

Research Article

# The Impact of Fiscalization and Reimbursement in Decrease Level of Informal Economy and Fiscal Evasion

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## Abstract

*Informality is a widespread global phenomenon which has become a feature of developed and developing countries. To achieve economic and political stability, national governments are oriented towards achieving economic equilibrium through state mechanisms. State institutions use different instruments to promote economic expansion, reduce unemployment and achieve macroeconomic objectives. Private sector has been indispensable for achieving important development outcomes around the world and especially in Kosovo. This sector accounts the largest share of GDP in many developing countries. Reducing the level of unemployment and economic development is being sought through stimulating and creating a private sector business climate. Fiscalization and reimbursement are two of the sensitive issues that have had a positive impact on the growth of state revenues, but in this study we will study the impact on the business side.*

**Keywords:** *fiscal policy, market economy, unemployment, economic development, informality, fiscal evasion, reimbursement, GDP.*

## Introduction

Kosovo is one of the last places in Europe to be in the market economy. The transition process started from a very difficult starting point. Kosovo has a long history of state domination of economic and financial systems, which led to a degree, volume, and limited experience of the private economy. Over the last decade, economic growth has been largely symbolic, and driven more by remittances, infrastructure investments and the privatization process. Domestic production is one of the biggest problems. To reduce Kosovo's high trade deficit, although investments have increased, it was not enough to increase domestic production.

Corruption, informality, and political imbalance are increasingly preventing Kosovo from overcoming unemployment problems and other macroeconomic issues to reach the region's levels or Europe's.

The purpose of this paper is to address the process of fiscalization and reimbursement from the point of view of informality and fiscal evasion with a particular focus on reimbursing fiscal coupons, the effect of reimbursement for fiscal coupons. We will analyze the progress and achievements of the fiscal process, the fulfillment of the planning of this process, as well as the progress of the fiscal reimbursement process in

different periods, the increase of the number of citizens reimbursed and the amounts paid by TAK, for reimbursement of fiscal coupons and other reimbursements, and the impact of this mechanism on reducing tax evasion.

The objectives of the paper are to analyze the causes of the results of the process of fiscalization and reimbursement. Reasons and causes that have affected the failure to complete the planning of the process of fiscalization, reimbursement. Impact of both mechanisms on Kosovo's economic development, in particular, the reduction of the informality level and fiscal evasion.

## The concept of fiscal policy

The fiscal policy implies the use of revenues and expenditures in accordance with the goals and objectives of economic policy. It appears that authentic fiscal policies mean the government's priority to carefully plan any duty and tax that government economic policies envisage in order to have sufficient revenue to cover public expense.

Fiscal policy, as well as monetary policy, consists of a set of instruments aimed at changing the state of macroeconomic indicators. Fiscal policy is expressed and based on the relevant financial laws and consists of government intervention to cope with state spending through the administration of revenue collected through the fiscal system. A typical and quite

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restrictive problem that governments face in this area is fiscal evasion. Contemporary concepts of the democratic functioning of states pay attention to state fiscal policies, because the proper application of fiscal policies in a country means ensuring fiscal and financial institutional stability.

Fiscal policy has a direct or indirect impact on the domestic economy. Decisions taken in fiscal policy are not easy because a change of a variable can cause change to other variables and take the wrong direction, so fiscal policy is considered a complex field that needs to be analyzed in detail.

The fiscal system in Kosovo faces diverse ideas and challenges. Without intending to point out any specific problems within this system, some of the shortcomings are quite evident and do not require significant engagement to be solved. Others require radical reforms on a general scale. Reducing the tax rates made by this government has been the best step in post-war Kosovo. Such a decision has helped the development of businesses and the distribution of tax burden to all participants. The highest positivity comes

from corporate tax cuts from 20 to 10%. This made Kosovo much more attractive in the global market. However, in the wave of optimism, the increase in VAT from 15% to 16% remains forgotten. Though it was proclaimed as an increase of only 1%, the truth is that VAT was increased by 1 percentage point and is equal to 6.6%.

### Fiscalization progress 2010-2015

Fiscalization in Kosovo started in 2010 and initially aimed at informing businesses about PE, the main focus has been to provide businesses with transaction registration mechanisms (purchase and sale of goods / services) and so there is no provision for business equipment with FD. Below we will present the data for the respective years of the performance of business equipment with the FD system and the use of this system when it is known that most businesses in Kosovo do not use them regularly, but only at certain times - this action as known as fiscal evasion or tax evasion.

**Chart 1** Providing businesses with fiscal electronic devices 2010-2011

| Region       | Businesses provided with electronic fiscal devices |               | Number of electronic fiscal devices |               | Structure of electronic fiscal devices |             |
|--------------|--|---------------|-------------------------------------|---------------|--|-------------|
|              | 2010   | 2011          | 2010                                | 2011          | 2010                                   | 2011        |
| Ferizaj      | 306  | 1,309         | 366                                 | 1,435         | 5%                                     | 9%          |
| Gjakovë      | 295  | 720           | 426                                 | 832           | 5%                                     | 5%          |
| Gjilan       | 792  | 1,391         | 951                                 | 1,587         | 13%                                    | 10%         |
| Mitrovicë    | 821  | 1,395         | 909                                 | 1,581         | 13%                                    | 10%         |
| NJTM         | 174  | 228           | 927                                 | 1,949         | 3%                                     | 2%          |
| Pejë         | 883  | 2,030         | 1,405                               | 2,177         | 14%                                    | 14%         |
| Prishtinë 1  | 866  | 3,158         | 991                                 | 3,446         | 14%                                    | 22%         |
| Prishtinë 2  | 358  | 1,803         | 410                                 | 1,971         | 6%                                     | 12%         |
| Prizren      | 1,167  | 2,464         | 1,356                               | 2,842         | 18%                                    | 17%         |
| Unspecified  | 665  |               | 935                                 |               | 11%                                    |             |
| <b>Total</b> | <b>6,327</b>                                       | <b>14,498</b> | <b>8816</b>                         | <b>17,820</b> | <b>100%</b>                            | <b>100%</b> |

Source: TAK: "Annual report 2010" and "Annual Raport 2011" (made by the author)

According to the statistics in the chart above, we clearly see the difference within a year of businesses equipped with fiscal devices. The purpose of this one-year campaign has been to provide as many businesses as possible with fiscal devices, and with such a difference seems to have given positive effect on the businesses that have been equipped.

In the following year, numerous business complaints began limit the companies that were authorized to sell, install and maintain fiscal electronic devices, as well as the high price of these devices, reduced the level of business equipments with fiscal devices.

During 2012, 2414 businesses were fiscalized and 4236 fiscal electronic devices were installed. From the beginning of the process until the end of 2012, 16885 businesses were fiscalized with a total of 21083 installed fiscal devices. Also during this year TAK starts with the sanctioning of businesses that are not

implementing the law and administrative instructions related to the process of fiscalization, whereby about 10714 visits were conducted and about 1119 fines were imposed for the non-use of fiscal cash registers, as presented in the following chart.

**Chart 2** Providing businesses with fiscal electronic devices 2012

| REGIONET    | BIZNESET E PLANIFIKUARA PER FISKALIZIM | BIZNESET E FISKALIZUARA | % E REALIZIMIT NE RAPORT ME PLANIN | GLLOBAT E LESHUARA | VIZITAT E KRRYERA | FLETE-FISKALIZIMET E VENDOSURA NE PIKAT E SHITES |
|-------------|--|-------------------------|------------------------------------|--------------------|-------------------|--|
| 1           | 2                                      | 3                       | 4=3/2                              | 5                  | 6                 | 7  |
| FERIZAJ     | 2,078                                  | 1,628                   | 78%                                | 13                 | 1,080             | 924  |
| GJAKOVË     | 1,303                                  | 846                     | 65%                                | 106                | 469               | 203  |
| GJILAN      | 1,867                                  | 1,615                   | 87%                                | 86                 | 1,359             | 1,085  |
| MITROVICE   | 1,776                                  | 1,477                   | 83%                                | 100                | 381               | 554  |
| NJTM        | 478                                    | 302                     | 63%                                | 16                 | 19                | 0  |
| PEJE        | 2,250                                  | 2,244                   | 98%                                | 115                | 2,083             | 1,471  |
| PRISHTINA 1 | 3,040                                  | 2,353                   | 77%                                | 166                | 1,384             | 1,530  |
| PRISHTINA 2 | 1,908                                  | 1,507                   | 79%                                | 262                | 1,074             | 536  |
| PRISHTINA 3 | 2,215                                  | 1,894                   | 86%                                | 169                | 1,145             | 555  |
| PRIZREN     | 3,869                                  | 3,019                   | 78%                                | 86                 | 1,720             | 807  |
| Gjithsej    | 20,784                                 | 16,885                  | 81%                                | 1,119              | 10,714            | 7,665  |

Source: TAK: "Annual report 2012"

By the end of 2015, 23497 businesses were fiscalized with a total of 30729 installed fiscal devices. There were 10714 visits to control the use of fiscal cash registers and 1119 fines were imposed for non-use of fiscal cash registers, while during 2015, 2446 businesses were fiscalized with a total of 3609 fiscal electronic devices. 6115 visits were conducted to control the use of fiscal cash registers and 1121 fines were imposed for non-use of fiscal cash registers in amount of € 237,500 (this is based on chart 3.)

**Chart 3** Providing businesses with fiscal electronic devices 2015

| Regjioni        | Biznese të fiskalizuara (Reja) | Nr. i PEF (Reja) | Biznese të fiskalizuara me pajisje shtesë | Nr. i PEF shtesë per Bizneset e fiskalizuara | PEF të instaluar gjatë 2015 | Vizita për arka fiskale | Gjoha të shqiptuara | Vlera e gjobave |
|-----------------|--------------------------------|------------------|---|--|-----------------------------|-------------------------|---------------------|-----------------|
| 1               | 2                              | 3                | 4   | 5  | 6=3+5                       | 7                       | 8                   | 9               |
| DTM             | 4                              | 26               | 133                                       | 377  | 403                         | 330                     | 56                  | 56,000          |
| Pristinë 1      | 414                            | 462              | 91  | 99   | 561                         | 657                     | 160                 | 25,500          |
| Pristinë 2      | 232                            | 249              | 60  | 66   | 315                         | 1,095                   | 224                 | 41,875          |
| Pristinë 3      | 290                            | 308              | 83  | 102  | 410                         | 751                     | 108                 | 22,125          |
| Gjilan          | 200                            | 207              | 30  | 33   | 240                         | 265                     | 57                  | 10,875          |
| Ferizaj         | 346                            | 356              | 56  | 72   | 428                         | 1,049                   | 41                  | 5,625           |
| Prizren         | 417                            | 453              | 87  | 102  | 555                         | 788                     | 153                 | 25,875          |
| Gjakovë         | 81                             | 82               | 21  | 30   | 112                         | 76                      | 4                   | 500             |
| Pejë            | 268                            | 278              | 50  | 54   | 332                         | 755                     | 199                 | 28,500          |
| Mitrovicë       | 194                            | 212              | 36  | 41   | 253                         | 349                     | 119                 | 20,625          |
| <b>Gjithsej</b> | <b>2,446</b>                   | <b>2,633</b>     | <b>647</b>                                | <b>976</b>                                   | <b>3,609</b>                | <b>6,115</b>            | <b>1,121</b>        | <b>237,500</b>  |

Source: TAK: "Annual report 2015"

Seen from the previous charts, the process of fiscalization has been increasing, both in different periods and decreasing number of businesses that have been equipped with fiscal electronic devices (fiscal cash registers). There have been many reasons. One reason is the high price of fiscal cash registers. A lot of businesses have complained about the high price of fiscal cash registers, given that fact, many businesses have failed to comply with legal obligations for fiscal cash registers.

### Informality in Kosovo

The informal sector includes a whole range of heterogeneous activities from small commerce, repairs and communal services, construction, transportation, manufacturing, etc, sectors that produce material, services and personal income for the family. In general, these units have a low level of organization and operate on a small scale and specifically, without division of labor and capital as a producer factor. Relationships relate to employment by chance, personal or family ties, and there are shortcomings in the field of legal contracts.

A study made by Riinvest and UNDP in 2011, shows that Kosovar businesses perceive unfair competition, driven by fiscal evasion and informality, as the worst barrier on the list of 22 other barriers. This was the first time that "unfair competition" came to the top of the list of barriers, following a group of studies of past years listing corruption and / or electricity supply as the main barrier to business.

This result is also confirmed by this study (this survey). Respondents (for the second time in a row) considered "unfair competition" driven by fiscal

evasion and informality as the main barrier to doing business. Furthermore, survey responses indicate that perceived injustice has increased considerably in intensity compared to the previous year, from 76 to 84 percent of respondents. These findings suggest that informality in Kosovo is not only a serious problem, but an increasing problem – so it deserves immediate action to be addressed.

In this study, there are analyzed two types of informality, fiscal evasion and informality in the workforce. This is done by asking two questions to respondents, to show their perception about the level of sales they declare (tax evasion) and the number of workers declared (labor informality) in similar firms. This section and the one that follows will give us a general overview of the level of fiscal evasion and informality in the workforce in Kosovo.

Dimensions and forms of informal economy differ from one country to another and this depends on the business conditions and the current economic and political situation, as well as the level of development and transition phase, in which different countries are located. Some of these are also characteristic of Kosovo's economy, such as illegal imports, cash flow outside the payment flow channels, non-payment of taxes and other obligations, the use of public and private enterprises for private purposes, doing commercial, construction, service activities, etc, without registering the business.

### Fiscal evasion in Kosovo

Fiscal evasion should be understood as deliberate deviation of the tax obligation arising from the performance of any economic activity. As it is in the Kosovo context, until now, the revenue system has been affected by fiscal evasion, which has led to the loss of public money, since the inability to prevent has been present throughout this decade due to many relevant factors.

Tax / fiscal evasion in Kosovo is equally damaging the public portfolio / financial ability, market expansion, and collective agreement. This is mainly the result of two factors: high financial and psychological costs in accordance with very complex rules, and a large informal economy that operates safely outside the system. Kosovo Chamber of Commerce considers fiscal evasion to be one of the only most important generators of unfair competition.

Experts on economic issues and representatives of Kosovo institutions give different opinions regarding the rate of tax evasion. While institutional officials say there has been a decrease, experts claim the opposite. Fiscal evasion is also generated by illegal actions, such as bribery, recompense, stealing, as well as unregistered economic activities that do not perform tax obligations.

This question is asked to measure the level of fiscal evasion in Kosovo:

How many percent of sales are declared to tax authorities by a typical firm in your area of activity,

given the difficulties of compliance with taxes and other regulations?

According to the survey data, business managers and owners believe that on average, businesses in their industry report about 65.6 percent of their sales, meaning 34.4 percent are tax evaders. Similar results have been achieved in the UNDP Human Development Report (2012). The report finds out that, in 2011, about 39 percent of sales were not reported by businesses. Current numbers indicate that the level of fiscal evasion has decreased somewhat in the last two years. However, the current level is still alarming. Businesses are major contributors to the budget, and this means that public services, which could be funded by contributions and businesses, are for a third smaller than they could be.

Another finding, based on the size of firms, shows a high negative correlation between assumed fiscal evasion and firm size (measured by the number of employees - Figure 1). The results show that large businesses tend to avoid taxation less, while small businesses show less conformed behavior.

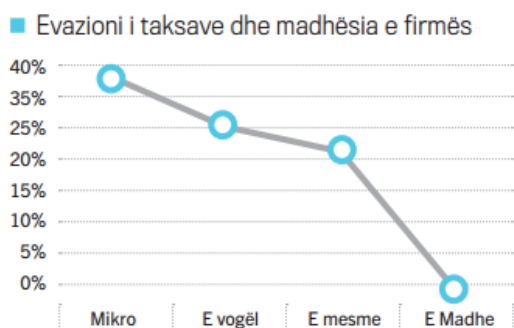


Figure 1 Unreported sales because of taxes

Source: Riinvest (2013)

This correlation is in line with theoretical expectations and previous empirical research in this area (see Nurtegin2008), as regards two important factors. First, big firms are more consolidated. Consequently they have fewer reasons to seek advantage by doing dangerous illegal activities. Second, given the limited tax administration resources, as well as the need to optimize these resources to maximize tax revenue, tax officials target large firms, where most of the revenue is collected. This finding will also help us make a significant recommendation on the audit strategy policies from TAK, at the conclusion of the report.

Negative linkage between business size and tax evasion is noticed even when we see the relationship of sales reported to the size of the company, based on the level of sales.

Fiscal barriers are thought to be somewhat challenging for the firms interviewed. In addition to the "high taxes" barrier, which ranked sixth in the overall ranking of the barriers, "high customs tariffs and difficult trading regulations" and "inefficient tax

administration" ended in the middle of the chart (in 11th and 15th place).

Currently, in Kosovo there has been done little with the creation of genuine policies that would prevent the increase of fiscal evasion, which means, the process from business registration policies, to their oversight and tax administration by the competent authorities.

Another finding based on sector differences shows that the sector of "construction", followed by "education" and "arts and recreation" are the sectors with the highest compatibility, while the most tax-avoiding sectors are "housing and food services", "processing industry" and "agriculture". This finding is not surprising given the expectations that sectors with larger cash transactions and / or less inspected industries are more likely to avoid taxation, as it is the current business environment in Kosovo.

Figure 2, however, shows a slight change in the trend edge that shows the link to firms that are in the category of sales from 50 to 100,000 EURO. This may be the indicator of the largest fiscal compliance group in Kosovo.

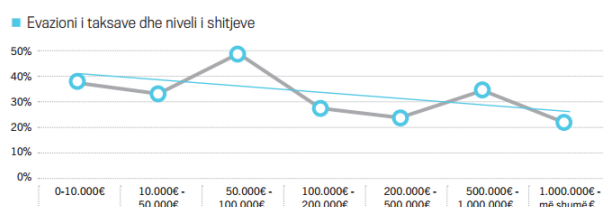


Figure 2 Unreported sales because of taxes (crossing with sales level)

Source: Riinvest (2013)

Also, 42.4 percent of respondents consider the sentence level to be high or too high. Currently, based on the survey, it is impossible to determine whether current punishments are high or low and how they can stimulate fiscal compliance. Tax literature says that the positive effect of tax compliance punishments (for instance, the higher penalties, more risk of inconsistency) brings a higher level of compliance. Of course, a high level of punishment can have a negative effect if businesses consider that punishment may not be possible; it also makes corruption more possible, as often happens with excessive adjustments.

### Refund and the basic concept of reimbursement

In cases where the amount of the deductible tax exceeds the VAT liability, the taxpayer's right to reimbursement arises. As soon as this happens, the taxpayer may request reimbursement of VAT.

Known from the practice, there are several categories or some types of reimbursements that in the past period were implemented to customers by TAK:

#### 1. VAT reimbursement



2. VAT return
3. Reimbursement tax on wages –TAW
4. Reimbursement tax on corporations -TAC

In the end, administrative instruction MF No.01/2015, article 26, Reimbursement for fiscal coupons.

**Reimbursement of fiscal coupons**

Fiscal reforms of 2015 and Administrative Instruction MF no. 01/2015 concretely article 26, where the government deepened co-operation with citizens in combating informal economy and fiscal evasion. The government's decision to re-monetize fiscal coupons and to refund a portion of the VAT to citizens has mobilized citizens to request a fiscal coupon at any time.

This government decision has directly impacted businesses, because citizens are now avoiding purchases and receiving services in places where they do not have fiscal cash registers and do not give fiscal coupons, so a number of businesses have been forced to provide fiscal cash registers.

**Stimulation effect for citizens**

Apart from the fact that citizens are being compensated with certain and above mentioned sums, the citizen is simultaneously performing a service for Kosovo institutions, avoiding acquisitions in businesses that are not equipped with FED. In this way, it is the citizen who is obliging businesses to equip with these FED. The stimulus for collecting fiscal coupons, even though symbolic, has affected the citizen, who for the first time after the war is returning part of the taxes paid when purchasing goods and services. Despite the procedure which is somewhat difficult for the citizen to motivate and stimulate, in addition to financially in the short term, it also motivates him to continue to collect fiscal coupons, which over time will affect increase the number of fiscal businesses. Only full fiscalisation will affect the reduction of informal economy and fiscal evasion.

**Reimbursement analyse of VAT,TAW dhe TAC(year 2010-2015)**

Analysing the types of reimbursements and the sums of reimbursement for different categories

**Chart 4** Reimbursement analyse of VAT,TAC and TAW

| Year  | Reimbursement of VAT | Return VAT-se | Reimbursement of tax in wage TAW | Reimbursement of tax in corporations TAC | Total per year |
|-------|----------------------|---------------|----------------------------------|--|----------------|
| 2010  | 20423594             | 304704        | 852467                           | 6015616                                  | 27596387       |
| 2011  | 26825888             | 264476        | 292508                           | 2355856                                  | 29738728       |
| 2012  | 26264924             | 72646         | 277913                           | 1415974                                  | 28049457       |
| 2013  | 31361121             | 626725        | 424705                           | 1451974                                  | 28049457       |
| 2014  | 31003893             | 200149        | 314825                           | 89006                                    | 31607875       |
| 2015  | 26000000             | 2100000       | 274027                           | 1400000                                  | 29740037       |
| Total | 161879420            | 3568700       | 2436445                          | 12728426                                 | 174781941      |

Source: TAK- Annual report 2010-2015

Seen from chart 3, TAK during 2010-2015 has reimbursed €174781941 according to different categories:

1. VAT reimbursement€161,879420
2. Reimbursement of tax on corporation TAC€12,728426
3. Return of VAT€3,568700
4. Reimbursement tax on wage TAW€2,436445

- For period (April, May, June) Q2, have benefited 22220 citizens
- For period (July, August, September) Q3,have benefited 54035 citizens, and
- For period (October, Novemebr,December) Q4,have benefited 92247 citizens

Drawing analysis of fiscal coupon reimbursement

It is concluded that after each Q there was a considerable increase of beneficiary citizens from the application for fiscal coupon compared to the previous period, and since the beginning of the Q2 and the Q4 period of 2015, there has been an increase of 455.29% as seen below

**Chart 4** Reimbursement of citizens with fiscal coupon

| Period | Year | No of citizens | Reimbursement amount |
|--------|------|----------------|----------------------|
| Q1     | 2015 | 0              | 0                    |
| Q2     | 2015 | 22,110         | 339,890.00€          |
| Q3     | 2015 | 53,234         | 899,566.00€          |
| Q4     | 2015 | 92,247         | 1,662,830.00€        |
| TOTAL  |      | 167,591        | 2,902,286.00€        |

Source: TAK- Annual reports 2010-2015

- Q3 with Q2 -Increased citizen's interest in Q3 compared to Q2 has been142.8%
- Q4 with Q3 - Increased citizen's interest in Q4 compared to Q3 has been128.66%
- Q4 with Q2 - Increased citizen's interest in Q4 compared to Q2 has been455.29%

Seen in chart 4,reimbursement for fiscal coupon has increased every quarter period Q.Refering TAK:

During 2016, the citizens have been reimbursed for fiscal coupons, according to the information provided

by the Ministry of Finance and Tax Administration of Kosovo, and from the beginning of the reimbursement until the end of 2016, over 1.1 million envelopes were sent and reimbursed in the total amount of €15.5m.

## Conclusion

The process of fiscalization and reimbursement has stimulated the awareness of both consumers and businesses in terms of avoiding fiscal evasion and informal economy in general, though it is still a fairly high level based on the percentages of research conducted. But again, we can say that something has been done in that direction by the government, and though at a slow pace.

As a result of the research we have presented the following conclusions:

- Fiscal policy is one of the most important policies that could positively influence the alleviation of unemployment
- Unfair competition (resulting from fiscal evasion and employee under-declaration) is referred as the highest barrier in doing business.
- Small and medium-sized businesses are also likely to be involved in tax evasion rather than large ones. Moreover, the most evasive sectors in Kosovo are: agriculture, production, catering, and food services; While the least evasive sectors are: construction, education, recreation and art.
- The Government of Kosovo has taken courageous steps in lowering tax rates, solely for businesses to have the greatest opportunity to accumulate their profits, which is considered as a preventive step to prevent evasion, while implementing fiscal policies.
- Regarding the intensity of tax audits, 37.3 percent of respondents believe that there is a high or very high chance of being caught by avoiding taxes. However, 62.7 percent of respondents believe that if they want to escape the tax, they can do it very easily without being caught by the authorities.
- On average, 42.4 percent of respondents believe that the level of fines is high or too high. While a higher level of taxation can lead to a higher level of declarations, it may also have a negative effect if businesses perceive a higher tax as unfair.
- Taking into account the level of public services provided, respondents believe that they have to pay 60 percent less tax than they currently pay.
- In a hypothetical case, if there is a tax increase of 10 percentage points, 78 percent of respondents have shown willingness to avoid taxes. The potential evasion rate increases to 82.5 percent if taxes increase by 20 percentage points.

## Recommendations

From the above treatment, it turns out that Kosovo's economy is somewhat similar to the economies of

other countries of the former Yugoslavia, the developing countries and the transition countries with the specifics of governance in a transitional period. Some of the ways to reduce the informal economy and fiscal evasion in today's Kosovar economy are:

- Identification and inclusion in the business tax scheme that so far are not subject to fiscal obligation.
- When drafting necessary policies and legislation to limit these phenomena, laws and other subsidiary acts should support each other and coordinate the work of the executive institutions in order not to impede the implementation in their practice.
- Encouraging macroeconomic stability and growth;
- Clarification and reorganization of legal codes and regulatory acts;
- Provision and proper implementation of legal property rights;
- Simplification of business licenses and making them permissible for everyone;
- Reforming tax and employment policies;
- Low tax burdens, not necessarily lowering the tax rate, but reducing the costs of fiscal compliance. The low tax rate does not necessarily reduce the tax burden. As seen from the Kosovo case, despite the average tax rate that is the lowest in all transition economies (about 10%), the level of tax evasion is highest (39.5%). The other reasons for the tax burden include the transaction points, which are held for corrupt officials' requests.
- Special attention needs to be paid to simplifying the laws on reimbursable tax, such as the Value Added Tax. If the time needed to reimburse VAT is long, this will discourage persuasive behavior, and then regardless of the tax level, avoidance behavior will be more likely.
- Harmonization of local legislation with EU legislation;
- Kosovo needs to develop a modern tax system
- Decentralization of fiscal policies

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