EGE SCHOLAR JOURNAL

Ege Scholar Journal, Year: 2026, Volume: 3, Issue: 1, Pages : 22-29 *Research Article*

DOI: 10.5281/zenodo.18644928

Publication Date: 30.01.2026

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How Market Freedom Is Being Distorted in Kosovo: An Analysis of Tax Administration Interventions in Business Pricing

Abstract

This study examines how tax administration measures may indirectly influence pricing freedom and competitive dynamics in Kosovo, with particular attention to policy and procedural developments visible in 2024. Kosovo's market economy is expected to rely on supply and demand as the primary mechanism of price formation, yet enforcement design and compliance obligations can affect prices through administrative costs, perceived audit risk, and uncertainty. The research uses qualitative document analysis of publicly available institutional materials and legal texts, complemented by comparative literature on tax compliance burdens, especially for small and medium-sized enterprises (SMEs). Key sources include the 2024 Law No. 08/L-257 on the Administration of Tax Procedures and related institutional communications, alongside international evidence on compliance cost structures. The analysis suggests that rapid expansion of documentation and procedural requirements can impose disproportionate burdens on SMEs, which often have limited capacity to absorb fixed compliance costs. This may translate into more conservative pricing strategies, reduced discounting flexibility, and weaker incentives for innovation and market entry. The study concludes that stronger compliance is a legitimate public policy objective, but implementation should be calibrated to protect competition and minimize unintended market distortions. Policy recommendations emphasize simplification, risk-proportionate enforcement, clearer guidance, and structured consultation with the private sector.

Keywords: free-market economy; tax administration; compliance costs; pricing strategy; SMEs; market competition; Kosovo; fiscal reforms

How to cite: Tahiri H. (2026). How Market Freedom Is Being Distorted in Kosovo: An Analysis of Tax Administration Interventions in Business Pricing. *Ege Scholar Journal, 3*(1), 22-29

1. Introduction

In a market economy, prices and profit margins are expected to emerge through decentralized decision-making shaped by costs, consumer preferences, and competition. The state's core responsibility is to enforce predictable rules, protect fair competition, and secure revenue through transparent taxation. In Kosovo, these functions are carried out in part by the Tax Administration of Kosovo (TAK), whose publicly stated mission emphasizes maximizing voluntary compliance and providing professional, transparent services. In 2024, Kosovo introduced a major legal reform through Law No. 08/L-257 on the Administration of Tax Procedures, which regulates the procedures for administering tax liabilities and frames TAK's organizational and operational principles.A parallel policy narrative has highlighted improved revenue performance and strengthened administrative capacity, including public reporting that TAK collected approximately EUR 950 million in taxes during 2024. While enforcement modernization can reduce evasion and improve fairness, tax administration can shape markets even without explicit "price regulation." This happens through indirect channels such as compliance costs, documentation requirements, audit risk, and uncertainty. International research consistently shows that compliance burdens tend to be regressive in practice: smaller firms often bear higher compliance costs relative to turnover because they cannot spread fixed administrative tasks across large volumes of activity. This study explores how tax administration interventions and procedural reforms in Kosovo, particularly visible during 2024, may affect pricing behavior and competitive dynamics. The goal is not to dispute the legitimacy of enforcement, but to clarify trade-offs and propose a balanced approach that protects competition while strengthening compliance.

2. Materials and Methods

2.1. Research Design

The study adopts a qualitative policy and document-analysis design. It focuses on identifying mechanisms through which tax administration practices can affect pricing freedom and market competition.

2.2. Data Sources

Four categories of sources were used:

1. **Legal and institutional framework (Kosovo):**
   - Law No. 08/L-257 on the Administration of Tax Procedures (officially published and publicly accessible).
   - TAK public information describing mandate and mission.
2. **Institutional communications and performance context:**
   - TAK media release reporting annual revenue collection for 2024.
   - Related TAK materials reflecting institutional modernization and governance priorities, including integrity planning.
3. **Policy and procedural interpretation sources:**
   - Professional summaries of the 2024 procedural reforms and expected effects (used as secondary interpretation, not as primary legal authority).

4. **Comparative and international evidence:**

    - European Parliament study on compliance costs (with focus on SMEs).
    - World Bank note on compliance cost surveys and reform design.
    - OECD study on SME taxation and simplification measures.
    - IMF technical assistance reporting on Kosovo's tax administration progress and reform themes (e.g., compliance risk management, digital transformation).
    - General description of Kosovo's corporate tax administration context (self-assessment, audit and appeals), used as background.

2.3. Analytical Procedure

Documents were coded thematically around:

- compliance expansion channels (reporting obligations, record-keeping, procedural changes);
- uncertainty channels (interpretation risk, audit risk);
- transmission channels into prices (administrative cost pass-through, risk buffers, reduced discounting);
- distributional effects by firm size.

2.4. Limitations

The study does not use confidential firm-level tax data, representative surveys, or econometric identification. Findings are mechanism-based and grounded in legal texts, institutional materials, and comparative evidence. The analysis avoids asserting that any authority directly sets prices; instead, it evaluates how administrative processes can indirectly influence pricing decisions.

3. Results

3.1. Compliance Expansion as an Indirect Constraint on Pricing Flexibility

Law No. 08/L-257 formalizes and restructures procedural dimensions of tax administration, reinforcing the centrality of documentation, deadlines, and administrative processes in the taxpayer–authority relationship. In practical terms, when documentation and procedural requirements expand, firms devote more time and resources to compliance. For SMEs, this often means purchasing external accounting services, reallocating managerial time, and adopting conservative operational routines.Comparative evidence supports the expectation that compliance burdens are relatively heavier for SMEs. The European Parliament's review documents that compliance costs can be sizable and unevenly distributed, with smaller enterprises often facing disproportionate burdens relative to turnover. The World Bank similarly emphasizes that compliance costs (time, filing effort, interactions with administration) can deter business growth in developing and transition settings.

3.2. Procedural Reform and Uncertainty as a Cost Channel

Major procedural reforms can improve fairness and predictability over time, but transitions can also create short-term uncertainty, particularly when businesses are adjusting internal processes and interpreting new requirements. Secondary professional summaries emphasize that the 2024 procedural reform introduced multiple changes aimed at streamlining processes and enhancing compliance.In public finance research, uncertainty and enforcement design matter because taxpayer responses are shaped not only by statutory rates, but also by administration, monitoring, and perceived risk. Slemrod and Yitzhaki highlight that avoidance, evasion, and administration are central elements of tax systems rather than peripheral concerns. When perceived audit risk rises or rules feel ambiguous, firms may "price in" risk buffers, reduce promotional discounting, or narrow product offerings to simplify compliance exposure.

3.3. Disproportionate Effects on SMEs and Market Competition

The OECD notes that SMEs are central to employment and innovation and that simplification measures can help reduce burdens while supporting formality and growth.When compliance costs rise without targeted simplification, SMEs may lose competitive capacity relative to larger firms that can spread fixed administrative costs across wider turnover.

This can affect market structure in at least three ways:

1. **Margin compression and conservative pricing:** SMEs may keep higher precautionary margins on certain products to protect cash flow.
2. **Reduced competitive experimentation:** less discounting, fewer product variations, and slower innovation cycles.
3. **Potential market exit or informality pressures:** where compliance costs outweigh perceived benefits of formal operation, consistent with World Bank reform notes on compliance deterrence.

3.4. Summary of Mechanisms and Expected Outcomes

Table 1 synthesizes the main mechanism-based findings.

Table 1. Mechanisms linking tax administration measures to pricing behavior and market outcomes

Factor	Mechanism	Likely market effect
Expanded procedural and documentation requirements	Higher fixed compliance costs (time, accounting services, internal controls)	Cost pass-through into prices; reduced flexibility for SMEs
Reform transition and interpretation uncertainty	Higher perceived dispute/audit risk	More conservative pricing; reduced discounting and experimentation
Enforcement capacity and compliance risk management	Firms allocate resources to risk buffering	Lower investment appetite; weaker innovation incentives
Uneven firm capacity	Compliance costs regressive relative to turnover	Competitive advantage for larger firms; pressure on SMEs

Note: These are mechanism-based expectations consistent with SME compliance cost literature.

Figure 1. Conceptual relationship between compliance intensity and market dynamism

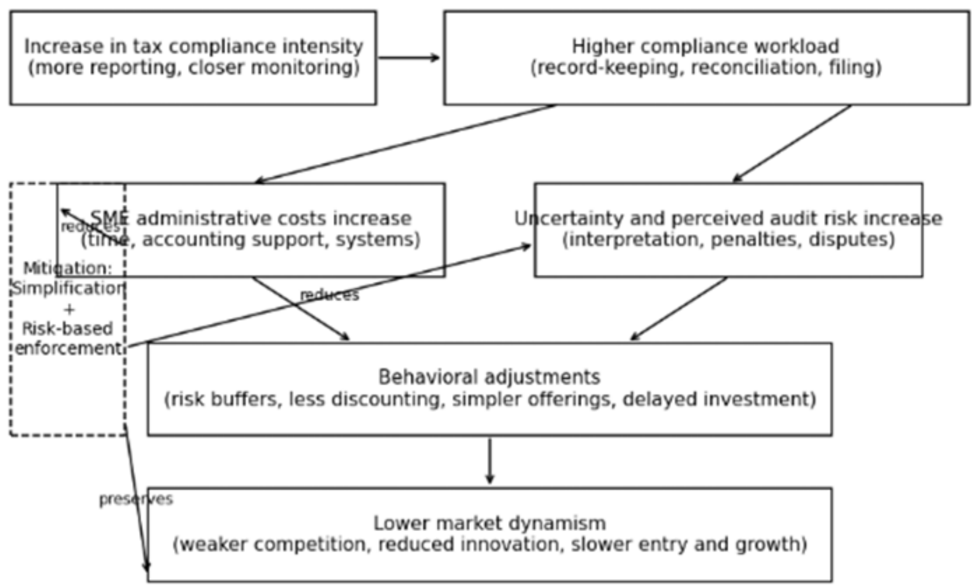

Figure 1 (conceptual) illustrates a pathway where increasing compliance intensity, when not paired with simplification, raises SME administrative costs and uncertainty, which can reduce market dynamism (discounting, product variety, and innovation). International reform guidance emphasizes that data-driven compliance design and targeted reforms can lower burdens while preserving enforcement objectives.

4. Discussion

Kosovo's tax administration has pursued modernization goals that include improved governance, integrity, compliance risk management, and institutional capacity. Public communication on 2024 revenue performance signals strong collection outcomes. These developments are consistent with broader international expectations that tax administrations evolve toward data-driven, risk-based systems. However, market distortions do not require explicit price-setting rules. They can arise when administrative burdens and uncertainty alter how firms compete. The European Parliament's review and World Bank notes highlight a persistent issue: compliance costs are not neutral and often weigh more heavily on smaller enterprises, influencing business decisions and potentially discouraging growth. OECD analysis similarly emphasizes the importance of simplification measures to avoid unintended distortions and to support SME participation in the formal economy.From a policy perspective, the central challenge is calibration. Enforcement should target high-risk behaviors and preserve fairness, but it should also be designed to minimize unnecessary burdens on compliant firms. A risk-proportionate approach can improve compliance while preserving competition and innovation, especially in sectors dominated by SMEs.

5. Conclusions

This study finds that tax administration measures and procedural reforms visible during 2024 can indirectly influence pricing behavior in Kosovo through compliance costs, perceived risk, and uncertainty. SMEs are likely to be affected more strongly because compliance burdens behave like fixed costs that are harder to absorb at small scale. Stronger compliance and modernization remain legitimate public policy goals, but implementation design is crucial to avoid weakening competition and market dynamism.

Policy recommendations:

1. Simplify SME-facing procedures (templates, clearer thresholds, reduced duplication).
2. Expand risk-proportionate enforcement to reduce disruption for compliant SMEs.
3. Provide clearer guidance and practical examples to reduce interpretation uncertainty.
4. Institutionalize structured dialogue with business associations and professional bodies to improve reform design and sequencing.

Appendix A. Documents included in the analytical corpus

The following publicly available documents were reviewed as primary and contextual sources:

A1. Tax Administration of Kosovo (TAK) mission and institutional role materials.

A2. Law No. 08/L-257 on the Administration of Tax Procedures (English-language PDF).

A3. TAK notice to taxpayers on mandatory declaration of Purchase and Sales Books via EDI (April 4, 2024).

A4. TAK "Guidelines, Manuals and Regulations" and "Sales and Purchase Books" repository pages (supporting guidance materials).

A5. TAK media release reporting 2024 annual collections (950 million euros) as contextual performance data.

A6. TAK Integrity Plan 2024–2026 (governance and integrity framework context).

A7. IMF Technical Assistance Report on Kosovo tax administration progress (mission November 19–25, 2024), used as comparative administration context.

A8. European Parliament study on compliance costs with focus on SMEs, World Bank note on compliance cost surveys, and OECD report on SME taxation and simplification, used as comparative evidence.

6. Patents

Not applicable.

Supplementary Materials: Not applicable.

Author Contributions: Conceptualization, H.T.; methodology, H.T.; formal analysis, H.T.; investigation, H.T.; writing—original draft preparation, H.T.; writing—review and editing, H.T. The author has read and agreed to the published version of the manuscript.

Funding: This research received no external funding.

Institutional Review Board Statement: Not applicable.

Informed Consent Statement: Not applicable.

Acknowledgments: The author acknowledges the contribution of publicly available institutional and international materials used for the policy and comparative analysis.

Conflicts of Interest: The author declares no conflicts of interest.

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