

Complexity of fiscal policy in Kosovo and their treatment

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Abstract

Fiscal policy and monetary policy are two key instruments of economic policy of a country which are used to achieve macroeconomic goals. In Kosovo and in the new and consolidating countries the fiscal policy plays the primary role in the functioning of the state, its institutions and economic growth in general. In the study paper treated some of the most sensitive issues affecting fiscal and tax policies, theoretical approaches, modern trends of fiscal policy and addressed some of the reforms in neighboring countries. Special emphases is given fiscal policies applied in Kosovo, its reforms, actions to be taken on the occasion of the policy-making reforms and finally are given appropriate recommendations.

Keywords: *Fiscal policy, fiscal reform, public revenues, government expenditures.*

The theoretical aspect of fiscal policy

Economic development of one country and its function cannot be imagined and become reality without consistent and authentic fiscal policies and taxation systems which provide the same development path. The state and its institutions will not be able to exist and function without payment of tax obligations by citizens as well as enterprises, so the tax is part and parcel of the existence of the state and the payment of taxes is mandatory (M. Dubrowski & T. Magdalena, *Tax Reforms in Transition Economies*, 2001, 6-7). In this direction, fiscal policies set two fundamental questions and they consist in that:

- a) It should be tax limit and what concrete fiscal instruments should be which do not harm business activity and economic development in general?
- b) As will be government spending on the functioning of state institutions and public administration in general?

The answer to the first question in theory seems to be simple: the need of the public goods that the state performs determines the amount of the requested budget. However, it is more contradictory than is the size of government and the functions it performs. So, the level of taxation in the state depends on the volume of public expenditure, and productive expenditure improve growth rate, while increasing taxes results in poor economic performance (Institute for Development Research, Riinvest, 2005, 16). Trying to give an answer to these questions it is useful to focus on the principles of "optimal tax", under which:

- (1) Tax system should be neutral as much possible;
- (2) It should provide more stable and optimal financing of public expenditure;
- (3) Should provide taxpayers can withstand load as;

- (4) Tax threshold should be distributed in a real way;
- (5) Should be as simple, understandable and free in application;
- (6) Tax system should be flexible and respond to changes in economic circumstances;

The objective of fiscal policy

The objective of the fiscal policy is to provide needed revenues by application of the fiscal instruments which can be covered public expenditures (P. Jurkovic, Designing a tax system to promote structural change 1991, 30-33). Fiscal policy is related to actions undertaken by the government in changing the composition of revenue and public expenditure, aggregate demand management to maintain sustainable economic growth with relatively high employment without generating inflation and without increasing public debt and satisfactory balance of payments. The basic goal of fiscal policy is related to its economic goals of the state. They are: high employment rate, stable and low inflation, consistent position of the balance of payments and high growth and stable economy. Fiscal policy can have other goals as well: such as reducing economic inequality, reducing regional disparities, environmental progress and so on. These goals are realized through adequate instruments which are implemented and reflected in public revenues, public expenditure, fiscal deficit and public debt. Economic policy measures and fiscal policy aims to achieve the optimal rate of economic growth measured which will make use of production factors and other factors affecting the general social interests. To achieve this optimal rate of growth should have adequate fiscal policy and to exist an optimal taxation, which must adapt to economic trends.

Some international experience in tax reform, global trends

Tax reforms are constant processes, taking place from state to state and all over the world. In general, governments undertake tax reform for two reasons:

- To improve the revenues and
- To improve and to promote the most sustainable economic environment

Tax reforms in general includes: replacement of functional tax policy, modernization of tax administration and increase tax audits and the recognition of new taxes, especially the VAT. Also, they are oriented at improving economic environment and usually include steps that simplify the tax system, at the same time eliminating the numerous taxes of which give low performance and in the elimination of unproductive taxes (M. Gallagher & A. Babić, Tax Simplification for Jobs and Growth, 2005, 20-24). In the world tax reforms are to focus on:

- To increase the confidence in VAT as a tax on consumption;
- By increasing foreign investments through tax 'support';
- Reduction of tax rates in the personal income tax;
- Reducing tax rates for tax on profit on corporate

From the lessons learned from successful reforms in tax systems and operating practices taken around the world, it can be concluded that:

- The tax base should be much more extensive that it is possible;
- Tax rates should be lower as much as possible;
- In the most of the cases tax stimulations do not provide their efficacy, and when they

function normally do not provide the expected results;

- Tax appeals should be as simple and mostly free; and
- The administration of taxes and strengthening the administration usually require modernization.

Tax reforms in neighboring countries

Tax reform in the neighboring countries deals with capacity building and modernization of the Tax Administration which can functionally operate in a market economy. Application of VAT and other direct and indirect taxes requires that the administration of the taxes to be more operational jointly with customs operations and act smoothly and easier for taxpayers and their businesses.

Tax reforms in neighboring countries including specific changes are:

- Application of VAT as an indirect tax on consumption;
- Simplification of tax laws;
- Elimination of support of unproductive taxes and holiday fees;
- Harmonization of tax regulations with international standards of accounting;
- Modernization of the tax administration;
- Reduction or elimination of entire customs duties;
- Reduction of excise duty in small number, according to EU directives.

The share of taxes in GDP in Kosovo and determination of the fiscal burden

One of the most influential factors in determining the macroeconomic indicators and calculating national income is the fiscal sector. Its importance can be seen in the development of the real sector, financial sector as well as in improving the sector of foreign exchange. Depending on the degree of development of this sector directly affects and helps both, the real sector (employment, investment, prices, inflation, etc.) and development of the financial sector (banks, insurance companies and other microfinance institutions) and finally affects the improvement of the trade balance and payments to the outside world. Despite the lack of sufficient official statistics, based on estimates and analyzes of local foreign institutions (IMF, World Bank, MF, CBK, and the other NSO) we can draw some conclusions acceptable that affect economic development, its level and future fiscal projections. The assessments made of the movements of the main macroeconomic indicators in the period 2000- 2013 shows a trend of continuous symbolic improvement of these indicators. It is important to consider that how fiscal policy affects economic growth, as the economy is burdened with the taxes, share in GDP, share of income and expenditure in GDP, what is the share of tax types in total revenues, experience in other countries that are in a higher stage of development, and finally on the basis of these data are seen next steps of action.

Future orientations of fiscal policy in Kosovo

Fiscal policy in our country must be continued in its orientation to the creation of such policies which are in line with EU standards limits and also to take into account the specificity of the economy in which we are. They should be oriented in two directions:

- Providing the necessary budget revenues in order to finance the government spending and

- Creation of such policies which will help to create a climate conducive to economic growth.

From the analyses of the trend in collection of tax and non-tax incomes we can notice that we have a poor collection of the incomes (Ministry of Finance of Kosovo, the annual reports 2000 - 2013). Mostly dominate border taxes (excise, customs fees, VAT) with tendency to fall down slowly and beside this a symbolic increase of internal taxes. The intention of government policy should be oriented in the collection of the taxes inside the country not to be collected at the border. Certainly to achieve the objective in collection of the incomes within the economy the country, needs time and to build institutional and economic capacities. Also, at the local level should be done more not only in the most incredibly completion in the field of harmonization of legislation but should increase the efficiency even in cases of collection of funds and also should be done the fiscal decentralization. Another important component is the issue of government spending, as those costs burden the budget and where they are oriented (Public Expenditure and Financial Accountability (PEFA), Ministry of Finance, 2008). Another important issue is creation a good climate for new businesses and sustainable economic development. The experience of other developed countries show that countries with open and competitive economy without different restrictions have moved forward in economic development than the countries which have restrictions. This liberalization of the market will obligate Kosovo businesses to be oriented in those activities where we have a comparative advantage and increase the productivity of labor. It is extremely great importance involvement of Kosovo in the EU and in the benefits of its structural funds.

Questions to be answered before undertaking of fiscal reform

As we mentioned earlier the fiscal reform are ongoing processes, there is no perfect tax system, always are created the conditions and rise new demands linked to the economic policies within the state, region beyond which the system of taxation and fiscal policy should be complemented with these (G. Asllani, *The impact of fiscal policy on economic development*, Danubius University, Press Home, vol. No. 7, 2011, 14-16). During the change of fiscal policy it is important to be answered in several important questions which are related to each other and complementing each other:

- a) Is it fiscal policy that prevents economic development?
- b) If so what to change and in what proportions?
- c) Which will be the goal that must be achieved?
- d) What would be the time frame of their realization?
- e) How much is willing the institutional capacity for such changes?
- f) What results would be expected in the future in the economy of the country and the region?
- g) Who will be the implementation and control mechanism?

Also should be taken into consideration the negative aspects which may have changes in fiscal policy, some of the most important are:

- 1 - Frequent changes may cause difficulties in securing budget revenues;
2. Such changes could create problems in the functioning of the tax system and its deregulation;
- 3 - Frequent changes may affect the loss of importance of the tax system

These mentioned issues or of great importance for decision makers and in any case they should be taken into consideration when they make reforms either full or partial reforms in the tax system. During the drafting of the tax system reform, the fundamental issue is analyze of the economic and financial implications that may have such changes, then analyses of the current situation, it should be seen of trends of the fiscal changes in the neighboring countries and at the end the proposal of adequate measures.

Conclusions

Fiscal policy and construction of the tax system in our country has found and continues to find support in scientific approaches and meet modern requirements submitted nowadays before the taxation as an application of the low tax rates and broaden the tax base, orientation in those taxes bringing high performance in consumption tax, low cost of administration and simplification of the tax system. Of course there is still need for improvement and advancement both in terms of management and the simplification of legal procedures, in order to reach the optimal tax system. We have entered the phase of fiscal policy reforms and these reforms should be continued with great carefulness. These reforms should be adopted with fiscal practices of other countries in the region and follow-up the trends of reforms taking place in the European Union. There is a need for improving the database of macroeconomic and fiscal indicators.

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