Policy Spotlight

Tax on Dividend in Kosovo
ABOUT POLICY SPOTLIGHT

Policy Spotlight is a publication of the American Chamber of Commerce in Kosovo (AmCham Kosovo) which aims to bring attention to different economic policies and outline the challenges for the development of such policies, in order to pave the way for addressing them. This edition places the spotlight on “tax on dividend” in the Republic of Kosovo.

Prepared by Diellë Duga, Policy Assistant.
Introduction

Dividends are a form of payment distributed to those who own shares in a company, known as shareholders. Distributed in the form of cash, stock, reward, etc., dividends represent a way through which shareholders earn a return on their investment. Dividend policy, the policy a company uses to structure its dividend payout, is affected by internal and external factors. One of the main internal factors includes tax on dividends, whereas a principal external one is the overall economy. A dividend tax is imposed by jurisdictions on distributed dividends and is the liability of, chiefly, shareholders; Companies may be subject to tax liability in the form of imposed corporate or withholding tax. The tax rate on qualified and non-qualified dividends depends on the tax bracket that a taxpayer is, i.e., those in higher tax brackets pay a higher dividend tax rate. Furthermore, there is an ongoing debate regarding the rate at which dividends should be taxed. Proponents of dividend tax argue that tax cuts favor an inequitable distribution of taxes, whilst advocates of tax-free dividends note the incentivizing effect on domestic and foreign investments. Tangential to this specific topic, the performance of the overall economy greatly influences dividend policy as has been recently noticed with the start of the COVID-19 pandemic.

Tax on dividend in Kosovo

As reported by PricewaterhouseCoopers (PwC), one of the biggest world-wide accounting firms, there “is no [withholding tax] on dividends, as dividends received by residents and non-residents are exempt from taxation in Kosovo.” Dividends are also exempt from corporate tax. According to Law No. 06/L-105, on Corporate Income Tax, Chapter II, Article 8:

1. The following income shall be exempt from corporate income tax:
   1.8. dividend paid or received for resident and non-resident person.
The heat map on the left showcases Kosovo’s dividend withholding tax rate (or exemption thereof) in comparison to that of other countries in the Western Balkans.

PwC data, Heat Map 1 made by AmCham

The heat map on the right showcases the dividend tax rates of European OECD Countries in 2020.

OECD, “Tax Database: Table II.4. Overall Statutory tax rates on dividend income,” Heat Map 2 made by AmCham
This tax exemption was reiterated in 2008, in which case Muharrem Shahini, a Ministry of Finance official, expressed that:

“The primary purpose of these tax changes is to support the economic activity of local businesses and to create a more favorable tax environment for foreign investment in the country. To achieve this goal, we have organized regular meetings with Chambers of Commerce and local business representatives, including foreign investors, so that tax changes reflect the demands that come from businesses. The proposal to set the tax rate on dividends in the amount of 10% has been brought to discussion at these roundtables by the Ministry of Finance. However, a general mood from businesses and civil society has been that this measure should not be included in the tax draft laws.”*

*translation by AmCham

In addition to the official’s note, Deloitte summarized a 2018 government proposal which suggested that “Dividend income, which currently is exempt from tax, would be taxed at a rate of 10%, and distributions of dividends would be subject to a 10% withholding tax.” Yet, as previously stated, dividends remain exempt from taxation in Kosovo.

Working groups within the Tax Administration of Kosovo (TAK) continue advocating for the imposition of a dividend tax in Kosovo that would make both residents and non-residents tax liable. They claim that a new dividend tax would prevent the potential for capital flight and untaxed profit exits from the country. The American Chamber of Commerce in Kosovo supports progressive and comprehensive reform as long as it does not have a disincentivizing effect on potential investors in Kosovo. This Spotlight provides a thorough picture of the current dividend tax exemption policy that has boosted dividend distribution and investment in Kosovo and that should continue being the legal basis.

Kosovo’s Double Taxation Agreements with international partner countries

As of now, Kosovo has Double Taxation Treaties (DTT) with the countries listed in the table below. These treaties provide a legal basis that helps companies avoid double taxation.
Additionally, according to Law No. 03/L-071, Article 40:

61.2 Where the existing tax laws relative to the international juridical double taxation of income and capital of persons in the Republic of Kosovo do not address such taxation, the principles of the OECD Model Tax Convention on Income and on Capital shall apply in order to avoid double taxation of such income and capital. [1]

### Table: Enforced and Applicable dates of dividend taxes and tax rates

<table>
<thead>
<tr>
<th>Country</th>
<th>Enforced since:</th>
<th>Applicable since:</th>
<th>Tax on Dividend*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>31.12.2018</td>
<td>01.01.2019</td>
<td>15%</td>
</tr>
<tr>
<td>Belgium</td>
<td>23.02.2010</td>
<td>13.04.2012</td>
<td>10, 15%</td>
</tr>
<tr>
<td>Great Britain</td>
<td>09.07.2015</td>
<td>01.01.2016</td>
<td>5, 15%</td>
</tr>
<tr>
<td></td>
<td>September, 2010</td>
<td>January, 2011</td>
<td>15%</td>
</tr>
<tr>
<td>United Arab Emirates</td>
<td>03.07.2017</td>
<td>01.01.2017</td>
<td>5%</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>23.07.2019</td>
<td>01.01.2020</td>
<td>0, 10%</td>
</tr>
<tr>
<td>Finland</td>
<td>02.09.2011</td>
<td>02.09.2011</td>
<td>5, 15%</td>
</tr>
<tr>
<td>Germany</td>
<td>02.09.2011</td>
<td>02.09.2011</td>
<td>15%</td>
</tr>
<tr>
<td>Hungary</td>
<td>13.01.2014</td>
<td>01.01.2015</td>
<td>0, 15%</td>
</tr>
<tr>
<td>Croatia</td>
<td>04.12.2017</td>
<td>01.01.2018</td>
<td>5, 10%</td>
</tr>
<tr>
<td>Latvia</td>
<td>not enforced</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Lithuania</td>
<td>not enforced yet</td>
<td>N/A</td>
<td>0, 15%</td>
</tr>
<tr>
<td>Malta</td>
<td>20.09.2019</td>
<td>01.01.2020</td>
<td>0, 10%</td>
</tr>
<tr>
<td>North Macedonia</td>
<td>06.06.2011</td>
<td>01.01.2014</td>
<td>0, 5%</td>
</tr>
<tr>
<td>Kingdom of Saudi Arabia</td>
<td>01.08.2020</td>
<td>01.01.2021</td>
<td>5%</td>
</tr>
<tr>
<td>Slovenia</td>
<td>14.04.2014</td>
<td>01.01.2015</td>
<td>5, 10%</td>
</tr>
<tr>
<td>Republic of Albania</td>
<td>28.09.2004</td>
<td>01.01.2005</td>
<td>5, 8%</td>
</tr>
<tr>
<td></td>
<td>25.04.2014</td>
<td>01.01.2016</td>
<td></td>
</tr>
<tr>
<td>Turkey</td>
<td>08.11.2012</td>
<td>01.01.2016</td>
<td>5, 10%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>10.10.2018</td>
<td>01.01.2019</td>
<td>5, 10%</td>
</tr>
</tbody>
</table>

*Some treaties provide for exemptions for certain types of dividends.

Source: TAK, Table made by AmCham

**The potential consequences of imposing a new dividend tax:**

The no-tax policy on dividends has certainly contributed to the growth of dividend payments in Kosovo. Regression analyses show that “profitability and capital have positive correlations to the dividend distribution,” whereas internal barriers, such as dividend taxes, have a negative relation with dividend distributions [2].

[1] For more information on the OECD Model Tax Convention on Income and on Capital, see link
Considering the elasticity, liquidity, limited number of DTTs, and the unique business environment in Kosovo, the potential consequences of imposing a new dividend tax could include the following:

- substantial decrease in the distribution of dividend payments
- disincentive for domestic and foreign, current and potential, investors to invest
- trigger for a huge sell-off in the market (capital flight), at least initially
- destabilization of business environment which would reduce the confidence of potential new investors
- encouragement for companies to rely extensively on debt financing rather than equity financing
- adoption of tax avoidance measures and, in the worst scenario, tax exile

Further, if the government would introduce new regulation to avoid tax avoidance, then that would have other potential consequences, including complicating the current tax system, increasing tax compliance and collection costs, and increasing the risk of losing government revenue because of possible capital flight [3].

CONCLUSION AND NEXT STEPS

The tax exemption of dividends, provided by the jurisdiction of the Republic of Kosovo, has certainly influenced the business environment and has, more specifically, incentivized an increase in investment and dividend payments. Furthermore, it is important to note the (temporary) changes that COVID-19 has brought upon the dividend pay-out scene. Based on the recommendation of the Central Bank of Kosovo (CBK), there were no dividends distributed by many companies during 2020, in Kosovo. CBK reports that this “was reflected in the increase of the share capital of financial institutions and, consequently, the increase of this position in [Foreign Direct Investment] in the country” [3]. The long-term consequences of these recent changes have yet to be seen, but economic chambers should continue supporting the no-tax on dividend policy to keep incentivizing investment and dividend payments in the private sector.

REFERENCES

CBK, “Financial Stability Report, Number 17,” [Link]
CBK, “Quarterly Assessment of Macroeconomic Developments, Nr. 33, Quarter IV/2020,” [Link]
Deloitte, “Corporate income tax changes proposed,” [Link]
Klan Kosova, “Kush përfiton nga mostatimi i dividendës në Kosovë,” [Link]
OECD, “Model Tax Convention on Income and on Capital 2017,” [Link]
OECD, “Tax Database: Table II.4. Overall Statutory Tax Rates on Dividend Income,” [Link]
ProCredit Bank Kosovo, “Annual Reports,” [Link]
PwC, “Corporate - Withholding Taxes,” [Link]
Raiffeisen Bank Kosovo, “Annual Reports,” [Link]
TAK, “Double Taxation Agreements,” [Link]
TAK, “Legislation,” [Link]