FISCAL POLICY IN KOSOVO AND ITS IMPACT ON ECONOMIC DEVELOPMENT

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Abstract: Fiscal policy in Kosovo (1999) is based on government revenue and expenditure for achieving certain economic and social goals, and to influence macroeconomic indicators. Fiscal policy in this direction should be in the function of development and economic growth, with a high employment rate and protected from inflation.

After the war in Kosovo, an UNMIK mission was set up, which from June to September 1999 was designated to provide donations in order to meet the emergency needs for financing and activating public administration, infrastructure rehabilitation and public services.

In September 1999, the United Nations Civilian Administration established the Central Fiscal Authority (CFA) in Kosovo to build fiscal policy.

Fiscal policy under specific conditions in Kosovo was tightened to mobilize financial means to cover public needs. So initially it was determined to collect funds for the Treasury bypassing the aspect of development of Kosovo. No mitigating administrative measures have been taken for economic development.

Keywords: fiscal policies, economic development, Kosovo

THE HISTORY OF FISCAL POLICY

Taxes are the basic financial security instrument of state budget revenues. Their role has historically changed with the change of nature and state functions, as well as the financial instrument by which the state provided inflow financial flows, revenues to meet some of its own expenses, mainly military, judicial and administrative expenses, in taxes that the state today uses as an incredibly efficient tool by achieving many goals of its economic, social, educational, health policy, etc. If through taxation in the beginning of the 20th century was distributed 10% of national revenues, today this figure in many countries has reached 40%. Taxes are as early as the state's own early history.

TAX DEFINITION

Scientific theory presents many difficulties in defining the taxes. Many world-famous scientists have given their definitions on this issue. They have tried to define the tax with some sentences, also pointing to the differences between taxes and other financial revenue collection instruments. Here are just some of the tax-related definitions, which say:

- Tax is part of the wealth that each citizen gives to the state from his property to preserve the rest of the property (Montesquien);
- Taxes are compensation for the protection of citizens, provided by the state for their protection (Samuel V. Pufendorf);
- The tax is the price paid by the citizen to the state to compensate for its share of the cost of the public services it will spend (De Viti De Marco);
- Tax is the money that the state collects from individuals on the basis of its sovereignty, without direct reversal, for the purpose of public loading (Gaston Jèze);
- The tax is mandatory payment, unqualified for redemption (Gunter Schmolders);
- The tax is the money of physical and legal persons, and eventually of public enterprises, according to their tax capability, which is collected by the public authority on the basis of its sovereignty and for which it does not give reimbursement in order to cover public expenditures (L. Mehl);
- Taxes are mandatory payments of revenues to the public-judicial bodies, and for which these bodies do not give any tax payers any particular redemption (H. Colms);
- Tax payment is a performance of a national duty, which consists in the issue that every citizen at the margins of his/her possibilities, to give his share of social community expenses (H. Laufenburger);
- Tax is a mandatory contribution of economic entities, with a share to cover state expenditures, while the rest serves for other national revenues distribution (Gerlof Vagner)\footnote{See: Gerlof, Vagner, Begriff und Wesen der Steuer, in Handbuch der Finanzwissenschaft, II. J.C.B. Mohr (Paul Siebeck), Tubingen, 1956, p. 246; Sabahudin Komoni: Finance, Textbooks and Learning Tools of the Autonomous Socialist Province of Kosovo, Pristina, 1985, p. 341; @arko Ristić, Fiscal Economy, v.c. p. 199.}. From all of these definitions, including the main elements, we have extracted a summary of the definition of tax:

- Taxes can be defined as compulsory cash payments of physical and legal persons who are collected on the basis of their tax capability by the state on the basis of its sovereignty and for which it does not provide redemption. They serve to cover public spending and redistribute national revenues.

In the Albanian legislation on taxes, the tax is defined as "a mandatory and irrevocable payment in the state budget, which includes administrative penalties and interest for late payment". In this definition we find four very important elements:

- Tax is a payment which goes to the state budget,
- Tax is a mandatory payment,
- Tax is an irrevocable payment,
- Administrative penalties along with late payments have a tax character

Fees (taxes) – Fees has the same character with taxes. Fees are another instrument of monetary revenues of the state budget. The difference between them lies in the fact that while taxes are considered as an individual contribution entities, to the public goods they benefit, fees are a reward for services that the state makes to the tax payer. Fees in addition to service are also linked to the monopoly position of a limited resource or service. Services by the state may be selected by the tax payer or imposed by legal provisions. Volunteering is also noted in the fees, but this voluntarism results relatively.

In Albanian legislation on fees (taxes), fees are defined as follows: "The fee is a contribution required to be paid by any person who directly benefits from a public service".

Even in this definition there are some essential elements: the fee (tax) is the required contribution, the tax is paid by every person, only persons who directly benefit from a public service.

Customs tax - besides taxes and fees (taxes) as very important incomes of the state are also customs revenues. From an institutional point of view, customs are state bodies dealing with the control of goods entry and exit, as well as the determination and collection of tariffs and taxes with customs character.

Customs tax - is a financial liability imposed by the government on import, export or transit goods. As institutions in charge for the control of the entry and exit of goods from one state to another, or are installed in all border crossing points, whether it is a land, sea or air. For all goods that are imported or exported from a country, it is clearly set by the law by the Assembly, a policy that is applied separately for each commodity, and the rate of customs duty to be paid once the goods enters or leaves the country. All the legislation regulating the customs activity is built with the main Customs Code, which is at the same time the main and fundamental law in the field of customs.

Customs activity, their organization and direction is built in fulfilling three main functions:

**FISCAL POLICY OBJECTIVES**

In the process of formulating fiscal policy, policy makers (the government) sets the objectives they intend to achieve, as well as the instruments with which those objectives will become feasible, complying with the principles of fiscal management, such as:

- transparency regarding the objectives, implementation of fiscal policy and publication of public accounts;
- stability of fiscal policy making process;
- the efficiency of fiscal policy impact on the economy;
- responsibility in managing public finances;
- efficiency of modeling and implementation of fiscal policy;
- fair distribution, including that between generations
The fiscal policy objectives relate to the growth of general social welfare as the primary goal of a contemporary society. This welfare is provided only in the conditions of an environment that is characterized by economic, political and social stability. So when we talk about the fiscal policy objectives, we consider:

- meeting public needs through a sound public financing system
- realization of full employment,
- increasing the rate of economic growth,
- maintain price stability,
- balance of payments stability,
- improving working conditions, including qualification structure of the workforce and technological progress,
- saving stimulation,
- investment stimulation
- increasing the competitiveness of products and services.

The realization of these objectives depends on: a) the ability of the government to co-ordinate with fiscal instruments to influence the composition and level of aggregate demand; b) the accuracy of macroeconomic analysis related to the trends of the main economic and financial indicators; and c) regulation and institutional arrangements for coordination of macroeconomic policies.

EFFECTS OF FISCAL POLICY IN MEETING PUBLIC NEEDS
Public expenditures are typically classified in two ways. Firstly, on a “horizontal” basis across all ministries in the form of public sector wages and salaries, spending on goods and services, transfers or even capital investments in the public sector. Second, on a "vertical" basis, more in-depth allocation of resources from the central government to different governmental levels. For example, individual programs of ministries of education, health, etc. Looking at another perspective, a part of the government budget is used to finance investments for the human resources development as well as their training, including sports, science or culture. Expenditures of this nature help both the public and the private sectors. A very important segment of public spending is also dedicated to the social protection of certain categories of people: state-funded pensions; social assistance payments to the unemployed; social assistance for those who are physically challenged, etc.

According to the Fiscal Policy and Economic Development report, published on 02.07.2007 by the World Bank, efficient governments achieve better results from managing their budget resources. This study is based on quantitative analysis and case studies confirming the more productive the public spending, the lower fiscal deficits and the greater the reliability of non-deforming taxes, the more economic growth can be encouraged.

This report reviews public spending trends and the tax system in Eastern Europe, Turkey and Central Asia (ECA) since 1990, comparing with trends in highly-developed countries around the world. Due to the large social transfers/moves, middle-income Eastern European countries have greater governmental characteristics compared to middle-income countries in Asia or Latin America. Public primary spending in Croatia are more than double that in Thailand, while the eight eastern European countries joining the EU in 2004 spend on average three times as much on social transfers as Korea. Low-income countries in the ECA have smaller governments, bringing them closer to the countries with high economic growth compared to those in the low-income countries.

THE FISCAL POLICY ACTION ON ECONOMIC GROWTH
Fiscal policy measures can be oriented to cope with the short-term hurdles caused by harmful flows in economy and eliminating the causes of those flows and establishing stability with stabilization policy measures. Except in the short run, fiscal policy can be oriented to long-term GDP growth, respectively per capita income. In this case it is about the economic growth rate.

Economic growth is measured primarily by GDP growth within a given period. This increase means both increase in public spending and revenues, improvement of living conditions and a rise in the standard of living.

With economic and fiscal policy measures is aimed to achieve an optimal measure of economic growth rather than maximum. The maximum rate is reached by full employment of all production factors. But that would be impossible in practice. When drafting and formulating fiscal policy, other factors such as environmental protection should be taken into account. Therefore, there can be no question of full employment of all factors of production in ideal conditions. The optimal rate of economic growth means utilization of production factors taking into account other factors influencing the general social interest.
Public debates about economic growth, focus mainly on measures that promote investment, reduce the budget deficit to increase savings in the country, increase public spending on education, and reform the state regulation, including regulation regarding environmental protection, because of high cost compared to usefulness.

**THE FISCAL POLICY ACTION ON EMPLOYMENT AND THE LEVEL OF PRICES**

The state and other public - juridical bodies have a significant share of national revenues. They appear on the demand side of the market and directly buy goods and pay for the services they use, same as non-public entities. From public revenues, state pays pensions, unemployment allowances, and other social benefits, with which it increases the purchasing power of those who use these payments. Thus, the state indirectly affects the growth in demand in the market. However, the increase in demand is also affected by the reduction of the tax burden of taxpayers, tax incentives and exemptions. With the reduction of the tax burden, the purchasing power of taxpayers increases, which as a result increases the aggregate demand.

In terms of full employment, aggregate demand growth does not affect the production growth and the number of employees. In this case, the increase in demand would result in an increase in the price level. In order to prevent the increase of the price level, the demand should be reduced to the appropriate level (of the bid). Aggregate demand is reduced by reducing public transfers, reducing public activities, increasing tax burden, and removing tax relief and exemptions. All of these measures taken to reduce public spending and increase public revenue are known as restrictive or fiscal contingent measures.

If the aggregate demand is lower than the supply, there is still a change in the price level, which means that prices fall. To reach the equilibrium, state needs to guide fiscal policies in increasing aggregate demand through increased spending and lower public revenues. In the side of expenses, state increases social benefits, opens new jobs, increases investment activity and reduces the tax burden. These measures have an impact on the growth of the purchasing power of citizens and thus in the growth of general demand and are known as measures of expansive fiscal policy.

The public spending multiplier shows how much revenues increases (decreases) when public spending increases (decreases). Thus, in efforts to reduce unemployment and increase the overall demand, the state organizes large-scale public work. With the opening of new jobs and the realization of the employee’s incomes in this sector, the demand for products and services in the market increases. Demand growth affects production growth, and this is engagement of the new workforce who with the realized earnings still appear in the market, and so on. In this case, it is a positive multiplier.

On the contrary, if with the fiscal policy measures is aimed lowering the demand, then the tax burden increases, which affects the reduction of purchasing power, and this causes a reduction in the demand resulting in a reduction of production. Production reducing automatically affects the reduction in the number of employees and this again reduces the demand. This process will be repeated until the effects of increasing the tax burden are weakened. In this case, we are dealing with a negative multiplier.

The accelerator shows the ratio between the net investment value and increase of the demand. With the help of additional public spending, such as the granting of loans with good conditions, granting of subsidies, the receipt of guarantees, state influences the acceleration of the activity of the economic entities in order to put a partial balance. This action in practice is known as accelerator action, inductive action of public spending, or tertiary impact of public spending.

The state has an impact on increasing or decreasing the level of employment by making the investments allocation in intensive activities, providing tax incentives for enterprises that engage additional workforce, reducing the tax burden on persons engaged in manufacturing and service activities, etc.

Through public spending as an instrument of fiscal policy, can also be influenced by improving the qualifying structure of the unemployed, to facilitate their employment, then reducing the retirement duration of work and per diem, in order to open up new jobs labor.
Figure 1. Unemployment, inflation and product growth in developed economies

Source: World economic outlook, 2004

The figure clearly shows the correlation between these macroeconomic indicators. This relationship is expressed separately between unemployment and inflation and shows that in periods of inflation growth, unemployment drops sharply, and vice versa in periods of lower inflation, the unemployment increases. Similarly, product-inflation-related links are also shown. The figure shows that changes in the product growth rates have dictated the change in the inflation rate. Although in some periods there is no clear correlation between product and inflation. This can be explained as a slow adjustment to monetary and fiscal policy changes, but anyway to unfavorable performance and other economic policies that affect economic growth and price levels.

THE FISCAL POLICY MEASURES
As the GDP increases with the increase of the utilization and the better use of the factors of production, then among the measures of fiscal policy that can be used for the promotion of economic growth can be counted those that have an impact on the increase of labor productivity and the better use of capital, technological progress, and better utilization of production factors such as:

- Stimulating investment through tax relief
- Subsidizing the various economic sectors
- Increase of infrastructure investments
- Encouraging and increasing investment in research, education and training, removing excessive regulation that could hinder business expansion

STIMULATING INVESTMENT THROUGH TAX RELIEF
A large part of Eastern European countries in the struggle to attract foreign investment offer investors many tax reliefs and incentives. Poland, Czech Republic and Hungary are some of the countries that during their transition period attracted record-high amounts of foreign investment. A number of economic analysts consider that the attractiveness of these countries is related to the great tax reliefs and incentives that were offered to foreign investors as compared to domestic investors. On the other hand, some experts consider that other geopolitical and economic factors had a greater influence on the flow of foreign investment. But the indisputable fact is that these countries with a strategy that had previously been built in this way managed to develop entire regions that were previously overlooked, to increase employment, exports and to put in place new production technologies.

But the measures in the paper will not yield any results unless the real obstacles that the investors demand are not avoided beforehand. The research of "Economists Intelligent Unit" shows that corruption, large bureaucratic structures and political instability are the main reasons that drive investors away from the region.

A large number of foreigners who have intended to invest in Macedonia have faced the problem of complicated bureaucratic procedures for starting a business, corrupting civil servants, mixing business policy, court inefficiency, lack of private ownership, and change of laws.
These reasons are much more powerful not to invest in Macedonia than is the security situation. Israel is also a country that has been permanently insecure for years, yet it has managed to attract far more investment than any stable country. Macedonia has one of the lowest rates of profit tax at a rate of 15% (except Kosovo, which since 2009 has a 10% rate) in the wider region, but it is evident that this is not enough for attracting foreign capital. A large number of countries that have tax reliefs for foreign investors have abandoned such practices because of EU remarks, which does not allow privileged treatment of foreign investors. There are the following incentives and reliefs for foreign investors:

- National treatment of foreign investors
- Simple procedures for issuing working permits to foreign citizens
- It is allowed a 100% ownership of foreign capital
- There are no boundaries to profit repatriation
- Customs and tax exemptions during the first three years of work of a foreign enterprise, depending on the size of foreign capital participation (minimum participation should be 20%)
- Reduction of tax base if the profit is reinvested in regions which are specified as not sufficiently developed
- Basic assets that are used in the production process can be imported free of charge and without customs
- Profit which is reinvested for supply of basic assets for the production process and for the protection of the environment is not subject to tax burdens
- Low tax rate in profit of 10%
- Possibility for exemption, reduction and return of Value Added Tax (VAT)

**HOW DO TRANSITION COUNTRIES ATTRACT INVESTORS?**

The Czech Republic is one of the most successful countries in Eastern Europe in attracting foreign investment. Currently in the Czech Republic there are about 2,000 companies controlled by foreign investors and in which around 300,000 people are employed, which account for about 65 percent of the total export of the Czech Republic. The corporate tax rate in the Czech Republic amounts to 35 percent. In order to encourage employment in the country, especially in underdeveloped parts, the Czech Republic applies some reliefs and tax incentives for foreign investors.

For larger investments than 10 million dollars, enterprises are exempted from tax payment for ten years, while for each newly-employed, the government pays the employer a maximum of $ 5,700. The amount depends on the degree of development of the region in which the enterprise is located. The state also covers 50 percent of the training and training costs of the newly recruited. Foreign investors are also exempted from paying customs for the import of equipment and cars.

There are thirty free trading and industrial zones in the Czech Republic. Enterprises from any country can rent or build a warehouse where they can import goods and then export them to other countries without paying customs for this. Obligations for customs duties are only for goods sold in the domestic market. Slovakia also provides many attractive incentives for both foreign and domestic investors. Here are some attractive tax incentives and cash compensation for the creation of new jobs and training of employees. These privileges have been accepted by the European Union and Slovakia is the only country from Visegrad, where tax privileges are guaranteed. Profit tax in Bulgaria moves from 28 percent to 37 percent, depending on profit and type of enterprise. Dividends paid are taxed at a rate of 15 percent. Non-monetary investments in Bulgaria have preferential status.

For some foreign companies it is foreseen that under certain conditions during the first three years of work they will not pay tax on profits while in the next two years they will pay 50 percent of the profit tax rate. The conditions are that the investment should not be less than $ 5 million, the enterprise has at least 50 percent of foreign capital and 50 percent of the value of tax incentives to be invested in underlying assets.

Since 1993, Bulgaria has set up a tax exemption for foreign companies investing in high technology. Foreign companies are not allowed to own agricultural land, real estate or natural resources, but they can get them with a concession for at least 70 years.

Foreign investors in Slovenia have national treatment and no major exemptions or incentives are foreseen in comparison with domestic investors. The profit tax rate in Slovenia amounts to 25 percent, while with some exemptions foreseen during reinvestment the real rate may reach 20 percent. The legal provisions provide for the possibility that the tax base is reduced to 20 percent for the amount invested in the underlying assets, namely up to
30 percent if the enterprise employs people who have been unemployed. It is also envisaged that the loss during the first five years of work will be carried over to the future profit margin as well as the opportunity for accelerated amortization. In Slovenia there are two free economic zones (Maribor and Koper), where the corporate profit rate reaches 10 percent, while the import of equipment, cars, materials, raw materials and services needed for the production destined for export has been released from taxes.

How important is fiscal policy and the competitive ability of taxes can be illustrated by Slovakia’s success in attracting Hyundai to invest in a major vehicle project. The country competed fiercely with its neighbors, combining the comparative advantages of wages with extraordinary financial resources. This example can be seen from two perspectives. One is about accepting ten new countries - including the eight former communist countries - in the EU. It seems that accession to the European Union obliges member states to find legislative uniformity. However, there are spheres in which national prerogatives remain important, resulting in significant differences even when the general principles of the policy are the same. Tax legislation is such a sphere.

A second point concerns the ability of governments to use fiscal policy in order to encourage more business. Some newly-admitted EU countries are lowering taxes to such an extent that old members are talking about “unfair competition”. Slovakia has set a single income tax quota (19 percent) by imitating the model the Baltic countries have been experimenting for years.

Corporate taxes have also decreased in Poland and Hungary. The policies of these Central European countries have created mixed reactions among the old EU member states. Austria, for example, has decided to develop similar policies in order to curb a possible capital outflow. Germany and France are arguing that tax competition reminiscent of competitive depreciation in which exchange rates are used to improve competitive export competitiveness. The result, they warn, will be a waste for everyone. France and the Germans also argue that it is not fair that countries that benefit from EU funding and structuring funds to practice tax competition against donors.

Although national fiscal policies represent a wide range of versions within the EU, the response of some of the more stable member states should not be underestimated. Dependent social assistance systems and high salaries are expediting job vacancies and closing job vacancies. At the same time, the EU’s failure to implement the objectives of the Lisbon Plan - which aims to make the European Union the best competitive in the world in terms of knowledge-based economy - reinforces this fear. It may only be a matter of time before the European Commission in Brussels deals with the definition of "rules" aimed at administering tax competition within the European Union.

Meanwhile, the candidates and those who want to be candidates for EU membership are involved in conflicting political endeavor. It is clear to Bulgaria, Romania and Croatia that they cannot simply sit by seeing what their neighbors are doing and that they need to simplify and improve their tax systems. Romania, for example, should reduce its social security contributions to a much lower level. At the same time, these countries must find ways to keep control of their budgets, while finding other revenue needed to finance development projects.

Tax competition presents both opportunities and risks. Lower taxes can stimulate business and, when the conditions are appropriate, can increase budget revenues. However, if they fall significantly, they may be damaging to budget revenues and may endanger public goods, such as infrastructure, education, and health care.

SUBSIDIZING THE VARIOUS ECONOMIC SECTORS

Infrastructure investments can help boost economic development if project selection is done properly and operational and maintenance costs are funded appropriately. The abolition of implied subsidies, especially in the energy and water supply sectors, could create potential sources that can be used for maintenance, while infrastructure becomes more attractive for private investment. For example, Armenia has taken important steps in lowering subsidies for prices and improving revenue collection in the energy sector by providing financial opportunities while providing a suitable and secure network for vulnerable families.

Viewed from the cornerstone of regional competition in Kosovo, besides the agricultural sector, it is difficult to develop any other sector that would be able to withstand fierce regional competition, so our proposal would be that this sector be a government priority in terms of subsidies. It is known that based on the regulation no. 2002/17 of 2004, several reliefs have been made for the purchase of agricultural machinery and the raw material used for agricultural products, where in the case of imports of semi-products and the above-mentioned machinery the value added tax is not paid.
INCREASE OF INFRASTRUCTURE INVESTMENT
A developed and competitive economy to the global economy cannot be imagined without a pre-developed infrastructure. Since Kosovo, after a few years of occupation by the Yugoslav-Serbian regime, and a post-war negative economy, has been forced to seriously think and invest in infrastructure. So, infrastructure is the key to economic development. It is impossible to imagine and cannot expect investments by foreign investors without regulating the issue of electricity, and the road infrastructure should at least be of the level of the countries of the region.

In Kosovo, up to 2007, road infrastructure investments have been of a low level, while from the beginning of 2008 to the present we see that road and education infrastructure compared to other sectors have a priority from the government, which from our point of view is considered a good government move. As an improper or conditionally said a government failure is considered to be the state of electricity.

THE ACTION OF FISCAL POLICY ON THE REDISTRIBUTION OF INCOME AND WEALTH
The fiscal policy influences the establishment of desirable relationships on the economic power of citizens. It should be emphasized that here the state does not intend to affect the equality of citizens with regard to economic power, because this can have consequences in losing motivation that with better work and greater efforts and with great responsibility in the place of work, to realize higher income respectively wealth. This perspective may also be determinant for the measures to be taken to establish certain measures on income and wealth.

Differences in the amount of income may be reduced through: a) application of progressive income tax rates; b) reliefs and exemptions from the tax burden of low-income taxpayers; c) application of differential taxation on a part of the income, so that higher taxpayers are charged with a higher tax percentage.

Revenue redistribution is also influenced by public spending as an instrument of fiscal policy through forms that increase greater attention to low-income categories. When assessing the measures, the impact of indirect taxes should always be considered. The regressive actions or effects of these taxes are greater, the greater the number of taxable products and services, the greater the tax burden, and the smaller the selection of products and services in circulation.

A fairer distribution of wealth can be reached by these fiscal policy measures: a) application of inheritance and gift tax as well as real estate tax; b) providing lower construction material prices for the low-income category; c) temporary relief from taxes; d) sale of land parcels owned by the state on favorable terms; e) and measures that increase the saving.

OTHER EFFECTS OF APPLYING FISCAL POLICY INSTRUMENTS
Fiscal policy instruments can also be applied for other purposes in the field of education policy, demographic, cultural, construction, health and commercial policy. The state is represented as employer in public enterprises, public administration, and law enforcement agencies. Through customs policy, the state increases export and reduces import, thereby reducing the deficit in the balance of payments and improving the value of the national currency. Fiscal policy is also affected by regional development and the improvement of the economic structure.

Fiscal Function - The main fiscal role is actually the political role of finance. It aims to protect and promote domestic production, but in parallel with this customs collect huge revenues from the tariffs paid by the companies which import from abroad.

Economic function - viewed from this angle the customs have the objective to protect and develop the national economy. Customs as an important state body by applying tariffs approved by the Assembly, controlling the licenses and the origin of the goods, aim at stimulating and expanding domestic production, encouraging and facilitating those import goods which are needed for the domestic economy, as well as stimulating and encouraging investment and foreign technologies.

The defense function - being located and installed at the border crossing points, the customs control and oversee the entire foreign trade. They do not allow illegal arms trafficking, fight terrorism, fight narcotics trafficking, control and stop the traffic of dirty money, and prohibit the circulation of written materials that affect national security.
SUMMARY
The current tax system in Kosovo is designed to be simple for both business and administration. Based on the data presented above it can be seen that Kosovo has applied a tax rate of 20% on profits until 2009, while the countries of the region have a much lower rate which creates an unfavorable climate for potential investors.

It is also clear from the table that most of the countries in the region have very high VAT rates in relation to Kosovo, and also within the VAT range apply reduced rates for certain categories of goods as Kosovo applies only two tax rates 0% and 15%.

There are also differences in social security contributions paid in these two countries at 35.8% in Serbia and 36.1% in Montenegro. While these contributions in Kosovo are paid for pensions, where 5% is paid by the employee and 5% by the employer.

Then individual income tax on wages in Kosovo is taxed at a progressive rate as in Montenegro, but in Kosovo the tax base is higher whereby the annual income of more than €960 is initially taxed at a rate of 5% and continues for higher income levels up to a tax rate of 20%, while in Montenegro the tax base is lower where the annual income from salaries over €786 is taxed at a rate of 16% and the highest rate is 24%.

Then when looking at the general tax legislation of these countries it is noticed that their tax systems also apply to individual incomes up to 15% (Montenegro). Serbia applies a standard tax rate for individual salary income 12%. Serbia applies excess taxes of 10% on all types of revenues that exceed four average annual wages, the amount of which is determined by the Statistics Agency.

Some countries that have now become EU members (Poland and the Czech Republic) have proposed changes to their tax system focusing on lowering the tax rate. Generally, for all the tax rates in the countries we have reviewed, and if we compare them with tax rates in Kosovo, there is room for change that needs to be argued and designed in harmony with government policies and objectives by taking into consideration the facts that will arise as a result of the accompanying analysis.

As noted above, the tax gap represents the difference between potential tax revenues as if all taxpayers fully fulfilled their obligations and the amount of tax revenue collected. The concept of the tax gap is presented in the following figure:

\[ \text{Tax gap} = \text{Potential tax revenue} - \text{Collected tax revenue} \]

An analysis of the overall tax gap and the gap in the specific tax fields would be of great value for risk analysis and for the work of the tax administration. By its nature, measuring the tax gap is a difficult process, but can be calculated in a variety of ways based on different statistics. The statistical basis for calculating the tax gap in Kosovo is somewhat deficient, but a 2011 study has been trying to calculate this gap by comparing a variety of sources, including household consumption surveys. In addition to the possibility of evasion, there are other factors that lead to the tax gap. These include tax evasion schemes, accounting errors, taxpayers' ignorance, and so on.

REFERENCES