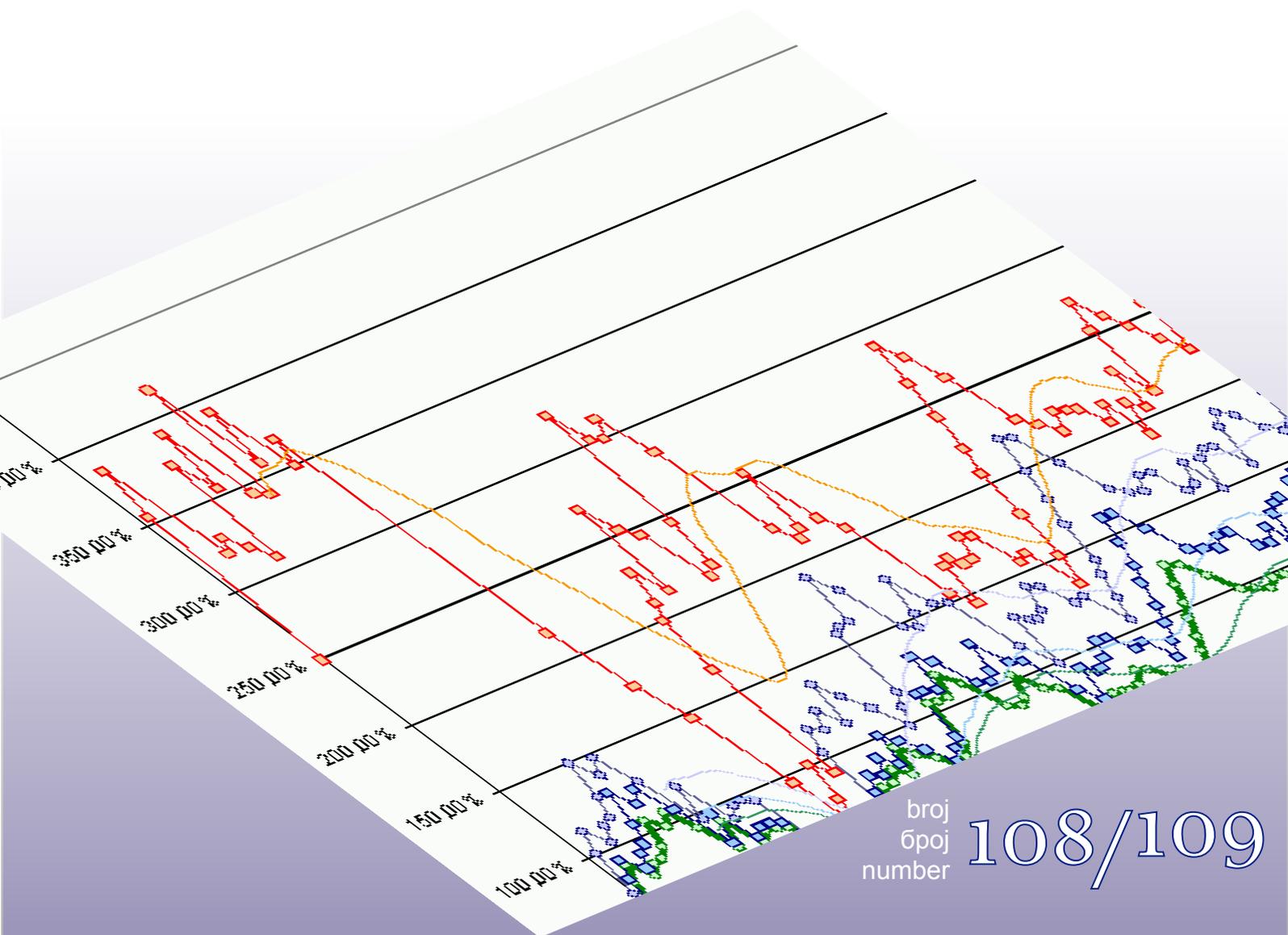




Macroeconomic Unit of the Governing Board of the Indirect Tax Authority

# *Oma Bilten*

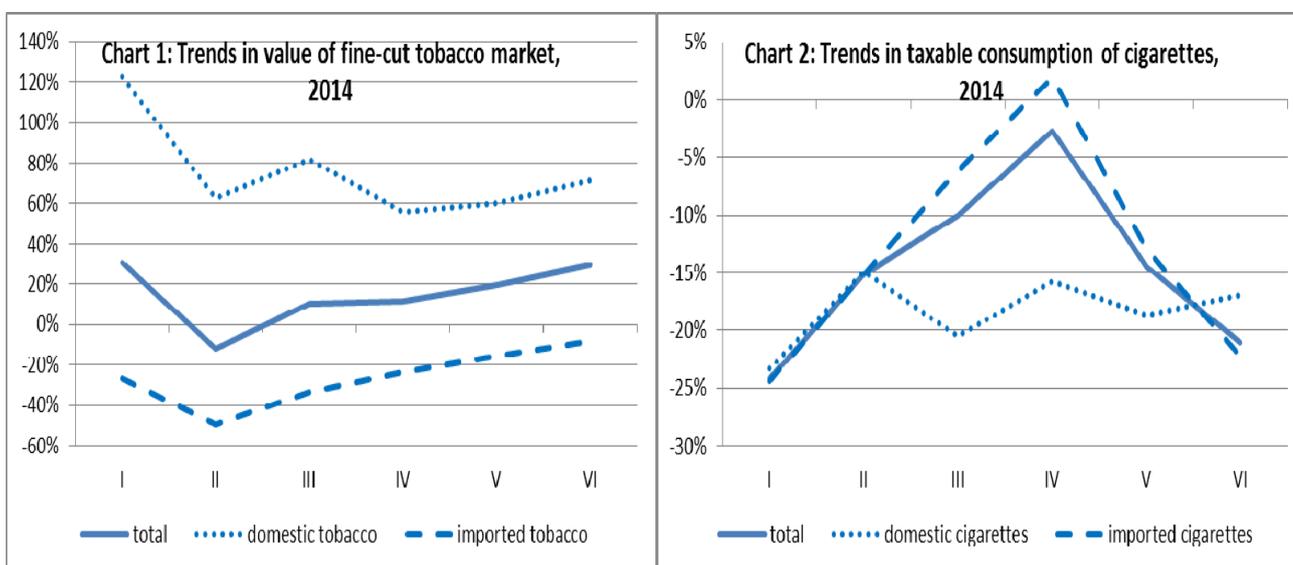


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## With this issue

Catastrophic floods that have occurred in B&H in May 2014 were the reason for extraordinary revision of projections of revenues from indirect taxes which we present in this issue of the Bulletin. The negative effects of floods on revenue collection are expected to be partly mitigated by increasing revenue on tobacco, as a result of applying the new excise policy, whose main elements are presented in the article about the projections. It is interesting to analyze the trends in tobacco market prior to the time of transition to the new excise policy. It is highlighted in the projections that a more realistic comparison of revenue collection of excise taxes on cigarettes will be possible only as of September 2014, after neutralization of fluctuations in 2013 caused by accession of Croatia to the EU. However, even now it is possible to assess the trends in the market of cut tobacco which are relevant for the application of changes in the Law on Excise Tax. The value of cut tobacco regular market grew by 29% in the first six months. It is indicative that the domestic tobacco regular market grew by as much as 71,2%, while the market of imported tobacco decreased by 8,2% (Chart 1).



The increase recorded in domestic tobacco represents the stockpiling prior to the increased taxation of cut tobacco, but also a potential source of tax evasion regarding the fact that the control in the transition to a new regime of taxation is difficult to implement efficiently due to the large number of taxpayers. It has also been recorded a huge increase in import of rolling papers for cigarettes, especially for mechanical production of cigarettes, which is contradictory to the continuous reduction of taxable domestic cigarette production (Chart 2).

Dinka Antić, PhD  
Head of Unit

### Table of contents:

Revised indirect tax revenue projections 2014-2017	2
Consolidated reports	15

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## Revised indirect tax revenue projections 2014-2017

### I ASSUMPTIONS

The revised indirect tax revenue projections for the period from 2014 to 2017 are based on the following assumptions:

- Revised forecasts of macroeconomic indicators by Directorate of Economic Planning (DEP) for the above period;
- Tobacco excise tax policy, in application since July 01, 2014, which includes the following:
  - Continuous annual increase of the specific cigarette excise tax by BAM 0.15 per packet;
  - Introduction of a specific excise tax on cut tobacco of 78 BAM/kg in the second half of 2014;
  - Alignment of growth of the specific tobacco excise tax with growth of the cigarette excise tax burden since 2015.
- Current trends in indirect tax revenue collection.

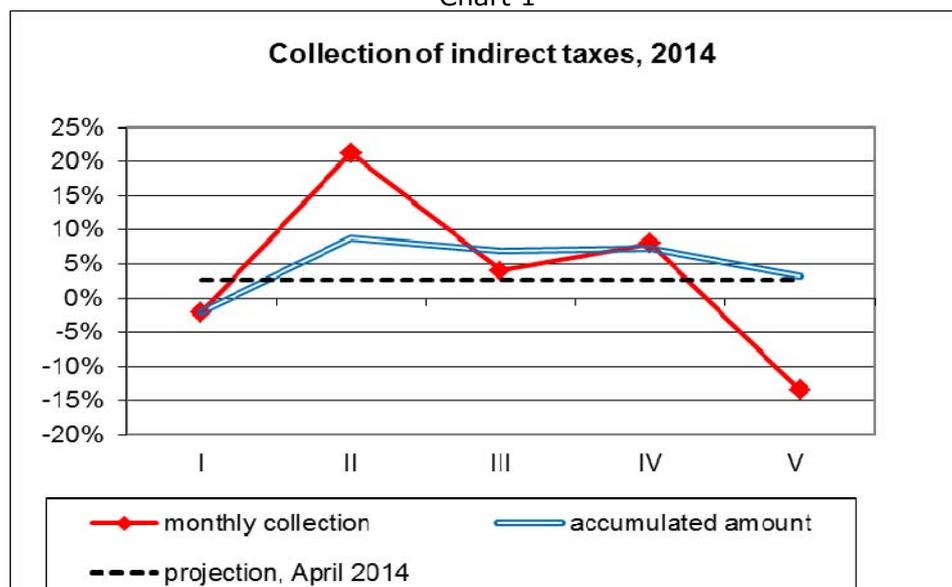
The baseline scenario of the projections includes all the above assumptions, while the program scenario includes also an estimate of the effects of the introduction of a differentiated beer excise tax.

### II CURRENT TRENDS IN COLLECTION

#### 2.1. Collection during January – May 2014

According to the preliminary report of the Indirect Taxation Authority (ITA) by type of revenue, the gross indirect tax revenue collected in May 2014 was 8.8% lower than in the same month of 2013. Since refund payments grew about 17% at the same time, the decline in net revenues in May 2014 amounted to 13.4%. During the period January – May 2014, the gross indirect tax revenues grew by BAM 102.9 million or 4.5%. However, due to the growth of refund payments of 10.2%, the cumulative net revenue collection grew by BAM 61.1 million or 3.2%.

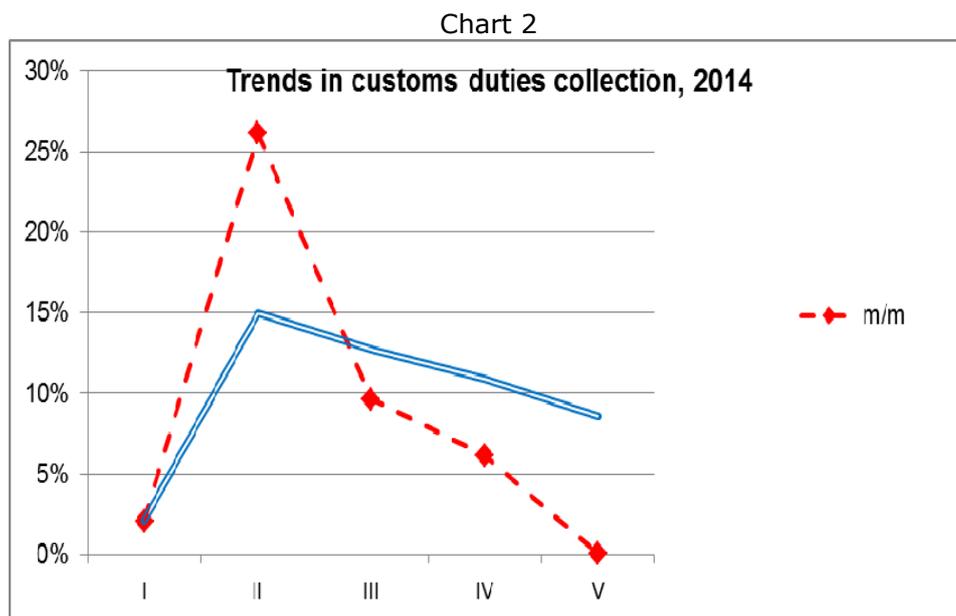
Chart 1



The cumulative net growth of 3.2% is 0.5 pp higher than the annual indirect tax revenue projection from April 2014 (Chart 1).

### Customs

After a prolonged period of positive growth of customs revenues, brought about by the accession of Croatia to the EU and strong growth of import from third countries (China), a stagnation of revenue collection came about in May, which resulted in a slowdown of cumulative collection growth, from maximum 15% recorded in February 2014 to 8.6% in May (Chart 2). In spite of this, one possible conclusion is that the generated customs revenue growth of BAM 7 million is significant, in view of its shrinking share in the indirect tax revenue structure.



### VAT

Negative trends in VAT collection were recorded in May 2014. The decline in net VAT revenue amounted to 10.7%, as a result of a cumulative effect of the gross VAT collection decline of 4.4% and refund growth of 17%. However, net VAT collection for five months remained at the stable 3.7%, which is 0.6 pp above the April annual projections for 2014. Even higher VAT collection growth can be expected, since after the process of reconciliation of payments with VAT returns, a major portion of the unreconciled BAM 11.5 million of revenue will be allocated to VAT revenues.

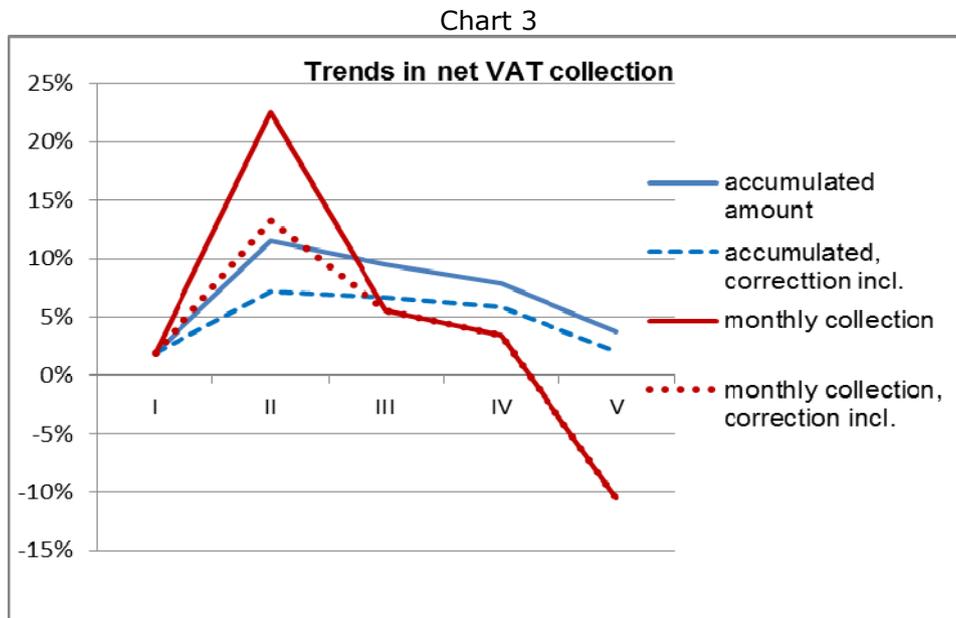
Positive trends in VAT collection in the first five months of 2014 are a result of strong collection of gross revenues at import in the first four months, and collection of arrears. Revenue decline of May was expected, due to the delayed effect of VAT refund generated by import of raw materials used for the production intended for export<sup>1</sup>, and import of equipment for investments<sup>2</sup>. A declining trend in the cumulative import VAT collection is notable, which is a result of import decline in the last two months.

Positive trend in VAT collected in the country during the past five months is *de facto* a result of collection of arrears in the beginning of the year. After exclusion of the effect of debt collection,

<sup>1</sup> This concerns the change in customs regime with some companies involved in internal processing.

<sup>2</sup> This concerns import of plants from China for investments in the energy sector (Stanari TPP)

the real trend in VAT collection in the country is constantly negative or just slightly positive, which indicates a decline in taxable consumption in the country. Upon adjustment of the total net VAT collection by the amount of the old debt, the growth of net VAT in the first five months falls to 2% (Chart 3).



VAT refund growth of 10.1% was noted during the period January-May 2014. Compared to the same period of 2013, taxpayers were paid BAM 35.7 million more in refunds, and international projects BAM 6 million. During the first five months, the ratio between refunds and gross VAT collection deteriorated further. The share of refunds in gross collection is 2 pp higher than in 2013, and 3.8 pp higher than the average weighted share of refunds in gross VAT collection during the period 2008-2013. Bearing in mind that export fell by 0.5% according to the ITA data for the first five months, the growth of refunds to taxpayers might be a result of the delayed effects of growth of import generated by investments and change of customs regime with some companies involved in internal processing. The ITA report on processed VAT returns for April implies that the VAT refund growth forecasts for the forthcoming period are poor. The trend of growing refund claims is continued (19.2% more than for April 2013), while tax credit claims are stagnating.

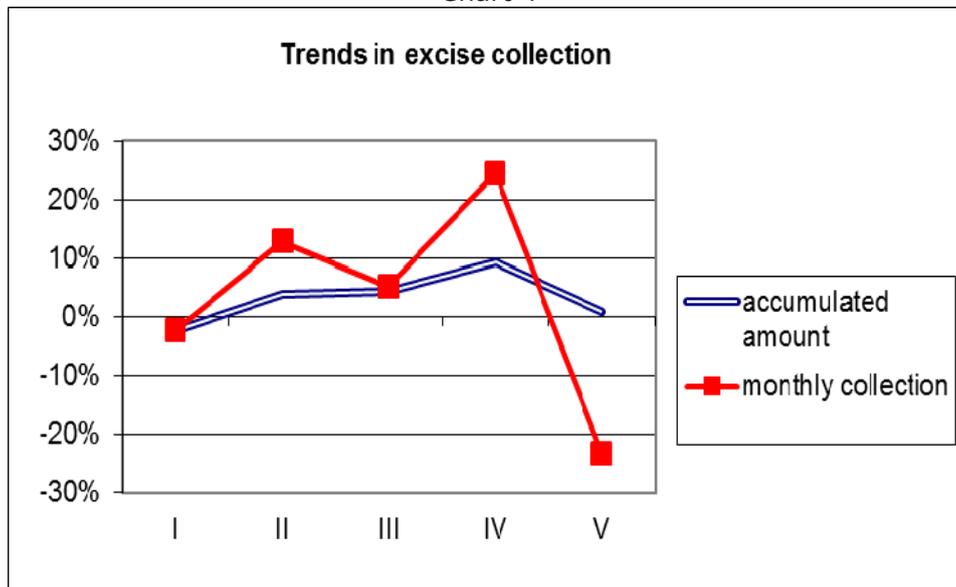
### Excise Taxes

The first five months of 2014 brought about strong fluctuations in the excise tax revenue collection. The span of the fluctuations in monthly collection ranged from -24% in May to +25% in April 2014. Owing to a strong revenue growth in April, the cumulative excise tax collection remained in the positive zone of growth, in spite of a decline in collection in May (Chart 4).

The decline in revenue collection in May was noted with all major types of excise tax products. Positive trends were noted only in alcohol and alcoholic beverage excise taxes, and in soft drink excise taxes. The greatest revenue decline in May was noted in the excise taxes on imported tobacco, beer and domestic petroleum products. The decline in tobacco excise tax revenue in May 2014 was expected due to a large basis for comparison of 2013, which is a result of accumulation of cigarettes prior to the accession of Croatia to the EU, and uncertainty regarding the adoption of amendments to the Law on Excise Taxes. Overall, nominal collection of excise taxes on imported tobacco was at the level of monthly average of the excise taxes collected in the past period of 2014.

The decline in revenues from excise taxes (and road tax) on domestic petroleum products is a result of an overhaul of the Refinery announced for the spring of 2014. Significant decline in petroleum import in April resulted in a reduction of quantity of domestic petroleum products put into circulation that month, which had a negative effect on the revenues from excise taxes paid on excise tax returns for April filed in May 2014.

Chart 4



Although data about the cumulative collection of excise taxes on alcohol, beer, alcoholic beverages and soft drinks indicate a high level of growth, one should take into account the influence of collection of arrears of beer excise tax. Upon exclusion of the effect of debt collection, the collection of beer excise tax moves into the negative zone (-6.8%), as well as total revenues from excise taxes on this group of products (-3.1%).

## 2.2. Flood Impact on Current Revenue Collection in May and June 2014

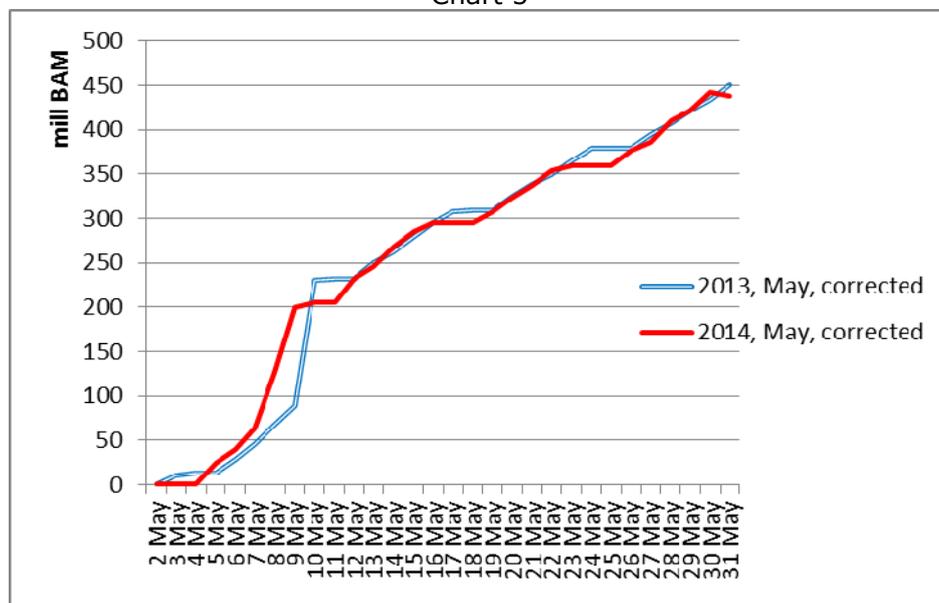
In order to make a conclusion on the impact of floods on the collection of indirect tax revenues in the second half of May and first half of June 2014, as well as on the total annual collection, the key is in analyzing the factors of fast revenue growth in the first four months. Revenue growth of BAM 113 million during this period is a result of growth of import and collection of a significant amount of arrears of VAT and beer excise taxes. Import growth, since it partly related to investments and import of raw materials and supplies for the purpose of export of finished products, was not followed by growth of domestic consumption. On the one hand, this generated growth of gross VAT inflow, and on the other resulted in increased VAT refund claims and poorer VAT inflow from returns.

Factors which had positive effects on collection from indirect taxes in the first four months of 2014 had an extended negative influence on revenue collection in May 2014. In view of a different dynamics of VAT collection at import and dynamics of refund payment, a portion of gross VAT inflow from the previous months was neutralized by refunds in May. The second factor of collection decline in May was the overhaul of the Refinery, which resulted in a significant decline of revenues from excise taxes and road tax on domestic petroleum products. Finally, when comparing the collection in May 2014 with the same month of 2013, two factors of statistical nature should be taken into account. First, effects of the accession of Croatia to the EU on collection of revenues from tobacco excise taxes should be excluded, since due to the accumulation of cigarettes prior to

the Croatian accession to the EU in May 2013, the statistical basis for tobacco excise tax comparison was significantly inflated. Second, it should be noted that monthly reports on cash flow differ from monthly reports on collection by type of revenue, since the unreconciled portion of collected revenues in one month is later included in the revenues in the month of reconciliation. Compared to the real cash collection in May 2013, the monthly report by revenue for that month is inflated by about BAM 17 million of revenues collected in the previous months, which enlarged the basis for collection comparison in 2014<sup>3</sup>.

Flood impact on indirect tax revenue collection in May 2014 was not significant for several reasons. First, due to deadlines for settlement of customs debt, negative effects on import revenues could have been felt only in the last few days of the month of May. Second, the effects of reduced consumption by flooded areas in the second part of the month will affect the collection only in June, after filing of VAT returns for the month of May.

Chart 5



Besides the statistical difference, which is a result of revenue reconciliation, the largest portion of difference in revenue collection in May 2014 is related to the effects of accumulation of stock prior to the accession of Croatia to the EU on the excise tax revenue collection in May 2013. If we exclude the revenues from excise taxes on imported cigarettes from the analysis, the comparison of the cumulative revenue collection in May 2014 with the same month of 2013 shows that the remaining differences in collection mostly occurred about the 10<sup>th</sup> of the month (Chart 5). The reasons are lower reported liabilities on VAT returns, which are a result of import and consumption trends in April, and lower reported liabilities for domestic excise taxes and road tax on the return by *Optima* due to the general overhaul of the Refinery.

Indirect tax revenue collection in the first half of June 2014 indicates the trends similar to those in the second part of May. When comparing, the effects of accumulation of the stock of Croatian cigarettes in June 2013 on the excise tax collection should be excluded, as well as VAT on import. According to the ITA reports, import revenue collection (customs, VAT, excise taxes except tobacco excise tax, road taxes except special-purpose tax) is 3% above the collection in the same period of 2013, as well as the collection of the special-purpose road tax. Revenue shortage of

<sup>3</sup> Differences between monthly reports on cash flow and by type of revenue do not affect the cumulative collection for the concerned period.

9.7% was noted in the collection of VAT and excise taxes in the country from returns. Overall, without the revenues from the tobacco excise tax, the gross revenue collection in the first half of June was BAM 10.5 million or 4.1% lower. However, if we exclude the effects of cigarette import, in addition to the tobacco excise tax, on VAT on June 2013 import, the shortage of revenues in the first half of June 2014 is *de facto* only a few million BAM.

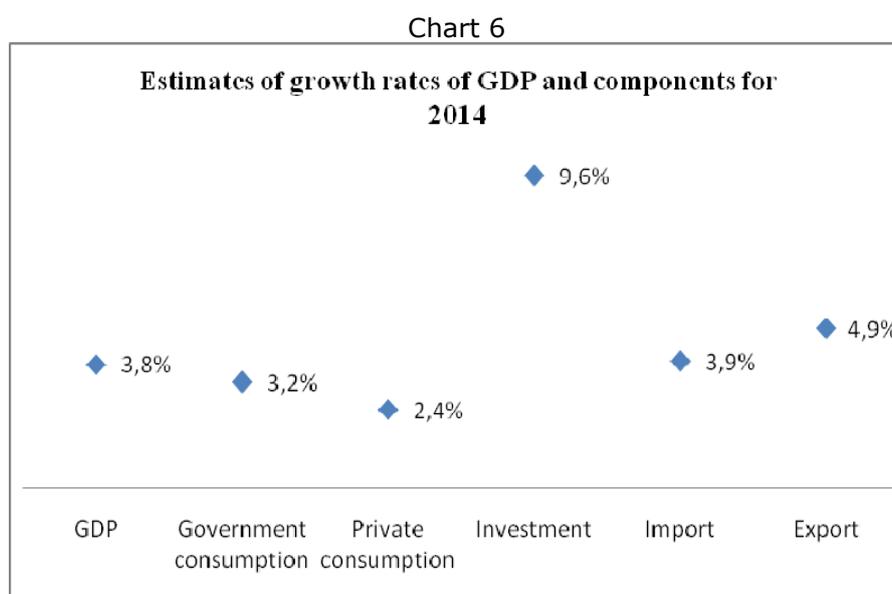
Bearing in mind that the positive effects of accumulation of cigarette stock prior to the accession of Croatia to the EU on the revenues from excise taxes and VAT, occurred in May and June 2013, were neutralized by a decline in excise taxes and VAT in the following three months of that year, we note that real comparisons of the cumulative revenue collection in 2014 would only be possible in September 2014.

### III REVENUE PROJECTIONS – BASELINE SCENARIO

The baseline indirect tax revenue projection scenario is given in Table 1.

#### 2014

The projection of nominal GDP growth for 2014, prepared by the Directorate of Economic Planning in June, is 3.8%, and it was revised down by 0.6 pp from the one of March. In spite of the natural disasters that hit BiH in May, we can see that a stable growth rate of nominal GDP is still expected in 2014, which DEP explains by the expected growth of export, consumption and investments (Chart 6).



Revenue growth generated in the first four months of 2014 was stronger than would have been expected according to the projections of macroeconomic indicators. Caution is required when drawing final conclusions, since the projections of macroeconomic indicators were prepared at the annual level, and the Department does not have their monthly segments. On the other hand, the analysis of current trends in collection shows that the growth of revenues in the mentioned period is largely a result of operation also of other factors apart from those macroeconomic. Some of the above factors<sup>4</sup> had a one-off positive effect on revenue collection, while others<sup>5</sup> affect continually

<sup>4</sup> Collection of VAT and beer excise tax arrears

the gross and net collection, where the impact on gross collection is positive, and on net collection negative, by means of increased refunds, although with a certain time delay.

Starting from the annual macroeconomic projections, and bearing in mind the effects of the above factors, as well as the expected effects of the amendments to the Law on Excise Taxes, the estimated net revenue collection from indirect taxes for 2014 is BAM 4,976.7 million, which is 1.9% more than the execution in 2013.

In view of the drawn conclusions that the growth of the net VAT collection in the beginning of the year is *de facto* milder than indicated by monthly reports, that it will be partly neutralized by growth of refunds in the forthcoming period, and taking into account the projections of growth of economy and consumption, the Department is expecting VAT revenue collection in 2014 to be BAM 3,145.8 million, which is 1.4% more than in 2013.

The excise tax revenue projection for 2014 is BAM 1,297.1 million, which is 2.4% more than the generated amount in 2013. The highest growth rate is projected in beer excise tax (due to the effects of debt collection from the previous period), but in view of its small weight in total excise taxes, this type of revenue contributes to the absolute excise tax growth only with 15.2%. At the annual level, expectations include growth of revenues from both petroleum and soft drink excise taxes, while decline in collection is expected in other categories of excise taxes (coffee, alcohol) due to negative trends.

The lion's share of the projected absolute excise tax growth in 2014 arises from the expected growth of revenues from tobacco excise taxes. The baseline scenario of projections includes also the effects of application of the amendments to the Law on Excise Taxes. Since the amendments to the Law set forth only minimum standards (for specific excise tax and minimum cigarette excise tax, as well as cut tobacco excise tax), the projections of tobacco excise taxes are based on the following assumptions:

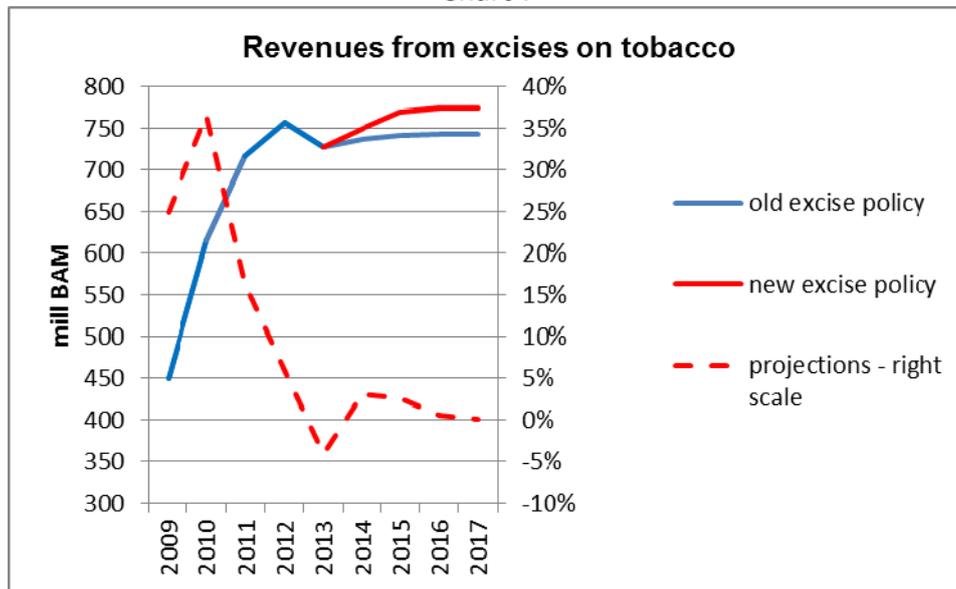
- dynamics of harmonization of the specific excise tax during the period 2015-2017 implies annual increase by 0.15 BAM / packet;
- minimum cigarette excise tax is set at the level of minimum 60% of the average weighted cigarette price;
- cut tobacco excise tax in 2014 is 78 BAM/kg, and since 2015 it is set at the level of 80% of the minimum cigarette excise tax.

Since the amendments to the Law have been in application since July 01, 2014, the initial effects of the new excise tax policy will only be seen in the second half of 2014. Weakening of the effects can be expected already from 2015, due to the policy of continued increase of the specific excise tax and the adopted calculation methodology for the average weighted cigarette price based on the data from the previous two fiscal years. The cumulative impact of these two factors will result in a new expansion of the gap between the price of a packet of cigarettes made by tobacco rolling and the price of the cheapest cigarettes to the detriment of the cigarette market. The above factors can lower the expectations that, due to the new excise tax policy, most consumers using the cheapest cigarettes will lose the incentive to use cut tobacco. Starting from the above assumptions, and with the expectation that, in addition to the measures of the new excise tax policy, also strict measures will be undertaken to prevent tax evasion and illegal production and sales of smoking tobacco and cigarettes, the Department is expecting the tobacco excise tax revenues to grow in 2014, 2015, 2016 and 2017 at the rate of 3.1%, 2.7%, 0.6% and 0.1% respectively (Chart 7).

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<sup>5</sup> Change of the import duty payment regime with some companies involved in finishing operations and strong growth of import of plants from China as part of the finalization of large investments in the energy sector

Chart 7



Customs revenue projection for 2014 is BAM 224.1 million, and it is based on the current trends of collection and projection of import growth. Road tax revenues are expected in the amount of BAM 291.1 million, and their projection, in addition to the current trends of collection, takes into account also the forecasts of the relevant real macroeconomic indicators. Category *Other* in Table 1 covers other revenues paid to the STA (revenues from terminals, rent, extraordinary revenues, etc.), as well as revenues which remain unreconciled after matching payments to the STA to the filed returns/declarations in the IT modules of the ITA system.

### 2015-2017

Revenue projection for the period from 2015 to 2017 is based on the projections of individual revenue categories for 2014, projected relevant macroeconomic indicators for the above period, and effects of the amendments to the Law on Excise Taxes in terms of the continuous increase of the specific excise tax on cigarettes and the increase of the specific excise tax on cut tobacco, which should be followed by growth of the excise tax burden on cigarettes.

The projected revenue growth rates are 2.1%, 1.8% and 1.6% in 2015, 2016 and 2017, respectively

## REVISED INDIRECT TAX REVENUE PROJECTIONS (2014-2017), JUNE 2014

## BASELINE SCENARIO

Type of revenue (net)	in million BAM						growth rate			
	2013	2014	2015	2016	2017		2014	2015	2016	2017
VAT	3,102.9	3,145.8	3,213.4	3,272.9	3,326.1		1.4%	2.1%	1.9%	1.6%
Excise taxes	1,267.1	1,297.1	1,322.4	1,338.8	1,353.3		2.4%	2.0%	1.2%	1.1%
Customs	211.0	224.1	230.8	239.4	247.7		6.2%	3.0%	3.7%	3.5%
Road tax	285.3	291.1	295.8	302.5	310.5		2.0%	1.6%	2.3%	2.6%
Other	19.9	18.6	18.8	19.0	19.1		-6.2%	0.9%	0.9%	0.9%
<b>TOTAL</b>	<b>4,886.2</b>	<b>4,976.7</b>	<b>5,081.3</b>	<b>5,172.5</b>	<b>5,256.8</b>		<b>1.9%</b>	<b>2.1%</b>	<b>1.8%</b>	<b>1.6%</b>
Road tax (0.10 BAM/l)	-114.0	-116.4	-118.3	-121.0	-124.2		2.1%	1.6%	2.3%	2.6%
<b>FUNDS FOR DISTRIBUTION</b>	<b>4,772.2</b>	<b>4,860.3</b>	<b>4,962.9</b>	<b>5,051.5</b>	<b>5,132.6</b>		<b>1.8%</b>	<b>2.1%</b>	<b>1.8%</b>	<b>1.6%</b>

Table 1

#### IV. DIFFERENCES FROM APRIL 2013 PROJECTIONS

When comparing revenue projections, attention should be paid at all assumptions on which they are based, i.e.:

a. Differences in tax policy assumptions in the concerned period

- *Tax policy assumptions for April projections.* In April 2014, two scenarios of indirect tax revenue projections were prepared, the baseline and the program scenario. The baseline scenario started from the assumptions of unchanged policies in the field of indirect taxation<sup>6</sup>, while the program scenario included the effects of amendments to the Law on Excise Taxes related to the introduction of a differentiated beer excise tax and a new excise tax policy for tobacco taxation **starting from July 01, 2014.**
- *Tax policy assumptions for June projections.* Since amendments to the Law on Excise Taxes related to cut tobacco were adopted in the meantime, the baseline scenario of projections now includes also the effects of these amendments. Since amendments to the Law on Excise Taxes related to differentiated beer taxation are not yet adopted, the effects of the proposed changes in beer taxation are not included in the baseline scenario of projections, but are included in the program scenario, same as in April projections, i.e. **starting from October 1, 2014.**

b. Differences in macroeconomic indicator projections prepared by DEP

The April projections of indirect taxes were prepared based on the macroeconomic indicators estimated by DEP in March 2014. Adjustment of the projections of macroeconomic indicators made in June 2014 is presented in Chart 8.

c. Differences in recent collection trends

The latest trends in revenue collection are presented in detail in part II.

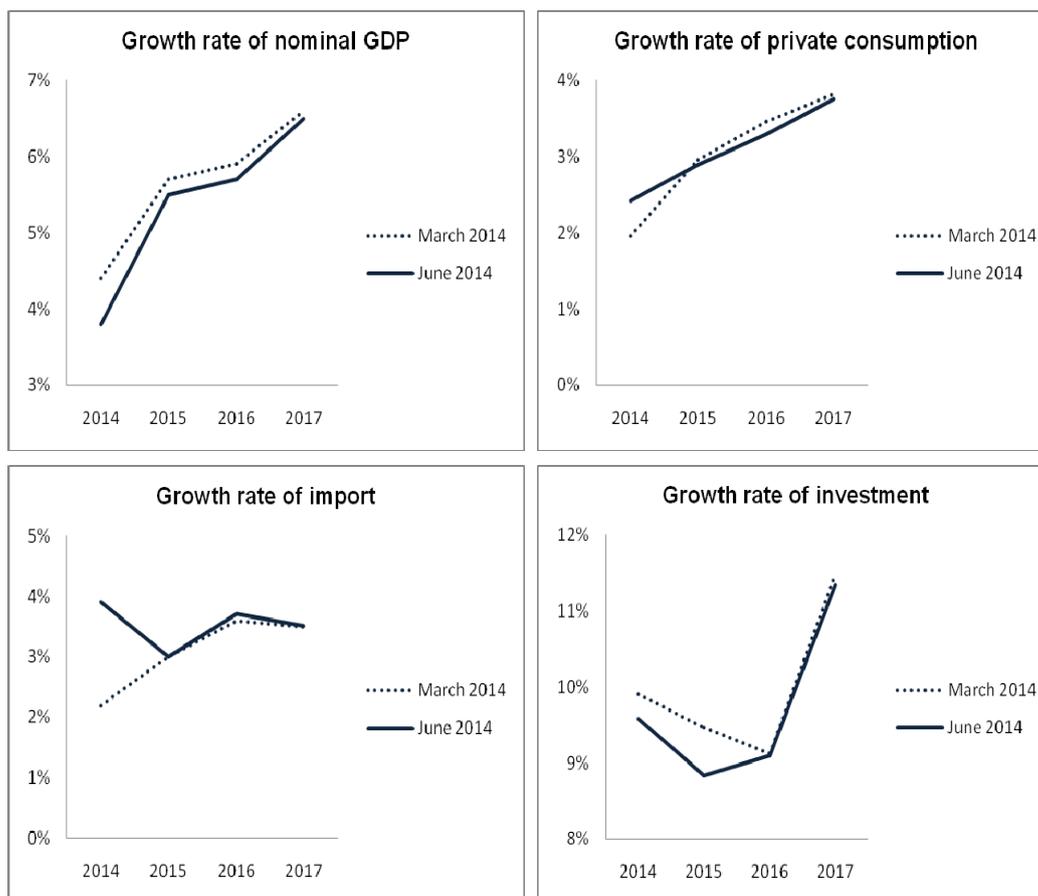
Table 2 presents differences in the projected amounts of the net indirect tax revenue collection between baseline scenarios prepared in June and April 2014.

Table 2 Differences in June 2014 projections from April 2014 projections (baseline scenario)

	2014	2015	2016	2017
in million BAM	-42.0	-17.6	-51.3	-98.1
in % of total amount of April projection	-0.8%	-0.3%	-1.0%	-1.8%

<sup>6</sup> Including effects of the continuous increase of the special tobacco excise in compliance with Article 21 of the Law on Excise Taxes, until 2016, inclusive.

Chart 8



## 2014

The amount of the total projected collection for 2014 was adjusted down by BAM 42 million or 0.8%. The adjustment down arises from the revision of the projected amount of VAT revenue collection, due to deterioration in collection trends and expected refund growth in the forthcoming period. The excise tax revenue projection for 2014 was adjusted up. The main reason for the adjustment up of the excise tax revenue is in that the baseline scenario of April projections did not include the effects of amendments to the Law on Excise Taxes in the section related to cut tobacco.<sup>7</sup> Customs revenues were adjusted up due to adjustments of the projected import growth (Chart 8). Road tax and other revenues were not significantly adjusted.

## 2015-2017

During the period from 2015 to 2017, VAT revenues were adjusted down, mainly due to the reduced basis of 2014, but also due to a mild adjustment of the projections of macroeconomic indicators, primarily private consumption (Chart 8). Excise tax revenues were adjusted up, for the

<sup>7</sup> The above effects were included in the program scenario (see the section where differences in tax policy assumptions are explained)

same reason as in 2014, although the adjustments were more significant, since annual effects of the amendments to the Law on Excise Taxes in the field of cut tobacco<sup>8</sup> were included, and, unlike in April projections, growth of the specific tobacco excise tax is also foreseen in 2017. Customs were adjusted up mostly due to the growth of basis in 2014, while road tax and other revenues were not significantly adjusted. Finally, the revision of total revenues in 2015, 2016 and 2017 is -0.3%, -1.0% and -1.8% respectively, compared to April projections (Table 2).

## V. RISKS TO PROJECTIONS

In view of the basic settings of the projections of indirect taxes and the overall economic conditions in BiH and in the world, the achievement of the projected level of indirect tax revenues during the period 2014-2017 is susceptible to the following risks:

- (i) Indirect tax revenue projections are closely linked to the projections of macroeconomic indicators by DEP. Each deviation of these parameters from the projected values represents a risk to revenue projections;
- (ii) Poorer economic recovery of the major export partners of BiH (EU, CEFTA countries) increases the level of risk for the achievement of the macroeconomic projections, and thereby also of the overall indirect tax revenue projections;
- (iii) Slower repair of the damage caused by floods and poorer inflow of financial aid compared to the expectations of DEP can slow down the recovery of the affected areas and revitalization of agricultural and industrial production, decrease the expected growth of consumption and economy, and jeopardize the execution of projections of revenue collection;
- (iv) Expected effects of the application of amendments to the Law on Excise Taxes in the field of tobacco taxation can be reduced or neutralized by inefficient political and operational measures aimed at eradication of tax evasion, illegal import of tobacco and illegal cigarette production;
- (v) Potential changes in policies in the field of indirect taxes, e.g. differentiated rates of VAT and excise taxes (beer) or increase of road tax which would result in expansion of the gap in taxation of substitutes, in addition to fiscal losses and macroeconomic implications such as market distortions, can destabilize the existing VAT system and revenue collection, reduce efficiency of operation of the ITA, burden businesses, and significantly increase the risk of frauds.

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<sup>8</sup> Semiannual effects of the amendments to the Law on Excise Taxes are included in 2014, starting from July 1, 2014.  
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## VI. PROGRAM SCENARIO

The program scenario of the indirect tax revenues includes the estimates of the effects of the introduction of differentiated rates of beer excise tax.

In March 2013, the Governing Board of the ITA supported the initiative to introduce differentiated rates of beer excise tax. According to the proposal of the ITA GB, in addition to the existing excise tax of 0.20 BAM/l, a higher rate of the excise tax was proposed in the amount of BAM 0.25 for taxpayers with annual production exceeding 400.000 hl. We note that due to the amendments proposed in the Parliament of BiH, which are not supported by the ITA GB<sup>9</sup>, and contestation by the European Commission, the adoption of the amendments to the Law is still uncertain.

It should be underscored that the introduction of differentiated rates of tax on consumption always represents an incentive for higher consumption of the less taxed goods and increase in tax frauds such as smuggling and other frauds in consumption of the more taxed goods. According to the data about the existing capacities of breweries in BiH, it is possible to expect a situation in which only domestic breweries in BiH meet the set criteria for the application of the lower rate of 0.20 KM/l, while most of the import is taxed at a higher rate. Starting from that assumption, introduction of a differentiated beer excise tax can represent an incentive for substitution of consumption of imported beer with domestic brands. The Department has prepared several scenarios for revenue projections from beer excise tax in 2014 and following years, depending on the percentage of substitution of consumption of the imported, more taxed beer with the consumption of the domestic, less taxed beer. However, the effect of the substitution on the level of the excise tax revenues cannot be significant, since share of the domestic beer in the structure of total consumption in recent years ranges from 35 to 37%, with a declining tendency, which represents a small weight in the sense of influence on total collected excise tax revenues.

Since, in the best-case scenario, due to the parliamentary elections, the adoption of the amendments to the Law on Excise Taxes regarding differentiated beer taxation can be expected in the end of the third quarter of 2014 at the earliest, the expected effects of the introduction of differentiated excise tax rates, according to the program scenario, spread over two years, i.e. in the fourth quarter of 2014 and first three quarters of 2015.

A conservative scenario of projections provides for a redistribution of beer consumption in the way that the consumption of imported beer in the first year decreases by 10% annually, and consumption of domestic beer increases by 10% annually. In the following years, a declining effect of the substitution of foreign beer brands with domestic brands was assumed, including an adjustment for the projected consumption growth (DEP). Effects of the introduction of differentiated beer excise tax are given in Table 3.

Table 3 Effects of the introduction of differentiated beer excise tax (excise taxes and VAT)  
(in million BAM)

2014	2015	2016	2017
1.4	6.8	6.9	7.3

<sup>9</sup> Various amendments have been proposed, ranging from the proposal to introduce differentiated excise taxes for other products in the group of alcoholic beverages and soft drinks, to a scale of rates of beer excise tax. The procedure of adoption of regulations in the field of indirect taxes requires prior approval of the ITA GB also on the proposed amendments.

## Consolidated reports

### Table 1 (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.

### Table 2 (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.

*\*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-VI 2014**

(in million BAM)	I	II	III	IV	V	VI	Total
<b>Revenue</b>	<b>441,3</b>	<b>457,7</b>	<b>544,0</b>	<b>582,4</b>	<b>470,7</b>	<b>507,3</b>	<b>3.003,4</b>
Taxes	414,6	411,3	426,0	459,4	410,3	422,8	2.544,4
Direct taxes	23,5	27,5	56,6	42,8	25,0	25,9	201,2
Taxes on income, profits and capital gains	22,8	26,7	55,6	41,7	24,0	24,7	195,4
Taxes on property	0,7	0,8	1,0	1,1	1,0	1,2	5,8
Indirect taxes (net)	391,0	383,8	369,2	415,3	385,2	396,5	2.341,0
VAT	245,3	257,5	240,3	251,9	245,7	238,9	1.479,7
Excises	109,5	86,3	86,6	115,6	99,6	112,6	610,1
Road fee	22,2	20,6	20,2	27,1	20,9	24,3	135,4
Customs	12,8	18,3	20,7	19,3	17,4	18,8	107,3
Other indirect taxes	1,1	1,1	1,4	1,4	1,7	1,8	8,5
Other taxes	0,1	0,1	0,2	1,4	0,1	0,4	2,2
Social security contributions	0,0	0,0	0,0	0,0	0,0	0,7	0,7
Grants	1,7	0,4	7,9	0,2	0,5	12,8	23,5
Foreign grants	1,7	0,4	7,8	0,2	0,5	12,6	23,3
Transfers	0,0	0,0	0,1	0,0	0,0	0,1	0,2
Other (non-tax) revenue	25,0	46,0	110,1	122,7	59,9	71,1	434,9
<b>Expenditure</b>	<b>416,4</b>	<b>449,2</b>	<b>421,2</b>	<b>445,6</b>	<b>439,4</b>	<b>437,4</b>	<b>2.609,1</b>
Expense	414,4	435,5	416,5	437,4	428,1	436,0	2.567,9
Compensation of employees	124,7	126,6	130,5	128,1	129,5	132,1	771,4
Use of goods and services	12,9	30,8	30,9	27,3	22,5	32,6	157,0
Social benefits	52,5	54,1	65,3	53,6	53,5	55,5	334,5
Interest	5,9	10,4	17,3	9,4	19,8	20,0	82,8
Interest payments to non-residents	2,4	8,0	10,1	5,9	12,5	9,2	48,1
Interest payments to residents	3,4	2,5	7,2	3,5	7,3	10,9	34,8
Subsidies	2,1	6,5	5,1	8,4	10,9	17,8	50,8
Grants, transfers (including transfers from SA**)	211,1	200,7	161,9	207,5	185,6	169,1	1.135,8
Other expense	5,2	6,5	5,6	3,1	6,3	8,9	35,5
Net acquisition of nonfinancial assets	2,0	13,6	4,6	8,2	11,4	1,5	41,3
Acquisition of nonfinancial assets	2,2	14,2	5,0	8,9	11,6	2,8	44,7
Disposal of nonfinancial assets	0,2	0,6	0,4	0,8	0,2	1,3	3,4
<b>Gross/Net operating balance (revenue minus expense)</b>	<b>26,9</b>	<b>22,2</b>	<b>127,5</b>	<b>145,0</b>	<b>42,6</b>	<b>71,4</b>	<b>435,5</b>
<b>Net lending /borrowing (revenue minus expenditures)</b>	<b>24,9</b>	<b>8,5</b>	<b>122,9</b>	<b>136,8</b>	<b>31,2</b>	<b>69,9</b>	<b>394,2</b>

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

Table 1

**Preliminary report: B&H Institutions, Entities and BD, I-VI 2014**

(in million BAM)	Q1	Q2	Total
<b>Revenue</b>	<b>1.044,2</b>	<b>1.183,1</b>	<b>2.227,3</b>
Taxes	842,2	919,0	1.761,2
Direct taxes	113,3	98,7	212,0
Taxes on income, profits and capital gains	108,8	92,9	201,7
Taxes on payroll and workforce	1,6	2,1	3,7
Taxes on property	2,9	3,7	6,6
Indirect taxes	728,1	818,2	1.546,3
Other taxes	0,7	2,2	2,9
Social security contributions	0,0	0,7	0,7
Grants	10,2	13,3	23,5
Foreign grants	9,9	13,3	23,3
Transfers	0,3	0,0	0,3
Other (non-tax) revenue	191,8	250,1	441,9
<b>Expenditure</b>	<b>882,7</b>	<b>954,4</b>	<b>1.837,1</b>
Expense	858,8	929,4	1.788,1
Compensation of employees	398,2	406,3	804,5
Use of goods and services	79,1	87,6	166,7
Social benefits	179,4	168,9	348,3
Interest	33,7	49,4	83,0
Interest payments to non-residents	20,5	27,6	48,1
Interest payments to residents	13,2	21,7	34,9
Subsidies	16,0	45,0	61,0
Grants, transfers	135,2	153,2	288,4
Other expense	17,2	19,0	36,2
Net acquisition of nonfinancial assets	24,0	25,0	49,0
Acquisition of nonfinancial assets	25,1	27,3	52,4
Disposal of nonfinancial assets	1,1	2,3	3,4
<b>Gross/Net operating balance (revenue minus expense)</b>	<b>185,5</b>	<b>253,7</b>	<b>439,2</b>
<b>Net lending /borrowing (revenue minus expenditures)</b>	<b>161,5</b>	<b>228,7</b>	<b>390,2</b>

Table 2