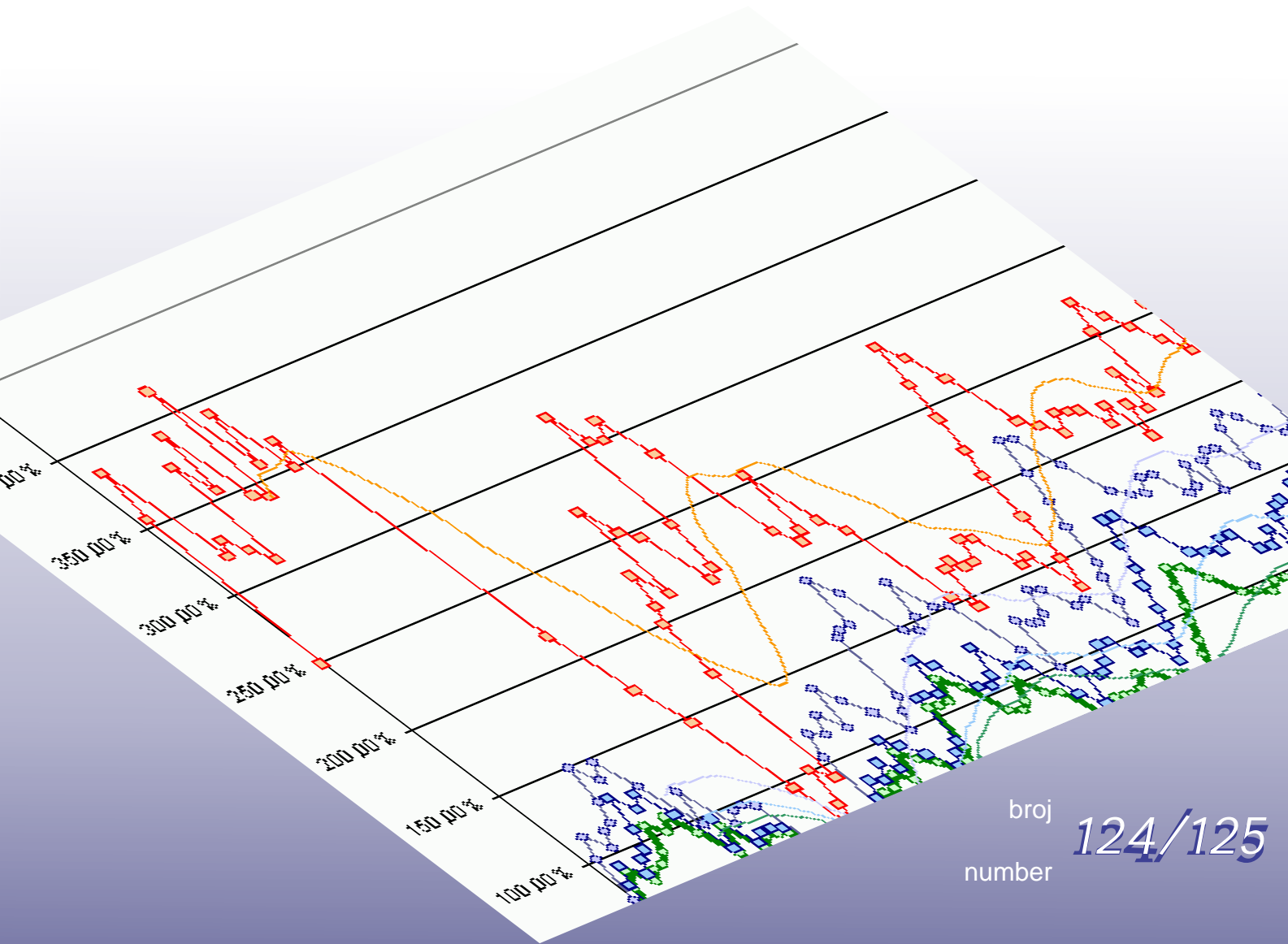




Oma Bilten



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number **124/125**

With this double-issue

According to the ITA preliminary report it was collected in November 2015 on the ITA Single Account 537,8 million KM of gross revenues from indirect taxes or 13,5 million KM more than in November 2014. Since the refund payments were lower by 6,5 million KM, the net collection in November increased by 20 million KM or by 4,7% compared to the same month of 2014. The positive trends in the collection in November brought the increase in the cumulative surplus of gross revenues to 128,8 million KM. At the level of eleven months it was paid 71,7 million KM less refunds of indirect taxes than in the same period of 2014. As a result of the cumulative positive effect of the gross collection growth and reduction of refunds, the nominal net revenue growth from indirect taxes in the period January - November 2015 amounted to 200,5 mil, or 4,3% compared to the same period of 2014 (Chart 1). The observation by types of revenues for the nine months 2015 shows the highest nominal growth in revenues from excises and road taxes, a total of 115 million KM, 58,1 million KM from VAT and 7,4 million KM from customs revenues. It should be noted that, according to the preliminary report, it was recorded an additional 26,4 million KM of unadjusted revenues, which have not yet been allocated by type and which can to some extent improve the indicators in net VAT.

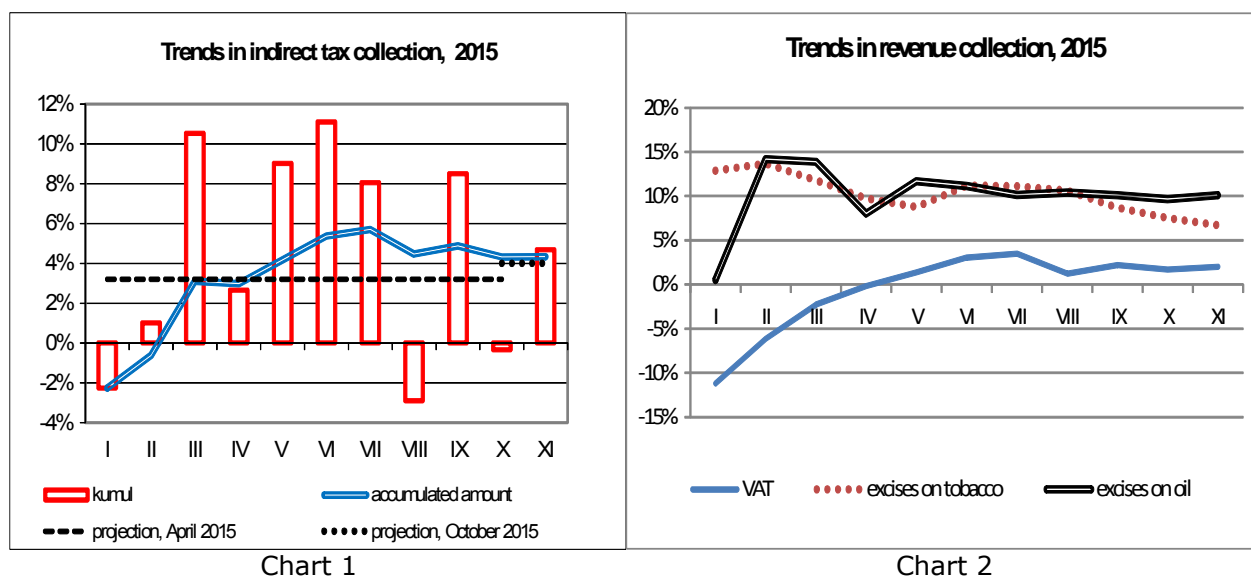


Chart 2 shows that the revenues from excise taxes on oil derivatives recorded the most stable trend for the longest period of 2015, while the revenues from excise taxes on tobacco showed the slowdown in the last three months. This was expected due to the uneven dispersion of the effects of introduction the specific excise duty on fine-cut tobacco which had been expressed in the first eight months of 2015, as a result of the application of amendments to the Law as of 1st August 2014 (see Bulletin no. 120/121). After negative trends in the first quarter and a rise in the second quarter, the trend of net VAT is stable, at the level of projections of the Unit from April 2015 (see Bulletin no. 118) and of the October projections (see the article in this Bulletin).

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REVISED INDIRECT TAX REVENUE PROJECTIONS 2015-2018

I ASSUMPTIONS

The revised indirect tax revenue projections for the period from 2015 to 2018 are based on the following assumptions:

- Forecasts of macroeconomic indicators by Directorate for Economic Planning (DEP) for the above period, September 2015;
- Continuation of harmonization of excise duties on cigarettes with EU standards and the harmonization of excise duties on fine-cut tobacco with the increase in excise duties on cigarettes;
- The effects of the Free Trade Agreement¹ between Bosnia and Herzegovina and EFTA²;
- Current trends in indirect tax revenue collection.

The policy of excise tax on tobacco in the period 2015-2018 includes a continuous annual increase in the specific excise duty on cigarettes of 0,15 KM per package, as well as harmonisation of the specific excise on cut tobacco with the increase of minimum excise duty on cigarettes.

II CURRENT TRENDS IN COLLECTION

2.1. Total collection

The previous dynamics in 2015 was characterised by positive trends in collection of indirect taxes. According to the preliminary cash flow report of the ITA for the nine months 2015 it was collected 4,717 billion KM of gross revenues, which is an increase of 142,68 million or 3,1% compared to the same period in 2014. Due to the decrease in refunds, net revenues from indirect taxes in the period January - September grew at a rate of 4,9%.

Comparison of the collection in 2015 and 2014 by months (Chart 1) and by quarters (Chart 2) indicates a positive trend with strong fluctuations in the first part of the year, and slowing down in the third quarter. After revenue growth in the first quarter of 3,1%, the second quarter brought growth of 7,5%, and the third of 4,3% (Chart 2). Analysis of the structure of revenue collection indicates that a moderate growth in net revenues in the first quarter can be linked to the modest growth in gross revenue and an increase in refunds, partly carried over from the previous year. Maximum growth in the second quarter is the result of cumulative effect of increase in gross collection and reduction of refunds. A half of the total net effect for the nine months and even 83% of the total surplus of the gross collection are related to the second quarter. The positive trends in the third quarter are equally results of a large reduction in refunds for international projects and modest growth in gross collection.

¹ "Official Gazette of B&H - International Agreements" No. 18/14.

² The Member States of EFTA are: Switzerland, Iceland, Norway and Liechtenstein.

Chart 1

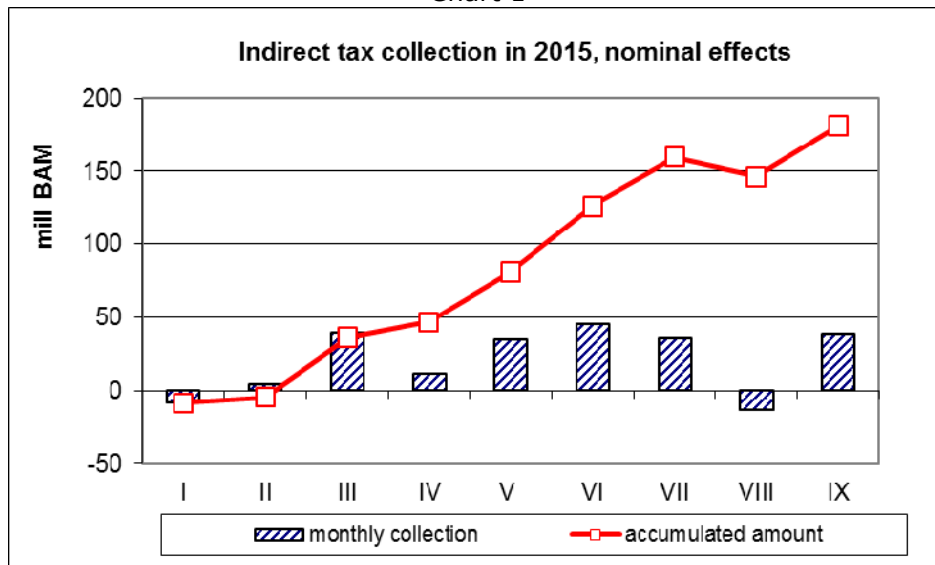
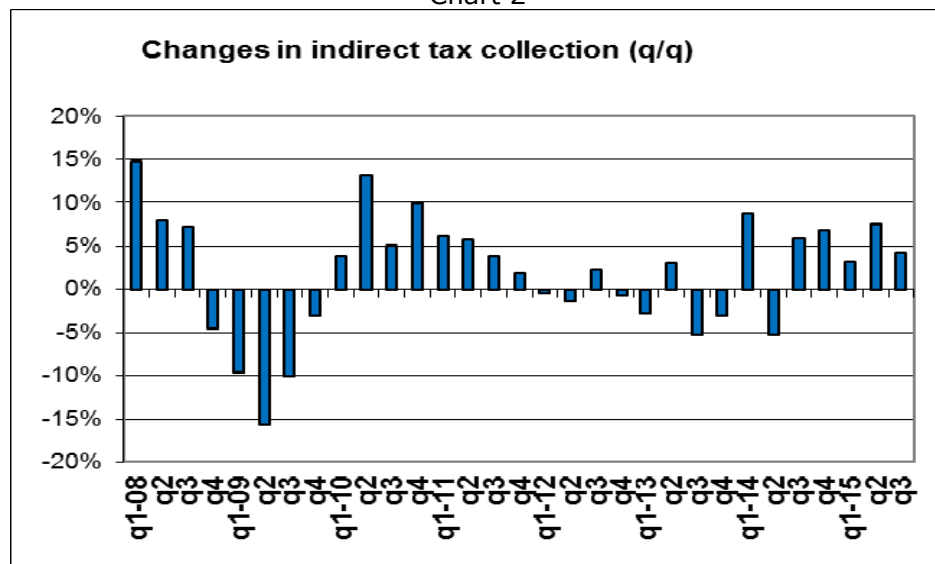


Chart 2



Collection of indirect taxes in the period January - September 2015 is characterized by uneven distribution of revenue surplus³ in a way that most of the expected annual surplus was realized in the first half of 2015. The main reasons for this are the new tobacco taxation policy⁴ and the effect of floods. Since the new policy has been applying as of 1st August 2014, the total annual effects on excise emerged in the first seven months of 2015. A slowdown in revenue collection from excise taxes on tobacco products can already be seen in the last two months, because the base in 2014 in these months has been increased due to the effects of changes to the Law on Excise Taxes. Floods in 2014 and reconstruction that followed had the double positive effect on the growth rate

³ It refers to the difference between the collected revenues (total or by individual types of taxes) in the certain period of the current year compared to the collected revenues (total or by individual types of taxes) in the same period in the previous year.

⁴ Changes of the Law on Excises, in force since 1st August 2014 ("Official Gazette of B&H" No. 49/14)

in the first half of 2015 for two reasons: (i) due to the lower base for comparison (May / June) and (ii) due to the increased consumption (and thus domestic VAT) because of realization of reconstruction projects in the first half of 2015. A significant factor of positive trends in collection of indirect taxes was the reduction of VAT refunds for the international projects.

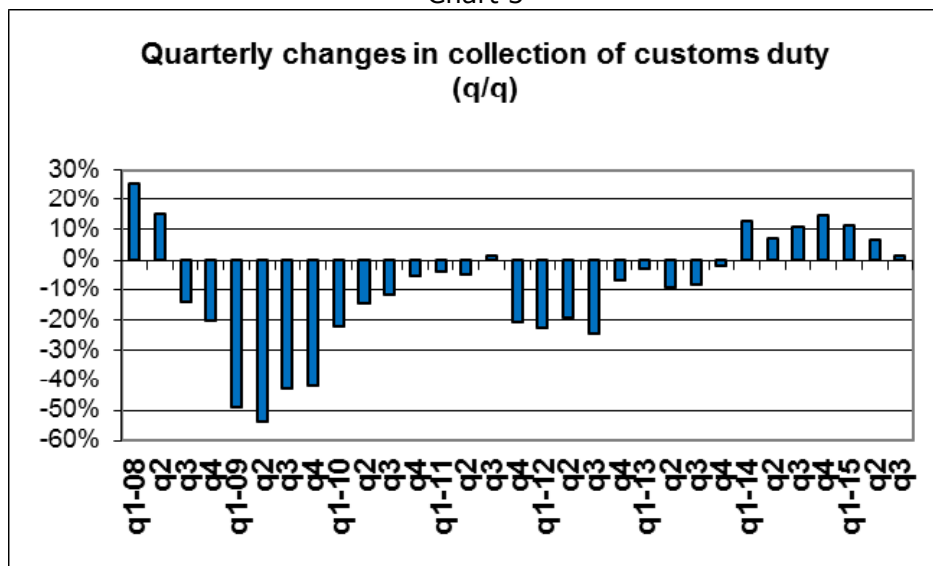
2.2. Collection by types of revenues

Observation by types of revenues in the period January-September 2015 shows the highest growth in revenues from excises and road taxes, a total of 104,6 million KM, from VAT of 51,7 million KM, and from customs revenues of 10,4 million KM. It should be noted that, according to the preliminary report, it was recorded an additional 25,5 million KM of unadjusted revenues, which have not been allocated by type at the time of preparation of the projections.

Customs

The former dynamics in 2015 was marked by a downward trend in revenue collection from customs which has lasted for six months after the maximum monthly growth of 14% in March 2015, and by a decline in customs revenues in September which occurred for the first time after two whole years. The downward trend in collection has led to a reduction in the cumulative growth, which from a maximum 12% fell to 6,2%. The slowdown in growth of customs revenue is associated with a decline in imports from China, Russia and other third countries⁵.

Chart 3

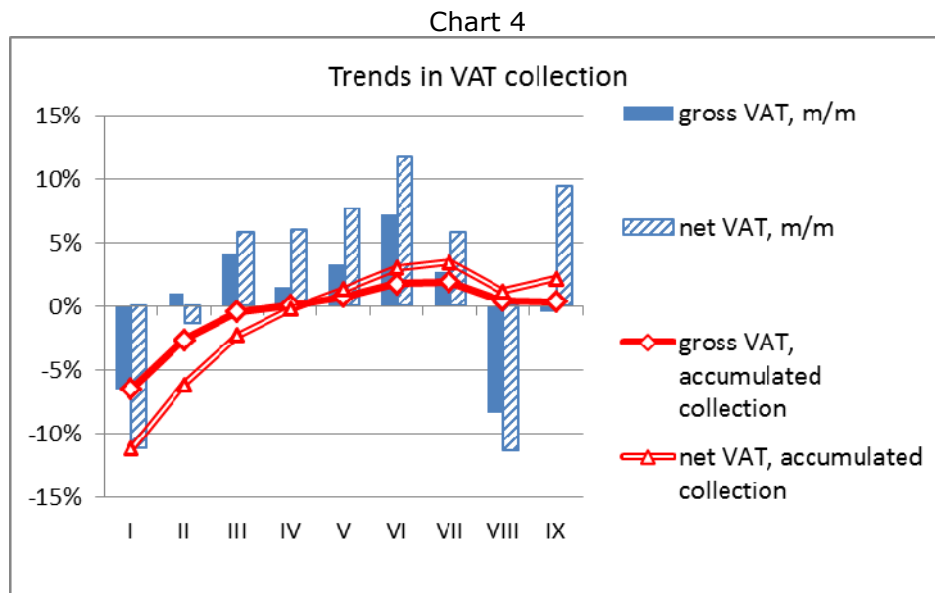


The slowdown in the collection of customs duty is in the best way illustrated by quarterly trends (Chart 3). The largest increase was recorded in the first quarter (11,3%), while the increases in the second and the third quarters were 6,5% and 1,6% respectively.

⁵ According to data of the Agency for Statistics of B&H imports from China decreased by 11,7% and from Russia by 22,5% in the period January - August. Source: www.bhas.ba.

VAT

The VAT collection in 2015 was characterized by strong fluctuations. The oscillations ranged from -11,3% in August to +11,8% in June. It can be concluded from the observation of trends in monthly collection (Chart 4) that the net VAT has moved to the positive growth zone in April. The reasons for this are the decline in refunds for the international projects and slowing down in gross collection, which is expected after the completion of the main part of the investment in TPP Stanari and keeping the same mode of VAT calculation by companies involved in *lohn* business. Despite the fluctuations, cumulative net VAT collection reached a growth of 2,2%. Considering the unadjusted 25,5 million KM recorded in the preliminary ITA report of revenues, it is realistic to expect even higher growth after adjusting⁶. Negative factor for VAT growth in 2015, amounting to 0,9 percentage points of the net VAT growth, is the higher statistical base for comparison in the first quarter of 2014 when a significant amount of old debt has been collected. It should be noted that one third of net VAT growth (or 0,8 percentage points) relates to the surplus of revenues from excises on tobacco and excise taxes/road fee on oil derivatives, which increased the VAT base, while the remaining part relates to the consumption of all other goods.

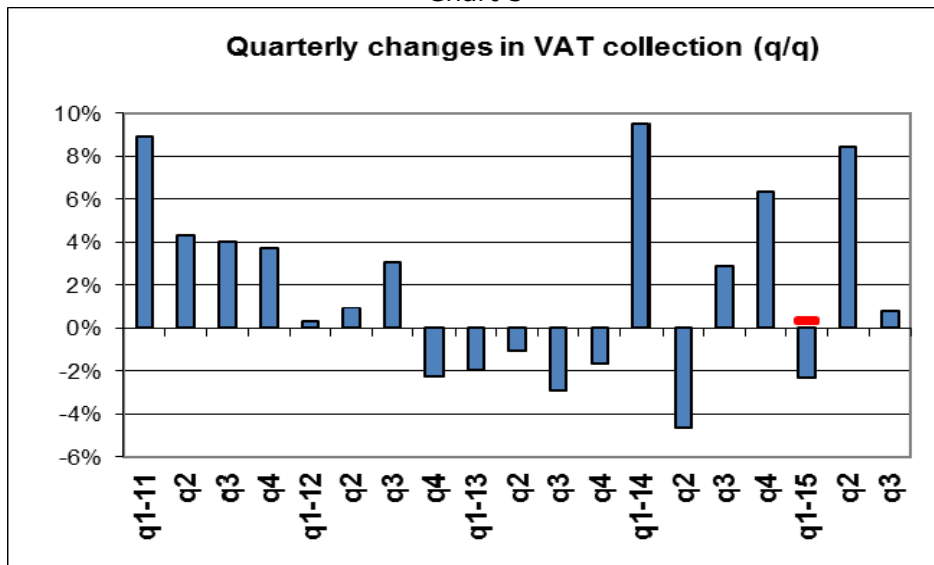


VAT refunds in January-September 2015 were by 2% higher than the same period of 2014. In nominal terms, it was paid 14,2 million KM more refunds to taxpayers than in the nine months of the last year. On the other hand, the refunds to the international organizations and projects were even by 44,7% lower than in the same period in 2014.

Quarterly comparison (Chart 5) shows positive trends in collection of VAT in the second (8,4%) and third quarter (+ 0,8%). There is a minimal positive growth in the first quarter after excluding the old debt collection (Chart 5, the mark „—“).

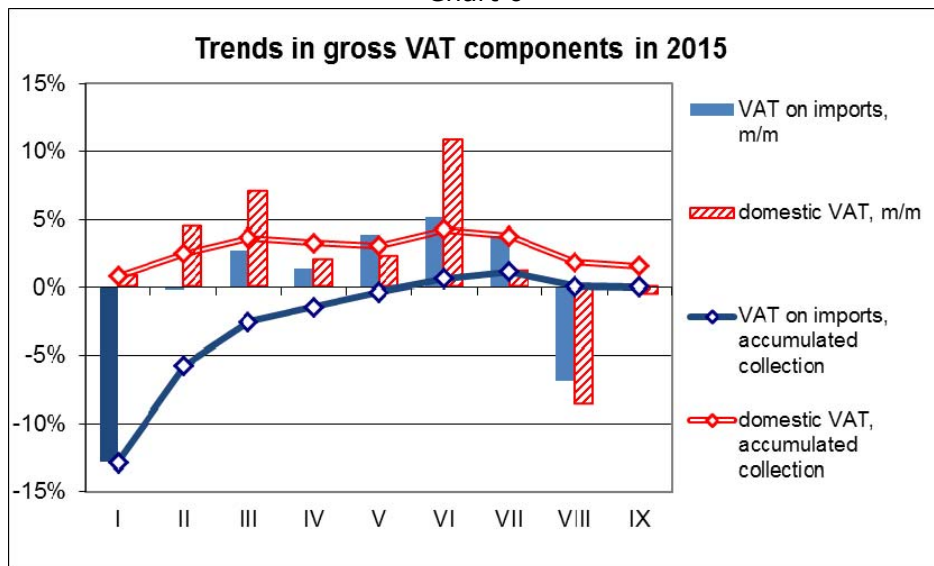
⁶ If the total unadjusted revenues were attributed to VAT, the cumulative net increase in VAT might reach maximally 3,3%.
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Chart 5



Analysis of components of gross VAT shows the divergent trends in the collection of VAT on imports and VAT in the country (Chart 6). Although a growth of VAT on imports had been recorded during five months, that was not enough to compensate the significant decline in January and August, so at the level of nine months the growth of VAT on imports amounted only 0,1%. On the other hand, domestic VAT has been constantly in the positive growth zone, and after the peak in June a strong decline was recorded in August. Despite the lower collection in September, the growth of domestic VAT for nine months amounted 1,6%. After the final alignment of unadjusted revenues for September it can be expected even higher growth rate of domestic VAT.

Chart 6

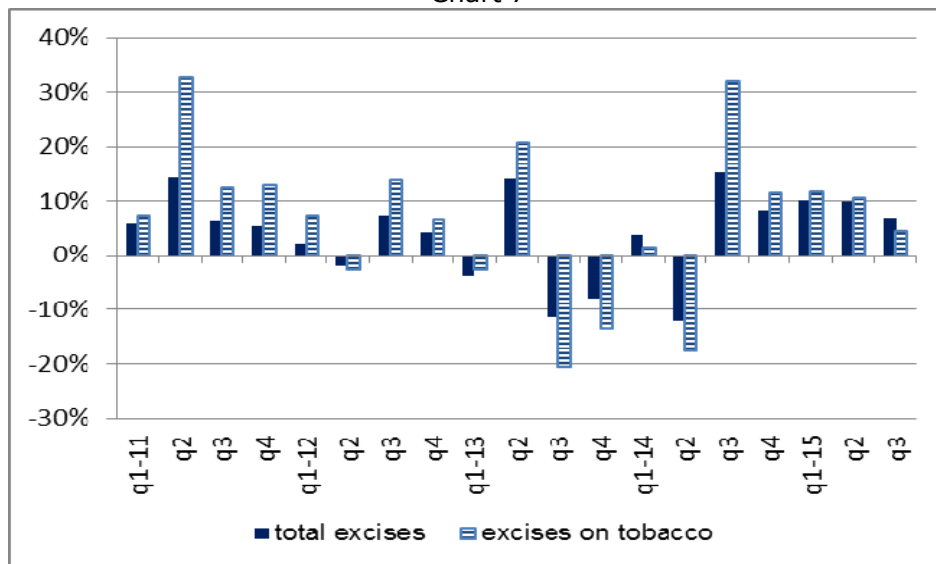


Excises and road taxes

Collection of excises in September 2015 was only slightly higher compared to the collection in the same month of 2014. This has led to a slowdown of cumulative growth from 10% to 8,8%. However, looking at the historical trend, it can be concluded that the growth rate of excise revenues is unexpectedly high. There are two reasons for this: the unequal distribution of the effects of changes of the Law on Excise Duties in area of tobacco, which is mainly manifested in the first seven months of 2015, and the unusually high growth in revenues from excises on oil derivatives.

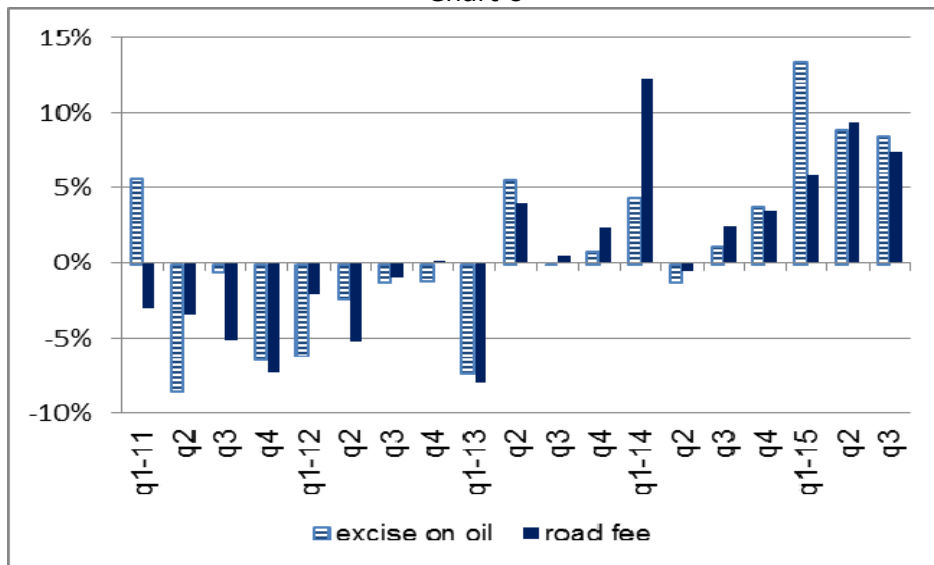
Quarterly comparison of the total collection and collection of the excise duties on tobacco shows that the main drivers of growth in revenues from excise taxes were the excises on tobacco (Chart 7). Application of the Law on Excises brought enormous revenue growth from excises on tobacco immediately in the third quarter of 2014. In the following three quarters the growth of revenues from excises on tobacco was balanced (ranging between 10,7% and 11,8%), and it was reduced to 4,3% in the third quarter of this year because the effects of Law changes have already been exhausted. One must bear in mind the negative trend in September, announcing a similar trend in the fourth quarter of 2015.

Chart 7



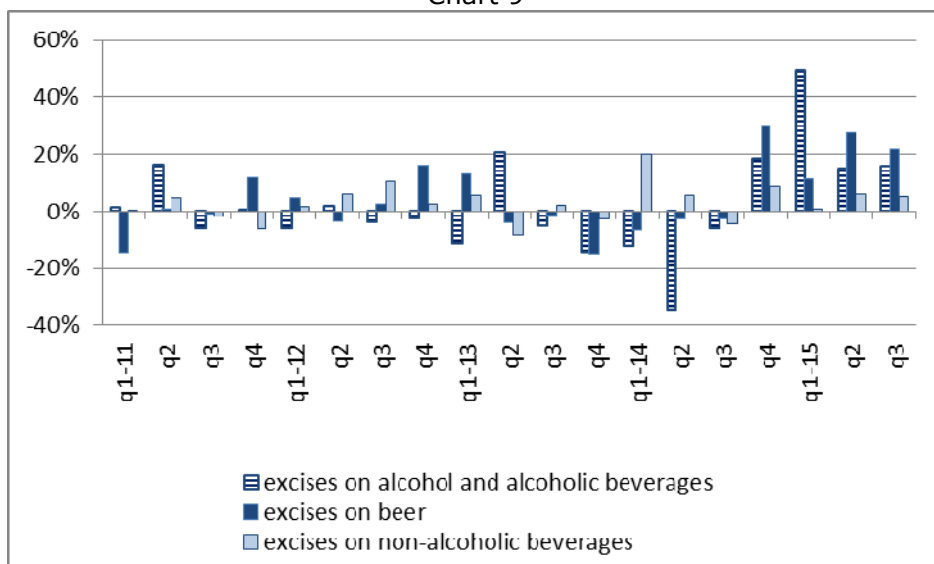
In the period January - September 2015 there was an increase in revenues from excise taxes on oil derivatives of 10,1%, with the excises on imported derivatives increased by 14,1%, while the growth of revenues from excises on domestic derivatives was 4,3%. Although, generally, the growth rate of revenues from excises on tobacco always exceeds the growth rate of total excise revenues, in the third quarter of 2015 total excises grew faster than revenues from excises on tobacco thanks to the unexpectedly high growth of revenues from excises on oil derivatives, which compensated the drop in excises on tobacco. A similar upward trend is recorded in revenues from road taxes from the price of derivatives (Chart 8). The discrepancy between the growth rate of revenue from road taxes and of excise revenues results from the policy of releasing certain subjects from paying the road tax, and is also a product of fiscal losses due to favourable tax treatment of heating oil compared to diesel, which encourages illegal use of heating oil as a fuel, instead of more taxed diesel.

Chart 8

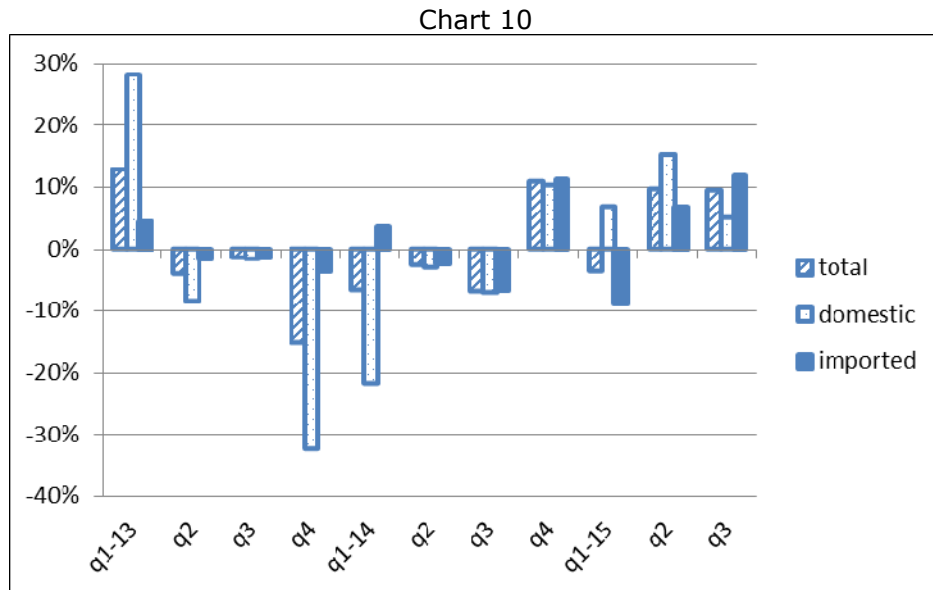


Trends in revenues from excise duties on the group of products consisting of beer, alcohol, alcoholic and soft drinks were positive so far in this year. This is especially the case with excise duties on alcohol which recorded revenue growth rate of 21% at the level of nine months. Quarterly comparisons indicate a slowdown in collection of excises on alcohol, alcoholic and soft drink, which is expected because the growth rates were enormous, even 50% (excises on alcohol, the first quarter of 2015). The third quarter brought the stabilization of revenues around acceptable 5% (Chart 9).

Chart 9



The excise tax on beer dynamics is strongly influenced by changes of the Law on Excises applicable from 1st of September 2014.⁷ The effects are clearly shown in Chart 10, where the breakdown of negative trend that lasted six quarters can be seen, and which preceded the time of changing the Law. It is recorded a strong growth in excise duties on beer even in the fourth quarter of 2014, because of the introduction the higher rate of excise duty. After the high growth rates of excise revenues, which were reaching even 30% at the level of the quarter, there was a slowdown in the third quarter of 2015. It is expected that in the fourth quarter the effects of introducing differentiated excise tax on beer on revenue will be exhausted, and the rate of growth will depend solely on the dynamics of consumption.



Past trends in beer consumption showed a positive trend in the amount of domestic beer placed on the market, while the amount of imported beer fluctuated in the range of -10% to + 10%. This can be explained by adapting the policies on the market of Bosnia and Herzegovina by the importers of beer after the increase in excise tax rates. A growing trend in the consumption of imported beer in the second and third quarter of 2015 shows a stabilization policy of importers of beer and even more aggressive approach to the market, regardless of the higher rate of excise duty. On the other hand, the quantities of domestic beer are noticeably falling, which should not be a surprise if, owing to an aggressive marketing campaign of importers, the domestic beer have been pushing down from the market. In general, the sales quantity of beer for the nine months increased by 6,5%, with the amount of imported beer increased by 5,2% and of domestic by 9%.

⁷ Changes of the Law on Excises, in force since 1st September 2014 ("Official Gazette of B&H" No. 60/14)

III REVENUE PROJECTIONS

REVISED PROJECTIONS OF INDIRECT TAX REVENUES (2015-2018), OCTOBER 2015

Type of revenue (net)	in million KM					Projected growth rate			
	Execution	Projection							
	2014	2015	2016	2017	2018	2015	2016	2017	2018
VAT	3.207,8	3.276,2	3.367,2	3.476,5	3.610,1	2,1%	2,8%	3,2%	3,8%
Excise taxes	1.307,5	1.405,7	1.452,4	1.506,4	1.558,5	7,5%	3,3%	3,7%	3,5%
Customs	235,4	248,6	257,6	269,1	284,0	5,6%	3,6%	4,5%	5,5%
Road tax	294,3	319,0	325,0	332,8	341,2	8,4%	1,9%	2,4%	2,5%
Other	24,0	24,1	24,3	24,5	24,6	0,4%	0,7%	0,7%	0,8%
TOTAL	5.069,0	5.273,6	5.426,5	5.609,3	5.818,4	4,0%	2,9%	3,4%	3,7%
Road tax (0,10 BAM/l)	-117,7	-127,6	-130,0	-133,1	-136,5	8,4%	1,9%	2,4%	2,5%
FUNDS FOR DISTRIBUTION	4.951,3	5.146,0	5.296,5	5.476,2	5.681,9	3,9%	2,9%	3,4%	3,8%

Table 1

3.1. Projections for 2015

On the basis of trends in revenue collection, the annual macroeconomic projections and estimated effects of amendments to the Law on Excises and the application of the Free Trade Agreement between Bosnia and Herzegovina and the EFTA countries, the projected net collection of indirect taxes for 2015 amounts to 5.273,6 million KM, which is 4% higher than in 2014. The projected annual growth rate is below the growth rate achieved in the first three quarters, because the slowdown in revenue is expected in the second part of 2015, mainly due to a high base for comparison in 2014. Because of the entry into force of the changes to the Law on Excises during 2014, the effects of new taxation policy of tobacco and beer are unevenly distributed (in the second half of 2014 and the first half of 2015). In addition, the comparison base in the second half is higher for one-off effects of reconstruction projects following the floods that have been realized by the end of 2014.

VAT

The projected growth rate of VAT revenue amounts 2,1% and is primarily generated by the planned increase in domestic VAT and a reduction of refunds. Bearing in mind the current trend of decreasing refunds for the international projects, the continuation of the same trend by the end of the year could have a positive impact on the realization of revenues in 2015.

Despite the projected growth rate of import of 2,7% (DEP), considering the developments in the first three quarters, the projected growth rate of VAT on imports is more cautious. The strong decline in revenues is planned for the category of other revenues from VAT (automatic assessment, one-off payments, default interest, etc.). Given the small share of these revenues in gross VAT, it has no significant effect on total VAT dynamics.

Customs

The Free Trade Agreement between B&H and 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 until 2018. Imports from EFTA member states represented only 0,6% of total imports in B&H in 2014⁸. However, bearing in mind that the duties are usually charged on imports from the third countries, the share of customs duties collected from EFTA member states in total customs revenues amounted to 3,3%. In accordance with the schedule envisaged by the provisions of the Agreement, the effects of the abolition of customs duties will be manifested to the reduction of customs revenues mostly in 2015, and the rest in the next two years. Nevertheless, based on current trends of collection and projections of imports, it is expected a strong growth rate of customs revenues for 2015 of 5,6%.

Excises and road tax

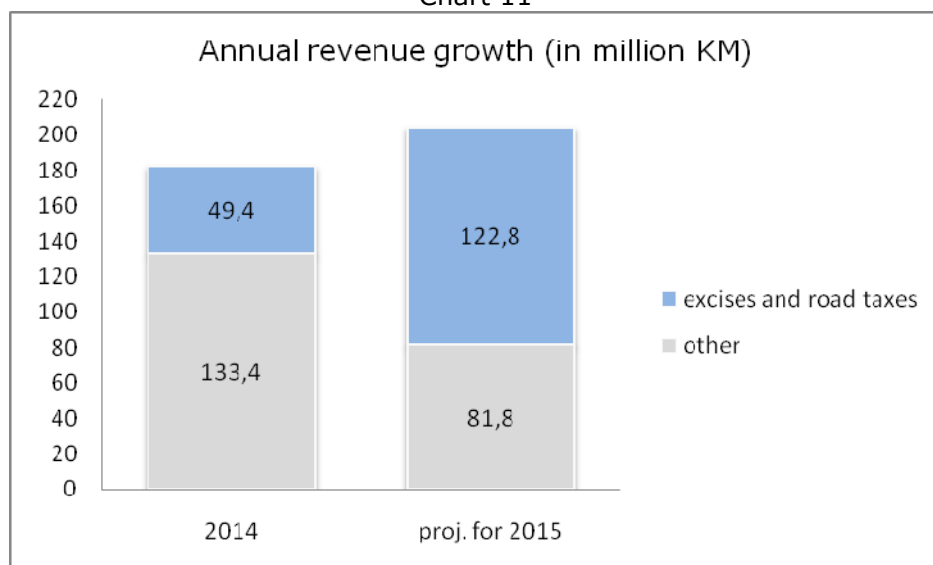
Excise tax revenues generate most of the planned surplus in 2015.⁹ Observed together with the road tax, this group of revenue makes up 60% of the planned annual surplus of revenues from indirect taxes.¹⁰ In comparison, the excises and road tax contributed to the surplus of revenues of only 27% in 2014 (Chart 11).

⁸ Source: Agency for Statistics of B&H, www.bhas.ba.

⁹ Projected increase of excise revenues in 2015 amounts 98,2 million KM

¹⁰ Projected increase of excises and road tax in 2015 amounts 122,8 million KM

Chart 11



The majority of the planned surplus of revenues from excises relates to the excises on tobacco. Because of uneven distribution of effects of changes in tobacco taxation policy, the major impact in 2015 was manifested in the first two quarters, while the slowdown of growth occurred in the third¹¹. Due to the higher statistical base, a gradual reduction of growth is expected by the end of the year to a maximum of 7% annual rate.

Chart 12

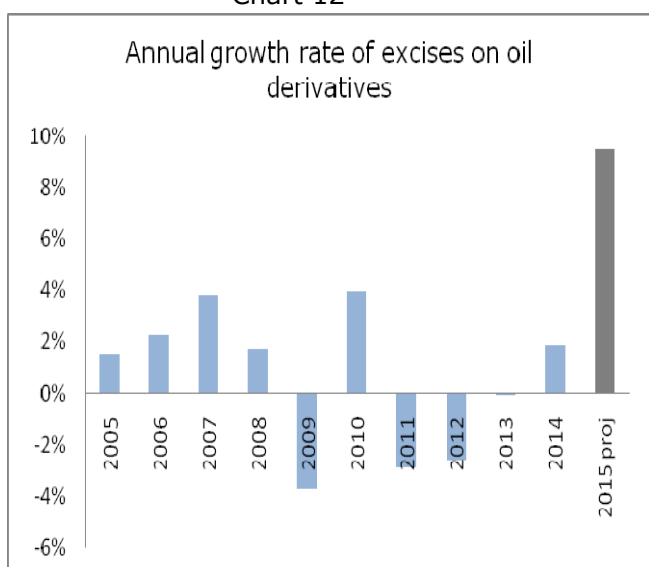
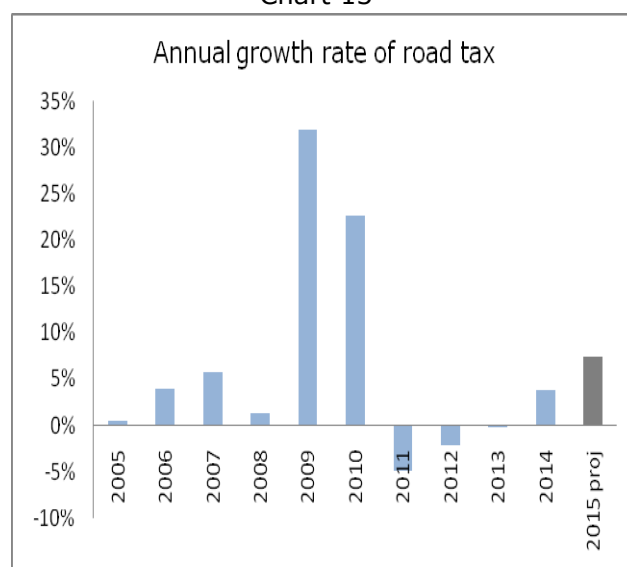


Chart 13



¹¹ See the section on current trends in collection of indirect taxes.

In addition to tobacco, a major contribution to the projected growth in revenues from excise taxes in 2015 belongs to the excises on oil derivatives. The fall in oil prices in the world market has brought the growth in consumption of derivatives and strong growth rates in these revenues in the first three quarters of 2015. Somewhat more moderate growth is also planned in the last quarter. Under the influence of stable current trends the planned increase in excise duties on oil derivatives at the level of the year is as high as 9,5%, which would be the highest growth rate in the past ten years (Chart 12).

On the basis of current trends it is also planned a high growth rate of road tax (Chart 13).¹² The projected growth rate is below the rate of excise on oil derivatives due to the effects of the releasing certain subjects from paying the road tax and the effects of more favourable tax treatment of heating oil compared to diesel.¹³ It was nevertheless the largest in the past ten years, except for 2009 and 2010, when the effects of the increase of road tax rate had been manifested.

3.2. Projections for 2016-2018

Projected growth rates for 2016, 2017 and 2018 are 2,9%, 3,4% i 3,7% respectively. Projections of revenues in that period are based on the projected macroeconomic indicators relevant for that period, historical seasonal pattern of collection and projections of certain revenue categories in 2015, as well as the effects of policy changes in the areas of customs and excise duties on tobacco.

The largest generator of indirect tax revenue surplus in that period is VAT, regarding its significant share in the revenues and projected stable growth rates. It is followed by the excise tax on tobacco.

Projections of revenues from excise taxes on tobacco in the period 2016-2018 are based on the application of the existing policy of taxation of tobacco products, which includes (i) the continuous increase in the specific excise tax on cigarettes in the minimum amount of 0,15 KM / pack, (ii) the movement of the minimum excise duty on cigarettes in the amount of 60% of the weighted average price of cigarettes, and (iii) an increase in specific excise duties on fine-cut tobacco in the amount of 80% of the minimum excise duty on cigarettes. The projection is based on the assumption of shifting additional tax burden (excise + associated part of VAT) entirely on the sale prices. Since the increase in excise duties on cigarettes will lead to higher retail prices, a decrease in consumption is expected in the coming years. Given the high degree of smoking dependence in B&H it is realistic to expect a heightened consumer shift to cheaper brands of cigarettes. So far in 2015 there is an evidence of change in the market structure in favour of domestic cheaper brands, whose consumption for the nine months increased by 12%, while the consumption of imported, more expensive, brands of cigarettes decreased by 1% compared to the same period in 2014. It can be concluded that the expected objective of changes to the Law on Excise Taxes has been achieved, which is to encourage consumers to return from the black tobacco market to a legal market of cheaper cigarettes through the stronger taxing of cut tobacco and more efficient control of markets and borders. However, due to the continuous growth of excise duties on cigarettes in the following years it is again expected the increased substitution of cigarettes for cut tobacco and migration to the black market of cut tobacco and cigarettes. The negative consequences of the increase of excise duties in the coming years should be partly compensated by consumption growth, in terms of funds available for the purchase of cigarettes, according to the projections of DEP. The achievement of the above expectations in tobacco market should lead to a gradual decrease in growth of revenues from excises on cigarettes in 2016, 2017 and 2018, to 4,3%,

¹² Growth rates in the charts 12 and 13 relate to gross revenue.

¹³ See the section on current trends in collection of indirect taxes.

4,6% and 4,1%. Significantly lower growth rate in 2016 is a result of the increased base in 2015 for the effects of the application of amendments to the Law on Excise Taxes in the first seven months of 2015.

Projections of the excises on derivatives and of road tax are made on assumptions of stopping the trend of strong growth rate of consumption, and their further dynamics in line with macroeconomic projections. Projections of customs are made in accordance with the projected growth rates of imports. These include the modest effects of the application of the Free Trade Agreement between Bosnia and Herzegovina and the EFTA countries within the said period.

IV DIFFERENCES FROM APRIL PROJECTIONS

Differences of projections in relation to those made in April 2015 are shown in Table 2.

Table 2

The difference compared to the projections made in April 2015 (in million KM)	Execution	Projection		
	2015	2016	2017	2018
VAT	8,1	19,1	19,5	40,0
Excise taxes	24,6	20,3	16,0	7,9
Customs	-4,1	-6,8	-7,1	-6,6
Road tax	15,1	11,4	7,9	1,9
Other	0,1	0,3	0,3	0,3
TOTAL	43,8	44,3	36,6	43,5

4.1. Projections for 2015

Given the current trends of collection and the changes of macroeconomic projections (DEP), the projections of revenues from indirect taxes for 2015 have been corrected for +43,8 million KM.

VAT

Considering the high share of revenues from VAT in indirect taxes, these revenues were slightly adjusted (0,25% of planned net revenues from VAT, or 8,1 million KM). It should be noted that both the April and the October projections of VAT on imports were made with a special degree of caution, taking into account that the current trends of VAT on imports and the import itself were less optimistic than the projections of annual indicators of imports. This is one of the reasons why there were no big corrections in the net revenues from VAT, despite a significant correction of the planned import growth rate in 2015 (Chart 14). Another reason is that the downward correction of VAT on imports due to changes of DEP's projections was compensated by the adjustment of VAT refunds, due to changes in the latest trends in payments. Special elements of uncertainty in the realization of projections of revenues from indirect taxes are VAT refunds to international projects. Due to the inability to predict the extent and dynamics of realisation of the projects of international support, guided by the precautionary principle because of the effects of the refunds on net collection and on allocation of revenues to lower levels of government, the projections of refunds on this basis have previously been based on a rising trend from previous years. Bearing in mind the latest trends of decrease in refunds to international projects, their continuation by the end of the year could have a positive impact on the realization of revenues in 2015.

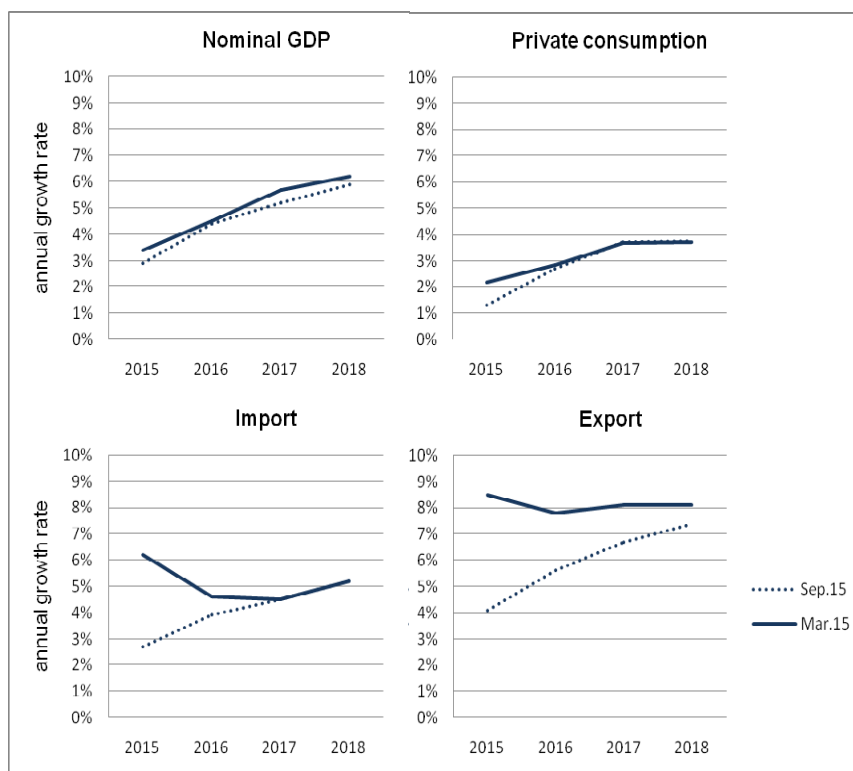
Customs

Customs revenues have been adjusted downward by 4,1 million KM because of change in the projections of imports (Chart 14). Similarly to the revenue from VAT on imports, the projections were prepared with a special degree of caution in relation to the macroeconomic projections, due to the recent trends in imports.

Excises and road tax

The projection of excises for 2015 was adjusted upward by 24,6 million KM, of which the largest part relates to oil derivatives. Correction of excises on derivatives is carried out due to recent trends of strong growth in these revenues.¹⁴ This is the same reason for the correction of revenue from road tax, which is made in the amount of 15,1 million KM.

Chart 14



Source: Projections of Directorate for Economic Planning (March and September 2015)

4.2. Projections for 2016-2018

Projections for 2016, 2017 and 2018 were corrected upward by 44,3 million KM, 36,6 million KM and 43,5 million KM respectively. From Chart 14 we see that there were no big corrections of the projected growth rates of GDP and of consumption for this year. The growth rates of imports (2016) and of exports (all year) were more adjusted. The corrections of the projected amounts of revenues for this period are largely results of adjusting the projected amounts for 2015, which are the basis for their preparation. Compared to projections from April, differences in amounts of excises/road taxes on derivatives have gradually been reduced in the period 2016-2018. The

¹⁴ See the section on current trends in collection of indirect taxes.

reason is a special degree of caution in the future, because of the risk in terms of price fluctuations in the world market.

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 2015-2018 is susceptible to the following risks:

- (i) Indirect tax revenue projections are closely linked to the projections of macroeconomic indicators by DEP. Each deviation from 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) 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 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 one;
- (iv) The expected effects of the amendments to the Law on Excises in the field of tobacco taxation can be reduced or neutralized by policy changes that would imply heavier taxation of cigarettes (e.g. introduction of additional dedicated excise duty on cigarettes) and which would lead to reinvigorating the tobacco black market and to erosion of revenues from excises due to the expansion of the gap in the tax burden on cigarettes and cut tobacco. At the same time, rapid growth in excise duty on cigarettes will lead to the shift in dynamics of adjusting the level of the overall minimum excise in B&H with the minimal excise in the EU. This will adversely affect the price relations of domestic cigarettes and cigarettes from the neighbouring countries to the detriment of Bosnia and Herzegovina, stimulating the trafficking and smuggling of cheaper cigarettes from the neighbourhood to B&H, which will ultimately lead to a reduction in domestic production of cigarettes and losses in excise revenues and the associated VAT;
- (v) Potential changes in policies in the field of indirect taxes, e.g. differentiated rates of VAT, 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) Keeping the existing policy of differentiated taxation of heating oil and possible policy changes taxation of oil derivatives (eg. increasing the dedicated road tax) that would imply an increase in the gap in taxation of substitutes (diesel and heating oil) would increase market distortions and losses in road tax revenues.



*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 2016!*

