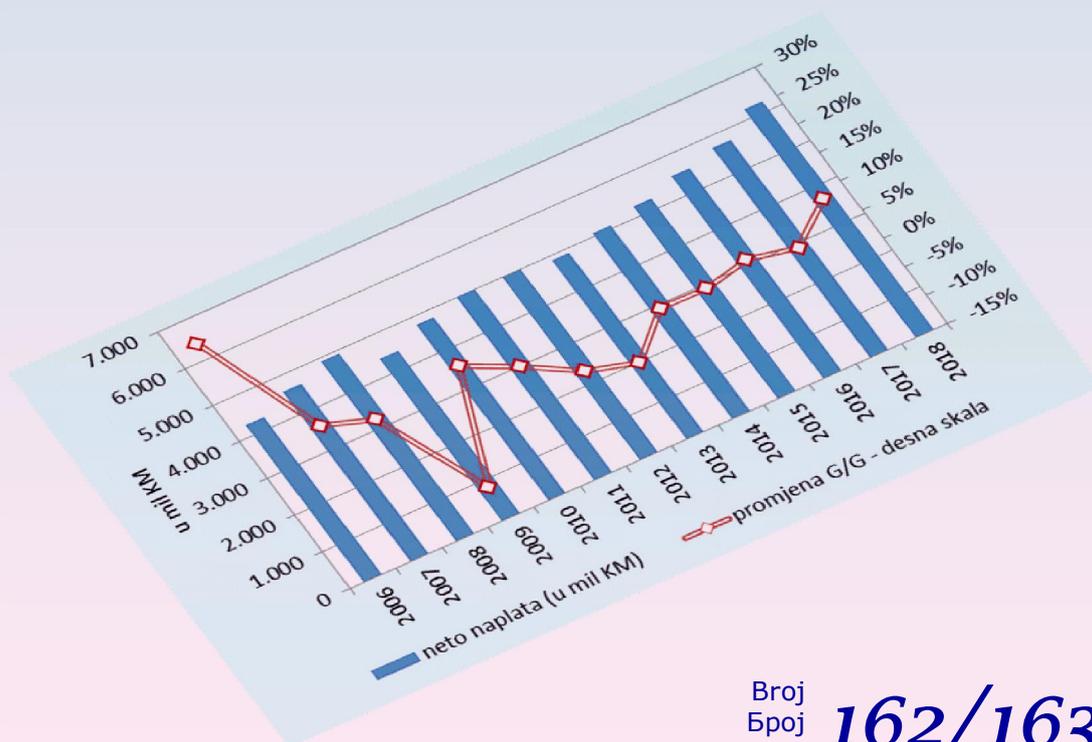




Macroeconomic Unit of the Governing Board of the Indirect Taxation Authority

ОМА Билтен



Broj
Број
Number **162/163**

With this issue

An overview of the annual nominal collection shows that the record amount of indirect tax revenues since the establishment of the ITA was collected in 2018 and the rate of growth reached 8,6% (Chart 1).

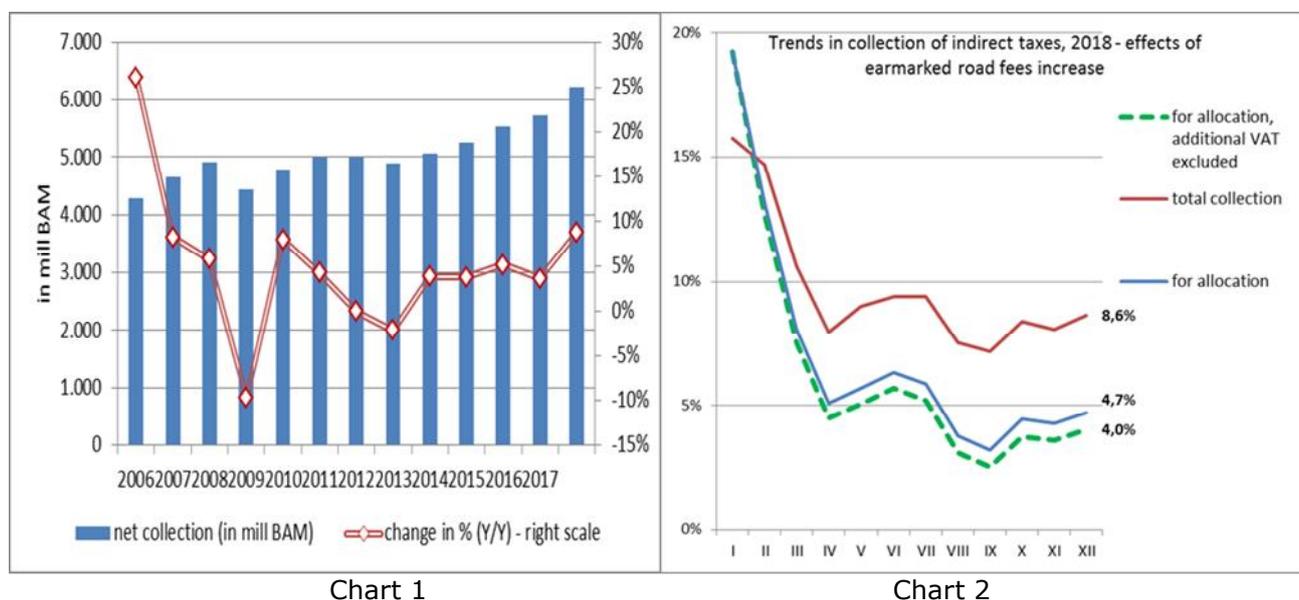


Chart 1

Chart 2

This was expected bearing in mind the amendments to the Excise Law. In order to ensure, for the purpose of analysis, the comparability of collection of indirect tax revenues in 2018 with the collection in 2017 it is necessary to completely exclude the collection of the earmarked road tax, given that almost all the effects of the amendments to the Excise Law (applicable of 1st of February 2018) refer to the earmarked road tax. The amount of revenues after the exclusion of earmarked taxes represents revenue transfers according to the budget of institutions of B&H, Entities and the District ("distribution funds"). After the exclusion of the earmarked road tax collection from the total amount of indirect tax collected in 2017 and 2018, the growth of distribution funds in 2018 amounts to 4,7% (Chart 2). Since the effects of amendments to the Excise Law also include the amount of VAT charged on an additional earmarked road tax, excluding this effect the growth rate of distribution funds amounts 4%. Therefore, it can be concluded that the amendments to the Excise Law brought 4,6 percentage points of increase in revenues from indirect taxes.

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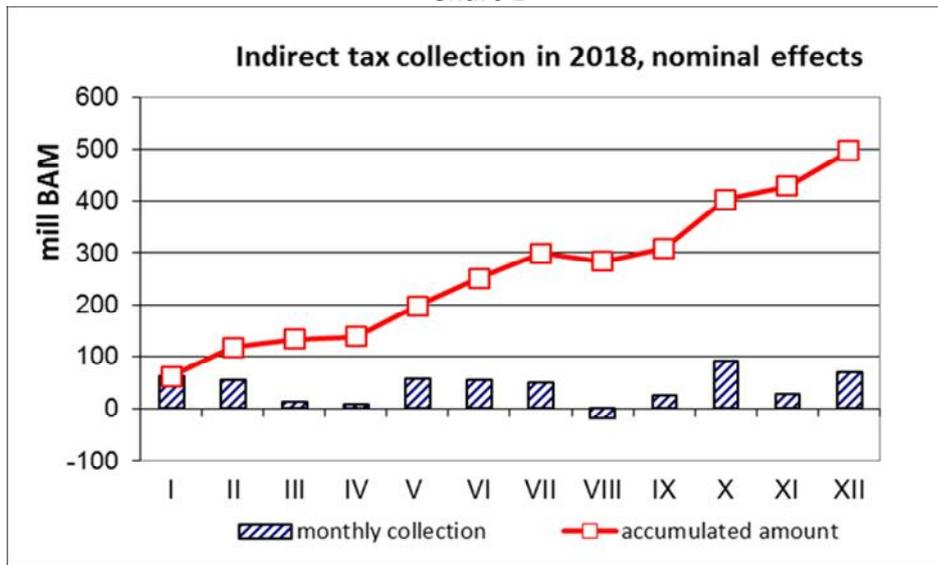
Technical design: Sulejman Hasanović, IT expert
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Collection of indirect tax revenues, 2018

TOTAL COLLECTION

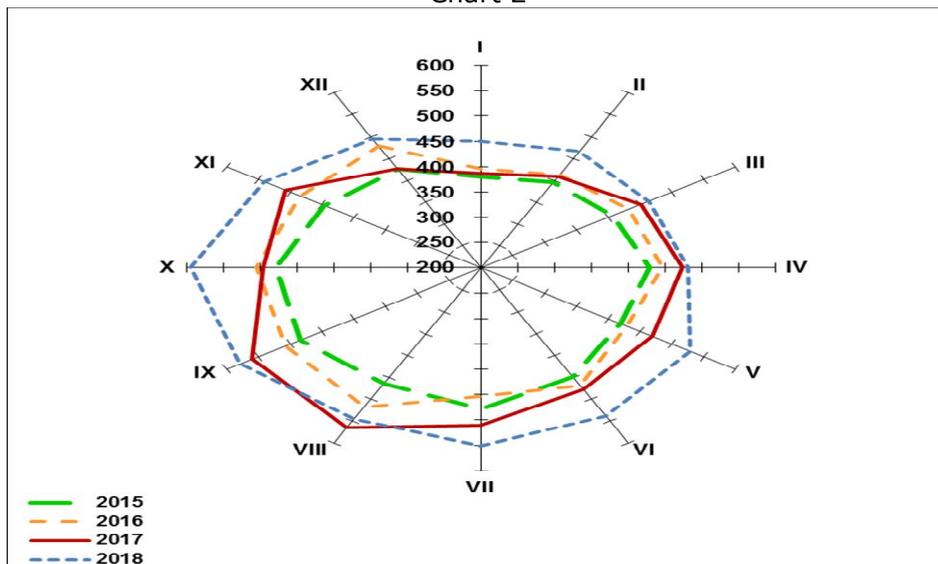
The growth trend of indirect tax revenue is continued in December 2018. According to the report on cash flow at the SA ITA in December 2018 625,5 million BAM of gross revenue from indirect taxes was collected, which is by 58,1 million BAM more than in December 2017. Refund payments were by 8,1 million BAM higher than the payments in the same month of 2017, therefore the net effect of revenue collection amounted to 66,2 million BAM (Chart 1). At the level of 2018, it was collected the gross revenue of 552,6 million BAM more than in 2017, while the refund was paid 57,7 million BAM more than in 2017. Finally, the net collection was higher by 494,8 million BAM, i.e. by 8,6% more than in 2017 (Chart 1).

Chart 1



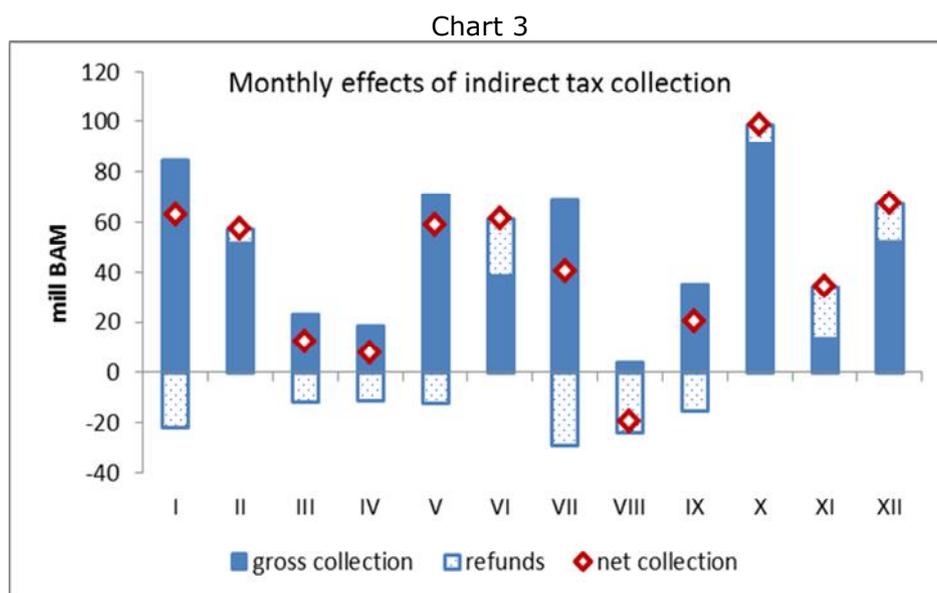
Looking at the scheme of revenue collection in 2018 compared to the previous two years, visible progress is noted (Chart 2).

Chart 2



The second conclusion is that there is an uneven distribution of effects over the year which in the last three years has lost the features of the traditional revenue collection scheme, characterized by a fall in revenues in the first quarter and growth in consumption, and thus indirect tax revenues at the end of the year. Instead, the maximum effects of revenue collection in 2018 were achieved in January and February, and then in May, June and October.

Monthly effects of fluctuations in inflows and outflows from the Single Account in 2018 (Chart 3) showed that the gross revenue grew continually.



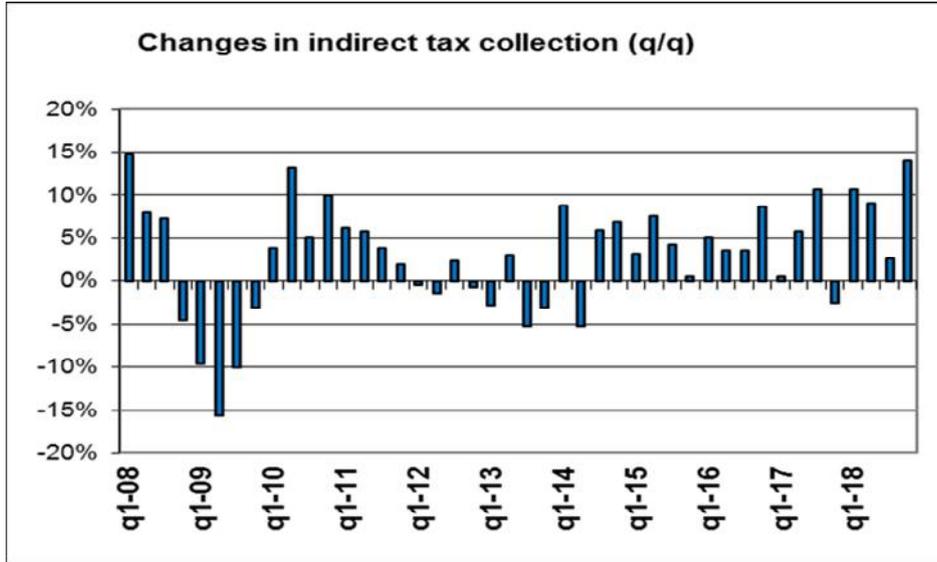
The biggest effects, exceeding 90 million BAM, were achieved in the first and fourth quarter. On the other hand, there is an improvement in refund payments, especially in the last three months.

Quarterly analysis of the indirect tax revenue collection shows that positive trends in indirect tax collection have been ongoing for four and a half years, with the exception of the fall in revenues in the fourth quarter of 2017, as a result of postponing refund payments from the third quarter of the same year (Chart 4). High growth rates of collection were recorded in 2018. In the first quarter the growth rate was 10,7%. Revenue collection of indirect taxes in the first quarter of 2018 was partially influenced by several factors. First, the move of the third-country imports from December 2017 to January 2018 and transfer of VAT payments on imports as part of payment of customs debt in 2018 reduced the revenue execution in 2017 and increased the collection in 2018. Secondly, the tobacco industry has postponed the increase in retail prices from 1 January 2018 to 1 March 2018, i.e. 1 April 2018, which has resulted in increased consumption of cigarettes in the first two months of 2018. Thirdly, the beginning of the implementation of the amendments to the Excise Law, that implied an increase in earmarked road taxes on oil derivatives and increase in excises on heating oil, was an incentive for the consumption growth and stockpiling derivatives before the increase in retail prices of derivatives. The effects of the increased consumption on revenues from excise duties, road taxes and consequently VAT, in which base the mentioned revenues are included, appeared in January, speaking of imported derivatives and in February in domestic oil derivatives. Fourthly, the introduction of the new VAT software in February 2018 led to a shift in the scheme of VAT refunds, resulting in small payments in February and increased payments in March and April.

In the second quarter a growth rate of 8,9% has been achieved and the main growth generator has become the road tax, which indirectly has an impact on increasing VAT collection. In the third

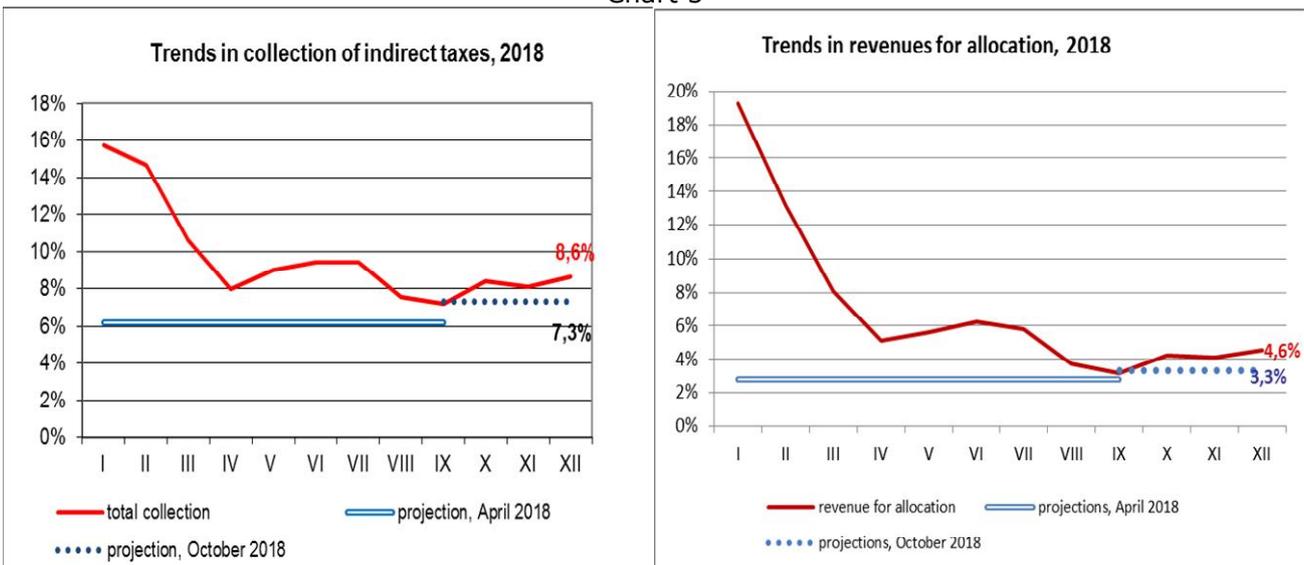
quarter there was a growth of 2,5%. The slowdown in growth was a result of the strong growth in VAT refund payments, which almost annulled the growth of gross VAT. In addition, there was also a significant fall in excise revenue. However, there was a great turnaround in the fourth quarter of 2018. An enormous revenue growth of 13,1% was achieved. The main growth factor was VAT, both due to the increase in gross collection and the positive trends in VAT refund payments to taxpayers.

Chart 4



The cumulative collection in 2018 was by 1,3 percentage points above revised October projections (Chart 5, left). The discrepancy between the growth of distribution funds in relation to the revised October projections is 1,3 percentage points (Chart 5, right). Given a similar discrepancy, it can be concluded that the main factor for the faster growth of indirect tax revenues compared to the revised projections was the growth of VAT collection in the fourth quarter of 2018.

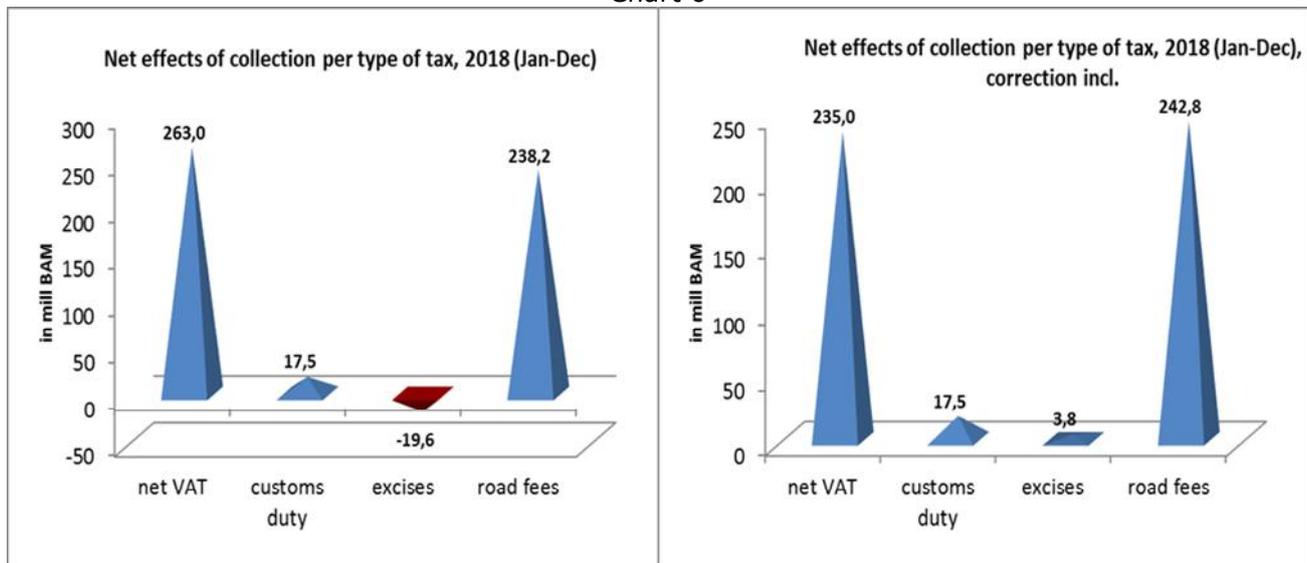
Chart 5



TRENDS BY TYPE OF REVENUE

According to the ITA report the biggest positive net effects in 2018 were realized in the VAT collection (263 million BAM), then road taxes (238,2 million BAM) and customs duties (17,5 million BAM), while excise tax was charged less for 19,6 million BAM (Chart 6, left).

Chart 6



However, due to the more frequent compensation of excise liabilities on oil derivatives and road tax liabilities with VAT claims (tax credit) over the past months, there have been significant deviations in the structure of collected revenue compared to the one presented in the ITA report. Based on the cash flow it is not possible to make the correct conclusions about the effects of applying the amendments to the Excise Law in the field of derivative taxation as the excise collection is unjustifiably diminished while on the other hand, VAT collection is unjustifiably increased by the amount of revenue that is, instead of being paid as refund, being used to pay taxpayers' future liabilities. After correction of revenue for the amount of compensation, the nominal positive effects of VAT collection amounted 235 mil BAM (see Chart 6, right), while revenue growth of 3,8 million BAM was *de facto* realized in the excise duty. Fewer corrections upward have been also made on road tax revenues (see Chart 6, right)

Customs Duties

Revenue collection from customs duties in 2018 had a continuous positive trend throughout the year (Chart 7). Growth is oscillating and very high growth rates have been recorded every fourth month in the year. The cumulative growth rate of customs revenue ranged between 7% and 8% for ten months, to decrease to 6,5% due to a modest increase in collection in the last two months (Chart 7). The quarterly overview of trends (Chart 8) shows a steady rise in customs revenue, with a slight slowdown in the fourth quarter. In the first quarter revenues increased by 7,2% and in the second by 5,9%. The recovery of customs collection in the third quarter resulted in a maximum quarterly growth of 7,9% with a 5% of growth in the last quarter due to the slowdown in collection (Chart 8).

Chart 7

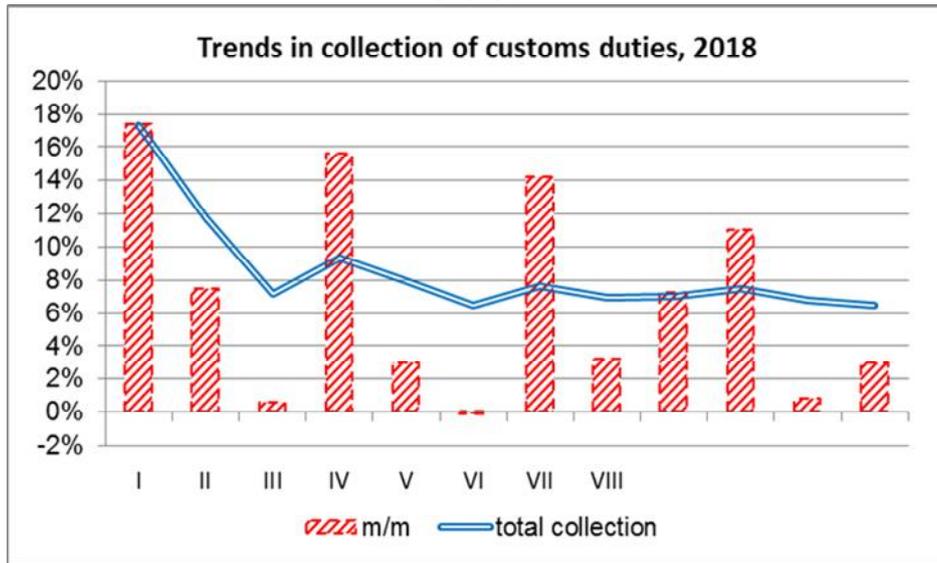
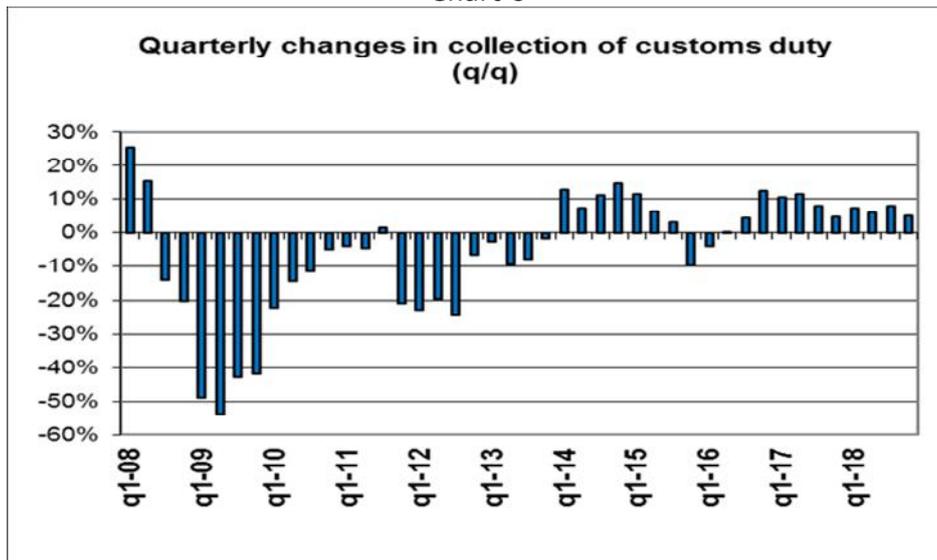
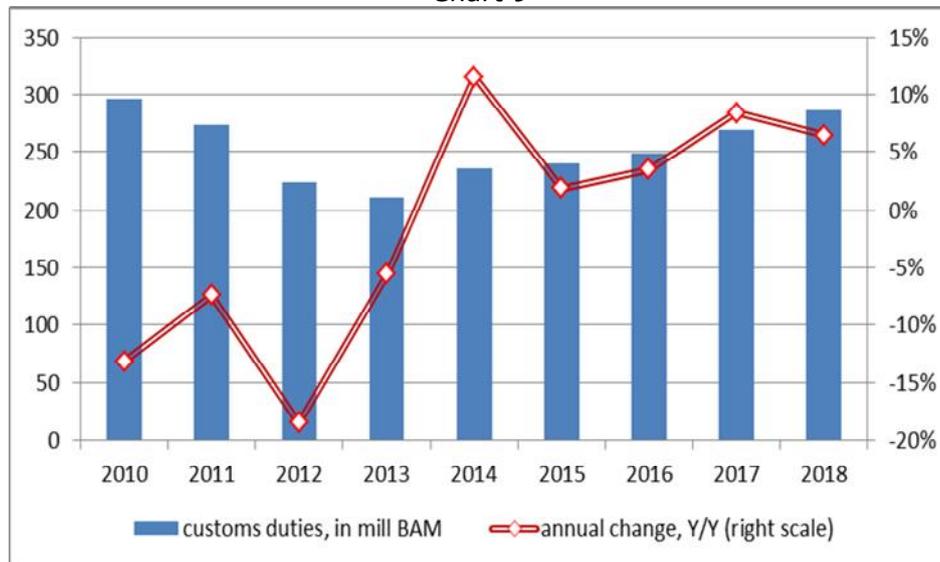


Chart 8



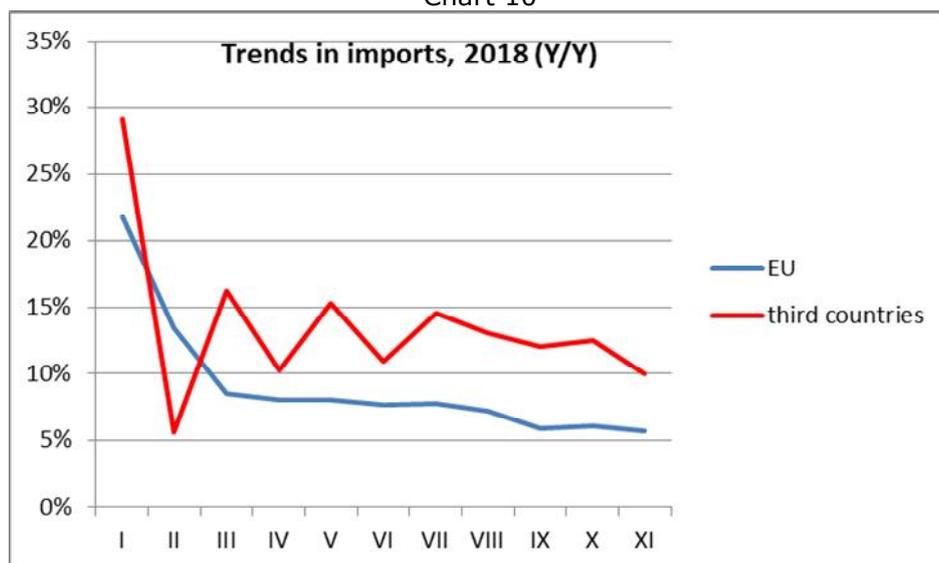
An overview of the annual collection of customs revenues shows a continuous nominal increase in revenues after the end of the five-year period of reduction and abolition of customs duties on the largest part of imports from the EU. Adaptation of the SAA in 2017 did not lead to a loss of customs revenue but, on the contrary, strong growth was achieved, which continued in 2018 as well (Chart 9).

Chart 9



Bearing in mind that most of the import of goods to B&H has already been liberalized there is a limited number of goods from the EU and the imports from the third countries under the customs regime. According to data from the Agency for Statistics B&H imports of goods originating in the EU increased by 5,7% for eleven months (Chart 10). In the same period imports from third countries increased by 9,9%. From Chart 10 it can be concluded that the import growth rate from third countries ranged between 10% and 15% for ten months, and in November it fell below 10%, although the import from Asian countries increased by 20,2%. The reason for the slowdown in imports from third countries is the import from Russia. Imports from that country increased by 28,7% for nine months of 2018. Then there was a significant decline in October and November, which was of a such range that at the level of eleven months a drop of 2,9% was recorded. From the above analysis of trends in the structure of imports it can be concluded that the slowdown of customs revenue growth is a consequence of the slowdown of EU imports growth and the fall of imports from Russia, which could not be compensated by the customs revenue growth in imports from China and other Asian countries.

Chart 10

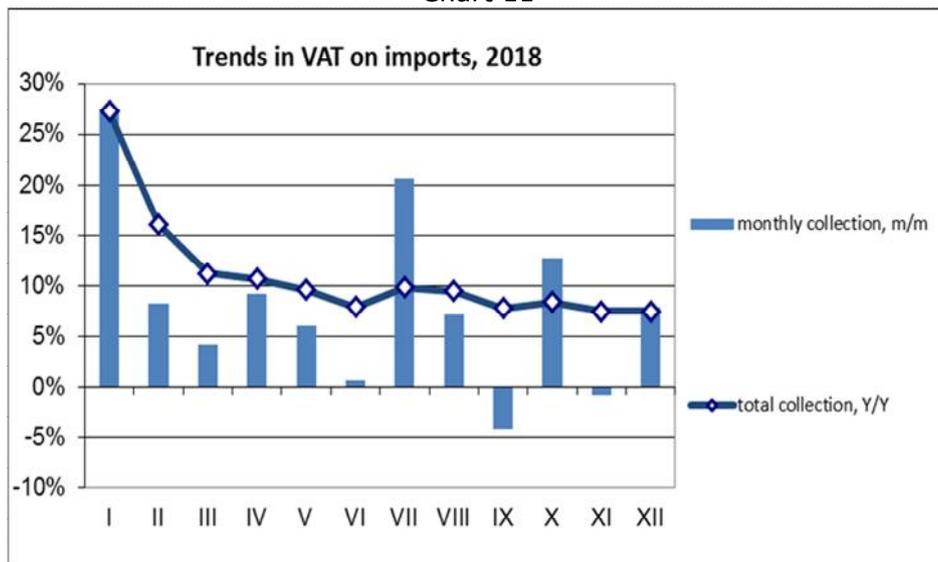


VAT

Gross VAT

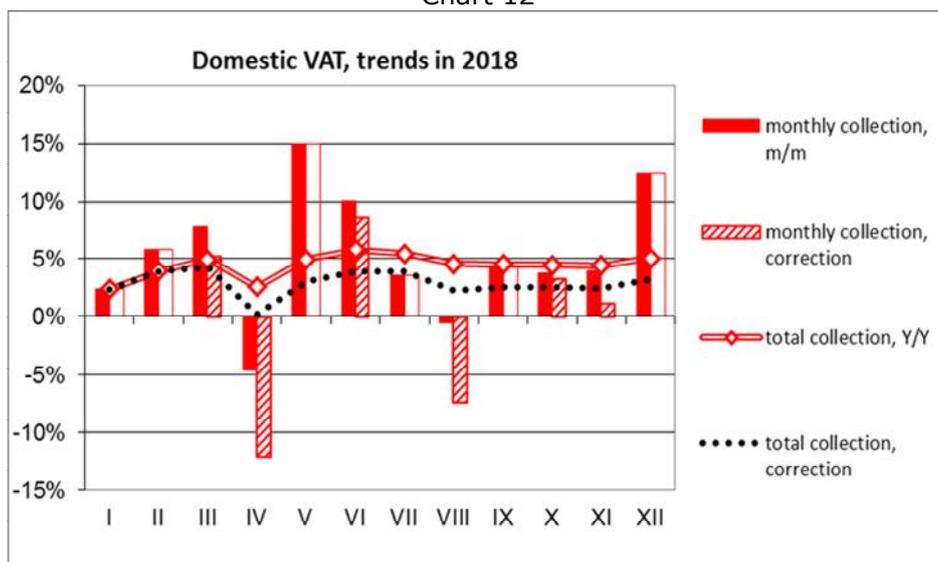
In 2018 an increase in net VAT collection was achieved above expectations. Gross collection grew at a rate of 6,6%. The analysis of the gross collection structure shows a positive trend in the collection of VAT on imports and domestic VAT in the most part of 2018, which ultimately brought growth of VAT on imports of 7,5% and domestic VAT of 5,1% compared to 2017 (Charts 11 and 12).

Chart 11



Due to the compensation of oil derivatives excise liabilities from VAT credits, the correction was made downward in the collection of domestic VAT. After the corrections it can be concluded that the cumulative growth rate of domestic VAT in 2018 was 3,2% (Chart 12, right, line ●●●).

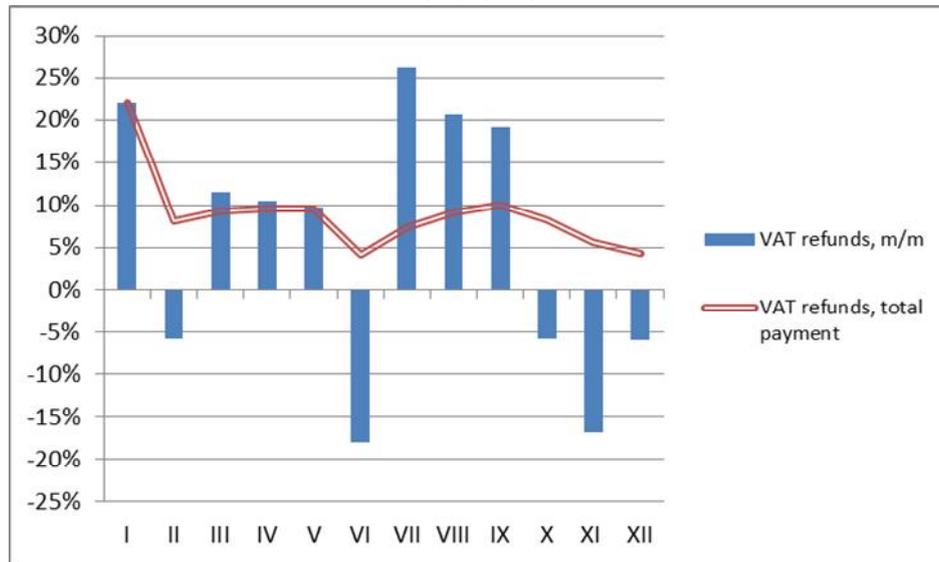
Chart 12



VAT refunds

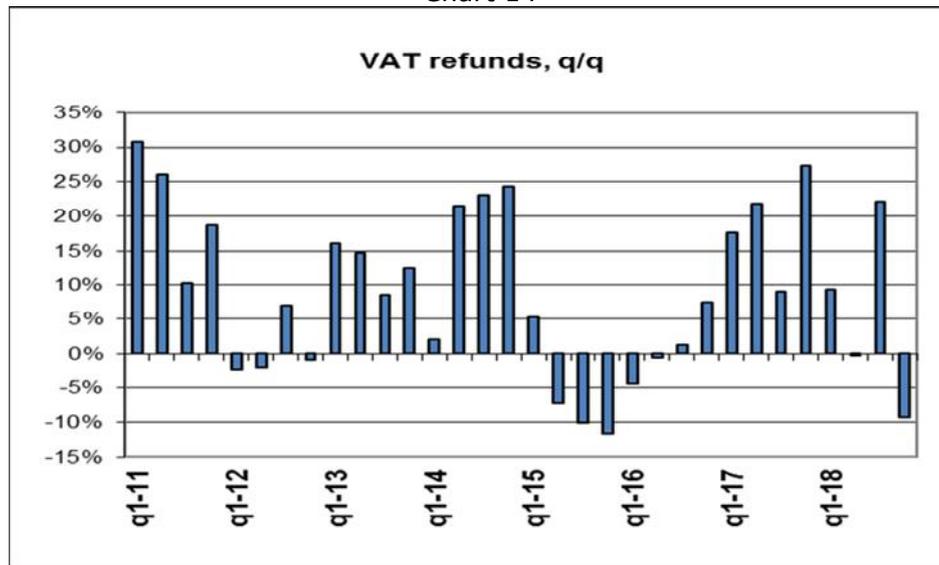
High VAT refund payments were a major feature of indirect tax revenue collection in previous years. Since the beginning of 2018, VAT refunds have had an oscillatory trend, which ultimately brought growth of only 4,4% (Chart 13, cumulative line). Monthly rates of growth ranged from -18% to +22%. The move of refund payment scheme in February due to the introduction of new VAT software resulted in a drop in VAT refund payments in that month. There was a noticeable drop in payments in June and then in the fourth quarter of 2018, which may be related to the monthly oscillations of imports and exports, but it should be borne in mind that the effects of increase/decrease of imports and exports on refunds are manifested in different terms, regarding the terms for VAT refund payments to exporters and other taxpayers.

Chart 13



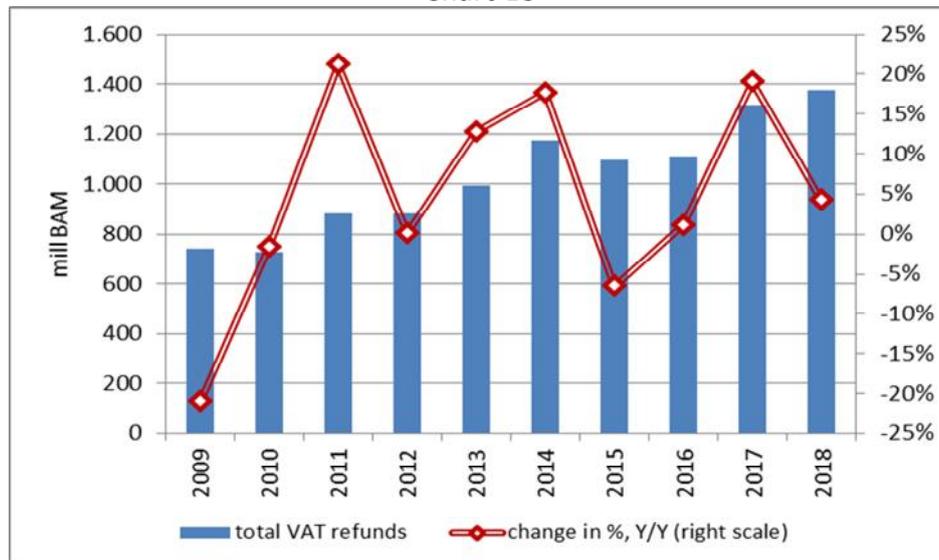
The quarterly overview of VAT refunds shows even more evidence of the oscillations described above. In the first quarter there was a growth of 9,3%, in the second a drop of 0,3%, in the third the growth of 22,2% and in the fourth the drop of 9,4% (Chart 14).

Chart 14



The annual review of paid VAT refunds and trends points to a significant slowdown of nominal payments compared to 2017 (Chart 15).

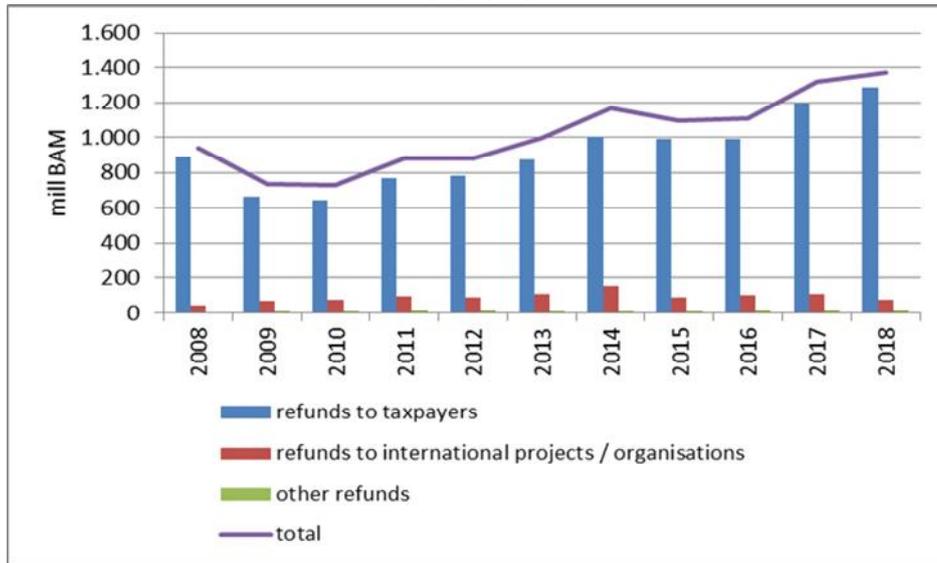
Chart 15



The average annual refund withdrawal from gross collection in 2018 was 26,2%, which is by 0,5 percentage points less than in 2017. The share of refunds to taxpayers is higher by 0,2 p.p., while the share of refunds to the international projects is lower by 0,8 p.p. and represents the lowest share since 2008.

The VAT refunds analytics shows that 88 million BAM of refunds more was paid to the taxpayers in 2018 than in 2017. On the other hand, VAT refunds to the international projects were lower by 29,4 million BAM compared to 2017, which points to a reduction in investment into infrastructure and other projects financed by international financial institutions (Chart 16).

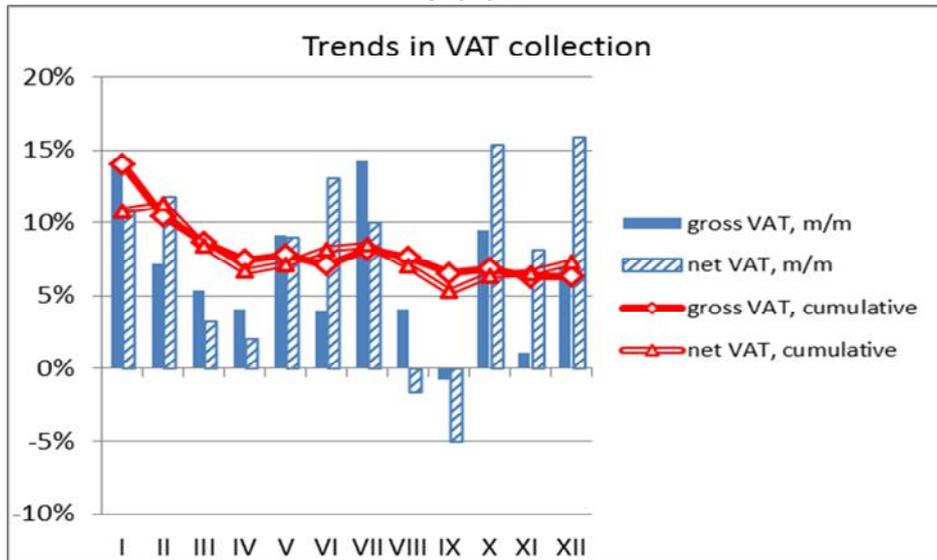
Chart 16



Net VAT

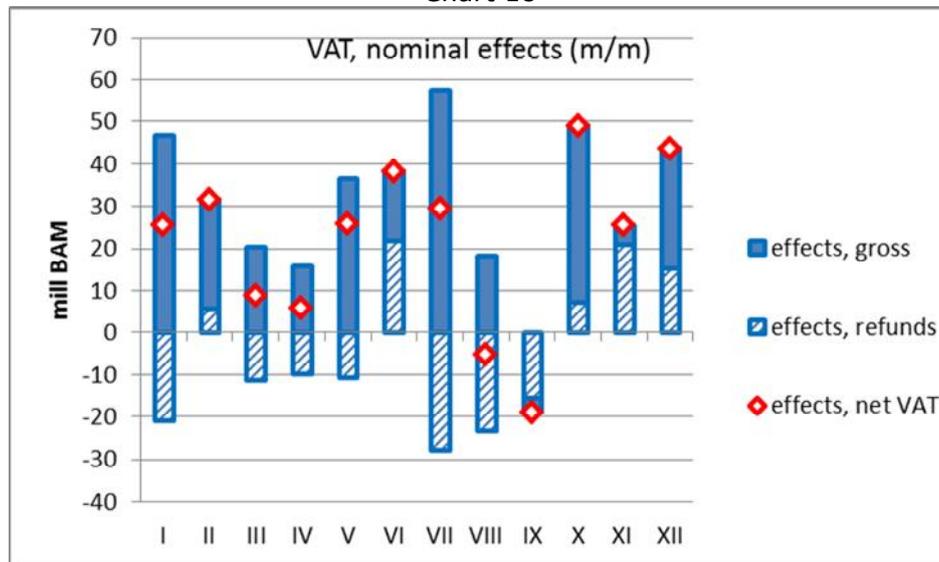
The increase in gross collection, with modest refund growth of 3,8%, resulted in a high growth rate of net VAT of 7,4% (Chart 17). The analysis of monthly VAT collection shows a positive trend throughout 2018 with the exception of August and September. The positive trend is characterized by unusually high growth rates of net VAT reaching 16%, such as in October and December. On the other hand, a fall of net VAT of 5% was recorded in September. High growth rates of net VAT are the result of the cumulative positive effect of gross VAT growth throughout the year and reduced refund payments related to 2017.

Chart 17



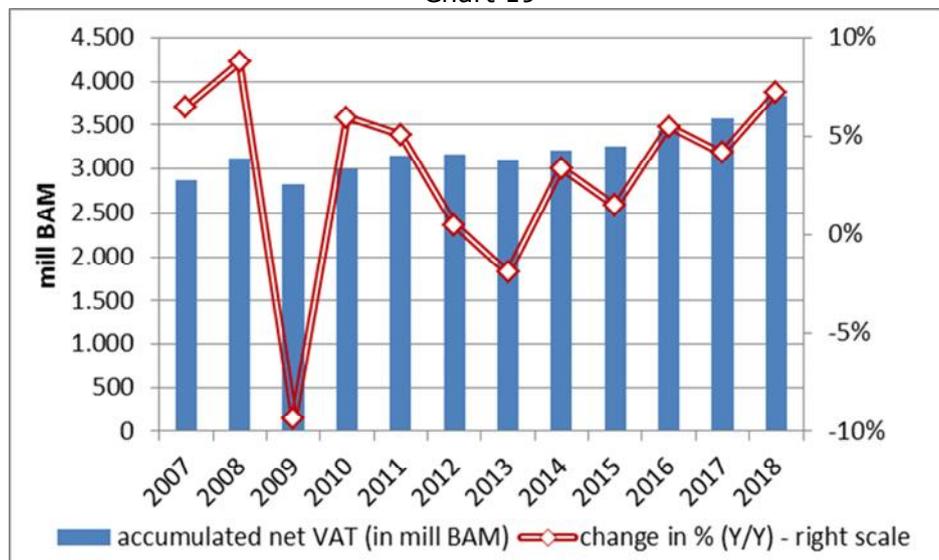
Nominal positive effects of net collection were achieved in all months except in September, when there was a strong increase in VAT refunds and a drop in gross collection (Chart 18). The maximum monthly net effect was 50 million BAM in October and the biggest negative effect -20 million BAM in September 2018.

Chart 18



In nominal terms in 2018 the ITA collected a record net amount of VAT (Chart 19). Likewise, a growing trend of increasing VAT collection can be noted in the last five years. The most important growth factors are the slowdown of VAT refunds payments, increase in consumption and collection efficiency.

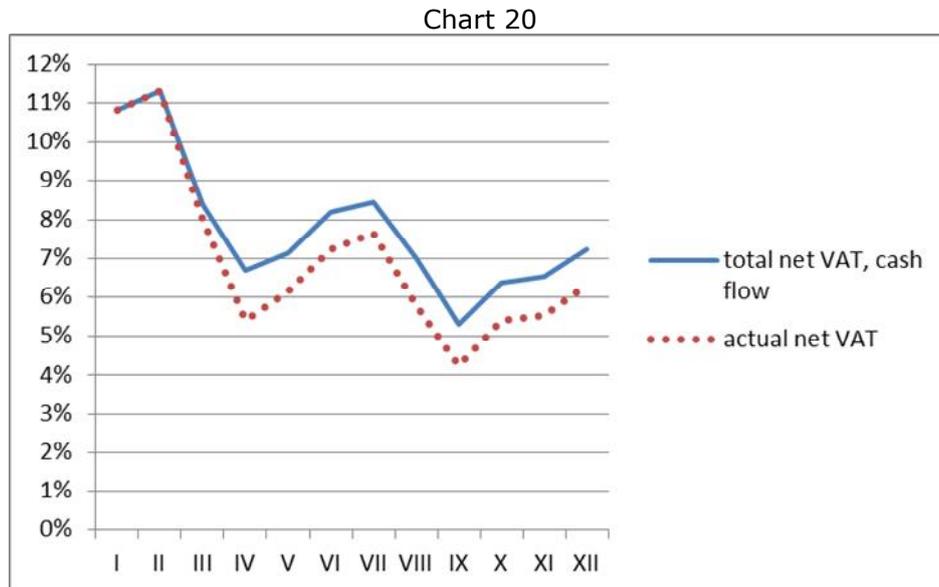
Chart 19



Significant decline in VAT refunds on international projects brought 0,8 percentage points of net VAT growth. There are also other one-time factors of unusual growth of net VAT in 2018. One of the factors is fluctuations between fiscal years. The discrepancy between the smaller fall in imports in December and the higher fall in VAT on imports suggests that part of revenues from VAT imports from 2017 is charged in January 2018¹, due to deadlines for customs debt payment. The mentioned effect can be estimated at 0,3 percentage points of net VAT growth.

¹ In January 2018 a reversed situation was recorded – VAT growth rate on imports exceeded the growth rate of imports.

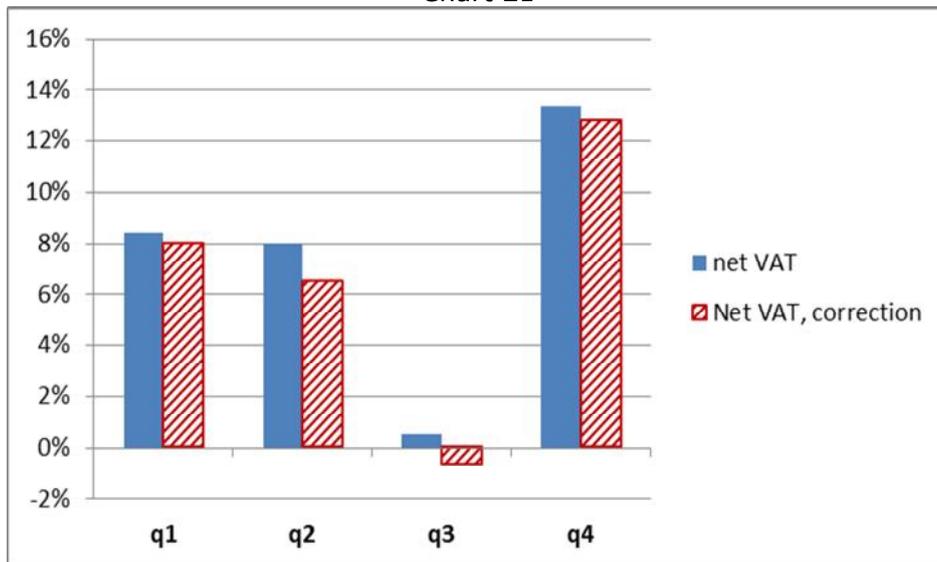
The second one-time factor is of accounting nature. Bearing in mind the fact that part of excise duty on oil derivative and road tax is paid from VAT credit that was overdue in the previous months, it is necessary to make corrections in net VAT collection in the months when VAT was used as credit for paying liabilities of excise taxes on oil derivatives. Correction amounts to 0,9 percentage points of net VAT growth, which means that growth in net VAT in 2018 was *de facto* 6,4% instead 7,4%, as evidenced by cash flow reports (Chart 20).



Third important one-time factor of VAT growth in 2018 were the effects of amendments to the Excise Law that have been incurred in collection of road tax revenues. The VAT amount charged on the increased base yielded 1,1 percentage point of net VAT growth. Overall, the effect of one-time factors of net VAT growth can be estimated at 2,3 percentage points, and together with the effect of less paid VAT refunds on international projects 3,1 percentage points. Therefore, it can be concluded that the net VAT growth without the above mentioned factor would amount to 4,3%, which is still above the growth of consumption.

Quarterly comparisons after the corrections of collection due to offsetting tax credits and liabilities for excise taxes on oil derivatives showed a negative growth in the third quarter and very high growth in the fourth quarter of 2018 (Chart 21).

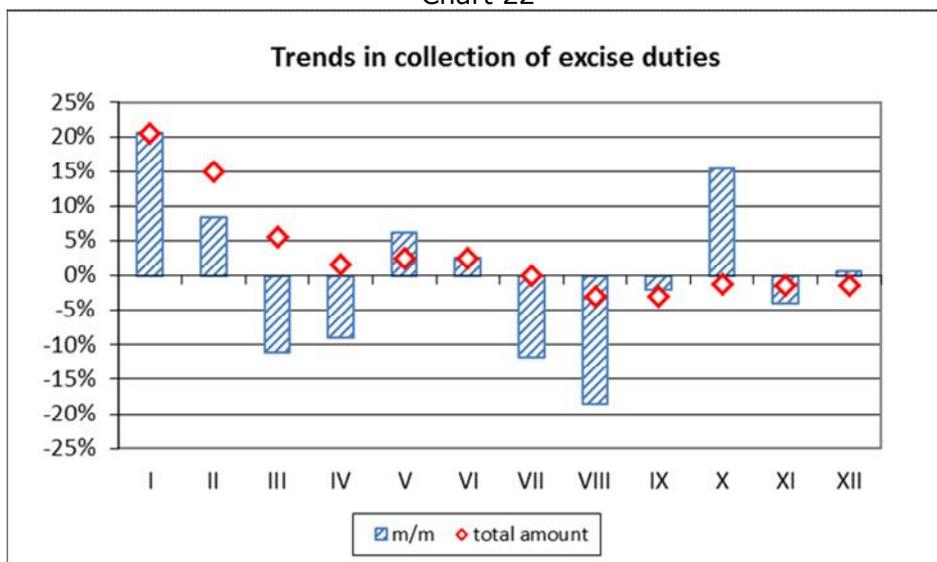
Chart 21



Excise taxes

In December, there was a slight increase in excise revenues of 0.7%, which alleviated the negative cumulative growth rate so that the year of 2018 was ended with the fall of revenues from excise taxes of 1,4% (Chart 22). Negative trends marked the collection of excise taxes in 2018. Positive trends were recorded only in the first two months, and growth in several months during the year represented a sporadic episode.

Chart 22

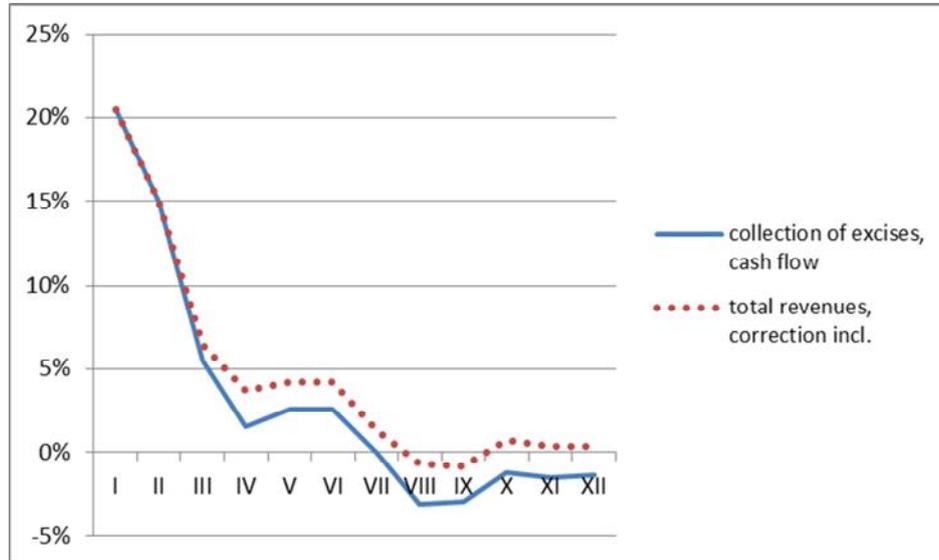


The positive growth in December was mainly achieved due to the collection of excise taxes on imported excise products (tobacco products, oil derivatives, beer, etc.), while a significant fall in revenue was recorded in excise taxes on domestic excise products.

Since a significant part of liabilities of excise taxes on oil derivatives is paid from the VAT credit, the official data on the effect of excise collection from the cash flow report are understated. After

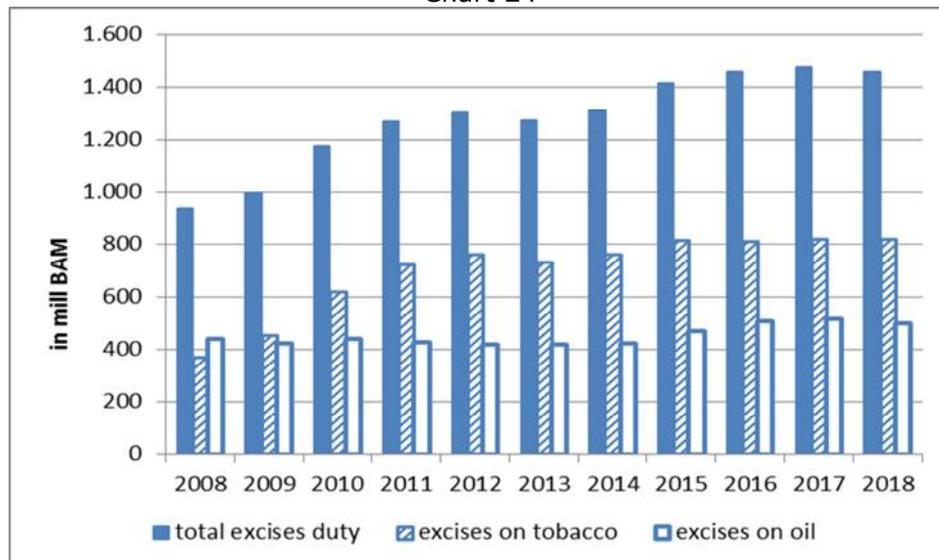
correction, it is concluded that the growth of 0,4% in excise revenues is achieved in 2018. (Chart 23, line ●●●).

Chart 23



Ultimately, the conclusion is that excise taxes no longer represent the source of additional revenues for financing the budget in B&H, and that in the future the only source of revenue is VAT. This conclusion is also confirmed by an annual review of excise revenue collection (Chart 24). It is noted that possibilities for revenue growth of excises on tobacco products and oil derivatives are exhausted, which is concerning, as these revenues determine trends in the total excise collection.

Chart 24



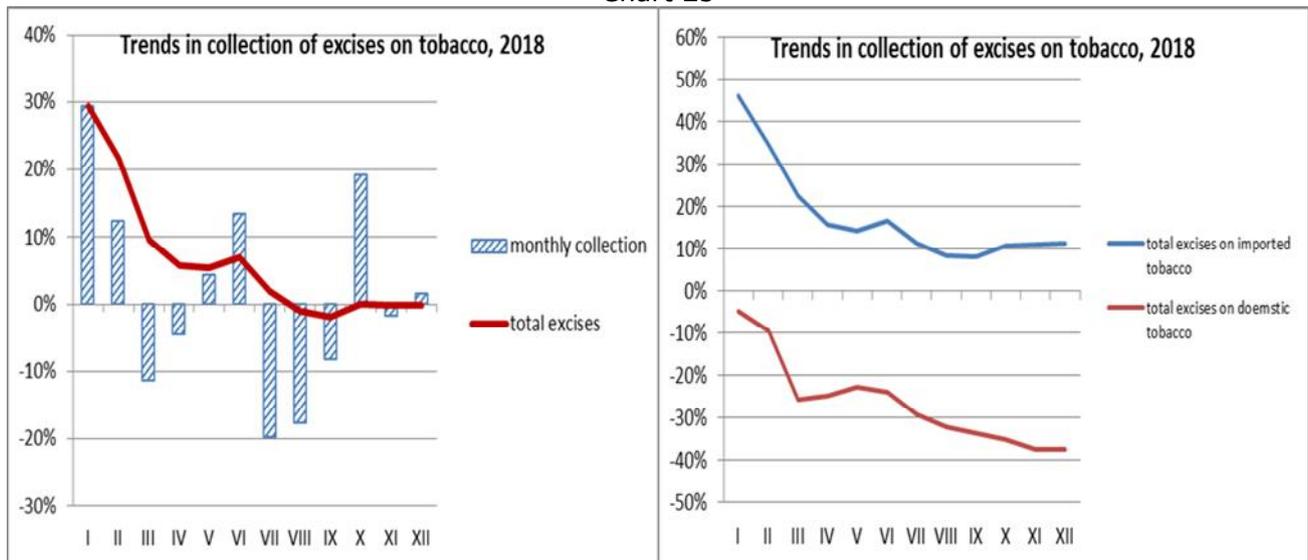
The trend in collection in December 2018 has only confirmed previous trends and total marginalization of domestic revenues from excise taxes. Until a few years ago, the share of revenues from excises on imported excise goods accounted for 2/3 of total excise revenues and in 2018 it was as high as 81%. The continued worsening of the situation in the excise goods market

indicates the urgent need to revitalize the domestic industry in the mentioned segments. In the coming years, B&H can expect significant additional revenues only from VAT collection, while the collection of excise taxes can only be improved by significantly higher income growth, the more efficient fight against tax evasion and the black market of tobacco products, and revitalization of the domestic industry in the segment of domestic excise products.

Excise taxes on tobacco

In December, there was an increase of revenues from excise taxes on tobacco of 1,5% (Chart 25, left). However, data on the structure of collected excise taxes during 2018 show that there were major changes at the tobacco product market in B&H, involving a rapid reduction in domestic production (see Chart 25, right) and the takeover of the market by large foreign tobacco companies. Such a market strategy changes the current trend of collecting excise revenues, as excise taxes on domestic products are paid when applying for excise tax and excise taxes on imported products when taking out excise stamps, which is the month – month and a half after the import of cigarettes. The mentioned substitution of domestic cigarettes with cigarettes from imports due to the *ex ante* payment of excises on imports has positively influenced the cash flow of tobacco excise collection in 2018, as part of revenues expected to be collected in January 2019 on domestic cigarettes sold in December 2018, shifted from 2019 to 2018. The aforementioned change in the excise collection scheme is one of the reasons that revenue collection from excise taxes on tobacco products in 2018 was ultimately at the level of the collection in 2017, while projections were foreseeing a slight decline in revenues of 1%.

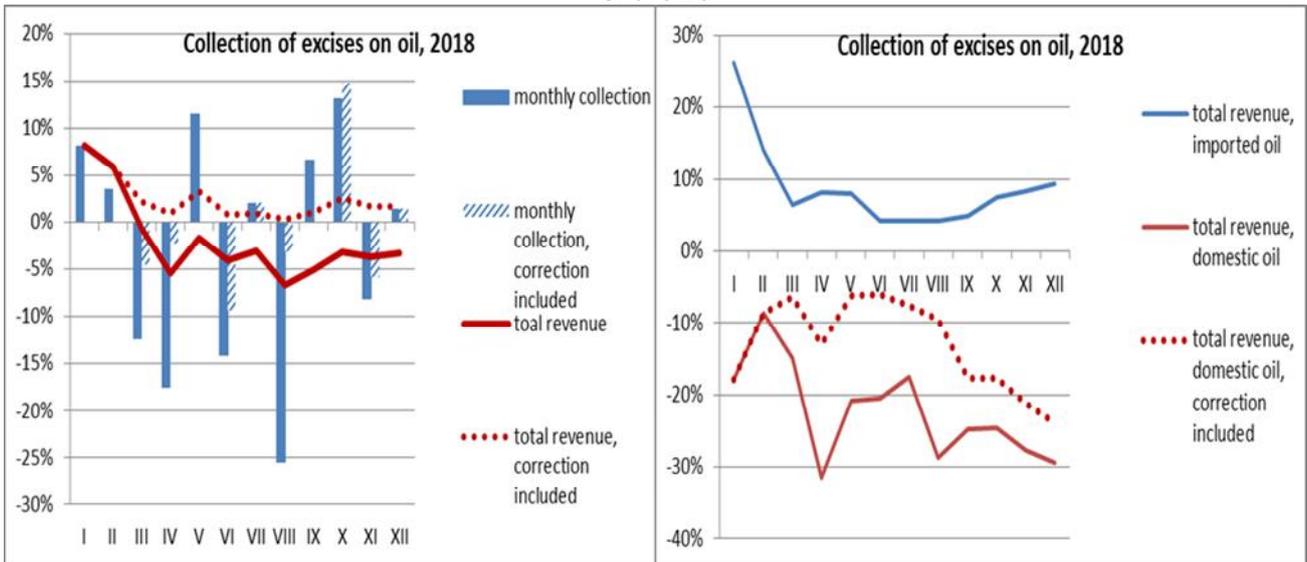
Chart 25



Excises on oil derivatives and road taxes

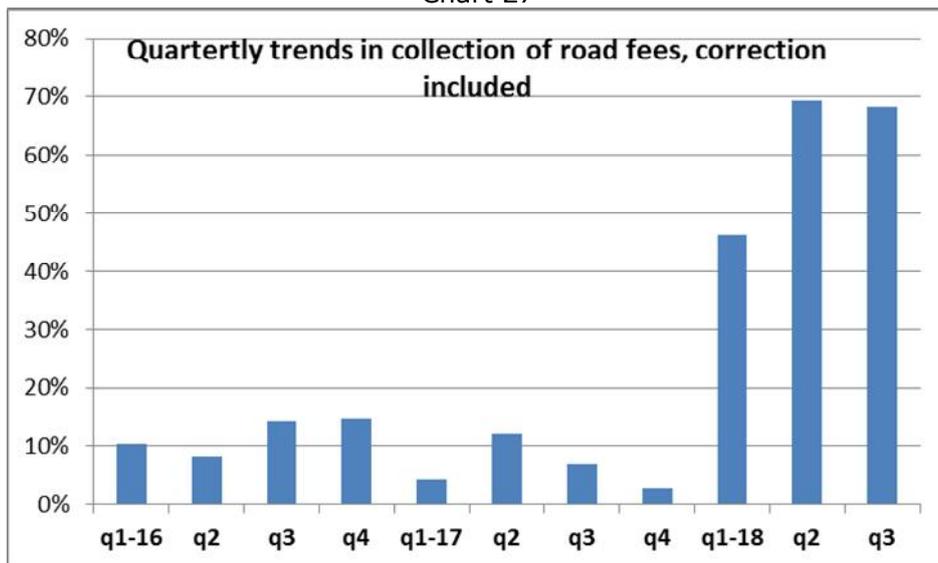
The real picture of trends in the collection of excise taxes on oil derivatives can only be obtained after corrections for the amount of excise revenues that are collected by VAT credit compensation. After the corrections are made, it can be concluded that in 2018 the increase of revenues from excise taxes on oil derivatives was 1,6% (Chart 26, left, line ●●●).

Chart 26



Compensation for excise taxes with VAT credit was made only in the part of domestic excises. After corrections upward for the amount of compensation, the fall in revenues from domestic excises was 23,9% (Chart 26, right, line ●●●).

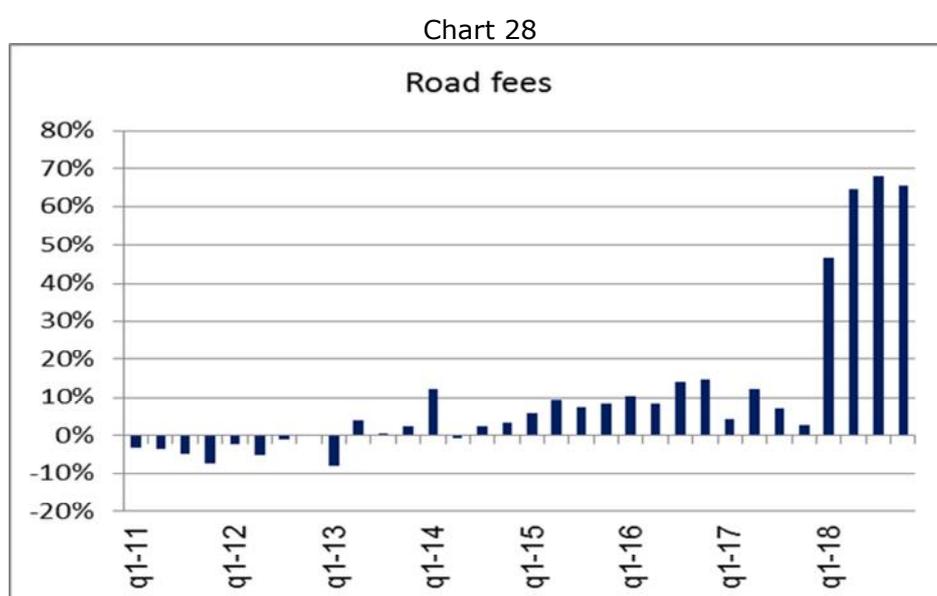
Chart 27



According to cash flow report the revenue collection of excises on oil derivatives was negative in three quarters (-0,6%, -6,9%, -6,7%), and positive in the fourth quarter (1,9%), compared to the

corresponding quarters in 2017. However, after the addition of revenues collected by the compensation, trends were entirely positive. In the first quarter an increase of 2,2% was achieved. The reason for this was the growth in the procurement of derivatives in January prior the amendments to the Excise Law entered into force, that reflected to the collection of excises in January (import) and February (domestic derivatives). In the second quarter the excise collection was at the level of the same quarter of 2017, which is expected due to the rise in retail prices caused by the growth of taxes in B&H and growth of oil prices in the world market. The slowdown of the growth in oil prices, stabilization and the price drop led to a growth in excise collection so in the third quarter a growth of 1,5% was achieved and in the fourth of 3,3% (Chart 27).

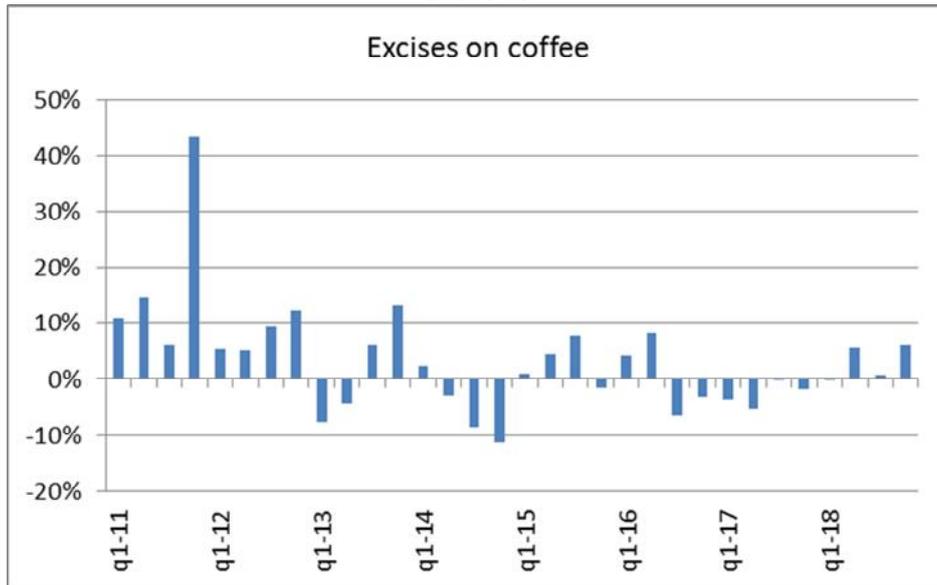
Revenues from road taxes are expected to be high as the amount of road taxes increased by 60% and during the year there was no significant fall in the amount of derivatives to which the road taxes are collected (Chart 28).



Excise taxes on coffee

In terms of revenue collection of excises on coffee in 2018 there was a big turnaround. After the negative growth, which lasted continuously for six quarters, there was an increase in revenues from excises on coffee in 2018. Revenues in the first quarter were on a 2017 collection level, in the second quarter there was a growth of 5,6%, in the third of 0,6% and in the fourth of 5,9% (Chart 29).

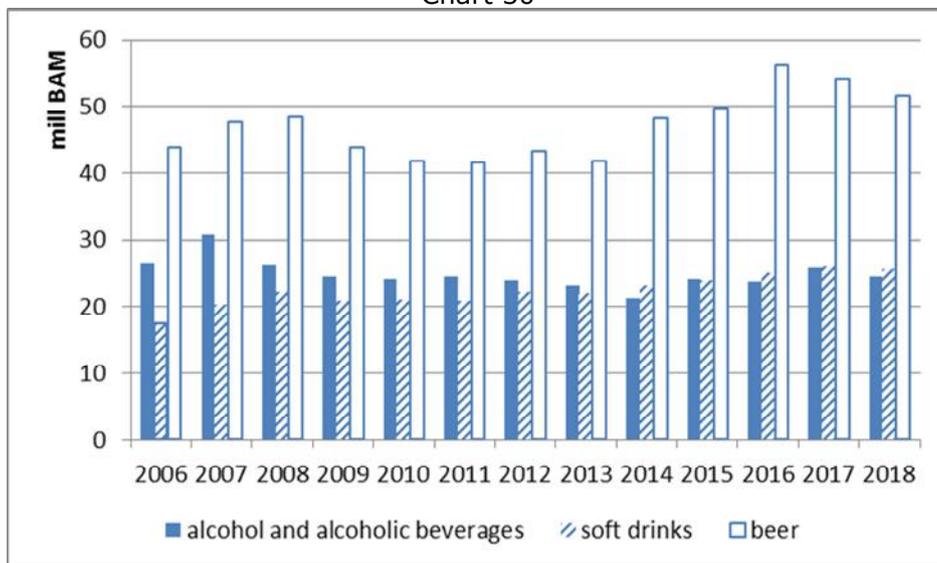
Chart 29



Excises on beer, alcohol, alcoholic and non-alcoholic beverages

The collection of excise taxes on a group of products consisting of beer, alcohol, alcoholic and non-alcoholic beverages was overall 2% lower than in 2017. Although there was a fall in revenues of excises on alcohol, alcoholic and non-alcoholic beverages in 2018, the nominal collection analysis shows that current trends are *de facto* in line with historical trend, in which the 2017 collection represents a ten-year maximum (Chart 30).

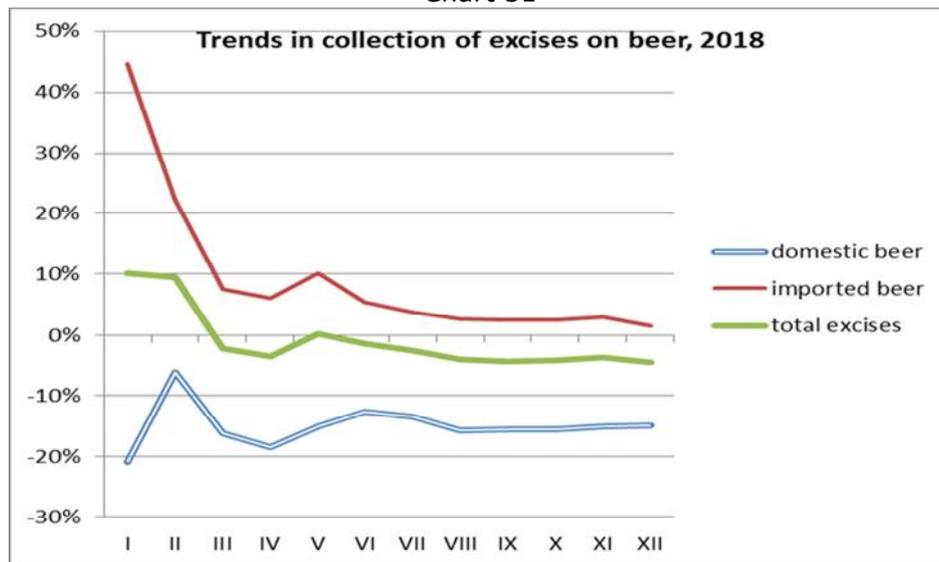
Chart 30



On the other hand, collection of excises on beer has had its historic maximum in 2016, as a result of the introduction of higher excise rate, paid by importers and domestic breweries crossing the

legal threshold². The declining trend of revenue collection from excises on beer has lasted for two years. In the first quarter of 2018 the revenue collection from excises on beer was lower for 2,2% compared to the collection in the same quarter and for 0,7% in the second quarter. In the third quarter revenues fell by 7,9% and in the fourth by 5,3% (Chart 30). The analysis of the collection of excise taxes on beer in 2018 shows a steep fall in the collection of excises on imported beer (and hence beer imports) and continued negative trends in beer turnover of domestic breweries (Chart 31).

Chart 31



² Of domestic breweries only Banjalučka pivara has annual beer production exceeding the threshold of 400,000hl and, according to the Law, pays higher excise tax.