



Macroeconomic Unit of the Governing Board of the Indirect Taxation Authority

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With this issue

According to the ITA preliminary report by type of revenue the gross collection of indirect tax revenues increased by 38,6 million BAM or 6,4% in June 2018. At the same time, the refund payments were reduced by 15,1 million BAM. The cumulative positive effect of the increase in gross receipts and the decrease in refunds was a total net surplus of 53,6 million BAM, or an increase of 11,2% compared to June 2017. The growth of the June revenues increased the cumulative surplus of gross indirect taxes to 288,5 mil BAM. However, due to the increase in refund payments of 38,2 million BAM, the net cumulative effect amounted to 250,6 million BAM, which represents a growth of 9,4% compared to the same period of 2017 (Chart 1).

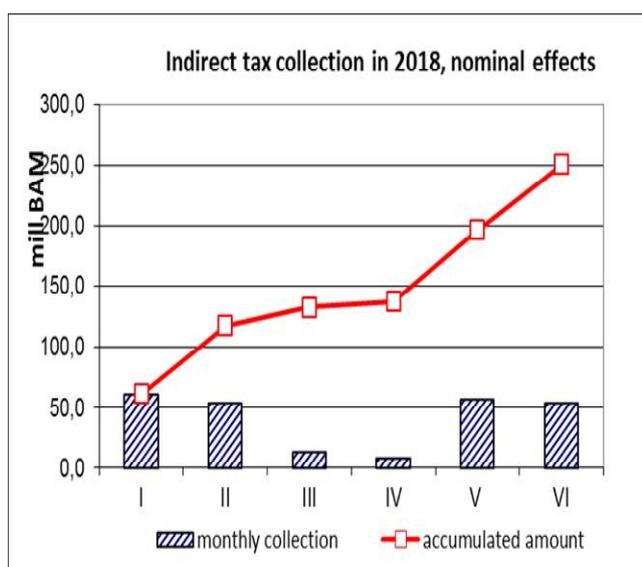


Chart 1

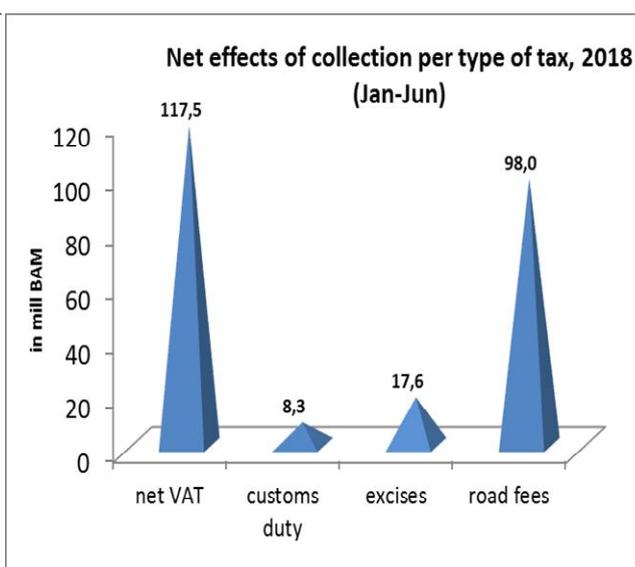


Chart 2

Expressed in nominal values, in the period January - June 2018 the largest increase in revenues was recorded in VAT (117,5 million BAM), road tax (98 million BAM) as well as in excises (17,6 million BAM) and customs revenues (8,3 mil BAM) - Chart 2. It should be noted that the indicators of dynamics of revenues by types can be changed after the final adjustment of currently unadjusted 18,7 million BAM of revenues. A comprehensive analysis of revenue collection by type is presented below in the Bulletin.

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Collection of revenues from indirect taxes, January – June 2018

Total collection

The review of monthly revenue collection points to divergent trends. The biggest effects on gross collection were recorded in January (+85 million BAM) and in May (+69 million BAM), while the lowest in March and April. There were decreases in refunds in February and June, having a positive effect on net collection. The increases in VAT refunds have been registered in the other months (Chart 1). Strong oscillations in gross collection and refund payments were also reflected in net collection, whose monthly-level effects ranged between 7 and 63 million BAM.

Chart 1

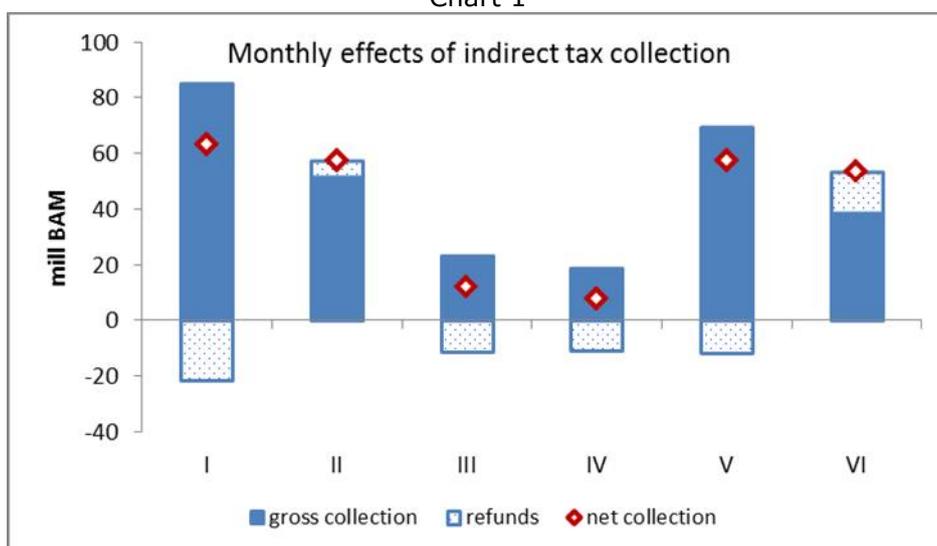
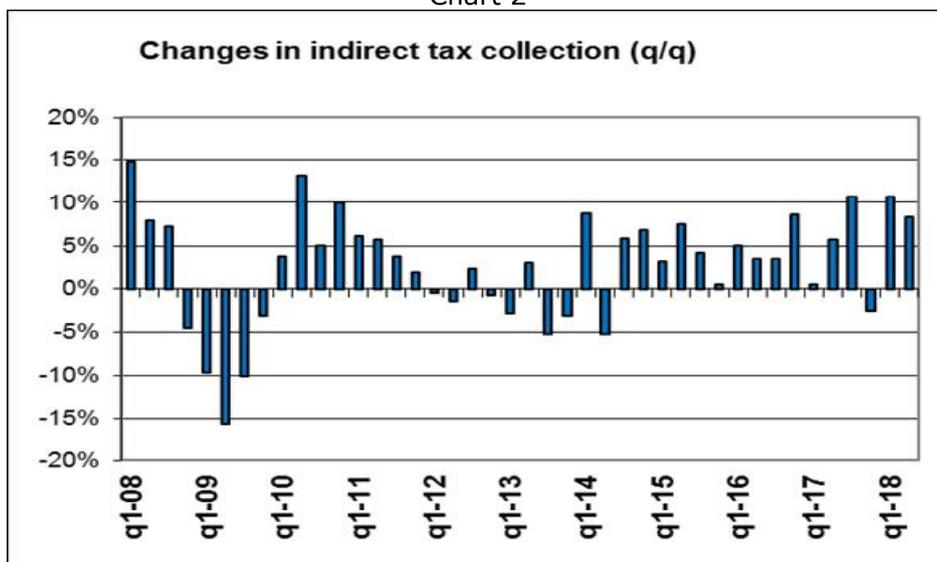


Chart 2



Positive trends in the collection of indirect taxes in the first half of 2018 brought an increase in the first quarter of 10,7%, and in the second quarter of 8,4%. The quarterly trend review shows a positive trend in collection that lasts for four years, with the exception of the fourth quarter of

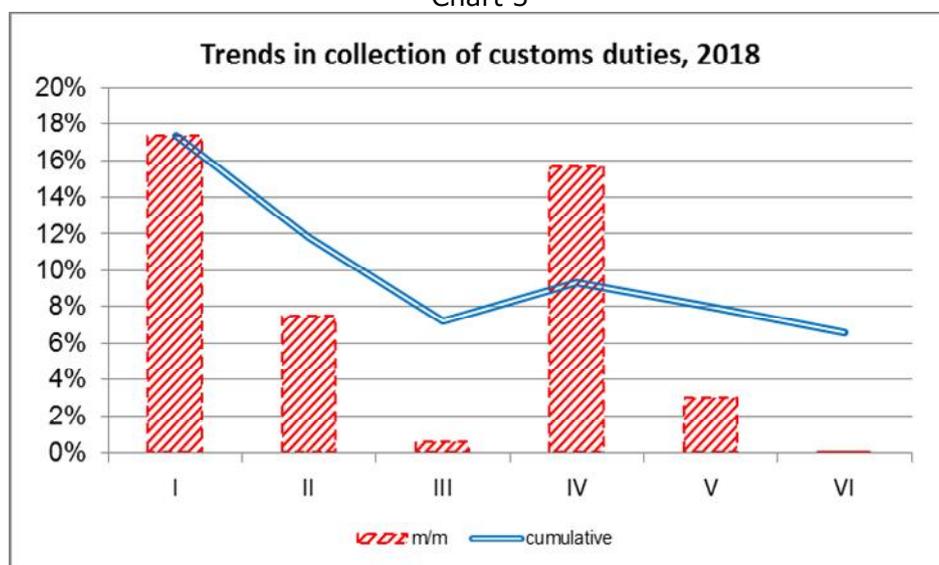
2017 (Chart 2). However, it should be reminded that the fall in collection in that quarter has been largely a consequence of the postponement of refunds from the third quarter of 2017, due to conduction of extensive controls of refunds by the ITA.

Trends by types of revenues

Customs revenues

The collection of customs revenues in the first half of the year is subject to strong oscillations, as a consequence of oscillations in the imports of goods from the EU which are under the regime of customs duties and in imports of goods from the third countries. Unlike January and April, when revenue growth rates of 16-17% were achieved, the revenue collected in June was only 0,2% higher than in the same month of 2017 (Chart 3). Oscillations in customs revenue collection in the previous two months slowed down the cumulative growth rate. Nevertheless, at the six-month level, revenues from customs rose by 6,6% (Chart 3).

Chart 3

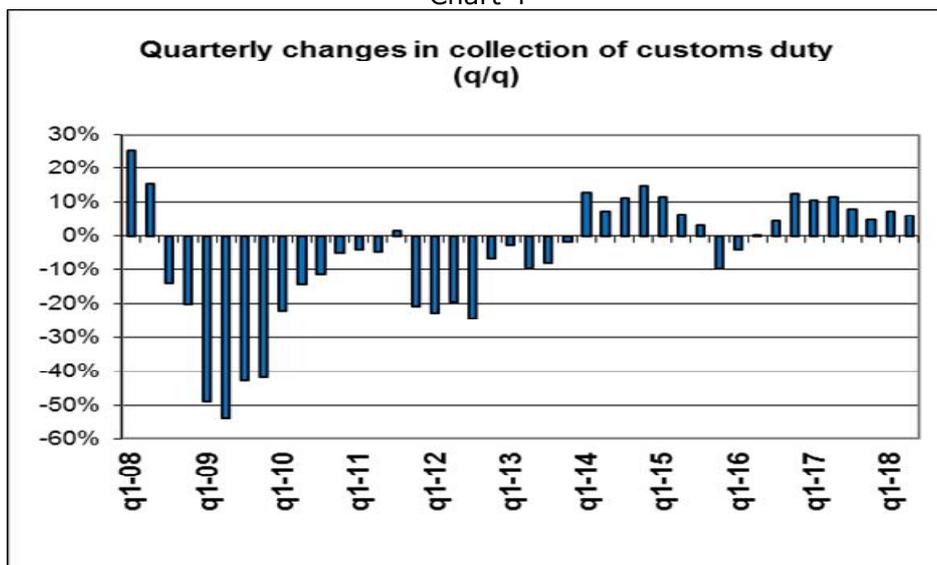


Quarterly comparison (Chart 4) shows that the trend of positive growth of customs revenues lasts continuously for nine quarters. Monthly oscillations in the collection of customs revenues did not reflect the quarterly growth rates, which have ranged between 5 and 10% for a long period of time.

In the first quarter of 2018 customs revenues increased by 7,2% and in the second by 6%. Nevertheless, it can be concluded that the collection of customs revenues has not been endangered by the adaptation of the Stabilization and Association Agreement with the EU (effective from 1st February 2017). The expected negative effects were completely neutralized by the growth of imports from the EU and third countries. According to trade in goods statistics, in the first five months of 2018 imports from third countries increased by 15,3%, while imports from Russia increased by 48,7% and from China by 15,4%.¹

¹ Source: Agency for Statistics of B&H, press release for May 2018, www.bhas.ba.

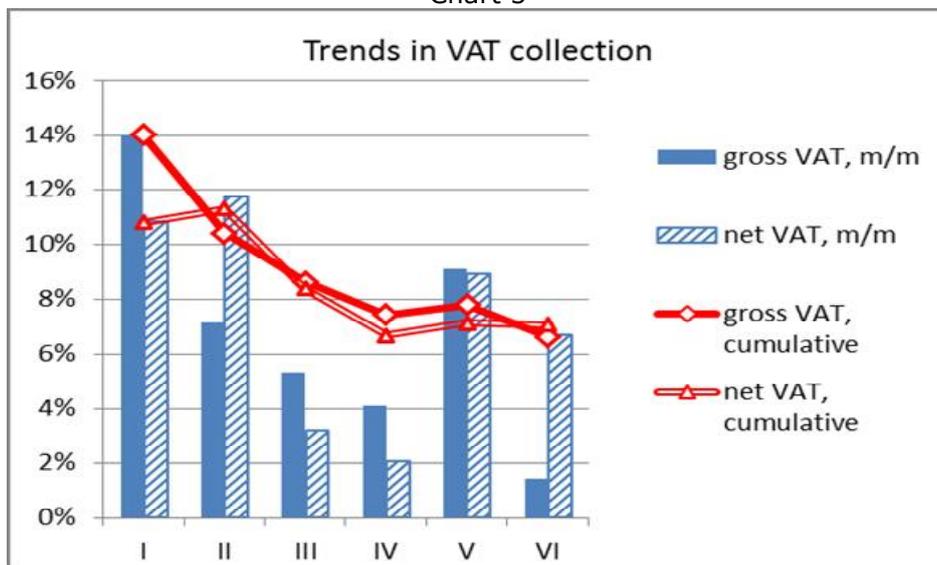
Chart 4



VAT

High growth rates of VAT revenue, both gross and net, were recorded in the first half of 2018 (Chart 5).

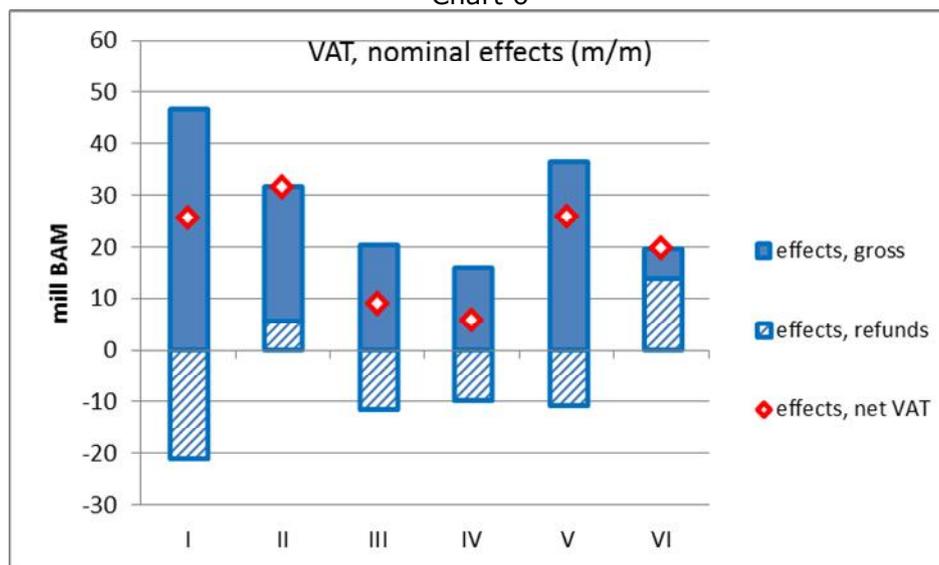
Chart 5



Although in June 2018 the increase of gross VAT collection amounted a modest 1,4%, a cumulative half-yearly growth rate of gross VAT of 6,6% was reached. The reduced refund payments in June compensated for a weaker growth in gross VAT. For this reason, net VAT growth rate reached 6,7%, while the cumulative growth rate of net VAT remained at high 7,1%. After a final adjustment of revenue, even higher growth rate can be expected.

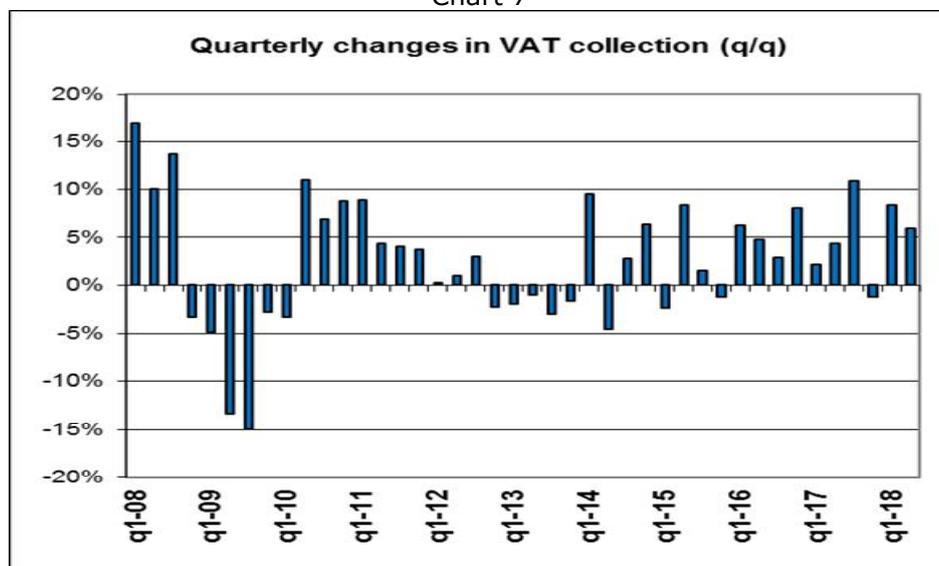
Chart 6 shows high monthly surpluses of gross collection in the first five months. Oscillations in gross VAT collection ranged from 5 to 47 million BAM, while monthly oscillations of net VAT collection ranged from 5 to 32 million BAM (Chart 6), under the influence of refund payments dynamics.

Chart 6



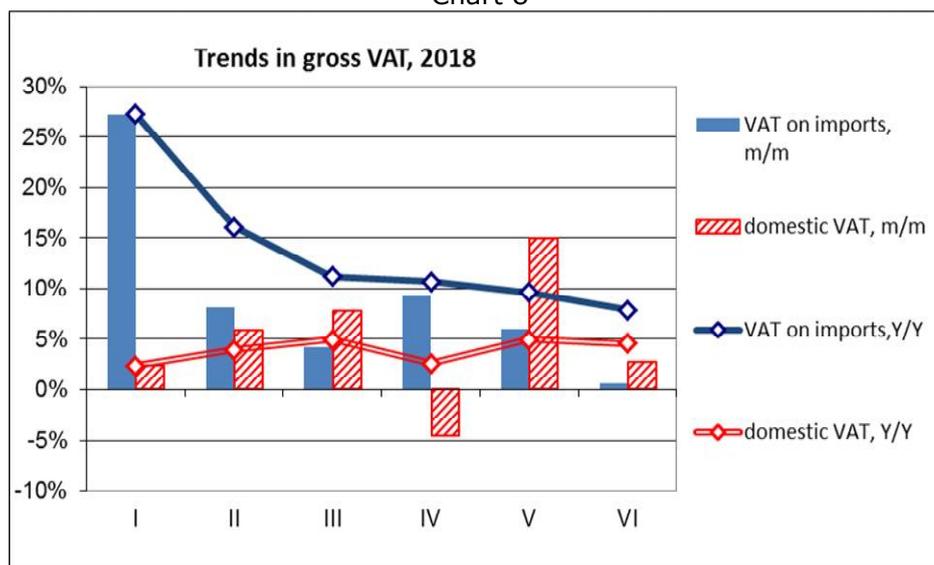
A review of quarterly trends shows the continuation of positive trends in VAT collection lasting from the first quarter of 2016, with the exception of the fourth quarter of 2017 when the retained refunds from the third quarter of 2017 were paid (Chart 7). The first quarter of 2018 brought an increase in net VAT collection of 8,4%, while in the second one a growth of 5,9% was recorded as a result of lower gross collection in June.

Chart 7



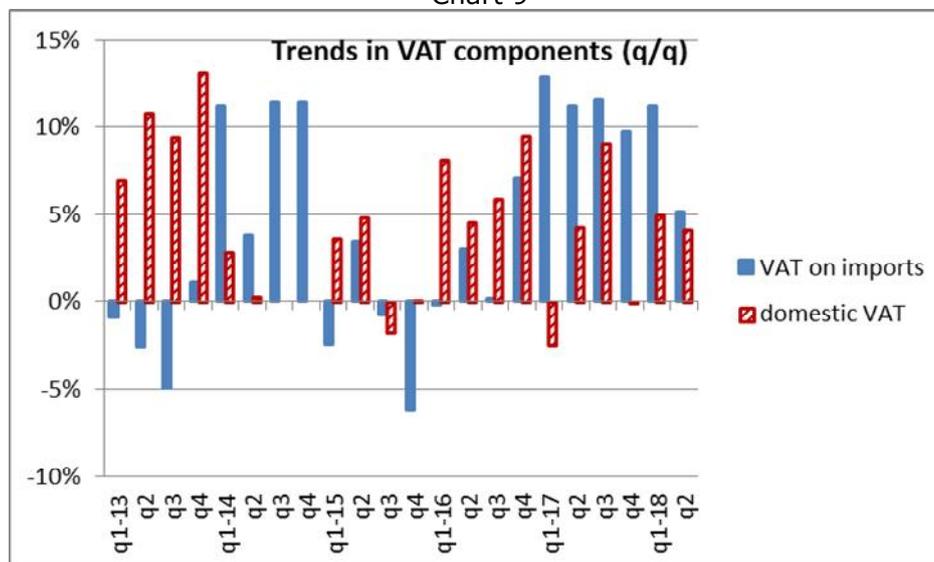
Dynamics of the cumulative gross VAT components (Chart 8) shows that unexpectedly high VAT growth is a consequence of domestic VAT growth. Although domestic VAT growth of 2,7% was recorded in June, the cumulative growth rate at the six month level remained at high 4,6%, with the expectation of even higher growth rate after final adjustment of revenues. On the other hand, there is a downward trend in the collection of VAT on imports, which after a high growth rate exceeding 25% reached in January, fell down to 0,7% in June. Lower collection in June brought down the growth rate of cumulative VAT on imports to 7,9% at the half-year level.

Chart 8



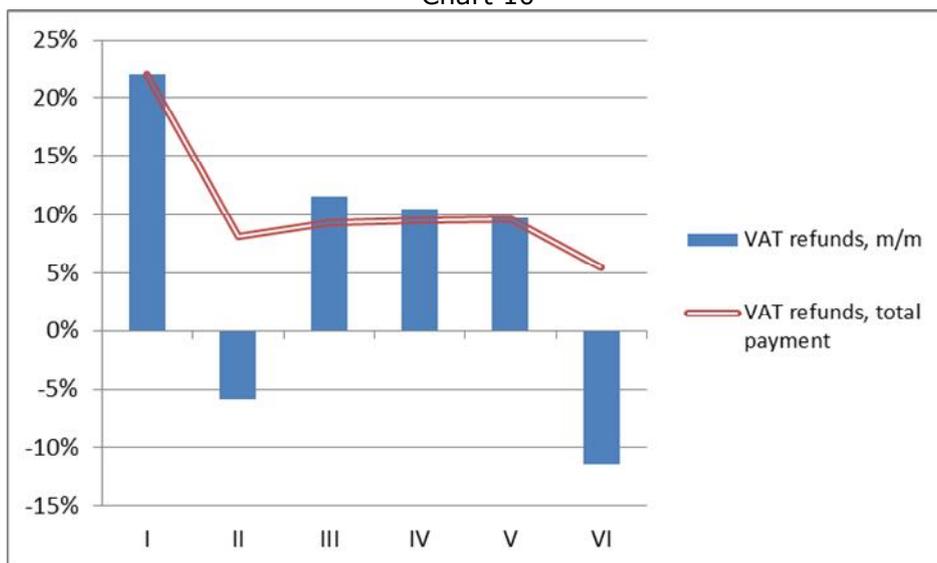
Quarterly trends in the collection of gross VAT components show a sharp decline in VAT collection on imports in the second quarter of 2018. After the first quarter, when growth rate amounted 11,5%, in the second quarter growth rate was halved (5,1%). This also represents the lowest quarterly growth rate of VAT on imports in the last seven quarters. On the other hand, quarterly growth rates of domestic VAT in the first and second quarter of 2018 are equable, amounting 5% and 4,2%, respectively (Chart 9).

Chart 9



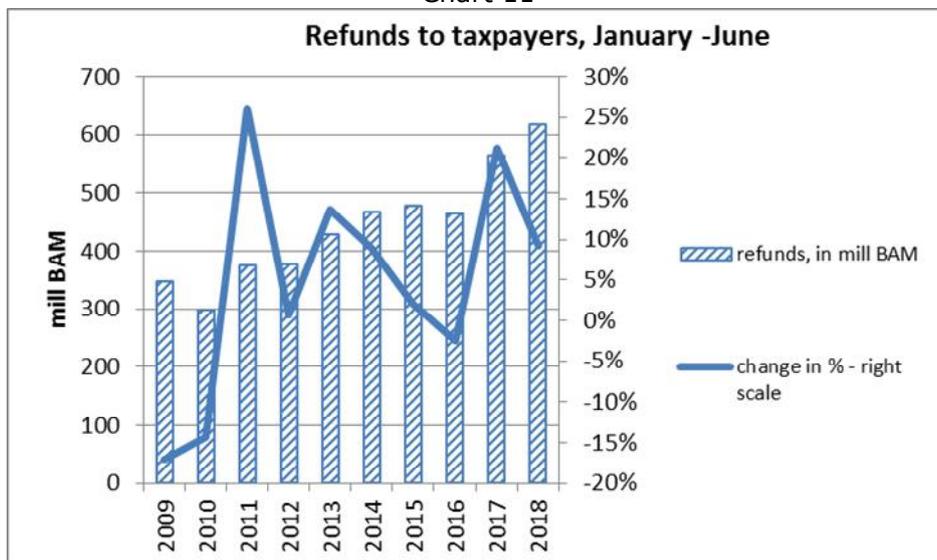
In June 2018, refund payments decreased by 11,4% compared to the reference month of 2017. This significantly influenced a reduction of their cumulative growth rate from 10% to 5,5% (Chart 10).

Chart 10



Structure of refunds shows that refund payments to taxpayers increased by 51,8 million BAM or by 9,2% in the first half of the year. On the other hand, refunds on the basis of international projects were lower by 14,7 million BAM or by 28%. The growth rate of refund payments to taxpayers follows the trends of import and export of B&H². Despite the nominal growth of refunds in the first half of 2018, the slowdown of growth is noticeable in comparison with the historical trends (Chart 11).

Chart 11

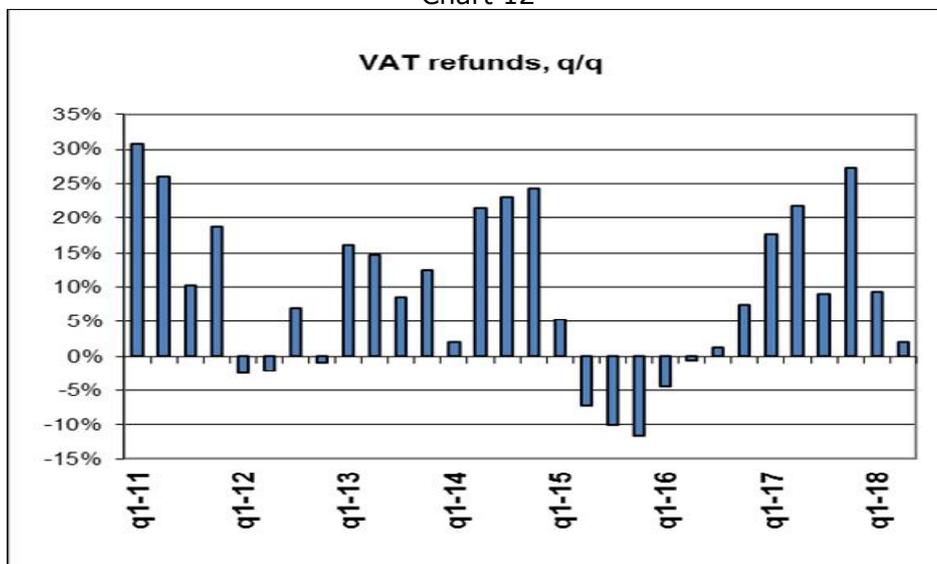


The growth rate of refund payments to taxpayers halved in comparison to the situation in the first half of 2017. The improvement indicator in refund payments is also a reduction in the share of refunds in VAT gross collection. The share of refund payments in gross VAT collection in the first half of 2018 amounted 26,8%, which is 0,3 percentage points below the refund share in gross VAT

² In the first five months of 2018 imports increased at a rate of 9,6% and exports by 10,9%. Source: Agency for Statistics of B&H.

in the first half of 2017. The quarterly review also shows a lower growth rate of refunds in 2018 (Chart 12). One of the factors may be of statistical character, given the high nominal base in 2017.

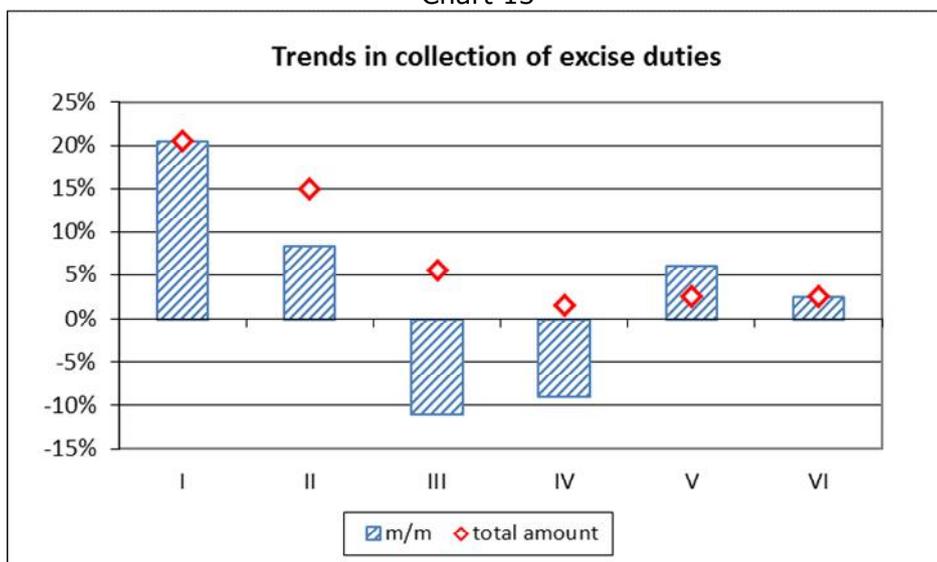
Chart 12



Excises

The collection of excises in the first half of the year showed large oscillations. Monthly growth rates ranged between -11% and + 21% (Chart 13). Monthly collection in June increased by 2,6%, while the growth rate of cumulative collection at the half-year level amounted 2,6%.

Chart 13



In June were recorded drops in revenues from excises on most excise products. The highest rates of growth were realized in excise taxes on imported tobacco and in excise taxes on non-alcoholic beverages. The largest decreases in revenues were realized in the collection of excises on oil derivatives, imported and domestic, and in collection of excise duties on domestic tobacco.

In the first quarter of 2018 revenues from excises increased by 5,3%, while in the second quarter the growth amounted only 0,4% (Chart 14). Quarterly review of excise collection shows changing trends in 2017 and 2018, reflecting the oscillations in collection of excise duties on tobacco (Charts 15 and 16) and oil derivatives (Chart 17).

Chart 14

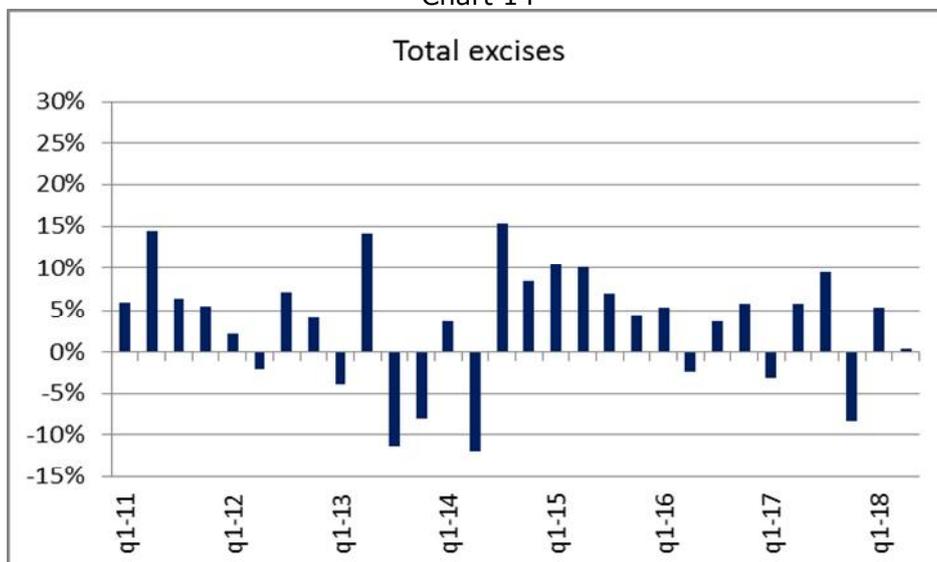
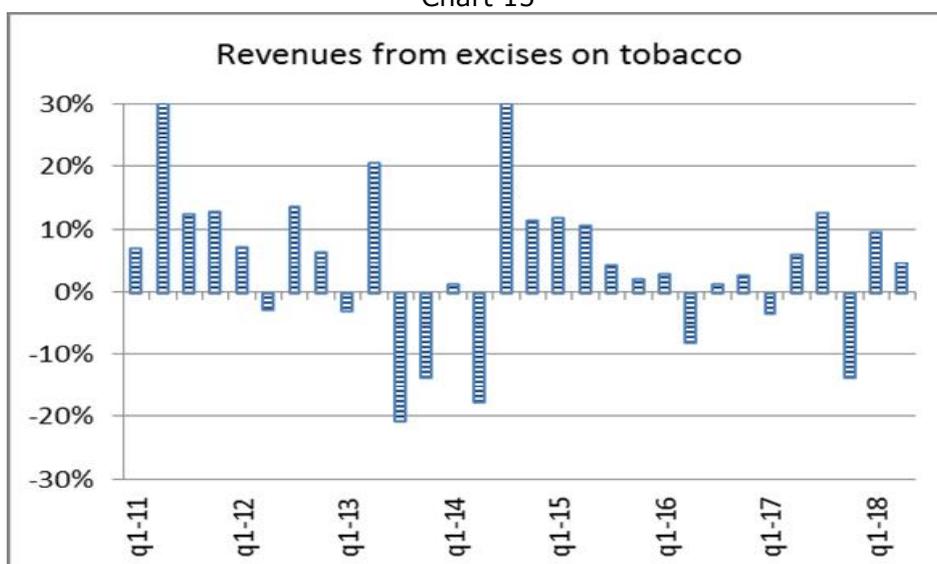


Chart 15

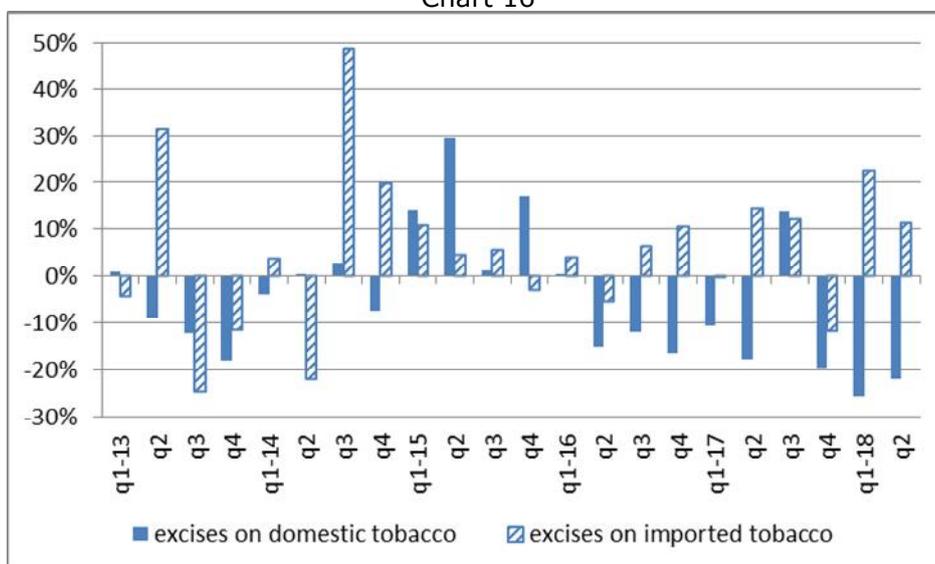


Oscillations in the collection of excises on tobacco are sharper than in trends of total collection (Chart 15). In the first quarter revenues from excises increased by 9,6% and in the second quarter by 4,6%. As in the previous years, there were strong seasonal fluctuations in the collection of excise duties on tobacco in the first part of 2018, having peaks in the summer months, which corresponds to the rising consumption in the summer season by non-residents (in transit, diaspora, tourists in B&H and Croatia).

Excises on imported tobacco dominate in the structure of the collected revenues, with the growth rate of 22,5% and 11,5% in the first and second quarters of 2018, respectively, while excises on

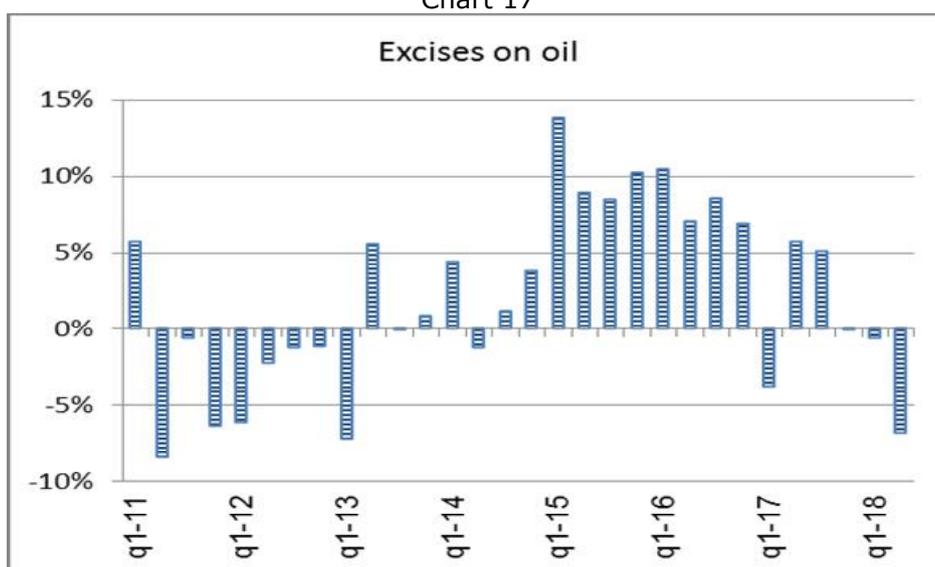
domestic tobacco were 25,5% and 22,1% lower than in the same quarters of 2017 (Chart 16). The growing trend of excises on imported tobacco products and the deep uncertainties in the domestic tobacco industry indicate a gradual restructuring of the tobacco products market in favor of imported brands.

Chart 16

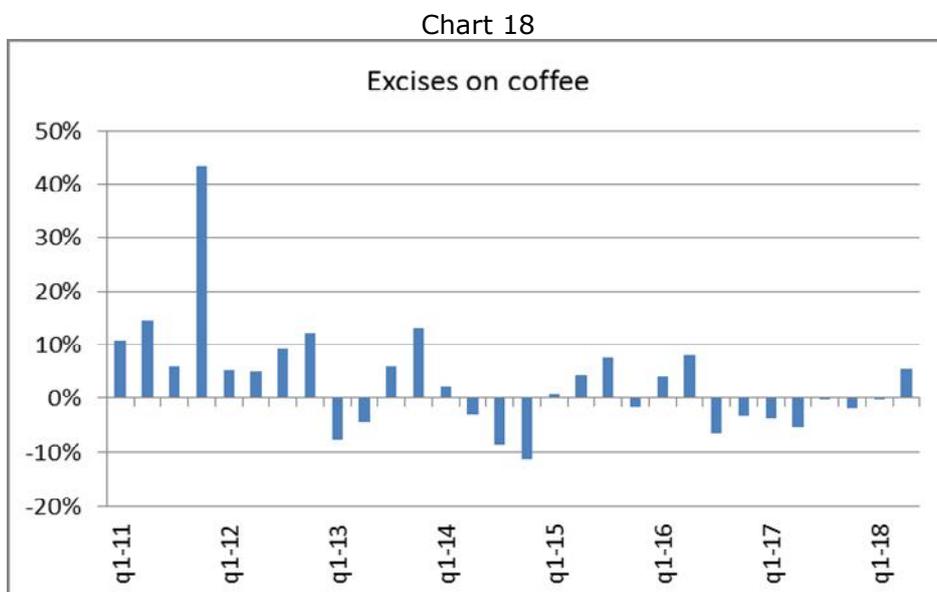


The first quarter of 2018 expectedly brought a lower collection of excise taxes on oil derivatives. Due to the increase of the tax burden on derivatives, and consequently the retail prices as of 1st February 2018, the oil derivatives consumption increased in January, which brought the increase of excise revenues on imported oil derivatives in January and the growth of revenues on domestic derivatives in February 2018. Growth of the oil price in the world market over the past months caused the rise in retail prices of oil derivatives in B&H on several occasions, which has negatively affected the consumption of derivatives and the collection of excise revenues. In the first quarter revenue fell by 0,6%, and in the second one by 6,9% (Chart 17).

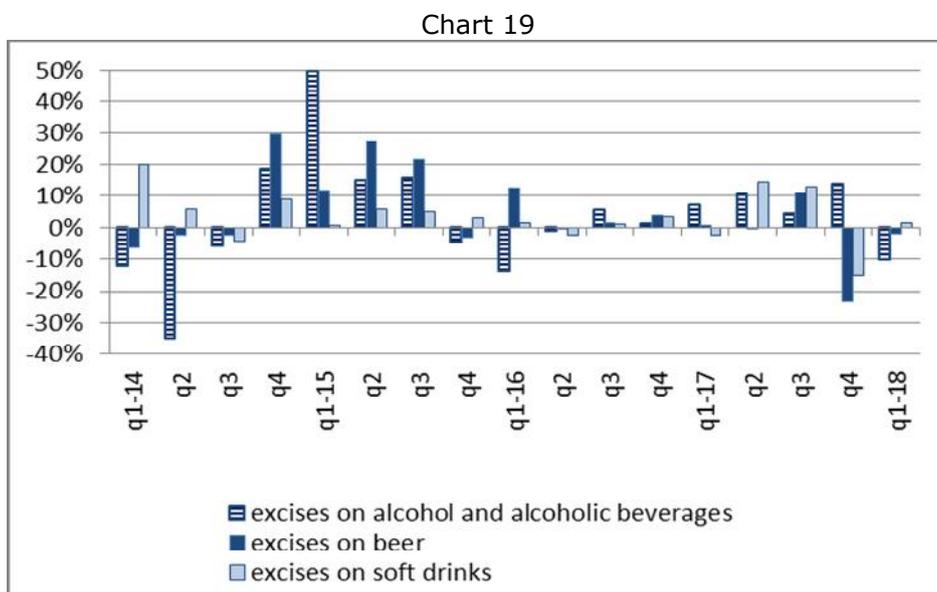
Chart 17



The trend of the negative growth of revenues from excises on coffee has lasted for seven quarters continuously, until the second quarter of 2018 when the growth of 5,6% was reached (Chart 18).



In the first half of the year the total collection of excise taxes on the product group consisting of beer, alcohol, alcoholic and non-alcoholic beverages was at the level of last year. Positive trends are only recorded in the excises on non-alcoholic drinks. The growth rate amounted 1,6% in the first quarter of 2018, and 2% in the second (Chart 19).



In the first and second quarters of 2018 revenues from excises on alcohol and alcoholic beverages decreased by 10,1%, and 5,8% respectively in comparison with the same quarters of 2017.

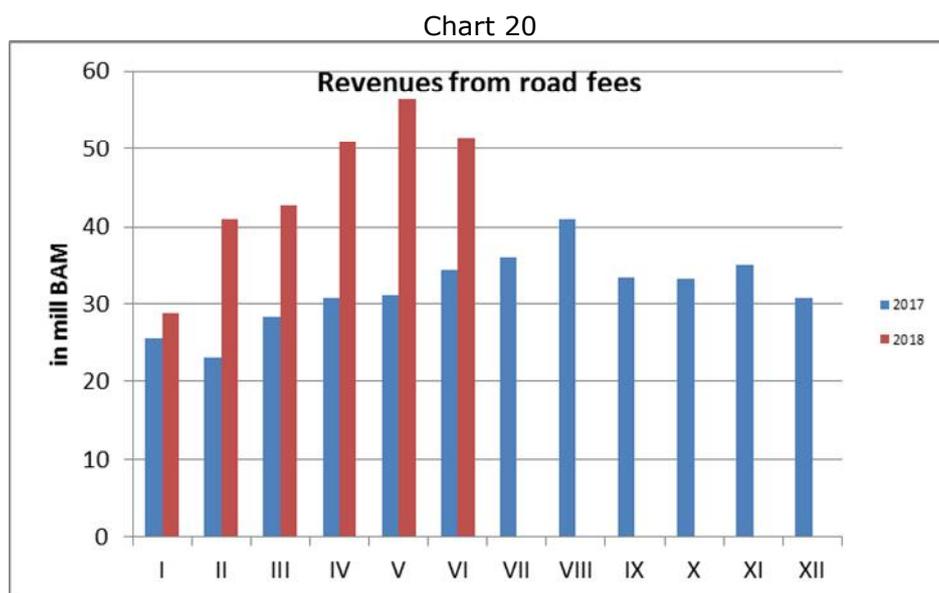
Collection of excises on beer was in the negative growth zone in the first half of 2018. In the first quarter revenues declined by 2,2%, and in the second by 0,9%. It should be noted that excises

collected from domestic breweries in the first half of 2018 were even 13,8% lower than in the first half of 2017, while the collection of excises on imported beers was 5,4% higher than in 2017.

Road tax

In the first half of the year, the collection of road taxes was realized within the expectations. Increase of the earmarked road tax rate for the construction of highways as of 1st February 2018 brought the increase in imports and in domestic consumption of oil derivatives in January, therefore influencing revenues from road taxes in January (import) and February (domestic consumption). Given that the total road tax rate has increased by 60%, any revenue growth below that level indicates a reduction in the consumption of oil derivatives. In the period from February to May, revenues from road taxes exceeded monthly collection from the same month of 2017, even by 80%, while the growth of 49,4% was recorded in June and 56,5% at the half-year level.

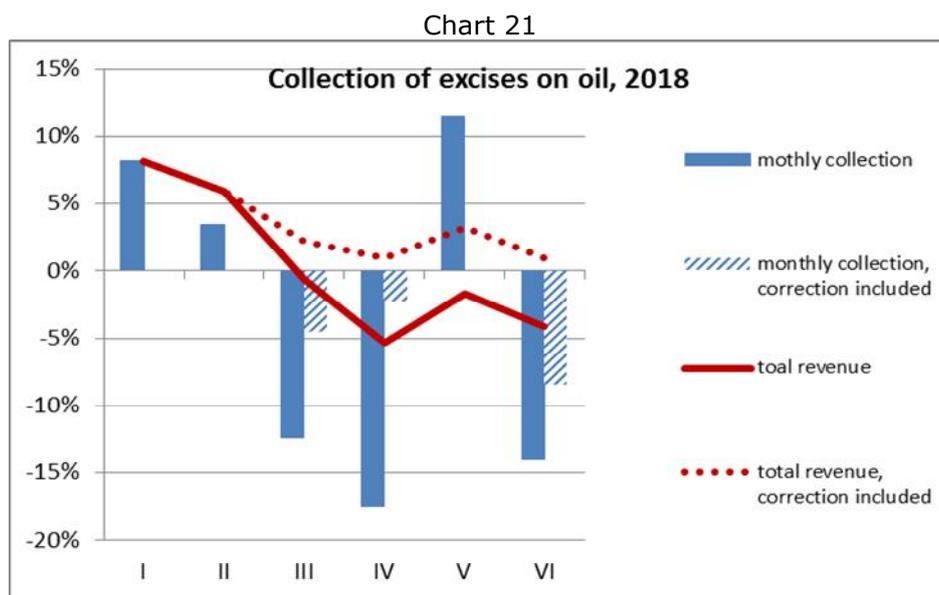
Chart 20 shows a change in fuel consumption (diesel, gasoline) on which road tax is charged, in June compared to 2017. It should be emphasized that one of significant factors for the collection of road tax is the structure of fuel consumption, ie the dynamics of the quantities of heating oil on which the road tax is not charged. The increase in retail prices of diesel creates an additional incentive for the illegal substitution of diesel with heating oil, due to lower retail prices of heating oil. On the other hand, the negative effect of heating oil consumption on the road tax collection should be neutralized by paying the road tax on liquefied petroleum gas, introduced by the amendments to the Law on Excises as of 1 February 2018.



The effects of revenue offset on revenue collection by type

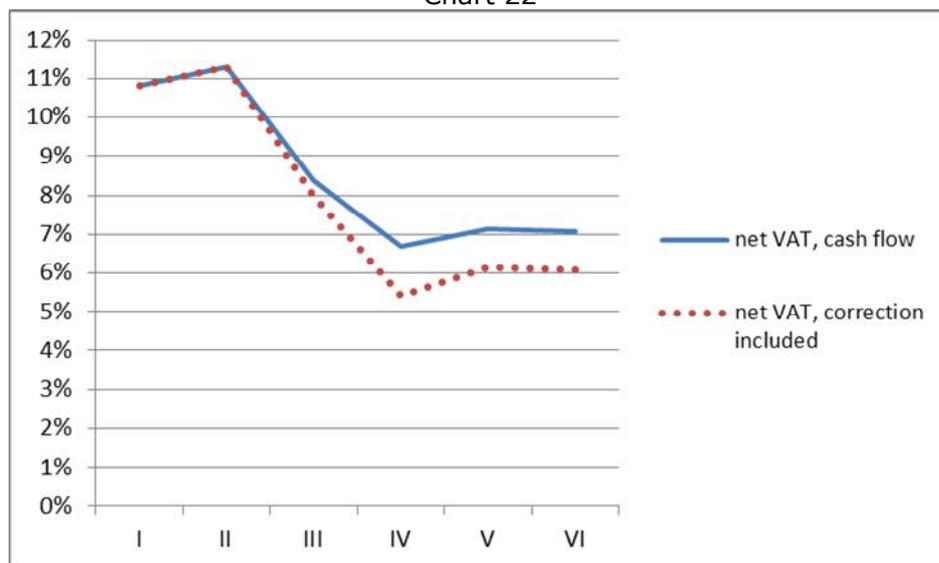
The Law on Indirect Taxation Procedure allows offsetting the indirect tax liabilities and approved claims for overpaid indirect taxes. Offsetting VAT liabilities and tax credits does not affect the VAT collection in the current year if the tax credit belongs to the current year as well. However, if the offsetting claims and liabilities are carried out for different types of indirect taxes, in the situation when net cash reporting is applied, it is possible that the trends of revenue collection by type do not correspond to the real trends.

The aforementioned situation appeared in the first half of 2018 when the domestic taxpayer for excise duties on oil derivatives offset the excise duty and road tax with an authorized tax credit. Offsetting the VAT credits and excise liabilities influenced the collection of excise revenues in March, April and June (Chart 21, columns ). After correction and presentation of revenue collection on an accrual basis, it can be concluded that the trends in collecting the excise taxes are positive (Graph 21, line ) , and that instead of cumulative revenue deficit of 4,1% de facto growth of 1 % was realized. Quarterly comparisons show that, instead of the negative growth of revenues from excise taxes on oil derivatives of -0,6% and -6,9% in the first and second quarters of 2018, there was a growth of 2,2% in the first quarter, while the collection in the second quarter of 2018 was at the level of collection in the same quarter of 2017.



On the other hand, offsetting the excise and road tax liabilities with the tax credit unjustifiably increases the net VAT collection. Assuming that there has been used the tax credit which was generated in 2018, the analysis suggests that the growth in net VAT collection in the first half of the year amounted 6,1% (Chart 22, line ) , or 1 percentage point below the growth according to net cash flow accounting (Chart 22, Line ).

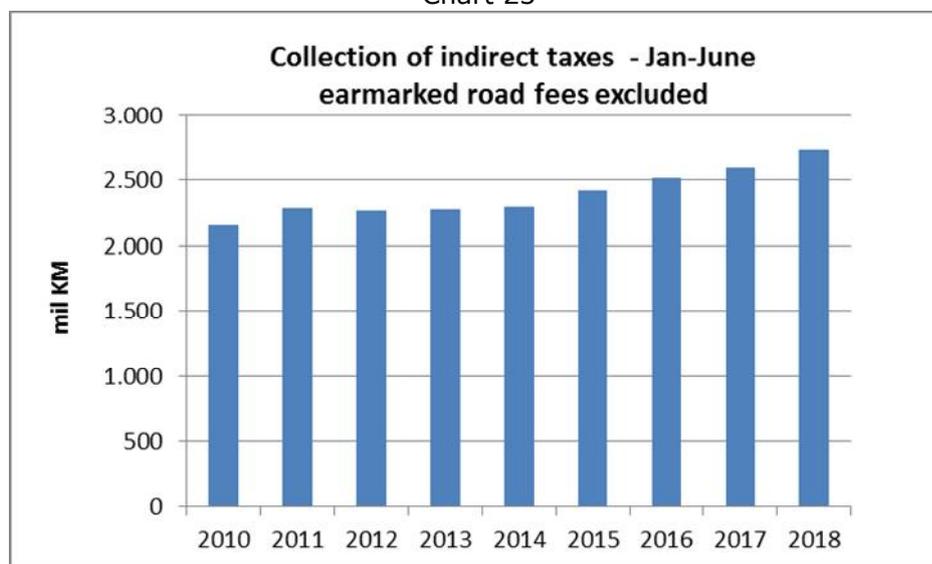
Chart 22



Conclusion

Collection of revenues from indirect taxes in the first half of 2018 exceeded the projections. The main factor of the growth amounting 9,4% was the increase in the road tax rate after the amendments to the Law on Excises had entered into force. It is not possible to compare the collection in 2018 with the previous years by direct comparison of the totally collected indirect taxes, due to the change in the policy of taxation of oil derivatives in 2018.

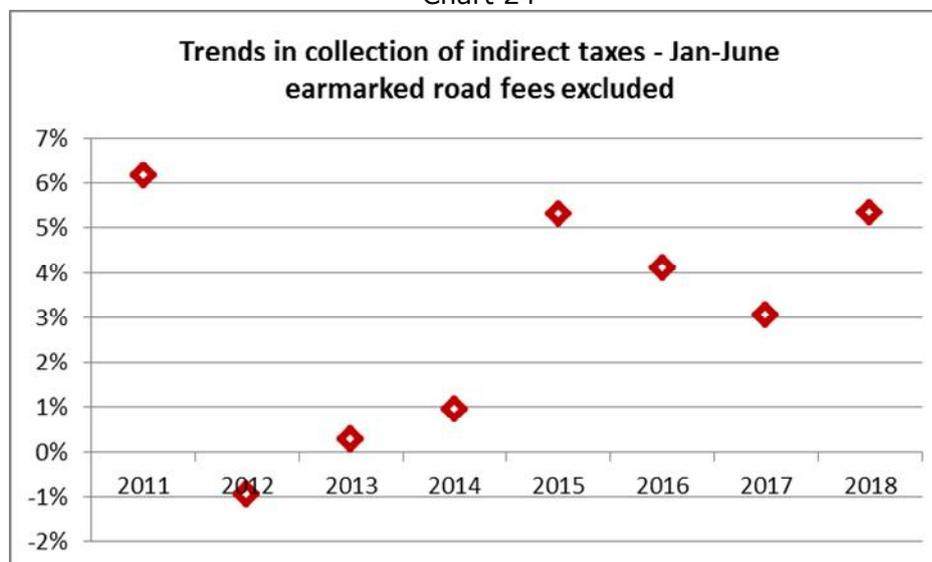
Chart 23



Revenues from the earmarked road taxes have been excluded from the analysis in order to get a more realistic picture of the trends in the collection of indirect taxes in 2018, which would allow comparison with the historical trends. The amount obtained is, *de facto*, the amount of revenue allocating to the distribution users (B&H, Entities, District). In addition, bearing in mind that the road tax enters into the VAT base, it is also excluded from the collection in 2018 the corresponding

VAT amount that has been paid on the additional revenue from the road tax as of 1 February 2018 (Chart 23). After excluding the effects of the increased earmarked road tax rate, the growth rate of indirect tax revenues for the first six months amounts to 5,4%.

Chart 24



From the analysis above it can be concluded that:

- the increase in the earmarked revenue rate brought 4 percentage points of revenue growth from indirect taxes;
- the 5,4% growth rate of revenues for distribution is significantly above the projection of consumption, and is also significantly higher than the growth rates of revenues in the previous two years (Chart 24);
- reporting on collected revenues based on a net cash basis does not point to the real trends in revenue collection from indirect taxation by type and therefore can not provide a reliable basis for the analysis of both tax structure and trends in revenue collection by types, as well as for preparing revenue projections and assessing current and creating future indirect tax policies. In this respect, it is necessary to build a complementary reporting system by type of revenue that will eliminate the disadvantages of the existing system.