

Empirical analysis of tax revenues, their impact on economic growth of the country - the case of Kosovo

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Abstract

Main purpose of political makers is the economic growth of a country. Tax policy is often mentioned in research as an important determinant of economic growth. This study is of great importance in the formulation of these policies which would affect the efficiency of collection of taxes in order to cover public expenditures, which would have an impact in the growth of the country's economy. To assess this effect, we have done a descriptive statistical analysis of the structure and trends in tax collection in Kosovo from 2005 to 2015. In this research we have considered how tax policies impact on economic growth by using data from years. The results from this analysis confirm that the structure and trends of taxes in Kosovo have contributed to the growth of public investment growth, contributing directly to GDP growth. Also based on the findings we have noticed that the share of tax revenues in the country's Gross Domestic Product was relatively low compared to other countries in the region, reflecting a low level of economic development of the country. Moreover, this research highlights some key issues that policy makers need to take into account in dealing with the more effective collection and use of tax revenues to improve economic growth.

Keywords: tax, Kosovo, tax reforms, tax rates, tax policy.

Introduction

Kosovo in the 1990s experienced a total collapse of the economic and fiscal system. Immediately after the end of the armed conflict and after the declaration of independence from Serbia, it built a new economic system that enabled it to raise public revenues for covering public spending (Shala, 2017). Politics and the fiscal system in Kosovo has its original origin right after the end of the war in 1999. Immediately after the war, a United Nations mission called UNMIK was installed. This mission was responsible for the governance of the country. Kosovo from the war emerged economically, without any fiscal system, and the one who had to take measures to establish it was UNMIK, so on June 25, 1999, Kosovo's first chief administrator approved Regulation no. 1999/1. This regulation is the highest legislative act in post-war Kosovo, which regulates issues of state property, finance, banks, and so on. The second important document for the fiscal system in Kosovo is extracted from the SRSG, Regulation no. 1999/16 on the Establishment of the Central Fiscal Authority (CFA). Among the first regulations issued by the UN Special Representative for Kosovo is that on establishing customs and other relevant services in Kosovo. With the approval of the Regulation on Excise and the Regulation on Sales Tax, the customs service and the payment of tax and excise duty on import of goods as

one of the most important segments in the construction of Kosovo's fiscal system and the institutionalization and consolidation of the budget Kosovo. Fiscal policy in Kosovo has continued to be reformed and this has enabled it to provide a sound and sound basis for budget revenues. This policy of public revenue formation has been achieved by changing the tax system, increasing the tax base and implementing fiscal prudent policies. In this dispute, the Kosovo government has undertaken some tax reforms such as 2009 and 2015. From January 2009, the corporate income tax rate in Kosovo has gone down from 20% to 10% and from January 1, 2010, The Kosovo Government through the new Law on Corporate Income has removed the tax on dividends received by resident and non-resident taxpayers. This reform has resulted in achieving fiscal sustainability by providing sufficient revenue to cover public spending. The achievement of this sustainability has also affected the increase of the empowerment of the two responsible institutions that deal with their collection, such as: Customs and Tax Administration of Kosovo. One of the most important moments in the development of fiscal policy in Kosovo was that of 2015 when the Kosovo government has undertaken a tax reform by amending the laws on Value Added Tax (VAT), Corporate Income Tax And personal income tax. The biggest changes in laws have occurred in the VAT law, where it rose from 16% to 18%, but in some basic products this rate decreased by 8% and in some others it was almost eliminated as a result of receiving The decision on escalating VAT. Also, the Government of Kosovo also amended the Law on Corporate Income Tax (CIT) and Personal Income Tax (PIT) by reversing the tax on Dividends.

Review of literature

Kosovo's post-conflict governments, in addition to other state and social segments, have also undergone radical reforms in the development of fiscal policy, which have influenced the formation of revenues, engaged in the construction of the tax system and other instruments Which are in the function of preserving the country's macro-fiscal sustainability (Kryeziu, 2012). In Kosovo, from 2005 until now, there has been a steady increase in public revenues, especially in the collection of tax revenues. But the biggest concern that has been raised by domestic and international economists has been that this increase in revenue has had an impact on the country's economic growth ?! In order to verify the impact of tax revenues on economic growth, many researchers in the country and the world in general have taken over. One of the scholars dealing with this issue are: Peci (2009), Anastassiou and Dritsaki (2005), Lecaj, Baftiu and Sylaj (2015), Pere and Hashorva (2011), Chigbu, Akujuobi, Eze and Ebimobowei (2012) etc.

In Kosovo, since the post-war period, the structure of budget revenues is largely dominated by border revenues, where the largest share of border revenues is observed in filling the state budget with domestic revenues (Berisha, 2015). In this context, with the aim of creating competitive taxation systems for attracting investment and tax harmonization with the EU, tax rates have been significantly reduced and successful steps have been taken in order to harmonize taxes with EU member states (Peci, 2009). During the research we have noticed that the level of indirect tax revenue was greater than the direct tax revenues. The view that the low direct indirect tax ratio encourages high economic growth has been a key topic for discussion (Anastassiou

and Dritsaki, 2005). Fiscal policy in co-operation with other government policies is of particular importance in the national economy that would help in formulating the financial strategy and strategic development objectives, as well as mainly the private sector analysis that should constantly play the leading role in the development of National economy (Lecaj, Baftiu and Sylaj, 2015). The efficiency of a fiscal system is particularly related to the characteristics of a tax as an instrument for the implementation of various economic policies, the promotion of economic development, the achievement of special structural changes, etc. (Pere and Hashorva, 2011). This document aims to carry out a comparative analysis of Kosovo's tax systems with the various countries in the region. The main objective of the paper is to analyse the performance of the collection of tax revenues and their structure. Based on an econometric research done by the authors (Chigbu, Akujuobi, Eze and Ebimobowei, 2012), the study concluded that tax is a very important instrument of fiscal policy that contributes to the economic growth of each country.

Data and Methodology

To make this income analysis we initially applied statistical analysis in order to better understand the role or effect of tax revenues in the economic growth of the country. In this section there will be a sufficient description of types of income in Kosovo from 2005 to 2015, including information related to the moments of changes that have occurred in tax policy, their reduction and increase in certain periods. This analysis was made on the basis of annual reports on the collection of tax revenues by the Ministry of Finance and the International Monetary Fund. In order to build a more complete icon of Kosovo's public revenue trend, we included a comparison of the Kosovo's public revenue trend with the region. This comparison is based on two indicators: (i) public income relative to the population as a social indicator and (ii) public income in relation to GDP as an economic indicator.

Tax Revenue Analysis in Kosovo (2005-2015)

The functioning of the tax system in Kosovo is generally based on the collection of public revenues which consist of three types: tax revenues, non-tax revenues and donor revenues. Referring to the table below, we note that the performance of public revenue growth in Kosovo has been quite positive year-on-year, with the exception of 2013 where we had a slight reduction of revenues. One of the most important moments in the development of fiscal policy in Kosovo was that of 2015 when the Kosovo government has taken some decisions that have influenced the increase of public spending (increase of public employees' salaries by 25% and increase of Public investment) that put the country's financial stability at risk. Faced with such a challenge, the Kosovo government, with the suggestion of the International Monetary Fund in 2015, undertook a tax reform by amending the laws on Value Added Tax (VAT), Corporate Income Tax and Tax on it Personal income. The biggest changes with regard to laws have occurred in the VAT law, where the VAT threshold is lowered from 50 thousand euros as it was in the previous bill to 30 thousand euros. With the new law, the VAT rate increased from 16% to 18%, but in some basic products this

rate decreased by 8% and in some others it was virtually eliminated as a result of the decision to VAT escalation. Also, the Government of Kosovo also amended the Law on Corporate Income Tax (TAK) and Personal Income Tax (TAP) by reversing the tax on Dividends. The undertaking of this reform in Kosovo yielded its fruits and then the growth trend continued at a very high positive rate.

Table 1: Public revenues in Kosovo for the period 2005-2015

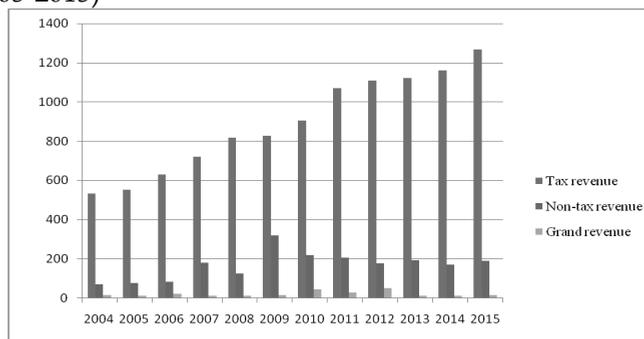
PERIOD	TAX REVENUE	NON-TAX REVENUE	GRAND DONORS	TOTAL REVENUE
2005	553.307	74.910	11.231	639.448
2006	628.852	83.160	19.563	731.575
2007	722.434	180.565	11.643	914.641
2008	817.747	124.778	12.845	955.370
2009	827.242	319.575	13.880	1,160.697
2010	907.014	219.481	45.342	1,171.837
2011	1,072.316	206.695	28.208	1,307.220
2012	1,108.523	175.843	48.732	1,333.098
2013	1,120.962	191.607	12.588	1,325.157
2014	1,161.568	171.252	12.092	1,344.912
2015	1,268.735	188.084	13.310	1,470.130

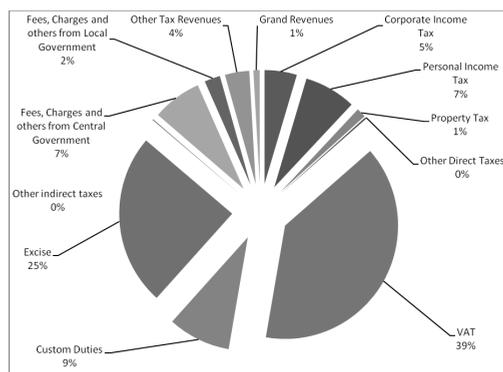
Source: (MF, 2005-2015)

From table 1, we have noticed that tax revenues are the main revenues of the Kosovo government and the same have had a continuous increase from year to year. While non-tax revenues are also important government revenues, but they have not been the focus of this analysis. This shows that the Kosovo government is committed to increasing tax revenue continuously because such an action leads to the economic growth of the country. Tax revenues have played and remain of particular importance, both in terms of budget revenue collection and participation in GDP (Berisha, 2015). So this is a very important indicator in the economic growth of the country.

Figure 1: Government Income in Kosovo by Source of Assets for 2005-2015

Source: (MF, 2005-2015)





For the purpose of this research, below is presented table 2 of the arrivals (by types) collected by the Kosovo government from 2005-2015. From Table 2 we see that tax revenues in Kosovo from 2005 onwards, had a positive trend. Positive trend had had all kinds of direct and indirect taxes. The largest contributor to the state's cash box was indirect taxes such as Value Added Tax (VAT) and Excise Tax.

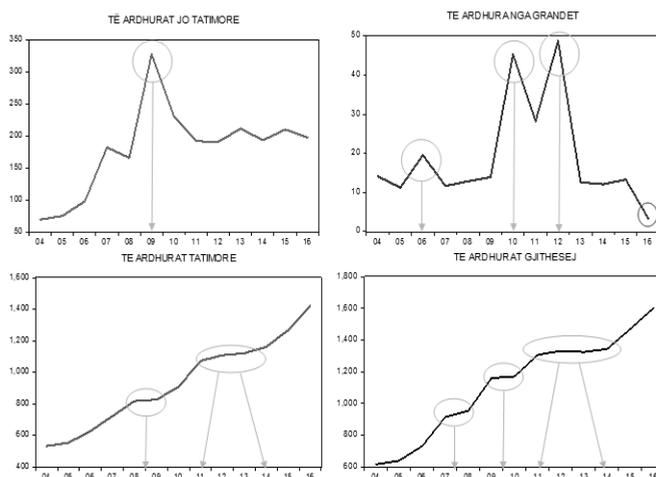
To illustrate the share of revenues by type in total public revenue for 2015, Figure 2 is presented. From this graph we can see that the main revenue is presented: Value Added Tax with 39,16%, followed by excise 24, 53%, customs duty 8.94%, and other incomes. So, as shown in the graph, taxes are the main place in revenue collection in Kosovo. It is also noted

Description	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Tax Revenues	553.307	628.85	722.43	817.75	827.24	907.01	1,072.32	1,108.52	1,120.40	1,161.57	1,268.74
Direct Taxes	82.69	127.99	144.77	176.47	168.75	140.20	154.82	169.24	175.57	189.90	199.45
Corporate Income Tax	35.09	64.199	74.777	97.711	65.190	52.812	57.231	63.202	63.695	55.119	67.660
Personal Income Tax	36.19	49.906	51.968	64.164	61.407	71.231	80.561	87.597	90.994	110.561	108.677
Property Tax	7.36	8.381	8.300	12.717	11.436	13.411	14.364	14.584	16.119	20.411	19.797
Other Direct Taxes	4.05	5.500	9.721	1.877	30.718	2.748	2.666	3.852	4.765	3.812	3.314
Indirect Taxes	470.62	500.87	577.67	641.28	658.49	766.81	917.49	939.29	944.82	971.67	1,069.29
VAT	231.48	254.194	302.355	341.060	364.743	426.648	510.037	514.050	521.521	526.476	575.665
Custom Duties	74.83	124.282	81.208	93.355	94.525	103.868	121.211	117.721	120.128	126.323	131.391
Excise	164.31	115.268	191.384	203.311	196.988	230.648	284.555	303.202	301.050	315.437	360.633
Other indirect taxes		7.12	2.72	3.55	2.24	5.65	1.69	4.31	2.13	3.43	1.60
Non-Tax Revenues	74.91	83.16	180.57	124.78	319.58	219.48	206.70	175.84	191.61	171.25	188.08
Fees, Charges and others from Central Government	46.33	63.79	159.63	94.71	88.26	93.55	102.03	81.72	85.86	92.38	103.73
Fees, Charges and others from Local Government	21.22	19.37	20.94	30.07	31.31	32.73	35.40	41.24	36.05	32.04	33.12
Other Tax Revenues	7.36	-	-	-	200.00	93.21	69.27	52.89	69.69	46.83	51.23
Grand Revenues	11.23	19.37	11.64	12.85	13.88	45.34	28.21	48.73	12.59	12.09	13.31
Total revenues	639.45	731.39	914.65	955.37	1,160.70	1,171.84	1,307.22	1,333.09	1,324.60	1,344.91	1,470.13

Table 2: Revenue structure in Kosovo by types for the period 2005-2015

Sources: (MF, 2005-2015) that from the taxes collected in this period indirect taxes constitute the highest amount of income.

Figure 2: Revenue Structure in Kosovo for 2015

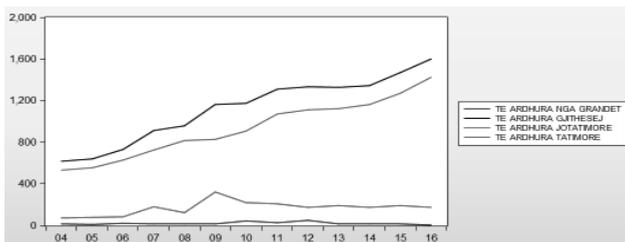


Tax Revenues Trends in Kosovo 2005-2015

It is seen with interest, the study of public revenues in Kosovo during the period 2005-2015, in order to interpret the results of statistical processing but also to provide an ordinary economic indicator, such as the trend of development over the years. This period coincides with the period in which we were able to obtain complete data for the three indicators of newcomers as well as the GDP. Below we have presented the individual and comparative trend over the years for these indicators.

Figure 3: Annual public revenue trend in Kosovo (2005-2015)

Tax revenues in the period 2005-2015 represent an ever-increasing trend (Figure 3, Chart left-bottom) but with two stagnation periods (2009 and 2012-2014). It is a fact that tax revenues have nearly tripled during this period we have taken in the study, (Minimum = 533,200,000 and Maximum = 1,423,267,000, Table x.1 Appendix). Interestingly, the total income enjoys an upward trend during this period (2005-2015), with three stagnation moments (Figure 3, Chart right-down) that belong to 2007, 2010 and 2012-2014). Given the high volatility of two of the public income factors, non-tax revenues and foreign currency gains and not reflecting this volatility in total income, it makes interesting the comparative study of the factors that determine the income Tax system in Kosovo (Figure 4).



In the rest of the period 2005-2015, the total income trend is almost the same as the

tax revenue trend.

Figure 4: Comparison of trends by annual revenue items (2004-2015)

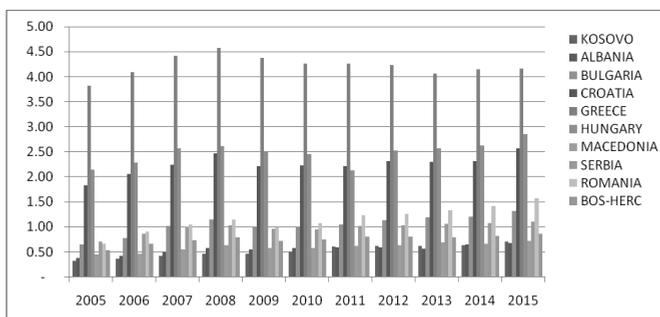
Table 3: Annual incomes in relation to the population for the countries of the region
 (Period 2005-2015)

PERIOD	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
KOSOVO	0.32	0.37	0.42	0.47	0.47	0.51	0.60	0.61	0.61	0.64	0.70
ALBANIA	0.37	0.42	0.50	0.58	0.55	0.57	0.59	0.59	0.56	0.64	0.68
BULGARIA	0.65	0.77	1.01	1.15	0.99	0.99	1.04	1.14	1.19	1.21	1.32
CROATIA	1.83	2.05	2.23	2.47	2.21	2.23	2.22	2.31	2.29	2.31	2.57
GREECE	3.81	4.09	4.41	4.57	4.38	4.26	4.26	4.24	4.06	4.14	4.16
HUNGARY	2.14	2.29	2.57	2.61	2.51	2.45	2.13	2.52	2.57	2.63	2.85
MACEDONIA	0.45	0.46	0.55	0.63	0.58	0.57	0.62	0.64	0.68	0.66	0.73
SERBIA	0.71	0.86	1.00	1.04	0.96	0.95	1.02	1.04	1.07	1.07	1.11
ROMANIA	0.67	0.90	1.05	1.15	0.99	1.07	1.23	1.26	1.33	1.42	1.57
BOS-HERC	0.53	0.66	0.74	0.79	0.71	0.75	0.80	0.80	0.79	0.81	0.86

Source: (IMF, 2005-2015)

In order to build a more comprehensive icon of Kosovo's tax revenue trend, we included a comparison of the trend of Kosovo's tax revenues with the region. This comparison is based on two indicators: (i) public income relative to the population as a social indicator and (ii) public income in relation to GDP as an economic indicator. The graph presented in Figure 5 shows that Kosovo is among the countries with the lowest per capita income of the population. Throughout 2005-2015 Kosovo together with Bosnia and Herzegovina, Albania and Macedonia are among the countries of the region, which although they have known an increase of this indicator, could not overcome the unit threshold. Unlike these countries, Romania, Greece, Serbia and Hungary, which were below the unit level for this indicator, exceeded the per capita income threshold by maintaining a fluctuating but significant growth trend compared to Countries of the above group. Among the countries of the region distinguish Greece, Hungary and Croatia. The crisis of 2009-2010 for Greece has influenced the trend of social indicators in the study but without losing the lead of the region. Hungary and Croatia are fluctuating but positive in 2005-2015.

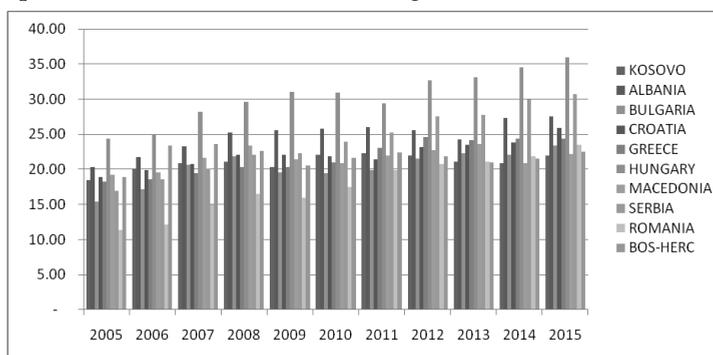
Figure 5: Comparison of the Income Comparisons with the Population for the



Countries of the Region (2005-2015)

Regarding the "Income / GDP" economic indicators, Kosovo does not differ from the vast majority of countries in the region (Figure 6). Kosovo belongs to the countries of the region which during the period 2005-2015, this indicator has an interval of 18% -23%. A more detailed study of Figure 6 charts concludes that Kosovo does not maintain a sustainable trend during this period. The year with the lowest values of this indicator is the year 2005, while the year with the highest values is the year 2009. The difference from all the countries in the region with regard to the sustainability of the percentage ratio "Income / GDP", Serbia and Romania, which enjoy an almost steady growth trend of this indicator, regardless of the level of value of this indicator. The statistical data survey which represents the values of income factors in Kosovo during the period 2005-2015 is based on annual periods, so we have seen with interest the study of the trend and the specifics of these factors.

Figure 6: Comparison of GDP Revenues in Regional Countries (2005-2015)



Conclusions

From the descriptive analysis of this research we have noted that tax revenues account for an average of 83.34% of Kosovo's total budget revenues. Given this fact that taxes are the main revenue and then we can say that this income is also the main contributor to the growth of public investments that directly affect the economic growth of the country. The growth trend of tax revenues in the research period was quite high with an annual average of 8.67%, which was followed by the increase in general revenue income, which has positively impacted the GDP growth.

This research shows that Kosovo is among the countries with the lowest per capita income of the population. Throughout 2005-2015 Kosovo together with Bosnia and Herzegovina, Albania and Macedonia are among the countries of the region, which although they have known an increase of this indicator, could not overcome the unit threshold.

Regarding the "Income / GDP" economic indicators, Kosovo does not differ from most of the countries in the region (Figure 4.4). Kosovo belongs to the countries of the region which during the period 2005-2015, this indicator has an interval of 18% -23% and does not maintain a sustainable trend during this period.

Moreover, this research highlights some key issues that policy makers need to take

into account in dealing with the more effective collection and use of tax revenues to improve economic growth.

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