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VAT REDUCTION IN 8% AND ITS IMPACT ON HOUSEHOLD BUDGET

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Abstract. Increased care, implementation, and greater importance in creating fiscal policies that impact in the economy and family consumption began after the declaration of Independence in 2008, when the first tax reforms were made. But the fiscal reforms called the "Fiscal Package 1 " which started its enforcement by the end of 2015, especially the VAT reduced rate for household consumption from 16% to 8% had the main effect on the consumer basket and the family budget, which is also the main approach of this paper. Based on the analysis of many indicators, statistical data and questionnaire we have verified how much was impact in the household budget by the decrease of VAT rate. We will give an overview on the influence of this reform on the household consumption basket by focusing mainly on essential products for living. By comparing the experiences of the countries in the region and the survey with the respondents we will be able to see how these changes were expected by the citizens, how do they evaluate the impact on their family budget, as well as possible suggestions for other positive ways that can contribute in saving the family budget. Hypothesis from the comparison of the results of the findings and the answers from the survey was verified that family consumption basket with VAT reduction has lower cost especially for public services and saving the family budget. While the implication on the general budget of the state from reduced VAT rate is very small, compared to the benefits of low-income households.

Keywords: VAT, Tax rate, household consumption

INTRODUCTION

Value Added Tax (VAT) is one of the most important topics in the literature of fiscal policy due to the fact that it is applied in more than 150 countries around the world, which use VAT systems including exceptions, reduced rates and zero rates.

The fiscal policies that were implemented in our country, especially after the war, mainly aimed at two basic elements: "that of generating sufficient budget revenues and allocating budget resources for the delivery of public services. As a consequence, three other important aims of fiscal policy: support to economic growth, economic stabilization and reduction of social inequalitywere neglected. An increased attention to and proper implementation of fiscal policy development and their impact on economy and household consumption started after the declaration of Independence in 2008 when the first tax reforms took place, but the biggest fiscal reform is the so- called "Fiscal Package 1", which started to be implemented at the end of 2015. Until this year a uniform or general VAT system has been implemented, where all products and services were taxed under the same rate of 16%, except for exempt supplies and those considered as exports. Whereas, the beginning of the tax reform in September 2015, also

marked the star of application of VAT with two tax rates, the standard rate of 18% and the reduced rate of 8%.
Indirect taxes, such as Value Added Tax (VAT), generate a significant share of tax revenues in many countries of the world. Many researchers consider VAT as the most efficient mean for generating budget revenues. (Delfin et al 2005)
Value Added Tax or VAT is a tax on consumption. VAT is paid by the consumer at the moment of purchase of goods and services, i.e. VAT is a tax on consumption (circulation of goods and services). It is collected by persons who are registered for this type of tax through realisation of various supplies carried out by consumers. The end consumer is the one who completes the final cycle with the sums of the added values of the supply and the payer of the tax.
VAT is a form of taxation that taxes the value that the seller has added to the selling price of the products and services in each stage of the cycle. The basis of the VAT is the difference between the supplying price and the selling price. Thus, Value Added Tax - (VAT) is a tax on consumption, which is indirectly paid by the consumer through businesses.
Through this paper we will provide data on the impact of the value added tax reform, focusing mainly and putting an emphasis on the changes made at the end of 2015, which reduced the VAT rate from 16% to 8% for essential products as well as on the impact of this change on the household budget. The purpose of this study regarding application of tax reforms in Kosovo with a special emphasis on the reduction of VAT tax rate to 8% is to provide scientific contribution not only to compare the effects of those reforms in the budget of household consumption but at the same time in the not very significant misbalance in the budget of the Republic of Kosovo. How it is viewed by our respondents as well as potential suggestions for other positive effects, which can have an impact in the household budget in one hand, and reduction of tax rate with effects on increased formal economy on the other.
Through scientific suggestions and with empirical comparisons of various tax reforms that have been applied in other countries, we will try to provide our suggestions in relation to impacts of reduced tax rates that could be implemented in Kosovo in the future.
Tax reforms on reduction of the VAT rate for essential products in Kosovo has been reflected in savings in the household budget allowing for an increased consumption from the basket of goods but also lower prices for public services (such as water and electricity). So, the objective of the paper is to verify the impact of reduced VAT in households through budget savings in increased purchase of more essential products in the basket of goods.

METHODOLOGY

The data from at least 50 respondents, mainly medium and low-income breadwinners, will be used to analyse the impact of the tax reform i.e. reduction of the VAT rate in the increased household budget savings and the number of essential living products included. On the other hand, through the analysis of statistics on tax collection by TAK, we will be able to find the implications in the state budget and in the increased number of declarers through increased turnover for the consumer goods. The application of quantitative method aims to identify the cause and the consequence of the relationship between the changes from the reduction of the VAT rate and the impact on the improvement of living standard. This research gives us an opportunity to explain how a phenomenon can have an effect on another.
For example, the change in tax rates has had an effect on increasing or decreasing consumption for essential living products, and also this reduction of this rate has had an effect on reducing or not the state budget. At the same time, the impact on the trend of business orientation towards sectors that have lower tax rate, e.g. orientation from products with standard rate of 18% to those with a low rate of 8%.

Questions/ Hypotheses

The hypotheses derive from the tax reform – the reduction of VAT rate that has been applied in Kosovo has had an effect on increasing household budget savings and at the same time this reduction of the tax rate has not significantly reduced the state budget,
From this we have:
H1 Reduction of the rate from 16% to 8% saves the household budget H2 Basket of goods for the essential products has a lower cost.
H3 Reduction of VAT rate has a negligible impact on Kosovo's budget revenues

BACKGROUND AND DIFFERENT OPINIONS ON VAT IN THE MODERN LITERATURE - THEORETICAL REVIEW

Value Added Tax (VAT) is the tax on consumption (paid by the end consumer), which is now applicable in more than 150 countries around the world. With the exception of the United States (USA), all countries that are members of the Organization for Economic Co-operation and Development (OECD) implement the VAT, including US partners in the North American Free Trade Agreement(NAFTA)
- Canada and Mexico. In the European Union (EU), which consists of 27 member states, adoption of VAT is a prerequisite for membership.
Although it is considered as one of the newest taxes in the history of modern economy of taxation, there are many studies on VAT. Even though it is one of the newest taxes, VAT for a relatively short time started to be implemented almost all over the world and it generates over 20% of total tax revenue.
Although in the beginning as a tax it was imposed with considerable difficulties, then it was abolished only to be returned again. A similar story is the case of VAT approval in Japan. Japan approved a VAT in 1950, delayed its effective date for several years, abolished it in 1954 and then issued another version of VAT in 1988.
VAT is considered the most important event in the evolution of tax structure in the last half of the 20th century (Sijbren Cnossen, 1998). The origin of VAT came as an idea of the German businessman Wilhelm Von Siemens in 1918, and American economist Thomas S. Adams in his writings between 1910 and 1921. The concept of Von Siemens on VAT was seen as a technical novelty which brought about a significant improvement of tax on turnover which now would avoid the problems caused by the cascade effect (cascade increase after each sale and turnover) Clara K. Sullivan (1965)
However, the imposition and beginning of the implementation of VAT at national level initially took place in France in 1954. Then it started to gradually be imposed in other countries by continuously being adapted, where the first country in Europe which adopted the complete VAT is considered to be Denmark in 1967 (Alan Schenk, Oliver Oldman (2007). In the Netherlands this tax was imposed in 1969, then in Luxemburg in 1970, in Belgium in 1971, Ireland 1972, Italy, Great Britain and Austria in 1973, Spain 1986, Greece 1987 and Finland 1994, to continue in all other countries and outside EU.
VAT approval can be characterized as a development with two main phases. The first phase occurred mainly in Western Europe and Latin America during the 1960s and 1970s. The raise of VAT in Western Europe was accelerated by a number of EC Directives requesting by the member states to adopt a harmonized VAT upon entry into the Union European whereby VAT was approved by all EU countries in an effort to align taxes with the aim to lay the foundations for the European free trade zone. Liam Ebrill et al (2007)
The second phase of VAT approval took place at the end of 1980s with the introduction of VAT into some high-profile industrialized countries outside the EU, such as Australia, Canada, Japan

and Switzerland. This stage also witnessed a massive expansion of VAT in transition and emerging economies, particularly in Africa and Asia, mainly with the influence of IMF and the US Agency for International Development (USAID) in promoting VAT through funding and technical assistance for emerging and transition economies. Thus, VAT began to be implemented in South Korea in 1977, China in 1984, India in 1985, Taiwan in 1986, Philippines in 1988, Japan in 1989, Thailand in 1992, Singapore in 1994, and Mongolia in 1998, to continue its implement almost all over the world.

Tax specialists and experts generally agree on what constitutes an ideal or 'good' VAT regime, they refer mainly to the recipe which includes a flat VAT rate extending up to the retail stages of the economy, imposed on a broad basis of consumption of goods and services with minimal exceptions. What distinguishes VAT from ordinary retail sales taxes, which is applicable in all countries is that VAT is imposed for every transaction in the production chain, instead of being collected only at the retail stage. Therefore, a more thorough definition of VAT is that it is an indirect tax that is applied in the consumption of goods and services which is charged with the value of imports and with the added value for goods and services supplied from one business to another until it reaches the end customer Emran, Shahe M (2005)

Today we can talk about three main types of VAT: The European model, the New Zealand model and the Japanese model. The New Zealand model is known as the Goods and Services Tax (GST) where the standard rate of 15% is lower than the OECD average rate, it does not apply reduced rates, except the zero rate for a small number of goods and services, the threshold for this tax to be obligatory is quite high or the annual turnover should be over NZ$ 60,000. (customs.govt.nz)

The Japanese model applies sales tax or consumption tax at a rate of 5 - 8%. Together with Canada, Singapore and Switzerland, they are known as the countries with the lowest rates of sales tax or VAT. (worldwide-VAT, EY)

Most jurisdictions have adopted a European model VAT including multiple rates (Standard Rate, Special Reduced Rate, Low Reduced Rate) as well as some VAT- exempt products and services.

As a basis for imposing a tax obligation, the VAT as a tax on consumption, uses the location of production (also known as the principle of origin) or the location of the final consumption (known as the principle of destination). A broad-based taxation such as the indirect type VAT which is paid by the end consumer is usually based on the principle of destination. According to this principle, exports are usually exempt from VAT, while imports are taxed. Kearney. M (2003).

VAT as an indirect type tax became acceptable for many reasons. The most important is that VAT does not harm investments because the business requests credit or deducts VAT on purchases. It also eliminates the cascade tax because the tax is paid by any stage and transaction in the production cycle (VAT, WB 2003). It is also neutral with regards to domestic production and imported goods as a principle of free trade economy.

VAT as a transparent taxation with the abovementioned features was embraced by most countries in Europe and beyond as the main source of revenue. In the European Union, it is one of the main sources of government revenue, one of the taxes with the highest participation in the general tax revenues.

The Pros and Cons of the reduced VAT rate

Value added tax (VAT) especially the topic of reduced rates is an on-going debate with arguments in favour and against their implementation by posing questions whether they are really reasonable, whether they have an impact on price reduction, whether there is an increase consumer demand for goods or services after the reduction of rates, which sectors are favourable

for their implementation, and other similar questions, most of which aim to argue the positive effects. However, many experts in this field pose questions and conduct analyses which go in favour of arguments against reduction of rates, e.g. the assumption that the application of these reduced rates increases the likelihood of tax evasion, contributes to cost increases and makes it more difficult to administer by the responsible authorities.
The above mentioned reasons, especially the latter ones, have led European Union experts to come up with ever-increasing requests that the current VAT system becomes more uniform with only one standard rate with the aim to improve economic efficiency and protect the functioning of the internal market. However, especially member states that have expressed their interest in reducing the VAT rate have continuously argued that the extent of reduced VAT on particular products would create economic benefits such as higher employment and less inequality.
In the context of this debate and many studies on the subject in question, there are opinions and arguments pro and against it, some of which we will mention in this paper;
Firstly, there is a strong general argument in the European Union for establishing uniform VAT rates with little or no exceptions in order to maintain a high level of economic efficiency and to mitigate functioning of the domestic market (Copenhagen Economics. (2007).
Secondly, the ever-increasing demand of member states to implement reduced rates particularly in foodstuff, tourism sector, home refurbishing and alike. Arguing that VAT reduction helps inequality in income by saving the basket of household consumption, it can then increase productivity and reduce unemployment, e.g. hotels, restaurants and other household services such as renovation for energy efficiency etc. The argument in favour of the application of reduced VAT rate is even more stable if such rate is set for certain necessary products for the family basket of goods and mainly for countries with consumption differences between high and low income groups, which implies a cost saving for the household budget (MEMO/03/149 Brussels 2003)
VAT and tax rates are approved by different countries in accordance with their respective specifics, whereas for the EU countries the rules are specified in Directive 2006/112/EC or the so-called "Directive Six" which is mandatory for member states but the same is applied by other European countries which aim to become candidate for the EU.
The European VAT Directive obliges the 28 member states to be free to determine their standard VAT rates but this rate should be lower than 15%. In addition, this Directive allows the use of maximum two more lower reduced rates, the height of the lowest one being 5% or higher. The average standard rate in EU countries is 21.2%, while the average of the low rate is 6% while the second reduced rate is 10.2%.

Goods and services in which reduced rates are most applied

Member States have agreed to use a reduced rate on a number of goods and services, including: food products, water supplies, books; children's clothing; hygiene products, medical devices and pharmaceutical products, hotel services etc. The table below specifies goods and services in which the reduced rate is applied by different countries, which choose products and services depending on their specifics, constitutional order, territorial size, population, demographic structure, size of the public sector, economic structure, unemployment, the size of the public debt, the economic orientation, type of fiscal policy, comparative advantages of the country and other characteristics of social policies. It is important to note that all EU Member States, except Denmark, use reduced rates for certain products, whereby based on the Directive Six of EC every state is obliged to seek approval for the implementation of reduced rates (European Commission data 2018).

The countries which use the reduced rate for essential foodstuff of the consumer basket are especially countries with low-income per capita. Other countries use the application of the reduced rates to support any sector in the economy, which will indirectly influence the growth of consumption, greater competition in the development and employment of a particular profile.

A similar case is Ireland, where the reduced rate of 9% is used in foodstuff and non-alcoholic beverages, restaurant and accommodation services with the aim to support the development of the tourism sector and job creation in this sector. O'Connor Brendan (2014)
DTES activities performed during 2017

VAT in the European Union Countries

In the EU countries (28 member states) the VAT is the tax which collects the most revenue compared to other taxes. According to the statistics of (TAXUD 2008) in the total of revenues from taxes, the VAT participates with 30%, while income tax with 27.6 %, Corporate Tax with 10.1%, Excise with 9.5% and revenues from other taxes with 22.8%.
According to recent reports published by the European Union for the Member States, standard rates remain stable in the EU countries, only two countries have made changes, Greece increased the rate by 1% to 24% on 1 June 2016, while on 1 January 2017 Romania completed its plan to lower its standard rate to 19%. As usual, many countries have adjusted their Intrastat thresholds for the new year, but there is little change in other data. Sweden and Luxembourg have increased VAT registration thresholds for local businesses and Estonia is in the final stage to do the same, during 2018 changes are expected in the UK after the decision to leave the EU that, as soon as it is implemented, the EU will release it from Intrastat regimes and distance sales. Brexit is not expected to enter into force until March 2019, so currently, the UK's VAT system will continue to operate under EU rules. (EU 2017)
In the last decade, it is being noticed that many EU Member States and other European countries have a tendency to increase the standard rate while lowering the reduced rate (in a very limited number of products and services). The average VAT rate applied by the EU Member States has gradually increased to 21.6% in 2015. Compared to the 1995 level of 18.5%, a slight increase has been observed, demonstrating the preference of the EU Member States for this source of income. Stefan et al (2015)
This year, in May 2018, the EU is preparing new VAT legislation which foresees changes based on the experience of the last decade in implementing VAT within member states, in order to adapt to the challenges of the modern economy, especially now that information technology is ever advancing more and thanks to these achievements many services are performed in electronic form, which makes it even more difficult to administer VAT from the tax authorities. Therefore, a proposal, for a new directive is being drafted, amending the Directive 2006/112 / EC.
Why there are different VAT rates in the EU??
European tax acts must be adopted unanimously. Current provisions on VAT rates are the result of various compromises agreed by all EU Finance Ministers. The VAT
Directive defines the framework for VAT rates in the EU (Council Directive 2006/112/EC 2006), but gives national governments the freedom to determine the number and level of rates they choose by subjecting to only two basic rules:
Rule 1: Standard rate for all goods and services
Rule 2: An EU country may choose to apply one or two reduced rates, but only for the goods or services listed in the VAT Directive.
Standard VAT Rate
This is the rate that should be applied by all the EU states for all the goods and services that are not exempt (Article 96 of the VAT Directive).
It may not be less than 15%, but there is no maximum (Article 97 of the VAT Directive).
Reduced VAT Rates
The EU states have the possibility to apply one or two reduced VAT rates (Article 98
VAT Directive) which: may be applied to goods or services listed in the Article III of

the VAT Directive, but not for the services provided electronically (Article 98 VAT Directive) it may not be less than 5% (Article 99 of the VAT Directive)

Exceptions to the Rules - "special rates" of VAT

"Special rates" refers to the multiple exceptions to the basic rules. Many for historical reasons and under certain conditions, many EU countries (in some cases, most of them) have been allowed to depart from these rules for a transitional period, with the objective to allow for the gradual alignment of national laws with the VAT Directive, in certain cases the same also happened because some of these countries applied reduced rates, even prior to EU entry, foreseen by their national strategies in order to favour certain sectors or even apply favourable social policies. Such a case was allowed until the final approval of agreed VAT arrangements by all EU countries (Council Directive 2009).

Similarly, the 2009 Council Directive Enables Member States to maintain "special rates" - reduced rates under 5% (including zero rates) and reduced rates for goods and services other than those listed in the directive (Articles 102-128 VAT Directive).

Examples of such exemptions from the European Commission's VAT committee are specified in the 2009/47 directive as follows:

Zero rates or reduced special rates: Member States which are implementing them since 1 January 1991 may continue to apply them further (mainly the United Kingdom and Ireland).

Special Reduced Rates: Member States which have been required to increase them to more than 2% on 1 January 1993 (Spain and Luxembourg) may apply reduced rates of less than 5% in the categories specified in the Annex III.

Low Reduced Rates: Member States which, on 1 January 1991, have been applying a reduced rate for goods and services not specified in Annex III may continue to apply this reduced rate on condition that it is not smaller than 12%, Luxembourg, Austria and Portugal).

The table below gives all VAT rates that are currently used by member countries Table 1: List of VAT rates applied in the EU Member States (in %)

Member States	Code	Super-reduced Rate	Reduced Rate	Standard Rate
Belgium	BE	-	6 / 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	4.8	9 / 13,5	23
Greece	EL	-	6 / 13	24
Spain	ES	4	10	21
France	FR	2.1	5,5 / 10	20
Croatia	HR	-	5 / 13	25
Italy	IT	4	5 / 10	22
Cyprus	CY	-	5 / 9	19
Latvia	LV	-	12	21
Lithuania	LT	-	5 / 9	21
Luxembourg	LU	3	8	17
Hungary	HU	-	5 / 18	27
Malta	MT	-	5 / 7	18
Netherlands	NL	-	6	21
Austria	AT	-	10 / 13	20
Poland	PL	-	5 / 8	23
Portugal	PT	-	6 / 13	23

Source: Taxud.c.1(2018) – EN VAT rates applied in the Member States of the European Union Situation at 1st January 2018

As seen in the table above, the EU Member States with the highest standard rates are Hungary (27 percent), Croatia, Denmark and Sweden (25 percent), while the lowest rates are in Luxembourg (17 percent percent), and Malta (18 percent).
Whereas, with regards to reduced rate, we have noted that the country with the lowest reduced rates is Poland (5 percent and 8 percent).

Special reduced rates are present in only a few countries (4.8 percent in Ireland, 4 percent in Spain and Italy, 3 percent in Luxembourg, and 2.1 percent in France). This special reduced rate in Ireland applies to some agricultural products, newspapers and magazines, used cars, bicycles and vehicles for people with disabilities, funeral services etc. In Spain, it applies to food products, books, newspapers, magazines, pharmaceuticals, supplies of new buildings and construction works, etc. Italy applies this rate for foodstuffs, books, newspapers, television license fees, supply of new buildings, construction of new buildings, medical equipment for persons with disabilities and social services.
Luxembourg applies this rate to radio and television services, copyrights, foodstuff and beverages (except alcoholic beverages), books, clothing for children under 14, water, pharmaceutical products, transport of individuals, accommodation and access to cultural,

educational, sports and entertainment events. France applies it to newspapers, pharmaceuticals, cultural services and shows. Moreover, the zero rates applied for consumption were recorded in Belgium, Denmark, Ireland, Italy, Malta, Finland, Sweden and the United Kingdom.

In Poland, the 8 percent rate applies to basic foodstuff, cinemas, theatres, opera and ballet tickets, books and similar publications, accommodation services in hotels, motels, bed and breakfast, and similar facilities. While the reduced rate of 5 percent applies to book supplies, to foodstuff, books, newspapers and magazines, certain goods related to health care, services related to agriculture, forestry and construction etc.

Some of these countries apply the reduced rate to transport services in order to encourage the use of public transport. The main purpose of a reduced rate in these cases is to reduce the movement of cars in cities, affecting the reduction of carbon dioxide - to a better and cleaner environment without pollution.

Other legislation related to VAT is the Directive 2007/74/EC (allowances for travellers), Directive 2006/79/EC (private consignments), Directive 2009/132/EC (VAT free import), Directive 86/560/EEC (VAT refund), and Directive 2009/9/EC (VAT refund). In 2011, the European Commission implemented the Council Implementing Regulation (EU) No. 282/2011, laying down implementing measures for Directive 2006/112/EC on the common system of value added tax.

VAT in Kosovo and Region - Definition and Application in Practice

VAT - value added tax is a tax on consumption on goods and services, i.e. the value added to the price of goods and services depending on the tax rate charged at the various stages of production, distribution and the life cycle of trade in goods and services; and which is ultimately paid by the end consumer.

Value Added Tax or VAT is a tax, which in the tax terminology is known as an indirect tax not only because it is added to the price of goods or services but also because the businesses collect it from the customer and the same value is transferred to the state budget. Therefore, the Value Added Tax - (VAT) is a tax on consumption, which is indirectly paid by the consumer through businesses.

In order to better understand the tax terminology of direct and indirect tax, below we will provide an explanation which lists the taxes depending on which category they belong to

- Direct Taxes: This group of taxes includes personal income tax, corporate income tax, or property tax. In Kosovo, as well as in many other underdeveloped economies, direct taxes do not have a significant role in the state budget.
- Indirect Taxes: Indirect taxes, among others, include the VAT, excise and customs duties. Currently, the indirect taxes contribute with the highest percentage of collected revenues. These types of revenues are mostly collected at customs points.
- Taxes: Taxes can be applied to local or national services. Examples of services that may be subject to tax are: airport; certain documents issued by the public administration; business registration, various administrative permits etc. It implies as a rule that these types of revenues do not play an important role in the budget of a country.

VAT as an indirect tax is collected by persons registered for this type of tax through provision of various supplies from consumers. Final consumer is the one completing the final turnover with the amounts of values added of supply and the taxpayer. VAT is a type of taxation which taxes the value that the seller has added to the selling price of products and of services in each stage of the lifecycle of the product. The basis of the VAT is the difference between supplying price and selling price.

VAT is a taxation collected by the self-declaration method. Registered persons who pay VAT declare to the tax authorities the amount of VAT to be paid, and it is the tax authorities who, through a control, shall verify if the declaration was accurate.

In order to determine the VAT to be paid, the companyhas to calculate the total of VAT in its selling invoices, and then deduce the total VAT in its purchase invoices from it. The total of VAT in sale is also called gross taxation or collectable VAT. Whereas the total VAT in purchases is called deductible VAT. The difference between the collectable VAT and deductible VAT constitutes the payable VAT.

VAT rate in Kosovo

Value Added Tax (VAT) has started to be applied to imports and local supply of goods and services since 1 July 2001 (pursuant to UNMIK regulation no. 2001/11 – on "Value Added Tax in Kosovo" which was amended by the Regulation no. 2002/17, Regulation no. 2004/35, and Regulation no. 2005/40).

The Law No. 03/L-114 on Value Added Tax was adopted in December 2008 and has been in force since January 2009. The basic change is the increase in tax rate from 15% to 16%. Since September 2015, VAT has been graduated in two rates, the standard rate of eighteen per cent (18%) and reduced rate of eight per cent (8%) of the value of imported supplies and local taxable supplies, with the exception of exempted supplies and supplies treated as exports.

Reduced VAT rate is calculated and paid by eight per cent (8%) for the supply of goods and services, and their import, such as:

Supply with water, except bottled water;Supply with electricity, including transmission and distribution services, with central heating, waste collection and other waste treatment; Grains such as barley, corn, maize varieties, oats, rye, rice and wheat; Products made from grain for human consumption, such as flour, pasta, bread and similar products; Cooking oils made from grains or oilseeds for use in cooking for human consumption; Dairy and dairy products intended for human consumption; Salt appropriate for human consumption; Eggs for consumption; Textbooks and serial publications;; Supply including lending of books from libraries including brochures, leaflets and similar printed materials, children's picture books, drawing and colouring books, music printed texts or manuscripts, maps and hydro graphic charts and similar; Information technology equipment; Supply with medicines, pharmaceutical products, instruments, medical and surgical devices; Medical equipment, ambulances, aids and other medical devices to facilitate or treat inability for exclusive use by the disabled, including the repair of such goods; Supply with children's vehicle seats; For exports, international transport, and agricultural inputs,

VAT rate is zero (0%) of the taxable value.

The 0% VAT rate is applicable for: export of goods; the supply of goods non- profit organizations; supply of goods directly related to exports or imports of goods; certain operations related to international transportation of goods and passengers; supply of goods and services performed under diplomatic consular relations; supply of goods and services to international organizations, and members of these organizations; supply of goods and services for armed forces of other NATO member states; supply of gold for the Central Bank.

VAT usually is responsible for incurring approximately one fifth of the total tax revenues (Charlet, A. and J. Owens (2010). In Kosovo at the end of 2014 VAT has generated 50% of revenues collected at the border, and 47% of domestic revenues (Economic Bulletin of Kosovo 2015). When examining the existing systems of VAT, one of the key elements to be considered is that there is a variety of VAT structures. Standard VAT rate is higher in Western Europe countries and in transition countries. Most developers of fiscal policies usually follow the principle of tax reduction especially in "basic products or goods" which are proportionally consumed more by low-income families. Therefore, most countries apply the principle of multiple VAT rates: reduced rates, and in some cases exemptions for basic products, and a higher rate for other products.

In the European Union (EU), pursuant to the Directive for VAT, all Member States shall set a standard VAT rate, which may not be less than 15%. Furthermore, Member States may not

apply more than two reduced rates which may not be less than 5% in all or some of the products listed in Annex III of this Directive (Directive 2006/112/EC).
The VAT system with reduced rates was introduced in Europe with the aim to facilitate the taxation in products and services that constitute a large portion of expenses for poor families (Johansson, et al (2010).
In Kosovo, the implementation of the first fiscal Package has commenced in September 2015, which assisted in increasing formality of businesses by amending the Law on VAT, the VAT threshold and undertaking another range of reforms which enabled the enhancement of private sector turnovers due to the multiple exemptions of raw materials and of manufacturing machinery. Statistics from the Central Bank, Agency of Statistics, and from the Ministry of Finance indicate that businesses have benefited approximately EUR 47 million from various exemptions for raw materials and manufacturing machinery. Only large enterprises, which are required to report to the Kosovo Council for Financial Reporting, there has been an increase in enterprises for 12 per cent and an increased employment for 11 per cent to these enterprises (CBK 2015). Citizens have benefited approximately EUR 21 million as a result of VAT exemption, reduction of VAT rate from 16 to 8 per cent for all public services and for a number of goods and services.
The following table shows tax rates of VAT in Kosovo and in some countries of the region. From this overview of VAT rates in countries presented in table 1, we can see that the standard rate in these countries ranges from 18% up to 25%.

Table 2: VAT rate in Kosovo and in the region

Standard and reduced rates of VAT in Kosovo and in the region		
Country	**Standard rate**	**Reduced rate**
Kosovo	18% - 8%	8% applies to essential products, Electricity, water, school books, and information technology equipment
Albania	20%	/
Montenegro	19% - 7%	7% applies to basic products such as bread, oil, milk and sugar; orthopaedic tools, prosthesis; pharmaceutical products used in veterinary, school books, periodicals, daily newspapers
Serbia	20% = 10%	10% applies to the supply of goods and services regarding bread, milk, flour, sugar, oils, fruits and vegetables, meat, fish, eggs, artificial fertilizers, pesticides, planting seeds, school books, newspapers, etc.
Macedonia	18% - 5%	5% applies to the sale and import of food products, supply of drinking water from public suppliers, publishing of books, brochures, newspapers, etc. Planting seeds, fertilizers, protection products in agriculture, machinery for agriculture, etc.
Croatia	25% - 13%	13% applies to hotel accommodations.
Slovenia	22% - 9.5%	9.5% applies to food, non-alcohol beverages, animals, seeds, water services, pharmaceutical equipment for recovery and prevention, medical equipment, passenger transport, books, leaflets, etc.

Source: Ministry of Finance. Medium Term Expenditure Framework 2016-2018.

From the table above, it is apparent that Albania does not apply a reduced rate, while in other countries this rate ranges from 5% up to 13%. The reduced rate is usually applied to the supply of goods and basic services such as food, non-alcohol beverages, sale and import of food products, supply with drinking water, publishing of books, leaflets, newspapers, planting seeds, fertilizers, and agriculture protection products, pharmaceutical equipment for recovery and prevention, medical equipment and transport for passengers.

In the new VAT Law of Kosovo, the reduced VAT rate of 8% applies to the following products: Supply of water, except bottled water; supply with electricity, including transmission and distribution services, central heating, waste collection and other waste treatment; grains such as barley, corn, maize varieties, oats, rye, rice and wheat; products made from grain for human consumption, such as flour, pasta, bread and similar products; cooking oils; dairy and dairy products intended for human consumption; salt appropriate for human consumption; eggs for consumption; textbooks and serial publications; children's picture books, drawing and colouring books, music printed texts or manuscripts, maps and hydro graphic charts and similar; information technology equipment; supply with medicines, pharmaceutical products, instruments, medical and surgical devices; medical equipment, ambulances, aids and other medical devices to facilitate or treat inability for exclusive use by the disabled, including the repair of such goods and supply with children's vehicle seats; (Law No. 04/L-108).

Studies show that transition from a uniform VAT system to a non-uniform VAT system, or a system with reduced VAT rates, may bring great benefits for the society's wellbeing. Products and services to which lower tax rates are applied depend on the effect intended to be achieved by such reduced rates. If arguments and results from the theoretical and empirical works summarized in the research carried out by Copenhagen Economics in 2007 are taken as a baseline, then the application of reduced VAT rate would be preferable to be limited in one of these fours sectors:

1. Sectors, services of which are easily replaced by the population,
2. Sectors that employ a large number of under qualified employees,
3. Sectors favoured by low-income families, and
4. Sectors which, for various reasons, are consumed below the intended level

In Europe, the introduction of reduced rates is linked to the sector which is favoured mostly by low-income families, i.e. the food sector.

ANALYSIS AND DESCRIPTION OF RESULTS

VAT is administered by the Kosovo Customs and by the Tax Administration of Kosovo. Customs collect VAT on the imported goods, while Tax Administration manages VAT on purchases and sales within the country, normally accepting VAT as deductible for the paid value at the border in the cases of imported goods. The largest VAT revenues derive from import on the occasion of customs at the border, which is also apparent in the table below,

Table 3: Total revenue from VAT at the border and within the country

VAT	2014	2015	2016	2017
border	423,937,347	456,278,732	514,021,013	557,786,771
TAK	131,941,264	153,936,530	180,363,401	196,635,189
Total	**555,878,611**	**610,215,262**	**694,384,414**	**754,421,960**

Source: http://www.atk-ks.org

Knowing that the reduced VAT rate in 2015 had an impact only for four months because it started to be applied from September, then based on the total VAT revenues in 2015 we have an increase by 54 million euros, in order to continue with a higher trend of increase in the following years, where the increase in 2016 compared to 2015 is 84 million euros, while in 2017 compared to 2016 is 60 million euros. The conclusion of this is that VAT increase in 2015 and in the following years is as a result of the increase of VAT rate from 16 to 18%.

The increase has also been influenced by the fact that the decision of "fiscal package 1" was for the pharmaceuticals to be subject to an 8% VAT rate, which until September 2015 were exempted from VAT, and paid only customs duty.
It should be noted that the increase in VAT was also influenced by inflation which marked an average increase of 1.5 to 2% over the years (CBK 2018). This contributed directly to the increase of prices and, consequently, to the increase of the VAT value. It is also normal to calculate a slight increase in overall consumption compared to the previous year.

Findings from comparison of results

In reference to the above statistics and to ensure consistency in our research, the following questions need to be answered:

1. What was the extent of the budget increase following the increase in VAT from 16% to 18%?
2. Has the household budget benefitted from the VAT rate reduction (from 16% to 8%) and to what extent?
3. Has the household budget suffered any damage and to what extent following the VAT rate increase from 16% to 18% (at a difference of 2%) for products other than essential ones?
4. Who are the other beneficiaries from the VAT rate reduction in addition to the household budget?

Answer to the first question
The data presented in the table above, if we take 2017 as the basis for comparison concerning revenues from VAT clearly show that the state budget has increased by 60 million Euros. This increase is a NET value resulting after the compensation of loss from the VAT rate reduction. Therefore, the VAT rate reduction for essential products from 16% to 8%, along with an increase from 16% to 18% for other products resulted in the increase of the state budget.
Answer to the second and third questions
For purposes of answering to these questions, we have conducted a detailed analysis based on data generated from the VAT declaration and payment database of the Tax Administration of Kosovo. More specifically, we used data from the VAT Declaration and Payment Form Column No. 12 Taxable sales at an 18% rate and Column No. 14 Taxable sales at an 8% rate for years 2014[1] , 2015 , 2016, 2017 and 2018 .

[1] In 2014 there was only one standard VAT rate of 16%

These statistics highlight that the sale of all essential products calculated with the reduced VAT rate of 8% represents an average share of 15% of the total sales declared using the VAT Form. Thus, out of the total sales in 2017, amounting to over 7 billion Euros, sales of essential products accounted for over 1 billion Euros. These statistics render our findings even more accurate concerning the impact of the VAT rate reduction on the household budget or the consumer basket, on the one hand, and of the impact on the state budget, on the other.

Table 4: Taxable sales at 18% and 8% rates

No.	Year	Taxable sales at a 18% rate	Taxable sales at a 8% rate	Total consumption	% essential products consumption
1	2014	6,018,173,208	-	6,018,173,208	-
2	2015	6,360,302,914	372,596,081	6,732,898,995	6%

3	2016	6,132,439,129	1,107,466,603	7,239,905,732	15%
4	2017	6,478,196,596	1,214,459,779	7,692,656,375	16%
5	2018	4,988,930,468	888,584,368	5,877,514,836	15%

Source: Tax Administration of Kosovo

These data in conjunction with the data from the Kosovo Agency of Statistics, according to which in Kosovo there are 324,782 households with an average of 5 members each, show that in terms of household consumption of essential products, a household in Kosovo spends an average of 7539 Euros annually or 628.25 Euros per month. (Household Budget Survey 2017)
The majority of the household budget in 2017 was spent on food and housing; thus, food and housing respectively accounted for 40 percent and 29 percent of the overall consumption. Then transport 5 percent and 4 percent for furniture, alcohol and tobacco.
The following table uses the data outlined above to calculate the net saving in Euros in the household basket following the VAT rate reduction from 16% to 8% minus the damage to the family basket following the VAT rate increase from 16% to 18%.

Table 5: saving from VAT rate reduction

Total consumption	% of consumption	Total consumption of essential products 8% and other products 18%	VAT at 16%	VAT at 8%	VAT from 16% to 18% - increase difference of 2%	Annual saving / reduction per household	Monthly saving
2,448,531,488	40%	979,412,599	135,091,392	67,545,696		+ 207.97	+ 17.3
	60%	1,469,118,898			21,655,872	- 66.68	- 5.56
NET saving per household upon VAT reduction from 16% to 8% minus the increase from 16% to 18%							11.77

Source: author's own calculation

The calculation of data show that net household budget savings in Euro with the reduction of the VAT rate amount to approximately 11.77 Euros per month. This calculation is done according to the average household consumption based on the KAS data as explained above. It is evident that many households in Kosovo do not even approach the above-mentioned average spending, hence the family basket savings are entirely dependent on the level of monthly spending on essential products, namely those essentiel products which have been subject to the VAT rate reduction.
All of these products in 2017 marked a rise in prices compared to the previous year, excluding the electricity price which in 2017 was discounted by 3% upon the ERO's decision. It may be concluded that the other main consumer products had an exceptionally high price rise compared to 2016.
Representatives of consumer protection and rights in Kosovo also consider that since the entry into force of differential VAT rates, consumer prices marked no decline; instead, they continuously increased making the consumer basket more expensive. Although it should be acknowledged that the rise in these prices has been reflected as a result of inflation, these products are mainly imported, hence their prices depend on the price fluctuations of oil and other products in the international stock market.
A general conclusion is that the reduction of the VAT rate did not reflect in the reduction of the prices of the products; instead, they remained the same following the beginning of implementation and gradually increased later on due to inflation. Therefore, the risk associated with the reduction of the VAT rate on essential products and services is that benefits are not transferred only to consumers but many of those benefits are transferred to traders.

Answer to the fourth question

To answer the question, "Who are other beneficiaries from the VAT rate reduction in addition to the household budget?" we will use the data from 2017 where the declaration of sales at the rate of 8% from the taxpayer's statement is 1,214,459,779 Euros. Considering that the table above shows the household budget consumption is much smaller than this statement, it is concluded that this difference in the payment of VAT with the reduced rate benefits not only the household budget but also all others who consume the same products, mainly businesses.

To illustrate this through practical cases, the reduction of the VAT rate for electricity benefited all businesses, institutions and other entities that pay lower VAT on consumption. This means that their costs are lower, but the same is not reflected in the price reduction of the product or service.

The same applies to central heating, waste collection and other waste treatment services. Similarly, the VAT rate reduction for basic products such as bread, flour, oil, milk and salt benefits all other consumers outside the family budget.

The reduced VAT rate from 16% to 8% also covers a number of products that are not essential to the household consumption basket, but are still included in the list of products subject to the VAT rate reduction, such as lending books from libraries, serial publications; brochures, flyers and similar printed materials, hydrographic maps and charts; Information Technology equipment, etc., thus the benefits of the VAT rate reduction do not apply only to low-income households, but extend to a considerable number of businesses.

Results from the Questionnaire

In the process of selection of the respondents so that they would be mainly the head of the family or those who responsible for the supply of the necessary basket of daily consumption, all of them got to understand the topic and purpose of the research. In the three main questions that are the core of the survey such as, the impact of the reduced rate on the family budget, the price changes and inclusion of this rate in the basic consumption products, the result of their responses comes to a conclusion that, even though it was not easy to observe, the effect of the reduced rate had an impact on the family budget. The prices have not decreased, consumption of the essential products of the family basket has not increased and the majority of respondents consider that the rate does not include a considerable number of basic products that are part of the family basket for e.g., hygiene products. Below you will find the results of the main questions asked to respondents.

1. "Do you consider that the reduction of the VAT rate has had an impact on the family basket, (e.g., you have paid lower invoices for electricity, drinking water, and supply for the family table)?

   56% of respondents have answered positively to the question that the reduced VAT rate has had an impact in the family basket by saving the family budget. 38% of respondents think this impact is small or moderate. While only 6% think that the reduced VAT rate had no impact at all on saving the family budget.
2. "Have the prices for family consumption been decreased (e.g. bread, salt, oil, flour) etc. after the reduction of VAT rate"?

   Respondents are very much convinced that the reduction of VAT rate did not lead to a decrease in prices, whereby 76% of the respondents shared this opinion. 16% responded that the price of some products had decreased, while 8% think that the reduction of VAT rate for basic products has had a positive effect in the decrease of prices.
3. Have the essential living products of family basket sufficiently been included in the reduced VAT rate?

   50% of the respondents consider that in the reduced rate a sufficient range of household consumption products have been included. Up to 36% think that this reduced rate covers a moderate range of household consumption products, whereas 14% think the number of products covered by the reduced rate is not sufficient.

Further, in the following questions, 84% responded that the reduced rate of 8% is not low compared to the rate that should be applied to the basket of consumption products, and 68% of them think that even with the application of a reduced rate of 2%, the impact on the reduction of the state budget would be very little.
One thing that can be considered of particular importance is that in their 90% of respondents consider that, despite the fact that the reduced VAT rate has had a positive impact in the household budget, the increased rate from 16 to 18% has had a counter effect due to the fact that this increase on the other hand of the VAT rate for other products, which are also part of the consumption basket, has damaged the household budget.

On the question whether there has been an increase in the consumption after the reduction of the VAT rate, 80% have responded negatively. So even though the VAT rate has been reduced, the consumption of these products has remained the same, while 20% replied that there has been an increase in the consumption of some products.
When asked whether hygiene products should have been added to the list of basic or necessary household products, 92% of the respondents answered positively.
To clarify some of the answers, we have asked for additional comments or we have discussed with respondents, which helped us to better understand the answers. Thus, for example, it was discussed how they have noticed the savings when there was no decrease on prices, the opinion that dominated is that this is mainly seen in public services, electricity, water supply and waste collection bills. Such a finding is more than true because in these invoices first the consumption is registered multiplied by the price, then based on this the VAT rate is calculated and in these services it has been reduced from 16 to 8%, or VAT for each invoice has had 50% less value added tax.

CONCLUSION

The VAT structure in the regional and European countries is at a standard rate for most products and services and with reduced rates for basic products and services. In Kosovo, the uniform VAT system, with only one standard rate for all products and services and without any reduced rate by the end of 2015, differed greatly from the systems of most of these countries. Due to the fact that the biggest share of the family budget, around 40%, is spent on food products and non-alcoholic beverages and the fact that 29.7% of the population in Kosovo lives in poverty and 10.2% in extreme poverty, then a decreased VAT rate in food products and electricity and water supply services has contributed to improving income distribution and raising the welfare of society.
Given that VAT revenues on basic products and services account for only about 5% of total VAT revenues, budget losses from the reduced rate were not only easily covered but there was an increase in the state budget do to the increased standard rate by 2% in other products.
Based on other countries' experiences, the reform of the VAT system cannot be done without many difficulties and risks. Administrative and implementation costs are considered to be very high for a successful implementation of such a change. On the other hand, there is a risk that the benefit of the reduced rate on basic products and services will not be transferred to customers but only to traders. This may occur if traders, in order to increase personal gains, will not lower the prices of basic products and services after the reform.
Reforming the VAT system in Kosovo by introducing the reduced rate under the "fiscal package 1" was a challenge with complex technical operations that implied the design of a dynamic plan for timely implementation of legal and operational security, intervention in the information technology, staff training and additional inspections.

One of the concerns of the IMF and EC is that the reduced rates, VAT exemptions and any escalation make it more difficult to implement and monitor fiscal authorities.
Reduction of the rate in the food sector is done in order to improve the distribution of income. This is a very simple way of reducing VAT on basic food products, a sector that accounts for a large share of consumption for lower-income households compared to higher-income households, which offers specific advantage for low-income households (Copenhagen Economics 2007). Therefore, the countries of the region have also focused on reducing the VAT rate in this sector. An exception is the case of Croatia, Ireland, which applies a reduced VAT rate for hotels, accommodation and other catering services in the tourism sector, a sector that employs a big number of low-skilled workers such as waitresses, cleaners, etc.
Based on the results of VAT revenue statistics, their comparison and trend in the period of VAT reduction, comparison with the practices of other countries, as well as the results of the survey prove the hypotheses that: the reduction of VAT rate from 16% to 8% saves the family budget, the basket of essential products has lower costs especially for public services. In addition, the reduction of VAT rate has an insignificant impact on the budget revenues in Kosovo, due to the fact that the increased standard rate for 2% on the other hand, not only has covered the loss from the reduction but has managed to increase the state budget with an average over 60 million euros each year.
Some very important issues that were observed during the research on the reduced VAT rate in Kosovo are:

- The reduction rate of VAT did not reflect the reduction in prices.
- The benefit for low-income households was small.
- A part of the VAT deduction has been acquired by traders, and since there was no price reduction, there has been an increase in traders' profit.
- The state budget, by applying an increase of 2% for other non-basics products, not only has covered the loss related to the reduction of VAT rate also has also increased the budget by an average of 60 million euro.
- Consumption of basic products was not increased.
- The list of products with VAT reduction was wider than the essential consumption basket products for lower-income households.
- The cost of implementation is evident both at TAK as well as in business, even though there are no accurate data on its value, since there have been changes in the books for registering purchase and sale, forms and software for declaration, and other similar actions.
- The change of VAT threshold from 50 thousand Euros to 30 thousand Euros also has also increased the number of declarants.

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