

Position Paper

Bringing Kosovo's legislation on ICT Industry in line with the European Standards

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Summary

After doing research on the state of the VAT and Customs of ICT equipment in the countries in the region, STIKK with the support of DFID initiated drafting of the document "Consultative Paper" which will be presented to the Government of Kosovo to provide a favourable environment for the growing development of ICT sector.

ICT Industry in Kosovo

- Government of Republic of Kosovo so far has approved many laws, administrative directions, policies, and standards applied, which regulate the application of ITC in governmental institutions. *Law on Telecommunications* governs all telecommunications services and all telecommunications service providers in Kosovo. *Law on Information Society Services* that makes electronic documentation legally equivalent to its traditional counterpart in paper format, in order to facilitate commercial activities i.e. e-Trade, e-Banking, e-Payment, e-Government, e-Procurement. *Law on the Administrative Procedure* regulates the electronic execution of activities of the public administration. Moreover, *Law on Copyright and Related Rights*, and *Law on Scientific Research Activity* has been adopted, *Law on the Protection of Personal Data*, and *Law on Prevention and Fight of the Cyber Crime* have been drafted and are being considered for approval by the government.

However, legal infrastructure is insufficient to provide the acceptable penetration rates and cheap usage of the modern and broadband communication technologies. Therefore an overarching factor that is central in the development of the IT markets in any country is the policy that the government is undertaking **with regards to Customs Duties and Tax of IT Goods and Services.**¹

¹ See, Abdullahu, Arben, "Kosovo ITC Market Report Impact of Customs and VAT on the ITC Market in Kosovo" STIKK <http://208.116.30.215/repository/docs/ICT%20Trade%20Report.pdf>

Alignment with the European Standards

- *Understanding that more proactive policies are needed to respond to the constantly accelerating technological change and global competition, the EU has reaffirmed its commitment to the Information Society by adopting a new strategic framework **i2010 – European Information Society 2010**, laying out broad policy orientation². It promotes an open and competitive digital society and emphasizes Information and Communication Technologies (ICT) as a driver of inclusion and quality of life.*
- *Against this background, Kosovo as a potential candidate country for the accession to the European Union needs to accelerate the process of building open information society and knowledge economy in order to keep its path on the way of European integration. Kosovo should follow the European practice of fostering research in ICT which is one of the highest priority themes of the EU's Seventh Framework Programme (FP7) for Research and Technological Development, which will fund research across Europe from 2007-2013.*
- *In the last year European Progress report for Kosovo the European Commission has indicated that the “Overall, information society services need to be further developed. The relevant strategies and action plans are yet to be fully implemented.”³*

Economic Impacts of Customs Duties and VAT Reductions

The application of reduced customs duties and tax rate based on the experiences from the neighboring countries should not bring a dramatic reduction of tax revenues from this industry.⁴ First of all, the IT Industry and IT spending is a small portion of the total revenues of Kosovo. According to different analysis⁵ the revenues of Kosovo are put to US\$ 1.19 billion (2007 estimate) which brings the IT spending revenues to 0.55% of the total revenues for the 2007.

² See, www.europe.eu.int/i2010

³ See, European Commission Progress Report, Kosovo under UNSCR 1244/99 2009, page 41
http://www.delprn.ec.europa.eu/repository/docs/ks_rapport_2009_en.pdf

⁴ See, Abdullahu, Arben, “Kosovo ITC Market Report Impact of Customs and VAT on the ITC Market in Kosovo” STIKK <http://208.116.30.215/repository/docs/ICT%20Trade%20Report.pdf>

⁵ See, CIA World Fact book <https://www.cia.gov/library/publications/the-world-factbook/geos/kv.html>

Hence, even big cuts in the customs duties and VAT rate will have almost negligible effects on the revenues of the state.

Nevertheless, the decision about reduction of tariffs must not be based solely on their fiscal effects. In fact, this is probably the weakest argument that can be made pro maintaining “Business as Usual” approach. The most compelling argument in favor of liberalization of the trade of ITC goods and services stems from the determinations of the countries from the region to become a peer member of the European Family.

Proposed changes will have following effects:

- It will become meaningless for the Black Marketers to continue the practice of contra banding goods across the border.
- IT Market will register a spike because all the unregistered sales that are being carried out now will turn into official sales and by that, to an official statistics.
- The most significant development of these measures is usually on the effects of market demand. Such a move has a tremendous psychological impact on the perception of the population in general because it makes the people feel that they are in the same paths with the rest of the world.

Recommendations

Based on the abovementioned facts we recommend that following measures need to be taken by the Government:

- Amendment of Excise Code of Kosovo while reducing Customs Tariffs for ICT goods and services to 0% and harmonizing with the European Union and neighboring countries. We recommend that Customs Tariffs should be 0%.
- Amendment of the Law on Value Added Tax while harmonizing the VAT to the standards adopted by the European Union and neighboring countries. We recommend that VAT on the ICT goods should be 5%.
- In the case the reduced Customs Duty of 0% is applied and the VAT is reduced to 5%, the positive cash flows in the KCB are estimated to be reduced to US\$ 3.16 million in 2010 and increase slowly to US\$ 5.70 million in 2013.⁶

⁶ See, Abdullahu, Arben, “Kosovo ITC Market Report Impact of Customs and VAT on the ITC Market in Kosovo” STIKK <http://208.116.30.215/repository/docs/ICT%20Trade%20Report.pdf>