

# AGRICULTURE AS A BUSINESS





# Agriculture as a Business

“MAKING FARMERS BUSINESS BETTER”

**A**griculture is one of the main economic activities in Kosovo, and the primary income source for many rural families. Agriculture also provides 15% of the total employment in Kosovo.

Despite the increasing availability of good quality local products in the market, and the emergence of some medium sized agriculture businesses, the small size of most farms and the low income generated from these means less than 2% of all registered businesses in Kosovo are agriculture operations.

But agriculture should no longer be viewed as a subsistence or informal activity, but rather as a professional business opportunity and career option for young Kosovans.

This brochure will assist farmers to improve their business so they can access higher value markets, take advantage of financial and government services, and succeed in the rapidly changing local market. This brochure will inform agricultural producers of the benefits and requirements of operating within the formal economy, compared to operating in the cash-based system that limits their ability to grow and succeed.

## Benefits of formalising your business

- 1** Access to higher value and more reliable markets, such as supermarkets and export markets that require correct invoicing, business registration and formal payment options
- 2** Take advantage of financial services offered by banks and institutions, such as investment credit, seasonal credit for crop costs, leasing of equipment and a place to securely keep spare cash and receive interest
- 3** The Government of Kosovo, with the support international donors, are investing in the agriculture sector to promote growth and development. To access to these programs, a more formal business approach, including farmer registration is often required
- 4** And the most important benefit is by tracking their activities farmers can improve their management and efficiency, thereby increasing profitability.



**Disclaimer:** The information in this brochure is general in nature and should not be regarded as a legal text on the subject of formal business practices. For information specific to your business, a list of contacts is provided on the back page of this brochure, and businesses are encouraged to seek professional advice on their specific situations.



# STARTING AN AGRICULTURAL BUSINESS IN KOSOVO

## Business registration

All people who intend to be engaged in economic activities for profit must register their business with the Business Registration Office within the Ministry of Trade and Industry. Registration of the new business is free of charge, and registration does not need to be renewed annually. Information on where and how to register is contained on the MTI website (refer to last page).

Once a business is registered, it must then apply with Tax Administration of Kosovo (TAK) to obtain a Fiscal Number to be used for reporting of income.

The definition of economic activity includes agricultural production and trading. Excluded from this are persons who cultivate agriculture products for their own personal needs only.

## Farmer Registration with Municipalities

Individual farmers are encouraged to register at their municipal department of agriculture prior to obtaining a fiscal number at the tax administration authority of Kosovo. The Ministry of Agriculture, Forestry and Rural Development (MAFRD) has recently indicated that only farmers who are registered will be able to access grant funding and financial support.

### AN EXAMPLE OF FORMALISING AGRICULTURAL TRADE:

Farmers in Mamusha are recognised for growing high quality vegetables, in particular tomatoes. However, their ability to access sustainable markets was made more difficult as farmers directly marketed their own products. The development of a collection centre in 2010 helped a group of them coordinate marketing and provide correct invoicing. Producers also opened individual bank accounts for payments, linked to the

main account for the collection centre. The result was increased sales to supermarkets and gaining access to export markets.

This result could not have been achieved without formalising their business practices. Larger buyers are increasingly demanding a change from 'product for cash' purchasing, to bank transfers after delivery of produce. In 2011, several producers accessed seasonal credit from local banks

in order to plant crops to access improved markets, which was only possible as the bank could see a financial history from the previous year. Farmers also reduced their business costs by reducing their transport and market fees associated with selling their products directly to wholesale markets. Whilst prices in 2011 have been poor, these farmers have been able to sell significant quantities of tomatoes to export markets, as well as cucumbers to local processors. This reduced the impact of low prices, improving business sustainability.

## Types of business that can be established in Kosovo

The most common type of business for agricultural producers is a 'Personal Business Enterprise', known also as an individual business or self-employed. If farmers choose to establish an Agriculture Cooperative, these too must be registered with MTI.

Farmers may also register as partnerships or shareholding companies. These include General Partnerships, Limited Partnership, Limited Liability Companies or Joint Stock Companies. It is also possible for non residents to register as businesses in Kosovo.



## RECORDS AND INVOICING FOR AGRICULTURAL BUSINESSES

Record keeping is a vital step in the decision making process, providing farmers with information to make decisions on future plantings and activities to maximise returns. Proper record keeping is also required for tax administration and financial planning.

With a view to improving financial based business culture with farmers, the HPK supported the development of the 'On Farm Accounting Software' OFAS. This software has been tested with farmers for 2 years, and is available free of charge from the HPK website (refer to last page for details).

All businesses must issue invoices for the supply or sales of goods or services made to another taxable person, including prepayments or part payments. There are also legal requirements for keeping records based on annual business turnover. The following is only a brief description of the records to be kept, and farmers should check with the Tax Authority of Kosovo or an accountant for more detailed information.

### All Businesses:

All taxpayers, irrespective of total turnover shall keep the books and records as follows:

- A sales book in which all sales must be recorded;
- A purchase book in which all purchases must be recorded;
- A cash receipts and payments journal relating to the sales and purchase books;
- Record of employees.

### Businesses with annual turnover greater than €50,000

In addition, businesses with annual gross income greater than €50,000 must maintain a capital account for all capital expenditure where applicable.

## TAXATION FOR AGRICULTURAL BUSINESSES

### Corporate Income Tax

The businesses that have been registered with the statute of corporation and they are LLC (Limited Liability Company) or JSC (Joint Stock Company) are subject to corporate income tax under the Law No. 03/L-162 On Corporate Income Tax. The current corporate tax rate is 10%.

### Personal Income Tax

Personal income gained by an individual is income from all sources, including wages, rent, interest, etc;

and income gained by an individual business, including farmers, and is taxed under Law No. 03/L-161.

### Tax Rates

For businesses with annual turnover under €50,000, the tax rates are:

- 3% on quarterly gross income from trade or production activities
- 5% on quarterly gross income from services
- Expenses incurred by businesses with annual turnover under €50,000 are not recognized; they pay on presumptive method and use tax rate of 3% on gross sales.



For businesses with annual turnover over €50,000 tax is calculated on a real basis by applying the yearly tax rates contained in the tax code, currently these rates are:

Annual Income Levels (in Euros)	Tax Rate
0 to 960	0%
960 to 3,000	4%
3,000 to 5,400	8%
Above 5,400	10%

Businesses with annual turnover under €50,000, if they believe that payment of tax on real basis is more favourable than presumptive method, may apply with TAK in order to get permission to pay on real basis.

A business that deals with agriculture and pay taxes on real basis, and if their business activities results in a loss, are not obliged to pay tax and are entitled to carry forward the loss for next seven years.

Carrying out tax obligations in time will avoid fines and penalties that may accrue as consequence of failure of tax filing, are quite high. Tax Administration has legal possibility that 6 (six) years after the tax period of calendar year is over, to make tax assessment for the income gained 6 years ago, which may be followed with many penalties.

## What does Tax Return mean?

Tax principles in Kosovo are based on taxpayer making a self-declaration of his income. Any person liable to pay taxes, according to applicable legislation in Kosovo, shall submit to TAK or to an agent a declaration completed according to requirements of the Law on Tax Administration and Procedures (Law No. 03/L-222).

# WHAT IS (VAT) VALUE ADDED TAX?

Value Added Tax (VAT) is tax on consumption, applied to imports and domestic supplies of goods and services, currently with the rate of 16%, based on Law No.03/L-146.

## Do you have to register for VAT?

Each person or business who is independently<sup>1</sup> exercising economic activity in Kosovo on a regular or irregular basis is required to register for VAT from the moment when total supplies for the period of last twelve months exceeds the threshold of €50,000. Only the part of supplies exceeding the threshold shall be considered for VAT purposes. Application for VAT registration must be made within 15 days of exceeding this threshold, and a VAT Certificate will be issued. Regardless of this threshold, the law on VAT provides the possibility for the businesses to register on a voluntary basis, even if turnover is less than €50,000.

## Administering Value Added Tax in your business

For taxable sales, businesses charge and collect the VAT from their clients. Businesses also pay VAT on their imports and domestic purchases. Where the paid VAT (input) exceeds the collected VAT (output), the taxable person shall be entitled to VAT refund. Such refunds are required by law to be paid to the taxable person within 60 days of the claim being submitted. Where the input tax is lower than output tax on sales, the difference must be paid in the next VAT filing period.

Tax period for Value Added Tax is calendar month. VAT must be filed not later than on 20th of subsequent month for the purchases and sales of the previous month. A range of fines exist for late or incorrect reporting of VAT.

<sup>1</sup> The expression "independently" excludes from VAT employees since they are linked with the employer through an employment contract.



Any person that has met the registration criteria and is not registered shall be registered by TAK retroactively, and is required to pay VAT on sales that were made from the date they were obliged to register.

If you deliver goods to other countries (exports) you should normally not charge VAT.



Article 26 of the Law 03/L-146 on Value Added Tax defines the VAT standard rate of 16%, which is currently applied to all products. The same article provides for the Minister of Economy and Finance, through a government decision after the approval of Assembly, issue a sub-legal act for a reduced rate down to 5% on specific goods and services, including agriculture products.

If implemented, the application of reduced VAT on agricultural products, as provided in the law, shall assist the agriculture sector directly, having the following impacts:

- increase consumption of fresh agriculture products, including locally produced products
- improve nutrition and health of local population through lower cost of fresh foods

- increase reporting of taxable sales by encouraging more involvement in the formal economy

- extension of VAT filers' base through more businesses registering for VAT

The budget would not be harmed and at the same time would be increased the people welfare!

Many countries both within Europe and the region provide a lower VAT rate for fresh products. Rinvest Institute has prepared a study on this topic, available from them directly.

## ADVANTAGES TO REGISTERING FOR VAT

The following example is based on two medium sized vegetable producers – one over the threshold of €50,000 requiring VAT registration, and one under this threshold. In both cases, the information is given with both options: registering and paying VAT compared with not registering, but still paying the 'hidden' VAT in all purchases. The example shows that no matter if required by law, there is a financial advantage to farmers registering for VAT and therefore claiming back the input VAT.

Whilst the circumstances will vary for all farmers, the examples are intended to show what can be the impact of formalising farming businesses.

The information is based on vegetable farmers with a mixture of outdoor and greenhouse production of tomatoes and other small crops. All marketing of the produce is through a collection centre. Purchases include VAT (seeds, fertilisers, pesticides, marketing costs etc) but labour and salaries do not include VAT.

### ■ IMPACT OF VAT ON INCOME

Impact of VAT on Income			
		Formal	Informal
Total Sales (inc. VAT)	→	69,600	60,000
Total Operational Costs	←	36,000	36,000
		33,600	24,000
VAT on Sales 16%	←	9,600	0
		24,000	24,000
VAT Reimbursement on Inputs	→	4,160	0
		28,160	24,000
<b>Benefits of registering in formal economy</b>		<b>4,160</b>	

Example 1: Turnover greater than €50,000 (Required by law to register)

Impact of VAT on Income			
		Formal	Informal
Total Sales (inc. VAT)	→	34,000	30,000
Total Operational Costs	←	18,000	18,000
		16,000	12,000
VAT on Sales 16%	←	4,000	0
		12,000	12,000
VAT Reimbursement on Inputs	→	2,000	0
		14,000	12,000
<b>Benefits of registering in formal economy</b>		<b>2,000</b>	

Example 2: Turnover less than €50,000 (Registration voluntary)



## BANKING

Banks offer a range of services to farmers, including loans, seasonal credit, payment services and interest bearing accounts. Payments to government agencies, including TAK, must be made via bank transfers.

There are some examples of banking and financial services exempt from VAT, such as:

- Borrowing and credit services
- Payment services
- Currency trading

Requirements to open business accounts normally are quite simple; with business registration documents the main requirement. For credits and loans, the requirement to be a registered business (compared with a

private individual taking the loan) varies from bank to bank, but is normally based on the size of credit to be taken.

Important criteria for banks when assessing loans is transactions and payment made through bank accounts relating to the business. Such transactions greatly increase the credibility of the business for potential loans from banks.

Banks are required to report account information to the Government of Kosovo, including in relation to laws around money laundering (for example, unusual account activity) or in the case where they are directed by the courts or tax authority to release information.

## OTHER CONSIDERATIONS FOR FORMAL BUSINESSES

### Import and export certificate

The person involved in agriculture activities, before undertaking their first exports or imports, first must inform the TAK on such activity and must request, through an application in TAK, the certificate for this export/import activity.

### Employing Staff

Businesses that undertake economic activity in agriculture should formalise the employment issue for their employees, by keeping time records, as well as evidence of pension scheme payments and income tax payment.

It is also important to note for employees that official employment, with proper records, increases the possibility for employees to apply for loans and other services with the financial institutions.

## CONTACTS AND FURTHER INFORMATION

### Information Regarding Tax ([www.atk-ks.org](http://www.atk-ks.org))

Contact Numbers for information:  
Headquarters: 038/200-250-17  
LTU: 038/200 34 641  
Prishtina-1: 038/200-255-21  
Prishtina-2: 038/200-255-17  
Prizren: 029/244-963  
Peja: 039/432-812  
Ferizaj: 0290/321-668  
Gjilani: 0280/326-967  
Mitrovica: 028/590-667  
Gjakova: 0390/330-021

### Information Regarding Business Registration

MTI  
<http://www.mti-ks.org/>

### Information Regarding Farmer Registration

MAFRD  
<http://www.mbpzhr-ks.net>

### Others

#### Riininvest

[www.riinvestinstitute.org](http://www.riinvestinstitute.org)

#### ProCredit Bank

<http://www.procreditbank-kos.com/>

#### TEB Bank

<http://www.teb-kos.com>

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