

The impact of COVID – 19 on Collecting of Tax Revenues in Kosovo

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Abstract. This paper aims to present the effect of the pandemic crisis COVID - 19 on the economy of Kosovo, namely tax revenues focusing on the impact of the pandemic situation on macroeconomic indicators such as Gross Domestic Product. The impact of the crisis on the collection of tax revenues, the impact of the crisis on tax evasion, the effect of the crisis on business turnover, and the ratio of tax revenues to GDP. The data that have been used in this paper are data from primary sources through questionnaires and data from secondary sources. The findings of this research show that the pandemic situation in 2020 has slowed down local economic growth, declined trend of tax revenues, declined trend of GDP compared to the previous periods, and other negative effects such as declined economic activity, business, and employment level.

1 Introduction

Throughout the history of humanity and its development, the world has faced various crises of an economic or even healthy nature. Each of them has left its negative effects in the states where they have been present. The latest crisis caused by the COVID - 19 virus first appeared in Wuhan, China, and then spread rapidly to all other continents. Like any crisis, the latter has had negative effects on health, politics, and the economy. The negative effects started from the individual level and in the households to continue in businesses and the state level. The situation forced policymakers through fiscal and monetary policy mechanisms to take measures to mitigate the impact of the crisis on the economy. However, the rapid spread of the crisis negatively affected many important microeconomic and macroeconomic indicators. As in other countries, in Kosovo employees began to lose their jobs due to declining business solvency to pay wages, businesses were unable to meet their obligations to creditors, suppliers, or tax authorities; on the other hand, their business activity began to decline due to declining demand for products and services and uncertainty in the market. Weaker business activity, reflected in the macroeconomic aspect, as business turnover decreased compared to previous non-pandemic periods, almost all domestic investments and foreign direct investment stagnated, tax revenues declined due to the declining in business turnover, which has directly reflected in the decline of the country's GDP; on the other hand, some government spendings were increased in order to finance the approved fiscal packages to help the local economy.

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In this paper, through the primary data collected, we will analyze the determining factors in the turnover of businesses during the pandemic, and through the secondary data will be shown the effect of the pandemic on tax revenues of selected businesses, the impact of fiscal measures, especially for employees with tax revenues in Kosovo, the effect of the pandemic on tax revenues and analysis of the ratio of tax revenues to GDP during this period.

2 Materials Review

The global economy counts many phases of slowdown or decline, which are caused by financial crisis or "crisis" of a health nature such as viruses. The last virus that appeared in Wuhan, China in December 2019 caused the pandemic which affected the social and economic aspect in all the countries where it was present. At the initial of COVID-19 virus spread, countries mobilized through fiscal and monetary policies to mitigate the impact of the pandemic on the economic downturn. The closure of business activities caused the first effects on employees' incomes, therefore almost all fiscal policies in the financing programs of the affected business economies included supportive policies for employees.

In response to the pandemic situation, the International Labor Organization called for the protection of workers in the workplace, the stimulation of the economy, employment, and other financial and tax benefits, including micro, small, and medium-sized enterprises [5].

While COVID - 19 affected economies and businesses, the Tax Authorities in each country had to react quickly to change the way they functioned. For example, blocking measures required them to quickly introduce more digital services in order to protect the health of taxpayers and their employees [2]. Kosovo was also involved in the early reactions after the announcement of the first cases, where the implementation of Government decisions to support business entities through fiscal packages that provided tax relief began. Fiscal measures were supported by employees and businesses initially with a total financial amount of 180 million euros in order to neutralize the side effects on the economy during the emergency situation COVID - 19 [4].

The rapid spread of the virus in the countries of the region and beyond increased the need for the Tax Authorities to take the necessary measures to alleviate the economic situation of employees and businesses. According to a published report by Deloitte Albania [13] it is shown that governments in most countries in the world were taking measures by approving fiscal packages amounting to 10% of Gross Domestic Product. Whereas, Albania experienced this situation differently due to the earthquake of 2019 that caused a loss of about 1 billion euros. According to a survey conducted by Biznes Albania [14] for more than half of the surveyed enterprises have stated that the financial impact of the crisis is high, consequently, their revenues have fallen over 50%, which also reflects in tax revenues lower. According to another study in Albania [15] it is stated that 47% of enterprises completely stopped business activity during the pandemic and that the most common problems of enterprises were lack of customers, lack of liquidity, difficulties in paying salaries, and tax obligations. Measures to prevent the spread of COVID-19 have slowed down economic activity in northern Macedonia as well. According to a study conducted there [8] from March 2020, there was a rapid decline in tax revenues of about 11% compared to the same period last year; 17% less in VAT, 11% less in revenues from excises and 11% less in revenues from profit tax which have a negative impact on the budget.

A report published by the World Bank Group [17] shows that Western Balkan countries have adopted a wide range of social protection policy response measures aimed at supporting formal sector workers, the unemployed, the poor, and the elderly population. Some of these measures were also wage subsidies which are valid in the short term but can

be costly in the long term. In northern Macedonia, for example, it is estimated that a comprehensive wage subsidy for 250,000 employees in the value of the minimum wage could cost more than 60 million euros a month. In Montenegro, a two-month wage subsidy of up to 100% of the minimum wage for all firms in the affected sectors has been announced, as well as a six-month wage subsidy for newly declared employment in all sectors, to boost formalization of employment. In Serbia, in large companies, all employees whose contracts have expired due to the crisis have been paid 50 percent of the minimum wage. According to a report [6] in Serbia, measures have been taken through fiscal and monetary packages to mitigate the negative impact of the crisis, one of which included the payment of minimum wages and postponement of deadlines for payment of tax obligations. In this case, 65% of businesses have used this measure approved by the Serbian Government. Whereas a report by The OECD [7] shows that through emergency package measures, the Government's goal has been to mitigate the negative impact of COVID - 19, on the other hand, this situation from the crisis has caused the reduction of corporate income tax by 4% compared to the previous year. On the other hand, if we talk about countries in which the average income is relatively high, then subsidizing them is more challenging.

The German government in response to the crisis has introduced assistance to businesses through the provision of grants to assist their loans, guarantees, or tax deferrals for companies that are in a difficult economic situation [10]. Another research from Czech Republic [9] shows that in the framework of measures to mitigate the effect of COVID - 19 in the economy, the Czech Government applied the measure such as lending to SMEs with a 2-year repayment period, and it also has taken such measures such as postponement of deadlines for declaration and payment of taxes or non-calculation of interest in cases of delays.

The negative effects of the crisis were also in countries across the ocean. Based on a study [11] on the impact of North Carolina income tax it is estimated that the scenario at best is a 20 to 25% reduction in income tax for 2020, the scenario at worst is a 50% loss.

In Malaysia after the first cases with COVID - 1, the payment of taxes has been suspended for 3 months and the memoranda for payment of tax obligations has been reformulated in a softer way. In Panama because of the crisis, the tax administration decided to provide assistance to taxpayers in paying tax liabilities in terms of pending foreclosure proceedings and the sale of their assets. In Singapore in line with the automatic 3-month deferral of tax payments for companies and self-employed persons, all debt recovery actions against these qualifying groups have been suspended respectively until extended deadlines [16].

The financial difficulties of the crisis have been pronounced against another category of businesses. Everywhere in the world, tax administrations are faced with situations of finding businesses that are not registered or are registered but do not present accurate income declarations to the tax authority. Thus a study [12] shows that unregistered enterprises which are mainly self-employed and smaller businesses will not be able to access the financial support provided by the Government as they are unknown to the tax administrations. They will be completely excluded from access to financial support during the current crisis. On the other hand, registered businesses that do not declare all their transactions will be able to access support in accordance with their declared turnover level according to the number of employees declared. Coronavirus is pushing economies towards economic recession, at a time when all parameters and trends were in a positive trend [18].

The pandemic mainly affected the trade and services sector. Quarantine measures have a negative impact on the volume of exports and imports, which means that they have a negative impact on the economy [3]. According to a report on the Coronavirus and the economic situation in Eastern Europe [1], the extension of quarantine in many Eastern

European countries causes a recession in their economies, on the other hand, reduced funding will call for stricter fiscal policies, deepening the recession even further.

3 Research Methodology

In terms of composition, this paper includes the theoretical and practical parts. Whereas, in terms of implementation this study is divided into two parts which are significantly related to each other. In the first part we are focused on analyzing the impact of the pandemic crisis in business terms, by laying the econometric model and testing raised hypothesis. While in the second part we have analyzed the effect of the crisis directly on tax revenues by the Tax Administration of Kosovo.

The first part, used data provided from primary sources through questionnaires submitted to 200 businesses, while we received answers for 165 of them. The questionnaires were realized electronically and sent to businesses according to 4 different business categories. There are different ways of categorizing businesses as it is according to the number of employees, gross turnover, net income, and others. This study used categorization based on the gross annual turnover of the previous year according to the following table (the categorization is based on the Tax Legislation, where the businesses are categorized for the purpose of mandatory fines).

Table 1. Businesses Categorization.

Categories	The annual gross turnover
C 1	0-30,000
C 2	30,000 - 200,000
C 3	200,000 - 500,000
C 4	over 500,000

Table 2. Respondents' participation in the questionnaire.

Case Processing Summary						
	Cases					
	Included		Excluded		Total	
	N	Percent	N	Percent	N	Percent
Observations	165	82.5%	35	17.5%	200	100.0%

*Source: Authors Calculations.

As we can see, out of a total of 200 submitted observations, responses were returned by 165 of them.

Table 3. Participation in the questionnaire by categories.

		Frequency	Percent	Valid Percent	Cumulative Percentage
Valid	C 1	41	24.85	24.85	24.85
	C 2	37	22.42	22.42	47.27
	C 3	42	25.45	25.45	72.73
	C 4	45	27.27	27.27	100.00
	Total	165	100.00	100.00	

*Source: Authors Calculations.

The questionnaire is divided into three parts and the formulated questions have multiple answers in 5 categories: 1 (Not at all), 2 (Somewhere), 3 (Average), 4 (Good), 5 (Very good).

This paper analyzed the collected data exploiting SPSS software using the ORL model which helped us to test the hypotheses and analyze how the independent variables impact the dependent variable of the chosen model. The research questions that:

1. *What is the most important factor in generating business revenue?* and

2. *What is the effect of the pandemic crisis on tax revenues?* will find answers in the first and second part of this paper.

Questionnaires were realized with businesses to collect data for the determinants of their revenues, in order to assess the effect of the pandemic situation on their activity and indirectly their contribution to the state taxes.

We have raised the hypothesis assuming that:

3. *There is a significant link between customer demand and business turnover*

The hypothesis was tested by using the ORL model to test independently the impact of each standardized independent variable on the dependent variable and find the most influential factor. The achieved results will be presented through qualitative and quantitative evaluations as well as tabular forms. We have used a hierarchical regressive econometric model according to the following formula:

$$BT = \beta_0 + \beta_1 z_1 + \beta_2 z_2 + \beta_3 z_3 + \sigma^*$$

*Business Turnover

Where the dependent variable is Business Turnover, β_0 is the constant which indicates how much is the value of BT if all of the other factors are unchanged (in most cases, it makes no economic sense), z_1 indicates the customer demand for the goods and services, z_2 represents the supply of goods for sales, the variable z_3 represents the financial ability to return liabilities (including employees salaries, rents, suppliers, etc.) and σ is a probabilistic component.

Table 4. Mean and variation compatibility of respondents on the impact of independent variables on the dependent variable.

Increase of Business Turnover	Mean	Median	St. Deviation	Variance	Observtions
Customers Demand	4.2	4	0.832	0.6922	165
Supply of Goods	3.7	3	1.020	1.040	165
Solvency	3.1	4	1.237	1.530	165

*Source: Authors Calculations.

In the table above we have presented the descriptive statistics for the collected data. According to the data presented we see that the variable which most clearly describes the central trend and the variation indicator is the variable "Customers Demand" and most of the respondents have a rating of 4.2 which means that they attribute the impact of customer demand on their turnover. The individual data of the respondents for this variable deviate from their average by 0.832 evaluation points.

Table 5. Parameter Estimates for hypothesis testing.

Increase of Business Turnover	Coefficient	Standard Error	df	t Value	p Value	95% Confidence Interval	
						Lower	Upper
Customers Demand	0.8642	0.1320	249	1.1876	0.0238	2.5693	2.56928
Supply of Goods	0.7582	0.1542	249	2.431	0.0381	1.1951	6.20488
Solvency	0.5391	0.1727	249	2.87	0.0413	0.6755	5.52452

*Source: Authors Calculations.

Based on the above estimated parameters, the independent variables have high coefficients during testing in the ORL model. The variable with the highest indication is "Customers Demand" with a value of 0.8642 which means that the selected econometric model is best explained by this independent variable, precisely in the turnover of businesses the highest impact has the demand of consumers, then the supply of goods and finally the ability to pay financial liabilities. This research has found that the pandemic crisis in Kosovo, has affected the customers to reduce the consumption of goods and services (elastic demand) due to insecurity, movement restrictions and the tendency to increase savings due to uncertainty of future and others. This directly reflects the decrease in business sales, which in a chain way has also affected the decrease of the supply of goods for the above reasons. This situation is reflected in the budget revenues collected by the tax authority because the lower turnover means lower tax liabilities.

The statistically most important variable is the demand of customers, while statistically important are all independent variables because the p-value value is lower than the significance level of $\alpha = 0.05$ at each of them. Therefore, according to the realized and presented data, we accept the Hypothesis raised with a 95% confidence level.

4 The impact of COVID - 19 on the collecting of tax revenues in Kosovo

The impact of coronavirus (COVID-19) is being felt by all businesses around the world. The position of businesses in most sectors has taken a different direction, causing the reduction of transactions and their value with suppliers, customers and, other interest groups. Thus, the total capacity of products and services within the sectors affected by the pandemic situation have been declined, therefore the aggregate supply has suffered the same declining position. On the other hand, consumers may have had the same level of interest in consuming goods and services, but they were not in willing to buy them due to movement restrictions, insecurity, declining revenues as a result of the situation created causing the decrease of purchasing power. The sectors most affected by the pandemic situation were mainly the manufacturing, tourism, and trade sectors. The decrease in the commercial activity of business entities shows immediate implications in terms of

macroeconomics. Prohibition of economic activity for a certain period, doing economic activity under the influence of reduced demand, reduced revenues as a result of the above factors reflect lower incomes and as a result lower tax liabilities compared to periods of a normal state of business activity.

Thus COVID - 19 in addition to the human impact, had a significant commercial impact that is felt globally as well as an impact on the collection of tax revenues. As in all countries of the world, also the tax authority in Kosovo - Tax Administration of Kosovo was affected by the circumstances and was influenced by the trend of revenue collection as well as increasing the stock of tax liabilities.

The pandemic situation has caused the decrease of business turnover, workers laid off or lost their jobs, the reduction of liquidity which has pushed businesses to finance expenses and liabilities through banking loans. Influenced by the decline in turnover and job losses, tax revenues have marked a negative trend in 2020 compared to previous periods.

Table 6. Tax Revenues 2017 – 2020.

	Tax Revenues	Tax Revenue Planning	Pension Contributions
2017	414,355,294	420,000,000	159,313,875
2018	456,798,495	446,000,000	173,758,536
2019	504,281,866	516,400,000	188,421,119
2020	467,039,833	491,800,000	195,259,485

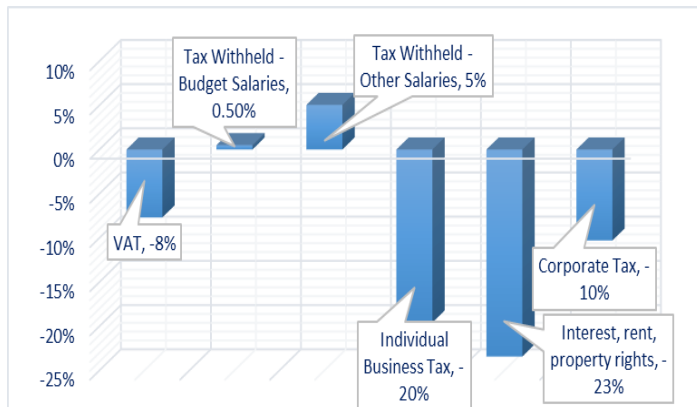
*Source: Tax Administration of Kosovo.

According to the data above, revenues collected by TAK from 2017 have a positive trend until the period of the pandemic crisis of 2020. The decrease of tax revenues of 7.38% compared to the previous period was influenced by the cessation of business activity (all sectors, excepted grocery stores, pharmacies and bakeries) for 3 months, as well as the decrease in turnover of entities even after the resumption of business activity in pandemic time.

As we can see, revenues from pension contributions which are collected by TAK and managed by KPST (Kosovo Pension Savings); despite the challenging financial situation in which businesses have passed, this account has been increased compared to the previous period which means that the Government decisions to finance the salaries of employees have reflected in the microeconomic terms through maintaining the financial stability of households and the macroeconomic terms by increasing income from pension contributions.

Financing of employees' salaries has also stimulated the business entities to increase transparency, which to benefit from fiscal packages, have presented accurate statements of the number of employees.

The tax account with the highest impact on tax revenues is VAT with an average of 48% of the participation.

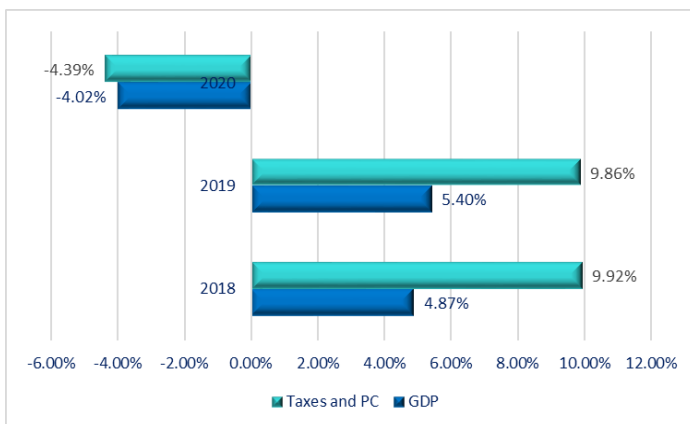


*Source: Tax Administration of Kosovo.

Fig. 1. The trend of tax revenues in 2020 compared to 2019.

Although VAT has the highest impact on tax revenues, during 2020 this account had the smallest decline in revenues to other accounts compared to the previous year, of 8% or expressed in the amount of 18,572,099 million euros, where one of the factors is the decrease of imports (affected by lower demand for goods) compared to 2019 of 6% as trade activity in Kosovo is greatly affected by the import of goods, on the other hand, the level of domestic production has decreased which reflects on the reduction of the supply of goods and this results in a lower level of VAT calculated. Individual business tax and Corporate tax are decreased by 20% and 10% due to reduced business turnover. The positive trend of withheld tax on wages is reflected in fiscal policy assistance in avoiding reducing the number of employees.

Kosovo's economy for 2020 was projected to grow by 4%, but the spread of COVID - 19 in Kosovo also caused a decrease in nominal GDP of 4.02%. The ratio of tax revenues to GDP of the previous year shows an insignificant decrease, in 2020 this share was 9.73% compared to the previous year by 9.77%. The GDP trend in 2020 compared to the previous year was downward by 4.02%, while tax revenues for the same period had a downward trend of 4.39%, as we can see in the chart below.



*Souece: Kosovo Agency of Statistics and Tax Administration of Kosovo.

Fig. 2. Tax Revenue Trend plus Pension Contributions and Nominal GDP.

Closing the 2019 year with a relatively low public debt has provided opportunities for fiscal policy to mitigate the effects of the pandemic, although due to the measures taken, have caused an increase in current expenditures.

5 Conclusions

While Kosovo's economy in 2019 was experiencing a surge of growing, the COVID-19 explosion disrupted it along with many other sectors. The rapid spread of the crisis reduced private consumption, business income, household income, imports, exports, remittances, etc. The impact of economic activity for a limited time (3 months 2020) for all business activities except grocery stores, bakeries and pharmacies, reduced the turnover of businesses and increased difficulties in their solvency capabilities. Thus the Government had an immediate reaction to mitigate the negative financial effect that the pandemic is causing to the vast majority of businesses, especially through the financing of employees' salaries and other financial facilities such as postponement of deadlines for declaration and payment of taxes, postponement of deadlines for following the procedures of blocking or confiscation of assets as a result of non-payment of obligations, remission of administrative penalties created by delays in declaration or payment of basic tax, and others.

Although government spending increased to support funding through fiscal policy, the effects of government measures were on maintaining the financial stability of employees and households as well as guaranteeing the payment of salaries which ensured stable tax withheld revenues and pension contributions, as well as guaranteeing partial financing of rental costs enabled landlords to maintain financial stability and tenants to be freed from liquidity and solvency capabilities. This situation has affected the increase of revenues from tax withheld which includes salaries, rents, and other of 5% compared to the previous period as the accuracy of their declaration was increased in order to benefit from financial assistance. On the other hand, restrictions on the movement and realization of business activities created insecurity of consumers in the consumption of goods and services which from the usual demands they turned into essential consumption requirements.

The econometric model used in this research found that business turnover during the pandemic period was reduced and significantly with a 95% confidence level was influenced by the decrease in consumer demand due to restrictions on activities, incomes decreasing, current consumption uncertainty, and savings trends due to uncertainty about the future. Thus, the impact of global markets all affected by the pandemic situation was also reflected in international import and export transactions on the one hand in the reduction of supply reserves and on the other hand in the lower turnover of businesses.

The restriction of business activity reflected in some aspects in tax revenues, in terms of increasing the debt stock affected by the reduction of liquidity and solvency of businesses, and lower collection of tax revenues compared to previous periods as a result of non-realized regular business activity; in 2020 tax revenues decreased by 7.38% compared to the previous period in which the crisis in Kosovo was not present.

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