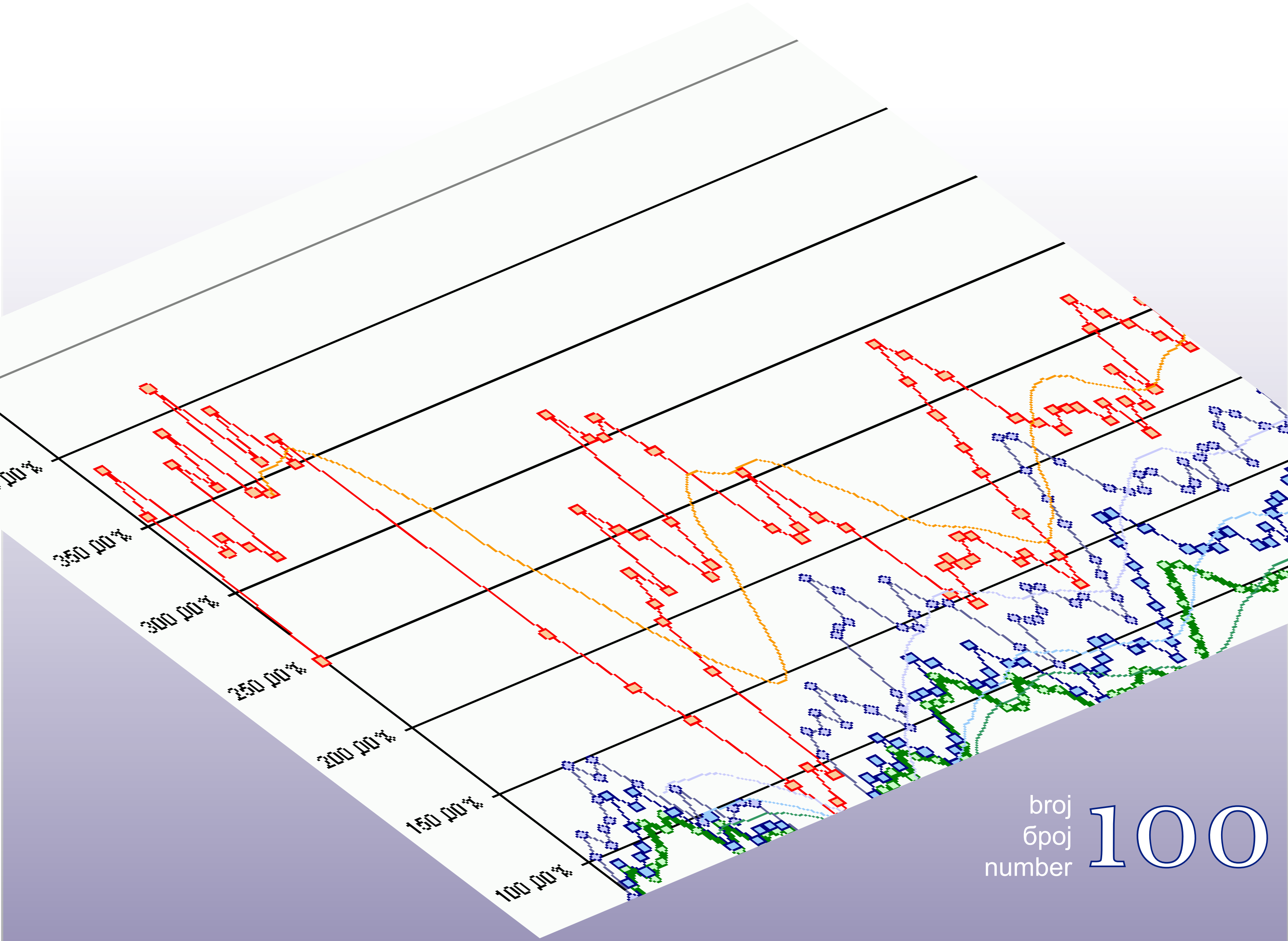
Bosna i Hercegovina
Odjeljenje za makroekonomsku analizu
Upravnog odbora Uprave za indirektno-neizravno oporezivanje

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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With the 100th, anniversary issue

As a dominant source of revenue budgets of all levels of government in B&H, indirect taxes are an important link in public finance management in B&H. The indirect tax policy affects the citizens, who ultimately pay indirect taxes, the companies, that create business strategies in accordance with tax policy, and the government sector, which is responsible for the collection of public money, its spending and allocation. The reform of indirect taxes, which ended when the VAT was introduced, led to a strong interdependence of funding budgets of all levels of government from the collection of indirect taxes, emphasizing the need for fiscal coordination and more transparent collection and spending of revenues. Fiscal transparency is needed not only in the area of management of public money, but also in the area of tax policy affecting the business environment in the country. Fiscal transparency *inter ali*a includes the obligation of continuous and timely publication of comprehensive fiscal reports on revenue collected, the assessment of tax expenditures, risks for revenue collection and medium-term revenue forecast frameworks in the government sector publications that are available to the public.

In its bulletins the Unit has striven to cover all these segments of fiscal transparency. Have we succeeded? Jubilees are always a reason to reconsider whether we have achieved the desired goals. Everything started on 1st May 2005 when the ITA Governing Board, under the chairmanship of Mr. Joly Dixon, had established the Unit. Very soon afterwards, under the guidance of Dr. Paul Bernd Spahn, a world-renowned fiscal economist and IMF Macro Fiscal Advisor, the Unit published the first issue of the Bulletin. In the past hundred issues the Unit has been continuously publishing the analysis of the current collection of indirect taxes and other fiscal analysis (distribution of revenues, external debt, intergovernmental fiscal relations, financing the lower levels of government, etc.), and researches related to the current issues and initiatives to change the policy of indirect taxation. Taking into account of the Bosnia and Herzegovina's European path, the Unit has always based its analysis on the current legislation and announced changes to the legal framework of indirect taxes in the EU, introducing the readers to the best practices of the EU Member States and of other developed OECD countries. The task is even more challenging and difficult because, thanks to the Internet, the bulletins of the Unit are available to global professional and academic audiences, to the national and international institutions which carefully monitor the fiscal progress of Bosnia and Herzegovina and to foreign agencies and companies that have established operations in Bosnia or want to develop it. In all the past years we have tried to justify the expectations of our mentor Dr. Spahn, to be topical, educational, scientifically precise in analysis and research, taking into account comments, advice and criticism. We hope that we have succeeded. We are grateful to our long-term external associates: Darija Komlenovic, B.A. in English Language and Literature, Head of the Office of the Chairman, for the linguistic support, and to Sanja Loncar, B.A. and Sulejman Hasanovic, BSEE, for the IT support in publishing the Bulletins and maintaining a website of the Unit.

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Refunds – „Achilles' heel" of the VAT system

(Author: Dinka Antić, PhD)

INTRODUCTION

One of the basic principles of the value added tax system is the principle of neutrality. This principle implies that VAT as a financial liability is not an element of cost price and does not affect the expenses and profits of companies. VAT neutrality is achieved through the credit mechanism of automatic chain deduction of VAT at which each VAT taxpayer is entitled to deduct input VAT, stated on suppliers' invoices for goods or services, from the amount of output VAT stated on invoices issued to customers. The fact that credit method does not involve actual payment of input VAT or collection of output VAT in the period in which the tax liability arose, enables companies to, in terms of financial management, dynamically manage cash, payables and receivables from customers. VAT refunds, tax credits, input and output VAT will become a factor optimizing cash flow and more efficient management of liquidity and finance companies. On the other hand, the application of VAT credit method, with the existence of zero and differentiated rates of VAT, creates room for tax frauds which, in the case of export, may take on an international scale. Due to the effect of strong incentives to tax frauds, VAT refunds are considered to be "Achilles' heel" of the VAT system, i.e. the main cause of tax invasion in the VAT taxation system. Since the policy of VAT refunds determines the amount of net revenue collected from VAT, abuses of refunds by taxpayers can greatly endanger net inflows of state budget. Significance of refunds is multidimensional. Since the VAT refund is the outflow of budget funds for the State and for a taxpayer a delayed compensation of outflow of funds by which the taxpayer was financing the State budget, the management of refunds is becoming an issue of great importance for both, the stability of financing the State and maintenance of liquidity of taxpayers. Finally, the regularity of refund payments within time limits prescribed by the law is a test of the quality of the business environment in the country and factor of attracting foreign investments. The fight against the global economic crisis has emphasized the need to redefine the policy of VAT refunds. The focus of activities should be directed towards those measures and instruments in the policy of VAT refunds that contribute to strengthening the liquidity of companies, reducing tax frauds and stronger competitiveness, balancing (so called "trade off") costs borne by taxpayers and the state and benefits thus obtained.

FORMS OF VAT REFUNDS

Occasional recognition of the right to refund is a normal phenomenon, because in the next accounting period the recognition of tax liabilities may be expected. From the aspect of management of budget funds, occasional refund has no negative effects on the budget, and on the other hand suspension of occasional refund payments should not have a great impact on the liquidity of companies. However, the suspension of refund payments can affect taxpayers who show large amounts of VAT refunds for a long period. According to the IMF's research the largest share of VAT refunds goes to exporters. In addition to exporters, whose most of distribution of goods is realized in the foreign market, the right to refund in a longer period may also occur in other groups of taxpayers:

- Activities that are under the influence of seasonal factors (agriculture and food industry, tourism, hotel management or passenger transport, etc.),
- Activities that have a long production cycle and long periods of procurement (construction, shipbuilding, processing industry),
- Large investments in plant and equipment that require a longer period of refund on investment.

Group “other” mainly includes taxpayers who supply goods or services in domestic sales taxed at zero VAT rate, taxpayers who occasionally achieve excess of input tax compared to output tax (due to the dynamics of purchases) or those who have acquired capital equipment in particular period (for example, newly established firms, firms that enter into the process of investment or restructuring of production). In systems with the scale of rates taxpayers who supply goods or services taxed at a lower VAT rate and whose purchases are taxed at a higher VAT rate regularly achieve excess of input tax in respect of the VAT liability. In addition to regular taxpayers, there are also groups of persons, natural and legal, who on various grounds can claim VAT (diplomatic and other international missions, tourists …).

FACTORS AFFECTING THE AMOUNT OF REFUND

Empirical studies of international institutions that cover longer periods show the significance of the amount of VAT refund. Observing refund trends in the longer term a conclusion was reached that portion of a refund in gross collection varies over time influenced by various factors. OECD[1] states three main factors that contribute to the amount of VAT refunds:

- Characteristics of the economy
- Design of the VAT system
- Scope of VAT frauds.

Basically, factors affecting the amount of refunds can be divided into internal and external, i.e. factors inside and outside of the tax system (Box 1).

Box 1: Factors that generate the growth in VAT refunds

External factors (outside the tax system)	Internal factors (inside the tax system)
1. characteristics of the economy	1. characteristics of the VAT system
• the level of development	• the form of the system
• the economy growth	• number of rates
• structure of the economy	• the scope of the zero rate
2. taxpayers’ tax discipline	2. the policy of VAT
3. the degree of corruption	• the right to deduct VAT
4. development of the rule of law	• modalities of refund
	3. rules of administering refunds
	4. control of refunds
	5. organizational structure

Source: author’s review

One of the most important external factors is openness of the economy, i.e. integration into the world market. As a rule, smaller and underdeveloped countries are more linked to the international flow of goods and services in relation to the major economies, which are largely autarkic, because they can meet most needs with their own production. Greater openness of the economy, especially focused on exports, typically generates higher amounts of VAT refunds. From the Graph 1 it can be concluded that the openness[2] of the economy of B&H is pronounced in relation to a number of EU-15 Member States and compared to the OECD average.

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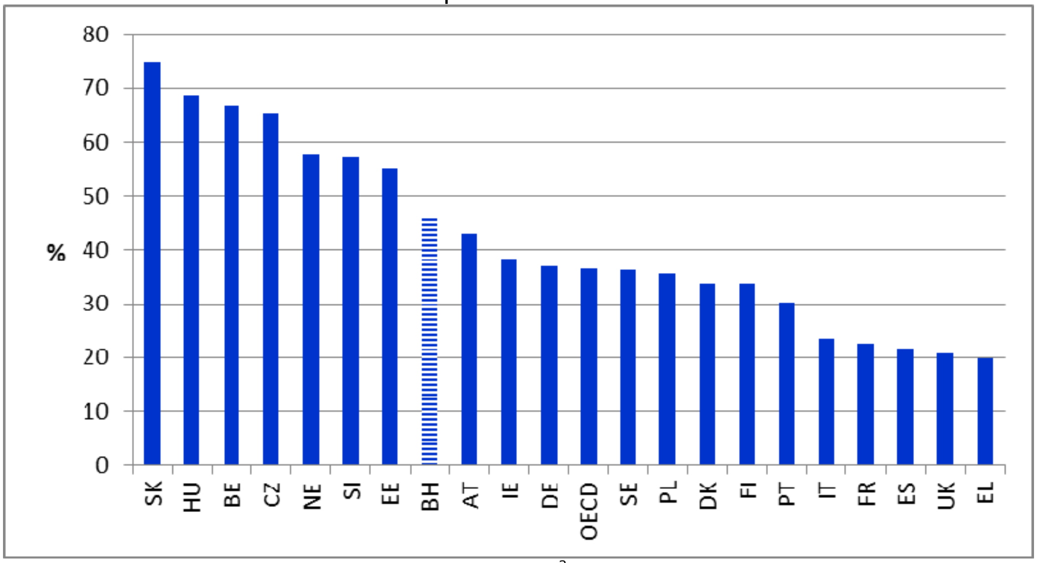
[1] OECD, “Tax Administration 2013, Comparative Information on OECD and Other Advanced and Emerging Economies”, 2013, p. 200.

[2] The openness of the economy is measured by index (the Openness Index) which is calculated as the ratio of the arithmetic mean value of import and export of the state and GDP. Since import and export of goods are relevant for VAT refunds taken indicators of the openness of economies of the OECD Member States only apply to import and export of goods. The index for the OECD is unweighted average of the national index of Member States in order to avoid the impact of large economies, such as the U.S. and Japan, to the aggregate index. Since the global economic crisis to varying

Chart 1. Openness of economies



Source: Author's calculations– B&H; OECD[3] - other countries (www.oecd.org)

Growth of the economy in terms of growth in net exports and investments can also generate larger amounts of refunds. The economy structure is also important for payments of VAT refunds. A higher proportion of base and process industry and seasonal activities at certain times of the year generate larger amounts of refunds. The growth of VAT refunds may also be affected by factors outside the economic system such as tax discipline of taxpayers, the level of corruption and development of the rule of law in terms of legislation (sanctioning VAT frauds and power of sanctions for taxpayers or for corrupt behavior of tax officers), the efficiency of inspections, investigative institutions and the judiciary.

Greater VAT refunds will have those countries with consumption system of VAT, the scale of reduced rates, greater scope of the implementation of reduced and zero rates measured as a share in value added of privileged sectors. For example, taxpayers who purchase inputs at higher rates and deliver their products and services at lower rates of VAT will have regular VAT refunds which will not be the case in a country with a single VAT rate. VAT policy differently affects the amount of refunds. Higher registration threshold for VAT acts to reduce refunds. On the other hand, enabling the voluntary VAT registration for small businesses operates in direction to increase refunds, given that even the smallest investment will lead small taxpayers in a position to claim refund.

These factors affect the amount of refunds cumulatively. It is possible that the negative effects of one factor (for example, high export growth) can be compensated for the positive effects of another factor (for example, a system with a single VAT rate).

Chart 2 shows the share of VAT refunds in gross VAT by major regions. A significant difference between developed and underdeveloped regions of the world is noted. If we start from the assumption that development involves less exposure to the global market, the greater degree of regulation and tax discipline compliance, reduced corruption and developed legal system, then it can be concluded that the differences in the amount of refunds are largely the results of

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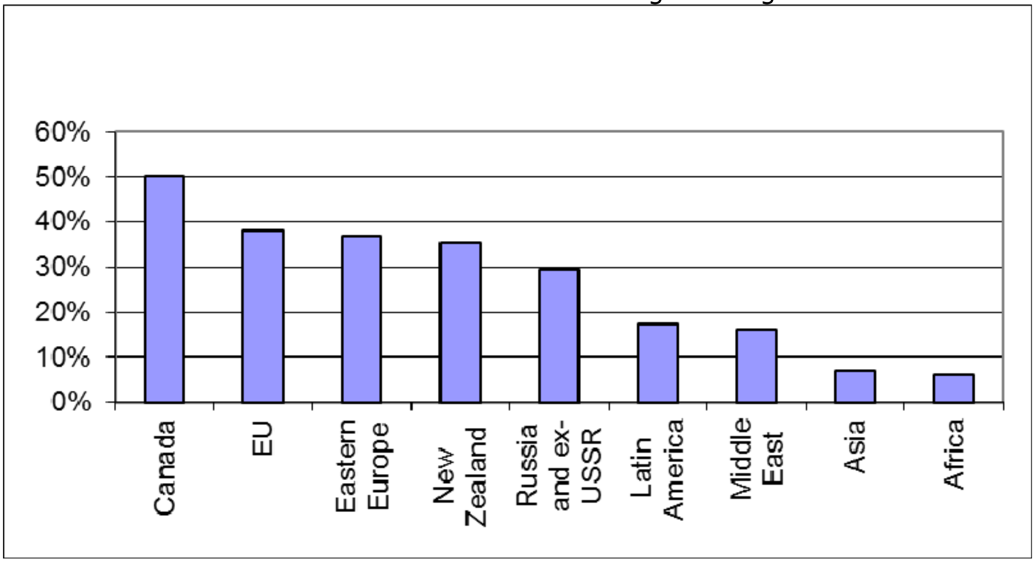
degrees affected the foreign trade exchange of the OECD Member States, OECD data are related to pre-crisis 2008 as a reference year. Because of comparability for the calculation of openness indicators of the B&H economy data on foreign trade of the Agency for Statistics B&H are taken and GDP calculated by the Directorate for Economic Planning for 2008.

[3] OECD (2011), "Trade openness", in OECD Science, Technology and Industry Scoreboard 2011, OECD Publishing. http://dx.doi.org/10.1787/sti_scoreboard-2011-60-en

characteristics of VAT system, in terms of VAT form and rates. The application of consumption type VAT in the EU Member States (in Chart EU-15 and countries of Eastern Europe) generates more VAT refunds than the application of production or income type VAT in some countries in the world. As a rule, the rate of refund is significantly lower in countries with a single rate than in countries which in their VAT systems have a scale of differentiated rate and/or wider scope of application of zero rates compared to standard practice that the zero rate applies only to exports. According to the surveys of the OECD the largest share of refunds in gross revenues from VAT is recorded in Finland and South Africa, 44,6% and 44,7% respectively, and the lowest in Ireland and Japan, 24,3% and 25,5%[4].

Chart 2 Share of VAT refunds in the regions of gross VAT



Source: IMF

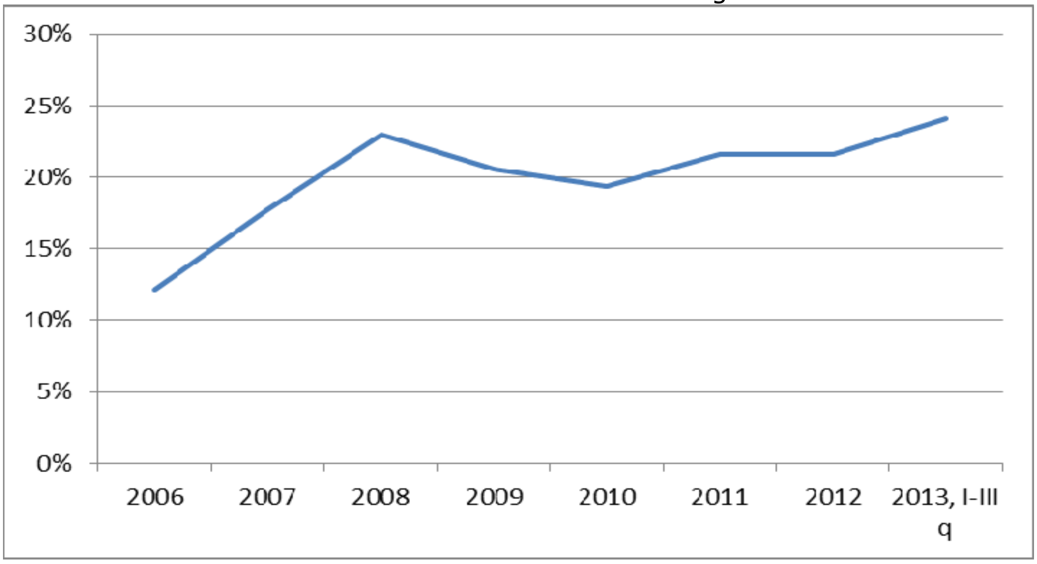
The influence of different factors that generate VAT refund can be analyzed in the case of Spain and Great Britain. The share of VAT refunds in gross VAT in Great Britain in the years 2012/2011 and 2013/2012[5] was 42,5% and 43%[6]. On the other hand, the share of VAT refund in gross VAT in Spain in 2011 and 2012 amounted 32% and 35% respectively[7]. Both countries have a similar index of openness of the economy (Chart 1), so that the impact of exports on refunds is identical and can be eliminated from the analysis. Both countries have also the scale of VAT rates. Spain in its VAT system has three VAT rates, super-reduced, reduced and a standard rate. Given that Great Britain has only one reduced rate it can be concluded that refunds in Great Britain should be lower than in Spain. However, what distinguishes these two countries is zero rate in Great Britain which applies to a wide range of goods. Zero rate has the effect that a large number of taxpayers who supply goods and services at zero rate consistently claim VAT refunds.

Chart 3 shows the annual share of VAT refunds in gross revenue from VAT in Bosnia and Herzegovina. Analysis of the impact of factors that generate refunds indicates the fact that in B&H factors in different ways affect the amount of refunds. Compared with these countries it can be concluded that VAT refunds in B&H are low. The existence of a single VAT rate and the limited scope of exemption are the most powerful factors in B&H acting in the direction of decreasing refunds. It is difficult to estimate the influence of a single VAT rate, but from the examples of

[4] OECD, "Tax Administration in OECD and Selected Non-OECD Countries: Comparative Information Series (2010)", 3 March 2011.
[5] Budget year in Great Britain runs from 1 April of current to 31 March of the next calendar year.
[6] HM Revenue & Customs, Annual Report and Accounts 2012-13 (for the year ending 31 March 2013).
[7] http://www.agenciatributaria.es/

Great Britain and Spain we have seen the influence of the zero rate of VAT on the amount of refunds in these two countries. The administrative structure of the ITA in which are integrated customs and tax functions, and thus the registration, IT system and control of VAT taxpayers, is certainly a factor in favor of lower refunds, unlike other countries where the customs and tax administration are separate institutions. Threshold for VAT registration in B&H is relatively high[8], but by allowing voluntary registration to small firms it creates room for escalation of refunds. B&H is a small and open economy which acts in the direction of the increase of refunds. Likewise, poorly developed legal system and generally low tax discipline may negatively affect VAT refunds.

Chart 3 B&H – Share of VAT refunds in gross VAT



MODALITIES OF VAT REFUNDS

In practice in the world the excess of input tax above the amount of tax liability may be offset in several ways:

i. By VAT refund in cash
ii. As a tax credit to pay for future liabilities for VAT
iii. As compensation for paying other taxes.

The existence of the modalities of refunds requires a definition of terms for the entitlement to a refund. The most common case in practice is that exporters are entitled to a refund in cash, but that right can be restricted. In this case to other taxpayers the excess of input tax is approved as a tax credit to pay for future tax liabilities or just VAT. In principle the choice of type of tax liabilities that can be compensated for tax credit depends on the organization of tax administrations. In practice tax credit is granted only for those tax liabilities for which the competent is the authority which collects VAT. There are countries, such as China, which restrict the amount of input tax that can be, in the form of refunds, paid to exporters, depending on the type of goods, i.e. whether the exporter is manufacturing or trading company[9].

[8] According to the OECD relatively high threshold for registration have the countries with the threshold above USD 30,000. OECD, „Consumption Tax Trends – VAT/GST and Excsie Rates, Trends and Administration Issues", 2012., p. 76.

[9] The amount of recognized refund ranges between 3% and 17%, i.e. depending on VAT rate applicable. The standard VAT rate is 17%, while on the basic foodstuff it is paid 13%, 4% and 6% if you apply simplified methods of calculating VAT, and 3% on the delivery of small businesses. Source: Ernst&Young, 2013.

i. VAT refunds in cash

In addition to defining modalities of refund and groups of users, the policy of VAT refund in cash implies also defining technical requirements such as:

- Reporting of refunds
- Terms of refunds
- Interest on overdraft of refunds.

Terms for the exercise of the right to a refund in cash are mostly prescribed by law, although there are countries where the government is responsible for defining the conditions of refunds. Unlike discretionary powers of the government, legal regulation of the right to a refund reduces corruption and leaves no room for any doubt and subjectivity, or for tax administration to intervene in estimating that the taxpayer is entitled to a refund in cash. However, the legal regulation of conditions for refunds has proved to be rigid and inflexible in terms of the global crisis when a more efficient and faster response of the government was needed.

Some countries require that a taxpayer needs to file a separate request for a VAT refund in cash. In addition to creating new costs for taxpayers and tax authorities unnecessarily burden with the additional administration of claims, such terms in many cases directly threaten taxpayers, especially newly registered, who are not familiar with this additional obligation.

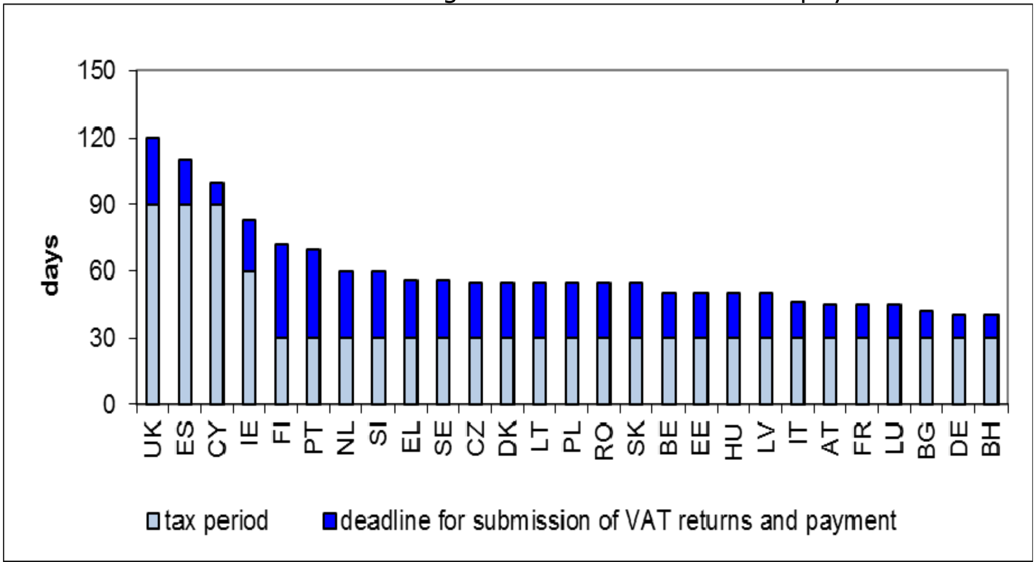
In terms of refund deadlines there is an attitude on the fair approach and equal position of the state and the taxpayer, in the case when the state is a creditor and when the taxpayer is a creditor. Fair approach involves granting an equal number of days for the payment of the liability and an equal number of days for a VAT refund. Besides of being beneficial on the liquidity of companies that are entitled to a refund, shorter deadlines for refund payments prevent corruption given that they does not leave a lot of space to the officials of tax authorities to "accelerate" refunds to some taxpayers and to delay to some of them, which is possible if deadlines for the payment are long[10]. Time spans for refund payments are very wide, from 24h in Peru (with the insurance of guarantee from a taxpayer) up to 90 days in some countries. The most common date for payment is 30 days. However, regardless of the terms of refunds, in principle, the actual terms of VAT refunds depend on the terms of filing VAT returns, i.e. the length of the tax period. If the quarterly returns are standard, VAT refunds for the purchase which occurred at the beginning of the quarter can be made only after the expiry of the tax period. Another factor that directly affects the terms of refunds is the deadline for filing the requests. The longer the period of submission of the request, the longer is the period for refund payment, since the period shall run from the date of filing. In the EU Member States, taking into account the period of standard tax returns and deadlines for filing tax returns, it can be concluded that the payment of tax liabilities is made within 10 to 45 days from the end of the tax period, which is normally 30 or 90 days. Respecting the principle of fair approach, VAT refunds are executed in the same timeframe. In Chart 4 it can be seen that the tax period of one month in B&H is the EU standard, while the period of ten days for filing tax returns is, besides Bulgaria and Germany, the shortest in the EU.

The third factor in terms of VAT refund deadlines may be the status of a taxpayer as an exporter. Exporters may be granted shorter periods for refunds compared to other taxpayers. Prescribing rules for refunds in this case is pre-defining criteria by which taxpayers will be classified on exporters and others. In B&H, a taxpayer whose at least 30% of total annual trading is accounted for exports is also considered as an exporter, to whom VAT is refunded within 30 days from the date of filing tax return. Serbia prescribed much more rigorous conditions for obtaining a status of a predominant exporter, setting a requirement of at least 70% of total annual trading and minimum 10 million EUR. As of 2013 the share of exports in total trading was reduced to 50%.

[10] According to the IMF's research, in developing countries there is a practice of paying 5% of the amount to be refunded for the „acceleration" of refunds. More: Ebrill L., Keen M., Bodin J-P, Summers V., "The Modern VAT", IMF, Washington, 2001, p. 159.

VAT refund payment period to predominant exporters in Serbia is 15 days and for other taxpayers 45 days.[11].

Chart 4 Deadlines for filing VAT tax returns and VAT payments



Source: Ernst&Young, 2013

Although there are legal time limits for payment of VAT refunds, in some countries it happens to be delays in payments which are justified by short time, insufficient to process refund claims and control their justification. On the one hand, too short deadlines for refunds create room for tax frauds, while on the other hand, regular taxpayers suffer direct financial costs since their resources are „trapped" in the state. Finding the optimal maturity date for refunds requires a balance between potential losses in tax revenues and expenses/losses that taxpayers have. Situations also occur that due to problems of filling the budget, the state is not able to pay VAT refunds on time. A large number of countries, including Bosnia and Hercegovina as well, is legally obliged to determine the state budget to pay interest for delay in payment of VAT refunds, usually set at the level of interest rates of commercial banks, on a daily or monthly basis.

The researches of taxpayers' behavior point out the importance of refund payments by the state in legal limits on the total VAT collection. Studies[12] have shown a correlation between the regularity of refund payments and liability payment by taxpayers. Negligence of the state to pay refunds to taxpayers within deadlines draws also a weaker taxpayers' discipline.

ii. Tax credits

In a number of countries the right to VAT refunds is limited only to certain groups of taxpayers, while others are entitled to a tax credit. Thereat countries, usually by law, establish the period after which the unused tax credit is paid in cash. Regular exporters belong to taxpayers who are entitled to VAT refund, since the most of their trading is placed abroad, and in the case of the tax credit they would not be able to use it for alimenting VAT liabilities in future periods. Other taxpayers who only occasionally occur as exporters or the ones who their goods and services sell only on the domestic market, in the ordinary course of business can absorb cumulated claims based on higher input VAT. Period in which the refund of tax credit is allowed for a particular tax period ranges from one month to a year, although usually between three and six months. Binding

[11] Source: IBFD, International VAT Monitor", No. 3/2013, Amsterdam, March/April 2013.
[12] PWC, „The impact of VAT compliance on business", September 2010, p. 12.

right to a tax credit instead of refunds in cash burdens financial business and liquidity of the taxpayer, and on the other hand the state enjoys an interest-free loan. Given that in many countries a standard quarterly VAT tax return is considered as an interest-free loan to states based on excess of input VAT as a result of the purchase at the beginning of the quarter, it may extend to one year, if it is a large initial investment – an investment of newly established companies or major purchases of taxpayers who have longer production cycle or taxpayers with lower monthly trading that can not absorb the input tax in the longer period. In order to timely align payments of input VAT on investments with the collection of output VAT, some countries grant delays in payments of input VAT on larger investments and purchases of capital goods.

iii. Compensation of tax liabilities

Excess of input VAT over liability for VAT in some countries can be used to offset other taxes, mainly income tax. Offset of tax liabilities can be discretionary power of tax authority, which assesses for each taxpayer. The compensation can be prescribed by law, as the obligation of tax authority which it performs automatically or as a convenience to taxpayers, who in this case need to apply for compensation for outstanding tax liabilities on a different basis excluding VAT. In some countries it is possible to compensate for those taxes that are not due for payment at the time of compensation, in countries of the former USSR it is possible to compensate other obligations to the state (non-tax liabilities, duties and fees) while in some of them the compensation of liabilities based on customs duties is allowed.

Compensating tax liabilities is positive from the standpoint of the state when it comes to taxpayers who do not respect tax laws to a greater degree (irregularly file tax returns, do not pay on time). However, compensating tax liabilities that have not yet been assessed or not due, based on historical data on tax liabilities may adversely affect the financial business of taxpayers. In this case it can reverse his claim on the basis of excess input VAT (already paid), which is then used to meet liabilities which may ultimately be less than assumed. In any case it is necessary that the tax authority has developed a system of debt management and unified taxpayers' records that allowed daily updating consolidated cards with tax liabilities and claims of taxpayers by various types of taxes. General assessment of the IMF is that inclusion of non-tax liabilities (for example, to state utility companies, state Electric Power Distributions, etc) in consolidated cards represents an unnecessary burden of tax authorities.

The possibility of performing compensation for tax liabilities and claims largely depends on the model of organization of tax authorities in the state. Due to the need of keeping single consolidated tax records it is technically difficult to perform the compensation of claims and liabilities that are not within the same tax authority. There are several models of the organization of tax authorities with various modalities with regard to the structure of the state:

- Indirect Taxation Authority (customs duties, VAT, excise taxes) and Direct Taxation Authorities (income tax, profit tax, other taxes, social security contributions) or
- Customs and Excise Authority and local Tax Administration (VAT, income tax, profit tax, other taxes, social security contributions) or
- Customs Administration and Tax Administration etc.

In the case of mid-level government (in addition to central-state and local) jurisdiction in the collection of certain types of taxes can be divided.

MODALITIES OF REFUND SERVISING

Servicing liabilities for refunds requests the proper planning of necessary funds in the budget. There are two methods that can provide sufficient funds for the payment of VAT refunds:

i. Retaining part of gross collected VAT for refund payments
ii. Ensuring special budget line for VAT refunds

Which method will be chosen depends on the fiscal system in a given country and the degree of independence of the tax administration. Tax administrations with a greater level of independence are often authorized to retain part of the gross collected VAT so they could pay refunds to taxpayers within given deadlines. In countries where the Tax Administration is a part of the Ministry of Finance the role of Ministry is dominant, so funds for refunds are provided in the budget of the Ministry. Regardless of the chosen method it is necessary to determine the amount of VAT refunds. In the process of the budget drafting it is necessary to make projections of VAT collection, which in addition to macroeconomic indicators and historical trends in the gross VAT collection should also include the historical trends of paid refunds and the assessment of efficiency of VAT collection with estimated VAT losses due to tax frauds. Frames of funds for refund payments can be legally determined, for example by ceiling the amount in the budget, which may call into question the credibility of the state to pay VAT refunds within deadlines. Application of the method of financing refunds over the budget shows a high degree of rigidity in the case of incorrect refund projections, and which can be corrected only by the budget rebalance. Another option that remains is to enable the Tax Administration a discretionary right to establish a flexible refund management system which will take into account the dynamics of government obligations on the basis of refunds and dynamics of gross revenue collection.

IMPLICATIONS OF VAT REFUNDS

Credit mechanism of the VAT system represents a great advantage compared to the system of sales tax, given that the amount of VAT paid in procurement is reimbursed to taxpayers. The neutrality of the VAT system in relation to the economic position of the taxpayer is achieved by eliminating the cascading effect of taxes on input prices and then on output prices. Unlike the sales tax, VAT is not an element of cost price, but it becomes an important factor of financial management of companies. On the other hand, precisely because the VAT refund is associated with cash, the credit mechanism is the challenge for tax frauds resulting in excessive payments of VAT refunds. VAT refunds are considered as the "Achilles' heel" of the entire VAT system. It is a kind of paradox of the VAT system – a mechanism that allows the tax neutrality of the system to the economic position of taxpayers is, at the same time, the threat to the entire system.

In the VAT system, taxes may be embezzled legally and illegally. Illegal modalities of frauds are being carried out outside the VAT system, resulting in tax evasion. As opposed, legal modalities of frauds occur in the VAT system itself when taxpayers use its imperfections, such as the mechanism of VAT refunds. Legal modalities of frauds lead to the avoidance of tax payments. Frauds related to refunds may occur in a variety of situations: if the input VAT for free circulation is claimed, if VAT is shown on invoices of suppliers who are not VAT taxpayers, forgery of vendor invoices, not declaring the account notes, in the business and non-business uses of goods and services, non-registration of purchases or sales in business books, in compensation arrangements, evasion of unpaid VAT taxes, in affiliated companies or so called missing trader, and carousel frauds, which in international trade can take enormous proportions[13].

[13] More in: Antić D., "Borba protiv prijevara u sustavu PDV-a u funkciji osiguranja tržišne konkurentnosti", II. Međunarodni simpozij „Financije i računovodstvo u funkciji gospodarskog rasta", („Fight against frauds in VAT system in the function of assuring market competitiveness", II International Symposium on "Finance and Accounting in function of Economic Growth"), FIRCON, Mostar, 20/21 September 2007, p. 419-438.

It is very difficult to asses the effects of tax frauds in the area of VAT refunds. Countries are in different ways struggling against these frauds; establishing risk management systems in VAT collection, creating profiles of risk companies and the selection criteria for controls and audits (see Box 2). The aim of these measures is preventive effect on taxpayers in order to prevent or reduce frauds. However, the success of measures taken, in spite of sophisticated IT systems, depends on the overall tax culture in the country. The state, which has a high degree of corruption and a low tax culture and discipline, certainly requires more aggressive and rigorous measures, fundamental ethical and social reforms of the entire society, which interfere in the political and legal system. A large number of countries legally obliged tax authorities to perform controls of taxpayers prior to refund payments.

Box 2: Measures to reduce frauds in VAT refunds– Great Britain

Great Britain, in spite of gray economy, missing traders, fictive increase of input VAT and reduction of the taxable turnover, considers VAT refunds as one of the most important causes of the spread of gap between actual collected revenues from VAT and possible revenues. In the fight against frauds in the field of VAT refunds tax and customs administration (HMRC) has developed an automated system of credibility suite of taxpayers in order to identify those where there is an increased risk of frauds. Identification system of risk profile taxpayers is based on the following criteria:
- the company's trading history and performance
- trends from previous VAT returns
- information provided on the current return.

Source: National Audit Office, Report by the Comptroller and Auditor General, HM Revenue & Customs 2012-13 Accounts, 2 July 2013, p. 34.

Effects of mandatory controls of refund requests are very questionable. Mandatory controls are slowing down refund payments to regular taxpayers extending the period of interest-free loans to the state by the taxpayers. To be effective from the standpoint of the taxpayer, it is necessary in a short period of time to hire a large number of tax inspectors, which produces additional costs to the Tax Authority. In order for the fight against tax frauds to be successful it requires a certain *trade-off* – balancing benefits (revenues from VAT) and costs of the action taken against tax frauds (costs of Tax Authorities and costs of taxpayers). Tax administration should develop a comprehensive strategy for compliance of regulations which will bring additional revenues and reduce tax evasions, and which, on the other hand, will not burden regular taxpayers.

It is obvious that sophisticated modalities of tax frauds in the area of VAT refunds require due attention in administering refunds. Two approaches to the VAT refund administration dominate. The choice of approach by a country depends on the degree of development of the country and the tax administration. According to the research of the IMF, tax administrations in many countries have established special departments for VAT refunds. Other VAT refunds are processed within Department for processing VAT tax returns. The first approach is characteristic for underdeveloped countries in which regular taxpayers are not the focus of tax administrations. All activities of autocratic tax administrations in these countries are subordinate to combat tax frauds, even though this struggle means new levies to regular taxpayers. On the other hand, in developed countries the focus of tax administration is a taxpayer. Modern VAT systems are based on self taxation, i.e. the principle of voluntary compliance with tax laws. Tax administration receives an educational role with this approach, to get tax system and obligations arising from it closer to the taxpayer. Tax administration has a task to develop mechanisms of verification of tax returns, risk management, selection of taxpayers for audit and control and mechanisms of the enforced collection, in order to increase the degree of compliance with tax laws and effective implementation of the principle of self taxation.

MODELING OF REFUND STRATEGY AND BEST PRACTICES

Strategy model in the area of VAT refunds is effective if the following goals can be achieved by it:
- To optimize the number of refund claims in order to reduce administrative costs,
- To speed up refund processing,
- To minimize negative effects on *cash flow* taxpayers,
- To minimize administrative costs of Tax Authority,
- To maximize the protection of VAT revenues.

The question is raised whether it is possible to create a strategy that will meet all requirements. Analysis of implications of refunds showed that measures taken by countries favor only some of the goals. The IMF's researches[14] have shown that countries have different approaches to the regulation of VAT refunds that can be synthesized in the following schemes:

i. Scheme of implementation of Zero-Rating Supplies to Exporters

The scheme involves taxing the sale of goods or services to exporters at a zero VAT rate in order to reduce the amount of VAT refunds paid to exporters related to their purchases. The scheme was introduced in France in 1948 for regular taxpayers and was later adopted by other countries. The aim of the scheme was to reduce refund payments to exporters but on the other hand, it has created a space for tax frauds in the country, imposing high costs to the tax administration to monitor a large number of small taxpayers, exporters' suppliers, instead of controlling a limited number of exporters.

ii. Cross-Checking of Invoices

The scheme involves cross-checking control of input and output invoices of taxpayers, in order to prevent input VAT claims which are not billed by the VAT taxpayer. The scheme was first applied in Korea in 1970. The success of the scheme involves a high level of technical equipment of tax administrations, as well as imposing an obligation to taxpayers to submit lists of input and output invoices. Electronic data exchange has improved the application of the scheme but it still imposes the need of strong IT systems of Tax Authorities and developed applicative software, establishment of the IT system with taxpayers and electronic business with the Tax Authority, a large number of highly skilled inspectors and analysts with developed analytical capacity and IT skills.

iii. Certification of Refund Claims by Certified Public Accountants

Some countries have imposed the liability for the certification of refund claims by certified accountants. Statistics have shown that the application of the scheme leads to a reduction in false refund claims and it automatically speeds up refunds, reduces administrative costs and increases revenues. Instead of spending the Tax Authority's resources for checking claims, certified accountants take responsibility for the correctness of claims. According to the experience of Kenya following the introduction of the scheme the number of refund claims was halved, which ultimately speeded up refunds to regular taxpayers. However, the success of the scheme depends on the development of the accounting profession, the credibility of accountants and the level of their professional ethics.

[14] Harrison G., Krelove, „VAT Refunds: A Review of Country Experience", IMF Working Paper WP/05/218, IMF, 2005.

iv. Preferential Scheme of "Gold Status"

Taxpayers entitled to refunds are classified in taxpayers with "gold", taxpayers with "silver" status and other taxpayers. "Gold status", which included accelerated VAT refunds, is granted to taxpayers, particularly exporters, who have a positive record with the Tax Authority regarding tax compliance. "Silver status" means slower refunds, while for other taxpayers standard procedures and conditions are applied. The advantage of this scheme is to focus resources of the Tax Authority to troubled taxpayers. However, in general, the success of the scheme depends on internal classifications, evaluation criteria of taxpayers and selection, as well as on maintaining and updating data on taxpayers (which in addition to VAT analytics includes also tax cards related to payments of import duties and income tax). In 1990 Pakistan has introduced the scheme classifying taxpayers by the strategic importance of the export sector. Preferential "gold" status was given to exporters in the textile sector. Taxpayers with "gold" status have their refunds paid without prior checking within 3-5 days. Taxpayers with "silver" status are subject to desk reviews and refunds are paid within 15 days. However, in order not to encourage taxpayers to carry out tax frauds, the scheme does not apply automatically. Tax Authority reserves the right to prior checking at least once a year before the refund payment, controlling claims submitted from the last inspection. In recent years Bulgaria has announced the introduction of preferential schemes for VAT refunds called "gold standard". Status of "Gold taxpayer" allows VAT refund within ten days from submitting claims, which is three times faster than the normal procedure of refunds (Box 3).

Box 3: Requirements to Qualify as a „Gold Taxpayer"

- VAT number has not been suspended or removed
- to communicate with the National Revenue Agency mostly electronically
- have no history of penalties
- have not been in the process of liquidation or been insolvent
- have made profits in the last three years
- not have risky profiles
- must have submitted at least four requests for VAT refunds amounting to at least BGN 1.2 mil in the last three years.

Source: Tax-News.com

The scheme also includes the advice of National Revenue Agency in applying the law and fewer controls. In addition, audits and checks will take place at premises of taxpayers with preferential status.

v. Payment for Large Purchase Through the Banking Systems

The scheme involves the obligatory payment of goods and services between taxpayers through the banking system. States that have introduced this scheme (France, Hungary, Turkey…) establish the threshold for the application, i.e. the minimum transaction amount that must be paid through the banking system. The scheme allows monitoring the money flows between taxpayers by the control of the bank accounts. According to the experiences of countries which have introduced the scheme, its efficiency is of limited benefits, since it is difficult to control the compliance of imposed business by banks. Also, the scheme can achieve some success only with regular taxpayers, while irregular ones further network with each other and stay out of the system. Less developed countries are trying by various forced measures to make taxpayers to use the banking system instead of cash payments. Azerbaijan has modified the scheme by prescribing a rigorous provision that VAT refund may be granted only to those taxpayers who pay their supplies through the banking systems.

vi. VAT Bank Accounts

A VAT bank account scheme was introduced in Bulgaria in 2002 with objectives of speeding up VAT refunds and reducing tax frauds[15]. Each taxpayer must open a bank account. A purchaser-taxpayer is required to deposit the amount of VAT corresponding to the amount of VAT on the invoice into a seller-taxpayer's VAT account. The amount of VAT must be deposited at the same time with the payment of the net amount of the invoice to suppliers for goods and services. Refunds will not be granted to taxpayers unless input VAT is paid into the VAT account. Funds from VAT accounts can be used for monitoring the payments of regular VAT liabilities by vendor invoices or net tax liability after the end of the tax period. Other transfers, for other purposes, can be made only with the prior approval of the Tax Authority if there are no other tax liabilities. Therefore, keeping these requirements in mind, for the most of taxpayers funds held in the account are frozen, out of the disposal option, deposited without yield, which financially burden taxpayers because they have to borrow for working capital. The scheme requires from the taxpayer additional costs for the execution of the transfer and for administering the regular bank account and VAT bank account. In the whole, the scheme is extremely unfavorable for taxpayers because it prevents the optimization of cash and efficient financial management.

vii. Deferring Accounting for VAT on Imported Capital Goods

The scheme involves the approval of deferring accounting for VAT on import of capital goods in order to stimulate investments in new businesses. The scheme has a positive effect on cash flow for investors who in standards conditions, in addition to the value of machinery and equipment must also provide the funds for VAT payments in a very short time from the moment of import. Refund for input VAT on purchases, if it is not an exporter, in most cases can be obtained as a tax credit, which then implies an actual withdrawal-reduction of tax liability only at the time of trading. Standard conditions of VAT refunds are extremely unfavorable for the newly established companies that have to wait a very long time to begin the process of production or obtain the trade and thus the right to deduct input tax. Since it comes to big investments standard terms of payment of VAT on imports burden cash flow of the taxpayer-importer. Governments are reluctant to this scheme since it leads to an escalation of fraudulent imports of capital goods. In addition, the application of this scheme stimulates imports of machinery and discourages procurement of equipment from domestic producers, which in the long run, through the escalation of trade deficit, undermines the economy and creates dependency on imports of domestic economy.

Evaluation of the effects of the scheme (Box 4) shows that the use of most schemes brings the burden for both Tax Authorities and taxpayers. Model of the best practice promoted by the IMF involves certain procedures, not only in the area of VAT refunds, but also in the system itself and the specific VAT policy[16]. It is necessary to create a risk profile of the taxpayer with respect to the degree of regularity of tax liability settlement, to provide a selective approach to controls with respect to the taxpayer's risk profile and to define criteria for determining a high level of risk to the revenue collection. The IMF recommendations include the establishment of the monitoring system of refunds and forecasting system to anticipate tax frauds. Refunds to exporters should be processed within at least 30 days of the date on which a refund claim is made. The deadline for refund payments may be extended only in special circumstances where there is reasonable doubt in the regularity of taxpayers' activities.

[15] Scheme includes 80,000 taxpayers.
[16] Harrison G., Krelove, „VAT Refunds: A Review of Country Experience", IMF Working Paper WP/05/218, IMF, 2005, p. 35-36.

Box 4: Evaluation of strategies

	scheme	Accelerated execution of refunds	Reduced number of refund claims	Protected tax base	Reduced costs of taxpayers	Reduced costs of tax adm.
i	Zero-rated supplies to exporters	YES	YES	NO	NO	NO
ii	Cross-checking of invoices	NO	NO	YES	NO	NO
iii	Certification of refund claims by CPAs	YES	NO	YES	NO	YES
iv	Preferential scheme of "Gold status"	YES	NO	YES	YES	YES
v	Purchases paid through banking system	YES	NO	YES	NO	NO
vi	VAT bank accounts	NO	NO	n/a	NO	NO
vii	Deferment of VAT on capital goods	YES	YES	NO	NO	NO

Source: IMF's evaluation, 2005

The state should pay interest on late refund payments. Tax credits should be used to pay for other tax liabilities if possible, provided that unused tax credit should be immediately paid to taxpayers – predominant exporters. The longest period for payment of unused tax credits to other taxpayers should be six months. Preferential scheme should be granted to exporters who regularly settle their tax liabilities. Advocating that resources of Tax Authorities should be directed towards large taxpayers, the IMF does not recommend a low registration threshold in order for tax administration not to be unduly burdened by a large number of taxpayers. Registration should be the most important filter in the struggle against so called phoenix companies (missing trader) which are included in the VAT system only to participate in the chain tax frauds involving false claims for refund. Likewise, the IMF also recommends applying stronger sanctions in order to discourage taxpayers to deal with tax frauds. However, mechanisms of sanctions also include the overall powerful action of the justice system, the police and tax authorities against corruption and in the execution of the criminal acts and offenses in the sphere of taxation. The IMF recommends the introduction of modern VAT systems, particularly in underdeveloped countries and countries in transition, based on the transparency of the work of tax administrations and the changes in relationship with taxpayers placing the taxpayer in the focus of activities.

CONCLUSION

Regardless of the difficulties in analyzing the impact of various factors on VAT refunds it is necessary to determine a reasonable level of VAT refunds, not only because of the revenue estimates and budget planning but also to maintain the level of efficiency in tax administration. Exceeding reasonable level of refunds should be a signal to tax administration that there has been the escalation of tax frauds. Analyzing the above listed factors in order to assess a reasonable level of refunds it can be concluded that a large number of factors in a short time is constant. For example, to change characteristics and the economy structure it is needed a longer period of time, the implementation of structural reforms or major economic crisis such as the global crisis from 2008. Also, significant time is needed to change the characteristics of the VAT system due to the complex procedure of amendments to the law. There is an interaction between particular factors. The degree of taxpayer's discipline generally depends on the development of the rule of law, especially the power of sanctions. Finally, the growth of refunds also depends on the maturity of the VAT system. In the initial years of the implementation of VAT all countries have recorded strong revenue growth. But later, when the system enters the mature phase, weaknesses of the VAT system begin to manifest and VAT frauds occur. Although the VAT system has numerous advantages in relation to sales tax, its vulnerability is reflected precisely in VAT refunds. Tax psychology explains that the effort to avoid paying taxes inherent to human nature. Although theorists of public finances, such as Adam Smith, tried to describe the tax as a pleasant obligation, the thought of paying taxes may induce taxpayers to think about ways to avoid its payment or to at least reduce the tax liability. It is a signaling effect of the tax which C.A. Pigou has written about. The level of frauds in the VAT system in any case depends on the organization of tax administrations and its willingness to act preventively, *ex ante*, since the effects of the *ex post* acting are often minor, with disproportionately higher costs.

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Economic policy coordination in the EU – the European Semester

(Author: Aleksandra Regoje)

INTRODUCTION

The past economic crisis highlighted the need for stronger coordination of economic policies of the member states of the European Union. The member states have recognized that better coordination would contribute to their stability and to stability of the European Union as a whole. The final goal of harmonization is to coordinate the objectives of budgetary policies and of the policies of growth and employment in line with the objectives which are set at the EU level. The individual goals can have the desired effects on economic growth only if they are coordinated. Therefore, the European Commission established the European semester in 2010, whose first cycle took place in 2011.

THE EUROPEAN SEMESTER

The coordination cycle is called the European semester, because the major part of it takes place in the first six months of each year. Budgetary and macro-economic policies of the member states are being coordinated during these months in order to provide that the views of the European Union are taken into account at an early stage of budgetary procedures, as well as in other aspects of economic policy-making. The goal is to provide an analysis and evaluation of all policies together, as well as to cover policy areas which have not been systematically included before in economic surveillance, such as, for example, macroeconomic imbalances or financial issues.[17]

According to the established timetable the member states receive guidelines which are the basis for the preparation of their policy plans. The plans are evaluated at the EU level and, thereafter, member states receive recommendations for budgetary policies and reforms, and if necessary, the recommendations for correcting macroeconomic imbalances.

In Table 1 are shown all phases of the European semester.

European semester

Phase	**Period**	**Implementer**	**Activity**
Preparatory phase	November and December	European Commission	Publishes 1. Annual Growth Survey 2. Alert Mechanism Report
Phase I Policy guidance at the EU level	January and February	Council of the EU	Debates the Annual Growth Survey, formulates orientations
		European Parliament	Debates the Annual Growth Survey, issues an opinion on employment guidelines
	March	European Council	Provides policy orientations
		European Commission	Publishes in-depth reviews of macroeconomic imbalances

[17] European Parliament, http://www.europarl.europa.eu

Phase II Country-specific objectives, policies and plans	April	Member States	Submit 1. stability and convergence programs 2. national reform programs
	May	European Commission	Evaluates national policy plans and presents draft country-specific recommendations.
	June	Council of the EU	Discusses the draft and agrees on final country-specific recommendations. Thereafter, they are presented to the European Council for endorsement.
	July	Council of the EU	Adopts the country-specific recommendations
Phase III Implementation	July	Member States	Take into account the recommendations in the process of decision-making on the national budget for the next year

Table 1.

PREPARATORY PHASE

It can be seen from Table 1 that the preparatory phase of the European semester is currently in progress. The preparatory phase usually begins at the end of year (November and December), when the European Commission publishes the Annual Growth Survey. Annual Growth Survey sets the priorities of the European Union for the next year, whose ultimate goals are economic growth and employment. In the preparatory phase the European Commission also publishes the Alert Mechanism Report, which presents an overview of the macroeconomic circumstances in the individual countries of the European Union. On the basis of this report the European Commission may decide whether to carry out an in-depth analysis of the situation in countries with a high risk of macroeconomic imbalances, and to make a recommendation for those countries. On 13 November 2013 the European Commission published both reports that belong to this phase. These are discussed further below.

ANNUAL GROWTH SURVEY – 2014

The document Annual Growth Survey analyzes economic and social situation in Europe and sets out broad policy priorities for the EU for the next year. This document, conditionally speaking, launches a new cycle of the European semester, which ensures that policies of member states are coordinated towards achieving the objectives of growth and employment. The medium-term priorities defined in the Annual Growth Survey 2014 remained the same as those defined in the Report for 2013[18], but the Commission proposed to adapt their implementation to the economic and social conditions which had slightly changed in the meantime.

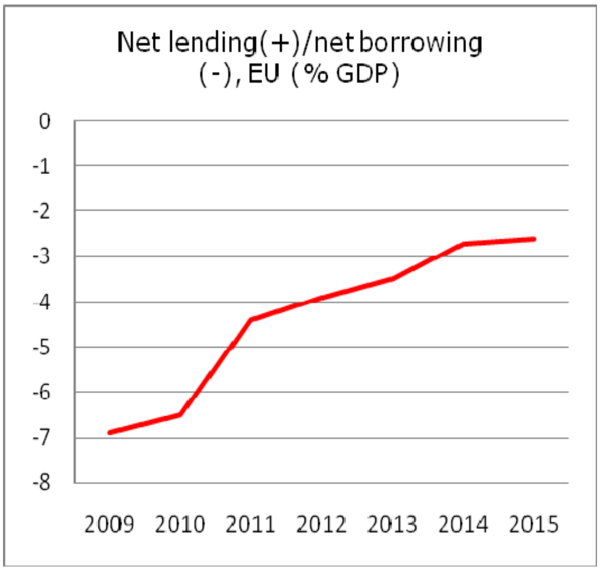
According to the mentioned document, the EU and its member states should focus on making progress in the following five priority areas:

- Growth-friendly fiscal consolidation,
- Restoring lending to the economy,
- Promoting growth and competitiveness,
- Tackling unemployment and the social consequences of the crisis ,
- Modernizing public administration.

[18] Annual Growth Survey 2013, European Commission, 28 November 2012, p.3

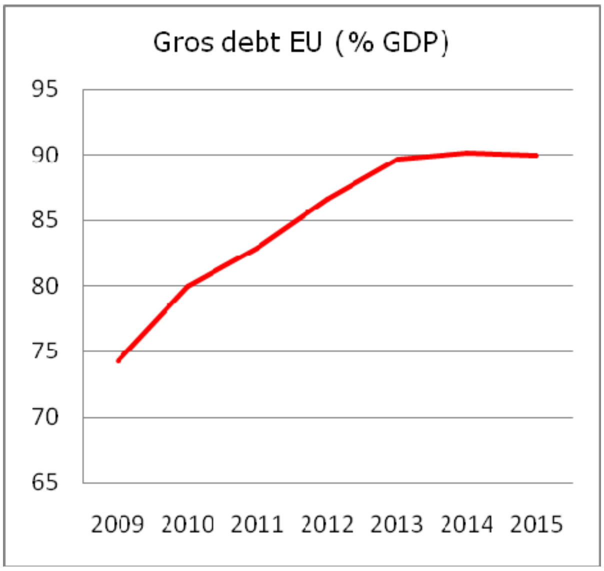
We will look here at the recommendations related to the fiscal consolidation measures. The recommended measures of fiscal consolidation for the countries with high tax rates are reductions in the levels of expenditure or broadening tax base rather than increasing tax rates. Countries that have more room for fiscal maneuver are recommended to stimulate investment and consumption, of course, while remaining in line with the Stability and Growth Pact. Tax policy should be focused on economic growth, and as an example are mentioned the measures of shifting the tax burden away from labor to consumption, property etc.[19]

Chart 1



Source: European Commission

Chart 2



Source: European Commission

According to the latest, autumn, forecasts of the European Commission[20] it is expected the reduction of fiscal deficit of the EU from 6,9% of GDP in 2009 to 3,5% of GDP in 2013, and continuation of decreasing trend is expected in the coming years (Chart 1).

According to the same document, the increase in gross debt have been recorded in the previous period, from 74,3% of GDP in 2009 to 86,6% in 2012, and it is also expected to rise by 3,1% of GDP this year. It is pointed out that for that reason it is of great importance to keep the path of fiscal consolidation as proposed by the Commission. According to the projections, the downward trend of the debt should start in 2015 (Chart 2).

ALERT MECHANISM REPORT – 2014

The aim of the Alert Mechanism Report is to determine and remove the imbalances that jeopardize the proper functioning of the EU economy. It identifies the countries of the high risks for which further, detailed reviews are necessary, and the European Commission can provide them the recommendations for the elimination of imbalances. The in-depth reviews will be published in the spring of 2014 (Phase I of the European semester) and will be included in analysis for country-specific recommendations.

[19] More information can be found in " Annual Growth Survey 2014", European Commission (2013), http://ec.europa.eu/europe2020/pdf/2014/ags2014_en.pdf
[20] European Economic Forecast – Autumn 2013 http://ec.europa.eu/economy_finance/eu/forecasts/2013_autumn/statistical_en.pdf

It is particularly stressed that the Alert Mechanism Report is not a mechanical process. The procedure of in-depth review does not start because certain country reported the value of an indicator that deviate from the indicative threshold. The Commission takes into account the overall situation in the country and based on it decides whether a more detailed analysis is required.

The Alert Mechanism Report 2014 states that the EU economy made progress in correcting the external and internal imbalances, but the further efforts are needed in order to eliminate those. Correcting the imbalances has led to a gradual recovery over the last year. Reduction in deficits and improvements in the field of competitiveness have been reported in many states. However, it is emphasized that the imbalances have been reduced but not disappeared. Weaknesses that led to the crisis have been accumulated for years, and they can not be eliminated so quickly. That, among other things, refers to the loss of competitiveness and the accumulation of debt. Findings from the previous procedure in the case of macroeconomic imbalances will be analyzed for some member states, while for the others the Commission will perform a detailed review for the first time.

For the member states that are subject to macroeconomic adjustment programs, the analysis of their imbalances and monitoring of corrective measures will take place in the context of their programs. This concerns Ireland, Greece, Cyprus, Portugal and Romania, and the situation of Ireland in the context of the Macroeconomic Imbalance Procedure will be assessed after the conclusion of the program since it will happen soon. The position of other four countries will also be evaluated after the completion of their programs.[21]

WHAT ARE THE NEXT STEPS?

PHASE I

The first stage of the European semester begins after the preparatory phase, and runs from January to March. In January and February the Council of the EU discusses the Annual Growth Survey and gives opinions. At the same phase the European Parliament also discusses the Annual Growth Survey and issues an opinion on the Employment Guidelines. In March, the European Council provides policy orientations on the basis of the Annual Growth Survey. In the same month, the European Commission publishes in-depth reviews of macroeconomic imbalances, according to which it can provide the recommendations for their elimination.

PHASE II

The second phase of Semester begins in April and lasts until July. In April, member states submit their Stability and Convergence Programs in which are presented their medium-term budgetary objectives. At this phase member states also submit the National Reform Programs containing plans for structural reforms aimed at sustainable growth and development in the areas of employment, research, innovation, etc. In further period of this phase the European Commission evaluates national policy plans and presents draft country-specific recommendations. The Council of the EU discusses the draft and gives final country-specific recommendations, which are then endorsed by the European Council. Finally, at the end of June or in early July, the Council of the EU adopts the country-specific recommendations and the member states are invited to implement them.[22]

[21] More information can be found in " Alert Mechanism Report 2014", European Commission (2013), http://ec.europa.eu/europe2020/pdf/2014/amr2014_en.pdf
[22] http://ec.europa.eu/europe2020/making-it-happen/index_en.htm

PHASE III

The last phase refers to the implementation of the recommendations by member states in the process of decision-making on the next year's budget.

INSTEAD OF THE CONCLUSION

The European semester is a cornerstone for the coordination and monitoring of economic and budgetary policies of the EU member states. Several years of implementation of this framework began to give serious results. The close cooperation between member states and EU institutions has been established, and national procedures and their time schedules have been harmonized with the phases of the Semester. As a result, member states have initiated important reforms that should create the conditions for the return to a path of sustainable growth. There has been progress in fiscal consolidation and a number of measures have been taken for the recovery in the labor market.

On the other hand, numerous areas where greater efforts are needed to achieve the expected goals are mentioned, such as greater involvement in the process by national parliaments, social partners and civil society to ensure better understanding and acceptance of the necessary reforms. It is also mentioned the issue of the implementation of recommendations by member states as well as the cooperation between the countries of the euro zone in certain areas. The Annual Growth Survey 2013 highlighted that there was still room for the improvement of the tax system in terms of fairness, competitiveness and efficiency. It is believed that a number of tax reforms of EU member states went in this direction in the last period, but the additional effort is needed in order to stimulate economic growth. Because of the difficult fiscal positions many member states have increased their tax rates. Although indirect taxes have increased in some countries, this has not been accompanied by corresponding cuts in labor taxation. It is considered that the measures of broadening the tax base and simplification the tax system were insufficiently exploited. Many tax systems have too many exemptions, reduced rates and other specific regimes known as "tax expenditures." Some analysts believe that broadening the tax base and simplifying the tax systems can bring more revenue to governments, but also facilitate the process of paying taxes by citizens and companies as well as their administering.[23] It is believed that a lot of efforts have been done by all member states regarding tax compliance recommendations. However, this process can not be finished overnight. The fight against fraud and tax evasion requires longer efforts, joint activities, using of best practices and sharing experiences of individual member states.

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[23] More information about the implementation of priorities from Annual Growth Survey 2013 in Garnier et al., "Recent Reforms of Tax Systems in the EU: Good and Bad News", WP 39, European Commission (2013)

To the editorial board and team of „MAU Bulletin" with the 100th issue

There are numerous of bulletins issued by different authorities and bodies. In scope and content these are usually short informative reviews about current events. From the first issue of the "Bulletin" it could be seen that this periodical would be something more, and each successive issue has confirmed this assumption.

The periodical's first issue offered more than just information about indirect taxes. Careful readers did not miss that the Bulletin was full of information from the entities, cantons and local communities, which could be found only in the "Bulletin". Almost every article of the periodical contained the analysis of the high professional or scientific level. The analysis has not been threatening the figures, but has been helping the social and economic milieu in which the figures have incurred to understand the numbers and their relationships, etc.

As the numbers of the "Bulletin" issues were increasing, the number of citations in professional and scientific documents taken from this periodical also grew. There is a small number of professional and scientific papers from the tax, fiscal or similar areas in Bosnia and Herzegovina which do not contain citation (with or without the proper citing the source) from the "Bulletin". It seems that the editing team does not care whether the citations have been taken in a professional way in other documents or whether the "Bulletin" as a source of information and analysis had been labeled as such, but that its primary goal is to present an objective picture which can be used by anyone in any form.

…When it is known that only two or three people prepare and edit articles for the periodical, then it is the additional reason to praise this little team and their work.

I congratulate to the editorial team for the publishing of the 100th issue of the "Bulletin" and wish that each subsequent issue be equal to or better than the previous.

*Milan Kuridža**

*The writer of the letter is a recognized expert in taxation

Consolidated reports

(Author: Aleksandra Regoje)

Table 1 (Consolidated report: B&H institutions, entities, SA)

The preliminary consolidated report includes

- revenues from indirect taxes collected by the Indirect Tax Authority on the Single Account,
- transfers from the ITA Single Account,
- revenues and expenditures of the institutions of Bosnia and Herzegovina,
- revenues and expenditures of the budget of the Federation of Bosnia and Herzegovina,
- revenues and expenditures of the budget of the Republika Srpska.*

Report doesn’t include unadjusted revenues collected on ITA SA.

Table 2 (Consolidated report: General Government)

Preliminary consolidated report includes:

- revenues and expenditures of the budget of Institutions of Bosnia and Herzegovina,
- revenues and expenditures of the budget of the Federation of Bosnia and Herzegovina, cantons, municipalities and funds,
- revenues and expenditures of the budget of the Republika Srpska*,municipalities and funds,
- revenues and expenditures of the budget of Brčko District and funds.

Table 3 (Consolidated report: Central Government)

Preliminary consolidated report includes:

- revenues and expenditures of the budget of Institutions of Bosnia and Herzegovina,
- revenues and expenditures of the budget of the Federation of B&H and cantons,
- revenues and expenditures of the budget of the Republika Srpska*,
- revenues and expenditures of the budget of Brčko District.

Table 4 (Consolidated report: B&H Institutions, entities, BD)

Preliminary consolidated report includes:

- revenues and expenditures of the budget of Institutions of Bosnia and Herzegovina,
- revenues and expenditures of the budget of the Federation of B&H,
- revenues and expenditures of the budget of the Republika Srpska*,
- revenues and expenditures of the budget of Brčko District.

**Includes: (A) Budget of the Republic and extra-budgetary funds recorded in Treasury General Ledger of the RS, (B) total foreign debt for the projects realized through municipalities and companies, and (C) Budget users who have their own bank accounts (including some foreign project implementation units established by ministries)*

Preliminary report: B&H Institutions, entities and SA, I-IX 2013

	I	II	III	IV	V	VI	VII	VIII	IX	Total
Revenue	434,7	382,4	446,3	489,5	554,8	560,5	550,8	492,9	489,8	4.401,7
Taxes	409,4	348,7	402,9	424,1	477,1	478,0	473,9	455,1	460,4	3.929,6
Direct taxes	22,7	29,7	53,5	45,4	27,0	31,6	39,1	27,3	27,8	303,9
Taxes on income, profits and capital gains	22,0	29,0	52,5	44,3	25,9	30,6	37,9	26,2	26,8	295,4
Taxes on property	0,6	0,7	0,9	1,1	1,0	0,9	1,2	1,1	0,9	8,5
Indirect taxes (net)	386,7	318,9	349,4	378,3	450,1	445,9	434,5	427,6	432,6	3.624,0
VAT	240,7	210,2	227,6	243,4	274,7	254,2	291,5	269,6	280,0	2.291,9
Excises	112,0	76,4	82,4	93,0	129,9	150,3	99,2	111,2	103,7	958,0
Road fee	20,3	16,8	18,9	22,5	26,6	23,9	25,6	28,2	27,8	210,4
Customs	12,6	14,5	18,9	18,2	17,4	16,2	16,8	17,3	19,7	151,5
Other indirect taxes	1,0	1,0	1,7	1,3	1,5	1,3	1,5	1,3	1,4	12,1
Other taxes	0,0	0,0	0,1	0,4	0,0	0,5	0,3	0,2	0,0	1,6
Social security contributions	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Foreign grants	1,4	0,7	1,8	2,4	0,8	2,9	3,5	0,7	0,2	14,5
Other (non-tax) revenue	23,9	33,0	40,2	64,3	76,6	79,4	73,2	37,1	29,2	456,9
Transfers from other general government units	0,0	0,0	1,4	-1,4	0,2	0,2	0,2	0,0	0,0	0,6

	I	II	III	IV	V	VI	VII	VIII	IX	Total
Expenditure	411,9	400,9	410,4	416,0	459,3	478,6	532,1	492,2	459,1	4.060,5
Expense	407,5	397,9	402,9	411,1	455,9	469,1	515,3	485,2	449,6	3.994,5
Compensation of employees	123,1	124,7	126,9	124,2	125,0	128,9	130,5	124,4	126,4	1.134,0
Use of goods and services	14,6	24,1	28,3	24,7	24,6	37,9	26,2	29,2	30,9	240,6
Social benefits	52,6	54,4	53,4	53,3	51,7	57,4	55,3	55,3	59,3	492,6
Interest	4,2	7,1	18,9	8,7	13,7	23,1	5,4	9,9	14,7	105,8
Interest payments to non-residents	2,3	5,5	10,1	6,0	6,2	14,1	3,1	5,4	7,9	60,8
Interest payments to residents	2,0	1,6	8,8	2,7	7,5	9,0	2,3	4,4	6,8	45,0
Subsidies	2,2	2,4	6,0	3,7	8,3	19,3	19,2	24,5	20,6	106,3
Grants (to non-residents)	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Transfers to other general government units	40,3	42,2	41,5	37,8	42,4	49,7	60,1	48,3	48,6	411,0
Transfers from SA (BD, cantons, municip, funds, road f.)	165,4	134,4	119,1	153,2	184,6	144,8	197,2	187,9	142,5	1.429,0
Other expense	5,1	8,6	8,9	5,4	5,6	8,0	21,4	5,8	6,4	75,1
Net acquisition of nonfinancial assets	4,4	3,0	7,5	4,9	3,4	9,5	16,8	7,0	9,5	66,0
Acquisition of nonfinancial assets	4,6	3,3	8,2	5,6	3,9	10,1	17,4	7,2	10,4	70,7
Disposal of nonfinancial assets	0,2	0,2	0,7	0,7	0,5	0,6	0,5	0,2	0,9	4,7
Gross/Net operating balance (revenue minus expense)	27,1	-15,5	43,3	78,4	98,9	91,4	35,5	7,8	40,2	407,2
Net lending /borrowing (revenue minus expenditures)	22,8	-18,5	35,9	73,5	95,4	81,9	18,7	0,8	30,7	341,1
Net financing = (Minus) Net lending /borrowing	-22,8	18,5	-35,9	-73,5	-95,4	-81,9	-18,7	-0,8	-30,7	-341,1

Table 1

Preliminary Report: General Government, I-IX 2013

	Q1	Q2	Q3	Total
Revenue	2.445,9	2.894,0	2.832,1	8.171,9
Taxes	1.247,7	1.476,9	1.477,5	4.202,1
Direct taxes	235,9	242,2	227,8	705,9
Taxes on income, profits and capital gains	205,9	211,1	200,5	617,5
Taxes on payroll and workforce	3,9	3,9	3,9	11,8
Taxes on property	26,1	27,1	23,4	76,6
Indirect taxes	1.010,8	1.232,6	1.247,6	3.491,0
Other taxes	1,0	2,2	2,1	5,3
Social security contributions	930,6	1.011,1	1.035,8	2.977,5
Foreign grants	6,3	10,0	6,1	22,5
Other (non-tax) revenue	258,3	393,6	311,3	963,2
Transfers from other general government units	2,8	2,2	1,5	6,5
Expenditure	2.470,9	2.709,9	2.762,2	7.942,9
Expense	2.431,8	2.648,5	2.665,4	7.745,6
Compensation of employees	785,8	804,6	793,4	2.383,8
Use of goods and services	443,9	492,8	477,8	1.414,5
Social benefits	1.053,2	1.088,7	1.086,3	3.228,2
Interest	37,5	54,3	43,2	134,9
Interest payments to non-residents	19,1	27,2	17,6	63,9
Interest payments to residents	18,4	27,1	25,5	71,0
Subsidies	32,3	61,0	95,5	188,8
Grants	0,9	5,2	4,1	10,1
Transfers to other general government units	7,6	48,3	68,4	124,3
Other expense	70,5	93,6	96,8	260,9
Net acquisition of nonfinancial assets	39,2	61,4	96,8	197,4
Acquisition of nonfinancial assets	44,7	67,8	106,7	219,1
Disposal of nonfinancial assets	5,5	6,4	9,9	21,7
Gross/Net operating balance (revenue minus expense)	14,1	245,5	166,7	426,3
Net lending /borrowing (revenue minus expenditures)	-25,0	184,1	69,9	229,0
Net financing = (Minus) Net lending /borrowing	25,0	-184,1	-69,9	-229,0

Table 2

Preliminary Report: Central Government, I-IX 2013

	Q1	Q2	Q3	Total
Revenue	1.261,4	1.592,5	1.519,0	4.373,0
Taxes	1.105,3	1.315,7	1.315,1	3.736,1
Direct taxes	187,9	192,1	175,9	556,0
Taxes on income, profits and capital gains	177,9	182,7	167,0	527,6
Taxes on payroll and workforce	3,5	3,4	3,4	10,3
Taxes on property	6,6	6,0	5,5	18,1
Indirect taxes	916,7	1.121,8	1.137,6	3.176,1
Other taxes	0,7	1,8	1,6	4,0
Social security contributions	0,0	0,0	0,0	0,0
Foreign grants	5,0	6,6	4,5	16,1
Other (non-tax) revenue	147,9	270,3	198,6	616,8
Transfers from other general government units	3,2	-0,1	0,9	4,0
Expenditure	1.230,5	1.370,5	1.449,1	4.050,2
Expense	1.213,2	1.343,8	1.400,9	3.957,9
Compensation of employees	667,7	679,0	673,1	2.019,8
Use of goods and services	106,0	138,3	143,2	387,5
Social benefits	208,9	222,8	225,4	657,1
Interest	31,8	46,7	31,6	110,1
Interest payments to non-residents	18,4	26,8	17,1	62,3
Interest payments to residents	13,4	19,9	14,5	47,8
Subsidies	21,6	49,8	82,0	153,5
Grants	0,2	4,4	3,2	7,8
Transfers to other general government units	132,5	143,9	173,4	449,9
Other expense	44,5	58,8	69,0	172,3
Net acquisition of nonfinancial assets	17,4	26,8	48,2	92,3
Acquisition of nonfinancial assets	18,6	28,9	53,1	100,5
Disposal of nonfinancial assets	1,2	2,1	4,9	8,2
Gross/Net operating balance (revenue minus expense)	48,3	248,8	118,1	415,1
Net lending /borrowing (revenue minus expenditures)	30,9	222,0	69,9	322,8
Net financing = (Minus) Net lending /borrowing	-30,9	-222,0	-69,9	-322,8

Table 3

Preliminary Report: B&H Institutions, Entities and BD, I-IX 2013

	Q1	Q2	Q3	Total
Revenue	881,6	1.173,3	1.071,4	3.126,3
Taxes	773,7	940,1	916,8	2.630,6
Direct taxes	111,9	110,1	99,4	321,3
Taxes on income, profits and capital gains	107,4	104,5	94,0	305,9
Taxes on payroll and workforce	1,9	2,1	1,9	5,9
Taxes on property	2,5	3,5	3,5	9,5
Indirect taxes	661,5	828,9	816,7	2.307,0
Other taxes	0,4	1,2	0,7	2,2
Social security contributions	0,0	0,0	0,0	0,0
Foreign grants	3,9	6,1	4,5	14,5
Other (non-tax) revenue	101,5	227,2	150,0	478,6
Transfers from other general government units	2,6	-0,2	0,1	2,5
Expenditure	837,5	921,7	1.018,8	2.778,0
Expense	822,6	900,1	976,7	2.699,4
Compensation of employees	395,5	398,5	398,5	1.192,5
Use of goods and services	71,7	94,4	106,4	272,5
Social benefits	165,9	171,3	176,4	513,5
Interest	30,3	45,7	30,1	106,1
Interest payments to non-residents	17,9	26,4	16,5	60,8
Interest payments to residents	12,4	19,3	13,6	45,3
Subsidies	12,3	33,1	68,8	114,3
Grants	0,2	4,4	3,2	7,8
Transfers to other general government units	124,0	134,0	159,5	417,5
Other expense	22,6	18,9	33,7	75,1
Net acquisition of nonfinancial assets	14,9	21,6	42,2	78,6
Acquisition of nonfinancial assets	16,1	23,4	43,8	83,3
Disposal of nonfinancial assets	1,2	1,8	1,6	4,7
Gross/Net operating balance (revenue minus expense)	59,0	273,1	94,8	426,9
Net lending /borrowing (revenue minus expenditures)	44,1	251,6	52,6	348,3
Net financing = (Minus) Net lending /borrowing	-44,1	-251,6	-52,6	-348,3

Table 4