



Investment in Kosovo 2016

KPMG in Kosovo

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Investment in Kosovo

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Preface

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

Every care has been taken to ensure that the information presented in this publication is correct and reflects the situation as of May 2016 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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Contents

General Information	6
Geography and population.....	6
Climate	6
Official language	6
A brief history of Kosovo	7
Currency	7
Government and political system	7
Visa system for foreigners traveling to Kosovo.....	8
Travel.....	8
Airport	9
Investment Environment	10
Economy	10
Labor market	11
Fiscal indicators	11
Trade	12
Privatization and investment opportunities	13
Agriculture and farming	13
Tourism	14
Energy	14
Mining.....	15
Telecommunications	16
Foreign direct investments	16
Business Environment	18
Business entities	18

Business Registry.....	20
Financial sector	20
Protection of intellectual property rights	23
Accounting and Auditing	24
Accounting regulations and requirements.....	24
Audit requirements	25
Taxation	26
General	26
Corporate income tax	26
Personal income tax	29
Value added tax	30
Withholding tax	31
Customs duties and customs code	31
Excise taxes.....	32
Local taxes.....	32
Double Tax Treaties	32
Employment Regulations	33
Legislation	33
Employment contracts	33
Termination of employment contracts	33
Conditions of employment	33
Holidays and absence from work	34
Government Control.....	35
Public procurement	35
Competition law	36
Environmental laws	36
Appendix A Important Links.....	37

General Information

Geography and population

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

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

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

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

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

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 (100°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. Turkish, Bosnian and Roma languages have the status of official languages in certain municipalities.

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. Kosovo was first 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 almost 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 in 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 Germans 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 during 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). In accordance with 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. As of May 2016, 111 UN states recognize the independence of Kosovo. It has become a member country of the International Monetary Fund (IMF) and the World Bank and, in December 2012, it became the 66th member country of the European Bank for Reconstruction and Development (EBRD). Kosovo aspires 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, the seats are held as follows: the Democratic Party of Kosovo has 35 seats, the Democratic League of Kosovo has 33 seats, the Group Vetevendosje has 17 seats, the Alliance for the Future of Kosovo has 8 seats, the Srpska List Party

has 11 seats, the Initiative for Kosovo Party has 6 seats, and the remaining 10 seats are held by minority groups and non-affiliated individuals.

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

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

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

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

Visa system for foreigners traveling to Kosovo

Kosovo is relatively easy to access and a valid passport is required. Before traveling

to Kosovo, foreigners need to be informed whether they need a visa to enter it.

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

Travel

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

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

As Serbia does not currently recognize Kosovo, 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 one lives in or intends to travel frequently to Serbia, it has been suggested to obtain matching pairs of entry

and exit stamps; this means backtracking and leaving Serbia via a recognized border checkpoint, such as Belgrade Airport.

Airport

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

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

Investment Environment

Economy

Despite the challenges faced by other countries due to fluctuations in the global economy and particularly in Europe, Kosovo's economy has experienced positive growth during recent years. However, the economy of the country is characterized by a high reliance on the import of goods which negatively affects the growth rate and the current account balance.

In 2014, Kosovo experienced a real gross domestic product (GDP) growth of 1.2% which is lower compared to previous years. This growth is due mainly to the increased consumption and the level of investments.

In 2015, the Central Bank of Kosovo estimated a growth rate of 0.4% which is mostly attributed to consumption and private investments while it is still lower than the previous year. Investments are estimated to register growth.

Kosovo's GDP per capita incurred a slight increase in 2014 reaching EUR 2,989

compared to EUR 2,935 in 2013. However, it still continues to be low compared to other countries in the region such as Albania, Bosnia and Herzegovina and Serbia as each exceeds EUR 4,000.

In 2014, the inflation rate or consumer price index (CPI) dropped to 0.6%, which is less than the rate of 1.8% over the same period in 2013. This decline is attributed to the price decrease of the imported goods which reflects the interrelation between the price developments in Kosovo and the prices in international markets.

The growth of domestic demand in 2014 had an impact on the import growth and, consequently, on the deficit growth of the current account. In 2014, the position of the current account in Kosovo deteriorated due to a higher deficit in trade of goods, while the positive balance in services trade and categories as primary and secondary income continues to contribute to the narrowing of this deficit.

	2010	2011	2012	2013	2014	2015(e)
GDP at market prices, EUR million	4,402	4,815	5,058	5,327	5,568	5,707
Real GDP growth rate (%)	3.30	4.40	2.80	3.4	1.2	3.00
GDP per capita in EUR	2,480	2,672	2,799	2,935	2,989	3,055
Inflation rate (%)	3.50	7.30	2.50	1.80	0.6	0.40
Current account in EUR million	(516)	(658)	(380)	(339)	(438)	(541)

Source: 2015 Macroeconomic Development Report, issue 3, 2016 Macroeconomic Development Report, issue 4 and 2015 IMF Country Report

Note: (e) for estimate

Labor market

The unemployment rate in Kosovo is estimated to be 35.3%, according to the latest available statistics from the Kosovo 2014 Labor Force Survey carried out by the Kosovo Agency of Statistics. Unemployment is higher among youth and women.

The situation is not expected to improve quickly given that Kosovo has the youngest population in Europe and these individuals enter the labor market each year finding limited employment options. On the other hand, the labor market offers a work force with varied skills and levels of education and training.

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 returning migrants bring to the local market their experience and skills gained abroad.

Fiscal indicators

The state budget during 2015 experienced an increase of revenue and expenses.

Revenue increased by 9.3% to EUR 1.46 billion. Revenues collected at the borders continue to dominate the structure of budget revenues, and represented 65% of the total revenues in 2015. Revenues collected from border taxes reached EUR 944.9 million, marking an annual

increase of 18.8% in comparison to 2014.

Non-tax revenues amounted to EUR 188.1 million or 9.8% higher than the previous year.

Budget expenditure in 2015, not including designated donor grants and trust funds, stood at EUR 1.57 billion and recorded an annual growth of 6.2%.

Capital expenditures in 2015 absorbed 25.8% of the total expenditure reaching EUR 404 million, which represents a decrease of 1.8% from the previous year. Most of the capital expenditure in 2014 and 2015 was intended for infrastructure investments, which largely consisted of the construction of the Pristina-Hani i Elezit highway, which began in July 2014.

According to the Central Bank of Kosovo, during 2015 Kosovo's budget recorded a primary deficit of EUR 110.2 million, compared with the deficit budget balance of EUR 143 million in 2014. In the same period, general government debt amounted to EUR 748.9 million, or 12.98% of GDP (10.63% in 2014). This increase in public debt in 2015 is mainly accounted for by the growth of domestic debt of 47.3% which reached EUR 378 million, while the external debt increased significantly by 13.7%, reaching EUR 371 million. While in previous years public debt was dominated by external debt, at the end of 2015 domestic debt had a higher share (50.4%) of the total public debt.

Kosovo Government budget overview

EUR million	2010	2011	2012	2013	2014	2015
Revenue	1,177	1,302	1,537	1,356	1,370	1,460
Expenses	(1,270)	(1,386)	(1,466)	(1,490)	(1,500)	(1,570)
Budget (deficit)/surplus	(93)	(84)	71	(135)	(130)	(110)

Source: 2014 Annual report and Quarterly Assessment of the Economy No. 13, Q IV/2015 of Central Bank of Kosovo

Trade

The negative trade balance in Kosovo worsened in 2014 influenced by the high dependence on imports and the low level of exports.

The construction of the Merdare-Morine highway is now finished. The construction of the Pristina-Skopje highway began at the end of 2014. The first part of this highway between Pristina and Skopje opened for traffic in the second half of 2015.

Both highways are considered to be of high strategic importance for the country, primarily since they provide Kosovo with access to the sea via the Albanian coast and with the market of Macedonia.

Exports are mainly metal related goods, which in total represent around 52% and 49% of exports for the years 2014 and 2013 respectively. The remaining exports relate to agricultural products, beverages and tobacco, machinery, mechanical and electrical equipment, as well as chemical exports. In 2015, the Central Bank of Kosovo estimates that exports will continue to be dominated by the base metals category which, for the first 9 months of 2015, increased approximately 7%.

In 2014, the main destinations for exports were Asian countries and Albania which

accounted for 42% (2013: 11%) and 15% (2013: 19%) of the total exports respectively. In 2015, the Kosovo Agency of Statistics estimates that the 28 EU countries will account for 20% of exports (2014: 14%) while Asian countries will decline to 18% (2014: 42%).

Other countries with a high share of exports are the neighboring Macedonia and Montenegro with respective shares of 10% and 5%.

Unlike exports, EU countries account for the largest share of imports, with 43% for 2014. Meanwhile, neighboring countries such as Serbia and Albania account for 21% of all imports with respective shares of 14% and 7%. As in previous periods, a similar trend continued in 2015.

Food items, livestock, oil and oil derivatives make up around 33% of imports in 2014 (2013: 37% of all imports), while machinery and equipment as well as metals represent 21% of the total imports in 2014 (2013: 20%). The value of imported mineral products is estimated to decline to 10% in 2015. Besides the category of mineral products, all other categories of imports were characterized by a slight increase in the first 9 months of 2015.

Trade balance

EUR million	2010	2011	2012	2013	2014	2015(e)
Exports	296	319	276	294	325	325
Imports	2,158	2,492	2,508	2,450	2,539	2,635
Trade balance	(1,862)	(2,173)	(2,232)	(2,156)	(2,214)	(2,310)
Coverage ratio	14%	13%	11%	12%	13%	12%

Source: Kosovo Agency of Statistics

Note: Coverage ratio is computed as export over imports ratio, (e) for estimate

Privatization and investment opportunities

The privatization process is administered by the Privatization Agency of Kosovo (PAK). PAK has been established as an independent public body which manages the privatization of so-called socially-owned enterprises (SOEs). As reported by PAK, in 2012, more than 590 SOEs were privatized in the last 56 rounds of privatization via the “spin-off” privatization method. Most of the SOEs subject to privatization operated in the agriculture sector with a share of 21.3%, followed by trading companies with a share of 11.5%.

During 2012, the total revenue from privatization through spin-off was EUR 552 million whilst revenue from sale of SOEs through liquidation was EUR 62 million. In 2013, 136 contracts (liquidation 105, spin-off 31) were completed, while in 2014, in total 145 contracts were completed. During 2015, PAK did not execute any asset sale due to the lack of Board of Directors. The total amount of the sales proceeds during the entire process (June 2002 – December 2015) is EUR 660,223,469.

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

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

extended from 3 to 4 years for investments ranging from EUR 2 to 5 million, and from 1 to 3 years for investments under EUR 2 million.

In addition, the Government of Kosovo has prepared a Draft Law on Strategic Investments in the Republic of Kosovo. Its aim is to facilitate, attract, and create the necessary conditions for the implementation of strategic investments in Kosovo. The law will also regulate administrative procedures and the criteria for evaluation, selection and supervision of strategic projects, as well as administrative procedures for granting the use of the property of the Republic of Kosovo with the aim of implementing strategic investment projects. The Assembly of the Republic of Kosovo is expected to approve this law in 2016.

Agriculture and farming

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

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

There is a substantial scope for future investments in this sector and ample opportunities for marketing products,

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

Tourism

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

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

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

There are also plentiful religious and other sites of cultural and historical value

providing good prospects to develop cultural tourism.

Energy

Energy production is largely based on thermal power plants utilizing coal (lignite) and to a smaller extent hydropower generation. The Kosovo Energy Corporation JSC (KEK) is the sole power corporation in Kosovo for energy production. Currently, the local energy production is realized by two thermal power plants, Kosova A and Kosova B, with an installed capacity of 800 MW and 678 MW, respectively. As per data from the Energy Regulatory Office of Kosovo, both thermal power plants contributed 97% of the total energy produced in 2014.

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

Kosovo has launched a project to build a coal-fired power plant, Kosova e Re, with an installed capacity of 500 MW. The new thermal power will be built by the US power company Contour Global. It is expected that around 10,000 jobs would be created during the construction of the plant which would employ 500 people once it comes on stream. The project received support from the World Bank and the European Union. The construction will start during 2016, and is expected to be finished in 2020-2021. The project cost is estimated to be approximately EUR 1.4 billion.

KEK has been unbundled into production named KEK JSC (Kosovo Energy Corporation), transmission named KOSTT JSC and a distribution and supply division

named KEDS (Kosovo Energy Distribution Services JSC). In 2012, the Government of Kosovo privatized KEDS through an international tender, which was won by the consortium Çalik Holding & Limak from Turkey.

Following the privatization, in line with legal requirements, the electricity distribution business was unbundled from the supply business. The result is that Kosovo Electricity Supply Company JSC (KESCO) was established from January 2015. It is the only public supplier of electricity in Kosovo and is responsible for customer contracts, purchases, sales and the supply of electricity. Meanwhile, KEDS continues to operate as the distribution system operator. This separation was in anticipation of the liberalization of the energy sector in Kosovo.

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

Given these conditions, the governments of both countries have considered the integration of the energy sector in Albania, almost entirely HPP based, with that of Kosovo, which is coal power plant based, as two complementary systems. Moreover, the importance of the energy system unification in both countries further increases with the construction of the interconnection line of 400 KV between Albania and Kosovo which will start operating during 2016.

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 megatons, Kosovo possesses the world's fifth largest proven reserves of lignite. Lignite is deposited across the Kosovo Basin, Dukagjin and Drenica Basins, although mining has so far been restricted mostly to the Kosovo Basin.

Meanwhile, lead, zinc, and silver mining have proved popular. These mining activities have been based on a series of nine mines, five of which comprise today's Trepca Complex. Active mining in these five mines ceased at the beginning of the Serbian-Kosovo conflict and offers very good investment opportunities. In fact, Trepca is a frequently discussed privatization topic. However, its sale is complicated by ownership problems. In the beginning of 2016, the Prime Minister of Kosovo stated that Trepca is not required to remain a socially-owned enterprise within the scope of the Privatization Agency of Kosovo; yet, Trepca should not be allowed to be liquidated and its status can be discussed in terms of future ownership with a combination of public ownership and co-ownership, or part of private ownership and privatization of those assets which Trepca no longer needs. The Government of Kosovo has determined that the Assembly will approve a special law for Trepca in 2016, and within it, technological and environmental development of alternatives and other options which will be harmonized with European Union rules.

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 country codes: Monaco (+377), Slovenia (+386) and Serbia (+381).

In 2013, during the negotiation process between Kosovo and Serbia which was facilitated by the European Union, the two governments provisionally agreed for Kosovo to have its own code. According to the Brussels agreement, the International Telecommunications Organization (ITO) has agreed that the new code (+383) for Kosovo is expected to be available in 2016.

Post and Telecommunications of Kosovo JSC (PTK) is composed of two business units: Kosovo Telecom and Vala mobile network operator. PTK offers fixed and mobile phone services, as well as internet services, and is a leader of telecommunication services in the country serving over 1.2 million customers. PTK has approximately 2,400 employees and the Government of the Republic of Kosovo holds 100% of its shares.

Meanwhile, from 2008, Z-Mobile has been licensed to carry out mobile telecommunication services, functioning as a virtual operator using the network of PTK.

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

IPKO Telecommunications LLC (IPKO), a subsidiary of Telekom Slovenia, is one of the main companies in the information

technology and communication sector in Kosovo and offers services in mobile communications, fixed telephony, digital cable television, internet services, as well as media. IPKO is the first mobile operator which offered fast-speed mobile internet 3.75G network in Kosovo.

Kujtesa Net LTD is an internet services and cable TV provider which is also located in Kosovo. It is ranked as the third telecommunication provider in the country.

Foreign direct investments

Foreign direct investments (FDI) received in Kosovo in 2014 reached the lowest value of euro or almost half less than in 2013. The failed telecom privatization, a weak business environment, and domestic political turbulence in 2014 were among the factors that contributed to the substantial decline of net FDI in 2014. The state is looking to improve impeding factors in attracting foreign investments, such as corruption, organized crime, and the judicial system.

The higher level of FDI in 2015 presents signs of a solid recovery. The increase of FDI in 2015 is due to higher inflow of investments but FDI in Kosovo continues to be highly dependent to developments in the economies of the Eurozone countries, where most of the FDI comes from.

Foreign direct investments by country

EUR million	2008	2009	2010	2011	2012	2013	2014	2015
Top five countries								
Switzerland	32	23	35	31	44	42	38	76
Turkey	24	15	5	35	66	89	20	69
Albania	22	23	20	11	5	19	20	41
United Kingdom	37	6	39	80	14	11	(40)	35
Germany	44	75	92	67	50	22	29	33
Total top five countries	158	142	191	224	178	182	69	254
Other countries	212	154	178	161	51	98	83	84
Total	370	296	369	384	229	280	151	338

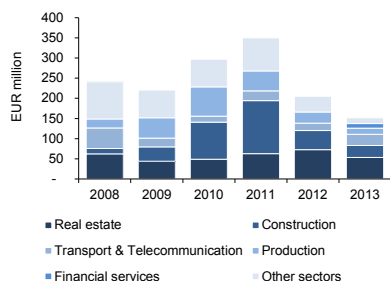
Source: Monthly Statistics Bulletin, March 2016, issue 175 of the Central Bank of Kosovo

FDI in Kosovo during 2008-2015 are predominantly concentrated in the following economic sectors with respective averages: real estate with 40%, construction with 11% and the financial sector with 17%, followed by the transport and telecommunications sector with 6% of the total FDI.

During this period, real estate and construction recorded the highest increase whereas transport and telecommunications incurred a substantial decrease, from 14% of FDI in 2008 to negative 2.0% in 2015.

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

Foreign Direct Investments by sectors



Source: Central Bank of Kosovo

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 which may be registered with the Business Registry in Kosovo are:

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

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

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

Individual business

A person owning an individual business, whether registered or unregistered, has unlimited personal liability for all debts and

other obligations incurred by, or imposed by law or contract on such an individual business. Even though an individual business is not a legal entity, it may contract, hold property and sue or be sued in its own name or in the name of its owner.

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

Overall partnership

An overall partnership is a business organization which comes into existence as a result of an association of two or more persons and/or companies for the purpose of engaging in business, either by registration or by conducting business without being registered with the Registry. These persons are considered to be overall partners. Every overall partner is, and all overall partners are, jointly and severally liable for all debts and other obligations incurred by, or imposed by law or contract on, the overall partnership. Such liability is unlimited.

An overall partnership is not a legal entity. Nevertheless, it has the right to contract, hold property and sue or be sued in its own name.

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

Limited partnership

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

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

Limited liability company

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

Foreign entities are permitted to own and participate in a limited liability company.

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

Joint-stock company

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

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

Foreign business organization

A foreign business organization, as defined in the Law on Business Organizations, may engage in business activity in Kosovo to the same extent as a local

business organization. It has to register with the Registry as a “foreign business organization” and comply with the requirements of the Law.

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

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

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.

Business Registry

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

Each registered company can be found online by entering the company name or business ID number on <http://www.arbk.org/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 branches of foreign companies
- Receipt of annual financial statements and business reports of limited liability companies and joint-stock companies.

Financial sector

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

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

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

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

- Foster and maintain a stable financial system, including a safe, sound and efficient payment system
- Contribute to achieving and maintaining domestic price stability
- Support the general economic policies of the Government
- Act in accordance with the principle of an open market economy with free competition, favoring an efficient allocation of resources.
- Cooperate with and participate in international councils and organizations concerning matters which are within its fields of competence and
- Carry out any ancillary activities incidental to the exercise of its tasks.

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

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

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

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

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

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

Banking sector

The banking and financial system structure in Kosovo consists of commercial banks, branches of foreign banks, microfinance

institutions, non-banking financial institutions, foreign exchange offices and money transfer agencies.

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

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

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

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

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

There are ten banks operating in Kosovo: Bank for Business, Banka Kombetare Tregtare – Kosovo Branch, Economic Bank, Komercijalna Banka ad Beograd – Mitrovica Branch, NLB Prishtina, Procredit Bank,

Raiffeisen Bank, Turkiye Is Bankasi, Ziraat Bank and TEB Bank.

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

Other financial intermediaries

In addition to commercial banks, microfinance institutions (MFIs) represent another important lending source in Kosovo. Currently, there are 18 MFIs in operation. The main beneficiaries of MFI loans are small enterprises and households.

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

Insurance

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

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

The total assets of the insurance sector in Kosovo amounted to EUR 152.7 million in December 2015, marking an annual growth of 9.1% compared to 2014.

The total premiums received by insurance companies in 2015 reached EUR 80 million (2014: EUR 80.1 million), which represents an annual decrease of 2.6% compared to 2014. The activities of insurance companies continue to be concentrated mainly in third party liability policies, which generate 52% of all premiums, while the remaining premiums mainly related to border insurance policies and other voluntary insurance.

The decrease in premiums received was followed by an increase in claims paid of 18.7% (2013: increase of 25.4%), which in 2014 reached EUR 36.2 million compared to EUR 31.2 million in 2013. The ratio between claims paid and premiums received in 2015 reached 64%, as compared to 2014 ratio of 52%.

The insurance sector was characterized by a loss of EUR 7.7 million until December 2015, which is a deterioration as compared to the previous year's loss of EUR 2.5 million. The loss was due to the non-life insurance activities, while the life-insurance activities remained profitable.

Pension funds

Kosovo Pension Saving Funds continued to grow in both assets and net return on investments during 2015. Kosovo's pension system assets, most of which are managed by the Kosovo Pension Savings Trust, amounted to EUR 1,240 million in December 2015, representing an annual growth of 13.1%.

Of the total pension assets of Kosovo Pension Savings Trust, approximately 10.5% were invested in Kosovo in June 2015, while the rest invested out of the country.

Protection of intellectual property rights

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

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

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

Accounting and Auditing

Accounting regulations and requirements

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

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

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

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

- Net annual turnover higher than EUR 4 million
- Gross assets at balance sheet date higher than EUR 2 million

- Average number of employees during the financial year higher than 50.

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

- Net annual turnover higher than EUR 2 million but less than EUR 4 million
- Gross assets at balance sheet date higher than EUR 1 million and less than EUR 2 million
- Average number of employees during the financial year higher than 10 but smaller than 50.

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

Entities which do not satisfy the size criteria above must prepare their financial statements in accordance with the Kosovo Accounting Standards (KAS) as issued by the Kosovo Board on Standards for Financial Reporting ("the Board"). KAS currently comprise nineteen accounting standards.

Any topics not addressed in KAS need to comply with IFRS. Even if an entity meets the criteria to prepare financial statements in accordance with KAS, it may choose to prepare the general purpose financial statements in full compliance with IFRS.

All entities must prepare financial statements at least annually. Together with

the financial statements, entities must file their annual corporate income tax return with the tax authorities by 31 March of the subsequent year.

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

Audit requirements

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

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

Taxation

General

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

The Kosovo tax legislation provides for the following taxes:

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

Corporate income tax

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

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

The following entities are subject to CIT:

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

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

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

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

- 3% of each quarterly gross income from trade, transportation, agricultural or similar businesses but not less than EUR 37.50 per quarter
- 9% of their annual gross income deriving from the provision of services, vocational, entertainment and similar activities but not less than EUR 37.50 per quarter
- 10% of the net rental income for the quarter, reduced by any amount withheld during that quarter.

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

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

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

- Cost of land acquisition and improvement
- Cost of acquisition, improvement, renewal and reconstruction of assets which are depreciated or amortized
- Fines, penalties, costs and interest related to them
- Bad debts which do not meet certain conditions as provided for by the Law
- Income tax paid and accrued and any interest or penalty incurred for late payment
- Value added tax for which the taxpayer claims a rebate or credit for input tax
- Any loss from the sale or exchange of property between related persons
- Benefits in nature in the form of meals and transport tickets, unless organized by the taxpayer themselves
- Pension contributions above the maximum amount allowed by the Kosovo Pension Law (i.e. exceeding 15% of the gross monthly salary)
- Contributions made for humanitarian, health, education, religious, scientific, cultural, environmental protection and sports purposes, which exceed 5% of the taxable income
- Expenses for presents, other than those having the name and logo of the business, which are part of the representation expenses
- Representation expenses which exceed 2% of the total gross income
- Expenses on rents of apartments serving for accommodation and lodging of resident and non-resident employees, regardless of the terms of contract of employment or service
- Contributions to reserve funds
- Expenses which are not properly backed up by supporting documents.

Depreciation

Entities may set depreciation rates for assets in accordance with their accounting policies, while under the provisions of the

Law on Corporate Income Tax, maximum annual rates allowed for tax purposes are specified according to a separate tax depreciation schedule.

The straight-line method is applied for:

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

Amortization

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

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

Income exempt from corporate income tax

The following income is exempt from corporate income tax:

- The income of organizations

registered under the Regulation on the Registration and Operation of Non-Governmental Organizations granted public benefit status to the extent that the income is used exclusively for their public benefit purposes

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

Losses carried forward

Losses may be carried forward and may be settled against future income for six

consecutive fiscal years. The losses have to be settled according to the “first loss before the last one” principle.

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

Transfer pricing

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

Special treatment of insurance companies

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

Personal income tax

Under Law No. 05/L-028 on Personal Income Tax effective from 1 September 2015, Kosovo tax residents comprise: all individuals who (i) have their principal

residence in Kosovo or (ii) are physically present in Kosovo for more than 183 days in any 12-month period of time, and all entities, individual business enterprises and partnerships which are established in Kosovo or have their place of effective management in Kosovo.

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

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

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

Tax rates

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

Personal income tax (annual taxable income in EUR)

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

Taxes must be withheld by employers on a monthly basis.

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

Pension contributions

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

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

Health insurance contributions

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

Value added tax

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

- Import and export of goods or services, or

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

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

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

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

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

Deduction of input VAT

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

Refund of VAT

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

- The VAT return for the last month of a consecutive three-month period reflects an amount of VAT credit that exceeds EUR 3,000 and
- The taxpayer was in credit at the end of each tax period (for VAT purposes the tax period is considered to be the month) of a consecutive three-month period and that all VAT returns and all other tax returns for all past tax periods have been submitted on time.
- In case of export, a refund may be claimed after each tax period, provided that the following conditions are met:
 - The amount of VAT credit exceeds EUR 3,000 at the end of the tax period (one month), and
 - The taxpayer complies with all applicable and VAT provisions, and
 - All VAT returns and other tax returns for all the past periods (months) have been submitted.

Withholding tax

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

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

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

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

Customs duties and customs code

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

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

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

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

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

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

Excise taxes

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

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

Stabilization and Association Agreement

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

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

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

Local taxes

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

Municipalities may impose the following taxes and fees:

- Tax on immovable properties situated in their territory
- An annual fee for business activity

- An annual fee for professional business
- An annual motor vehicle fee
- Construction permits and demolition fees
- Other fees in relation to services provided by the municipalities.

Double Tax Treaties

Kosovo has a Double Tax Treaty (DTT) with the Republic of Albania effective from 1 January 2016, with Macedonia effective from 1 January 2014, with the United Kingdom effective from 1 January 2016, with Hungary effective from 1 January 2015, with Slovenia effective from 1 January 2015 and with Turkey effective from 1 January 2016.

Meanwhile, the Kosovo President has ratified DTTs signed by Former Yugoslavia with Finland, Belgium, Germany and the Netherlands. However, the effective applicability of such DTTs is unclear in Kosovo.

It is unclear whether the DTT provisions apply automatically in Kosovo or specific approval is to be obtained from the Kosovo authorities. There are no specific internal rules in Kosovo on the implementation of the DTTs in force.

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

Employment Regulations

Legislation

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

The Kosovo labor law has three priorities:

- Employment regulation
- Industrial relations
- Workplace safety.

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

Employment contracts

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

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

Termination of employment contracts

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

In case of termination of an employment contract with an unlimited period, the parties notify each other through written notice of:

- 7 days during the probation period of six months
- 30 calendar days during the first six months to two years of employment
- 45 calendar days during the first two years up to 10 years of employment
- 60 calendar days if the employee has worked for the entity for more than 10 years.

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

Conditions of employment

Working hours

The Kosovo Labor Law provides that the normal workday must not exceed eight hours per day or 40 hours per week. For employees who are less than 18 years old,

the normal workday must not exceed 30 hours per week.

Every working hour taking place during the interval from 10:00 pm to 6:00 am entitles employees to an extra payment added to their salary, which cannot be lower than a 30% increase of the regular hourly rate.

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

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

Holidays and absence from work

Annual holidays

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

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

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

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

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

Other paid holidays

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

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

Public holidays

Kosovo's Government has set a number of public holidays on certain days during the year while religious holidays are subject to change every year. The following holidays are applicable for 2016:

1 and 2 January – New Year's holidays

7 January – Orthodox Christmas

17 February – Independence Day

27 March* – Catholic Easter

9 April – Constitution Day

1 May* – Orthodox Easter and Labor Day

9 May – Europe Day

5 July* – Bajram Day

12 September* – Bajram Day

25 December – Christmas

**Subject to change every year*

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

Government Control

Public procurement

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

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

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

This Law does not apply to the granting of licenses, permits or authorizations by a public authority, except to the extent that the issuance of a license, permit

or authorization is required within the framework of a PPP. In addition, this Law does not apply to service contracts or works contracts, as defined in the Law on Public Procurement and to the privatization or divestiture of public infrastructure or public owned enterprises pursuant to Law on Public Owned Enterprises.

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

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

- Provides a public service or a public infrastructure on behalf of the public authority
- Assumes financial, technical, construction and operational risks, including demand and/or availability risks, in connection with the provision of the public service or the public infrastructure
- Receives a benefit for providing public service or public infrastructure in the form of (i) payment by the public authority, (ii) charges or fees to be collected by the private partner or (iii) a combination of such payment and such charges or fees.

A PPP may be implemented through either a contractual or institutional form. A contractual PPP may be in the form of a concession or a public contract. An institutional PPP may be established by a municipality in an existing publicly owned enterprise whose sole purpose is the performance of a public service or public infrastructure. The private partner may become partner of such PPP through acquisition of shares owned by such municipality. The private partner may participate either in the management of such publicly owned enterprise, or in the provision of the public service or public infrastructure.

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

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

Competition law

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

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

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

Environmental laws

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

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

Appendix A

Important Links

Websites of institutions in Kosovo

Assembly of Kosovo

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

Office of the Prime Minister of Kosovo

<http://www.kryeministri-ks.net>

Ministry of Trade and Industry

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

Ministry of Finance

<http://mf.rks-gov.net/>

Ministry of Economic Development

<http://mzhe.rks-gov.net>

Ministry of Education, Science and Technology

<http://masht.rks-gov.net/>

Ministry of Agriculture, Forestry and Rural Development

<http://www.mbpzhr-ks.net>

Ministry of Labor and Social Welfare

<http://mpms.rks-gov.net>

Ministry of Infrastructure

<http://mi-ks.net/>

Ministry of Environment and Spatial Planning

<http://mmph-rks.org/>

Ministry of Public Administration

<http://map.rks-gov.net>

Central Bank of the Republic of Kosovo

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

Independent Commission for Mines and Minerals

<http://www.kosovo-mining.org/>

Kosovo Registry of Business Organizations and Trade Names

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

Kosovo Trust Agency

<http://www.kta-kosovo.org/>

Society of Certified Accountants and Auditors of Kosovo

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

Kosovo Pension Savings Trust

<http://online.trusti.org>

Websites of international institutions in Kosovo

EULEX Kosovo - European Union Rule of Law Mission in Kosovo

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

UNMIK, United Nations Mission in Kosovo

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

European Union Office in Kosovo

http://eeas.europa.eu/delegations/kosovo/index_en.htm

World Bank – Kosovo

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

European Agency for Reconstruction

<http://ec.europa.eu/enlargement/archives/ear/kosovo/kosovo.html>

UNDP, United Nations Development Programme – Kosovo

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

Organization for Security and Co-operation in Europe (OSCE) Mission in Kosovo

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

United States Agency for International Development, Pristina Office

<http://transition.usaid.gov/kosovo/eng/>

KPMG Albania Shpk, Kosovo Branch

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10 000 Pristina

Kosovo

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