

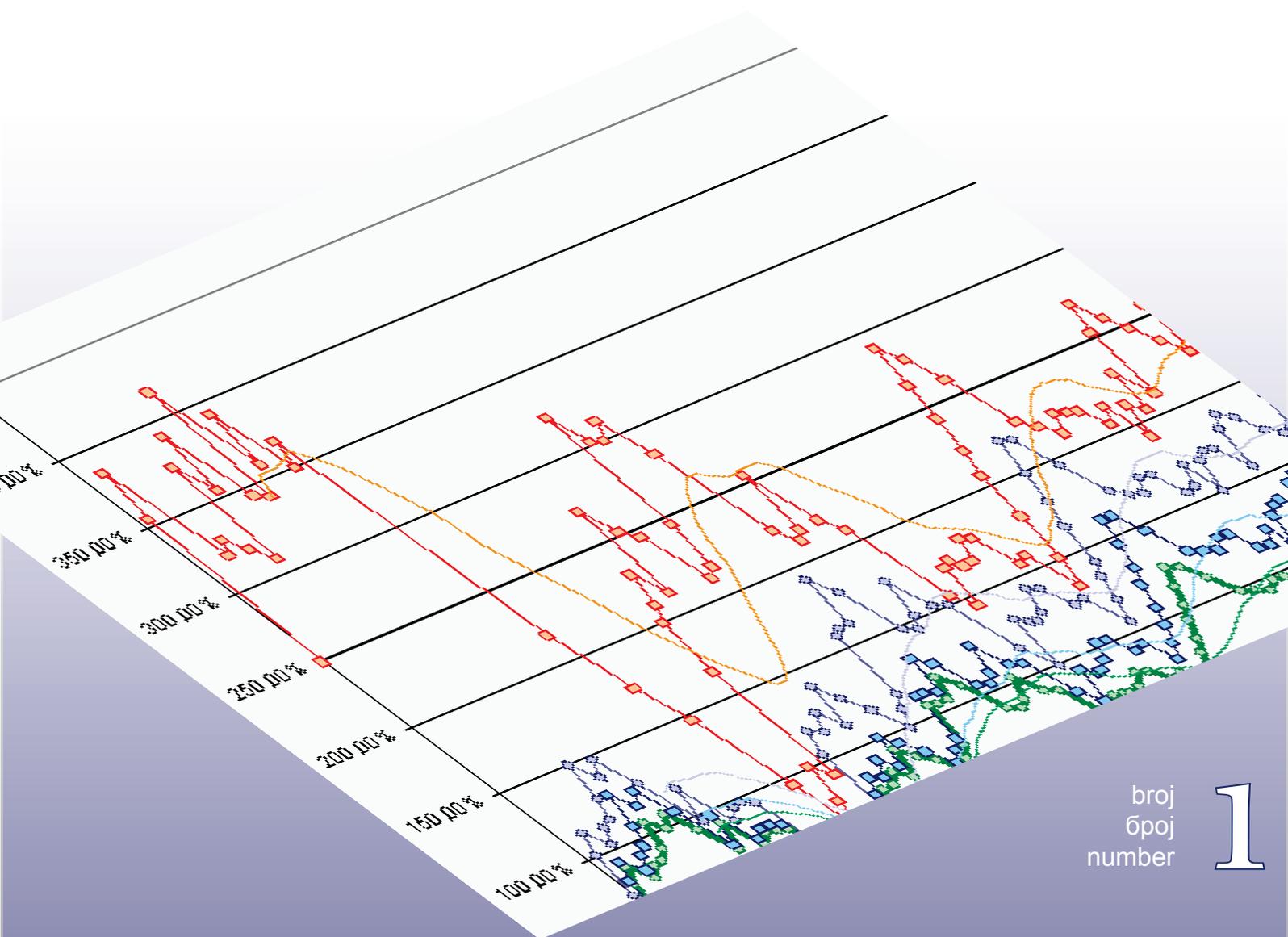
Bosna i Hercegovina
Odjeljenje za makroekonomsku analizu
Upravnog odbora Uprave za indirektno-
neizravno oporezivanje



Босна и Херцеговина
Одјељење за макроекономску анализу
Управног одбора Управе за индиректно
опорезивање

Macroeconomic Unit of the Governing Board of the Indirect Tax Authority

Oma Bilten



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1

• August 2005 • Kolovoz 2005 • Август 2005 • August 2005 •

*No. 1, August 2005, year I****With the first issue...***

MAU of the ITA Governing Board has started its work on May 1st, 2005. The unit is established with the aim to provide technical support to the ITA Governing Board and fiscal authorities in Bosnia and Herzegovina, in the process of achieving fiscal sustainability for all levels of administration and macroeconomic stability of the state.

With the aim to monitor execution of revenues, expenditures and budgets for all levels of the administration (state, entities, cantons, municipalities and funds), MAU works on collection and analysis of data on consolidated revenues and expenditures for all levels of the administration. This work is carried out in cooperation with Ministries of Finance of BiH and both entities, Central Bank and other relevant local and international institutions and agencies. The Unit is also working on preparation and making of: macroeconomic and fiscal revenue and budget projections, proposals for consolidated balance for all levels in the country, proposals for allocation of targeted consolidated balance between levels of the administration, analysis of revenues, expenditures, foreign debt, government investments and borrowing, analysis of macroeconomic effects due to VAT introduction, giving proposals for redefining tax policy in the field of indirect taxes etc.

Main task of the Unit in future will be establishment of reporting system for all levels of the administration. The Unit is working hard on establishing reporting over Internet via its own web site. All reporting units in the country will be informed about this in time.

As of September 2005, MAU will take over responsibility for publishing monthly fiscal data, starting with state and entities to be extended to all public sectors including municipalities and public funds from next year on.

Bulletin will be issued on monthly basis in electronic format and it's available in all languages of BiH and English. Before we open our own web site, you can find additional information about the Unit and our activities at the web site <http://www.oma.uino.gov.ba>

Welcome!

MSc. Dinka Antić Head of Unit - supervisor

Current events!!***Establishment of National Fiscal Council of BiH***

The first meeting of NFC took place in Sarajevo on May 14th, 2005. NFC is comprised of Chairman of BiH Council of Ministers, Entity prime ministers, Ministers of Finance of BiH and entities, Central Bank governor and chairman of the ITA Governing Board. Other NFC meetings took place during the visit of IMF delegation with whom they talked about preparing draft Law on NFC, establishing and functioning of NFC, relations with the ITA Governing Board, role and tasks of MAU. Establishment of NFC and making relevant legal framework for its efficient functioning are important conditions for signing of the new stand by arrangement with IMF.

Topic of this issue: Effects of VAT introduction in Bosnia and Herzegovina

Author: Ognjen Đukić, macroeconomist in the Unit

Requirement - All EU member states, including the new members, which joined EU in 2004, have VAT as a component of their tax system. VAT introduction in Bosnia and Herzegovina represents a step required for achievement of our tax system compatibility with the European one. A tax system reform in BiH has been identified as one of 16 priority reforms in the EC feasibility study.

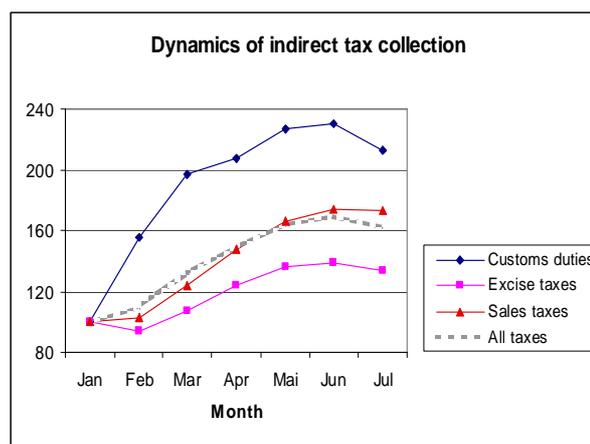
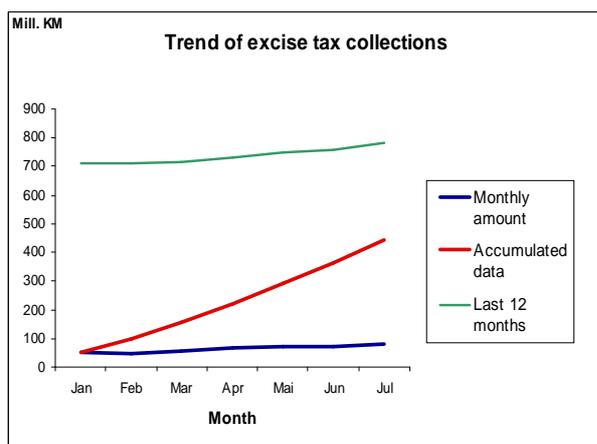
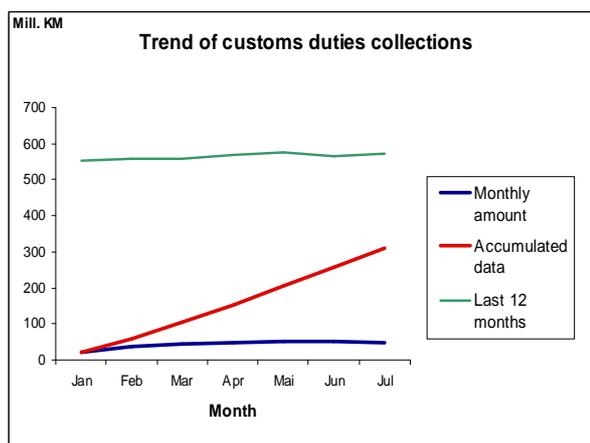
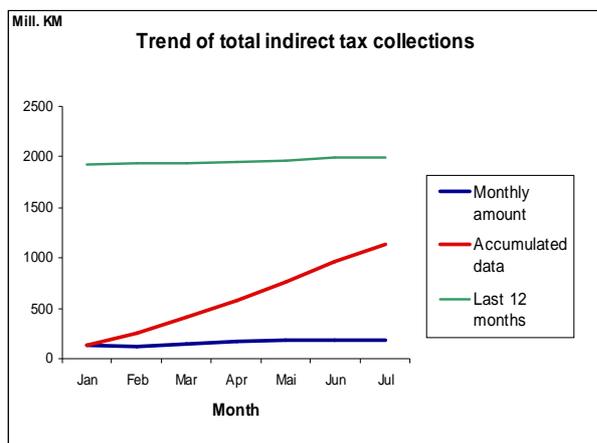
VAT Efficiency - VAT system represents efficient mechanism for tax collection in final consumption. This is proven by positive results of the introduction of this tax in a great number of European countries, including our neighboring countries, Croatia and Serbia, which experienced significant revenue increase in indirect taxes since VAT introduction. One of basic advantages in the efficiency of VAT, compared to sales tax on products and services, is that VAT stimulates, so called, mutual control between the taxpayers. With the VAT introduction, it is going to be very important for every taxpayer to know if his suppliers are registered as VAT payers and if their invoices are, basically, ok. In this way, the state shifts significant burden of control onto the taxpayers. Shortages of current sales tax on products and services are the fact that collection of tax is done in one transaction (in the last transaction towards the final consumer, except for excisable products) and this encourages unfair taxpayers to evade full amount of tax by selling goods and services in a black market. Efficiency of VAT is also shown through its comprehensiveness (wide tax base) due to which the exemptions are recommended for minimum number of activities.

Effect on investments - When it comes to VAT effect on investment rate in Bosnia and Herzegovina, we can say that VAT has stimulating effect. From the overall perspective, tax exemption on investments in VAT system is more complete than in the sales tax on products and services. This applies to both, comprehensiveness of investments exempt from the tax, as well as the effects of cascaded tax transfer. Cascaded effect means a transfer of sales tax through the price into the next phase of sale. For example, a purchase of one machine can be exempt from the sales tax, but machine's price includes the sales tax paid by supplier, for purchases required to produce that machine. In that sense, sales tax makes investments more expensive while the VAT system provides an opportunity for full VAT refund for capital investments.

Effect on export - Similar to the VAT effect on investments, this tax has stimulating effect on exports. After the introduction of VAT, BiH products will be more competitive in world markets. This effect comes from improving price competitiveness of export products in the VAT system. The Law on VAT foresees taxation with zero rate, i.e. VAT is not collected on exports and exporters are entitled to get full refund of input tax. In this way, an exported product is tax exempt in full (it differs from the sales tax, which is included in the price of exported product, through purchase prices of raw materials and services in cascaded effect). This principle of export exemption from VAT is totally in accordance with the sixth VAT directive. It is, also, important to note that VAT introduction will make domestic products more competitive compared to the imported ones, due to the opportunity of complete elimination of tax burden from their inputs in the new system.

Analysis of collected revenues to ITA single account

As of January 1st, 2005 ITA is only authorized institution in BiH to collect indirect taxes: customs duties, excise, sales tax on excisable products and road tolls. According to dynamic plan of revenue collection it is foreseen that in 2005 ITA would collect approx. 2 billion KM to the Single account for indirect taxes under it's jurisdiction. According to information available, collection trend is very optimistic and we can expect exceeding planned amount. The following graphs show collection trend for total of indirect taxes, customs and excises collected the single account in the period January-July 2005.



From work of the Unit:

11.7.2005.g. – IMF delegation headed by Peter Doyle, head of mission in BiH, talked with personnel of the Unit about its functioning, focusing on establishment of reporting system for budget users from all levels of administration in BiH.

19.5.2005.g. – At the international conference of the World Bank and USAID GAP, held in Sarajevo, prof. dr. Spahn gave the lecture on „Decentralization and fiscal policy in BiH“ and MSc. Dinka Antić, Head of Unit, made presentation on „VAT introduction in BiH“. The same day, at the business club of the Embassy of France, Dinka Antić made presentation about VAT introduction effects on business operations of French companies in BiH.

10.5.2005.g. – At the EPPU brainstorming session, Mr. Joly Dixon, chairman of the ITA Governing Board, and prof. dr. Paul Bernd Spahn, IMF expert and advisor to the Governing Board, discussed need for active cooperation and division of work between the MAU and EPPU..

Education programs: Course on global macroeconomics

Prof. dr. Paul Bernd Spahn will give 12 lectures on “Global economic environment” in the premises of ITA Regional Centre in Sarajevo. It will take place every Monday and Wednesday, from 11:00 to 13:00, starting on September 12, 2005. Lectures will be in English and are intended primarily for the personnel of the Unit and EPPU. Course is based on MBA organized by Duke University (USA) and Goethe Business School from Frankfurt. Participants will get certificates upon the completion of the course. Additional information on course can be obtained at the following web site <http://www.cit.ba/PBSPAHN/radovi.htm>.

Prof. dr. Spahn is professor at the University of Frankfurt, IMF expert and world wide recognized expert in fields of macroeconomics and fiscal policy. Prof. Spahn is contracted by the ITA Governing Board to work on establishing of MAU and NFC.