



BOGA & ASSOCIATES

LEGAL • TAX • ACCOUNTING

INVESTMENT IN KOSOVO

11TH EDITION

2019 - 2020

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The information contained in Investment in Kosovo is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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Dear reader,

This publication presents an overview of matters to be considered by those thinking of investing or doing business in Kosovo. The information presented in this publication has been carefully researched and all efforts have been taken to ensure the information is correct and reflects the current situation as of November 2019, unless otherwise stated.

Investment in Kosovo offers a brief look into the history and development of the political, economic and social structures of Kosovo. The newest state in Europe has been gifted with enviable human and natural resources, from minerals to fertile agriculture land, from a young and dynamic labor force to a favorable central location in the region. The combination of these assets demonstrates the overwhelming potential for investors and will, for certain, sustain the continuous growth of the Kosovo economy.

Due to the continuous growth and constant change in Kosovo, it is important to obtain further current information before making any investment decision. We would appreciate the opportunity to assist you in planning and implementing your investment in Kosovo.

For further information or inquiries related to any matters discussed in this publication, please feel free to contact us.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Genc Boga' with a stylized flourish at the end.

Genc Boga
Managing Partner

Boga & Associates

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GENERAL INFORMATION

FAST KEY FACTS

Area

10,905 sq. km

Land Use

53% Agriculture, 41% forests

Population¹

1.79 million (est. 2018 Kosovo Agency of Statistics)

Average Monthly Labor Costs

EUR 360 (skilled and well-educated work force, 2012 est.)

Capital

Pristina (est. population 214, 688)

Official Languages

Albanian, Serbian

Currency

EUR

¹ Source: KAS – Kosovo Agency of Statistics (2018)

A BRIEF HISTORY OF KOSOVO

At the heart of the Balkans, Kosovo was part of the Roman Empire, then Byzantium, and part of the Ottoman Empire in the early 15th century. Kosovo became part of Serbia prior to the First World War, and part of Yugoslavia just after it. In the Socialist Federal Republic of Yugoslavia (SFRY), Kosovo enjoyed a certain degree of autonomy from 1974 to 1989. The SFRY began to break up during the early 1990's with Slovenia, Croatia and Bosnia and Herzegovina breaking away from the state. During 1998 the Serbian police and military took a brutal campaign against ethnic Albanians in Kosovo which led Kosovo in the war.

During this campaign over 800,000 ethnic Albanians were expelled by force from their homes in Kosovo and tens of thousands of people were killed.

As a result of the brutal campaign and ethnic cleansing the international community attempted a settlement at the Rambouillet Accords, which offered autonomy for Kosovo alongside a NATO presence. Serbia's failure to agree led to 78 days aerial bombing on the Federal Republic of Yugoslavia (F.R.Y.).

UN Security Council Resolution 1244 (1999) placed Kosovo under a transitional administration, the UN (Interim Administration) Mission in Kosovo (UNMIK). Under the resolution, Serbia's territorial integrity was protected, but it was UNMIK that assumed responsibility for governing Kosovo. KFOR, the NATO-led peace implementation force, provided military security in Kosovo.

In 2001, UNMIK promulgated a Constitutional Framework,

which established Kosovo's Provisional Institutions of Self-Government (PISG). A UN-led process began in late 2005 to determine Kosovo's future status. Negotiations held between 2006 and 2007 on issues related to decentralization, religious heritage, and minority rights failed to yield a resolution between Serbia's willingness to grant a high degree of autonomy and the Albanians' call for full independence for Kosovo. On February 17, 2008, the Kosovo Assembly declared its independence from Serbia, which was recognized by the USA, the majority of EU countries and other nations. Since then, the Republic of Kosovo has been an independent, sovereign and democratic country and a potential candidate for European Union (EU) membership.

In recent years, the country has accelerated its integration process into the EU, including through the Stabilization and Association Agreement (SAA), signed on 27 October 2015 and entered into force on April 1, 2016.

GEOGRAPHY AND CLIMATE

Kosovo is situated in the central part of the Balkans. In the Southwest it is bordered by Albania, in the West by Montenegro, in the North by Serbia and in the East and Southeast by North Macedonia.

Kosovo covers a surface area of approx. 10,908 km² and is characterized by an average altitude of 800 m above sea level. The lowest point of Kosovo is located at an elevation of 297 m, Drini i Bardhe (White Drin River), at the border to Albania. The country rises up to its highest point in the South of Kosovo – Gjeravicë at 2,565 m.

The Bjeshkët e Nemuna or Albanian Alps divide Kosovo from Albania in the southwest while Kopaonik Mountain in the north, borders Serbia. The central region of Drenica and the eastern part of Kosovo are mainly hilly. Between these hills and the surrounding mountains are 2 plains in the eastern part. The river Drini i Bardhë (White Drin) runs from Western Kosovo toward the Adriatic and the Ibri snakes across the north of the country.

The climate is continental with some Mediterranean and alpine influences, characterized with warm summers and cold and snowy winters. The temperatures range from +30° C in the summer, to -10° C in the winter.

The administrative capital and the largest city is Pristina (in Albanian: Prishtina), while other big cities are Peja, Prizren, Gjakova, Gjilan, Mitrovica, Ferizaj.

POPULATION AND LANGUAGE

Dynamic Population Changes

According to Kosovo Agency of Statistics, from the preliminary results of the last census made in early 2011, Kosovo's population was 1,733,872 in 2012 Kosovo's population was estimated at 1,815,606. Kosovo Agency of Statistics (KAS) has published a report on "Estimation of Kosovo Population 2018". According to this publication, Kosovo resident population for 2018 (31 December 2018) is estimated to be 1 795 666 resident inhabitants.

This publication includes internal population movements (from one municipality to another), and the number of internal movements is estimated to be 8 967 inhabitants.

Despite a natural growth of 18 562 people, the resident population of Kosovo was reduced by -2 840 inhabitants² due to migration of population.

Its ethnic composition according to Kosovo Agency of Statistics in 2011 was 92% Albanian, while the largest minority is represented by Serbians who comprise about 5.3% of the population. Other minority groups include Bosnians, Turks, Roma, Goranis, Ashkali and Egyptians with a total of 2.7%.

A large proportion of the Kosovo population emigrated in the 1990s to Western Europe. Pristina, the capital city has a population of 214 688 inhabitants. The population in Kosovo has been growing steadily over since World War II. The largest increase has been through the Albanian community while the Serbian population has in overall stayed stable. Future trends of population growth in Kosovo are difficult to predict. However, the overall population is expected to continue to rise well into this century. The Albanian language belongs to the Indo-European language family.

Languages

The official languages in Kosovo are Albanian and Serbian. The majority of the population speaks Albanian. Serbian, Bosnian and Croatian are spoken by minorities. A very large number of people also speak English, German and other European languages. The texts of Kosovar Legislation exist in English, Albanian and Serbian.

² Source: Kosovo Agency of Statistics

GOVERNMENT AND POLITICAL SYSTEM

Form the Government

Kosovo is a Parliamentary Republic. The official name of the country is “Republic of Kosovo” (in Albanian: Republika e Kosovës). On 8 April 2008 the Constitution of Kosovo was approved by the Assembly of Kosovo and entered into force on 15 June 2008.

The President of the Republic of Kosovo proposes to the Assembly a candidate for Prime Minister, in consultation with the political party or coalition that has won the majority in the Assembly, necessary to establish the Government, which is finally approved in the Assembly.

LEGISLATIVE STRUCTURE

The Assembly of Kosovo (the Parliament), has 120 members. It is elected every four years through a general election. According to the Kosovo Constitution, the Assembly of Kosovo elects the President for a five-year term.

JUDICIAL SYSTEM

The judicial system consists of the Constitutional Court, the Supreme Court, District Court, Municipal Courts, Minor Offence Courts and District Economy Court.

According to the Kosovo Constitution, the basic unit of local government in the Republic of Kosovo is the municipality. The establishment of municipalities, municipal boundaries,

competencies and method of organization and operation are to be regulated by law.

EU MISSION – EULEX

The European Union Rule of Law Mission in Kosovo (EULEX) is the largest civilian mission ever launched under the Common Security and Defence Policy (CSDP). EULEX's mission officially started on 16 February 2008. Its central aim is to assist Kosovo on its path to a greater European integration in the rule of law area. EULEX continues to concentrate on the fight against corruption and works closely with local counterparts to achieve sustainability and EU best practices in Kosovo.

DEFENCE

KFOR

Security in Kosovo is guaranteed by KFOR, a military force which consists of troops contributed by 30 nations, under NATO command. KFOR entered Kosovo on 12 June 1999. It very quickly restored peace and order in Kosovo and is now working with the Kosovo Government and continuing to provide security.

Kosovo Security Force (KSF)³

The Kosovo Security Force (KSF) is a professional, multiethnic, lightly armed and uninformed Security Force that is subject to democratic, civilian control. The KSF mission is to represent and protect all the people of Kosovo. The Ministry for the Kosovo Security Force (MKSF) is responsible for exercising

³ Source: <http://www.mksf-ks.org>

civilian control over the Kosovo Security Force (KSF), including management and administration.

INFORMATION SPACE:

GOVERNMENT AGREEMENTS AND TRADE REGIME

Central European Free Trade Agreement – CEFTA

The Republic of Kosovo is member of the Central European Free Trade Area (CEFTA).

EU Market

Kosovo benefits from nonreciprocal, duty-free trade to the EU market based on the EU Autonomous Trade Preference regime EU Council Resolution (ATP) (2007/2000).

United States

Duty-free trade to the US market.

Japan and Norway

Trade connections with Japan and Norway, quantitative and qualitative restrictions remain in force only for a very limited number of goods.

Kosovo's Trade Regime

Kosovo has a liberal trade regime, from which derive three major benefits, namely improved export possibilities, a better investment environment, and stable relations with its neighbors.

The Customs Code is based on the EU Customs Code and is fully compliant with WCO agreed rules on customs procedures and the Harmonized Commodity Description and Coding System.

Source: KIESA – Kosovo Investment and Enterprise Support Agency

VISA SYSTEM FOR FOREIGNERS TRAVELING TO KOSOVO

The Republic of Kosovo implemented a visa regime on 1 July 2013 for 87 countries. From this date onwards citizens of these countries will need to apply for a visa through the Diplomatic missions of the Republic of Kosovo in order to be allowed entry to the Republic. The 87 Countries consist of all former Soviet Union republics not EU members, African countries, Asian countries (including China and India), Caribbean countries and South American countries.

As before, any foreigner who intends to stay longer than 90 days in Kosovo will need to report to the Directorate for Foreigners at the Kosovo Police.

Foreign nationals, subject to the Law on the Status, Immunities and Privileges of Diplomatic and Consular Missions and Personnel in Republic of Kosovo and of the International Military Presence and its Personnel, as well as foreign nationals, holders of UN Travel Documents, are exempted from the obligation of visa possession.

Foreign citizens, who are subject to the visa regime application, but have a valid multiple entry Schengen visa will be allowed to enter the Republic of Kosovo and stay up to 15 days without applying for a Kosovo visa.

The exemption from the visa requirement applies to the citizens of the countries as shown in Table 1⁴.

⁴ Source: <http://www.mfa-ks.net/?page=1,87>

Table 1

| | | |
|---------------------|-------------------------|--------------------------------------|
| Albania | Holly See* | Oman |
| Andorra | Honduras | Palau |
| Antigua and Barbuda | Hungary* | Panama |
| Argentina | Iceland* | Paraguay |
| Australia | Israel | Poland* |
| Austria* | Ireland* | Portugal* |
| Bahamas | Italy* | Qatar |
| Bahrain | Japan | Romania* |
| Barbados | Jordan | Saint Kitts and Neviz |
| Belgium* | Kingdom of Saudi Arabia | Saint Lucia |
| Belize | Kiribati | Saint Vincent and Grenadines |
| Botswana | Kuwait | Samoa |
| Brazil | Latvia* | San Marino* |
| Brunei Darussalam | Lesotho | Sao Tome and Principe |
| Bulgaria* | Liechtenstein* | Serbia |
| Canada | Lithuania* | Seychelles Islands |
| Chile | Luxembourg | Slovakia* |
| Columbia | North Macedonia | Slovenia* |
| Costa Rica | Malawi | Solomon Islands |
| Croatia* | Malaysia | South Africa |
| Cyprus* | Maldives | South Korea |
| Czech Republic* | Malta* | Spain* |
| Denmark* | Marshall Islands | Swaziland |
| Dominica | Mauritius | Sweden* |
| East Timor | Mexico | Swiss Confederation* |
| El Salvador | Micronesia | Tonga |
| Estonia* | Monaco* | Trinidad and Tobago |
| Fiji | Montenegro | Turkey |
| Finland* | Namibia | Tuvalu |
| France* | Nauru | United Arab Emirates |
| Germany* | Netherlands* | United Kingdom and Northern Ireland* |
| Greece* | New Papua Guinea | United States of America |
| Grenada | New Zealand | Uruguay |
| Guatemala | Nicaragua | Vanuatu |
| Guiana | Norway* | Venezuela |

*EU or Schengen member states

In addition, the exemption from the visa requirement applies also to the following categories:

- Citizens of the countries which are required to obtain a visa for Kosovo but hold a biometric valid residence permit issued by one of the Schengen member states or a valid multi-entry Schengen Visa are exempt from the requirement to obtain a visa to enter, transit, or stay in the territory of the Republic of Kosovo up to 15 days.
- Citizens of: EU and Schengen Zone Member States, Holy See, Principality of Andorra, Principality of Monaco, Principality of San Marino, Republic of Albania, Montenegro, and Republic of Serbia are allowed to enter, transit, and stay in Kosovo for up to 90 days for a six-month period with a valid biometric identification card.
- Holders of diplomatic and service passports issued by Russian Federation States, People's Republic of China, Egypt, Indonesia and Ukraine shall be allowed to enter, transit or stay up to 15 days in the territory of the Republic of Kosovo.
- Holders of valid travel documents issued by Special Administrative Regions of People's Republic of China: Hong Kong and Macao are exempted from the obligation to obtain a visa.
- Holders of travel documents issued by Taiwan shall be exempted from the obligation to obtain a visa provided that they preliminarily notify the Diplomatic or Consular Mission of the Republic of Kosovo.
- Holders of Travel documents issued by EU Member States, Schengen Zone Member States, United States of America, Canada, Australia and Japan based on 1951 Convention on Refugee Status or the 1954 Convention on the Status of Stateless Persons, as well as holders of valid travel documents for foreigners, may enter, pass through the territory and stay in the Republic of Kosovo up to 15 days without a visa.
- Holders of Laissez-Passer, regardless of their nationality, issued by United Nations Organizations, NATO, OSCE, Council of Europe and European Union, are also exempted from the visa requirement⁵.

⁵ Source: <http://www.mfa-ks.net/?page=2,158>

As indicated in Table 2, there are nine land border crossings into Kosovo:

Table 2: *Land border crossings into Kosovo*

| |
|--|
| Hani i Elezit (Municipality of Hani i Elezit) to North Macedonia |
| Lleshaku (Municipality of Mitrovica) to Serbia |
| Gllobiçica (Municipality of Prizren) to North Macedonia |
| Merdare (Municipality of Podujevo) to Serbia |
| Vërmica (Municipality of Prizren) to Albania |
| Dheu i Bardhë (Municipality of Gjilan) to Serbia |
| Kulla (Municipality of Peja) to Montenegro |
| Mutivoda (Municipality of Pristina) to Serbia |
| Zubin Potok (Municipality of Mitrovica) to Serbia |

RESIDENCE OF FOREIGNERS

Foreigners in the Republic of Kosovo may work on the basis of a permit issued for residence and employment or a certificate for employment notification.

The residence of foreigners in Kosovo is governed by the provisions of the Law No. 04/L-219 “On Foreigners” (the Law on Foreigners) and the Administrative Instruction No. 01/2014 “On the procedure of issuance of residence permit for foreigners and the certificate for notification of work” (the Administrative Instruction). Under the Law on Foreigners, the term foreigner refers to any person who is not a citizen of the Republic of Kosovo.

The Department for Citizenship, Asylum and Migration (the “DCAM”), of the Ministry of Internal Affairs is empowered by the Law on Foreigners to evaluate all applications and issue

residence permits to foreigners.

The Law on Foreigners foresees that an annual employment quota for foreigners should be approved upon decision of the Government of the Republic of Kosovo. The decision will define the annual quota of employment of foreigners for new permits and extension of existing ones, at the latest by 31st of October for the following year. The fees for obtaining the resident permit are defined with Decision No. 506/2013, dated 02.12.2013 “On Determining the Tariffs” issued by the Minister of the Ministry of Internal Affairs. Pursuant to the said decision, in case the residency permit will be issued for employment purposes, the official fee of EUR 50 will be applied for temporary residence permit and EUR 100 for permanent residence permit.

RESIDENCE PERMIT

There are three types of residence in the Republic of Kosovo: (a) short-term residence; (b) temporary residence; and (c) permanent residence.

Short-term residence shall mean residence of a foreigner up to three months within the period of six months without visa or with visa, if required. The period of residence shall be calculated from the date of first entry in the Republic of Kosovo.

Temporary residence shall be granted to a foreigner who resides or his/her intention is to reside in the territory of the Republic of Kosovo, for the purpose of employment, employment of a posted worker, family reunion, education, scientific research, humanitarian grounds, including refugees, persons under subsidiary protection and victim of human trafficking or victims of migration, smuggling and foreigners who have willingly expressed cooperation with competent

authorities. Notwithstanding the above, a temporary residence permit may be issued to a foreigner for other purposes as well.

The permanent residence permit may be granted to a foreigner who at the time of submission of the application has a temporary residence permit continuously for a period of five years in the Republic of Kosovo and meets the other criteria defined in the Law on Foreigners.

Pursuant to the Administrative Instruction, for obtaining temporary residence permit for the purpose of employment in Kosovo within the annual employment quota, the foreigner should provide the following documents to DCAM:

1. Valid travel document/passport. The passport should be valid for at least 3 months after the expiry of the residency permit term;
2. Employment contract pursuant to the labor legislation in the Republic of Kosovo, exceptionally the employment contract shall not be requested to foreigners who are owners of businesses;
3. Evidences proving sufficient living means;
4. Criminal Record Certificate issued by the competent authorities in the country of origin;
5. Business Registration Certificate together with "Information about Business" excerpt;
6. Proof on education, qualifications, and trainings of the foreigners, (i.e. foreigners who are business owners are excluded from this condition);
7. Health Insurance Policy with validity of at least one year duration from the date of application;
8. Evidence of vaccination in cases when the foreigner comes from a state where epidemic situation is declared.

In addition to the above the applicant should not have been subject to an entry ban in Kosovo.

This list of documents varies depending on the purpose of work in Kosovo (i.e. work with an NGO and/or volunteer job within the scheme of volunteer services).

Notwithstanding the above, the work permit may be issued outside the annual quota to the following categories of foreign citizens:

1. Daily immigrants based on reciprocity conditions;
2. Key personnel, service providers, employees and their family members, whose status is regulated by the Stabilization and Association Agreement and the interaction between the European Union and its states and the Republic of Kosovo;
3. Foreigners working in private companies that are subcontractors of diplomatic missions that operate in Kosovo;
4. Foreigners transferred within internal transfer of staff within companies, and other required staff determined in advance under the contract;
5. Foreigners self-employed in their own companies, having a greater share than 51% or having turnover of its own;
6. Foreign teachers teaching in education institutions in one of the languages of ethnic minorities;
7. Professional athletes or sports activists working in Kosovo;
8. Foreign artists working in cultural institutions of Kosovo;
9. Foreigners having established employment relationships in companies, which are registered as foreign companies in Kosovo and at least in three other countries;
10. Foreigners working under Youth Mobilization program, which Kosovo carries out in cooperation with other states;
11. Foreign scientific researchers, foreigners employed in scientific positions, scientific-educational, or other work research positions with the legal entity that conducts scientific research;
12. Foreign language professors, lectures and other teachers, teaching at higher education institutions or foreign language schools in Kosovo;

13. Foreigners working on the bases of international contracts, except the categories of foreigners referred in point (2) above;
14. Foreigners performing major tasks for trading companies, associations, and foreign representations.

The list of documents required to be submitted with DCAM varies depending on the category of foreign citizens as listed above.

For obtaining temporary residence permit for purposes of employment outside the annual employment quota, the same documents are required to be filed as for foreigners applying for residence permit within the employment quota.

In addition, the following documents may also be required:

1. Business Registration Certificate along with 'Information about Business' excerpt;
2. Proof on education, qualifications, and trainings of the foreigner;
3. Proof that the trading company, association or foreign representation the foreigner has employed at least three citizens of the Republic of Kosovo in different jobs;
4. Proof that payment is the same with the amount of minimum wage in the Republic of Kosovo determined in the previous year.

Whilst for obtaining the permanent residence permit, the foreigner in addition to possessing a temporary residence permit for five consecutive years in the Republic of Kosovo should also: (i) possess a foreign valid travel document; (ii) possess sufficient means for living; (iii) possess a medical insurance; (iv) have basic knowledge of one of the official languages of the Republic of Kosovo in writing and reading, knowledge on the culture and social establishment; and (v) not constitute a threat to public order, state security and public health.

The Law on Foreigners provides additional circumstances for granting permanent residence permit to categories of foreigners.

CERTIFICATE ON EMPLOYMENT NOTIFICATION

In addition, the law on Foreigners provides for the possibility of obtaining a Certificate for Employment Notification for foreigners who intend to work in the Republic of Kosovo for a period up to thirty, sixty or ninety days within one year.

The law defines categories of foreigners and the types of works that can be performed on the basis of certificate for employment notification for the respective periods. The certificate for employment notification is issued from the Department of Labor and Employment within the Ministry of Labor and Social Welfare.

The requirements/documents foreseen by the Administrative Instruction for certificate on employment notification are as following:

1. Employment contract, respectively, written certificate for employment contract or the adequate proof of work;
2. Proof of education, qualification, and trainings of the foreigner;
3. Proof on registration of company, association, branch, business, agency and organization in the Republic of Kosovo;
4. Administrative fee.

The provisions of the Law will not apply to foreigners as long as their status is regulated under the Law on status, immunity and privileges of diplomatic and consular missions, their staff, international military presence and their staff in Kosovo.

ACCOMMODATION

Whether for business or pleasure, Pristina offers excellent accommodation. For foreigners that have to stay longer in Kosovo, a rent of a house or an apartment may be more appropriate. The monthly rental cost for a 100 sq. meter apartment situated in the heart of Pristina is approximately EUR 500. There are many real estate agencies operating in Pristina that can assist foreigners in finding accommodation. There are many pleasant restaurants that offer various combination of traditional Kosovo cuisine, Italian and Turkish dishes.

WORKING HOURS

The public administration works five days a week, from Monday until Friday. The usual working hours are 08.00 AM – 16.00 PM.

TRANSPORTATION

Road Network: The road network consists of 630 km of main roads. A highway connecting Kosovo with Serbia is currently under construction.

Railway: Combined length of 330 km. It covers the entire territory, connecting both the south with the north and east with west.⁶

Air Transportation: As Pristina's International Airport has a capacity of one million passengers per year, it is considered the busiest airport on the region. The "Adem Jashari" International Airport is a 20 minutes drive from the center of Pristina. It

⁶ Source: <http://www.eciks.org/english/index.php>

connects Kosovo via direct flights to London, Vienna, Istanbul, Budapest, Zurich, Tirana, Frankfurt, Düsseldorf, Stuttgart, Hanover, Copenhagen, Stockholm and Gothenburg etc. A one way taxi journey into the city costs approximately EUR 25-30.

TELECOMMUNICATION

The Public operator Kosovo Telecom (TK) is the major provider of landline services. The Regulatory Authority of Electronic and Postal Communications (RAEPC) estimated the total number of fixed and mobile internet users which was 1.237.755 in 2016, representing a 68.17% penetration rate.

RAEPC data indicates mobile telephony penetration in Kosovo is over 110.7%, covering over 100% of inhabited places and 94% of Kosovo's territory.

Source: export.gov.al

ECONOMIC SITUATION OVERVIEW

BASIC ECONOMIC INDICATORS

Kosovo's economy in the second quarter of 2019, according to the Kosovo Agency of Statistics, recorded a growth of about 4.13%, which was mainly generated by financial sector growth. The economic growth during 2019 was mainly a result of the increased added value of the activity in the financial and insurance sector; professional, scientific and technical activities; construction sector, trade sector, etc.

In the second quarter of 2019, the financial system was characterized by increased activity in all sectors. The value of total assets of the Kosovo financial system amounted to EUR 6.67 billion, corresponding to an annual growth of 11.2 %. During the second quarter of 2019, the banking sector was characterized by an increase in lending activity, as well as marking an annual growth of assets in the amount of EUR 4.30 billion.

The banking sector's liquidity position continued to be on a steady level. The microfinance sector marked signs of a slowdown of its activity during the second quarter of 2019. Nevertheless, the value of total MFI assets amounted to EUR 285.1 million, which represents a significant growth of EUR 17.2 million at the course of the second quarter of 2019.

In the light of the licensing activity of financial institutions, in August 2019, CBK reported the total of licensed banks and non-bank financial institutions as follows: 23 (twenty-three) Microfinance Institution, 10 (ten) Commercial Banks, 13 (thirteen) Insurance Companies and 2 (two) Pension Funds.

Source: The Central Bank of the Republic of Kosovo (CBK) & Kosovo Agency of Statistics (KAS)

Table 3 as below presents the data trend regarding real GDP component compared to Central and Eastern European Countries.

Table 3: Emerging Markets and developing economies

| | Central, South and Eastern Europe Countries | | | | | Projections | | | |
|--------------------------------|---|------|------|------|------|-------------|------|------|--|
| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2021 | |
| Emerging and Developing Europe | 5.4 | 1.2 | 2.8 | 2.8 | 3.6 | 3.3 | 3.1 | 3.2 | |
| Albania | 2.4 | 1.4 | 1.0 | 1.8 | 2.8 | 3.4 | 3.7 | 4.1 | |
| Bosnia and Herzegovina | 0.9 | -0.9 | 2.4 | 1.1 | 3.2 | 3.0 | 3.2 | 4.0 | |
| Croatia | -0.3 | -2.2 | -1.1 | -0.4 | 1.6 | 1.9 | 2.1 | 2.0 | |
| Kosovo | 4.4 | 2.8 | 3.4 | 1.2 | 4.0 | 4.1 | 3.3 | 4.0 | |
| North Macedonia | 2.3 | -0.5 | 2.9 | 3.5 | 3.7 | 2.2 | 3.5 | 3.8 | |
| Montenegro | 3.2 | -2.7 | 3.5 | 1.8 | 3.2 | 5.1 | 3.6 | 4.8 | |
| Serbia | 1.4 | -1 | 26 | -1.8 | 0.7 | 2.5 | 2.8 | 4 | |

Source: World Economic Outlook: Uneven Growth Short- and Long-Term Factors, April 2016.

Implications to the Gross Domestic Product (GDP)

According to the Kosovo Agency of Statistics (KAS), the economy of Kosovo marked an increase of 4.13%. In terms of domestic demand, the overall activity in the country was mainly supported by the strengthening of the banking sector, as well as the increase of overall consumption.

This growth of economic activity was generated mainly by financial activity growth of 14.7 percent. An important contribution to the growth of financial activity is estimated to have been the increase of bank lending, amounting a total value of EUR 2.94 billion, corresponding to an annual growth of 10.5%. Also, the rate growth of household deposits, trade activity and insurance sector are deemed to contribute in the

economy growth during this year.

On the other hand, the dynamics that have characterized the external sector of the economy, particularly the trade balance of goods and services, have been negatively reflected in the position of net exports and consequently in real GDP growth. For the second year in a row this component emerges to have had a negative contribution to GDP. The real increase in the export of goods and services by 4.7 percent and the import of goods and services by 1.6 percent resulted in a deepening of the trade deficit (goods and services) by 1.2 percent. In terms of currency, the trade deficit amounted to EUR 279.9 million (August 2019) compared to the same period in 2018 (EUR 276.5 million).

Table 4: Real GDP growth rate, in percent

| Real GDP growth (Annual percent change) | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|--|------|------|------|------|------|------|
| Albania | 4.1 | 3 | 4 | 4 | 4 | 4 |
| Croatia | 2.6 | 3 | 2.7 | 2.5 | 2.3 | 2.1 |
| Kosovo | 3.8 | 4.2 | 4 | 4 | 4 | 4 |
| Montenegro | 4.9 | 3 | 2.5 | 2.9 | 3.2 | 3.2 |
| North Macedonia | 2.7 | 3.2 | 3.4 | 3.2 | 3.3 | 3.4 |
| Serbia | 4.1 | 3.5 | 3.3 | 4.1 | 4 | 3.8 |

**Source: World Economic Outlook: Gross Domestic Product (GDP), October 2019*

According to the World Bank, growth in 2019 was forecasted to remain stable, dipping to 3.5% and increasing to 3.9% by 2021. Whilst infrastructure investment and private consumption was expected to contribute to strengthening the economy in Kosovo and other regional countries such as North Macedonia and Serbia, a deceleration in public and private investments indicated a slowdown of economy in Albania and Montenegro.

Source: Regional Outlooks - Europe and Central Asia

FISCAL SECTOR

According to CBK data , the budget revenues by June 2019 reached a net amount of EUR 853.2 million, representing an annual increase of around 7.7 percent. Budgetary expenditures amounted to EUR 853.2 million, representing an annual increase of around 2.9 percent. As a result of a greater growth of budget revenues compared to expenditures, Kosovo budget marked a primary surplus of EUR 0.3 million (a deficit of euro 37.1 million during the same period in 2018). The public debt reached an amount of EUR 1.13 billion, which is 9.3 percent higher compared to the same period in 2018. While as a share of GDP the public debt reached from 16.3 percent in 2018 to 16.5 percent in 2019.

With regards to the tax type, it is observed a high increase of indirect tax revenues, which reached the amount of EUR 628.9 million (an increase of 4.7 percent towards the same period in 2018), while direct tax revenues marked an increase of 9.7 percent and amounted to EUR 146.8 million. Non-tax revenues marked an increase of 13.0 percent and amounted to EUR 98.4 million.

According to CBK, in 2019, all budget expenditures categories were characterized by a deceleration. Government expenditures for wages and salaries marked a slight increase of 3.8 percent and amounted to EUR 304.9 million. Capital investments, which were 23.1 percent lower than in the same period in 2018 contributed to the deceleration of budget expenditures. Other categories of budgetary expenditures marked an increase.

Table 5

| Description | 2017 | 2018 | 2019 |
|---------------------------|------|------|------|
| Commercial banks | 10 | 10 | 10 |
| Insurance Companies | 15 | 14 | 13 |
| Pension funds | 2 | 2 | 2 |
| Microfinance institutions | 18 | 11 | 23 |

Source: CBK - Annual Reports 2017/2018, Monthly Reports 2019

Banking Industry

The increase of banking sector assets in the second quarter of 2019 is mainly attributed to the positive dynamics that characterized the lending activity. The lending activity was mainly supported by the deposits that comprise about 80.0 percent of liabilities, recording a total value of EUR 3.43 billion. Credit supply was affected, inter alia, by competition pressures, favorable liquidity position and continuous improvement of credit portfolio quality. The securities stock was characterized by a decline (EUR 16.5 million). Other categories of assets such as cash and assets held in commercial banks marked an increase of EUR 6.0 million whilst balances with the CBK occurred an annual decrease of EUR 4.8 million.

Loans

Banking sector loans accelerated annual increase to 10.5 percent, according to CBK. In the end of the period taken into account, the value of total loans reached EUR 2.94 billion. Just during the second quarter of 2019, the value of loans increased to EUR 115.9 million, in comparison to the increase of EUR 127.0 million in the same period of 2018. The positive performance of lending activity in 2019 was affected by the increase in the loan demand and improved lending offers from banks, mainly by improving the lending terms.

As of the second quarter of 2019, lending to all economic sectors marked an increase, except the trade sector which was characterized by a deceleration of growth. Sectors that marked the most significant contribution in the increase of lending were the construction and the production sector (respectively by EUR 13.1 million, EUR 10 million, CBK 2019).

Liabilities

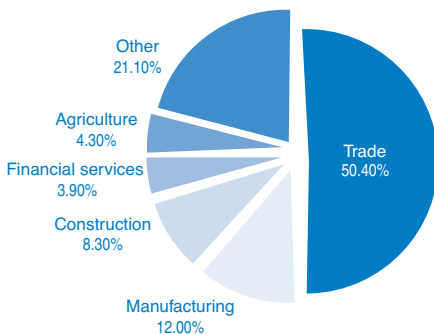
The structure of banking sector liabilities is dominated by deposits, which accounted for about 80.0 percent of total liabilities and own sources, thus representing the main financing resource of the banking sector activity. Category of own sources of banking sector was characterized by a decrease of EUR 11.8 million, reaching a total value of EUR 506.2 million, reflecting thus the subdividing of dividends during the reporting period.

Deposits

Deposits in Kosovo's banking sector marked a positive increase of EUR 41.6 million in 2019, compared to EUR 11.9 million increase in 2018. By the end of the second quarter of 2019, deposits amounted to EUR 3.43 billion.

According to CBK, the growth of total deposits was mainly dictated by the rate growth of household deposits, the category that dominated the structure of total deposits in the banking sector, which marked a total value of EUR 2.42 billion, for the period in question.

Graph No. 1: Growth rate of loans by sectors, in percent



Source: CBK (2018).

Over the period concerned, the deposits of enterprises contributed to a slower rate of growth. Notwithstanding, these deposits marked an increase of EUR 16.0 million affecting thus in the enlargement of the total value of deposits (EUR 596.8 million by the end of the reporting period).

Interest rates

Difference between average interest rate on loans and that on deposits was narrowed to 5.1 percent compared to the same period of the previous year (5.4 percent in 2018). Average interest rate on loans in the second quarter of 2019 decreased to 0.2 point percent compared to the previous year while the average interest rate on deposits marked a slight increase to 0.1 point percent.

Source: CBK

OTHER FINANCIAL INSTITUTIONS

Insurance Companies

The insurance sector was characterized by an increase of its activity, recording an annual asset growth of EUR 9.0 million over the reporting period, while the total value of assets reached at EUR 190.0 million (an annual growth of 8.7 percent). One of the main contributors to asset growth was the increase in liquid assets, inputs receivable by the Insurers as well as the increase in investing in securities.

Non-life insurance, which at the same time has the highest share in the total sector assets (about 96.4 percent), recorded an annual growth of 10.3 percent in 2019 whilst life insurance marked a significant annual growth of 14.9 percent. However, according to statistics the most significant contribution regarding premium growth is attributed to 'non-responsible to third parties' category.

During 2019, the value of written premiums by insurance companies amounted to EUR 25.5 million, an annual increase of 10.4 percent. The structure of written premium is lead by non-life insurance premiums, which represents 96.4 percent of total written premiums. Their value reached at EUR 24.6 million while the value of written life insurance premiums amounted to EUR 908.8. Nevertheless, according to CBK the insurance sector displayed a loss of EUR 2.6 million compared to EUR 0.34 million profits in the same period in 2018.

Pension Funds and Other Financial Intermediaries

According to the CBK, the insurance sector is the second largest sector in the financial sector representing approximately 3.0 percent of total financial system assets. Over the reporting

period the pension sector was characterized by a significant increase of assets with 10.6 percent, reaching the total value of pension sector assets to EUR 1.87 billion.

Value of new collections amounted to EUR 46.3 million, representing an annual increase of 7.9 percent compared to the same period of the previous year. Pension sector marked a positive return on investment, reaching EUR 19.5 million, as a result of investment performance in foreign markets (EUR +17.8 million). Investments within the country marked a positive performance as well.

KPSF, which consists of 99.6 percent of pension sector assets, marked an increase of investments on securities of the Government of Kosovo amounted to EUR 10.4 million.

TRADE

Located in the heart of Balkans, Kosovo offers easy access to EU via air, railway and three sea-ports:

- Thessaloniki, Greece
- Durres, Albania
- Bar, Montenegro

According to statistics, exports of goods in Kosovo marked a higher deficit of 1.2% in August 2019. The export value of goods amounted to EUR 31.9 million, while total imports amounted to EUR 311.8 million, corresponding to an annual growth of 4.7 % (exports) and 1.6 % (imports) compared to the same time of the previous year.

Exports with EU countries reached the amount of EUR 9.1 million, representing 28.6% of the general exports of goods.

The primary partners of Kosovo in exports of goods in EU are: Germany (7.7 %), Great Britain (3.6%), the Netherlands (3.4 %) etc.

Table 6: *Exports, imports and trade balance, in millions of EUR*

| Period | Exports (FOB) | Imports (CIF) | Trade Balance |
|---------|---------------|---------------|---------------|
| 2016 | 309,6 | 272,789,491 | -2,479,864 |
| 2017 | 378,010 | 3,047,018 | -2,669,007 |
| 2018 | 367,500 | 3,347,007 | -2,979,507 |
| 08-2019 | 31,906 | 311,857 | -279,951 |

BUSINESS SECTOR OPPORTUNITIES FOR INVESTMENTS

OPPORTUNITIES AND INCENTIVES FOR FOREIGN INVESTORS

The 2019 Report of Doing Business ranks Kosovo at the 44th place, out of 190 evaluated economies, on the ease of doing business.

According to data collection by Doing Business, starting a business requires 3.0 procedures, takes 5.5 days, costs 1.0% of income per capita for men, and requires 3.0 procedures, takes 6.0 days, cost 1.0% of income per capita. A requirement of paid-in minimum capital of 0.0% of income per capita is legally mandatory for both men and women. Most indicator sets refer to a case scenario in the largest business city of an economy, except for 11 economies for which the data are a population-weighted average of the 2 largest business cities.

ENERGY AND MINING

The territory of the Republic of Kosovo is characterized by a complex geological formation. This is proven by numerous older and contemporary geological formations.

INFORMATION SPACE:

REFORMS

2017

Dealing with Construction Permits:

Kosovo made dealing with construction permits easier by establishing a new phased inspection scheme and substantially reducing the building permit fee.

Registering Property:

Kosovo made transferring property more difficult by increasing the fee for the registration of property transactions.

Enforcing Contracts:

Kosovo made enforcing contracts easier by introducing a private bailiff system.

Source: World Bank Doing Business Index 2017.

Based on research conducted to date and the status of energy mineral resource reserves, the Republic of Kosovo has at its disposal considerable coal (lignite) reserves and small quantities of radioactive minerals.

Most significant coal basins are:

- Kosovo Basin (located in the central part of the Republic of Kosovo);
- Dukagjini Basin (located almost on the center of Dukagjini Plain); and
- Drenica Basin (located between the Kosovo Basin and the Dukagjini Basin in the west).

FAVORABLE AGRICULTURE POTENTIALS

Traditional agriculture and Agribusiness

Kosovo's climate is influenced by its proximity to the Adriatic sea, as well as the continental European landmass to the north. The overall climate is of a modified continental type. The combination of continental and Sub-Mediterranean climate, characterized by long, warm summers and short, not too severe winters provides fertile soil and generally excellent conditions for production of a range of food products.

With some 60 per cent of the population living in rural areas and mostly working in agriculture, Kosovo has a long agricultural tradition. Agriculture is the main source of income for the majority of the population. The agribusiness and food processing sector is traditionally one of the strongest sector in Kosovo's economy. Historically, there has been a low reliance on artificial inputs at source, embellishing the integrity of the produce.

Out of a total surface areas of 1.1 million hectares approximately 588,000 or slightly more than half is agricultural land with fertile, nutrient-rich soils. About 90% of agricultural land is dedicated to livestock activities such as pastures, meadows, forage crops and some fodder crops for animals. The remaining area is used for grain for human consumption, vineyards, potatoes, fruit and vegetables.

Good Investment Opportunities

The agribusiness sector in Kosovo has traditionally been dominated by socially-owned enterprises, which used to obtain a substantial part of their raw materials from thousands of private farmers. The former socially-owned companies in

this field are no longer active. New private companies have started operations in recent years and their production is showing significant and continuous increases.

However, the majority of local processors are still relatively small and only able to provide a minor part of the demand for processed foodstuffs. As a consequence, most of the local demand is catered for by imports, giving rise to substantial import substitution investment opportunities.

Foreign investment in agribusiness in some countries is targeted at the processing and distribution parts of the industry value chain in order to avoid the risks associated with primary production. However, the specific conditions of the sector in Kosovo provide opportunities for investors for integrated investment across the entire value chain.

Kosovo provides opportunities for investment not only in primary production but also in modern post harvest handling facilities, cold storage distribution centers and logistics centers. Modern and efficient processing facilities could be brought closer to the inputs thus providing economies of scale and higher value added products that could compete effectively with the products that Kosovo is currently importing, especially in dairy products, fruit and vegetables, meat products, wine production and other beverages.

In comparison to other countries, Kosovo additionally offers a very flexible and cost effective labor force and, due to trade liberalization with CEFTA region, free access to the regional market consisting of 30 million consumers. In addition, Kosovo enjoys a preferential market access to the EU and US markets, with only few products exempted from this preferential treatment.

FOREIGN INVESTMENTS

According to CBK Annual Report during 2018 the balance of FDIs was EUR 213.7 million, representing a decrease of 16.3 % compared to 2017.

Capital and the fund of investment in shares, amounted to EUR 217.4 million, which is 6.6 % less than in the previous year. FDIs in the form of debt instruments amounted to EUR -3.6 million euros (22.7 million euros in 2017).

FDI growth was mainly evidenced in the real estate sector, mining sector, energy and trade, while the financial services and construction sector declined.

Source: CBK 2018

LOCATION ADVANTAGE

Table 7: *Distance to the main destination of Kosovo through roads transport*

| REGIONAL CENTRE | TRAVELING DISTANCE FROM PRISTINA (km) |
|--------------------------|---------------------------------------|
| Skopje | 86 |
| Thessalonica (port city) | 312 |
| Tirana | 330 |
| Belgrade | 355 |
| Durres (port city) | 355 |
| Sarajevo | 390 |
| Bar (port city) | 570 |
| Zagreb | 741 |
| Budapest | 747 |
| Sofia | 279 |

BUSINESS LAW, ACCOUNTING AND AUDIT REQUIREMENTS

TYPES OF BUSINESS ENTITIES

According to Law No. 06/L-016 “On Business Organizations” published in the Official Gazette on 24.05.2018, the business entities that may be registered with the Kosovo Business Registration Agency (the “Registry”) are as following:

- Individual Business – Biznes Individual
- General Partnership – Ortakeri e Pergjithshme
- Limited Partnership – Shoqeri Komandite
- Limited Liability Company – Shoqeri me pergjegjesi te kufizuar
- Joint Stock Company – Shoqeri aksionare

Apart from the above forms of establishment, foreign business organizations may also, upon registration with the Registry, conduct business in Kosovo through a branch office, or establish its representative office in Kosovo. The representative office may not engage in business activities in Kosovo and may only be registered for the purpose of conducting market research, engagement in marketing and promotional activities, and representation of the foreign business organization.

The branch office and the representative office are not separate legal entities, consequently, rights and obligations pertaining to the branch office or representative office shall be deemed to pertain to the parent company.

To establish a branch in Kosovo, a foreign business organization through its duly authorized persons, should sign and submit a standard application form, a “foreign business

organization agreement” containing information and details about the organization, capital structure and scope of activity of the parent company and/or of the branch, the registration certificate of the parent economy in the country of origin and the charter of the parent company.

In case the foreign company seeks to conduct business in Kosovo through a wholly owned subsidiary (instead of a branch) a new company incorporated under the provision of the Kosovo legislation should be established.

A foreign business organization shall not be required to register at the Registry if it is engaged exclusively in exporting to Kosovo from abroad products or services which are imported in Kosovo by purchasers or potential purchasers established or residing in Kosovo.

The Kosovo Government is yet to adopt sublegal acts that will provide for requirements and procedures for the registration of the representative office of the foreign business organizations in Kosovo.

Below are the types of organization of business available under current Kosovo company legislation.

Individual Business

A natural person, who is not an agent or an employee of another business organization, is engaged in commerce. A natural person acting as a personal business enterprise whether registered or not, shall have unlimited personal liability and will be held liable for all debts incurred in the course of his acting as such to the full extent of his sizeable assets. A personal business enterprise for the purpose of conducting an economic activity may choose to register or not with the

Registry. To register a personal business enterprise the owner shall sign and submit to the Registry a standard form containing information and details about organization and purpose of such business. If the registered agent is not the owner, the latter should attach the written consent of the registered agent to serve in such capacity.

General Partnership

A business organization that exists as a result of an association of two or more persons and/or companies for the purpose of engaging in commerce. The persons who form such partnership are considered as general partners. Partners are jointly and severally liable for the debts and other obligations incurred by the general partnership to full extent of their assets. A general partnership may come to existence either upon registration or upon conducting the activity in Kosovo without completion of such registration or upon conducting the activity in Kosovo without completion of such registration with the Registry.

To register a general partnership, a general partner or an authorized person shall sign and submit to the Registry a standard application form and the “general partnership agreement” containing information and details about the organization and purpose of the partnership and must attach to the agreement, the written consent of the registered agent to serve in such capacity.

Limited Partnership

Consist of at least one general/unlimited partner, and at least one limited partner. The general/unlimited partner(s) is (are) liable without limitation for the debts of the limited partnership. The limited partner(s) is (are) liable only to the extent of its (their) contribution(s) to the limited partnership.

A limited partnership shall come to existence only upon registration with the Registry. To register a limited partnership, a general partner or an authorized person shall sign and submit to the Registry a standard application form and a “limited partnership agreement” containing information and details about the organization and purpose of the partnership, copy of the company’s regulation, and a written consent of the registered agent to serve in such capacity.

Limited Liability Companies

A corporation which shares are distributed only to its founders or to the pre-determined persons. A limited liability company cannot conduct a public offering of its shares, and the number of shareholders cannot exceed 50. A limited liability company comes to existence upon registration to the Registry.

To register a limited liability company a founder shall sign and submit to the Registry a standard application form, the charter of the company, the company agreement and the written consent of the registered agent to serve in such capacity.

The limited liability company is governed by the shareholders assembly and by the director or managing directors. The limited liability company can create and hold a board of directors if this is regulated through the company agreement and the charter.

Joint Stock Companies

A Joint Stock Company may have any number of shareholders holding common and preferred shares. It may conduct a public offering of its shares pursuant to such conditions as the law may require. The minimum capital required to establish a Joint Stock Company is EUR 10,000.

A Joint Stock Company comes to existence upon registration

to the Registry. To establish and register a Joint Stock Company the founder shall sign and submit to the Registry a standard application form, the charter, the bylaws and a written consent of the registered agent to serve in such capacity.

The Joint Stock Companies are governed by general assembly of shareholders, the board of directors and the officers.

ACCOUNTING REGULATIONS

The Parliament of Kosovo has approved the new Law No. 06/L-032, dated 30.03.2018 “On Accounting, Financial Reporting and Audit” (the “Accounting Law”) which is in force from 1st January 2019.

The Accounting Law regulates the accounting and financial reporting system of business organizations in Kosovo, audit professional accountants, licensing of local and foreign auditors and audit firms, professional accounting organizations as well as the powers and responsibilities of Kosovo Financial Reporting Council (“KFRC”).

The new law, harmonizes Kosovo legislation with the Directives of the European Union (EU) on statutory audits of annual accounts and consolidated accounts and on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings.

As per the Accounting Law, companies are classified into four groups:

1. Large enterprises are those enterprises which at their balance sheet dates exceeds two out of three of the following criteria:

- i.* The net annual turnover of EUR forty (40) million;
 - ii.* Statement of financial position of EUR twenty (20) million;
 - iii.* The average number of employees during the financial year two hundred and fifty (250).
- 2.** Medium enterprises are enterprises that are neither micro-enterprises nor small enterprises, but shall not exceed two out of three of the following criteria:
 - i.* The net annual turnover of EUR forty (40) million;
 - ii.* Statement of financial position of EUR twenty (20) million;
 - iii.* The average number of employees during the financial year two hundred and fifty (250).
- 3.** Small enterprises are enterprises which are not microenterprises but shall not exceed more than two (2) of the following criteria:
 - i.* The net annual turnover of EUR eight (8) million;
 - ii.* Statement of financial position of EUR four (4) million;
 - iii.* The average number of employees during the financial year fifty (50).
- 4.** Micro enterprises are enterprises that do not exceed the limits of at least two of the following criteria:
 - i.* The net annual turnover seven thousand (700,000) euro;
 - ii.* Statement of financial position of EUR three hundred and fifty (350,0000);
 - iii.* The average number of employees during the financial year ten (10).

Despite the above-mentioned categories for business enterprises, the new Law also specifies the criteria for classification of groups of business enterprises in small groups, medium-sized groups and large groups which are the same as the as per the individual business enterprises and are based on the consolidated indicators.

Large enterprises / groups entities shall prepare general

purpose financial statements in accordance with the International Financial Reporting Standards (IFRS) issued from the International Accounting and Assurance Standard Board (“IAASB”) and approved by KFRC. Attached to the financial statements shall also be submitted the following documents: (i) Statement of Compliance; (ii) Management report; and (iii) Corporate Governance Statement which is to be a separate part of the Management Report.

Medium and small enterprises / groups have to prepare their financial statements in accordance with the IFRS for SME. Attached to the financial statements, enterprises exceeding the net annual turnover of EUR 4 million must attach (i) a Statement of Compliance and (ii) audit opinion. Financial reporting for micro enterprises shall be regulated by a special sub legal administrative instruction to be issued by KFRC.

Financial statements of enterprises and groups which are classified as small, medium-sized and large in accordance with this Law must be signed by the Executive or General Director and by the Finance Director or Chief Financial Officer and/or the Certified Accountant.

In accordance with the new law, public interest entities within their corporate governance structure shall establish a statutory auditing committee with independent membership of non-executive directors, where one of the members of that committee having a working experience in accounting and finance. Additionally, such entities should have an internal auditor.

All enterprises, irrespective from their size are obligated to maintain the accounting books in accordance with the following time limits:

- Journal, general ledger and supporting books shall be stored at least 10 years;
- Payrolls are stored indefinitely;
- Accounting documents on the basis of which the records are performed should be stored at least five years;
- Sales books or ancillary form and related documents, documents related to the payment activity are stored at least three (3) years.

Accounting records should be maintained in the official languages of the Republic of Kosovo and in EUR currency. Large and medium enterprises may keep the accounting records in English language, to the extent that the financial statements are translated into the official languages of the Republic of Kosovo.

Business entities should verify, at least once a year, the existence and evaluation of assets, liabilities, and capital through the inventory process of these items supported with proper evidence.

Annual Financial Statements shall contain the following documents:

- Statement of financial position;
- Statement of comprehensive income;
- Statement of other comprehensive income;
- Statement of changes in equity;
- Statement of cash flow;
- Notes to the financial statements.

The structure and content of the annual financial statements is regulated by a sublegal act issued by the Minister of Finance, upon the proposal of KFRC.

FINANCIAL STATEMENTS

A business organization that did not have any business activity during the financial year and did not record any data on the assets and liabilities in the accounting books, submits to the KCFR the declaration of inactivity for the previous business year by March 31st of the following year.

The general purposes financial statement of the large business entities including the audit report shall be filed with KFRC, not later than 30 April (30 June for consolidated financial statements) of the following year.

Business enterprises must submit their financial statements together with other required documents to KCFR within 30 April of the year following the year of reporting, in both hard copy and electronic format.

Groups of enterprises must submit their consolidated financial statements together with other required documents to KCFR within 30 June of the year following the year of reporting, in both hard copy and electronic format.

Business enterprises and groups classified as medium or large must also submit to the KCFR the decision on the approval of the financial statements and the decision on the proposal for distribution of profits or losses if these are not part of the financial statements.

Stand alone financial statements should be filed to tax authorities before or on 31 March of the following year.

AUDIT REQUIREMENTS

As per Accounting Law, statutory audits in Kosovo shall be carried out in accordance with the International Standards of Auditing (“ISA”) and related interpretations, guidance and pronouncements of IAASB.

The Accounting Law provides the following audit requirements:

- The financial statements of large enterprises / groups shall be audited by auditing firms licensed by KFRC;
- The financial statements of medium enterprises / groups shall be audited by auditing firms licensed by KFRC;
- The financial statements of business enterprises that have the turnover less or equal than EUR four (4) million shall be subject to independent auditor revision report in accordance with international Standards for Revision Engagements.

Business organizations which have a statutory audit obligation must appoint an audit firm or statutory auditor at the latest in the last 3 months before the end of the reporting period for which the statutory audit is required. Meanwhile subject to statutory review are small / medium enterprises and groups that do not exceed the net annual turnover of EUR four (4) million.

The new Law introduces audit rotation requirements of maximum 10 years and a cool-off period of 4 years applicable for large enterprises as well as medium and large groups.

TAXATION OF BUSINESSES

GENERAL

The tax system includes personal income tax, corporate income tax, value added tax (VAT) and excise tax. The fiscal year is the calendar year. The process of establishing the tax legislation in Kosovo started in April 2000 with the introduction of Regulation “On Tax Administration and Procedures”. This Regulation was followed by the introduction of Presumptive Tax in May 2002. VAT was firstly set up in May 2001 and personal income tax in February 2002. A modern system of collection of corporate income tax, personal income tax and withholding tax on dividends, interest, and payments for determined services was introduced by the end of 2004, which has been subject to subsequent amendments.

RESIDENCE

A person is considered resident in Kosovo for tax purposes when its place of establishment or place of effective management is in Kosovo.

CORPORATE INCOME TAX

Corporate Income Tax is governed by Law No. 06/L-105 “On Corporate Income Tax” which replaced Law No. 05/L-029. The new Law is in force from 3rd of August 2018.

Companies conducting business in Kosovo are subject to corporate income tax at a rate of 10%.

Taxpayers with annual gross income up to EUR 30,000 (VAT threshold) may choose between payment of the tax on gross income or corporate income tax. The rates of the tax on gross income are:

- i.* three percent (3%) of income resulting from activities of trade, transport, agricultural and similar commercial activities;
- ii.* nine percent (9%) of income resulting from services, professional/vocational activities, entertainment and similar activities;
- iii.* ten percent (10%) of net rent income (gross rent income less 10% allowance as provided by the legislation), reduced by any amount withheld at source.

Taxable profit

The determination of the taxable base starts with the profit shown in the profit and loss account. The profit calculation is made according to the accounting legislation and the tax provisions.

Corporate Income Tax Law provides for a list of expenses that are non-deductible for tax purposes, consisting of:

- cost of acquisition and improvement of land (capitalized);
- cost of acquisition, improvement, renewal and reconstructions of assets that are depreciated or amortized;
- fines and penalties;
- income tax paid or accrued for the current or previous tax period and any interest or late penalty incurred for late payment of it;
- any loss from the sale exchange of property between related persons;
- pension contributions above the maximum amount allowed by

the Kosovo Pension Law;

- bad debts that do not meet the following cumulative conditions: (i) the amount that corresponds to the debt has previously been included as income; (ii) the debt is written off from the taxpayer's book; (iii) the existence of the debt is undisputed; (iv) there is adequate evidence of substantial unsuccessful attempts made by the taxpayer to collect the debt; and (v) the debt was due at least six months before the day when it is recognized as a bad debt;
- contributions made for humanitarian, health, education, religious, scientific, cultural, environmental protection and sports purposes, which exceed ten percent (10%) of taxable income (before the deduction of such expenses);
- contributions made for sport, culture and youth activities are deductible according to the Law No. 05/L-090 "On Sponsorships" (i.e. 30% of tax on profit);
- representation costs such as organization of meetings, presentation of new projects, inauguration of new production lines, treats and receptions related exceeding one percent (1%) of total gross income;
- expenses on rent of apartment serving for accommodation and lodging of resident and non-resident employees;
- benefits in kind including, meals and transport tickets unless organized by the taxpayer themselves;
- expenses for presents, other than those with the name and logo of the business, which are part of the expenses of representation;
- benefits in kind in the form of meals and transport tickets, unless it is organized by the business.

Depreciation

The owner of the asset is entitled to depreciation allowances. In case of a financial lease, depreciation may be claimed by the lessee, being the person who bears the risk of the loss or destruction of the asset.

For fiscal purposes, assets are categorized in three groups and depreciation rates are applied, using the straight-line method, on the historical value of each individual asset.

Category 1 - Buildings and other construction structures considered to depreciate at a rate of 5%.

Category 2 - Automobiles and light trucks, heavy transport vehicles, other heavy vehicles, computers and similar office furniture, and equipment are considered to depreciate at a rate of 20%.

Category 3 - Plant and machinery, rolling stock and locomotives used for rail transport, airplanes, ships and all other tangible assets are considered to depreciate at a rate of 10%.

Purchase of an asset for a price of EUR 1,000 or less shall be allowed as a current expense.

Expenditures on intangible assets that have a limited useful life are deductible in the form of amortization charges. The method of amortization must be the straight-line method and the allowance should be based on the useful life of the straightline method and the allowance should be based on the useful life of the asset as determined by the agreement governing the acquisition and use of the intangible asset. In case the useful life is not determined than it will be deemed 20 (twenty) years.

Depreciation allowances are not granted on land, works of art and other property, which is not subject to wear.

Reserves and Provisions

The law defines mathematical, technical and expected loss provisions. Such provisions are deductible for banks, financial

institutions and insurance companies up to the level of 80% of the provisions allowed by the respective regulators.

Losses

Losses may be carried forward for four consecutive years. In case of change of the type of business organization or its ownership with more than 50% the carry forward of losses will no longer be applicable.

Foreign Tax Credit

Income taxes paid abroad by Kosovo residents are deductible from tax amounts due in Kosovo in accordance with the provisions of Corporate Income Tax Law.

WITHHOLDING TAXES

Interest and Royalties

Interest and royalties are subject to a final withholding tax at 10% rate.

Rent

Rent payments are subject to withholding tax at 9% rate.

Other Withholdings

- Winnings in lottery or gambling are subjects to withholding tax at the rate of 10% on gross amount of the payment;
- Income generated by an artist or sportsman, from his/her personal activities performed in Kosovo are subject to withholding tax at the rate of 5% of the gross payment;
- Income generated from a non-resident person/entity for services rendered in Kosovo are subject to withholding tax at

the rate of 5% of the gross payment;

- Income generated from a non-resident person/entity for services rendered in Kosovo is subject to withholding tax by the payer of that income at the rate of 5% of the gross payment (considering that the non-resident person/entity has no permanent establishment in Kosovo);
- Withholding tax for non-business persons such as farmers, collectors of recycled materials, mountain fruit, medicinal plants and similar, shall be subject to withholding tax at 1% of the gross payment.

Transfer Price

On 20 July 2017, the Minister of Finance issued the Administrative Instruction No. 02/2017 on Transfer Pricing, which defines the rules and procedures for implementation of transfer pricing in as with the provisions of the Law “On Corporate Income Tax”.

The rules and procedure set forth in the above-mentioned instruction are based on the OECD guidelines and any other guideline that may be issues in the future.

The open market value is determined by the comparable uncontrolled price method. In cases where this method is not applicable, the following methods may be applied as the most appropriate method:

- Resale price method;
- Cost plus method;
- Transactional net margin method;
- Profit split method.

According to the Administrative Instruction, a taxpayer is obliged to prepare and present to the tax authorities within 30

days upon their request the necessary documents and analysis to prove that the controlled transactions are in compliance with the arm's length principle.

The taxpayers performing controlled transactions exceeding the amount of EUR 300,000 within a year should submit with the tax authorities an annual controlled transactions form by 31 March of the following year.

Double Taxation Avoidance Treaties

Kosovo tax authorities have not officially abolished the tax treaties that were signed by the former Yugoslavia. On the other hand, they have not accepted the direct application of these tax treaties.

Tax Administration of Kosovo, has published the following information regarding the double tax treaties:

- Albania in force from 1 January 2006 (an updated version applicable from 1 January 2016)
- Belgium in force from 23 February 2010 and applicable from 13 April 2012
- Germany in force and applicable from 02 September 2011
- Finland in force and applicable from 02 September 2011
- Macedonia in force from 06 June 2011 and applicable from 1 January 2014
- Hungary in force from 13 January 2014 and applicable from 1 January 2015
- Slovenia in force from 14 April 2014 (applicable from 1 January 2015)
- The United Kingdom of Great Britain and Northern Ireland in force from 09 July 2015 and applicable from 1 January 2016
- The Netherlands in force from former Yugoslavia from 06 February 1983 and yet in process with Kosovo

- Turkey in force from 08 November 2012 and applicable from 1 January 2016
- Austria in force from 31 December 2018 and applicable from 1 January 2019
- Croatia in force from 04 December 201 and applicable from 1 January 2018
- Malta in force from 20 September 2019 and applicable from 1 January 2020
- Switzerland in force from 10 October 2018 and applicable from 1 January 2019
- Grand Duchy of Luxembourg in force from 23 July 2019 and applicable from 1 January 2020
- United Arab Emirates in force from 03 July 2017 and applicable from 1 January 2017

INDIRECT TAXES

VAT Law in Kosovo

The Parliament of Kosovo has approved the new Law “On Value Added Tax” No. 05/L-037 which replaces the previous VAT Law No. 03/L-146, and entered in force on 1st of September 2015. The law is in line with the European VAT Directive.

Under VAT Law, a taxable person is any person who is, or is required to be registered for VAT, and who, carries out in Kosovo, independently, any economic activity in a regular or non-regular manner, whatever the purpose or results of that economic activity is.

Every taxable person is required to be registered for VAT from the moment when the total exceed the threshold of EUR 30,000 within a calendar year.

Foreign entities are subject to VAT registration, from the beginning of their economic activity in Kosovo, regardless of the VAT threshold.

Tax authorities issue a VAT registration certificate to the taxable person which has to be displayed at each place of business activity. A taxable person conducting the same or different economic activities and who has several places of economic activity within Kosovo, is identified by one individual and unique VAT registration number.

Taxable transactions include the supply of goods and services in Kosovo by a taxable person, as well as the import of goods to Kosovo.

The taxable amount is the value of the goods and services supplied, excluding VAT. The taxable amount of imported goods includes transportation and insurances costs, import costs and any applicable taxes, duties or tariffs.

A taxable person shall submit a tax declaration and remit the related payment not later than the 20th of the calendar month following the end of each tax period.

The period for storage of books and all VAT records is at least 6 years.

VAT Rate

From 1 September 2015 the standard rate of VAT is 18% (previously 16%). However, the new Law has introduced a reduced rate of 8% for the following supplies:

- supply with water, except bottled water;

- supply with electricity, including transmission and distribution services, with central heating, waste collection and other waste treatment;
- grains such as barley, corn, maize varieties, oats, rye, rice and wheat;
- products made from grain for human consumption, such as flour, pasta, bread and similar products;
- cooking oils made from grains or oilseeds for use in cooking for human consumption, dairy and dairy products intended for human consumption, salt appropriate for human consumption, eggs for consumption;
- textbooks and serial publications;
- supply including lending of books from libraries including brochures, leaflets and similar printed materials, children's picture books, drawing and coloring books, music printed texts or manuscripts, maps and hydro graphic charts and similar;
- information technology equipment;
- supply with medicines, pharmaceutical products, instruments, medical and surgical devices, medical equipment, ambulances, aids and other medical and surgical devices to facilitate or treat inability for exclusive use by the disabled, including the repair of such goods; and
- supply with children's vehicle seats.

VAT Exemptions

Besides several public services the following activities are VAT exempted:

- Insurance and reinsurance transactions, including related services, performed by insurance brokers and insurance agents;
- The granting and negotiation of credit and the management of credit by the person granting it;
- The negotiation of or any dealings in credit guarantees or any other security for money and the management of credit

guarantees by the person who is granting the credit;

- Transactions, including negotiation, concerning deposit, current accounts, payments, transfers, debts, cheques and other negotiable instruments, but excluding debt collection;
- Transactions, including negotiation, concerning currency, bank notes and coins used as legal tender, with the exception of collectors' items, that is to say, gold, silver or other metal coins or bank notes which are not normally used as legal tender or coins of numismatic interest;
- Transactions, including negotiation but not management or safekeeping, in shares, interests in companies or associations, debentures and other securities, but excluding documents establishing title to goods, and the rights or securities;
- The management of special investment funds as defined by the competent Authorities of Kosovo;
- The supply at face value of fiscal stamps and other similar stamps;
- Betting, lotteries and other forms of gambling, subject to the conditions and limitations laid down by the competent Authorities of Kosovo;
- The supply of land or land on which a building or house stands;
- The supply of houses, apartments or other accommodation used for a relevant residential purpose;
- The leasing or letting of immovable property;
- The supply of goods used solely for an activity exempted under Article 27 and Article 28 of the VAT Law, if those goods have not given right to deductibility;
- Newspapers and periodic publications and media services;
- Supply of services from electronic media of radio and television;
- Supply of public transport services to citizens and their luggage.

VAT Exemptions on Importation

- The release of goods for free circulation, if the supply of such goods effected on the territory of Kosovo by a taxable person are in all circumstances exempt from VAT;
- The re-importation of goods by the person who exported them, of goods in an unchanged condition in which they are exported, provided that such goods are exempt from custom duties in accordance with Custom legislation;
- Imported goods exempt from custom duties and intended for:
 - i.* Official use of diplomatic and consular offices and special missions accredited to Kosovo;
 - ii.* Official use of international organizations, if there are laid down by international treaties or agreements which apply to Kosovo;
 - iii.* Personal use of the foreign staff of diplomatic and consular special missions accredited to Kosovo, including their family members;
 - iv.* Personal use of the foreign staff of international organizations, including their family members, if this is laid down by international treaties which apply to Kosovo;
 - v.* Armed Forces of the North Atlantic Treaty Organization and KFOR, for use of such forces or the foreign civilian staff accompanying them or for the supply of their messes or canteens;
 - vi.* Personal use of the foreign staff of contractors of international organizations or foreign governments and their organizations, including their family members, if this is laid down in bilateral agreements which apply to Kosovo.
- Import of catches of fishing vessels and fishing boats used for the purpose of carrying out a fishing activity into a port, provided that the catch is either unprocessed or subject to only those procedures that are necessary to preserve its quality and that, prior to the importation, no supply was performed in accordance with VAT Law;
- Services related to the import of goods, provided that the value of such services is included in the taxable amount in accordance with provisions of VAT Law;

- Gold and other precious metals, bank notes and coins imported by the Central Bank of Kosovo;
- Import of gas through natural gas distribution systems or import of electricity;
- Imported goods that have been placed under a suspense arrangement, a custom procedure with economic impact or a customs approved treatment and are exported out of Kosovo when the goods cease to be covered by the arrangement, procedure or treatment;
- Imported goods for/by electronic media and printed only for their purposes;
- Production lines and machinery for use in production process;
- Raw materials used for the production process;
- Information technology equipment (after meeting certain criteria);
- Newspapers and periodic publications (after meeting certain criteria);

VAT Exemption on Exportation

- The supply of goods dispatched or transported to a destination outside Kosovo by or on behalf of the vendor;
- The supply of goods dispatched or transported to a destination outside Kosovo by or on behalf of a customer not established within the territory of Kosovo, with the exception of goods transported by the customer himself for the equipping, fuelling and provisioning of pleasure boats and private aircraft or any other means of transport for private use;
- The supply of goods to bodies recognized by the competent Kosovo Authority which export them out of Kosovo as part of their humanitarian, charitable or teaching activities outside Kosovo;
- The supply of services consisting in work on movable property acquired or imported for the purpose of undergoing such work within Kosovo, and dispatched or transported out of Kosovo by the supplier, by the customer if not established within Kosovo or on behalf of either of them;
- The supply of services, including transport and ancillary

transactions, but excluding the services exempted, where these are directly connected with the exportation or importation of goods;

- Goods to be carried in the personal luggage of travelers under certain conditions are met.

VAT Exemptions Related to International Transport

- The supply of goods for the fuelling and provisioning of vessels used for navigation on the high seas and carrying passengers for reward or used for the purpose of commercial, industrial or fishing activities, or for rescue or assistance at sea, or for inshore fishing, with the exception, in the case of vessels used for inshore fishing, of ships' provisions;
- The supply of goods for the fuelling and provisioning of fighting ships, falling within the combined nomenclature (CN) code 8906 1000, leaving their territory and bound for ports or anchorages outside Kosovo;
- The supply, modification, repair, maintenance, chartering and hiring of the vessels as provided by VAT Law, and the supply, hiring, repair and maintenance of equipment, including fishing equipment, incorporated or used therein;
- The supply of services which meet the direct needs of the vessels or of their cargoes;
- The supply of goods for the fuelling and provisioning of aircraft used by airlines operating for consideration chiefly on international routes;
- The supply, modification, repair, maintenance, chartering and hiring of the aircraft and the supply, hiring, repair, and maintenance of equipment incorporated or used therein.

Special Schemes

VAT law provides special schemes for travel agents, sales by public auction, farmers, for electronically supplied services and for investment in gold.

LOCAL TAXES

Tax on Real Estate

All persons that own, use or occupy immovable property are subject to tax on real estate. The annual tax rates may vary between 0.05% and 1% of the market value of the real estate. The tax is paid in two equal installments on or before 30 June and 31 December of the fiscal year.

Excise Tax

Excise tax is applied to a limited number of goods such as coffee, tobacco, alcoholic drinks, soft drink, derivatives of petroleum and motor vehicles mainly for transport of persons. For goods produced in Kosovo, the excise tax is calculated on the sale price of goods. For imported goods this tax is calculated on the customs value including the import duty. Excise tax is not applied when goods are exported.

Excise tax is not levied on the following:

- Raw and auxiliary materials having the nature of excisable goods that are imported into Kosovo for being used in the manufacture of goods for export;
- Goods to be used exclusively for humanitarian purposes and not in sale to consumers in Kosovo; and
- Goods financed from the grants made to Kosovo governments by governments, governmental agencies, governmental or non-governmental organizations, in support of humanitarian and reconstruction programs and projects in Chapter Kosovo.

Excise tax is not payable by the following entities:

- Foreign diplomatic and consular missions;
- United Nations or any of its organs including UNMIK, the specialized agencies of the United Nations, KFOR, international

inter-governmental organizations and governmental agencies on goods used for official purposes;

- Contractors to UNMIK, the specialized agencies of the United Nations and KFOR importing goods to be used exclusively by those contractors in connection with the performance of contracts for UNMIK, the specialized agencies of the United Nations or KFOR; and
- Registered non-governmental organizations with the public benefit status on the following goods used exclusively by the non-governmental organization to fulfill its public benefit purposes: gasoline, kerosene, diesel and ethanol.

Custom Duties

Custom duties are charged according to imported goods' classification in a 6-digit Harmonized System. Major exemptions from payment of the custom duties are applicable for:

- Imports of goods for official use by diplomatic representatives and consular missions;
- Imports of goods for official use by the United Nations or any of its organs including UNMIK, the specialized agencies of the United Nations, KFOR, the International Committee of the Red Cross (ICRC) and entitled and duly authorized international organizations operating in Kosovo;
- Imports of goods financed from the grants made to UNMIK or through UNMIK, for Ministries, governmental or non-governmental organizations in support of humanitarian and reconstruction programs and projects in Kosovo;
- Specific imports of goods to be used exclusively for humanitarian purposes and not in sale for consumers in Kosovo, as defined by the SRSG.

The tariff nomenclature provides for customs rate from 0% to 10% for goods imported into Kosovo depending to classification of goods and application of free trade agreements.

TAXATION OF INDIVIDUALS

GENERAL

Personal Income Tax is governed by the new Law No. 05/L-028 “On Personal Income Tax”, in force from 1 September 2015, which overrides Law No. 03/L-161.

Under Personal Income Tax Law while residents pay tax on all taxable income sources, non-residents pay tax only on income generated within the territory of Kosovo.

RESIDENCE

Residents are considered to be persons who stay in Kosovo, in aggregate for a period or periods exceeding 183 days in twelve-month period or a personal business enterprise, partnership, or association of persons which is established in Kosovo or has its place of effective management in Kosovo.

TAXABLE INCOME

Taxable income for a tax period is the difference between gross income received or accrued during the tax period and the deductions allowable.

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

- Wages, salaries and other compensation derived from labor relations. These income include basic compensation, overtime compensation, bonuses and any other payment for the performance of employment;

- Income from rent;
- Income from use of intangible property (copyright, licenses, patents, etc.);
- Interest from loans, bank deposits, bonds and other interest bearing securities;
- Reimbursement or compensation for medical treatment and expenses, including hospitalization and medication, other than wages paid during the periods of absence from work due to sickness or injury;
- Capital gains including the income from transfer of ownership on real estate (effective from 1 January 2010);
- Lottery and other gambling;
- Other income that increases the taxpayer's net worth (i.e. any other item of income that is not explicitly exempt).

TAX EXEMPT INCOME

Wages received for the work performed in Kosovo by foreign diplomatic and consular representatives and foreign personnel of international governmental and non-governmental organizations, donor agencies or their contractors (carrying on humanitarian aid or assistance), UN and International Atomic Energy Agency, authorized international inter-governmental financial institutions operating in Kosovo and KFOR are exempt from personal income tax.

Additionally, the following income is exempted from personal income tax:

- Compensation for the damage or destruction of property;
- Proceeds of life insurance policies payable as the result of the death of the insured person;
- Reimbursement or compensation for medical treatment paid during the periods of absence from work due to sickness or injury;

- Interest on financial instruments which are issued or guaranteed by a public authority of Kosovo paid to resident or non-resident individuals;
- Dividends received by resident and non-resident individuals;
- Pensions and social welfare payments paid by the Government;
- Assets received, or value of assets received, as a result of inheritance up to the value of EUR 5.000;
- Educational expenses paid by an employer on behalf of an employee provided that such expenses are paid directly to an educational institution that is recognized in accordance with the applicable law in Kosovo and provided that the employee will remain employed at the employer for at least 24 months after the termination of the education for which the expenses are paid by the employer;
- Scholarships received by an individual to attend an institution of higher learning, trade school, or vocational school, so long as the scholarship is paid directly to the institution and no part of the scholarship is refundable to the students;
- Training expenses paid by the employer for the employee, which do not exceed EUR 1,000 in any tax period;
- Income received for expropriation made by the state for public interest;
- Compensation benefits received through final decisions by courts and certain compensations for court costs;
- Mandatory contributions paid by the employer for health insurance for the employee.

PERSONAL INCOME TAX RATES

Wages, salaries and other compensation for employees will be taxed as follow in Table 8.

Taxpayers are required to prepare an annual tax declaration for personal income tax on or before 31 March of the following year (see Appendix B).

Table 8

| Threshold (annual compensation inEUR) | | Income tax |
|---------------------------------------|----------|--|
| 0 | 960 | 0% |
| 961 | 3,000 | 4% of the amount over 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 |

Taxpayers who receive or accrue income only from one or more of the following sources are not required to submit an annual declaration:

- Wages;
- Interest;
- Rent when the declaration for such income is made on quarterly basis;
- Lottery or other gambling;
- Income from intangible property;
- Income from gifts.

PENSION CONTRIBUTIONS

As per Law No. 04/L-101, dated 8 May 2012 “On Pensions Funds of Kosovo” both of the employer and the employee must pay pension contributions at the level of five percent (5%) of the gross monthly salary. Also the employer and the employee may voluntarily contribute an additional amount up to a total of ten percent (10%) of monthly salary for a total maximum of fifteen percent (15%) of the gross salary.

TAXES ON INDIVIDUAL BUSINESS ACTIVITIES

Individuals who carry on independent business activities and are not required to be registered as taxable persons for VAT purposes are subject to the tax on business activity. Such tax is paid quarterly, within 15 April, 15 July, 15 October of the current year and 15 January of the subsequent fiscal year. For taxpayers with an annual gross income from business activities up to EUR 50,000 who are not required to, and do not choose to keep the books and records, the tax amount is:

- three percent (3%) of each quarter's gross income resulting from activities of trade, transport, agricultural and similar activities, but not less than EUR 37.5 per quarter; and
- nine percent (9%) of each quarter's gross income resulting from provision of the services, professional/vocational business activities, entertainment and similar activities, but not less than EUR 37.5 per quarter.

Taxpayers with annual gross income of more than EUR 50,000 who keep books and records are required to pay personal income tax according to rates shown in Table 8. Expenses incurred during the tax period are deductible from the gross income resulting from business activities.

LABOUR LAW IN KOSOVO

GENERAL ISSUES

Employment in Kosovo is governed by the Law No. 03/L-212 “On Labor” published in the Official Gazette No. 90/2010 and entered into force on 15 December 2010 (“Kosovo Labor law”), Law No. 04/L-101 ‘On Pension Funds of Kosovo’ published in the Official Gazette No. 10/2012 and entered into force on 30 March 2012 and the Law No. 04/L-168 “On amending and supplementing the Law No. 04/L-101 ‘On Pension Funds of Kosovo’” published in the Official Gazette No. 08/2013 and entered into force on 23 April 2013 and the Law No. 05/L-116 – “On amending and supplementing the Law No. 04/L-101” published in the Official Gazette No. 03/2017 and entered into force on 1 February 2017 (‘Pension Law’) and other normative acts issued by Kosovo’s legislative bodies in order to regulate different features of the employment area based on the rapid social and economical changes that occur.

WORKING CONDITIONS

Minimum Age

Eighteen (18) years of age is a minimum age for employment or work. A person between 15 years of age and 18 years of age may only be employed in certain type of works that are not likely to be harmful to employee’s health or development, and are not forbidden by another law or sub legal act. Employment of persons under 15 years of age is prohibited.

Working Hours and Overtime

The normal weekly working hours should not exceed 40 hours

for employees over 18 years of age and 30 hours for employees between 15 years of age and 18 years of age. Employees are entitled to a rest between two continuous working days lasting for at least 12 consecutive hours.

Overtime Work

Kosovo Labor Law makes a distinction between mandatory and voluntary overtime. Mandatory overtime must be performed by the employee in extraordinary cases with the increase of volume of works and in other necessary cases, on the request by the employer. Such overtime must not exceed 8 hours per week.

Besides the mandatory overtime, the employee may perform paid voluntary overtime in agreement with the employer. In such cases, the employee is entitled to a monetary compensation calculated in the following percentages of the basic salary:

- 20% of the basic salary per hour for extra shifts;
- 30% of the basic salary per hour for night shifts;
- 30% of the basic salary per hour for extended working hours (overtime);
- 50% of the basic salary per hour for work on national holidays and weekends.

The employee is entitled to be compensated in days off instead of the allowances defined herein above.

Retirement Age

Pursuant to the Pension Law the retirement age is set at the age of 65 years, and the Pension Law makes no distinction with regard to gender.

Anti – Discrimination

Kosovo labor law contains provisions which prohibit all forms of discrimination characterized by sex, race, religious and ethnical background. Moreover direct or indirect discrimination of persons with disabilities is prohibited during employment, promotion and career advancement, if that job may be performed adequately by a person with disabilities.

EMPLOYMENT CONTRACTS

As a general rule, according to the Kosovo Labor Law, employment contracts are made in written form, may be stipulated either for limited or unlimited duration or for specific tasks and duties. An employment contract must include at least the following:

- a.** the parties, their place of residence (for the employer the legal seat and the registration number of work with the Business Register);
- b.** the name, kind, nature of work or services and a brief description of the duties;
- c.** the place of work, and notification that work will be performed in different locations;
- d.** the duration and working hours;
- e.** the date of initiation and working hours;
- f.** the duration of the employment contract;
- g.** the amount of the base salary and any additional or other income;
- h.** the duration of annual leave;
- i.** the termination of the employment relation;

- j. other data considered relevant for the regulation of the labor relation from the parties.

Employment Contract Types

Kosovo Labor Law provides the following rules on the following types of contracts:

- Employment contract for specific tasks and duties:

This type of contract may not last more than 120 days within a year. The employee does not enjoy the right to annual leave and other rights stipulated in the collective contract.

- Limited duration contract:

This contract may not be concluded for a cumulative period of more than 10 year. If explicitly or tacitly renewed beyond this term, the contract shall be deemed with indefinite duration.

- Employment contract for professional training:

The employer may engage individuals for professional training and performing certain tasks through practical work (i.e. internship relation). The practice work of an intern with university and post-graduate qualification shall not last more than 1 year, whereas the practical work of an intern with secondary education shall not last more than 6 months. If agreed by the parties, the interns shall not be subject to any salary or other rights deriving from the employment contracts (except for the duties of the employer to ensure application of safety rules to these interns). Employers who engage the interns without compensation of a salary shall be obliged to evidence this fact accordingly.

- Probationary Period:

Probationary period may not last more than 6 months and

termination of employment contract during this period is done upon written notice of at least 7 days in advance.

- Termination of employment contracts:

Kosovo Labor Law provides for the termination of an employment whenever one of the following events occurs:

- a. the death of the employee;
- b. the death of the employer in cases when the job is strictly connected with the employer personally;
- c. upon expiration of the duration of the contract;
- d. when the employee reaches the retirement age (65 years of age);
- e. upon the date of issue of a definitive decision for loss of labor capacities;
- f. if the employee shall serve a sentence of imprisonment which will last longer than 6 months;
- g. upon a decision of the competent court that leads to the termination of the employment relationship;
- h. in case of bankruptcy or liquidation of the enterprise;
- i. upon agreement of the employer and employee;
- j. other cases specified by laws in force.

An employment contract may be terminated by the employer upon expiration of a notification period when:

- a. such termination is justified for economic, technical or organizational reasons and is impracticable for the employer to transfer, train or qualify the employee for the job or other jobs;
- b. the employee is no longer able to perform the job and is impracticable for the employer to transfer, train or qualify the employee for the other jobs;

- c. there is a serious case of misconduct;
- d. unsatisfactory performance of work duties.

An employment contract may be terminated by the employer without providing a period of notice of termination in cases when:

- a. the employee fails to remedy from repeating non serious misconducts or breach of obligations;
- b. the employee's performance remains unsatisfactory in spite of the written warning (provided that the employer has notified in written to the employee the description of the unsatisfactory performance and provided for a probation time for improvement).

Notification periods for termination of employment contract of unlimited duration are as follows:

- from 6 month to 2 years of employment: 30 calendar days;
- from 2-10 years of employment: 45 calendar days;
- above 10 years of employment: 60 calendar days.

The employer may terminate a limited duration employment contract upon 30 calendar days notice. The employer who does not intend to renew a limited duration contract must inform the employee at least 30 days before the expiry of the contract.

Collective Agreement

A collective agreement may be concluded between:

- a. organization of employers and their representatives; and
- b. organization of employees or, in cases where there are no such organizations, the agreement may be concluded by the representatives of employees.

A collective agreement may be concluded at:

- a. state level;
- b. branch level; or
- c. enterprise level.

A collective agreement may be for a limited duration of no more than 3 years. A collective agreement shall apply to employers and its employees who agree to be bound by such collective agreement.

HOLIDAYS/PAID LEAVE

Leaves and Absence from Work

The Law provides for the following new rules on annual leave:

- newly hired employees having worked for at least 6 continuous months are entitled to a paid annual leave in proportion with the months of work;
- after the first year of employment, the employees are entitled to a paid annual leave of at least 4 weeks during the calendar year, regardless whether employment is full or part time;
- annual leave shall be taken no later than 30 June of the following calendar year.

Other paid leaves consist of:

- 2 days for the father in case of birth or adoption of a child;
- 5 days in case of employee's marriage;
- 5 days in case of death of a close family member;
- 1 day in each case of voluntary blood donations.

Further, in case the work conditions are not satisfactorily

secured or fail to protect the health and life of the employee, as set forth in a decision of the authorized state body or employer's body, the employee shall be entitled to a paid justified absence from work for a maximum period of 45 days within a calendar year.

Unpaid leaves comprise the following:

- an indefinite period based on a request of the employee to the employer;
- 2 weeks for the father after the birth or adoption of a child, granted at any time before the child reaches the age of 3 years (upon 10 days prior notification to the employer).

Maternity Leave

Pregnant women are entitled to a 12 months of maternity leave to be taken upon a medical certificate 45 days before giving birth or, if consented by the woman, 28 days before the expected childbirth.

The first 6 month of maternity leave are compensated with 70% of the salary payable by the employer, the consecutive 3 months are compensated with 50% of the salary payable by the Government of Kosovo and the last 3 months are not subject to monetary compensation. Before the entry into force of the new Law, maternity leave consisted of 12 weeks entirely payable from the employer at the amount of 2/3 of the salary.

Sick Leave

During an ordinary sick leave, the employee shall be entitled to receive his/her entire salary for a period of leave up to 20 working days within 1 year, while for occupational injury and related illness (e.g. accident at work) the payment shall consist of 70% of the salary. Payment for compensation for sick leave binds on the employer.

National Holidays

National Holidays in Kosovo shall be observed by employers and the employee is entitled to compensation during such National Holidays, as it was normal working day.

Health and Safety at Work

Women, persons under 18 years old and disable persons enjoy special protection under the Kosovo Labor Law. Specifically, persons less than 18 years old should not work under conditions which, given their nature of circumstances, damage the health, safety or the moral of the employee. While, pregnant and breastfeeding women shall be prohibited to conduct labor activities that are classified as harmful for the health of the mother of the child.

Pregnant women, mothers with a child under the age of 3 years or a child with serious disability shall not be obliged to perform overtimes on night shifts. Maternity rights may be exercised from the father in case of sickness, abandoning of the child and/or death of the mother.

An employee that suffers a disability shall be entitled to work in his position or other relevant tasks, if he may perform the duties without the need for professional rehabilitation. The employer is obliged to ensure the adequate type of work for the employee professionally rehabilitated after the recovery.

Transfer of Employees

Employees may be transferred in other job positions, with or without their prior consent, subject to the following rules set forth under the Kosovo Labor law:

An employee may be reassigned without consent to perform a job which requires a lower professional qualification than the one the employee possesses, in cases:

- a.** when there is an extraordinary situation as a consequence of an earthquake, fire, flooding or other natural catastrophes until the condition prevails;
- b.** when there is a need to replace an absent employee from work but no longer than 30 working days;
- a.** of sudden increase in workload, but not longer than 30 working days.

An employee may be reassigned temporarily with consent, to a job which requires the same professional qualification in cases when:

- a.** it was ascertained that there is no need for the work of the employee;
- b.** the post is temporarily terminated or there is a decrease in the volume of work;
- c.** the working space, respectively working tools are rented temporarily to an other employer.

The Kosovo Law entitles such employee to conclude an employment contract with the new employer. After the termination of the temporary reassigned period the employee is entitled to return to work to the previous employer in the same post or some other post that corresponds to employee's professional qualification.

In case of statutory change and change of the employer, the Kosovo Labor Law stipulates that the next employer is obliged to take over all obligations and responsibilities of the employment relationship from the previous one in compliance with the collective contract and employment contract.

ACQUISITION AND REGISTRATION OF IMMOVABLE PROPERTY

REGISTRATION OF IMMOVABLE PROPERTY

The registration of immovable properties in Kosovo is regulated under Law No. 04/-L-013 “On Cadastre”, Law No. 2002/5 “On the Establishment of the Immovable Property Rights Register”, as amended, and by Law No. 03/L-154 dated 25.06.2009 “On Property and Other Real Rights”.

While the Register of Immovable Property Rights is established as a mechanism to implement and validate immovable property rights in Kosovo, the Cadastre constitutes the Official Register that includes the registration of land parcels, buildings, arts of buildings and conductive of underneath buildings in Kosovo.

Based on the Law on the Cadastre, Kosovo Cadastral Agency is the responsible authority for the Cadastre and for the maintaining the overall official evidence on immovable properties pursuant to the recorded dates of registration and supervising the cadastral activity as well as the issue of secondary legislation concerning cadastral activity.

Municipality Cadastral Offices (MCO's) are entitled by law to record the immovable properties located in the area under the municipality jurisdiction.

The cadastral register contains all the data necessary for identifying immovable property and parties bearing rights over such property, such as the identity of the owner, surface, property number, divisions, if any, borders of property, date of registration, relevant plans that show the location of property, etc.

The Law on the establishment of the immovable property rights register, as amended, enables the registration of rights as follow: (i) ownership (on land, buildings, parts of buildings - apartments and commercial premises); (ii) mortgages; (iii) servitudes; (iv) the rights of use of municipal, public, social and state property; and (v) property burdens and charges.

For an initial registration of an immovable property, a written application should be filed with MCO under the jurisdiction of which is located the property subject to registration.

Together with the application requesting the registration of the immovable property right, one of the following documents shall be attached in order to support the immovable property right: (i) competent court decision; (ii) the decision of the state administrative body; (iii) the contract for transfer of immovable property rights certified by the competent body; (iv) the decision or contract for the privatization issued by the Kosovo Privatization Agency; (v) the Commission's decision for the Reconstruction of Cadastre; (vi) the Commission's decision for the regulation of lands; and (vii) any other document that by special laws is pertinent to the property rights registration.

The MCO shall decide whether to accept or reject the application for registering the immovable property right, no later than fifteen (15) days after the application filing date and inform the applicant accordingly about its decision. The registration shall be effective upon the record of the decision of the MCO into the said register. In case of a rejection from the MCO to register the immovable property right, 30 days after receiving the written information, the concerned party may request from MCO reconsideration of its decision.

In case of claims where parties fail to agree on any solution, the competent court shall have jurisdiction to rule on the dispute. Upon the decision of the court the MCO shall proceed with the registration.

LAND ACQUISITION AND RELATED MATTERS

Land in Kosovo is categorized as agricultural and construction land. Public construction land can be acquired by private persons/entities only upon the decision of the municipality and/or Ministry of Environment, or privatization procedures. In contrast, construction land other than public or social can be freely acquired from private persons/entities.

Land Lease

According to Law No. 03/L-040 “On Local Self Government” the municipalities have the right to sell and lease immovable and movable property with the exception of sale of the land that is regulated by a special law.

The UNMIK Regulation No. 2003/13 “On the Transformation of the Right of use to Socially Owned Property” establishes the possibility of leasing land for commercial purposes for a term of 99 years. In addition, Law No. 02/L-26 “On Agricultural Land” stipulates that agricultural land may be leased to natural and legal persons, local or foreign, involved in agricultural activities and may not be subleased without consent of owner, with exemption of cases to the transfer of the right of use for 99 years.

Agricultural land may be leased in the form of (i) long term lease (over 3 years); (ii) short term lease (up to 3 years); and (iii) grazing lease.

Investors can also get a lease hold for land from the municipality under which jurisdiction is located the said land for the term of 10 years with an extension opportunity up to 99 years.

GOVERNMENT CONTROLS

COMPETITION LAW

Competition in Kosovo is governed by Law No. 03/L-229 “On the Protection of Competition”, amended by Law No. 04/L-226 “On Amending and Supplementing Law No 03-L- 229 “On Protection of Competition” (hereinafter “The Law” or “Competition law”) and the secondary legislation passed for the implementation of the law.

The Competition Law, and the administrative instructions adopted for its implementation are in line with the EU Competition policy and regulations. Competition Law regulates concentration of enterprises, restrictive agreements, abuse of dominant position carried out from “undertakings” with the purpose of restricting, suppressing and distorting competition in the Kosovo market.

For purposes of this Law, all persons being individuals or public or private legal entities, engaged in commercial activity either local or foreign provided that their activity has an impact on the national market are considered “undertakings”. Prohibited actions are related to those carried out within the territory of Kosovo or having economic effects in Kosovo.

AGREEMENTS RESTRICTING COMPETITION

Competition Law prohibits all agreements between two or more independent undertakings, decision made by business associations and concerted practices that aim or may significantly impact on market competition in the relevant market, and in particular those that:

- i.* directly or indirectly impose purchase or sale price or any other condition in trade;
- ii.* limit or control production, market, technological development and investments;
- iii.* share markets or supply sources;
- iv.* implement unequal conditions for similar transactions with other enter prices, consequently placing them in an unfavorable competitive position;
- v.* apply conditions for agreements or contracts to rely on other contracting subjects, through other supplementing conditions that do not have any natural or common trade practice connection to the object of such contract.

The provisions of the Competition Law contain also some exclusions and exemptions from such prohibition. For example the Law attributes to the Kosovo Competition Authority the power to assess if horizontal agreements such as the rationalization or specialization agreements, vertical agreements and IP agreements meet the legal conditions to benefit from the exemption. The law provides also for the exemption of de minimis agreements. The Administrative Instruction No. 05/2012 “On Criteria and Terms for Determining Agreements of Minor Importance”(the ‘Instruction’) defines the de minimis agreement as those agreements entered:

- i.* among competitors (either actual or potential), if the total market share for the parties in the agreement and enterprises under their control does not exceed 10% in any relevant market affected by the agreement;
- ii.* among non-competitors (either actual or potential), if the market share of each party to the agreement does not exceed 15% in the relevant marketing which the agreement has an impact;
- iii.* among enterprises, when it is not possible to determine whether the parties to the agreement are either actual or

potential competitors or among enterprises which are not actual or potential competitors in the relevant market; if the market share of each party to the agreement does not exceed 10% in the relevant markets affected by the agreement.

The said Instruction also defines severe competition restriction clauses under which an agreement would not benefit from the exemption, notwithstanding the fact that the agreement per se would fall under any of the criteria listed from (i) to (iii) above.

ABUSE OF DOMINANT POSITION

A dominant position is not prohibited per se, but only the abuse of dominance falls under the prohibition established by the Competition Law. The Law recognizes the existence of a single (one undertaking) and collective (two or more undertakings) dominant position.

An undertaking will be considered in a dominant position if it is not exposed to substantial competition or has a superior power in relation to its existing or potential competitors. The Competition Law provides for a presumed dominant position, if the undertaking has a market share higher than 25%. Anyhow, this presumption will not be applicable if the undertaking convincingly demonstrates that it is exposed to substantial competition or that it has no superior market position in relation to its competitors.

As regards collective dominance, under the law, two or more undertakings are considered holding a dominant position, if, vis-à-vis their competitors, they act together on the market and if their general market share is higher than 40%.

The burden of ascertaining that a participant may have the dominant position in the market, whose share in the market is lower than twenty five percent (25%), respectively in cases of collective dominance is lower than 40% falls on the Kosovo Competition Authority.

According to the Competition law the abuse of dominant position occurs in case of:

- i.* direct or indirect setting of unreal purchase or sale prices and other unfair trade conditions, respectively;
- ii.* limitation of production, markets or technological development to the prejudice of consumers;
- iii.* implementation of different conditions for similar duties with other enterprises thereby placing them in a disadvantageous competitive position;
- iv.* agreeing on contracts under condition that other contracting parties accept additional obligations;
- v.* setting prices or other conditions, the objective or the result of which is to prevent entering or exclude certain competitors or one of their products from the relevant market;
- vi.* refusal of involvement of another enterprise, without granting appropriate compensation, in the network or infrastructure of the enterprise with dominant position with dominant position, if this denial of use of the network or infrastructure prevents the other enterprise from acting as a competitor of the enterprise with dominant position.

CONCENTRATIONS

Competition Law prohibits concentrations of enterprises, which may significantly damage competition, in particular when such concentration results in the strengthening of a current dominant position or creation of a new dominant position.

Subject to the Competition Law, the concentration of enterprises is created by installing permanent control which is acquired through:

- i.* Merger of two or more independent enterprises or parts of these enterprises;
- ii.* Acquisition of direct or indirect control, or influence on the dominating position of one or more enterprises or parts of enterprises, by:
 - acquiring majority of shares, or of a part of them;
 - acquiring majority of voting rights; and
 - any other way, based on the provisions of laws in force and other regulations.

Competition Law provides that the acquisition of control is achieved by transferring the rights, contracts or other acts through which one or more enterprises, either individually or together, taking into consideration all legal and factual circumstances, acquire the possibility to achieve influence of the dominant position for one or more enterprises in permanent basis.

Also the creation of a joint venture from one or more independent enterprises, which operates on permanent basis as an independent economic subject, shall be considered as concentration. A concentration shall be subject to the clearance and approval of the Kosovo Competition Authority if the following thresholds are met:

- i.* determined income of all participating undertakings together, in international market, exceed EUR 20 million, based on financial reports of the financial year preceding the concentration year, and if at least one of the participating undertakings is located in the Republic of Kosovo; and

- ii.* general income of at least 2 participating undertakings in Kosovo domestic market, exceeds EUR 3 million based on financial reports preceding the year of concentration.

In order to obtain clearance by the Competition Authority, any applicant should submit to the said authority a notification on the concentration together with several documents set forth in Competition Law and the Administrative Instruction No. 06/2012 “On Forms of Submitting Requests and Criteria for Determining Concentration of Enterprises”.

In case the Competition Authority assesses that the concentration may significantly affect competition in the relevant market, the said authority performs within 90 days from the date when the notification file is complete, an in depth assessment of the concentration. As a result the Authority will issue a decision either to (i) approve the concentration; or (ii) approve the concentration with conditions and obligations; or (iii) prohibit the concentration.

The following costs are due in order to follow the procedures of the Competition Authority:

- i.* a filing fee of EUR 100;
- ii.* a fee of EUR 2,000 for obtaining the temporary concentration clearance;
- iii.* a fee of EUR 3,000 for obtaining the concentration clearance.

Penalties: The Kosovo Competition Authority may impose disciplinary measures in an amount up to 10% of the total income of the enterprise realized during the last year for which the final report has been completed if the company participates in the execution of prohibited concentrations of enterprises.

APPENDIX A

ANNUAL DECLARATION AND PAYMENT FORM FOR CORPORATE INCOME TAX

[1] Tax Period: [2] Serial Number:

[3] Fiscal Number:

[4] Taxpayer Name:

[5] Taxpayer's Address:

[6] Owner: Phone:

[7] Manager: Phone:

[8] Accounting/Bookkeeper Phone:

[9] If the tax declaration is to amend a declaration filed previously for the same tax period, put an 'X' in the box that describes the type of amendment
(Please refer to the guide)

Addition

Correction

Payment only

[48] Amount Due

[49] Amount of Tax Paid

I declare that facts reported in this Statement are true:

Date:

(_____)

First Name/Last Name/Signature and Stamp

[10] Net profit (loss) by Financial Declaration [10]

Adjustments to Income

[11] Foreign source of income (schedule A) [11]

[12] Recovery of bad debts (schedule B) [12]

[13] Capital gain (schedule C) [13]

[14] Dividends (schedule D) [14]

[15] Other income/gain (schedule E) [15]

[16] Total adjustment to income (add lines [11] to [15]) [16]

[17] Profit (loss) after adjustment to income (line [10] + line [16]) [17]

**Adjustment to Expenses (mostly negative numbers shown in brackets
– except line 24)**

| | |
|--|------|
| [18] Disallowed expenses (schedule F) | [18] |
| [19] Representation costs (schedule G) | [19] |
| [20] Reserve funds (schedule H) | [20] |
| [21] Payments to related persons (schedule I) | [21] |
| [22] Depreciation (schedule J) | [22] |
| [23] Amortization (schedule K) | [23] |
| [24] Special allowance for new assets (schedule L) | [24] |
| [25] Capital loss (schedule C) | [25] |
| [26] Other expenses (schedule M) | [26] |
| [27] Total adjustments to expenses (add lines [18] to [26]) | [27] |
| [28] Profit (loss) of business after adjustment to expenses (line [17] – line [27]), (When line 27 is in brackets and the whole numbers) | [28] |
| [29] Charitable contributions (attach receipts), (limit 5% of line 28) | [29] |
| [30] Loss carry forward | [30] |
| [31] Add lines [29] and [30] | [31] |
| [32] Adjusted profit (line [28] – line [31]) | [32] |
| [33] Corporate income tax (If line 32 is a profit, multiply by 10%. If line [32] is a loss, enter 0) | [33] |

For Insurance Companies Only

| | |
|--|------|
| [34] Gross Premiums for the tax period | [34] |
| [35] Corporate Income Tax for Insurance Companies ([34]*5%) | [35] |

Refund or Amount Due

| | |
|--|------|
| [36] Corporate Income Tax (add the amounts in the line [33] and [35] according to your situation) | [36] |
| [37] Foreign states tax credit (schedule O) | [37] |

| | |
|--|-------------|
| [38] Tax withheld on interest, royalties and rent by resident payers (Schedule P)-attach certificates | [38] |
| [39] Total credits for the period [37] + [38] | [39] |
| [40] Line [36] less [39] | [40] |
| [41] Installments paid (Schedule Q) | [41] |
| [42] Tax to be paid with this form [40] – [41] If the result on line[42] is (+) you have an Amount Due. If the result on line[42] is (-) you have a refund. Write the amount in the appropriate box. | [42] |
| [43] Amount Due | [44] Refund |
| [45] Bank Name | |
| [46] Account Holder | |
| [47] Account Number | |

DECLARATION OF INCOME AND EXPENSES BY ACTIVITIES

Income from operating activities

| | |
|--------------------------------|------|
| [60] Gross receipts (Turnover) | [60] |
|--------------------------------|------|

Expenses from operating activities

| | |
|--|------|
| [61] Opening inventory | [60] |
| [62] Purchase or cost of production | [62] |
| [63] Total ([61] + [622]) | [63] |
| [64] Ending inventory | [64] |
| [65] Cost of goods sold ([63] – [64]) | [65] |
| [66] Gross profit ([60]-[65]) | [66] |
| [67] Wages (including pension contributions) | [67] |
| [68] Depreciation and amortization expense (not included in cost of goods) | [68] |
| [69] Selling expenses | [69] |
| [70] General and administrative expenses (not included in cost of goods) | [70] |
| [71] Research & development costs | [71] |

| | |
|---|------|
| [72] Other operating expenses | [72] |
| [73] Total operating expenses (Add [67] through [72]) | [73] |
| [74] PROFIT/LOSS FROM OPERATIONS (([66]-[73]) | [74] |

NON-OPERATING ACTIVITIES

| | |
|---|------|
| [75] Other revenues or gains | [75] |
| [76] Other expenses or losses | [76] |
| [77] PROFIT/LOSS FROM NON-OPERATING ACTIVITIES ([75]-[76]) | [77] |
| [78] Net profit (loss) ([74] + [77]) | [78] |

Enter line [78] – Net profit (loss) on line 10 of CIT Declaration

Attach to CIT Declaration

APPENDIX B

ANNUAL DECLARATION AND PAYMENT FORM FOR PERSONAL INCOME TAX

| | |
|--|---------------------------------------|
| [1] Tax Period (YYYY) | [2] Serial Number: |
| [3] Fiscal Number: | [3a] Individual ID Number: |
| [4] Taxpayer's Name: | |
| [5] Taxpayer's Address: | |
| [6] Telephone: | |
| [7] Put 'X' on the appropriate category if not filing for the first time for this tax period | |
| <input type="checkbox"/> Addition | <input type="checkbox"/> Correction |
| | <input type="checkbox"/> Payment only |
| [9] If the tax declaration is to amend a declaration filed previously for the same tax period, put an 'X' in the box that describes the type of amendment. | |
| <input type="checkbox"/> Addition | <input type="checkbox"/> Correction |
| | <input type="checkbox"/> Payment only |
| [8] Gross Wages | [8] |
| [9] Net income from business from line 78 of FD | [9] |
| [10] Net income from partnership as shown in distribution list | [10] |
| [11] Gross Rents | [11] |
| [12] Gross Income from pension payments | [15] |
| [13] Gross Income from interest | [12] |
| [14] Gross Income from Lottery Winnings | [13] |
| [15] Gross Income from Intangible Property | [14] |
| [16] Capital gain | [15] |
| [17] Foreign Source Income | [16] |
| [18] Other Income (specify) | [17] |
| [19] Total Income (add 8 to 18) | [19] |

Deductions

| | |
|---|------|
| [20] Deduction for rents expenses, actual or 10% of gross rents | [20] |
| [21] Deductions for pension contributions (attach documents) | [21] |

| | |
|---|------|
| [22] Deductions for expenses related to intangible property income | [22] |
| [23] Other allowed deductions (specify) | [23] |
| [24] Total deductions (add 20 to 23) | [24] |
| [25] Taxable amount (19-24). If negative put the amount in brackets | [25] |

Additional deductions

| | |
|--|------|
| [26] Losses carried Forward | [26] |
| [27] Deduction for Charitable Contributions (max 5% of taxable amount). Not claimed on FS [27] | |
| [28] Total Additional Deductions (26 + 27) | [28] |
| [29] Taxable Income before tax [25] – [28] (if negative put the amount in brackets) | [29] |
| [30] Tax on Taxable Income as per tax brackets (if negative put zero) | [30] |

Tax withheld during the year

| | |
|--|------|
| [31] Tax Withheld on wages by | [31] |
| [32] Tax Withheld on interests by banks (attach certificates) | [32] |
| [33] Tax Withheld on rents (attach certificates) | [33] |
| [34] Tax Withheld on lottery gains (attach certificates) | |
| [34] | |
| [35] Foreign Tax Credit (attach certificates) | [35] |
| [36] Total tax withheld and Credit (attach relevant certificates) | [36] |
| [37] Total tax to be paid for the period [30] – [36] | [37] |
| [38] Quarterly advance payments on business income | [38] |
| [39] Quarterly advance payments on rental and intangible property | [39] |
| [40] Total advance in payments [38] + [39] | [40] |
| [41] Total tax Payable [37] – [40] If the result on line 41 is (+) you have an Amount Due. If the result on line 41 is (-) you have a refund. Write the amount in the appropriate box. | [41] |
| [42] Amount Due | [42] |
| [43] Refund | |
| [44] Bank Name | |

[45] Account Holder

[46] Account Number

DECLARATION OF INCOME AND EXPENSES BY ACTIVITIES

Income from operating activities

| | |
|-------------------------------|------|
| [60] Gross receipts (Turnover | [60] |
|-------------------------------|------|

Expenses from operating activities

| | |
|------------------------|------|
| [61] Opening inventory | [60] |
|------------------------|------|

| | |
|-------------------------------------|------|
| [62] Purchase or cost of production | [62] |
|-------------------------------------|------|

| | |
|---------------------------|------|
| [63] Total ([61] + [622]) | [63] |
|---------------------------|------|

| | |
|-----------------------|------|
| [64] Ending inventory | [64] |
|-----------------------|------|

| | |
|---------------------------------------|------|
| [65] Cost of goods sold ([63] – [64]) | [65] |
|---------------------------------------|------|

| | |
|-------------------------------|------|
| [66] Gross profit ([60]-[65]) | [66] |
|-------------------------------|------|

| | |
|--|------|
| [67] Wages (including pension contributions) | [67] |
|--|------|

| | |
|---|------|
| [68] Depreciation and amortization expense (not included in cost of goods) | [68] |
|---|------|

| | |
|-----------------------|------|
| [69] Selling expenses | [69] |
|-----------------------|------|

| | |
|---|------|
| [70] General and administrative expenses (not included in cost of goods) | [70] |
|---|------|

| | |
|-----------------------------------|------|
| [71] Research & development costs | [71] |
|-----------------------------------|------|

| | |
|-------------------------------|------|
| [72] Other operating expenses | [72] |
|-------------------------------|------|

| | |
|---|------|
| [73] Total operating expenses (Add [67] through [72]) | [73] |
|---|------|

| | |
|--|------|
| [74] PROFIT/LOSS FROM OPERATIONS ([66]-[73]) | [74] |
|--|------|

NON-OPERATING ACTIVITIES

| | |
|------------------------------|------|
| [75] Other revenues or gains | [75] |
|------------------------------|------|

| | |
|-------------------------------|------|
| [76] Other expenses or losses | [76] |
|-------------------------------|------|

| | |
|---|------|
| [77] PROFIT/LOSS FROM NON-OPERATING ACTIVITIES ([75]-[76]) | [77] |
|---|------|

| | |
|--------------------------------------|------|
| [78] Net profit (loss) ([74] + [77]) | [78] |
|--------------------------------------|------|

Enter line [78] – Net profit (loss) on line 10 of CIT Declaration

Attach to CIT Declaration

BOGA & ASSOCIATES SERVICES AT A GLANCE

Boga & Associates, established in 1994, has emerged as one of the premier law firms in Albania and Kosovo, earning a reputation for providing the highest quality of legal, tax and accounting services to its clients. Until May 2007, the firm was a member firm of KPMG International and the Senior Partner/ Managing Partner. Mr. Genc Boga, was also the Managing Partner of KPMG Albania.

Our firm's particularity is linked to the multidisciplinary services it provides to its clients. Apart of the wide consolidated legal practice, the firm offers also a significant expertise in tax and accounting services with a keen sensitivity to the rapid changes in the Albanian and Kosovo business environment.

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Boga & Associates is strongly committed to corporate social responsibility. Boga & Associates activities can have impacts, both large and small, outside the firm and it continually demonstrates its commitment to supporting the communities of which it is a part. Individually and collectively, Boga & Associates partners and employees contribute to strengthening communities, enhancing the environment and creating a sustainable business future.

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