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KPMG IN KOSOVO

# Investment in Kosovo

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Edition 2011



# Preface



Investment in Kosovo is one of a series of booklets published by firms within the KPMG network 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 October 2011 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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## Chapter 1

# Brief Survey



### Geography and population

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

The terrain is mostly mountainous and the highest peak is Djeravica at 2,656 meters (8,714 feet) above sea level. The Shar 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 Goljak, are largely hilly areas. There are two main plains in the country. The 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 (328 feet).

The numerous beautiful 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).

Kosovo has an estimated population of 1.8 million and its capital, Pristina, has a population of approximately 198,000 inhabitants according to the latest statistics made by Statistical Office of Kosovo in June 2011. Ethnic Albanians are the majority group of the population (92 percent) 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 percent of its citizens being below the age of 20. The main religions are: Muslim, Serbian Orthodox and Roman Catholic.

## Climate

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 (95°F), and the winter temperatures can be as low as –20°C (–4°F). Kosovo experiences warm summers and cold and snowy winters.

## Official language

Kosovo has two official languages – Albanian and Serbian. At the municipal level, the Turkish, Bosnian and Roma languages have the status of official languages.

## A brief history of Kosovo

The Kosovo region in the Balkans in the ancient past was known as Dardania and its inhabitants as Dardans. After the Roman conquest, the region became part of the Moesia Superior province in the 1st century AD and then part of the Byzantine Empire. For the first time Kosovo was absorbed into Serbia in the late 12th century, and was part of the Serbian Empire from 1346 to 1371. The Serbian Empire was defeated by the Ottoman Turks and the Ottoman Empire took control of today's territory of Kosovo in 1455. It ruled in the region for about 500 years.

After the First Balkan War of 1912, most of the country's territory was internationally recognized as part of the Kingdom of Serbia while the region of Rrafshi i Dukagjinit as part of the Kingdom of Montenegro under the Treaty of London of May 1913. In 1918, Serbia became part of the newly-formed Kingdom of Serbs, Croats and Slovenes. During the Second World War, most of the territory of Kosovo was awarded to the Italians who occupied Greater Albania and a smaller part in the north to the German who occupied Serbia. Following the end of the war, Kosovo became part of the Socialist Republic of Serbia within the Socialist Federal Republic of Yugoslavia and enjoyed a certain degree of autonomy in the period 1974 – 90.

The Yugoslav Republic began to break up in the early 1990s. An upsurge in Kosovo followed which drew the attention of the international community in 1998. After the breakdown of negotiations between Serbian and Albanian representatives, the North Atlantic Treaty Organization (NATO) intervened on 24 March 1999 launching a campaign of heavy bombing against Serbia.

The war ended on 10 June 1999. A NATO-led Kosovo Force (KFOR) entered the province following the Kosovo War, tasked with providing security to the United Nations (UN) Interim Administration Mission in Kosovo (UNMIK). Under UN Security Council Resolution 1244 (1999) which placed the country under a transitional administration, Serbia's territorial

integrity was protected, but it was UNMIK that assumed responsibility for governing Kosovo. On 17 February 2008, Kosovo's Assembly declared independence from Serbia, Currently, 86 states recognize the independence of Kosovo (as of February 2012), and it has become a member country of the IMF and World Bank as the Republic of Kosovo. Republic of Kosovo has been an independent, sovereign and democratic country aspiring to be part of the European Union.

## 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.

## Government and Political System

The Assembly of Kosovo has 120 seats and all members serve a four-year term. Currently, seats are held as follows: Democratic Party of Kosovo or PDK - 34 seats, Democratic League of Kosovo or LDK - 27 seats, Group Vetevendosje - 14 seats, Alliance for the Future of Kosovo or AAK - 12 seats, Serbs Liberal Party or SLS - 12 seats, Coalition for New Kosovo or KKR - nine seats, NG - six seats, GP 6 + Group - six seats.

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 2011 Kosovo's Assembly elected Atifete Jahjaga as Kosovo's new president, the first woman to head the state.

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. At the moment 33 municipalities are 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 a 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 has been working with Kosovo's authorities to provide security in the territory of the country.

## Visa system for foreigners traveling to Kosovo

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

Citizens of countries such as Albania, Australia, Canada, EU Member States, USA, South Africa, Turkey, etc. do not need a visa. 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. 03/L-126 on Foreigners, "A foreigner shall not engage in paid employment in the Republic of Kosovo on the basis of a visa alone". If a foreigner stays more than 90 days in a year in Kosovo he/she must apply for an ID document which is similar to those issued to residents. This will facilitate their entry and exit in and out of Kosovo.

## Travel

There are 10 border checkpoints in Kosovo, which are:

- Vermica (Municipality of Prizren) on the border with Albania
- Hani i Elezit (Municipality of Hani i Elezit) on the border with Macedonia
- Gllobicica (Municipality of Prizren) on the border with Macedonia
- Kulla (Municipality of Peja) on the border with Montenegro
- Zubin Potok (Municipality of Mitrovica) on the border with Serbia
- Lleshaku (Municipality of Mitrovica) on the border with Serbia
- Merdare (Municipality of Podujevo) on the border with Serbia
- Dheu i Bardhe (Municipality of Gjilan) on the border with Serbia
- Mutivoda (Municipality of Prishtina) on the border with Serbia.

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. The most used transport route is through Macedonia and Pristina Airport. Skopje is only an hour and a half away from the capital city of Kosovo. As Serbia does not recognize Kosovo, travelers 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 travelers' passports, the stamps will be crossed out, although it is unlikely that travelers will be denied entry because of them. However, if a person lives in or intends to travel frequently to Serbia, it is 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 for example.

## Accommodation

There are real estate agencies which can assist foreigners to find accommodation. Good restaurants are widespread in Pristina and they offer a combination of traditional cuisine and international dishes including Italian, Turkish, Indian, Chinese, Mexican and Thai food. A list of hotels and restaurants is included in Appendix A.

## 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 airlines of Europe operate from Pristina Airport including: British Airways, Austrian Airlines, Malev, Swiss, Turkish Airlines, Hamburg International, Belle Air, Adria Airways, Croatia Airlines etc.

There are direct flights to Tirana, Budapest, Zurich, Vienna, London, Ljubljana, Zagreb, Geneva, Hamburg, Frankfurt Berlin, Rome, Venice, Sofia, Istanbul, etc.



## Chapter 2

# Investment Environment



### Labor market

Despite continuous economic growth in recent years, Kosovo has an unemployment rate estimated at 48 percent, according to the World Bank estimate. Unemployment is higher among youths and women. The situation is not expected to improve promptly in the future given that Kosovo has the youngest population in Europe and these individuals come into the labor market each year finding limited employment options.

An important component of Kosovar 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 returned migrants bring to the local market their experience and skills gained abroad.

These two factors coupled with the low wage levels, make local labor conditions an important incentive for investment in Kosovo.

### Fiscal indicators

According to the IMF, the budget balance has changed radically in recent years, going from a surplus of EUR 168 million in 2007 to a forecast deficit of EUR 226 million by the end of 2011.

In the first quarter of 2011, the actual budget had a surplus of EUR 68.6 million recording an annual growth of 22 percent compared to the same period last year. Border revenues continue to dominate the structure of budget revenues with 61 percent of total revenues. On the other hand, revenues from taxes, until March 2011, recorded an annual growth of 26 percent with VAT constituting 42.1 percent of the total domestic taxes.

Budget expenditure dropped by 5.5 percent in the first quarter of 2011 compared to the same period last year, mostly due to the shift of March salaries and wages into April 2011.

Capital expenditure as at March 2011 had tripled compared to the same period last year, with the construction of the highway Morine - Merdare accounting for 50 percent of the total budget expenditure while related expropriation costs add another 5 percent to the total. Though quite significant in terms of cost, this investment is considered to be of high strategic importance for the country primarily since it provides Kosovo with access to sea via the Albanian coast.

<b>Kosovo government budget overview</b>				
<b>In EUR'000 000</b>	<b>2010 Estimated</b>	<b>2011 Projected</b>	<b>2012 Projected</b>	<b>2013 Projected</b>
Total budgeted revenues	1,126	1,264	1,303	1,352
Total budgeted expenditure	1,202	1,434	1,452	1,481
Primary deficit	(76)	(170)	(149)	(129)
Financial expenses	(70)	(56)	(12)	(12)
<b>Overall deficit</b>	<b>(145)</b>	<b>(226)</b>	<b>(162)</b>	<b>(141)</b>

Source: Ministry of Finance of Kosovo

## Trade

The negative trade balance in Kosovo has deepened in the past two years influenced by the high dependence on imports and the low level of exports. Two key problems which adversely affect trade include the lack of direct access to sea unlike other countries in the Southeastern Europe such as Albania, Croatia and Montenegro, as well as the lack of investments in transport infrastructure especially during the post-war period.

<b>Exports and imports</b>					
<b>In EUR'000 000</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>H 1* 2010</b>	<b>H 1 2011</b>
Exports	198,463	165,328	295,957	142,306	164,811
Imports	1,928,236	1,935,541	2,157,725	952,972	1,093,816
<b>Trade balance</b>	<b>(1,729,773)</b>	<b>(1,770,213)</b>	<b>(1,861,769)</b>	<b>(810,666)</b>	<b>(929,005)</b>

\*first half

Source: Statistical Office of Kosovo

Exports are highly dominated by manufactured goods and crude materials which in total represent around 81 percent of exports whereas other goods such as machinery and transport equipment, mineral fuels and food and live animals represent in total only 14 percent of total exports.

The main destination of exports remain European Union countries (EU) and Switzerland which represent half of the exports followed by Albania and Macedonia with shares of 11 percent and 9 percent respectively.

<b>Exports by destination, 2010</b>			
	<b>Value in EUR '000</b>	<b>% of total</b>	<b>% annual growth</b>
EU and Switzerland	149,163	51%	83%
Albania	32,288	11%	23%
Macedonia	26,296	9%	52%
Turkey	9,276	3%	42%
BiH and Croatia	4,586	2%	37%
Montenegro	3,918	1%	27%
Serbia	3,846	1%	10%
Other	64,659	22%	171%
<b>Total exports</b>	<b>294,032</b>	<b>100%</b>	

Source: Statistical Office of Kosovo

EU countries and Switzerland account for the largest share of imports as well, though to a lesser extent compared to exports with a share of almost 40 percent in 2010. Meanwhile neighboring countries such as Macedonia and Serbia represent in total 27 percent of imports with respective shares of 15 percent and 12 percent.

<b>Imports by destination, 2010</b>			
	<b>Value in EUR '000</b>	<b>% of total</b>	<b>% annual growth</b>
EU and Switzerland	842,045	39%	8%
Macedonia	316,062	15%	8%
Serbia	260,156	12%	23%
Turkey	149,385	7%	6%
BiH and Croatia	142,317	7%	20%
Albania	69,092	3%	18%
Montenegro	11,388	1%	-13%
Other	354,489	17%	9%
<b>Total imports</b>	<b>2,144,934</b>	<b>100%</b>	

Source: Statistical Office of Kosovo

Manufactured goods as well as machinery and equipment represent 40 percent of imports with almost equal shares for each category. Food, live animals and mineral fuels also represent a considerable share of imports with about 33 percent of the total.

## 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 the government, more than 500 SOEs were privatized in the last 28 rounds of privatization with the “spin-off” privatization method. Currently, there are approximately 200 SOEs slated for privatization.

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

## Agriculture and farming

Agriculture has traditionally been an important economic activity in Kosovo. In fact, as reported by the World Bank, it used to account for as much as a quarter of the total domestic output, while nowadays the use of agricultural land is low.

In recent years, the dissolution of state-owned agricultural enterprises has significantly fragmented the farm structure, making the average farm only about 1.4 hectares, and has led to a decline in arable land and irrigation. In any case, about 53 percent of the total surface of the country is considered to be arable land.

There is considerable 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. In addition, the development of the agriculture sector would push forward additional opportunities for investments in the food processing industry.

## Tourism

The country's natural resources represent high quality tourism assets. Kosovo's potential in tourism is closely related to the country's geographical position. The mountainous south offers a great prospective for winter tourism. The existing winter resorts in Brezovica and a few other locations in the Sharri Mountains have historically attracted both locals and regional tourists but are in need of serious renovations and upgrading.

Kosovo is generally rich with mountains, lakes and rivers thus offering prime possibilities for hunting and fishing.

In addition, wellness tourism has a great potential for development. The numerous thermal springs are renowned in the region for their healing effects. Foreign investors in this field will find strong demand in the regional market.

There are also numerous religious and other sites of cultural and historical value providing good prospects to develop cultural tourism alongside the abovementioned forms of tourism.

## Energy

Energy production is largely based on thermal power plants utilizing coal (lignite) and to a smaller extent on hydropower generation. The Kosovo Energy Corporation (KEK) is the sole power corporation in Kosovo. KEK is a vertically integrated company and its core activities range from coal production to energy production, transmission and distribution. Currently the local energy production is realized by two thermal power plants, Kosova A and Kosova B with an installed capacity of 442 MW and 500 MW, respectively. In addition, the active hydropower plants of Radavc, Ujman and Lumbardh have an overall installed capacity of 43.5MW.

KEK is being unbundled into production, transmission and distribution divisions and in the near future the Government of Kosovo will privatize the distribution arm of the Company. To this end, an international tender has already been launched and several international companies have expressed interest in this privatization process.

Further, the government is currently working on a project for the construction of another thermal power plant, Kosova C though it is currently postponed due to administrative problems.

## Mining

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 Mega ton, Kosovo possesses the world's fifth-largest proven reserves of lignite. The lignite is deposited across the Kosovo, Dukagjin and Drenica basins, although mining has so far been restricted mostly to the Kosovo basin.

On the other hand, lead – zinc – silver mining has been a mainstay of the local economy. 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 represent very good investment opportunity. In fact, Trepca is a frequently discussed privatization topic; however its sale is complicated by ownership problems.

## Telecommunications

Kosovo has not yet received a country code from the International Telecommunication Union and for this reason the providers in the Country use three different country codes: Monaco (+377), Slovenia (+386) and Serbia (+381).

The lack of a country code however has not stopped the flourishing of the telecommunication sector in the country. The main telecommunication operators are the Post and Telecommunications of Kosovo (PTK), IPKO and Kujtesa.net.

PTK is composed of 3 business units as follows: Kosovo Post, Kosovo Telecom and mobile operator Vala. It offers postal services, fixed and mobile phone services as well as internet services and is one of the most profitable companies in Kosovo. IPKO, a subsidiary of Telekom Slovenia, is one of the main companies in information technology and communication in Kosovo and offers various services in landlines, mobile phone, internet and combined services. Kujtesa.net offers internet services and is ranked as the third provider in the country. Further, IPKO and Kujtesa.net offer digital media services as well.

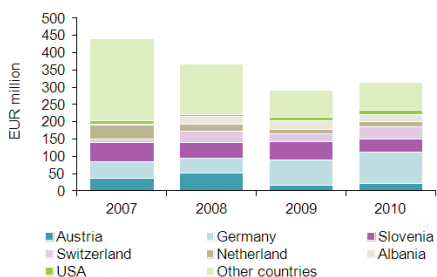
In June 2011, the Government of Kosovo published two short listed candidates for the privatization of 75 percent of the fixed and mobile communication services of PTK after a long and drawn-out selection process. The government will retain 25 percent ownership in Kosovo Telecom and Vala as well as 100 percent in Kosovo Post.

By the end of 2010, Kosovo had a penetration rate of 4.26 percent in fixed-line services, 72 percent in mobile communications and 6.31 percent in Internet services. Although the three main companies cover the entire territory with Internet services, the reported penetration rates in particular for Internet services indicate that there is still ample room for additional investments in the sector.

## Foreign direct investments and incentives

The global economic crisis significantly affected the level of foreign direct investments (FDI) in Kosovo. The FDI indicator registered a yearly decrease of 17 percent and 20 percent respectively in 2008 and 2009. However, the situation appears to have recovered somewhat during 2010 as FDI totaled EUR 315 million representing an increase of 8 percent compared to the previous year.

The majority of FDI originates from EU countries, with investments from Germany and Slovenia accounting for an average 19 percent and 14 percent of total FDI respectively, for the period 2007-2010.



Source: Central Bank of Kosovo

Investments have mostly taken place in the financial services sector which on average has represented 26 percent of the total FDI during 2007-2010. A considerable component in recent FDI was the manufacturing sector, which during 2010 represented the highest share of FDI at 22.5 percent.

Real estate and the construction sector also account for a considerable part of FDI with equal shares of 15 percent during 2010. On the other hand, the mining sector comprised of about 9 percent of the FDI in 2007 and decreased significantly to only 4 percent in 2010.

#### Foreign direct investments composition

	2007	2008	2009	2010
Manufacturing	9%	6%	17%	22.5%
Financial services	23%	35%	25%	22%
Real estate	7%	17%	15%	15%
Construction	1%	4%	12%	15%
Processing industry	8%	9%	2%	7%
Other	52%	30%	28%	18%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: Central Bank of Kosovo

The corporate income tax was reduced from 20 to 10 percent starting from 1 January 2009 and various types of personal income tax were capped to 10 percent. Further information on tax and legal investment incentives can be found in Chapters 3 and 4.

## Chapter 3

# Business Environment



### Business entities

#### Types of business entities

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

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

Apart from the above entities, foreign entities may also register a branch office in Kosovo (it must be registered with the Registry as a foreign business organization according to the law). A branch office is not a separate legal entity. Consequently, its rights and obligations pertain to the “parent” company and not to the branch office.

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.

#### Personal Business Enterprise

A person owning a personal business enterprise, whether registered or unregistered, has unlimited personal liability for all debts and other obligations incurred by, or imposed by law

or contract on such a personal business enterprise. A personal business enterprise is not a legal entity. Nevertheless, it may contract, hold property and sue or be sued in its own name or in the name of its owner.

A personal business enterprise for the purpose of conducting an economic activity may choose to register or not with the Registry. To register a personal business enterprise, the owner must sign and submit to the Registry a form containing information about the organization and the purpose of the business and a written consent of the registered agent to serve in such a capacity.

### General Partnership

A general partnership is a business organization that comes into existence as a result of an association of two or more persons and/or companies for the purpose of engaging in business. These persons are considered to be general partners. Every general partner is, and all general partners are, jointly and severally liable for all debts and other obligations incurred by, or imposed by law or contract on the general partnership. Such liability is unlimited. A general partnership is not a legal entity. Nevertheless, it has the right to contract, hold property and sue or be sued in its own name.

Such a business entity may come into existence either by registration or by conducting business without a registration with the Registry.

To register a general partnership, a general partner or a person authorized by them signs and submits to the Registry a "general partnership memorandum" providing information about the organization and the purpose of the business and a written consent of the registered agent to serve in such a capacity.

### Limited Partnership

A limited partnership is a partnership having as its partners one or more general partners with unlimited liability and one or more limited 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 a 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 that 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 number of the shareholders should not exceed 50. The charter capital of a limited liability company shall 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 by registering with the Registry. To register and establish a limited liability company, a founder must sign and submit to the Registry the charter of the limited liability 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.

### Joint Stock Company

A joint stock company is a legal entity that is owned by its shareholders but is legally separate and distinct from its shareholders. 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 single 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 charter capital of a joint stock company must be at least EUR 25,000.

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 limited liability 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. First 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 the 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 shall not be required by this Law to register in the Registry if its business activities are exclusively limited to exporting products or services to Kosovo 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, the registration certificate of the parent company in the jurisdiction of incorporation and the charter of the parent company.

In the case of a wholly owned subsidiary in Kosovo, a new company incorporated under the provisions of the country's legislation must be established.

## The Business Registry

The Business Registry is a central register that 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/arbkl>. 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 branch offices of foreign companies
- receipt of annual financial statements and business reports of limited liability companies and joint stock companies.

## Accounting Regulations

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 International Financial Reporting Standard (IFRS) no later 30 April of the following year. All entities should prepare financial statements at least annually. Together with the financial statements, entities should file their annual corporate income tax return with the tax authorities by 31 March of the subsequent year.

## New Law on Accounting, Financial Reporting and Audit

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

## Accounting requirements

Based on this Law, large business organizations and all business organizations registered as limited liability companies or shareholder companies in Kosovo, should apply IFRS, including International Accounting Standards (IAS) as well as interpretations, recommendations and guidance issued by the International Accounting Standard Board, which shall be approved by the Kosovo Council for Financial Reporting (KCRF).

## Audit requirements

The Law requires that financial statements of large business organizations be audited by statutory audit firms, like KPMG, that 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 that are licensed to carry out statutory audits in Kosovo.

Audited financial statements of large and medium-sized business organizations must be submitted and published with KCFR and a copy must be submitted to the Ministry of Trade and Industry (MTI) no later than 30 April and 30 June of the following year for stand alone and consolidated financial statements respectively.

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

1. Net annual turnover higher than EUR 4 million (4,000,000);
2. Gross Assets at balance sheet date higher than EUR 2 million (2,000,000);
3. Average number of employees during the financial year higher than 50.

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

Entities that do not satisfy the size criteria above should prepare their financial statements in accordance with Kosovo Accounting Standards (KAS) as issued by the Kosovo Board on Standards for Financial Reporting (the Board). KAS currently comprises nineteen accounting standards, and those topics not addressed in KAS should comply with International Financial Reporting Standards. Even if an entity meets the criteria to prepare financial statements in accordance with Kosovo Accounting Standards, it may choose to prepare the general purpose financial statements in full compliance with IFRS.

## Financial Sector

### General Characteristics

The Gross Domestic Product (GDP) increased by 4.6 percent during 2010 by reaching EUR 4.2 billion. The total financial sector assets reached EUR 3.2 billion and grew by 13.7 percent compared to 2009. Banking sector assets comprised around 77 percent of total financial sector assets, while pension funds comprised 15.5 percent, microfinance institutions 4.3 percent, followed by insurance companies with 3.1 percent and financial auxiliaries with 0.1 percent.

## Number of financial institutions:

	2007	2008	2009	2010
Banking sector	7	8	8	8
Insurance companies	10	11	11	11
Pension funds	2	2	2	2
Financial auxiliaries	46	45	46	49

Source: Central Bank of Kosovo

## Banking sector

There are eight banks in operation in Kosovo:

## List of Banks in Kosovo

No.	Name	Type
1	Bank for Business	Domestic
2	Banka Kombetare Tregtare – Kosovo Branch	Foreign
3	Economic Bank	Domestic
4	Komercijalna Banka ad Beograd – Mitrovica Branch	Foreign
5	NLB Prishtina	Foreign
6	Procredit Bank	Foreign
7	Raiffeisen Bank	Foreign
8	TEB	Foreign

Source: Central Bank of Kosovo

Foreign banks dominate the market both in terms of the number of banks and their share of the total banking sector assets. Foreign banks in 2010 represented six out of eight commercial banks operating in Kosovo, and accounted for 90.2 percent (91.1 percent in 2009) of the total banking sector assets. Around 77.4 percent of banking sector assets is managed by the three biggest banks: Procredit Bank, Raiffeisen Bank and NLB Prishtina.

During 2010, the network of commercial banks continued to expand reaching 303 branches and sub branches (16 more than in 2009), while the number of employees hired by these banks reached 3,768 compared to 3,626 in 2009. The banking sector is expanding its network also in terms of the number of automated teller machines (ATMs) reaching 415 in 2010 (339 in 2009), and the number of points of sale (POS) that reached 6,194 (5,251 in 2009). The number of accounts using e-banking has continued to increase from the previous years, reaching 55,292 in 2010 (40,924 in 2009). This expansion of the banking network through additional banking units and additional services such as ATMs, POS and e-banking has improved the accessibility to banking services.

In 2010 the GDP of the banking system accounted for 59.7 percent of the total GDP, which represents an increase of 2.7 percent compared to 2009. Assets of the banking sector reached EUR 2.5 billion in 2010, which represents an increase of 11.4 percent compared to 2009 (21.9 percent in 2009). The growth of the banking sector assets originates from expansion in lending activity.

#### Assets Structure of the Banks in Kosovo in 2010 (in EUR millions)

Description	2007	2008	2009	2010
Cash and balances with CBAK	189.0	218.2	322.7	307.5
Balances with commercial banks	208.1	283.9	405.6	439.0
Securities	78.9	40.5	97.0	173.4
Gross loans and lease financing	892.1	1,183.4	1,289.0	1,458.7
Fixed asset	27.2	39.0	43.1	44.1
Other assets	39.7	43.1	46.7	32.5
<b>Total assets</b>	<b>1,435.0</b>	<b>1,808.1</b>	<b>2,204.1</b>	<b>2,455.2</b>

Source: Central Bank of Kosovo

The value of loans issued from banks in 2010, reached EUR 1.5 billion, which represents an increase of 13.2 percent compared to 2009 which itself increased by 8.9 percent compared to 2008. In volume, loans represent 59.4 percent of the total banking system assets (58.5 percent in 2009).

#### Structure of banking system liabilities and equity in Kosovo 2010 (in EUR millions)

Description	2007	2008	2009	2010
Balances from other banks	25.8	34.9	58.5	56.8
Deposits	1,143.1	1,444.1	1,744.9	1,937
Other borrowings	2.7	0.0	0.0	0.0
Other liabilities	103.7	129.8	171.7	197.3
Subordinated debt	7	7	24.4	33.5
Own resources	152.7	192.5	204.6	230.6
<b>TOTAL LIABILITIES</b>	<b>1,435.0</b>	<b>1,808.3</b>	<b>2,204.1</b>	<b>2,455.2</b>

Source: Central Bank of Kosovo

The next table summarizes the financial results and profitability ratios of Kosovo's banking system.

	2007	2008	2009	2010
<b>Net results (in EUR millions)</b>	<b>33.5</b>	<b>36.4</b>	<b>25.3</b>	<b>32.9</b>

Source: Central Bank of Kosovo

Return on Average Assets (ROAA) remained at the same level with the previous year, standing at 1.5 percent, whereas, Return on Average Equity (ROAE) reached 14.9 percent in 2010, compared to 13.9 percent in 2009.

### Other Financial Intermediaries Developments

In addition to commercial banks, Microfinance Institutions (MFIs), represent another important factor in the lending market in Kosovo. In 2010 there were 13 MFI's and eight other non banking institutions operating in Kosovo. The portfolio of loans issued by MFI's during 2010 reached EUR 116 million, an annual increase of 6.5 percent compared to 2009.

The main beneficiaries of MFI loans are small enterprises and households. In 2010, the MFI system resulted in a loss of around EUR 2.0 million. Consequently, the performance indicators, such as return on average assets (ROAA and return on average equity (ROAE worsened during 2010. ROAA in 2010 was negative 1.6 percent, compared to 1.4 percent in the year 2009, whereas ROAE indicator was negative 5.5 percent, compared to 4.3 percent in the year 2009.

Other financial intermediaries in Kosovo are exchange bureaus and Money Transfer Agencies (MTAs). The amount of transfers through MTA during 2010 reached EUR 231.8 million, which is an increase of 2.1 percent, compared to 2009. Of this amount, 92.1 percent were incoming transfers to Kosovo. Transfers through MTAs represent 4.2 percent of total international transfers, whereas the largest part of international transfers is realized through commercial banks (around 78 percent of total transfers).

### Insurance

At the end of 2010 there were 11 insurance companies operating in Kosovo, of which three are domestic and eight are foreign-owned companies. Foreign companies dominate the insurance market in Kosovo, representing 77.4 percent of total insurance companies' assets.

Assets of the insurance industry reached EUR 97.2 million in 2010, which is 9.3 percent higher than in 2009. Deposits dominated the assets of insurance companies in 2010, representing 63 percent of insurance companies' assets.

## Structure of Insurance Companies Assets

Description	Percentage of total assets
Deposits	63
Equity	2
Non financial assets	16
Other assets	19

Source: Central Bank of Kosovo

The net profit of insurance companies in 2010 was EUR 1.5 million, an increase in comparison to net loss of EUR 4.9 million in 2009.

Total premiums received by insurance companies in 2008 reached EUR 71.3 million, which represents an annual growth of 5.1 percent compared to 2009, compared to the 20 percent annual growth in 2009. The activities of insurance companies continue to be concentrated mainly in third party liability (TPL) policies, which generate 57 percent of all premiums, while the remaining part of the received premiums came from voluntary insurance policies.

The growth in premiums received was followed by a higher growth in claims paid, which in 2010 reached EUR 26.5 million (annual increase of 40.8 percent compared to 2009). The ratio between premiums received and claims paid in 2010 was 37.2 percent, while in 2009 it was 27.8 percent, which indicates that the trend of claims paid is increasing more than the trend of premiums received by insurance companies in Kosovo.

The improvement of the financial output of insurance companies during 2010 has been reflected in the trend of the two profitability indicators, consisting of ROAA and ROAE. ROAA reached 1.6 percent in 2010 from a negative ratio of 5.7 percent in 2009, whereas ROAE reached 3.9 percent from a negative 12.5 percent in 2009.

## Pension Funds

In 2010 the value of the assets of the pension system reached EUR 493.7 million, comprising 12 percent of the GDP. The pension assets increased by 29.6 percent compared to 2009. This increase is due to the increase of unit price of Kosovo Pension Savings Trust (KPST), which manages the majority of the pension system assets.

From the total of EUR 488.5 million of KPST assets, 6.8 percent are invested in commercial banks in Kosovo, whereas 9 percent have been deposited in the Central Bank of Kosovo. The rest of the assets were invested abroad of which around 40 percent are in shares, 15 percent in money market funds and 1.2 percent in credit default swaps.

## 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 ten years. Under certain preconditions, registration may be renewed for further ten-year periods. The Law on Industrial Design provides for the protection of an industrial design, the industrial design itself, the right to profit, the scope of protection, etc. 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 law.

In practice, at present, none of the intellectual property registers are functioning properly (i.e. those for trademarks, industrial designs and patents).



## Chapter 4

# Tax System



### General

The tax system in Kosovo was 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 the harmonization of the system with the 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

Starting from 1 January 2010, a new Law on Corporate Income Tax is effective. The new Law replaced Law No. 03/L-113, introduced on 1 January 2009.

The tax year in Kosovo is the calendar year. Corporations conducting business in Kosovo are subject to corporate income tax ("CIT") at a rate of 10percent.

The following entities are subject to CIT:

- corporations or other business organizations that have the status of legal entities under the applicable law in Kosovo
- business organizations operating with public or socially-owned assets
- organizations registered as non-governmental organizations 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 of: corporations, group of corporations or organizations established in Kosovo or that 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.

Taxpayers with an annual gross income of EUR 50,000 or less have to pay:

- 3 percent of each quarterly gross income from trade, transportation, agricultural or similar businesses but not less than EUR 37.50 per quarter;
- 5 percent 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 percent of 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 10percent of their actual taxable income (gross income minus deductible expenses) by submitting a form to the tax authorities. In such a case, the taxpayers should 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:

- cost of land acquisition and improvement
- cost of acquisition, improvement, renewal and reconstruction of assets that are depreciated or amortized
- fines and penalties
- bad debts that do not meet certain conditions as provided 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
- contributions made for humanitarian, health, education, religious, scientific, cultural, environmental protection and sports purposes, which exceed 5percent of the taxable income
- representation expenses which exceed 2 percent of the total gross income
- 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 5percent rate
- automobiles and light trucks, heavy transport vehicles, other heavy vehicles, computers peripherals and other data processing devices, office furniture and equipment, etc., which are depreciated at a 20 percent 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 percent rate.

### Amortization

Expenditures on intangible assets that 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 to which the public benefit status is granted 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 residents or non-residents 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 intergovernmental organizations for the supply of goods or services in support of the programs and projects in Kosovo.

### Losses Carried Forward

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

### Foreign tax credit

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 then this can be used to obtain a credit if permitted by the foreign tax authority.

### Transfer pricing

There are transfer pricing provisions in Kosovo that allow the tax authorities to adjust taxable income if the transactions between related parties are not made at arm’s length.

### Special Treatment of Insurance Companies

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

### Personal Income Tax

Under Law Nr.03/L-161 on Personal Income Tax effective from 1 January 2010, Kosovo tax residents comprise of: 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 months period of time, and all entities such as personal business enterprises, partnerships or association of persons which are established in Kosovo or have the place of effective management in Kosovo.

Kosovo resident individuals, personal business enterprises and partnerships are subject to personal income tax on their worldwide income, whereas non-resident individuals, personal 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:

- a) wages
- b) business activities
- c) rents
- d) the use of intangible property
- e) interest
- f) capital gains
- g) lottery winnings and winnings in games of chances
- h) pensions
- i) any other income that increases the taxpayer's net worth.

## Tax Rates

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

### Income tax (annual taxable income in EUR)

0 – 960	0 percent
961 – 3,000	4 percent of amounts over EUR 960
3,001– 5,400	EUR 81.6 + 8 percent of the amount over EUR 3,000
5,401 and over	EUR 273.6 + 10 percent of the amount over EUR 5,400

Taxes must be withheld by the employers on a monthly basis.

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

### Pension and health contributions

As per the Regulation No. 2005/20 on Pensions in Kosovo, the employer and the employee should pay pension contributions at a minimum level of 5%. The maximum level allowed is 15% of the gross monthly salary. Under the Kosovo legislation, foreign individuals are not required to pay pension contributions. There are no mandatory health insurance contributions in Kosovo.

## Value Added Tax

The Kosovo Parliament approved the new Law Nr.03/L-146 on Value Added Tax which due to some technical problems is effective starting from 1 July 2010. This Law replaces the previous Law on Value Added Tax entered into force on 1 of January 2009. Based on this Law, all natural, legal, public and private persons are obligated to register for VAT purposes if they perform the following activities:

- import and export goods or services; or
- supply goods or services with a turnover exceeding EUR 50,000 in the last 12 months. 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 16percent and is applied on domestic transactions and imports of goods.

The Minister of Economy and Finance may, upon decision of the Government of Kosovo after the approval of the Assembly, issue a sub-legal act for introducing a reduced rate not lower than 5 percent for designated supplies of goods and services. The Minister may also introduce a temporary higher rate of VAT not higher than 21 percent, for specific supplies of goods and services.

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

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

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

### 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 the contractors should register for VAT purposes in Kosovo.

### Refund of VAT

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

- a) the VAT return for the last month of a quarter of the calendar year reflects an amount of VAT credit that exceeds EUR 5,000 and provided that;
- b) the taxpayer was in credit status at the end of each tax period (for VAT purposes the tax period is considered to be the month) of such quarter and that all VAT returns and all other tax returns for all the past tax periods have been submitted in due time.

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

- a) the export transaction represents at least 25 percent of the total transactions with entitlement of VAT input deduction and the amount of VAT credit exceeds EUR 5,000 at the end of the tax period (one month) and;
- b) the taxpayer complies with all applicable and VAT provisions and;
- c) all VAT returns and other tax returns for all the past periods (months) are submitted.

## Withholding Tax

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

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

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

- 5 percent withholding tax on income paid to non-resident entertainers for their activity exercised in Kosovo (in case the value of the payments exceeds EUR 1,000 in a tax period)
- 5 percent withholding tax on income paid to nonresidents for services performed in Kosovo (in case the value of the payments exceeds EUR 5,000 in a tax period).

## 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 10percent for all goods imported into Kosovo.

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

The following goods are exempt from customs duties:

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

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

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

## Excise Taxes

Law No. 03/L-112 on Excise Tax in Kosovo 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.

Below rates are currently applicable:

Description	Price per unit
Cigarettes	EUR 25 /conventional unit
Beer made from malt	EUR 500 /HI abs.alc.100% vol at 20 C
Wine of fresh grapes, including fortified wines and other fermented beverages	EUR 500 /HI abs.alc.100% vol at 20 C
Ethyl alcohol of an alcoholic strength by volume of 80 percent vol. or higher; ethyl alcohol and other spirits, denatured	EUR 500 /HI abs.alc.100% vol at 20 C
Ethyl alcohol of an alcoholic strength by volume of less than 80 percent vol.; spirits, liqueurs and other spirituous beverages	EUR 500 /HI abs.alc.100% vol at 20 C
Water, including mineral water, containing added sugar or other sweetening matter or flavored, and other non-alcoholic beverages	EUR 0.045 /L
Motor cars and other motor vehicles principally designed for the transport of persons	EUR500 for each
Petroleum products	EUR0.1-0.385 /L *

*\*Petroleum gases and other gaseous hydrocarbons under tariff code 2711 used for production purposes will be exempt from the excise tax.*

## 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 the immovable properties situated in their territory
- an annual fee for their business activity
- construction permits and demolition fees
- other fees in relation to the services provided by the municipalities.

## Double Tax Treaties

On 1 January 2006, Kosovo entered into a Double Tax Treaty with the Republic of Albania. The treaty is effective since 1 January 2006. Currently, no other treaties are effective.

Kosovo has signed a Double Tax Treaty with Macedonia. However the Double Tax Treaty with Macedonia is not effective yet.

According to Law No. 03/L-071 on Tax Administration and Procedures, if the existing tax laws relative 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.



## Chapter 5

# Employment Regulations



### Employment standards

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

The Kosovo labor law has four priorities and employment regulation is prominent among them:

1. Employment regulation
2. Social security laws
3. Industrial relations
4. Workplace safety.

Employment regulation governs individual employment contracts, including flexibility of hiring through part-time and fixed-term contracts, and 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. It also provides for flexibility of releasing staff, including grounds for dismissal, notification rules for dismissal, priority rules for dismissal and severance pay.

### Employment contracts

Generally, labor relationships in Kosovo, as well as the rights and obligations under the agreements between employers and employees, are set out in employment contracts.

According to the Kosovo Labor Law, an employment contract drawn up in a written form can be for a limited or unlimited time period and must contain in particular:

- a) identity of the parties
- b) general description of the job
- c) workplace
- d) regular working hours per week
- e) starting date of the employment
- f) duration, in case the parties sign a contract for a defined time period
- g) constituent elements of the wage and the day on which it is given
- h) duration of paid holidays
- i) notice deadline to terminate the contract
- j) collective contract in force.

An employment contract must be presented 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. During the probation period, each of the parties may terminate the contract by informing the other party about their decision at least seven days in advance.

## **Termination of employment contracts**

According to the regulations of 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:

- 30 calendar days during the first six months to two years of employment
- 45 calendar days after 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.

For employment contracts with limited periods, the employee may terminate the contract 30 calendar days in advance. In case the employer does not intend to extend the contract with limited period of time, the employer should notify the employee 30 calendar days in advance. In case the employee is not notified within the determined period as above, the employee reserves the right to be paid for 30 calendar days in addition.

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.

## Conditions of employment

### Working hours

The Kosovo Labor Law provides that the regular workday must not exceed eight hours per day or more than 40 hours per week. For the employees who are less than 18 years old the regular workday should not exceed six hours per day. The duration of night work and work carried out a day before or after it must also be no longer than eight hours without interruption. It must be preceded or followed by an immediate daily break.

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 is not lower than 30 percent increase per hour.

If the normal workday is exceeded or the circumstances require extra hours of work, the employee may perform overtime work. This overtime work must be paid with a bonus of 30 percent of the regular rate or may be compensated with holidays. A full-time employee can only work up to 8 supplementary hours per week.

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

The extra hours of work during weekends or on official holidays are compensated with a holiday or payment which are at least 50 percent higher than the extra hours of work done or the normal salary respectively, unless otherwise defined by the collective contract.

### Holidays and absence from work

#### *Annual holidays*

Employees are entitled to annual leave other than public holidays.

The duration of the annual leave is not less than four calendar weeks during a year of work.

For each five years of work the 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 shall not be compensated in money, unless the employment relationship of an employee is about to expire.

When an employee has not completed a full year of work, the duration of the paid annual leave is defined in relation to the duration of work. The periods of temporary disability to work are considered working time.

An employee who is hospitalized or stays at home because of sickness or an accident which can be certified by means of a medical certificate may request cancellation of their annual leave.

#### *Other paid holidays*

In the event of his/her own marriage an employee receives five days of paid leave.

In the event of death of his/her immediate family member, an employee receives five days of paid leave.

In the event of child birth, the employee receives three days of paid leave;

In the event of blood donation, the employee receives one day of paid leave;

When an employee is not able to work because of sickness, the employer must pay the employee 100 percent 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 days as public holidays on certain days during the year while religious holidays are subject to change every year. The following holidays are due for 2012:

1 and 2 January - New Years Day

7 January – Orthodox Christmas

17 February-Independence Day

8 April – Catholic Easter

9 April -Constitution Day and Easter

15 April- Orthodox Easter

1 May- Labor Day

9 May- Europe Day

19 August -Lesser Bajram (end of Ramadan)

25 October -Great Bajram

25 December- Christmas

When public holidays fall on a Saturday or Sunday, the following Monday is considered a holiday.

## Employment documentation

The Kosovo Labor Law indicates that at any time the employee can request that the employer issue them a certificate about the nature, duration and quality of their work and about their conduct. Upon an employee's express request, the certificate may contain data only about the nature and term of the labor relations.



## Chapter 6

# Government Control

### Public procurement

Public procurement in Kosovo is subject to the Law on Public Procurement in Kosovo No. 03/L-241 and the Law on the Procedure for Awarding Concessions No. 03/L-090.

The purpose of the present 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 that shall 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 Concessions Law governs infrastructure concession agreements. The procedures for the award of a concession contract, the content of a concession contract and related matters shall be governed by the Law on the Procedure for Awarding Concessions. However, for matters not covered by the present Law, the provisions of the Law on Public Procurement governing works concession contracts shall be applied.

In practice, as no detailed concessions rules have been drafted, the public procurement tender templates and rules are followed for concessions.

### Competition Law

The Kosovo competition protection system is governed by Law No. 2004/36 dated 8 September 2004 on Competition (Competition Law) promulgated with UNMIK Regulation No. 2004/44 dated 29 October 2004. The main purpose of the Competition Law is to ensure the development of a sound market economy in Kosovo by prohibiting acts that restrict, suppress or distort competition and to harmonize Kosovo's competition system with the standards of EU competition legislation. This is done by adopting some of the core elements found in the Community competition policies and rules. Kosovo Competition

Commission (KCC) is assigned by the Competition Law, to control competition in the relevant market.

Prohibition of abuse of dominant position, prohibition of restrictive agreements, decisions or concerted practices and prohibition of other restrictive practices, when all are carried out by “undertakings” with the purpose of restricting or distorting competition in the market are the main purposes of the Competition Law. “Undertakings” are considered all individuals, public or legal entities, engaged in commercial activity which has an impact on the Kosovo market.

## Environmental laws

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

The purpose of the Law on Environment Protection and other laws above is to promote the establishment of healthy environment for the population of Kosovo by bringing gradually the standards for environment towards those of the European Union. In addition, there are some pending laws, including one on environmental permits.



# Appendix A



## Useful information for Pristina

Country Code:	381
Pristina City Code:	038
General information:	Tel: 988
Ambulance:	Tel: +381 (0) 38 94 / 500 600 / 223 987
Fire Brigade:	Tel: +381 (0) 38 93 / 500 997
Police Station:	Tel: +381 (0) 38 911 / 92 / 541 277
Pristina Airport:	Tel: +381 (0) 38 59 58 123
Radio Taxis:	Tel: +381 (0) 38 555 333 / 515 151 / +377 44 111 222

## Main Hotels

### **Emerald Hotel**

Pristina-Skopje Highway  
Pristina, Republic of Kosovo  
Tel. & Fax: +381 (0) 38 588 888  
Email: [contact@emeraldhotel.info](mailto:contact@emeraldhotel.info)  
[reservation@emeraldhotel.info](mailto:reservation@emeraldhotel.info)

**Hotel Ambassador**

Ardian Krasniqi str. No.1  
10000 Pristina, Kosovo  
Tel: +381 38 248 300/ 400  
Email: info@hotel-ambasador.com  
www.hotel-ambasador.com

**Hotel Prishtina**

Vaso Pasha str., No. 20, 10000, Prishtina,  
Tel: +381 38 223 284  
E-mail: reservations@hotelprishtina.com

**Grand Hotel Pristina**

Nena Tereze str., p.n., 10000, Prishtina,  
Tel: +381 38 220 210 / 220 211  
E-mail: info@grandhotel\_pr.com

**Hotel Victory**

Nena Tereze str., p.n., 10000, Prishtina,  
Tel: +381 38 543 277 / 543 267  
E-mail: info@hotel-victory.com

**Hotel Baci**

Bulevardi i Deshmoreve blvd., p.n.10000, Prishtina  
Tel: +381 38 548 356 / 548 357  
E-mail: hotel@bacicompany.com

**Hotel Afa**

Ali Kelmendi str., no 15, 10000, Prishtina,  
Tel: +381 38 225 226 / 225 227  
E-mail: office@hotelafa.com

**Hotel Gorenje**

Veternik str., 10000, Pristina,  
Tel: +381 38 557 700  
E-mail: info@hotelgorenjenititiki.com

## Restaurants

### **Vila Gërmia**

Parku Gërmia - Pristina

Tel: +381 38 517 741

E-mail: [info@vilagermia.com](mailto:info@vilagermia.com)

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

Pristina

### **Tiffany's**

Fehmi Agani Str.

Tel. +381 38 24 40 40

Pristina

### **Pinnochio**

24 Maj n0. 115

Tel: +377 44 20 29 52

Pristina

### **A&A**

Rexhep Mala Str.No. 39

Tel. +381 38 23 95 35; +377 44 16 17 13

Pristina

### **De Rada**

UÇK Str. No.50 Pristina

Tel: +381 38 22 26 22

### **Hemingway**

Ilaz Kodra Str. No.9 Pristina

Tel: +377 44 14 56 37; +381 38 71 74 41;

+386 49 14 56 36

Pristina

# Appendix B



## IMPORTANT LINKS AND ADDRESSES

### Websites of institutions in Kosovo

Assembly of Kosovo

<http://www.assembly-kosova.org/>

The Office of the Prime Minister of Kosovo

<http://www.ks-gov.net/pm>

Ministry of Trade and Industry of Kosovo

<http://www.mti-ks.org/>

Ministry of Finance and Economy

<http://www.mfe-ks.org/>

Ministry of Science, Education and Technology of Kosovo

<http://www.ks-gov.net/masht>

Ministry of Agriculture, Forestry and Rural Development

<http://mafrd-ks.org/>

Ministry of Labor and Social Welfare

<http://www.mpms-ks.org/>

Ministry of Transportation and Telecommunications of Kosovo

<http://www.mtpt.org/>

Ministry of Environment and Spatial Planning

<http://www.ks-gov.net/mmph/>

Ministry of Public Services

<http://www.ks-gov.net/mshp>

Central Banking Authority of Kosovo

<http://www.cbak-kos.org/>

Independent Commission for Mining 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/>

Statistical Office of Kosovo

<http://www.ks-gov.net/esk/>

Society of Certified Accountants and Auditors of Kosovo

<http://www.scaak-ks.org/>

Kosovo Pension Savings Trust

<http://www.kpst.org/>

Kosovo Energy Corporation

<http://www.kek-energy.com/>

Post and Telecommunications of Kosovo

<http://www.ptkonline.com/>

EULEX Kosovo - European Union Rule of Law Mission in Kosovo

<http://www.eulex-kosovo.eu>

#### Websites of international institutions in Kosovo

UNMIK – United Nations Mission in Kosovo

<http://www.unmikonline.org/>

European Union in Kosovo

<http://www.euinkosovo.org/>

World Bank – Kosovo

<http://www.worldbank.org/kosovo>

European Agency for Reconstruction

<http://www.ear.eu.int/kosovo>

UNDP United Nations Development Programme – Kosovo

<http://www.ks.undp.org/>

OSCE Mission in Kosovo

<http://www.osce.org/kosovo>



United States Agency for International Development – Pristina Office

<http://usaid.gov>

## Important addresses in Kosovo

### Banks

#### **Raiffeisen Bank**

UCK Street 51

10000 Pristina

Tel.: +381 (0)38 226 400, 401

Fax: +381 (0)38 226 408

<http://www.raiffeisen-kosovo.com>

[info@raiffeisen-kosovo.com](mailto:info@raiffeisen-kosovo.com)

#### **KASA Bank (recently acquired by Nova**

#### **Ljubljanska Banka)**

5 Rexhep Luci Street

10000 Pristina

Tel.: +381 (0)38 246 180

Fax: +381 (0)38 246 189

<http://www.nlbprishtina-kos.com>

[info@nlbprishtina-kos.com](mailto:info@nlbprishtina-kos.com)

#### **ProCredit Bank**

Nëna Terezë No. 16

10000 Pristina

Tel: +381 (38) 555 555

Fax: +381 (38) 248 777

<http://www.procreditbank-kos.com>

[info@procreditbank-kos.com](mailto:info@procreditbank-kos.com)

**Economic Bank**

Qafa, No:5/A

10000 Pristina

Tel.: +381 (0)38 22 53 53

Fax: +381 (0)38 22 54 54

<http://www.bekonomike.com>

[bek@bekonomike.com](mailto:bek@bekonomike.com)

**Bank for Business**

UCK Street, No. 41

10000 Pristina

Kosovo / UNMIK

Tel.: +381 (0)38 244 666

Fax: +381 (0)38 243 656, 657

<http://www.bpb-bank.com>

[hq@bpb-bank.com](mailto:hq@bpb-bank.com)[hq@bpb-bank.com](mailto:hq@bpb-bank.com)

**Banka Kombetare Tregtare – Kosove Branch**

Qyteza Pejton, No.9

10000 Pristina

Kosovo

Tel.: +381 (0)38 222 910

Fax: +381 (0)38 222 907

<http://www.bkt.com.al>

[infoBktKosova@bkt.com.al](mailto:infoBktKosova@bkt.com.al)



## Insurance Companies

### **DARDANIA Insurance Company**

Sylejman Vokshi, No.4

10000 Pristina

Tel.: +381 (0)38 244 080, Fax: +381 (0)38 244 081

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

### **SIGAL**

UCK, No.60

Tel: +381 38 240 241, Fax +381 38 240 241

[www.sigal-ks.com](http://www.sigal-ks.com)

### **ILYRIA Insurance**

Nëna Terezë, No. 33

10000 Pristina

Tel:+381 38 225 385

Fax: +381 38 225 384

<http://www.illyriainsurance.com>

### **SIGMA**

Pashko Vasa, P/N

10000 Pristina

Tel.: +381 38 246 301, +381 38 246 302

[www.sigma-ks.com](http://www.sigma-ks.com)

### **KOSOVA E RE Insurance Company**

Fehmi Agani, No. 35

10000 Pristina

Tel.: +381 38 229 893,

Fax: +381 38 229 435

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

### **CROATIA SIGURIMI**

Insurance Company

Fehmi Agani, No.D/1-2

10000 Pristina

Tel.: +381 38 246 – 956,

Fax: +381 38 246 957

### **SIGURIA Insurance Company**

Qamil Hoxha, No.15

10000 Pristina

Tel.: +381 38 248 848,

Fax: +381 38 248 850

[www.ks-siguria.com](http://www.ks-siguria.com)

### **SIGKOS**

Vokshi Street, P/N

10000 Pristina

Tel.: +381 38 230 023; 240 222,

Fax: +381 38 24 02 22

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

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



## **INSIG**

Mujo Ulqinaku, No.6

10000 Pristina

Tel.: +381 38 249 900,

Fax: +381 38 249 901

[www.insig-ks.com](http://www.insig-ks.com)

## **ELSIG**

Trepca, No. 15

10000 Pristina

Tel: +381 38 221 112,

Fax: +381 38 221 115

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

## **IAK (Insurance Association of Kosova)**

Enver maloku, No. 98

10000 Pristina

Tel: +381 38 245 110,

Fax: +381 38 245 110

## **Other**

### **Investment Promotion Agency of Kosovo**

Headquarters in Pristina

3 – 5 Perandori Justinian

Oyteza Pejton'

10000 Pristina

Kosovo

Tel./Fax: +381(0)38 200 36041

Email: [info@invest-ks.org](mailto:info@invest-ks.org); Web: <http://www.invest-ks.org>

### **Economic Initiative for Kosovo (ECIKS)**

20/23 Nussdorfer Strasse

A-1090 Vienna, Austria

Tel.: +43 (0)1 890 50 26

Fax: +43 (0)1 890 50 26 26

Web: [www.eciks.org](http://www.eciks.org)

Email: [info@eciks.org](mailto:info@eciks.org)

### **Central and Eastern European Business**

Information Center (CEEBC)

Tel.: +381 (0)38 549 516

Fax: +381 (0)38 549 890

Email: [dalipil@state.gov](mailto:dalipil@state.gov)

### **Kosovo Chamber of Commerce**

20 Nena Tereza Street

Pristina

Tel.: +381 (0)38 524 741

Fax: +381 (0)38 23 397

Web: <http://www.odaekonomike.org/>

### **World Bank Office**

Mujo Ulqinaku, No.

10000 Pristina

Tel.: +381 (0)38 549 459 or 549 998

Fax: +381 (0)38 549 780

Web: [www.worldbank.org/kosovo](http://www.worldbank.org/kosovo)

### **Riinvest Institute**

Zona Industriale, Building no. 2, K/4

Tel: + 381 (0) 38 601 320; 601 321

Fax: + 381 (0) 38 601 233

Mob: + 377 (0) 44 542 911

Web: <http://www.riinvestintitute.org>

### **American Chamber of Commerce in Kosovo**

6 Gustav Majer

10000 Pristina

Tel: +381 (0)38 246 012

Fax: +381 (0)38 248 012

Email: [info@amchamksv.org](mailto:info@amchamksv.org)

Web: [www.amchamksv.org](http://www.amchamksv.org)

### **Kosovo Business Support – KBS**

116 Nazim Hikmet Street

Pristina

Tel.: +381 (0)38 243 631

Fax: +381 (0)38 517 216

Web: <http://www.usaidkbs.com>

### **Kosovo Regional Enterprise Agency**

Tel.: +381 (0)38 245 343

Email: [kreaoffice@yahoo.com](mailto:kreaoffice@yahoo.com)



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