

VALUE ADDED TAX HARMONIZATION- A DISCUSSIONS ON THE LEGAL AND FINANCIAL VAT ASPECTS IN THE EU STATES AND THE CASE OF KOSOVO

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ABSTRACT

This study treat the harmonization of VAT legislation in theory and practice in order to approximate the policy of European integration in an area without internal frontiers that guarantees the fundamental freedoms of movement of capital, goods, individuals, and services, in a single market of integrated. Fiscal policy is determined by the socio-economic and geo-political factors of the country, but recently the European perspective, including the criterion of harmonization with the "acquis communautaire", has also influenced it. Analyzing the applicable legislative framework will assess the extent to which national legislation is in line with European Union VAT legislation and the efforts of countries to harmonize. The methodology used in this paper is quantitative and qualitative analyses. Some of the methods that will be use during this paper are descriptive, comparative and synthesis method. In general, the paper will address the question of why fiscal harmonization is actually needed and what the consequences of a competitive situation for member countries might be. The findings emphasize that there can be no talk of full harmonization because the design of the national tax system is the competence of the MS. Finally, the benefits of VAT for the state budget will be assessed.

Keywords: EU Law, VAT legislation, Harmonization, Internal Market, EU, Kosovo

INTRODUCTION

Where is the importance of harmonizing the tax system in general and VAT in particular? Today, we are witnessing integration processes through interstate transfers of goods, services, capital and individuals, especially between countries. of the European Union but also of non-member countries. Therefore, tax harmonization is one of the legal criteria for integration, which means the creation of a common European market.

Regarding the definition of tax harmonization, different authors have given different opinions.

According to one definition, *"tax harmonization is the process of eliminating obstacles and differences between the tax systems of different countries included in the European Union"* (Lyons, 1996).

According to the author Musgrave, *"harmonization should be perceived as a process of adjusting the national fiscal system to common economic objectives"* (Musgrave, 1967).

The author Rounds suggests that *"the term harmonization be used in situations where changes in member states' tax systems are removed either by mutual cooperation or by federal government policy"* (Rounds, 1992).

The other author, Hitiris (1994), advocates a broader angle of perspective, defining two approaches. *"The first approach is presented by the approach - which results in the situation when all countries apply the same tax system. The second approach is called fiscal divergence - it enables each country to implement its tax system as a means to achieve economic objectives"*.

We can talk about full economic integration only through the harmonization of tax legislation with the “*acquis communautaire*”, which is a complex and challenging issue due to the diversity in national social policies and that the EU legal order cannot be easily understood due to the language of Treaties, Directives, which are often somewhat vague, with allusions not easily understood.

All legislation and practices of the EU jurisdiction are known as the “*acquis communautaire*” or for short the “*acquis*”. The “*acquis communautaire*” means all laws and regulations of the European Community which must be adopted and implemented by all Member States and those aspiring to European integration.

Initially, the Treaty of Rome 1957, Article 99, defined the harmonization of indirect taxes, which states: “*The Commission shall evaluate the legislation of the Member States relating to indirect taxes which may be harmonized in the interest of the internal market*”. Consolidated Version of The Treaty On The Functioning Of The European Union (2012)

The question to be asked is why the creation of the single market leads to the harmonization of indirect taxes? *An undeniable impact on the fiscal policies of states have indirect taxes which determine the fiscal revenues in the country, the economic activity of entities and social policies in the common market* (Uhl, 2006).

In the European Union, tax harmonization has been linked to the historical motive for the economic integration of member countries with a view to creating an “Internal Market” without frontiers since 1993. The other reason is related to the fact that the EU budget has been self-financed since 1970 from VAT revenues, therefore, VAT harmonization by member states is vital to ensure equal contribution to the EU budget. Council Decision of 21 April 1970 (1970).

The tax system is the result of various factors, e.g. those socio-economic, political, geographical, etc. of the respective states. Therefore, we say that there are no two countries that apply the same tax system or another that different types of taxes have the same role in another country, due to these determinants of fiscal policy in the country (Peci, 2017).

The legal basis for the harmonization of indirect taxes are Articles 90-93 of the EEC Treaty (*Treaty establishing the European Economic Community*). The following refers to the tax provisions of this Treaty which expressly states:

“(…) *no Member State shall impose on the products of other Member States any internal taxation of such a nature as to provide indirect protection for other products*”.

“*When products are exported to the territory of a Member State, any new internal tax payment shall not exceed the domestic tax imposed on them either directly or indirectly*”. Consolidated Version of the Treaty establishing the European Community (2002).

On a proposal from the Commission and after consultation with the European Parliament and the Economic and Social Committee, the Council shall adopt unanimously the provisions relating to the harmonization of indirect taxation with a view to promoting the common European market (Consolidated Version of the Treaty establishing the European Community, 2002).

The provisions of the Treaty establishing the EU governing the field of taxation produce legal effects for member countries according to which the tax systems of each member state may apply new forms of taxation in the tax system of the country, but have an obligation that some material elements of tax such as: tax rates, tax bases, etc., to harmonize them with EU legislation (Peci, 2017).

The 6th VAT Directive since 1977 has been criticized for setting VAT rules. It separates the definitions of terms related to taxes and normalizes the basic elements of tax engineering. The amount of VAT paid in the previous period may be deducted from the VAT currently due. In addition, the Directive obliged the members of the European Union to adopt the VAT system by 1 January 1978. Not all MS managed to meet the deadline - also another, set by the 9th Directive of 1978, set on 1 January 1979. In such situation the CJ (Court of Justice) prescribed that it rely on the 6th Directive, despite its incomplete application. (Karolak, 2011).

EU legislation, including the Treaties and Directives, aims to harmonize VAT rates by eliminating national fiscal policies which distort the functioning of the common market as a free zone without internal frontiers. Even in practice it has been proven that the common market without tax harmonization is only an illusion.

Harmonization of indirect taxes, including VAT in EU countries aims to ensure tax neutrality in the internal and integrated market (Dobrovolska, 2008).

Given the fact that the process of European integration has not ended, but on the contrary for some countries has just begun, as is the case with Kosovo, this speaks of the importance of harmonizing tax legislation in general and VAT in particular as *conditio sine qua non* (necessary condition) for Kosovo's membership in the EU, based on the experiences of member states, the legal criterion of harmonization must be met in terms of tax policies.

Therefore, the harmonization of tax legislation is considered a delicate issue, where countries like Kosovo that aspire to economic integration through the free movement of goods, services, capital and individuals across the state border have the condition of harmonization of tax legislation with EU Directives in order to achieve candidate country status. In the case of Kosovo, it is precisely the political challenges that have influenced the design of its tax system and policy.

Kosovo declared its independence on February 17, 2008. *The question is, was the tax legislation designed in accordance with the socio-economic reality in Kosovo?*

From 1999 to 2007, UNMIK was the designer of tax regulations in Kosovo, almost all copied from other countries, both transition countries and EU member states, without being composed with the socio-economic factors of the country nor with the Kosovar mentality.

Another question that arises is: *Does the legislation and tax system of Kosovo constitute the "sui generis" model, in function only of fiscal policy or does it also have an impact on increasing tax competition?*

The fiscal policy and system based on Resolution 1244, has practically failed in terms of public financing and economic development with all the elements. Even during the period of UNMIK administration, the most important instrument of the fiscal system was the customs. The customs system was intended only to replenish the UNMIK budget, but was not in the function of the country's economic development. With the proclamation of Kosovo's Independence (February 17, 2008) and after the approval of the Constitution of the Republic of Kosovo, the institutional basis for the fiscal system and policy is created. Kosovo's low level of economic development and fiscal system inherited from UNMIK and not advanced to the extent appropriate for a developed country provide limited resources for Kosovo's budget (Kadriu, 2012).

The fiscal system and policy in post-war Kosovo was fragile, incompatible with the real situation and unimplemented for the country. The self-governing institutions of that time were powerless in establishing genuine fiscal policies that focused only on filling the state coffers and were not in the function of the country's development. The fiscal system in Kosovo, although young and unstable, faces various ideas and challenges. Sometimes these ideas, often copied from modern countries without analysis of the social, economic and political situation in Kosovo, have been the source of multidimensional challenges.

For the countries of the Western Balkans but also for Kosovo, European integration continues to be a priority. As a precondition for European integration are the Copenhagen Criteria, which include the economic, political, legal criteria and finally the administrative criterion (digitalization of the administration). Based on these criteria, in the membership period, new members must have:

- Stable institutions that guarantee democracy, rule of law, human rights and respect for and protection of minorities;
- Functional market economy and capacity to cope with the pressure of competition and market forces within the union;

- Ability to take on the obligations of membership, including supporting the goals of the union. Those countries should have a public administration, capable of implementing and managing EU law in practice (Fonten, 2010).

Despite the efforts of states for harmonization, we conclude that, still, we can not talk about a unique tax policy, despite the fact of creating a common market. This is due to the competence of the EU member states to regulate the internal tax systems according to the determining factors of their socio-economic development. Add to this the fact of the membership of new states which have highlighted differences in the European Union.

The research questions in this study include:

RQ1: Is there a harmonization of VAT rates of tax legislation between member states and Kosovo with EU tax legislation?

The hypotheses of this study are:

H1: Despite the application of the internal market, there is still no single and common tax policy. Since the design of the national tax system remains the competence of the MS, it is difficult to talk about full harmonization of VAT in the European Union. In addition, differences have deepened with the membership of the new states due to the concentration of budget revenue collection from indirect tax forms.

H2: Kosovo as an aspiring state for EU membership has met the legal criteria for harmonization of VAT legislation with EU Directives, adapting to the specifics of socio-economic and institutional development of the country.

LITERATURE REVIEW

Theoretical and Legal Framework on the Harmonization of VAT Legislation in the EU and in Kosovo

The economies of the European Union (EU) reached a higher level of integration after the evolution from Customs Union to Monetary-Economic Union took place in this organization. In such situations, the economic integration process should be followed by the adoption of tax legislation based on regulations (Karolak, 2011).

"While EU-wide harmonization is a contentious issue, for some Member States wishing to remain competitive in a global tax market, more integrated tax reporting, collection and collection systems need to be implemented. shipments across the EU. This will also advance the goals of the common market. But in order to achieve ambitious goals, MS, and most importantly the European Union as a whole, must focus on pursuing deep reforms in their tax system. "However, such reforms must be introduced after the crisis has passed as a result of COVID-19 so that they do not jeopardize the economic recovery" (OECD, 2020). This will require coordinated efforts by all member states.

Harmonization of tax systems has always been a contentious issue given that different tax policies can be a major economic boost for different nations and their concerns about fiscal sovereignty. Some governments use attractive tax policies (eg reduced tax rates, exemptions from certain types of income) and state subsidiary practices to attract foreign investment into their jurisdictions. Although these are legitimate investment attraction policies (especially in jurisdictions that are normally less attractive to foreign investment), some are considered harmful practices that undermine competition and lead to the avoidance of national tax bases. Harmful tax practices are often associated with tax havens (e.g. Cayman Islands), also pursued by some Member States, leading, in some cases, to infringement proceedings against the same states (e.g. the Starbucks case proceedings against the Netherlands). "Dutch tax deal with Starbucks was legit, and not state-aid: European court" (2019).

Harmful tax practices include the use of zero or reduced levels of tax rates, or the promotion of treaty avoidance practices. However, these practices reduce trust between member countries, increasing barriers to harmonization across the EU.

Primary EU Legislation

Treaties

1. Article 113 of the Treaty for Establishing the European Economic Community (TEEC) provides: *“The Council, acting unanimously in accordance with a special legislative procedure after consulting the European Parliament and the Economic and Social Committee, shall adopt provisions for the harmonization of legislation in regarding turnover taxes, excises and other forms of indirect taxes to the extent that harmonization is necessary to ensure the creation and functioning of the internal market and to avoid unfair competition”* (Consolidated Version of the Treaty establishing the European Community, 2002).
2. Treaty of Rome- Treaty for Establishing the European Economic Community (EEC), Article 95 states: *“MS shall not impose, directly or indirectly, on the products of other Member States any internal tariffs of any kind, moreover than those applied indirectly or directly to compare domestic/domestic products ... or in a way to provide indirect protection for other products..”* (Treaty establishing the European Economic Community, 1957).
3. *The Single European Act strengthened the legal basis for action in the field of taxation by reformulating Article 99 of the EEC Treaty. It asked the Commission to: “consider how the legislation of the various Member States relating to turnover taxes, excises and other forms of indirect taxation ... can be harmonized in the interest of the Common Market”. It now states: “The Council will adopt provisions for the harmonization of legislation relating to turnover taxes, excises and other forms of indirect taxation to the extent that such harmonization is necessary to ensure the establishment and functioning of the Internal Market...”. European Parliament (1995).*

EU secondary Legislation

Directives

1. The first Council of Europe Directive 67/227 on the harmonization of turnover taxes in the MS states that: *“(...) the Commission shall submit to the Council, (...) proposals on how and within what period the harmonization of turnover tax may achieve the purpose of abolishing the imposition of an import tax and abolishing the export tax on trade between Member States, while ensuring the neutrality of such taxation in relation to the origin of goods or services. In this connection, particular account shall be taken of the relationship between direct and indirect taxes, which varies from one Member State to another; the effects of changes in tax systems on the tax and budgetary policies of the Member States and the impact that tax systems have on competition and social conditions in the Community ”* First Council Directive of 11 April 1967 (1967).
2. The Second Directive 67/228/EEC on the harmonization of turnover taxes, with special emphasis on the structure and procedures for the application of the common VAT system with the provisions of Article 17 provides: *“With a view to the transition from the current tax systems of circulation in the common system of Value Added Tax, Member States may:*
 - *Approve transitional measures for tax collection in advance;*
 - *Apply, during a certain transitional period, in relation to capital goods, the method of deduction in annual installments (deductions pro rata temporis);*
 - *Exclude, in whole or in part, capital goods from the deduction system provided for in Article 11 (...) during a certain transitional period”* Second Council Directive of 11 April 1967 (1967).
3. Council Directive 2006/112/EC of 28 November 2006 on a common system of value added tax/Directive 6 (Six) on VAT – in the preamble to this Directive states:
 - *“A necessary requirement of EU member states to ensure a common VAT system based on the principle of non-discrimination of the country of origin of progress and service, so that the common market functions as a mechanism where free and fair competition will ensure the functioning of the common market;*
 - *The subject of the conflict between the jurisdictions of the various Member States is the meaning of the terms: taxable person and taxable transaction;*
 - *In particular, as regards the place of supply of goods and the place of supply of services and its modalities;*

- *Within the EU Community the harmonization of tax liability and burden and the harmonization of tax levels should be done;*
- *Request for harmonization of the rules that will be applied with the application of tax deductions and establishment of a uniform way of its implementation in all member states;*
- *Determining the entities that will become taxpayers and in particular when the service provider is non-resident;*
- *Implementation of special schemes, e.g. for farmers and introduction of fixed fees” Council Directive of 28 November 2006 (2006).*

Although tax harmonization is part of EU legislation governed by Treaties and Directives as noted above, EU Member States have not yet reached a consensus on a set of rules for a common EU tax base., tax rates and deductions. Most aspects of taxation are determined and dealt with individually by member states and are not part of common competencies within the EU. As member states co-operate on several tax-related areas, such as combating abusive and aggressive tax practices within the EU.

The EU VAT Directive obliges its implementation for all Member States. However, it allows states to introduce exceptions to VAT regulations. Council Directive 2006/112/EC, in Art. 97 and 98 sets only a minimum rate of 15%. This means that Value Added Tax rates vary from country to country. Currently, European Union MS apply standard rates ranging from 15% to 27%. They can also apply one or two VAT reduced rates, with a minimum of 5%. (Council Directive of 28 November 2006, 2006).

As stated above, the legal regulation of the harmonization of VAT rates includes primary legislation (Treaties) and secondary legislation (VAT Directives). They are mandatory for member states to harmonize in their domestic legislation because with the case of accession in EU, states renounce their sovereignty and accept European Union law as a supranational right, which has priority in implementation over domestic legislation.

"(...) anyone who believes that this harmonized Value Added Tax system actually results in equal Value Added Tax rules and requirements for each European Union MS is wrong. Tax rates and some major exceptions are not harmonized, ex. country-specific invoice requirements and Value Added Tax return report standards and invoice texts vary from country to country. Penalties resulting from Value Added Tax violations even vary from country to country. For example, some countries impose fines for incorrect bill counting, while others do not. The same applies to non-reporting of reverse charge Value Added Tax. The European Union Value Added Tax Directive allows countries to make their own interpretations of these Value Added Tax issues. It is precisely these exceptions that constitute the complex part of European Union Value Added Tax legislation. Setting specific country rules makes it even more complicated to comply with all relevant regulations”. (Biggelaar, Janssen & Zegers, 2008).

From the above, the following hypothesis is formulated:

H1: Despite the application of the internal market, there is still no single and common tax policy. Since the design of the national tax system remains the competence of the MS, it is difficult to talk about full harmonization of VAT in the European Union. In addition, differences have deepened with the membership of the new states due to the concentration of budget revenue collection from indirect tax forms.

Constitution, Laws and Bylaws of the Republic of Kosovo Related to VAT

1. The Constitution of the Republic of Kosovo, in article 119.8, states: *“Every person is obliged to pay taxes and other contributions provided by law”*. Constitution of the Republic of Kosovo 2008 (2008).
2. Regulation no. 2001/11 of 31 May 2001 on Value Added Tax, Value Added Tax (VAT) is a consumption tax and belongs to the group of indirect taxes. VAT in Kosovo started to apply on July 1, 2001 according to UNMIK Regulation no. 2001/11. This Regulation in Article 2 provided: *“Value Added Tax shall be levied at the rate of 15% on the taxable value of imports, imports from the FRY and taxable supplies except for taxable supplies at zero percent. Value Added Tax will be levied at the rate of 0% on the taxable value of taxable supplies with zero percent described in Article 10 of this regulation.* Regulation of 31 May (2001)

In Kosovo during the UNMIK administration, VAT was established on the basis of Regulations and Administrative Instructions, while with the declaration of independence of Kosovo, VAT was regulated by Law no. 03/L-114 on Value Added Tax.

3. Law no. 03/L-114 on Value Added Tax - Article 2 states:
 1. VAT is levied in accordance with the provisions of this law, on the taxable value of imports, inputs and taxable supplies.
 2. VAT will be paid at the rate of 16% of the taxable value of imports, inputs and other taxable supplies with the exception of zero rate supplies.
 3. VAT will be paid at the rate of 0% on the taxable value of supplies taxable at the rate of zero, as defined in Article 10 of this law. Law on Value Added Tax (2009).

Law no. 03/L-146 on Value Added Tax have repealed this law.

4. Law no. 03/L-146 on Value Added Tax- This law in Article 26 provides the standard Value Added Tax rate of 16%. In the provisions of this article, it is further stated: *“The Minister of Economy and Finance, with the decision of the Government of Kosovo and after approval by the Assembly, may issue a sub-legal act for the introduction of the reduced rate not lower than five percent (5%) for supplies of certain goods and services. According to the same procedure and if necessary, the Minister may also introduce the temporary increased VAT rate not higher than twenty-one percent (21%) to be applied to certain supplies of goods and services. Reduced and raised rates may apply only to supplies of goods and services, as found in Annex III. Law on Value Added Tax (2010). Annex III of this Law defines the Limited List of items subject to the reduced VAT rate (6%), such as: food items with the exception of alcoholic beverages, water supply, supply of services, etc. List of supplies of goods and services to which the established rate referred to in paragraph 2 of Art 26 may apply; Goods and services to which the established rate may apply:*
 - Passenger vehicles sold in Kosovo for the first user of the vehicle, which including all normal options and services rendered at the time of sale are sold at a price of 25,000 euros or more;
 - Alcoholic beverages with an alcohol content of 8% (15%) or higher;
 - Perfumes and cologne and
 - Tobacco and tobacco products. (Law on Value Added Tax, 2010)
5. Law no. 05/L -037 on Value Added Tax- An integral part of the new fiscal package, which has started to be implemented from September 1, 2015 is the new Law on Value Added Tax. This package brought a number of changes, but the biggest change is exactly that of VAT. The new Law on VAT defines two VAT rates, such as:
 - Standard VAT rate 18% and
 - Reduced VAT rate 8%. Law on Value Added Tax (2015)
6. Administrative Instruction Mf-Nr. 01/2018 to supplement the amendment of Administrative Instruction no. 06/2016 on the implementation of Law no. 05/L-037 on VAT- This Administrative Instruction defines the rules and procedures for the implementation of VAT according to the legal provisions set out in Law no. 05/L-037 on Value Added Tax. Republic of Kosovo, Government, Ministry of Finance (2018).

VAT in Kosovo started to be apply on July 1, 2001 in accordance with UNMIK Regulation. With this Regulation, VAT was provided 15% on the tax value of imports and 0% of exports. With the declaration of independence of Kosovo, VAT is regulated by Law no. 03L/114 for VAT and was paid at the rate of 16% of the tax value from imports, supplies of products and services, in addition to supplies provided for at the rate of zero (0). Therefore, we have tax rate increase from 15% to 16%. From 1 September 2015, all taxpayers who are Value Added Tax payers must apply the reduced rate of 8% and the standard rate of 18%, depending on the supply of the product or service (Law on Value Added Tax, 2015).

Kosovo, as well as other countries in transition, in their tax structure have applied different forms of taxes depending on their level of economic development, where higher income countries have built tax structure and administration more similar to member countries EU to be integrated into the EU through the harmonization of the tax system. Whereas, the countries with lower tax revenues are characterized by weak tax administration and are mainly based on indirect tax forms (Peci, 2011).

Kosovo has continuously made efforts to harmonize the tax system with EU legislation and practices, therefore the VAT legislation in our country has undergone numerous and frequent changes in order to meet European objectives with a modern tax administration, efficient tax system and harmonized with European Union MS. We emphasize that Kosovo has a simple tax system and harmonized with EU Directives.

However, other issues related to the elimination of administrative barriers need to be addressed in order to achieve full tax harmonization of the tax system Task Force for European Integration (2013).

Regarding tax rates, as we quoted above, the 6th VAT Directive, which sets a reduced Value Added Tax rate of not less than 5% and a standard rate of not less than 15%, Law in force for VAT in Kosovo is in line with this Directive by setting a reduced rate of 8% and a standard rate of 18%.

Based on the revised literature, the following hypothesis is formulated:

H2: Kosovo as an aspiring state for EU membership has met the legal criteria for harmonization of VAT legislation with EU Directives, adapting to the specifics of socio-economic and institutional development of the country.

Financial Aspects of Value Added Tax as a basic form of Public Revenue in the European Union States and Kosovo

One of the dominant forms of indirect taxes is VAT where indirect tax revenues create the substantial part of budget revenues.

The following is a list of Value Added Tax Rates in EU MS, including the United Kingdom (UK).

Member States (MS)	Reducet Rate	Super-Reducet Rate	Parking Rate	Standard Rate
Belgium (BE)	6/12	-	12	21
Bulgaria (BG)	9	-	-	20
Czech Republic (CZ)	10/15	-	-	21
Denmark (DK)	-	-	-	25
Germany (DE)	7	-	-	19
Estonia (EE)	9	-	-	20
Ireland (IE)	9/13.5	4.8	13.5	23
Greece (EL)	6/13	-	-	24
Spain (ES)	10	4	-	21
France (FR)	5.5/10	2.1	-	20
Croatia (HR)	5/13	-	-	25
Italy (IT)	5/10	4	-	22
Cyprus (CY)	5/9	-	-	19
Latvia (LV)	5/12	-	-	21
Lithuania (LT)	5/9	-	-	21
Luxembourg (LU)	8	3	14	17
Hungary (HU)	5/18	-	-	27
Malta (MT)	5/7	-	-	18
Netherlands (NL)	9	-	-	21
Austria (AT)	10/13	-	13	20
Poland (PL)	5/8	-	-	23
Portugal (PT)	6/13	-	13	23
Romania (RO)	5/9	-	-	19
Slovenia (SI)	5/9.5	-	-	22
Slovakia (SK)	10	-	-	20
Finland (FI)	10/14	-	-	24
Sweden (SE)	6/12	-	-	25
United Kingdon (UK)	5	-	-	20

Source: European Commission TAXUD. (2020). VAT rates applied in the Member States of the European Union Situation at 1st January 2020. Retrived from https://ec.europa.eu/taxation_customs/sites/taxation/files/resources/documents/taxation/vat/how_vat_works/rates/vat_rates_en.pdf

The 6th Value Added Tax Directive stipulates that states apply the minimum Standard Rate of 15%. Based on Table 1, we note that two countries, Luxembourg (17%) and Malta (18%) have lower standard rates. The average standard rate is currently 20.7%, including four countries: Denmark, Croatia, Hungary and Sweden, applying standard rates of 25%-27%. De facto, there are goods, services that are not subject to the Standard Value Added Tax Rate, but some are subject to reduced rates, zero rates, and some are exempt from VAT. (European Commission, TAXUD, 2020).

	2018	2017	2016	2015	2014
Belgium	31,053	29,763	28,750	27,594	27,518
Bulgaria	5,097	4,664	4,417	4,059	3,810
Czechia	16,075	14,703	13,101	12,382	11,602
Denmark	29,121	27,966	26,770	25,672	24,950
Germany	235,130	226,582	218,799	211,616	203,081
Estonia	2,331	2,149	1,975	1,873	1,711
Ireland	14,175	13,060	12,603	11,831	11,528
Greece	15,288	14,642	14,333	12,885	12,676
Spain	77,561	73,970	70,214	67,913	62,825
France	167,618	162,011	154,490	151,680	148,454
Croatia	6,946	6,465	5,992	5,699	
Italy	109,333	107,576	102,086	100,345	96,567
Cyprus	1,951	1,765	1,664		
Latvia	2,449	2,164	2,032	1,876	1,787
Lithuania	3,522	3,310	3,028	2,889	2,764
Luxembourg	3,729	3,433	3,422	3,420	3,749
Hungary	12,950	11,729	10,595	10,676	9,754
Malta	920	810	712	673	642
Netherlands	52,619	49,833	47,849	44,746	42,951
Austria	29,323	28,304	27,301	26,247	25,386
Poland	40,411	36,330	30,838	30,075	29,317
Portugal	17,865	16,810	15,767	15,368	14,682
Romania	12,890	11,650	10,968	12,939	11,496
Slovenia	3,765	3,482	3,319	3,220	3,155
Slovakia	6,319	5,919	5,424	5,423	5,021
Finland	21,364	20,404	19,694	18,974	18,948
Sweden	43,433	44,115	42,770	40,501	38,846
United Kingdom	168,674	162,724	167,827	183,164	158,347
EU-28					
EU-27 2015	1,131,912	1,086,332	1,046,721	1,033,741	971,566
EU-26 2014					

Source: European Commission. (2020). Study and Reports on VAT Gap in the EU-28 Member States 2020 Final Report. Retrieved from <https://op.europa.eu/en/publication-detail/-/publication/48f32ee9-f3dd-11ea-991b-01aa75ed71a1/language-en>

Table 3 shows the change in nominal Value Added Tax revenues into three (3) components: Net Taxable Base, Effective Rate applied on the basis and Compliance Ratio.

Member State	Change in Compliance	Change in Effective VAT Rate	Change in VAT Base	Change in the VTTL	Change in Revenue
Belgium	1.2%	-0.5%	3.6%	3.1%	4.3%
Bulgaria	1.7%	-0.4%	8.0%	7.5%	9.3%
Czechia	-0.1%	-1.1%	7.8%	6.6%	6.5%
Denmark	1.2%	0.0%	3.2%	3.1%	4.3%

Germany	0.2%	0.2%	3.3%	3.6%	3.8%
Estonia	0.9%	-1.2%	8.8%	7.5%	8.5%
Ireland	0.3%	0.8%	7.4%	8.2%	8.5%
Greece	4.6%	0.5%	-0.6%	-0.2%	4.4%
Spain	0.4%	0.5%	3.8%	4.4%	4.9%
France	-0.3%	1.6%	2.2%	3.8%	3.5%
Croatia	2.1%	0.2%	4.3%	4.5%	6.8%
Italy	0.3%	-0.7%	2.0%	1.3%	1.6%
Cyprus	1.3%	1.0%	8.0%	9.1%	10.5%
Latvia	5.1%	-0.7%	8.4%	7.7%	13.2%
Lithuania	-1.0%	0.0%	7.5%	7.5%	6.4%
Luxembourg	-2.5%	5.2%	5.9%	11.4%	8.6%
Hungary	5.9%	-1.8%	9.4%	7.5%	13.9%
Malta	3.1%	0.3%	9.8%	10.1%	13.5%
Netherlands	0.7%	-0.3%	5.2%	4.9%	5.6%
Austria	-0.5%	0.9%	3.2%	4.1%	3.6%
Poland	5.1%	-0.4%	6.4%	6.0%	11.4%
Portugal	1.5%	0.6%	4.0%	4.7%	6.3%
Romania	0.7%	-2.0%	14.3%	12.0%	12.7%
Slovenia	0.6%	1.3%	6.1%	7.5%	8.1%
Slovakia	-0.5%	0.3%	7.0%	7.3%	6.7%
Finland	1.6%	-0.7%	3.8%	3.1%	4.7%
Sweden	1.3%	-0.6%	4.2%	3.5%	4.8%
United Kingdom	-0.3%	1.0%	4.0%	5.0%	4.6%
EU-28	0.5%	0.4%	3.3%	3.6%	4.2%

Source: (European Commission, 2020. Study and Reports on VAT Gap in the EU-28 Member States 2020 Final Report). Retrived from <https://op.europa.eu/en/publication-detail/-/publication/48f32ee9-f3dd-11ea-991b-01aa75ed71a1/language-en>

As depicted by Table 3, the main component that influenced the increase of VAT revenues was the increase of the base in 2018, which contributed almost 78% to the increase of VAT revenues in the EU. In most countries, both the Compliance Ratio and Tax Base were positive. Member States such as Romania, Latvia, Hungary, Poland and Malta, the overall effect of increasing the Compliance Ratio and Tax Base exceeded 10 % of Value Added Tax revenue in EU budget (European Commission, 2020).

Referring to OECD statistics, VAT contributes 30.5% of public revenues in 2014, while the share of VAT in GDP since 1965 has increased significantly from 3.2% to 7.0% for OECD member countries. In 2016, according to the OECD, VAT is applied in 167 countries. (Peci, Morina, 2017).

Value Added Tax (VAT) is the main source of tax revenues in Kosovo as well. In the first nine months (January 1 - September 30) of 2020, VAT accounted for approximately 47.9% of budget revenues. VAT was among the main drivers of local revenues, which amounts to 156.65 million euros of budget revenues. Republic of Kosovo, Government, Ministry of Finance, Treasury of Kosova (2020).

Type of tax and tax accounts	2018	2019	2020	%	Revised plan 2020	Comparison	
1	2	3	4	5=4/Σ	6	7=4/6	8=4/3
VAT	215,184,335	241,711,051	223,138,952	47.8%	239,793,495	93.1%	92.3

Source: Tax Administration of Kosovo. (2021). Annual Report of the Tax Administration of Kosovo January-December 2020.

Retrived from <https://www.atk-ks.org/wp-content/uploads/2021/04/RaportVjetor2020Neni8L03L-222.pdf>

From the data presented in the table we see the increase of VAT revenues for the period January-December/2018-2020 by about 7,954,617mil, while January-December/2019-2020 a slight decrease of about 18,527,099mil. VAT has a higher share compared to other types of taxes with 47.8%.

As mentioned above, from September 2015 the application of VAT of 8% on medicines has started, from zero as it was before September 2015. The introduction of VAT and the removal of the import tax has potentially made the medicines of domestically produced compared to imports of medicines outside CEFTA countries. According to Kosovo Agency of Statistics (KAS) data, consumer prices for apparatus and equipment (4.3%); outpatient services (5.5%); medical products, in October 2020 there was an increase in prices by 1.2%, compared to October 2019 in the HICP. Republic of Kosovo, Government, Ministry of Finance, Kosovo Agency of Statistics (2020)

Revenue collection from:	2019	2020	Change in %
VAT	606.4	547.6	- 9.7%

Source: Kosovo Customs. (2020). Annual Report 2020. Retrieved from https://dogana.rks-gov.net/wp-content/uploads/2021/05/Raporti_Vjetor_2020.pdf

From the data presented in table no. 5, we see a decrease in revenues generated by VAT at Kosovo Customs about - 9.7% in 2020 given the fact that this year has been quite challenging where in March 2020 the WHO declared the global pandemic Covid-19. Undoubtedly, VAT has a dominant role in the collection of budget revenues for the country. Transition countries, including Kosovo, need to focus on balancing indirect and direct taxes. Especially countries aspiring to European integration should focus on the application of VAT from the country's border within it.

RESEARCH METHODOLOGY

To analyze whether there is harmonization of VAT rates of tax legislation between EU member states and Kosovo with EU tax legislation, secondary data sources were used by the European Commission, Tax Administration of Kosovo, Kosovo Customs, for the fact that these institutions compile periodic annual reports and their data specify the accuracy of revenues in the country and in order to serve more detailed data. The covered period for data collection includes 4 months. All results are presented using the tables presented in the above chapter. However, in our terms of analysis, which are specific for the sake of the conditions imposed by the currently occurring COVID-19 pandemic, our study is a descriptive and comparative research and provides a good basis for presenting the level of harmonization of legislation between countries and the financial aspects of VAT as one of the basic forms of revenue in the EU and Kosovo. Also, a chronological and comparative summary of EU and Kosovo tax legislation regarding the harmonization of VAT rates has been made, starting from the hierarchy of legal acts from top to bottom, including Treaties, Directives, Regulations, Decisions, Constitution, Laws and other bylaws.

DISCUSSION

The issue of tax harmonization has aroused debate between countries, both in terms of harmonization of tax forms/structure as well as tax rates. Despite the efforts of the states for proper harmonization, such a thing was achieved only partially and this only to maintain a stable European single market. Even today, the debate between member states and the EU as whole is whether it would be more effective to harmonize taxes or maintaining tax

competition. From the above, we notice changes in the structure of VAT revenues in EU countries, which is associated with facts against the full harmonization of VAT rates and their impact on the country's revenues since the tax rates of EU countries are not the same and differ from each other.

Regarding the revenues in the state budget, we say that in the component of tax rates we can state about structural harmonization while tax competition must be retained. (Nerudová, 2004).

A MS, in order to signal the harmonization of domestic legislation with the “*acquis communautaire*”, must incorporate the VAT Directives into domestic legislation and implement them at their discretion. This choice of how to implement the Directive leaves room for local VAT legislation to vary from country to country (Kristoffersson, 2016).

The question is whether this study aims to inform the new EU States on how the case law and Value Added Tax Directives are understood by the old EU member states.

In 1995, countries such as Austria, Sweden and Finland became members of the EU. Thus, if we compare the jurisdictions of the EU founding states, we see multinational jurisprudence and different legal literature on VAT (Alhager, 2001). Today, the same can be said for the new MS such as Romania, Croatia, and Hungary. The VAT directives for these countries come from outside, ie from the EU, and are outside normative acts outside the context of their domestic legislation (Watson, 2008). Therefore, the culture of a country, its history and population are elements that are not included in the law. This diversity increases the trouble of understanding the harmonization of national legislation with that of the EU.

One of the factors that leads to spontaneous tax harmonization is tax competition. This presents the situation when, citizens or businesses of one member state buy products of the other member state due to the lower price and lower VAT burden. This situation between these countries has the spontaneous effect of harmonization (Hamaekers, 1993).

CONCLUSION

For state-building countries, such as Kosovo, European integration remains the goal and at the same time the main reason for internal reforms aimed at meeting the preconditions required to join developed European countries.

Regarding the research question whether there is a harmonization of VAT rates of tax legislation between EU member states and Kosovo with EU tax legislation, we can conclude that the legal initiatives that have resulted in legal acts have been harmonized with the EU legal framework. In addition, the design of fiscal policies is done in accordance with the socio-economic trend of countries. We emphasize that there are significant contributions as regards elimination of fiscal barriers in MS, as a primary goal of the promotion of the single market, and in the case of Kosovo despite inflows and achievements in the legislative sphere, there are still political and administrative obstacles to harmonization of the tax system as a whole. The issue of VAT harmonization remains one of the challenging topics within the European Community itself because the issue of tax rates is an internal competence of member states, so any country that claims economic growth will automatically increase its influence within the EU, in which case differences are created between member states. The harmonization process is in itself a dynamic process, therefore, member states and aspiring ones, such as Kosovo, must strictly follow the recommendations given by the EU institutions regarding the harmonization of taxes- as a process of removal of barricade and distinction between the jurisdictions of different states with a view to the free trade area.

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