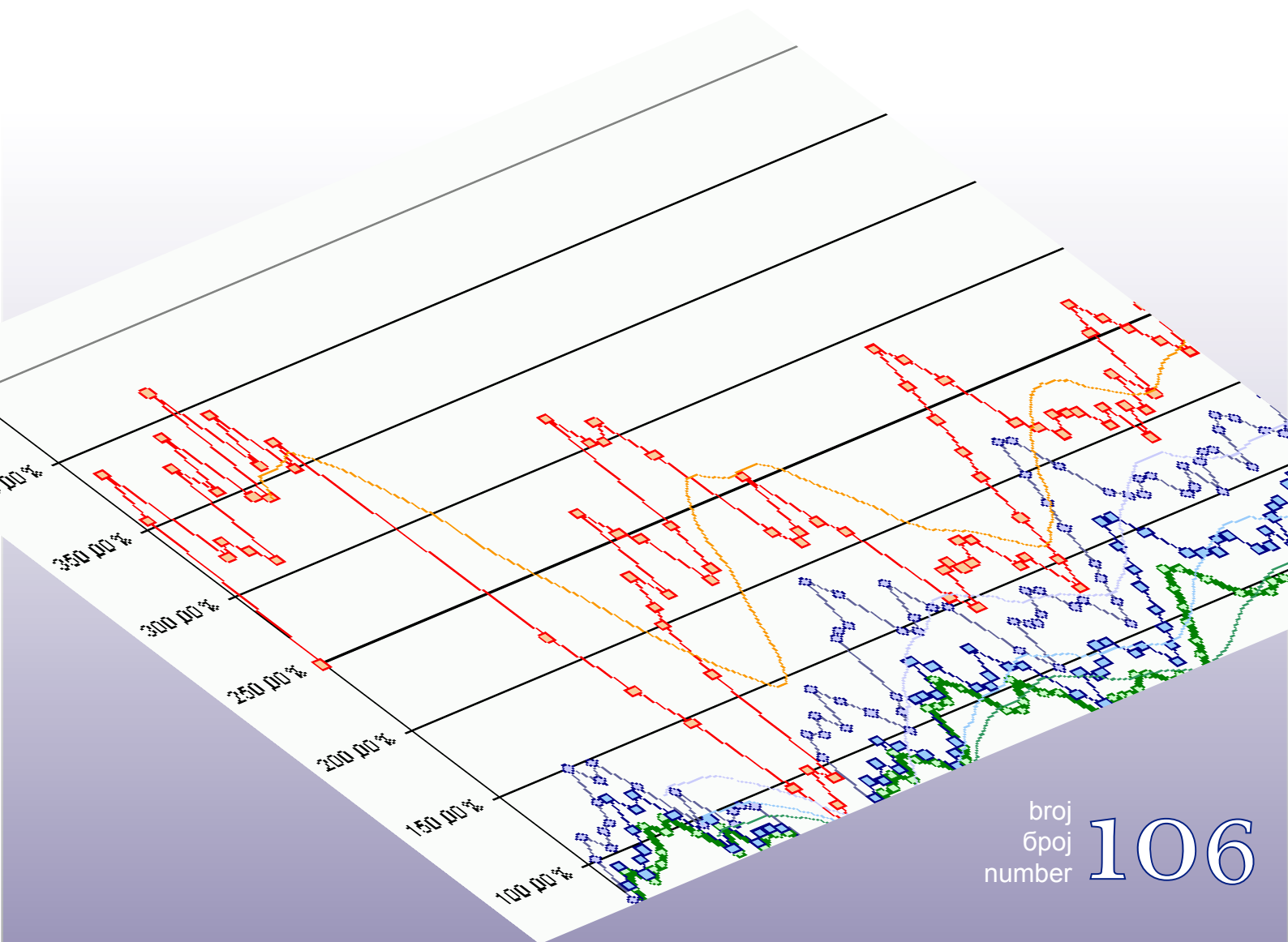




Macroeconomic Unit of the Governing Board of the Indirect Tax Authority

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Month of April has brought a continuation of positive trends beyond all expectations. According to the preliminary report of the ITA by types of revenue in April a gross revenue collection increased by 11,3%. However, due to the simultaneous increase in refund payments of 26,1%, net revenue collection increased by 8%. The cumulative effects of the growth of revenue collected during the period January-April 2014 amounted to 105 million KM or 7,2% compared to the net cumulative collection in the same period of 2013. Chart 1 shows strong monthly fluctuations in net collection and stable movement of cumulative collection, although a certain slowdown from March 2014 can be noted.

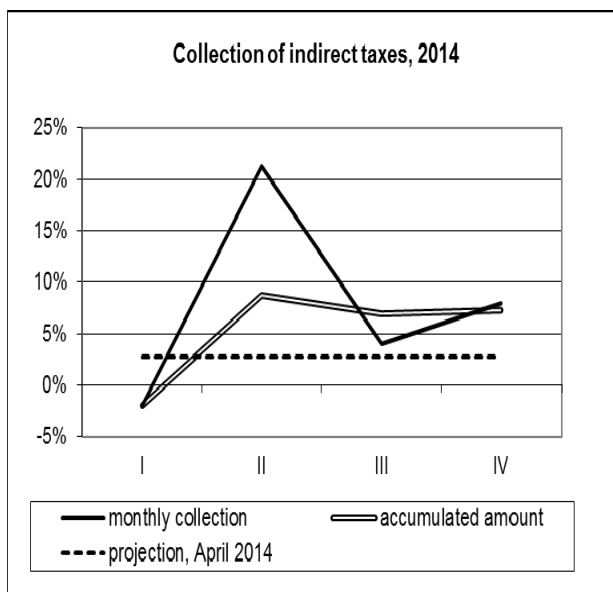


Chart 1

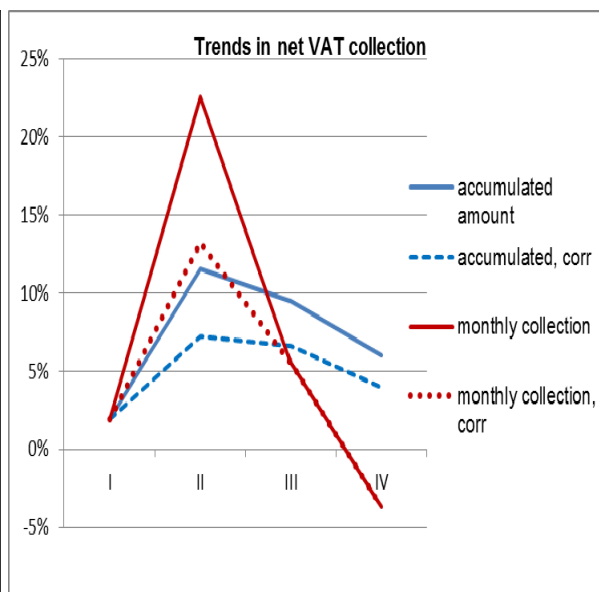


Chart 2

Cumulative net VAT collection is high although a gradual slowdown can be noted in the last two months. If the net collection is corrected for paid old debts, the growth of net VAT for four months from 6,1% declines to 3,9%. As a result of refund growth, which is partially a result of changes in the customs regime for some companies, the monthly net collection in April was negative (-3,7%). Strong fluctuations of monthly net collection are the product of (i) the increase in imports; (ii) increase of VAT base (lohn jobs); (iii) payment of old debts, and (iv) refund growth. However, due to the refund scheme, the effects of changes in the customs regime, which occurred in January 2014, have emerged in the net collection in March and April (Chart 2).

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Projections of indirect tax revenues in the period 2014-2017

ASSUMPTIONS

Projections of revenues from indirect taxes for the period from 2015 to 2017 are based on the following assumptions:

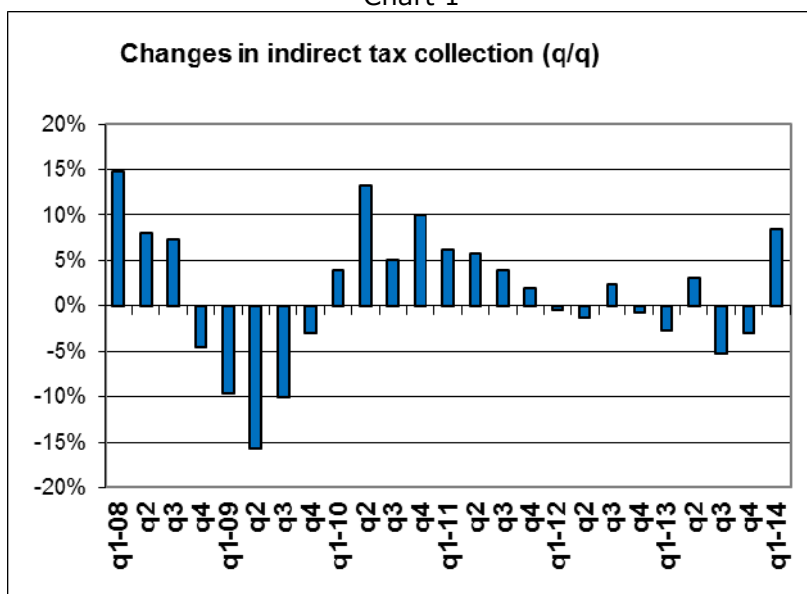
- Forecast of macroeconomic indicators by the Directorate for Economic Planning (DEP) for the stated period;
- Policies in the area of indirect taxes related to the implementation of Article 21 of the Law on Excise Duties, which stipulates continuous harmonization of excise rates in BiH with the minimum standards in the EU. The projections include effects of the increase in special excise duty on tobacco in 2014 from BAM 0.75 to BAM 0.90 per pack, as well as the planned continuous increase in this duty in 2015 and 2016 by BAM 0.15 per pack of cigarettes;
- Current trends in collection of indirect tax revenues.

The baseline scenario of projections includes the above stated assumptions, while the program scenario additionally includes the estimate of effects of amendments to the Law on Excise Duties related to introduction of differential excise duty on beer and a new policy of tobacco taxation to be applied from July 1st 2014 and in the following mid-term period.

CURRENT TRENDS IN COLLECTION

In spite of the macroeconomic indicators, which had implied a modest recovery of the BiH economy, 2013 was closed with a deficit in indirect tax revenues. The initial revenue decline was recorded in the fourth quarter of 2012, and the decline trend continued throughout 2013 at a growing pace.

Chart 1



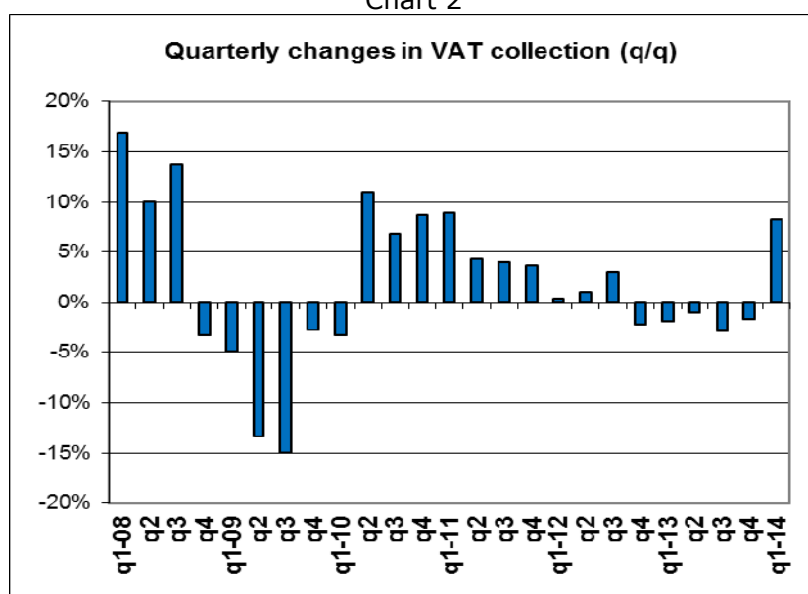
The beginning of 2014 was marked by a 2% decline in collection as compared to January 2013. In February, however, a strong increase in indirect tax revenue collection was already recorded, which not only offset the deficit from January but resulted in a growth amounting to as much as BAM 62 million. The positive trend continued in March 2014. According to the preliminary report of the ITA by types of revenues, the amount collected in March 2014, after the deduction of tax refund, is by BAM 367.5 million or 4% higher than in the same month of 2013.

A strong growth in all the main groups of revenues was recorded in March, which, combined with the positive trend in February, has also had an impact on the cumulative collection in the first quarter of 2014. At the level of quarter, the collected net indirect tax revenues amounted to BAM 1.146 billion, which is by BAM 75 million or 7% higher as compared to the same quarter of 2013. The quarterly trend of the total collection of indirect taxes shows an exceptionally strong growth in collection of indirect tax revenue, which is uncommon for the first quarter of the fiscal year (Chart 1).

VAT

Collection of indirect tax revenues in the first three months of 2014 was marked by a strong growth of VAT revenue. After five quarters of negative growth, the first quarter of 2014 recorded a growth of 8.3% (Chart 2).

Chart 2

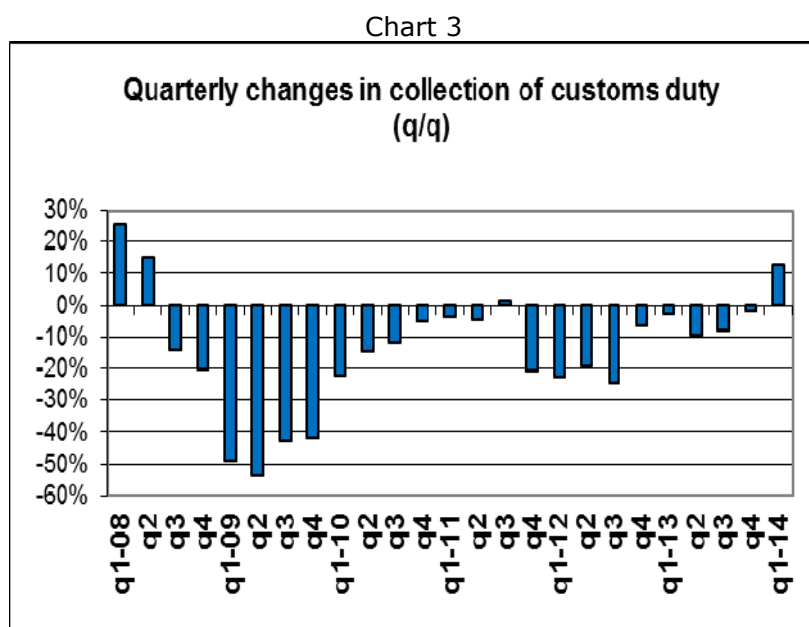


Unlike 2013, which was characterized by a high and stable growth of VAT collection from VAT returns and a decline in VAT on imports, the first quarter of 2014 shows opposite trends of collection of gross VAT components. Collection of VAT from VAT returns in the first quarter of 2014 was at the level of the first quarter of 2013, with sharp oscillations in February (+19.7%) and March (-14.3%). Given that, according to the ITA information, a significant amount of VAT debt was also paid in the first quarter, it is possible to conclude that collection of current liabilities from VAT returns was negative. At the level of quarter, growth of VAT on imports amounted to 11.2%. The growth of VAT revenue was certainly influenced by the growth of imports in the first quarter above the projected growth for 2014. An unusually large discrepancy between growth of imports and growth of VAT collection on imports in the first quarter indicates a change in the regime of payment of import duties on the part of several companies involved in inward processing (lohn jobs), which opted for the standard procedure of VAT payment applying to all other VAT payers

instead of a special customs procedure that involved import of raw materials without paying VAT. If the gross VAT growth in the first quarter of 2014 is broken down into factors that contributed to 6.6% growth at the level of quarter, it is possible to conclude that the positive effect was produced by collection of old debt (2.1 percentage points), growth of import (3 percentage points), and change in the regime of VAT calculation and efficiency of collection (3.3 percentage points), with the negative effect produced by VAT collection in the country (VAT from VAT returns, fines, ...) accounting for 1.8 percentage points. The change in the regime of VAT payment influenced the gross VAT collection growth, but it also resulted in the growth of VAT refund, wherein it should be noted that the moment of offsetting of gross collection by refund payment depends on the time interval between deadlines for payment of customs duties and refund deadlines. The average rate of allocation from gross VAT for payment of refund in the first quarter of 2014 was 25%, but it showed a growing trend since the share of refund in gross collection in January, February and March was 23.8%, 24% and 27% respectively. The data on a significant increase in the number of requests for refund and tax credit indicate the possibility of effects of growth of VAT on imports from the first quarter being offset by growth of refund in the second quarter, as well as in the third quarter of 2014 in cases involving liquidation of tax credit requests.

Customs

In the first quarter of 2014, customs revenue collection recorded positive trends for the first time after nine consecutive quarters of negative trends (Chart 3).



Positive trends in customs revenue collection were already discernible in the second half of 2013, which can be explained by the influence of changes in customs regime for imports of tobacco and certain agricultural and food products after the accession of Croatia to the EU. Another reason for a strong growth of customs revenues is a growth of imports from third countries (China) and a shift in the scheme of oil import (Russia) as compared to the import scheme of the Refinery in 2013. According to the ITA data, imports from China were 42.8% higher in the first quarter of 2014 as compared to the same quarter of 2013, whereas the calculated revenues (VAT, customs) were 33.7% higher.

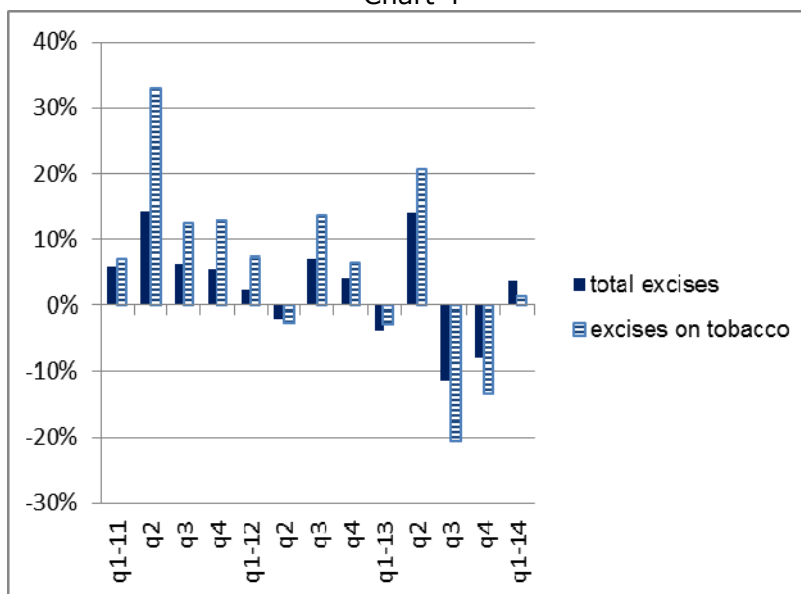
Excise Duties and Road Fees

The quarterly analysis of the collection of excise duties shows a growth trend of 3.7% in excise duty collection in the first quarter of 2014 after two quarters with negative trends. After severe disruptions in tobacco market in 2013, in the first quarter of 2014 a minimum growth of 1.3% (+ BAM 2.2 million) in revenues from excise duties on tobacco was recorded in case of domestic fine cut tobacco and imported cigarettes. A growth of BAM 3.6 million was also recorded in case of oil derivatives. Growth of road fees does not follow the trend of growth of excise duties on oil derivatives as a result of offsetting of tax credit against liabilities from domestic excise duties on oil derivatives. A strong growth of 28% or BAM 4.4 million was recorded in excise duty revenues in the group of alcoholic and non-alcoholic beverages. The analysis of the structure of excise duties collected in the first quarter by products shows an enormous growth recorded in excise duties on beer (+54.7%) and excise duties on non-alcoholic beverages (+23.3%), while excise duties on alcohol and alcoholic beverages recorded a decline of 14.1%. However, if we take into consideration the fact that BAM 4.5 million of debt of excise duty on beer was collected in the first quarter, it follows that the real growth of current revenues from excise duties on beer is negative (-4.5%), whereas the growth of total current revenues from excise duties is 2.1%.

Table 1 - Trends in collection of excise duties and road fees

	I quarter 2014/ 2013
Total tobacco	1,3%
Imported tobacco	3,7%
Domestic tobacco	-3,9%
Oil derivatives	4,3%
Imported	3,2%
Domestic	6,0%
Coffee	2,4%
Alcohol, beer, wine, alcoholic and non-alcoholic beverages	28,0%
Road fees	12,3%

Chart 4

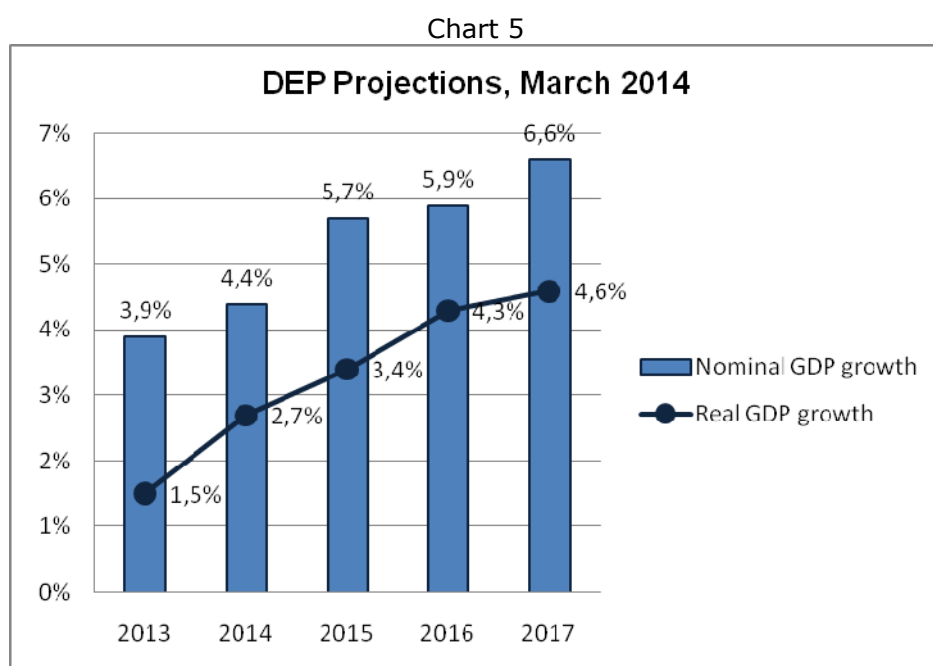


REVENUE PROJECTIONS - BASELINE SCENARIO

The baseline scenario of projections of revenues from indirect taxes is shown in Table 2.

2014

Projections of nominal and real economic growth for 2014 are more optimistic than they were for 2013. The projected growth in real gross domestic product is 2.7%. The Directorate for Economic Planning explains this increase by the expected growth of exports, as well as strengthening of private consumption and investments.



As opposed to divergent trends of indirect taxes and economy in 2013, in the first quarter of 2014 revenues recorded a parallel and stronger growth than it would be expected based on projections of macroeconomic indicators. There is need for caution when drawing conclusions though, since **projections of macroeconomic indicators are made at an annual level and the MAU does not have their quarterly segments available**. On the other hand, a strong growth of revenues in the first quarter of 2014 can be partly explained by significant amounts of debt from previous period collected through enforced collection procedure. The growth in collection of old debts, which diverges from the usual scheme of VAT debt collection, has a one-off effect on VAT collection only in the current year. Gross VAT growth can also partly be explained by the mentioned change in the regime of payment of import duties in case of some companies involved in loan jobs, due to which the positive effects from the first quarter could be offset by a growth of refund in the following period. Finally, the third factor of growth in gross VAT collection in the first quarter of 2014 were strong imports of machinery and equipment, which represent only a small part of planned imports of machinery in 2014 as a part of finalizing of major investments in the energy sector.¹ Such imports growth may only bring about a temporary increase in gross VAT collection at

¹ This concerns the planned imports of approximately 30,000 tons of machinery and equipment for Stanari thermal power plant.

a monthly level, which will be offset in the next month already by the VAT refunds, except in case that strong imports are recorded in December and the refund payments are brought forward to the next fiscal year.

Based on the aforementioned, the MAU draws the conclusion that the growth of net VAT collection in the first quarter of 2014 is *de facto* more modest than it is shown by monthly reports. The MAU expects that VAT collection will in the remaining three quarters of 2014, including the one-off effect of collection of debts, stay within the range of projections of growth of economy and consumption, and that projected VAT revenues in 2014 will amount to BAM 3,199.7 million, i.e. will be 3.1% higher than in 2013.

The projected excise duty revenues for 2014 amount to BAM 1,289.5 million, which is 1.8% higher than the amount executed in 2013. The highest rate of growth is projected for excise duties on beer (due to effects of collection of debts from previous period), but given its small weight in total excise duties, this type of revenue contributes to the absolute growth in excise duties with only 21%.² In spite of modest projections of growth rate of excise duties on tobacco, due to their large share in total excise duties, their expected increase accounts for almost 42% of the projected absolute growth in excise duties in 2014. The projected customs revenues for 2014 amount to BAM 220.8 million, with the projection based on the current collection trends and the projection of growth of imports. Revenues from road fees are expected in the amount of BAM 290.6 million, and their projection, apart from current collection trends, also takes into account the forecast of relevant real macroeconomic indicators. The category "Other" in Table 2 includes other revenues collected on the single account (revenues from terminals, rent, extraordinary revenues and the like), as well as revenues that remain unadjusted after payments to the single account are matched with the filed returns/declarations in modules of the ITA information technology system.

Starting from the annual macroeconomic projections, led by the principle of caution and bearing in mind the stated one-off effects of enforced collection and strong oscillations in monthly and quarterly gross VAT collection in 2014, which the MAU expects to be offset by refunds at the annual level, the MAU projects revenues from indirect taxes in 2014 in the amount of BAM 5,018.8 million, which is 2.7% higher than the execution in 2013.

2015-2017

The projection of revenues in the period from 2015 to 2017 is based on projections of individual categories of revenues for 2014, projected relevant macroeconomic indicators for the stated period, as well as on the effects of the planned continuous increase in the special excise duty on cigarettes in 2015 and 2016.

The projected growth rates of revenues are 1.6%, 2.5% and 2.5% in 2015, 2016 and 2017 respectively.

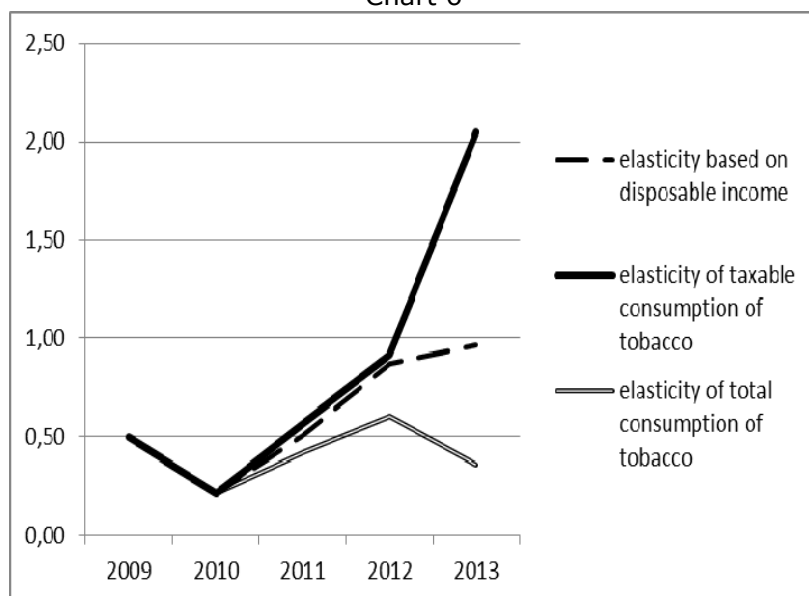
² BAM 22.5 million.

Annex: Projections of Revenues from Excise Duties on Tobacco

The baseline scenario of projections of revenues from excise duties on tobacco involves maintaining of the current policy of taxation of tobacco products, stipulated by the Law on Excise Duties in BiH which is currently in force. If the current policy of excise duties on cigarettes, involving a minimum legal increase of the special excise duty of BAM 0.15/pack annually, were to be maintained, according to the MAU estimate the minimum excise duty of BAM 126/1000 cigarettes on all types of cigarettes would be achieved in 2016. The increase in the gap between excise duty burden on cigarettes and on fine cut tobacco will increase the pressure on consumption of fine cut tobacco. Although consumption of cigarettes is considered to be inelastic, the continued increase in the excise duty burden on cigarettes combined with widening of the gap between tax burden on cigarettes and fine cut tobacco as a substitute has in the previous years resulted in a strong migration of regular cigarette consumption to branded (taxed) and non-branded (untaxed) fine cut tobacco market. The decline in revenues from excise duties on cigarettes could not be compensated for by the growing demand for fine cut tobacco due to a low tobacco taxation rate and a high rate of tax evasion.

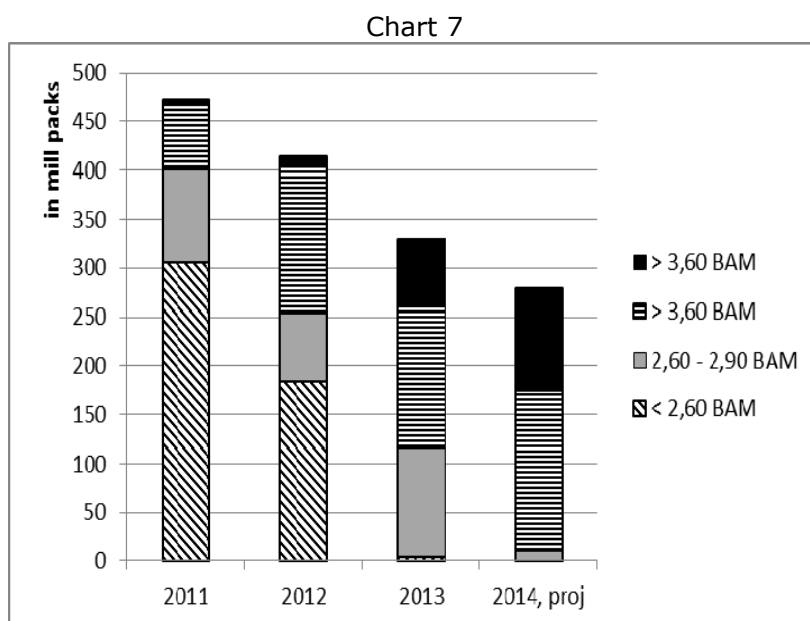
After several years of growth, the value of tobacco market declined for the first time in 2013 by 5.8%, with the regular cigarette market decreasing by 10% and the regular tobacco market increasing 3.5 times as compared to 2012. In previous years, the analyses indicated a high elasticity of consumption of taxed cigarettes. On the one hand the high elasticity is a result of a stable growth of retail prices, and on the other hand it is a result of a strong decline of 20.5% in consumption of cigarettes in 2013. Once the consumption of cigarettes rolled from branded and non-branded tobacco³ is included, the elasticity of total consumption of cigarettes reaches the expected level between 0.4 and 0.5 again. However, since the real consumption of cigarettes is limited by the disposable income of consumers, the elasticity of potential cigarette consumption in 2013 would under assumed low tax evasion circumstances be at the level of approximately 0.9 (Chart 6).

Chart 6



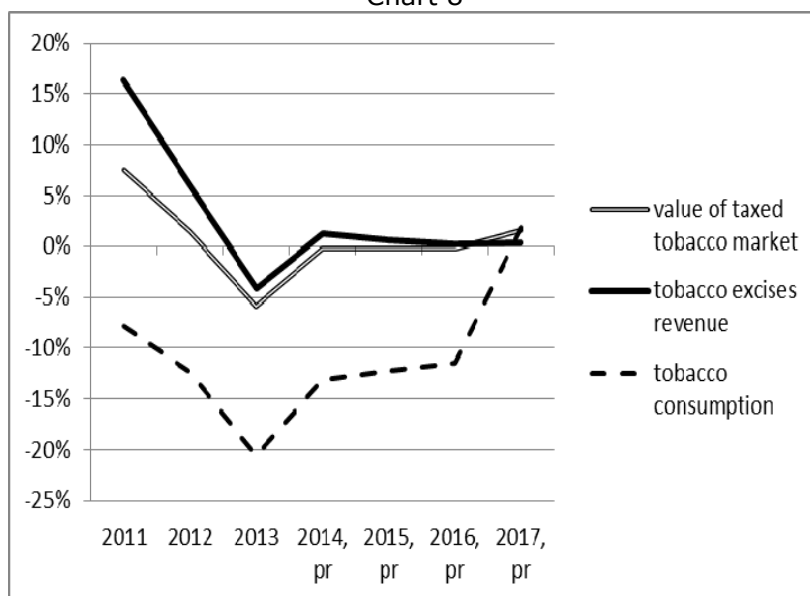
³ See MAU Bulletin No. 104, March 2014, www.oma.uino.gov.ba.

The analysis of elasticity indicates that further increase in excise duties on cigarettes without measures of excise duty policy that would aim at discouraging of consumption of fine cut tobacco, as well as extensive operational measures taken to combat tax fraud, could result in continued contraction in cigarette consumption and the loss of expected revenues. The analyses of structure of cigarette consumption based on issued excise stamps have back in 2012 already shown significant consumer stratification resulting from differences in income. In the last two years, there was, on the one hand, a significant decline in the number of consumers of cheaper cigarettes due to their shifting to consumption of fine cut or non-branded tobacco and, on the other hand, a growing trend of cigarette consumption on the part of citizens with stable income regardless of the increase in retail prices of medium and high class cigarette brands (Chart 7).



After strong turbulence and migration from cigarette market to fine cut tobacco market in 2013, the process of consumer stratification ultimately resulted in a stable inelasticity of consumption within the remaining share of consumers of medium and high class cigarettes. Taking this fact into account, it follows that in the coming years migration from cigarette market to tobacco market should grow weaker, thereby followed by weakening in the increase of substitution of cigarettes by fine cut tobacco and migration of the remaining share of consumers to illicit tobacco market, which in general should not have any significant negative impact on the total value of regular (taxed) tobacco market in BiH in the following years (Chart 8).

Chart 8



The projections of revenues from excise duties on tobacco in the period 2014-2016 are based on the assumption that the continuous increase in excise duties on cigarettes will result in further contraction of cigarette market at moderate rates, accompanied by a slower growth of fine cut tobacco market. The growth of excise duty burden in the period 2014-2016, taking into account the assumptions of moderate decrease in the value of cigarette market and inelastic structure of the remaining cigarette consumption, should still result in a minimum growth of revenues from excise duties on tobacco amounting to 1.3% in 2014, and in 2015 and 2016 it should result in a declining growth of 0.7% and 0.3% respectively. Given the expectation that the minimum excise duty burden of BAM 126 per 1000 cigarettes will be achieved in 2016, if the minimum is meanwhile not harmonized with the EU standards, a weak growth of tobacco market is expected as of 2017 in line with projections of growth of consumption. Growth of consumption, if the excise duty policy is unchanged, should in 2017 result in stabilization and minimum growth of excise duty revenue amounting to 0.4%.

INDIRECT TAX REVENUE PROJECTIONS (2014-2017), APRIL 2014

BASELINE SCENARIO

Type of revenue (net)	in millions of BAM					growth rate			
	2013	2014	2015	2016	2017	2014	2015	2016	2017
VAT	3.102,9	3.199,7	3.259,2	3.354,0	3.451,9	3,1%	1,9%	2,9%	2,9%
Excises	1.267,1	1.289,5	1.298,5	1.313,1	1.329,7	1,8%	0,7%	1,1%	1,3%
Customs duties	211,0	220,8	227,4	235,6	243,8	4,6%	3,0%	3,6%	3,5%
Road fees	285,3	290,6	295,5	302,7	310,9	1,9%	1,7%	2,4%	2,7%
Other	19,9	18,1	18,3	18,5	18,6	-8,7%	0,9%	0,9%	0,9%
TOTAL	4.886,2	5.018,8	5.098,8	5.223,8	5.354,9	2,7%	1,6%	2,5%	2,5%
Road excise tax (0,10 BAM/l)	-114,0	-116,2	-118,2	-121,1	-124,4	1,9%	1,7%	2,4%	2,7%
FUNDS FOR DISTRIBUTION	4.772,2	4.902,5	4.980,6	5.102,7	5.230,6	2,7%	1,6%	2,5%	2,5%

Table 2.

DIFFERENCES RELATIVE TO PROJECTIONS FROM NOVEMBER 2013

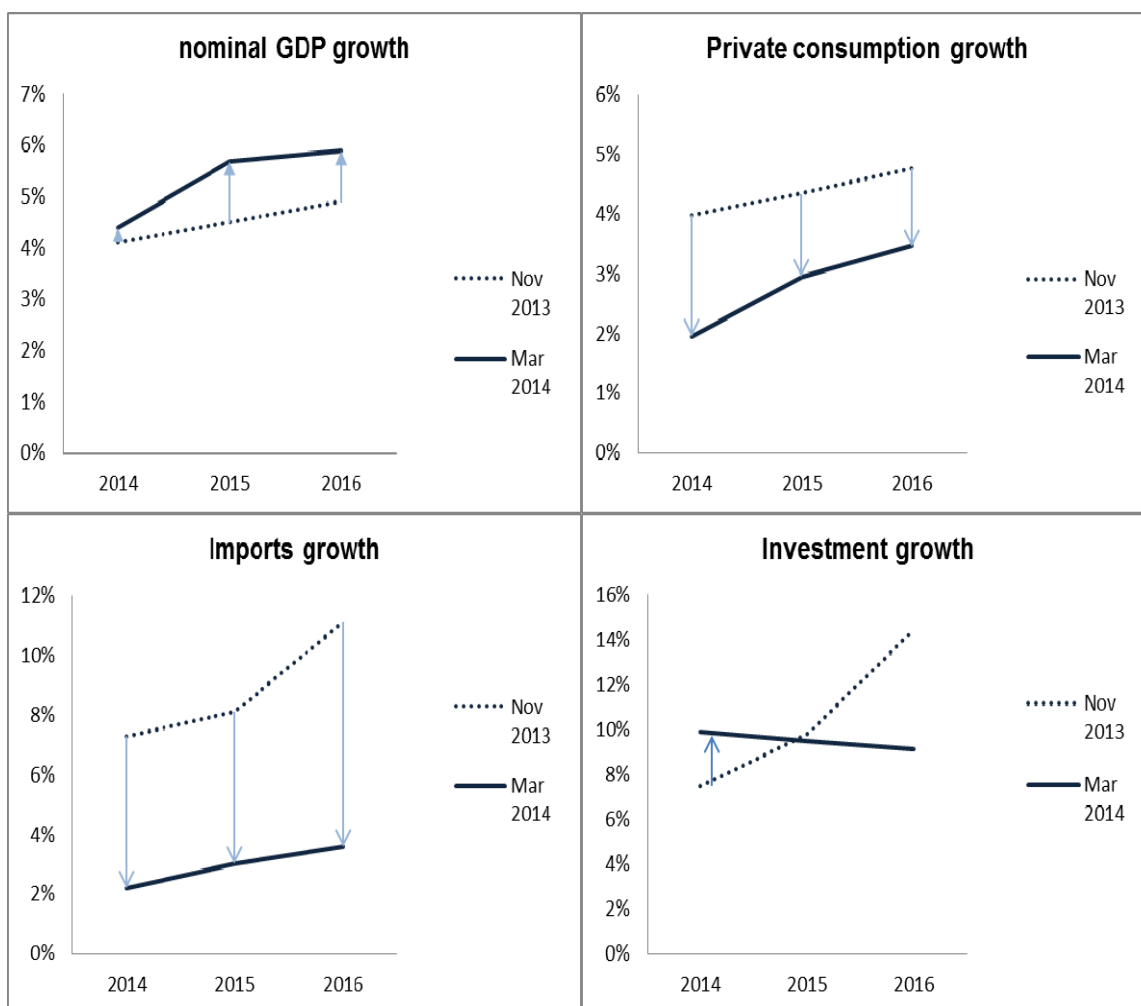
2013

Revenue collected from indirect taxes in 2013 amounted to 99.9% of the amount projected in November 2013 (the difference was -3.8 mil BAM). Actual collection of revenues from VAT and road fees amounted to around 100% of the projected amount (deviations from the projected amounts were 0.8 and 0.3 mil BAM respectively), while greater deviations were recorded with revenues from customs duties and excises.

2014-2016

Projected amounts of revenue for the coming years have been corrected in accordance with the changes in the current trends of collection and the corrections of projected macroeconomic indicators produced by the Directorate for Economic Planning (DEP). Graph no. 9 shows DEP projections in a dotted line, which date from November 2013, while the projections from March 2014 are shown in a solid line. The graphs lead to the conclusion that there was no significant change in the growth rate of the nominal GDP for 2014, but the growth rates of its components have been revised significantly. This is particularly true of the export growth rate that was revised downward by more than 5 p.p. Especially important for projections of indirect tax revenue is the consumption growth rate, and its private component has been revised downward by 2 p.p. Projected growth rates of macroeconomic indicators for 2015 and 2016 have been mostly revised with regard to imports (-5.1 and -7.5 p.p. respectively).

Graph 9



Although the revenue projections for 2014 were corrected by only +1 mil BAM, there was a shift in the structure of revenues, mainly between the VAT and tobacco excises. Projections for the next two years have been revised significantly (Table 3). Explanation of the corrections by type of revenue follows below.

Table 3. Differences between projections from April 2014 and projections from November 2013

Type of revenue (net)	in mil BAM		
	2014	2015	2016
VAT	14,4	-47,7	-105,2
Excises	-13,3	-17,8	-20,7
Customs duties	2,0	-6,8	-22,0
Road fees	-2,2	-5,5	-8,9
Other	0,2	0,4	0,5
TOTAL	1,0	-77,5	-156,1
Road excise tax (0,10 KM/l)	0,9	2,2	3,5
FUNDS FOR DISTRIBUTION	1,9	-75,2	-152,6

VAT

Projections from November 2013 explain that the projected VAT growth rate for 2014 does not match up to the projected consumption growth rate because of the precautionary principle, and the then unfavorable collection trends. Despite DEP's correction of the projected consumption growth rate downward, the projected VAT revenues have been corrected upward for 2014 (14.4 mil BAM or 0.45% of the projected amount from November) due to their strong growth in the first quarter. This is particularly true of the VAT revenue from imports, which grew beyond the growth rate of imports, and the effects of collection of debt from previous periods. VAT projections for 2015 and 2016 were corrected downward significantly due to corrections of projected macroeconomic indicators by DEP for the said period, primarily with regard to consumption and imports (Graph 9). The projected growth rate of VAT for 2015 is again below the growth rate of consumption, mainly due to the statistical effect of enforced collection that increased the base for comparison (2014).

Excises

Revenue projections for 2014 have been revised with regard to excises by -13.3 mil BAM (-1% of the amount projected in November). The biggest part of this amount concerns correction of the revenues from tobacco excises, because collection in 2013 was lower than expected, caused by a dramatic decline in consumption of taxable cigarettes, which is explained in more detail in the section on tobacco. For the following two years, the revenue from excises was also corrected (-17.8 mil BAM in 2015 and -20.7 mil BAM in 2016), but other categories of excises, not only tobacco, were corrected as well.

Customs duties

Customs duties for 2014 were mildly revised upward (+2 mil BAM or 0.9% of the amount projected in November). In the baseline scenario for revenue projections in November 2013, it was stated that due to a high degree of uncertainty regarding imports of goods from Croatia, the projected revenue from customs duties was highly conservative and relied completely on current trends of imports in the third quarter of 2013. It was also stated that in case of a consolidation of imports from Croatia, additional customs revenues could be expected in the period 2014-2016. With regard to customs duties, projections from April 2014 explain that positive trends of these

revenues were recorded due to effects of a changed customs regime after Croatia had joined EU, and due to growing imports from third countries and changes to oil imports scheme (Russia) compared with the Refinery imports scheme in 2013. All this explains why projections were corrected upward despite a decline in the expected growth rate of imports. Projections for 2015 and 2016 were revised downward (-6.8 mil BAM and -22 mil BAM) due to a large difference in the projected growth rates of imports, as presented in Graph 9 (growth rates corrected by -7.5 p.p. for 2016).

RISKS REGARDING PROJECTIONS

Considering the main indirect tax projections and the overall economic conditions in BiH and around the world, the realization of the projected level of revenues from indirect taxes in the period 2014-2017 is vulnerable to the following risks:

- (i) Projected revenues from indirect taxes are closely related to the projections of macroeconomic indicators produced by DEP. Any deviation of these parameters from projected values represents a risk to revenue projections;
- (ii) Weaker economic recovery of main export partners of BiH (EU, CEFTA countries) increases the level of risk for realization of macroeconomic projections, and consequently for the realization of projected revenues from indirect taxes as a whole;
- (iii) Continued increase of the special excise tax on cigarettes in order to reach the minimum EU standard is becoming counterproductive without efficient political and operational measures aimed at closing the gap between the tax burden on cigarettes and fine cut tobacco and suppression of tax evasion, illegal import of tobacco and illegal manufacturing of cigarettes. Similar distortion of revenues and the market in the coming years may be caused also by the announced introduction of a differential excise tax on beer;
- (iv) Possible changes of policies in the area of indirect taxes, such as differentiated rates of VAT and excises, on top of creating fiscal losses and macroeconomic implications such as market distortion, may also destabilize the existing system of VAT and revenue collection, reduce the operational efficiency of ITA, burden the businesses and significantly increase the risk of fraud.

PROGRAM SCENARIO

The program scenario of indirect tax revenues includes the following:

- assessment of effects to be caused by introducing a differential excise tax on beer.
- assessment of effects of the new excise policy for tobacco.

Projected revenues according to this scenario are represented in Table 4.

Effects of introducing a differential excise tax on beer

The ITA Board supported in March 2013 the initiative to introduce a differential excise tax on beer. According to the ITA Board proposal, on top of the existing excise rate of 0.20 BAM/l, a higher rate of 0.25 BAM was proposed for those taxpayers whose annual production is more than 400.000 hectoliters. We note that due to proposed amendments in the BH Parliament⁴ and the positions of the European Commission, the adoption of the amendments to the law is still uncertain. It needs to be underlined here that introducing differential tax rates on consumer goods is always an incentive to spend more on less taxed goods and to increase tax fraud such as smuggling and contraband, and other types of fraud with highly taxed goods. According to the available data on the capacities of breweries in BiH, a possible situation could be that only domestic breweries would satisfy the conditions for the application of the lower rate of 0.20 BAM/l, while the majority of imports will be taxed according to the higher rate. Starting from that premise, the introduction of a differential excise rate on beer may stimulate substitution of consumption, where more domestic beer would be bought instead of imported beer. The MAU has produced several scenarios for revenue projections from beer excises in 2014 and beyond, with varying degrees of consumption substitution of imported beer by domestic beer. However, the effects of substitution cannot be significant in terms of the level of revenue from excises, because the share of domestic beer in total consumption in the past few years has been between 35 and 37% with the downward trend, which is a small weight in terms of influencing a total collected excise revenue. Bearing in mind that, at best, the adoption of the amendments to the Law on Excise Duties with regard to differentiated taxation of beer may be expected in the second half of 2014, the expected effects of introducing differentiated excise rates will stretch over a two-year period according to the program scenario, i.e. in the second half of 2014 and the first half of 2015. According to the conservative scenario, which envisages a redistribution of the beer consumption in such a way that the consumption of imported beer would be reduced by 10% and the consumption of domestic beer would be increased by 10% annually, we can expect an additional 5.8 mil BAM of revenues from excises on beer in 2014, and 5.6 mil BAM in 2015. The collection in the following years will depend on projected growth of consumption (DEP).

Effects of the new tobacco taxation policy

The program scenario for tobacco excise revenue means that the amendments to the Law on Excise Duties would apply as of July 1, 2014. According to the proposal of the ITA Board, the new excise policy means the continuation of harmonization with the minimum EU excise on cigarettes, which entered into force in Member States on January 1, 2014. The pace of harmonization of these excise duties remains the same as under the applicable regulations, but the new minimum excise was increased to BAM 176 per 1.000 cigarettes. The minimum excise duty on cigarettes is established at the level of at least 60% of the average weighted price of cigarettes. Amendments to the Law include harmonization of the excises on fine cut tobacco, which means the initial

⁴ Different amendments have been proposed, ranging from introducing differentiated excise taxes on other alcoholic and non-alcoholic beverages, to a range of different excises on beer. The procedure for adoption of regulations in the area of indirect taxes requires a previous agreement of the ITA Board regarding the proposed amendments.

introduction of a specific excise in 2014 in the amount of 78 BAM/kg, while in the coming years the harmonization should accompany the growth of excise tax on cigarettes. Changes to the excise policy on tobacco, which means a simultaneous progression of two dynamic, mutually connected processes – harmonization of cigarette excises with the minimum EU standards and harmonization of tobacco excises with the increasing excises on cigarettes – make the assessment of effects that the new excise policy will have on consumption and revenues from tobacco excises rather difficult, especially in a situation where there are strong turbulences in the tobacco market and tax evasion in the cigarette market in the past three years. According to the MAU statistical assessment⁵, eliminating tax evasion in the tobacco market within the given parameters of consumption, determined by the available income of consumers for tobacco consumption, could yield initial effects in the amount of 56 mil BAM annually in excises and VAT combined.

The program scenario of revenues from tobacco excises starts from the following assumptions related to the excise policy in the period 2015-2017:

- Application of the new excise policy as of July 1, 2014.;
- Minimum yearly increase of the specific excise tax amounts to 0.15 BAM/pack;
- Minimum excise on cigarettes for the current year (G_t) amounts to 60% of the average weighted retail price of cigarettes calculated from the excise stamps issued in the second half of the year G_{t-2} and the first half of the year G_{t-1} ;
- Minimum tobacco excise amounts to 80% of the minimum excise on cigarettes.

Simulations run by the MAU show with certainty that the ratio between the price of a pack of cigarettes obtained by hand-rolling fine cut tobacco and the price of the cheapest cigarettes, in spite of the nominal increase of the tobacco excise, will decline from the planned 80%⁶ in 2014 to 71%, and it will continue the declining trend in the following years. This trend is the result of the time gap between the drafting of the amendments to the Law and their adoption⁷, and the proposed methodology for calculation of the weighted retail price of cigarettes, based on the use of data sets on issued stamps in the two previous fiscal years. The mentioned factors may lessen the expectation that the new excise policy will make the majority of consumers who purchase the cheapest cigarettes lose interest in using the fine cut tobacco.

The program scenario of excise revenues is based on the assumption that greater taxation of cigarettes, due to lack of elasticity of the remaining consumption of more expensive brands and the stable income of their consumers, will not lead to a more significant reduction of the value of the cigarette market, as was the case in 2013. However, the structure of the market's value will shift towards the excise revenues due to increased excises, with further reduction of the price before taxation, and, consequently, the profit margins of the tobacco industry. Assuming that the tobacco industry will dump the additional tax burden fully onto the consumers, it is expected that the consumption of cigarettes will decline by 10% annually, because it can be expected that a small number of consumers will migrate from the cigarette market to the fine cut tobacco market, and a number of consumers of fine cut tobacco will migrate to the black market. Starting from these assumptions, and with the expectation that apart from the measures of the new excise policy, strict measures will be taken to prevent tax evasion and illegal manufacturing and trading in tobacco and cigarettes, the MAU expects that the excise revenues will grow in 2014, 2015, 2016 and 2017 at the rate of 3.1%, 2.7%, 0.6% and 0.1%, respectively.

⁵ See MAU Bulletin no. 104, March 2014, www.oma.uino.gov.ba

⁶ The assesment was made in the third quarter of 2013, before the new increase of excise tax on cigarettes.

⁷ Amendments to the Law was drafted in 2013, starting from the difference in excise tax rates for cigarettes and tobacco in that year. Meanwhile, as of January 1, 2014, excise tax on cigarettes was increased while maintaining the same policy of excise tax on fine cut tobacco.

INDIRECT TAX REVENUE PROJECTIONS (2014-2017), APRIL 2014

PROGRAM SCENARIO

Type of revenue (net)	in mil BAM						growth rate			
	2013	2014	2015	2016	2017		2014	2015	2016	2017
VAT	3.102,9	3.203,0	3.265,0	3.360,1	3.457,8		3,2%	1,9%	2,9%	2,9%
Excises	1.267,1	1.308,6	1.332,5	1.349,4	1.364,7		3,3%	1,8%	1,3%	1,1%
Customs duties	211,0	220,8	227,4	235,6	243,8		4,6%	3,0%	3,6%	3,5%
Road fees	285,3	290,6	295,5	302,7	310,9		1,9%	1,7%	2,4%	2,7%
Other	19,9	18,1	18,3	18,5	18,6		-8,7%	0,9%	0,9%	0,9%
TOTAL	4.886,2	5.041,0	5.138,7	5.266,3	5.395,8		3,2%	1,9%	2,5%	2,5%
Road excise tax (0,10 BAM/l)	-114,0	-116,2	-118,2	-121,1	-124,4		1,9%	1,7%	2,4%	2,7%
FUNDS FOR DISTRIBUTION	4.772,2	4.924,8	5.020,5	5.145,2	5.271,5		3,2%	1,9%	2,5%	2,5%

Table 4.

Konsolidovani izvještaji

(pripremila: Aleksandra Regoje)

Tables 1 and 3 (Consolidated report: B&H institutions, entities, SA)

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.

Tables 2 and 4 (Consolidated report: B&H Institutions, entities, BD)

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.

Table 5 (Consolidated report: Central Government)

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 6 (Consolidated report: General Government)

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.

**Includes: (A) Budget of the Republic and extra-budgetary resources 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-III 2014 (New format)

<i>(mil KM)</i>	I	II	III	Total
Revenue	441,3	457,7	510,7	1.409,7
Taxes	414,6	411,3	426,0	1.251,8
Direct taxes	23,5	27,5	56,6	107,5
Taxes on income, profits and capital gains	22,8	26,7	55,6	105,0
Taxes on property	0,7	0,8	1,0	2,5
Indirect taxes (net)	391,0	383,8	369,2	1.144,0
VAT	245,3	257,5	240,3	743,2
Excises	109,5	86,3	86,6	282,4
Road fee	22,2	20,6	20,2	63,0
Customs	12,8	18,3	20,7	51,8
Other indirect taxes	1,1	1,1	1,4	3,6
Other taxes	0,1	0,1	0,2	0,3
Social security contributions	0,0	0,0	0,0	0,0
Grants	1,7	0,4	7,9	10,0
Foreign grants	1,7	0,4	7,8	9,9
Transfers	0,0	0,0	0,1	0,1
Other (non-tax) revenue	25,0	46,0	76,8	147,8
Expenditure	416,4	449,2	417,5	1.283,0
Expense	414,4	435,5	412,9	1.262,8
Compensation of employees	124,7	126,6	130,0	381,2
Use of goods and services	12,9	30,8	29,7	73,4
Social benefits	52,5	54,1	65,3	172,0
Interest	5,9	10,4	17,3	33,6
Interest payments to non-residents	2,4	8,0	10,1	20,5
Interest payments to residents	3,4	2,5	7,2	13,1
Subsidies	2,1	6,5	5,1	13,7
Grants, transfers (including transfers from SA**)	211,1	200,7	160,0	571,7
Other expense	5,2	6,5	5,6	17,2
Net acquisition of nonfinancial assets	2,0	13,6	4,6	20,3
Acquisition of nonfinancial assets	2,2	14,2	5,0	21,4
Disposal of nonfinancial assets	0,2	0,6	0,4	1,1
Gross/Net operating balance (revenue minus expense)	26,9	22,2	97,8	146,9
Net lending /borrowing (revenue minus expenditures)	24,9	8,5	93,2	126,6
Net financing = (Minus) Net lending /borrowing	-24,9	-8,5	-93,2	-126,6

** transfers from SA include unconsolidated transfers to BD, cantons, municipalities and road funds

Table 1

Preliminary report: B&H Institutions, Entities and BD, I-III 2014 (New format)

<i>(mil KM)</i>	Q1
Revenue	1.004,3
Taxes	842,2
Direct taxes	113,3
Taxes on income, profits and capital gains	108,8
Taxes on payroll and workforce	1,6
Taxes on property	2,9
Indirect taxes	728,1
Other taxes	0,7
Social security contributions	0,0
Grants	10,5
Foreign grants	9,9
Transfers	0,6
Other (non-tax) revenue	151,6
Expenditure	879,3
Expense	855,3
Compensation of employees	397,7
Use of goods and services	77,9
Social benefits	179,4
Interest	33,7
Interest payments to non-residents	20,5
Interest payments to residents	13,2
Subsidies	16,0
Grants, transfers	133,6
Other expense	17,2
Net acquisition of nonfinancial assets	24,0
Acquisition of nonfinancial assets	25,1
Disposal of nonfinancial assets	1,1
Gross/Net operating balance (revenue minus expense)	148,9
Net lending /borrowing (revenue minus expenditures)	125,0
Net financing = (Minus) Net lending /borrowing	-125,0

Table 2

Final report: B&H Institutions, entities and SA, I-XII 2013

<i>(mil KM)</i>	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	Total
Revenue	434,7	382,4	446,3	489,5	554,8	560,5	550,8	493,0	490,4	531,9	479,2	544,7	5.958,0
Taxes	409,4	348,7	402,9	424,1	477,1	478,0	473,9	455,1	460,4	468,5	440,9	446,3	5.285,2
Direct taxes	22,7	29,7	53,5	45,4	27,0	31,6	39,1	27,3	27,8	28,8	28,5	38,6	399,8
Taxes on income, profits and capital gains	22,0	29,0	52,5	44,3	26,0	30,7	37,9	26,2	26,8	27,7	27,6	37,5	388,2
Taxes on property	0,7	0,8	0,9	1,1	1,0	0,9	1,2	1,1	0,9	1,1	0,9	1,1	11,6
Indirect taxes (net)	386,7	318,9	349,4	378,3	450,1	445,9	434,5	427,6	432,6	439,6	412,0	407,4	4.883,0
VAT	240,7	210,2	227,6	243,4	274,7	254,2	291,5	269,6	280,0	289,2	260,0	261,8	3.102,9
Excises	112,0	76,4	82,4	93,0	129,9	150,3	99,2	111,2	103,7	103,1	106,2	99,8	1.267,1
Road fee	20,3	16,8	18,9	22,5	26,6	23,9	25,6	28,2	27,8	24,9	25,8	24,2	285,3
Customs	12,6	14,5	18,9	18,2	17,4	16,2	16,8	17,3	19,7	20,7	18,7	20,1	211,0
Other indirect taxes	1,0	1,0	1,7	1,3	1,5	1,3	1,5	1,3	1,4	1,7	1,3	1,5	16,6
Other taxes	0,1	0,0	0,1	0,4	0,0	0,5	0,3	0,2	0,0	0,1	0,4	0,3	2,5
Social security contributions	0,0	0,0	0,0	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	0,9	2,9	3,5	0,7	0,2	0,7	10,1	16,7	42,0
Other (non-tax) revenue	23,9	33,0	40,2	64,3	76,6	79,4	73,2	37,1	29,8	61,8	27,7	81,5	628,5
Transfers	0,0	0,0	1,4	-1,4	0,2	0,2	0,2	0,0	-0,1	1,0	0,5	0,1	2,2

(mil KM)	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	Total
Expenditure	411,9	400,9	410,4	416,0	459,3	478,6	532,1	492,2	462,5	498,9	464,7	731,2	5.758,6
Expense	407,5	397,9	402,9	411,1	455,9	469,1	515,3	485,2	452,6	481,1	453,5	695,6	5.627,8
Compensation of employees	123,1	124,7	126,9	124,2	125,0	128,9	130,5	124,4	128,3	127,3	129,2	136,5	1.528,9
Use of goods and services	14,6	24,1	28,3	24,7	24,6	37,9	26,2	29,2	31,6	28,8	29,0	103,8	402,9
Social benefits	52,6	54,4	53,4	53,3	51,7	57,4	55,3	55,3	59,3	63,1	58,3	82,0	696,0
Interest	4,2	7,1	18,9	8,7	13,7	23,1	5,4	9,9	15,0	10,8	15,4	16,5	148,7
Interest payments to non-residents	2,3	5,6	10,1	6,0	6,3	14,1	3,1	5,4	7,9	5,8	9,7	12,8	89,1
Interest payments to residents	2,0	1,6	8,8	2,7	7,5	9,0	2,3	4,4	7,1	5,0	5,6	3,7	59,6
Subsidies	2,2	2,4	6,0	3,8	8,3	19,3	19,2	24,5	20,6	15,2	18,9	98,7	239,1
Grants (to non-residents)	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,1	0,1
Transfers	40,3	42,2	41,5	37,8	42,4	49,7	60,1	48,3	48,6	46,4	44,7	107,7	609,8
Transf. from SA(BD, cant, mun, funds, road f.)	165,4	134,5	119,1	153,2	184,6	144,8	197,2	187,9	142,5	182,7	149,4	115,1	1.876,2
Other expense	5,1	8,6	8,9	5,4	5,6	8,0	21,4	5,8	6,6	6,9	8,7	35,2	126,1
Net acquisition of nonfinancial assets	4,4	3,0	7,5	4,9	3,4	9,5	16,8	7,0	9,8	17,8	11,2	35,6	130,8
Acquisition of nonfinancial assets	4,6	3,3	8,2	5,6	3,9	10,1	17,4	7,2	10,8	18,4	11,8	37,7	138,9
Disposal of nonfinancial assets	0,2	0,2	0,7	0,8	0,5	0,6	0,5	0,2	0,9	0,7	0,7	2,1	8,1
Gross/Net operating balance (revenue minus expense)	27,1	-15,5	43,3	78,4	98,9	91,4	35,5	7,8	37,8	50,8	25,7	-151,0	330,3
Net lending /borrowing (revenue minus expenditures)	22,8	-18,5	35,9	73,5	95,5	81,9	18,7	0,8	27,9	33,1	14,6	-186,5	199,5
Net financing = (Minus) Net lending /borrowing	-22,8	18,5	-35,9	-73,5	-95,5	-81,9	-18,7	-0,8	-27,9	-33,1	-14,6	186,5	-199,5

Table 3

Final report: B&H Institutions, Entities and BD, I-XII 2013

(mil KM)	Q1	Q2	Q3	Q4	Total
Revenue	881,6	1.173,1	1.071,9	1.164,7	4.291,1
Taxes	773,7	940,1	916,8	959,9	3.590,5
Direct taxes	111,9	110,1	99,4	101,4	422,7
Taxes on income, profits and capital gains	107,4	104,5	94,0	95,5	401,4
Taxes on payroll and workforce	1,9	2,1	1,9	2,5	8,4
Taxes on property	2,5	3,5	3,5	3,4	12,9
Indirect taxes	661,5	828,9	816,7	857,3	3.164,4
Other taxes	0,4	1,2	0,7	1,2	3,4
Social security contributions	0,0	0,0	0,0	0,0	0,0
Foreign grants	3,9	6,1	4,5	27,5	42,0
Other (non-tax) revenue	101,5	227,2	150,6	176,1	655,3
Transfers	2,6	-0,4	-0,1	1,1	3,2
Expenditure	837,5	921,5	1.022,0	1.316,6	4.097,5
Expense	822,6	899,9	979,5	1.242,2	3.944,3
Compensation of employees	395,5	398,5	400,4	409,3	1.603,7
Use of goods and services	71,7	94,4	107,1	174,7	447,9
Social benefits	165,9	171,3	176,4	219,1	732,6
Interest	30,3	45,7	30,4	42,8	149,1
Interest payments to non-residents	17,9	26,4	16,5	28,3	89,1
Interest payments to residents	12,4	19,3	13,9	14,4	60,0
Subsidies	12,3	33,1	68,8	137,7	252,0
Grants	0,2	4,4	3,1	3,7	11,4
Transfers	124,0	133,8	159,4	201,3	618,5
Other expense	22,6	18,9	33,9	53,8	129,1
Net acquisition of nonfinancial assets	14,9	21,6	42,5	74,3	153,2
Acquisition of nonfinancial assets	16,1	23,4	44,1	77,7	161,3
Disposal of nonfinancial assets	1,2	1,8	1,6	3,4	8,1
Gross/Net operating balance (revenue minus expense)	59,0	273,1	92,3	-77,6	346,9
Net lending /borrowing (revenue minus expenditures)	44,1	251,6	49,8	-151,9	193,7
Net financing = (Minus) Net lending /borrowing	-44,1	-251,6	-49,8	151,9	-193,7

Table 4

Final report: Central government, I-XII 2013

(mil KM)	Q1	Q2	Q3	Q4	Total
Revenue	1.261,4	1.592,5	1.519,5	1.580,1	5.953,6
Taxes	1.105,3	1.315,7	1.315,1	1.324,2	5.060,3
Direct taxes	187,9	192,1	175,9	184,8	740,8
Taxes on income, profits and capital gains	177,9	182,7	167,0	174,9	702,5
Taxes on payroll and workforce	3,5	3,4	3,4	4,3	14,6
Taxes on property	6,6	6,0	5,5	5,6	23,7
Indirect taxes	916,7	1.121,8	1.137,6	1.133,6	4.309,8
Other taxes	0,7	1,8	1,6	5,8	9,8
Social security contributions	0,0	0,0	0,0	0,0	0,0
Foreign grants	5,0	6,6	4,5	28,2	44,3
Other (non-tax) revenue	147,9	270,3	199,2	226,1	843,5
Transfers	3,2	-0,1	0,8	1,6	5,5
Expenditure	1.230,5	1.370,5	1.452,3	1.853,2	5.906,6
Expense	1.213,2	1.343,8	1.403,9	1.764,2	5.725,0
Compensation of employees	667,7	679,0	674,9	697,8	2.719,5
Use of goods and services	106,0	138,3	143,9	245,2	633,3
Social benefits	208,9	222,8	225,4	282,5	939,6
Interest	31,8	46,7	31,9	43,5	153,9
Interest payments to non-residents	18,4	26,8	17,1	28,8	91,1
Interest payments to residents	13,4	19,9	14,8	14,7	62,8
Subsidies	21,6	49,8	82,0	164,7	318,2
Grants	0,2	4,4	3,1	3,7	11,4
Transfers	132,5	143,9	173,4	219,7	669,6
Other expense	44,5	58,8	69,2	107,1	279,6
Net acquisition of nonfinancial assets	17,4	26,8	48,5	89,0	181,6
Acquisition of nonfinancial assets	18,6	28,9	53,4	93,5	194,4
Disposal of nonfinancial assets	1,2	2,1	4,9	4,6	12,8
Gross/Net operating balance (revenue minus expense)	48,3	248,8	115,6	-184,1	228,6
Net lending /borrowing (revenue minus expenditures)	30,9	222,0	67,2	-273,1	47,0
Net financing = (Minus) Net lending /borrowing	-30,9	-222,0	-67,2	273,1	-47,0

Table 5

Preliminary report: General government, I-XII 2013

(mil KM)	Q1	Q2	Q3	Q4	Total
Revenue	2.445,9	2.893,7	2.831,9	2.967,4	11.138,9
Taxes	1.247,7	1.476,9	1.477,5	1.489,8	5.691,9
Direct taxes	235,9	242,2	227,8	240,2	946,0
Taxes on income, profits and capital gains	205,9	211,1	200,5	206,7	824,1
Taxes on payroll and workforce	3,9	3,9	3,9	4,9	16,7
Taxes on property	26,1	27,1	23,4	28,6	105,2
Indirect taxes	1.010,8	1.232,6	1.247,6	1.242,5	4.733,5
Other taxes	1,0	2,2	2,1	7,1	12,4
Social security contributions	930,6	1.011,1	1.035,8	1.098,6	4.076,1
Foreign grants	6,3	10,0	6,1	30,7	53,2
Other (non-tax) revenue	258,3	393,6	311,3	338,9	1.302,2
Transfers	2,8	2,0	1,3	9,4	15,6
Expenditure	2.470,9	2.709,7	2.762,0	3.232,6	11.175,2
Expense	2.431,8	2.648,3	2.665,2	3.085,9	10.831,1
Compensation of employees	785,8	804,6	793,4	833,4	3.217,2
Use of goods and services	443,9	492,8	477,8	624,2	2.038,7
Social benefits	1.053,2	1.088,7	1.086,3	1.167,3	4.395,6
Interest	37,5	54,3	43,2	54,5	189,4
Interest payments to non-residents	19,1	27,2	17,6	29,9	93,8
Interest payments to residents	18,4	27,1	25,5	24,7	95,6
Subsidies	32,3	61,0	95,5	182,8	371,6
Grants	0,9	5,2	4,0	4,9	14,9
Transfers	7,6	48,1	68,4	65,4	189,5
Other expense	70,5	93,6	96,8	153,3	414,2
Net acquisition of nonfinancial assets	39,2	61,4	96,8	146,8	344,1
Acquisition of nonfinancial assets	44,7	67,8	106,7	159,3	378,4
Disposal of nonfinancial assets	5,5	6,4	9,9	12,5	34,3
Gross/Net operating balance (revenue minus expense)	14,1	245,5	166,7	-118,5	307,8
Net lending /borrowing (revenue minus expenditures)	-25,0	184,1	69,9	-265,3	-36,3
Net financing = (Minus) Net lending /borrowing	25,0	-184,1	-69,9	265,3	36,3

Table 6