

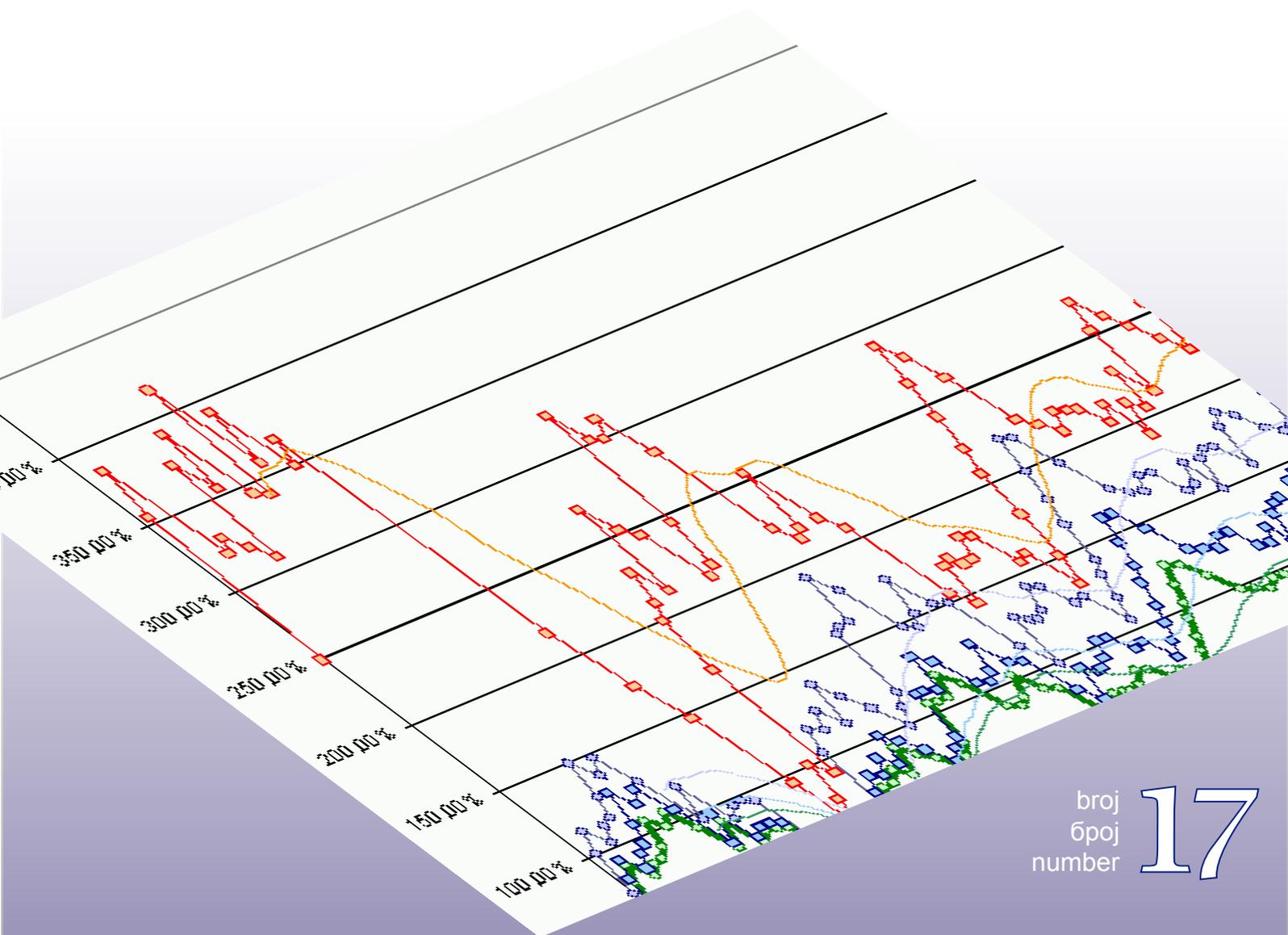
Bosna i Hercegovina
Odjeljenje za makroekonomsku analizu
Upravnog odbora Uprave za indirektno-
neizravno oporezivanje



Босна и Херцеговина
Одјељење за макроекономску анализу
Управног одбора Управе за индиректно
опорезивање

Macroeconomic Unit of the Governing Board of the Indirect Tax Authority

Oma Bilten



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In this issue....

One year after application of the value added tax, there are conditions for more serious analysis of fiscal and macroeconomic effects of VAT introduction. In this issue, the Unit is publishing analysis of VAT impact on macroeconomic stability with emphasis on import and consumption. Although data for 2006 are not complete, it is obvious that introduction of VAT slowed imports, reduced trade deficit and private consumption. There is still danger of increase of expenditures due to proposed deadlines of internal debt and liabilities to certain categories of population, created in the end of the last year, which could not only neutralize positive effects from 2006 but also jeopardize fiscal and macroeconomic stability of the country.

The beginning of 2007 has brought reform in the field of indirect taxes in Republika Srpska. In the last issue of the Bulletin we gave comments about Law on income tax and we bring you short review of new Law on profit tax, which can be useful to domestic and foreign public. New Law represents first step towards incorporation of European standards in the field of direct taxes. This is also important step to create coherent tax policy in BiH and strengthen single economic space. Free movement of capital, goods and services should contribute to creation of more propulsive business atmosphere and attraction of foreign investors to BiH who will conduct their business operations in the entire territory under equal conditions with no obstacles.

The beginning of 2007 was marked by reform of legal framework for VAT system in European Union. After almost forty years of applying sixth directive of EC on VAT was put out of force and as of January 1st, 2007, there is a new redesigned directive. What this new face of VAT system means to us in BiH is explained in short review of this issue.

Due to a number of state and religious holidays as well as vacations, collection of data from reporting units was more difficult. In this issue, according to delivered and processed data, we are publishing consolidated monthly reports for general government that include fiscal operations of central governments (budgets of BiH, entities, Brcko District) and budgets of cantons for ten months of 2006, consolidated reports of F BiH for nine months, which include cantons and municipalities and consolidated reports for some cantons.

Dinka Antić, Msc.
Head of Unit – Supervisor

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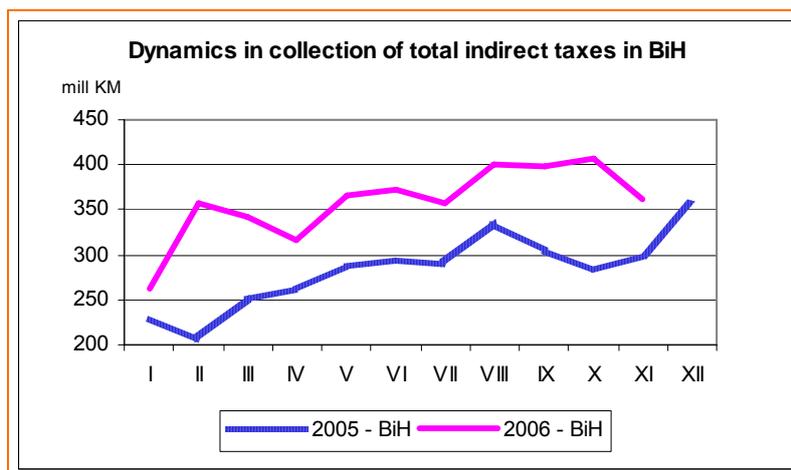
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Collection of indirect taxes: November 2006.

(Prepared by: Dinka Antić, MSc)

In November 2006, 354¹ million KM was collected to the single account for indirect taxes in net amount, which is 11% decrease compared to October 2006. For eleven months in 2006, it was collected 3,942 billion KM net in total of indirect taxes in BiH or 28,7% more than in the same period 2005. ITA collected 3,715 billion KM of net revenues or 94,4% and entity administration and Brcko District collected the rest of 226,3² million KM.

Trends in collection of indirect taxes in BiH in 2005 and 2006 is shown in the graph 1:



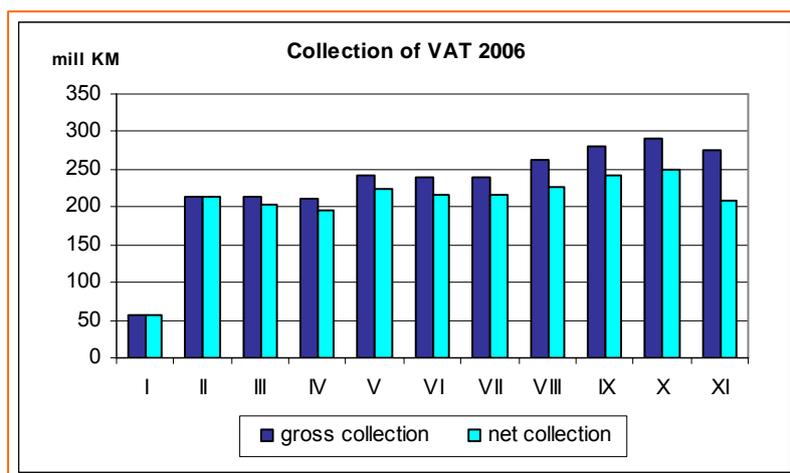
Graph 1.

Significant shortfall in collection of indirect taxes occurred mainly due to shortfall of VAT collection by 16% in comparison with net collection for October. This was cumulative consequence of few factors as follows:

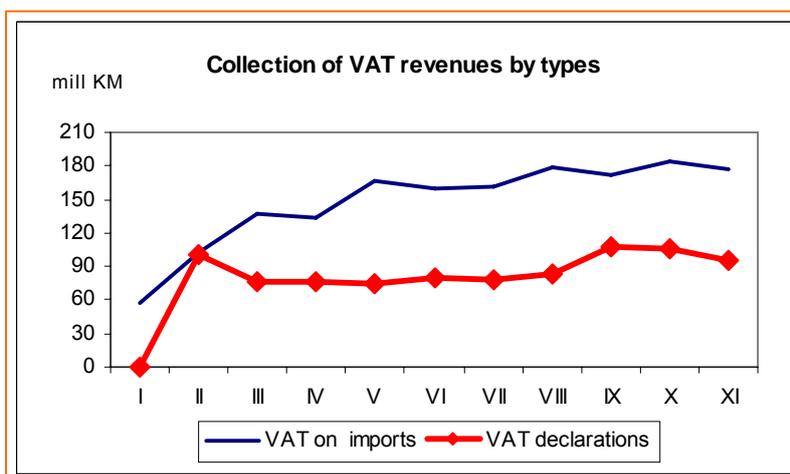
- 1) VAT refunds significantly increased in November (by 24 million KM or 56% more than in November, Graph 2.
- 2) Less collection of VAT on imports (by 6,5 million) and shortfall in collection of VAT on basis of declarations (by 10,3 million or 9,8% less than in November), Graph 3.
- 3) Increased payment of refunds is result of accelerated payments of unused tax credits which made time period of suspension 4 months instead of 6 (unused credit for July was disbursed in November). On November 30th, 2006, balance of accumulated tax credits amounted to 175,5 million KM, which will be paid to taxpayers according to dynamics of payments adopted by the ITA Governing Board in July 2006.

¹ ITA collected additional 35,66 million KM of revenues that remained unadjusted after compilation of payments breakdown (single account) and records in modules of ITA IT system (VAT, customs, excise) on November 30, 2006. Amount of unadjusted revenues is not included in analysis of collection of indirect taxes.

² missing data on collection of lagging sales tax in Brčko District for November 2006



Graph 2.



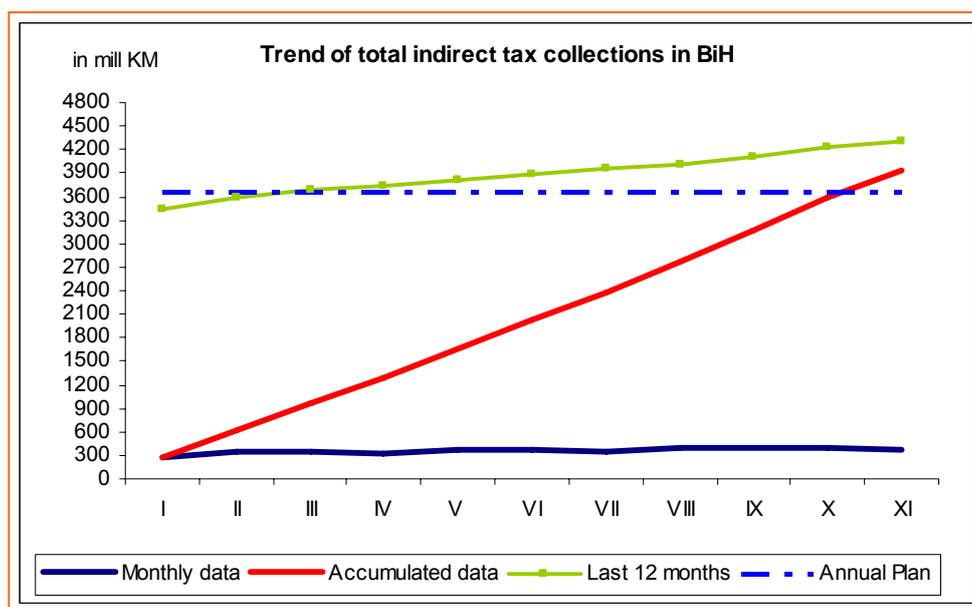
Graph 3.

There was small decrease in collection of customs duties and excise by 3% in November. In the period from January to November in comparison with the same period 2005, revenues collected from customs duties decreased by 7% and collection of excise increased by 8%.

VAT debts in November significantly increased and debt balance in the end of the month was 82,7 million KM. However, only 15,64% of the debt refers to debts based on declarations with included penalty interest and additional burden. Most of the debt was automatically assessed by the ITA for taxpayers who failed to file declarations.³

Collection of indirect taxes in total and especially VAT is above the plan. As it can be seen from the graph 4. **annual plan for collection of indirect taxes in BiH was achieved in November in the amount of 3,653 billion KM :**

³ Tax assesment is done automatically in the IT system on basis of estimated turnover from this or last year, which means it might happen that in procedure of debt collection it's identified that amount of real debt for VAT less than assessed especially if some taxpayers stopped their business without informing ITA.



Graph 4.

Fulfillment of the collection plan before deadline does not necessarily mean that the collection plan was underestimated. One year ago, prof. dr. Paul Bernd Spahn, IMF expert, and Macroeconomic Analysis Unit prepared projection for collection of indirect taxes that was adopted by Fiscal Council on basis of high number of assumptions. Some assumptions were very hard to estimate as there were no reliable data such as volume of grey economy related to non registered imports, losses due to leaving small companies outside VAT system, efficiency of ITA or level of collection of lagging sales tax. Since budgets of central governments were based on this projection, the Unit decided to have more conservative approach⁴.

Finally, from today's perspective, we can provide the following conclusions⁵:

- volume of grey economy related to imports was much higher than presumed,
- tax base for collection of VAT is much broader (number of VAT payers was underestimated, it was first projected that number between 16,000 and 20,000 would register for VAT. However, there are 36,000 taxpayers in the system today.),
- enormous increase of taxpayers compared to estimates show high volume of sales tax evasions (sales that were not registered in business books),
- consequence of underestimating tax base is projection of neutral VAT rate of 16% and 17% with risks related to introduction of new system and collection of VAT,
- ITA collection efficiency is much above the average of countries similar to BiH in the moment of shifting from sales tax to VAT.

However, since there was suspension of refunds in 2006 to taxpayers who are not primarily exporters and this had an impact on higher net VAT revenues, final conclusion whether VAT rate was set as too high will be answered in the next few years when the suspension goes out of force.

⁴ more: Bulletin No 3.

⁵ more: in special article in this issue

Impact of VAT on import and consumption: macroeconomic implications

(By: Ognjen Đukić, Macroeconomist in the Unit)

Causes of revenue increase in VAT system

After the first year of VAT it's necessary to analyze broader effects that the application of this tax had on domestic economy⁶. In this issue of the Bulletin, we will discuss the effects that introduction of VAT had on imports of goods and total consumption and estimate implications of these effects on macroeconomic stability in BiH.

In 2006 it is expected to have a bit less than 2,5 billion KM of net revenues from VAT, which is approximately 37% higher than sales tax revenues in 2005 at BiH level. This simple comparison is recommended⁷ but it's enough to illustrate significant increase of revenues from indirect taxation. VAT system brought many changes in comparison with the sales tax and we will separate **two elements from VAT system that we think contributed the most to high increase of revenues**⁸:

1. Rate of 17% has proven as much higher than revenue neutral rate. In August 2004, IMF published analysis estimating rate of 16% as revenue neutral. The rate of 17% was adopted later on primarily due to ensuring collection of revenues at the same level as sales tax earlier. The method that IMF used to estimate revenue neutral rate was „from top to the bottom“ and objective was to determine size of tax base for VAT. Starting base was total gross domestic product (GDP) and different corrections were applied in order to get it to tax base for VAT. So, GDP was corrected for the amount of imports, exports and investments as well as for added value that is being created in sectors exempted from VAT system (activities in public interest, financial services etc.). This tax base is then reduced for expected losses from tax evasions and companies with turnover less than 50.000 KM (in the amount of 40%), but it was increased to include estimated grey economy (25%). This base was then divided with target amount of sales tax and railway tax and the result was rate of 16% as neutral rate.

However, this calculation required usage of great number of assumptions. One of the assumptions that are considered as underestimated is GDP that was used as starting point in analysis.

2. Obligation of VAT payment on imports is created in the moment of import (i.e. in the moment when customs on import has to be paid) for all imports that are subject of VAT payment, which achieved significant positive effects in the collection of revenues. Just for comparison, sales tax on imported goods was collected only in the retail stage, which created lots of room for tax evasions through „ghost“ companies and other ways of tax evasions in retail. Retail is difficult segment of tax control and it is characterized by high number of output units and low level motivation of consumers for their purchase to be registered⁹.

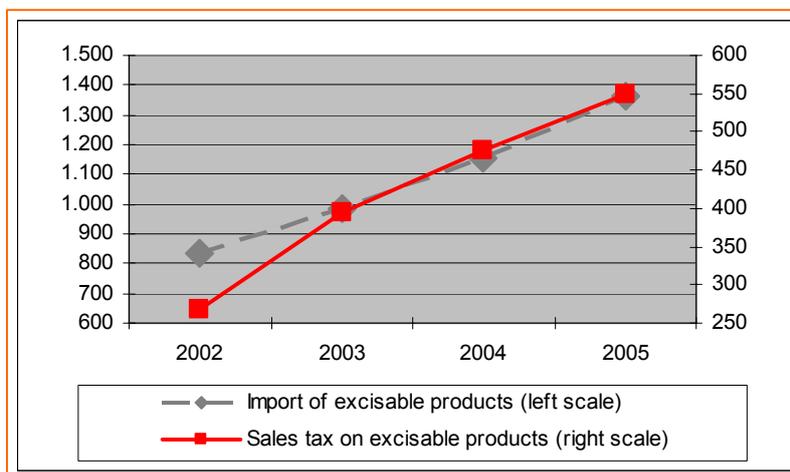
⁶ At the time this text was prepared author had data for first eleven months in 2006 and certain assumptions were used on amounts at annual level.

⁷ In 2006 there were significant revenues from lagging sales tax in single account and entity accounts. The first year of VAT implementation contains many specifics and it can not be technically treated as full year of VAT implementation because taxpayers in 2006 filed 11 declarations and also got entitled to refunds or use of tax credits only ten times in this year.

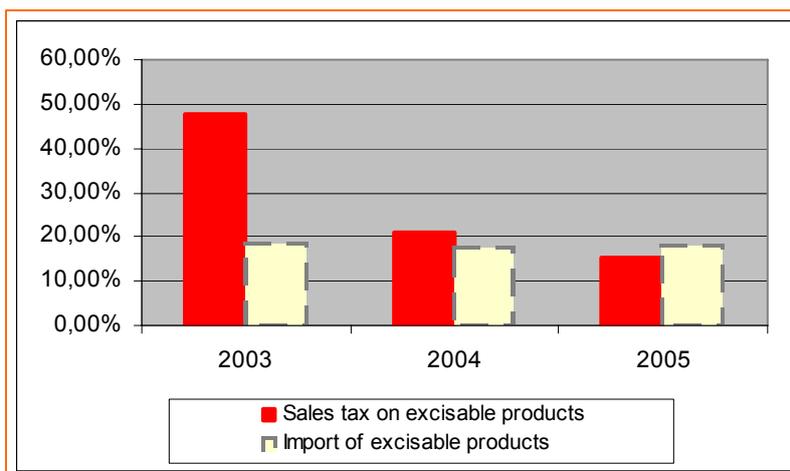
⁸ It's important to note that subject of these analysis are not progressess in efficiency of revenue collection of ITA and subject of analysis are differences of VAT system in comparison to sales tax.

⁹ More info on retail and final consumption in VAT system can be found in the next issue of the Bulletin.

Higher efficiency in collection of tax on imports compared to retail is clearly illustrated by data on sales tax from 2003 when there was change in August shifting payment obligation of sales tax on excisable products from retail to import. This shift in stage of tax liability was followed by high increase of revenues. Comparative trend of imports of excisable products and revenues from sales tax on excisable products is shown in the graphs 5 and 6.



Graph 5. Import and sales tax on excisable, in million KM



Graph 6. Growth (year / previous year)

Source of date: Foreign trade chamber of BiH, CAFAO, Indirect Taxation Authority

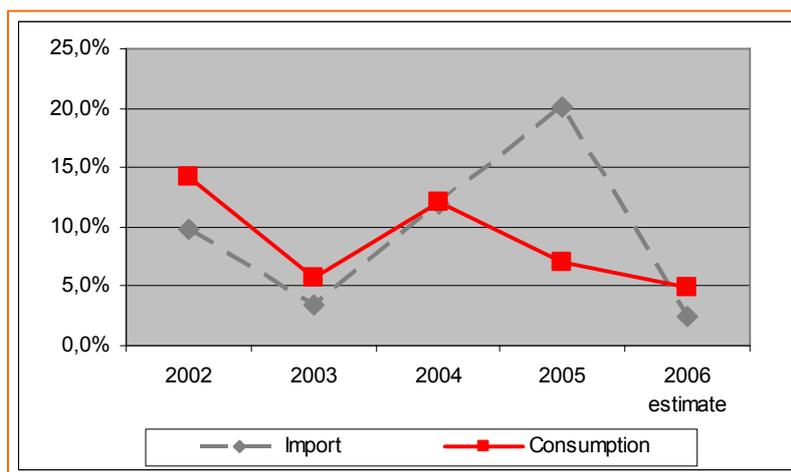
Illustrated data show that there was high increase of sales tax on excisable products in 2003 in the amount of 48%, which was two times higher than the growth of imports of these products in the same year (and these two parameters increased with equal speed). **This clearly shows that 2003 through change of moment when sales tax on excisable products has to be paid as it included part of none taxed consumption i.e. there was expansion of tax base.**

There as similar effect in 2006 through introduction of VAT that had impact on other (non excisable) products. As we know, sales tax on these products was collected at retail stage until 2006, which created big motivation for retail businesses not to register their sales and evade full amount of tax. **The start of application of VAT started along with its**

collection at import stage for all imported products that are subject of VAT payment and it largely reduced possibilities to evade the full amount of tax. In other words, if imported product is evaded in later stages of sales, there is still amount of tax that was paid in the import stage. In 2006 it is expected to have revenues of VAT on imports higher than 1,8 billion KM, which corresponds to total amount of sales tax in 2005. Revenues from VAT imports represent almost $\frac{3}{4}$ of VAT total revenues. This data directs us to the conclusion that greatest progress was made in this segment in regards to efficiency of collection in comparison with sales tax.

Effects on imports and consumption

It is known that import in BiH has consumption characteristics i.e. relatively high share of total imports fall on final products intended for final consumption. This composition of imports is reflection of under developed domestic economy and high consumption of BiH citizens. The fact that growth of consumption and imports are interconnected can be seen in the graph 7. Deviation of imports from joint patten and higher growth in comparison with consumption in 2005 is attributed to higher imports in the end of 2005 in order to accumulate goods in stock before VAT goes into force. Significant part of this „accumulated“ import relates to reproduction funds (machines, raw materials, semi final products etc.), which were tax exempt in the sales tax system and whose import was not direct consequence of consumption growth.



Graph 7. Import of goods and consumption in BiH, growth at annual level
Source of data: BiH Statistics Agency, World Bank, own estimates

It should be noted that domestic consumption significantly exceeds value of GDP, which means that BiH citizens spend more than they produce¹⁰. Result of such situation is high deficit of current account. Although the right size of this deficit in comparison with GDP is questionable due to many statistic approximations in estimate of both parameters, we can say that there is relatively high level of consensus amongst domestic and international analysts in conclusion that **current deficit represents one of the major dangers for macroeconomic stability of BiH¹¹.**

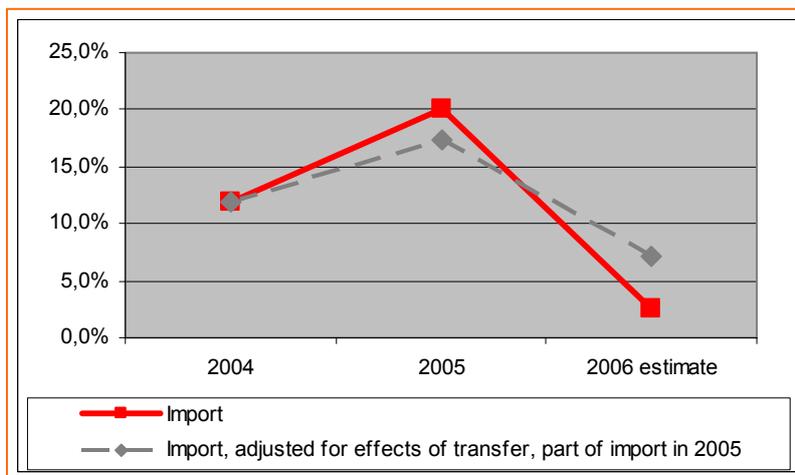
¹⁰ There was more information about this topic in Bulletin 13.

¹¹ Permanent solution of this problem is implementation of structural reforms that can enable continous development of BiH economy. However, many of these reforms require hard political decisions and significant financial funds and clear results can be seen only in medium term. Some of these reforms are in field of pensions and health systems as well as reform of market labor that would offer necessary flexibility to BiH economy.

It is known that VAT basically represents tax on final consumption i.e. its amount is included in price paid by final consumer¹². System that is applied in BiH contains relatively small number of activities that are tax exempt and this provides broad tax base. Since the introduction of VAT in 2006 brought increase of revenues by 37% in comparison with sales tax revenues from 2005¹³, it is obvious that VAT brought increase in taxation of final consumption. **In accordance with this, there was increase of prices expected in the amount of 8%, which is significantly higher than the last year as well as in comparison with increase of prices in Euro zone. At least half of this increase is considered to be direct consequence of VAT introduction.**

Expansion of tax base and increase of retail prices in 2006 had an impact on slower growth of consumption and imports in BiH. Total growth of imports in 2006 is not expected to be above 3% at annual level, which is far below growth in previous years and especially in comparison with 2005 when the import had growth rate of 20,1%. We should of course bear in mind additional factors that contributed to slower growth of imports:

1. **First of all, one of these factors was above mentioned „accumulated“ import in December 2005** that was intended to move part of imports that would have happened in 2006 to 2005 before VAT went into force. Size of this effect is estimated to 1 to 2% of GDP or approximately 160 to 320 million KM. Correction of this effect slows import growth rate in 2005 and its reduction in 2006 (see graph 8). If we take that size of this effect is 1,75% of GDP then we get estimate of import growth in 2006 and this amount is a bit higher than 7%. However, this corrected growth of imports is below average growth in last five year period, which confirms slower growth of consumption in 2006.



Graph 8. Import of goods in BiH, growth at annual level

Source: BiH Statistics Agency and own estimates

2. **Second factor that also had an impact on reduction of imports is stronger motivation of importers to show underestimated values of imports after VAT went into force.** This especially relates to groups of products that were tax exempt and their value at import is in direct connection with tax liability as of January 2006. Size of this effect

¹² This does not mean that increase of tax rate of X percentage points on certain goods or services necessarily leads to equal increase of retail price. Additional tax burden is divided between seller and buyer (consumer) and seller covers one part of burden while retail price is increased for the rest of amount. How much will be covered by seller and buyer depends on type of product i.e. price elasticity of supply and demand for that product.

¹³ Not considering remained sales tax revenues which represent additional revenues in 2006.

on import is hard to estimate but it is important to mention that it is not real reduction of imports but lowering declared values.

Macroeconomic implications

Slowing growth of imports had positive impact on level of trade deficit that would have been higher in 2006 if import kept increasing in accordance with previous years¹⁴. So, it can be said that increase of revenues from VAT is compatible with policy of sustaining macroeconomic stability. This is correct only in case if reduction of consumption in private sector in future period is compensated by increase of consumption in public sector. This could not happen in 2006 primarily because planned budgets in 2006 did not project such high level of revenues and expenditures. Data on budget execution for first ten months of reporting on achieved surplus of all levels of government (not including municipalities and cities) in the amount of 671,711 mill KM. What amount of surplus / deficit is achieved at annual level remains to be seen.

In accordance with that, it remains to be seen how will increase of revenues from VAT be used and if positive effects on current account in terms of slowing growth of imports will be annulled in future period. It is useful to mention IMF study from October 2006 that had intention to quantify reduction of public consumption on current account of BiH. The result of this study was an estimate that reduction of public expenditures by 1 KM directly reduces deficit of current account by 0,45 KM. Also, the World Bank published analysis of public revenues in September 2006, which clearly indicates that BiH economy is tax overburdened and share of public consumption in total GDP is at relatively high level in comparison with other developing countries.

Conclusion

Through more efficient system of taxation and expansion of tax base, VAT brought high increase of revenues in comparison to sales tax. Higher taxation of final consumption reflected on reduction of private consumption and imports, which had positive effects on sustaining macroeconomic stability through lowering trade deficit. Slowing of the import growth was achieved because growth of public consumption in 2006 was not enough to fully compensate reduction of private sector consumption. Incomplete data for 2006 show that expenditures in public sector did not follow growth of revenues in that year. In this way, one part of funds was kept that would have been spent by private sector on import of final products. **However, if total growth of revenues goes for public consumption in 2007, continuation of fast growth of imports in future period is likely to happen.**

BiH has already been identified as country with high tax burdens. Actually, results of World Bank analysis from September 2006 suggest that high level of public consumption in BiH does not bring expected results primarily due to high level of inefficiency of the public administration. The same analysis suggests that reform of public administration can achieve enormous savings at the level of 8-9% of GDP. All this clearly suggest that further increase of public consumption is not recommended. As opposed to that, **tax relaxation of economy, primarily in the field of labor along with faster reform of public administration would be good moves in order to strengthen competitiveness of BiH economy.**

¹⁴ Second source for reduction of trade deficit is of course export that will be discussed in one of future issues of the Bulletin.

In focus: New Law on profit tax in Republika Srpska as of January 1, 2007

(Prepared by: Dinka Antić, MSc)

New Law on profit tax¹⁵ in Republika Srpska (RS) will be in force from January 1st, 2007.

Basic concept of the Law**1. General rules for profit taxation**

Taxpayers of profit tax are legal entities and business units that generate profit in the area of RS. Taxpayers are also foreign legal entities that have permanent business residence in RS ('foreign legal entities'), which carry out their business operations and generate revenues in RS. It also includes foreign legal entities that do not have permanent business residence in RS and generate revenues on which the payer of these revenues pays withholding tax. Public institutions and humanitarian organizations are exempt, but only for revenues generated from the budget, revenues from membership fees, sponsorships or donations, interest, dividends or other investment revenues..

Tax base is determined as difference between taxable revenues and expenditures deducted for that tax year. Tax year is a calendar year. However, on basis of a decision of the RS Ministry of Finance, foreign legal entity may use tax year applicable to that foreign legal entity for profit assessment in RS.

Taxable revenues include all revenues from any source, in money or payments in kind, when it is determined according to market value of received property or services. Calculated tax base does not include dividends and share in profit, revenues from claims that were written off under certain conditions, revenues from interest on securities issued or guaranteed by government, companies, insurance companies, investment funds, banks or other financial institutions, interest on deposits in banks, revenues from swap or transfer of same type of property etc.

Tax base will be decreased by expenditures that directly refer to generated revenues and certain costs up to the amounts regulated by the Book of Rules (e.g. up to 30% of representation costs related to business operations of a legal entity). It is also allowed to deduct donations to public institutions, humanitarian, cultural and educational organizations in the amount up to 3%, and sponsorship expenses in the amount of 2% of total revenues in that tax year.

The following expenditures will not be accepted: expenditures in favor of connected company for the amount exceeding market price for goods or services performed by connected companies to taxpayer, loss on sale or transfer of any property between connected companies, donations to political parties and organizations, capital expenditures related to obtaining or creating property that is depreciated and it has economic lifetime over 1 year, personal expenses and expenses that are not related to business operations, expenditures for depreciation of goodwill etc. In regards to transactions between connected companies, the RS Tax Administration has right to correct expenditures if they identify that a transfer prices does not correspond to market price.

It is allowed for banks and other authorized credit organizations to deduct up to 20% of tax base for increase of reserves for regular losses resulting by unpaid credits; insurance and reinsurance companies for increase of reserves in accordance with valid regulations, and

¹⁵ The Law was published in RS Official Gazette on September 20th, 2006

other taxpayers for doubtful claims that are result of sales of goods or services under certain conditions.

The Law allows deduction for progressive depreciation, 40% in the first year and 30% in the second and third year.

Tax base is corrected by gains or losses from sale of capital and investment goods during the tax year and gains and losses from foreign exchange currency differences.

Tax loss is transferred and compensated by decreasing tax base in the next five years. Tax base of a legal entity from RS may be decreased only for loss stated by business units in RS. Tax base of a business unit, which is part of legal entity from other entity/District can not decrease tax loss of that legal entity in other entity/District.

The Law regulates taxation of profit in cases of status changes (merger, acquisition, division) and liquidation of legal entity.

Profit tax rate is 10% on determined tax base. It is an advanced payment and it has to be made within the deadline for filing return, at the latest by March 31st of current year for previous one. If the Ministry determined different tax year for foreign legal entity, it is within deadline of 90 days after the end of tax year. Base for advanced profit tax payment is data from tax return from previous tax year. Holding group of legal entities located in RS may choose to file consolidated tax return.

2. Taxation of profit for foreign legal entity

To calculate tax base for foreign legal entity, revenues and expenditures that refer to permanent business residence are considered. Foreign legal entity is obliged to pay profit tax on revenues from real estate located in RS (e.g. revenues generated by renting or other rights on use of property, profit from transfer of ownership rights, if higher value of the real estate is located in RS) and on revenues generated by using natural resources located in RS, including profit from transfer of rights related to these natural resources. In the above mentioned cases, a foreign legal entity files annual tax return according to general taxation rules (Chapter 1).

If legal entity from RS makes income in foreign country and income is taxed both in RS and foreign country, the tax paid to foreign country may be: (i) deducted from profit tax in RS or (ii) it is considered as expenditure, which is deducted in determining profit tax for that tax year. Higher tax in abroad is transferred in the period within 5 tax years and it is subject of the same limitations for those tax years.

If foreign legal entity has two or more permanent business residences in RS, this foreign legal entity may unify business operations of each location in order to determine tax base and file consolidated annual tax return.

3. Special arrangements for small taxpayers

The Law provides special way of profit taxation for small taxpayers. The special arrangement may be used by any legal entity, which has maximum of two owners who are physical persons and that carries out business operations (except banking and financial services, and insurance and reinsurance), has maximum of 9 employees, and whose total revenues in previous year does not exceed 100.000 KM and share of largest buyer does not exceed 50% of total sales. Small taxpayer should have cash accounting. Taxpayer is obliged to file return by January 31st of current year for previous year and calculate and pay 2% on total annual income. This is done through paying of 2% tax on total monthly income.

Need for coherent policy and administering of direct and indirect taxes

By passing the new law, Republika Srpska made big step towards harmonizing profit taxation with European principles and standards. However, harmonization can not stop here and it needs to be **followed by the Federation and Brcko District**.

Basic problem that can not be resolved only through this Law is that complex companies doing business in the whole territory of BiH can not deduct tax loss that occurred in other entity/District. Transitional and final provisions provide opportunity to make agreements between entity ministers of finance and director of tax administration in Brcko District in regards to submission of single tax declaration according to HQ of taxpayer. This also includes payment of proportional payment of profit tax according to share in gross revenues that each taxpayer had in each entity and Brcko District. However, this requires harmonization of laws in the Federation of BiH and District with the new Law in RS.

As the things stand now in the whole BiH, domestic companies from other entity or District are treated as nonresidents and there is no difference in treatment of companies from other entity and company from Japan (for example). Such tax treatment of losses and inability to consolidate tax liabilities produces certain negative effects:

- It disables functioning single economic space because there are no conditions for free movement of capital, goods, services and persons. This is constitutional obligation¹⁶ and basic principle in functioning of EU.
- Discourages entrance of large companies to our country through business mergers (acquisitions, mergers) and creation large and complex companies in the whole territory of BiH¹⁷. It also disables restructuring companies through formation of vertical and horizontal integrations etc.
- It disables complex companies with more dependent companies in the whole territory of BiH, to use advantages of VAT system. According to provisions of the Law on VAT, it's possible to make joint registration under one VAT number for entire BiH¹⁸. This way of registration for group of companies has positive impact on liquidity of all companies in that group because internal sales transactions do not include calculation and payment of VAT, but only on sales to companies outside that group. Condition for this way of registration is existence of single tax bookkeeping for the group. However, it's not possible to apply this in practice as it's not possible to make tax

¹⁶ Annex IV of Dayton Peace Agreement (which represents Constitution of BiH), Item 4

¹⁷ effects of enlarging companies are known: employment growth, production growth, reduction of cost per unit, decrease of prices, increase of competitiveness in the country, growth of exports and investments, increase of investments in research and development, better approach to financial means which leads to lower interest rates etc.

¹⁸ condition for joint registration is that home company, directly or indirectly owns dependent company or company of other taxpayer

consolidation for needs of calculation and payment of corporate liabilities at the group level i.e. for entire BiH.

Increased collection of profit tax and reduction of tax evasions should not be done by discriminatory treatment of companies from other entity but through strengthening official cooperation between tax administrations of entities with ITA to work on prevention of tax evasions and frauds¹⁹. The model we should strive to is the one from newest EU directives that establish administrative cooperation between member states, through information exchange and participation of inspectors from one member state in control activities in territory of other member states or through cooperation with tax administration of third countries in the field of indirect and direct taxes. If it's possible to connect tax administrations of member states in the conglomerate of 25 member states, it is much easier to connect tax administrations within BiH. Objective is common: increase of tax revenues, reduction of costs for tax administrations and achievement of synergy effects.

New Law in the RS should be understood as first encouraging step towards internal harmonization in BiH. Harmonization of regulations in the field of corporate taxes within Bosnia and Herzegovina does not have to mean having same regulations, rates or incentives in entities and District, but only creation of the same framework that will not prevent flow of capital, goods, money, investments and business operations in the entire territory.

In the end, it is necessary to emphasize that **profit tax rate of 10% is very stimulating** for attracting foreign investors because it is lowest in the region²⁰. However, it's necessary to increase profit tax rate in long term since it is much lower than average profit tax rate in ten new EU member states²¹. In the process for accession, BiH needs to fulfill conditions from *Acquis*, taxation chapter, which means applying Code of conduct in taxation of companies²² and elimination of all measures, exemptions and incentives in the field of company taxation that can lead to harmful tax competition.

¹⁹ e.g. informing ITA on legal entities and entrepreneurs who are not registered for VAT and control determined that taxable turnover exceeds registration threshold and informing tax administrations of entities and district on tax evasions discovered by ITA inspectors

²⁰ Rate of profit tax in Serbia is 10%, Macedonia 15%, Monte Negro minimum 15%, Croatia 20%, Slovenia 25%, Federation of BiH 30% and District 10% (source: Daničić D., „Comparative review of legal acts on profit taxation in BiH and surrounding countries), „Finansije, računovodstvo i revizija“ No.. 3/2006, FINRAR, Banjaluka, pages 19-37

²¹ average rate of profit tax in this group of countries is approximately 20%

²² Code of Conduct for Business Taxation, OJ C 2, 6.1.1998.

News from EU tax regulations: Redesign of VAT system in EU

(Prepared by: Dinka Antić)

After multi annual extensive activities, Directive 2006/112/EC²³ on joint system of VAT in EU was recently adopted. New directive with its 15 chapters and 414 articles regulates VAT system in European Union. So, **after almost 40 years of use, Sixth Directive of EC on VAT becomes part of history.**

European Union decided to have big project of radical redesign of Directive with objective to structure it in better way, modernize and simplify text and not go into basics of provisions.

All member states agree that provisions of the Directive are unclear, non understandable, which caused interpretation inconsistencies in practice. Great problems were also caused numerous changes of Directive and approved derogation, deviations from Directive provisions, out of which some were not even published in EU Official Gazettes and it was hard to implement legal framework of VAT in EU. This derogated principles of being public and transparent. High number of derogations were automatically approved with passing the Directive and others were approved at request of the member states in very liberal procedure, which was constrained only three years ago.

It's necessary to emphasize that new Directive not only compiles all adopted changes and derogations in one document. Objective of European Commission is to have text that is more understandable with clearer provisions for all those who use the Directive in order to avoid situations where same provisions are interpreted in the different way. Text of the directive was redesigned in systematic way and also improved in terms of linguistics and style. Sixth directive basically consisted of two parts: (i) minimum standard VAT systems and (ii) provisions for taxation of internal transactions within EU. So, some elements of VAT system in sixth directive were prescribed two times – as minimum standard valid for all countries even those that want to join EU (such as BiH) and special provisions that are binding for EU member states only. In addition to efforts for having standard provisions and numerous changes adequately incorporated and clearly represented, the second reason for redesign of sixth directive was to structure the Directive according to VAT system elements. This avoids confusion and double regulation of same issues in one legal act.

What is being achieved by new Directive? First of all, integral and consistent set of legal rules, which are much clearer, more simple and understandable in prescribing all important elements of VAT system. Our advantage in comparison with other countries that have been using the sixth directive for years is that we just recently introduced VAT and we are still in the phase of deeper analysis of provisions and rules of the VAT implementation in EU, which includes analysis of the Directive, "best practices" of member states, contents of rulings made by EU Court of Justice and reasoned opinions of European Commission expressed as estimate of compliance of certain provisions of national laws with those in EU. All this creates legal framework for functioning of VAT system in EU.

So, "new face" of sixth directive comes in the right time for BiH. Redesign of sixth directive brings another message to tax authorities in BiH: we should think about redesign of VAT Law in order to make it more clear, simple and understandable for all users.

²³ Council Directive 2006/112/EC on the common system of value added ta, OJ L 347, 11.12.2006.

Consolidated reports

(prepared by Aleksandra Regoje, Macroeconomist in the Unit)

Napomena za table 1

1. The consolidated report includes:

- revenues and expenditures of the budget of Bosnia and Herzegovina,
- revenues and expenditures of the budget of Brčko District,
- revenues and expenditures of the budget of the Federation of Bosnia and Herzegovina,
- revenues and expenditures of the budget of the Republika Srpska,
- revenues and expenditures of the budget of 10 cantons in the Federation

2. Report doesn't include amortization of foreign debt

3. September and October data for Herzeg-Bosnia Canton are estimated

Notes to table 2

1. The consolidated report includes:

- revenues and expenditures of the budget of the Federation of Bosnia and Herzegovina,
- revenues and expenditures of cantonal budgets in FBiH,
- revenues and expenditures of municipal budgets in FBiH.

2. Report doesn't include foreign debt amortization

3. The following data were estimated:

- September data for Herzeg-Bosnia Canton,
- July, August and September data for Municipality of Kupres,
- September data for Municipality of Olovo, and
- All months data for Municipality of Drvar

Notes to table 3,4,5 i 6

Consolidated report includes:

- revenues and expenditures of the cantonal budgets,
- revenues and expenditures of the budgets of related municipalities.

Expenditure item of the cantonal budgets "Grants to other levels of government" and "Capital grants to other levels of government" is reconciled with revenue items of municipalities "Grants from other levels of government" and "Capital support from other levels of government";

Since the expenditure item "Grants to individuals" contains grants directed through municipal budgets, in cases where the amount of grants to other levels of government on expenditure side of cantons is lower than received grants on municipal items, the Unit proceeded in the following way:

- Remaining difference on items of municipalities "Grants from other levels of government" and "Capital support from other levels of governments" is reconciled with expenditure item of the cantonal budget "Grants to individuals".

* Net domestic lending = lending-repayment of borrowing

** Net domestic financing = Credits received - repayment of debts

Notice:

Since data have been submitted late, monthly consolidated report for fiscal operations of the single account and the Entities for November will be later on published on the Unit's internet page www.oma.uino.ba, of which you will be informed on time.

General government + Cantons, I – X 2006

		I	II	III	IV	V	VI	VII	VIII	IX	X	Q1	Q2	Q3	Q4	Total
1	Current Revenues (11+12+13+14)	212.964.842	205.878.854	488.185.666	376.872.899	416.054.715	376.701.644	479.064.278	410.778.874	415.859.701	410.550.616	907.029.363	1.169.629.258	1.305.702.852	410.550.616	3.792.912.089
11	Taxes	182.524.071	167.751.835	433.762.029	323.497.626	373.997.175	337.362.067	325.456.631	361.293.267	365.437.582	364.047.422	784.037.935	1.034.856.868	1.052.187.480	364.047.422	3.235.129.705
	Income & profit tax	10.940.796	15.500.760	26.893.094	9.076.644	8.600.487	10.449.113	11.683.328	10.641.000	12.226.431	10.224.873	53.334.650	28.126.244	34.550.759	10.224.873	126.236.526
	Social security contributions (Brcko)	1.159.755	1.159.755	1.159.755	1.451.012	1.434.132	1.509.170	1.557.544	1.422.516	1.450.109	1.672.942	3.479.264	4.394.314	4.430.169	1.672.942	13.976.688
	Taxes on personal income and self-employment	17.877.001	19.200.886	21.350.495	22.794.680	23.857.786	22.511.033	22.720.088	23.232.184	35.484.473	26.180.347	58.428.381	69.163.499	81.436.745	26.180.347	235.208.973
	Property tax	1.950.681	3.129.385	2.473.694	2.377.044	2.082.013	2.264.665	2.679.360	1.947.178	2.685.586	2.138.055	7.553.761	6.723.722	7.312.124	2.138.055	23.727.661
	Sales tax (incl. excises) (according to Regulations until 31.12.2005)	68.909.159	32.715.681	17.574.639	11.647.680	10.720.410	12.888.234	7.909.381	6.592.640	9.850.014	5.824.756	119.199.479	35.256.324	24.352.035	5.824.756	184.632.594
	Transfers from Single Account	81.092.024	95.163.917	361.878.368	274.964.391	325.912.436	286.495.093	277.729.004	315.984.755	302.896.684	316.959.083	538.134.309	887.371.921	896.610.444	316.959.083	2.639.075.757
	Other taxes	594.654	881.452	2.431.985	1.186.175	1.389.912	1.244.758	1.177.925	1.472.994	844.284	1.047.366	3.908.091	3.820.845	3.495.203	1.047.366	12.271.506
12	Non-tax revenues	29.425.628	36.730.843	53.783.416	52.913.454	41.546.076	38.783.386	142.640.676	49.058.667	49.947.276	45.793.372	119.939.887	133.242.916	241.646.618	45.793.372	540.622.794
13	Grants	893.842	1.349.206	624.812	367.212	417.556	443.510	10.953.078	392.954	409.894	660.153	2.867.860	1.228.279	11.755.926	660.153	16.512.217
14	Other revenues	121.302	46.970	15.409	94.607	93.907	112.681	13.893	33.986	64.949	49.669	183.681	301.195	112.828	49.669	647.373
2	Total expenditures (21+22+23)	205.915.261	216.674.260	263.267.742	308.529.641	339.127.953	334.382.500	314.904.469	307.836.360	406.425.221	342.217.305	685.857.264	982.040.094	1.029.166.050	342.217.305	3.039.280.713
21	Current expenditures	206.085.898	214.229.279	265.368.157	311.594.379	338.026.250	335.711.382	315.031.036	303.827.484	356.814.453	342.578.476	685.683.334	985.332.011	975.672.972	342.578.476	2.989.266.793
	Wages and compensations	116.768.662	127.743.444	135.295.157	136.390.017	138.340.426	156.558.980	139.295.543	139.247.927	130.704.372	152.379.601	379.807.263	431.289.423	409.247.842	152.379.601	1.372.724.129
	of which: Gross wages	101.803.039	109.737.210	115.880.126	117.662.633	117.647.879	125.153.044	106.352.954	115.415.010	110.876.937	124.883.840	327.420.374	360.463.557	332.644.901	124.883.840	1.145.412.672
	of which: Compensations	14.965.624	18.006.234	19.415.031	18.727.384	20.692.547	31.405.936	32.942.589	23.832.916	19.827.435	27.495.761	52.386.889	70.825.866	76.602.941	27.495.761	227.311.457
	Other taxes and contributions	5.583.842	6.440.281	6.673.122	6.842.300	6.876.431	7.861.675	7.619.561	7.146.557	7.912.556	8.506.976	18.697.245	21.580.406	22.678.674	8.506.976	71.463.301
	Purchases of goods and services	20.854.594	29.510.529	29.855.879	32.652.244	33.716.560	34.710.834	31.115.257	32.741.193	42.721.346	37.807.390	80.221.002	101.079.638	106.577.795	37.807.390	325.685.826
	Current transfers	62.479.537	48.635.620	88.192.288	132.154.608	152.995.336	129.566.281	128.989.035	115.317.048	157.282.383	126.541.725	199.307.445	414.716.226	401.588.466	126.541.725	1.142.153.862
	of which: Grants to other levels of government	6.308.215	8.036.002	6.379.896	39.609.983	29.246.547	24.963.918	22.030.992	14.635.278	35.474.924	28.714.660	20.724.113	93.820.448	72.141.193	28.714.660	215.400.415
	of which: Grants to households	43.559.344	13.956.853	59.481.280	50.635.431	81.312.649	69.786.815	56.979.691	61.460.790	68.550.749	63.326.854	116.997.477	201.734.895	186.991.229	63.326.854	569.050.455
	of which: Grants to non-profit organizations	3.228.182	13.400.386	11.472.824	13.563.565	14.940.028	15.373.101	16.980.089	13.813.589	15.341.565	13.589.132	28.101.392	43.876.694	46.135.243	13.589.132	131.702.462
	of which: Grants to public enterprises	8.678.085	13.030.958	10.961.074	22.692.299	23.783.056	16.986.161	26.887.266	23.286.926	33.293.774	18.596.547	32.670.116	63.461.516	83.467.966	18.596.547	198.196.145
	Capital grants	0	1.026.722	4.323.850	3.195.109	5.284.536	5.898.672	7.237.276	7.255.894	17.426.730	16.059.998	5.350.572	14.378.317	31.919.900	16.059.998	67.708.785
	of which: Capital grants to other levels of g.	0	0	105.683	1.184.332	247.933	1.295.483	1.176.584	271.137	3.335.065	1.962.155	105.683	2.727.748	4.782.786	1.962.155	9.578.371
	Interest	156.330	509.310	601.192	-248.020	123.179	473.774	182.515	1.439.036	321.016	469.097	1.266.831	348.932	1.942.567	469.097	4.027.427
	Transfers to lower spending units	242.932	363.373	426.670	608.121	689.783	641.166	591.849	679.830	446.049	813.689	1.032.975	1.939.070	1.717.728	813.689	5.503.462
22	Net lending*	-913.376	266.529	-3.823.423	-5.719.059	-1.095.299	-3.098.301	-939.467	3.236.656	-1.455.424	-1.434.390	-4.470.270	-9.912.659	841.765	-1.434.390	-14.975.554
23	Other expenditures	742.739	2.178.453	1.723.008	2.654.321	2.197.001	1.769.419	812.900	772.220	51.066.192	1.073.219	4.644.200	6.620.742	52.651.313	1.073.219	64.989.474
3	Net acquisition of nonfinancial assets	-20.678.172	1.386.487	2.511.061	2.880.085	4.212.635	11.231.065	32.198.146	15.130.730	17.784.839	15.263.547	-16.780.625	18.323.785	65.113.715	15.263.547	81.920.421
4	Government surplus/deficit (1-2-3)	27.727.754	-12.181.893	222.406.863	65.463.173	72.714.127	31.088.079	131.961.662	87.811.784	-8.350.359	53.069.764	237.952.724	169.265.379	211.423.087	53.069.764	671.710.955
	Of which: BIH	6.669.833	6.498.930	7.725.848	44.090.966	13.864.723	4.634.885	11.365.391	9.172.739	11.431.810	3.636.648	20.894.611	62.590.574	31.969.940	3.636.648	119.091.773
	Consolidated FBiH	-13.985.506	-59.203.929	173.106.389	20.266.167	49.565.875	23.336.239	107.353.692	42.666.388	18.002.171	23.652.642	99.916.953	93.168.281	168.022.251	23.652.642	384.760.127
	RS	33.978.119	34.645.207	35.142.440	-2.201.609	4.644.616	546.075	13.763.426	37.237.017	-37.028.486	25.581.887	103.765.766	2.989.082	13.971.957	25.581.887	146.308.692
	Brčko	1.065.308	5.877.899	6.432.186	3.307.649	4.638.913	2.570.879	-520.847	-1.264.360	-755.854	198.588	13.375.393	10.517.442	-2.541.061	198.588	21.550.362
5	Net financing **	-34.802	19.073.571	-667.675	-1.410.605	-1.318.599	-1.297.275	-1.695.195	-4.676.854	-37.472.019	-259.460	18.371.094	-4.026.479	-43.844.068	-259.460	-29.758.913

Table 1. Monthly Consolidated Report

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FBiH, I – IX 2006

		I	II	III	IV	V	VI	VII	VIII	IX	Q1	Q2	Q3	Total
1	Current Revenues	126.593.841	94.284.034	363.917.766	235.144.348	303.193.498	260.774.686	348.352.133	275.375.750	290.943.814	584.795.640	799.112.532	914.671.697	2.298.579.869
11	Taxes	101.922.961	59.784.247	316.127.050	205.537.706	267.387.505	222.301.773	218.156.935	240.212.276	243.171.110	477.834.258	695.226.983	701.540.321	1.874.601.562
	Income & profit tax	10.845.363	13.195.094	14.471.787	7.529.944	7.274.868	9.299.426	10.465.639	8.883.999	11.399.675	38.512.244	24.104.238	30.749.313	93.365.794
	Taxes on personal income and self-employment	12.538.656	12.566.859	14.035.620	16.324.518	15.488.990	15.337.338	15.069.397	15.494.865	18.670.540	39.141.135	47.150.846	49.234.802	135.526.783
	Property tax	5.483.405	5.525.746	5.230.167	4.441.842	4.850.602	4.851.930	5.182.525	5.290.290	5.221.589	16.239.318	14.144.373	15.694.404	46.078.095
	Sales tax (incl.excises) (according to Regulations until 31,12,2005)	57.495.864	27.326.203	14.641.753	10.764.707	10.689.709	13.265.814	6.767.553	6.037.732	10.425.800	99.463.820	34.720.229	23.231.084	157.415.133
	Transfers from Single Account	14.602.119	49.906	264.394.732	164.817.810	227.999.332	178.442.798	179.326.421	203.227.212	196.023.919	279.046.757	571.259.940	578.577.552	1.428.884.249
	Other taxes	957.553	1.120.439	3.352.991	1.658.886	1.084.004	1.104.468	1.345.399	1.278.179	1.429.588	5.430.983	3.847.358	4.053.166	13.331.507
12	Non-tax revenues	24.359.153	33.419.650	47.360.347	29.516.862	35.218.928	37.618.918	129.341.236	34.969.165	47.194.770	105.139.150	102.354.707	211.505.171	418.999.028
13	Grants	284.195	1.019.589	352.193	44.056	502.029	677.379	740.932	96.722	233.327	1.655.977	1.223.464	1.070.981	3.950.421
14	Other revenues	27.532	60.547	78.176	45.724	85.037	176.617	113.031	97.586	344.607	166.256	307.378	555.225	1.028.858
2	Total expenditures	132.043.677	146.386.690	181.381.843	201.085.015	235.768.759	227.815.615	204.553.958	219.389.807	252.476.297	459.812.210	664.669.388	676.420.062	1.800.901.661
21	Current expenditures	132.115.507	146.418.872	184.624.512	201.615.507	235.986.687	230.334.281	204.762.496	210.200.797	250.348.002	463.158.892	667.936.474	665.311.294	1.796.406.660
	Wages and compensations	62.067.683	74.352.267	78.590.596	79.973.594	81.127.552	96.892.287	71.853.484	84.756.039	84.222.863	215.010.546	257.993.433	240.832.386	713.836.365
	of which: Gross wages	51.819.520	60.904.462	63.181.948	65.304.230	64.836.970	73.511.245	55.210.803	65.000.200	68.554.553	175.905.931	203.652.444	188.765.555	568.323.930
	of which: Compensations	10.248.163	13.447.804	15.408.648	14.669.364	16.290.583	23.381.043	16.642.681	19.755.839	15.668.311	39.104.615	54.340.989	52.066.831	145.512.435
	Other taxes and contributions	6.194.123	7.224.751	7.579.543	7.736.923	7.711.792	8.840.556	6.609.286	7.757.988	8.269.364	20.998.417	24.289.271	22.636.637	67.924.325
	Purchases of goods and services	13.065.965	21.932.914	23.744.247	21.328.188	23.776.015	26.064.809	19.596.216	19.813.604	24.331.175	58.743.126	71.169.012	63.740.995	193.653.132
	Grants	49.742.225	40.976.068	72.264.568	90.467.657	121.650.372	94.921.360	104.163.379	93.766.082	130.051.254	162.982.861	307.039.388	327.980.715	798.002.964
	Interest	348.705	741.148	722.841	53.689	429.424	728.599	387.843	2.140.809	341.674	1.812.694	1.211.711	2.870.327	5.894.732
	Transfers to lower spending units	696.806	1.191.725	1.722.718	2.055.457	1.291.532	2.886.671	2.152.289	1.966.274	3.131.672	3.611.248	6.233.659	7.250.234	17.095.141
22	Net lending*	-71.830	-32.182	-3.242.669	-530.492	-217.928	-2.518.667	-208.538	9.189.011	2.128.295	-3.346.681	-3.267.086	11.108.768	4.495.001
3	Net acquisition of nonfinancial assets	1.926.282	551.070	4.978.196	4.007.344	5.627.989	12.374.660	30.757.410	16.046.854	18.192.268	7.455.548	22.009.992	64.996.531	94.462.072
4	Government surplus(+)/deficit(-)	-7.376.119	-52.653.726	177.557.726	30.051.989	61.796.750	20.584.412	113.040.765	39.939.089	20.275.249	117.527.881	112.433.151	173.255.104	403.216.136
5	Net financing**	-15.616	12.364.466	-614.350	-1.688.656	-661.623	-1.387.566	-520.231	-1.121.533	-10.114.717	11.734.499	-3.737.845	-11.756.481	-3.759.827

Table 2. Monthly Consolidated Report

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Bosnian - Podrinje Canton, I-X 2006

		I	II	III	IV	V	VI	VII	VIII	IX	X	Q1	Q2	Q3	Q4	Total
1	Total revenues (11+12+13+14)	885.048	1.424.202	425.366	4.154.989	3.483.100	3.055.074	3.600.777	2.747.892	3.956.403	3.329.261	2.734.617	10.693.162	10.305.072	3.329.261	27.062.112
11	Tax revenues	732.906	352.748	253.035	2.636.183	2.003.443	1.626.364	2.026.246	2.381.545	2.263.064	2.426.791	1.338.690	6.265.989	6.670.855	2.426.791	16.702.325
	Income & profit tax	11.938	19.566	23.594	17.250	46.803	15.979	22.415	20.328	14.887	34.713	55.097	80.031	57.630	34.713	227.472
	Taxes on personal income and self-employment	113.982	128.554	149.402	240.906	186.803	197.778	178.161	234.865	192.344	246.512	391.938	625.486	605.369	246.512	1.869.306
	Property tax	32.724	13.938	14.906	9.464	15.300	8.565	21.778	16.857	28.950	36.634	61.568	33.329	67.585	36.634	199.116
	Sales tax (incl.excises)(according to Regulations until 31,12,2005)	442.911	182.371	46.938	182.285	45.197	60.720	47.719	38.292	17.961	40.303	672.219	288.202	103.972	40.303	1.104.695
	Transfers from Single Account	126.931	3.739	8.386	2.175.782	1.702.059	1.335.299	1.750.122	2.062.273	2.001.800	2.058.026	139.056	5.213.140	5.814.194	2.058.026	13.224.416
	Other taxes	4.420	4.582	9.809	10.496	7.282	8.024	6.051	8.931	7.122	10.603	18.811	25.801	22.105	10.603	77.320
12	Non-tax revenues	150.649	438.094	170.823	266.838	202.433	787.439	818.182	360.716	409.954	249.600	759.565	1.256.710	1.588.851	249.600	3.854.726
13	Grants	0	625.000	0	1.250.000	1.275.000	636.741	753.716	0	1.275.000	649.200	625.000	3.161.741	2.028.716	649.200	6.464.657
	of which: Grants from other levels of government	0	625.000	0	1.250.000	1.275.000	625.000	753.716	0	1.275.000	649.200	625.000	3.150.000	2.028.716	649.200	6.452.916
14	Other revenues	1.494	8.360	1.508	1.968	2.224	4.530	2.633	5.632	8.386	3.669	11.361	8.723	16.650	3.669	40.403
2	Total expenditures (21+22)	1.430.267	1.878.406	1.824.004	1.847.515	1.822.673	2.212.041	1.832.062	2.651.134	3.032.884	1.789.150	5.132.677	5.882.228	7.516.080	1.789.150	20.320.134
21	Current expenditures	1.430.267	1.878.626	1.824.223	1.847.734	1.822.884	2.212.193	1.832.215	2.651.286	3.022.884	1.714.150	5.133.116	5.882.812	7.506.385	1.714.150	20.236.462
	Wages and compensations	604.064	933.624	956.080	930.022	910.819	1.381.206	816.666	917.340	947.973	856.542	2.493.769	3.222.047	2.681.978	856.542	9.254.336
	of which: Gross wages	462.436	770.547	781.264	781.722	733.460	843.955	703.801	758.159	786.815	685.609	2.014.247	2.359.137	2.248.775	685.609	7.307.768
	of which: Compensations	141.629	163.077	174.816	148.300	177.359	537.251	112.865	159.181	161.158	170.933	479.521	862.910	433.204	170.933	1.946.568
	Other taxes and contributions	91.823	93.816	94.214	94.381	87.661	102.167	84.899	91.007	94.226	61.550	279.853	284.209	270.132	61.550	895.743
	Purchases of goods and services	394.958	447.869	390.015	313.246	304.562	390.981	175.858	455.989	696.314	239.949	1.232.842	1.008.790	1.328.161	239.949	3.809.742
	Capital grants	336.345	400.567	380.933	507.571	517.075	335.362	749.931	1.184.595	1.282.029	553.802	1.117.845	1.360.008	3.216.556	553.802	6.248.211
	of which: Capital grants to other levels of government	10.106	56.596	37.543	15.208	71.554	84.693	151.187	309.325	525.556	54.124	104.245	171.455	986.068	54.124	1.315.893
	Interest	3.077	2.750	2.980	2.515	2.766	2.477	4.861	2.355	2.342	2.307	8.807	7.758	9.558	2.307	28.430
22	Net lending*	0	-220	-220	-220	-212	-153	-153	-153	10.000	75.000	-439	-584	9.695	75.000	83.673
3	Net acquisition of nonfinancial assets	111.572	23.692	21.257	82.071	57.138	25.831	66.017	25.368	91.981	77.080	156.521	165.040	183.366	77.080	582.007
4	Government surplus/deficit (1-2-3)	-656.791	-477.896	-1.419.894	2.225.403	1.603.289	817.202	1.702.698	71.390	831.538	1.463.031	-2.554.581	4.645.894	2.605.626	1.463.031	6.159.970
5	Net financing **	-15.184	-14.625	-15.273	-13.895	-14.559	-14.055	-78.051	-13.826	-163.988	-14.024	-45.083	-42.509	-255.865	-14.024	-357.481

Table 3. Monthly Consolidated Report

Posavina Canton, I – X 2006

		I	II	III	IV	V	VI	VII	VIII	IX	X	Q1	Q2	Q3	Q4	Total
1	Total revenues (11+12+13+14)	1.815.419	1.922.605	4.995.728	1.338.724	4.361.437	3.315.269	3.643.875	3.715.710	4.429.932	3.474.972	8.733.752	9.015.429	11.789.517	3.474.972	33.013.670
11	Tax revenues	1.496.091	985.299	4.343.963	762.092	3.539.911	2.619.569	2.699.054	2.861.151	2.811.904	2.830.875	6.825.353	6.921.572	8.372.109	2.830.875	24.949.910
	Income & profit tax	36.023	107.810	126.959	46.250	36.851	44.035	61.758	60.302	36.796	56.098	270.792	127.137	158.855	56.098	612.882
	Taxes on personal income and self-employment	186.113	139.599	150.909	249.901	178.946	176.232	191.198	190.508	167.262	207.377	476.621	605.080	548.969	207.377	1.838.047
	Property tax	27.089	21.356	16.931	23.003	20.221	71.361	13.959	47.164	19.998	87.953	65.375	114.586	81.120	87.953	349.035
	Sales tax (incl.excises)(according to Regulations until 31,12,2005)	1.003.873	670.862	116.576	137.037	31.007	212.882	134.712	45.151	137.685	50.738	1.791.310	380.926	317.548	50.738	2.540.522
	Transfers from Single Account	216.366	13.509	3.863.738	280.084	3.249.118	2.101.970	2.272.557	2.434.976	2.312.288	2.369.664	4.093.613	5.631.172	7.019.821	2.369.664	19.114.270
	Other taxes	26.627	32.164	68.851	25.817	23.768	13.088	24.871	83.050	137.876	59.045	127.642	62.672	245.796	59.045	495.155
12	Non-tax revenues	285.113	438.896	470.099	394.965	458.193	423.033	457.327	604.558	501.528	462.315	1.194.108	1.276.190	1.563.413	462.315	4.496.027
13	Grants	34.215	498.410	181.667	181.667	363.333	272.667	487.494	250.000	1.070.000	179.782	714.291	817.667	1.807.494	179.782	3.519.233
	of which: Grants from other levels of government	0	185.667	181.667	181.667	363.333	231.667	360.367	250.000	1.070.000	22.000	367.333	776.667	1.680.367	22.000	2.846.367
14	Other revenues	0	0	0	0	0	0	0	0	46.500	2.000	0	0	46.500	2.000	48.500
2	Total expenditures (21+22)	1.930.774	2.081.600	2.595.200	2.425.715	2.548.258	2.847.023	2.585.719	2.365.646	3.113.109	3.504.889	6.607.574	7.820.996	8.064.474	3.504.889	25.997.932
21	Current expenditures	1.930.321	2.084.005	2.595.200	2.427.032	2.549.575	2.847.023	2.588.736	2.366.646	3.134.109	3.506.539	6.609.526	7.823.630	8.089.491	3.506.539	26.029.185
	Wages and compensations	1.212.293	1.240.960	1.297.876	1.269.115	1.318.214	1.335.639	1.394.749	1.145.443	1.342.365	1.354.769	3.751.129	3.922.968	3.882.557	1.354.769	12.911.423
	of which: Gross wages	986.429	1.006.704	1.024.321	1.025.275	1.054.303	1.021.455	986.198	947.952	1.090.117	1.029.918	3.017.454	3.101.033	3.024.267	1.029.918	10.172.673
	of which: Compensations	225.863	234.256	273.555	243.840	263.911	314.184	408.551	197.491	252.248	324.851	733.674	821.935	858.290	324.851	2.738.750
	Other taxes and contributions	119.786	122.838	124.306	128.140	130.002	129.965	127.625	115.485	136.112	128.201	366.931	388.108	379.222	128.201	1.262.461
	Purchases of goods and services	425.160	508.676	623.004	394.706	498.898	709.289	401.820	304.072	598.984	638.441	1.556.840	1.602.892	1.304.876	638.441	5.103.049
	Capital grants	170.377	209.064	547.555	632.593	600.059	672.124	654.251	801.646	1.056.648	1.385.127	926.996	1.904.775	2.512.545	1.385.127	6.729.443
	of which: Capital grants to other levels of government	12.691	18.279	138.385	269.491	142.962	171.002	246.095	143.178	92.289	508.320	169.354	583.455	481.562	508.320	1.742.691
	Other Grants	157.687	190.786	409.170	363.102	457.097	501.122	408.156	658.468	964.359	876.807	757.642	1.321.321	2.030.983	876.807	4.986.753
	Interest	2.704	2.467	2.459	2.478	2.403	6	10.291	0	0	0	7.630	4.887	10.291	0	22.808
22	Net lending*	454	-2.405	0	-1.317	-1.317	0	-3.017	-1.000	-21.000	-1.650	-1.952	-2.634	-25.017	-1.650	-31.253
3	Net acquisition of nonfinancial assets	260.469	12.233	28.995	35.198	155.785	104.534	73.548	143.954	896.063	1.030.004	301.698	295.517	1.113.565	1.030.004	2.740.783
4	Government surplus/deficit (1-2-3)	-375.824	-171.228	2.371.533	-1.122.189	1.657.393	363.712	984.608	1.206.109	420.761	-1.059.920	1.824.481	898.916	2.611.479	-1.059.920	4.274.955
5	Net financing **	-3.943	-3.943	0	0	0	0	0	0	-20.000	0	-7.886	0	-20.000	0	-27.886

Table 4. Monthly Consolidated Report

Central Bosnia Canton, I – X 2006. godine

		I	II	III	IV	V	VI	VII	VIII	IX	X	Q1	Q2	Q3	Q4	Total
1	Total revenues (11+12+13+14)	7.082.504	5.601.177	20.793.188	11.251.306	12.129.841	13.584.148	14.088.538	14.045.226	14.296.396	14.055.178	33.476.869	36.965.295	42.430.161	14.055.178	126.927.503
11	Tax revenues	5.823.072	3.777.297	18.754.133	9.503.229	10.691.159	11.123.786	11.655.802	12.326.831	11.840.719	12.103.518	28.354.501	31.318.174	35.823.352	12.103.518	107.599.545
	Income & profit tax	176.799	189.382	159.791	205.500	161.340	178.623	288.014	281.563	163.745	194.117	525.973	545.463	733.321	194.117	1.998.874
	Taxes on personal income and self-employment	810.804	1.070.566	845.189	1.192.663	1.249.113	1.064.353	1.009.189	1.290.019	1.202.875	1.249.397	2.726.559	3.506.129	3.502.082	1.249.397	10.984.168
	Property tax	276.798	265.811	353.594	245.748	509.634	376.047	404.249	518.124	306.793	377.270	896.202	1.131.430	1.229.166	377.270	3.634.068
	Sales tax (incl.excises) (according to Regulations until 31,12,2005)	4.517.222	2.199.844	1.027.521	775.231	752.752	693.514	748.245	269.242	503.075	355.475	7.744.587	2.221.498	1.520.562	355.475	11.842.122
	Transfers from Single Account	0	0	15.908.054	6.866.815	7.959.775	8.765.717	9.159.256	9.902.740	9.599.936	9.873.006	15.908.054	23.592.308	28.661.931	9.873.006	78.035.299
	Other taxes	41.448	51.694	459.984	217.271	58.544	45.531	46.850	65.144	64.295	54.253	553.126	321.346	176.289	54.253	1.105.015
12	Non-tax revenues	1.182.327	1.564.756	1.931.312	1.723.396	1.381.221	2.427.143	1.739.050	1.696.702	2.398.731	1.689.558	4.678.394	5.531.760	5.834.483	1.689.558	17.734.195
13	Grants	73.227	249.860	73.850	17.564	43.942	33.219	660.800	12.000	29.834	207.354	396.937	94.726	702.634	207.354	1.401.651
	of which: Grants from other levels of government	67.625	0	0	0	0	0	658.500	12.000	0	194.062	67.625	0	670.500	194.062	932.187
14	Other revenues	3.878	9.265	33.893	7.117	13.519	0	32.887	9.693	27.112	54.747	47.036	20.636	69.692	54.747	192.111
2	Total expenditures (21+22)	8.175.663	9.297.409	10.747.270	11.369.770	12.992.618	11.144.540	10.527.571	11.561.815	13.634.352	13.733.230	28.220.342	35.506.927	35.723.737	13.733.230	113.184.237
	Wages and compensations	5.325.897	5.636.367	6.398.157	7.388.453	8.019.114	6.569.797	5.858.286	6.005.212	6.525.827	7.176.472	17.360.421	21.977.364	18.389.326	7.176.472	64.903.583
	of which: Gross wages	4.296.812	4.461.655	5.073.835	6.262.411	5.084.558	5.167.453	5.082.514	4.944.567	5.288.182	5.166.137	13.832.302	16.514.421	15.315.264	5.166.137	50.828.124
	of which: Compensations	1.029.085	1.174.712	1.324.322	1.126.042	2.934.557	1.402.344	775.772	1.060.645	1.237.645	2.010.335	3.528.119	5.462.943	3.074.062	2.010.335	14.075.458
	Other taxes and contributions	501.729	530.479	609.570	748.800	602.436	624.048	615.813	579.792	648.237	624.390	1.641.779	1.975.284	1.843.842	624.390	6.085.295
	Purchases of goods and services	1.175.113	1.506.999	1.258.996	1.181.912	1.116.607	1.034.770	915.837	1.022.498	1.344.900	1.729.909	3.941.108	3.333.290	3.283.235	1.729.909	12.287.541
	Grants	1.118.975	1.525.678	2.352.424	1.944.113	3.151.474	2.750.255	3.059.349	3.765.432	4.932.513	4.077.052	4.997.076	7.845.842	11.757.294	4.077.052	28.677.264
	of which: grants to other levels of government	58.751	90.860	695.008	339.308	875.194	976.124	708.160	1.126.299	854.819	873.331	844.618	2.190.625	2.689.279	873.331	6.597.853
	Interest	5.624	47	13.004	138	18.648	300	8	26.630	13.795	12.762	18.675	19.087	40.433	12.762	90.957
	Transfers to lower budget units	48.325	97.839	115.119	106.354	84.338	165.369	78.277	162.251	169.080	112.645	261.284	356.061	409.608	112.645	1.139.598
3	Net acquisition of nonfinancial assets	19.788	-340.040	585.959	355.227	1.064.816	1.016.908	782.019	903.055	958.033	1.536.516	265.707	2.436.951	2.643.106	1.536.516	6.882.280
4	Government surplus/deficit (1-2-3)	-1.112.948	-3.356.192	9.459.960	-473.690	-1.927.593	1.422.700	2.778.949	1.580.356	-295.988	-1.214.568	4.990.819	-978.583	4.063.317	-1.214.568	6.860.985
5	Net financing **	-25.764	-651	-14.968	-18.416	-14.937	-16.539	-690	-28.348	-31.880	-63.650	-41.383	-49.892	-60.918	-63.650	-215.842

Table 5. Monthly Consolidated Report

Tuzla Canton, I – IX 2006

		I	II	III	IV	V	VI	VII	VIII	IX	Q1	Q2	Q3	Total
1	Total revenues	15.178.531	12.438.436	11.819.635	53.892.776	45.130.920	34.337.180	35.253.020	38.593.644	43.641.830	39.436.602	133.360.877	117.488.494	290.285.973
11	Tax revenues	12.508.362	8.562.735	6.572.383	47.002.464	39.455.445	28.462.098	29.289.704	30.669.592	36.301.549	27.643.480	114.920.007	96.260.844	238.824.332
	Income & profit tax	435.859	554.525	669.732	717.821	679.984	985.130	621.680	626.867	758.799	1.660.116	2.382.934	2.007.347	6.050.398
	Taxes on personal income and self-employment	2.237.678	2.257.538	2.413.105	2.528.782	2.636.834	2.680.117	2.825.199	2.779.309	5.659.256	6.908.320	7.845.732	11.263.763	26.017.816
	Property tax	733.417	600.188	736.950	829.376	827.462	842.838	1.309.091	1.121.661	1.103.172	2.070.555	2.499.676	3.533.924	8.104.155
	Sales tax (incl.excises)(according to Regulations until 31,12,2005)	7.447.212	5.111.557	2.655.847	2.606.310	3.158.602	3.167.716	2.294.683	1.910.577	4.916.023	15.214.616	8.932.628	9.121.283	33.268.528
	Transfers from Single Account	1.629.766	0	22.833	39.916.128	32.101.228	20.736.459	22.177.950	24.062.650	23.720.306	1.652.599	92.753.814	69.960.906	164.367.319
	Other taxes	24.430	38.928	73.916	404.048	51.335	49.838	61.101	168.527	143.993	137.274	505.221	373.621	1.016.116
12	Non-tax revenues	2.669.861	3.867.331	5.225.827	6.888.956	5.691.243	5.857.179	5.940.099	7.902.780	6.662.622	11.763.020	18.437.378	20.505.500	50.705.898
13	Grants	37	3.435	21.425	407	-15.768	5.732	1.014	2.822	653.608	24.897	-9.628	657.443	672.712
	of which: Grants from other levels of government	37	0	0	0	0	0	0	1.100	653.126	37	0	654.226	654.263
14	Other revenues	270	4.935	0	949	0	12.171	22.204	18.450	24.052	5.205	13.120	64.706	83.032
2	Total expenditures	19.051.202	20.487.593	22.112.385	23.565.687	25.560.192	31.625.309	27.757.257	27.499.438	31.353.505	61.651.180	80.751.188	86.610.200	229.012.569
21	Current expenditures	19.093.280	20.539.734	22.127.575	23.672.767	25.584.239	31.324.014	27.650.902	27.515.480	31.395.077	61.760.589	80.581.020	86.561.458	228.903.067
	Wages and compensations	12.679.162	12.608.910	14.048.209	13.492.221	13.870.229	16.745.740	15.762.216	13.737.173	15.827.606	39.336.280	44.108.190	45.326.996	128.771.466
	of which: Gross wages	10.677.775	10.414.128	11.660.446	11.115.881	11.315.167	11.361.376	12.162.481	11.914.135	13.125.154	32.752.349	33.792.425	37.201.770	103.746.544
	of which: Compensations	2.001.386	2.194.782	2.387.763	2.376.340	2.555.062	5.384.364	3.599.735	1.823.038	2.702.452	6.583.931	10.315.766	8.125.226	25.024.922
	Other taxes and contributions	1.278.052	1.246.232	1.390.041	1.320.191	1.347.034	1.358.806	1.446.264	1.421.139	1.557.869	3.914.326	4.026.031	4.425.272	12.365.629
	Purchases of goods and services	2.115.247	3.738.563	3.662.782	3.915.804	4.592.846	5.516.890	3.468.178	3.706.122	4.995.234	9.516.592	14.025.540	12.169.533	35.711.664
	Grants	2.903.158	2.689.558	2.796.759	4.541.640	5.343.228	7.282.354	6.492.263	8.133.327	8.460.976	8.389.475	17.167.222	23.086.566	48.643.263
	of which: Grants to other levels of government	85.773	567.546	285.093	241.384	434.167	565.551	926.193	1.472.359	1.942.442	938.413	1.241.102	4.340.994	6.520.509
	Interest	7.063	22.570	24.576	33.022	120.278	35.598	54.951	41.851	44.785	54.208	188.898	141.587	384.693
	Transfers to lower levels	110.597	233.902	205.209	369.889	310.624	384.626	427.030	475.868	508.607	549.708	1.065.139	1.411.505	3.026.352
22	Net lending*	-42.077	-52.141	-15.190	-107.079	-24.047	301.295	106.355	-16.041	-41.572	-109.409	170.169	48.742	109.502
3	Net acquisition of nonfinancial assets	278.505	433.294	866.163	876.397	1.201.005	1.547.949	1.096.075	1.692.694	2.401.777	1.577.962	3.625.352	5.190.546	10.393.860
4	Government surplus/deficit	-4.151.177	-8.482.451	-11.158.913	29.450.692	18.369.723	1.163.922	6.399.688	9.401.511	9.886.549	-23.792.540	48.984.337	25.687.747	50.879.544
5	Net financing **	-46.544	-76.027	-57.744	-147.555	-113.808	-116.819	-133.126	-161.256	-150.475	-180.315	-378.182	-444.858	-1.003.355

Table 6. Monthly Consolidated Report

From the work of the Governing Board of ITA

(Prepared by: Šerifa Mujčić, Milan Kuridža)

I News from the work of the ITA Governing Board

Mandate of Mr. Peter Nicholl, the chairman of the ITA Governing Board, has been extended.

High representative for BiH issued the decision on December 19th, 2006, extending a mandate of Mr. Peter Nicholl, the chairman of the Governing Board, until May 31st, 2007. The decision says that the mandate of the chairman of the ITA Governing Board will cease earlier if the Council of Ministers appoints chairman of the Governing Board after March 31st, 2007.

Three sessions of the ITA Governing Board

71st session

At 71st session of the Governing Board that took place on December 5th, 2006, in Sarajevo, there 12 items on the agenda:

- Reports from working groups
- Allocation of revenues including reconciliation
- Proposal of the ITA budget for 2007
- First draft of the strategic plan for 2007
- Decision on initiating procedure for public procurement for independent audit in 2006
- Changes and amendments of the Rulebook on application of the VAT Law
- Rulebook on single registry of taxpayers for indirect taxes
- Decision on customs tariff for 2007
- Decision on border crossing point Gradiska
- Decision on establishment of working group for change of the decision on amount of fees for use of customs terminals
- Request for destroying old tax stamps
- Information related to the decision on amending decision on entitlement to payment exempt from customs duties for goods used for projects of reconstruction

The Governing Board discussed about reports from working groups, allocation of revenues and reconciliation of revenues from indirect taxes, proposal of the budget for ITA in 2007, draft of the strategic plan of the Governing Board for 2007, decision on initiating procedure of public procurement for independent audit, rulebook on changes and amendments of the rulebook on application of VAT law, rulebook on single registry of taxpayers for indirect taxes, joint proposal of customs tariff for 2007, way of financing construction of border crossing point Gradiska, chairman of the working group for change of the decision on amount of fees for use of customs terminals.

General documents adopted at this session (Rulebook on single registry of taxpayers for indirect taxes and Rulebook on changes and amendments of the Law on value added tax) have not been published yet in the "BiH Official Gazette".

72nd session

At 72nd session of the Governing Board (special session) that took place on December 15th, 2006, in Sarajevo, the agenda contained allocation of revenues from indirect taxes with principles of temporary and permanent reconciliation. The session ended with no result.

73rd session

At 73rd session of the Governing Board (December 22nd, 2006) after getting written agreement of members, the Governing Board made decision on:

- Interim coefficients for December 2006 and January 2007 based on share of entities and District in final consumption stated in VAT declarations for September 2006 (based on: ITA data for September 2006, on December 7th, 2006,
- Reconciliation coefficients for the first nine months of 2006 according to ITA data on December 7th, 2006,
- Final reconciliation for 2006 that should be done in March 2007 after controls and audit.

II Method for decision making of the ITA Governing Board

We will use this opportunity to clarify specific method of decision making of Governing Board members, which is a combination of absolute (simple-over ½ half) majority and special way of absolute majority in making important decisions.

Governing Board has specific way of decision making. There is consensus as way of decision making of the Governing Board. Consensus is foreseen as "preferable" way of decision making. In case consensus is not reached, decisions are made in the following way:

- For decision on introduction of export and import duties or changes of such duties, decisions are made by simple majority with mandatory vote from minister of finance and treasury of BiH,
- For decision on other indirect taxes (including rates and structure of these taxes, exempts and changes of tax rates and structures), decisions are made by simple majority of votes with mandatory vote from ministers of finance from F BiH and RS,
- For decisions on allocation of revenues from indirect taxes, decisions are made by simple majority including votes from Governing Board experts,
- During the chair time of the first chairman, decisions on other issues can be made by the first chairman of the Governing Board.
- before the mandate of first chairman expires, Governing Board makes decision on mechanism for making decisions on "other issues" including procedure for deadlock breaking in making key decisions.

Activities of the Unit...**December 18th, 2006**

As part of regular IMF's visit to Bosnia and Herzegovina in regards to the consultations about the Article IV, Mr. Graham Slack, IMF resident representative in BiH and IMF experts talked to the Unit staff about activities on establishment and development of the system for monthly reporting of all levels of the administration, and problems that the Unit has. It was emphasized that there is a need to ensure regular and timely delivery of monthly reports to the Unit in order to monitor consolidated revenues and expenditures of general and central governments in BiH and to have coordination with the Central bank with the aim to establish for collection of statistical data on government finances which should be in accordance with IMF standards (GFS) and reporting needs of different institutions (Central Bank, Fiscal Council etc.) or other levels of administration. There was also a discussion about revenue projections for indirect taxes with special focus on VAT as well as a need to engage the Unit to include data on foreign financed projects as they have impact on total fiscal balance of BiH.