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## **PREFACE**

This policy note was prepared as part of a World Bank funded project to support implementation of reforms in tax administration and public service delivery. In addition to this note, the project has also funded:

- the preparation of a policy note on “E-Services in Kosovo: Strengthening the Enabling Environment for Digital Governance of Public Service Delivery”, which identifies the enabling conditions for digital governance of public service delivery, analysis the main challenges and recommends short and medium term measures to address them.
- a workshop bringing together key stakeholders, including representatives of registry agencies, to discuss how to improve data sharing.

The two policy notes under the project deal with different aspects of digital governance and are related in the following ways: The note on “e-Services in Kosovo” identifies enabling conditions for the further development of e-Services and thereby provides a general framework. Within this framework, the note on tax registration includes recommendations which will be important to improve tax collections, and hence raise domestic revenues, but at the same time tax registration is a prominent example of digital governance and e-Services development. Firstly, because tax is a large public service area affecting most citizens and businesses with strong links to other public service areas such as business registration, and registration of citizens, property and addresses. Secondly, because the recommendations in the two notes are mutually reinforcing. For example, sustainable improvements to the quality of the tax register require sharing of data between registries, which relies on the further development of a common interoperability framework for the Government of Kosovo. At the same time, data sharing activities related to tax registration can help to push for the further development of such common solutions through piloting of solutions and raising awareness among key stakeholders.

Due to these linkages, further government initiatives in this area could benefit from combining e-Services development with activities to improve tax registration.

## ABBREVIATIONS

AIS	Agency of Information Society
API	Application Programming Interface
BEEPS	Business Environment and Enterprise Performance Survey
CIT	Corporate Income Tax
COTS	Commercial Off-The-Shelf
CRA	Civil Registry Agency
EU	European Union
FY	Fiscal Year
GDP	Gross Domestic Product
GIZ	German Society for International Cooperation
GoK	Government of Kosovo
GSB	Government Service Bus
HR	Human Resources
HRM	Human Resources Management
HRMIS	Human Resources Management Information System
IA	Internal Audit
ICT	Information and Communications Technology
IMF	International Monetary Fund
IT	Information Technologies
ITAS	Integrated Tax Administration System
KBRA	Kosovo Business Registry Agency
KCA	Kosovo Cadastral Agency
MCO	Municipal Cadaster Office
MoED	Ministry of Economic Development
MIA	Ministry of Internal Affairs
MoF	Ministry of Finance
MoPA	Ministry of Public Administration
MOU	Memorandum of Understanding
NIN	National Identification Number
OECD	Organization for Economic Co-operation and Development
PAR	Public Administration Reform
P4D	Partnership for Development
PIT	Personal Income Tax
PFM	Public Finance Management
PMO	Prime Minister's Office
SCD	Strategic Country Diagnostic
SIGTAS	Standard Integrated Government Tax Administration System
TA	Technical Assistance
TADAT	Tax Administration Diagnostic Assessment
TATP	Tax Administration Transformation Program
TAK	Tax Administration of Kosovo
UIN	Unique Identification Number
USAID	United States Agency for International Development

VAT	Value Added Tax
WB	World Bank

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## Executive Summary

1. **A key fiscal challenge for Kosovo is how to increase domestic revenues.** Low domestic revenues, currently at 26% of GDP which is well below the average for Emerging Market Europe, are due to a number of factors, including low tax rates, a narrow tax base, and a high level of informality in the Kosovar economy.

2. **While increasing the domestic revenues will also require tax policy reforms, there has been increasing recognition of the need to strengthen tax administration.** With support from the International Monetary Fund (IMF) – and based on two consecutive Tax Administration Diagnostic Assessment Tool (TADAT) reviews completed in 2015 and 2018 respectively – the Tax Administration of Kosovo (TAK) has formulated a comprehensive medium-term tax reform implementation plan. The implementation plan outlines reform measures and targets in key technical areas such as improving on-time tax filing rates and compliance risk management, reducing the time to process Value-Added Tax (VAT) refunds, reducing tax arrears, strengthening tax audit procedures and increasing the accuracy of the taxpayer register.

3. **This policy note responds to a request from TAK for assistance in improving the tax registration processes and the quality of information in the tax register.** The objective is to facilitate the dialogue with TAK on how to improve the quality of the taxpayer register, thereby strengthening the efficiency and effectiveness of efforts to improve tax collections. Within this overall objective, the assessment will identify and analyze possible actions to improve tax registration, including expanding on already proposed remedies in the medium-term action plan by identifying necessary preconditions for realizing the plan.

4. **Proper taxation starts with a complete registration of all the taxpayers and their activities.** This information enables the tax administration to create accounts by tax type and to establish relationships with taxpayers. Ideally the relationships between taxpayers, such as household members with their employers or firms with their shareholders, can be made visible by using the registration functions. As all strategies, analyses, and plans of action to improve tax collections are based on this register, its accuracy is essential for achieving intended positive results in tax reforms.

5. **Shortcomings in the completeness and accuracy of the taxpayer register however appear to be persistent.** The issue was highlighted in the 2018 TADAT assessment as one of the few areas where regress has been recorded compared to the 2015 TADAT report. Key indicators of the inaccuracies are:

- **Large discrepancies between the number of businesses registered in the business register managed by the Kosovo Business Registry Agency (KBRA) and the taxpayer register.** This is especially the case for individual businesses where there is a difference in the number of active businesses of more than 45,000 (35% of the businesses in the KBRA business register) and in the number of closed businesses of more than 23,000. These discrepancies stem from different and inconsistent practices with respect to registration and numbering. Thus, individuals are able to open more than one business at KBRA at the same time, whereas TAK registers them with a single fiscal



number, regardless of the number of individual businesses they own. Secondly, TAK maintains the fiscal number provided to natural persons who are required to file taxes, regardless if their business status is active, passive, or closed.

- **The activity status of taxpayers in the tax register is not always accurate.** This is indicated by a combined problem of i) a large share of taxpayers listed as active, but not filing; and ii) a large proportion of the non-filing businesses turning out to be closed or not economically active. As of March 2019, the share of non-filers was more than 40% on average and more than 85% in the category of natural persons. While the TAK is obliged to investigate the group of non-filers, this is a resource-demanding task that has so far produced few results in terms of additional tax revenues. More accurate information on activity status would help achieve a better resource allocation in investigating non-filers.
- **Incorrect or no information on taxpayers' addresses.** There is no automatic or controlled mechanism to reflect updates in business or private addresses in Kosovo. The 2018 World Bank study on Promoting Tax Compliance with Behavioral Insights found significant information gaps. For example, nearly two-thirds of the entries for taxpayers not having declared personal income tax were associated with incorrect addresses or no addresses at all. The limited information of taxpayers' addresses hampers communication with taxpayers and makes investigations and collection enforcement costlier.

6. **Since the tax register is the backbone of all tax administration processes, the observed inaccuracies have several implications.** They reduce the quality of subsequent tax processes and increase their costs; and they negatively affect the credibility of TAK as an authority which bases itself on principles of equal treatment of taxpayers.

7. **The root causes of inaccuracies in the tax register are to be found in four main areas:**

- **Lack of compliance with reporting requirements.** This results from manual and cumbersome procedures which reduce incentives of taxpayers to register/deregister and report changes; only limited use of information campaigns to create awareness among taxpayers on reporting obligations; and no sanctions built into the regulation in case of non-compliance.
- **Procedural gaps and misalignments.** Procedures between KBRA and TAK on registering, deregistering and ongoing changes as well as on the treatment of non-filers are not unified. The passive nature of some registers, including the business register, is also a key problem as it allows only changes initiated by businesses/taxpayers themselves, thereby inhibiting updates based on automated data exchanges between government organizations.
- **Limitations in IT-functionality.** Standard Integrated Government Tax Administration System (SIGTAS), the standard integrated tax administration system currently used, can accommodate most of TAK's basic business requirements, but reportedly has technical limitations in further developing e-services for taxpayers and in supporting risk-based audits and other aspects of TAK's compliance strategy. TAK is therefore in the final

stages of a comprehensive IT tender to procure a new tax information system. While some redesign of business processes is incorporated in the functional requirements of the new system, considerable further changes will be necessary to support a transition to full digitalization and on-line services for taxpayers.

- **Inadequate data sharing arrangements between TAK and other organizations holding essential information about taxpayers.** Automated data exchanges are currently in place between TAK and other government organizations based on individual technical solutions rather than through a common interoperability platform. While many data exchanges are in place, it is noteworthy that there is no exchange between TAK and the Kosovo Cadaster Agency (KCA) about addresses. This prevents TAK from validating addresses against an authoritative external source. Further standardization of data formats and terminology is needed and there is a lack of clear protocols to guide data exchanges between some of the registries leading to information not being updated and exchanged in a timely fashion. The critical collaboration between KBRA and TAK needs to be formalized as a framework for addressing the persistent issues between the two organizations. A well-designed data exchange needs a feedback mechanism, which currently is not available. If TAK identifies errors in the data of other registries, there must be a protocol in place to inform the responsible authority about the findings. Such protocols do not always exist.

8. **International good practice of tax registration increasingly emphasizes data sharing and reliance on information from base registries and other external sources.** Tax authorities all over the world developed their own registers and collected data by themselves. But this situation is rapidly changing with many governments opting for reuse of data across organizational boundaries and even relying on third party information. This is in line with EU's interoperability platform for public administrations. Based on these principles, some advanced countries are able to share pre-filled tax declarations with taxpayers, thus relieving taxpayers of a significant administrative burden and improving the overall quality of tax assessments.

## Recommendations

9. **Recommendations to address inaccuracies in the tax register are guided by the longer-term strategic vision of implementing the principle of “one report – many users” and the need to transform the approach to management of the tax register.** Over time, it is expected that the greater reliance on data sharing will lead to a demand for common interoperability platform solutions which are likely to be superior to the current individual “point-to-point” solutions in terms of both cost-effectiveness and flexibility. A common interoperability platform (Government Gateway) has been developed by the Agency of Information Society (AIS), but there are still issues to be clarified in order for remaining government institutions to connect to this platform, including the capacity of AIS to support such an expansion. Since the data needs of the TAK are urgent, temporary solutions are worth examination until the common interoperability platform led by AIS has matured.

10. **The recommendations to improve tax registration in Kosovo follow four main steps:**

## **Step 1: Establish governance arrangements for data sharing and collaboration**

11. **A first critical step in improving tax registration is to establish the governance arrangements and institutional structures that would help set the direction for all recommended actions that follow.** Governance arrangements should ensure coordination between TAK (as user), KBRA (as both user and provider) and other government organizations holding essential data for tax registration such as KCA, and the Civil Registry Agency (CRA) (mainly data providers). This would help to fill a considerable void in the current situation, where data sharing is not adequately supported institutionally. The governance arrangements should also link up to broader government level initiatives to improve e-services including the further development of the common interoperability platform led by AIS. This could also help to define an arbitrage mechanism in those cases, where the collaborating institutions cannot agree amongst themselves. However, while the broader government-level initiatives could act as an umbrella for the improvements in tax registration, there is not 100% overlap between the initiatives at the Government and TAK levels. Given TAK's urgent need to improve the quality of the tax register, institutional arrangements led by TAK will need to complement broader government initiatives over the short term. For the medium to longer term, as TAK increasingly becomes part of common platforms and solutions, the distinction between coordination forums at the different levels is likely to dissolve.

### **12. Key recommendations are to:**

- Establish a data sharing forum with representatives from the TAK, KBRA, CRA, KCA and AIS. The data sharing working group should be chaired by TAK and represented by each of the institutions at a high level with the option of delegating issues to technical working groups.
- Create a Glossary of tax terms consistent with Kosovo tax legislation (in 3 languages); ensure these terms are used in all reports from SIGTAS (or future system) and encourage adoption of the glossary by other relevant institutions, e.g. the Kosovo Statistical Agency.

## **Step 2: Reengineer processes and prepare revisions to regulation, IT designs and business plans**

13. **A follow up next step informed by the data exchange forum and working groups is to redesign business processes, regulation and IT systems to enable simplified and fully digitalized processes.** This will involve business process designs themselves, identification and drafting of necessary legal changes as well as directly implementing smaller or less complicated changes.

### **14. Key recommendations under step 2 are:**

- Design reengineered processes for registration, deregistration and update of registration details with a view to simplify these processes through automation and use of online services. Simplified processes should be based on a reliable common digital signature solution as well as minimizing the need for physical interaction between the tax

payer/registrant and the authorities. It should enable information to be shared between authorities.

- Design a risk management approach for dealing with remaining non-filers. Rather than attempting a 100% investigation of all cases, the TAK should formulate hypotheses for which groups of non-filers are most critical to investigate and test these hypotheses on available data from previous investigations.
- Revise reports of non-active taxpayers available on the TAK website. Revisions should simplify reports and clarify terminology, including clarifying the meaning of key terms, such as non-active business. Reports should be shared and published on the KBRA website as well.
- Develop clear internal instructions on opening and closing of tax accounts. The revised instructions should include defining at what point a tax account becomes passive and use only terms defined in the MoF tax glossary.
- Develop a procedure to review large numbers of tax accounts opened with the same fiscal number. There is already functionality in place to flag such occurrences in SIGTAS, but a clear procedure for review and follow-up actions should be developed.
- Introduce compliance ratio reports for declaration filing at all levels of TAK to incentivize appropriate conduct throughout the organization.
- Revisit implementation plans for data migration and cleaning to ensure there is an accurate and precise path for these activities.

### **Step 3: Implement process changes through regulation, IT- upgrades and information campaigns**

15. **With the conclusion of business process designs, TAK should be ready to move towards implementation.** This would involve implementation on a number of levels, including issuing regulations, adopting technical solutions, and launching necessary information and awareness campaigns. Implementation of data sharing arrangements might require some piloting before implementing technical solutions in full scale. This should be considered on a case-by-case basis.

#### **16. Key recommendations of step 3 are:**

- Implement online services for businesses to register, deregister and make changes to their data through relevant regulatory changes and launching of relevant changes to IT-systems, preferably based on common digital signature platforms. Implementation could include incorporation of a taxpayers' e-cabinet feature, where the taxpayer can check his/her personal information, report inaccuracies, and request corrections.
- Develop and execute an information campaign to encourage taxpayers to review and correct their data. A general campaign on tv and newspapers would be useful to start with. It is sensible to hire a professional communication firm. Collaboration with the KBRA is crucial to identify different target groups, which deserve specific attention. Use the experiences and results from the World Bank-GIZ report "Promoting tax

compliance in Kosovo with behavioral insight” of 2018.

- Consider fines for non-filing and non-reporting information on changes of business data through an amendment to the Tax Administration and Procedures Law.
- Implement common interoperability platform solutions as appropriate. The overall recommendation is to replace individual data exchange points with agreements to use a common platform. This should include a consideration to use the Government Gateway, although it should be based on the recommendations from the data exchange forum.

#### **Step 4: Expand the size of the tax register**

17. **Once steps have been taken to improve the quality of the tax register within its current scope, attention should gradually shift to expanding the size of the register.** Given the significant size of the informal economy, it will be important to target “unknown” taxpayers with a view to increase the number of taxpayers registered.

18. **Key recommendations in step 4 are:**

- Establish a unit or task force in TAK with the responsibility to receive, validate and process third party data and introduce procedures for making this information available for tax investigation teams.
- Expand the use information and awareness campaigns to encourage informal income earners and businesses to register with the TAK and KBRA registers.

## I. Introduction

### Background and context

1. **A key fiscal challenge for Kosovo is how to increase domestic revenues.** Even though total revenues have increased to around 26 percent of GDP in recent years, this rate is still 10 percentage points below the Emerging Market Europe average<sup>1</sup>. About three-quarters of Kosovo's revenues derive from indirect taxes led by the Value-Added Tax (VAT) and excise tax, making fiscal revenues vulnerable to consumption and imports.

2. **The low domestic revenues are due to a number of factors, including low tax rates, a narrow tax base, and a high level of informality in the Kosovar economy.** According to the most recent World Bank Business Environment and Enterprise Performance Survey (BEEPS) of Kosovo, unfair competition from the informal sector is the biggest business environment obstacle for firms in Kosovo and corruption is the third largest one. Domestic companies face an uneven playing field in local and international markets. When asked about the single most important obstacle to their growth and operations, 25 percent of firms responding to the BEEPS survey pointed to the informal economy, which, they say, distorts the market and disadvantages businesses that comply with the law. The second and third most often cited obstacles were access to finance, in which unclear property rights affected collateral as an important element (16 percent), and corruption (11 percent).<sup>2</sup>

3. **Weaknesses in tax administration are also recognized as a major cause of ineffective tax collections.** A 2018 IMF Tax Administration Diagnostic Assessment Tool (TADAT) assessment outlined weaknesses in the following areas of tax administration: issues with the accuracy of the taxpayer register; limited analysis of the impact of compliance risk mitigation activities on taxpayer behavior; weak management of tax arrears; largely manual and not sufficiently risk-based VAT refund procedures; and lack of a structured process to manage institutional risks.

4. **The Tax Administration of Kosovo (TAK) also displays cross-cutting organizational and structural weaknesses.** These include low staff capacity; insufficient use of IT; limited flexibility to redeploy resources where needed; lack of coordination between units internally and with external stakeholders; and a decentralized structure leading to limited specialization and the parallel handling of several back-office functions in several regional units. The efficiency of tax operations is generally not sufficiently taken into consideration by management, and the experience in overseeing a large-scale transformation needed to successfully implement reforms is limited.

5. **While increasing total budget revenues will also require interventions in tax policy, there has been increasing recognition of the need to strengthen tax administration.** As reflected in the 2018 World Bank Systematic Country Diagnostic (SCD) and the latest IMF Article IV Consultation Staff Report, the dialogue between Government and international

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<sup>1</sup> 6 percentage points, if contributions to the second pillar of the pension system are included.

<sup>2</sup> See the World Bank Strategic Country Diagnostic (SCD), 2017.

development partners has emphasized the need to give priority to tax administration reform. In recent years, the planned merger between TAK and Kosovo Customs has required a significant commitment of managerial and staff resources. As a result, progress on implementation of TAK's own reform agenda has slowed. With this merger off the table, at least for now, the TAK can focus more resources on its own transformation.

6. **With support from the IMF, the TAK has formulated a comprehensive medium-term reform implementation plan.** The plan outlines reform measures and targets in key technical areas such as increasing the accuracy of the tax register, improving on-time tax filing rates and compliance risk management, reducing the time to process VAT-refunds, reducing tax arrears and strengthening tax audit procedures. Strong emphasis is also given to address the need for organizational strengthening and capacity building, including to better align the organizational structure and resources to the estimated workload and risks, and to ensure appropriate reform management and capacity building.

### **The importance of tax registration**

7. **One of the key factors in improving revenue collection is the accuracy of data in the taxpayer register.** The taxpayer register contains individual records of taxpayers, including their declaration behavior in each tax system. All strategies, analyses, and plans of action to improve tax collection are based on this register and its accuracy is essential for efficiently and effectively addressing the various risks associated with tax collection and for maintaining credibility in the work of the tax administration.

8. **Issues with the quality of tax registration processes in Kosovo appear to be persistent.** The pilot project on behavioral insights and tax compliance conducted by the GiZ and the World Bank in 2018 mentioned problems with the completeness and accuracy of data in the taxpayer register, including missing or incomplete information on data such as address, e-mail, telephone number, etc.<sup>3</sup> These shortcomings in completeness and accuracy of the taxpayer register were also highlighted by the 2018 TADAT assessment. In fact, registration is one of the few issues where regress has been recorded compared to the 2015 TADAT report. The identification of similar problems in other assessments conducted by the 2014 USAID Partnership for Development (P4D) project as well as the Public Finance Management (PFM) project conducted by GIZ (2018) indicate the persistent nature of the problems and the difficulties in comprehensively addressing them.

9. **Suggested actions to improve tax registration are included in TAK's medium-term action plan for 2019-21 but will require further regulatory and process changes.** The medium-term action plan highlights the lack of reliability of the tax register and suggests, among other things, to improve data exchanges between TAK and other government organizations, develop more effective internal procedures for cleaning and updating the register, and encourage taxpayer compliance with the obligation to update contact information. Aligned with the medium-term action plan, TAK has requested support for the formulation of

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<sup>3</sup> Promoting Tax Compliance in Kosovo with Behavioural Insights, World Bank, December 2018

further strategies and measures for addressing issues with tax registration.

## Objective and Structure of the Policy Note

10. **The objective of the policy note is to facilitate the dialogue with TAK on how to improve the quality of the taxpayer register, thereby helping strengthen the efficiency and effectiveness of efforts to improve tax collections.** Within this overall objective, the assessment will identify and analyze possible actions to improve tax registration, including expanding on already proposed remedies in the medium-term action plan by identifying necessary preconditions for executing the plan. The TAK is the main beneficiary of the findings and recommendations of this note, but other government institutions holding various data of relevance to improving the tax register may also benefit from the recommendations, including on building common approaches to data sharing.

11. **The subsequent sections of the note are structured as follows:**

- *Section II* provides a conceptual overview of tax registration, international good practices in tax registration as well as current practices in Kosovo, including the legal and institutional framework. This section concludes with a description of the new legal requirements on the Unique Identification Number (UIN), which have major influence on data sharing moving forward.
- *Section III* outlines key issues with tax registration in Kosovo, their implications and main causes, including lack of compliance with reporting requirements, procedural gaps and misalignments, limitations in IT-functionality, and inadequate data sharing arrangements.
- *Section IV* includes short and medium-term recommendations on how to overcome the issues identified. This section is followed by an outline action plan (Annex 1) that summarizes recommendations, deadlines, stakeholders and prioritization.

## II. About tax registration

### What is tax registration?

12. **Registration and numbering of each taxpayer underpin all key operational tax processes.** Tax administrations must compile and maintain a complete database of all businesses, individuals, and other entities that are required to register as well as their location, and activity status. All next steps, such as return processes, filing, payment, and case management are based on the registration and maintenance of such a database. It is therefore essential that mechanisms are in place to ensure that the information held in the database is complete, accurate, and up to date.

13. **Box 1 below shows the operational processes to be distinguished to understand the meaning of a taxpayer registration in the context of an Integrated Tax Administration System (ITAS).** ITAS information systems support the operational processes of tax administration and are typically integrated systems with different modules supporting different aspects of tax administration. TAK uses SIGTAS, which is a basic tax administration system used widely internationally, which supports generic tax processes, including tax registration. Supporting processes such as human resource management (HRM), payroll, knowledge



management and financial administration are typically not within the scope of the ITAS as they are of such a generic nature that specialized products can be bought in the market.

### **Box 1: Defining key tax processes**

**Taxpayer registration:** This process enables the administration to register taxpayers and their activities. This information enables the tax administration to create accounts by tax type and to establish communication with taxpayers. Ideally the relationships between taxpayers, such as family members or businesses and their managers or shareholders can be made visible by using the registration functions. In many countries this is a critical process, but centralized base registers for citizens and companies in Kosovo are missing or of an insufficient quality.

**Tax return process:** This process allows the administration to receive declarations in paper-form or electronically. Normally, this process also detects whether a tax return is a duplicate or a substitute. Some assessments are already made in this process to check the consistency and completeness of the information. The return process usually also comprises the detection of non-filers, including the necessary follow-up actions.

**Payment and collection process:** Payments will be accounted for according to the agreed distribution rules. As a result, the individual taxpayer account will be updated, and the payment will be registered as revenue received. In addition to the main payment stream, additional processes are in place like accruing, reversing and waiving interest and penalties, management of payment plans and refunds.

**Taxpayer accounting process:** This process allows tax officials to get an overview of the financial relationship between the individual taxpayer and the tax administration.

**Online self-service:** Especially in less developed countries this is a crucial process to support taxpayers in fulfilling their legal obligations. An online self-service will help to improve taxpayer compliance in cases where a well-organized mail facility is lacking, or in case of unreliable addresses, or long travel distances to a tax office or service points. This service allows taxpayers to create and update their identification data (within restrictions based on authentication), to view their accounts and returns and to search for generic information via a website or portal. This service can also be delivered to intermediaries, such as tax advisors and accountants.

**Revenue accounting process:** At the level of the tax administration, this process allows to account for the revenue by tax type, region, period, etc., both for levied as well as actual amounts received. This information will be exchanged for reconciliation with the general ledger. On an aggregated level, all this information can be used in reporting and intelligence processes. Examples of intelligence processes are forecasting revenue and linking transactions to taxpayer accounts.

**Case management processes:** These processes ensure workflow management via generic functionalities to control the flows of data within the tax administration. In general, there are some main cases that are crucial for a tax administration, for example, (enforced) collection, audit, bankruptcy and appeal.

**Security process:** This is a non-functional process focused on user authentication, authorization and logging of the critical transactions. In case of online communication with taxpayers, confidential information will be encrypted.

*Source:* <https://www.taxcompact.net/documents/IT-Tax-Administration-Study.pdf>

## International good practice in tax registration

14. **Use of a unique taxpayer identification number is generally considered a cornerstone of a well-functioning tax administration framework.** This is because a unique identification number facilitates routine identification of taxpayers for administrative actions, third party information reporting and data matching, and exchange of information with other government agencies.

15. **Previously, tax authorities all over the world developed their own registries based on their own data collection.** Tax administrations developed and used their own fiscal numbers to establish the tax liability of natural persons and companies. In most cases, these registers contained the critical data about taxpayers' civil status and addresses. When these data differed from the data of other government agencies, then the tax administrations typically preferred their own data, because they – unlike data from some of the other registry databases - were based on solid investigations.

16. **But this situation is rapidly changing with many governments opting for data sharing and re-use of data across different registries and organizational boundaries.** Rather than focusing on which organizations are responsible for which datasets, the focus is increasingly on how to improve the quality of service delivery, including through provision of online services, and then identify the data necessary to achieve this quality improvement irrespective of their sources. “One report – many users” is becoming the international standard meaning that several users should be able to access the same report rather than trying to recreate it using their own registry data or through additional data requests from citizens or businesses. Current practices imply an increased dependency of tax authorities on data from external registries, which has been followed by the introduction and compulsory use of common identifiers, such as National Identification Numbers (NIN) and Unique Identification Numbers (UIN), which can also be used for data matching across registries. The new approach also reinforces the need for continuous cleaning and adjustment of data registries.

17. **Data sharing and re-use of data is supported by longer-term EU-policies aiming at creating seamless services and data flows across European public administrations.** A new European Interoperability Framework from March 2017 gives specific guidance on how to set up interoperable digital public services. It offers 47 concrete recommendations to public administrations on how to improve governance of their interoperability activities, establish cross-organizational relationships, streamline processes supporting end-to-end digital services, and ensure that both existing and new legislation do not compromise interoperability efforts. While the framework does not have direct legal impact in Kosovo, it is part of the basis for EU accession and is already emulated in Kosovo's regulatory framework. This means that public administrations confronted with a specific problem seek to benefit from the work of others by looking at what is available, assessing its usefulness or relevance to the problem at hand. This requires the public administration to be open to sharing its interoperability solutions, concepts, frameworks, specifications, tools and components with others. To the extent possible, users should be expected to provide data only once, and administrations should be able to retrieve and share this data to serve the user, in accordance with data protection rules. The opportunity to collect additional information from third parties should also be exploited.

18. **A key element in the interoperability framework is the establishment of base registries.** A base registry is a trusted authentic source of information under the control of an appointed public administration or organization appointed by government. It holds reliable sources of basic information on items such as persons, companies, vehicles, licenses, buildings, locations and roads, and forms – separately or in combination – the cornerstone of public services. Most of the information on a business or a citizen needed by public administrations is held in one or more registries. Registries are highly specialized (one type of register - one type of information; e.g. persons, businesses, cadaster, vehicles, etc.). Public administrations could (should) get any information from one or another base register without having to require its separate provision from a business or citizen.

19. **The tax authorities in Norway, Denmark and the Netherlands have developed good examples of this practice.** They combine the information collected from their own systems with data from base-registries and data from third parties. Based on these combined datasets, prefilled tax declarations are offered, online, to the taxpayers who can compare these data with the data which they have gathered themselves and confirm their correctness.

20. **As an example, the Dutch tax files for personal income tax are prefilled with the following data from the mentioned sources (Table 1):**

**Table 1: Prefilling of Dutch tax files: data elements and sources**

Data elements	Data sources
Name, date of birth, civil status	The Civil Registry (base-register)
Home address	The Cadaster (base-register)
Annual wages, annuities, pensions	Third party information from employers, pension funds, insurance companies.
Owned Property	The Cadaster (base-register)
Worth of property	The Real Estate Worth database (base-register)
Mortgage debt	Third party information from banks/insurance companies.
Bank balances	Third party information
Portfolio of bonds and stocks	Third party information

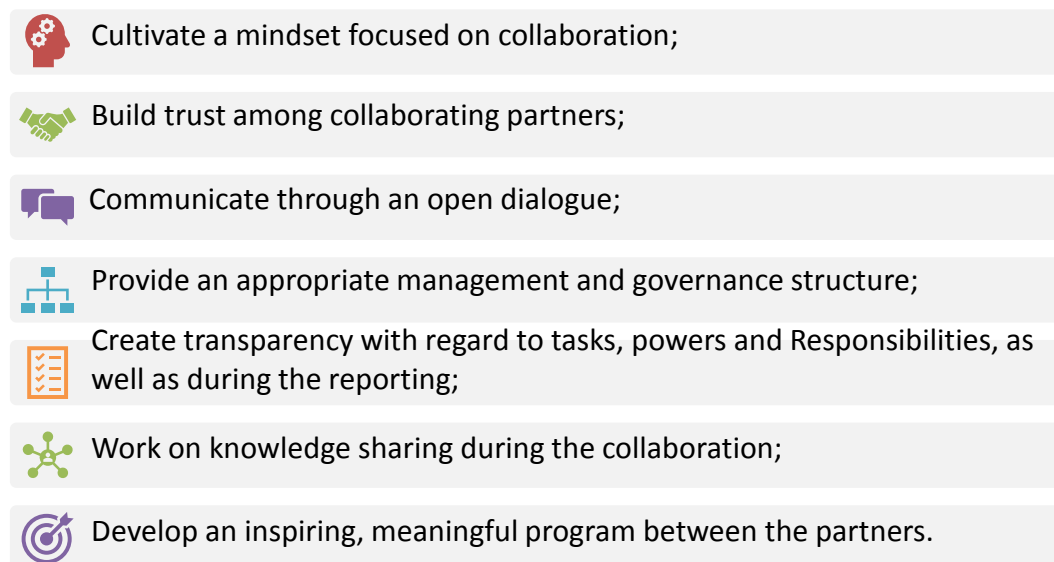
21. **These prefilling operations have become very successful, including by significantly reducing the administrative burden on taxpayers.** These results build on a number of preconditions, including appropriate legislation, procedures, data protocols and information technology. But even more important is the readiness of all involved parties to collaborate.

22. **Different governance arrangements and forms of relationship management have been developed to overcome the cultural barriers which exist between government institutions and external third parties as well as between government institutions.** One such arrangement is to manage the relationship as an “alliance”. An alliance is a partnership between organizations that, in addition to their own objectives, pursue one or more jointly

selected (or politically imposed) objectives. These alliance partners are independent, although they also depend on each other when it comes to achieving joint objectives. In this context, alliance partners are confronted with a number of alliance features. A brochure “Mastering Alliances” published by the Dutch Alliance for Data and Tax on Wages gives practical guidance on how to organize partnerships across organizations.<sup>4</sup> Some key points are:

- Citizens and businesses see the government as one entity and expect public organizations to share data and coordinate their day-to-day business in the public-private domain.
- Public and private organizations are increasingly working together in alliances as well as other forms of partnering.
- Making an alliance work is not so much a matter of technology (although ICT plays an important role) but is primarily a people issue.
- In a cross-organizational partnership, people need not only to understand each other’s processes and their interconnection, but they must also learn to work together (Figure 1).

**Figure 1: Important rules for collaboration**



## Tax Registration in Kosovo

23. **There are four types of tax registrations maintained by the TAK:** Natural Persons, Individual Businesses, Corporates/Legal Entities and Value Added Tax. Box 2 provides a brief overview of each based on the main laws covering the relevant tax processes and procedures under the authority of TAK (Law on Tax Administration and Procedures, Law on Personal Income Tax, Law on Corporate Income Tax, and Law on Value Added Tax).

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<sup>4</sup> [https://www.noraonline.nl/images/noraonline/0/01/Mastering\\_Alliances.pdf](https://www.noraonline.nl/images/noraonline/0/01/Mastering_Alliances.pdf)

### **Box 2: Taxpayer Registration in Kosovo**

**Natural persons:** Natural Persons are obliged to file for Personal Income Tax (PIT) only when they are active and have income from one or more sources. The PIT is total income-based and there is no threshold. Natural persons are not registered as taxpayers and issued a personal income tax number when they are subject to withholding tax, but only if they have one or more other sources of income like rent/income from property or individually owned businesses. Declarations are voluntary, and there is only very limited exchange of third-party information. As a result, most of the employed citizens are not registered as taxpayers. This is different from Individually-owned businesses. When starting a business as an individual, the business must be registered in the Kosovo Business Registry. These records are transferred to the taxpayer register in TAK.

**Corporates/Legal entities:** Corporates are registered for Corporate Income Tax (CIT). After transferring the data from the Business Register, TAK has the independent responsibility to assess the tax liability of the registered business. Legal entities have this liability by law.

**VAT:** As per the Kosovo Law No. 05/L-037 on Value Added Tax, every person who meets all conditions of the definition for taxable person is required to register for VAT if the turnover exceeds 30,000 € within a calendar year. When a person is registered for VAT purposes, TAK issues a registration certificate containing the taxpayer's name, fiscal number and unique VAT registration number as well as the address or addresses where the business activity is carried out. When a physical person is registered for VAT purposes with their personal identification number, TAK issues one registration certificate with the same information as stated in the paragraph above. However, a partnership and grouping of persons are identified by one single VAT registration number. Partners or members of the persons' grouping must appoint a general partner, respectively a member-representative to fulfil the obligations and exercise the rights defined by the Law on VAT. When the partners and members are not registered for VAT purposes yet, they may choose to be registered for these purposes prior to the registration of the partnership or grouping of persons.

24. **The applicable sub-legal acts include the conditions under which TAK can refuse to issue a fiscal number, or under which it has the right to deregister a taxpayer from the TAK register.** Deregistration from the TAK register can be done independently, without deregistration from KBRA and concerns only the tax liability. Deregistration from KBRA leads inevitably to deregistration from TAK as well.

<b>Box 3: Taxpayer Deregistration</b>	<b>Box 4: Voluntary Deregistration</b>
Taxpayers can be deregistered when there is a poor history of compliance or when there is reasonable suspicion of a criminal tax offense and when it can be reasonably expected that the taxpayer or the responsible person does not intend or will not be able to comply with his tax co-operation duties. The TAK may deny registration of any entity that includes in its personnel listing any officer or director (including managing director) or a responsible representative as described in Article 16 of the TAK Law who has a history of non-compliance	The taxpayers have the right to deregister only if they have paid all the unpaid tax obligations and after submitting the closing balance sheet. TAK is obliged to verify the tax situation and, when necessary, to carry out an audit of the taxpayer's activity. If TAK considers that the taxpayer has not met the requirements for deregistration, it will notify the taxpayer in writing within 60 days of receiving the request for deregistration. TAK is obliged to withdraw a dispute only when the taxpayer has paid all the outstanding liabilities for which he has been notified in writing by TAK. If

<p>(non-submission of declarations or non-payment of tax obligations) in any previous entity for which he or she was a partner, owner, managing director, or other responsible representative.</p>	<p>TAK has not notified the taxpayer within 60 days, the taxpayer will be considered for deregistration.</p>
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## New legal requirements on the UIN

25. **The Government of Kosovo has recently adopted a UIN, which is meant to serve as an identification number for businesses both for registration and taxation purposes (another identifier – the NIN – is developed for individuals).**<sup>5</sup> The Administrative Instruction No. 01/2019 Setting Forth the Requirements, Conditions and Procedures for the Creation of the UIN, which entered into force in April 2019, requires KBRA to issue a UIN for the identification of business organizations for the following purposes:

- a. registration in the KBRA register,
- b. tax and customs liabilities,
- c. pension contributions,
- d. health insurance,
- e. in relation to employment relationship inspection authorities, and
- f. other purposes specified by law.

26. **The UIN is mandatory for business and tax registration purposes but will also be used to match data with other registries, although this is not obligatory at this point.** As of August 2019, the UIN has been fully implemented by TAK, Kosovo Customs and KBRA, thereby replacing the Fiscal Number which was previously used as an identification number in their databases. There are no bonuses or special advantages associated with having a UIN.

27. **The UIN limits the scope for errors in issuing identification numbers.** There appear to have been few if any issues with errors in issuing identification numbers in TAK, for example issuing more than one number for the same taxpayer. However, it has been an issue for the business register in the past that businesses opened several numbers for the same business. With the distribution of the UIN, this is no longer possible, since the number is linked to the natural person.

28. **The KBRA issues the UIN upon receiving confirmation from the TAK on receipt of the application for registration.** At the same time, TAK is required to use the UIN for identifying businesses in the taxpayer register as well as all financial transactions. Furthermore, the Administrative Instruction includes requirements to align procedures and strengthen data exchanges and collaboration between the KBRA and TAK, including that KBRA must immediately notify the TAK of any changes to the data approved by the KBRA. The new instruction also requires the KBRA and TAK to have integrated electronic systems.

29. **All business organizations currently registered with the KBRA must be equipped with a UIN within a transitional period of three years.** Pursuant to Article 266 of the Law on Business Organization, KBRA, in cooperation with other government organizations, is responsible for contacting all existing business organizations to ensure that the data included in the register are updated. Existing business organizations which have not been issued a UIN before the end of the transition period will be included in a list of passive business organizations.

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<sup>5</sup> Law No. 06/L-016 on Business Organization

With the successful implementation of these changes, the Business Register can be considered an authentic and authoritative source of data.

**III. Key issues with tax registration in Kosovo**

30. **Despite positive developments in the tax system in Kosovo, the tax registration process shows several gaps leading to inaccuracies in the tax register.** Some key indicators are:

- There is a big difference in the number of individually owned businesses recorded in the business and tax registries;
- Businesses which become inactive and stop their activities are not always recorded; and
- Addresses of businesses are often missing or not correct.

**Difference in the number of individually owned businesses in the KBRA and TAK registers**

31. **A large gap exists between the number of registered businesses in the KBRA and the number of active businesses in the TAK register required to file tax.** As seen in Table 2 below, the issue is mainly concentrated on individual businesses, where there is a difference in the number of active businesses of more than 45,000 and in the number of closed businesses of more than 23,000.

**Table 2: Differences in number of registered businesses by type of registration, KBRA - TAK 2018**

Type of Business	KBRA		TAK		Difference KBRA/TAK	
	Active	Closed	Active	Closed	Active	Closed
Individual Business	129,178	23,525	83,462	0	45,716	23,525
General Partnership	3,509	987	2,201	325	1,308	662
Limited Partnership	87	19	13	2	74	17
Limited Liability Company	26,881	775	26,267	671	614	104
Joint Stock Company	513	55	342	12	171	43
Foreign Company	807	125	610	92	197	33
Socially Owned Enterprise	29	2	360	18	-331	-16
Publicly Owned Enterprise	10	1	99	2	-89	-1
Agricultural Cooperative	133	5	120	2	13	3
Other enterprises under KPA jurisdiction	33	0	31	0	2	0
Total	161,180	25,494	113,505	1,124	47,675	24,370

Source: Data provided by TAK

32. **The discrepancies for individual businesses happen for two reasons.** Firstly, individuals are able to open more than one business at KBRA at the same time (thus receiving several business registration numbers), whereas TAK registers them with a single fiscal number, regardless of the number of individual businesses they own. Secondly, TAK maintains the fiscal number provided to natural persons who are required to file taxes, regardless if their business status is active, passive, or closed. Other categories also suffer from discrepancies, although to a lesser extent, due to different approach to registration and deregistration in comparison with individual businesses. For example, a limited liability business receives a



single number in both KBRA and TAK, unlike a natural person who can receive several business numbers, but only one fiscal number for life.

**Inactive businesses not always recorded**

33. **The activity status of taxpayers in the tax register is not accurate.** This is indicated by a combined problem of i) a large share of taxpayers listed as active, but not filing, and ii) a large proportion of the non-filing businesses turning out to be closed or not economically active. While the TAK is obliged to investigate the group of non-filers, this is a resource-demanding task that has so far produced few results in terms of additional tax revenues. As shown in Table 3, as of March 2019, the share of non-filers was more than 40% on average and more than 85% in the category of natural persons.

**Table 3: Current situation with non-filers in the tax administration**

Status	Active (until 27.03.2019)	Filers 2018	Non-filers	% of non-filers
Individual businesses	57,893	43,665	14,228	24.6%
Legal entities	30,591	22,706	7,885	25.8%
Natural Persons	30,203	4,313	25,890	85.7%
Total	118,687	70,684	48,003	40.4%

Source: Data provided by TAK

**Incorrect or no information on addresses**

34. **There is no automatic or controlled mechanism to reflect updates in business or private addresses in Kosovo and a significant number of entries in the tax register have incomplete information on taxpayer addresses.** For example, the 2018 GiZ/World Bank study on promoting tax compliance with behavioral insights found that among taxpayers not having declared for personal income tax, nearly two-thirds of the entries were associated with incorrect addresses or no addresses at all. The limited information of taxpayers’ addresses hampers communication with taxpayers and makes investigations for collection enforcement costlier.

35. **The problem with incorrect addresses varies across different groups of taxpayers.** While TAK has the correct addresses of the fully compliant taxpayers due to the frequent contacts with this group, the quality of the addresses is much poorer for taxpayers – individual taxpayers as well as corporates – who have either neglected to update their data or who do not file. TAK has a system of identifying and correcting addresses based on field visits to businesses, however this is very limited and there is no sharing of data on addresses between the TAK register and other relevant registers, such as the Kosovo Cadaster or KBRA register. Furthermore, there is no online option that allows registered taxpayers to update addresses themselves.

36. **The problem with inaccuracies of the tax register varies in significance – and must be addressed differently – across different groups of taxpayers.** Generally, there are four categories of taxpayers concerning their degree of compliance with registration obligations:

1. **Fully compliant taxpayers:** A non-problematic category where all taxpayers are registered and where regular contacts between TAK and the taxpayer means that data are up to date, including names and addresses.
2. **Registered taxpayers with inaccurate information.** Taxpayers are registered but neglect the obligations to update their data. Addresses may have been changed or activities altered resulting in incorrect or incomplete information in the register.
3. **Non-filers.** A special category. All business registered with KBRA must regularly file to TAK as long as they are not deregistered or passivized in the TAK register. However, the number of non-filers is very high in TAK. Filing is not obligatory for natural persons (PIT). They must file only when they conclude by themselves that they have an income. The exception is the so-called personal businesses which are obliged to file. These are businesses without any personnel, e.g. freelancers and other one-person businesses. Many of them do not file, or not regularly, or only in the beginning of their existence as a business. Addresses and other contact data for these businesses become gradually outdated. No further information exists from investigations or from third parties. In many cases tax accounts stay open despite businesses not being active anymore or having not been active at all.
4. **Unregistered taxpayers.** Given the size of the informal economy in Kosovo there are a lot of “unknown” taxpayers, i.e. taxpayers which are not registered, and in many cases should be declaring taxable income. With limited information available from base registries, there is little information about this category. If available, the basis data are minimal elementary information to start investigations, to do statistical inquiries, to start branches investigations, etc.

### Implications of inaccuracies in the tax register

37. **Since the tax register is the backbone of all tax administration processes, the observed inaccuracies have several implications.** First, it negatively affects the quality of subsequent tax processes. Proper taxation starts with a good registration of all the taxpayers. Without this registration it is impossible to properly levy and collect any form of taxes and payments. Second, it increases the overall costs of operations. For example, more accurate information about the active/inactive status and addresses of taxpayers could significantly reduce costs of investigations. Inaccuracies of the tax register negatively affect the credibility of TAK. Proper taxation is based on an equal treatment of taxpayers. When taxpayers realize that all citizens and companies are taxed in the same manner, the credibility of the tax authority will increase. However, this equity objective is inhibited by inaccuracies of the register as it prevents a correct registration of all taxpayers.

### Main causes of inaccuracies in the tax register

38. **The main causes of inaccuracies in the tax register fall in four main categories analyzed further below:**

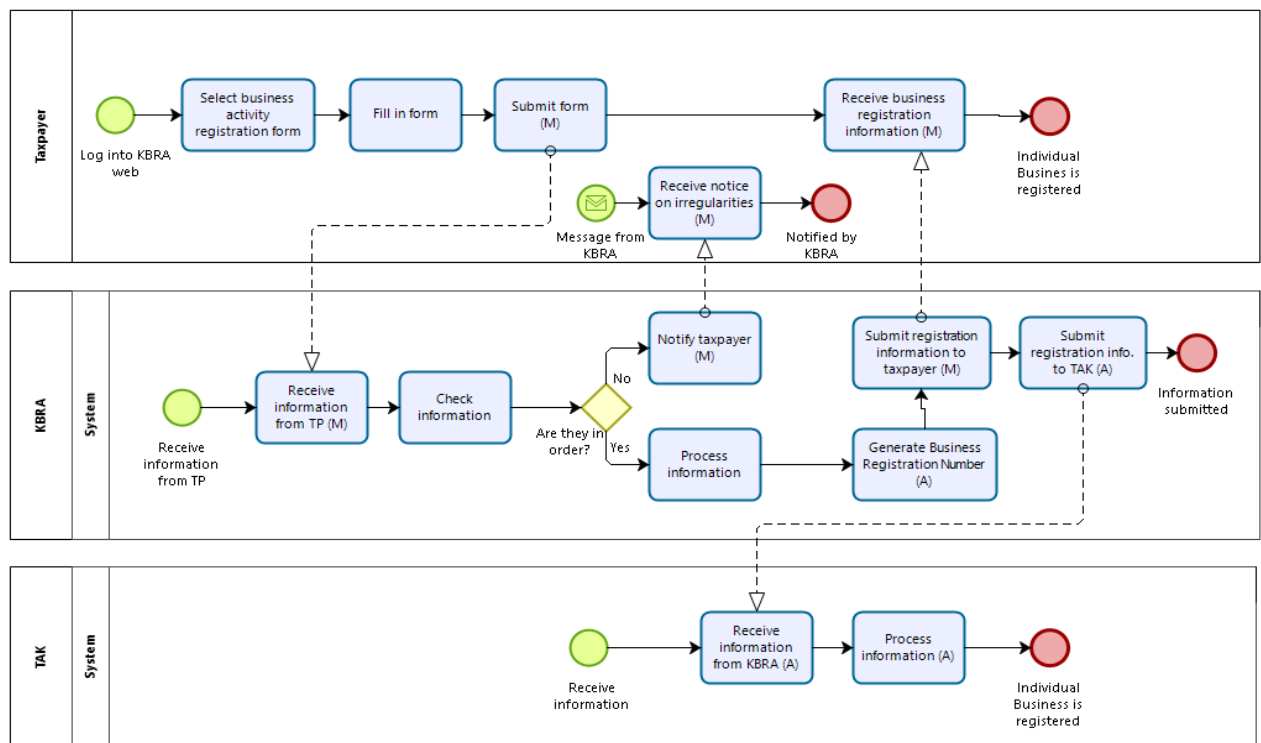
- Lack of compliance with reporting requirements, including complex procedures to register/deregister and report changes, lack of on-line facilities, lack of fines and inadequate information to taxpayers.
- Procedural gaps and misalignments, including the passive nature of the KBRA register, and the lack of unified procedures between KBRA and TAK on registering,

- deregistering, making updating changes, or treating non-filers
- Limitations in IT-functionality, including issues with migration and coordination with users on business requirements
- Inadequate data sharing arrangements between TAK and other organizations holding essential information about taxpayers, including limitations with respect to data sharing technologies, protocols, feedback mechanisms and underlying standards and terminology.

### Lack of compliance with reporting requirements

39. **All businesses in the KBRA register - personal and corporate – are part of the TAK registers following a pre-defined registration process exemplified with the process for individual businesses in Figure 2 below.** The registration process begins with filling out of an application form (obtained either at KBRA’s one-stop-shops or downloaded online) and attaching all documents required depending on the type of business undergoing registration. The application form, together with accompanying documents, is submitted to KBRA in person, at which point a business registration certificate is issued, containing both the business registration number and fiscal number. At this point, KBRA shares with TAK all registration data on the newly registered business.

**Figure 2: High level business registration process in Kosovo (Individual businesses)**



Source: World Bank team based on information from TAK

Note: “M” indicates that a step is manual, while “A” means that it is automated.

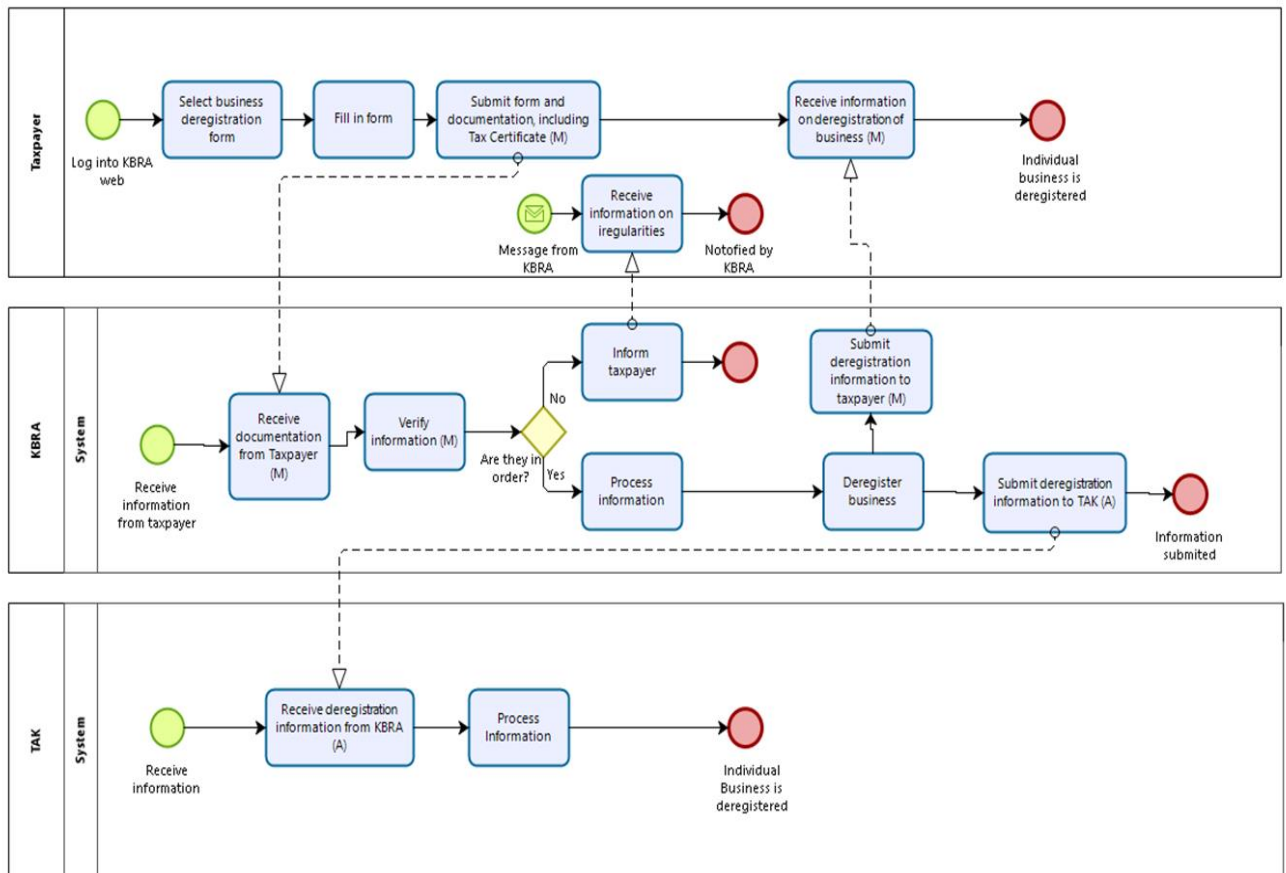
40. **The deregistration of businesses can happen in two ways - voluntary deregistration initiated by the business and “forced” deregistration initiated by TAK.** Businesses

requesting voluntary deregistration currently have two windows through which to initiate the request, depending on whether they wish to deregister the business completely or only wish to deregister from TAK and no longer be tax liable, but keep the business alive:

- The first option is to submit a closing request to TAK, which verifies whether the business has outstanding tax obligations. Once it is confirmed that all dues are paid, TAK deregisters the business and provides a proof of deregistration to the business requesting the document. This document must then be submitted by the business to KBRA to continue with the business closing process. However, very often businesses fail to submit this document to KBRA, which causes business to appear open in the KBRA register and closed in the TAK register. Furthermore, TAK has no protocol in place to directly share such closing documents with KBRA.
- The second option is to initiate the deregistration request through KBRA (Figure 3). In this case, KBRA, after verifying the completeness of the documentation, shares it with TAK to confirm that all dues are paid. Once the confirmation is received from TAK, KBRA proceeds to deregister the business and notify both the taxpayer and TAK. Upon receiving the notification, TAK proceeds to deregister the business in the tax register.

41. **TAK initiates deregistration of businesses when there is a poor history of compliance or when there is reasonable suspicion of a criminal tax offense and when it can be reasonably expected that the taxpayer or the responsible person does not intend or will not be able to comply with their tax duties.** Again, information about this forced deregistration (passivation) of businesses in TAK registers is not shared with KBRA, which causes discrepancies of data in both registers.

**Figure 3: High level business deregistration process initiated through KBRA (Individual Businesses)**



Source: World Bank team based on information from TAK

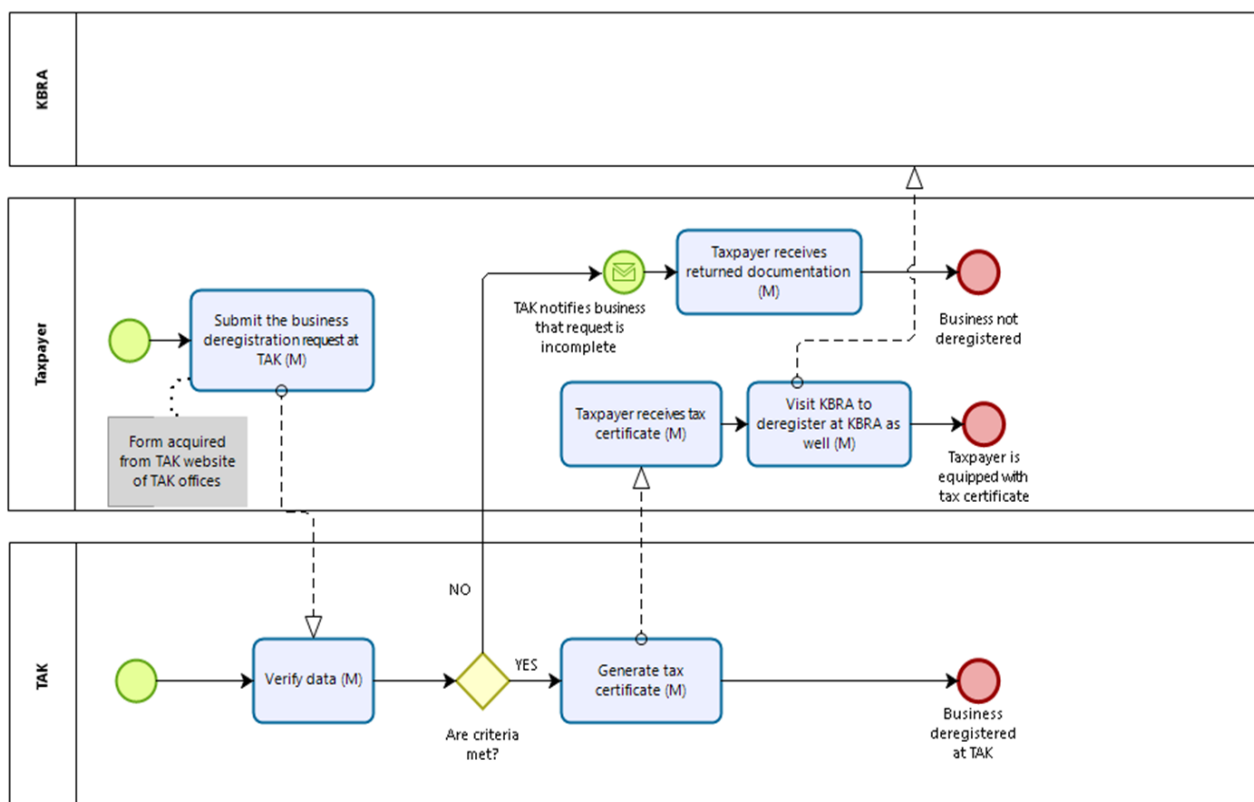
Note: “M” indicates that a step is manual, while “A” means that it is automated.

**42. The procedure for making changes is also initiated either voluntarily by the businesses themselves, or through TAK:**

- Voluntary change requests are made by businesses through either KBRA or TAK. Given the lack of sanctions for not reflecting changes at KBRA, businesses typically turn to TAK to make the changes, however, TAK has no protocol in place to share the updated data with the KBRA.
- Tax inspectors also initiate changes in the tax register, if discrepancies are identified when businesses are contacted directly by TAK, but again, such changes are not shared with KBRA.

**43. The current processes for registration, deregistration and making changes could be improved in several aspects to simplify and streamline the processes, thereby encouraging better compliance from businesses.**

**Figure 4: High level business deregistration process initiated through TAK  
(Individual Businesses)**



Source: World Bank team based on information by TAK

Note: “M” indicates that a step is manual, while “A” means that it is automated.

44. **An overall weakness is that the official business processes as depicted in Figures 2-4 are not always clear or respected in practice.** For the deregistration process, in particular, the existence of two different deregistration requests with KRBA and with TAK increases the unclarity. Moreover, these two options have different consequences. The problem is exacerbated by the lack of clear protocols for sharing information from TAK to KBRA. It is therefore up to the businesses to deregister with KBRA separately which they in some cases fail to do. As there is currently no official procedure for TAK to share deregistration data with KBRA this causes discrepancies between the two registries. Similarly, the option for businesses to request changes in business data both in KBRA and in TAK – and for tax officials to initiate such changes directly in the tax register – are causes of discrepancies.

45. **Another key gap is that the current processes are not fully digitalized.** While taxpayers can download and fill registration and deregistration forms online, the submission and issuance of the necessary certificates require face-to-face interaction with both TAK and KBRA. Likewise, submitting changes to business contact data also require a face-to-face interaction with either TAK or KBRA. A full digitalization would require the implementation of digital signature, including the necessary legal amendments to the regulatory framework under the Ministry of Economic Development, and the implementation of technical solutions. The regulatory framework would also have to be adjusted to accept certificates in electronic

form.

46. **The current business process does not allow validation of business addresses during registration.** Such a validation could save on the costs of subsequent processes such as tax investigations, which rely on correct addresses and other contact information of taxpayers. The validation could be implemented through data exchanges with the Kosovo Cadaster Agency (KCA – see further below on issues of inadequate data exchanges). In many cases, the validation could be automated but in case of discrepancies, some exchanges with the business applying for registration would be needed.

47. **The use of information and awareness campaigns targeted at improving taxpayer compliance is limited.** Examples of campaigns to encourage taxpayers to review and correct their data are not known by the Bank team.

48. **The lack of fines further reduces compliance with the obligations to register, deregister and report changes in taxpayer information.** The draft Law on Tax Administration and Procedures currently does not include any sanctions in case taxpayers do not update their information in a timely manner.

#### **Procedural gaps and misalignments**

49. **Aside from the need to simplify the processes from the perspective of taxpayers to ensure better compliance, the processes related to tax registration display additional gaps and misalignments.** One set of issues relate to the same data being updated separately in the KBRA and TAK registries respectively. As seen from Figures 2-4, a registration or deregistration of individual businesses is recorded and processed twice, once in each register. This both raises issues of efficiency but also increases risks of mistakes creating discrepancies between the two registries. Following the principle of “one report, many users” an alternative would be to initiate all registration and change requests for businesses through KBRA only while automatically reflecting the changes in the tax register through an automated data exchange, thus effectively integrating the two registries. This will require a clear agreement between TAK and KBRA to ensure that all necessary information for the tax registration is reflected in KBRA’s instructions and required documentation and clear protocols are in place for the exchange (see further below).

50. **Another set of issues relate to the treatment of non-filers and the efforts to clean the data to accurately reflect their activity status.** Many of the non-filing businesses are in fact not active anymore, nevertheless they are not systematically deregistered in KBRA.

51. **Considerable resources are devoted to combating the “non-filers” problem as there are in most cases no updated addresses or phone numbers.** The approach is to first contact taxpayers via email or text message, followed by an outbound call of the centralized Call Center in Pristina, in case of no-response. When these calls are not successful, then these businesses are visited by tax inspectors from the regional offices of TAK to check if they still exist or are not active anymore.

52. **Control visits are expensive and time-consuming but have so far only led to limited**

**additional revenues being collected.** In daily practice it is impossible to accurately check tax liability for every business, so risk management is necessary to reach well balanced choices on where to place the efforts and allocate resources.

53. **In cases where all the above-mentioned activities do not result in businesses starting to file tax returns, then these businesses are recorded as “passive/inactive” in the registers.** Despite the resource-demanding efforts, the results of these operations are low. Only seven percent of the inactive/passive cases are made active again. The activities to deal with non-filers are reflected in the medium-term reform implementation plan and will continue till the end of 2019. The responsible managers are convinced that the integrity of the taxpayer base will be improved by the end of the period, but this is unlikely due to the recurring nature of the problem.

54. **With respect to the personal income tax register, TAK requires natural persons generating income to register at TAK and obtain a fiscal number for declaring PIT.** Natural persons are so called freelancers, businessmen not employing personnel. There are around 40,000 of this type of taxpayer accounts at TAK, but they are not registered, nor in any way evidenced, in the KBRA register. Since there is no third-party information from banks, insurance companies, etc., it is difficult for TAK to detect further tax liability from natural persons. The NIN is the key to resolving these issues as it can be used as an identifier for sharing data between TAK and KBRA.

55. **The corporate income tax register is in better shape, compared to the PIT filers mentioned above, since all businesses registered at KBRA are transferred to the TAK taxpayer register.** But here, too, changes made in the TAK register during the business closing process of Corporates, are not reflected in the KBRA.

56. **Newly registered businesses often wrongfully register for VAT, and KBRA has no control system in place to ensure that such businesses are fully informed about the resulting legal requirements.** Once they receive the VAT certificate, businesses are obliged to file regardless whether they reach the Euro 30,000 Euro turnover threshold. Nevertheless, it happens that businesses voluntarily register for VAT and receive the VAT certificate at KBRA’s one-stop-shop, but then neglect to file if their annual turnover is less than 30,000 Euro. This in turn causes inaccuracies in TAK’s active taxpayer register, since they never submit tax declarations, thus increasing the number of non-filers.

57. **The introduction of the UIN in the KBRA register changes the registration processes of TAK.** It means that both authorities use the same number for a newly registered business. Electronic exchange regulates the transfer of the data. In addition, all existing businesses must be renumbered. TAK has to adjust and add the new numbers to the existing registries. That is a major operation which is ongoing at this moment. The old (fiscal) numbers are stored and archived for administrative reasons.

58. **By Law, the KBRA business registry is considered “passive”.** This implies that changes in this register can only be made with the authorization of the concerned business. So, deregistering seems to be possible only by an action taken by the subject business. When TAK concludes that a business does not exist anymore it reports this to KBRA, but KBRA does not



record the change in its register. This strict legal view is not common internationally anymore as the practice is growing that registries respond to signals from other authorities to maintain the quality of their register.

### **Limitations in IT-functionality**

**59. Tax registration must be supported by an effective registration IT sub-system.**

Generic business requirements for such a system include the following:

- Allocate a national UIN to each registered taxpayer;
- Validate UINs through use of check digits;
- Link associated entities and related parties of the taxpayer (e.g., where a company is part of a corporate group, or a taxpayer is a partner in a partnership);
- Mitigate the risk of duplicate or conflicting records (e.g., where a company or individual that is already registered for tax attempts to register again);
- Interface with other IT sub-systems to support filing and payment enforcement;
- Support the non-filing control to streamline processes;
- Provide frontline staff with a whole-of-taxpayer view of a taxpayer's identification and other details across all core taxes;
- Allow for deactivation or deregistration of taxpayers and archives information in a way that can be restored if needed;
- Generate registration-related management information (e.g., statistics of registered taxpayers by entity type, location, and economic sector) and provides an audit trail of user access and changes made to taxpayer registration data; and
- Provide secure online access to businesses and individuals to register and, once registered, to update details held in the database (e.g., a taxpayer's postal or business address).

**60. The current ITAS in use by TAK, SIGTAS, is a standard Tax Administration System widely used internationally.** SIGTAS is custom-made to the individual requirements of the user. Hence, different versions exist in different tax administrations, and none can have access to upgrades as there is no upgrade path. The fact that the various functionalities developed in all these countries have not been centralised in a single version of the system is seen as a disadvantage. The term commercial off-the-shelf (COTS) is commonly used in the field of information technology and it refers to software that is ready-made and available for sale, lease or license. This type of solution is usually seen as an alternative to in-house development of an off- software solutions. Typically, a COTS is highly configurable, which allows the solution to be tailored to the specific needs of a client.

**61. SIGTAS can accommodate most of the business requirements listed above, but reportedly has technical limitations in further developing e-services for taxpayers and in supporting risk-based audits and other aspects of the TAK's compliance strategy.** TAK is therefore currently in the final stages of a comprehensive IT tender to procure a new tax information system. The new system has been planned over a period of 3-4 years with continuous donor support, including formulation of functional requirements.

**62. While some redesign of business processes is incorporated in the functional**

**requirements of the new system, further changes will be necessary to support a transition to full digitalization and on-line services for taxpayers.** TAK is aware that its organization and processes will have to undergo further changes to accommodate off-the-shelf-software that is nowadays indispensable for automation of tax administrations. However, given the procurement documents for the tender of the new system are currently in a final stage of drafting, the timing of such further business process changes is unknown.

63. **Frequent changes in business identification numbers over the past decade has added to the workload associated with migrating the TAK register.** Apparently, SIGTAS could not cope with these changes, and the migration process is still ongoing including manual manipulations of the data to achieve full synchronization of the databases.

#### **Inadequate data sharing arrangements**

64. **Conversion to good international practices of tax registration will require effective data sharing arrangements with organizations owning data of relevance for tax registration (CRA, KCA, KBRA).** Good cooperation with entities (AIS) with cross coordination responsibilities for data sharing and interoperability will also be necessary.

65. **Effective data sharing requires reaching a consensus between the parties on essential standards:**

1. Data definitions and standards to make sure data are presented in the same way across systems and there is a common understanding of their meaning. A simple example would be the way a birthday of a person is described.” mm/dd/yy, or dd/mm/yy”;
2. Standards to connect IT systems. International standards in line with the market are preferable as these are sustainable and cheap;
3. A common platform for the transport and transfer data over the internet between parties; and
4. Collective understanding of metadata, i.e. information about the characteristics of the data in use.

66. **TAK currently has data linkages with a number of other registries (Box 5):**

**Box 5: Linkages to relevant registries owned by other authorities**

**Civil Registry – Civil Registry Agency (CRA), Ministry of Internal Affairs:** Civil Registry is kept by the Civil Registry Agency as foreseen by the Law on Civil Status. According to this law all other state and private institutions collecting and administering persons databases should supply the data in question based on the request to the Agency and in accordance with the Law on Protection of Personal Data. All civil registration data are linked to a single ID number issued at birth registration. The Civil Registry Agency shares data with other public institutions through a Government Gateway Platform as well as through individual connections, such as with TAK.

**Kosovo Business Registry Agency (KBRA), Ministry of Trade and Industry:** The KBRA has the main responsibility to manage the Business Registry. In accordance with the provisions set in the Law for Business Organization, KBRA is responsible for registration of business organizations, amending and supplementing the data on business organizations and their de-registration.

**Kosovo Cadastral Agency (KCA), Ministry of Environment and Spatial Planning:** The Kosovo Cadaster Agency (KCA), responsible for the overall cadaster, functions like an Executive Agency within the Ministry of Environment and Spatial Planning. Kosovo’s Cadaster System is regulated by a Law on Cadaster. There is a functioning cadaster system in place which operates under a two-tier system. Cadaster data is managed and maintained by Municipal Cadaster Offices (MCO) and controlled by the KCA. The Civil Registry is currently in the process of integration with the Address Registry, being held at this Cadaster Agency of Kosovo.

Source: World Bank team based on information from TAK

67. **Several automated data exchanges are currently in place between TAK and other government organizations based on individual technical solutions (Table 4).** Appropriate IT solutions are established and in use, although these are “point to point” solutions connecting TAK systems with other systems individually rather than through a common interoperability platform. The Government Gateway, established by the AIS as a common platform for data exchanges within the GoK, is not being used.

68. **Further standardization is needed as a foundation for effective data sharing.** There are currently different understandings within TAK itself and between TAK and other government organizations on important terminology. Examples are codes of municipalities, lists of cities, list of residences, and definitions of various terms like “closed business” vs. “deregistered business”, “active/passive”, “de-active and re-active”.

69. **While many data exchanges are in place, it is noteworthy that there is no exchange between TAK and KCA about addresses.** This prevents TAK from validating addresses against an authoritative external source, which could help to overcome the issues with missing or incomplete addresses in the tax register.<sup>6</sup>

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<sup>6</sup> The databases of TAK and the Postal Authorities are currently not connected either. This is an additional data sharing option that could be explored to improve the quality of tax payer addresses.

**Table 4: Overview of current data-sharing arrangements**

Institution	Data shared with TAK	Data shared from TAK	Frequency of exchanges	Technology and form of exchange	Protocols	Governance arrangements
KBRA	Business data	Business status data (active, passive, closed)	Real time	WEB API	Technical document	-
CRA	Civil registry data	-	Real time	WEB API	SOP	MoU
Vehicle Registration (MI)	Vehicle data	Requests to block vehicles	Real time	WEB API	Technical document	-
Treasury	Income, expenditure	-	Once a day	Intermediary database	Technical document	-
Social Welfare	-	Salary data	Real time	WEB API	SOP	MoU
e-Procurement	-	Business data and status	Real time	WEB API	SOP	MoU
Accreditation Agency	-	Salary data	Real time	WEB API	SOP	MoU
Customs <sup>7</sup>	Import, export		Once a day	Intermediary database	Technical document	-
Statistics Agency	-	Business declaration data	Once a day	Intermediary database	Technical document	-
Financial Investigation Unit	-	Payments data	Once a day	Intermediary database	SOP	MoU
Property Tax	-	Business data	Real time	WEB API	Technical document	-

*Source:* Data provided by TAK

70. **There is still a lack of clear protocols to guide data exchanges between some of the registries leading to information not being updated and exchanged in a timely fashion.** While some of the exchanges are guided by high level agreements between the institutions such as MoUs signed by the respective directors, others are guided by technical level documents only. For the critical relationship between KBRA and TAK, an MoU was recently drafted but has never been signed off and implemented. There is currently a need to formalize the collaboration between the two organizations as a framework for addressing the persistent issues between the two organizations.

71. **A well-designed data exchange needs a feedback mechanism, which currently is not available.** If TAK identifies errors in the data of the registries, there should be a protocol

<sup>7</sup> There is a tripartite MoU (TAK, Customs and Kosovo Police) defining overall agreement for corporation but no specific MoU for data sharing.

in place which will inform the responsible authority about the findings. This authority has the task to control the new data and to decide if the original data have to be changed, and if so, to inform all the relevant users.

72. **TAK is part of the Kosovo government, but there is currently no mechanism to coordinate data sharing across government and with third parties.** To enhance the control of information contained in tax declarations, it will be important for TAK to be able to exchange data with other parties, like ministries and agencies, commercial banks, the central bank, tax withholding employers, telephone providers, the pension contribution fund, etc. In practice it is necessary to tailor this type of services on a country level. The Agency for Information Society (AIS) has an important role in this matter and should take the initiative to establish the relevant coordination mechanisms. This could include staging areas where data, based on selection/extraction rules, can be made available for sending or receiving purposes. This component of the data exchange service is however not part of the standard functionality of an ITAS and should therefore be done in close cooperation with AIS and other relevant parties.

73. **The successful implementation of data sharing is less about finding the technical IT-solutions and more about establishing the trust and cooperation among the parties to the exchanges.** Therefore, the development of soft skills and appropriate governance arrangements are very important aspects of managing data sharing arrangements. It is advisable to find ways of collaboration, which demand a strong effort from the participants who should operate on terms of equality and shared interest. A good international example is the Dutch Standardization Forum, which is an independent forum with professional members and supported by an autonomous secretariat. The Forum advises on the use of open standards under the motto “comply or explain”, which means that all parties should use the chosen and developed standards, unless they can make a convincing case that divergence is justified. This prevents stalemates and obstructions.

#### **Box 6: Dutch Standardization Forum**

The Dutch Standardization Forum was established by decree by the Minister of Economic Affairs on March 27, 2006 to ensure implementation of the policy on electronic data exchange and (re) use of data and electronic services.

The Forum contributes to e-government goals such as further improvement of government services and reducing administrative burdens by automating the flow of information between the government and citizens and enterprises. This leads to lower expenditure, improved efficiency and better services for citizens, businesses and public service providers through smart ICT solutions.

The Forum supports the Dutch government in the development, use and establishment of open standards for electronic information exchange. In this way it promotes interoperability within the Dutch government system itself, but also in the relations with citizens and private enterprises. It is also an objective of the Standardization Forum is to prevent vendor lock-in and reduce costs in government spending on ICT.

Most of the standards supported by the Forum supports are international standards. Therefore, the Forum participates in several European initiatives like the multi-stakeholder platform on ICT standardization and work programmed on electronic building blocks (e-Sens) and interoperability solutions (ISA). The Forum also maintains an informal network with other EU member states.

#### IV. Recommendations

74. **This section elaborates on recommendations on how to address the key issues with tax registration analyzed above.** The recommendations are divided into short term recommendations, which are assumed to be implementable within one year and which require no or only limited legal and institutional changes and no or only limited investment; and medium-term recommendations which can be implemented within approximately three years and which may require some investment as well as some institutional and/or regulatory changes. Within both categories, recommendations are linked to the main groups of issues identified in the foregoing section.

75. **Recommendations are guided by the GoK's longer-term strategic vision of implementing the principle of "one report – many users" and the need to transform the approach to management of the tax register.** An implication of the gradual move towards "one report - many users" is the greater reliance on automated data exchanges with other government organizations, which are in possession of data which are essential for the completeness and accuracy of the tax register. The introduction of key identifiers to be used across various datasets such as the NIN and the UIN indicate that this concept is gradually being embraced by the involved organizations.

76. **Over time, it is expected that the greater reliance on data sharing will lead to a demand for common interoperability platform solutions which are likely to be superior to the current individual "point-to-point" solutions in terms of both cost-effectiveness and flexibility.** A common interoperability platform has been developed by AIS (Government Gateway), but there are still issues to be clarified in order for remaining government institutions to connect to this platform, including the capacity of AIS to support such an expansion.<sup>8</sup> However, it is also true that data sharing of extensive data sets between institutions often demand specific, tailor-made solutions. Since the data needs of the TAK are urgent, temporary solutions are worth examining until the common interoperability platform led by AIS has matured.

77. **As with other e-Government initiatives, the further development of automated data sharing to improve the quality of tax registration should ideally be prepared taking into account the longer-term need for a whole-of-government ICT Enterprise Architecture (EA) and an overall vision for the development of shared services.** EA is a comprehensive tool for planning and aligning all ICT initiatives in the Government, while shared services entails standardization, automation and consolidation of government functions in one or more designated shared services units. There is currently no official direction or policy from Government on these subjects, and it could take a significant amount of time before the Government is ready to promote them more actively. In the meantime, the further development

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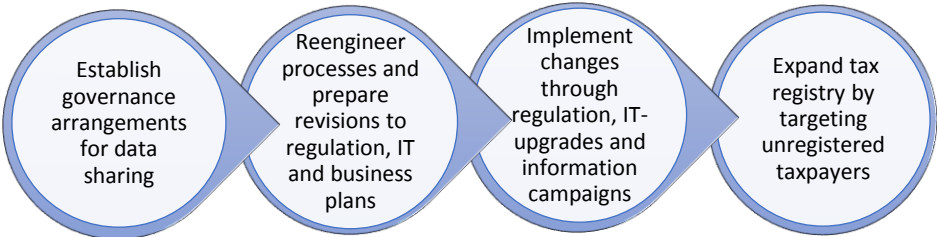
<sup>8</sup> The common interoperability platform is further described in the World Bank policy note on "E-Services in Kosovo" from October 2019.

of tax registration would have to continue, but it should be clarified where decisions are necessary to avoid deviating from this longer-term development path.

78. **The suggested areas of intervention are selected to ensure complementarity with the work of other donors.** The focus on tax registration was deliberately chosen to support the TAK medium-term reform action plan in a significant area that is not being supported by others. Annex 2 provides an overview of previous and ongoing donor support to TAK. Complementarity entails, for example, building on previous and on-going work by the GiZ and the World Bank on behavioral approaches to tax administration. At the same time, the recommendations of this note will reinforce the work of other donors by strengthening the tax register as the foundation for risk management, investigations and other areas of tax administration.

79. **The recommendations to improve tax registration in Kosovo follow four main steps.** These steps are ordered in a logical sequence so that each step is a precondition for – or makes most sense if conducted before – the subsequent step (figure 5).

**Figure 5: Key steps in improving tax registration in Kosovo**



Source: World Bank team

**Step 1: Establish governance arrangements for data sharing and collaboration**

80. **A first critical step in improving tax registration is to establish the governance arrangements and institutional structures that would help set the direction for all recommended actions that follow.** Governance arrangements should ensure coordination between TAK (as user), KBRA (as both user and provider) and other government organizations holding essential data for tax registration such as KCA, and CRA (mainly data providers) and would help to fill a considerable void in the current situation, where data sharing is not adequately supported institutionally. The governance arrangements should also link up to broader government level initiatives to improve e-services including the further development of the common interoperability platform led by AIS. This could also help to define an arbitrage mechanism in those cases, where the collaborating institutions cannot agree amongst themselves. However, while the broader government-level initiatives could act as an umbrella for the improvements in tax registration, there is not 100% overlap between the initiatives at Government and TAK levels. Given TAK’s urgent need to improve the quality of the tax register, specific institutional arrangements led by TAK will be needed to complement broader

government efforts for the short term. For the medium to longer term, as TAK is increasingly becoming part of common platforms and solutions, the distinction between coordination forums at the different levels is likely to dissolve.

81. **Key recommendations are:**

- **Establish a data sharing forum with representatives from the TAK, KBRA, CRA, KCA and AIS.** The data sharing working group should be chaired by TAK and represented by each of the institutions at a high level with the option of delegating issues to technical working groups. Key responsibilities of the forum would be to:
  - standardize data formats and definitions;
  - agree on data sharing and communication protocols;
  - analyze and recommend options for common interoperability platform solutions to replace the current individual point-to-point solutions;
  - map out and analyze data in the involved registries and recommend options for delineations of data ownership;
  - recommend options further data sharing; initiate and oversee piloting of such additional data sharing as needed;
  - discuss ad hoc data sharing and collaboration issues as they arise and make recommendations for their resolution.
- **Create a Glossary of tax terms consistent with Kosovo tax legislation (in 3 languages);** ensure these terms are used in all reports from SIGTAS (or future system) and encourage adoption of the glossary by other relevant institutions, e.g. Kosovo Statistical Agency.

## **Step 2: Reengineer processes and prepare revisions to regulation, IT designs and business plans**

82. **A key initial step informed by the data exchange forum and working groups is to redesign business processes, regulation and IT system designs to enable simplified and fully digitalized processes.** This will involve business process designs themselves, identification and drafting of necessary legal changes as well as directly implementing smaller or less complicated changes.

83. **Key recommendations under step 2 are:**

- **Design reengineered processes for registration, deregistration and update of registration details with a view to simplify these processes through automation and use of online services.** Simplified processes should be guided by the principles of phasing out physical paper certificates and using online services wherever possible based on a reliable common digital signature solution as well as minimizing the need for physical interaction between the taxpayer/registrant and the authorities and enabling the same information to be shared between authorities. KBRA and TAK should work jointly on the relevant parts of the business process reengineering exercise due to the transgressing nature of some of processes and the need for alignment of processes and



integration of systems between the two institutions. A starting point of this reengineering process must be that “one report-many users” postulates that changes, which are reported to or are made by one of the organizations must be submitted to the other one.

- **Design a risk management approach for dealing with remaining non-filers.** Rather than attempting a 100% investigation of all cases, the TAK should formulate hypotheses for which groups of non-filers are most critical to investigate and test these hypotheses on available data from previous investigations. Additional data could be collected as necessary and in case of inadequate data for designing the risk management system, clear instructions should be issued to investigative teams to ensure sufficient data going forward. Once the system is up and running, non-filers should be cleared on a regular basis. Implementation of this recommendation will require a brief diagnostic phase during which hypotheses are formulated and tested followed by the issuance of instructions and guidance to the investigative teams.
- **Revise reports of non-active taxpayers available on the TAK website.** Revisions should simplify reports and clarify terminology, including clarifying the meaning of key terms such as non-active business. Reports should be shared and published on the KBRA website as well.
- **Develop clear internal instructions on opening and closing of tax accounts.** The revised instructions should include defining at what point a tax account becomes passive and use only terms defined in the MoF tax glossary.
- **Develop a procedure to review large numbers of tax accounts opened within the same fiscal number.** There is already functionality in place to flag such occurrences in SIGTAS, but a clear procedure for review and follow-up actions should be developed.
- **Introduce compliance ratio reports for declaration filing at all levels of TAK to incentivize appropriate conduct throughout the organization.**
- **Revisit implementation plans for data migration and cleaning to ensure there is an accurate and precise path for these activities.**

### **Step 3: Implement process changes through regulation, IT- upgrades and information campaigns**

84. **With the conclusion of business process designs, TAK should be ready to move towards implementation.** It would involve implementation on a number of levels, including via adopting regulation, technical solutions, and launching necessary information and awareness campaigns. Implementation of data sharing arrangements might require some piloting before implementing technical solution in full scale. This should be considered on a case-by-case basis.

85. **Key recommendations of step 3 are:**

- **Implement online services for businesses to register, deregister and make changes to their data.** Implementation is based on previously reengineered business processes, through relevant regulatory changes and launching of relevant changes to IT-systems,

preferably based on common digital signature platforms. Implementation could include incorporation of a taxpayers' e-cabinet feature, where the taxpayer can check his/her personal information, report inaccuracies, and request corrections.

- **Develop and execute an information campaign to encourage taxpayers to review and correct their data.** A general campaign on tv and newspapers is useful to start with. It is sensible to hire a professional communication firm. Collaboration with the KBRA is crucial to identify different target groups, which deserve specific attention. Use the experiences and results out of the World Bank-GIZ report “Promoting tax compliance in Kosovo with behavioral insight 2018.
- **Consider fines for non-filing and non-reporting information for changes of business data.** This will require an amendment to the Tax Administration and Procedures Law.
- **Implement common interoperability platform solutions as appropriate.** The overall recommendation is to replace individual data exchange points with agreements to use a common platform. This should include a consideration to use the Government Gateway, although it should be based on the recommendations from the data exchange forum (see above),

#### **Step 4: Expand the size of the tax register**

86. **Once steps have been taken to improve the quality of the tax register within its current scope, attention should gradually shift to expanding the size of the register.** Given the significant size of the informal economy, it will be important to target “unknown” taxpayers with a view to increase the number of taxpayers registered.

87. **Key recommendations in step 4 are:**

- **Establish a unit or task force in TAK with the responsibility to receive, validate and process third party data and introduce procedures for making this information available for tax investigation teams.** The data would be linked to NIN, UIN, address and telephone numbers, including transactions in real estate, luxury cars, bills of utility companies, bank information etc.
- **Expand the use information and awareness campaigns to encourage informal income earners and businesses to register with the TAK and KBRA registries.** TAK and KBRA should consider using the existing data infrastructure through the census or public service providers to reach individuals and firms through simple messages to underline their obligations. The messages should make it clear that TAK and KBRA have increasing knowledge on the informal economy, thereby convincing earners to comply.

88. **An action plan is provided in Annex 1 summarizing recommendations along with information about pre-conditions, responsibilities and need for external support.**

## Annexes

### Annex 1: Action Plan

No.	Recommendation	Issue addressed	Short (S), Medium (M) or Long term (L)	Responsibilities and institutional arrangements	Pre-conditions	Need for external support?
Step 1: Establish governance arrangements for data sharing and collaboration						
1.	Establish data sharing forum	Inadequate data sharing arrangements	S	TAK (lead), KBRA, CRA, KCA, AIS	-	Technical assistance
2.	Create a Glossary of tax terms consistent with Kosovo tax legislation	Inadequate data sharing arrangements	S	TAK (lead), KBRA	-	
Step 2: Reengineer processes and prepare revisions to regulation, IT designs and business plans						
3.	Design reengineered processes for business registration/deregistration	Compliance with reporting obligations	S	TAK, KBRA	-	Technical assistance
4.	Design a risk management approach for dealing with remaining non-filers	Procedural gaps and misalignments	S	TAK	-	Technical assistance
5.	Develop clear procedures and instructions on the closing tax accounts	Procedural gaps and misalignments	S	TAK	-	

6.	Develop a procedure to review large numbers of tax accounts opened within same fiscal number.	Procedural gaps and misalignments	S	TAK	-	
7.	Introduce compliance ratio reports for declaration filing at all levels of TAK to incentivize appropriate conduct throughout the organization.	Procedural gaps and misalignments	S	TAK	-	
8.	Revisit implementation plans for data migration and cleaning to ensure there is an accurate and precise path for these activities.	Limited IT functionality	S	TAK	-	Technical assistance
Step 3: Implement process changes through regulation, IT- upgrades and information campaigns						
9.	Implement online services to (de)register and change business register	Limited compliance with reporting obligations	M	KBRA, TAK	Adoption of legal changes; digital signature and other IT solutions; change passive status of KBRA business register	Support to investment financing
10.	Develop and execute an information campaign to encourage taxpayers to review and correct their data	Limited compliance with reporting obligations	M	TAK, KBRA	-	Technical Assistance
11.	Consider fines by non-filing	Limited compliance with reporting	M	TAK	-	-

		obligations				
Step 4: Expand the size of the taxpayer register						
12.	Establish a unit or task force in TAK with the responsibility to receive, validate and process third party data and introduce procedures for making this information available for tax investigation teams.	Limited compliance with reporting obligations	L	TAK, KBRA and third parties	-	Technical Assistance
13.	Expand the use information and awareness campaigns to encourage informal income earners and businesses to register with the TAK and KBRA registries.	Limited compliance with reporting obligations	L	TAK & KBRA	-	Technical assistance

## **Annex 2: Overview of on-going and planned donor support to TAK**

### **GIZ**

#### *Uniform application of tax legislation and equal treatment of taxpayers*

GIZ has supported the establishment of the Office for Fines and Administrative Penalties (ZGJoNA). The project will continue to support TAK in coordinating with other relevant actors in the process of handling fines and administrative penalties, including tax crimes. Activities are planned to identify possibilities for a better coordination between TAK's tax investigation and other related actors such as prosecution and courts to ensure uniform application of tax legislation and equal treatment of taxpayers by all law enforcing institutions.

#### *Compliance Risk Management*

There will be direct support to TAK from the Federal State of Bavaria in the field of compliance risk management. This will be defined more concretely in the coming months together with TAK and in coordination with IMF.

#### *Communication with taxpayers*

A number of trainings to improve communication with taxpayers will be provided to a number of units in TAK (i.e. Call Center, ZGJoNA, Tax Investigation Unit, etc.). Communication aspects will also be dealt with to support compliance strategy for specific sectors. A taxpayer survey will be conducted in 2019 with GIZ support.

#### *Improving tax compliance through behavioral insights*

This was a joint activity with the WB in 2018/19, which will be continued starting in the fall of 2019.

### **IMF**

IMF's technical assistance will continue for the coming 3 years to support: the reorganization of TAK; development of TAK's overall strategy and compliance strategy and the development of KPIs in the main performance outcome areas; implementation of the new tax IT system currently being procured; establishment of tax compliance risk criteria; analysis of the current data for generating management information, analytical reports etc.; increasing revenue collection performance of the Large Taxpayers Office; fostering voluntary compliance and; improving tax debt collection processes.

### **EU**

#### *Technical assistance*

The EU provides technical assistance to the implementation of VAT legislation, double taxation treaties, transfer pricing and internal audit. The technical assistance is implemented through workshops, short-term missions and study visits.

*Budget support*

EU budget support is provided to finance TAK IT software procurement.

**USAID**

Comprehensive support is planned for improvement of both tax administration and tax policy to be initiated in second half of 2019 within a larger PFM support program. The scope of the program will be adjusted based on the inception report to be provided by the incoming consultant firm.