POLICY BRIEF

A Rapid Review of the Kosovo Tax System from a Gender Perspective and Policy Options for More Gender-responsive Taxation

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Introduction

Gender-responsive budgeting (GRB) is a strategy aiming at gender equality by analysing both the collection and spending of public resources.[2] GRB is included in the Treaty on the Functioning of the European Union and is encouraged as a practice by the European Parliament and the European Union Council.[3] GRB is a legal obligation for all public institutions in Kosovo.[4] In line with Kosovo's legal commitments and best international practices in GRB, all laws and policies, including budgets, ought to be informed by gender analysis which identifies the different needs, interests, and priorities of diverse men, women, boys, and girls.

GRB often has focused on expenditures, but attention to revenue collection, particularly through taxation policies, is equally important. Until recently, especially following the COVID-19 pandemic, taxation regimes and policies have not received as much attention from policymakers as expenditures have, including tax systems' interactions with gender norms.[5] Without properly considering the gender dimensions of taxation systems, taxes can reinforce and exacerbate gender inequalities. Using a gender-neutral[6] mindset when designing taxation policies can contribute to gendered outcomes that hinder progress towards gender equality as well as the realisation of social and economic rights.

When considering gender impacts of revenue collection, four "stylized facts" should be noted: 1) differences in employment by gender (involving differences in informal/formal employment, earnings, and occupational segregation); 2) the gendered, unequal division of unpaid care work; 3) gendered differences in expenditure consumption; and 4) differences in property, inheritance, and ownership of assets.[7] A recent OECD report involving cross-country comparisons of 43 tax systems and gendered outcomes found that:

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[2] European Institute for Gender Equality (EIGE), *Gender budgeting*: 2017.

[3] Ibid.

[4] Law on Gender Equality, Article 1.17.

[5] Grown, C. and Valodia, I. *Taxation and Gender Equity: A Comparative Analysis of Direct and Indirect Taxes in Developing and Developed Countries*. New York, Routledge: 2010.

[6] According to EIGE, a gender-neutral policy, programme or situation is one that has no positive or negative impact in terms of gender relations or equality between women and men.

[7] Barnett, K. and Grown, C. *Gender Impacts of Government Revenue Collection: The Case of Taxation*, London: Commonwealth Secretariat: 2004.

- Most countries considered a gender perspective to be important with respect to the design of tax policy;
- There is higher risk of implicit biases than explicit ones in tax policy, and these biases occur when a *neutral* tax system intersects with the underlying economic situation and gender norms, leading to the reinforcement of gender inequalities;
- Insufficient gender-disaggregated data exists with respect to consumption, property, assets, and wealth ownership;
- Future research and policy efforts should focus on labour taxation, specifically on second earners' taxation, tax credits and allowances, progressive tax systems, and social security contributions; some countries have introduced tax credits or allowances targeted at mothers, particularly those with more than four children (Hungary);
- Research should further examine gender biases in capital income and capital gains taxation (i.e., wealth and inheritance taxes); and
- Some countries have proposed or applied reduced Value-Added Tax (VAT) rates and zero rating (i.e., taxed at zero percent) for sanitary products (United Kingdom, Scotland).[8]

These findings in other countries can inspire areas in need of analysis in Kosovo.

This initial analysis reflects on the gender-responsiveness of the tax system in Kosovo and identifies opportunities for more equal, efficient, and transparent revenue collection towards increasing social welfare. While it does not provide an in-depth analysis of the aforementioned areas, it does seek to contribute to discussions on these issues and encourage future research, for which adequate resources also are needed.

An Overview of Kosovo's Revenue Sources

Kosovo has meagre government revenues. These amounted to 25% of Gross Domestic Product (GDP) in June 2022.[9] This is mostly due to Kosovo's dependency on remittances, the informal economy, and tax evasion, among other factors. Revenues derive from three sources: tax revenues, non-tax revenues, and donations, with the main source being tax revenues. Of Kosovo's total €2,430.5 million in revenues in 2022,[10] 89.2% derived from tax revenues, including direct taxes (€392.6), indirect taxes (€1,837.8), and tax refunds; 9.8% were non-tax revenues; and 0.9% were donor grants.[11]

Kosovo applies different types of taxes, including VAT, Personal Income Tax, Corporate Income Tax, and Pension Contributions, among others. According to the Law on Budget Appropriations for 2023, VAT had the largest share of tax revenues (48.3% in 2022), followed by the Excise Tax (21.6%), Personal Income Tax (8.7%), and Corporate Tax (5.6%), followed by other revenues. It is striking that almost half of all budget revenues are paid by *all* taxpayers, irrespective of their different positions in the labour market (e.g., by gender, class, age). According to the World Bank, Kosovo has a simple tax system and relatively low tax rates.[12]

Meanwhile, there is no evidence that the Government of Kosovo has undertaken any gender impact assessment to inform revenue collection to date, even though all laws and policies should be informed by gender impact assessments.[13] Such assessments are important

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[8] OECD, *Tax Policy and Gender Equality: A Stocktake of Country Approaches*: 2022. Government of UK, *Policy Paper: VAT: zero-rating of women's sanitary products*, 2016. CNN. *Women in Scotland now have a legal right to free menstrual products*: 2022.
[9] CEIC Data, Kosovo Tax revenue: % of GDP.
[10] Law on Budget Appropriations for the Budget of the Republic of Kosovo 2023.
[11] Ibid.
[12] World Bank, *Open Knowledge Repository*, *Republic of Kosovo Public Sector Revenues: Tax Policies, Tax Evasion, and Tax Gaps, 2021.*
[13] Gender Impact Assessments are part of the Regulatory Impact Assessments required by the Kosovo Better Regulation Strategy 2.0.

for designing revenue collection systems as diverse men, women, boys, and girls are in different positions in the society and have different needs, interests, and priorities.

Key Gender Issues Related to the Economy in Kosovo

The gender analysis that is needed to inform revenue collection policies needs to consider the different positions of diverse women and men in the economy. For example, women enter and exit the labour market more frequently than men, causing discontinuity in their labour market participation.[14] They are more likely to be employed in seasonal jobs and part time work[15] and overrepresented in vulnerable employment and informal positions. In Kosovo, women's participation as unpaid family workers (39.3%) was more than double that of men (17.3%), as per a survey conducted in 2017.[16] More women (46%) than men (30.07%) were overrepresented in vulnerable employment the same year.[17] More women (12.8%) worked part-time than men.[18] Women tend to earn less than men, even after controlling for human capital (i.e., knowledge and skills developed in education and through job experience), making on average €289 per month compared to men (€353) in 2017.[19] The Agency for Gender Equality has estimated that the gender pay gap in Kosovo is 9.3%.[20] Women are also more likely to carry the burden of the unpaid care work at home. More women (32.2%, 6.5%) than men (1.1%, 0.1%[21]) listed looking after children as a main reason for inactivity and unemployment, respectively.[22] A 2022 nation-wide survey has estimated the value of unpaid care work done by women and girls to reach the amount of €2,824,248,757 or 33% of GDP in Kosovo.[23]

Women inherit less property than men, with only 17% of all properties owned by women in 2017, as per the Kosovo Cadastral Agency.[24] Women owned only 13% of all enterprises and 18% of new businesses registered between 2014-2016.[25]

Given women's under-engagement in employment, the gender pay gap, and overrepresentation in informal jobs, gender neutral taxation systems and regimes can exacerbate inequalities related to women's social and economic rights, as the following sections discuss.

A Review of Tax Systems and Revenue Collection from a Gender Perspective

According to conventional "trickle-down" economics theory, lowering taxes for the wealthy encourages investment and job creation, which will ultimately be beneficial to society and the economy; the wealth ostensibly will trickle-down from the upper classes to benefit the working class and the poor. However, little evidence exists to back up these assertions. Instead, tax cuts have resulted in bigger profits for the wealthiest and a greater concentration of income and capital among the already wealthy.[26] Progressive taxation systems with high progressivity value may address income and wealth inequality by redistributing capital from

[14] ILO, *Global Employment Trends for Women*: 2009, Geneva.
[15] Ibid.
[16] Millennium Challenge Corporation, *Kosovo - Labor Force & Time Use Study Research Report*, 2017: 2018. Seasonality employment by gender shows that women (2.4 percentage points) are less employed than men (3 percentage points) in the summer months; however, these estimates did not capture employment in August, therefore the survey is unable to evidence the seasonality effect.
[17] Ibid.
[18] Ibid.
[19] Ibid.
[20] Agency for Gender Equality, *Gender Pay Gap in Kosovo*, 2020.
[21] Not statistically significant. Millennium Challenge Corporation, *Kosovo - Labor Force & Time Use Study Research Report*, 2017: 2018.
[22] Ibid.
[23] Musine Kokalari – Institute for Social Policy, *Who Cares? Unpaid Care Work in Kosovo*: 2022.
[24] KWN, *Kosovo Gender Analysis*: 2018.
[25] Ibid.
[26] Piketty, T. *Capital in the 21st Century*, Cambridge, Harvard University Press: 2014.

the rich to the poor.[27] Given that women have a higher poverty incidence than men throughout the life cycle,[28] because of low participation in the labour market, lower earnings, a higher inactivity rate, and therefore less social and pension benefits, revenue collection using progressive taxation, inclusive of a gender perspective, where resources are distributed to groups who need it more, can be an important policy instrument towards gender equality.

A gender perspective on revenue collection aims to address implicit and explicit gender biases, particularly in fiscal policies. Currently, personal income taxes globally and in Kosovo are gender neutral. In many European countries, personal income taxation is at the individual level.[29] Designing tax systems without gender sensitive analyses can reinforce gender unequal household dynamics like the male breadwinner/female home-maker model and lead to regressive gender norms.

Meanwhile, with respect to consumption and daily purchases, when compared to men, women spend differently because of constructed gender roles, power dynamics, unequal division of unpaid care work, and household bargaining. Hence, there is a gender distinction between increasing direct or indirect taxes with different gendered implications from this. For example, increasing direct taxes such as Personal Income Tax will not harm women as much as increasing indirect taxes such as VAT would, due to women's lower participation in the labour market and lower earnings, as well as gender differences in expenditure and daily purchases. Due to the interaction of underlying economic conditions and gender norms, tax policies not accounting for and addressing these structures will result in furthering gender and class inequalities.

In the next sections, different types of taxes currently levied by the Kosovo Government are discussed from a gender perspective.

Value-Added Tax

According to Law No. 05/L-037 on Value Added Tax and its Administrative Instructions, there are two different VAT rates applied to goods and services.[30] First, the standard VAT rate of 18% applies to all non-essential products. Second, the reduced VAT rate of 8% applies to essential goods like contraceptives and pharmaceutical products, among others. There are some services that are exempt from taxes such as health services and medical care, media services, post services, imported IT equipment, and civil society organizations, among others.[31]

Increases in indirect taxes, such as VAT on daily purchases and consumption, are more likely to affect women than men, given that women, on average, tend to receive lower income than men and participate less in paid employment, so they have less income at their disposal. Evidence suggests that women tend to spend more than men on food, healthcare, and education, towards enhancing the capabilities and wellbeing of their children, in line with gender norms.[32] Women also have different needs, priorities, and interests from men. These gender differences are reflected in expenditure and consumption patterns, so women will be affected more by changes in VAT. Hence, considering these inequalities in income and women's needs, the government could consider reducing or exempting indirect taxes like VAT (i.e., zero rating women's sanitary products), to benefit women and contribute to gender equality through tax reductions.

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[27] Piketty, T. *Capital in the 21st Century*, Cambridge, Harvard University Press: 2014. FES, *The big picture: A progressive economic agenda for Kosovo*: 2021.
[28] Chant, S. H. "Re-thinking the "feminization of poverty" in relation to aggregate gender indices", *Journal of human development*, 7 (2). pp. 201-220: 2006.
[29] Quinn, Sh., "Gender budgeting in Europe: What can we learn from best practice?" *Administration, Sciendo*, vol. 65(3): 101-121, 2017.
[30] Law No. 05/L-037 on Value Added Tax; Administrative Instructions 03/2015 for Implementation of the Law no. 05/L-037 on Value Added Tax.
[31] Ibid.
[32] Grown, C. and Valodia, I. *Taxation and Gender Equity: A Comparative Analysis of Direct and Indirect Taxes in Developing and Developed Countries*. New York, Routledge: 2010. 352 pp.

An example of a discriminatory tax in Kosovo is the VAT on menstrual hygiene products. Despite the fact that absorbent sanitary napkins and tampons are an *essential* product required by all girls and women, these items are not included in the list of essential goods with reduced VAT. Instead, the standard VAT rate of 18% is applied to these items, treating them like other luxury items. Given their different needs, women are directly affected and discriminated against by this tax. This contributes to exacerbating economic inequalities among women, poverty for those who are already struggling like single women or women-headed households, and limited access to menstrual hygiene products for vulnerable women.[33]

Personal Income Tax

The Law on Personal Income Tax renders this tax applicable to all income received by employees. The current Personal Income Tax system includes progressive taxable income rates, meaning that the tax rate is higher for people who earn more. However, the progressivity value is marginal. Employees and employers each should pay 5% of gross income as a pension contribution. Then, the remaining taxable income is regulated as per the following Personal Income Tax rates: €0–€80 monthly income is not taxed; €80–€250 is taxed at a 4% rate; €250–€450 is taxed at a 8% rate; and over €450 is taxed at a 10% rate.[34]

Increasing direct taxes like personal income tax will likely affect women less because women earn less than men, and fewer women than men participate in paid employment. In 2021, women's employment rate was 17.1% compared to men's 49.9% of the working age population.[35] Among people in paid employment or those looking for a job in 2021, women's labour force participation was 20.8% compared to 56.0% among men.[36] Related, women's inactivity rate (79.2%) was significantly higher than men's (44.3%). Regarding earnings, a 2017 survey evidenced that women earned less than men, and as per the adjusted gender pay gap, women were paid 9.3% less than men.[37]

Hence, increasing the redistributive power of Personal Income Tax rates would generate revenue without hurting women, among other people receiving lower levels of income. Applying higher rates for higher tax brackets would increase the distributional effect and progressivity of the Personal Income Tax.[38] This way, the tax burden would be reduced for lower-income earners, which would benefit women in particular, as among the most economically marginalised.

Corporate Income Tax

This tax is levied on the profits of a corporation. Revenues from the corporate income tax comprised 5.6% of Kosovo's total revenues for 2022 (€136.2 million).[39] Worldwide, the pandemic has led the private sector, including businesses operating in the informal economy, to reduce their workforce and some companies have closed; meanwhile large corporations have tended to make huge profits and have paid little taxes.[40] Kosovo has a flat corporate income tax of 10% for businesses with annual income over €50,000, meaning that there is no progressive trait in the corporate tax. Therefore, it does not contribute at all to wealth redistribution, but rather contributes to an added burden for middle to low income generating businesses. From a gender perspective, men tend to own businesses more than women, and men's businesses tend to be larger than women-owned businesses.

[33] KWN, *Gender Responsive Taxation: Removing Taxes for Essential Menstrual Hygiene Products*, 2022; The World Bank, *Policy Reforms For Dignity, Equality, and Menstrual Health*, 2022.
[34] Tax Administration of Kosovo, *General Information on Taxes in Kosovo*.
[35] Kosovo Agency of Statistics, *Labour Force Survey 2020*, 2021.
[36] Ibid.
[37] Millennium Challenge Corporation, *Kosovo - Labor Force & Time Use Survey*, 2017; Agency for Gender Equality, *Gender Pay Gap in Kosovo*, 2020.
[38] FES, *The big picture: A progressive economic agenda for Kosovo*: 2021.
[39] Law on Budget Appropriations for the Budget of the Republic of Kosovo 2023.
[40] ILO, *COVID-19 crisis and the informal economy*, 2020.

Introducing an element of progressivity into the corporate income tax, such as a tax rate larger than 10% for large profit generating corporations,[41] and lower than 10%, 5%, or 3% for different income brackets, would benefit women as the collected revenues could be redistributed through social welfare programs. Further, it would support local and small businesses, among which women-owned businesses are overrepresented, and which may otherwise close amid competition from larger, established corporations. Meanwhile, it would enable the particularly profitable corporations to contribute back, redistributing wealth to help address social inequalities, including gender inequalities through government programming.

Other taxes

Kosovo does not levy a tax on dividends to date.[42] Further, Kosovo does not levy a net wealth tax, stamp duty tax, or transfer tax.[43] Neither does it levy inheritance, gift, or estate taxes for assets with values under €5,000; for gifts where the value of inheritance exceeds €5,000, these are treated as taxable income.[44] Gender analysis of inheritance, gift, or estate tax should inform changes in such taxes' design. Revenue collection could be enhanced by introducing a withholding tax on dividends and a wealth tax.

Additionally, property tax is levied by local authorities and varies by municipality.[45] The Law on Property and Other Real Rights promotes equal rights for women and men. However, in 2017 women owned only 16.7% of immovable property.[46] As women own less property than do men, an analysis of the property tax by gender would assess that increasing the property tax would harm women less. Further, such analysis could inform design of property tax in such a way as to incentivise an increase in women-owned properties, through discounts on property tax or stamp duty.[47] These could be coupled with loan concessions for properties bought in women's names.[48]

Finally, excise tax in Kosovo regulates taxes for specific goods like fuel, tobacco, and alcohol. Increasing excise tax would affect women less, given gender differences in expenditures, consumption, and ownership of these products and vehicles. Increases in fuel taxes also would contribute to a cleaner environment, using the polluter pays principle.

Combining higher excise taxes with zero-rating taxation for sanitary and reduced VAT on basic food items, would not just contribute to gender equality and the realisation of social and economic rights, but also on social wellbeing and healthier citizens.

Policy Options on Taxation

This section includes policy options the government can consider towards enhancing gender equality through revenue collection.

- Allocate resources to conduct a thorough Gender Impact Assessment of the current tax system to identify, based on evidence, needed revisions to the tax system towards improved revenue for social services and decreased taxes for the most vulnerable. Analyse property, inheritance, and excise tax design from a gender perspective to ensure that gender implications deriving from such tax regimes are considered and alternatives provided toward gender equality.
- Introduce a financial transactions tax of a minimum rate (i.e., 0.01%) for asset and equity purchases between commercial banks operating in Kosovo which could help redistribute

[41] FES, *The big picture: A progressive economic agenda for Kosovo*: 2021.
[42] Deloitte, *International Tax Kosovo Highlights, 2022*; PWC, *Worldwide Tax Summaries, Kosovo*: 2022.
[43] Ibid.
[44] Ibid.
[45] Ibid.
[46] KWN, *Budgeting for Better Agriculture and Rural Development*: 2017.
[47] World Bank Blogs, *Gender differences in taxation: Why do they matter?* 2022.
[48] Ibid.

capital from those who have more wealth to those at the margins, raising revenues for social programs and services. These revenues could be used for investments in social infrastructure and the care economy, creating green jobs (in contrast to capital investments in unsustainable, physical infrastructure), benefiting human wellbeing and realising rights toward a sustainable, gender equal economic growth.[49]

- Levy a carbon tax on each unit of carbon emissions, which could contribute to revenue collection from businesses and large corporations that engage in environmental pollution, using the polluter pays principle. This could also contribute to reductions in emissions, environmental protection, and improved public health outcomes.
- Consider installing a progressive corporate income tax system for businesses and companies, with higher distribution power where higher tax rates than 10% apply to companies with large profits, whereas reduced rates apply to small businesses, towards addressing class, gender, and social inequalities. Revenue collection from a progressive corporate income tax could support improved social services by taxing the wealthiest and largest corporations. This is particularly important in the post-pandemic and recession crisis, where austerity policy is making a comeback.[50] Austerity policy is based on the idea of limiting the fiscal space, that is the amount of money a government can spend. It tends to be coupled with corporate tax cuts, with the rationale that this will lead to decreased public sector debt and deficits, increases in investors' confidence, and, ultimately, generate economic growth. However, evidence shows that countries implementing austerity policy have not observed economic growth (i.e., Greece's GDP-per-capita declined by 25% between 2007-2013), and austerity measures have even harmed the most marginalised, such as by contributing to the closure or limiting of important social services that benefit women in particular (e.g., childcare, assistance in domestic violence cases).[51]
- Apply reduced VAT rates such as zero rating, lower than standard rates, or exemptions on women's sanitary products, basic food items, products for provision of care, and women-headed households, including for childcare, tax deductibles or exemptions in care centres and nurseries. As per government obligations to implement GRB, amend Law no. 05/L-037 on Value Added Tax, as well as the Administrative Instruction Ministry of Finance No. 03/2015 for Implementing the Law No. 05/L-037 On Value Added Tax, so menstrual hygiene products are exempt from all customs and VAT taxes. Gender analysis suggests that this will benefit low-income families and contribute to furthering equality in state revenue collection by removing this discriminatory tax.

[49] De Henau, J., Himmelweit, S., *Stimulating OECD economies post-Covid by investing in care, Open University IKD Working Paper*, 2020; EIGE, *Economic Benefits of Gender Equality in the European Union. Report on the empirical application of the model*, 2017; Elson, D. *Plan F: Feminist Plan for a Caring and Sustainable Economy*, 2016; Bargawi, H., Cozzi, G., *Engendering Economic Recovery: Modeling Alternatives to Austerity in Europe*, 2017.

[50] WBG, *WBG's response to the Autumn Statement 2022: The budget means real terms cuts to public services that will hurt people and the economy*: 2022.

[51] European Women's Lobby, *The price of austerity - The impact on women's rights and gender equality in Europe*: 2012. Perrons, D. *Is Austerity Gendered?* Cambridge, Polity Press, 2021; Sawyer, M. *Fiscal Austerity: The 'Cure' Which Makes the Patient Worse*: 2012. Policy Paper, Centre for Labour and Social Studies; The Guardian, *Austerity policies do more harm than good, IMF study concludes*: 2016.