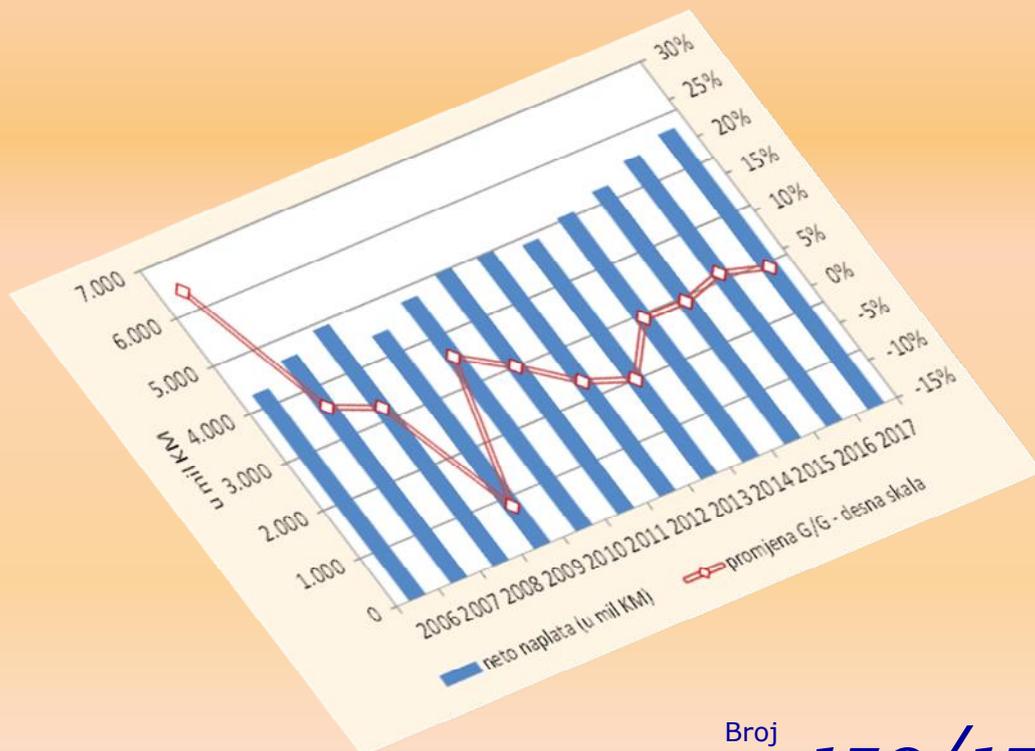




Macroeconomic Unit of the Governing Board of the Indirect Taxation Authority

# ОМЈА Билтен



Број  
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Number

150/151

## With this issue

The growth trend of indirect tax revenues from 2016 continued in 2017. Revenue growth amounted to 3,5%. The amount of net revenue collected of 5, 726 billion BAM is the largest since the establishment of the ITA.

We highlight the following features of indirect tax collection in 2017:

- 1) The most important growth segments of gross revenue from indirect taxes are VAT on imports (304,5 million BAM), domestic VAT (48,7 million BAM), and to a lesser extent revenues from customs duties, tolls, excise duties on oil derivatives and tobacco products.
- 2) In 2017 a record amount of VAT refund was paid, up to 209,5 million BAM more than in 2016. Refund growth can be linked to exceptionally high export growth of 17,4% and a strong import growth of 12,2%.
- 3) Although the growth of 1,9% (gross) in revenues from excise taxes on oil derivatives was recorded, despite turbulences in oil prices in the world market, according to the monthly collection scheme it can be concluded that the important growth factor in this year as well was the consumption of non-residents in transit, including tourism, and cross border and local border consumption, which is the result of regional competitiveness of derivative prices in B&H. After the boom in the middle of the year, there was a modest increase in excise revenues on tobacco products at the end. According to the collection scheme it can be concluded that the growth of collected excise taxes was the result of increased purchases prior to the increase in cigarette prices by the middle of the year, and increased consumption of non-residents. Bearing in mind the importance of non-resident spending on the collection of excise and VAT revenues, the increase in excise rates on oil and tobacco products in 2018 will certainly aggravate regional price competitiveness of oil derivatives and other goods and services in B&H, and thus reduce the expected revenue collection from indirect taxes in 2018.
- 4) Although it was expected that the implementation of the adapted Stabilization and Association Agreement with the EU ("SAA") from 1 of February 2017 would bring a significant fall in customs revenues, a net increase of revenues of 20,9 million BAM was achieved.
- 5) Faster growth of toll revenues compared to the growth of excise revenues on oil derivatives is a consequence of changes in the derivative structure, in terms of a significant reduction in the amount of heating oil and the increase in the amount of diesel.

Dinka Antić, PhD  
Head of Unit

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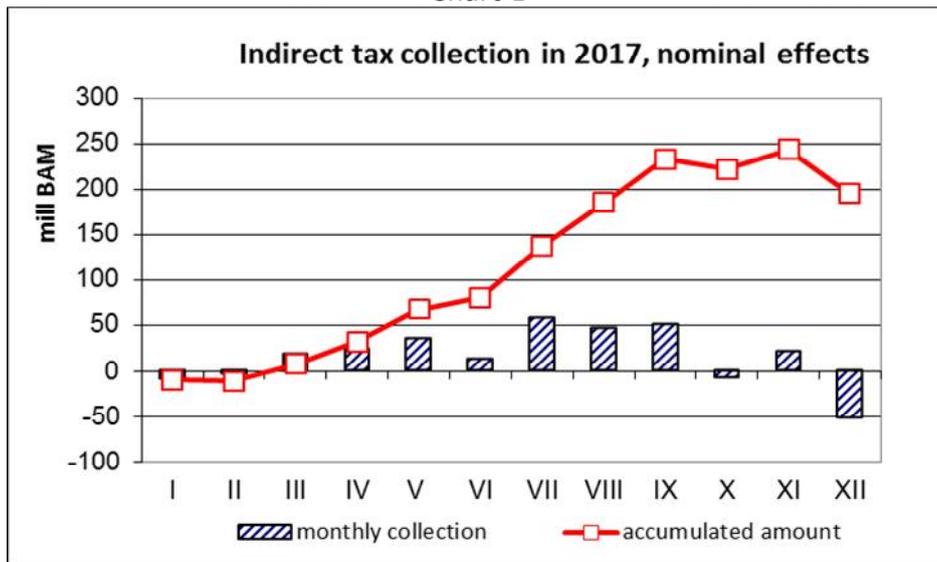
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## Indirect tax revenue collection in 2017

### TOTAL COLLECTION

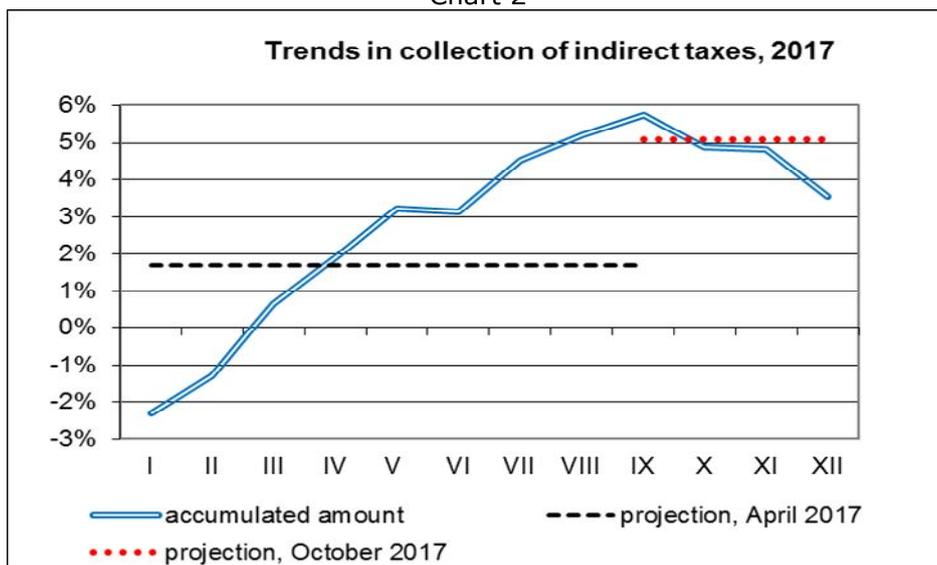
The growth trend of indirect tax revenues was stopped in December. According to the report on cash flow at the SA ITA in December 2017 gross revenues of indirect taxes amounted to 567,4 million BAM, which is by 22,5 million BAM less than in December 2016. On the other hand, refund payments were by 28,8 million BAM higher than the payments in the same month of 2016, and the net effect of revenue collection amounted to 195,2 million BAM (Chart 1).

Chart 1

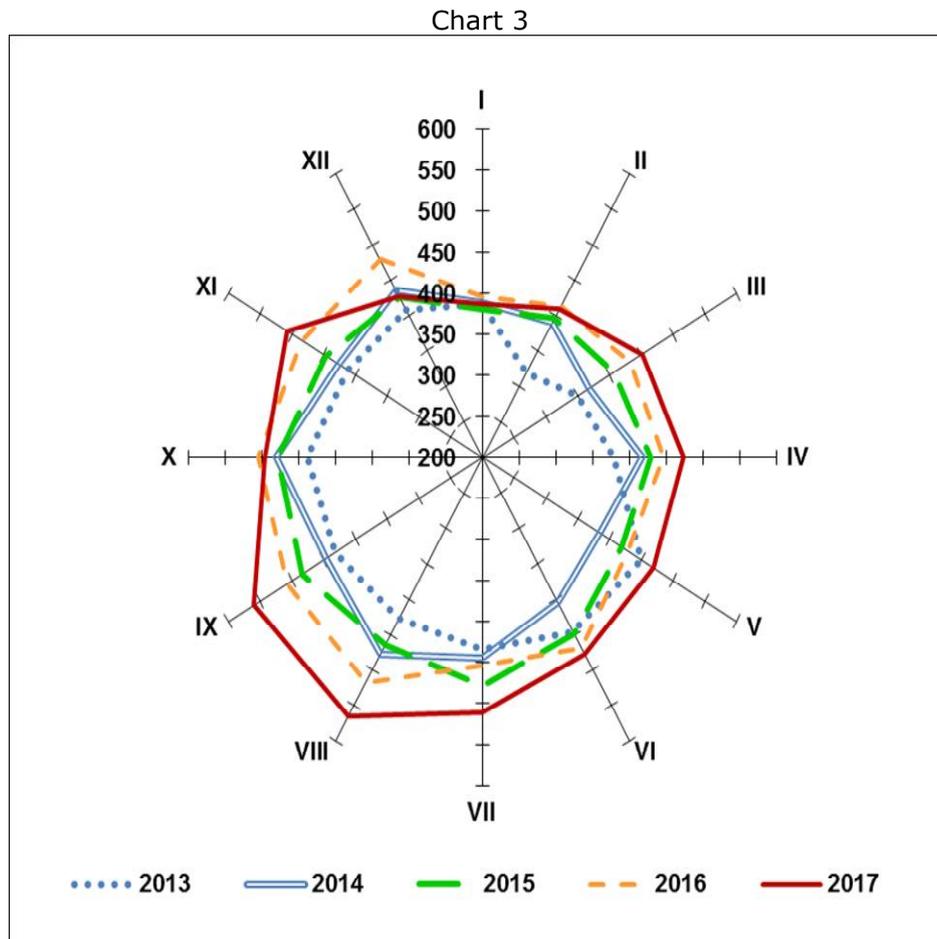


The lower revenue collection in December has had a negative effect on the final effects for 2017. The growth rate of net revenues declined from 4,8%, which amounted in eleven months of 2017, to 3,5% (Chart 2). Achieved net growth is lower than the revised growth projection from October 2017 (Chart 2).

Chart 2



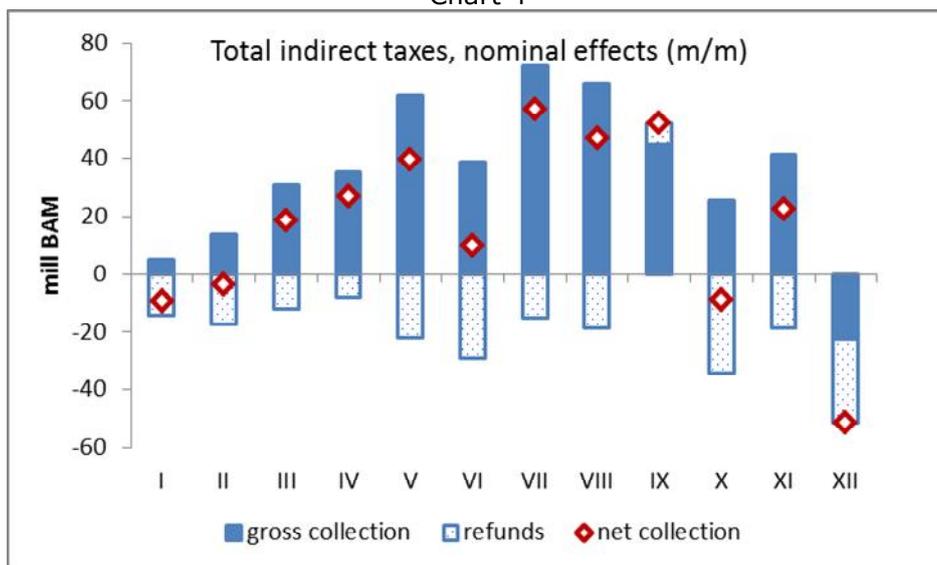
Looking at the scheme of revenue collection in 2017 compared to the previous two years, visible progress was noted (Chart 3). The second conclusion is that there is an uneven distribution of effects during the year, which in 2017 assumes seasonal character (consumption of non-residents associated with the extraordinary tourist season in Croatia), and loses the features of the traditional revenue collection scheme, characterized by higher consumption and thus revenues from indirect taxes at the end of the year and a fall in revenues in the first quarter.



Monthly effects of fluctuations in cash flows and outflows from the Single Account in 2017 (Chart 4) show that gross revenues grew for eleven months successively with the biggest effects exceeding 60 million BAM in the second and third quarter. On the other hand, there was a noticeable increase in refunds during 2017 which reduced the effects of gross collection<sup>1</sup>. Refund decrease was recorded only in September as a result of a temporary suspension of refund payments due to extensive controls by the ITA.

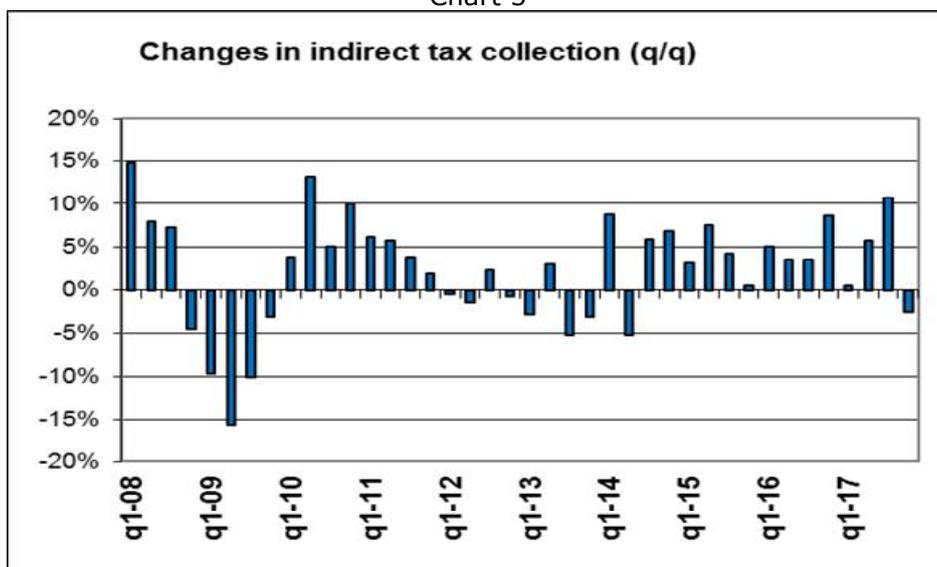
<sup>1</sup> Reduction of refunds (Chart 3) is shown in the first quadrant of the Chart as a positive number and the increase in the fourth quadrant as a negative number.

Chart 4



Quarterly analysis of the collection of indirect tax revenues shows strong fluctuations in the collection during 2017 (Chart 5). Positive quarterly trends, which have not been interrupted since the third quarter of 2014, broke up by the fall in collection in the fourth quarter of 2017.

Chart 5



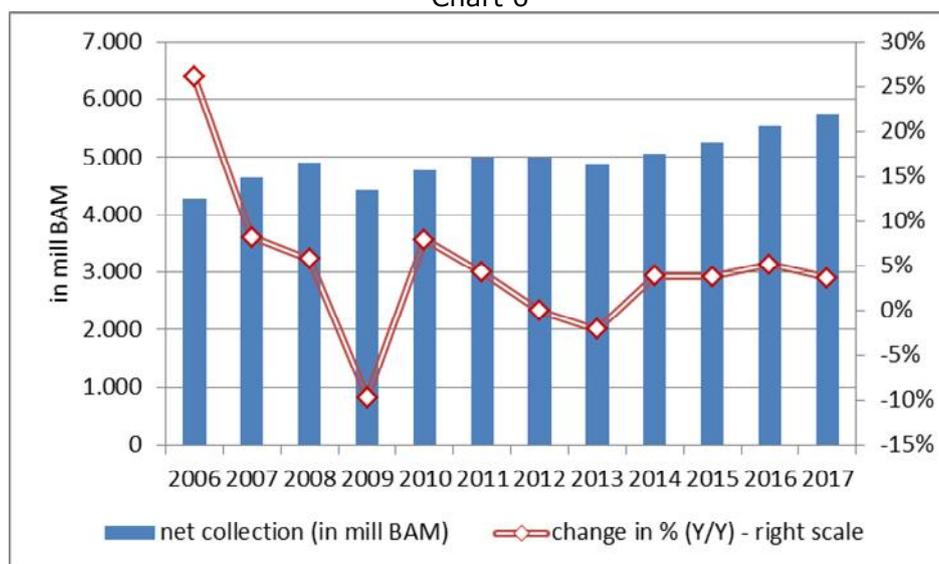
In the first quarter of 2017, the minimum revenue growth of 0,5% was recorded. In the first quarter of the fiscal year, the collection of indirect tax revenues is traditionally lower than in the other quarters during the year due to seasonal oscillations in spending and business activities. However, the factors of low revenue collection at the beginning of 2017 were a strong growth in VAT refund payments and oil price growth at the world market, which led to a fall in the consumption of oil derivatives in B&H, reflecting on the collection of revenues from excise taxes and tolls.

In the second and third quarters, there was a strong recovery in revenues, 5,7% and 10,6%, respectively, primarily due to the growth of imports, the fall of oil prices in the world market and

the growth of consumption in B&H, especially oil derivatives and tobacco products. The announcements of leading tobacco companies of rising cigarette prices in June and July have led to the increased consumption of tobacco products prior to price rising (in May, i.e. June 2017), which was shown in the collection of excise revenues in the months in which excise stamps were taken (importers) or in the month in which the excise return was filed (domestic companies). An additional factor for the growth of indirect tax revenues in the second and third quarter was the increased consumption of non-residents in cross-border, transit and tourist traffic, primarily oil derivatives due to the B&H regional price competitiveness followed by tobacco products and other goods and services. The biggest surprise was the growth in customs revenue collection, bearing in mind that the application of the adapted Stabilization and Association Agreement with the EU ("SAA") as of 1 of February 2017 brought significant drop in customs revenues. Finally, an important factor generating a high growth in revenue collection in the third quarter 2017 was suspension of VAT refund payments in September. Retained refunds were paid in the fourth quarter, which was, accompanied by a rise in current VAT refunds, due to the strong growth of imports and VAT refund payments on the basis of international projects, resulted in the drop of net collection of indirect taxes in the fourth quarter 2017 of 2,6%. Negative effects have been boosted by the end of the tourist season, which led to a significant decline in non-resident spending and, consequently, the fall in excise revenues on oil derivatives and tobacco products.

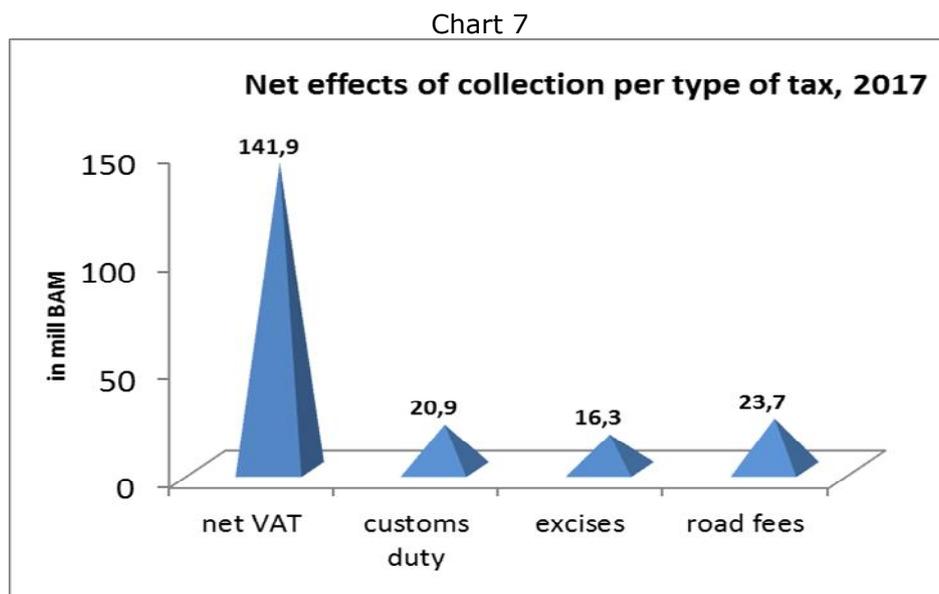
An overview of the annual nominal collection (Chart 6) shows that in nominal terms the record amount of indirect tax revenues since the establishment of the ITA was collected in 2017. Second, the growth rate of indirect tax revenues is still above the growth of consumption in B&H.

Chart 6



## TRENDS BY TYPE OF REVENUE

Due to the cumulative effect of the fall of gross collection and increase in refunds, the net revenue surplus declined from 244 million BAM, amounted for eleven months, to 195,2 million BAM. In the surplus structure the largest share is VAT (141,9 million BAM), excise taxes and tolls (total 40 million BAM), and customs revenues (20,9 million BAM) - (Chart 7). It should be noted that according to the preliminary report of the ITA there is 14,8 million BAM unadjusted revenues, and after the final adjustment of payments from applications/declarations higher surpluses on VAT and other types of revenue can be expected.



### Customs duties

After eleven months of customs revenue growth, in December 2017 a fall of 1% was recorded (Chart 8). The reason was the decline in imports of goods from Asian countries, Russia and the EU in December<sup>2</sup>. On the level of the year the collection was stable with a growth rate of around 10%, but due to the reduction in December it decreased to 8,4%.

The increase in customs revenues is unexpected in terms of estimates of revenue loss due to the application of the adapted SAA. Having in mind that the most of the import of goods to B&H has already been liberalized, a limited number of goods from the EU and imports from the third countries are under the customs regime. According to data from the Agency for Statistics of B&H, imports of goods originating in the EU increased by 12,2% in 2017, which was obviously related to the remaining goods to which the customs duties are applied. In general, not only that the losses in customs revenues were compensated from exchanging with Croatia due to the adapted SAA, but a significant nominal growth has also been achieved.

<sup>2</sup> Source: Release of the B&H Agency for Statistics, December 2017.

Chart 8

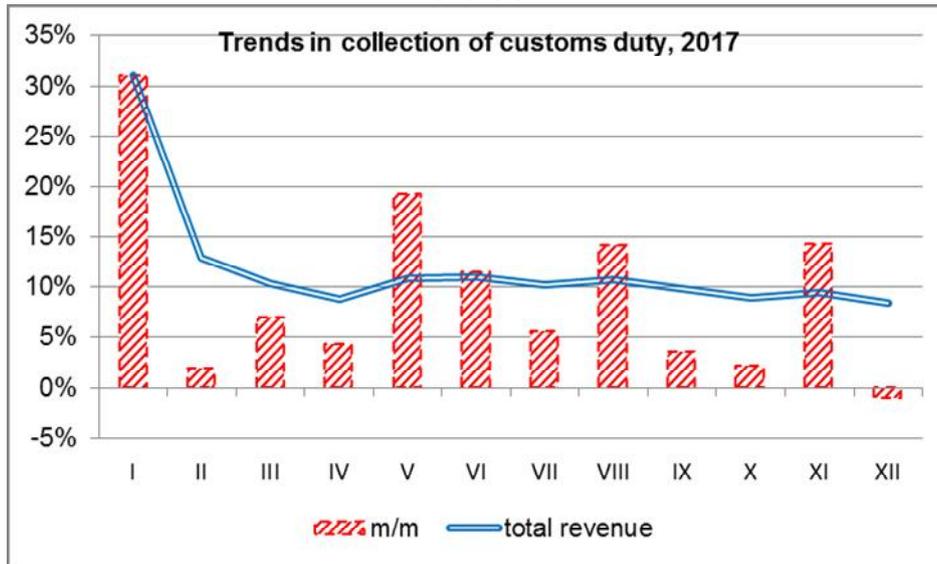
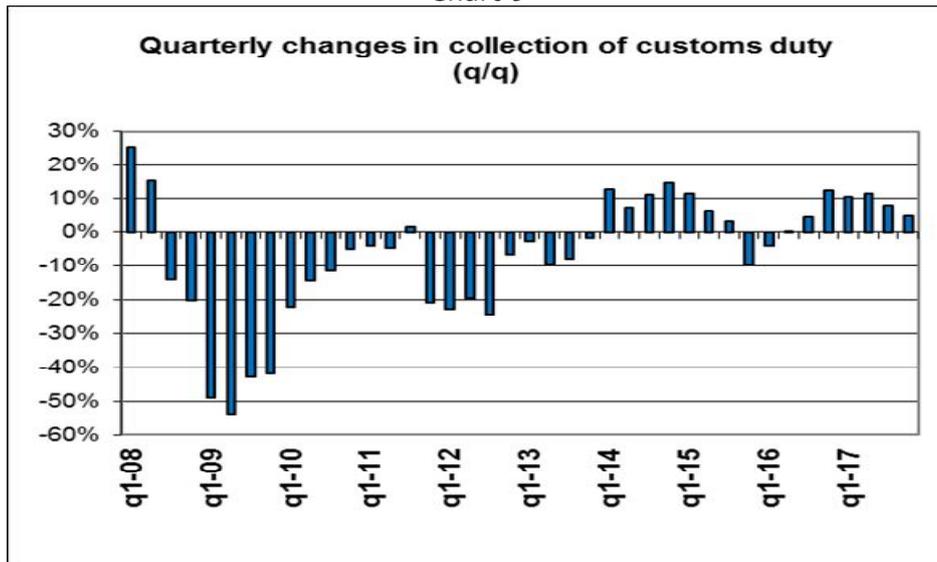


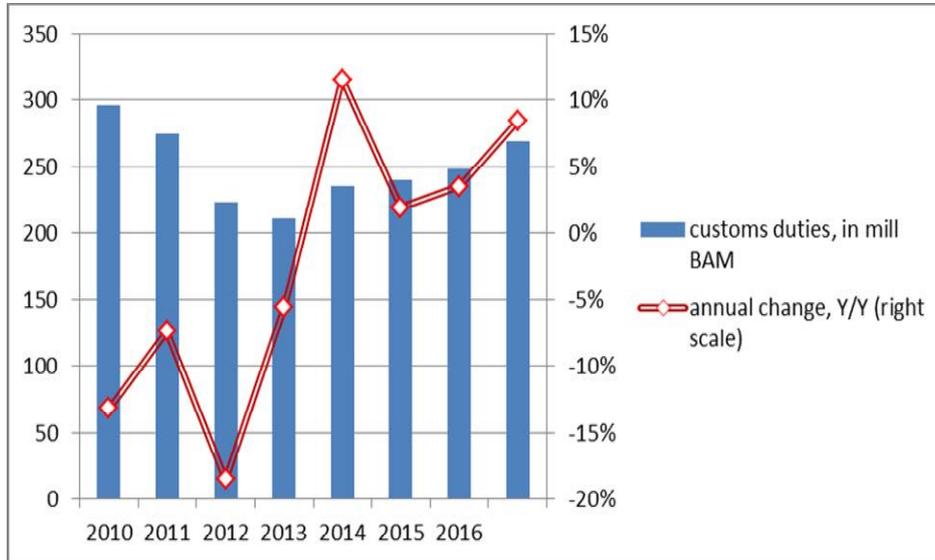
Chart 9



The quarterly overview of trends (Chart 9) shows continued revenue growth from customs duties. In the first quarter revenue growth was 10,4% and in the second 11,6%. In the third quarter growth slowed down to 7,8% and in the last one to 4,7%. The annual trend overview (Chart 10) in the period after the SAA came into force points to the effects of the customs liberalization process firstly in the five-year period of gradual abolition of customs duties on most goods originating in the EU, and then in the second phase after the abolition of customs record on imports of goods from the third countries as the giving that had the *ad valorem* effects of customs duties. Reduction in customs revenues was also affected by drastic reductions in imports of oil from Russia, partly offset by the growth in imports from China in 2014 for the construction of TPP Stanari. However, in 2016 the slowdown in growth rates, as a result of the decrease in imports from China, was

recorded, but in 2017 more significant recovery was achieved thanks to the growth of imports from third countries<sup>3</sup> (Chart 10).

Chart 10

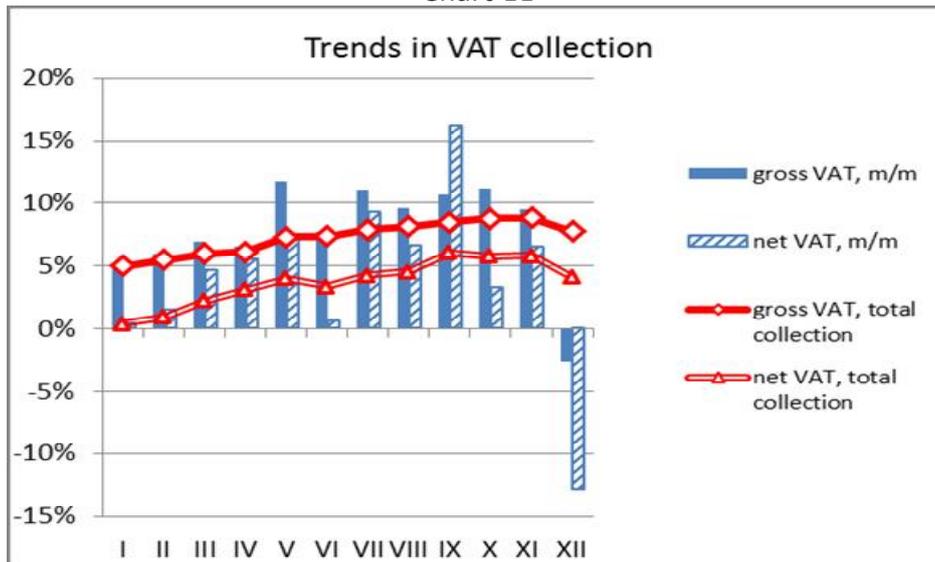


**VAT**

*Trends*

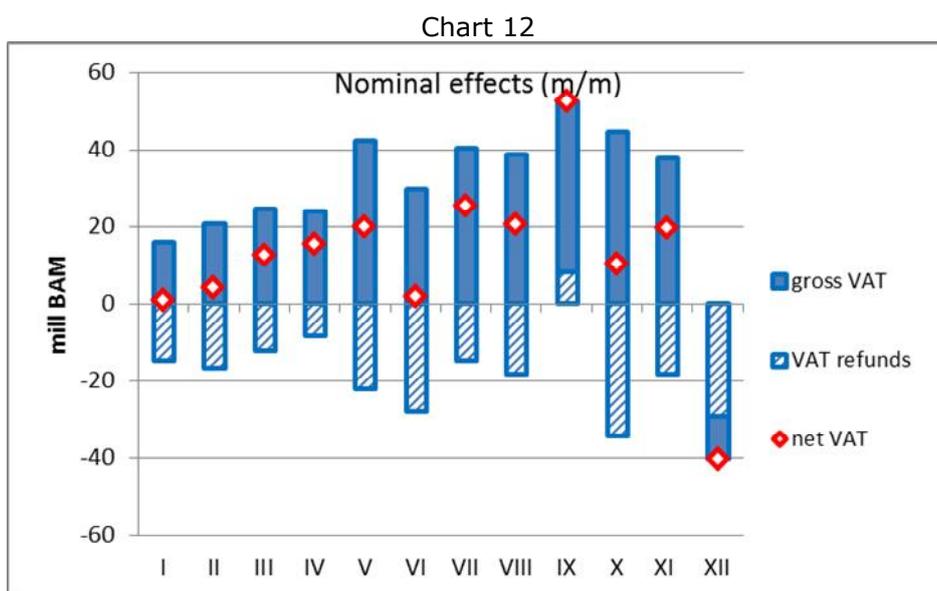
The analysis of monthly VAT collections shows a positive trend throughout the year 2017, with the exception of December. The positive trend is characterized by unusually high growth rates reaching 16%. On the other hand, in December there was a strong decline of 12,8% which is a cumulative consequence of a negative decrease in gross collection of 2,6% and enormous growth in VAT refunds of 26,9% (Chart 11).

Chart 11



<sup>3</sup> Imports from Asian countries in 2017 increased by 8,6% and from Russia by 17,4%. Source: Press release of the Agency for Statistics of B&H, December 2017.

In other months, with the exception of the first two months, June and September, solid net VAT growth rates were achieved which largely exceeded consumption growth. The faster refund growth at the beginning of the year almost neutralized the growth in gross VAT collection, generating low rates of net VAT growth. Consolidation of refund payments, coupled with a strong growth of imports and then steady growing trend in domestic consumption, resulted in high growth rates of net VAT in the coming months (Chart 11). The increase in gross collection under the conditions of temporary suspension of VAT refund payments during the intensive control period has brought positive cumulative effects in net collection. However, the reimbursement of refund payments with the growth of current requests for refunds in the fourth quarter has led to a slowdown in the growth rate, followed by a significant reduction in the VAT collected (Chart 12).



Although the worse collection in December ultimately reduced the overall positive net effects in the VAT collection, it still must be concluded that in 2017 growth in net VAT collection was above expectations. The gross collection grew at a rate of 7,8% and due to the strong growth in refunds of 19,2% net VAT growth rate was 4,1% (Chart 11). In the nominal sense, in 2017 the ITA collected a record amount of net VAT (Chart 13). Although the growth rate was lower than in 2016, an increasing growth trend of VAT collection in the last five years can be noted.

Quarterly comparisons show a growing net VAT trend that has lasted for seven quarters and was halted by the drop in collection in the fourth quarter of 2017. Although VAT collection at the beginning of the year was slightly above the collection in 2016, the slowdown in refund growth in March contributed to a growth of 2,3% in the first quarter. High growth rates of imports and growth of the base due to recovery of excise revenues on oil derivatives and tobacco products resulted in 4,4% net VAT growth in the second quarter. In the third quarter, when the consumption of non-residents was at its peak, and refunds on the other hand were partly suspended, net VAT growth was up by 10,9%. With the exclusion of refund payments in the fourth quarter 2017, and the negative trends in excise collection, the effects of high growth of import on the VAT collection were completely neutralized and a negative growth rate of 1,2% was achieved (Chart 14).

Chart 13

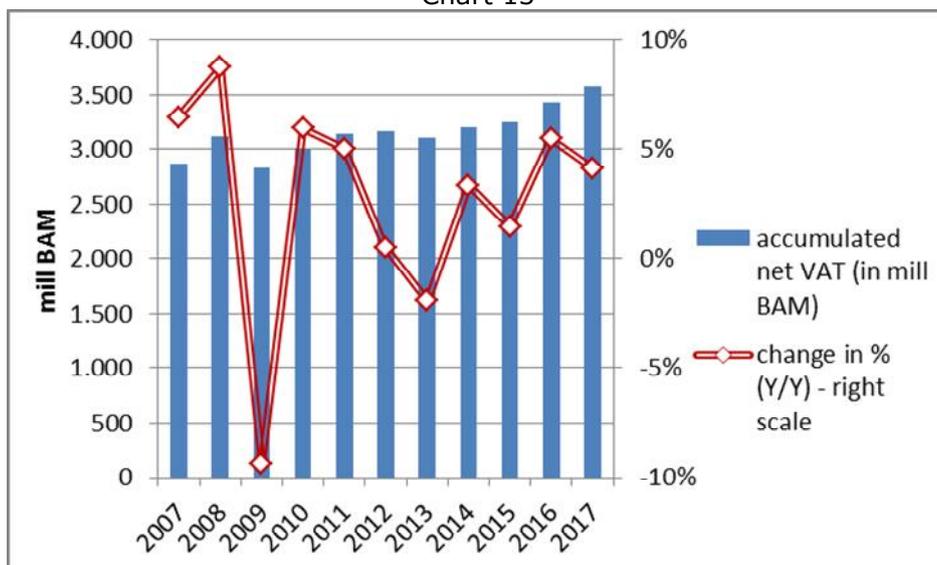
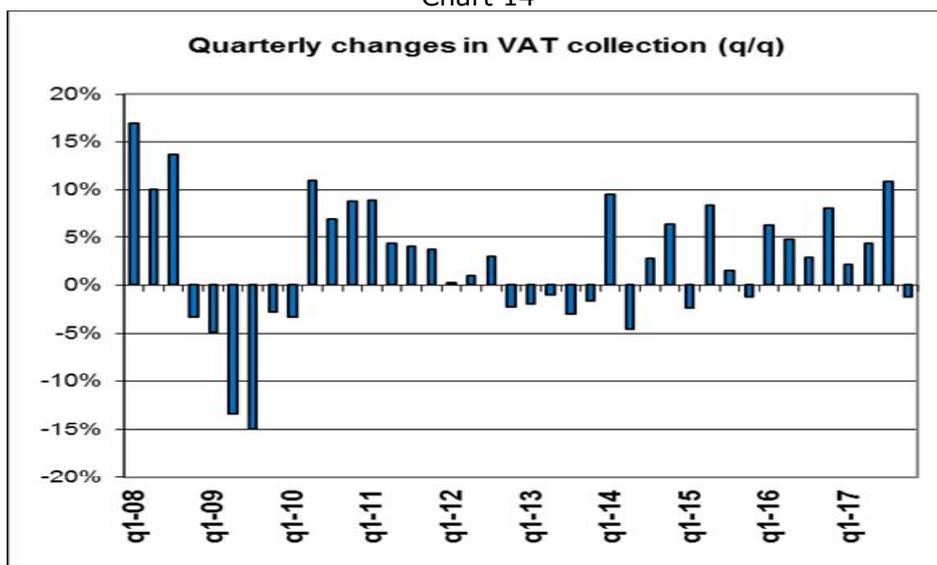


Chart 14



### Gross VAT

The analysis of the gross collection structure shows that the main factor in the strong growth of gross VAT revenues for the most part of 2017 was the collection of VAT on imports, except in December 2017 when there was a fall in VAT on imports of 4,6% compared to the same month of 2016. Chart 15 shows high monthly growth rates of VAT on imports reaching up to 20%. The poorer collection of VAT on imports in December had only a slight impact on an annual growth of VAT on imports, so at the level of the year the total VAT collection was higher by 11,2% compared to 2016. On the other hand, domestic VAT collection had fluctuated over the year with a range of monthly growth rates from -5,4% to even 11,7%. Lastly, with modest growth in December of 0,7%, the total domestic VAT collection reached the growth of 2,7%, which corresponds to the projections of consumption growth (Chart 15).

Quarterly comparisons show high growth rates of VAT on imports in the last five quarters and divergent trends in domestic VAT. In the first quarter the collection of domestic VAT was by 2,5% lower than in the same quarter of 2016. The expansion of consumption in the second and third quarter brought an increase in domestic VAT of 4,3% and 9%, respectively, while in the last quarter the collection was at the level of the fourth quarter of 2016 (Chart 16)..

Chart 15

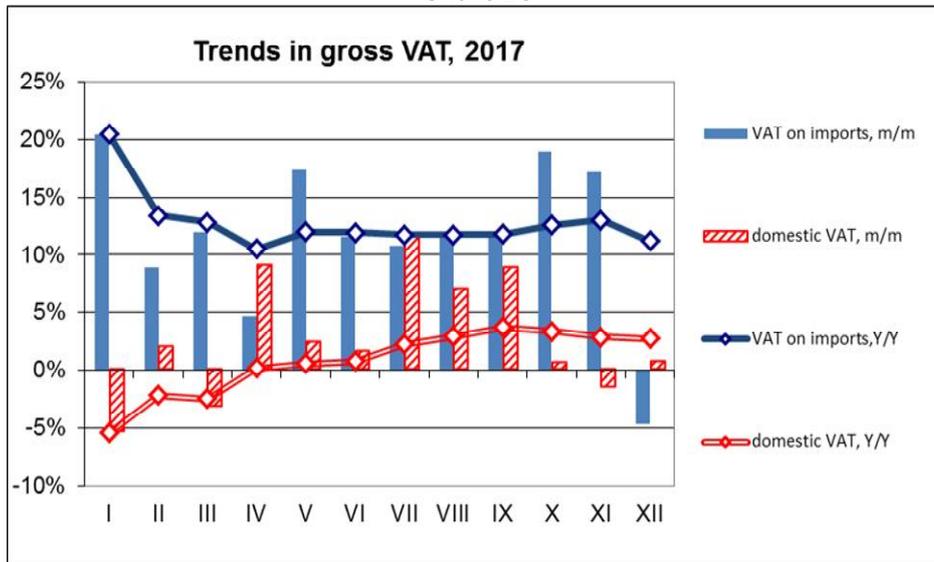
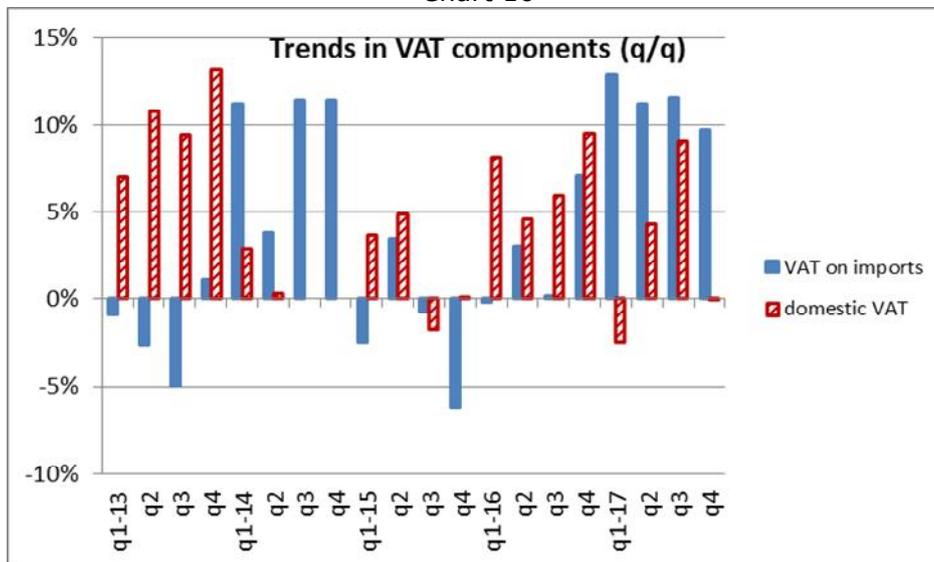


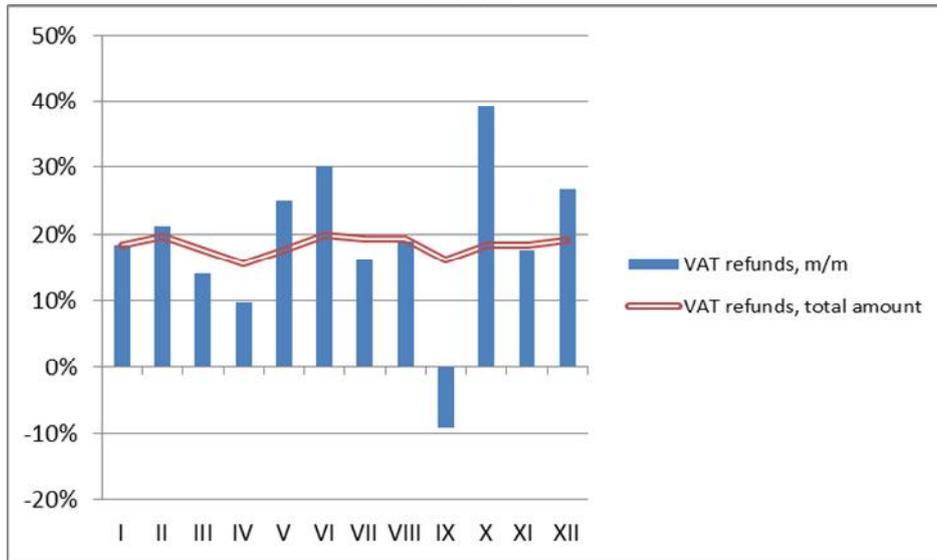
Chart 16



VAT refunds

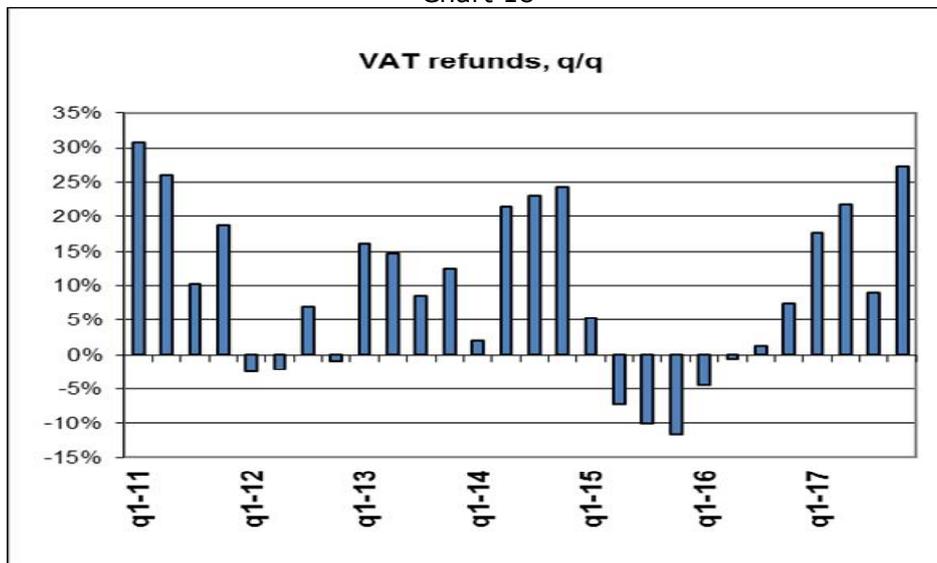
High VAT refund payments were the important feature of indirect tax revenue collection in 2017. Throughout the year, with the exception in September, monthly VAT refund payments increased by 10% minimum and up to 40% maximum compared to the reference months of 2016 (Chart 16). The causes of the decline in refunds in September were not economic but administrative-operational, since the ITA has suspended refunds due to the extensive controls.

Chart 17



Quarterly review of VAT refund payments indicates a drastic change in 2017 compared to the previous two years. In the first quarter there was a growth of 17,7%, in the second 21,9% and in the fourth 27,3%. Not even the refund suspension in September could significantly reduce the performance in the third quarter, when a refund growth of 7,2% was recorded (Chart 18).

Chart 18



The annual review of paid VAT refunds and trends indicates a significant deterioration in 2017 (Chart 19).

High refund payments in 2017 can be linked to high growth rates of imports<sup>4</sup> and exports<sup>5</sup>. Compared the growth of VAT refunds, and imports and exports as the main refund generators in

<sup>4</sup> According to data of B&H Agency for Statistics B&H imports in 2017 increased by 12,2%. Source: [www.bhas.ba](http://www.bhas.ba)

<sup>5</sup> According to data of B&H Agency for Statistics B&H exports in 2017 increased by 17,4%. Source: [www.bhas.ba](http://www.bhas.ba)

2017 related to 2008, it can be noted that the refund growth is faster related to imports and slower related to exports (Chart 20).

Chart 19

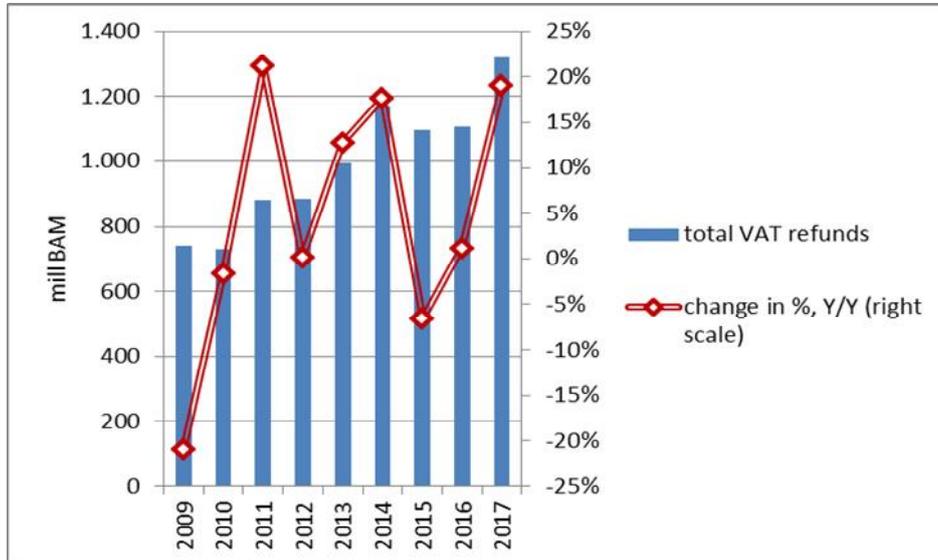
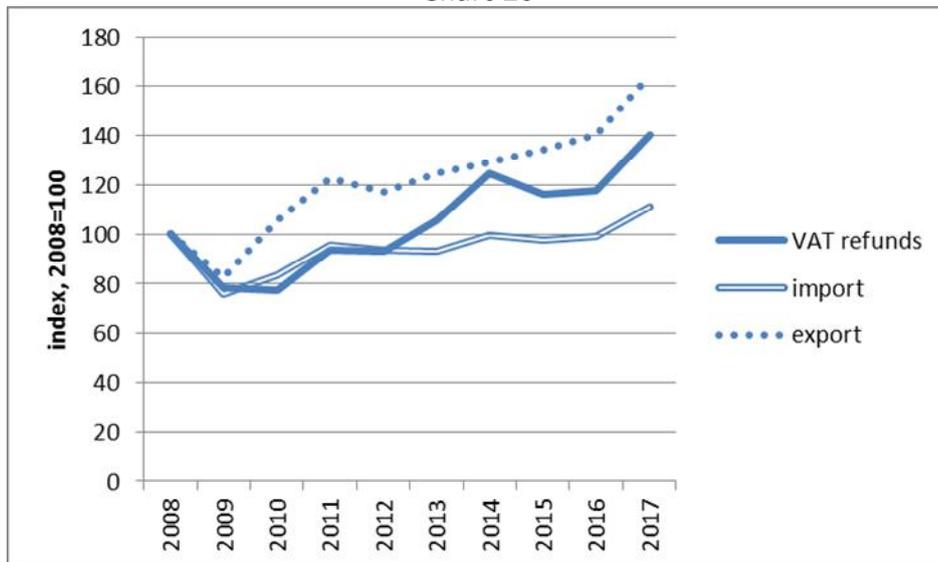
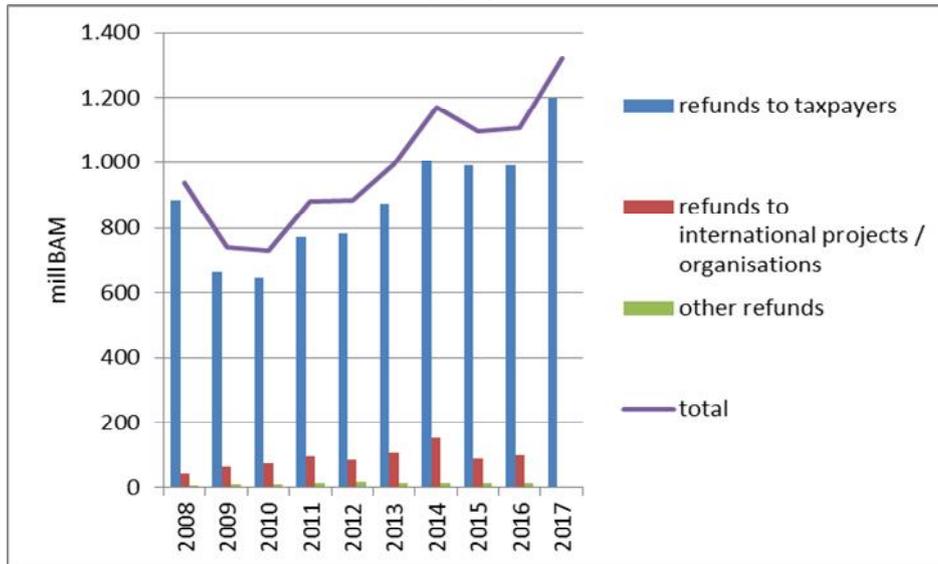


Chart 20



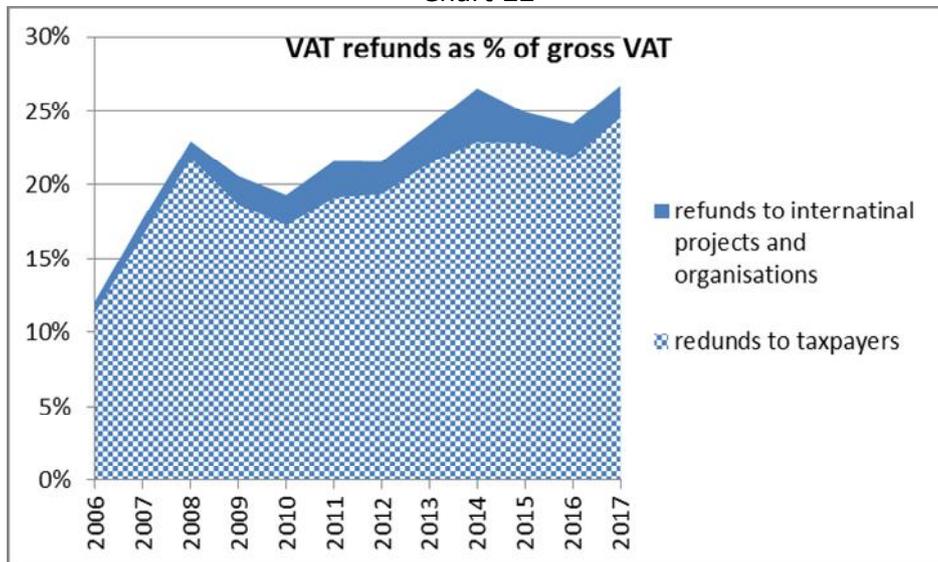
Analytics of VAT refunds shows that 205,5 million BAM more refund was paid to taxpayers in 2017 than in 2016, while VAT refunds to international projects are slightly higher than in 2016 (Chart 21).

Chart 21



The average annual withdrawal of refunds from gross collection in 2017 was 26,7%, which is by 2,5 percentage points higher than in 2016, which is at the same time the largest allocation since the establishment of the ITA. The share of refunds to taxpayers is higher by 2,6 p.p., while the share of refunds to international projects is lower by 0,1 p.p. (Chart 22).

Chart 22



## Excises

### Trends

In December there was a strong decline in excise revenues of -10,3%. Positive growth was only achieved in the collection of excise taxes on beer, alcohol, alcoholic and non-alcoholic beverages. The largest drop in excise revenues was in excises on domestic tobacco, even 31,1%, and in excises on domestic oil derivatives 25,8%. A drop in excise revenues of 4% was recorded in the collection of excises on imported derivatives as well as in the collection of excises on imported tobacco products.

Chart 23

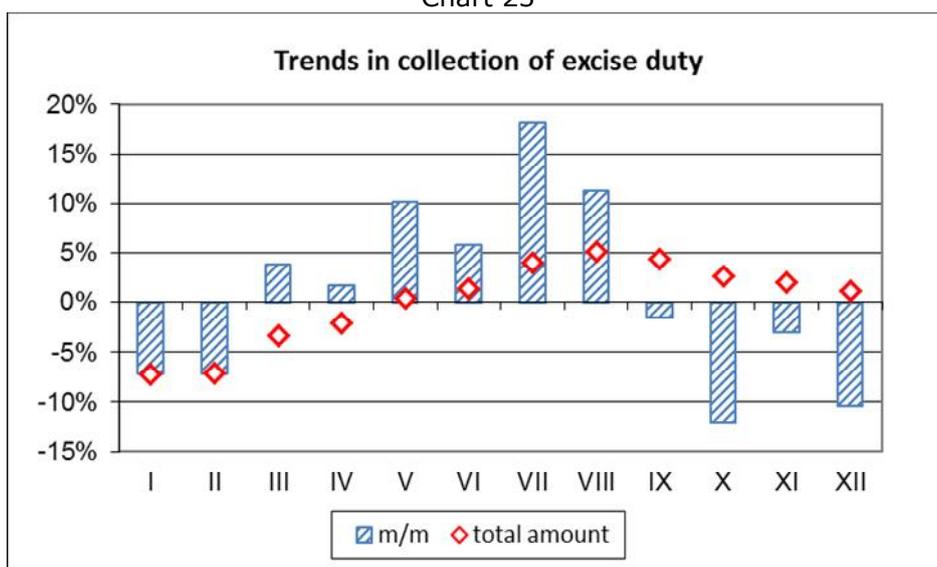
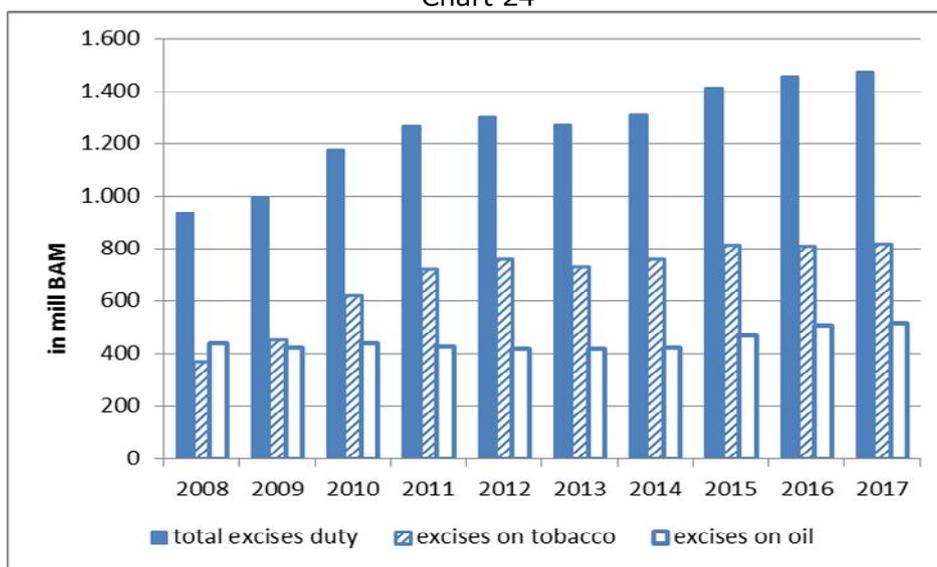


Chart 24



The collection of excise taxes in 2017 was marked by strong monthly oscillations. Monthly growth rates, as compared to the same month of the previous year, ranged from -12,1% to +18,1%. Negative trends have been recorded in the first two months and in the last four months, and

positive in the six month period continuously (Chart 23). Overall, due to mentioned oscillations, a growth of cumulative excise collection of only 1,1% was recorded at the level of the whole year.

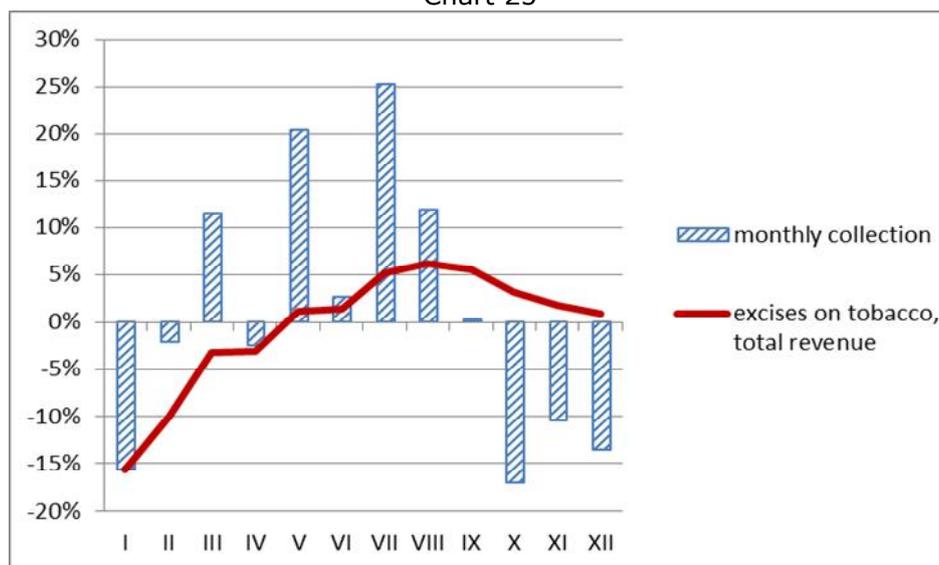
Given a significant share in the structure of indirect tax revenues, the stability of excise revenue is of great importance for the stable collection of total indirect tax revenues.

The annual review of excise revenue collection indicates a modest increase in 2017 which is mainly the result of the growth in the collection of excise revenues on oil derivatives of 1,9% and modest growth of excise revenues on tobacco products of 0,9% (Chart 24).

#### *Excise taxes on tobacco products*

Excise tax revenues on tobacco products were strongly influenced by turbulences during 2017 (Chart 25). Bearing in mind that since 2009 retail cigarette prices have been constantly increasing due to the increase in excise taxes, and the strong substitution of cigarette consumption by the consumption of cut tobacco and the growing illegal tobacco and cigarette market in B&H, the fall in revenues from excise taxes on tobacco products was expected. The sharp rise from May to August is the result of a rise in retail prices of cigarettes by dominant importers and domestic tobacco industry since June or July, which resulted in increased withdrawal of excise stamps before increasing retail prices, and thus increased excise tax payments in May. However, strong growth in excise revenues in July and August, as well as stagnation since September, also points to external growth factors that are seasonal in nature, which may be linked to the strengthening border and transit traffic with Croatia, caused by extraordinary tourist season in that country. Another significant growth factor of border and transit traffic is low prices of oil derivatives in B&H, as a consequence of the lowest tax burden in the region. In this regard, citizens from Croatia and those in transit, in addition to fuel, purchase other consumer goods in B&H, including tobacco and cigarettes that are cheaper in B&H. A fall in excise revenues on tobacco products is likely the result of returning of demand for these products to domestic consumption. The end of the tourist season in Croatia and the price growth in oil derivatives were factors that led to a decline in demand for tobacco products in border and transit traffic.

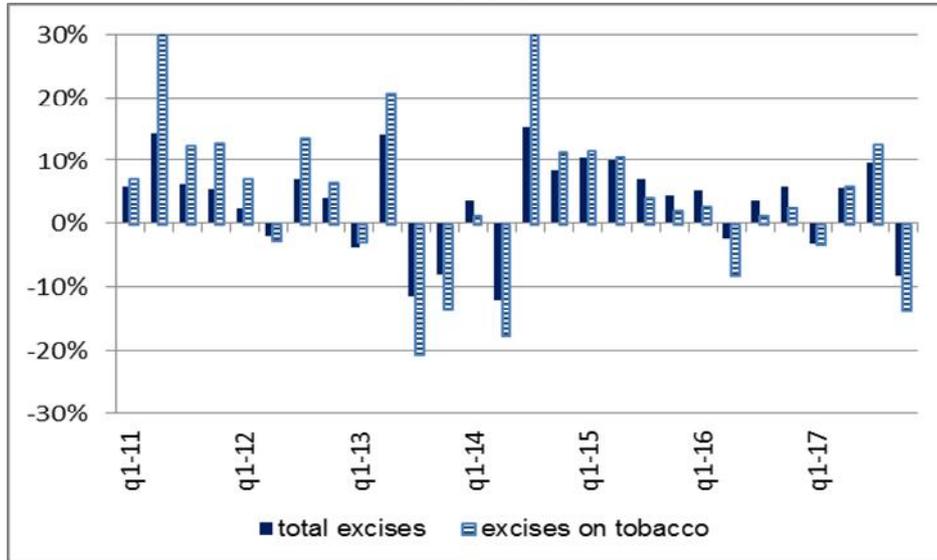
Chart 25



Quarterly trends illustrate the scale of the effects of tobacco excise revenue collection on total excise collection (Graph 26). In the first quarter, excise revenues fell by 3,2% and the same fall

was recorded on tobacco excise taxes. The revenue growth in tobacco excises of 6,1% in the second quarter has also led to an increase in total excise taxes at 5,7%. In the third quarter there was a strong growth in revenues from excise taxes on tobacco of 12,7%, which influenced the growth of total excise taxes of 9,5%. The sharp drop of 13,8% in revenues from excises on tobacco in the fourth quarter resulted in a fall in total excises of 8,4%.

Chart 26



#### *Excise taxes on oil derivatives / toll*

Excise revenues on oil derivatives had strong fluctuations during 2017 (Chart 27). After a strong revenue growth in January of up to 12,2%, the oil price growth in the world market in February and March led to rising oil derivative prices in B&H, a decline in consumption and, consequently, a drop in excise revenues of 13,7% and 7,6%, respectively.

Chart 27

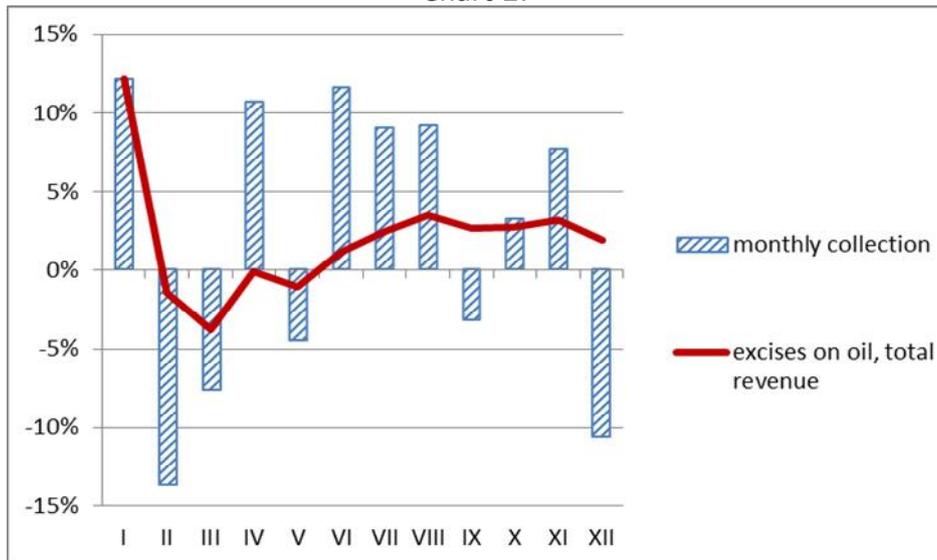
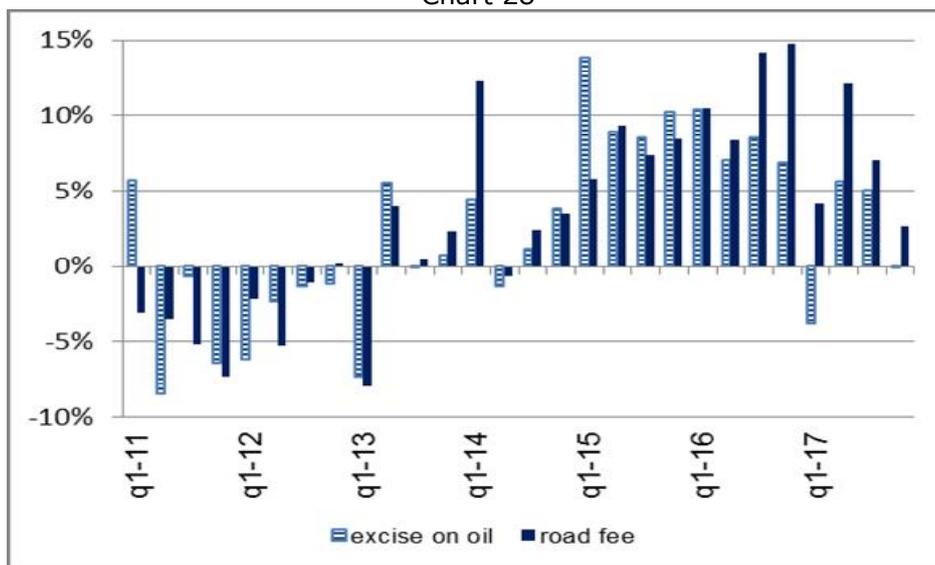


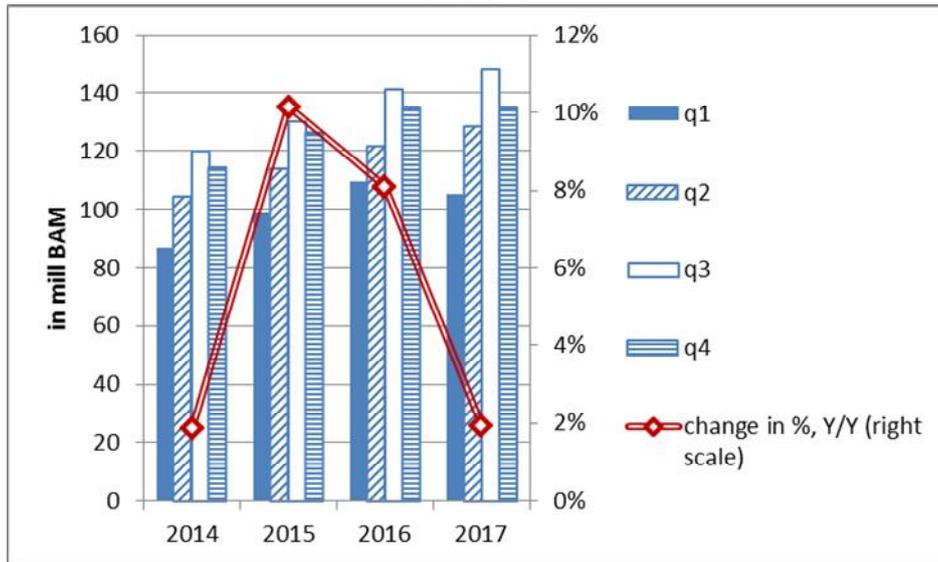
Chart 28



The stabilization and then the fall in oil prices led to an increase in the consumption of oil derivatives, which also positively affected the growth in revenues from excise taxes. As in the past three years, the growth of derivative consumption was further generated by the growth of non-resident demand due to price competitiveness of oil derivatives in B&H compared to the surrounding countries. Lower oil derivative prices have led to additional consumption by non-residents in border and transit traffic, not just oil derivatives, but also tobacco products and other goods and services. The growth in consumption was partly generated by announcements of the adoption of amendments to the Excise Law, which included the increase in tax burden in oil derivatives. In the second quarter of 2017, revenue growth of oil derivative excises of 5,6% was recorded and in the third quarter of 5%. In the fourth quarter of 2017, derivative consumption began to subside, resulting in the collection of excises at the level of the collection from the same quarter of 2016 (Chart 28). Quarterly growth rates of revenues from tolls are significantly above the growth rates of revenues from excises on oil derivatives due to a significant change in the structure of derivative consumption, which implies a sharp decline in heating oil consumption, on which toll is not paid, and a strong growth in diesel consumption.

Compared to 2014, revenues from excise taxes on oil derivatives collected in 2017 are higher by 21%, which is far above the cumulative domestic consumption growth over the last three years. However, in 2017, there is a noticeable slowdown in the growth of excise revenues on oil derivatives compared to the previous years (Chart 29). This, on the one hand, points to the saturation of non-residents demand due to limited income and slow recovery of neighboring economies, and on the other hand, to the exhaustion of financial reserves to create the stockpiles of domestic consumers in the case of an increase in excise rates on oil derivatives.

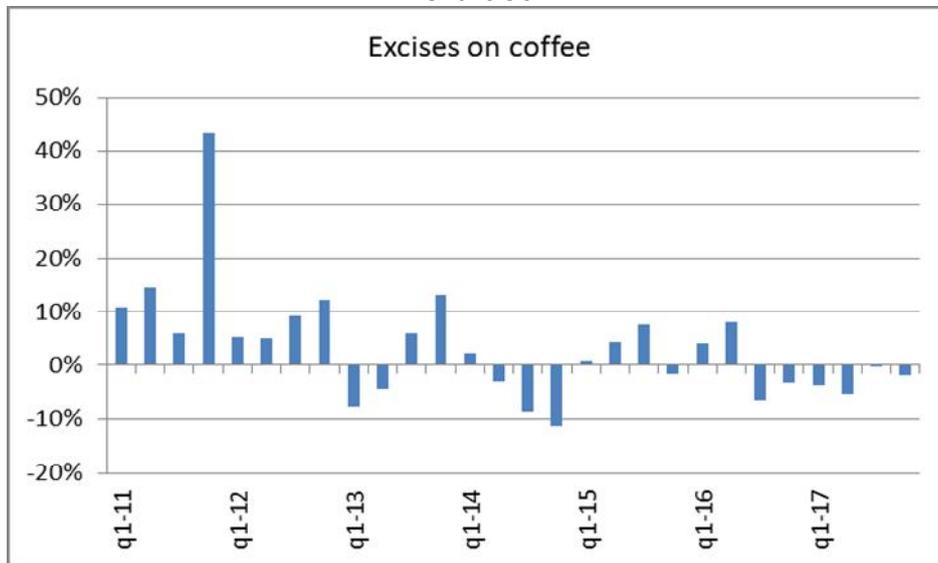
Chart 29



*Excise taxes on coffee*

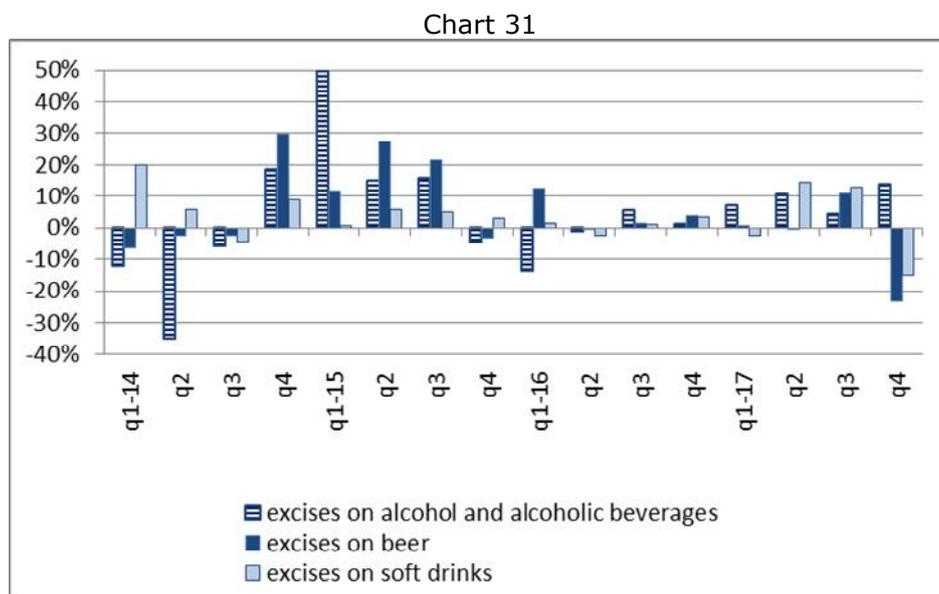
In 2017 negative trends in the collection of coffee excises from the second half of 2016 continued. In the first quarter of 2017 revenues dropped by 3,6% and in the second by 5,4%. In the third quarter the collection was at the level of the previous year, but in the fourth quarter there was again a fall in revenues of 1,8% (Chart 30).

Chart 30

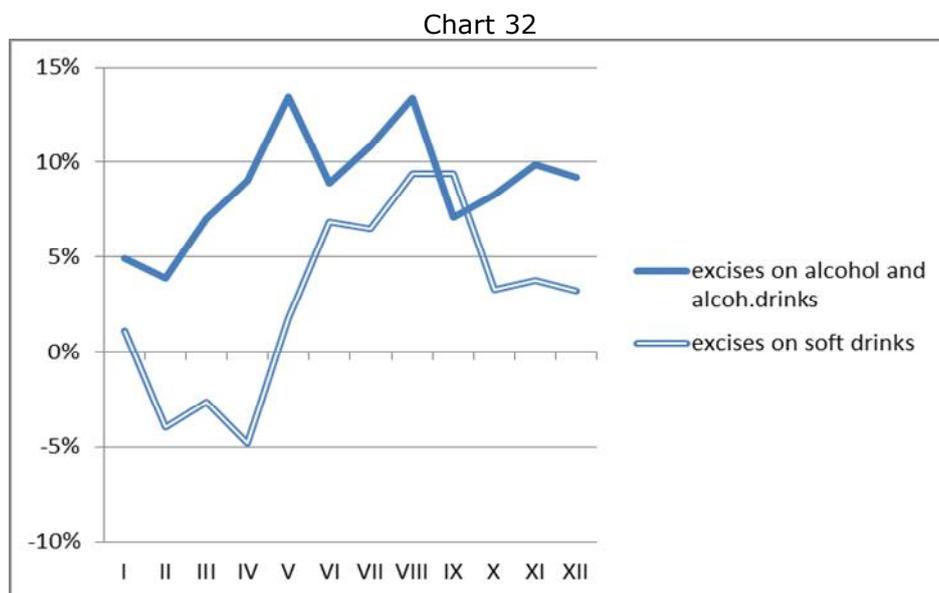


*Excise taxes on alcoholic and non-alcoholic beverages*

Chart 31 shows that the collection of excise taxes on alcoholic and non-alcoholic beverage product group in 2017 has mostly had a positive trend, with high rates of growth, except in the fourth quarter.



The reason for a poorer collection in the fourth quarter was of statistical nature, as the base for comparison included the collection of old debt based on excise taxes on beer and non-alcoholic beverages in 2016.



The cumulative collection of excises on alcohol and alcoholic beverages has been consistently positive throughout the year 2017 (Chart 32). The total excise revenues on non-alcoholic beverages had a negative trend in the first four months of 2017, but in the rest of the year high

growth rates were achieved. By excluding debt from the base, the cumulative growth rate of revenues from excises on non-alcoholic beverages reaches 7,5% (Chart 32).

### *Excise tax on beer*

In the first half of 2017 the collection of excise revenues on beer was at the level of the collection from the same period of 2016. In the third quarter, revenues increased by 11,1% and in the fourth quarter decreased by 23,3% (Chart 31), but by excluding the collection of old debt based on excises on beer from the base for comparison, the fall in revenues would amount to only 4,1%. The analysis suggests that the main reason for the negative trends in 2017 is the poorer collection of excise taxes on imported beer. Cumulative of collected excises on imported beer reached the level of collection from 2016 not before the end of the year, while the cumulative collection of excises on domestic beer was constantly in the positive zone in spite the strong monthly oscillations. The collection of old debt in 2016 has largely distorted the trend in collection of excises on beer. By excluding the collection of old debt from the base, the cumulative growth rate for the collection of excise taxes on domestic beer would amount to 30% and the cumulative growth rate of total collection of excise taxes to 4,9% (Chart 33).

Chart 33

