

Fiscal Reform in Taxation: What is an Optimal Taxation System for the Republic of Kosovo?

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Abstract

This paper explores the Taxation system in the Republic of Kosovo. It researches the need and reasons for the optimal taxation system that the Republic of Kosovo should develop as part of the proposed Taxation reform (based on recommendation). The Republic of Kosovo is the newest country in Europe. Since 2000, one of its core pillars has been the Tax Administration, which serves as the primary public finance income generator. Its further development, reform, and adaptation with updated Taxation mainstreams is imperative. Taxation systems should implement the best practices in digitalization and innovation. The paper uses secondary data with analyzed findings based on the quantitative empirical approach. The findings show that there is room for the Republic of Kosovo to apply Taxation reforms to further enrich, innovate, and upgrade its Tax system. As stated, the country's economic and business development significantly depends on how its taxation system meets its development and strategic goals. This research paper concludes with concrete recommendations that the Republic of Kosovo is advised to undertake in reforming its Taxation system.

Keywords: taxation system, socioeconomic development, innovation, digitalization, reform, tax administration, public finance.

JEL classification: H20, H21, H23, H24, H25, H26, H27, H29, H50, H51, H61

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Introduction

At the beginning of 1999, NATO forces intervened in Kosovo with the purpose of stopping the ethnic cleansing of the local Albanian population. On June 9th, 1999, the "Kumanovo Agreement" was signed between NATO and ex-Yugoslavian (At that time, the Yugoslav federation consisted of Serbia and Montenegro) military. The following day, on June 10th, 1999, The United Nations Security Council approved the 1244 resolution, which helped end the war in Kosovo and established UNMIK (United Nations Mission in Kosovo). The UNMIK was structured in functional pillars, and one of the pillars was to establish provisional democratic institutions in Kosovo. As a result, in 2000, under the guidance of UNMIK, the Tax Administration of Kosovo (TAK) was established. In 2003, the TAK transferred from UNMIK to the sole responsibility of the Kosovar Ministry of Economy and Finance (The Government). Since then, TAK has advanced and developed in newly established country. Since its establishment, the Kosovo tax system has been heavily based on consumption and income taxes, which have reached up to 25% of the country's GDP. In other words, consumption taxes (value-added taxes -VAT, customs, and excise taxes) are Kosovo's primary revenue source. Other tax channels remain underdeveloped with the potential to further develop as part of tax reform or other means of reaching optimality in the tax system.

Although TAK strives to further implement the above-mentioned aspects, the results show different factual situations. Therefore, there is an imperative need to further reform of TAK. The scope of this research is to explore and argue further needs that TAK should undergo to reform itself in aiming to reach the optimal system for the benefit of the Republic of Kosovo and its people. The empirical findings in this paper scientifically prove that TAK reform is imperative to reach its optimal level of tax collection even though based on literature review, the tax optimality is doable within the theoretical framework, but very hard achievable in real application. Therefore, based on above mention aspects, this research paper aims to further fill the research gap in this domain from what other researchers were not able to research and or conclude based on until now performance aspect of TAK.

Background

As stated in the introduction, the TAK was greatly supported from the international mission in Kosovo. Further, even in its two decades and some of its operation, the international support is still provided through different means of technical assistance and other aspects of operational support. As seen below in the table, the Kosovo has a well-defined structure of taxation system that does present the standard framework of tax channels that are also employed in other developed countries.

The following is the Tax structure in Kosovo (Table 1): tax type, threshold of application, and tax rate % applicable (as of 2024).

Under the guidance of domestic legislation and foreign institutions (e.g., USAID, GIZ, others), the Republic of Kosovo successfully implemented the following Laws that regulate the taxation system in Kosovo (as of actual 2024) (Table 2).

Table 1
Tax structure in Kosovo

Tax Type	Turnover Threshold	Tax Rate
Value Added Tax - VAT	30,000 EUR	8% and 18%
Corporate Income Tax - CIT	under 50,000 Euro	
Manufacturing, trading and transporting industry, etc.		3%
Service Industry		9%
Personal Income Tax - PIT	under 50,000 Euro	
Manufacturing, trading and transporting industry, etc		3%
Service Industry		9%
Corporate Income Tax - CIT	over 50,000 EURO	
Manufacturing, trading, transporting industry, etc.		
Service Industry		10%
Personal Income Tax - PIT	over 50,000 EURO	
Annual Income from 0 to 960		0%
Annual Income from 960 to 3000		4%
Annual Income from 3000 to 5400		8%
Annual Income from 5400 to over		10%
Tax on Wages (monthly)		
Annual Income from 0 to 80		0%
Annual Income from 80 to 250		4%
Annual Income from 250 to 450		8%
Annual Income from 450 and over		10%
Tax on Rents, Interest and Royalties		10%
Tax on Special Categories		3%
Tax on non-resident		5%

Source: Tax Administration of Kosovo (Tax Administration of Kosovo, 2024)

Table 2
Regulation of the taxation system in Kosovo

No.	Name of the Law	No. of the Law	No. of the Administrative Instruction
1	Law on Tax Administration and Procedures	No. 03/L- 222 No. 04/L- 102 No. 04/L - 223	No. 03/2016 No. 15/2010
2	Law on Value Added Tax - VAT	No. 05/L - 037	No. 03/2015 No. 06/2016
3	Law on Personal Income Tax - PIT	No. 05/L - 028	No. 01/2016
4	Law on Corporate Income Tax - CIT	No. 05/L - 029	No. 02/2016
5	Law on Person Contributions - PC	No. 04/L - 168 No. 04/L - 101 No. 05/L - 116	
6	Law on Game of Chance	No. 04/L - 080	No. 03/2023

Source: Tax Administration of Kosovo. (Tax Administration of Kosovo, 2024)

Nevertheless, of the above taxes, laws, and regulations, TAK is still considered relatively as a new institution and in much need of further organization, innovation, digitalization, and transformation of its operation toward an optimal tax system (based on findings/sources also found from other authors).

TAK's mission is to:

- Increase tax collection in the Republic of Kosovo,
- Improve the efficiency of tax collection and its operation,
- Implement adequate and enhanced compliance,
- Implement and align with international taxation standards.

Literature Review

No country is without Tax Administration system as its primary public financing income generator. Nevertheless, not all countries have reached the point where their Tax Administration is efficient and optimal per their country's needs (Note: optimality of the countries' Tax Admin. varies subject to counties' specifics). The ongoing dilemma among scholars and researchers is how much the optimal tax theory indeed finds its practical application in the real world (*Explanation: "Optimal tax theory or the theory of optimal taxation is the study of designing and implementing a tax that maximizes a social welfare function subject to economic constraints [Gregory, Matthew, Danny 2009]"*). Below are a few reviews and researchers about the optimality of the tax systems.

The optimal taxation theory explains that the country achieves the optimal Tax Administration if the desired revenue/income is achieved with efficient tax administration. With this logic in place, an international tax competitive index has developed, which appraises which countries within the OECD rank as the most optimal regarding their tax administration, system/policy. By surprise, the most developed countries do not necessarily rank among the biggest and the economically most robust countries in the world. Having resources, high buying power, and a large and robust economy does not necessarily present that the country has an optimal Tax Administration.

In worldwide Taxation literature, there are strong arguments with pros and cons about the optimality of Tax Administration. The subject matter is very wide and has been explored both qualitatively and quantitatively so far.

a) Literature review about Optimal Taxation (Globally):

According to (Alm, 1996), in his research paper "What is an 'Optimal' Tax System?" the models for optimal tax system do not indeed correlate between reality (Socioeconomics) and tax policies. He further argues that countries should consider the following:

- The impact of social and political institutions on proper taxation policies
- The cost that the country should bear in administering different tax types. (As we know, not all tax types result in optimal revenue for the country),
- The direct effect of taxes on people's behavior in the country. (The sentiment that taxpayers have and build toward tax types).

James Alm, among others, considers the above-mentioned aspects to be practical issues for designing a tax system that reaches optimality worldwide.

Moreover, James Alm delves deeper into his paper, highlighting the intricate nature of optimal tax theory, which advocates for a taxation system with a multitude of tax rates (tax types). He points out that inefficiency can also be found in inefficient tax types, which are therefore costly to administer. Alm also challenges the effectiveness

of a 'Progressive or regressive tax', citing theoretical models suggesting zero taxes on the wealthy may not be politically correct or feasible for generating sufficient revenue. In summary, James Alm raises the concern that it is imperative to consider actual/objective world reality when designing and implementing any tax system. Gathered: Countries' reality and specifics should be the base on approaching the draft theoretical part regarding the optimality of the Tax Administration.

Three authors: N. Gregory Mankiw, Mathew Weinzierl, and Danny Gogan (2009), in their research "Optimal Taxation in Theory and Practice," Elaborate on tax optimality. On pros (The theoretical insights), they derived eight "lessons" that should be considered while aiming to design an optimal taxation system. The authors further focused on efficiency (Maximizing economic efficiency). Also, they elaborated on distribution, equity, and simplicity vs. complexity. By distributing equity, they suggested designing attractive tax rates for taxpayers and promoting an equitable taxation system. On a simplicity vs. complexity framework, authors argue that the optimal system should have many tax brackets within the simple taxation bureaucracy that is easy to administrate. On the Cons (The Practical Considerations), the authors argue about the theoretical vs. real world. They say that the optimal taxation theory frequently makes norms that do not present the real world (Its application in practice). At its core, countries should apply a balanced approach, which means balancing theoretical efficiency and considering the taxation system's political feasibility and administrative cost to develop and implement an optimal one successfully and efficiently.

In the paper "Do Countries Really Deviate from the Optimal Tax System?" (Sepulveda, 2023) elaborates on and investigates the fundamental gap between the Optimal Tax Theory and its actual application. Sepulveda links the development of the tax system with the development of the country's economy. As the country develops economically, the tax system will become more efficient.

b) Literature about Kosovo and Western Balkan countries (Regionally):

In the paper "Understanding Tax Evasion and Professionalism of Tax Administration in Kosovo," Diamanta Skenderi and Besnik Skenderi (2022) investigate tax compliance in Kosovo, and they came up with a few essential recommendations about how the Tax Administration can improve in Kosovo. Per the Authors, Kosovo's Tax admin should come up with the following:

- Further development and capacity building.
- Increase awareness.
- Further investment in technology and taxing system(s).

In the research paper "Tax Incentives in Western Balkan Countries," the researchers Šimovič and Žaja (2010) elaborate on different tax incentives in the domain of the CIT (Corporate Income Taxes). It explores a) Reduced tax rates, b) Holiday taxes, and c) other investment incentives. Per the paper, incentivizing business may a) boost economic growth, b) develop job creation, and c) develop and promote specific industries that may be strategic to the country's development. The paper explains various taxation incentives that may ultimately promote the economic development of the Western Balkan Countries."

The "Taxation and Budgetary Policies in the Western Balkans" by Marting Hutsebaut (2015), researches the taxation system in Western Balkan countries and the budget policies applied in these countries. The author elaborates on the following:

- Low revenue collection from the Tax administrations directly impacts Tax Administration efficiency.

- A high budget deficit is a phenomenon in the Western Balkan countries.
- And Inefficient Tax administrations.

The Author explains that Western Balkan Countries must standardize their Tax Administration with EU legislation as they aspire to join the EU. The Author sets recommendations that countries should a) fight tax evasion, b) proceed with fiscal consolidation, c) and conduct Tax Administration Reforms. In general, Hustsetbaut argues that improving Taxation and budget policies will contribute to further economic development and toward EU membership.

Summary from presented Literature reviews:

By reading literature reviews two main characteristics appear:

- The optimality of the Tax Administration within the framework of the Theory is a well-understood concept. However, its application in the real world remains the biggest challenge for many scholars arguing within this domain, and it is an ongoing concern.
- Western Balkan Countries, particularly Kosovo, present gaps in the Tax Administration domain, with challenges in tax revenue collection, technology development, informality, and tax compliance.

Research Methodology

Although the scope of this research paper is Tax Administration in Kosovo, have been analyzed quantitative and qualitative Data from [1] Kosovo and [2] Western Balkan Countries. Widening the research with additional Data (Especially from the Western Balkan Countries, which have similar market, economic, political, and socioeconomic regional anatomy) is within the scope of this paper. On the contrary, it provides a much better understanding of the tax administration systems in the region and their level of optimality/efficiency. This approach helps develop and present factual recommendations that further help Kosovo reform and develop its tax administration system.

The literature review shows that optimality on the theoretical level vs. absolute application level does vary. Consequently, many Tax Administrations worldwide have yet to reach the optimal point or desired efficiency. In Kosovo's case, the literature review points out that there is room for improvement and further development of the Tax Administration, which through research pointed out in this paper does show: 1] some improvements have been made, this is also scientifically reported, 2] there is much more to be done further. This is also scientifically reported.

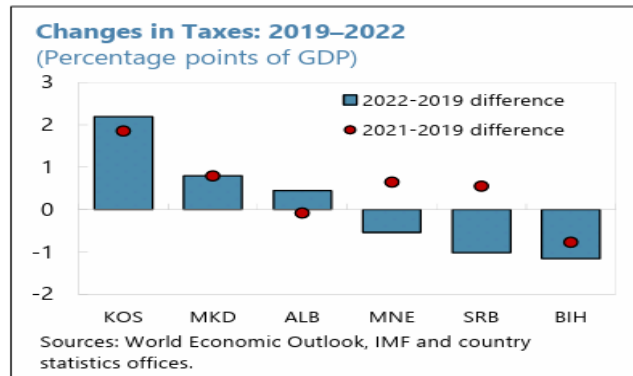
The second part of empirical findings (*as in point 1*) includes a carefully balanced approach based on Quantitative research methodology. We utilized a comparison of DATA from different sources/reports (Actual vs. Budgeted performance, behavioral Data) that were generated from the TAK, IMF, OECD, etc.). Statistical, empirical findings are generated from STATA statistical software, including statistical models with the aim to reach to the significance of the studied model(s).

1) Comparing and explaining tendencies:

During the COVID-19 pandemic, the Government of Kosovo (similarly adapted models from other countries applied during the COVID-19 pandemic) took incentive measures to support Kosovo's economy and trade. These measurements presented substantial benefits to the businesses and workforce, which were also reflected in future years, e.g., 2022 and 2023. The measurements are reflected in the formalization of both workforces (registered workers could apply for extra-governmental stimulus as per earning threshold) and businesses (businesses could apply for incentive

[economic recovery] incentive). This approach increased TAK efficiency in operation during this period, which resulted in better performance, as seen in Figure 1 below.

Figure 1
Changes in Taxes 2019-2022

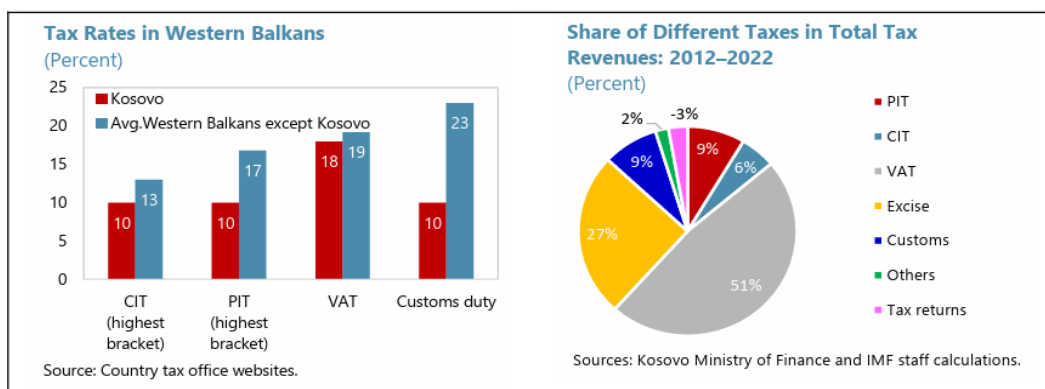


Source: World Economic Outlook, IMF. (International Monetary Fund, 2024)

According to the above chart, Kosovo relies heavily on consumption taxation and is the least developed country in the region. However, during the COVID-19 pandemic, tax revenue increased, positioning Kosovo in a leading position compared to five other Western Balkan counties.

When comparing tax rate structures (CIT, PIT, VAT Customs duty), as seen in Figure 2 (Attractiveness of the tax rate structures) in Western Balkans, Kosovo presents a favorable structure. Nevertheless, Kosovo is still affected by high informality in tax compliance, mainly characterized by an unformalized workforce (Companies are allowed to employ staff and not report them to the Tax Administration) and not proper Corporate Income Taxes reporting and contribution by business entities (Tax Administration does allow business entities to declare underperformance in operation, while its business operation grows during the operation periods) (Data: 10 years performance [2012 → 2022] on AVG the PIT = shows only 9% standing, CIT = shows 6%, while VAT = shows 51%). The comparison conclusion shows that regardless of tax rate attractiveness, the Tax Administration of Kosovo lacks mechanisms to increase balanced tax collection compliance, primarily by stimulating PIT and CIT collection increase.

Figure 2
Tax rates in Western Balkans and share of different taxes in total tax revenues 2012-2022



Source: Country tax office websites, Kosovo Ministry of Finance and IMF. (Ministry of Finance, Labour, and Transfers, 2024) and (International Monetary Fund, 2024)

Time cluster analysis of VAT, CIT, and PIT performance in Kosovo 2019→2022**VAT**

On the other hand, regardless of unbalanced tax collection among VAT, CIT, and PIT, Kosovo showed an increase in performance in time clusters in 2019→2022. As seen from the table below, the change in total VAT revenue in 2021 has jumped significantly by 34.8% due to increases in formalization and new Government policies regarding Tax audits, controls, and tax return benefits. In 2022, per the report, the revenue dropped, but not to a lower scale, as seen in 2020 and 2019. Collection improvements & formalization improved significantly in 2021 and 2022 compared to 2020 and 2019, which supported the narrowing of the revenue GAP%.

Table 3

Value added taxes: Revenue Change and Contributing Factors

	Millions of euro					Percent				
	2019	2020	2021	2022	Cumulative 2020- 2022	2019	2020	2021	2022	Cumulative 2020- 2022
Value-Added Taxes (VAT)										
Change in total VAT revenues	46.6	-76	268	190.1	382.7	5.8	-8.9	34.8	18.3	100%
Contribution factors										
Inflation	49.2	10.5	130	146.4	287.0	6.2	1.2	16.9	14.1	75%
Change in real demand	-8.3	-9.1	-7.5	-1.9	-18.5	-1.00	-1.1	-1.00	-0.2	-5%
Buoyancy	7.6	-53	39.6	0.00	-13.2	0.9	-6.2	5.1	0.00	-3%
Change in effective tax rate	0.6	-8.2	12.3	4.5	8.6	0.1	-1.00	1.6	0.4	2%
Collection improvement, including formalization	-2.5	-16	93.7	41.1	118.7	-0.3	-1.9	12.2	4	31%

Sources: Tax Administration Authority of Kosovo and IMF staff calculations

Conclusion: circa third of VAT revenue has increased in 2019→2022 because of efficiency improvements in tax administration by increasing formalization.

PIT

Improvements in the mix undertaken are also evident for Personal Income Taxes (PIT) revenue that increased from 2020 → 2022. As seen in Table 5 below, changes in total

PIT revenues have significantly increased in 2021 → 2022 as part of collection improvements, including the formalization of the working force, which did not revert to pre-COVID-19 pandemic time.

Table 5

Personal Income Taxes: Revenue Change and Contributing Factors

	Millions of euro					Percent				
	2019	2020	2021	2022	Cumulative 2020- 2022	2019	2020	2021	2022	Cumulative 2020- 2022
Personal Income Taxes (PIT)										
Change in total PIT revenues	9.1	-1.8	24.8	24.5	47.5	7.0	-1.3	18.0	15.0	100%
Contribution factors										
Inflation	1.6	7.2	3.2	15.0	25.4	1.2	5.2	2.3	9.2	54%
Change in real demand	6.2	-7.5	14.8	4.4	11.8	4.8	-5.3	10.7	2.7	25%
Buoyancy	0.7	-5.2	4.1	0.0	-1.1	0.6	-3.7	3.0	0.0	-2%
Change in effective tax rate	-0.1	-0.7	0.9	0.7	0.9	-0.1	-0.5	0.6	0.5	2%
Collection improvement, including formalization	0.7	4.4	1.8	4.3	10.5	0.5	3.1	1.3	2.6	22%

Source: TAK, and IMF. (International Monetary Fund, 2024) and (Tax Administration of Kosovo, 2024).

This effort is also based on increased workforce demand with strong rebound results, resulting in increased employee numbers. 2021 presents an 18% increase compared to 2020, which follows the pretty steady trend in 2022. Wages in the public sector continued steadily, and wages in the private sector continued to increase during 2022. This resulted in increases in PIT revenue. In 2020 and 2021, Kosovo's government subsidized employees, resulting in more employees shifting from informal to formal work.

The Data show that increases in formal employment, which includes females, also contributed to PIT revenue growth. Female employment grew faster than male employment over the past ten years, increasing female shares from 30% in 2012 to around 40% in 2022.

CIT

Following Table 6, there is evidence that CIT collection improved during 2019→2022, which was also considered a recovery period after the 2020 COVID-19 slowdown. Evidence shows that more business registrations also happened in the sectors that traditionally had high levels of informality in Kosovo. During this period, the government managed to incentivize businesses. It increased the number of registered businesses, to which help was provided through grants and loan guarantees (Kosovo has a very successful government-supported Credit Guaranty Fund-KCGF).

At a glance, circa two-thirds of CIT revenue increased due to the facts mentioned above during the period of 2020→2022.

Table 6

Corporate Income Taxes: Revenue Change and Contributing Factors

	Millions of euro					Percent				
	Cumulative					Cumulative				
	2019	2020	2021	2022	2020-2022	2019	2020	2021	2022	2020-2022
Corporate Income Taxes (CIT)										
Change in total CIT revenues	7.8	-9.3	28.7	47.6	66.9	9.0	-9.8	33.6	41.7	100%
Contribution factors										
Inflation	0.1	2.2	-2.8	10.0	9.4	0.1	2.4	-3.3	8.8	14%
Change in real demand	5.2	-2.6	14.7	3.5	15.6	6	-2.8	17.2	3.1	23%
Buoyancy	0.7	-5.2	4.1	0.0	-1.1	0.6	-3.7	3.0	0.0	-2%
Change in effective tax rate	0.1	-0.3	0.5	1.1	1.2	0.1	-0.3	0.5	0.9	2%
Collection improvement, including formalization	1.8	-3.8	12.8	33	42.0	2.1	-4.0	15.0	28.9	63%

Source: TAK and IMF. (Tax Administration of Kosovo, 2024) and (International Monetary Fund, 2024).

In overall 2019→2022, as seen in the table below, the formalization is assessed to cause circa one-third of tax revenue increase during 2020→2022.

Table 7

	2019	2020	2021	2022	Cumulative 2020-2022
Total Tax Revenues (CIT, PIT, and VAT)					
Change in total tax revenues	63.5	-86.7	321.7	262.1	497.1
Contribution factors					
Inflation	50.9	20.0	130.4	171.4	321.8
Change in real demand	3.1	-19.2	22.0	6.1	8.9
Buoyancy	9.0	-62.9	47.3	0.0	-15.5
Change in effective tax rate	0.6	-9.2	13.6	6.3	10.7
Collection improvement, including formalization	0.1	-15.4	108.3	78.3	171.2

Source: TAK and IMF (Tax Administration of Kosovo, 2024) and (International Monetary Fund, 2024).

Empirical findings

The above-presented evidence was compiled based on comparison methodology. Below is another aspect of Empirical funding by applying a quantitative approach to further study periods of 2019→2023 (Note: in this format, the year 2023 was added to the Data set as the Data were published by the TAK).

Data gathering:

To run tests, official Data from the TAK (Source: TAK Open Data option) were used. The Data were blended in the format of Time Series and Sectorial Data sets. Limitation presented Data for the period of 2019→Turnover Data and the period of 2020→Number of Declaration. These Data were further arranged by the Author to support the gathered observation number.

The Author has corrected the following Data lines:

For the year 2019, Turnover Data were taken as an average based on the same category from the year 2020, which on AVG shows monthly cut-off revenue standing in the amount of 970k EUR,

For the year 2020, the number of declaration data is averaged based on the same category as 2019, which on AVG averaged 185K declarations. This approach supported a rounding factor of 60 observations.

Table 8

Number of declarations

Year	Month	Employed	Number of Taxpayers	Number of Declarations	Income (millions €)	Turnover (millions €)	Number of Registered Entities
2019	1	292,245	142,171	142,179	40,934,884.75	970,000.00	777

2019	2	297,250	142,615	142,623	37,388,279.72	970,000.00	683
2019	3	302,902	247,239	247,251	47,996,190.26	970,000.00	995
2019	4	306,189	144,840	144,840	42,257,072.49	970,000.00	879
2019	5	308,820	146,571	146,579	40,696,104.12	970,000.00	1041
2019	6	311,059	251,997	252,009	49,400,058.24	970,000.00	778
2019	7	313,824	148,895	148,903	48,712,310.50	970,000.00	900
2019	8	313,556	150,052	150,060	50,718,719.36	970,000.00	733
2019	9	318,304	254,821	254,833	53,309,350.83	970,000.00	737
2019	10	329,081	152,293	152,293	45,889,662.78	970,000.00	966
2019	11	324,788	153,793	153,801	46,916,027.81	970,000.00	940
2019	12	319,701	286,090	286,183	189,123,462.75	970,000.00	667
2020	1	315,426	128,334	185,000	44,491,322.63	814,726,361.87	906

2020	2	323,276	71,095	185,000	41,080,092.98	809,666,798.06	874
2020	3	357,103	52,161	185,000	47,519,271.49	827,377,134.03	568
2020	4	352,270	65,810	185,000	37,467,678.71	581,477,716.91	390
2020	5	313,544	45,809	185,000	39,220,005.66	763,570,430.72	653
2020	6	332,219	63,444	185,000	47,117,340.33	953,983,657.54	986
2020	7	330,754	111,582	185,000	45,143,194.56	1,007,032,348.43	887
2020	8	331,112	69,183	185,000	45,541,531.42	936,762,898.47	848
2020	9	334,855	70,191	185,000	53,173,511.49	1,024,217,859.65	920
2020	10	340,164	127,325	185,000	48,624,400.06	1,092,888,345.91	1163
2020	11	341,142	74,316	185,000	49,443,675.06	1,031,674,805.96	1005
2020	12	342,640	76,681	185,000	185,601,492.59	1,821,458,369.39	766
2021	1	333,362	164,896	164,902	49,171,208.44	879,420,786.61	852

2021	2	339,603	166,481	166,487	44,420,085.28	91,327,414.48	1016
2021	3	356,845	265,171	265,181	53,559,455.39	1,134,472,074.16	1161
2021	4	348,045	169,743	169,749	47,159,548.99	1,084,529,118.40	1008
2021	5	350,010	171,077	171,083	50,592,690.48	1,119,536,313.15	844
2021	6	352,922	269,512	269,522	57,084,005.24	1,294,422,053.71	987
2021	7	355,211	173,862	173,868	55,849,236.04	1,391,343,595.55	893
2021	8	356,129	175,155	175,161	58,071,663.81	1,485,029,412.86	769
2021	9	357,958	273,054	273,064	56,820,560.59	1,312,222,602.09	862
2021	10	372,134	177,345	177,351	54,036,081.71	1,305,722,155.12	852
2021	11	370,541	178,016	178,022	55,365,009.24	1,359,016,769.81	763
2021	12	362,796	307,030	307,141	243,140,637.34	2,143,235,135.83	819
2022	1	353,358	267,141	267,161	55,573,828.02	1,137,060,867.31	884

2022	2	359,794	183,128	183,134	49,349,939.27	1,109,912,265.22	1002
2022	3	368,140	280,551	280,561	60,444,813.64	1,472,485,133.19	1054
2022	4	371,407	185,444	185,450	54,768,514.75	1,402,826,693.76	926
2022	5	374,132	186,576	186,582	55,397,230.61	1,393,421,971.21	1034
2022	6	376,848	282,878	282,888	67,269,907.90	1,593,870,322.39	979
2022	7	375,189	189,395	189,401	64,396,486.46	1,663,025,457.55	1070
2022	8	376,229	190,704	190,710	69,636,304.10	1,819,921,217.86	872
2022	9	376,420	286,986	286,996	67,533,731.24	1,593,554,559.23	794
2022	10	378,752	191,962	191,968	63,500,138.99	1,582,733,504.71	852
2022	11	381,577	192,527	192,533	62,313,934.76	1,569,636,662.04	978
2022	12	379,481	319,694	319,813	271,142,649.09	2,507,145,392.99	872
2023	1	372,351	196,298	196,304	65,304,107.39	1,304,759,761.21	905

2023	2	375,301	197,790	197,796	59,539,776.10	1,263,766,634.87	1093
2023	3	382,103	292,255	292,265	70,012,124.81	1,624,835,631.50	1237
2023	4	384,417	199,736	19,742	63,828,840.36	1,442,570,595.31	746
2023	5	387,971	200,927	200,933	65,427,838.61	1,587,734,804.40	1054
2023	6	392,387	294,348	294,358	73,441,221.59	1,614,114,086.85	939
2023	7	394,578	202,245	202,251	76,545,580.75	1,785,940,976.48	1026
2023	8	393,379	202,869	202,875	78,772,248.70	1,905,230,964.50	951
2023	9	396,057	292,432	292,442	75,252,072.42	1,690,485,852.25	949
2023	10	395,380	202,026	202,032	69,852,451.87	1,703,733,935.06	1143
2023	11	397,559	199,024	199,030	71,174,318.51	1,667,594,716.28	966
2023	12	396,211	275,969	276,054	240,478,465.32	2,163,764,133.16	882

Source: (Tax Administration of Kosovo, 2024).

Note: Tests have been run without the stated adjustments, and no significant deviation was noticed in the applied statistics.

Statistical analysis

OLS analysis according to the multiple linear regression:

Table 9
Multiple linear regression

Income	Observations	Coefficients	t	p>t	[95% conf. interval]
Turnover	60	.1306403	8.11	0.000	.0983432 .1629374
Number of Registered Entities	60	-84170.35	-3.15	0.003	-137752.1 - 30588.55
Employed	60	-780.5747	-3.94	0.000	-1177.907 - 383.2428
Number of tax payers	60	-78.28443	-0.95	0.346	-243.2047 86.63579
Number of Declarations	60	273.8426	2.80	0.007	78.03787 469.6473
constant	60	2.10e+08	3.59	0.001	9.28e+07 3.28e+08
R-squared	0.6955				
F (5, 54)	24.67				

Source: Authors' work

According to the formula of multiple linear regression we substitute the current values from the table above as follows:

$$y_i = \beta_0 + \beta_1 x_{i1} + \beta_2 x_{i2} + \dots + \beta_p x_{ip} + \varepsilon_i \tag{1}$$

$$Y(\text{Income}) = a + b1 (\text{turnover}) + b2 (\text{entities}) + b3(\text{employed}) + b4 (\text{taxpayers}) + b5 (\text{declarations}) \tag{2}$$

$$Y (\text{income}) = a + b1 (.1306403) + b2 (-84170.35) + b3 (-780.5747) + b4 (-78.28443) + b5 (273.8426) \tag{3}$$

According to the realized results, it can be seen that we have four meanings and one not. According to this, turnover and the number of declarants have a positive significance, while the number of registered subjects, and the number of employees have a negative significance. In the end, the number of taxpayers turns out to have no significance in the model.

Fixed effects analysis accordingly the multiple linear regression formula as follows:

Table 10
Fixed effects in multiple linear regression

Income	Observations	Coefficients	t	p>t	[95% conf. interval]
Turnover	60	.1328242	8.27	0.000	.1005634 .1650851
Number of Registered Entities Employed	60	-77211.3	-2.81	0.007	-132342.5 -22080.08
Number of taxpayers	60	-606.5972	-1.49	0.143	-1424.437 211.2424
Number of Declarations	60	181.4205	1.11	0.272	-146.7926 509.6336
constant	60	86.07221	0.59	0.556	-205.8422 377.9866
		1.30e+08	0.91	0.367	-1.57e+08 4.17e+08
R-squared:	Obs per group:				
	Within = 0.7158			min =	12
	Between = 0.8423			avg =	12.0
	Overall = 0.6240			max =	12
			F(5, 50)	=	25.19
		corr(u_i, Xb) = -0.5642	Prob > F	=	0.0000

Source: Authors' work

After applying the fixed effects, we see that we have only two realized significances, between income and turnover, it remains positive, while the negative one between income and the number of registrations of subjects.

Table 11
Correlations

Variables	Correlations					
Income	1.0000					
Turnover	0.6822	1.0000				
NumberofRe~s	-0.0962	0.2708	1.0000			
Employed	0.2908	0.7606	0.3090	1.0000		
NumerofTax~s	0.4334	0.5885	0.2763	0.4497	1.0000	
NumberofDe~s	0.4888	0.4371	0.1644	0.3092	0.7133	1.0000

Source: Authors' work

Based on the correlation analysis, we have a strong positive correlation between revenue and turnover, a negative correlation between revenue and the number of registered entities, a low correlation between revenue and employees, and a medium correlation between revenue and the number of declarants. On the other hand, we have no correlation between income and the number of taxpayers.

Practical implications

By researching and understanding reports, trends, findings, and empirical results, the following is the conclusion and recommendation:

Further Tax compliance mechanisms and better processes:

As far Kosovo, it has been proven that [1] incentivizing [2] subsidizing in the domain of Taxation, provides a solid ground of attractiveness for employees and businesses to formalize further and become compliant with Tax laws and regulations. Therefore, as part of its path with the reform, TAK must develop sustainable mechanisms and processes that will attract much greater compliance with tax laws and regulations. E.g., Tax model in the USA: tax preparation and reimbursement for Private Individuals on PIT, is a great model that supports both: better compliance with the tax obligations and laws, and much efficient Tax Administration in collection and serving its population,

Better and much effective Audit processes:

The TAK needs to reform its tax audit functionalities and processes in order to improve its tax administration. Currently, TAK lacks sufficient staff for tax audits that will efficiently cover tax audit tasks for optimal tax compliance. It is imperative that TAK has an internal special audit task force that controls audit functionalities, processes and effectiveness of the audit staff (An Audit of the Audit). The TAK should strengthen internal Compliance structures. The passive, active audits and controls should be much efficient by checking businesses in more effective cross-examination format. In addition, TAK should further strengthen cross institutional cooperation with other Governmental Institutions, e.g. more efficient cooperation with Central Bank of Kosovo, Kosovo Statistics Agency, Ministry of Finance, Labor, and Transfer, etc. It should also develop much efficient reporting format. TAK should professionally and performance wise adhere for the best proven Taxation trends and mechanizes that already are implemented, especially in OECD countries.

Tax Laws should update:

Tax laws should further update to eliminate loop holes. TAK relies heavily in the format of Tax Law interpretation from its client care department. In one hand this seems as added value to the clients, but in the other hand presents reinterpretation of Laws/Regulations and sets presidents that may have adverse effect on Taxation.

Staffing and training:

TAK should increase staffing and training, especially in the domain of Tax inspectors.

Better technology coverage:

For the purpose of communicating with taxpayers, the TAK has developed EDI system (IT system) that recently has been updated. Nevertheless, further digitalization should be strategic priority by applying the most modern Taxation trends in technology. Technology and digitalization are one of the pre-requirements toward much efficient Tax Administration and its optimality.

Awareness:

TAK should contribute aggressively toward tax culture through awareness programs. Tax culture and benefits should well develop in Kosovo. By having tax benefits information, and other taxation law requirements, Kosovars will further contribute to

tax paying and as such minimize informality and contribute toward efficient tax system.

Conclusion

Tax administration has been one of the main pillars of public finance revenue generation. Kosovo has continued to be stable in consumption taxes when usually consumption taxes (value added taxes-VAT, excise, and customs) have been the main source of income for the Government on a traditional basis.

The countries of the Western Balkans are considered regions that share similar socio-economic typologies, as well as political ones. On the other hand, corporate income taxes-ATK and personal income taxes-TAP are still inefficient, representing a suboptimal operating trend that requires attention.

The research is mainly related to the data obtained from secondary data, which show that the Republic of Kosovo has room to implement tax reforms, or more specifically to further improve its tax system.

The limitations of this work are mainly the fact that the database is not very prominent, and the statistical analysis is not very detailed.

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