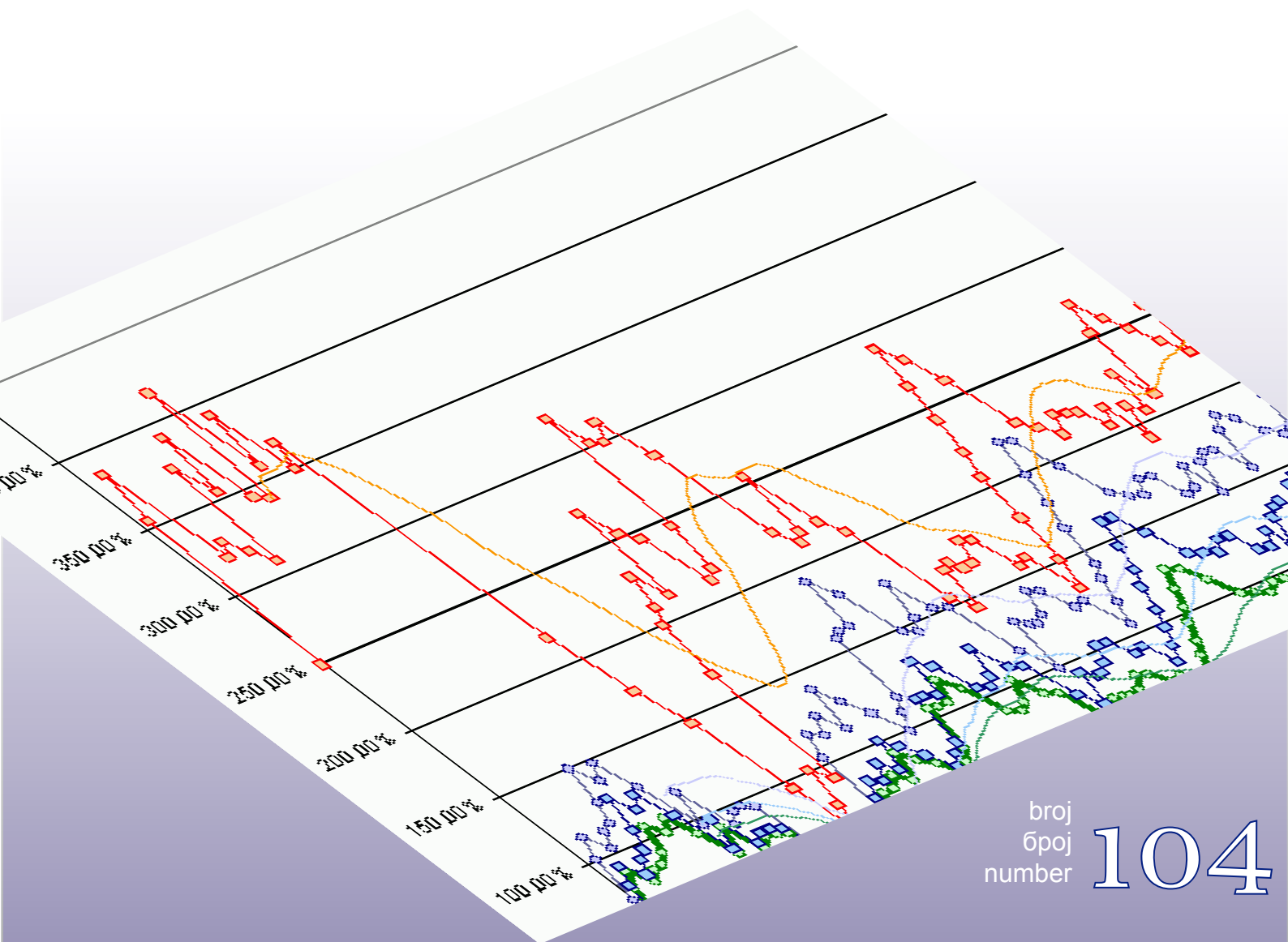




Macroeconomic Unit of the Governing Board of the Indirect Tax Authority

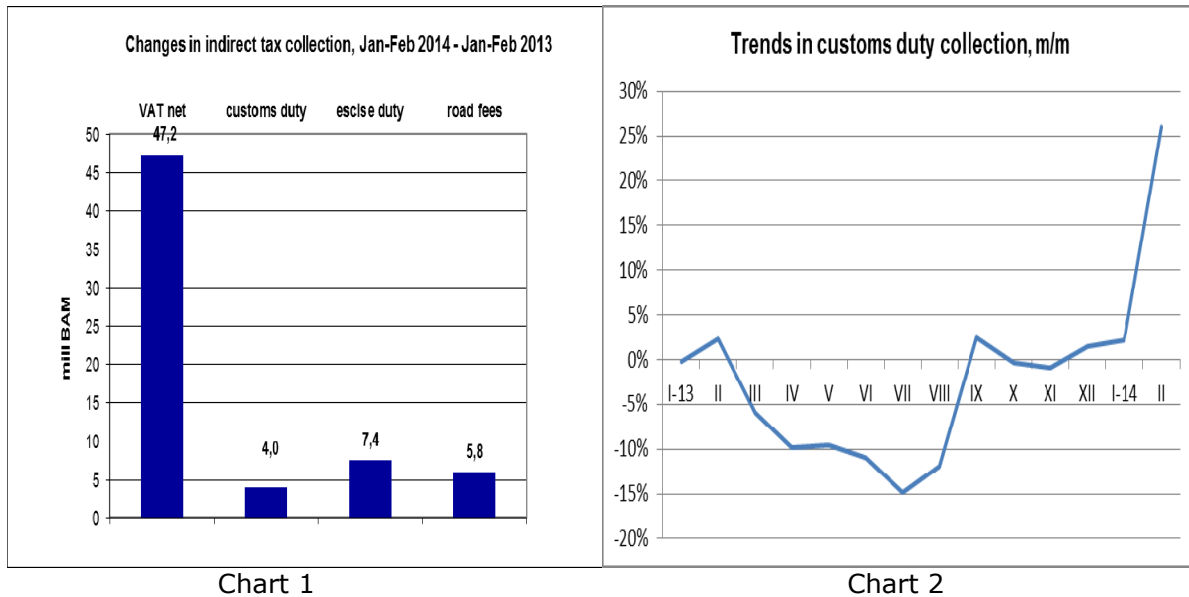
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With this issue

According to the preliminary report of the ITA it was collected 390,8 million KM net revenues from indirect taxes in February 2014, which is 21,2% more than in the same month of 2013. At the level of the first two months it is collected 8,6% more revenues than in the same period of 2013. Expressed in nominal terms, the collection in the first two months of 2014 was higher by 61,6 million than in the same period of 2013. The strong increase in revenue collection was recorded in all major groups of indirect taxes, custom duties 14,8%, VAT 10,5% and excise taxes 4% (Chart 1).



After a five-year period of reduction in customs revenues due to the application of the trade provisions of the Stabilization and Association Agreement with the EU, the positive developments in the collection of customs revenues have been recorded since the third quarter of 2013 (Chart 2). This can be linked with the growth of import from the third countries (China, Russia), as well as of import from Croatia, on which, after the accession to the EU, customs duties are charged on particular goods and tobacco products. Although the modest growth in revenues from excise taxes on tobacco was recorded in February of 2014, the data on issued excise stamps show that the minimal increase in revenues from excises results from higher collection of excise duty on cut tobacco, while the negative trends are continuing in excises on cigarettes. In this issue of the Bulletin we provide a comprehensive analysis of the collection of revenues from excise taxes on tobacco as well as the assessment of the tax evasion in the last three years.

Dinka Antić, PhD
Head of Unit

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Trends in collection of revenues from excise duties on tobacco: from the revenue “boom” to the tax evasion

(Author: Dinka Antić, PhD)

In the previous issue of the Bulletin we announced a series of articles elaborating certain aspects of the reform of indirect taxation system in Bosnia and Herzegovina. In this issue we focus on excise duties on tobacco products. The article shall present the evolution of excise duty policy on tobacco products from 1996 until 2014 and the analysis of implications of revenues from excise duties and the market of tobacco products in BiH, including the simulation of the effects of rising tax evasion on the tobacco market in BiH.

POLICY OF EXCISE DUTIES ON TOBACCO PRODUCTS (1996-2014)

In accordance with the constitutional responsibilities the policy of excise duties on tobacco products until 1 of January 2005 was entirely under the jurisdiction of the Entities and later Brcko District as well.

In the period up to 2000 the Federation of BiH (FBiH) was applying a complex system of taxation of tobacco products. The excise duty on cigarettes was paid in the range of 0,22 DEM to 2,30 DEM/package, with domestic cigarettes being taxed by the lowest excise duty rate. Differentiated taxation was also applied to tobacco, so that on domestic tobacco it was paid 7,50 DEM/kg, and for the imported 15 DEM/kg. A similar system was applied in the Republika Srpska (RS) as well. Imported cigarettes were taxed in the range of 0,60 to 1,00 DEM/package, while domestic cigarettes were taxed in the range of 0,10 to 0,20 DEM/package. The process of internal harmonization of indirect taxation¹ in the field of excise duties started in 2000, when both Entities harmonized the taxation of tobacco products. Tobacco products were to tax by *ad valorem* excise duty amounting to 35% of the retail price with no sales tax and it abolished differentiated taxation of imported and domestic products. By acquiring fiscal autonomy Brcko District has also since 2002 prescribed an identical rate of excise duty on tobacco products.

The reform of the indirect tax system included the transfer of jurisdiction for excise duty policy from the Entity level to the level of BiH. However, the specific decision-making within the Governing Board of the ITA, allowed the Entities, over veto of the Minister of Finance, to keep control of the excise policy². In relation to the harmonized excise policy of the Entities, a unique Law of Excise Duties in BiH, which entered into force on 1 of January 2005, has brought an increase in excise duty rate from 35% to 49% of the retail price with no sales tax on all tobacco products. The significant increase in the rate of excise duty, among other positive effects of unique collection of indirect taxes to the collection efficiency, brought the enormous growth in revenues from excise duties of 47% (Chart 1).

The introduction of VAT was to bring a reduction of retail prices for tobacco products due to the fact that the VAT rate of 17% was lower than the rate of sales tax. However, it did not happen. In 2006, revenues from excise duties increased by 12,6% compared to 2005.

Application of the new Law on Excise Duties began on July 1, 2009.

¹ More: OMA Bulletin No 102, January 2014, www.oma.uino.gov.ba.

² Ibid.

New Law on Excise Duties in the field of cigarette taxation introduces elements of the structure of rates from the EU. Complex rate of cigarette taxation in BiH involves the application of the *ad valorem* excise duty in the amount of 42% of the retail price of cigarettes and the specific excise duty per package of cigarettes. Although, at first glance, it can be concluded that there has been a nominal reduction of the excise rate, *de facto* there is no change in the rate, just a different calculation of excise duty which ultimately gives the same excise burden³.

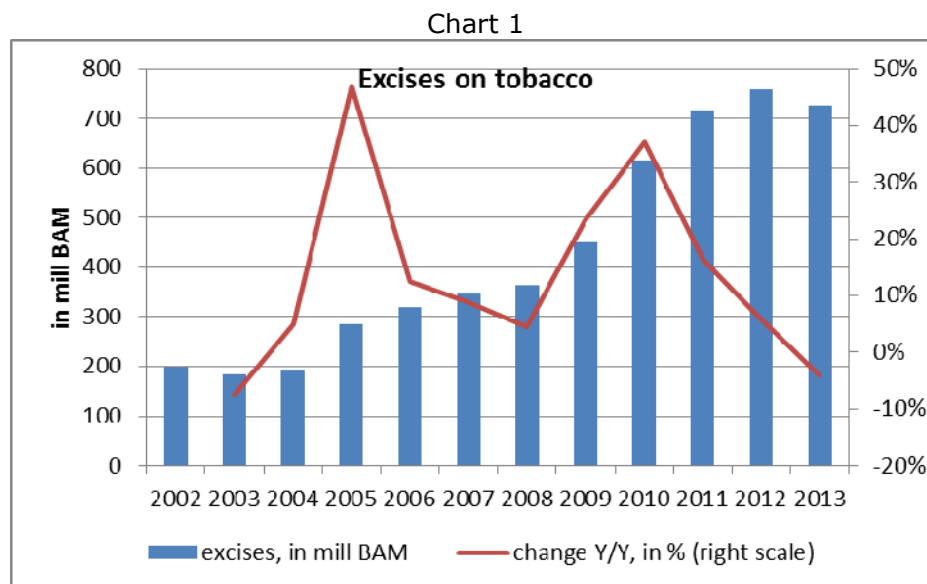
Another new element is the introduction of the category of the minimum excise duty on all cigarettes from 2010, which binds to the category of the 'most popular price of cigarettes'⁴, as the reference brand for the application of the minimum excise duty rate. The introduction of the minimum excise duty should disable the occurrence of dumping at the lower price cigarette groups. Tying the minimum excise duty for the most popular price category involves the collection of guaranteed revenues from excise duties on all brands of cigarettes whose retail price is lower than the most popular brands.

The third element of harmonization with the EU standards was the harmonization of the minimum excise duty with the minimum excise duty in the EU in the amount of 64⁵ EUR or 126 KM/1000 cigarettes. Harmonization process is ensured by the continuous increase of the specific excise duty, provided that the increase may be a minimum of 0,15 KM/pack. Dynamics of increase in the rate of the specific excise duty is given in Table 1.

Table 1

	1.7.2009.	1.1.2010.	1.1.2011.	1.1.2012.	1.1.2013.	1.1.2014.
KM/package	0,15	0,30	0,45	0,60	0,75	0,90

Other tobacco products are only levied on *ad valorem* excise. Although it is provided by the Law, the establishment of the system of harmonizing excise burden on other tobacco products with increasing excise burden on cigarettes has not yet happened.



³ The base for the calculation of excise duty until 1 of July 2009 was the retail price without VAT and from 1 of July 2009 it was retail price including VAT.

⁴ This category in the EU is the acronym MPPC - *Most Popular Price Category*

⁵ The standard has been in force in the EU until 31 December 2013. From 1 January 2014 the minimum excise duty on cigarettes in the EU is 90 EUR.

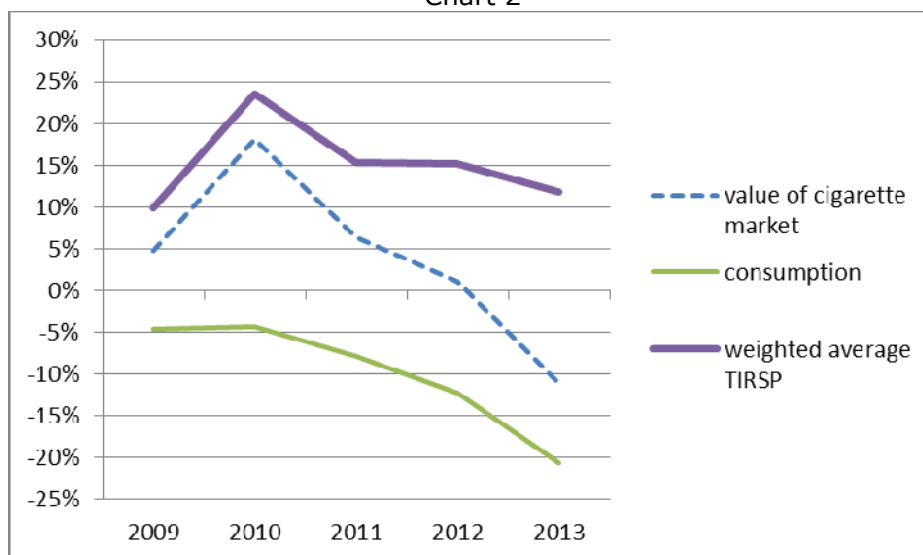
MARKET FOR TOBACCO PRODUCTS

Cigarettes

Continuous increases of the burden of excises in the course of the last five years have led to a stronger increase in retail prices of cigarettes (Chart 2). Compared with the period before the entry into force of the new Law on Excises, the weighted average retail price has doubled. At the same time, and as was expected, there has also been a reduction in the price range between the cheapest and the most expensive cigarettes. Upon analyzing the trends in prices by brands, it is possible to notice differences in company policies – dumping prices for the cheapest or the most popular brands, with the objective of retaining consumers or taking over the market from the competition, or excessive increases of retail prices for more expensive cigarettes consumed by persons with high incomes, whose consumer behavior is being led by status considerations (brand), instead of by the price. However, the stable increase of the weighted average retail price of cigarettes points out to the fact that each year, in average, the additional tax burden (special excise of BAM 0,15 + the corresponding increase of the *ad valorem* excise and the VAT) is being, more or less, fully transferred to consumers.

The increase in retail prices has led to a reduction in the consumption of cigarettes. In the course of the first two years from the moment of introduction of the special excise, the decline in the consumption of cigarettes, measured by the number of excise stamps issued, has been decreasing at the rate of 4,5 percent per annum. In view of the fact that the consumption of cigarettes is not price-elastic, the decline in consumption has evolved within the planned frameworks. The deterioration in the trends had already occurred in the year 2011, and it continued in 2012 as well, and then in the course of the last year there was a dramatic decline in consumption, of 20,6 percent. Compared with 2008, the taxed consumption of cigarettes declined by as much as 41 percent.

Chart 2

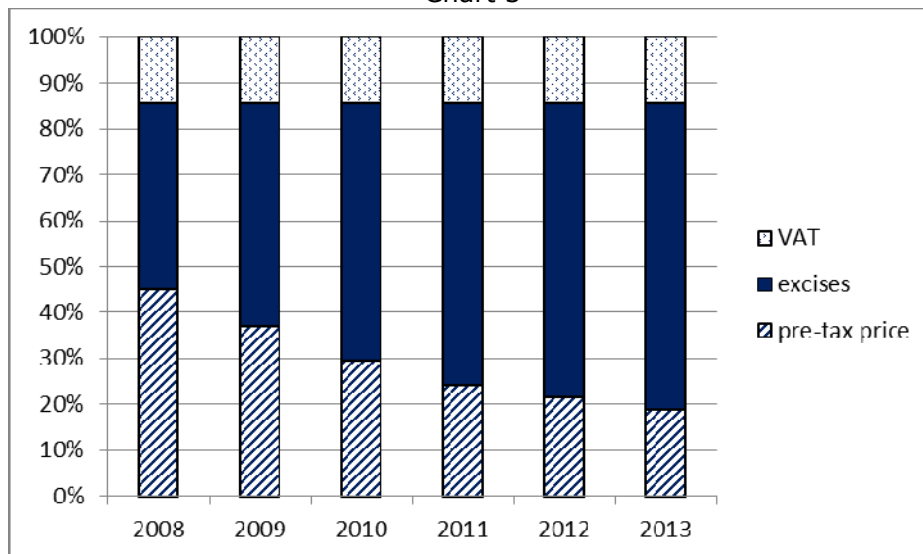


In the course of the first two years, a strong growth in retail prices had neutralized the modest decline in consumption. As a result of such trends, the value of the cigarette market in 2009 grew by 4,8 percent and in 2010 by as much as 18 percent. However, the growth of retail prices in the following three years was not sufficient to offset a strong decline in the consumption of cigarettes. In 2012, regardless of the fact that retail prices of cigarettes grew, on average by 15 percent, the cigarette market increased by only 1,1 percent. The dramatic decline in the consumption of

cigarettes in 2013 has, for the first time ever, led to a reduction in the value of the cigarette market by as much as 11 percent compared with 2012, i.e. to a level that is below the level achieved in 2010.

The conditions in the regular cigarette market are best illustrated by the share of the price before taxation, which contains the costing price (the costs) and the margin / profit of companies involved in that business (Chart 3). The continuous increase of excises has resulted in the share of excise burden increasing from 44,6 percent to 60,5 percent. At the same time, the share of the pre-tax price fell from 44,9 percent to 19 percent of the value of cigarettes in the market. In reality, the gross earnings of tobacco companies have declined, since 2008, by 50 percent, i.e. by BAM 200 million.

Chart 3



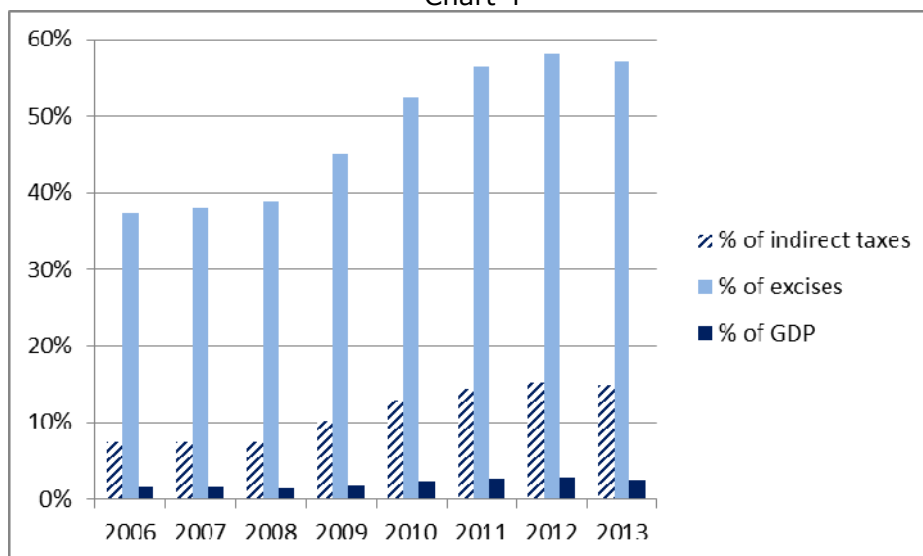
Other tobacco products

Imports and turnover of other tobacco products, especially fine-cut tobacco, had been negligible, right until three years ago, compared with the turnover of cigarettes. However, in the course of the year 2012, imports of tobacco for retail have increased six and a half times compared to 2011. The trend of a strong increase in imports of tobacco continued in 2013, when the imports of tobacco doubled compared to 2012. The aforementioned trends may also be illustrated with the number of excise stamps issued for other tobacco products in the course of the year 2013. Compared to 2012, 282 percent more excise stamps were issued, and one has to note that the increase in the case of domestic tobacco products amounted to as much as 589 percent, and in the case of imported tobacco products, to 189 percent. Compared to 2012, the structure of tobacco products also changed in favor of domestic tobacco products. The share of domestic tobacco products, measured by the number of stamps, increased from 22,3 percent to 40,3 percent, while the share in the market value of other tobacco products increased from 25,9 percent to 54,4 percent. Taking into account the significant decline in the imports of unprocessed tobacco in 2013, the aforementioned trends point to a shift of the domestic tobacco industry towards the manufacturing of fine-cut tobacco for retail, which, finally, yields lower added value and smaller profits.

REVENUES FROM EXCISES ON TOBACCO

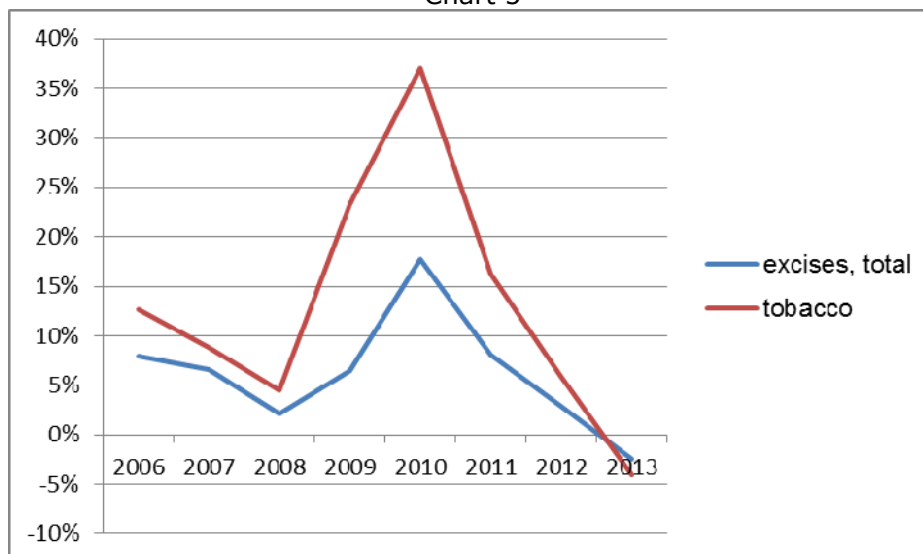
In all economies, the revenues from excises on tobacco products represent a plentiful source of revenues for the budget. Thanks to the high, and rising, EU standards in the member economies, the revenues from excises on tobacco represent tax revenue whose significance is increasing from year to year. In BiH, the share of revenues from tobacco excises in total excises has ranged between 35 percent and 40 percent, and between 7 and 8 percent in total indirect tax revenues. The beginning of the process of harmonization with the EU standards has brought about an increase in the level of significance of revenues from excises on tobacco. In the most recent period, their share in the revenues from indirect taxes increased to 15 percent, while their share in total excises increased to 57 percent. The tax burden on cigarettes increased from 1,4 percent of GDP, which was the level achieved in 2008, to the maximum level of 2,8 percent of GDP in 2012 (Chart 4). Chart 4 shows the degree to which the growth of revenues from excises on tobacco affects the growth of total revenues from excises.

Chart 4



Source: GDP data (2006-2012) – BiH Agency for Statistics (www.bhas.ba), GDP estimates for 2013 – Directorate of Economic Planning (www.dep.gov.ba)

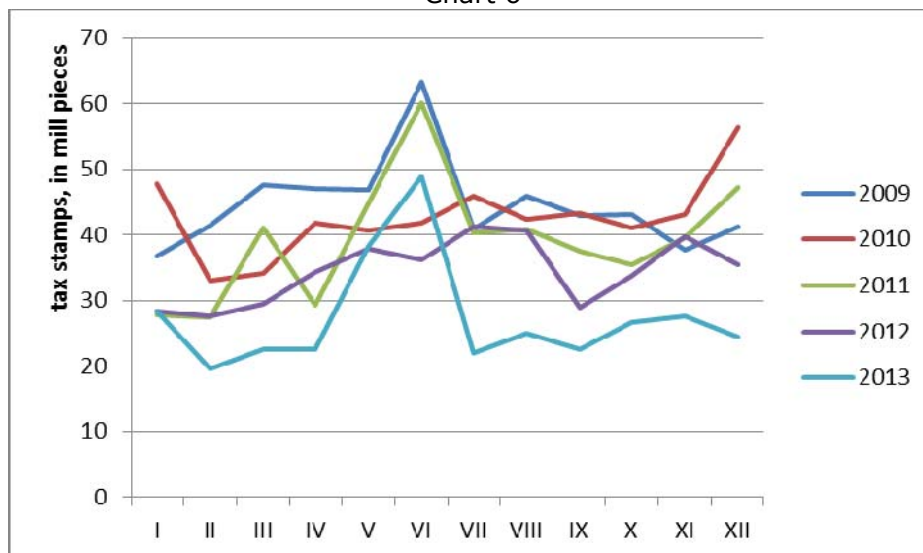
Chart 5



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Taking into account the growing significance of excises on tobacco, the oscillations in the collection of that type of excises do more than just determine the effects of the collection of revenues from indirect taxes by the ITA and the fiscal balances at all levels of government in BiH (Chart 5) - they also determine the seasonal structure of collection of revenues from indirect taxes and the structure of budget financing. In view of the fact that the tobacco market in BiH is essentially held by just a few large companies, one may conclude that the collection of revenues from indirect taxes and the pace of budget financing depend, to a large extent, on their business decisions made just before the increase in the rate of excise on cigarettes. The lack of ability to forecast business decisions of companies injects a high degree of uncertainty into projections of revenues from indirect taxes and of budget projections at all levels of government⁶. From Chart 6, which is showing the monthly issuance of excise stamps for cigarettes, in addition to the continuous trend of decline in the quantity of stamps issued, it is possible to observe several other characteristic patterns in the behavior of tobacco companies. In the course of three years, a significant increase of the number of excise stamps has been recorded in the month of June. However, the reasons behind such a behavior on the part of companies differed. In 2009, the companies were increasing their inventories of cigarettes just before the introduction of a special excise. In 2013, just before the entry of Croatia in the EU, on July 1, importers of cigarettes from Croatia increased their inventories of cigarettes in order to avoid paying customs duties. The situation in June of 2011 may be explained by the stockpiling of cheaper cigarettes in order to affect the level of minimal excise for 2012.⁷ The second pattern in the behavior of taxpayers is noticed at the end of the year, just before the increase of the excise. In each of the three years (2009, 2010, 2011) an increase of the number of stamps issued was observed in the month of December. However, in 2010, the quantities of stamps increased as early as in January, which may be explained by an insufficient increase in December of 2009. The structure of issuance of stamps in 2013 deviates from the structure that had existed in earlier years, not only due to the enormous increase just before the entry of Croatia in the EU, but also due to the larger quantities issued in January, and a decline in December.

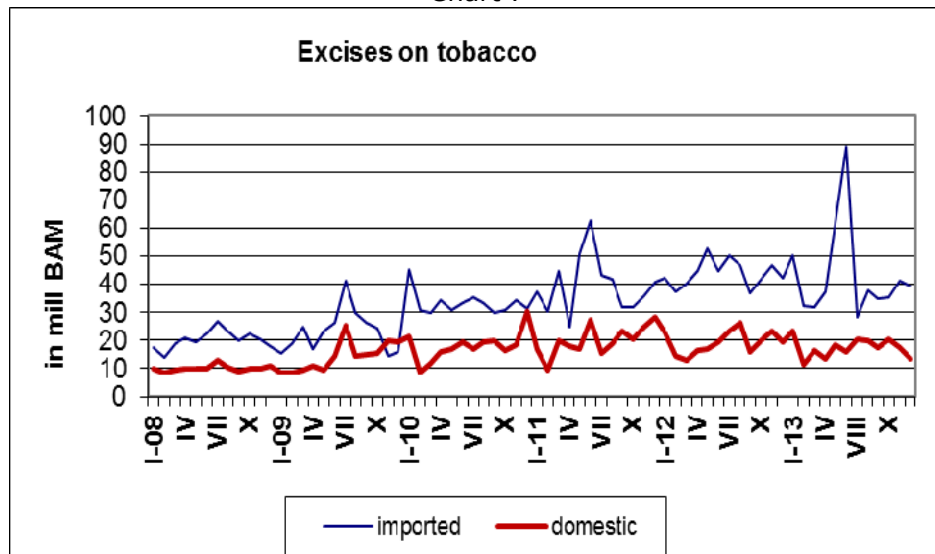
Chart 6



⁶ More: OMA Bulletin No 103, February 2014., p. 3.

⁷ According to provisions of the Law on Excise Duties the minimum excise duty for the next fiscal year (G_2) is calculated from data on issued excise duty stamps during the period 1.7.-31.12. of the previous year (G_0) and 1.1.-30.6. of the current year (G_1). Given that the minimum excise duty is tied for the most popular price category of cigarettes and in BiH the cheaper cigarettes are also the most popular ones, amassing cheaper cigarettes directly affects the selection of the most popular brand and thus the minimum excise duty.

Chart 7

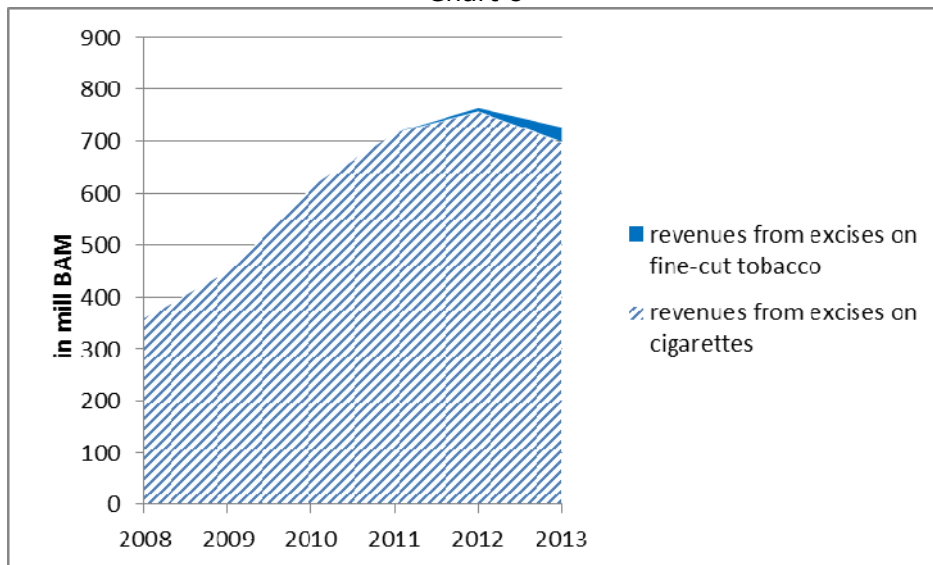


On Chart 7, it is noticeable how the patterns of behavior of tobacco companies and consumers of tobacco products are reflected in the collection of excises in the course of the last five years. In view of the strong competition, especially in the conditions of a rapidly shrinking market, it is not surprising that the business policies of importers and of domestic companies have differed. One may notice the convergence of trends, for example, just before the entry into force of the new Law on Excises, or in January of 2010, or in the second half of 2012 and in the first months of 2013. Significantly divergent policies are also evident in the month of December of 2010 for domestic tobacco, in the course of the first half of 2012, and in the month of June of 2013, for imported tobacco, as a result of accumulation of cigarettes from Croatia.

The discussion above leads to a conclusion that there are certain patterns in the behavior of taxpayers, which are also reflected in the revenues from excises, but also that those patterns are subject to variations, depending on the current conditions in the market and on business policies of the taxpayers. In regards to the factors of instability, in addition to the excise policy and the reaction of the consumers and the taxpayers to the increase of excises and retail prices, the unstable trends in the collection of excises on tobacco in 2013 were also influenced by the accession of Croatia to the EU, the substitution of the consumption of cigarettes with the consumption of fine-cut tobacco, as well as by an increase in the strength of the black market.

Concerning the revenues, the substitution of cigarettes with fine-cut tobacco has only marginally offset the significant losses in revenues from excise on cigarettes. In view of the fact that only the *ad valorem* excise is being collected on other tobacco products, at the rate of 42 percent of the retail price of tobacco, the effects of collection of excises are modest. In 2012, the amount of BAM 6,2 million was collected, while in 2013 BAM 28 million was collected.

Chart 8



The objective of excise policies of developed countries is that the increase of excise rates should discourage the consumption of products that are harmful to human health and to the environment. However, studies of the scope of tobacco smoking in BiH point out to the fact that the increase of excises on tobacco has more than just failed to contribute significantly to reducing the number of smokers in BiH, but that, instead, an increase in the incidence of smoking amongst adolescents has been recorded.⁸ The rapidly expanding discrepancy between the taxable consumption of tobacco and the prevalence of smoking in BiH points out to the presence of the black market for tobacco in BiH.

ESTIMATING THE EFFECT OF TAX EVASION

Every form of tax evasion need not be illegal. Procedures undertaken by taxpayers to minimize the tax liability shall not constitute a violation of the law. Legal tax avoidance is also referred to as permitted tax avoidance. Legal tax avoidance, since it does not violate the law, and yet leads to a reduction in tax liability, is described as 'unaccepted' or 'illegitimate' but not illegal. Legal avoidance of payment such as withdrawal or abstinence from consumption or tax planning represents processes that are under the 'letter' of the law but are contrary to the 'spirit' of the law, i.e. goals that the legislator had in mind making the law⁹. Illegal tax evasion involves actions of the taxpayer in order to reduce tax liabilities that violate the law. Characteristic of illegal tax evasion is 'unlawful behavior of the taxpayer or conduct involving a direct violation of the law in order to avoid paying taxes'¹⁰.

Starting from the definition of legal and illegal tax evasion it can be concluded that there are both present in the tobacco market in BiH. The data on the increase in the imports of fine-cut tobacco, the share in the market of tobacco products, and the excises collected on tobacco, point out to a significant degree of substitution of cigarettes with fine-cut tobacco. The substitution of cigarettes with fine-cut tobacco has also resulted in certain changes in the structure of the market of taxed tobacco products (Chart 9).

⁸ According to World Bank research, almost a half of the population in BiH are smokers, which brings BiH to a high, 8th place on the global level, ranked by the number of smokers *per capita*. Source: www.worldbank.org

⁹ IBFD, "International Tax Glossary", 5th Edition, Amsterdam, 2005., p.30.

¹⁰ IBFD, "International Tax Glossary", 5th Edition, Amsterdam, 2005., p. 157.

The scope of legal tax evasion in this case represents the difference between the excises and the corresponding portion of VAT that are levied on fine-cut tobacco, and potential revenues from cigarettes that would be produced from the taxed fine-cut tobacco. The scope of illegal tax evasion is more difficult to ascertain, in view of the fact that it concerns the black market for tobacco that is not registered.

Regardless of the difficulties, it is possible to provide a ballpark estimate of the scope of the illegal market for tobacco products, in an indirect manner, on the basis of the quantity of imported cigarette rolling papers. The imports of cigarette rolling papers have increased manifold in the course of the last three years. Compared to 2010, the imports of papers in 2011 increased 5,3 times, in 2012 - 17,8 times, and in 2013 as many as 28,5 times! It is logical to assume that the papers are being imported on the basis of the demand amongst the consumers who have switched from consuming industrially manufactured cigarettes to rolled cigarettes. In the course of simulation of the scope of tax evasion, we started from the assumption that the quantity of papers in 2010 represented the standard consumption of the households that produce tobacco, and the quantities in the following years were reduced by that quantity.

Chart 9

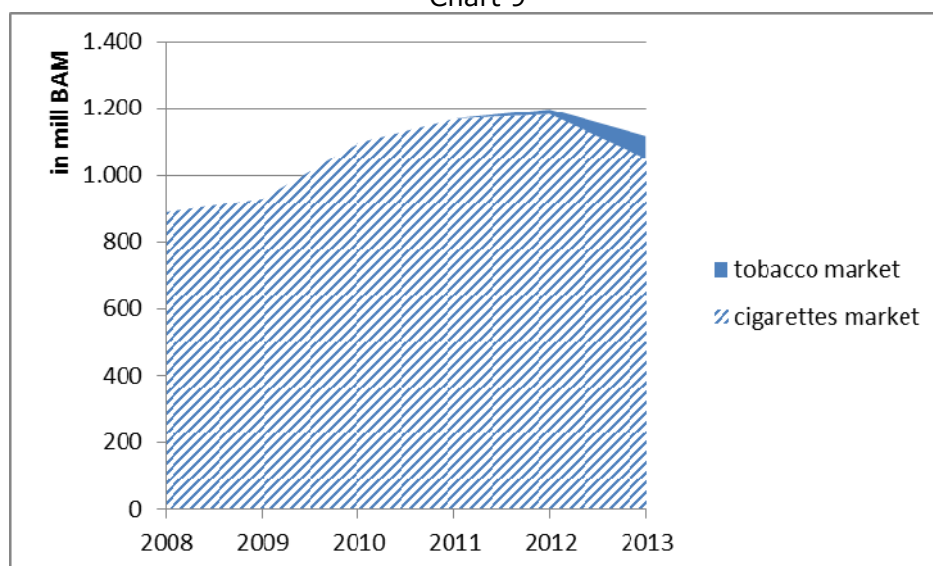
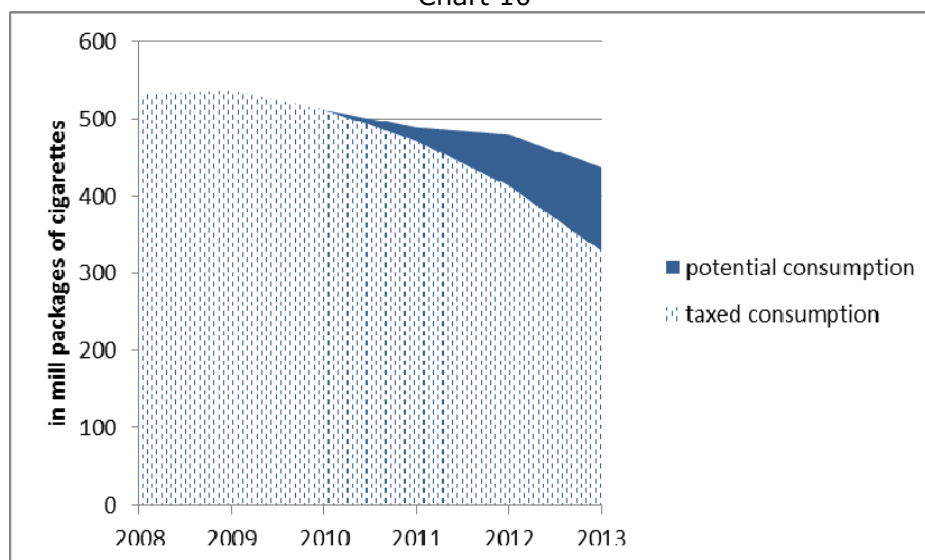


Chart 9 shows the actual consumption of cigarettes and the potential consumption, calculated on the basis of imported quantities of cigarette rolling paper. One immediately needs to emphasize that the potential consumption of cigarettes shown in this Chart is not fully untaxable. A portion of imported rolling papers was used to roll cigarettes from imported and domestic tobacco on which the excises were collected. Taking into account the data available, it was not possible to determine the actual tonnage of fine-cut tobacco placed in retail sales, just on the basis of excise stamps for other tobacco products. Instead, the quantity of fine-cut tobacco was calculated indirectly, on the basis of the value of the fine-cut tobacco which was taxed. In order to calculate the potential number of cigarettes resulting from fine-cut tobacco, the norm has been used, originating from the manufacturing of cigarettes from 1 kilogram of fine-cut tobacco, which was then adjusted to manufacturing in "household economy"¹¹.

¹¹This includes the assumption that in the course of production of cigarettes in "household economy", using simple equipment, it is possible to produce 10% fewer cigarettes than in the course of mechanical manufacturing of cigarettes.

Chart 10

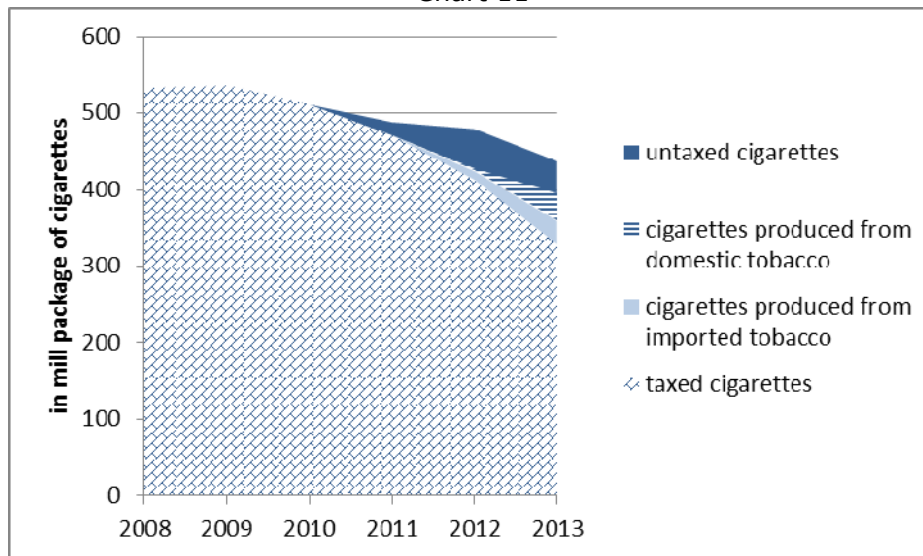


The structure of potential consumption, presented in Chart 11, points to the growing share of cigarettes that have been manufactured from the taxed fine-cut tobacco, but also to the growing share of untaxed cigarettes. The estimated consumption of cigarettes, calculated on the basis of the quantities of imported rolling papers, is a significant indicator of the developments in the actual consumption of cigarettes in BiH. However, it cannot be used automatically for estimating the lost revenues from excises, because of the following reason. The consumers are giving up on the consumption of industrially manufactured cigarettes and are switching to rolling their cigarettes from fine-cut tobacco because of the high prices, i.e. limited incomes. The structure of cigarette consumption is pointing out to the diversification of consumers. Consumers with stable incomes are still buying cigarettes, regardless of the price increase, while the poorer groups of citizens are switching to rolling their cigarettes from fine-cut tobacco¹². Therefore, in an ideal situation, which implies the existence of strong control mechanisms and a low presence of the black market, in the conditions of continuous increases in retail prices, the consumers with low incomes should be reducing their cigarette consumption continuously, down to the level of their disposable income. As that is not the case, the consumers are attempting to retain the level of consumption within the limits of their disposable income by using fine-cut tobacco.

¹² More: OMA Bulletin No 101, December 2013., www.oma.uino.gov.ba

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Chart 11



In view of all the aforementioned, the disposable income for purchasing cigarettes becomes the main limitation for simulating the losses in revenues from excises. The simulation comprises three steps:

Step #1: Calculating Disposable Income

The disposable income envelope, necessary for the simulation of losses in revenues, may be calculated in the following manner:

$$\text{disposable income} = \text{number of papers (number of cigarettes)} * \text{price of cigarette made from fine-cut tobacco}$$

In the simulation, we are starting from the assumption that one pack of cigarettes made from fine-cut tobacco costs the final consumer BAM 1.

Step #2: Calculating Equivalent Quantity of Cigarettes

Under the assumption that the cigarettes made by rolling correspond, in their quality, to the cheapest cigarettes (and in case of BiH that corresponds to the most popular price category), in the calculation of effects we have used data on the most popular price for each year in the course of the 2011-2013 period, cited in the decisions of the ITA Governing Board¹³. According to the calculations based on the disposable income of the consumers, which they spent on purchasing cigarettes from fine-cut tobacco, in 2011 it was possible to purchase 8,5 million packs, in 2012 – 30,1 million packs, and in 2013 – 43,4 million packs of the cheapest (the most popular) industrially produced cigarettes.

Step #3: Calculating Lost Revenues from Excises and VAT

In order to calculate the lost revenues from excises on additional quantities of cigarettes, resulting from the preceding step, step #2, and in view of the assumption that those would be the cheapest

¹³ According to provisions of the Law on Excise Duties annually the ITA Governing Board adopts the decision on determining the amount of the minimum and specific excise duty on cigarettes, whose integral part is the most popular price category of cigarettes.

cigarettes, the data on the minimal excise were used in each of the years in the course of the 2011-2013 period¹⁴. One needs to keep in mind that the simulation is being performed for the cigarettes which were produced from fine-cut tobacco which is, in one part, taxed. In order to calculate the net losses in excises, the resulting effects should be reduced by the excise collected on fine-cut tobacco.

Chart 12

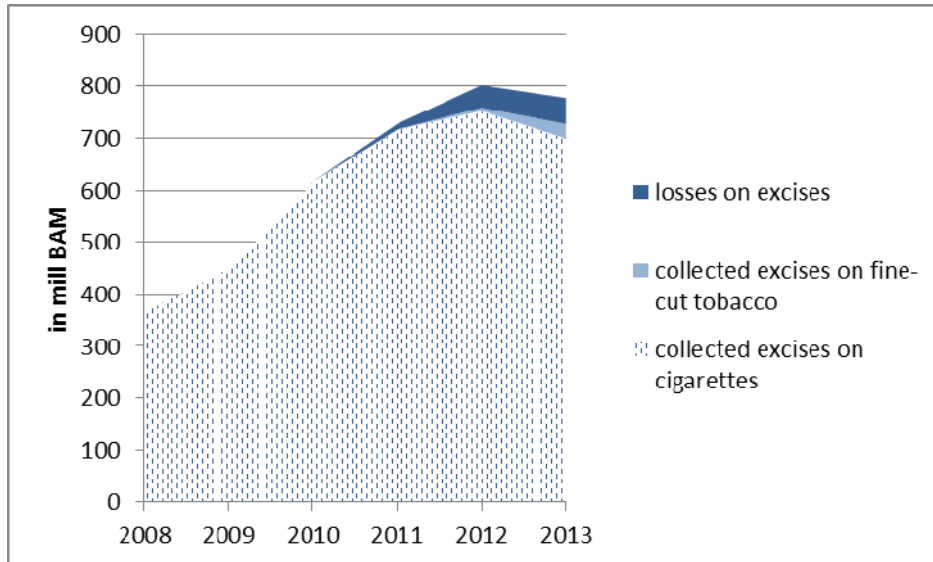
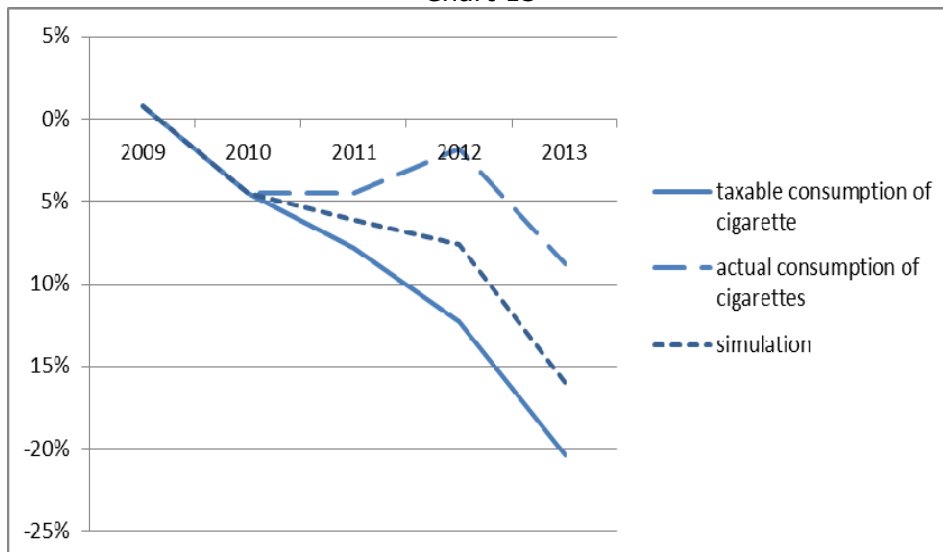


Chart 13



According to the calculation, the net losses on excises in 2010 amounted to BAM 11 million, in 2011 BAM – 43,5 million, and in 2012 - BAM 50,2 million. In addition to that, the net lost VAT amounted to BAM 2,5 million, BAM 7,5 million, and BAM 6 million, respectively. It is noticeable that the pace of growth of the losses slowed down in 2013 (Chart 12), as a result of strong growth of taxed tobacco, which is, to a lower extent, compensating for the lost excise on cigarettes.

¹⁴ Ibid.

Estimates of the actual consumption of cigarettes, on the basis of imports of cigarette rolling papers, point out to the fact that the consumers have been attempting to retain the level of consumption from the preceding years (Chart 13, "actual consumption of cigarettes"). The downward trend in the consumption is within the expected limits of the reduction in consumption (-8.8 percent in 2013). The "simulation" curve shows what the developments in the consumption of cigarettes would have been like (within the limits of disposable income) in the absence of the substitution of cigarettes with fine-cut tobacco. The difference between the "simulation" curve and the "taxable consumption of cigarettes" curve shows the losses in the cigarette market which are already reaching the level of 50 million packs of cigarettes per annum.

CONCLUSION

Since 2009, the excise policy of BiH has implied continuous increases of the excise burden on cigarettes, but also adequate harmonization of taxation of fine-cut tobacco with the EU standards. However, exclusive focusing on the harmonization of taxation of cigarettes has resulted in a continuous widening of the gap between the tax burden on cigarettes and on fine-cut tobacco, as their substitute. The Chart 12 points to the disheartening fact that the increase of excises of cigarettes has not resulted in a more significant reduction in the consumption of cigarettes, as had been expected, according to the objectives of health policy, but has, instead, produced distortions in the regular tobacco market in BiH, and tax evasion.

The simulation presented in the article has had the objective to determine, as realistically as possible, the scope of tax evasion in the tobacco market in the course of the 2011-2013 period. It is necessary to keep in mind that the effects received here are, just as in any other assessment, the result of initial assumptions. In this case, the results achieved depend on the price of a pack of cigarettes that is produced from fine-cut tobacco. Naturally, it cannot be identical if the cigarettes are rolled using branded (more expensive) tobacco, and if they are rolled from the non-branded (cheaper) tobacco. If the share of branded tobacco dominates, that would also result in a higher disposable income for consumption, and the effects on the revenues might be higher. In the same vein, the option that has also not been taken into account is that those who have a more stable income had also switched to rolling tobacco, and that they are saving a portion of their disposable income for other demands, by consuming fine-cut tobacco. An increase in the share of that category of consumers would also result in an increase of revenues, if the measures of excise policy would bring the tax burden on fine-cut tobacco significantly closer to the tax burden on the cheapest cigarettes.

The results of the simulation make it possible to draw the conclusion that the measures of excise policy, which would move in the direction of higher taxation of fine-cut tobacco, and stricter control mechanisms and sanctions for consuming untaxed tobacco and illegal manufacturing of cigarettes could discourage the consumption of fine-cut tobacco, especially low quality non-branded tobacco. Convergence of the tax burden placed on fine-cut tobacco with the tax burden on cigarettes would result in a reduction of benefits being executed by the consumption of rolled cigarettes, which could result in the consumers of rolled tobacco returning to the regular cigarette market. However, in view of limited incomes, that could also represent a factor of pressure being exerted on the consumers to cut on their actual smoking. Reductions of the black market and tax evasion, as a result of aforementioned measures, might bring us back to the path we were on in 2012, with a realistic possibility of modest growth in the coming years on the basis of the growth in the economy and in consumption in BiH.

Consolidated reports

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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.

**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 2014

<i>(mil KM)</i>	I
Revenue	442,3
Taxes	414,6
Direct taxes	23,5
Taxes on income, profits and capital gains	22,8
Taxes on property	0,7
Indirect taxes (net)	391,0
VAT	245,3
Excises	109,5
Road fee	22,2
Customs	12,8
Other indirect taxes	1,1
Other taxes	0,1
Social security contributions	0,0
Foreign grants	1,7
Other (non-tax) revenue	26,0
Transfers from other general government units	0,0
Expenditure	414,7
Expense	411,8
Compensation of employees	123,8
Use of goods and services	11,6
Social benefits	52,5
Interest	5,9
Interest payments to non-residents	2,4
Interest payments to residents	3,4
Subsidies	2,1
Grants	0,0
Transfers to other general government units	40,4
Transf. from SA (BD, cant, munic, funds, road f.)	170,7
Other expense	4,9
Net acquisition of nonfinancial assets	2,9
Acquisition of nonfinancial assets	3,1
Disposal of nonfinancial assets	0,1
Gross/Net operating balance (revenue minus expense)	30,5
Net lending /borrowing (revenue minus expenditures)	27,5

Table 1