation as of March 2017 unless otherwise stated. Its purpose is to provide general guidelines on investment and business in Kosovo. As the economic situation in the country continues to undergo changes, further advice should be sought before making any specific decisions.

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General Information

Geography and climate
Kosovo is located in Southeast Europe, on the Balkan Peninsula and encompasses 10,877 square kilometers. The country is bordered by the Republic of Serbia in the north and east, the Former Yugoslav Republic of Macedonia in the south, the Republic of Albania in the southwest and Montenegro in the northwest.

The terrain is mostly mountainous and the highest peak is Gjeravica at 2,656 meters (8,714ft) above sea level. The Sharr Mountains are located in the south and southeast bordering the Republic of Macedonia and the Kopaonik Mountains are located in the north. The central region of Drenica and the eastern part of Kosovo, known as Gollak or Gallap, are largely hilly areas. There are two main plains in the country. Rrafshi i Dukagjinit basin is located in the west and the Plain of Kosovo lies in the east. The low hill area of Drenica is between the two basins. The Plain of Kosovo is on average higher than the plain of Rrafshi i Dukagjinit by about 100 meters (328ft).

The numerous landscapes and other tourist attractions, two of the most prominent being the Rugova Canyon and the Gadime Cave, make Kosovo a destination worth visiting.

Kosovo is in the Central European time zone and hence is one hour ahead of Greenwich Mean Time (GMT).

The climate in Kosovo is mostly continental. The geographic location of the country is the reason for its large annual temperature range. The summer temperature highs can reach +38°C (100°F), and the winter temperatures can be as low as –20°C (–4°F). Kosovo experiences warm summers and cold and snowy winters.

Population and language
Kosovo has an estimated population of 1.8 million and its capital, Pristina, has a population of some 210,000 inhabitants, according to the latest statistics published by the Kosovo Agency of Statistics in June 2015. Ethnic Albanians make up the majority of the population (92%) while the largest minority is represented by Serbians. Other minority groups include Bosnians, Turks, Roma, Gorans, Ashkali and Egyptians. Kosovo has one of the youngest populations in Europe with an estimated 40% of its citizens below the age of 20. The main religions are Muslim, Serbian Orthodox and Roman Catholic.

Kosovo has two official languages – Albanian and Serbian. Turkish, Bosnian and Roma languages have the status of official languages in certain municipalities.

Infrastructure

Travel
Skopje and Tirana are one and a half hours and three and a half hours by road,
respectively, from Pristina. Additionally, there are regular bus lines from these two cities to Pristina.

There are bus connections from Belgrade and Nis to Pristina and Prizren and from all major towns in Serbia to the northern parts of Kosovo.

As Serbia does not currently recognize Kosovo, travellers will not be given a Serbian exit stamp if they enter Kosovo from Serbia. In addition, if the Serbian authorities find any Kosovo stamps in the travellers’ passports, the stamps will be crossed out, although it is unlikely that travellers will be denied entry because of them. However, if one lives in or intends to travel frequently to Serbia, it has been suggested to obtain matching pairs of entry and exit stamps; this means backtracking and leaving Serbia via a recognized border checkpoint, such as Belgrade Airport.

**Visa system for foreigners traveling to Kosovo**

Kosovo is relatively easy to access and a valid passport is required. Before traveling to Kosovo, foreigners need to be informed whether they need a visa to enter it.

Citizens of countries such as Albania, Australia, Canada, European Union (EU) Member States, USA, South Africa, and Turkey do not need a visa. However, Kosovo is starting to implement a stricter visa regime. Individuals are required to register with the police if they are present in the country for more than 90 days and to prove to the border police at the time of entry that they have a legitimate reason to enter Kosovo. According to Law No. 04/L-219 on Foreigners, a foreigner shall not engage in paid employment in the Republic of Kosovo on the basis of a visa alone. If foreigners stay in Kosovo for more than 90 days in a year, they must apply for a residence permit. This will facilitate their entry into and exit out of Kosovo.

**Airport**

Pristina International Airport Adem Jashari is the only civilian airport in Kosovo. It takes a 20-minute drive from Pristina to get there. Many recognized European airlines operate via it including: Adria Airways, Austrian Airlines, Croatia Airlines, Edelweiss Air, EasyJet, Germania, Germanwings, Hamburg International, Helvetic Airways, Norwegian Air Shuttle, Pegasus Airlines, Scandinavian Airlines, Swiss International Air Lines, TUIfly, Turkish Airlines and Wizz Air.

The Airport has direct flights to: Basel, Berlin, Budapest, Copenhagen, Dusseldorf, Geneva, Hamburg, Hannover, Istanbul, Ljubljana, London, Munich, Stuttgart, Vienna, Zagreb and Zurich. Airlines and flight destinations are liable to change, often depending on the season.

**Currency**

The euro was declared the official currency of Kosovo from 1 January 2002. This was undertaken to replace the previous widespread use of the German mark which had been the measurement currency in the country before 2002. Today, the euro is the most widely used currency in Kosovo with the Serbian dinar still in circulation in the Serbian enclaves.

**Labor Force**

The unemployment rate in Kosovo is estimated to be 27.5%, according to the latest available statistics from the Kosovo 2016 Labor Force Survey carried
out by the Kosovo Agency of Statistics. Unemployment is higher among youth and women. The situation is not expected to improve quickly given that Kosovo has the youngest population in Europe and these individuals enter the labor market each year finding limited employment options. On the other hand, the labor market offers a workforce with varied skills and levels of education and training.

An important component of Kosovo life and the labor market is migration. Traditionally, migration has been very high, which in turn has alleviated some of the labor market pressures. Another positive influence from migration is the fact that returning migrants bring to the local market their experience and skills gained abroad.

**Political system**

The Assembly of Kosovo has 120 seats and all members serve a four-year term. Currently, the seats are held as follows: the Democratic Party of Kosovo has 36 seats, the Democratic League of Kosovo has 33 seats, the Group Vetevendosje has 16 seats, the Alliance for the Future of Kosovo has 8 seats, the Srpska List Party has 11 seats, the Initiative for Kosovo Party has 6 seats, and remaining 10 seats are held by minority groups and non-affiliated individuals.

The Head of State is the President of the Republic of Kosovo who, according to the Constitution of the country, is elected by the Assembly for a five-year term. In April 2016, Kosovo’s Assembly elected Hashim Thaci as President.

The President proposes to the Assembly a candidate for Prime Minister, who is finally approved by the Assembly. In accordance with Kosovo’s Constitution, the basic unit of local government is the municipality. Currently, there are 38 municipalities established in Kosovo.

The judicial system consists of the Constitutional Court, the Supreme Court, the Appeal Court and the District Court. Kosovo’s Constitution provides that the Supreme Court of Kosovo is the highest judicial authority. The Kosovo Judicial Council elects a Chair and Vice Chair from its members, both for a term of three years. Elections to these offices do not extend the mandate of the members of the Kosovo Judicial Council.

The European Union Rule of Law Mission, EULEX, is acting to strengthen Kosovo’s institutions, judicial authorities and law enforcement agencies. Following the Kosovo War in 1999, KFOR, a military force under NATO command, is working with Kosovo’s authorities to provide security within the country.

**Economy**

**Macroeconomic trends**

Global economic activity recovered during 2015. The euro area was characterized by an expansion of economic activity supported by domestic demand which is largely attributed to the positive impact of the quantitative easing program of the European Central Bank (ECB). This expansion reflected positively on the economic development of the Western Balkan countries.

Kosovo’s economy experienced another year of economic growth in 2015. It was supported by increased domestic demand, but the high reliance on the import of goods had a negative impact on the economic growth rate. In 2015, Kosovo
registered a real gross domestic product (GDP) increase of 3.5% according to estimates of the Central Bank of Kosovo (CBK) which are higher compared to the previous period. Kosovo’s GDP per capita marked a slight increase in 2015 reaching EUR 3,126 compared to EUR 3,023 in 2014. It still continues to be lower than in other countries in the region such as Albania, Serbia and Bosnia and Herzegovina.

In 2015, the general level of prices in Kosovo as reflected by the consumer price index (CPI) recorded deflation of 0.5%, compared to inflation of 0.4% in 2014. One of the main contributors to the overall decline in prices in Kosovo during 2015 was the decrease of prices of transportation services that consequently resulted from the drop in oil prices.

The added value from manufacturing sectors in the country remained low during 2015; thus, the country’s economy continued to face imbalances against the external sector. The growth in internal demand went on to a further increase in imports translated into the increase of current account deficit.

In 2016, the Central Bank of Kosovo forecasts a growth rate of 3.2% which is expected to be supported by private consumption and investment growth. The increase in domestic demand will further drive the current account deficit which will have a negative impact on the economic growth.

**Fiscal indicators**

Developments in the fiscal sector during the first 9 months of 2016 marked a positive rate of revenues. According to CBK, budget revenues until September 2016 reached a net value of EUR 1.20 billion whereas budget expenditures reached a value of EUR 1.11 billion. Consequently, Kosovo’s budget registered a positive balance of approximately EUR 89.1 million, compared to the positive balance of EUR 6.3 million for same period in the prior year.

With regard to the structure of revenues, both border income and domestic income were characterized by an increase in value. As per CBK, the border revenues reached a net value of EUR 768 million, representing an annual increase of 14%, while revenues

### Economic data

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016(e)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GDP at current prices in EUR million</strong></td>
<td>4,815</td>
<td>5,058</td>
<td>5,327</td>
<td>5,568</td>
<td>5,730</td>
<td>5,939</td>
</tr>
<tr>
<td><strong>Real GDP growth rate in %</strong></td>
<td>4.40</td>
<td>2.80</td>
<td>3.4</td>
<td>1.2</td>
<td>3.5</td>
<td>3.2</td>
</tr>
<tr>
<td><strong>GDP per capita in EUR</strong></td>
<td>2,672</td>
<td>2,799</td>
<td>2,935</td>
<td>3,023</td>
<td>3,126</td>
<td>3,213</td>
</tr>
<tr>
<td><strong>Inflation rate in %</strong></td>
<td>7.30</td>
<td>2.50</td>
<td>1.80</td>
<td>0.4</td>
<td>(0.5)</td>
<td>0.60</td>
</tr>
<tr>
<td><strong>Current account in EUR million</strong></td>
<td>(658)</td>
<td>(380)</td>
<td>(339)</td>
<td>(438)</td>
<td>(541)</td>
<td>(594)</td>
</tr>
</tbody>
</table>


*Note: (e) for estimate*
from domestic taxes reached a net value of EUR 270.9 million, or an annual increase of 21%. With regard to revenues from taxes, both direct and indirect tax revenues were characterized by an upward movement, representing 20% and 15% annual increase respectively.

Budget expenditures increased by 7% in the 9 months of 2016 compared to the same period in the previous year. According to the Ministry of Finance of Kosovo, this increase is attributed to the high rate of execution of capital expenditures, followed by an increase in the category of subsidies and transfers and an increase in the salaries category.

Capital investments, which represent approximately 21.3% of the total expenditures, marked the highest growth of 11%. The expenditures in road construction continued the ascending trend. An increase of 10% of expenditures in subsidies and transfer is attributed to the rise in contributory pensions, upturn in payments of social assistance and the commencement of payments of benefits for war veterans. Government expenditures on wages and salaries marked an increase of 4% which is the result of the implementation of the collective agreement.

The stock of public debt reached EUR 842.1 million or 17% higher than the same period in the prior year. As a percentage of GDP, public debt represents 14.3% of GDP, up from 12.5%. The increase in public debt is mainly attributed to the growth of domestic debt of 34.5% while external debt moved slightly upwards by only 0.3%. Taking into the account the fiscal regulation which provides that the highest level of general debt may not exceed 40% of GDP, this is considered a relatively low level of debt for the 9 months ended September 2016.

**Trade**

According to the Kosovo Agency of Statistics (KAS), the negative trade balance in Kosovo deteriorated in 2016 as it was influenced by the high dependence on imports and the low level of exports.

As per estimates of the Kosovo Agency of Statistics, the deficit of goods account amounted to EUR 2.5 billion in 2016 which is an increase of 7.4% compared to

### Kosovo Government budget overview

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>1,302</td>
<td>1,537</td>
<td>1,356</td>
<td>1,370</td>
<td>1,460</td>
<td>1,199</td>
</tr>
<tr>
<td>Expenses</td>
<td>(1,386)</td>
<td>(1,466)</td>
<td>(1,490)</td>
<td>(1,500)</td>
<td>(1,570)</td>
<td>(1,110)</td>
</tr>
<tr>
<td>Budget (deficit)/surplus</td>
<td>(84)</td>
<td>71</td>
<td>(135)</td>
<td>(130)</td>
<td>(110)</td>
<td>89</td>
</tr>
</tbody>
</table>

*Source: Ministry of Finance of Kosovo 9 months financial reports 2016, Central Bank of Kosovo (CBK), CBK Quarterly Assessment of the Economy No.16, QIII/2016

* 9 months ended September 2016
the previous year. For the first 9 months of 2016, the value of goods exported stood at EUR 225.9 million corresponding to an annual decline of 9.9%. This decline of goods exported during the period is mainly attributed to the drop in base metals as result of the decrease in nickel production and the downward movement in the price of metals in international markets. Metal related goods represent the highest share of the total exports during this period (37.6%). Other exports related to textiles and articles, machinery and electrical equipment recorded a decline during the same period.

In 2016, the value of the total imports in Kosovo amounted to EUR 2.8 billion, marking an increase of 5.9% compared to the previous year. The value of the total goods imported until September 2016 reached EUR 2.0 billion. Within the total imports during this period, the categories of machinery and electrical equipment, transport vehicles, plastic and rubber, base metals and food products marked an increase. As per estimations of KAS, the decline of exports value and the increase of the imported goods value resulted in the deterioration of the coverage rate of imports by exports at 11% (2015: 12%).

Foreign investment
Foreign direct investments (FDI) received in Kosovo in 2016 declined by 24% compared to 2015. FDI received in Kosovo until September 2016 reached EUR 182.3 million, representing a lower level of FDI compared to same period in the previous year (2015: EUR 268.5). Both categories of FDI, capital and investments in shares and in debts instruments, decreased.

In terms of the origin of FDI, most FDI in 2016 came from Switzerland (EUR 62 million), followed by Turkey (EUR 35 million), the United Kingdom (EUR 33 million), Germany (EUR 29 million) and Albania (EUR 29 million).

### Trade balance

<table>
<thead>
<tr>
<th>EUR million</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016(e)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports</td>
<td>296</td>
<td>319</td>
<td>276</td>
<td>294</td>
<td>325</td>
<td>325</td>
<td>310</td>
</tr>
<tr>
<td>Imports</td>
<td>2,158</td>
<td>2,492</td>
<td>2,508</td>
<td>2,449</td>
<td>2,538</td>
<td>2,635</td>
<td>2,790</td>
</tr>
<tr>
<td>Trade balance</td>
<td>(1,862)</td>
<td>(2,173)</td>
<td>(2,232)</td>
<td>(2,155)</td>
<td>(2,214)</td>
<td>(2,310)</td>
<td>(2,480)</td>
</tr>
<tr>
<td>Coverage ratio</td>
<td>14%</td>
<td>13%</td>
<td>11%</td>
<td>12%</td>
<td>13%</td>
<td>12%</td>
<td>11%</td>
</tr>
</tbody>
</table>

*Source: Kosovo Agency of Statistics*

*Note: Coverage ratio is computed as export over imports ratio, (e) for estimate*
FDI in Kosovo during 2011-2016 is predominantly concentrated in the following economic sectors with respective averages: real estate with 56.3%, construction with 12.7% and the financial sector with 12.7%, followed by the trade sector with 4.5% of the total FDI.

In January 2014, the Assembly of the Republic of Kosovo approved Law No. 04/L-220 on Foreign Investment. Its purpose is to protect, promote and encourage foreign investments in the Republic of Kosovo. This law also provides foreign investors with a set of fundamental rights and guarantees and, as such, it plays a significant role in attracting and protecting foreign investments.

### Foreign direct investments by sectors

<table>
<thead>
<tr>
<th>Year</th>
<th>Real estate</th>
<th>Construction</th>
<th>Financial services</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>300</td>
<td>200</td>
<td>50</td>
<td>30</td>
</tr>
<tr>
<td>2012</td>
<td>250</td>
<td>250</td>
<td>100</td>
<td>10</td>
</tr>
<tr>
<td>2013</td>
<td>200</td>
<td>200</td>
<td>150</td>
<td>15</td>
</tr>
<tr>
<td>2014</td>
<td>150</td>
<td>150</td>
<td>100</td>
<td>10</td>
</tr>
<tr>
<td>2015</td>
<td>100</td>
<td>100</td>
<td>50</td>
<td>5</td>
</tr>
<tr>
<td>2016</td>
<td>50</td>
<td>50</td>
<td>20</td>
<td>2</td>
</tr>
</tbody>
</table>

*Source: Central Bank of Kosovo*

### Foreign direct investments by country

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Switzerland</td>
<td>31</td>
<td>44</td>
<td>42</td>
<td>38</td>
<td>73</td>
<td>62</td>
<td></td>
</tr>
<tr>
<td>Turkey</td>
<td>35</td>
<td>66</td>
<td>89</td>
<td>20</td>
<td>55</td>
<td>35</td>
<td></td>
</tr>
<tr>
<td>United Kingdom</td>
<td>80</td>
<td>14</td>
<td>11</td>
<td>(40)</td>
<td>27</td>
<td>33</td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td>67</td>
<td>50</td>
<td>22</td>
<td>29</td>
<td>45</td>
<td>29</td>
<td></td>
</tr>
<tr>
<td>Albania</td>
<td>11</td>
<td>5</td>
<td>19</td>
<td>20</td>
<td>40</td>
<td>29</td>
<td></td>
</tr>
<tr>
<td><strong>Total top five countries</strong></td>
<td><strong>224</strong></td>
<td><strong>178</strong></td>
<td><strong>182</strong></td>
<td><strong>69</strong></td>
<td><strong>240</strong></td>
<td><strong>187</strong></td>
<td></td>
</tr>
<tr>
<td>Other countries</td>
<td>161</td>
<td>51</td>
<td>98</td>
<td>83</td>
<td>69</td>
<td>48</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>384</td>
<td>229</td>
<td>280</td>
<td>151</td>
<td>309</td>
<td>235</td>
<td></td>
</tr>
</tbody>
</table>

*Source: CBK monthly statistics bulletin, January 2017, no. 185*
Opportunities for International Investors

Privatization and investment opportunities

The privatization process is administered by the Privatization Agency of Kosovo (PAK). PAK has been established as an independent public body which manages the privatization of so-called socially-owned enterprises (SOEs). As reported by PAK, from June 2012 to December 2015, 1,286 sale contracts were finalized; of them, 763 resulted from the “spin-off” privatization method and 523 from the liquidation privatization method. Most of the SOEs subject to privatization operated in the agriculture sector with a share of 21.3%, followed by trading companies with a share of 11.5%.

During the period from June 2012 to December 2015, the total revenue from privatization through spin-off was EUR 573 million whilst revenue from the sale of SOEs through liquidation was EUR 87 million. In 2013, 136 contracts (liquidation 105, spin-off 31) were completed, while in 2014, in total 145 contracts were completed. During 2015, PAK did not execute any asset sale due to the lack of Board of Directors. The total amount of the sales proceeds during the entire process (June 2002 – December 2015) is EUR 660,223,469.

Several sectors present good investment opportunities to take advantage of the young population, the growing economy and the fairly untapped natural resources of the country.

The Government of Kosovo decided to amend its tax policies in order to provide tax incentives for new investments; for example, depending on the size of the investment, 0% corporate income and value added tax rates may be applied. The decision will begin to be implemented once the respective administrative instruction is signed by the Minister of Finance. The time frame for these incentives has been extended from 3 to 4 years for investments ranging from EUR 2 to 5 million, and from 1 to 3 years for investments under EUR 2 million.

In addition, the Assembly of the Republic of Kosovo has approved Law No. 05/L-079 on Strategic Investments in the Republic of Kosovo. This law aims to facilitate, attract, and create the necessary conditions for the implementation of strategic investments in Kosovo. It also regulates the administrative procedures and the criteria for evaluation, selection and supervision of strategic projects, as well as administrative procedures for granting the use of the property of the Republic of Kosovo with the
aim of implementing strategic investment projects.

Agriculture
Agriculture has traditionally been an important economic activity in Kosovo. In fact, as reported by the World Bank, it previously accounted for as much as a quarter of the total domestic output, while it significantly decreased in recent times, to less than 20%. In addition, average agricultural land per person is around 0.15–0.18 hectares, less than half the EU average.

The dissolution of state-owned agricultural enterprises has significantly fragmented the farm structure and has led to a decline in arable land and irrigation, which results in lower agricultural production and subsequent economic losses. In any case, about 53% of the total surface area of the country is considered to be arable land.

There is a substantial scope for future investments in this sector and ample opportunities for marketing products, both domestically and abroad, given the limited investor attention it has received to date. Recent studies from the Kosovo Agency of Statistics indicate that some 140,000–150,000 people are employed in agriculture. The development of the agriculture sector would also present additional opportunities for investments in the food processing industry, horticulture sector (i.e. production of fruits and vegetables), and livestock subsector.

Energy/power generation
Energy production is largely based on thermal power plants utilizing coal (lignite) and to a smaller extent hydropower generation. The Kosovo Energy Corporation J.S.C. (KEK) is the sole power corporation in Kosovo for energy production. Currently, the local energy production is realized by two thermal power plants, Kosova A and Kosova B, with an installed capacity of 800 MW and 678 MW, respectively. As per data from the Energy Regulatory Office of Kosovo, both thermal power plants contributed 97% of the total energy produced in 2015.

In addition, the hydropower plant (HPP) of Ujman with an installed capacity of 35 MW and other small distributive hydropower plants with a total installed capacity of 10.84 MW account for the remaining energy production.

In November 2015, Kosovo launched a project to build a coal-fired power plant, Kosova e Re, with an installed capacity of 450 MW. The new thermal power will be built by the US power company Contour Global. It is expected that around 10,000 jobs would be created during the construction of the plant which would employ 500 people once it comes on stream. The project received support from the World Bank and the European Union. The construction is expected to be completed in 2020-2021. The project cost is estimated to be approximately EUR 1.1 billion.

KEK has been unbundled into production named KEK J.S.C. (Kosovo Energy Corporation), transmission named KOSTT J.S.C. and a distribution and supply division named KEDS (Kosovo Energy Distribution Services JSC). In 2012, the Government of Kosovo privatized KEDS through an international tender, which was won by the consortium Çalik Holding & Limak from Turkey.
Following the privatization, in line with legal requirements, the electricity distribution business was unbundled from the supply business. The result is that Kosovo Electricity Supply Company J.S.C. (KESCO) was established from January 2015. It is the only public supplier of electricity in Kosovo and is responsible for customer contracts, purchases, sales and the supply of electricity. Meanwhile, KEDS continues to operate as the distribution system operator. This separation was in anticipation of the liberalization of the energy sector in Kosovo.

The mandatory targets of energy production from renewable energy sources (RES) for Kosovo until 2020 were determined based on decision No. D/2012/04/MC-EnC issued by the Ministerial Council of the Energy Community (EC). According to this decision, 25% of the final energy consumption must be from RES. As a result, the Ministry of Economic Development of Kosovo issued administrative instruction No. 01/2013 on 31 January 2013 where it sets yearly and long-term targets of energy consumption from RES. Furthermore, the Energy Regulatory Office amended the Rule on Support Scheme (on support of generation of electricity from Renewable Energy Sources and Methodology for calculation of feed-in tariffs for Solar Energy-Povovoltaic) in November 2014 and, consequently, on 23 December 2014, issued decision V-673-2014 defining feed-in tariffs for electricity generated from RES.

Two of the main problems for the energy sector in Kosovo remain the high level of technical and commercial losses and the level of energy production which is insufficient to cover the increasing energy demand. In this regard, investments in the energy sector are needed. Similarly, the neighboring country Albania is faced with problems in the energy sector as well due to the high dependency on the water reserves in the country.

**Tourism**

The country’s natural resources include mountains, lakes, and rivers and represent tourism opportunities. Kosovo’s potential in tourism is closely related to the country’s geographical position. The mountainous south offers good opportunities for winter tourism and the most important sites are the Mountains of Sharr, Cursed Mountains where Brezovica and Rugova are distinguished as skiing and recreational centers, Luboteni Peak, and Gjeravica Peak which is the highest peak in Kosovo.

In April 2015, Kosovo’s Trade and Industry Ministry signed a contract with a French consortium, which includes several international and local companies for the development of Brezovica. The total amount expected to be invested is around EUR 410 million over the next 17 years to make Brezovica one of the largest mountain resorts in the Balkans.

In addition, the wellness tourism has a great potential for development. The numerous thermal springs are renowned in the region for their healing effects and the most famous ones are Kllokoti spa and Peja spa.

There are also plentiful religious and other sites of cultural and historical value providing good prospects to develop cultural tourism.
Mining sector
Kosovo has vast mineable quantities of lignite, lead-zinc-silver, nickel, chrome, aluminum, magnesium and a wide variety of construction materials.

Lignite is of high importance to Kosovo. According to the Ministry of Mining and Energy, at 14,700 megatons, Kosovo possesses the world’s fifth largest proven reserves of lignite. Lignite is deposited across the Kosovo Basin, Dukagjin and Drenica Basins, although mining has so far been restricted mostly to the Kosovo Basin.

Meanwhile, lead, zinc, and silver mining have proved popular. These mining activities have been based on a series of nine mines, five of which comprise today’s Trepca Complex. Active mining in these five mines ceased at the beginning of the Serbian-Kosovo conflict and offers very good investment opportunities. In fact, Trepca is a frequently discussed privatization topic. However, its sale is complicated due to ownership problems. In 2016, the Assembly of the Republic of Kosovo approved Law No. 05/L -120 on Trepca. Its purpose is to establish a legal infrastructure which aims to achieve a sustainable economic development as a prerequisite for the revitalization of Trepca as an enterprise of special importance which is vital to the social wellbeing of its employees and the general public interest.

Telecommunications and post
On 15 December 2016, the International Communication Union (ITU) allocated to Kosovo its own telephone code +383. The new code will be used by all mobile and fixed telephony operators. Until the full implementation of the code, the current dialing codes of the three providers, Monaco (+377), Slovenia (+386) and Serbia (+381), will continue to be used.

Kosovo Telecom (KT) J.S.C. provides a wide range of mobile and fixed telephony services, including internet and TV services.

The fixed telecommunications unit is a licensed network and service provider of fixed telecommunications services to retail and business customers in the territory of the Republic of Kosovo. The fixed telecommunications unit began to provide internet services in 2001. A mobile telephony unit is operated under the brand name “Vala” and it is a GSM mobile operating unit licensed for provision of mobile telecommunications services in Kosovo.

KT has approximately 2,400 employees and the Government of the Republic of Kosovo holds 100% of its shares.

In 2008, Z-Mobile was licensed to carry out mobile telecommunication services, functioning as a virtual operator using the network of PTK.

During 2014 and 2015, KT invested more than EUR 100 million in upgrading the network to support 3G and 4G technologies. As a result, approximately 1 million customers of Vala have benefited from this.

IPKO Telecommunications LLC (IPKO), a subsidiary of Telekom Slovenia, is one of the main companies in the information technology and communication sector in Kosovo and offers services in mobile communications, fixed telephony, digital cable television, internet services, as well as media. IPKO is the first mobile operator which offered fast-speed mobile internet 3.75G network in Kosovo.
Kujtesa Net LTD is an internet services and cable TV provider which is also located in Kosovo. It is ranked as the third telecommunication provider in the country.

Postal services in Kosovo are provided by Post of Kosovo J.S.C., a publicly owned enterprise, and many other international companies which operate in Kosovo such as UPS, TNT, Fedex and DHL.

**Banking and finance**

The banking and financial system structure in Kosovo consists of commercial banks, branches of foreign banks, microfinance institutions, non-banking financial institutions, foreign exchange offices and money transfer agencies.

Pursuant to the Banking Law, a Kosovo bank must be established in the legal form of a joint-stock company issuing shares with a fully paid-up minimum registered capital of EUR 7 million. Banking activities in Kosovo may be performed only upon obtaining a bank license, issued by the Central Bank of Kosovo.

A foreign bank registered in another country may perform banking activities in Kosovo only upon opening a branch in Kosovo and obtaining a license issued by the CBK.

Microfinance institutions are legal entities organized as either a non-governmental organization (NGO) under the NGO Law or as a joint-stock company under the Law on Business Organizations which provides, as its primary business, loans and a limited number of financial services to micro and small legal entities, low-income households and low-income persons.

Non-banking financial institutions are legal entities which are neither a bank nor a microfinance institution and which are licensed by the CBK to engage in activities specified in the Banking Law.

Pursuant to the Banking Law, the Central Bank of Kosovo determines the rules of licensing, supervision and functioning for microfinance and non-banking financial institutions, taking into consideration the specifics of their financial activity.

There are ten banks operating in Kosovo: Bank for Business, Banka Kombetare Tregtare – Kosovo Branch, Economic Bank, Komercijalna Banka ad Beograd – Mitrovica Branch, NLB Prishtina, Procredit Bank, Raiffeisen Bank, Turkiye Is Bankasi, Turkiye Cumhuriyeti Ziraat Bankasi A.S. Kosovo Branch and TEB SH.A.

Foreign banks dominate the market both in terms of the number of banks and their share of the total banking sector assets.

**Other financial intermediaries**

In addition to commercial banks, microfinance institutions (MFIs) represent another important lending source in Kosovo. Currently, there are 14 MFIs in operation. The main beneficiaries of MFI loans are small enterprises and households.

Other financial intermediaries in Kosovo are exchange offices and money transfer agencies.
Business Environment

**Business entities**

According to Law No. 02/L-123 of the Assembly of Kosovo dated 27 September 2007, the business entities which may be registered with the Business Registry in Kosovo are:

- Individual business
- Overall partnership
- Limited partnership
- Limited liability company
- Joint-stock company.

Apart from the above entities, foreign entities may also register through a branch office in Kosovo. Since the branch has no separate legal personality, its rights and obligations pertain to the parent company.

Any non-resident person who is subject to taxation in accordance with the tax legislation of the Republic of Kosovo must appoint a fiscal representative prior to starting any economic activity in the Republic of Kosovo. The fiscal representative must register with the Tax Administration of Kosovo within five days of being named.

**Individual business**

A person owning an individual business, whether registered or unregistered, has unlimited personal liability for all debts and other obligations incurred by, or imposed by law or contract on such an individual business. Even though an individual business is not a legal entity, it may contract, hold property and sue or be sued in its own name or in the name of its owner.

To register an individual business, the owner must sign and submit to the Registry a form containing information about the organization and the purpose of the business as well as the written consent of the registered agent to serve in such a capacity.

**Overall partnership**

An overall partnership is a business organization which comes into existence as a result of an association of two or more persons and/or companies for the purpose of engaging in business, either by registration or by conducting business without being registered with the Registry.

These persons are considered to be overall partners. Every overall partner is, and all overall partners are, jointly and severally liable for all debts and other obligations incurred by, or imposed by law or contract on, the overall partnership. Such liability is unlimited.

An overall partnership is not a legal entity. Nevertheless, it has the right to contract, hold property and sue or be sued in its own name.
To register an overall partnership, an overall partner or a person authorized by them signs and submits to the Registry an “overall partnership memorandum” providing information about the organization and the purpose of the business as well as the written consent of the registered agent to serve in such a capacity.

**Limited partnership**

A limited partnership is a partnership having one or more partners with unlimited liability and one or more partners who are liable only to the extent of their contributions to the limited partnership. A limited partnership is not a legal entity. Nevertheless, it has the right to contract, hold property and sue or be sued in its own name.

A limited partnership is created only upon the registration of its limited partnership memorandum with the Registry along with a copy of the company’s bylaws and the written consent of the registered agent to serve in such a capacity. The limited partnership memorandum is the founding and constitutive document of a limited partnership.

**Limited liability company**

A limited liability company is a legal entity which is legally separate and distinct from its owners. An owner of a limited liability company is not a co-owner of, and has no transferable interest in, the property owned by the limited liability company. The shares of a limited liability company are distributed only to its founders and the company cannot conduct a public offering of its shares. The initial capital of a limited liability company must be at least EUR 1,000.

Foreign entities are permitted to own and participate in a limited liability company. A limited liability company may come into existence only upon registration with the Registry. To establish and register a limited liability company, a founder must sign and submit to the Registry the statute of the limited liability company, which must contain information about the organization and purpose of the business, a copy of the company’s bylaws and the written consent of the registered agent to serve in such a capacity.

**Joint-stock company**

A joint-stock company is a legal entity which is owned by its shareholders but is legally separate and distinct from them. A shareholder of a joint-stock company is not a co-owner of, and has no transferable interest in any property or assets of such a company. A joint-stock company may have a sole shareholder. The shares of a joint-stock company may be transferred by the owner(s) without the approval of other shareholders or the company. The initial capital of a joint-stock company must be at least EUR 10,000.

A joint-stock company may come into existence only by registering with the Registry. To register and establish a joint-stock company, a founder must sign and submit to the Registry the charter of the joint-stock company, which must contain information about the organization and the purpose of the business, a copy of the company’s bylaws and the written consent of the registered agent to serve in such a capacity.
Foreign business organization

A foreign business organization, as defined in the Law on Business Organizations, may engage in business activity in Kosovo to the same extent as a local business organization. It has to register with the Registry as a “foreign business organization” and comply with the requirements of the Law.

A foreign business organization is subject to registration if it, or any agent, employee or representative acting on its behalf, engages in any type of business activity in Kosovo. A foreign business organization is not required by the law to register in the Registry if its business activity is exclusively limited to exporting to Kosovo of products or services that are imported by a consumer or purchaser established or residing in Kosovo.

To establish a branch, an authorized person of the foreign business organization must sign and submit a standard application form, a “foreign business organization memorandum” containing information and details about the organization, capital structure and purpose of the parent company, structure and purpose of the branch, and the registration certificate of the foreign organization in the jurisdiction of incorporation.

Business Registry

The Business Registry is a central register which maintains the records of all registered companies.

Each registered company can be found online by entering the company name or business ID number on http://www.arbk.org/arbk/. Application forms are also available on this website, although many of them are now out of date and not accepted by the Registry.

The Business Registry is responsible for:

- Registration of new companies
- Registration of trade names
- Registration of branches of foreign companies
- Receipt of annual financial statements and business reports of limited liability companies and joint-stock companies.
Accounting and Auditing

**Accounting: regulations and requirements**

Accounting and financial reporting for financial institutions is regulated by the Central Bank of Kosovo. All financial institutions are required to report audited financial statements prepared in accordance with the International Financial Reporting Standards (IFRS) no later than 30 April of the following year.

On 29 July 2011, the Assembly of the Republic of Kosovo passed Law No. 04/L-014 on Accounting, Financial Reporting and Audit (“the Law”), which is applicable for all Kosovo entities which are not regulated by the Central Bank of Kosovo.

Based on this Law, large business organizations and all business organizations registered as limited liability companies or joint-stock companies in Kosovo must apply IFRS, including interpretations, recommendations and guidance issued by the International Accounting Standard Board, which are to be approved by the Kosovo Financial Reporting Council.

The Law defines business organizations as large if they fulfill two out of three criteria:

- Net annual turnover higher than EUR 4 million
- Gross assets at balance sheet date higher than EUR 2 million
- Average number of employees during the financial year higher than 50.

The Law also prescribes punitive measures against business organizations which fail to comply with the requirements of this Law.

All entities must prepare financial statements at least annually. Together with the financial statements, entities must file their annual corporate income tax return with the tax authorities by 31 March of the subsequent year.

In October 2014, Administrative Instruction No. 02/2014, “Applying IFRS for medium and small commercial companies” entered into force. Accordingly, financial statements of small and medium commercial companies are to be prepared in conformity with the IFRS for small and medium undertakings published by the International Accounting Standards Board and adopted by Kosovo Financial Reporting Council. Commercial companies must apply the IFRS for small and medium enterprises.
starting from financial years which begin on 1 January 2015.

The Kosovo Financial Reporting Council (KFRC) issued Instruction No. 02/2016 to clarify the requirements and obligations on the preparation, audit and publication of financial statements for each category of commercial entities as defined by Law No. 04/L014 on Accounting, Financial Reporting and Audit. The Instruction summarizes the requirements of the Law on Accounting, Financial Reporting and Audit and provides further guidance on specific areas. It is not applicable to the Central Bank of Kosovo (CBK) and to all financial institutions which are licensed by the CBK. The Instruction entered into force on 6 September 2016.

The Instruction sets out a detailed definition of net turnover for the purpose of classification of entities: net turnover represents the amount generated from the sale of goods and services after deducting the discounts and returns, not including VAT and any other taxes directly related to the turnover.

The Instruction clarifies also the approach to changing the classification from one category to another for the purpose of accounting, financial reporting and audit (i.e. large enterprise, small and medium enterprise or micro enterprise). An entity can change its classification only after 2 years from the initial categorization, even if the entity fulfills the conditions to be classified in another category in the second year following the initial classification.

The Instruction clarifies that all entities that fulfill the criteria for small and medium enterprises shall apply IFRS for SMEs, despite their legal form. The application of IFRS for SMEs is mandatory starting from 1 January 2015.

All small and medium enterprises shall prepare their financial statements based on Administrative Instruction No. 02/2014 on the Implementation of IFRS for SMEs and Administrative Instruction No. 04/2015 on the Structure and Content of the Annual Financial Statements for SMEs. The financial reporting of micro enterprises will be regulated through a separate administrative instruction issued by the KFRC.

**Auditing: requirements**

The Law requires that financial statements of large business organizations be audited by statutory audit firms which are licensed to carry out statutory audits in Kosovo, while the financial statements of medium-sized organizations are required to be audited either by statutory audit firms or auditors licensed to carry out statutory audits in Kosovo.

Instruction No. 02/2016 clarifies that large enterprises are obliged to have their financial statements (either individual or consolidated) audited by audit firms which are licensed by the KFRC.

Medium enterprises are obliged to have their financial statements (either individual or consolidated) audited by audit firms or statutory auditors licensed by the KFRC.

Small enterprises are not obliged to have their financial statements audited.

Audited financial statements of large and medium-sized business organizations must be submitted to and published with the KFRC and a copy submitted to the Ministry of Trade and Industry no later than 30 April and 30 June of the following year for standalone and consolidated financial statements, respectively.
Taxation

General
The tax system in Kosovo has been established during the last decade and is still being developed. The first legislative act to introduce an independent Kosovo tax system was the UNMIK Regulation on Tax Administration and Procedures which entered into force in 2000. Since then, an important goal of the Kosovo legislators has been to harmonize the system with EU legislation.

The Kosovo tax legislation provides for the following taxes:

- Corporate income tax (CIT)
- Personal income tax (PIT)
- Value added tax (VAT)
- Withholding tax (WHT)
- Custom duties
- Excise tax
- Local taxes.

Corporate income tax
Law No. 05/L-029 on Corporate Income Tax became effective on 1 September 2015. It replaced Law No. 03/L-162 on Corporate Income Tax introduced on 1 February 2010, and Law No. 04/L-103 on amending and supplementing Law No. 03/L-162 on Corporate Income Tax introduced on 30 May 2012.

The tax year in Kosovo is the calendar year. Corporations conducting business in Kosovo are subject to CIT at a rate of 10%.

The following entities are subject to CIT:

- Corporations or other business organizations which have the status of legal entities under the applicable law in Kosovo
- Business organizations operating with publicly or socially owned assets
- Organizations registered as NGOs under the Regulation on the Registration and Operation of Non-Governmental Organizations in Kosovo
- Permanent establishments in Kosovo of non-resident persons.

Kosovo residents are considered to comprise: corporations, groups of corporations or organizations established in Kosovo or which have their place of effective management in Kosovo.

Kosovo resident corporations are subject to CIT on their worldwide income, whereas non-resident entities are subject to tax only on the income derived from the Kosovo source.

Taxpayers with an annual gross income (revenue) of EUR 50,000 or less may choose to be taxed either on an actual income basis or on a presumptive tax basis and have to pay:

- 3% of each quarterly gross income from trade, transportation, agricultural
or similar businesses but not less than EUR 37.50 per quarter

- 9% of their annual gross income deriving from the provision of services, vocational, entertainment and similar activities but not less than EUR 37.50 per quarter

- 10% of the net rental income for the quarter, reduced by any amount withheld during that quarter.

However, such taxpayers can choose to be taxed on the basis of 10% of their actual taxable income (gross income minus deductible expenses) by submitting a form to the tax authorities. In such a case, the taxpayers need to prepare the related financial statements and submit them to the tax authorities on an annual basis.

The corporate income tax is applied to the income as calculated in the financial statements and adjusted for tax purposes. In determining the taxable income, expenses are deductible only if they are incurred wholly and exclusively in connection with the economic activity.

Some expenses are designated as non-deductible in the Kosovo Law on Corporate Income Tax, including:

- Cost of land acquisition and improvement
- Cost of acquisition, improvement, renewal and reconstruction of assets which are depreciated or amortized
- Fines, penalties, costs and interest related to them
- Bad debts which do not meet certain conditions as provided for by the Law
- Income tax paid and accrued and any interest or penalty incurred for late payment
- Value added tax for which the taxpayer claims a rebate or credit for input tax
- Any loss from the sale or exchange of property between related persons
- Benefits in nature in the form of meals and transport tickets, unless organized by the taxpayer themselves
- Pension contributions above the maximum amount allowed by the Kosovo Pension Law (i.e. exceeding 15% of the gross monthly salary)
- Contributions made for humanitarian, health, education, religious, scientific, cultural, environmental protection and sports purposes, which exceed 5% of the taxable income
- Expenses for presents, other than those having the name and logo of the business, which are part of the representation expenses
- Representation expenses which exceed 1% of the total gross income
- Expenses on rents of apartments serving for accommodation and lodging of resident and non-resident employees, regardless of the terms of contract of employment or service
- Contributions to reserve funds
- 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.
The straight-line method is applied for:

- Buildings and other constructed structures which are depreciated at a 5% rate
- Automobiles and light trucks, heavy transport vehicles, other heavy vehicles, computer peripherals and other data processing devices, office furniture and equipment, and others which are depreciated at a 20% rate
- Plant and machinery, rolling stock and locomotives used for rail transport, airplanes, ships, perennial plants and trees used for viniculture or production of fruits and all other tangible assets not included in the first or second category are depreciated at a 10% rate.

**Amortization**

Expenditures on intangible assets which have a limited useful life such as patents, copyrights, licenses, contracts and franchises are deductible in the form of amortization charges.

The straight-line method is applied as a method of amortization and the allowance is based on the useful life of the asset as determined by the legal agreement governing the acquisition and use of the intangible asset.

**Income exempt from corporate income tax**

The following income is exempt from corporate income tax:

- The income of organizations registered under the Regulation on the Registration and Operation of Non-Governmental Organizations granted public benefit status to the extent that the income is used exclusively for their public benefit purposes
- Income of the Central Bank of Kosovo and of entitled and duly authorized international inter-governmental financial institutions operating in Kosovo
- Dividends received by resident and non-resident taxpayers
- Interest on financial instruments which are issued or guaranteed by a public authority of Kosovo paid out to resident or non-resident taxpayers
- Income of eligible religious institutions of Kosovo
- Income from a contractor or subcontractor, other than a local contractor, generated from contracts for the supply of goods and services to the United Nations, the Specialized Agencies of the United Nations, KFOR and the International Atomic Energy Agency
- Income of a contractor or a subcontractor but other than a local contractor generated from contracts with foreign governments, their organs and agencies, the EU and its specialized agencies, the World Bank, the IMF and other international inter-governmental organizations for the supply of goods or services in support of the programs and projects in Kosovo.

**Withholding tax**

Under Kosovo’s tax legislation, Kosovo tax residents are obliged to withhold tax on the following payments made to residents and non-residents:

- 10% withholding tax on interest payments
• 10% withholding tax on royalties
• 9% withholding tax on rental payments
• 10% withholding tax on lottery winnings and gambling.

Under Kosovo’s tax legislation, Kosovo tax residents are obliged to withhold tax on the following payments made to non-residents:

• 5% withholding tax on income paid to non-resident entertainers for their activity exercised in Kosovo
• 5% withholding tax on income paid to non-residents for services performed in Kosovo.

**Losses carried forward**

Losses may be carried forward and may be settled against future income for six consecutive fiscal years. The losses have to be settled according to the “first loss before the last one” principle.

**Relief from tax: foreign tax credits**

According to the tax legislation provisions, income taxes paid abroad by residents are credited to the tax balance due in Kosovo up to the maximum amount of tax payable in Kosovo. Non-residents with a permanent establishment in Kosovo can obtain an official document from Kosovo’s tax administration, certifying the amount of taxes they have paid, so this can be used to obtain a credit if permitted by the foreign tax authority.

**Anti-avoidance measures: transfer pricing**

There are transfer pricing (TP) provisions in Kosovo which allow the tax authorities to adjust taxable income if the transactions between related parties are not made at arm’s length. Discussions are underway to introduce in Kosovo TP rules on reporting of the controlled transaction and preparation of local TP files.

**Special treatment of insurance companies**

Companies, whose activity is the insurance or reinsurance of life, property, or other risks, pay tax at a 5% rate of the gross premiums accrued during the tax period, instead of corporate income tax.

**Taxation of individuals**

**Personal income tax**

Under Law No. 05/L-028 on Personal Income Tax effective from 1 September 2015, Kosovo tax residents comprise: all individuals who (i) have their principal residence in Kosovo or (ii) are physically present in Kosovo for more than 183 days in any 12-month period of time, and all entities, individual business enterprises and partnerships which are established in Kosovo or have their place of effective management in Kosovo.

Kosovo resident individuals, individual business enterprises and partnerships are subject to personal income tax on their worldwide income, whereas non-resident individuals, individual business enterprises and partnerships are subject to tax only on income derived from a Kosovo source.

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

• Wages
• Business activities
• Rents
• The use of intangible property
• Interest
• Capital gains
• Lottery winnings and winnings in games of chance
• Pensions
• Any other income which increases the taxpayer's net worth.

**Tax rates**

The personal income tax rate system is a progressive tax system with a 10% maximum tax rate. For each tax period, personal income tax is charged at the following rates:

<table>
<thead>
<tr>
<th>Annual Taxable Income (in EUR)</th>
<th>Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 – 960</td>
<td>0%</td>
</tr>
<tr>
<td>961 – 3,000</td>
<td>4% of the amount over EUR 960</td>
</tr>
<tr>
<td>3,001 – 5,400</td>
<td>EUR 81.6 + 8% of the amount over EUR 3,000</td>
</tr>
<tr>
<td>5,401 and over</td>
<td>EUR 273.6 + 10% of the amount over EUR 5,400</td>
</tr>
</tbody>
</table>

Taxes must be withheld by employers on a monthly basis.

Taxpayers who receive income other than wages, dividends, interest, lottery, gambling, or income from intangible property are required to prepare an annual tax return for personal income tax by 31 March of the following year.

**Pension contributions**

As per Law No. 04/L-101 on Pension Funds of Kosovo, the employer and employee must pay pension contributions at a minimum level of 5%. The maximum level allowed is 15% of the gross monthly salary.

Under Kosovo legislation, foreign individuals are not required to pay pension contributions.

**Health insurance contributions**

The Assembly of Kosovo approved Law No. 04/L-249 on Health Insurance in April 2014 which regulates the public health insurance system. Accordingly, the mandatory health insurance premium for employees and employers is 7% of the gross income shared equally by the employer and the employee (i.e. 3.5% each). The start date for the collection of premiums will be separately confirmed by the Kosovo Government.

**Local taxes**

Local taxes are regulated by Law 03/L-049 on Local Government Finance.

Municipalities may impose the following taxes and fees:

- Tax on immovable properties situated in their territory
- An annual fee for business activity
- An annual fee for professional business
- An annual motor vehicle fee
- Construction permits and demolition fees
- Other fees in relation to services provided by the municipalities.

**Value added tax**

The Kosovo Parliament approved Law No. 05/L-037 on Value Added Tax which is effective from 1 September 2015. Based on this Law, all individuals, legal, public and
private persons are obligated to register for VAT purposes if they perform the following activities:

- Import and export of goods or services, or

- Supply of goods or services with a turnover exceeding EUR 30,000 within a calendar year. The registration must in any event occur within 15 calendar days of exceeding the turnover.

VAT is levied on (i) supplies of goods or services with a place of supply in Kosovo, (ii) import of goods into Kosovo. The current VAT rate applicable in Kosovo is 18% which is applied on domestic transactions and imports of goods. In addition, a reduced VAT rate of 8% is applied to the supply of certain goods and services (as well as their import), such as water, utilities and certain food products.

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 and education services).

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

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.

**Deduction of input VAT**

The Kosovo VAT Law allows the recoverability of all input VAT on domestic supplies of goods or services (including VAT on importation of goods) if such supplies relate to the activity subject to VAT. In order to recover the input VAT, contractors must register for VAT purposes in Kosovo.

**Refund of VAT**

If a taxpayer incurs a surplus of input VAT over output VAT, they may ask for a refund of surplus input VAT if:

- The VAT return for the last month of a consecutive three-month period reflects an amount of VAT credit that exceeds EUR 3,000 and

- The taxpayer was in credit at the end of each tax period (for VAT purposes the tax period is considered to be the month) of a consecutive three-month period and that all VAT returns and all other tax returns for all past tax periods have been submitted on time.

In case of export, a refund may be claimed after each tax period, provided that the following conditions are met:

- The amount of VAT credit exceeds EUR 3,000 at the end of the tax period (one month), and

- The taxpayer complies with all applicable and VAT provisions, and

- All VAT returns and other tax returns for all the past periods (months) have been submitted.

Starting from 1 March 2017, tax reimbursements requests for VAT shall be made through the respective electronic tax declaration forms.

**Customs duties and customs code**

Customs duties are regulated by Code No. 03/L-109, Customs and Excise Code.
in Kosovo. The regulation provides for a customs rate of 10% for all goods imported into Kosovo.

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

According to Law No. 04/L-163, the following goods are exempt from customs duties:

- Exports
- Goods imported by foreign diplomatic, consular missions and their personnel (except for local personnel)
- Goods imported by UNMIK, KFOR, the United Nations High Commissioner for Refugees (UNHCR), the International Committee of the Red Cross (ICRC) or by donors having contracts with UNMIK
- Goods used for humanitarian purposes
- Goods used for agricultural production and some listed raw materials for heavy industry, and
- Pharmaceutical products.

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

Kosovo is a member of the Central European Free Trade Agreement (CEFTA) together with Albania, Bosnia and Herzegovina, Macedonia, Moldova, Montenegro and Serbia.

Excise taxes

Law No. 03/L-112 on Excise Tax in Kosovo (amended by Law No. 03/L-220) contains a list of goods subject to excise tax and their corresponding excise rates.

Goods subject to excise tax include: wine, cigarettes and other tobacco products, oil, fruit juice and other drink concentrates, cars and other motor-operated vehicles. Fixed amounts are provided for certain goods.

Stabilization and Association Agreement

The Stabilization and Association Agreement (SAA) is an international agreement signed between Kosovo and the European Union whose purpose is to establish contractual relations between both parties.

The SAA between Kosovo and EU became effective on 1 April 2016.

Based on the SAA, the gradual development of the free trade zone between Kosovo and EU is enabled within 10 years. According to the agreement, certain products, as set out in a list, originating from one of the contracting parties’ countries may benefit from a reduction in customs duties when imported in Kosovo.

Double Tax Treaties

Kosovo has several Double Tax Treaties (DTTs) with other countries. They have been signed either directly by the Republic of Kosovo following the declaration of independence or signed by Former Yugoslavia and accepted by the Republic of Kosovo. The treaties provide for tax benefits to resident of the respective country. Currently, Kosovo has DTTs in force with:

- Albania
- Belgium
- Finland

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Recently, Kosovo has also signed a Double Tax Treaty with Croatia. However, it has not entered into force yet.

There are no specific internal rules in Kosovo on the implementation of the DTTs in force.

According to Law No. 03/L-071 on Tax Administration and Procedures, if the existing tax laws relating to the international juridical double taxation of income and capital of persons in the Republic of Kosovo do not address such taxation, the principles of the Organization for Economic Cooperation and Development (OECD) Model Tax Convention on Income and on Capital apply in order to avoid double taxation of such income and capital.
Employment Regulations

Legislation

Relations between employers and employees in Kosovo are governed by the provisions of Law No. 03/L-212 on the Labor Law in Kosovo dated 1 November 2010.

The Kosovo labor law has three priorities:
- Employment regulation
- Industrial relations
- Workplace safety.

Employment regulations govern individual employment contracts, including flexibility of hiring through part-time and fixed-term contracts, conditions of employment encompassing the maximum number of working hours per day or per week, premiums for overtime work, paid annual leave and the minimum wage. They also regulate release of staff, including grounds for dismissal, notification rules for dismissal, priority rules for dismissal and severance pay.

Employment contracts

Generally, labor relations in Kosovo, as well as the rights and obligations of the employers and employees, are set out in employment contracts.

An employment contract must be concluded in writing. The first six months of employment can qualify as a probation period, which can be reduced or removed by means of a written or collective agreement.

Termination of employment contracts

According to the Kosovo Labor Law, the process of termination of employment contracts differs based on the type of the contract.

In case of termination of an employment contract with an unlimited period, the parties notify each other through written notice of:
- 7 days during the probation period of six months
- 30 calendar days during the first six months to two years of employment
- 45 calendar days during the first two years up to 10 years of employment
- 60 calendar days if the employee has worked for the entity for more than 10 years.

However, for all types of contracts, immediate termination can occur at any time for justifiable reasons. It is also possible that both parties may agree to terminate the employment contract by mutual agreement.

Working hours

The Kosovo Labor Law provides that the normal workday must not exceed eight hours per day or 40 hours per week. For employees who are less than 18 years old, the normal workday must not exceed 30 hours per week.
Every working hour taking place during the interval from 10:00 pm to 6:00 am entitles employees to an extra payment added to their salary, which cannot be lower than a 30% increase of the regular hourly rate.

If the normal workday is exceeded or the circumstances require extra hours of work, an employee may perform overtime work. This overtime work must be paid with a bonus of 30% added to the regular rate or may be compensated with holidays. A full-time employee can only work up to eight supplementary hours per week.

The overtime performed on weekends or official holidays is remunerated with a bonus of no less than 50% added to the hourly rate or with time off that corresponds to the duration of the extra hours.

**Holidays**

**Annual holidays**

Employees are entitled to not less than four calendar weeks of annual leave during a year of work.

For each five years of work an employee is entitled to one more day of annual leave.

 Mothers with children up to three years of age and single parents as well as persons with disabilities are entitled to additional two days off.

Unused annual leave is not compensated in money, unless the employment relationship of an employee is about to expire.

The periods of temporary disability to work are considered working time.

**Other paid holidays**

The legislation establishes other paid leaves of one to five days for the cases of marriage, death of immediate family members, child birth, and blood donation.

When an employee is not able to work because of sickness, the employer must pay the employee 100% of their wage for a period up to 20 days of work within one year.

**Public holidays**

Kosovo’s Government has set a number of public holidays on certain days during the year while religious holidays are subject to change every year. The following holidays are applicable for 2017:

1 and 2 January – New Year’s holidays
7 January – Orthodox Christmas
17 February – Independence Day
9 April – Constitution Day
16 April – Catholic and Orthodox Easter
1 May* – Labor Day
9 May – Europe Day
25 June* – Bajram Day
1 September* – Bajram Day
25 December – Christmas

* Subject to change every year

When public holidays fall on a Saturday or a Sunday, Monday is considered a holiday.
Government Control

Public procurement

Public procurement in Kosovo is subject to Law No. 04/L-042 on Public Procurement in Kosovo and Law No. 04/L-045 on Public Private Partnerships.

The purpose of the Law on Public Procurement is to ensure the most efficient, cost-effective, transparent and fair use of public funds and public resources in Kosovo by establishing the requirements and rules which are to be observed, the procedures to be followed, the rights to be respected, and the obligations to be performed by persons, economic operators, undertakings, contracting authorities, work concessionaires, and public bodies conducting, or involved, participating or interested in, a procurement activity involving or relating to the use of such funds and/or resources.

The Law on Public Private Partnerships was approved on 21 October 2011. The purpose of this law was to establish the legal framework for public private-partnerships (PPP), including procedures for the award of a PPP, the content and structure of a PPP Agreement and the institutional framework responsible for the management and development of PPP in the Republic of Kosovo.

This Law does not apply to the granting of licenses, permits or authorizations by a public authority, except to the extent that the issuance of a license, permit or authorization is required within the framework of a PPP. In addition, this Law does not apply to service contracts or works contracts, as defined in the Law on Public Procurement and to the privatization or divestiture of public infrastructure or public owned enterprises pursuant to Law on Public Owned Enterprises.

For matters not covered by this Law, the provisions of the Law on Public Procurement are applied.

In the Law, a PPP is defined as any contractual or institutional cooperation between one or more public authorities and one or more private partners whereby the private partner:

- Provides a public service or a public infrastructure on behalf of the public authority
- Assumes financial, technical, construction and operational risks, including demand and/or availability risks, in connection with the provision of the public service or the public infrastructure
- Receives a benefit for providing public service or public infrastructure in the form of (i) payment by the public authority, (ii) charges or fees to be collected by the private partner or (iii) a combination of such payment and such charges or fees.
A PPP may be implemented through either a contractual or institutional form. A contractual PPP may be in the form of a concession or a public contract. An institutional PPP may be established by a municipality in an existing publicly owned enterprise whose sole purpose is the performance of a public service or public infrastructure. The private partner may become partner of such PPP through acquisition of shares owned by such municipality. The private partner may participate either in the management of such publicly owned enterprise, or in the provision of the public service or public infrastructure.

In certain cases, the approval by the Government and the Assembly of Kosovo is required for the acquisition of shares in an existing publicly owned enterprise owned by the Republic of Kosovo.

The law does not currently provide for a maximum duration of a PPP.

**Competition law**

The Kosovo competition protection system is governed by Law No. 03/L-229 on Protection of Competition dated 7 October 2010 (“Competition Law” or “the Law”). Its main purpose is to define the rules and measures for protection of free and effective competition in the market, including organization of the Competition Authority and procedures concerning implementation of this Law.

The Law applies for all forms of prevention, limitation or abuse of competition by enterprises within the territory of Kosovo, or outside Kosovo, if those actions are believed to have an impact in Kosovo.

The Kosovo Competition Authority is assigned by this Law to control competition in the relevant market.

**Environmental laws**

There are Laws on Environment Protection, Air Protection, Waste and Water.

The purpose of the Law on Environment Protection and the other laws above is to promote the establishment of a healthy environment for the population of Kosovo by aligning the environmental standards with those of the European Union.

**Protection of intellectual property rights**

The Law on Trademarks governs trademarks in accordance with the requirements of international conventions and EU law and practices. Trademarks are registered and thus protected for a period of 10 years. Under certain preconditions, registration may be renewed for a further 10-year period.

The Law on Industrial Design provides for industrial designs and their protection, the right to profit and the scope of protection. An industrial design is protected for a period of five years. This protection may be extended for a period of five years, and for a maximum of 25 years upon registration.

There is also a Law on Patents and a Law on Copyright Protection which is modeled closely on the relevant EU legislation.

**Supervision of the Central Bank of Kosovo over the activities of banks and other financial institutions**

Pursuant to Law No. 04/L-093 on Banks, Microfinance Institutions and Non-banking
Financial Institutions (“Banking Law”), the Central Bank of Kosovo (CBK) is the licensing and supervising authority for banks, microfinance institutions, non-banking financial institutions, foreign exchange offices and money transfer agencies. The CBK exercises supervision over compliance of the activities of banks and financial institutions with the rules established by the Banking Law and the regulatory framework of the CBK.

Licenses for banking activities are issued by the CBK. In order to perform services, the financial institutions are obliged to obtain licenses from the CBK for the performance of their activities.

The CBK was established according to Law No. 03/L-074 dated 5 June 2008 on the Central Bank of the Republic of Kosovo which was revoked and replaced by Law No. 03/L-209 dated 22 July 2010. The CBK’s legal independence and main duties are provided for in a separate article of the Constitution. The CBK’s main objectives are to:

- Foster and maintain a stable financial system, including a safe, sound and efficient payment system
- Contribute to achieving and maintaining domestic price stability
- Support the general economic policies of the Government
- Act in accordance with the principle of an open market economy with free competition, favoring an efficient allocation of resources.

Pursuant to the above objectives, the CBK’s main tasks as per Law No.03/L-209 are to:

- Determine and implement a financial system stability policy, including oversight of a deposit insurance scheme, conducting market operations, and providing emergency liquidity
- Regulate, license, register and supervise financial institutions
- Promote and oversee safe, sound and efficient payment, clearing and securities settlement systems
- Maintain an appropriate supply of banknotes and coins in Kosovo
- Hold and manage the international reserves
- Collect and produce statistics
- Contribute to achieving and maintaining domestic price stability
- Inform the Assembly, Government and the public at large about its policies, tasks and operations
- Act as banker, financial advisor and fiscal agent for the Government and to any other public bodies and public organizations of Kosovo
- Cooperate with and participate in international councils and organizations concerning matters which are within its fields of competence and
- Carry out any ancillary activities incidental to the exercise of its tasks.

The CBK is exclusively responsible for the regulation, licensing, registration and supervision of banks and other financial institutions as further specified in the relevant Laws.

The staff of the CBK, and other qualified persons appointed by the Executive Board, may visit the offices of financial institutions to examine such accounts, books, documents and other records, to obtain
such information and records from them, and to take such other action as the CBK may deem necessary or advisable.

The CBK established the Credit Registry to collect and provide information to facilitate reduced risks of lending and to improve access to credit while ensuring maximum protection of personal data. Credit reporting is mandatory for all financial institutions operating in Kosovo.

All financial institutions are required to file with the Credit Registry all information on their credits and credit products, borrower repayment history, and guarantees. CBK regulations and operational instructions provide for details on compliance, penalties, credit reports, and borrower rights. Information about mortgages, pledges and other collateral can be additionally reported to the Credit Registry.

Insurance

Pursuant to Law No. 05/L-045 on Insurance ("Insurance Law"), the Central Bank of Kosovo (CBK) is the licensing and supervising authority for insurance companies, reinsurance companies and intermediary companies in insurance activities. The CBK exercises supervision over the compliance of the activities of insurance companies with the rules established by the Insurance Law and the regulatory framework of the CBK.

At the end of 2015, there were 15 insurance companies operating in Kosovo, of which 12 offer non-life insurance products, while the other three offer only life insurance products. Eleven are foreign owned insurance companies, while the remaining three are locally owned.

The total assets of the insurance sector in Kosovo amounted to EUR 162.1 million as at 30 September 2016 (2015: EUR 152.7 million), marking an annual growth of 6.2% compared to 2015.

The total premiums received by insurance companies in 2016 reached EUR 83.5 million as at 30 September 2016 (2015: EUR 80.0 million), which represents an annual increase of 4.4% compared to 2015. The activities of insurance companies continue to be concentrated mainly in third party liability policies, which generate 56% of all premiums, while the remaining premiums mainly related to border insurance policies and other voluntary insurance.

The increase in premiums received was followed by an increase in claims paid of 4.9% (2015: increase of 18.7%), which in 2016 reached EUR 38.6 million compared to EUR 36.8 million in 2015. The ratio between claims paid and premiums received in 2016 reached 46.3%, as compared to the 2015 ratio of 46.0%.

The insurance sector was characterized by a loss of EUR 23.9 million in 2016 which is a deterioration as compared to the previous year’s loss of EUR 7.7 million.

Pension funds

Kosovo Pension Saving Funds continued to grow in both assets and net return on investments during 2016. Kosovo’s pension system assets, most of which are managed by the Kosovo Pension Savings Trust, amounted to EUR 1,425.4 million in 2016 (2015: EUR 1,240 million), representing an annual growth of 15.2%.

Of the total pension assets of Kosovo Pension Savings Trust, approximately 8.10% (2015: 10.5%) were invested in Kosovo as of 30 September 2016, while the rest invested out of the country.
Appendix A

Important Links

Websites of institutions in Kosovo

Assembly of Kosovo
http://www.assembly-kosova.org/

Office of the Prime Minister of Kosovo
http://www.kryeministri-ks.net

Ministry of Trade and Industry
http://www.mti-ks.org/

Ministry of Finance
http://mf.rks-gov.net/

Ministry of Economic Development
http://mzhe.rks-gov.net

Ministry of Education, Science and Technology
http://masht.rks-gov.net/

Ministry of Agriculture, Forestry and Rural Development
http://www.mbpzhr-ks.net

Ministry of Labor and Social Welfare
http://mpms.rks-gov.net

Ministry of Infrastructure
http://mi-ks.net/

Ministry of Environment and Spatial Planning
http://mmph-rks.org/
Ministry of Public Administration  
http://map.rks-gov.net

Central Bank of the Republic of Kosovo  
http://www.bqk-kos.org

Independent Commission for Mines and Minerals  
http://www.kosovo-mining.org/

Kosovo Registry of Business Organizations and Trade Names  
http://www.arbk.org/

Kosovo Trust Agency  
http://www.kta-kosovo.org/

Society of Certified Accountants and Auditors of Kosovo  
http://www.scaak.org/

Kosovo Pension Savings Trust  
http://online.trusti.org

**Websites of international institutions in Kosovo**

EULEX Kosovo - European Union Rule of Law Mission in Kosovo  
http://www.eulex-kosovo.eu

UNMIK, United Nations Mission in Kosovo  
http://www.unmikonline.org/

European Union Office in Kosovo  

World Bank – Kosovo  

European Agency for Reconstruction  
UNDP, United Nations Development Programme – Kosovo
http://www.ks.undp.org/

Organization for Security and Co-operation in Europe (OSCE) Mission in Kosovo
http://www.osce.org/kosovo

United States Agency for International Development, Pristina Office
http://transition.usaid.gov/kosovo/eng/