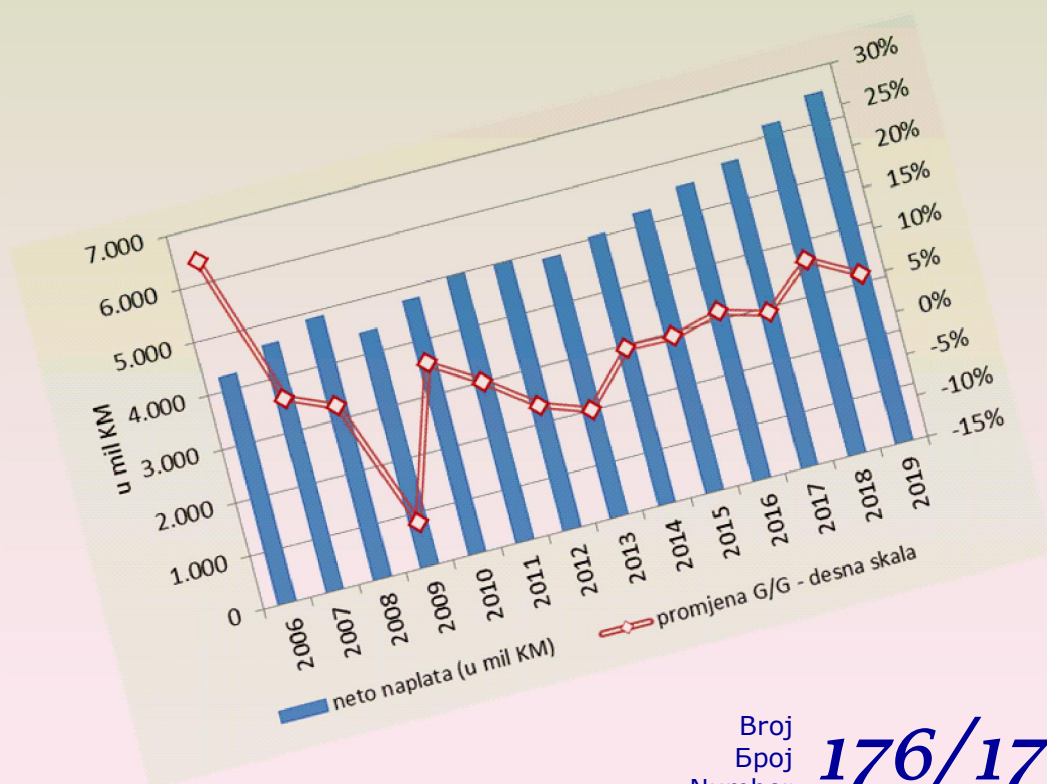




Macroeconomic Unit of the Governing Board of the Indirect Taxation Authority

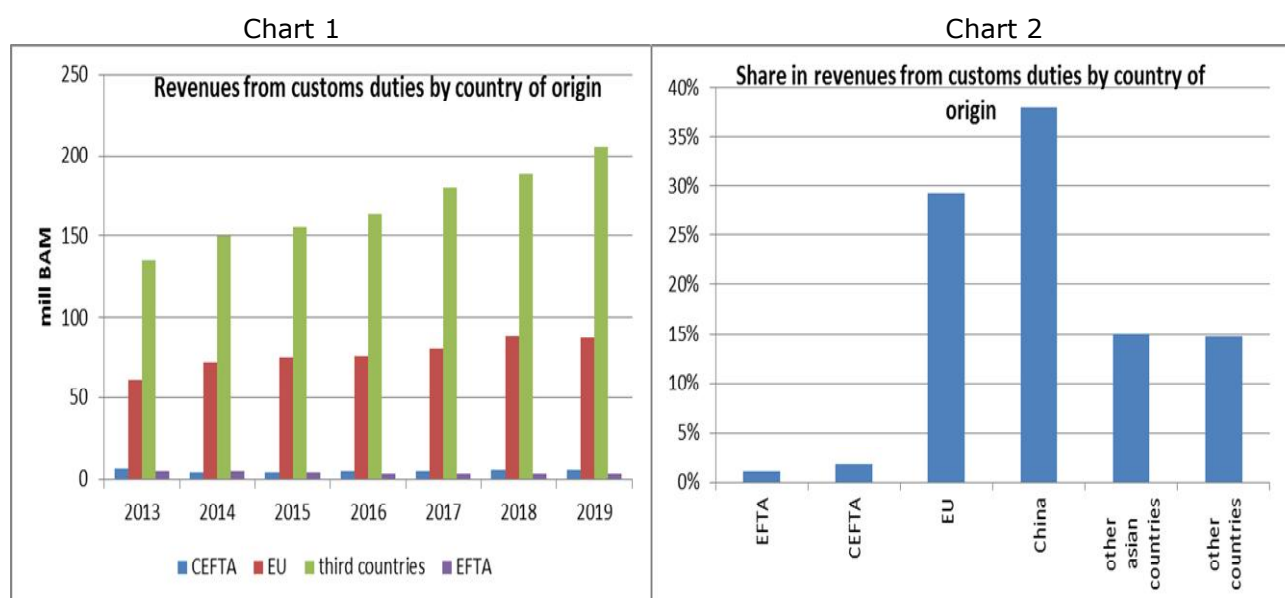
ОМЈА Билтен



Broj
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In focus ...

In January 2020, the positive trend in the collection of customs revenues from December 2019 continued. According to the ITA preliminary report, the increase in collection of customs revenues was 2%. Although customs revenues have lost the significance they had in the past for financing the budgets of all levels of government (in 2006 the share of customs revenue in indirect tax revenues was 13% while in 2019 only 4,6%), they have continued to be a significant source of revenue for fiscal consolidation of governments in B&H, and therefore any serious decrease could lead to budget destabilization.



Customs duties are levied on imports of goods from third countries and on a limited range of goods from the EU/CEFTA/EFTA. Chart 1 shows the growing trend in customs revenues on imports of goods from third countries, the most important partner being China (Chart 2). The importance of Asian origin goods for customs duties is also indicated by the fact that customs revenue on imports of goods from China and other Asian countries exceeds 53% of customs collected in 2019. The appearance of a coronavirus epidemic, whose magnitude is not yet in sight (predictable), is seriously hindering business cooperation of the world, including B&H, with Asian countries. Given the high growth of imports from China and Asian countries in December 2019 of 13%, it can be assumed that these were multi-month purchases, and that negative effects of coronavirus on the trade with Asian countries, and thus on the collection of customs revenues in B&H, can be expected in next months unless the virus is brought under control by then.

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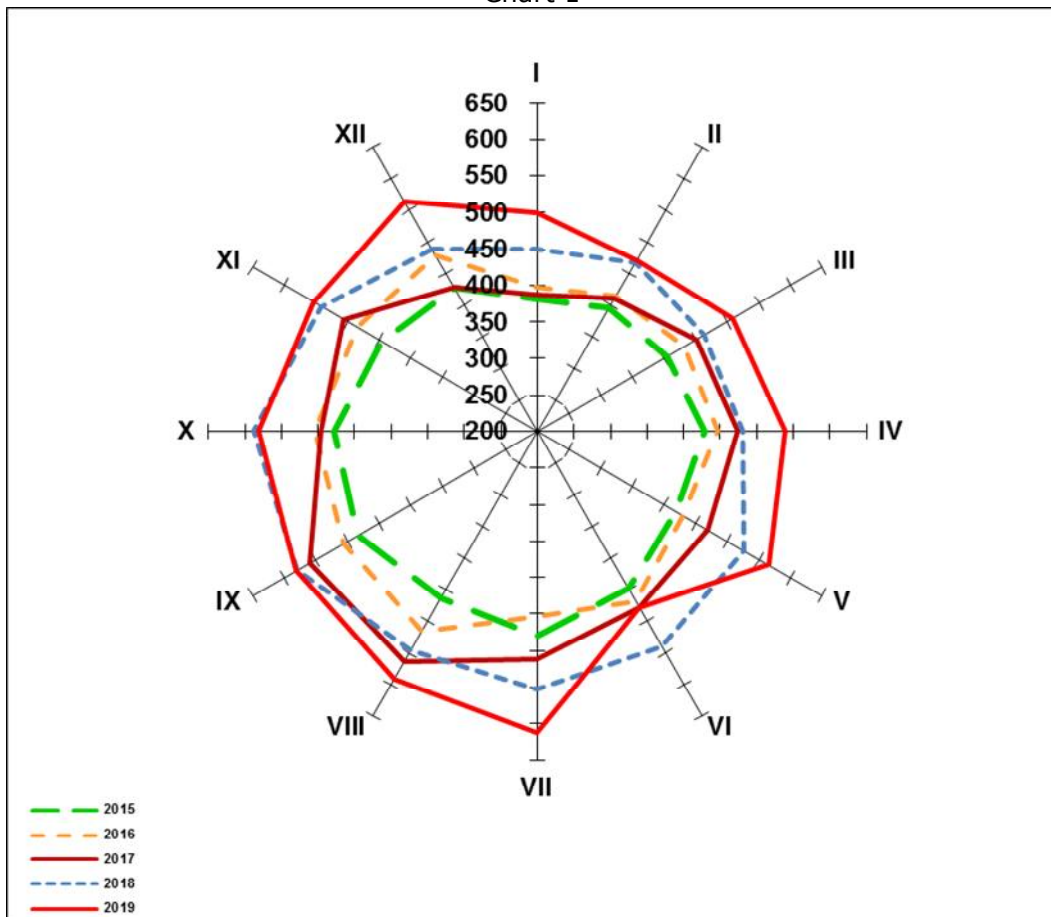
Collection of indirect tax revenues in 2019

(Prepared by: Dinka Antić, PhD)

TOTAL COLLECTION

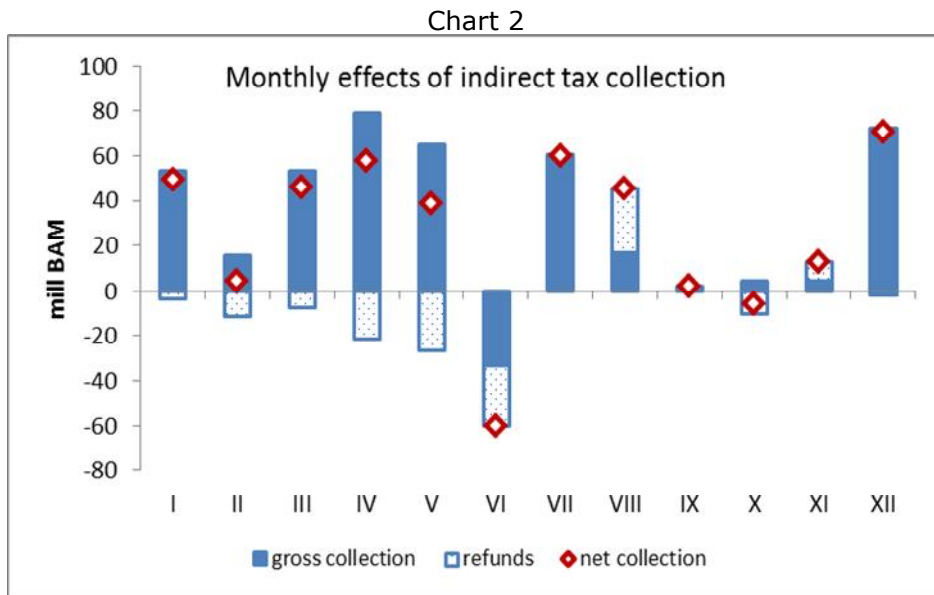
In 2019, net collection of indirect taxes increased by 321,1 million BAM, or 5,2% compared to 2018. Observation of the revenue collection pattern in 2019 shows a noticeable improvement over the previous two years (Chart 1). The second conclusion drawn is a partial return to the traditional revenue collection pattern, characterized by lower revenue collection in the first quarter, and an increase in consumption and thus in indirect tax revenues in the summer months and in pre-holiday period at the end of the year. Unlike in 2019, there have been significant discrepancies from this pattern over the last few years, with higher growth rates in the first quarter and declining revenues at the end of the year.

Chart 1

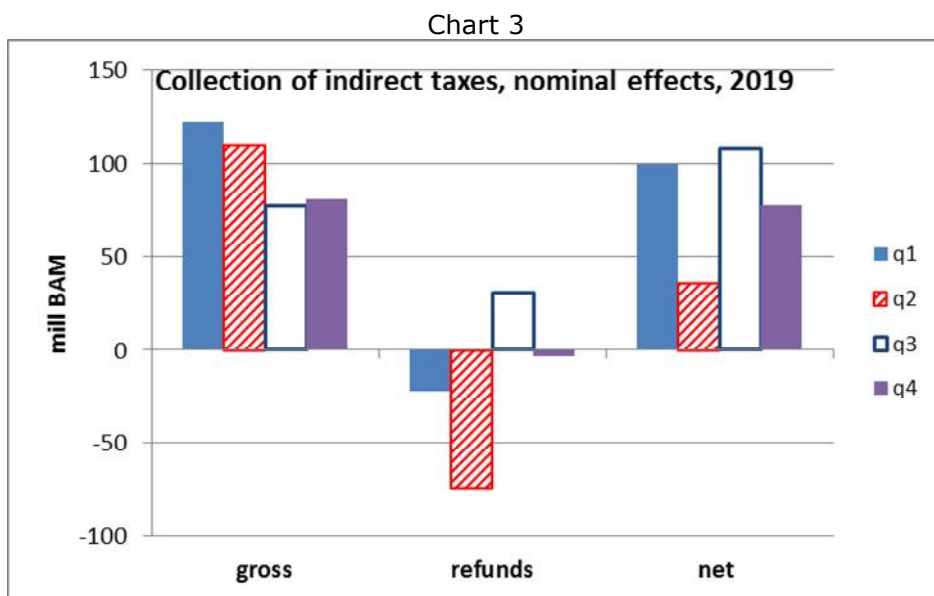


Monthly effects of the dynamics of inflows and outflows from the Single Account in 2019 (Chart 2) show that gross revenue collection fluctuated, but was continuously in a positive growth zone, except in June, when revenues fell. There was also a noticeable polarization in the pattern of refunds, characterized by an increase in payments in the first part of the year and a decrease in payments in the second part of the year. As a result of the above trends in gross collection of revenues and refund payments, positive growth rates of net collection were achieved in all months

except June and October, with strongly pronounced fluctuations of net effects, ranging from -60 million BAM in June to +76 million KM in December.



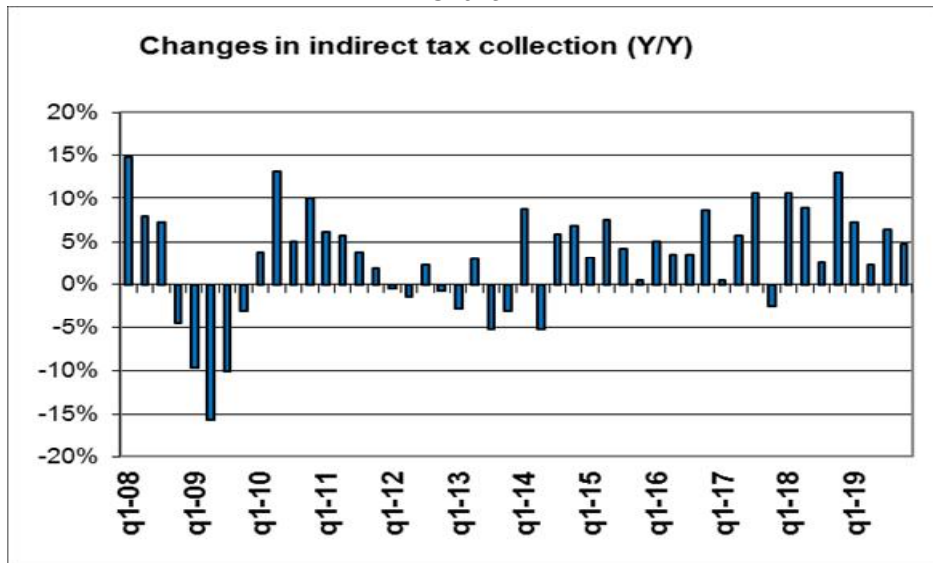
An overview of quarterly nominal revenue collection effects shows a slowdown in the growth of gross collection in the second half of 2019, as well as fluctuations in refund payments, with high outflows in the second quarter and positive effects in the second part of the year (Chart 3). On the other hand, the largest nominal effects of net revenue collection were recorded in the third quarter. This indicates the increasing importance of the non-resident's seasonal consumption on the collection of indirect tax revenues in B&H.



The quarterly analysis of indirect tax revenue collection shows that positive trends in indirect tax collection have been ongoing for five and a half years, with the exception of the fourth quarter of 2017, which was not a consequence of a fall in gross collection but a prolongation of refund payments from the third quarter to the fourth (Chart 4). Growth rates are lower than in 2018, as

expected, given that revenue collection in 2018 included the effects of an increase in the rate of earmarked road tax.

Chart 4

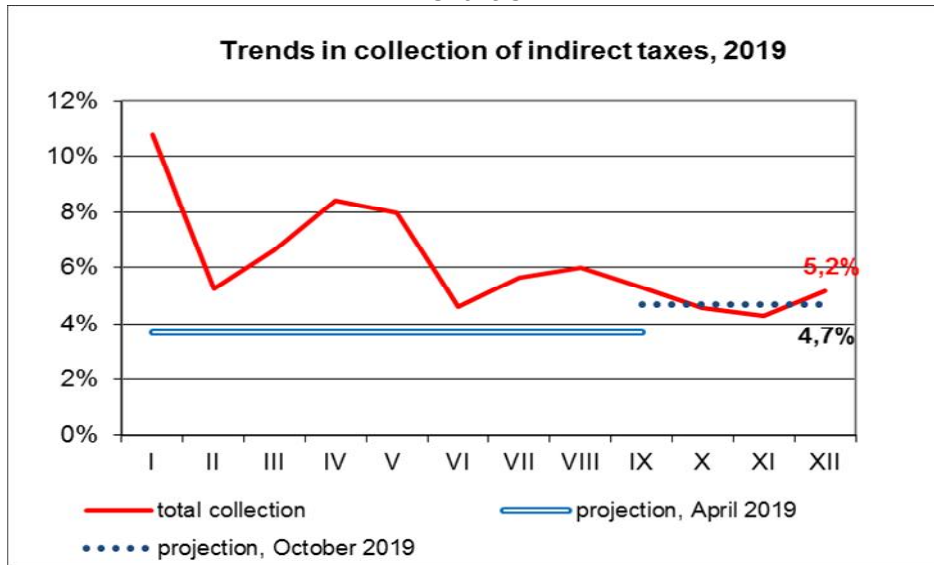


In 2019 the highest growth rate was recorded in the first quarter, amounting 7,2% (Chart 4). It can be concluded from the trend of collection data that the growth rate of revenues in the first quarter of 2019 was higher than in the remaining quarters. It should be emphasized that the revenue collection in the first quarter also includes the effects of changes to the Law on Excise Duties. As the changes to the Law apply from February 1st, 2018, the month of January 2019 also contains the effects of increased road tax rate. In the structure of achieved growth of indirect tax revenues in the first quarter of 2019, these effects contributed with 1,4 percentage points, and at the whole year level with 0,3 percentage points of the annual growth rate of net collection. In addition, the high growth rate in the first quarter of 2019 was partly influenced by the growth in consumption, which contributed to the increase in domestic VAT. Second, tobacco industry has borne a part of the additional tax burden at the expense of its own profit, in order to more easily amortize the impact of the rise of specific excise duty on retail cigarette prices, which ultimately resulted in an increase in excise revenues on tobacco products. Third, the consumption of derivatives stabilized and then increased after the last correction of the tax rates on oil derivatives as of February 1st, 2018. In the second quarter of 2019, a growth rate of 2,3% was achieved, representing the lowest quarterly growth in 2019. The low growth rate was a consequence of a strong fall in revenues in June 2019, primarily VAT. The impact of poor VAT collection was partly mitigated by the increase in excise tax revenues on tobacco products, as a consequence of delaying the shift of the additional tax burden to retail prices in the second quarter as well, and the announcement of a correction of cigarette prices in July. In the third quarter, revenue grew by 6,4%. The acceleration of the increase in collection was the result of a strong increase in the collection of VAT revenues due to the cumulative positive effect of the growth of gross VAT and the slowdown of refund payments, as well as the collection of excises on tobacco due to the growth of seasonal consumption (non-residents, diaspora). The end of the third and first two months of the fourth quarter of 2019 brought the stagnation in revenue collection due to lower collection of gross VAT and excises. However, strong collection of VAT revenues and excises on tobacco products in December produced high net effects and ultimately a quarterly growth of 4,8%.

The cumulative collection in 2019 was 0,5 percentage points above the revised October projections (Chart 5), or by 29,3 million BAM in nominal terms. One of the assumptions of the revised projections was keeping the same level of cigarette prices in 2020, after completing the

process of harmonizing the excise duty on cigarettes with the EU minimum excise duty in 2019, at the level of 2019. However, the announcement of increasing the retail prices as of January 1st, 2020 was the trigger for cigarette stockpiling at distributors before the end of the year, in anticipation of the increase in consumption. As excise duties on cigarettes are paid *ex ante*, before consumption, the effects of the announcement of increasing the retail prices in 2020 on excise revenues have spilled over from 2020 to 2019. Therefore, it can be concluded that **the main factor in faster growth of indirect tax revenues compared to the revised projections was the increase in collection of excises on tobacco products in December 2019.**

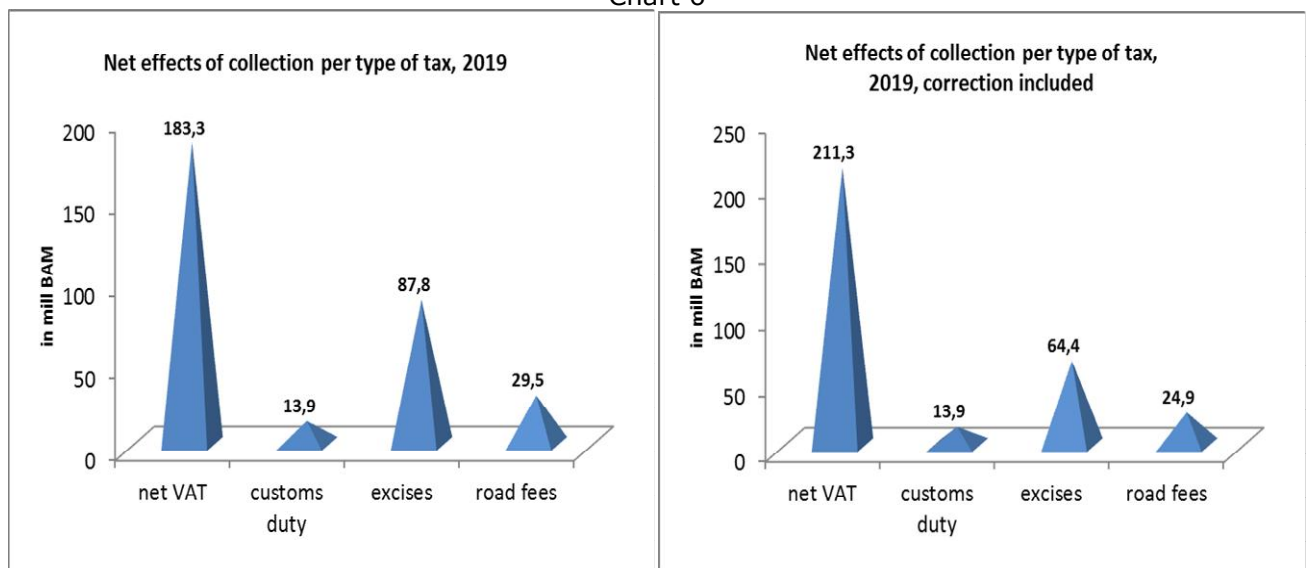
Chart 5



TRENDS BY TYPE OF REVENUE

According to the ITA report, the largest positive net effects in 2019 were realized in the collection of VAT (183,3 million BAM), excises (87,8 million BAM), road taxes (29,5 million BAM) and customs (13,9 million BAM) - (Chart 6, left side).

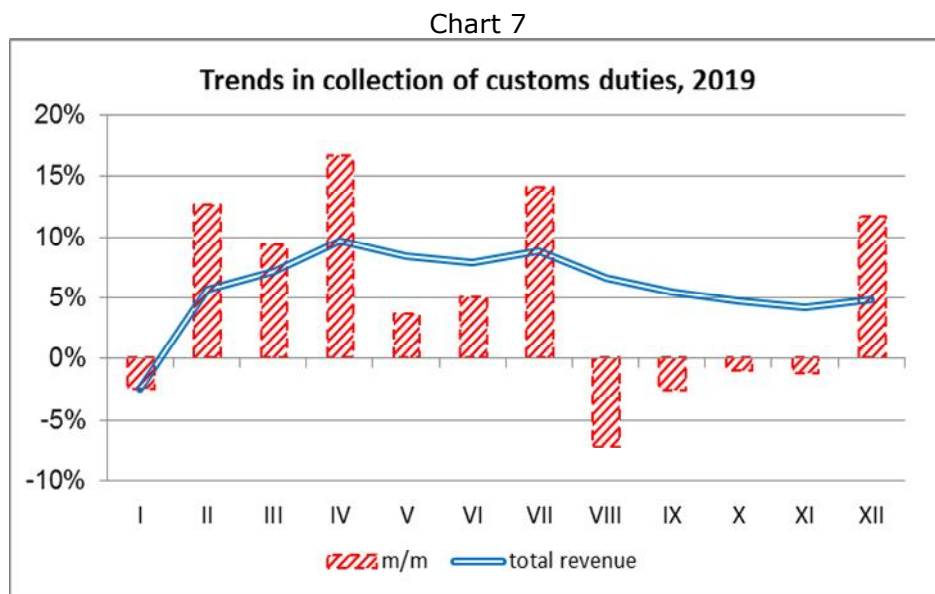
Chart 6



However, due to the large amount of offsetting the excise duties on oil derivatives and road taxes with the VAT claims (tax credit) in 2018, there were significant deviations in the structure of collected revenues compared to the one presented in the ITA net cash report. In 2018, excise / road tax collection was unjustifiably reduced, while, on the other hand, VAT collection was unjustifiably increased by the amount of revenue that, instead of being paid as a refund, was used for settlement the taxpayer's future obligations. In 2019, it was the other way around. Due to the lower statistical base, the growth rates of excises on oil derivatives were overestimated, and because of the higher statistical base the VAT growth rates were underestimated. After adjusting the revenue for the offset amount, the nominal positive effects in the collection of VAT amounted to 211,3 million BAM (see Chart 6, right side), while the excises recorded a *de facto* increase in revenue of 64,2 million BAM. Minor downward adjustments were also made on road tax revenues (see Chart 6, right side).

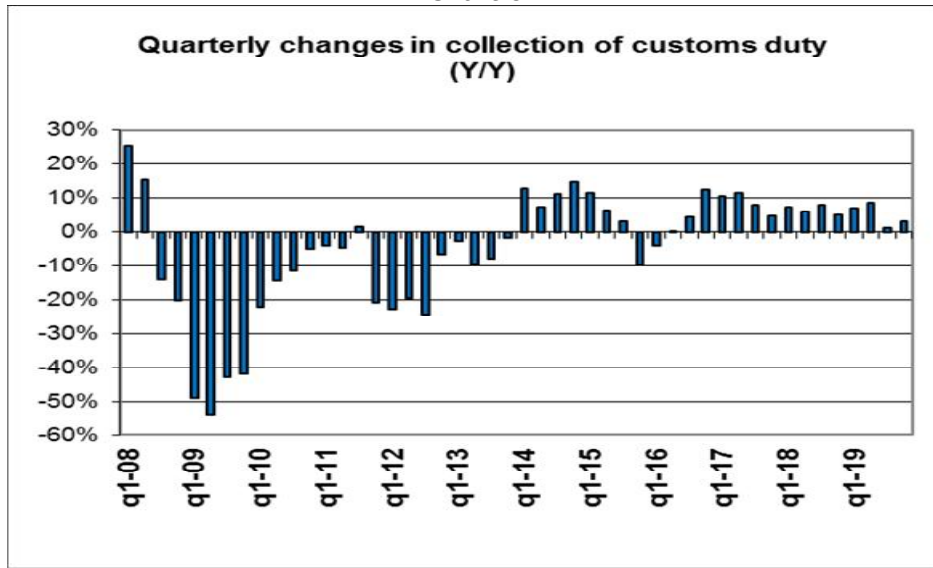
Customs

The collection of customs revenue in 2019 had a continuous positive trend for seven months, while for the next four months it was in the negative growth zone (Chart 7, "m/m"). In December, there was a strong increase in customs revenue of 11,7%, leading to a recovery in total collection, so the year 2019 ended with a growth rate of 4,9% (Chart 7, "cumulative").



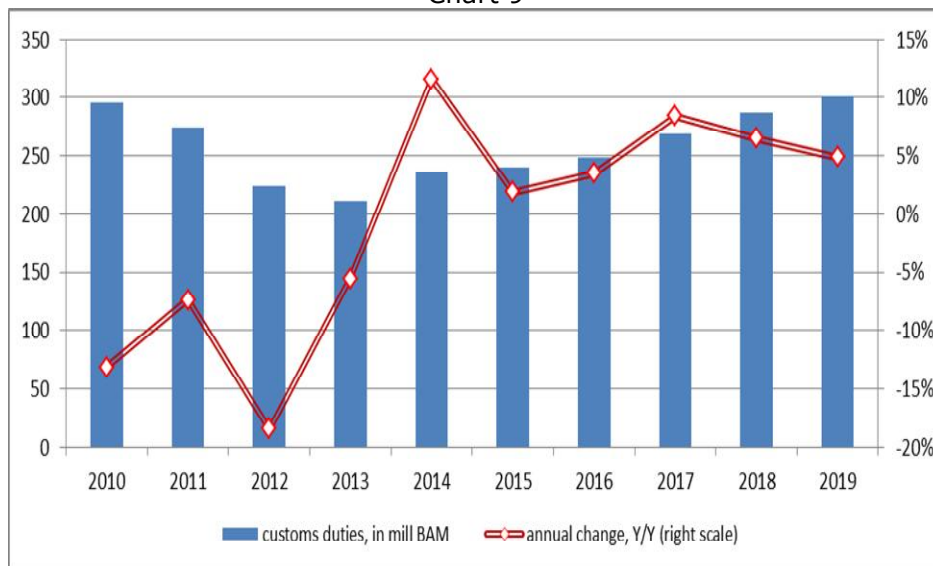
An overview of quarterly trends (Chart 8) shows a steady increase in customs revenue since 2016, with a slowdown in the last two quarters of 2019. Revenue growth of 7,1% was achieved in the first quarter and 8,5% in the second quarter. Due to poorer collection in the second part of the year, lower growth rates of customs revenues were recorded in the third and fourth quarters of 1,3% and 3,1% respectively (Chart 8).

Chart 8



A review of the annual collection of customs revenues shows a continuous nominal increase in revenues after ending the five-year period of reduction and abolition of customs duties on most of the imports of goods from the EU. The adaptation of the SAA in 2017 did not lead to a loss of customs revenue but, on the contrary, brought a strong growth, which has also continued in 2019 (Chart 9). However, the slowdown in the growth rate over the last two years indicates the changes in the factors that determine customs collection (size of imports and structure by country of origin, trends in the B&H economy, investment, etc.).

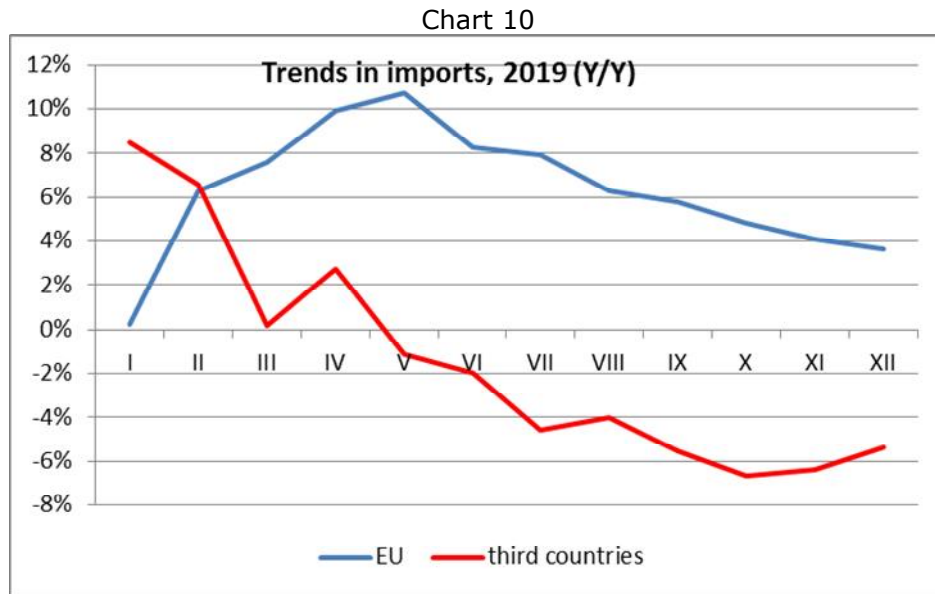
Chart 9



Having in mind that most of the imports of goods in B&H have already been liberalized, a limited number of goods from the EU and imports from third countries are under the customs regime. According to data of the B&H Agency for Statistics,¹ imports of goods originating in the EU increased by 3,6% in 2019 (Chart 10). In the same period, imports from third countries fell by

¹ "B&H foreign trade in goods statistics", December 2019; www.bhas.gov.ba
 Banja Luka: Bana Lazarevića, 78 000 Banja Luka, Tel/fax: +387 51 335 350, E-mail: oma@uino.gov.ba
 Sarajevo: Zmaja od Bosne 47b, 71 000 Sarajevo, Tel:+387 33 246 081, Fax:+387 033 246 080, Web: www.oma.uino.gov.ba

5,4% (Chart 10). It can be concluded that the lower growth in customs revenue has occurred due to a slowdown in B&H's economy, which led to lower imports, both for investment and for consumption of goods from third countries, despite the fact that imports of goods from China in 2019 increased by 8,2%. The reason for the slowdown in imports from third countries is the decline in imports from Russia, which was halved in comparison with 2018.

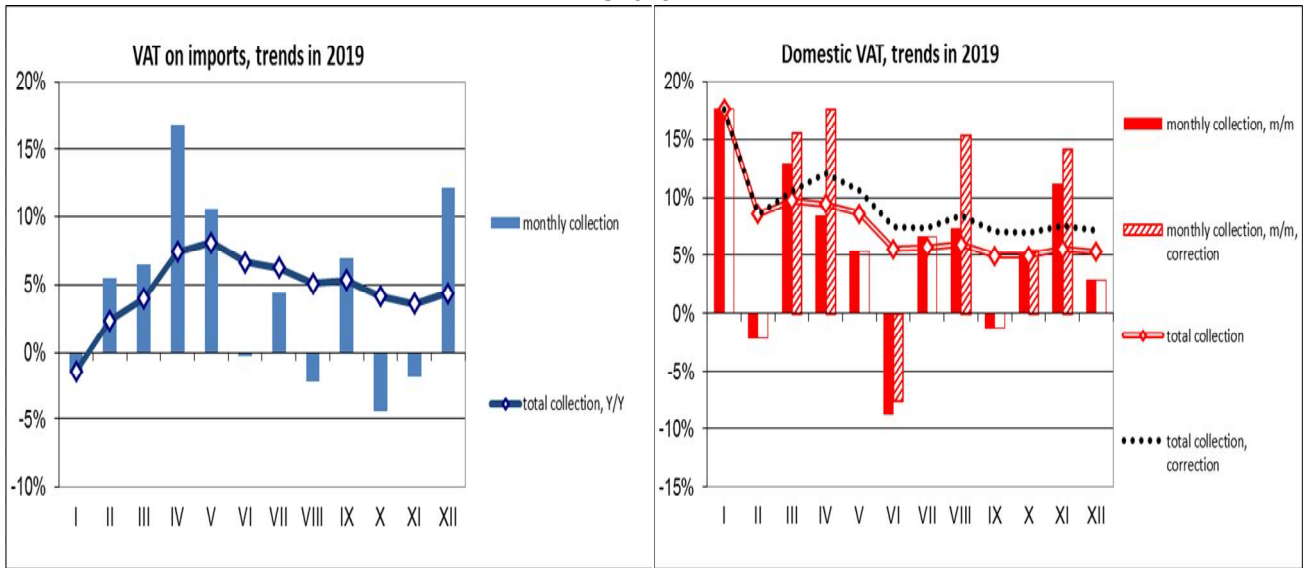


VAT

Gross VAT

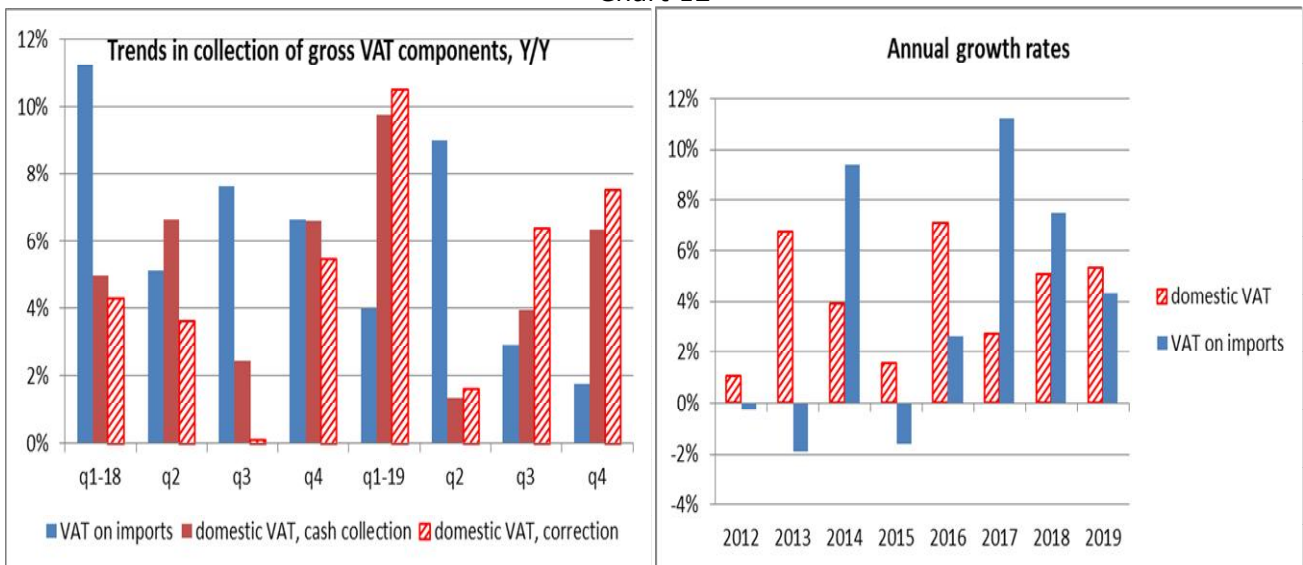
In 2019, gross VAT collection grew at a rate of 4,7%. After a long period of oscillatory trend, in December, the collection of VAT on imports increased by 12,2% compared with the same month of 2018, which increased its cumulative growth rate to 4,4% (Chart 11, left side). On the other hand, domestic VAT collection in December 2019 was higher by 2,9% than in the same month in 2018, which slowed the cumulative growth rate to 5,3% (Chart 11, right side). Since the statistical basis for comparison of the domestic VAT has been overestimated due to the usage of VAT credits for the payment of excise duties on oil derivatives, it was necessary to exclude the offset amount from the 2018 base. After correction, the cumulative growth rate of domestic VAT in 2019 amounted 7,2% (Chart 11, right side, line ●●●●).

Chart 11



Quarterly comparisons show a significant slowdown in the growth of domestic VAT collection caused by a decrease in imports, as well as a gradual increase in the collection of domestic VAT, which can be linked to the growth of domestic and non-resident consumption, especially in the third quarter (Chart 12, left side). The corrections in the 2018 statistical base for the offset amount of revenue increases quarterly growth rate of domestic VAT.

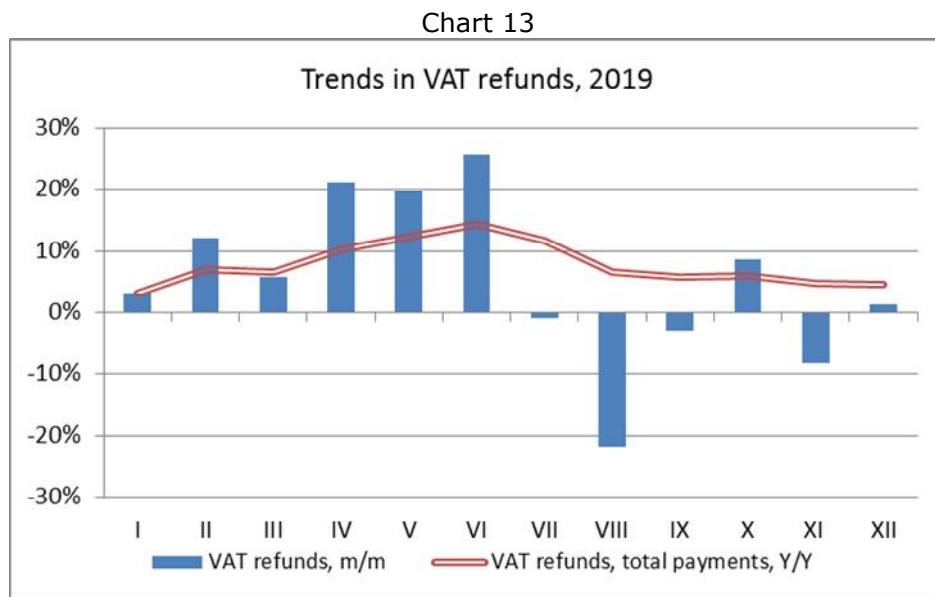
Chart 12



Comparisons of annual growth rates of gross VAT components (Chart 12, right side) indicate that, after fluctuations in previous years and a high growth rate in 2017, the growth rate of VAT on imports slows down in line with the slowdown in imports. On the other hand, domestic VAT collection is more stable, with positive growth rates all over the observed period. It should be borne in mind that the growth rate of domestic VAT due to offsetting excise duties on oil derivatives was overvalued in 2018 and undervalued in 2019. After adjustments, the growth rate of domestic VAT in 2018 amounted 3,2%, while in 2019 it reached 7,2%.

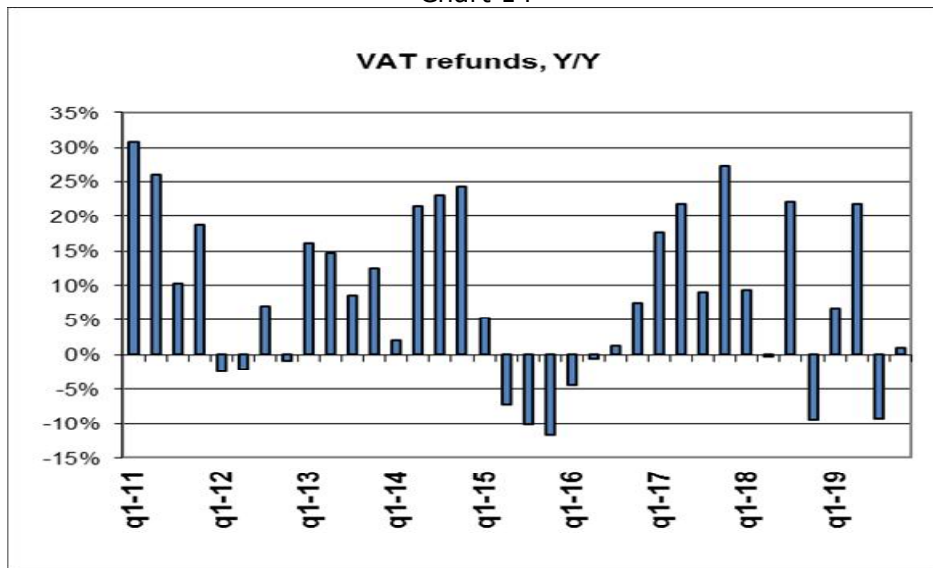
VAT refunds

High VAT refund payments have been an important characteristic of the collection of indirect tax revenues in previous years. Data on refunds in 2019 indicate the opposite trend in two halves of the year, with the first half of the year characterized by increases in the refund payments from month to month, while in the second half occurred their sharp decline, which led to a decrease in the cumulative rate of refund growth from 14,4% at the level of six months, to only 4,5% (Chart 13, line „total payments“). In these circumstances, monthly growth rates fluctuated strongly, from -22% to + 25,5%. The stabilization and, subsequently, the decline in the refund payments can be associated with the fall in imports and exports, especially in the second half of the year, when „Aluminij“, as a major exporter, stopped to exist.



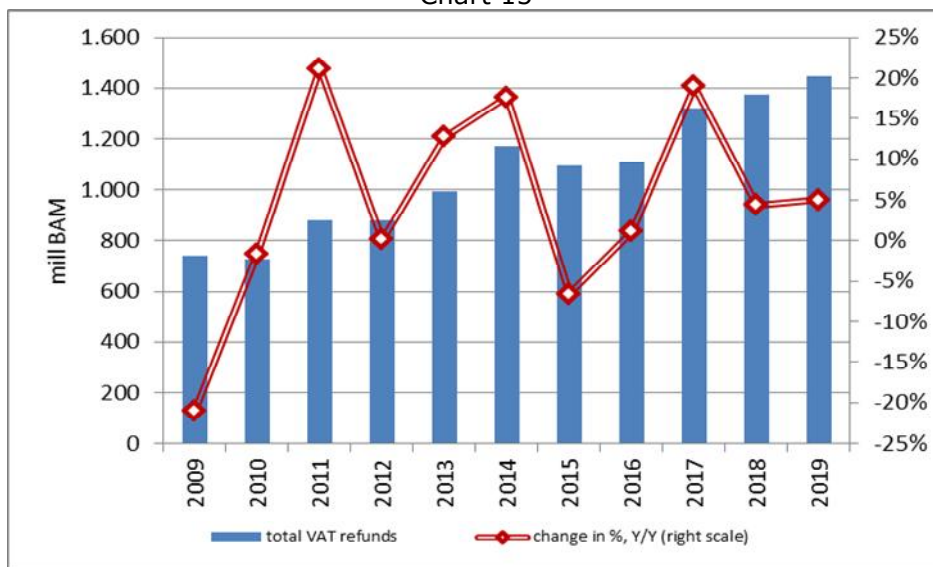
The quarterly review of VAT refund payments even more highlights the fluctuations described above, which had also been partly characteristic for 2018, after many years with a steady upward trend. In the first quarter an increase of 6,7% was recorded, in the second as much as 22,9%, followed by a fall in the third quarter of 9,2% and a modest increase in the fourth quarter of 1% (Chart 14).

Chart 14



The annual review of VAT refund payments shows a continuation of the slowdown trend in nominal payments, which has begun in 2018 (Chart 15).

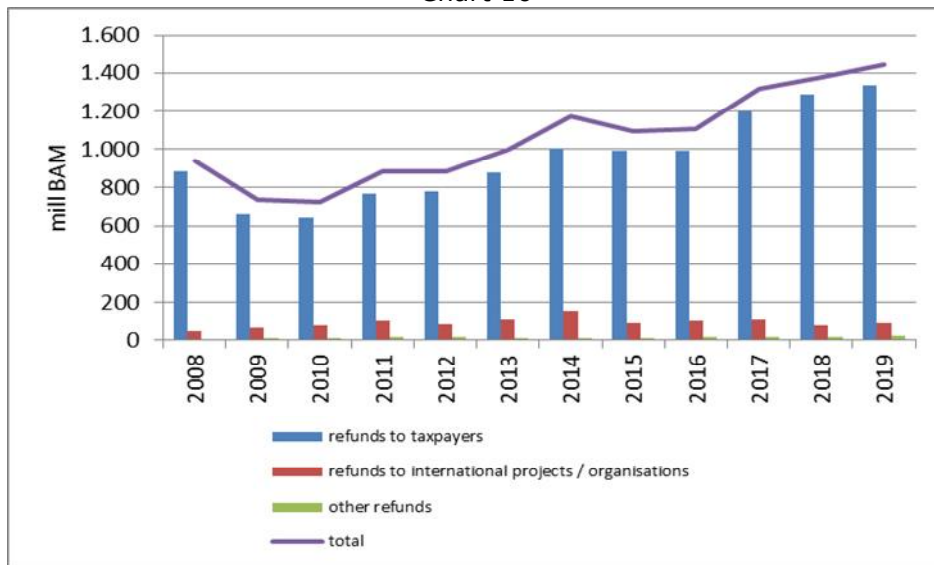
Chart 15



The average annual allocation of VAT refunds in 2019 was 26,1%, which is 0,1 percentage point less than in 2018, or 0,6 percentage points less than in 2017, when the historical maximum was reached (Table 4). The share of VAT refunds to taxpayers is lower by 0,1 p.p., while the share of refunds to international projects is higher by 0,2 p.p. compared to 2018.

VAT refund analysis shows that the taxpayers were paid 49,3 million BAM more in 2019 than in 2018. On the other hand, VAT refunds to international projects were higher by 12,2 million BAM compared to 2018, which points to the resurgence of investment in infrastructure and other projects funded by international financial institutions.

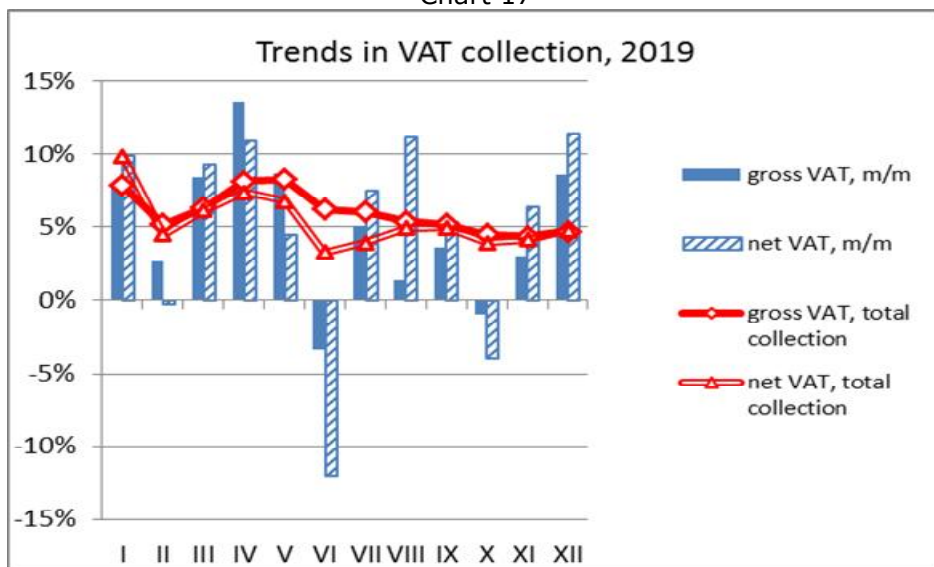
Chart 16



Net VAT

The rise in gross collection with a slower growth in refunds represented a double positive growth factor in net VAT. Net VAT growth of 4,87% was recorded at the annual level (Chart 17). Analysis of monthly VAT collection shows a positive trend all over the year 2019, with the exception of June and October. In December, a high growth of 11,6% was recorded, which brought even 1 percentage point of the annual growth in net VAT.

Chart 17



Monthly collection is characterized by strong oscillations, as a consequence of fluctuations in gross collection and refunds. The maximum monthly net effect was 36 million BAM in August, while the largest negative effect was 40 million BAM in June 2019 (Chart 18).

Chart 18

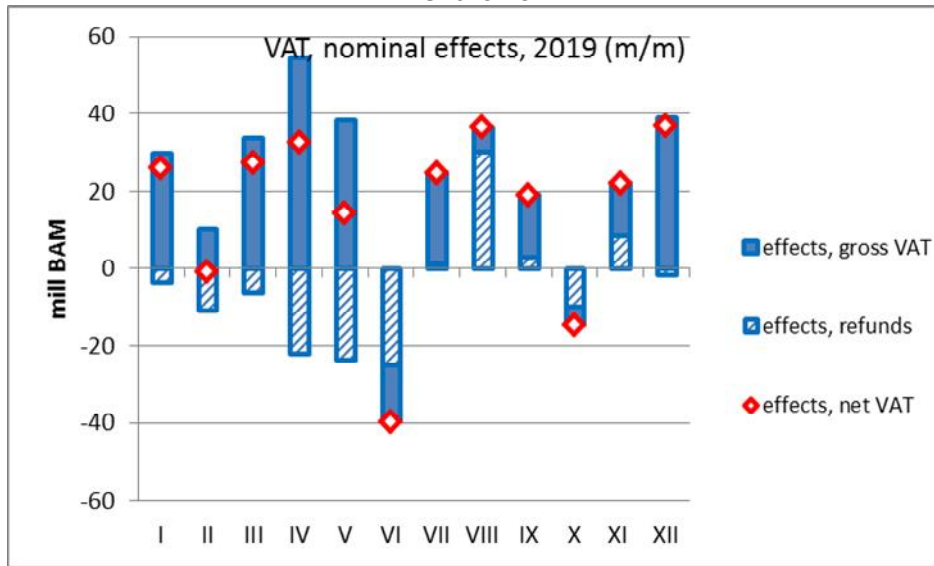
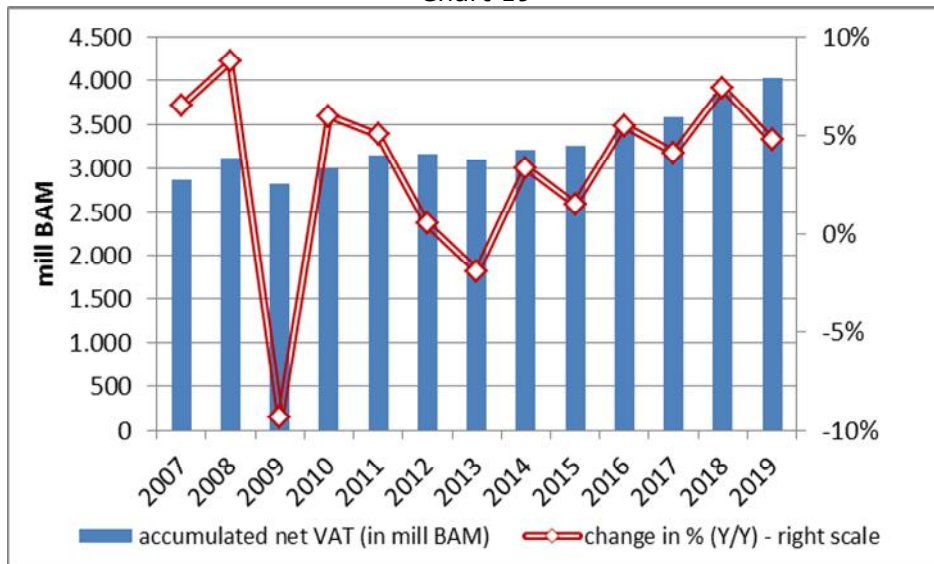


Chart 19

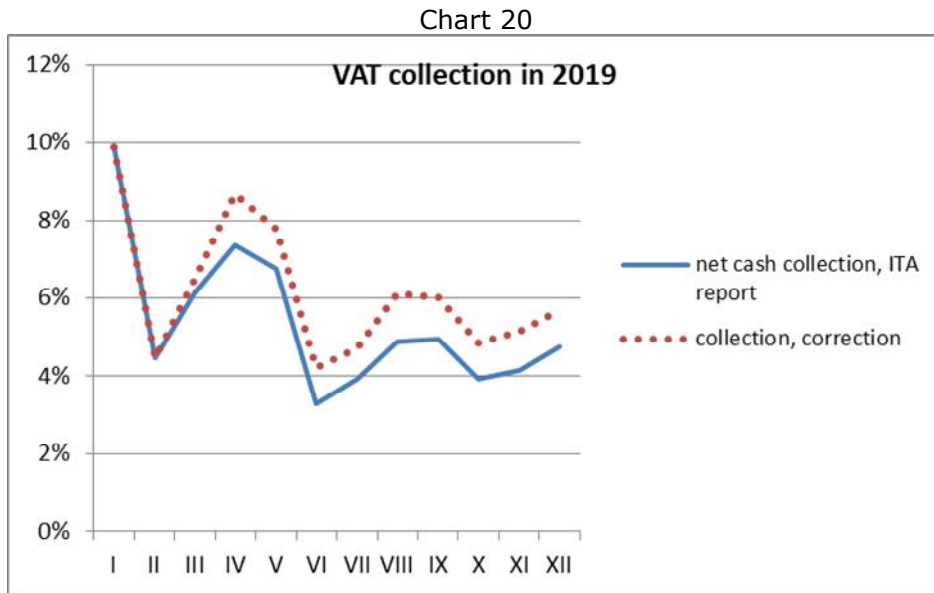


In nominal terms, the ITA collected a record amount of net VAT in 2019 (Chart 19). It should be borne in mind that the net VAT growth rate is still above consumption growth, which indicates that there are other factors affecting VAT collection, that are not included in consumption statistics and thus in consumption projections. One of the growth factors has been the considerable growth in investment in fixed assets over the last three years,² such as housing construction, which has in recent years been driven largely by the payment of old foreign currency savings.³ Furthermore, an important factor for collecting VAT in 2019 was the efficiency of collection and modernization of VAT administration (introduction of electronic tax return), which enabled more efficient implementation of controls.

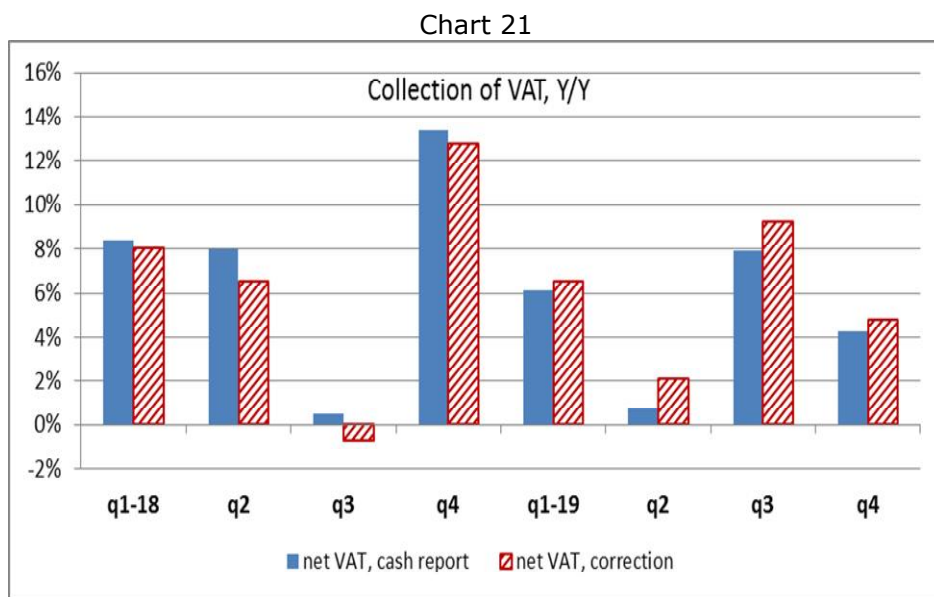
² According to the Agency for Statistics of B&H, gross fixed capital formation (GFCF) increased by 9% and 21,6% in 2017 and 2018, respectively.

³ It is about the old foreign currency savings from Ljubljanska Banka (*Ljubljana Bank*), whose payment with the interest began at the end of 2016.

It should be borne in mind that the above growth rate is resulted from the ITA's net cash report. As a significant part of the domestic excise duty on oil derivatives and road taxes in 2018 was paid from the VAT credit, the statistical base for comparing the collection in 2019 has been overvalued. After adjusting the base for the amount offset by VAT credits, the growth rate of net VAT in 2019 amounts even 5,7% (Chart 20, line ●●●).



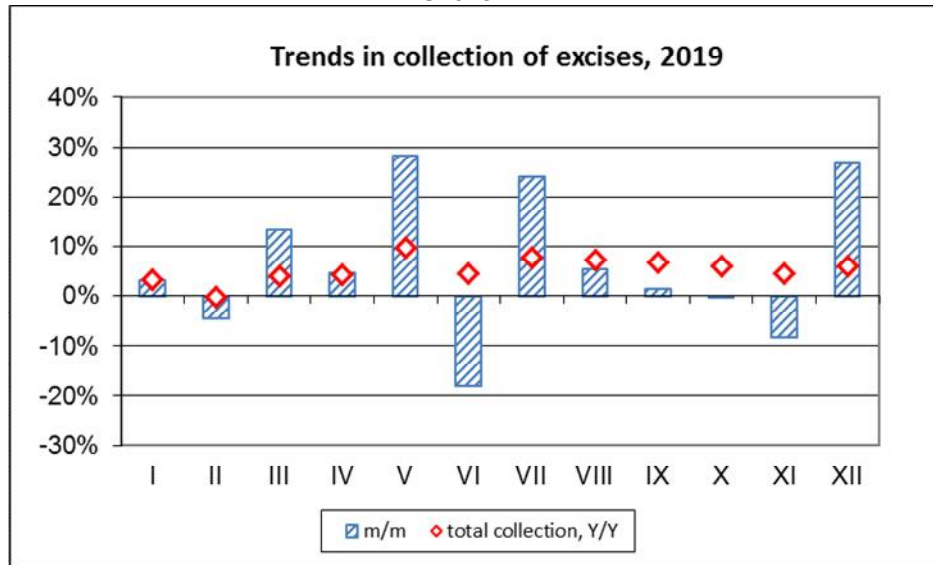
In the first quarter, net VAT increased by 6,1%. Growth rate of only 0,7% was recorded in the second quarter due to the increase in refund payments. Stagnation, followed by a fall in refunds, with a strong growth in excise collection, brought the increase of 8% in the third quarter, which halved in the fourth quarter to 4,3%, due to lower gross collection in October and November. Quarterly comparisons after adjustments in the 2018 statistical base, due to offsetting tax credits with excises on oil derivatives, show positive growth rates, which are higher than those resulting from the ITA's net cash reports (Chart 21).



Excises

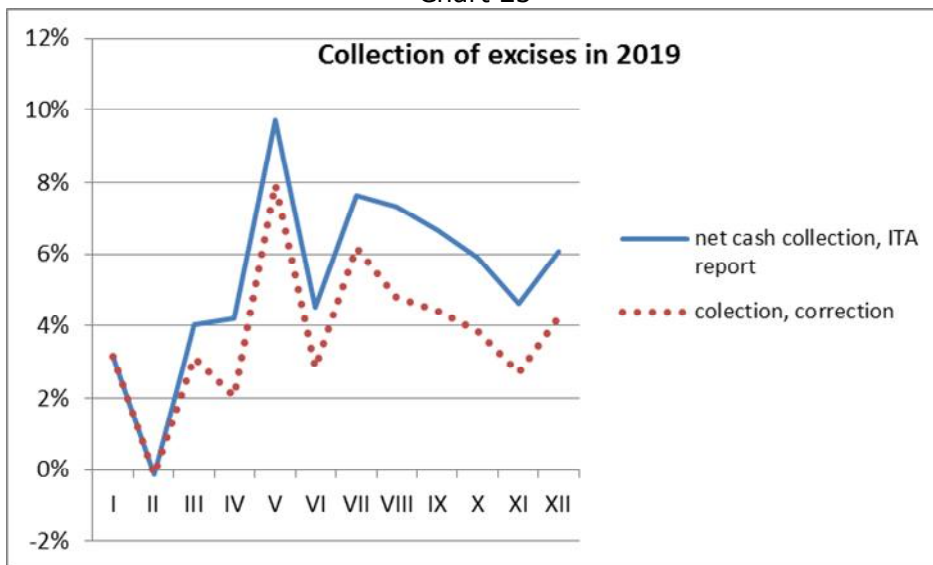
In December, excise revenues grew by high rate of 26,8%, having a positive effect on the cumulative growth rate, so the year 2019 ended with a growth rate of 6,1% (Chart 22). Excise tax collection in 2019 was characterized by positive trends throughout most of the year, with high growth rates in May, July and December. The decline in revenues was recorded in only three months.

Chart 22



Positive growth in December was mainly recorded in the collection of excise duties on most excise goods (tobacco products, oil derivatives, beer,..), while the decrease was recorded only in collection of excise duties on coffee and non-alcoholic beverages.

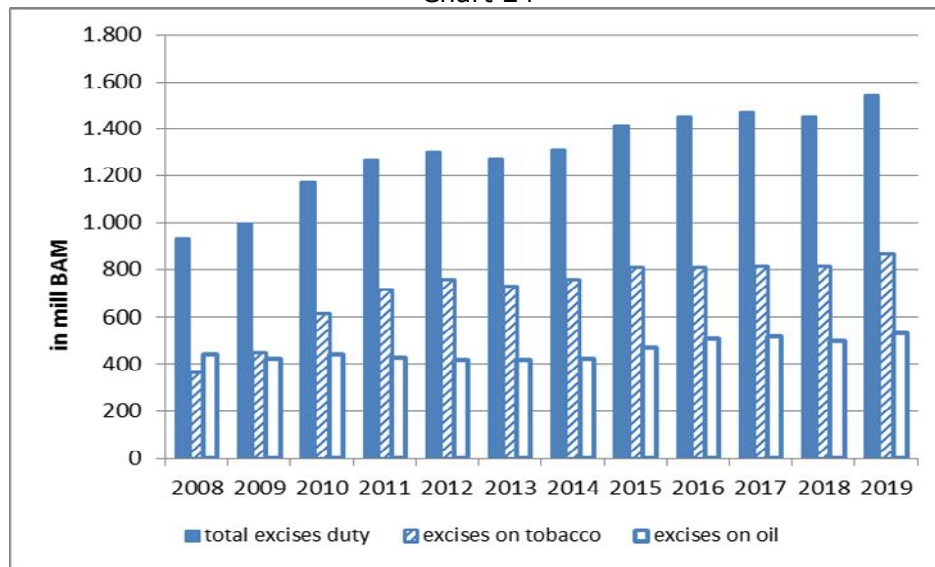
Chart 23



As a significant part of excise duty on oil derivatives in 2018 was paid from VAT credits, the effects of excise duty collection from the net cash flow report were overvalued. After corrections, it is concluded that in 2019 excise tax revenues grew by 4,3% (Chart 23, line ●●●).

After several years of stagnation and decline in excise revenues, a significant nominal growth was achieved in 2019 (Chart 24). Given the current trends, the growth has been unexpected, especially in the excises on tobacco products, due to the rise of the specific excise duty on cigarettes at the beginning of the year. It should be borne in mind the cash method of reporting on the collection of excises in 2018, and therefore increase the statistical base for the amount of excise duties collected by offsetting with VAT credits in 2018, which ultimately increases the total amount of excise tax revenue in 2018, as well as the amount of excise duties on oil derivatives.

Chart 24



Excises on tobacco

There was an enormous increase of 46% in revenues from excises on tobacco in December (Chart 25, left side). After an increase in excise duties on tobacco products in early 2019, there was a large decline in cigarette consumption, measured by the number of stamps issued, although tobacco companies partially financed the additional tax burden from their profits for as much as six months. In the first quarter, revenue grew by 2,3% and in the second quarter by 3,3%, primarily due to the announcement of the price increase as of July 1st, 2019, which motivated consumption at the end of the second quarter (Chart 26). In the third quarter, due to consumption of diaspora and non-residents (tourists, in transit to Croatia), the collected revenues increased by 13,5%, although at the same time the retail prices of cigarettes increased.

It was expected that consumption would slow down in the fourth quarter, given that in 2019 the process of harmonization of the excise duty rate with the minimum EU standard, i.e. the legal ceiling of 176 KM/1000 cigarettes, was completed. As this is the first time, after ten years, of starting a new fiscal and business year without an increase in excise duties on cigarettes, it had been expected that few large tobacco companies would use the excise policy stabilization to stabilize the cigarette market. There was no longer any reason for a more extensive increase in the price of cigarettes, because there had not been any increase in excise duties. On the other hand, any increase in prices could be counterproductive due to the large black cigarette market, and could be an additional motive for using legal and illegal cut tobacco. However, instead of

taking advantage of the country's growing income trend and trying to annul eventual losses caused by lower retail prices via economies of scale, companies have announced an increase in retail prices that included a large number of brands. It can be assumed that the goal of the companies was the short-term, the improvement of the 2019 balance sheet. Announcements of price increases before the end of the year usually cause an increase in consumer's cigarette stocks. Tobacco companies took over as much as 30% more excise stamps in December 2019 than in the same month in 2018, so the total amount of issued excise stamps in 2019 decreased by only 1% compared to 2018, although the weighted average price of cigarettes was higher by 5,9%. It remains to be seen in the coming months whether these expectations have been justified. Given that this is a significant increase in cigarette quantities on the market in the short term, it is realistic to expect a decline in cigarette consumption in the first quarter until the stocks are exhausted.

The aforementioned business policy of tobacco companies was last recorded in December 2011, and since then, December has been regularly a month in which drastically fewer excise duty stamps were taken over in comparison with previous months. The unexpected policy led to an enormous increase in excise revenues in December, due to *ex ante* excise duty payments. At the fourth quarter level, excise revenues grew by 7,2% (Chart 26), while at the annual level, the revenue growth rate amounted to 6,5%, which is 2 percentage points higher than projected.

Chart 25

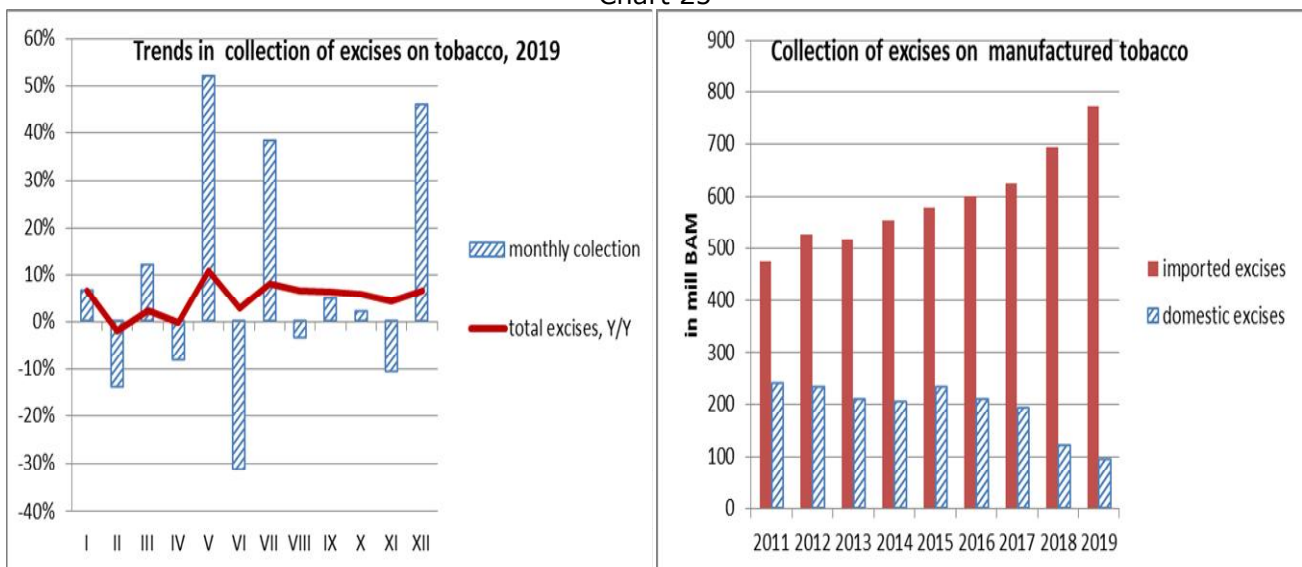
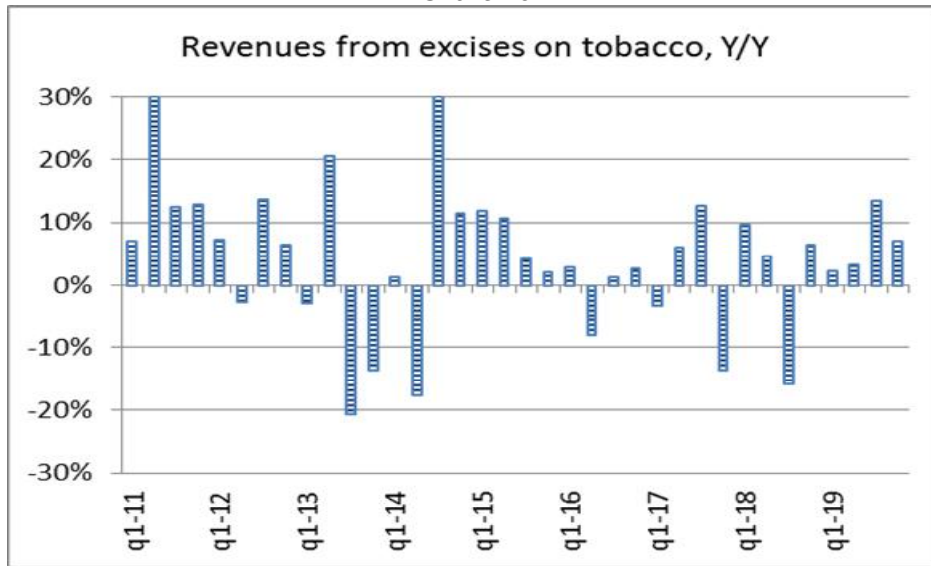


Chart 26

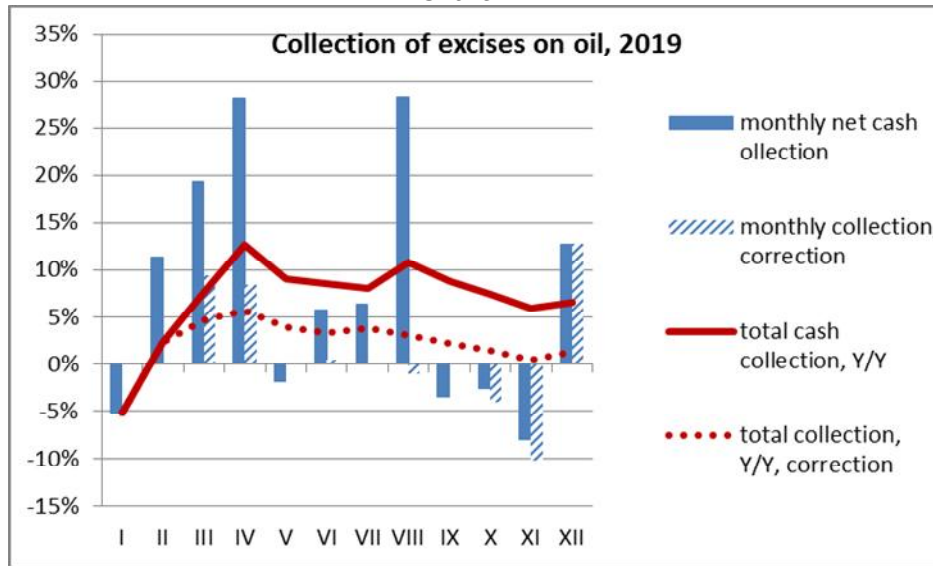


It should be emphasized that, although the increase in revenues from excise duties on domestic tobacco products was recorded in December, this did not significantly improve the situation of the domestic tobacco industry. Domestic production continued to contract further in 2019, as indicated by a sharp fall in the collected excise revenues (see Chart 25, right side).

Excise duties on oil derivatives

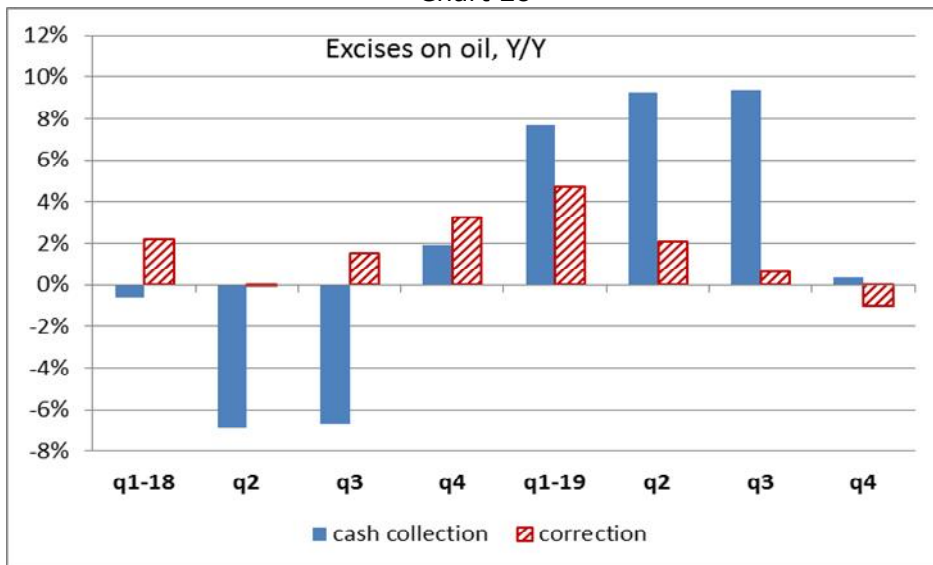
Revenues from excise duties on oil derivatives fluctuated significantly over the year. There was a drop in the collection at the beginning of the year, while, in the next few months, high rates of revenues from excises on oil derivatives were recorded, despite the turbulences in the world oil market. There was a 7,7% increase in collection in the first quarter, and 9,2% in the second quarter (Chart 28). The strongest fluctuations were recorded in the third quarter, the maximum monthly growth and a fall in revenues in September (Chart 27), but the quarterly growth still reached 9,4%. Poor trends continued in the fourth quarter, interrupted with an increase of 12,8% in December, which reached to nullify the negative trends and bring modest growth of 0,3% at the quarterly and 6,5% at the annual level. However, a real picture of the trends in excise duties on oil derivatives can be obtained only after adjustments for the amount of excise duties collected through the offset with VAT credits. After the corrections were made, it can be concluded that in 2019, however, an increase in excise duties on oil derivatives of 1,6% was achieved (Chart 27, line ●●●).

Chart 27



Corrections in the statistical base result in lower growth rates by quarters, with even negative growth rate in the fourth quarter (Chart 28).

Chart 28



Road tax

As the latest changes to the Law on Excise Duties, which increased the rate of earmarked road tax, apply from February 1st, 2018, most of the effects in the form of enormous growth rates⁴ of road tax revenues were reflected in 2018, while the effects in 2019 were reflected only in collection of road tax in January. For this reason, the revenue growth rate in the first quarter of 2019 was 21,8%. After exhausting the effects of changes to the Law, growth rates were

⁴ Growth rates have been enormous as the rate of earmarked road tax has increased from 0,25 BAM/l to 0,40 BAM/l, i.e. by 60%.

normalized. In the second quarter, a growth rate of 2% was achieved, while in the third quarter there was a decrease in revenues of 0,5%, followed by renewed growth in the fourth quarter of 1,6% (Chart 29). Finally, at the level of 2019, there was a 4,9% increase in the road tax revenue (Chart 30).

Chart 29

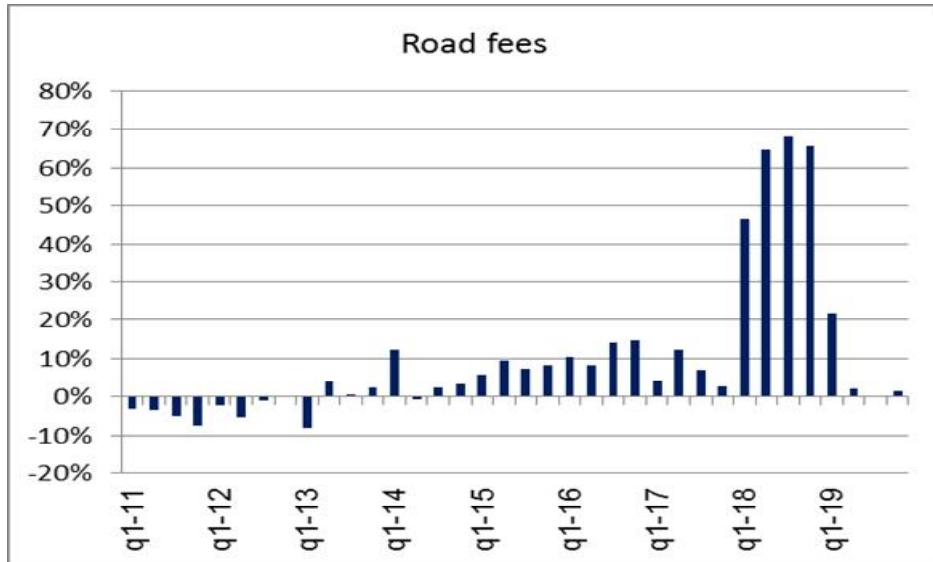
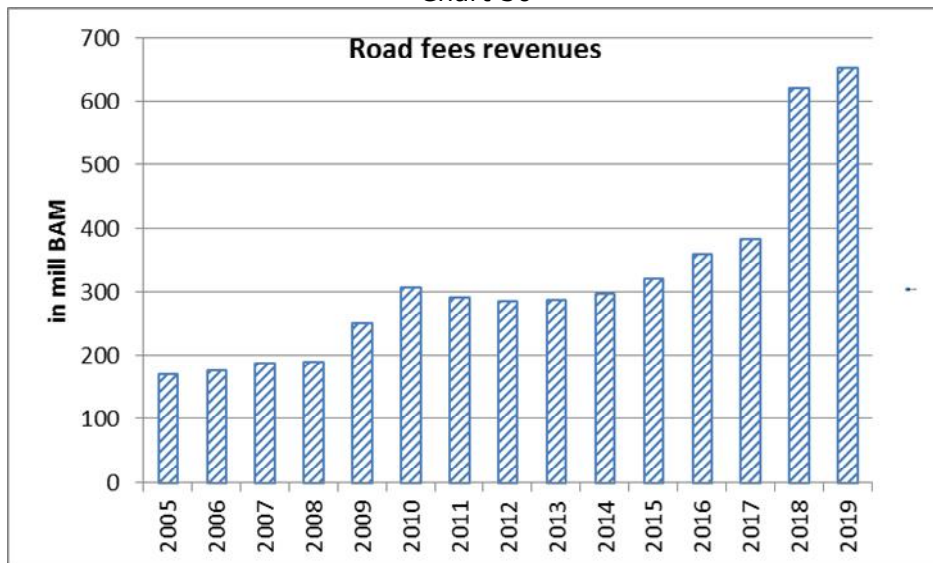


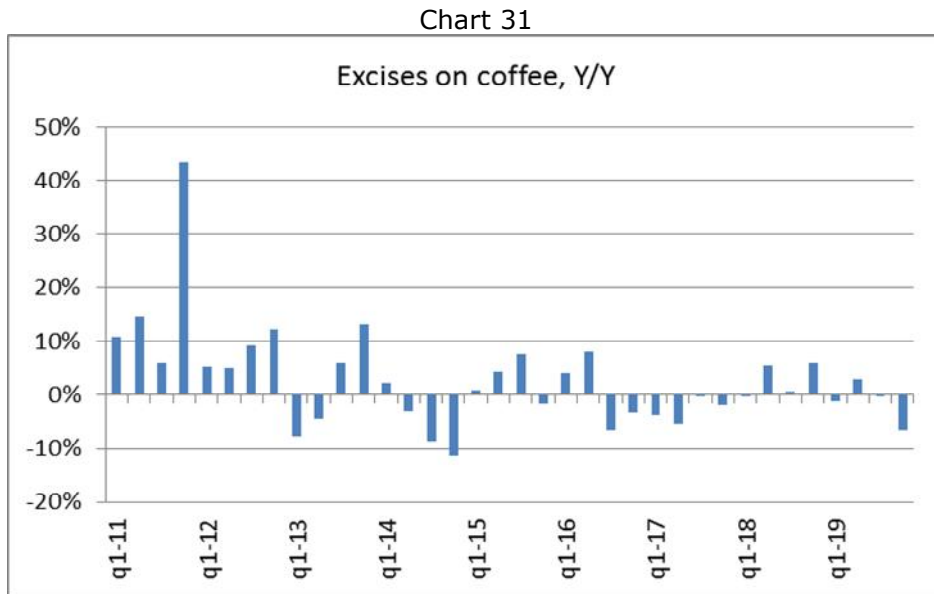
Chart 30



The collection of road tax revenues in 2019 was strongly influenced by several factors, which have a one-off effect. Factors that contributed to the higher collection were the changes to the Law on Excise Duties - regarding higher road tax rates, which were manifested in January 2019, and the offsetting road tax liabilities with the VAT credits in 2018. The factor that reduced the growth rate of road tax revenues in 2019 was the revenue from the difference in the road tax rate collected on the 2018 inventory of derivatives, which thus increased the base from 2018. After excluding these factors and their cancellation of each other, we come to a cumulative road tax growth rate of 2,1% in 2019. This growth rate is much more realistic given the macroeconomic projections, and is comparable to the adjusted growth rate of excise duties on oil derivatives.

Excises on coffee

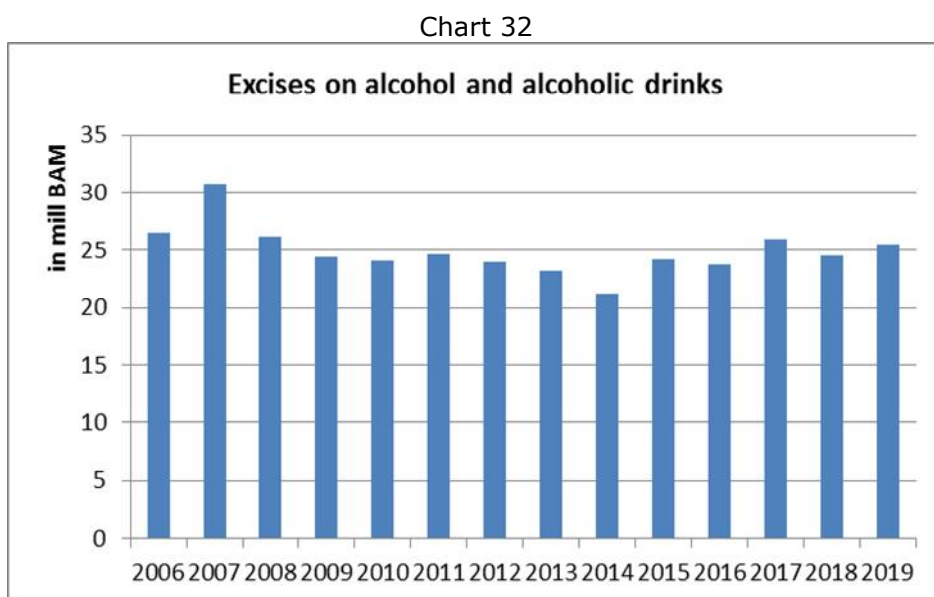
Excise duty collection fluctuated in 2018. In 2019, there were negative trends in three quarters. A growth of 3% was recorded only in the second quarter, while in the first quarter a decrease of 1,2% was recorded, in the third quarter of 0,1% and in the fourth quarter of even 6,4% (Chart 31).



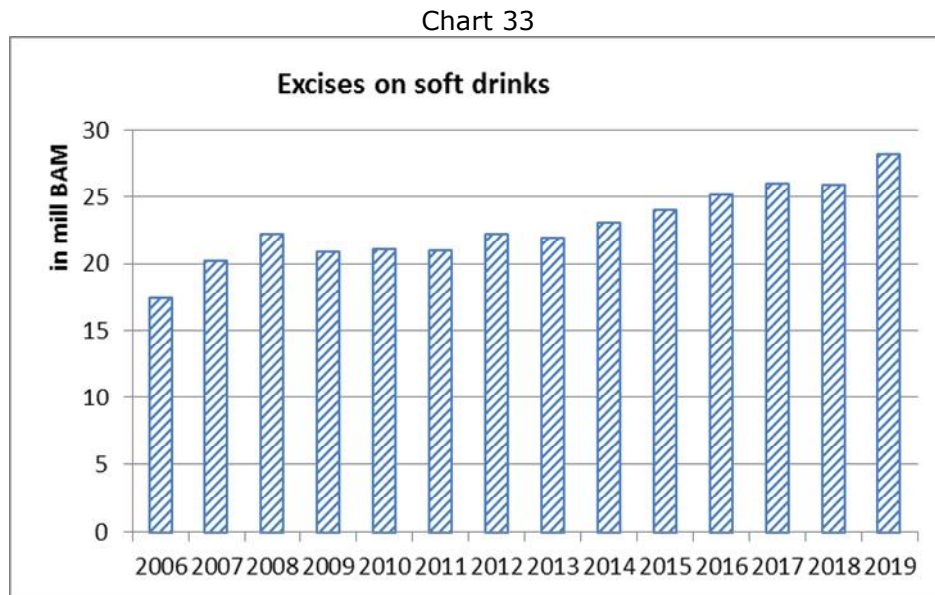
Excise duties on beer, alcohol, alcoholic and non-alcoholic beverages

Collection of excises on the product group containing beer, alcohol, alcoholic and non-alcoholic beverages was 5% higher than in 2018.

2019 saw an increase in revenues from excise duties on alcohol and alcoholic beverages of 4,1%, which, in nominal terms, had their historic minimum in 2014. There has been a recovery in the collection in the last five years, but not at the necessary pace to reach the revenue collected in the first years of operation of the ITA (Chart 32).



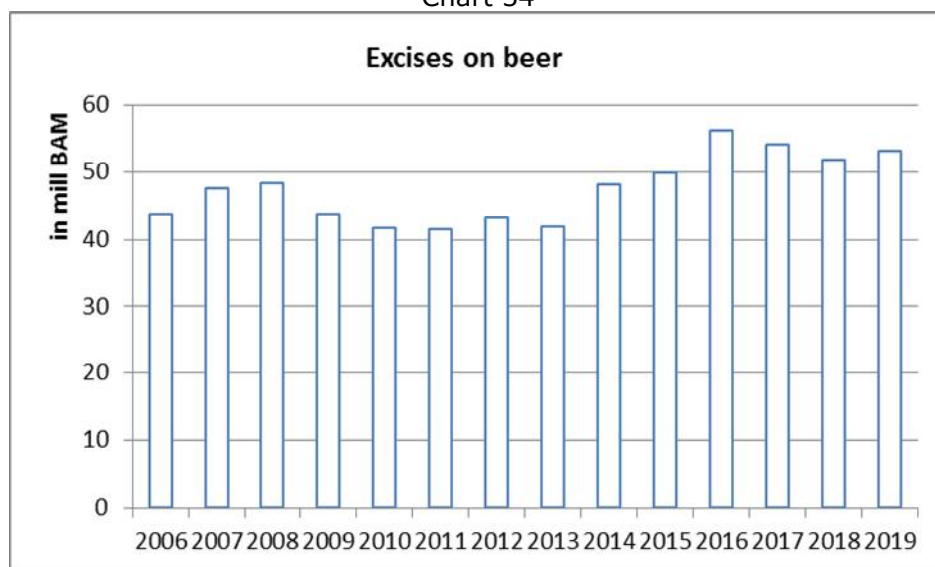
Collection of excise duties on non-alcoholic beverages increased by 8,9% in 2019 (Chart 33). There has been a constant increasing trend in collection of this type of excise duty, so it can be concluded that this was the largest collection since the establishment of the ITA.



On the other hand, the collection of excises on beer had its historic maximum in 2016, as a result of the introduction of higher rate of excise duty paid by importers and domestic breweries exceeding the legal threshold.⁵ There has been a declining trend in the collection of excises since then (Chart 34). In the first quarter of 2019, excise tax revenue on beer increased by 12,2%, due to the fact that at the beginning of the year some of the old excise debt was collected. Excluding the debt effect, the growth rate drops to only 0,7%. In the second quarter a drop of 10,2% was recorded. In the second part of the year, there was a recovery in revenue collection, so that in the third quarter revenues grew by 3,7% and in the fourth quarter by 9%. Ultimately, an annual growth of 2,5% was achieved, while, after excluding the debt effects, the collection turned into a negative growth zone of -1,9%. Excise duties on imported beer have a higher weight in the revenue structure, but a rise of 2,7% in the collection of these excises could not significantly offset the negative trends in the collection of domestic excises on beer, which recorded a growth of 2,2%. However, after excluding the effects of the collection of old debt, a decrease of 3,7% was recorded in the collection of excise duties on domestic beer.

⁵ Among domestic breweries only Banjalučka pivara (*Banja Luka Brewery*) has an annual production of beer that exceeds the threshold of 400,000 hl and, according to the Law, pays higher excise duty.

Chart 34



CONCLUSIONS

A review of the annual nominal collection (Chart 35) shows that in 2019 a record amount of indirect tax revenue has been collected since the establishment of the ITA.

Chart 35

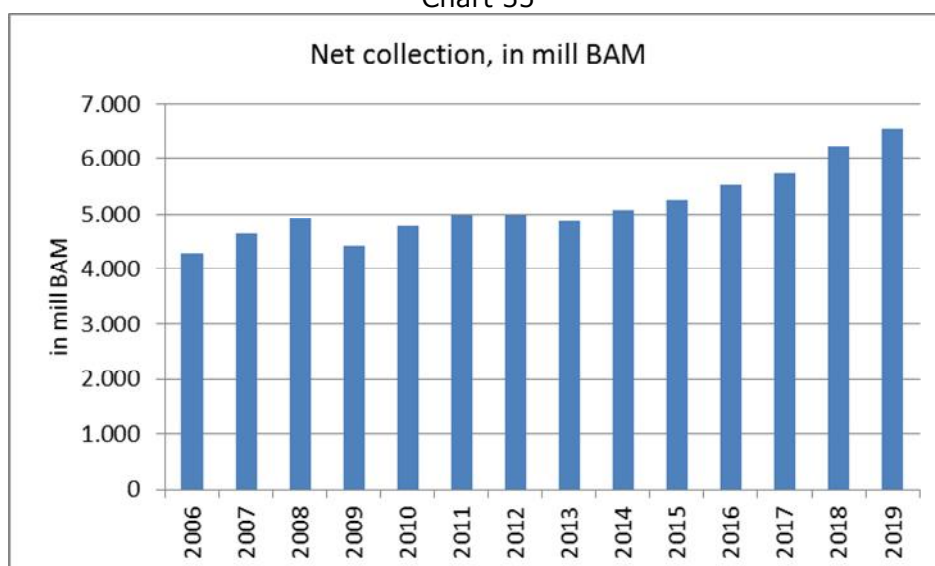
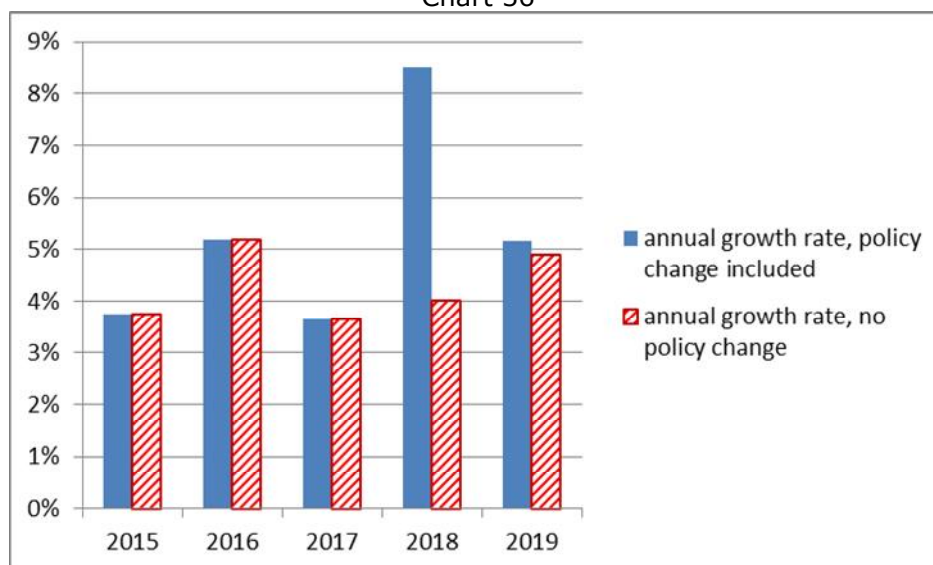


Chart 36



Indirect tax revenue increased by 5,2% in 2019. Changes to the Law on Excise Duties were reflected only in January 2019, bringing in 0,3 percentage points of indirect tax revenue growth. Other factors influencing the growth of revenue collection in 2019 were:

- growing consumption of non-residents (diaspora, tourists and persons in transit), especially in the summer season, which has been reflected in the growth of VAT revenues and excises on tobacco products;
- conjuncture in construction, in the segment of housing construction, partly financed by payments of old foreign currency savings, which contributed to the growth of VAT collection;
- changes in the business policy of tobacco companies that unexpectedly increased cigarette prices before the end of the year, although the process of increasing the rates of excise duties on cigarettes ended in 2019. That policy of companies produced a shift of excise revenues from 2020 to 2019, contributing to revenue growth in 2019 with 0,3 percentage points.

It can be concluded that the growth rate of indirect tax revenue in 2019 was at the level of the rates in 2014-2017, while the high growth rate in 2018 was an exception due to the change of excise policy in B&H. The aforementioned policy yielded 4,6 percentage points of revenue growth in 2018 (Chart 36, policy change effects). Excluding the effects of changes to the Law on Excise Duties in 2018 and 2019, revenue collection in the last three years is getting a regular upward trend.

Analysis of the allocation of revenues from indirect taxes for 2019

(Author: Mirjana Popović, Expert Advisor - Macroeconomists)

This analysis is a continuation of the "Analysis of the allocation of revenues from indirect taxes for the period 2006-2018 (trends and structure), presented in Bulletin no. 168/169, in July / August 2019. The main objective of the analysis continuation is the allocation trends taking into account the latest allocation data in 2019, with special reference to the revenues from tolls, ie the effects

of the implementation of the Law on Amendments to the Law on Excise Taxes in Bosnia and Herzegovina⁶.

1. Introduction

Given that revenues from indirect taxes make up the largest share of public revenue in Bosnia and Herzegovina (hereinafter: B&H), and dominantly participate in the budget structure of all levels of government in the country, the dynamics of filling and the allocation funds from the Single Account are crucial. Due to the low economic development of the country, fiscal stability of all levels of government in B&H depends on the allocation of revenues from indirect taxes, and therefore the allocation of these funds is of multiple importance⁷.

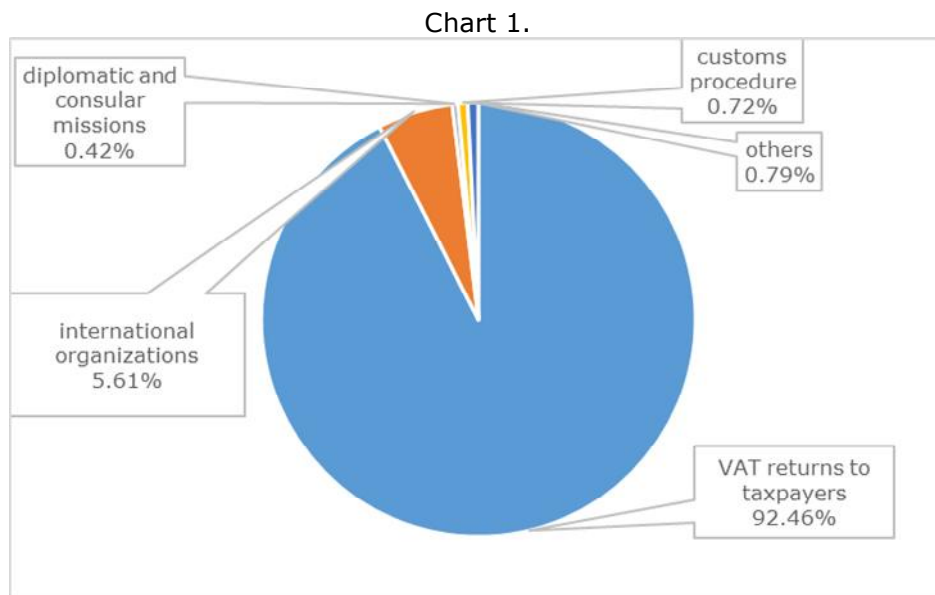
The complex and asymmetrical structure of B&H requires complex allocation of revenues from indirect taxes. Accordingly, the system of allocation of revenues from indirect taxes knows two levels of allocation:

- first level of allocation, so-called vertical level (the level of allocation at the B&H level) and
- second level of allocation, so-called horizontal level (level of allocation within the entities)

The focus of this analysis is on the allocation system by vertical structure, in accordance with the prescribed methodology and procedure for the allocation of revenues from indirect taxes, defined by the Rulebook on the calculation of the coefficients for allocation to the entities⁸.

2.1. Allocation of revenues from indirect taxes for 2019

Priority in allocation of revenues from indirect taxes collected to the Single Account is the refund to taxpayers. Chart 1 shows the structure of return in 2019 in percentages.



Source: Data of the Indirect Taxation Authority of B&H

⁶ "Official Gazette of B&H", no. 91/17; With the Law on Amendments to the Law on Excise Taxes, the amount of highway toll increased from 0.10 BAM to 0.25 BAM from February 01, 2018, a special subaccount collects toll in the amount of 0.25 BAM per liter of derivatives sold on the B&H market.

⁷ Revenues from indirect taxes represent 43% of consolidated revenues of all levels of government in B&H, and the share of indirect taxes in total tax revenues is 83%. The total amount of tax revenues of the B&H Institutions comes from indirect taxes; IMF data (IMF Country Report No. 18 / 39, February 2018 (Table 5a. General Government Statement of Operations, 2013-2018, p. 29)

⁸ "Official Gazette of B&H", no. 62/08

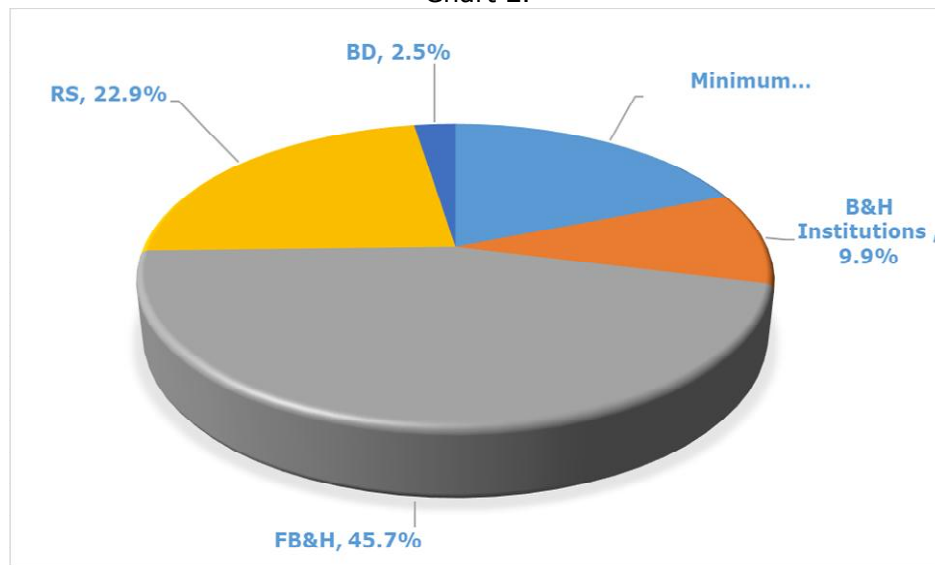
The total amount collected in the Single Account (VAT, customs duties, excises, tolls of 0.15 BAM) is reduced by the amount of the minimum reserves defined by the Rulebook on collection, compilation, allocation of revenues from indirect taxes and reporting⁹. The amount allocated for the minimum reserves is necessary to the Indirect Taxation Authority of B&H (hereinafter: ITA) for continuous and uninterrupted payment of refunds. 19.0% of total allocated revenue from indirect taxes in 2019 was allocated to the minimum reserves (Chart 2).

Chart 2 shows that the most significant allocation of 92.46% relates to VAT refunds to taxpayers who, according to their VAT returns, have the right to refund. The following allocations of 5.61% refer to VAT refunds under international agreements.

The next step in the allocation is the allocation of the corresponding amount to the budget of the B&H Institutions. Since 2012, the amount allocated to the budget of the B&H Institutions in the allocation is fixed and amounts to 750 million KM annually in the period 2012-2019¹⁰. 9.9% of total allocated revenue from indirect taxes was allocated to the budget of B&H Institutions in 2019 (Chart 2).

The remaining amount after deducting amount for the minimum reserves and amount belonging to the budget of the B&H Institutions is part for allocation to the entities and the Brcko District. The allocation coefficients to the entities are determined on a quarterly basis, representing the ratio of the final consumption amount shown in the VAT returns of taxpayers in the territory of a given entity, or a given revenue user, and the final consumption amount expressed in VAT returns throughout the territory of B&H. The Brcko District allocation coefficient since mid-2007 has been fixed¹¹. From the amounts allocated to the entities and the Brcko District, the funds allocated to repay external debt are prioritized.

Chart 2.



Source: Data of the Indirect Taxation Authority of B&H

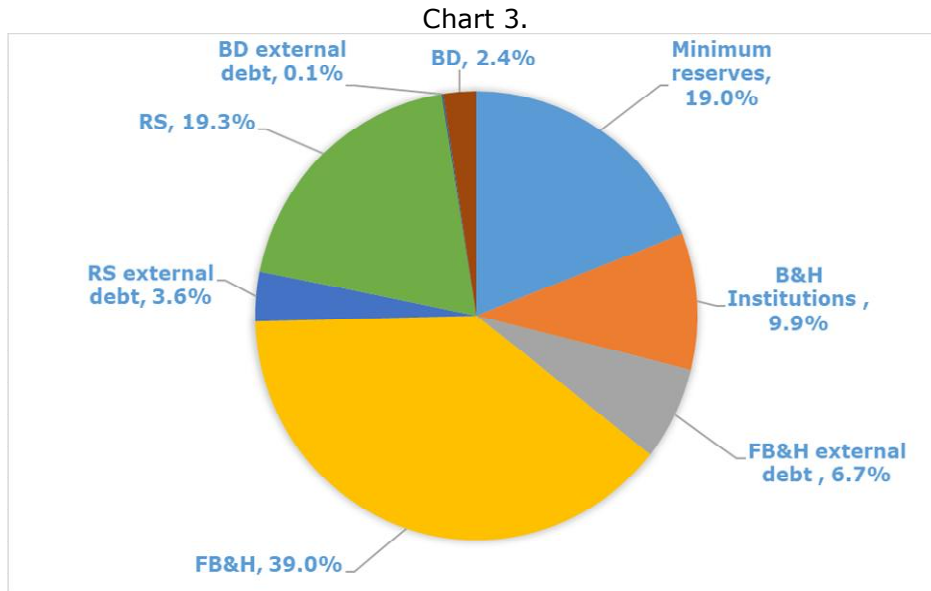
Charts 2 and 3 show the percentage share in the allocation of revenues from indirect taxes by beneficiaries in 2019. In Chart 2, the allocation percentage to the entities and the Brcko District

⁹ "Official Gazette of B&H", no. 05/05

¹⁰ Defined by the Agreement on the Adoption of the Document the Global Framework of Fiscal Balance and Policies in Bosnia and Herzegovina; https://www.mft.gov.ba/srb/images/stories/budzet/gfo/2018/Sporazum%20GO_srp_pdf.pdf

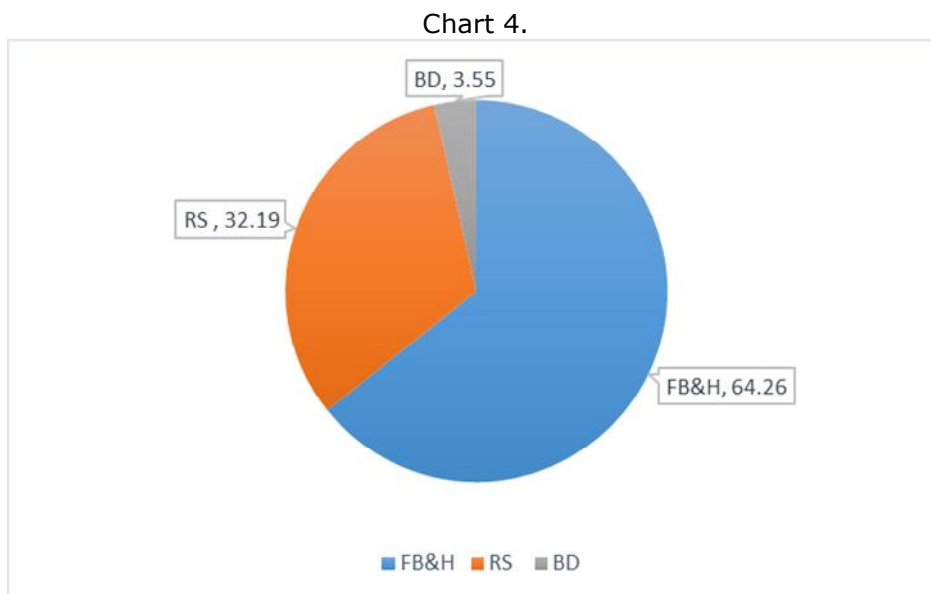
¹¹ The High Representative protected the fiscal autonomy established by the Final Arbitration Award, in June 1, 2007, imposed a fixed ratio for the Brcko District 3.55% or at least 124 million BAM per annum in absolute terms.

includes the amount for financing external debt, which is subtracted from the amount intended to the allocation to the entities and the Brcko District, while Chart 3 shows the percentage of allocation which was separated from the repayment of external debt in 2019.



Source: Data of the Indirect Taxation Authority of B&H

Decision of the Governing Board of the ITA¹² established the temporarily coefficients of allocation of funds from the Single Account for the entities and the Brcko District for the period April-June 2017. The same coefficients applied in 2019 in all four quarters. The coefficients applied in 2019 are shown in Chart 4.



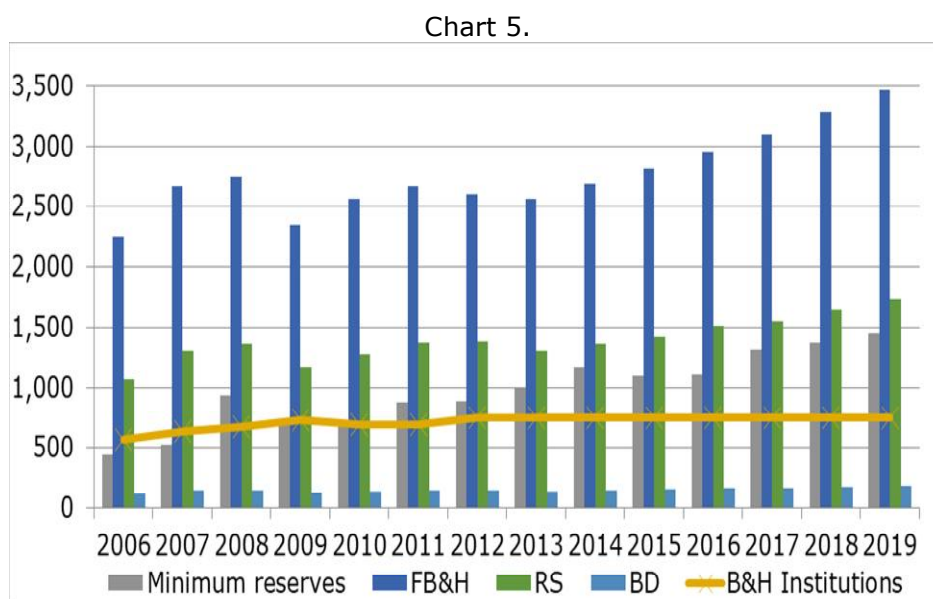
Source: Decision on establishing temporary coefficients for the allocation of funds from the Single Account

¹² Decision on fixing temporary coefficients for allocation of funds from the Single Account for the period April - June 2017, "Official Gazette of B&H", no. 42/17

2.1. Allocation of revenues from indirect taxes for period 2006-2019

2.2.1. Allocation of gross revenues

Chart 5 presents trends in the allocation of gross revenues from indirect taxes for the period 2006-2019, in millions of BAM¹³. Gross revenues from indirect taxes are total revenues with the aim of allocating, which includes the amount of funds intended for refunds. Data shows that the gross amount allocated in 2019 is by 70.2% higher than in 2006, and the amount of gross revenues from indirect taxes aimed for allocation in the observed period is the largest in 2019. The Republic of Srpska had the largest growth of 62.1% in 2019 compared to 2006. In the same period, the share of the Brcko District increased by 56.4% and the share of the Federation of B&H increased by 53.7%.



The data shows that after the initial three-year period of growth of gross revenues from indirect taxes aimed for allocation (2006-2008), and driven by the global economic and financial crisis, there was a sharp decline in 2009. This phenomenon is consequently linked to collection and there was recorded decrease in collected and allocated revenues in this period¹⁴. After the shock, the Chart shows that period 2010-2013 was a period of stagnation, and the trend in the total allocation of gross revenues from indirect taxes has not changed significantly. From 2013-2019, the amount of gross revenues aimed for allocation to the entities and the Brcko District tends to grow constantly. From the Chart is also visible fixed amount of allocation of revenues from indirect taxes to B&H Institutions in the period 2012-2019.

Table 1 shows the allocation of gross revenues from indirect taxes for the period 2006-2019 in percentages. From the presented data, and in comparison with other participants in the allocation, there are visible changes in the structure of allocation.

¹³ The amount of gross revenue excludes the collection of a dedicated toll.

¹⁴ The decrease in VAT revenues, which were reduced due to the movement in foreign trade, or due to the highly negative growth rate of imports. Decrease in customs revenue is caused by the entry into force of the Stabilization and Association Agreement with the EU.

Table 1.

u %	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Index 2019-2006
Minimum reserves	10.0	10.0	15.9	14.5	13.5	15.3	15.4	17.3	19.1	17.6	17.1	19.2	19.0	19.0	9.1
B&H Institutions	12.7	12.1	11.5	14.3	12.7	12.0	13.0	13.0	12.3	12.0	11.6	10.9	10.4	9.9	-2.8
FB&H	50.6	50.5	46.8	45.9	47.5	46.4	45.2	44.5	43.9	45.2	45.6	44.9	45.4	45.7	-4.9
RS	24.0	24.7	23.2	22.8	23.7	23.7	23.9	22.7	22.2	22.7	23.3	22.6	22.8	22.9	-1.1
BD	2.7	2.7	2.6	2.5	2.6	2.6	2.5	2.5	2.4	2.5	2.5	2.5	2.5	2.5	-0.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	0.0

Source: Data of the Indirect Taxation Authority of B&H

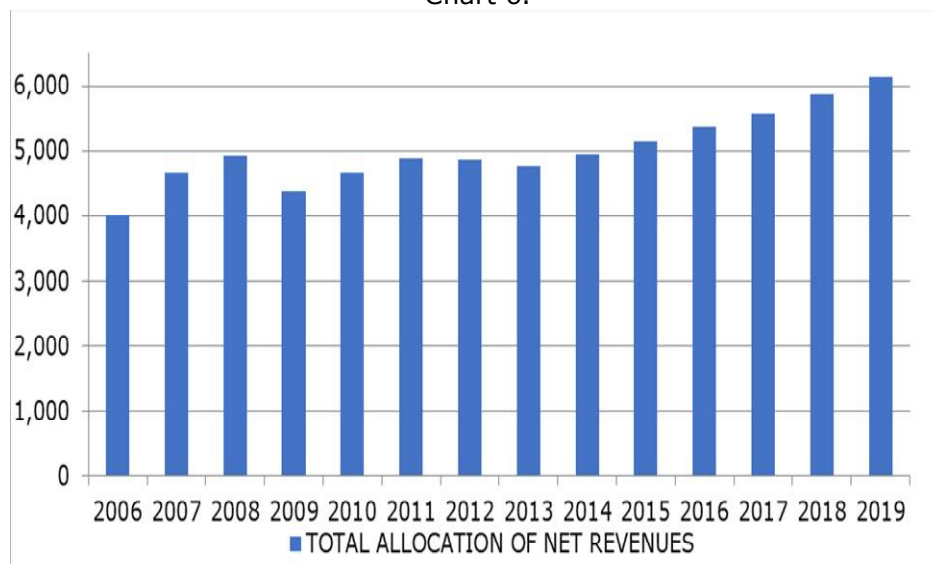
The highest percentage increase in allocation in 2019 compared to 2006 relates to minimum reserves (9.1 pp), while the largest decrease was recorded in the allocation of gross revenues to the Federation of B&H (-4.9 pp). Looking at the average of the coefficients for 2019 compared to the initial period 2006, a slight decrease in the participation of the entities, the Brcko District and the B&H Institutions in the allocation is observed, and consequently an increase in the share of allocation in favor of minimum reserves.

2.2.1. Allocation of net revenues

Chart 6 shows the total allocated net revenues from indirect taxes for the period 2006-2019 in millions of BAM. Net revenues from indirect taxes are revenues aimed to be allocated to users after refunds have been made. Looking at the dynamics of the net revenues movement, there is a trend of growth with occasional exceptions in 2009 and 2013.

The amount of net revenues from indirect taxes aimed for allocation to beneficiaries in 2019 is the largest in the observed period, while it increased by 53.0% compared to the initial period, ie compared to 2006.

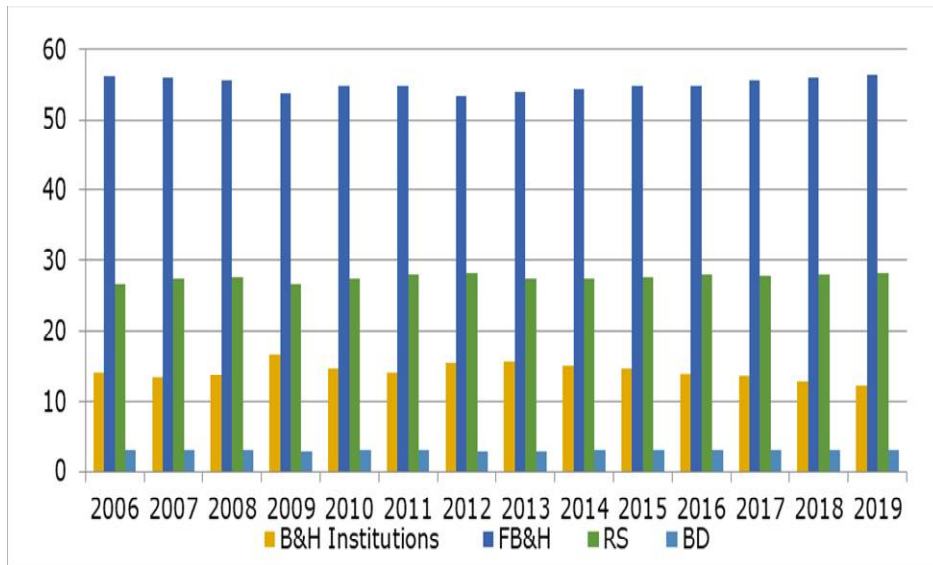
Chart 6.



Source: Data of the Indirect Taxation Authority of B&H

Allocation of net revenues from indirect taxes to beneficiaries in the period 2006-2019 in percentages that include the B&H Institutions, the Federation of B&H, the Republic of Srpska and the Brcko District is shown in Chart 7.

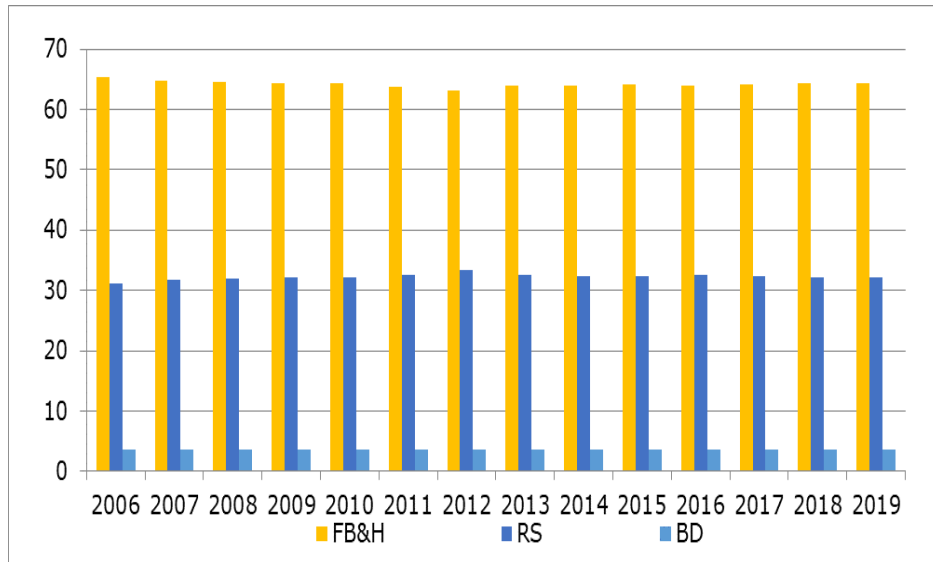
Chart 7.



Source: Data of the Indirect Taxation Authority of B&H

Looking at the dynamic of the movement, the data show the fluctuating trend of movement of the allocation to the entities. In addition, since mid-2007, a constant coefficient for allocation to the Brcko District has been observed. The Federation of B&H has the largest share in the allocation, after which a significant amount is allocated to the Republic of Srpska, then to the B&H Institutions and to the Brcko District. Chart 8 shows the allocation of net revenues from indirect taxes to the entities and the Brcko District in the period 2006-2019. This is shown as a percentage after the allocated amount that, in allocation, belongs to the B&H Institutions.

Chart 8.



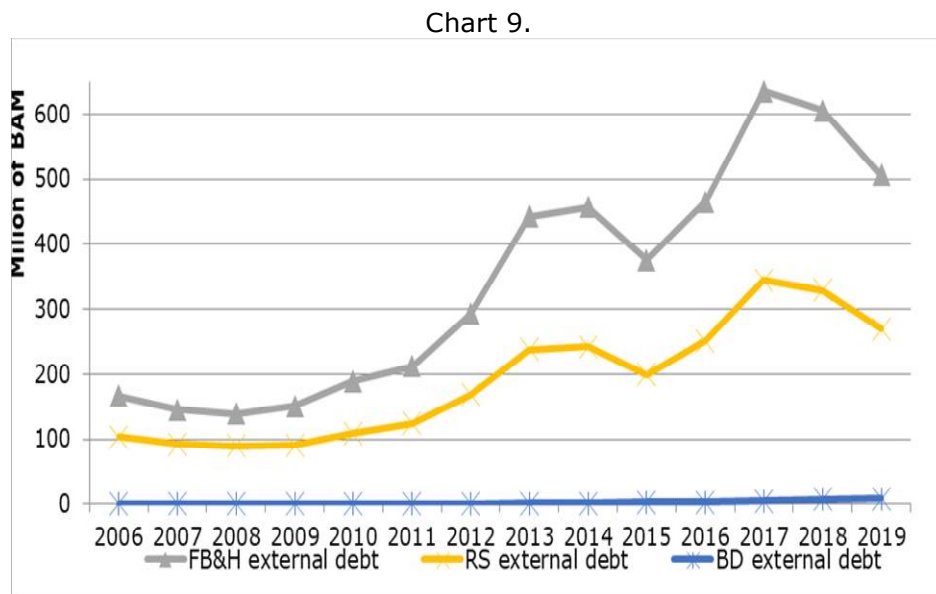
Source: Data of the Indirect Taxation Authority of B&H

In the observed period, the Federation of B&H achieved the highest allocation coefficient in 2006 and the lowest in 2012, which leads to a reverse trend for the Republic of Srpska, given the fixed allocation coefficient that belongs to the Brcko District since mid-2007. If we look at the allocation

of net revenues from indirect taxes in 2019 compared to 2006 as the initial or base year, we notice a decrease in the coefficient in the Federation of B&H in benefit of the Republic of Srpska (-1.14 p.p.).

2.3. External debt

The increase in the allocation of revenues from indirect taxes aimed to finance external debt indicates an increased repayment of external debt to foreign creditors. Chart 9 shows the trend in the allocation of revenues from indirect taxes earmarked for external debt financing over the observed period.



Source: Data of the Indirect Taxation Authority of B&H

The amount of external debt repayment of the Brcko District over the observed period tends to grow, while observing the entities, there are visible changes that are happening in line with previously assumed international obligations and the dynamics of external debt repayment. Although the country's indebtedness in the international financial market peaked in 2014, the most significant repayment of the entity's external debt was recorded in 2017, when the most significant part of the debt was repaid to international creditors¹⁵. Accordingly, from 2017-2019 it can be seen that the amount aimed for the repayment of the entity's external debt, which is allocated from revenues from indirect taxes, is gradually decreasing. In view of the above, the tendency of reducing an entity's external debt repayment does not necessarily represent a lower indebtedness of the entity. It represents a dynamic of repayment¹⁶.

Table 2 shows the percentage of the entities and the Brcko District's share of total external debt repayments. Observing the movement of external debt, there is a noticeable increase in the allocation of funds in the Federation of B&H, as well as a slight increase in the share of the allocation in the Brcko District, and consequently a decrease in the allocation in the Republic of Srpska for 2019, compared to 2006. The same dynamics of movement is observed if 2019 compares with the previous year.

¹⁵ <https://www.imf.org/external/np/fin/tad/exportal.aspx?memberKey1=75&date1key=2019-12-31&category=EXC>

¹⁶ In recent years, there has been a "recomposition" the indebtedness of entities, ie the reduction of external debt, and the increase in debt in the country.

Table 2.

u %	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
FB&H external debt	61.64	61.10	60.67	62.58	63.39	63.13	63.43	64.94	65.18	65.01	64.71	64.54	64.34	64.52
RS external debt	38.35	38.86	39.28	37.36	36.57	36.84	36.54	34.94	34.60	34.49	34.93	34.99	34.90	34.40
BD external debt	0.00	0.04	0.06	0.05	0.04	0.04	0.03	0.12	0.21	0.50	0.36	0.46	0.76	1.08
Total	100	100	100	100	100	100	100	100	100	100	100	100	100	100

Source: Data of the Indirect Taxation Authority of B&H

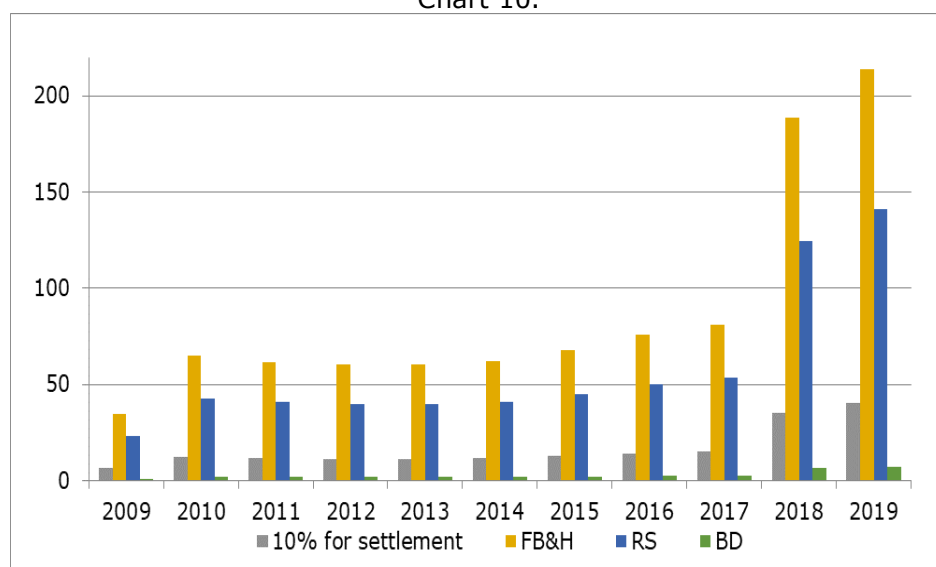
2.4. The allocation of revenues from highway tolls

After the implementation of the Law on Excise Duties in B&H¹⁷, the Governing Board of the ITA adopted the Decision on the temporary allocation of revenues from highway tolls¹⁸ (hereinafter: the Decision). According to the Decision, revenues are collected on a separate subaccount within the Single Account. From the total revenues collected, 10% remains on the subaccount of the Single Account and is used to settle revenues after determining the final allocation methodology. The remaining 90% is shared between the entities and the Brcko District according to determined percentages (Federation of B&H 59%, Republic of Srpska 39%, Brcko District 2%).

The decision was applicable until February 01, 2018, until the beginning of implementation of the new Law on Amendments to the Law on Excise Taxes in B&H¹⁹ (hereinafter: the Law). With this Law, the amount of highway toll per liter of derivatives sold on the B&H market, which is collected on a separate subaccount of the Single Account, increased from 0.10 BAM to 0.25 BAM.

After the implementation of the new Law, a new Decision on the temporary allocation of toll revenues for the construction of motorways and construction and reconstruction of other roads²⁰ was adopted, prescribing the same allocation methodology as prescribed by the previous Decision.

Chart 10.



Source: Data of the Indirect Taxation Authority of B&H

¹⁷ "Official Gazette of B&H", no. 49/09, 49/14 i 60/14

¹⁸ "Official Gazette of B&H", no. 102/09

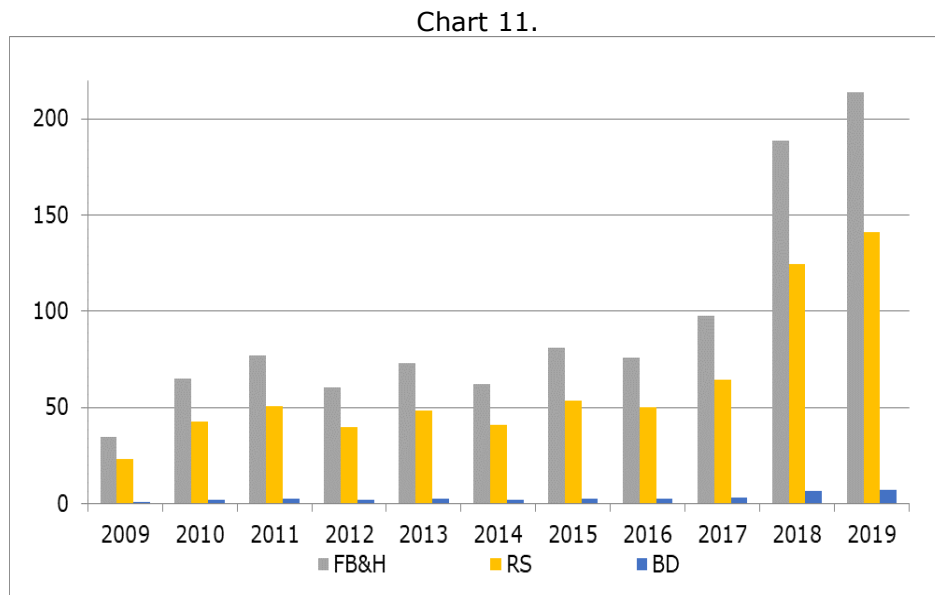
¹⁹ "Official Gazette of B&H", no. 91/17

²⁰ "Official Gazette of B&H", no. 50/18

Chart 10 shows the amount allocated according to the methodology prescribed in the Decision on the temporary allocation of revenues from highway tolls and the Decision on the temporary allocation of toll revenues for the construction of motorways and construction and reconstruction of other roads, in period July 01, 2009 - December 31, 2019, in millions of BAM. The Chart shows the allocation of highway toll revenues, which, in proportion to the prescribed coefficients, is allocated over the observed period.

The amount of 10%, according to the Decision on the temporary allocation of revenues from highway tolls and the Decision on the temporary allocation of toll revenues for the construction of motorways and construction and reconstruction of other roads, is left in the subaccount of the Single Account and serves to settle revenues after determining the final allocation methodology. Thereafter, this amount accumulates until the Decision of the Governing Board of the ITA on the temporary allocation of toll revenue for highways remaining on the subaccount of the Single Account.

Thus, the Governing Board of the ITA, in the period July 01, 2009 - December 31, 2019, adopted four Decisions on the temporary allocation of revenues from toll for highways remaining in the subaccount of the Single Account²¹. In accordance with these four Decisions, in 2011, 2013, 2015 and 2017, a part of the accumulated amount intended for settlement was allocated from the subaccount of the Single Account. Chart 11 shows a significant increase in total allocated revenues to the entities and the Brcko District in mentioned years.



Source: Data of the Indirect Taxation Authority of B&H

Chart 11 shows the amount allocated to the entities and the Brcko District on a regular basis, plus the amount allocated under the four Decisions on the temporary allocation of revenues from toll for highways remaining on the subaccount of the Single Account, in millions of BAM.

In the observed period, the most significant changes were legal changes in the tolls amount for highways. The full effect of changes in the Law on an annual basis can be seen in 2019 because the Law has not been in force for all twelve months of 2018.

²¹ "Official Gazette of B&H", no. 83/11; "Official Gazette of B&H", no. 62/13; "Official Gazette of B&H", no. 67/15; "Official Gazette of B&H", no. 45/17

Because the data for 2009 are semi-annual, the annual toll revenues data are comparable for the period 2010-2019.

Looking at the annual data, comparability is possible in the period 2010-2017 when the same amount of highway toll per liter of derivative, 0.10 BAM, was applied. Thus, during this period, no significant oscillations were observed from the data in Chart 10 showing the allocation of toll revenues to users without allocated amount according to the Decisions on the temporary allocation of revenues from toll for highways remaining in the subaccount of the Single Account. In the period 2010-2017, significant oscillation can be seen in Chart 11 in the years when additional allocations occurred. In that period, the most significant amount was recorded in 2017 for the allocation of highway toll revenue, which is related to the collection of these revenues.

Given the legal changes, from the Charts 10 and 11, it can be seen that the amount of allocation in 2018 and 2019 is significantly higher than the allocated amount in the previous period. In 2019, the total allocated amount of toll revenues is the highest compared to the previous period, and is significantly higher than in 2017 when the largest allocated amount was recorded before the changing defined by Law.