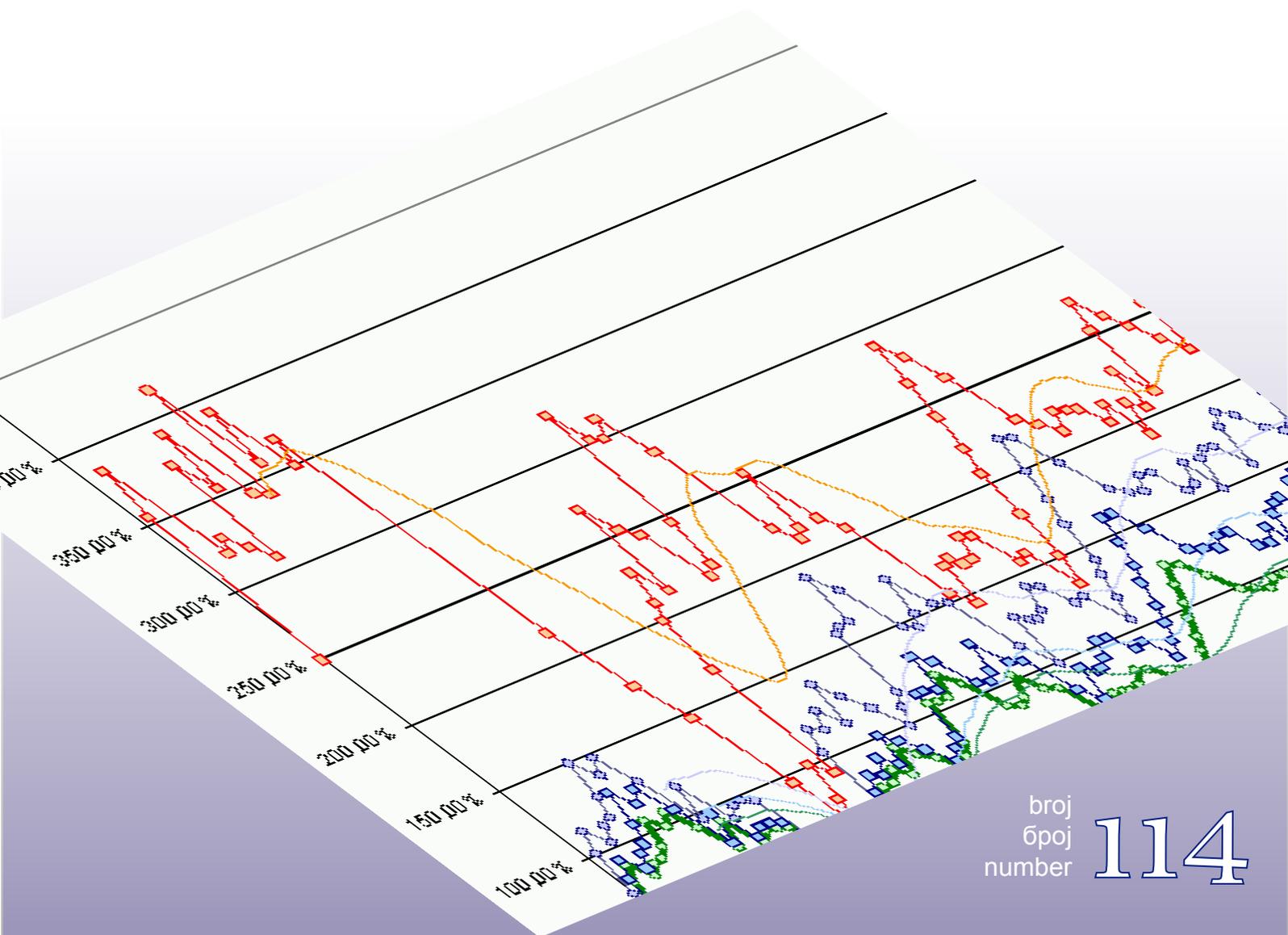




Macroeconomic Unit of the Governing Board of the Indirect Tax Authority

# *Oma Bilten*



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## With this issue

Bearing in mind the historical trends and the traditional increase in consumption at the end of the year due to the holidays, it was realistic to expect a continuation of positive trends in collection of indirect taxes in December. However, data from the preliminary report of the ITA indicate that the positive expectations have been exceeded. Despite the growth of refunds of 15,3%, the net collection of indirect taxes in December 2014 increased by as much as 12,1% compared to the same month of 2013, due to the strong growth in gross collection. The unexpectedly strong growth in collection of indirect taxes in December has also increased the growth in net cumulative collection, so that the year 2014 ended with a surplus of 182,7 million or growth of 3,7% compared to the collection of indirect taxes in 2013 (Chart 1).

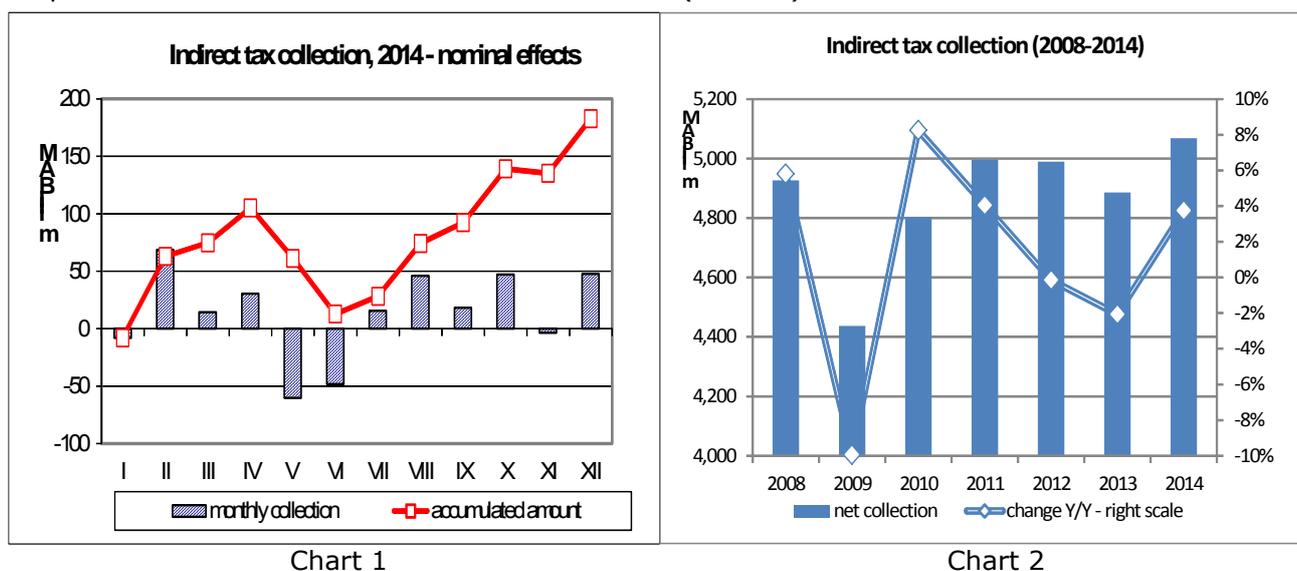


Chart 1

Chart 2

The positive trends in December increased the cumulative surplus in revenues from VAT to 95,3 million KM, and in customs revenues to 24,1 million KM. Negative trends in revenues from excise duties in December couldn't significantly threaten the cumulative growth, so that the surplus in the excises and road taxes amounted to 50 million KM. It is currently unadjusted 19,2 million KM of revenues, so even greater surpluses can be expected after adjusting, mainly on VAT. More detailed analysis of collection will be presented in the next issue of the Bulletin when the final data become available. In the meantime, we are providing an analysis of the effects of changes of the Law on Excises in the area of tobacco and beer taxation.

Dinka Antić, PhD  
Head of Unit

### Table of contents:

The effects of changes of the Law on Excises in the area of tobacco and beer taxation	2
Policy of excise duties on tobacco in the EU in the period 2005-2014: evolution and process of convergence	6
Consolidated reports	18

Technical design: Sulejman Hasanović, IT expert  
Reader/translator: Darija Komlenović, professor

## The effects of changes of the Law on Excises in the area of tobacco and beer taxation

(author: Dinka Antić, PhD)

*The changes of the Law on Excise Taxes in the area of **tobacco** are effective as of 1 August 2014. The main changes relate to the introduction of specific excise duty on fine-cut tobacco and its annual adjustment with the increase in the minimum excise duty on cigarettes. The initial specific excise duty on fine-cut tobacco is determined in the amount of 78 KM/kg.*

*Amendments to the Law on Excise Duties in the area of **beer** are effective as of 1 September 2014. The changes include the introduction of differentiated rates of excise duties on beer, depending on the volume of annual consumption in the previous three years. The previous standard rate of excise of 0,20 KM/l becomes the lower rate, while a higher rate of excise duty is 0,25 KM/l.*

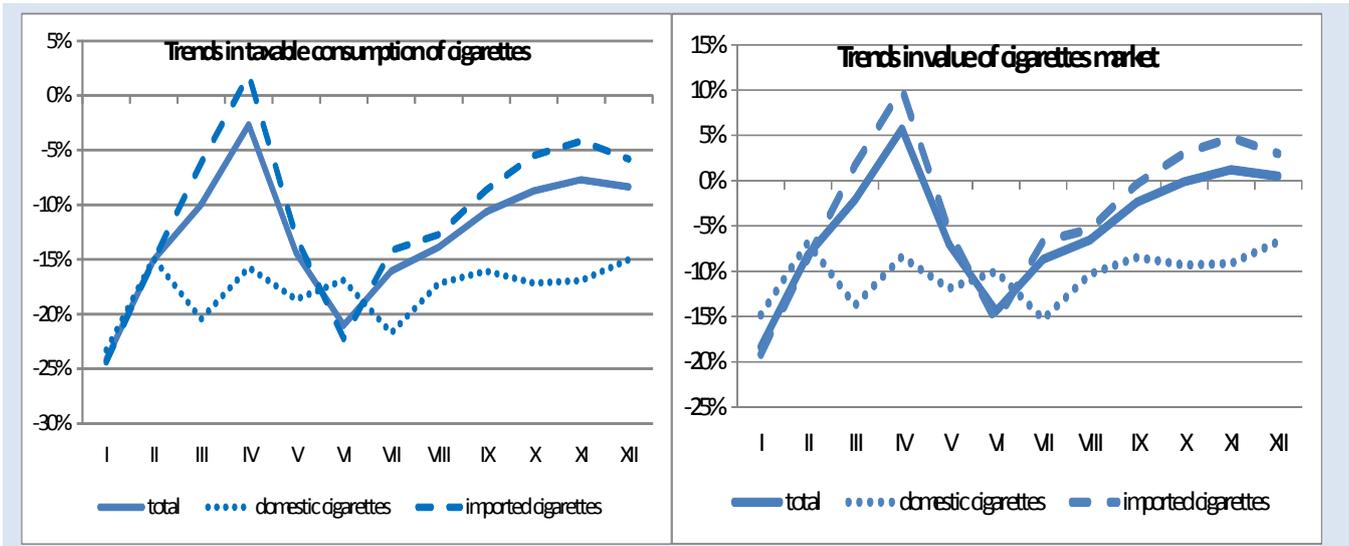
### *i. Tobacco*

Trends in the market of tobacco in the period before the adoption of amendments to the Law on Excises were extremely bad. Migration of consumers from the cigarette market to the market of cut tobacco has escalated, stimulated by the growing gap between the tax burden on cigarettes and on cut tobacco as a substitute. In the first half of 2014 there has been a deepening of the negative trend from 2013, when there was a decrease of quantities of cigarettes of 20%. The quantity of cigarettes (measured by the amount of issued excise stamps) decreased by 21% compared to the same period in 2013. On the other hand, the growth in consumption of cut tobacco has exceeded 20%. Strong substitution of cigarettes with cut tobacco has led to the strengthening of tax evasion, so that a decline in revenues from excise taxes on tobacco by 10% was recorded in the first half of the year, provided that the collection of excises on cut tobacco increased by 29% in comparison with the same period in 2013, and of excises on cigarettes 11,2% less.

Certain movements in the market of tobacco have already occurred after the adoption of amendments to the Law, and prior to coming into force as of 1 August 2014. The drastic increase in the excise burden on cut tobacco stimulated the accumulation of cut tobacco. Domestic tobacco industry was at the forefront of it, so that the cumulative growth of the consumption of cut tobacco, for which the excise stamps had been issued, reached 70% at the end of July, while the consumption of imported cut tobacco barely reached the amount from the same period in 2013 (Chart 1). It should be noted that the data include only taxable branded cut tobacco. It can be assumed that the announcement of a large increase in excise duties on cut tobacco led to the increased consumption of untaxed non-branded tobacco. The fact that for seven months 18% more cigarette rolling papers for machine production of cigarettes was imported, which, in any case, do not correspond to a downward trend in domestic production of cigarettes, indicates that there occurs non-registered demand.

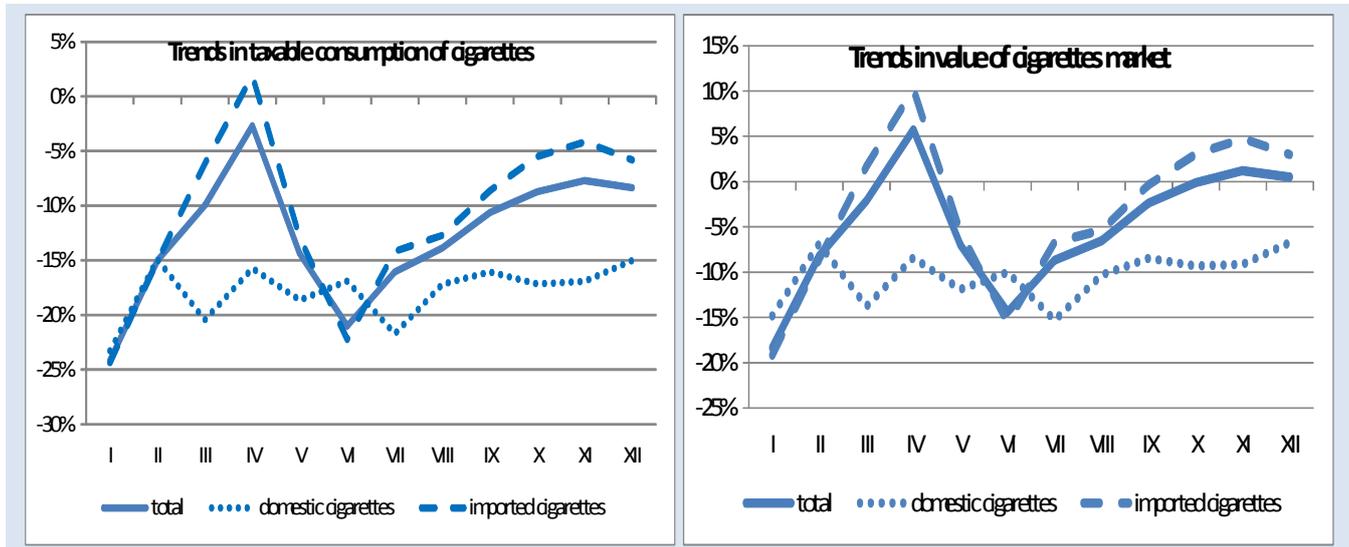
After coming into force of amendments to the Law, there was a big turnover. In only four months, the cumulative consumption of domestic taxable cut tobacco is reduced to the level of 2013, while the quantities of imported cut tobacco were reduced by 32%. There was also a decline in the market value of cut tobacco of 6,8%, with the value of domestic tobacco market still increased by 6,9% (Chart 1)

Chart 1



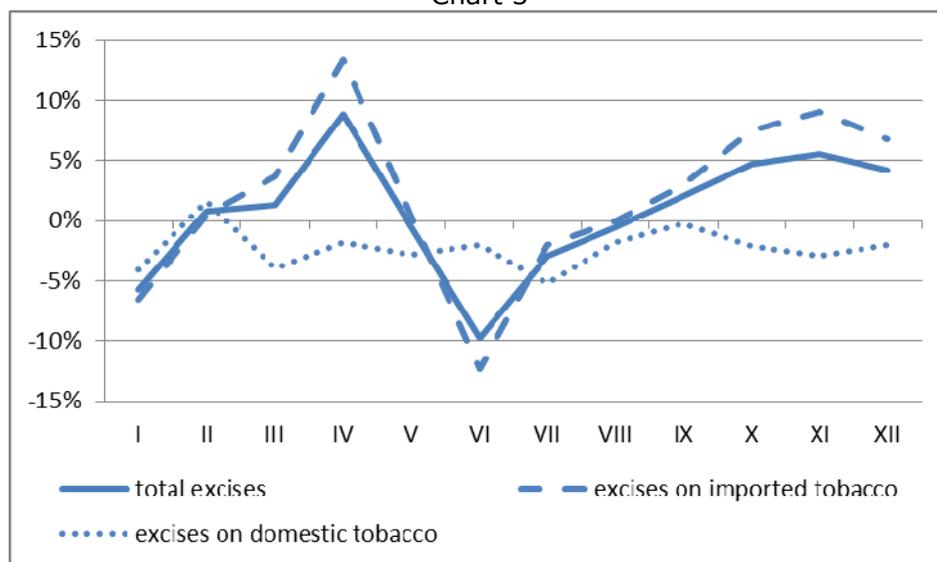
The imports of cigarette rolling papers for machine production in the period from August to December 2014 have been stabilized at the level of imports from 2013 for this period. On the other hand, there was a continuous increase in quantities of cigarettes, which largely mitigated the negative trends from the first half of the year. Finally, in 2014 it was recorded a decrease in quantities of cigarettes of 8,4%, with a greater decrease in domestic cigarettes (Chart 2). The mentioned fall in the consumption of cigarettes can be considered acceptable, given the fact that excise duties on cigarettes are increased as of 1 January 2014. Also, the percentage of the fall in consumption is in line with trends in other countries in a situation of increase of excise duties on cigarettes.

Chart 2



New trends in the tobacco market in B&H have also brought an increase in revenues from excises (Chart 3). It is collected 30,8 million KM of excises more than in 2013, or 8,3 million KM more than the projected collection.

Chart 3



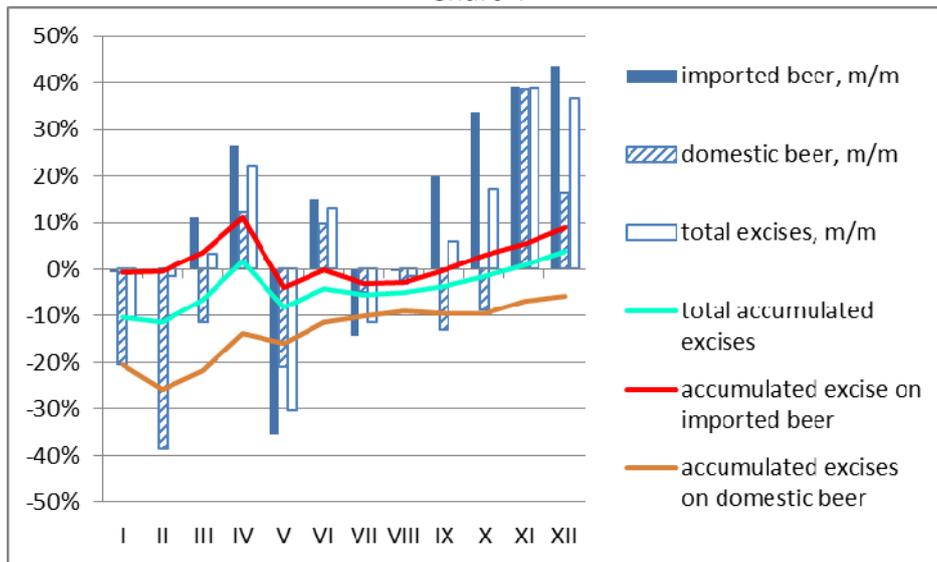
It can be concluded that tobacco market has been stabilized in a very short time due to the amendments to the Law on Excises. There has been obtained the one of the objectives of the Law change, which is reaching in the first stage the revenue collection from 2012, which has so far represented a historical maximum.

## *ii. Beer*

Bearing in mind the legal threshold of annual production and other conditions for exercising the right to a lower rate of excise duty, it can be assumed that the lower rate applies to domestic beer, and higher on imported beers. When preparing projections, the Unit has assumed that the differentiated excise tax would lead to the substitution of imported beer brands with domestic brands, of course, if the additional tax burden (excise + VAT) shifts to the buyer through the price. Since no significant shifts had been recorded in the market prior to the entry into force of amendments to the Law, the analysis would be focused on the period from September to December 2014.

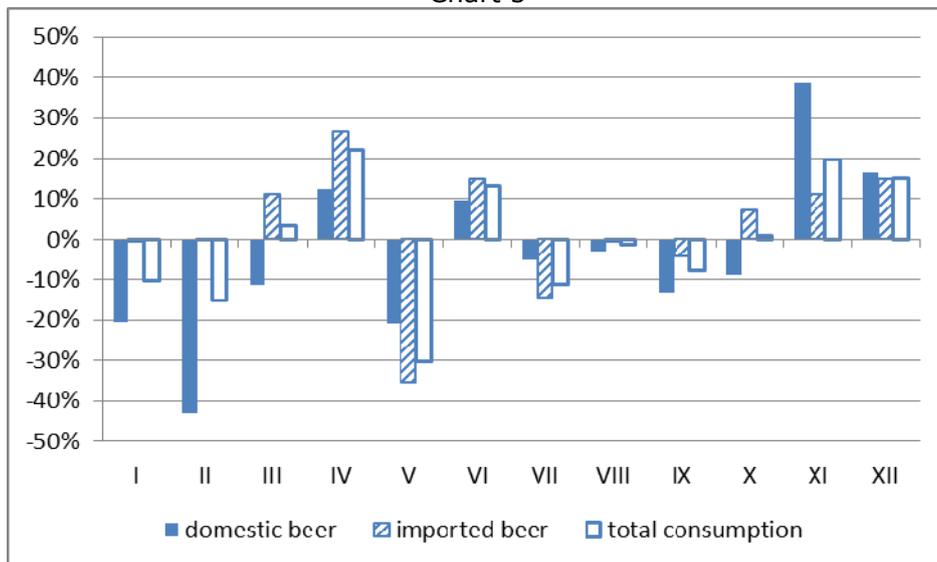
Chart 4 shows the strong growth in revenues from excises on imported beer in the all four months of the period. The growth of revenues from excises on imported beer in September was the result of growth in the excise burden. Since October, the growth in collection is also the result of higher imports, because in this period the quantity of imported beer increased by 11,2%.

Chart 4



Effects of differentiated rates on the consumption of domestic beer have emerged only in November and December 2014. The quantities of beer which are placed on the market in those two months increased by 27% compared to the same period of 2013 (Chart 5)

Chart 5



Generally, the result of the introduction of differentiated rates of excises is the increase of revenues and increase of amounts of beer placed on the market. However, due to the growth of imports of beer, even increased quantities of domestic beer could not fix a bad market position of local breweries which has been deteriorating from year to year. Notwithstanding the improvement in the last two months, the share of domestic beer in the beer market in 2014 amounted only 33%. For comparison, the share of domestic beer in 2006 was 42%.

## Policy of excise duties on tobacco in the EU in the period 2005-2014: evolution and process of convergence

(Author: Dinka Antić, PhD)

*Strong increase in the minimum excise duty at EU level is of crucial importance for the process of convergence of the excise policy at EU level. Based on statistical measures of variability the approximation of excise policies of EU Member States in the field of taxation of cigarettes is determined, provided that the excise policies of new Member States are more homogenous than Member States of the EU-15.*

### 1. INTRODUCTION

Tobacco and tobacco products are suitable goods for taxation, as indicated even by Adam Smith (1776) in the "The Wealth of Nations". Since they do not represent the basic foodstuffs and become subject to general consumer spending, with a strong element of addiction to spending, taxation of these goods with high tax rates can bring high revenues. In recent years, high excise rates represent not only an important instrument of fiscal policy, but the primary health care policy. The World Health Organization has promoted an increase in tobacco excises as one of the six most important instruments of MWERP in order to discourage consumption, especially by high-risk groups and of lower quality tobacco (WHO, 2008). Since tobacco smoking produces negative externalities in terms of impact on the health of smokers and passive smokers, high revenues from tobacco excises are also used to finance health care funds.

Given the dominant share of the tobacco market, the main problem in the design of excise duties represents the determination of the structure of excise rates on cigarettes, in terms of the relationship between the *ad valorem* and specific excise duty. This issue is crucial for any country that seeks to eliminate lower quality tobaccos from the market and reduce health risks. For the EU the structure of excise duties on cigarettes is also important for the process of convergence of the excise policy of EU Member States in the direction of creating a coherent policy of excise duties at EU level.

### 2. REVIEW OF LITERATURE

Principles of taxation in financial theory advocate taxing individual goods by the specific tax per unit of measure. However, there is a deviation in tobacco because in many countries tobacco is traditionally subject to an *ad valorem* excise. Due to the action of the multiplier with the price changes before taxes (i.e. producers' prices) on the increase in selling prices of cigarettes Crawford, Keen and Smith (IFS, 2010) suggest that high rates of the *ad valorem* excise do not motivate producers to invest in innovation and to use more quality tobacco. The result is the retention of the existing price range. Excise policy based on an *ad valorem* excise leads to price differentiation, so the increase in excise rate has no greater impact on reducing consumption, as consumers switch to cheaper brands. The logical consequence of high rates policy of *ad valorem* excise duties is the lower level of revenues from excise duties. On the other hand, high specific excise duties compel producers to seek ways to improve the internal economy, in order to, at least partially, offset the increase in excise duties by the reduction of prices before the taxation. In such relationships, manufacturers are keen to invest in innovation, equipment and quality tobacco, in order to reduce fixed costs per unit and increase the efficiency of internal economy. Given that high excise burden leads to high retail prices for cigarettes manufactured from cheaper tobacco, consumers are opting for quality cigarettes. The result is elimination of cheap tobacco from the market and the reduction of price ranges between the most expensive and the cheapest cigarettes, which prevents the migration of certain categories of consumers, such as those with

lower incomes and the young, towards the cheaper cigarettes. The collection of excise revenues in this case does not depend on price policy of companies, but on the consumption of cigarettes. Projections of revenues from excise duties are more likely certain, given that the effect of price changes is excluded from their calculation. Likewise, the administration of excise duties (control of calculation and collection) is easier with the specific excise duty because it is not necessary to monitor the movement of retail prices. Crawford, Keen and Smith (IFS, 2010) consider that the selection of the type of excise duty on tobacco depends on the preferences of consumers and the market structure, so that the *ad valorem* excise duty will be the choice for the monopoly structure market and weak production differentiation. However, Chaloupka, Yurekli and Fong (2012) argue that the choice between the *ad valorem* and specific excise duty and a decision to which type of excise duty give the preference if using a mixture of excise duties, depends on the interests of the state. If the objective is to collect revenues or reduce health risks, then the state will commit to the specific excise duty. On the other hand, if it wants to protect domestic tobacco industry and the market for cheaper cigarettes, the state will opt for the *ad valorem* excise duty. Presenting a list of reasons "for and against" Yurekli (2001) advocates the concept of "best of both", i.e. a hybrid rate of excise duty which will combine the advantages of both types of excise duties.

Choosing excise rates between the *ad valorem* and specific or the application of the excise mixture, the effect of income and substitution, elasticity of consumption and cross elasticity are important elements for the design of national policies in excise duties on tobacco in each country. However, in a complex community such as European Union (EU) coordination and harmonization of policies at EU level are required. Autonomous national excise policies can produce negative effects in terms of harmful tax competition between Member States and the functioning of the single market. The process of positive harmonization of excise duties on tobacco at EU level, which was started by opening the market EC 1992, quickly gained a new dimension to the convergence process of excise policies of Member States. The process should lead to a reduction of frauds, smuggling and trafficking but also it should contribute to the achievement of the objectives of the health policy of Member States and the EU (EU, 2007). Empirical studies of the convergence effects of excises in the period 2002-2012 (Cooper and Witt, 2012) showed faster reduction in the difference between the excise burden and retail prices of the old Member States. At the same time, due to the faster pace of harmonization and lower incomes new Member States are more vulnerable to the growth of the black market and tax evasion. As a positive effect of the EU excise policy Cnossen (2006) states the shifting of the taxation focus from the *ad valorem* to the specific excise duty. Advocating for a longer transition period of adjustments for new Member States Cnossen believes that a further increase in the excise duty (over EUR 60) would be counterproductive. Crawford, Keen and Smith (IFS, 2010) shared similar position. Taking into account the heterogeneity of the Union they believe that the imposition of higher excise uniformity at EU level would produce economic inefficiencies and the erosion of revenues. However, according to Yurekli (2001), the inefficiency is to some extent expected given that the policy of excise duties on tobacco in EU represents a political compromise, by which excise policies existing in the EU Member States are "blessed". On the other hand, empirical research on the effects of the single market to the EU excise policy in the period 1987-2004 showed that the creation of a single market and, consequently, the introduction of minimum standards of taxation at EU level represented a significant milestone for reforms in excise policies of Member States (Lockwood and Migali, 2008). All this indicates that the process of convergence of excise duties on tobacco is bi-directional and that its efficient performance involves constant mutual adjustment of the excise policy of the EU and excise policies of Member States.

### 3. TRENDS IN THE CIGARETTE TAXATION POLICY

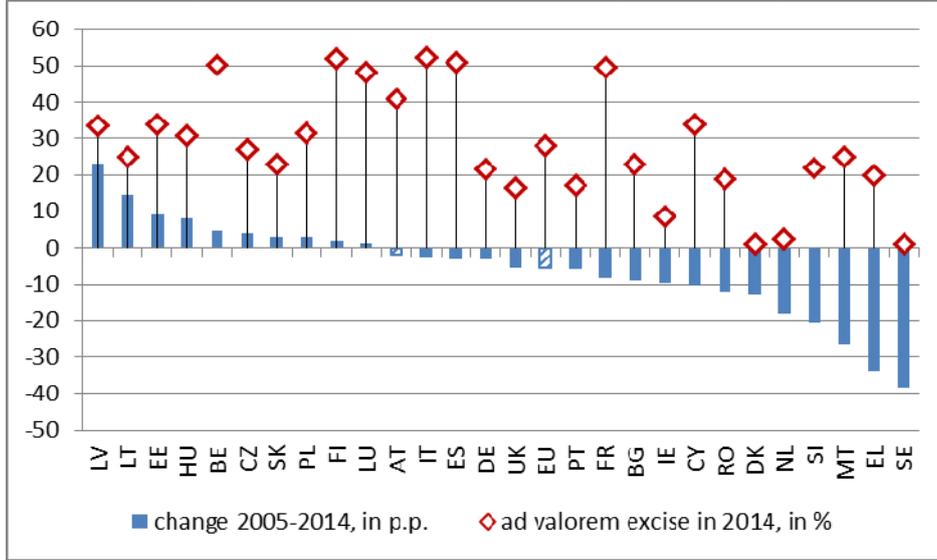
Tobacco products in the EU, which are subject to harmonization of excise duties, include cigarettes, cigars and cigarillos, as well as smoking tobacco. Smoking tobacco includes fine cut tobacco and other smoking tobacco. Minimum standards for taxation of tobacco products are prescribed for each specified group. Cigarettes are subject to an *ad valorem* excise duty, which is determined as a percentage of the retail cigarette price, and to a specific excise duty, determined for 1.000 pieces of cigarettes. For many years, the basic characteristics in the area of tobacco taxation in the EU was the polarization between Member States that have developed domestic tobacco industry and Member States which are predominant importers of tobacco products. Member States with their own tobacco industry, as a rule, have higher rates of *ad valorem* excise duties on cigarettes in order to protect domestic brands, which are usually compared to international competition.

Because of the diversity of national excise policies, which enhanced with the process of the EU enlargement, the realization of the convergence of Member States' excise policies in the direction of creating a coherent EU excise policy required the introduction of a minimum excise duty. The minimum excise duty on cigarettes in the EU applies from the very beginning of the establishment of harmonized system of excise taxes in 1993, when it was defined in the amount of 57% of the retail selling price of the most popular price category of cigarettes (criterion "57%"). Given the differences in retail selling prices criterion could not provide the desired pace of convergence. From 1 of July 2002 a nominal minimum in the amount of 60 EUR/1.000 pieces of cigarettes was introduced. Already on 1 of July 2006 a minimum total excise duty was increased to 64 EUR /1.000 pieces of cigarettes and as of 1 of January 2014 to 90 EUR / 1.000 pieces of cigarettes. Meanwhile, the relative threshold of 57% of the price of the most popular price category increased to 60% of the weighted average price of cigarettes (criterion "60%").

In determining the minimum of excise duty of 60 EUR the EU was aware that some Member States would not be able to within the prescribed period increase rates of excise duty to the minimum necessary. Further increase in the minimum excise duty to 64 EUR and then to 90 EUR represents a major burden for the new EU Member States. Similarly, the introduction of criterion "60%" of the weighted average price of cigarettes is a significant deterioration in the criteria for Member States which have the large discrepancy between the price of the most popular brands (which are usually the cheapest) and weighted average price. In developed Member States the differences between these two reference prices are insignificant. Although the new minimum excise duty of EUR 90 /1.000 cigarettes was prescribed in 2011, six Member States are still below the prescribed minimum to which the transition period for harmonization has been granted, while in terms of the criterion "60%" eight Member States are below the prescribed minimum.

A large number of Member States have implemented the process of harmonization of the excise burden with the EU minimum standards by changing the structure of excise rates – reducing the rate of the *ad valorem* excise duty, although there are Member States that have increased the *ad valorem* excise duty (Chart 1). On the whole in ten years the average *ad valorem* excise duty in the EU-27 decreased by 8,2 p.p.

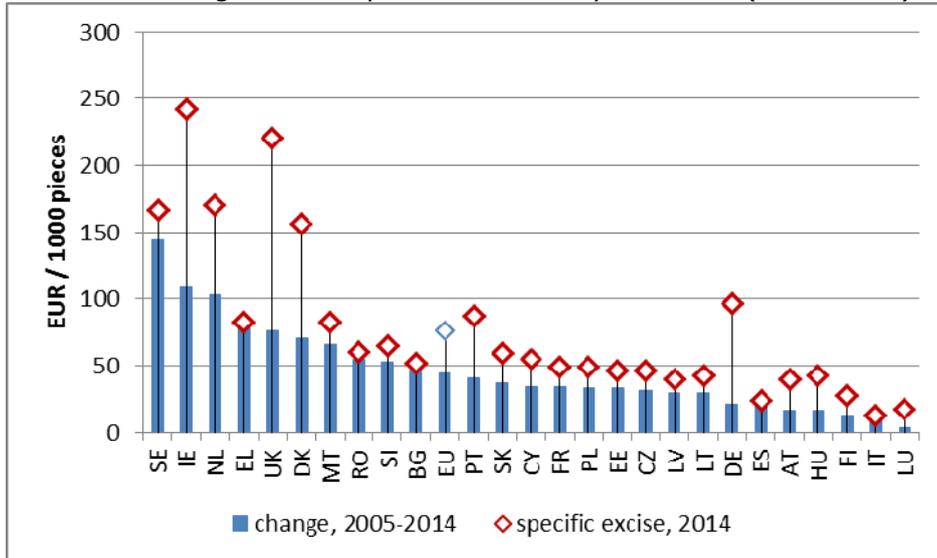
Chart 1 Changes in the *ad valorem* excise duty in the EU (2005-2014)



Source: European Commission; Author's calculation.

Unlike the *ad valorem* excise duty all Member States have increased the specific excise duty (Chart 2). At EU level the average specific excise duty has been increased by 140%.

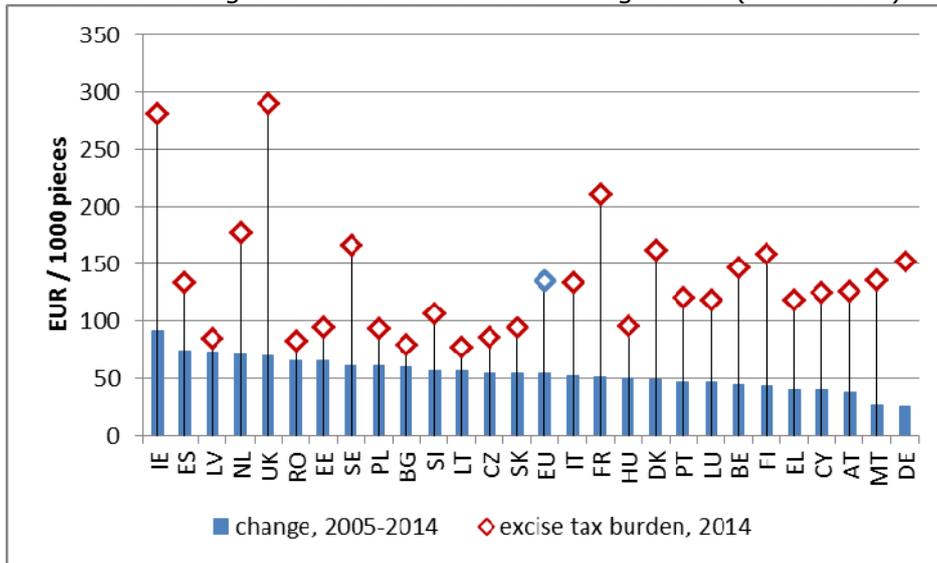
Chart 2 Changes in the specific excise duty in the EU (2005-2014)



Source: European Commission; Author's calculation.

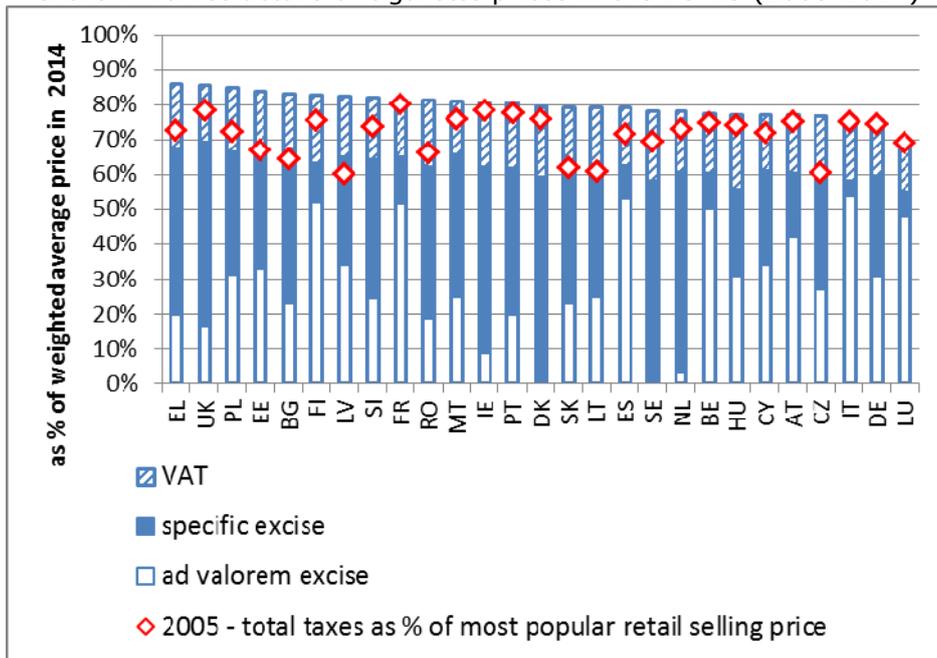
All these changes have acted on the size and structure of the tax burden on the cost of cigarettes. In the period 2005-2014 there was an increase in the excise burden in all Member States, and the average excise burden on the price of cigarettes in the EU increased by 66%. It is necessary to bear in mind the different bases for comparison, given that by 2011 the excise burden has been measured compared to the most popular price category while since 2012 compared to the weighted average price of cigarettes. Chart 4 shows the differences in the tax burden on the most popular price category of cigarettes and the weighted average price. In some new Member States (Poland, Hungary, Latvia and Lithuania) the differences indicate large price ranges between the price of the cheapest (and at the same time most popular) cigarettes and more expensive brands.

Chart 3 Changes in the excise burden on cigarettes (2005-2014)



Source: European Commission; Author's calculation.

Chart 4 Tax structure of cigarette prices in the EU-15 (2005-2014)



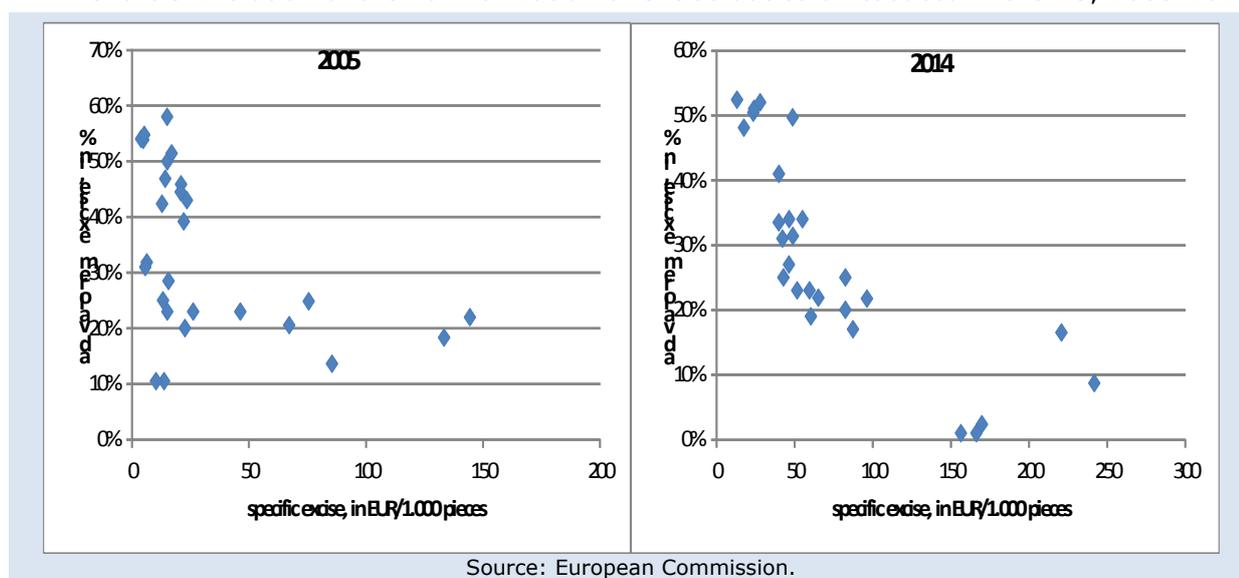
Source: European Commission; Author's calculation.

In the analysis of the excise and total tax burden on cigarettes it is necessary to bear in mind that the period of the analysis coincides with the time of occurrence and effects of the global economic crisis. A large number of Member States with the aim of fiscal consolidation increased VAT rate, which had an effect not only on the amount of retail cigarette prices and the structure of the tax burden on cigarettes but also on the amount of the weighted average price.

#### 4. CONVERGENCE PROCESS OF EXCISE DUTIES ON CIGARETTES IN THE EU (2005-2014)

The process of changing the structure of excise duties has led to significant shifts at EU level in the past ten years. In terms of the *ad valorem* excise duty in 2014 grouping of Member States in the zone between 20% and 35% was notable, compared to 2005 when there was significant dissipation in a wide range of rates. The biggest changes occurred in the specific excise duty. In 2005 most of the Member States had a specific excise duty of up to 25 EUR/1000 pieces, while today most of them are within the range of 50 to 100 EUR/1000 pieces (Chart 5).

Chart 5 Evolution of the harmonization of excise duties on tobacco in the EU, 2005-2014



The range between the highest and lowest rate of the *ad valorem* excise duty was increased after 2010 as a result of varying the adjustment of Member States to the rate convergence policy. On the one hand, there was a slight reduction in the maximum rate, and on the other, there was a sharp fall in the lowest rate applied by Member States. This is also the reason for the sudden increase of variation width and its retention at a high level (Table 1).

Table 1 Variation width of rates of *ad valorem* excise duties on cigarettes (in p.p.)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
EU-27	47,5	44,4	44,4	47,5	44,4	44,4	44,4	44,4	39,7	56,0
EU-15	47,5	44,4	44,4	47,5	44,4	44,4	44,4	44,4	39,7	56,0
EU-NMS	40,9	36,6	39,0	40,9	36,6	39,0	36,4	28,7	28,0	26,0

Source: European Commission; Author's calculation.

There are two reasons for the increase in variation width between the minimum and maximum specific excise rate (Table 2): (i) slow adaptation of Member States with high rates of the *ad valorem* excise duty and (ii) the rapid growth of the specific excise duty of Member States which have traditionally had high rates of the specific excise duty and lower than average rates of the *ad valorem* excise duty (United Kingdom, Ireland, Germany, Denmark, Portugal,...).

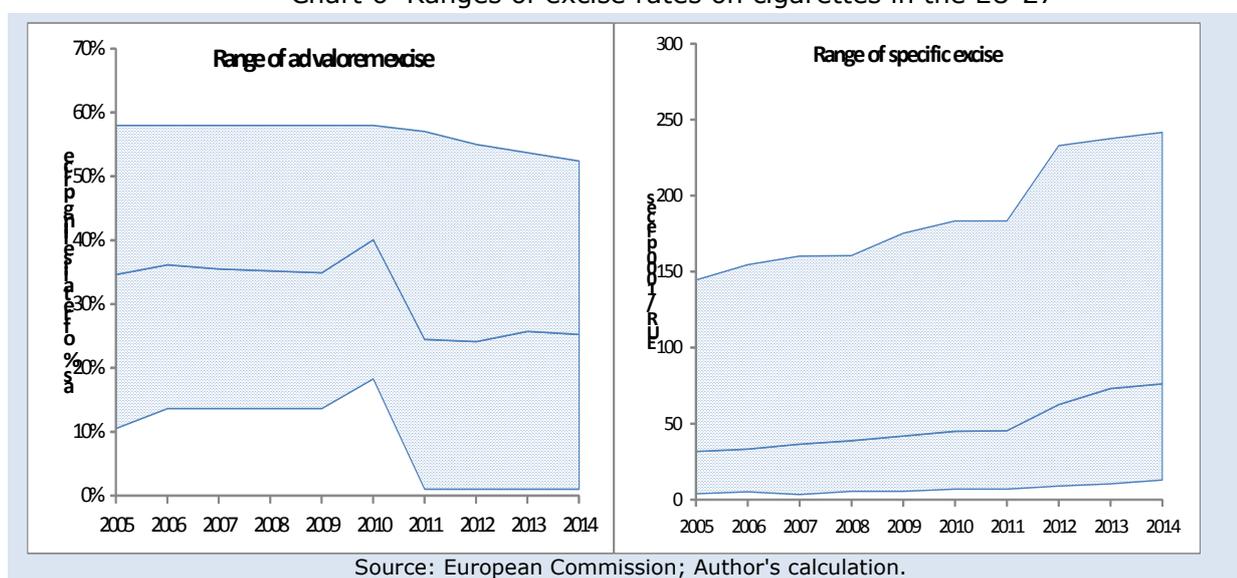
Table 2 Variation width of rates of the specific excise duty on cigarettes (in EUR/1.000 pieces)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
EU-27	140,5	149,4	157,0	155,1	169,8	176,5	176,5	224,2	227,3	228,7
EU-15	140,5	149,4	155,1	140,5	149,4	155,1	155,1	169,8	176,5	176,5
EU-NMS	20,5	20,6	27,8	20,5	20,6	27,8	25,1	36,0	34,7	33,5

Source: European Commission; Author's calculation.

As a result of uncoordinated changes in the excise policy of Member States the average rate of the *ad valorem* excise duty at EU level within the period 2005-2010 increased by 2,3 p.p., but in the last four years it was reduced by 8 p.p. On the other hand, the process of the continuous increase in the specific excise duty has resulted in strong growth in the average specific excise at EU level with 27,8 EUR/1.000 pieces in 2005 to 63 EUR/1.000 pieces in 2014 (Chart 6).

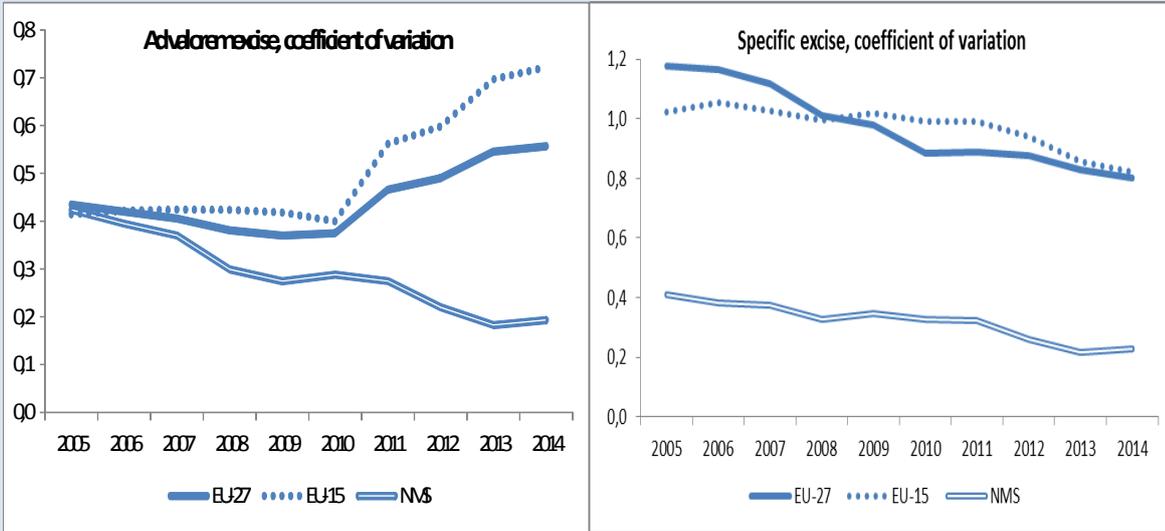
Chart 6 Ranges of excise rates on cigarettes in the EU-27



Divergent policies of the old Member States ("EU-15") in terms of the *ad valorem* excise led to a deterioration of the variation coefficient, not only for this group but also for the whole EU (Chart 7). On the other hand, rapid adjustment of the new Member States („NMS") to the minimum standards of the EU has led to a reduction in the rate dispersion around the average for this group. In the case of the specific excise duty a constant reduction in dispersion is notable in old but also in new Member States, as a result of the policy of continuous increase in rates (Chart 7).

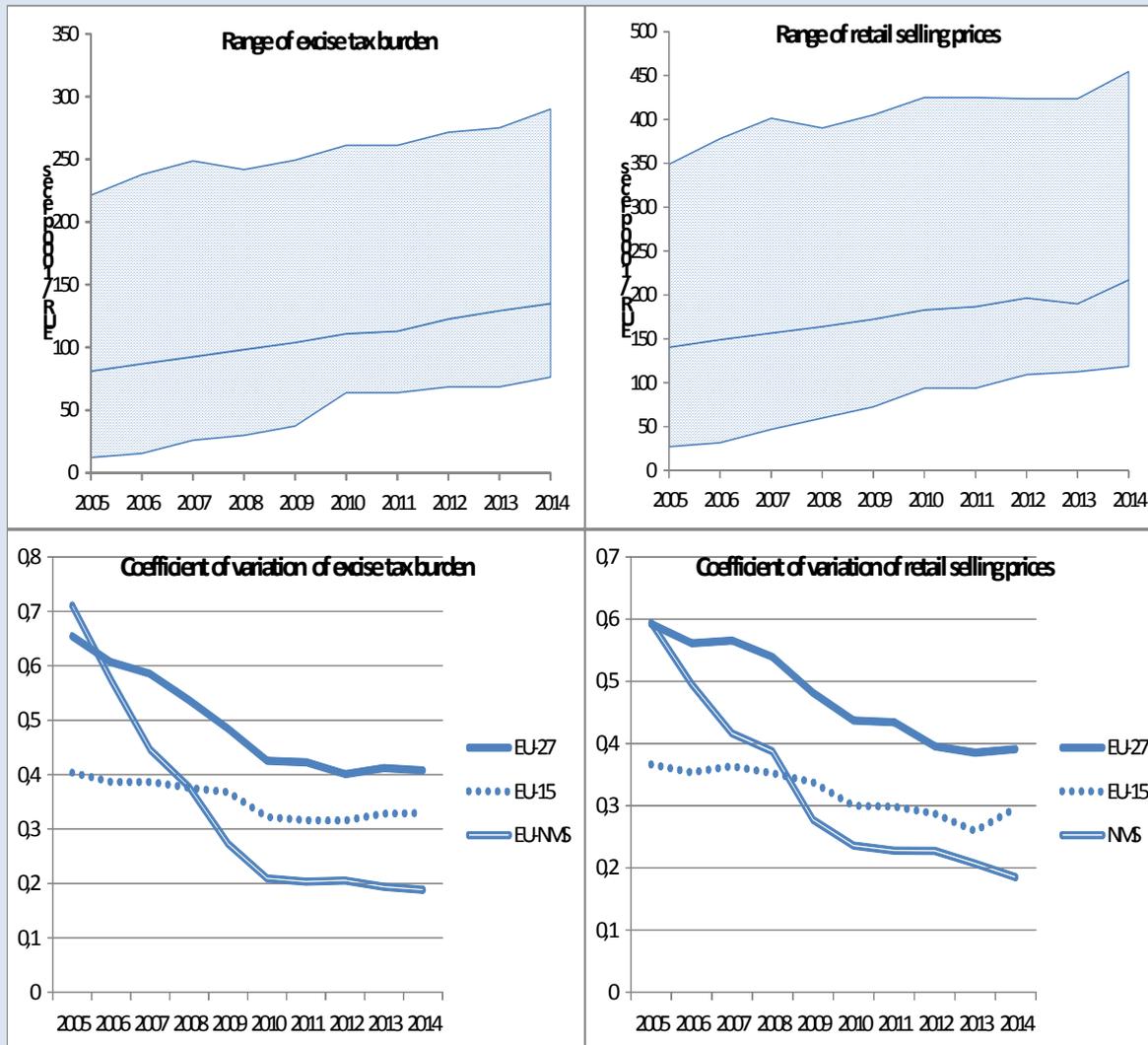
Increase in excise rates on cigarettes in Member States led to a gradual increase in the excise burden on cigarette prices. The situation presented in Chart 8 shows a growing trend of excise burden but keeping the same ranges. Maximum values are related to the old Member States and the minimum to the new ones.

Chart 7 Variability of excise rates on cigarettes in the EU-27



Source: European Commission; Author's calculation.

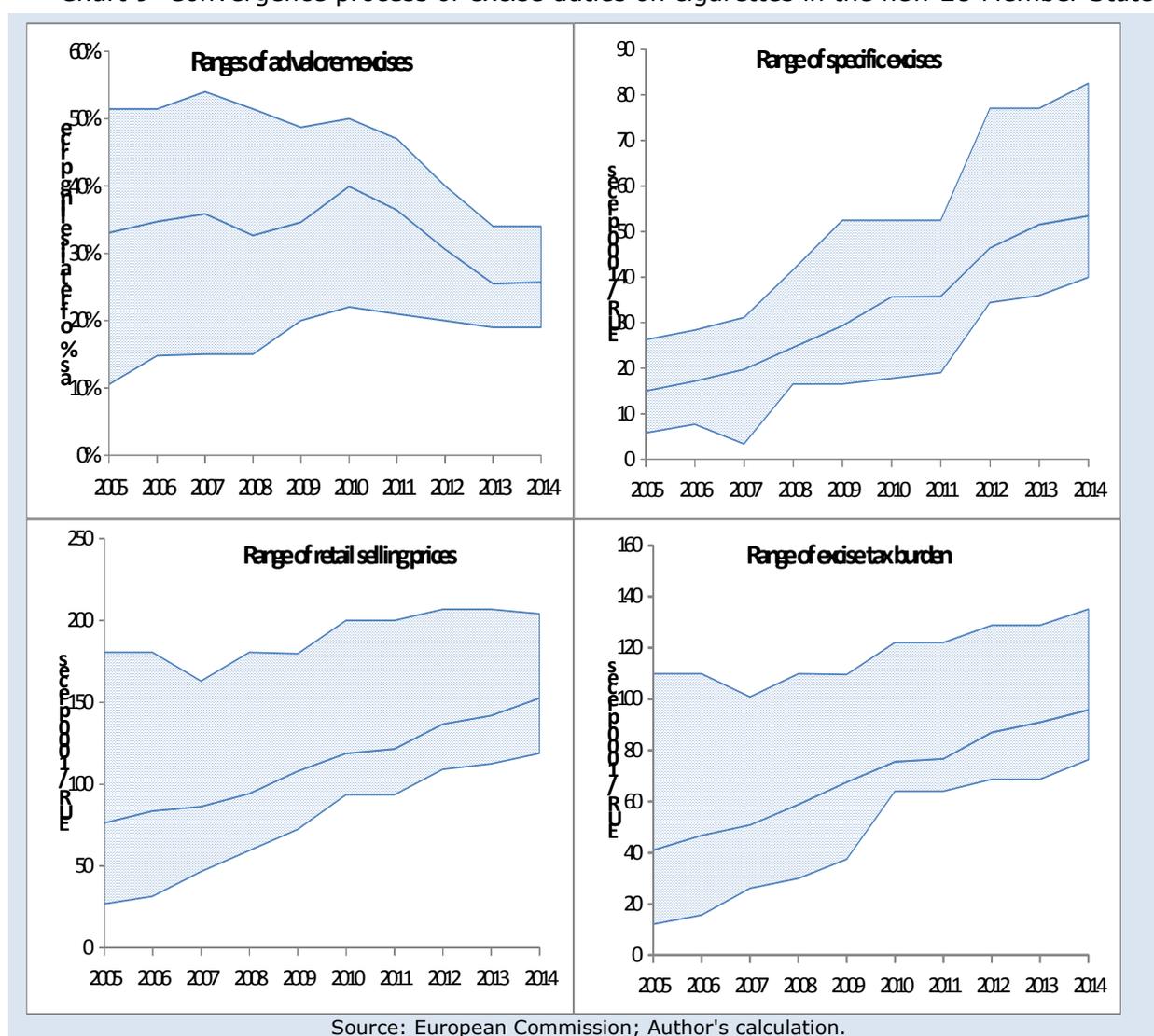
Chart 8 Variability of prices and excise burden on cigarettes in the EU-27



Source: European Commission; Author's calculation.

While looking at the trends and drawing conclusions it is necessary to bear in mind that the series of data on the excise burden and prices in Member States are not entirely consistent. Due to standards that were in force data on the excise burden on cigarette prices and amount in the period 2005-2011 related to the most popular price category and in the period 2012-2014 to the weighted average price. In any case, the trends point to the rise in retail selling prices of cigarettes in the EU Member States with the ranges between the most expensive and the cheapest cigarettes remained the same. However, the downward variation coefficient in the excise burden and costs shows a reduction of variability in both the old and new EU Member States until 2011 and as of 2012 variation coefficient is growing in the old Member States. It can be connected with different base for the application of the *ad valorem* excise duty (weighted average price in relation to the most popular price category), but also with strong growth in the specific excise duty in some Member States (United Kingdom, France, Sweden,..) which led to the increase in prices.

Chart 9 Convergence process of excise duties on cigarettes in the new EU Member States



Previous analyses showed high homogeneity of excise policies of the new EU Member States. There are two main reasons for this. First, all of the new Member States were in a similar starting position before entering the EU. Second, the process of harmonization with the minimum excise

duty of 64 EUR, i.e. 90 EUR, is conducted by the new Member States with the policy which implies a simultaneous decrease in the *ad valorem* excise duty and an increase in the specific excise duty. The indicator of variation width of excise rates for this analysis is not relevant to the analysis because the extreme values of both specific and *ad valorem* excise duty throughout the period are run by the old EU Member States. From the above analysis it is concluded that the old Member States hold also the maximum values of the excise burden and prices of cigarettes. However, based on this it cannot be concluded that the trends in the cigarette taxation in the new Member States are not relevant to the convergence of the EU excise policy. Analysis of the range of rates points out a significant reduction in rates and dissipation narrowing in the *ad valorem* excise duty (Chart 9). In the specific excise duty steady growth is notable, with the range between the highest and the lowest rate being increased. These trends led to an increase in the excise burden so that the prescribed minimum of EUR 64/1.000 pieces was achieved in 2010 and since then the process of harmonization with the new minimum of excise duty of EUR 90/1.000 pieces has been continued. The policy of continuous reduction in *ad valorem* rates and the increase in the specific excise duty has led to a constant rise in cigarette prices and narrowing price ranges.

Despite the strong polarization between the old and new Member States a gradual convergence of these two groups is notable. It was shown by the following indicators. First, the average excise burden on cigarettes in the new Member States in relation to the average excise burden in the old Member States in the period 2005-2014 increased from 36,3% to 57,6% (Table 3). Second, the convergence of the cigarette price is evident. The average price of cigarettes in the new Member States in 2005 amounted 39,9% from the average price in the EU-15 and in 2014 this ratio was increased to 56,8% (Table 4).

Table 3 Convergence of the average excise burden on cigarettes

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
EU-15 (EUR/1.000 pieces)	113,0	118,8	125,7	129,7	133,0	139,1	141,8	151,1	159,8	166,1
EU-NMS (EUR/1.000 pieces)	41,0	46,8	50,9	58,7	67,5	75,5	76,6	86,9	90,9	95,7
NMS/EU-15, u %	36,3	39,4	40,5	45,3	50,8	54,3	54,1	57,5	56,9	57,6

Source: European Commission; Author's calculation.

Table 4 Convergence of the average<sup>a</sup> prices<sup>b</sup> of cigarettes

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
EU-15 (EUR/1.000 pieces)	191,5	201,2	212,6	219,4	224,0	234,2	238,7	244,5	253,5	268,7
EU-NMS (EUR/1.000 pieces)	76,5	83,7	86,5	94,2	108,1	118,9	121,5	136,7	141,9	152,6
NMS/EU-15, u %	39,9	41,6	40,7	43,0	48,3	50,8	50,9	55,9	56,0	56,8

Note:

<sup>a</sup> It is the arithmetic average of the Members group.

<sup>b</sup> In the period 2005-2011 the price of the most popular price category has been applied and in the period 2012-2014 the weighted average price of cigarettes.

Source: European Commission; Author's calculation.

Analysis of the coefficient of variation showed a deep division between the old and new Member States which also affected the pace of convergence. However, it can be concluded that the EU by its policy on excise duties on cigarettes in the past ten years, despite all the objective obstacles, managed to direct the national excise policies in the route of the convergence process.

## 5. CONCLUSION

From the analysis of the EU taxation trends in the period 2008-2014 it can be concluded that a process of convergence of excise policy within the EU is achieved by simultaneous implementation of two processes: continuous increase of the excise burden on cigarettes and continuous changes in the structure of the excise burden in favor of the specific excise. Both processes lead to the rapid convergence of the excise burden on cigarettes and elimination of cheaper brands manufactured from poor quality tobacco. Ultimately, discouraging the consumption of poor quality and cheaper tobacco with high excise duties is in line with objectives of the EU health policy. Excise policy of new Member States is, due to circumstances that preceded their accession, proved to be more homogenous in relation to old Member States. Analysis of variation width showed that the pace of the convergence process of the excise policy *de facto* depended on the pace of adjustment of old Member States which have in the past had very high rates of the *ad valorem* excise duty. Adjusting these States implies the need to compensate a gradual reduction of the *ad valorem* excise duty with the gradual increase in the specific excise duty.

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## Consolidated reports

(Author: Aleksandra Regoje)

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

The preliminary consolidated report includes

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

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

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

## Preliminary report: B&amp;H Institutions, entities and SA, I-XI 2013

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	Total
Revenue	434,7	382,4	446,3	489,5	554,8	560,5	550,8	492,9	490,4	531,9	479,2	5413,4
Taxes	409,4	348,7	402,9	424,1	477,1	478,0	473,9	455,1	460,4	468,5	440,9	4839,0
Direct taxes	22,7	29,7	53,5	45,4	27,0	31,6	39,1	27,3	27,8	28,8	28,5	361,3
Taxes on income, profits and capital gains	22,0	29,0	52,5	44,3	25,9	30,6	37,9	26,2	26,8	27,7	27,6	350,7
Taxes on property	0,6	0,7	0,9	1,1	1,0	0,9	1,2	1,1	0,9	1,1	0,9	10,5
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	4475,5
VAT	240,7	210,2	227,6	243,4	274,7	254,2	291,5	269,6	280,0	289,2	259,9	2841,1
Excises	112,0	76,4	82,4	93,0	129,9	150,3	99,2	111,2	103,7	103,1	106,2	1167,2
Road fee	20,3	16,8	18,9	22,5	26,6	23,9	25,6	28,2	27,8	24,9	25,8	261,2
Customs	12,6	14,5	18,9	18,2	17,4	16,2	16,8	17,3	19,7	20,7	18,7	190,9
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	15,1
Other taxes	0,0	0,0	0,1	0,4	0,0	0,5	0,3	0,2	0,0	0,1	0,4	2,2
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
Foreign grants	1,4	0,7	1,8	2,4	0,8	2,9	3,5	0,7	0,2	0,7	10,1	25,3
Other (non-tax) revenue	23,9	33,0	40,2	64,3	76,6	79,4	73,2	37,1	29,8	61,8	27,5	546,8
Transfers from other general government units	0,0	0,0	1,4	-1,4	0,2	0,2	0,2	0,0	-0,1	1,0	0,7	2,3

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	Total
Expenditure	411,9	400,9	410,4	416,0	459,3	478,6	532,1	492,2	462,5	500,4	463,9	5028,1
Expense	407,5	397,9	402,9	411,1	455,9	469,1	515,3	485,2	452,6	482,6	453,0	4933,2
Compensation of employees	123,1	124,6	126,9	124,2	125,0	128,9	130,5	124,4	128,3	127,3	128,2	1391,4
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	27,6	297,7
Social benefits	52,6	54,4	53,4	53,3	51,7	57,4	55,3	55,3	59,3	63,1	58,2	614,0
Interest	4,2	7,1	18,9	8,7	13,7	23,1	5,4	9,9	15,0	10,8	15,7	132,5
Interest payments to non-residents	2,3	5,5	10,1	6,0	6,2	14,1	3,1	5,4	7,9	5,8	9,7	76,3
Interest payments to residents	2,0	1,6	8,8	2,7	7,5	9,0	2,3	4,4	7,1	5,0	5,9	56,2
Subsidies	2,2	2,4	6,0	3,7	8,3	19,3	19,2	24,5	20,6	15,2	18,9	140,3
Grants (to non-residents)	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Transfers to other general government units	40,3	42,2	41,5	37,8	42,4	49,7	60,1	48,3	48,6	47,9	46,4	505,4
Transf.from SA (BD, cant, munic, funds, road f.)	165,4	134,4	119,1	153,2	184,6	144,8	197,2	187,9	142,5	182,7	149,4	1761,1
Other expense	5,1	8,6	8,9	5,4	5,6	8,0	21,4	5,8	6,6	6,9	8,7	90,8
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	10,9	95,0
Acquisition of nonfinancial assets	4,6	3,3	8,2	5,6	3,9	10,1	17,4	7,2	10,7	18,4	11,6	101,0
Disposal of nonfinancial assets	0,2	0,2	0,7	0,7	0,5	0,6	0,5	0,2	0,9	0,7	0,7	6,0
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	49,3	26,2	480,2
Net lending /borrowing (revenue minus expenditures)	22,8	-18,5	35,9	73,5	95,4	81,9	18,7	0,8	27,9	31,5	15,3	385,2
Net financing = (Minus) Net lending /borrowing	-22,8	18,5	-35,9	-73,5	-95,4	-81,9	-18,7	-0,8	-27,9	-31,5	-15,3	-385,2

Table 1