Fiscal Policies of EU in Kosovo and their Harmonization with the EU Countries

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Doi:10.5901/ajis.2015.v4n2s1p64

Abstract

The aim of this paper is to present the main challenges of fiscal policies in Kosovo. Furthermore, we have presented some legal procedural alternatives to eliminate deficiencies of fiscal policies in Kosovo. One of the main challenges of fiscal policies in Kosovo that also other countries are facing is the harmonization of national legislation with EU legislation regarding the fiscal policies. Principally there are some similarities of the legislation regarding fiscal policies with EU, but the dissatisfaction arises because the application of these dispositions is not done in professional way and often the distribution of the state budget is done in regions and municipalities that bring less revenues than the budget they receive and this disbalanced fiscal policy have negatively influenced in the financial and fiscal stability of the country. The Republic of Kosovo principally is an unitary state and the fiscal revenues are concentrated in the budget of the state, but there is no an equitable distribution in the regions or municipalities that have contributed in attracting taxes and levies. The government gives more budget to the favorite municipalities and this is not a violation of the law but is a violation of principles of democracy because who pay more taxes also should receive more revenues.

Keywords: Fiscal policies, legislation harmonization, financial and fiscal stability, State budget, legal procedural alternative

1. Introduction

Through this paper I aim to offer an overview on how to harmonize the fiscal policies of our country with the fiscal policies of EU and this because Kosovo needs for movement and reformation of fiscal policies by changing in conformity with the conditions, principles and standards of EU. Throug this paper I want to explain what the fiscal policies are and how they are are understand in the contemporary meaning of fiscal policies. The instruments of fiscal policies have an important role in contemporary countries because without these policies there is no a stable country in fiscal and financial terms because everything that deals with the State in fiscal terms it depends directly by the fiscal instruments used or applied by the State or society that are: taxes, levies, public loans, contributions, etc.

2. Decentralization of Fical Policies

The decentralization of fiscal policies is one of the preconditions and principles of how a State should be governed in the contemporary democracy model because the countries that on time have realized the decentralization of fiscal policies have raised their fiscal stability and at the same time have reduced the possibility of any possible microfinancial crisis. The application of the decentralization in fiscal policies it has meant that fiscal policies lie in two planes in central and local plan and each of them take its own responsibility in case they establish the rates and other fiscal policies.

The fiscal responsibility is vital for a proper management of public finances, especially for compiling and application of fiscal policies in country and every action on fiscal policies means more responsibility for actions that are of juridical – financial character. The harmonization of fiscal policies with the countries in the region and EU is a good parameter to know where we are as a country regarding the fiscal policies. Principally in theoretical aspect Kosovo has a legislation that is in harmonization with the acts of EU but we blund in their application and also we blund in applying the legal dispositions that regulate the fiscal policies field in the country. The legal basis that regulates this field and the most important are the law on VAT, the law on personal incomes and the law on corporate revenues.

3. Implementing Ways of Fiscal Policies of Kosovo Toward the European Union

The tracking mechanism of stabilization and association

In the last period Kosovo had a series of activities with the European Union as support, standardizations and
association activities. Kosova is the last country in the region that has not an official agreement with the European Union even the good cooperation between our country and EU. The disengagement in implementing the direct cooperation with EU was because Kosovo had an unclear status until 17 February 2008 when the Independence was declared. With the approval of the Constitution and necessary Laws forecasted by the statute agreement Kosovo accomplished the necessary conditions to start the feasibility study and negotiations for the Stabilization and Associations Agreement with Brussels. However, this stability has been maintained and Kosova continued to collaborate with international community in general and especially with the European Union.

The lack of Independence for Kosovo was an obstacle for the Stabilization and Associations Agreement. After the war of 1999 and with the relocation process of PSA by the EU for the countries of western Balkans the perspective raised of this region toward EU. This was at the same time the agreement of PSA to accomplish the Copenhagen Criteria, for other countries except Kosovo that unfortunately remained behind with PSA processes comparing to other neighboring countries.

Because the Independence of Kosovo was not declared this means that Kosova could not have the Stabilization – Association agreement with EU but even this in 2002 Kosovo has benefited financial support and political advices through the participation in the Tracking and Association Mechanisms. One another reinforcement came from the European Commission in 2003 that inaugurate an alternative issue of the Stabilization Association Process especially for Kosovo, a kind of mechanism so-called Tracking Mechanism. Kosovo thought to enter faster in this mechanism and this was a form toward the accomplishment of Tracking Mechanism of Stabilization Association within EU.

At the beginning this was and showed a kind of security of behavior by the countries that do not recognize the State of Kosovo. After Kosovo entered in Eurozone, the next step was the Tracking Mechanism for Kosovo that was a very important and indispensable factor because Kosovo was out of every procedure that EU had with the Union (Serbia- Montenegro). Kosovo from that moment was independent in the Stabilization Association Process. In Kosovo the main processes go through the offices acting in the country so-called Tracking Mechanism for Kosovo.

The first purpose of Tracking Mechanism agreement it consists in several meetings between the European Commission, UNMIK and the Institutions of Kosovo. In these meetings have been evaluated the progress and the situation in Kosovo. In June 2004, the Council of Ministers of European Union has approved the first European partnership with Serbia and Montenegro including Kosovo. This was based in the resolution 1244 of UN Security Council.

Another meeting was held in January 2006, wher the European Council have approved a new partnership which was adapted to the progress done in Kosovo during that period. In the middle of the same year August 2006 the second meeting was held, dealing with SPA and the Progress Report when UNMIK and the Government of Kosovo adapted the new action plan for Kosovo to implement the partnership plan with Europe. These relations and meetings at the same time were a direct strengthening between EU and Kosova, where as the single point was the issue of future status and cooperation processes with the EU.

4. **What the Fiscal Policies are**

Contemporary concepts of democratic function of countries pay importance to the countries’ fiscal policies, because a good application of fiscal policies in the country means more fiscal and financial policies. The theoretical treatment of fiscal policies for democratic countries in the last period had an key importance because many of local and international theoreticians dealt with this issue that are important for the countries’ function and as well as determinant for the fiscal and financial stability.

The financial policies in contemporary countries means social welfare, economic development and good planning of countries’ revenues in terms of outcomes- state spending. A good planning of coordination of countries’ revenues by the government means fiscal policies and a good planning of outcomes means the reason where the government spend the money of every citizen who pay the taxes to receive services by the public institutions.

5. **Fiscal Policies Decentralization**

The fiscal decentralization is a governance standart in contemporary world because it comes into consideration the respect toward the democracy principles. As much as we have fiscal policies distraction, respectively deconcentration of fiscal and financial policies is more possible to fair and secure application of the public money. The decentralization of fiscal policies in developing countries as Kosovo means that its governance units are free in possessing their budget and on how to spend in effectively way the public money.
The fiscal decentralization means also that municipalities in Kosovo have financial independence regarding tax collection and other revenues because are regulated with the law for finances of local government – Nr. 03/L-049 and are obligated to deposit also the incomes that are realized from property taxes.

The fiscal decentralization means providing sufficient quantities of revenues for local governments and municipal authorities to take decisions on the way how to spend these means for an effective and efficient conducting of determined competences.

By this opinion for the decentralization of fiscal policies we can conclude that a such decentralization for municipalities have financial power to collect the revenues from the citizens and at the same to spend it according to spending plan. From the fiscal decentralization benefit all the institutional stakeholders in local level as well as in central level, because the central governance are released from the excessive procedures regarding the revenues collection plan and the plan for the destination of expenditures according to local governance planning. This is also beneficiary for the local governance because all the local revenues are destined to spend in the local level. The fiscal decentralization has some objectives that must be achieved according to modern standards and this means that if we have fiscal policies decentralization the following objectives will be reached:

- First, the fiscal decentralization gives competences to set local taxes and spend the revenues for local needs and according to the International Conference organized by the Institution for Open Society in Macedonia with the theme “The Decentralization in RM - slowed or forgotten” in April 2010
- Second, in many countries the local government also has competences to regulate the lands by using them according to the instructions of highest authorities.

The fiscal decentralization of policies for us as institutions is a challenge and as well is very difficult to applied because is not easy for an unitary country to manage with finances in the local and central level, even Kosovo in this direction in theoretical aspect of drafting of juridical acts for fiscal policies had progressed but there is a stagnation in the application or realization of these juridical acts in practical aspects by the responsible mechanisms to applie these laws and other bylaws.

The fiscal responsibility it comes from the decentralization of fiscal policies and it belongs to central institutions, respectively the government of the country, but this responsibility is deconcentrated also to the local level since the local level has main responsibilities in collecting taxes from the citizens. The level of expenses is controlled by the Government more than revenues level that move with the changes according to economic activities.


The Republic of Kosovo basically has fiscal policies regulated with the local legislation with principles and standards of EU which have been respected as criterion in the moment of drafting these laws that directly are related with fiscal policies field.

In the legal aspect the Republic of Kosovo has regulated the fiscal policies by issuing some laws that are fundamental and important in regulating fiscal policies as:

- Law on Corporate income tax (CIT),
- Personal Income Tax (PIT),
- Value Added Tax (VAT),
- Customs duties and excise etc.

From this legal framework in the Republic of Kosovo fiscal policies and juridical effects are produced because with these laws are operate all the institutions that deal with fiscal policies, but the main attention must be payed to the law on Personal Income Taxes and the law on Value added taxes because these taxes because it effects a big number of the citizens of the country.

With the law on personal income taxes – is regulated the issue that every income of the citizens in the Republic of Kosovo it should be subject to tax rates anticipated in legal terms for monthly and annual earnings:

- Monthly salary until 80 euro – 0% of taxes
- Monthly salary from 81 to 250 euro – 4% taxes
- Monthly salary from 251 to 450 – 8%
- Monthly salary from 450 Euro – 10%

The realized annual incomes according to the law are obligated to complete their tax obligations:

- Annual incomes until 960 euro – 0%
- Annual incomes from 961 – 3.000 Euro – 4%
• Annual incomes from 3.001 – 5.400 euro – pay 81.6 euro + 8% of the sum over 3.000 euros.
• Annual incomes over 5.400 Euro pay 273.6euro + 10% of the sum of 5.400 euro.

The taxes on personal incomes it varies depending on the countries that applies these taxes because it’s under their financial sovranity to define the taxes rates, for example Kosovo 4-8-10%, Montenegro 12%, Macedonia 10%, Serbia 10-20%, Croatia 15-45%, Bulgaria 10%, Greece 0-40% and Romania 16%. From these dates it comes that in Kosovo the taxes on incomes are not static but is alternative from 4% to 10% depending on the realized incomes, while in EU countries this rate is fixed 10% in Bulgaria, 16%, in Romania, in an alternative way is in Greece 0%-40% and in Croatia from 15%-45%. In the region also the rates are fixed as in Montenegro and Macedonia and there are countries in the region that hace an alternative tax rate depending on the incomes Serbia 10%-20%.

Regarding the height of the effective income tax rate in the Republic of Kosovo there is a no very high basis and Kosovo is one of the countries with the lowest tax rate comparing to the other countries in the region and EU and the reason is the level of economic development and with a low life standard countr

7. The Law on Value Added Tax (VAT)

This tax is applied in the Republic of Kosovo in an efficient way and is usual for all products categories that are foreseen by VAT law and the rate is 16% that for us as in developing countries is inadequate. In other countries of the region the VAT rate differs on countries, for example in Kosovo 16%, Montenegro 17%, Macedonia, 18%, Serbia 18%, Croatia 23%, Bulgaria 20%, Greece 19% and Romania 19%.

VAT rate in the Republic of Kosovo is one of the lowest within the abovementioned countries and we can say that this a fiscal policy that the Kosovo institution apply in harmonization with the standard and the economic development of the country because it is known that Kosovo is less developed that these countries in the aspect of sustainability and economic development. The region countries that are not members of EU have VAT rates higher than Kosovo for example Montenegro 17%, Macedonia 18% and Serbia 18%, while countries that are members of EU have a higher rate of VAT than Kosovo, for example Croatia 23%, Bulgaria 20%, Greece 19% and Romania 19%.

The haramonization of the legislation with the region countries and EU countries should be done in terms of having an unification of these legal specifications but taking into consideration the level of economic development and living standard, because a citizen can be charged with a higher tax if its incomes are low and for this reason Kosovo should follow the economic developing trends if we want to harmonize the tax norms with the countries of the region and EU.

8. Conclusion

The fiscal policies of our country should be drawn up with professionalism and by respecting the fiscal principles for revenues and expenses. These policies must be reformed and changed in Kosovo but always by taking into consideration that these movement will not touch the living standard and the economic development because it may directly influence in the life of the citizens in a negative way and this is not in the interest of the institutions and citizens.

The financial and legal analysis that I have done by using the comparative method show that the fiscal policies in the Republic of Kosovo are modest in the legal sense and this means that there is a legal basis but it should be changed toward countries of the region that have high rates on personal incomes and VAT and this means that there are more revenues for the country through these taxes.

The application of fiscal policies should be followed by a political will of the government institutions because utterly the fiscal policies in many developed and in developing countries are electoral promises that in most cases the winner of these elections are obligated to fulfil the promises for fiscal policies and to apply the same in the country’s legislation.

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