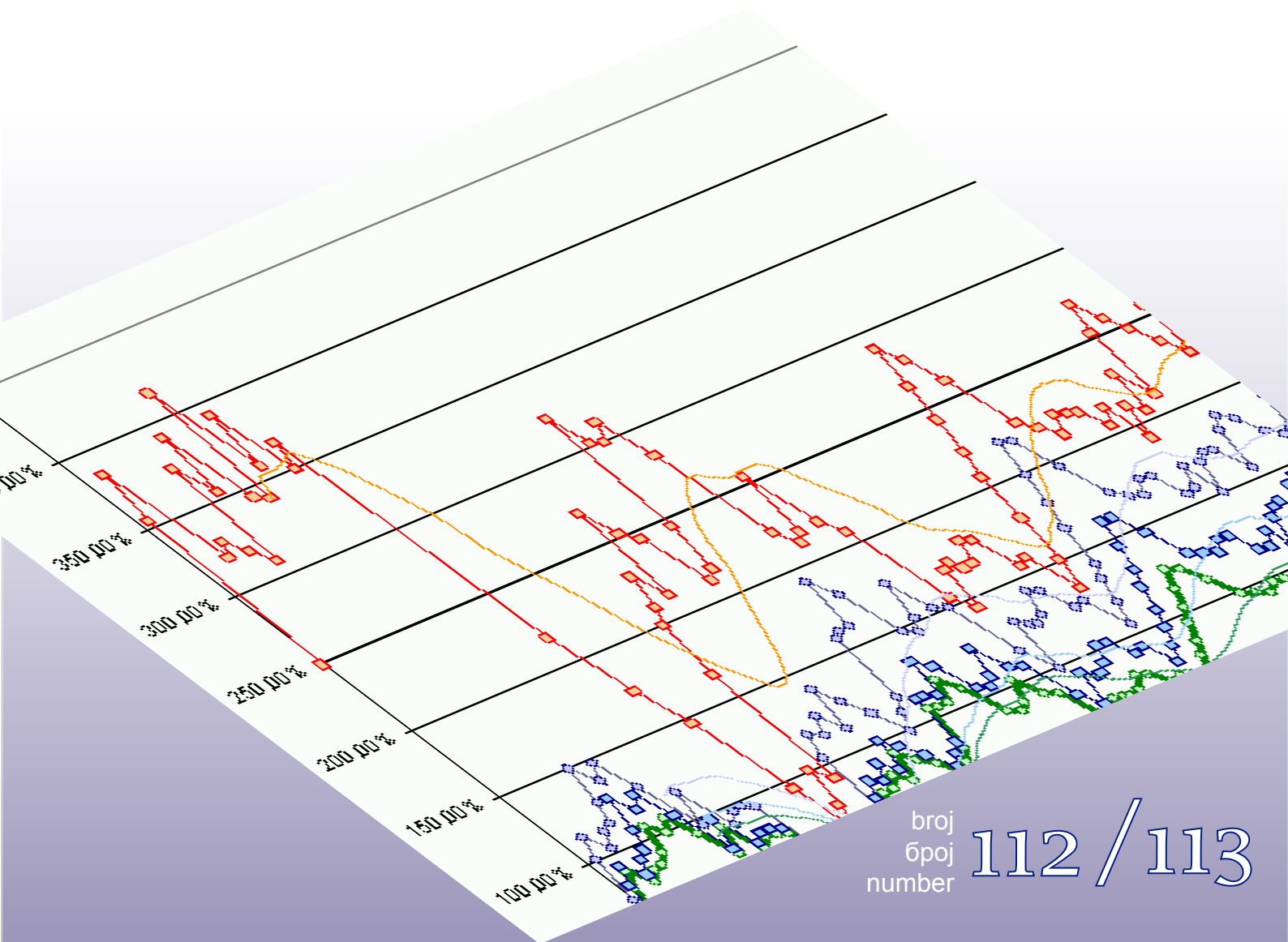




Macroeconomic Unit of the Governing Board of the Indirect Tax Authority

Oma Bilten



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With this issue

A growth in gross collection of indirect taxes of 5,5% has been reached for eleven months of 2014. Since the payment of refunds increased by 17,9%, the cumulative net collection increased by 135,2 million KM or by 3% compared to the same period in 2014. The highest growth was recorded in net revenue from VAT of 67,5 million KM, and in revenues from excises and road taxes, a total of 42,8 million KM. Given the low base, significant growth was recorded in customs revenues in the amount of 19,5 million KM. Only after three months of the application of amendments to the Law on Excises in the area of tobacco, the positive trends in the market of tobacco can be seen, which are also reflected in the growth of excise revenues. Given the limited incomes and high propensity of smoking, the high excise duty on cut tobacco should lead to a shift in consumption from the rolled to cheaper industrially manufactured cigarettes. Prior to the application of the Law, the decline of issued excise stamps has reached -20% compared to the amount of the same period in 2013. Issued stamps recorded increase of 11% in the last three months, so that the cumulative decline for ten months was reduced to the real of 8,7%.

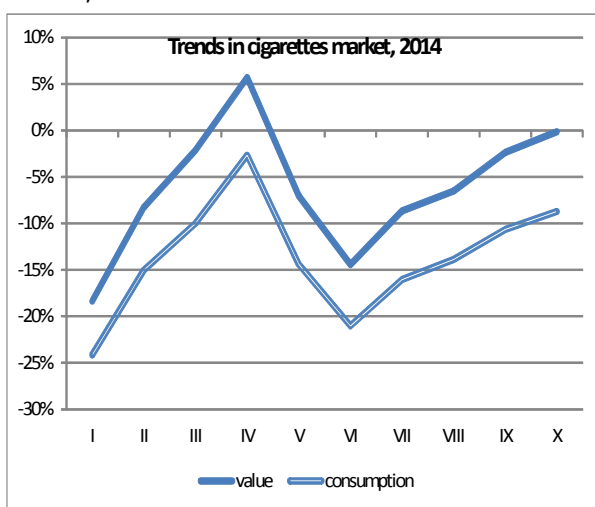


Chart 1

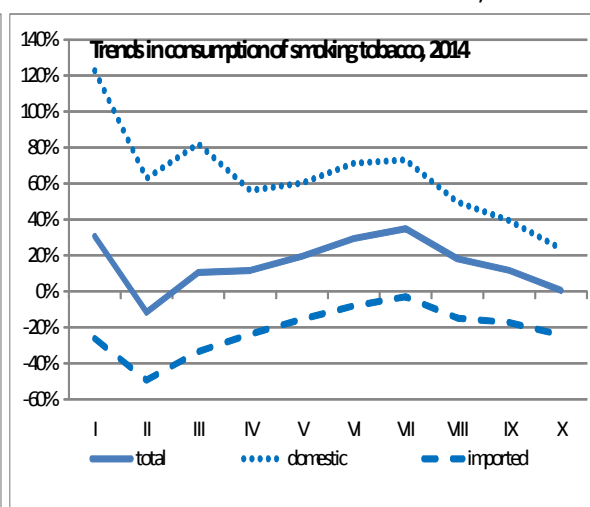


Chart 2

An overview of developments in cumulative value of the cigarette market in 2014 shows the sharp improvement in the last three months (Chart 1). On the other hand, market of cut tobacco records a decrease in the last three months (Chart 2). It is still not possible to conclude whether there has been a stronger migration of consumers from market of cut tobacco to cigarette market because of the high excise duties on cut tobacco, because the decline in consumption of cut tobacco can also be the result of the accumulated stock of tobacco prior to the application of the Law. In addition, issued stamps for cigarettes at the time of recording do not automatically mean the turnover of cigarettes, but the anticipated consumption according to projections of tobacco industry.

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Revised indirect tax revenue projections, 2014-2017¹

I ASSUMPTIONS

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

- Forecasts of macroeconomic indicators by Directorate of Economic Planning (DEP) for the above period, revised in September 2014;
- The changes in the policy of excise taxes on tobacco, as of 1 August 2014;
- The changes in the policy of excise taxes on beer, as of 1 September 2014;
- The effects of the Free Trade Agreement² between Bosnia and Herzegovina and EFTA³;
- Current trends in indirect tax revenue collection.

The policy of excise tax on tobacco in the period 2014-2017 includes continuous annual increase in the specific excise duty on cigarettes of 0,15 KM per package, while the policy changes relate to the application of specific excise on cut tobacco, which will be harmonized with the increase of the excise burden on cigarettes in the period from 2015 to 2017. For the purpose of the preparation of projections, the following rates of specific excise on cut tobacco were applied:

- 1 August 2014 -31 December 2014: the initial excise of 78 KM/kg;
- 2015: the excise of 80 KM/kg, in accordance with Decision of the ITA Governing Board⁴;
- 2016 and 2017: 80% of minimum excise duty on cigarettes calculated according to the methodology prescribed by the Law, based on the assumption of shifting a new excise burden entirely on the customer.

Policy changes in excise duties on beer imply the application of differentiated rates of excise duties on beer, depending on the volume of annual consumption in the previous three years. The former standard rate of excise of 0,20 KM/l becomes the lower rate, while the higher rate of excise duty amounts 0,25 KM/l.

II CURRENT TRENDS IN COLLECTION

2.1. Total collection

According to the preliminary cash flow report on the Single Account, the ITA collected in September 566,4 million KM of gross revenues from indirect taxes or 46 million KM more than in the same month of 2013. Since refunds increased by 31,6% or by 27,9 million KM, the net collection amounted 450,1 million KM, which is 4,2% more than in September 2013. At the level of January - September it was collected 4,575 billion KM of gross revenues, which is an increase of 208,8 million KM or 4,8%. However, due to the strong growth of refunds of 116,7 million KM, the net effects of collection amounted to 92,1 million KM. Monthly (Chart 1) and quarterly (Chart 2) comparison of collection in 2014 and 2013 indicates the sharp fluctuations in the collection of indirect taxes in 2014. After strong growth in the first quarter of 8,4%, the second quarter brought the decline of 6%, while in the third quarter the revenue growth of 6,6% was recorded.

¹ Prepared in October 2014

² "Official Gazette of B&H - International Agreements" No. 18/14.

³ The Member States of EFTA are: Switzerland, Iceland, Norway and Liechtenstein.

⁴ Decision from 26 September 2014. ("Official Gazette of B&H" No. 80/14).

Chart 1

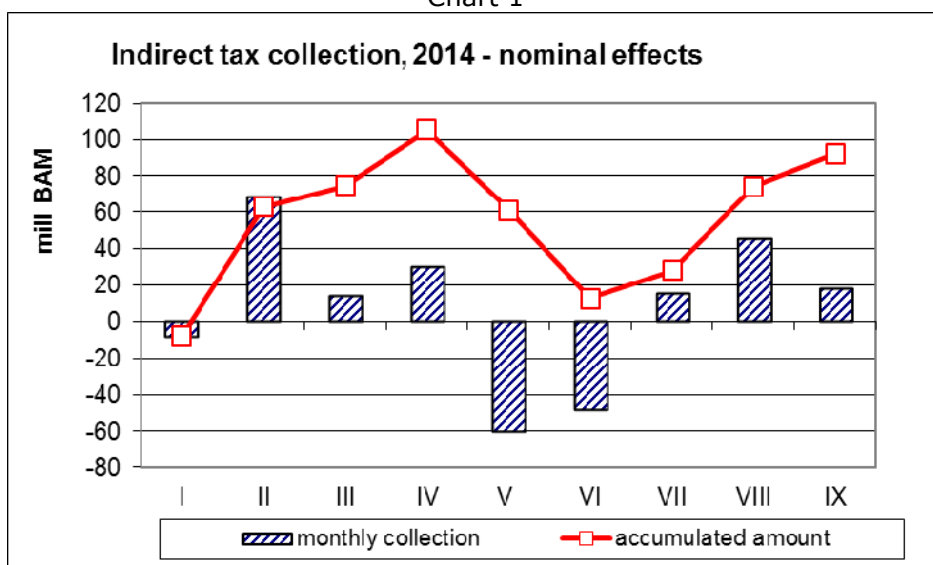
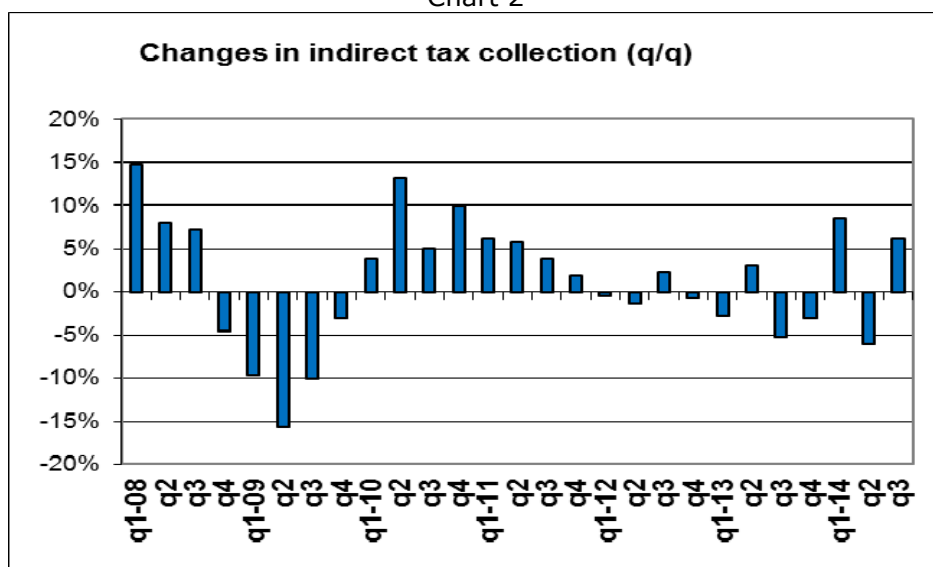


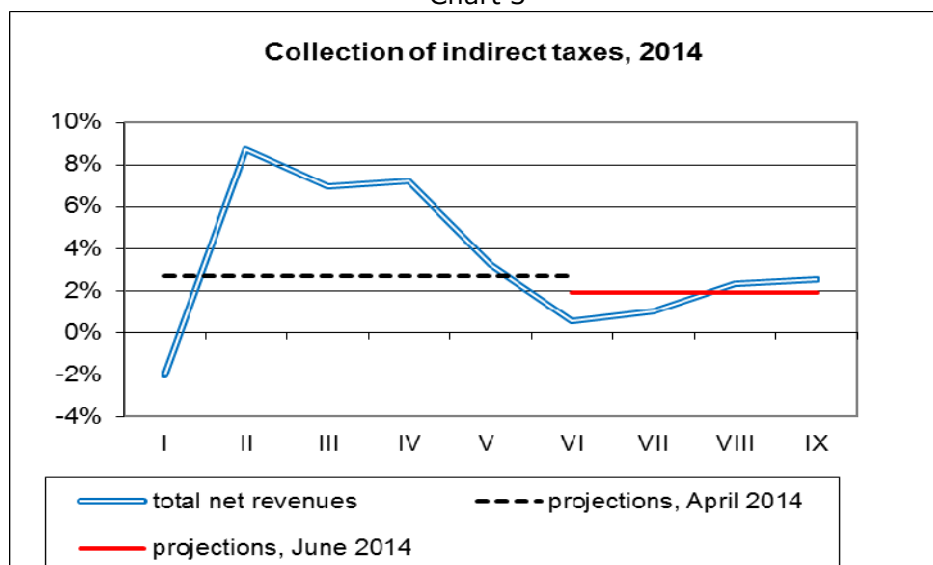
Chart 2



The rise in net revenues in the first and third quarter was affected by the growth of investments in the energy sector and change the customs regime for some companies involved in internal processing. Those two factors have also led to the strong growth of refunds, but due to the time lag between refunds and gross collection, the effects of refunds have been manifested only since the month of March. In addition, the growth of collection is affected by the increase in collection of old debts for VAT and excises. The effects of the old debt collections on the increase of collection amounted to 2,3 pp only in the first quarter. The fall in revenues in the second quarter is a result of high statistical base for comparison in 2013, when there has been an enormous growth in revenues from excises and corresponding part of VAT, prior to the accession of Croatia to the EU. After eliminating the effect of Croatia's accession, only slight decline in revenues in the second

quarter of -0,1% is recorded. The revenue growth in the third quarter was affected by the changes in the Law on Excise Tax in the area of tobacco taxation, so the strong growth of excises was recorded in July, prior to the entry into force of changes, as well as in August and, in particular, September, as a result of the growth rate of excise duty on cut tobacco and revenue growth from *ad valorem* excise, due to the increased retail prices of cigarettes. Generally, the positive trends in the period January - September resulted in the growth of indirect tax revenues of 2,5%. Revised projections of the Unit from June 2014 were exceeded by 0,6 percentage points, and the growth of net collection is approaching the April projections of +2,7% (Chart 3).

Chart 3



2.2. Collection by type of revenue

Observation by types of revenues shows the highest growth in VAT of 46,6 million KM, and in customs revenues of 15,6 million KM. Revenue growth was also recorded in excises and in road taxes, a total of 21,4 million KM.⁵

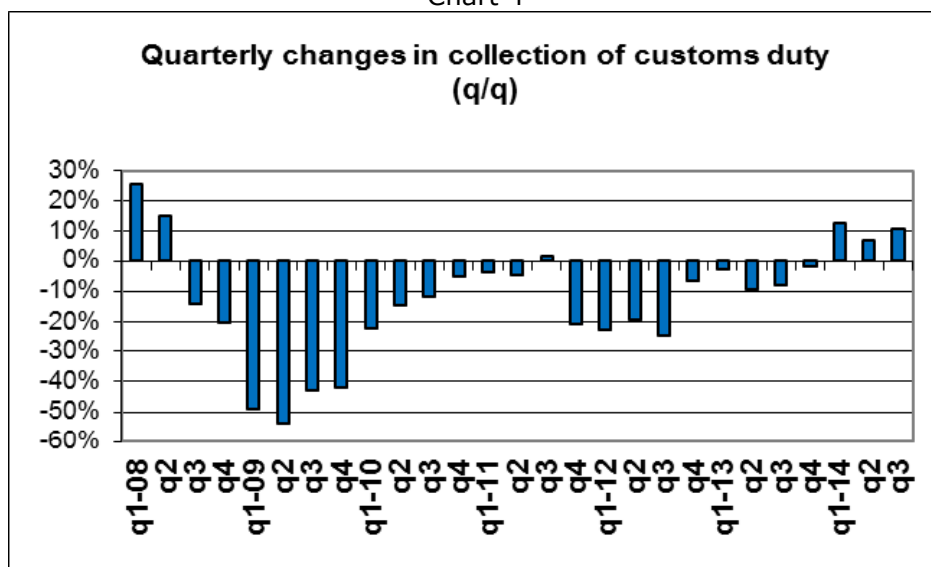
Customs

The collection of customs revenues in September 2014 was higher by 7,3% than in the same month of 2013. At the level of nine months, customs revenues increased by 10,3%. Monthly and quarterly comparisons (Chart 4) show high and stable collection throughout whole 2014. The increase in revenue from customs duties is associated with strong import growth from China⁶, mostly for investments in Thermal Power Plant Stanari.

⁵ According to preliminary report it has been recorded the additional 16 million KM of revenues which could not be matched with the returns and declarations, and therefore, were not classified into certain type of revenue.

⁶ The import from China increased by 48% in the period from January to August 2014 according to the data of the Agency for Statistics of B&H. Source: www.bhas.ba.

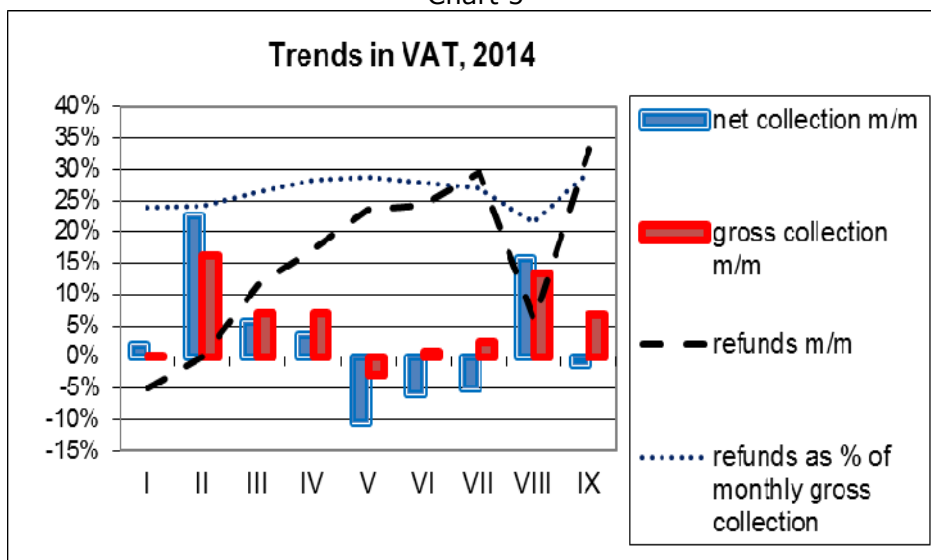
Chart 4



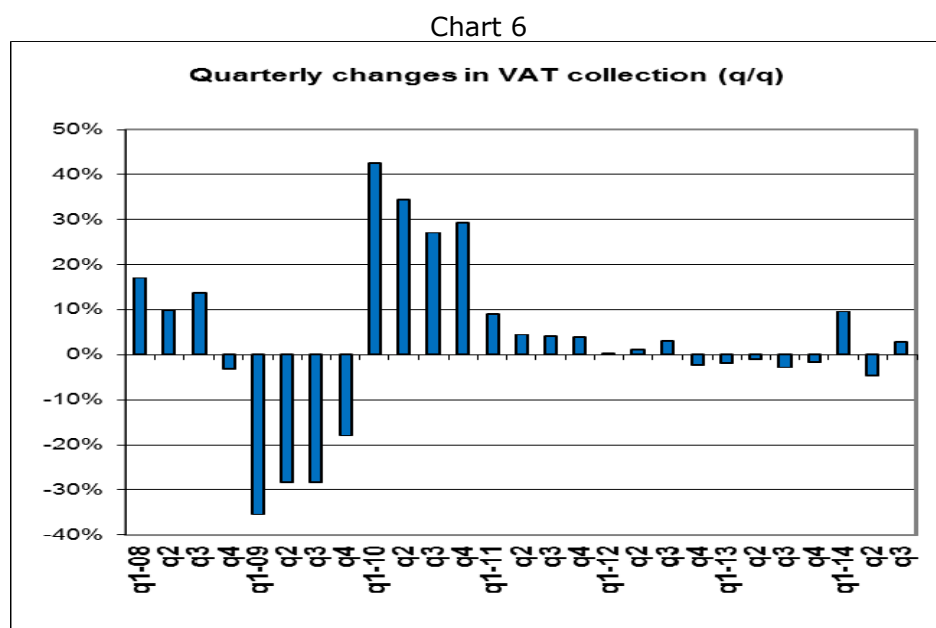
VAT

The collection of net revenues from VAT in September 2014 decreased by 3,5% than in the same month of 2013. Payments of refunds, expressed as a share of gross collection, reached a record value of 29,7%, so that the increase in gross collection of 4,6% was not enough to compensate their growth. Except for the increase in net VAT in August, which can be linked to the strong growth in gross collection and modest growth of refunds, the VAT collection has been negative in the last five months (Chart 5).

Chart 5



The quarterly survey shows sharp fluctuations in net collection of VAT (Chart 6). The first quarter of 2014 ended with a record increase in net VAT of 9,5%. The reason for this is collection of old VAT debts (the effect of 3 percentage points) and the time interval of payment of refunds. Refunds relating to investments and import companies engaged in internal processing from the first quarter were realized in the second quarter, deepening the deficit created by the fall in gross collection. Negative trends in July and September could not nullify the strong growth in VAT collection in August, so the third quarter ended with a positive collection (Chart 6)

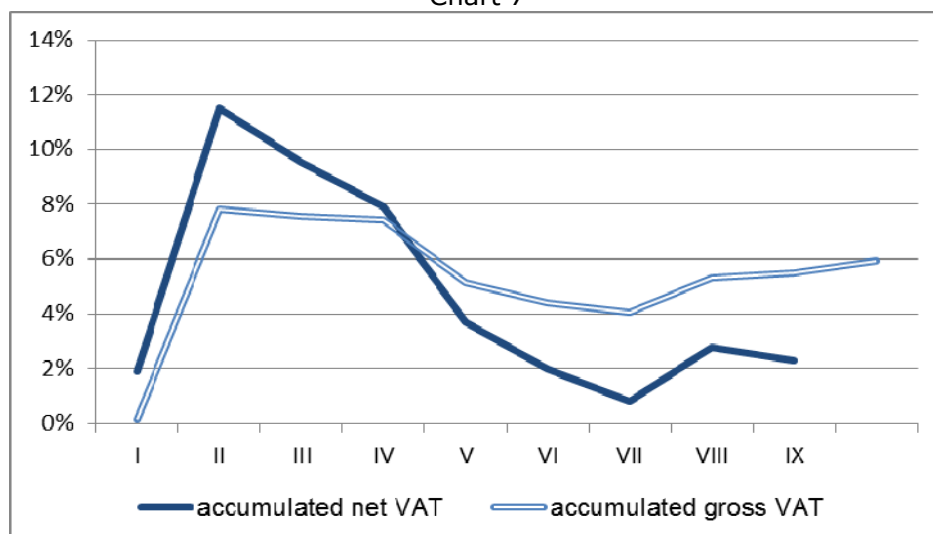


The analysis of components of gross VAT indicates the continuity of trends in collection of VAT on imports and VAT in the country. The growth of VAT on imports is every month a few percentage points above the growth of imports of goods, which indicates an increase in the VAT base. We assume that the changes in customs and VAT regimes for imports for internal processing are the main reasons for such an unusual dynamics. On the other hand, the collection of VAT in the country is continuously positive. However, when excluding the effects of the collection of old debts, we come to the opposite conclusion that domestic VAT is already half a year in the zone of negative growth. It all points to the decline in taxable consumption, probably associated with floods, and possible tax evasion after VAT refunds from imports.

VAT refunds to taxpayers in the period January-September 2014 were 11,1% higher compared to the same period in 2013, while the refunds to international organizations and projects were even 49,4% higher than in the same period of 2013. In nominal terms, it has been paid 113, 6 million KM more refunds to taxpayers than for nine months last year. The share of cumulative refunds in cumulative gross VAT collection has exceeded 26%, which represents the maximum value since the beginning of the introduction of VAT.

However, despite the negative trend of refunds the cumulative net VAT collection was maintained at 2% growth (Chart 7).

Chart 7

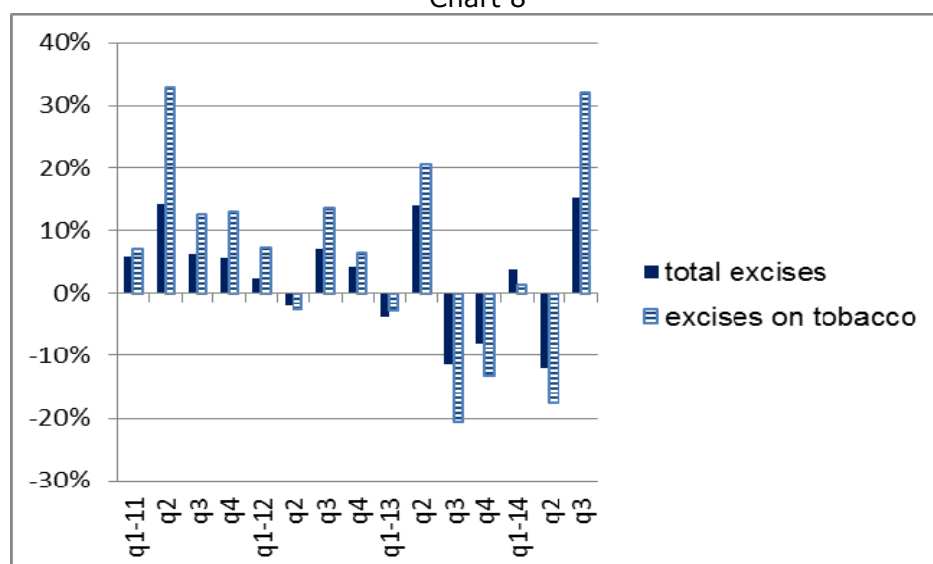


Excises

The positive trend in revenue collection from excise taxes continued in September 2014, so that the cumulative collection passed into the zone of positive growth. Preliminary overview of trends in monthly collection of excise taxes by the excise goods in September 2014 indicates a significant increase in revenue from excise taxes on tobacco, in excises and road taxes on imported petroleum products, as well as in excise taxes on beer, alcohol and alcoholic beverages. On the other hand, there was a decrease in excise taxes on coffee, excises and road taxes on domestic oil derivatives, and in excise taxes on soft drinks.

Quarterly comparison of total collection and collection of excise taxes on tobacco shows that the main drivers of growth in revenues from excise taxes are excise taxes on tobacco (Chart 8).

Chart 8

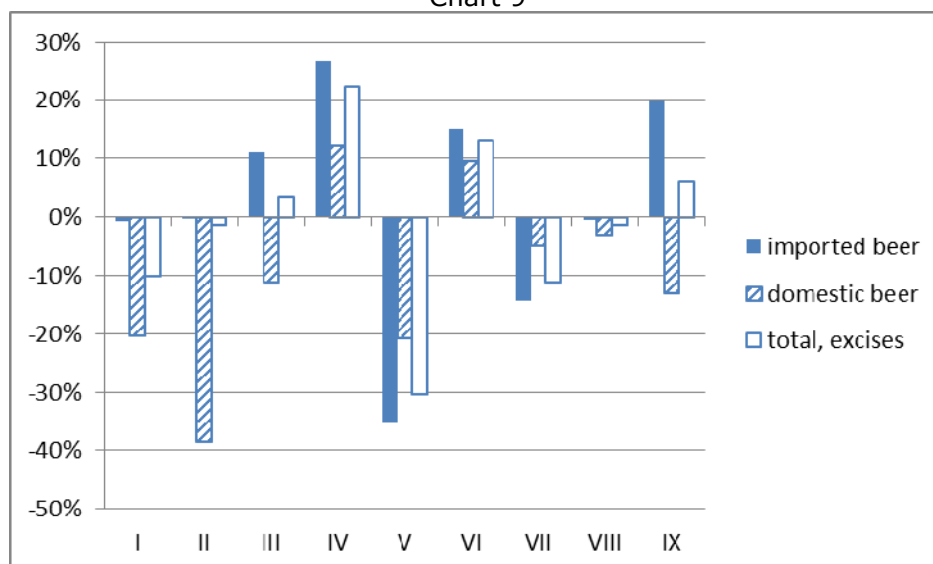


The beginning of the year was marked by a modest growth in revenues from excise taxes, with the higher growth of total excise taxes than the growth in excise taxes on tobacco. In the second quarter, mainly due to the high statistical base of 2013, there was a sharp drop in total revenues from excises and in excises on tobacco. The adjustment of payers and consumers to the changes in the Law on Excises brought a total revenue growth from excises of 15% in the third quarter of 2014, while the growth of excises on tobacco exceeded 30%. The analysis of the structure of excises shows that such a high increase was driven by the growth in collection of excise taxes on imports in the third quarter of 48,7%, while the growth of domestic excise taxes on tobacco was a modest 2,7%.

In the period January - September 2014 there was an increase in revenues from excise taxes on derivatives of 1,2%. The observed growth is a result of growth in excise taxes on imported products of 5%, while the revenues from excise taxes on domestic derivatives declined, mainly as a result of the overhaul of Refinery in the second quarter of 2014. After four consecutive quarters of growth, revenues from excise taxes on coffee fell by 20% in the third quarter. Negative trends were also recorded in the group of excise goods consisting of beer, wine, alcohol, alcoholic and soft drinks. At the level of the period January - September 2014 a positive growth was only recorded in excise taxes on alcoholic beverages, provided that the quarterly comparisons show the slowdown in the second quarter and revenue decline in the third quarter. Despite the growth of collection in September, decrease in revenues from excise taxes on alcohol and alcoholic beverages for the nine months reached 20%.

Data on collection of revenues from excise duties on beer showed the growth of collection of 10,9% for the nine months of 2014. However, after correcting for the collection of old debts the actual collection of excises on beer goes into the zone of negative growth. As the differentiated rates of excise duties on beer, introduced by amendments to the Law on Excises, apply only as of 1 September 2014, it is still early to give reliable conclusions about the effects. Based on the preliminary report it can be concluded that, contrary to expectations, the first month of the application of differentiated rates brought a decline of excises on domestic beer and strong growth in revenues from excises on imported beer, so that the overall growth of 6% was reached (Chart 9).

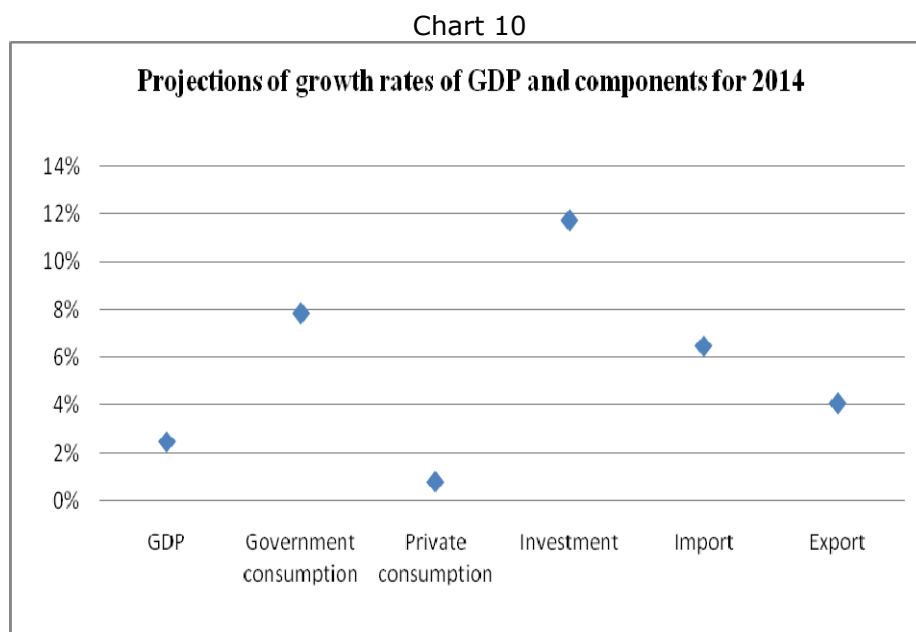
Chart 9



III REVENUE PROJECTIONS

2014

After correction from June, the projection of nominal GDP growth was again revised downwards in September and amounts 2,5%. The projection of consumption growth is 2,3%, and it stems primarily from the growth of government spending (Chart 10).



In the section on trends in collection it is noted that the increase in net revenues from indirect taxes in the first three quarters of 2014 amounted to 2,5%. The analysis of current trends of collection shows that the growth of revenues in the mentioned period is largely the result of operation of other factors apart from those macroeconomic. Some of the factors⁷ had a one-off positive effect on revenue collection, while others⁸ affect continually 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.

On the basis of trends in revenue collection, the annual macroeconomic projections and estimated effects of amendments to the Law on Excise, the projected net collection of indirect taxes for 2014 amounts to 5009,2 million KM, which is by 2,5% higher than the collection in 2013 (Table 1).

⁷ Collection of old debts

⁸ 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

REVISED INDIRECT TAX REVENUE PROJECTIONS (2014-2017), OCTOBER 2014

Type of revenue (net)	in million KM					Projected growth rate			
	Execution	Projection				2014	2015	2016	2017
	2013	2014	2015	2016	2017				
VAT	3.102,9	3.173,3	3.238,4	3.303,2	3.385,0	2,3%	2,1%	2,0%	2,5%
Excise taxes	1.267,1	1.293,1	1.317,3	1.336,9	1.360,2	2,1%	1,9%	1,5%	1,7%
Customs	211,0	229,1	236,6	243,1	251,2	8,6%	3,3%	2,7%	3,3%
Road tax	285,3	293,2	303,1	315,3	329,1	2,8%	3,4%	4,0%	4,4%
Other	19,9	20,5	20,7	20,9	21,1	3,4%	0,9%	0,9%	0,9%
TOTAL	4.886,2	5.009,2	5.116,2	5.219,3	5.346,6	2,5%	2,1%	2,0%	2,4%
Road tax (0,10 BAM/l)	-114,0	-117,3	-121,3	-126,1	-131,7	2,8%	3,4%	4,0%	4,4%
FUNDS FOR DISTRIBUTION	4.772,2	4.891,9	4.994,9	5.093,2	5.214,9	2,5%	2,1%	2,0%	2,4%

Table 1.

Projected growth net of VAT is at the level of the projected growth of total consumption and amounts 2,3%. It is projected the strong growth of VAT on imports, which is above the projected growth of imports.⁹ Projected growth of domestic VAT is slightly above the projected growth rate of total consumption, thanks to the collection of arrears. Strong projected growth of gross revenues is largely neutralized by the projection of refunds (international projects, regime change import duties).¹⁰

Projected revenues from excises for 2014 amount to 1293,1 million KM, which is 2,1% above the collected amount in 2013. The highest growth rate is projected in the excise tax on beer (due to the effects of the collection of debts from the previous period), but, given the small weight in total excises, this type of revenue does not contribute significantly to the absolute growth of excises. The largest contribution to the absolute growth of excises comes from the excise taxes on tobacco, due to the effects of policy changes in this area of taxation. At the level of the year, the increase is expected in revenue from excise taxes on oil and soft drinks, while decrease is expected in other categories of excise duties (coffee, alcohol) due to negative trends.

Customs revenue projection for 2014 is KM 229,1 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 KM 293,2 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 SA (revenues from terminals, rent, extraordinary revenues, etc.), as well as revenues which remain unreconciled after matching payments to the SA 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 relevant macroeconomic indicators for the mentioned period, historical seasonal pattern of collection and projections of individual revenue categories for 2014, as well as on the effects of the changes of policies in the area of customs and excise taxes on tobacco and beer.

Free Trade Agreement between Bosnia and Herzegovina and the EFTA involves the phase abolition of customs duties and other levies with the fiscal effect on imports from EFTA Member States in the period from the date of entry into force up to 2017. Imports from EFTA in 2013 represented only 0,6% of total imports in B&H.¹¹ However, bearing in mind that the custom duties are generally charged on imports from the third countries, the share of customs collected from EFTA in customs revenues amounted to 2,3%. In accordance with the dynamics envisaged by provisions of the Agreement, the effects of the abolition of customs duties will be manifested in the most part to the reduction of customs duties in 2015, and the rest in the next two years.

The effects of introducing the differentiated rates on beer should be manifested in the first eight months of 2015, given that the amendments to the Law came into force as of 1 September 2014. However, it is expected the negative revenue growth in 2015, due to the high base of comparison in 2014 which includes the collection of old debts.

Projections of excises on tobacco in the period 2015-2017 include the annual increase in the specific excise duty on cigarettes of KM 0,15 per package. The increase in the excise burden should bring an increase in retail prices and the increase of weighted average price of cigarettes, which is the reference variable for the calculation of the minimum excise duty on cigarettes and

⁹ Change of the customs and VAT payment regime with imports for finishing operations.

¹⁰ Read more in the section on trends in collection.

¹¹ Source: Agency for Statistics B&H, www.bhas.ba.

the specific excise duty on cut tobacco. It is expected that the initial drastic increase in excise duties on cut tobacco and continuous alignment with the growth of the minimum excise duty on cigarettes will cut legal and illegal substitution of cigarettes with cut tobacco. Similarly, the Unit expects that, with adequate operational measures, in the next years there will be stabilization of cigarette market and reduction in the consumption of cut tobacco, which should result in the growth of excise revenues. The largest growth rate of 2,2% is expected in 2015, despite the fact that the effects are manifested only for seven months¹², and projected growth rates for 2016 and 2017 are 1,4% and 1,3% respectively. The reason for the slowdown is the continuation of harmonization of excise duties on cigarettes in B&H with the minimum excise in the EU, which leads to the growth of retail prices and, consequently, to the fall in consumption of cigarettes. Another reason is the slowdown in increase of excises on cut tobacco in relation to the expected dynamics due to low minimum excise duty on cigarettes determined for 2015, which is the basis for the calculation of excise duty on cut tobacco.¹³ The third reason is methodological, and relates to the reference period for the calculation of the weighted average price of cigarettes, which in fact comprises two fiscal years¹⁴. The increase in the minimum excise on cigarettes in this way slows down and thus in the excise on cut tobacco as well.

The projected revenue growth rates are 2,1%, 2,0% and 2,4% in 2015, 2016 and 2017, respectively.

IV DIFFERENCES FROM PREVIOUS PROJECTIONS

Projections for 2014

When comparing projections with earlier ones, besides the trends in revenue collection, it is necessary to take into account the differences in the assumptions on which they are based, namely:

a. Differences in projections of macroeconomic indicators prepared by DEP

Given that for the purpose of preparing the projections for the current year there are already available data on collection of indirect taxes by August 2014, and preliminary data for the month of September, the revenue projections are largely based on the current trends of collection. Corrections down of certain macroeconomic parameters made by the DEP in September 2014 (private consumption, nominal GDP) did not significantly affect the revision of projections of indirect taxes, given the positive trends in collection of revenues attributable to other factors (collecting debts from the previous period). In contrast, the import growth projection for 2014 was corrected upwards (Chart 11) which significantly influenced the revision of revenues, primarily the VAT on imports and customs.

¹² The reason is application of changes to the Law on Excises as of 1 August 2014

¹³ According to the decision of the GB of ITA ("Official Gazette of B&H" no. 80/14), the minimum excise on cigarettes for 2015 is lower than the minimum excise on cigarettes which was established for 2014.

¹⁴ The minimum excise duty on cigarettes for the fiscal year (Y_t) is 60% of weighted average retail price of cigarettes calculated on the basis of excise stamps issued in the second half of the year Y_{t-2} and the first half of the year Y_{t-1}

b. Differences in tax policy assumptions in the concerned period

Given that the Unit did not have the information about the time of entry into force of amendments to the Law on Excises in the field of tobacco and beer at the time of preparing the previous projections (November 2013, April and June 2014), the different assumptions had been used. When comparing projections with previous it is necessary to take into account these assumptions, given that they significantly affect the height of the effects of policy change. The baseline scenario of revenue projections which was prepared in April assumed unchanged policy in the field of tobacco and beer, while the program scenario was based on the assumptions of policy changes in both areas as of 1 July 2014. Considering that in June there was an insinuation that the policy changes in the field of tobacco would apply from 1 July 2014, both baseline and program scenarios include the effects of changes starting from that date, while the effects of policy changes in the field of beer were included only in the program scenario, starting from the fourth quarter of 2014. Given that the policy changes in the field of tobacco started to apply one month later, i.e. from 1 August 2014 and changes in the field of beer from 1 September 2014, only one scenario is now prepared that includes the effects starting from the actual date of application. Table 2 shows the overview of assumptions that were used in projections regarding the time of entry into force of policy changes. It also shows the percentage of correction of appropriate amount of total revenues, in comparison to October 2014. For example, it can be concluded from the table that the total amount of projected revenue for 2014 from the baseline scenario prepared in November 2013 was corrected by -0,17% in October 2014.

From the table overview of assumptions concerning the enforcement of legislative changes it can be concluded that it would be more realistic to compare the projections from October 2014 with the program scenarios of previously prepared projections, rather than with the amounts from the baseline scenarios, although in both cases the correction does not exceed +/- 0,7% or in absolute amount around 35 million KM (Table 2).

In comparison with the program scenario from June, which is prepared with a special degree of caution due to the focus on the implications of the May catastrophic floods in B&H, projections from October for the year of 2014 have been corrected by + 0,62% or +31 million KM. The correction is largely related to VAT on imports and customs because of the change of import projections (DEP) for 2014 of 2,6 pp

Table 2. The overview of assumptions of the application dates of policy changes (tobacco and beer) and the percentage of correction in October 2014 of the corresponding projection of the total amount of revenues from indirect taxes for 2014.

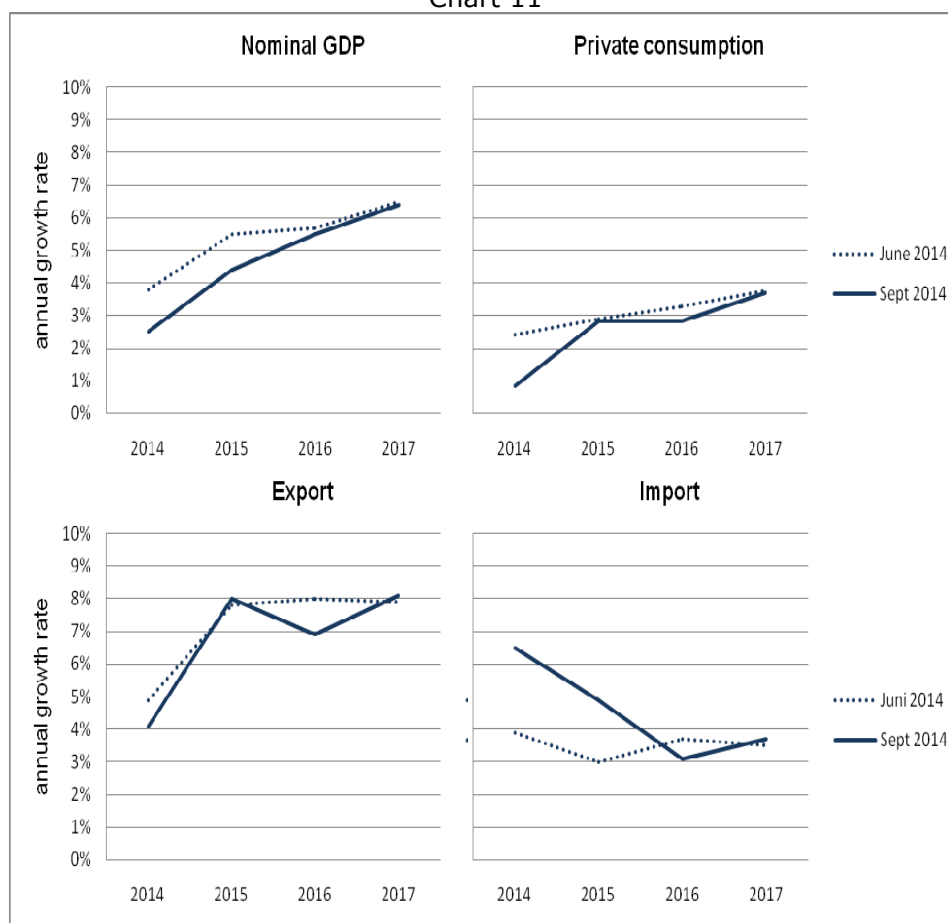
Projection of the total amount of revenues from indirect taxes for 2014	November 2013		April 2014		June 2014		October 2014
	Changes in policy	Corr. in October 2014	Changes in policy	Corr. in October 2014	Changes in policy	Corr. in October 2014	Changes in policy
Baseline	Without changes	-0.17 %	Without changes	-0.19%	Tobacco 1.7.	+0.65%	Tobacco 1.8. Beer 1.9.
Program*	Tobacco 1.1. Beer 1.1.	-0.70 %	Tobacco 1.7. Beer 1.7.	-0.63%	Tobacco 1.7. Beer 1.10.	+0.62%	

* Program scenario from November 2013 includes the additional effects of accession of Croatia to the EU other than those included in the baseline scenario

Projections for the period 2015-2017

In comparison with the program scenario from June, October projections for 2015, 2016, and 2017 have been revised upwards to 28,1 million KM, 39,8 million KM and 82,5 million KM respectively. The projections have been adjusted due to the changes in the projected bases of certain categories of revenues (2014), as well as to changes in the projections of macroeconomic indicators (Chart 11). There are also, compared to previous projections, included the effects of the Free Trade Agreement between Bosnia and Herzegovina and the EFTA countries starting from 2015.

Chart 11



V RISKS TO PROJECTIONS

In view of the basic settings of the projections of indirect taxes and the overall economic conditions in B&H 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:

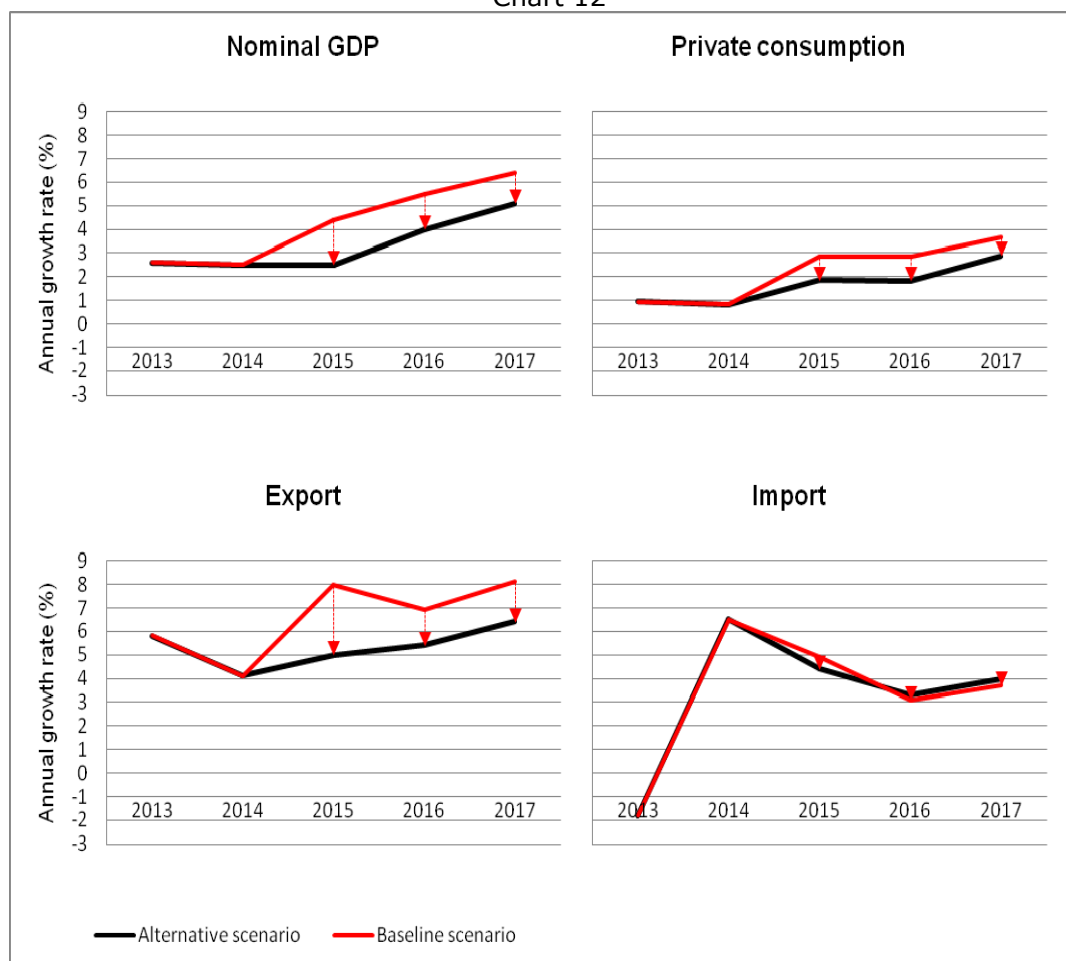
- (i) Indirect tax revenue projections are closely linked to the projections of macroeconomic indicators by DEP. Each deviation of these parameters from the projected values represents a risk to revenue projections;

- (ii) Poorer economic recovery of the major export partners of B&H (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) The investments related to international projects lead to an increase in VAT refunds, while the use of projects financed from IPA funds ultimately results in the release of VAT. Both derogations of the Law on VAT cause the formation of discrepancy between the total and taxable consumption. The larger increase in international projects than expected and reintegration of Bosnia and Herzegovina in the IPA program, which provides a much higher allocations for B&H than it has been so far, may in future years lead to an increase of the mentioned discrepancy, and thus to a lower execution of VAT revenues in comparison to the projected;
- (v) 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;
- (vi) 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.

VI ALTERNATIVE SCENARIO

In addition to the baseline scenario of projections of macroeconomic indicators, Directorate for Economic Planning has prepared an alternative scenario that includes the effects of realizing some of the potential risks of growth, primarily through reduced growth in export demand. Corrections of projections of some macroeconomic indicators in the alternative scenario of the Directorate for Economic Planning (nominal terms) are shown in Chart 12.

Chart 12

Source: DEP and BHAS¹⁵

Since the projections of indirect tax revenues are closely related to projections of macroeconomic indicators, their corrections in the alternative scenario had a significant influence on the projected amounts of revenues (Table 3), except for the revenues from excise duties on tobacco, whose execution is influenced by policy of excise duties on cigarettes and cut tobacco in the period 2015-2017.

¹⁵ Consumption for 2012 is taken from www.bhas.ba

INDIRECT TAX REVENUE PROJECTIONS (2014-2017), ALTERNATIVE SCENARIO

Type of revenue (net)	in million KM					Projected growth rate			
	Execution	Projection				2014	2015	2016	2017
	2013	2014	2015	2016	2017				
VAT	3.102,9	3.173,3	3.216,7	3.262,0	3.328,4	2,3%	1,4%	1,4%	2,0%
Excise taxes	1.267,1	1.293,1	1.313,3	1.329,2	1.349,1	2,1%	1,6%	1,2%	1,5%
Customs	211,0	229,1	235,4	242,4	251,2	8,6%	2,8%	2,9%	3,6%
Road tax	285,3	293,2	297,0	305,0	314,8	2,8%	1,3%	2,7%	3,2%
Other	19,9	20,5	20,7	20,9	21,1	3,4%	0,9%	0,9%	0,9%
TOTAL	4.886,2	5.009,2	5.083,2	5.159,5	5.264,5	2,5%	1,5%	1,5%	2,0%
Road tax (0,10 BAM/l)	-114,0	-117,3	-118,8	-122,0	-125,9	2,8%	1,3%	2,7%	3,2%
FUNDS FOR DISTRIBUTION	4.772,2	4.891,9	4.964,4	5.037,5	5.138,6	2,5%	1,5%	1,5%	2,0%

Table 3

Chart 13

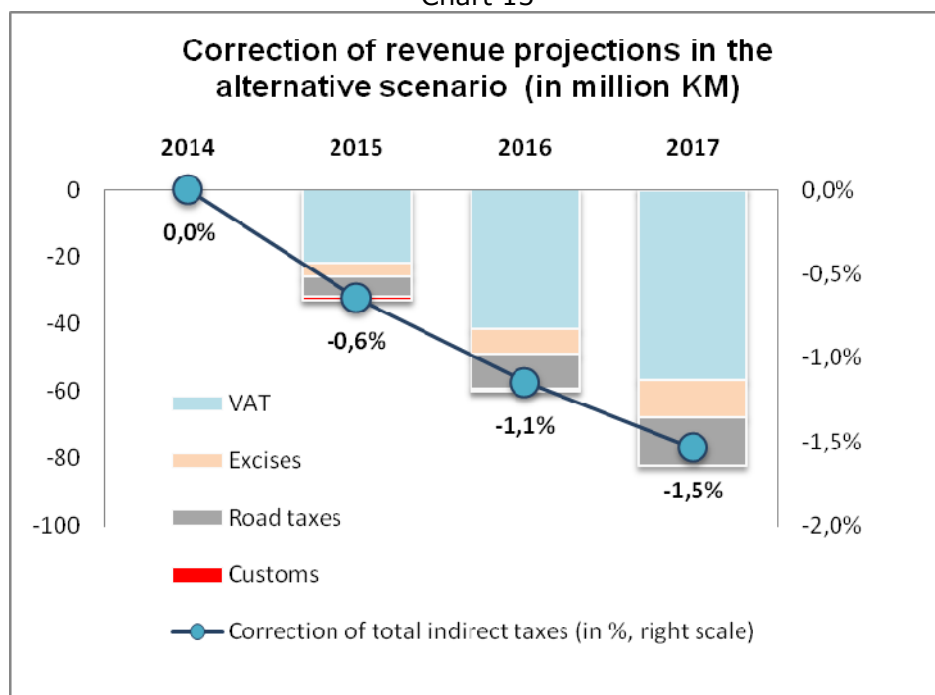


Chart 13 shows the correction of projections of certain categories of revenues from indirect taxes (in million KM, left scale) and corrections of the total indirect taxes compared to the baseline scenario (in%, right scale). We see that, observed in absolute terms, the largest adjustments relate to revenue from VAT. This is mostly explained by the corrections of consumption projections (Chart 12), but also by the significant share of this revenue in total indirect taxes (over 63%). Given that projections of real indicators are revised in the alternative scenario of macroeconomic projections, the corrections were made also in revenues from road taxes and excises. Customs duties are not significantly revised since the projection of import in the alternative scenario is not significantly changed. Expressed in millions of KM in the alternative scenario projections have been corrected for -33,0 million KM, -59,8 and -82,1 million KM million KM in 2015, 2016 and 2017 respectively.

Consolidated reports

Table 1. (Consolidated report: SA, B&H Institutions and entities)

Preliminary consolidated report includes

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

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

Table 2 (Consolidated report: General Government)

Preliminary consolidated report includes:

- revenues and expenditures of the budget of Institutions of Bosnia and Herzegovina,
- revenues and expenditures of the budget of the Federation of Bosnia and Herzegovina, cantons, cantonal directorates for roads, municipalities and funds in FB&H,
- revenues and expenditures of the budget of the Republika Srpska*, directorates for roads/highways, municipalities and funds in RS,
- revenues and expenditures of the budget of Brčko District and funds in BD

Table 3 (Consolidated report: B&H Institutions, entities, BD)

Preliminary consolidated report includes:

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

*Includes: (A) Budget of the Republic and extra-budgetary 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 foreign project implementation units established by ministries)



To all our associates in Ministries of Finance of BiH, Federation, Republika Srpska, Brcko District, cantons, municipalities and extra budgetary funds, as well as to all readers, we wish happy and successful New 2015!



Preliminary report: SA, B&H Institutions and entities, I-IX 2014

(in million KM)	I	II	III	IV	V	VI	VII	VIII	IX	Total
Revenue	441,3	457,7	544,0	582,4	470,7	507,3	581,1	516,6	522,1	4.623,2
Taxes	414,6	411,3	426,0	459,4	410,3	422,8	481,8	503,8	470,6	4.000,5
Direct taxes	23,5	27,5	56,6	42,8	25,0	25,9	30,6	24,4	26,4	282,7
Taxes on income, profits and capital gains	22,8	26,7	55,6	41,7	24,0	24,7	29,1	23,1	25,1	272,8
Taxes on property	0,7	0,8	1,0	1,1	1,0	1,2	1,5	1,3	1,3	9,9
Indirect taxes (net)	391,0	383,8	369,2	415,3	385,2	396,5	451,2	478,9	444,1	3.715,2
VAT	245,3	257,5	240,3	251,9	245,7	238,9	277,1	312,1	276,6	2.345,4
Excises	109,5	86,3	86,6	115,6	99,6	112,6	126,0	117,2	119,1	972,4
Road fee	22,2	20,6	20,2	27,1	20,9	24,3	26,7	29,1	25,7	216,8
Customs	12,8	18,3	20,7	19,3	17,4	18,8	19,8	18,9	21,2	167,2
Other indirect taxes	1,1	1,1	1,4	1,4	1,7	1,8	1,7	1,6	1,6	13,4
Other taxes	0,1	0,1	0,2	1,4	0,1	0,4	0,0	0,4	0,1	2,7
Social security contributions	0,0	0,0	0,0	0,0	0,0	0,7	8,0	6,3	6,4	21,3
Grants	1,7	0,4	7,9	0,2	0,5	12,8	0,9	5,8	6,8	37,0
Foreign grants	1,7	0,4	7,8	0,2	0,5	12,6	0,9	5,6	6,0	35,8
Transfers	0,0	0,0	0,1	0,0	0,0	0,1	0,0	0,2	0,8	1,2
Other (non-tax) revenue	25,0	46,0	110,1	122,7	59,9	71,1	90,4	0,8	38,3	564,3

(in million KM)	I	II	III	IV	V	VI	VII	VIII	IX	Total
Expenditure	416,4	449,2	421,2	445,6	439,4	437,4	532,1	600,6	545,3	4.287,1
Expense	414,4	435,5	416,5	437,4	428,1	436,0	519,8	553,9	520,0	4.161,6
Compensation of employees	124,7	126,6	130,5	128,1	129,5	132,1	136,5	126,1	129,2	1.163,2
Use of goods and services	12,9	30,8	30,9	27,3	22,5	32,6	28,5	21,7	33,6	240,7
Social benefits	52,5	54,1	65,3	53,6	53,5	55,5	60,5	63,9	59,0	517,9
Interest	5,9	10,4	17,3	9,4	19,8	20,0	7,1	9,1	16,8	115,8
Interest payments to non-residents	2,4	8,0	10,1	5,9	12,5	9,2	4,4	5,7	10,6	68,7
Interest payments to residents	3,4	2,5	7,2	3,5	7,3	10,9	2,7	3,4	6,2	47,1
Subsidies	2,1	6,5	5,1	8,4	10,9	17,8	19,2	33,0	25,0	128,0
Grants, transfers (including transfers from SA**)	211,1	200,7	161,9	207,5	185,6	169,1	256,8	281,6	234,4	1.908,6
Other expense	5,2	6,5	5,6	3,1	6,3	8,9	11,3	18,7	21,9	87,4
Net acquisition of nonfinancial assets	2,0	13,6	4,6	8,2	11,4	1,5	12,3	46,6	25,4	125,6
Acquisition of nonfinancial assets	2,2	14,2	5,0	8,9	11,6	2,8	18,0	47,9	27,0	137,5
Disposal of nonfinancial assets	0,2	0,6	0,4	0,8	0,2	1,3	5,7	1,2	1,6	12,0
Gross/Net operating balance (revenue minus expense)	26,9	22,2	127,5	145,0	42,6	71,4	61,3	-37,4	2,1	461,6
Net lending /borrowing (revenue minus expenditures)	24,9	8,5	122,9	136,8	31,2	69,9	49,1	-84,0	-23,2	336,1

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

Table 1

Preliminary report: General government, I-IX 2014

(in million KM)	Q1	Q2	Q3	Total
Revenue	2.647,7	2.961,8	2.941,8	8.551,3
Taxes	1.352,4	1.421,9	1.538,2	4.312,5
Direct taxes	241,7	238,2	209,4	689,3
Taxes on income, profits and capital gains	212,8	206,0	181,6	600,4
Taxes on payroll and workforce	2,5	3,9	4,8	11,2
Taxes on property	26,3	28,3	23,1	77,7
Indirect taxes	1.109,1	1.181,0	1.327,1	3.617,2
Other taxes	1,6	2,8	1,7	6,0
Social security contributions	961,1	1.051,2	1.070,5	3.082,8
Grants	14,8	15,5	20,0	50,3
Foreign grants	14,3	15,1	15,3	44,8
Transfers	0,4	0,4	4,7	5,6
Other (non-tax) revenue	319,5	473,2	313,1	1.105,7
Expenditure	2.587,9	2.780,2	2.986,2	8.354,3
Expense	2.531,2	2.685,8	2.762,1	7.979,1
Compensation of employees	797,9	819,9	810,0	2.427,7
Use of goods and services	462,2	500,7	511,9	1.474,7
Social benefits	1.102,6	1.119,4	1.150,2	3.372,1
Interest	44,0	59,5	44,7	148,2
Interest payments to non-residents	21,6	28,5	23,3	73,4
Interest payments to residents	22,5	31,0	21,4	74,8
Subsidies	37,0	66,6	104,0	207,6
Grants, transfers	23,5	29,2	23,9	76,6
Other expense	64,0	90,6	117,6	272,2
Net acquisition of nonfinancial assets	56,7	94,4	224,1	375,1
Acquisition of nonfinancial assets	66,2	98,8	241,5	406,4
Disposal of nonfinancial assets	9,6	4,4	17,3	31,3
Gross/Net operating balance (revenue minus expense)	116,5	276,0	179,7	572,2
Net lending /borrowing (revenue minus expenditures)	59,9	181,6	-44,4	197,1

Table 2

Preliminary report: B&H Institutions, entities and BD, I-IX 2014

(in million KM)	Q1	Q2	Q3	Total
Revenue	1.044,2	1.183,1	1.087,1	3.314,4
Taxes	842,2	919,0	919,7	2.680,9
Direct taxes	113,3	98,7	86,3	298,3
Taxes on income, profits and capital gains	108,8	92,9	79,8	281,5
Taxes on payroll and workforce	1,6	2,1	2,1	5,8
Taxes on property	2,9	3,7	4,4	11,0
Indirect taxes	728,1	818,2	832,6	2.378,9
Other taxes	0,7	2,2	0,8	3,7
Social security contributions	0,0	0,7	20,6	21,3
Grants	10,2	13,3	13,4	36,9
Foreign grants	9,9	13,3	12,5	35,8
Transfers	0,3	0,0	0,8	1,1
Other (non-tax) revenue	191,8	250,1	133,4	575,3
Expenditure	882,7	954,4	1.154,0	2.991,1
Expense	858,8	929,4	1.065,0	2.853,2
Compensation of employees	398,2	406,3	408,0	1.212,5
Use of goods and services	79,1	87,6	101,7	268,4
Social benefits	179,4	168,9	190,3	538,5
Interest	33,7	49,4	33,1	116,1
Interest payments to non-residents	20,5	27,6	20,6	68,7
Interest payments to residents	13,2	21,7	12,5	47,4
Subsidies	16,0	45,0	79,1	140,1
Grants, transfers	135,2	153,2	195,3	483,7
Other expense	17,2	19,0	57,6	93,8
Net acquisition of nonfinancial assets	24,0	25,0	89,0	138,0
Acquisition of nonfinancial assets	25,1	27,3	97,5	149,9
Disposal of nonfinancial assets	1,1	2,3	8,5	11,9
Gross/Net operating balance (revenue minus expense)	185,5	253,7	22,1	461,2
Net lending /borrowing (revenue minus expenditures)	161,5	228,7	-66,9	323,3

Table 3