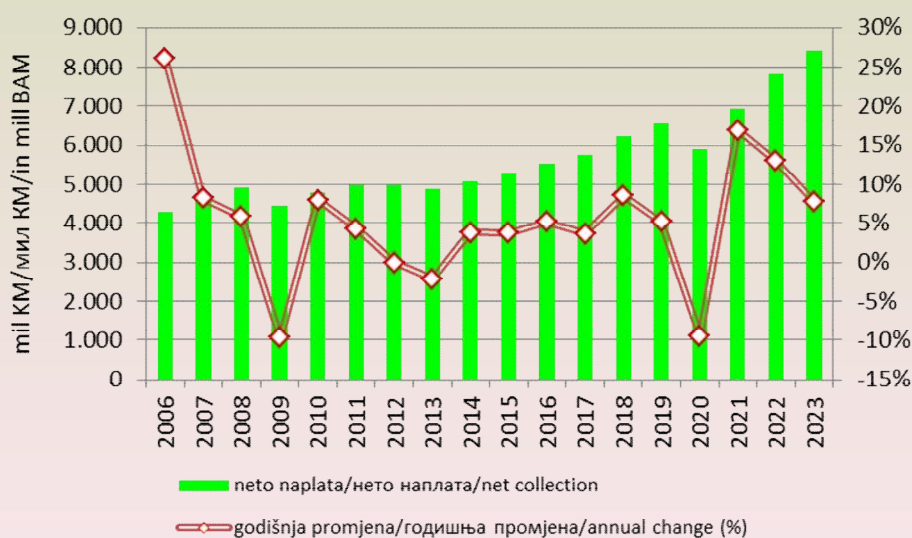




Macroeconomic Unit of the Governing Board of the Indirect Taxation Authority

# ОМЈА Билтен

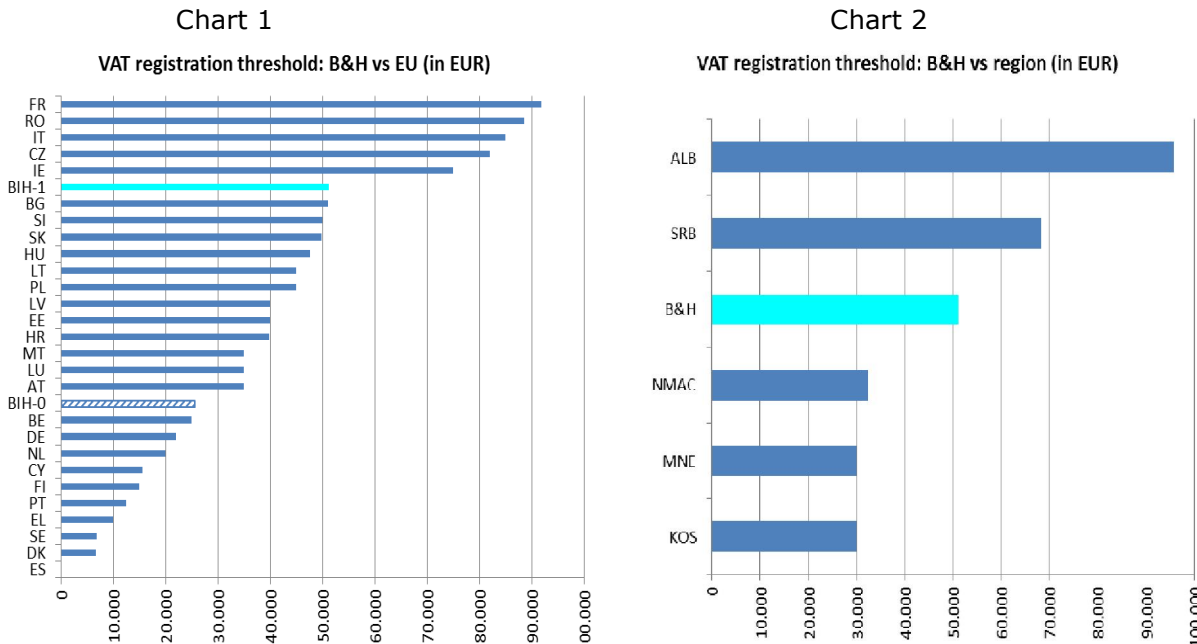


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**With this issue**

After 19 years since the introduction of VAT, Bosnia and Herzegovina has increased the VAT registration threshold to 100,000 BAM. For years, B&H was in the second half of the member states in terms of the threshold (Chart 1, "B&H-0"), but with the increase of the threshold, only five EU member states have a higher threshold than B&H (Chart 1, "B&H-1"). A comparison of the countries of the region shows that with the increase in the threshold, Bosnia and Herzegovina has reached the average of the region, while before that it had the lowest threshold (Chart 2).



The existence of a threshold for VAT is justified by the costs of administering VAT, which are unfavourable for small companies due to their mostly fixed nature, but also by reducing the costs of administering the tax administration of a large number of taxpayers who contribute a small percentage to the collection of VAT. Being outside the VAT system (with turnover below the threshold for registration or exempt from VAT) can sometimes represent a penalty for enterprises. Only those enterprises that purchase without VAT (e.g. agricultural products, flowers, wood, etc.) and sell to persons who are not liable for VAT can have a certain benefit from doing business outside the VAT system. Even in such cases, people have input costs on which VAT has been paid (materials, capital goods), which is included as an expense in the cost price and passed on to the customer. On the other hand, VAT payers prefer doing business with suppliers who are in the VAT system in order to be able to deduct input VAT from purchases. For the above reason, it is difficult to estimate the effects of increasing the threshold. It is a good fact that the VAT Law enables voluntary registration for VAT for all entities whose turnover is below the threshold, and who wish to operate in the VAT system.

Dinka Antić, PhD  
Head of Unit

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## Collection of revenues from indirect taxes in 2023

(Prepared by: Aleksandra Regoje, expert advisor - macroeconomist)

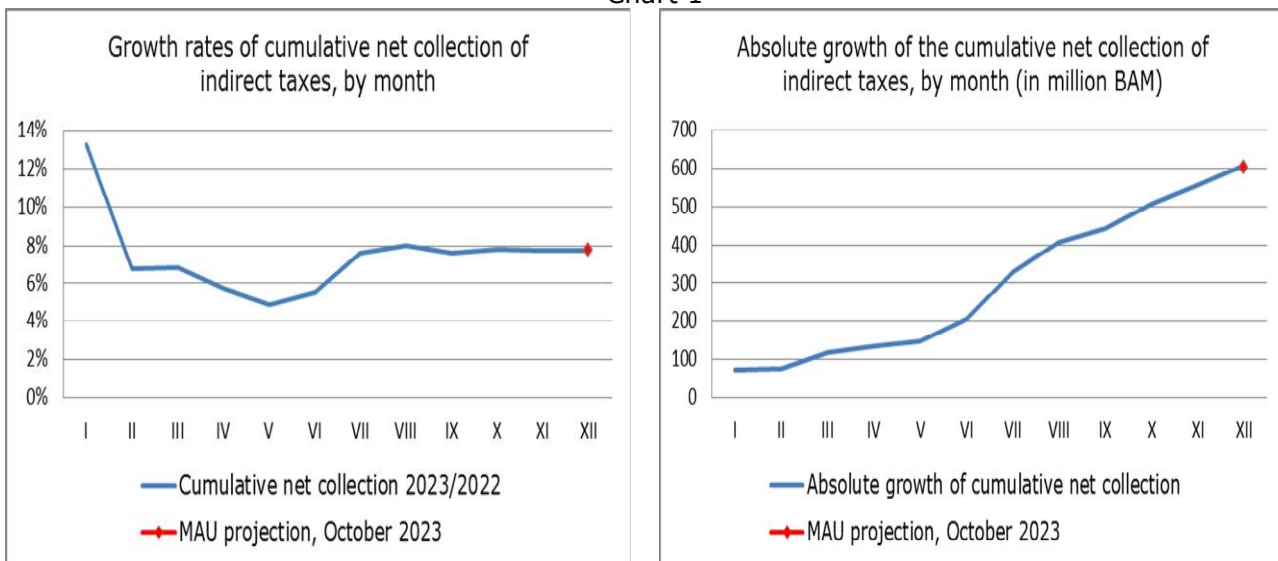
At the time of preparing this article, data on the total gross and net collection of indirect taxes on the Single Account of the Indirect Taxation Authority (ITA SA) in 2023 was available, while the report on revenue collection by types of revenue was not available. Therefore, in this issue, we publish a brief overview of the collection of indirect taxes in 2023 compared to the previous year and long-term trends. After the final report by types of revenue on the ITA SA is available, in the next issue of the MAU Bulletin we will publish a detailed analysis of the collection of indirect taxes in 2023, with an overview of collection by revenue types.

### Collection in 2023, comparison with the previous year

Gross revenue collection from indirect taxes on the ITA SA amounted to 10.64 billion BAM, which is 0.71 billion BAM or 7.2% more than the gross collection in the previous year. Refund payments amounted to 2.21 billion BAM, which was 0.11 billion or 5.1% more than in 2022. Finally, the net collection of indirect taxes amounted to 8.43 billion BAM. The absolute growth of net revenues in 2023 compared to 2022 amounted to 0.61 billion BAM while the relative growth was 7.8%.

Compared to the Unit's projections from October 2023, the net collection of indirect taxes is higher by 7.1 million BAM (Chart 1). It can be concluded that the Unit's October projections, as in the case of the previous year<sup>1</sup>, were realized with an accuracy rate of almost one hundred percent (100.08%).

Chart 1

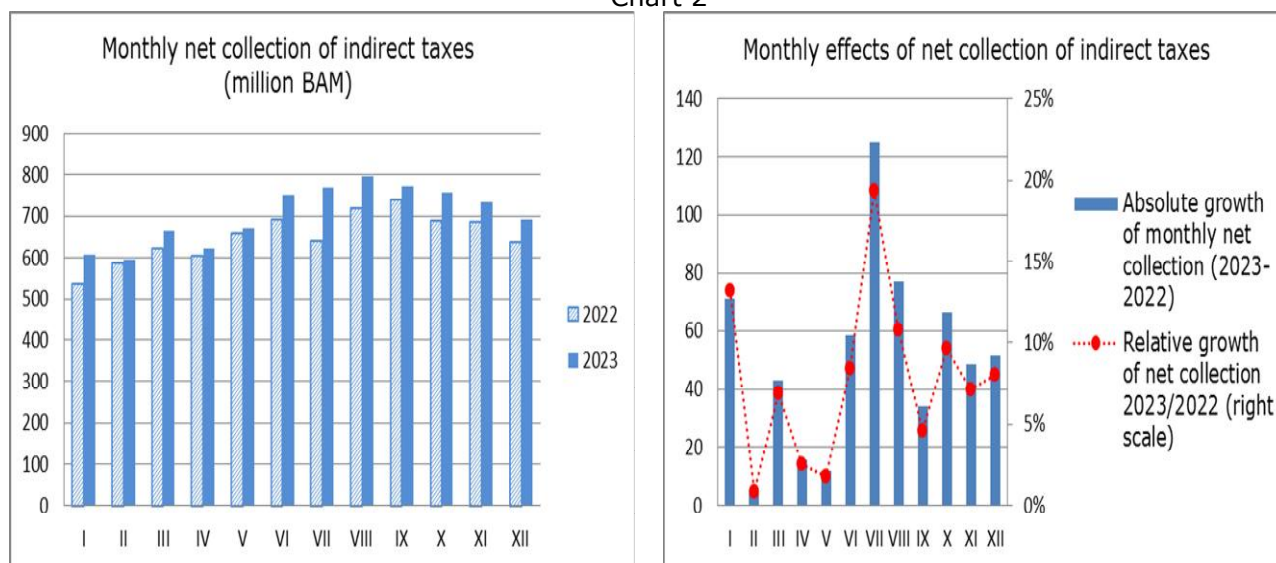


Source: Indirect Taxation Authority of B&H, calculation and presentation of the MAU

Monthly amounts of net collection of indirect taxes were higher throughout 2023 than in the previous year, and the growth rates ranged from +0.9% to a high of +19.4%. Observed in absolute terms, the growth of the monthly net collection of indirect taxes ranged from +5.3 million BAM to +124.8 million BAM (Chart 2).

<sup>1</sup> Projections of the Unit for the year 2022 from October 2022 were realized with an accuracy rate of 99.98%.

Chart 2



Source: Indirect Taxation Authority of B&H, calculation and presentation of the MAU

If we take into account the projections of macroeconomic indicators for 2023 prepared by the Directorate for economic planning of B&H (DEP) in September 2023<sup>2</sup>, we can observe trends in the share of net collection of indirect taxes in GDP and consumption. The estimated share of indirect tax net collection in GDP has increased by 0.21 percentage points, from 17.2% in 2022 to 17.4% in 2023. The estimated increase in the share of net indirect taxes in total consumption was 0.34 percentage points (19.9% in 2022 and 20.3% in 2023). After the final report by types of revenue and the official data on macroeconomic indicators of the Agency for Statistics of Bosnia and Herzegovina (BHAS) are available, it will be possible to calculate how much that share officially amounts to, and to estimate how much it was affected by the growth in the efficiency of revenue collection, and how much by the effects of policy change measures in 2023.<sup>3</sup>

### Analysis of collection in 2023 with regard to long-term trends

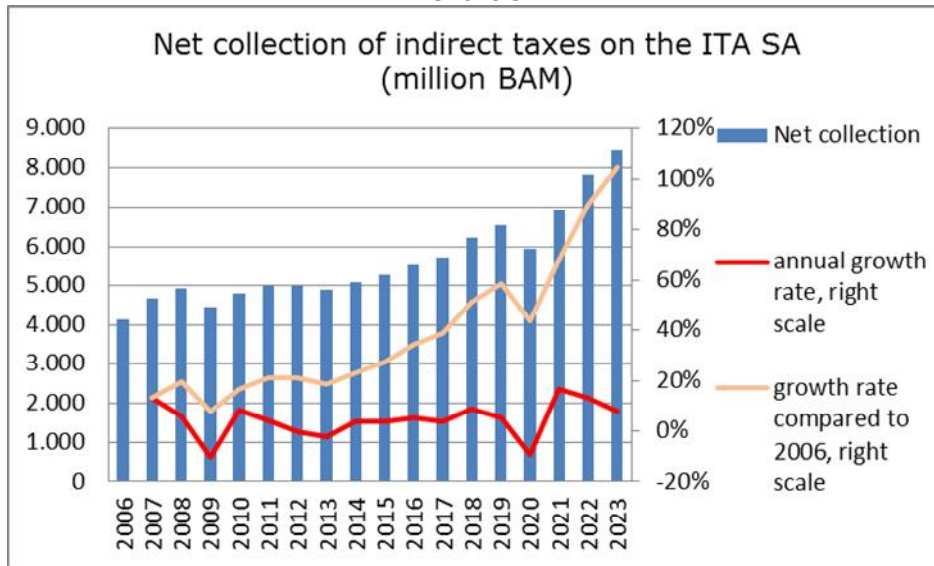
In 2023, the highest amount of indirect taxes was collected since the establishment of the ITA. Compared to the year of VAT introduction (2006), the net collection has more than doubled (104.6% growth). Although the highest growth rates of net collection in the observed period have been recorded in the previous two years, it can be concluded that in 2023, regardless of the high statistical basis for comparison, a relatively high rate of revenue growth was achieved.

The share of indirect taxes on the ITA SA in GDP has varied significantly in recent years. Since the introduction of VAT (2006), this indicator has ranged from 16.6% to 19.2%. It is estimated that in 2023 it amounted to 17.4%. The dynamics of indirect taxes in GDP depended on numerous factors: changes in tax rates and the tax base, efficiency of tax collection, changes in consumption, but also in other categories of GDP (investments, imports and exports), which, in addition to consumption, affect the level of the denominator of this indicator.

<sup>2</sup> At the time of preparation of this article, official data from the Agency for Statistics of B&H until 2022 were available (BHAS, December 29, 2023).

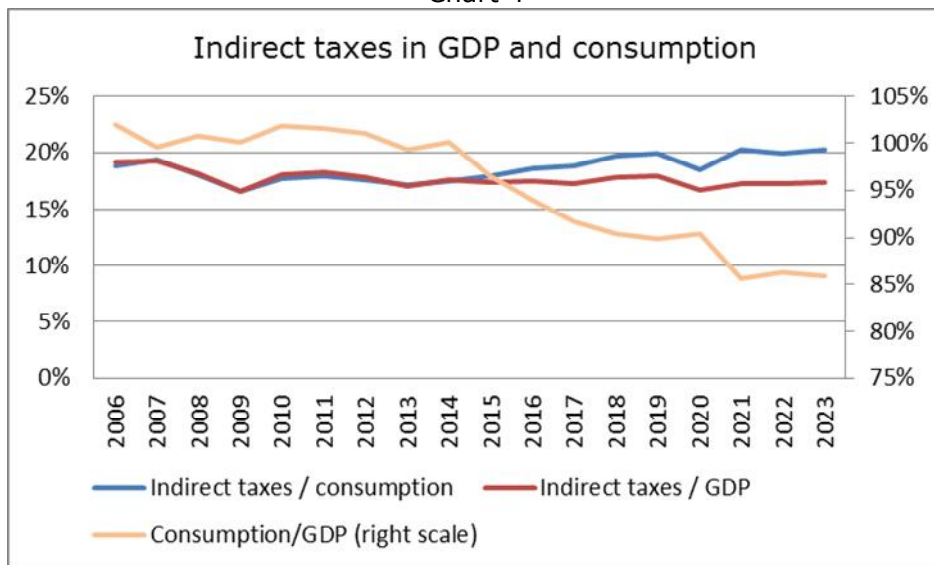
<sup>3</sup> Among the factors that had a positive impact on the collection of revenues from indirect taxes, it should be mentioned the suspension of road tax exemptions for mines and thermal power plants, the expansion of the scope of taxation of bank service packages, while the change in the payment regime for excise duties on tobacco products and the one-time refund of excise duties on damaged excise stamps for tobacco products from previous years had a negative effect on collection.

Chart 3



Source: Indirect Taxation Authority of B&H, calculation and presentation of the MAU

Chart 4



Source: Indirect Taxation Authority of B&H, BHAS and DEP's projections for 2023; Calculation and presentation of the MAU

The lower shares of indirect taxes in GDP in recent years compared to the initial years after the establishment of the ITA can be explained by the decline in the share of consumption (which represents the base of indirect taxes) in GDP in the past period.<sup>4</sup> The share of indirect taxes in GDP and consumption was at approximately the same level until 2015, when the share of consumption in GDP amounted around a high 100%. Since 2015, there has been a downward trend in the share of consumption in GDP, while, according to projections, in 2023 it amounted to 85.9%. With the decline in the share of consumption in GDP, since 2015, the line of the share of indirect taxes in GDP has been significantly below the line of its share in consumption. Based on the DEP's projections of macroeconomic indicators from September 2023, it is estimated that in 2023, the highest share of indirect taxes in consumption was achieved since the establishment of the ITA.

<sup>4</sup> The share of indirect taxes in GDP can be broken down into the product of: (1) share of revenues from indirect taxes in total consumption and (2) share of total consumption in GDP.

## Cigarette taxation policy in 2023: EU vs B&H

(Author: Dinka Antić, PhD)

### INTRODUCTION

*The last comparative analysis of the policy of taxation of cigarettes in Bosnia and Herzegovina and the policies of EU member states referred to the year 2021.<sup>5</sup> The analysis also included the effects of policies on cigarette consumption and excise duty collection. The following conclusions could be drawn from the aforementioned analysis:*

- (i) the large drop in the amount of taxable cigarettes in B&H is not an exception, but, on the contrary, the rule, not only in the new EU member states, which went through a similar difficult path of increasing excise taxes on cigarettes, but also in the legally regulated, developed EU-15 member states;*
- (ii) a large number of EU member states are faced with slow growth of collected revenues from excise duties, some even with stagnation/decline in collection, which points to the conclusion that the fiscal effects of the existing EU excise policy have been exhausted;*
- (iii) the continuous growth of excise taxes, and thus of the retail prices of cigarettes, leads to the polarization of consumers into two groups: the group with lower incomes, whose demand is elastic and thus largely depends on the increase in cigarette prices, and the group with higher incomes, whose demand is inelastic and less subject to price changes;*
- (iv) a large drop in cigarette consumption led to a drop in excise revenue, which even a reduction in the excise burden could not alleviate and, finally,*
- (v) mass migrations of the working-age population from the new member states to the developed EU member states have significantly contributed to the decline in cigarette consumption in the new EU member states.*

*In the past few years, there have been certain changes in the excise policies of the EU member states, while the redefinition of the EU excise policy has been postponed due to the pandemic. On the other hand, the cigarette taxation policy in B&H has remained unchanged as of 2019. Considering the availability of data, the article analyses the current excise policies of EU member states and B&H in 2022 and 2023, and also provides a comparison with the situation in 2021.*

### I MINIMUM STANDARDS OF EXCISE TAXATION IN THE EU

For taxation purposes, tobacco products in the EU are divided into two large groups: (i) cigarettes and (ii) other tobacco products (cigars, cigarillos, cut tobacco, etc.). This approach was applied for many years in the process of legal norming, and special directives were adopted for each of these two groups of excise products, while the taxation policy for all tobacco products in the EU has been unified with the Directive 2011/64/EU<sup>6</sup>.

At the EU level, it is prescribed that all member states tax all types of cigarettes with a complex excise tax, which includes a specific excise tax, calculated per product unit (for 1,000 cigarettes), and an *ad valorem* (proportional) excise tax, calculated on the basis of the retail price that includes all taxes and VAT.

<sup>5</sup> Antić, D. "Cigarette taxation: EU vs BiH", MAU Bulletin #195/196, September/October 2021, [www.oma.uino.gov.ba](http://www.oma.uino.gov.ba).

<sup>6</sup> Council Directive 2011/64/EU of 21 June 2011 on the structure and rates of excise duty applied to manufactured tobacco

The current excise policy in the EU in the area of taxation of tobacco products implies the following minimum taxation standards:

- (i) the application of a complex excise duty rate, implying both *ad valorem* excise duty and specific excise duty;
- (ii) application of the reference price of cigarettes, which will be the basis for determining whether the minimum standards have been met;
- (iii) defining the level of excise duty on cigarettes, which will represent the minimum standard of taxation of cigarettes.

Minimum standards can, basically, be defined in an absolute amount, and as such, they can lose their importance over time, but also their real value, taking into account development of the economy, consumption growth and inflation effects. On the other hand, relative minimum standards are less subject to derogation and are more suitable for comparative analysis. Unlike other excise products, the EU has introduced both categories of minimum standards for cigarette taxation, which greatly complicates the policy of cigarette taxation and requires a certain trade-off between nominal and relative standards, i.e. balancing between national and EU policies.

The first standard, which is of a relative nature, implies that the excise duty on cigarettes should amount to at least 60% of the weighted average price of cigarettes. Introduction of the standard "60%" of the average weighted price of cigarettes represents a significant deterioration of the criteria for member states that have a large discrepancy between the price of the most popular brands (which are usually the cheapest) and the weighted average price. In developed countries, the differences between these two reference prices are insignificant. The second minimum standard is of a monetary nature, and implies the minimum amount of excise tax that must be included in the retail price of each brand of cigarettes. The initial amount of the minimum excise duty of EUR 60 was unattainable for some member states already at the moment when it was prescribed. Later, the amount was increased to EUR 64, and then to EUR 90, representing a great burden for the new EU member states, and some of them were faced with macroeconomic disturbances due to the sharp rise in cigarette prices.

## II CIGARETTE TAXATION POLICY IN B&H

The basic legal framework of the current policy of taxation of tobacco products is the Law on Excise Taxes in Bosnia and Herzegovina<sup>7</sup> - (hereinafter: "the Law"), which has been in force as of July 1, 2009.

In the area of taxation of tobacco products, changes were made to the Law on August 1, 2014.<sup>8</sup>

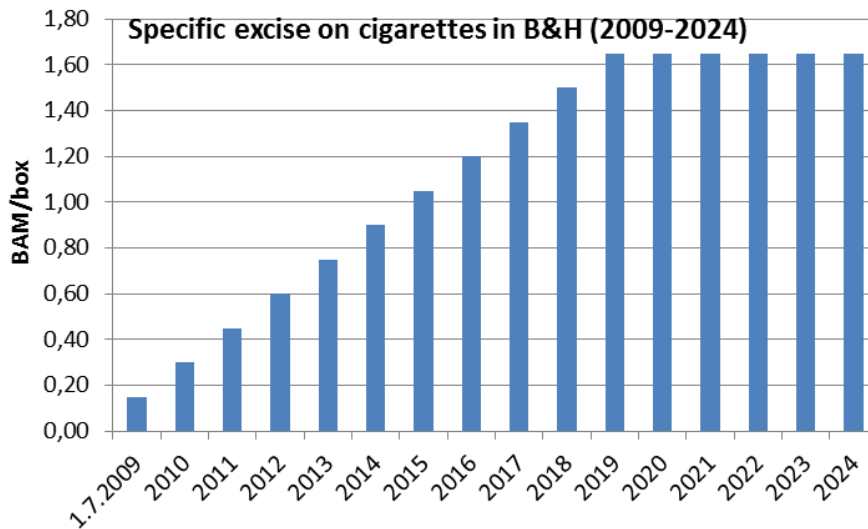
Cigarettes are taxed with:

- *ad valorem* (proportional) excise duty, in the amount of 42% of the retail price (taxes included)
- specific excise tax, which as of 2019 amounts to 1.65 BAM/pack or 82.50 BAM/1,000 cigarettes.

<sup>7</sup> "Official Gazette of B&H" No 49/09.

<sup>8</sup> "Official Gazette of B&H" No 49/14.

Chart 1



### III ANALYSIS OF EXCISE POLICY

#### 3.1. Excise rates

A large number of member states<sup>9</sup> have harmonised the excise burden with the minimum EU standards by changing the structure of excise duty rates - reducing the *ad valorem* excise duty rate and increasing the specific excise duty, guided by the goals of health policy to eliminate cheaper cigarettes from use and to reduce the total consumption of cigarettes.<sup>10</sup>

##### *Ad valorem excise*

Denmark and Sweden still have the lowest rate of *ad valorem* excise duty, only 1%, and France has the highest of 55% (Chart 2, left). B&H, with an *ad valorem* excise tax of 42%, is at the top of the list, and only five member states have a higher rate.

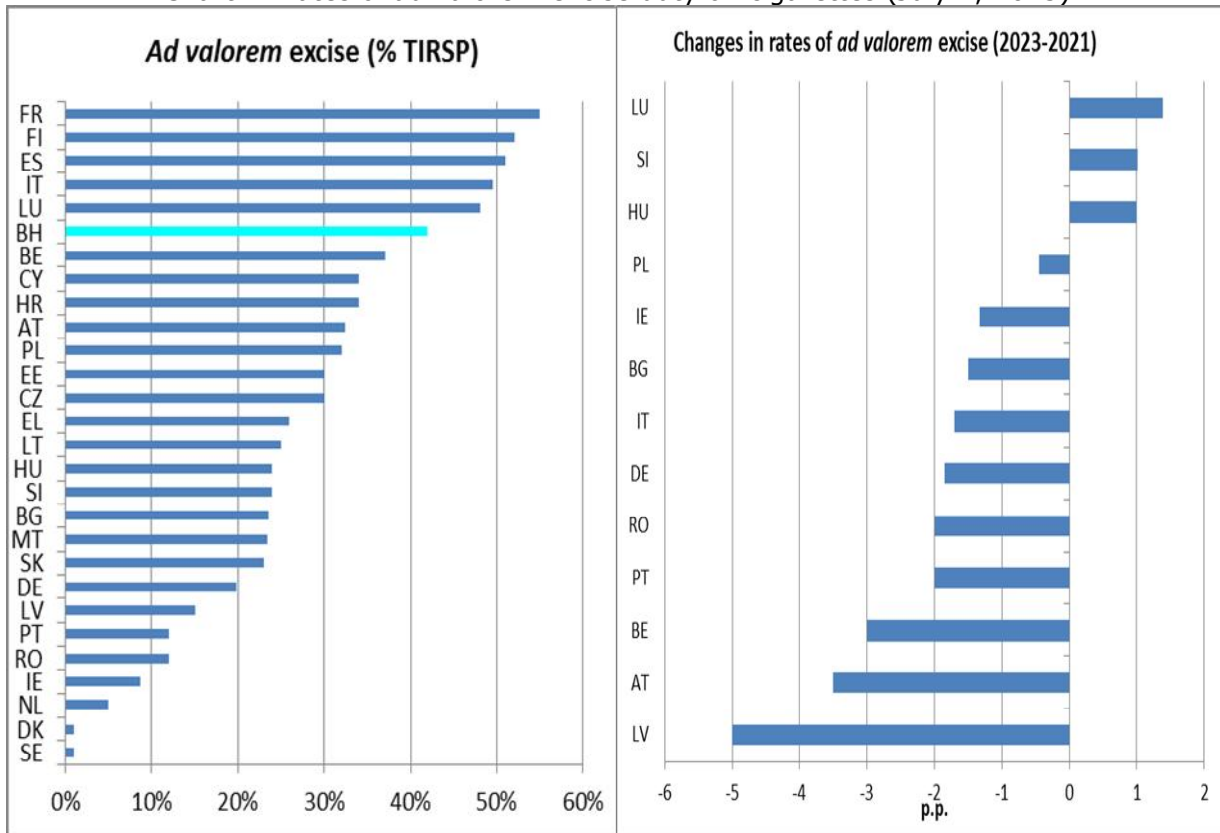
In the last two years, even 13 member states changed the *ad valorem* excise tax. Eight member states reduced the *ad valorem* excise rate (Latvia by as much as 5 p.p.), while three increased it (Chart 2, right).

<sup>9</sup> Charts use common abbreviations for member states: AT-Austria, BE-Belgium, BG-Bulgaria, CZ-Czech Republic, CY-Cyprus, DE-Germany, DK-Denmark, EE-Estonia, EL-Greece, ES-Spain, FI -Finland, FR-France, GB-G.Britain, HR-Croatia, HU-Hungary, IE-Ireland, IT-Italy, LV-Latvia, LT-Lithuania, LU-Luxembourg, MT-Malta, NL-Netherlands, PL -Poland, PT-Portugal, RO-Romania, SE-Sweden, SI-Slovenia, SK-Slovakia.

<sup>10</sup> Note: Until 2022, the European Commission internally collected and processed data on the taxation of tobacco products, publishing them on its official website in a summary table. As of 2022, summary tables have not been published, while data for each of the member states can be obtained by searching the database of the European Commission.



Chart 2. Rates of *ad valorem* excise duty on cigarettes (July 1, 2023)



Source: European Commission March 1, 2021 and July 1, 2023; calculation and presentation of the author

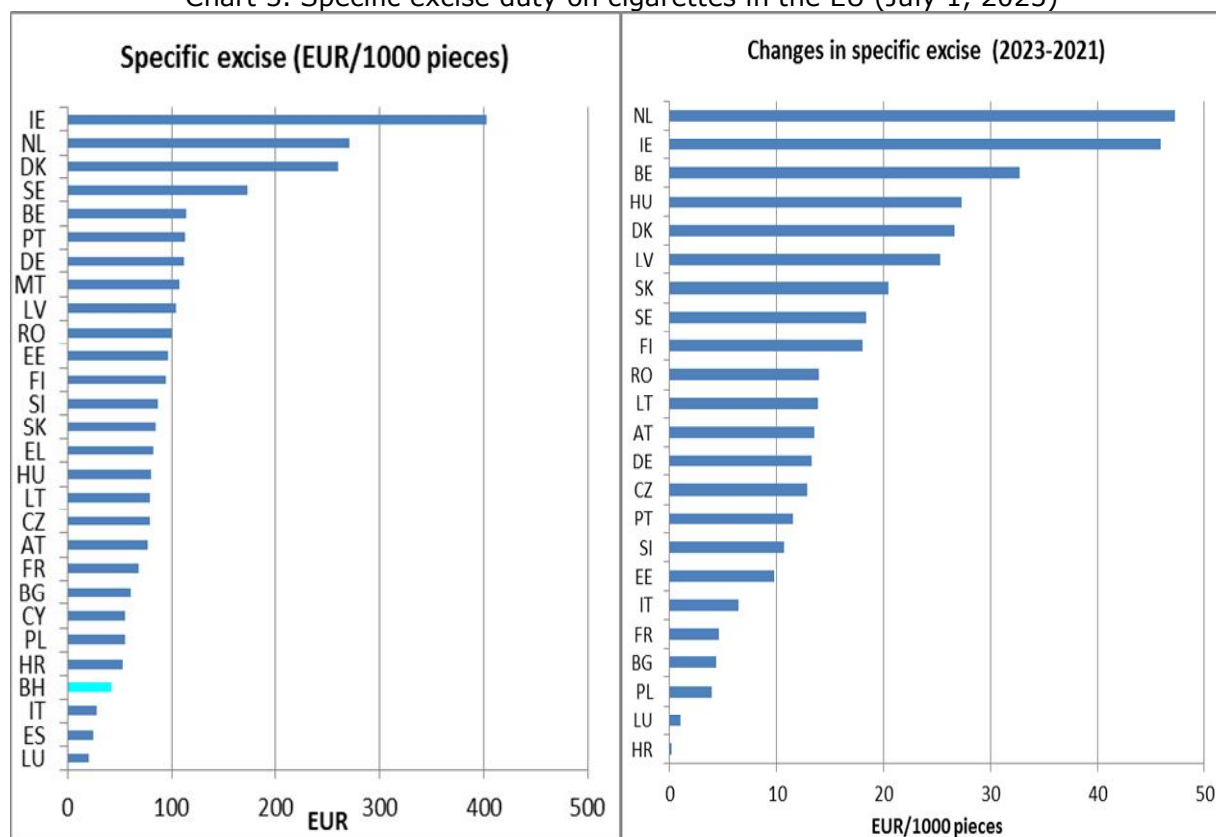
*Specific excise duty*

Luxembourg currently has the lowest specific excise tax<sup>11</sup> on cigarettes, only 20.14 EUR per 1,000 pcs. Ireland, the Netherlands, Denmark and Sweden have very high excise rates (Chart 3, left). Regarding the level of specific excise duty, B&H is at the bottom of the list. Only three EU member states have a lower specific excise duty rate than B&H.

In contrast to the *ad valorem* excise duty, even 23 member states have increased the specific excise duty in the last two years (Chart 3, right). Only Cyprus, Spain, Malta and Greece did not increase the specific excise duty. The increase in the specific excise tax rate should not only be seen as a function of tough taxation of cigarettes in order to reduce smoking, but also as a need to preserve the real value of the specific excise tax, and thus the total revenue from excise taxes on tobacco products in the conditions of rising inflation after the start of the war in Ukraine.

<sup>11</sup> It should be borne in mind that a certain number of member states have national currencies, and that the calculations of specific excise duty, as well as other reference values important for analysis, such as the weighted average retail price, excise burden, price before taxation, etc. also depend on the exchange rate between their national currencies and EUR. This means that variations in the level of specific excise duty in some member states are not necessarily a product of the member state's excise policy, but also a consequence of monetary developments in that member state. The example of Hungary can serve for illustration. In 2021, the specific excise duty amounted to 24,000 HUF, and in 2023 it was increased to 29,500 HUF, representing an increase of 22.9%. However, due to the drop in the value of the Forint against the EUR by 2.2%, the specific excise tax expressed in EUR is higher by 20.3%.

Chart 3. Specific excise duty on cigarettes in the EU (July 1, 2023)



Source: European Commission March 1, 2021 and July 1, 2023; calculation and presentation of the author

### 3.2. Degree of fulfilment of EU standards

#### *Criteria „60%“*

Regarding the degree of fulfilment of the "60%" criteria, in terms of burden of the weighted average retail price of cigarettes (WAP) with excise duty, the analysis for 2021 showed that only Netherlands was ahead of B&H among the EU member states. That year, the share of excise duty in WAP in B&H was 12 percentage points higher than the minimum EU standard (Chart 4). The analysis for 2023 showed that, in terms of the tax burden of WAP, B&H was overtaken by two other member states - Estonia and Finland, with the fact that the share of excise taxes in WAP in B&H is now 10 percentage points higher than the minimum EU standard. The slowdown in the growth of the excise tax burden in B&H was a consequence of maintaining the same level of specific excise duty and the increase in WAP of cigarettes.

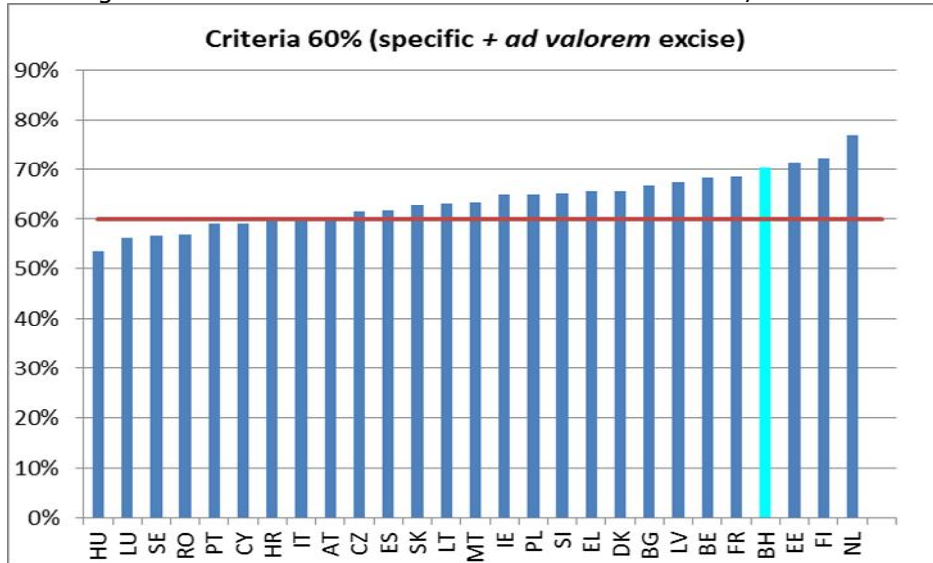
The maximum fulfilment of the criteria indicates a too fast pace of harmonization of excise duties with the EU standards. Regarding the minimum excise duty of 70% of the retail price, as a criterion for the optimality of cigarette taxation advocated by World Health Organization (WHO)<sup>12</sup>, apart from B&H, only three member states have fulfilled this WHO criterion when it comes to the weighted average price of cigarettes<sup>13</sup>.

<sup>12</sup> More in: WHO. (2021). Technical Manual on Tobacco Tax Policy and Administration.

<sup>13</sup> It can be assumed that in a large number of member states, more expensive cigarettes meet this WHO criterion.

On the other hand, situation regarding the fulfilment of the "60%" criterion in the EU has worsened in the last two years. In 2021, four EU member states did not meet the set criteria, including some of the old EU-15<sup>14</sup> member states. According to data from 2023, in five member states the excise duty on cigarettes ranges from 53% to 57%, and in five it is at the level of 60%. It should be borne in mind that by constantly varying the taxation policy, i.e. by reducing/increasing *ad valorem* excise duty and specific excise duty, it is difficult to maintain the given standards, especially since there are two unknowns at the time of assessing the effects of future measures, namely the response of the tobacco industry and the response of consumers.

Chart 4. The degree of fulfilment of the "60%" criterion in the EU/B&H in relation to WAP



Source: European Commission, July 1, 2023; calculation and presentation of the author

### Criteria „90 EUR“

Although fulfilment of the criterion "90 EUR" should be observed in relation to the excise burden of all cigarette brands in circulation, due to the extensiveness of the statistics, the fulfilment of the standard is most often monitored in relation to WAP.

Chart 5 shows that the amount of excise duty in WAP in all EU member states exceeds 90 EUR per 1000 cigarettes, and reaches up to 450 EUR per 1000 pcs. Bulgaria has the lowest share of excise duty, amounting 92.70 EUR per 1000 pcs. B&H is at the bottom of the list, with 104.78 EUR per 1000 pcs.

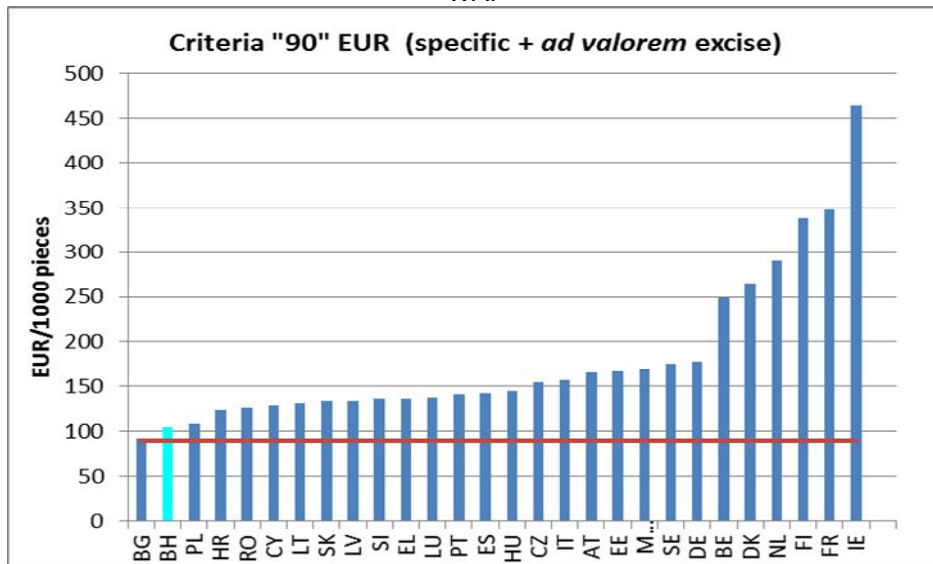
The constant variation of excise duty rates (*ad valorem* and specific) within the rate structure in favour of specific excise duty resulted in an increase in the excise duty burden on cigarettes in the last two years. When observing the increase in excise duty burden on the WAP in the nominal terms, B&H is at the bottom of the list (Chart 6, left), in contrast to the situation in the period 2015-2021<sup>15</sup> when it was in the upper half of the list (Chart 6, right). The reason is that the specific excise duty on cigarettes has been unchanged as of 2019, after the completion of the harmonization process in B&H, while the increase in the excise burden arises from the application

<sup>14</sup> The usual abbreviation used in publications in the EU for the "old" member states from Western Europe, although it should be borne in mind that with the exit of Great Britain from the EU, the abbreviation EU-14 is more appropriate.

<sup>15</sup> The period 2015-2021 was taken for analysis in order to ensure the comparability of B&H with the EU, since the category of weighted average retail price of cigarettes was introduced in B&H in 2014.

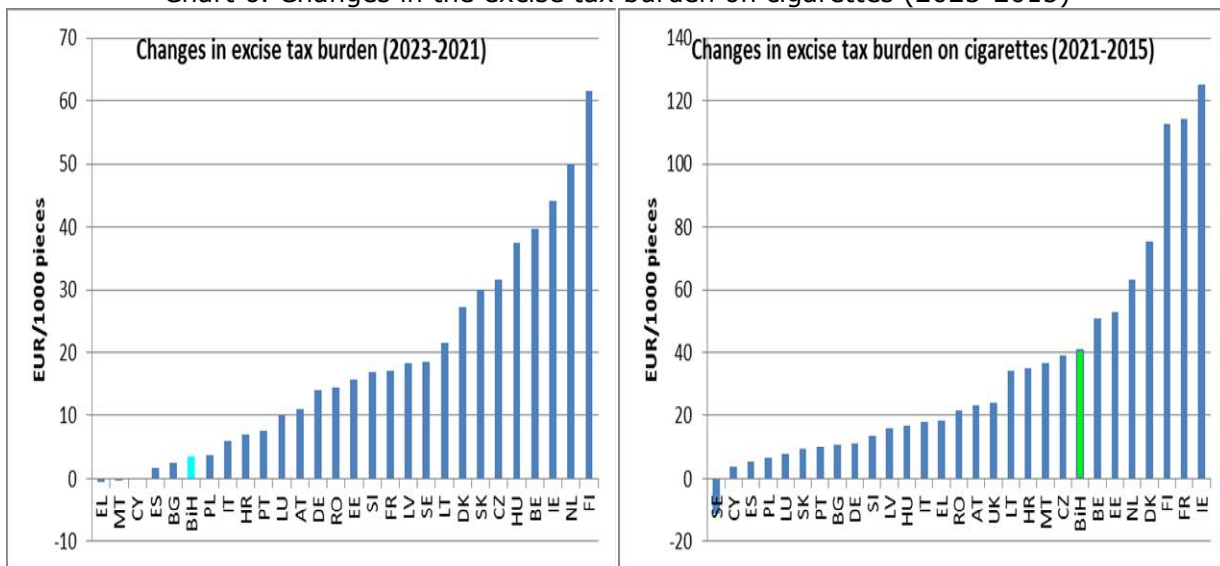
of *ad valorem* excise duty on higher retail prices of cigarettes.<sup>16</sup> On the other hand, most member states have increased the excise tax burden on cigarettes in the last two years (Chart 6, left).

Chart 5. The degree of fulfilment of the "90 EUR" criterion in the EU and B&H in relation to the WAP



Source: European Commission March 1, 2021; calculation and presentation of the author

Chart 6. Changes in the excise tax burden on cigarettes (2023-2015)



Source: European Commission, database; calculation and presentation of the author

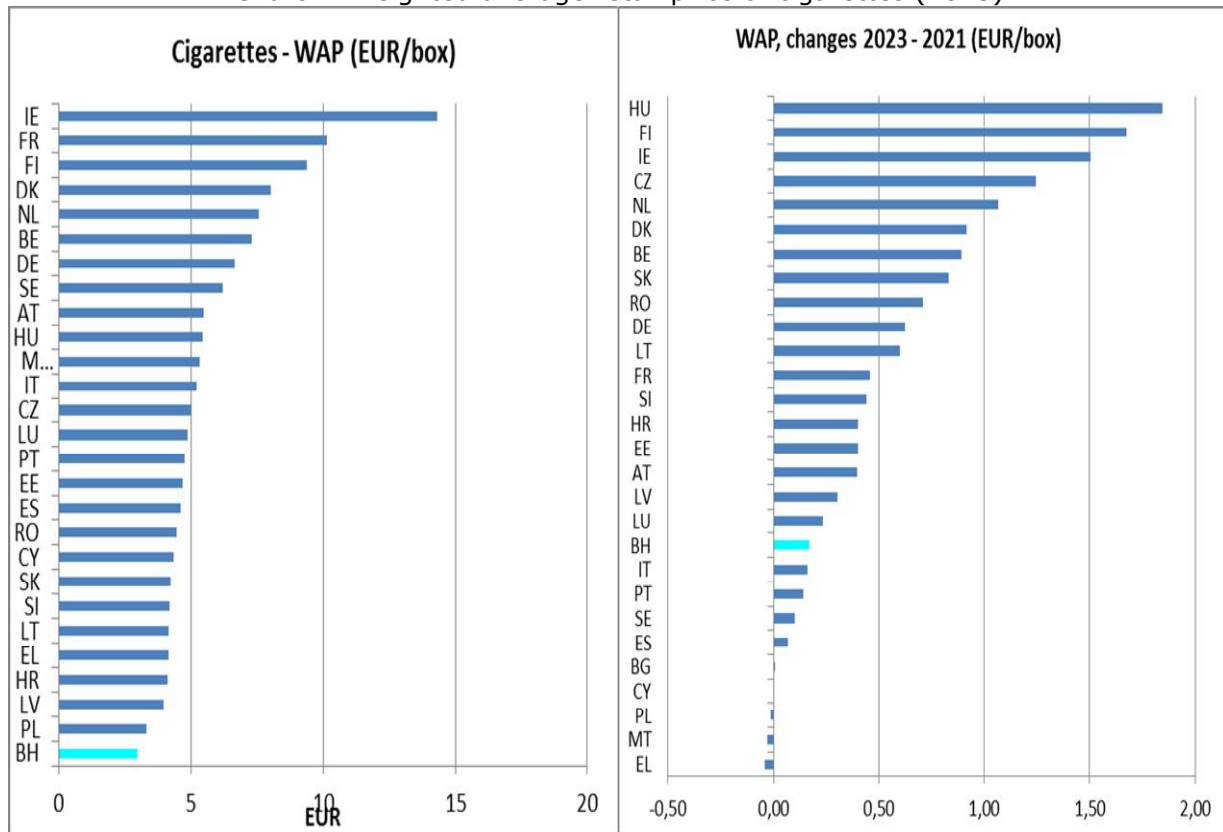
### 3.3. Weighted average price of cigarettes

Bearing in mind the big differences in the excise tax burden, the (non)fulfilment of the "60%" and "EUR 90" criteria is not enough to draw conclusions about the country's excise policy. An overview of the WAP in the EU member states and a comparison with B&H showed that in the nominal

<sup>16</sup> The WAP of cigarettes in 2023 is higher by 4.5% compared to the WAP in 2021.

terms, as expected, the WAP of B&H is at the bottom of the list together with the new EU member states (Chart 7, left). It was expected, having in mind the economic development of the country and, consequently, the standard of the population. However, on the other hand, the relative relationships are surprising. So, for example, the WAP of cigarettes in Slovenia and Croatia are about 30% higher than in B&H, although the differences in net incomes are much greater. From this it could be concluded that the prices of cigarettes in B&H are higher than they should be, considering the standard of the population. However, for a more complete analysis, it is necessary to analyse the WAP structure, which consists of the price before taxation and taxes (excise duty, VAT).

Chart 7. Weighted average retail price of cigarettes (2023)



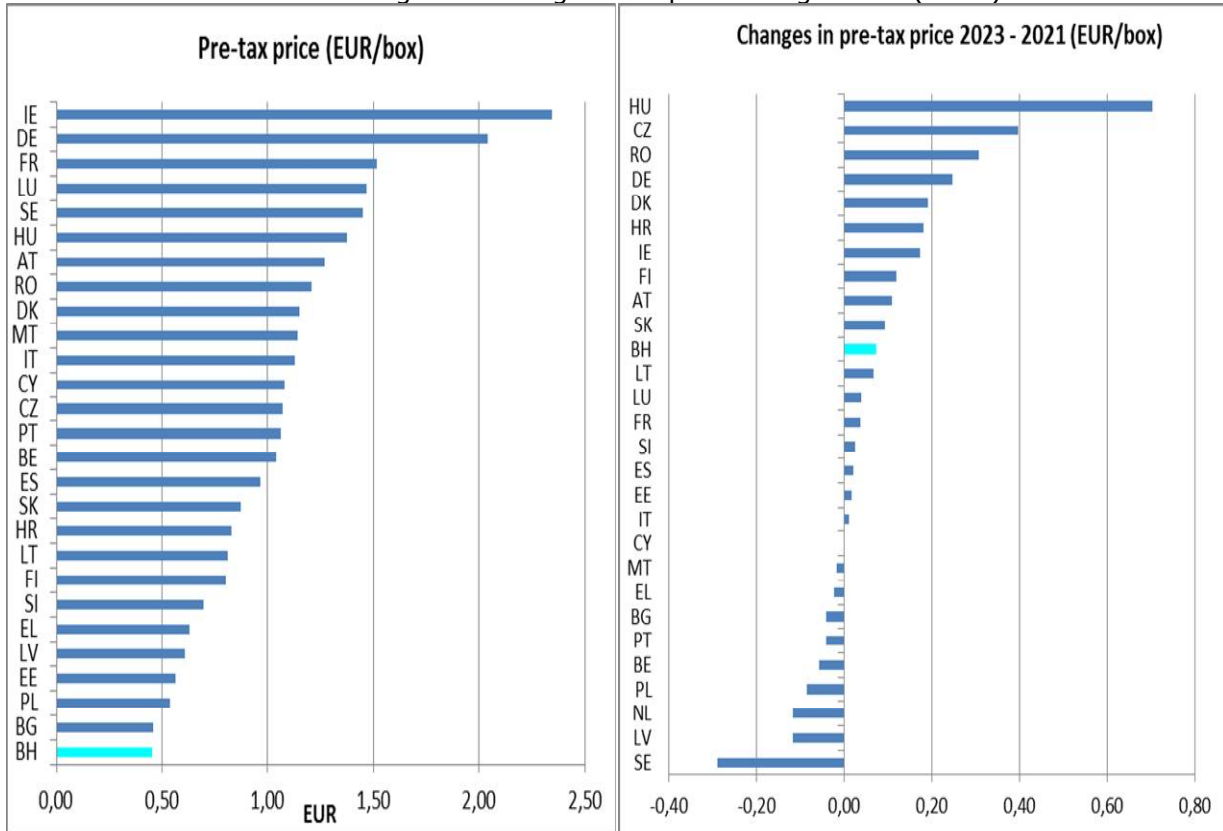
Source: European Commission, database; calculation and presentation of the author

### 3.4. Pre-tax price

The pre-tax price *de facto* represents the revenue of the tobacco company, which includes cost price and profit/margin. The analysis of the pre-tax price shows that the nominal amount of the pre-tax price is the lowest in B&H (Chart 8, left). Since the last analysis, Bosnia and Herzegovina has reached Bulgaria's level in that segment, which until then had the lowest pre-tax price. In the last two years, B&H has increased the pre-tax price, while Bulgaria has recorded a decrease in the pre-tax price. Caution is required when drawing conclusions, considering that the analysis is carried out in relation to the weighted average retail price, which is the result of the movement of cigarette prices and the consumption of certain brands. Since B&H imports all the cigarettes, the entry price should be at least at the level of prices in other countries, because it reflects the production costs of the same or similar brands, especially in countries that do not have their own cigarette production, with additional transport costs. It is obvious that the difference between the

lower pre-tax price in B&H and the higher price in the EU member states refers to the lower profit/margin realized on the B&H market.

Chart 8. Weighted average retail price of cigarettes (2023)



Source: European Commission, database; calculation and presentation of the author

### 3.5. Total tax burden on cigarettes

The total tax burden on cigarettes consists of excise duty and VAT. Often, when analysing and designing the excise policy, the importance of the VAT rate on the total excise burden on cigarettes is ignored.

According to the review of VAT rates in the EU, the lowest VAT rate of 16% is applied in Luxembourg. Compared to 2021, the VAT rate in Luxembourg has been reduced from 17% to 16%. Of the other member states, only Ireland increased the VAT rate from 21% to 23%<sup>17</sup> in the last two years. The overview, given in Chart 9<sup>18</sup>, points to the conclusion that the VAT rate in B&H is higher only in comparison to Luxembourg, while all other member states have a significantly higher standard VAT rate.

The total tax burden is obtained by adding the % share of the excise tax burden and the VAT burden (Chart 10).

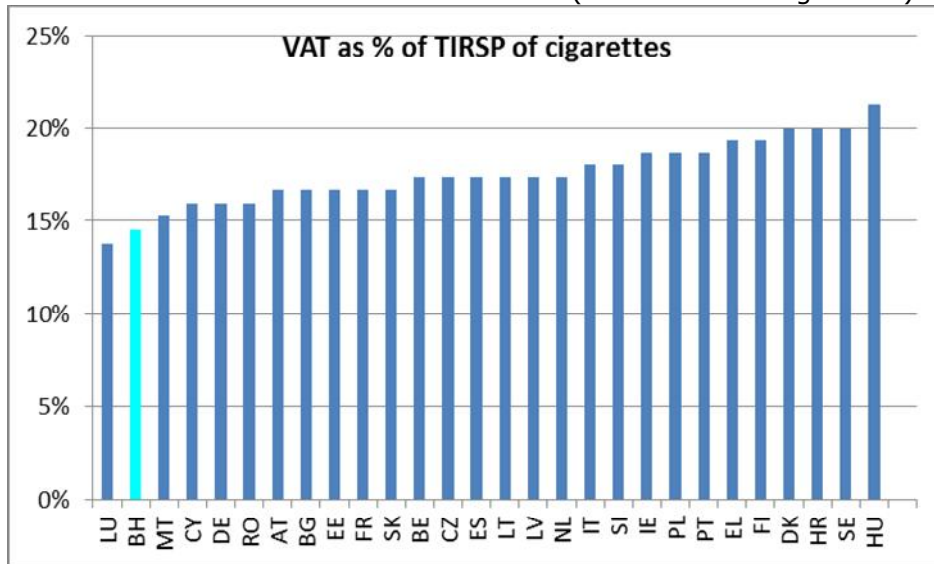
Comparing the position of B&H in relation to the EU member states in terms of the amount of excise duty on cigarettes as % WAP (Chart 5) and the amount of the total tax burden (Chart 10,

<sup>17</sup> On September 1, 2020, Ireland reduced the VAT rate from 23% to 21% temporarily for 6 months, and returned it again to 23% on March 1, 2021. Source: <https://www.revenue.ie/en/vat/vat-rates/historical-vat-rates/index.aspx>

<sup>18</sup> Note: Chart 9 shows the VAT rates as percentage of tax inclusive retail sales price (TIRSP) of cigarettes  
Banja Luka: Bana Lazarevića, 78 000 Banja Luka, Tel/fax: +387 51 335 350, E-mail: [oma@uino.gov.ba](mailto:oma@uino.gov.ba)

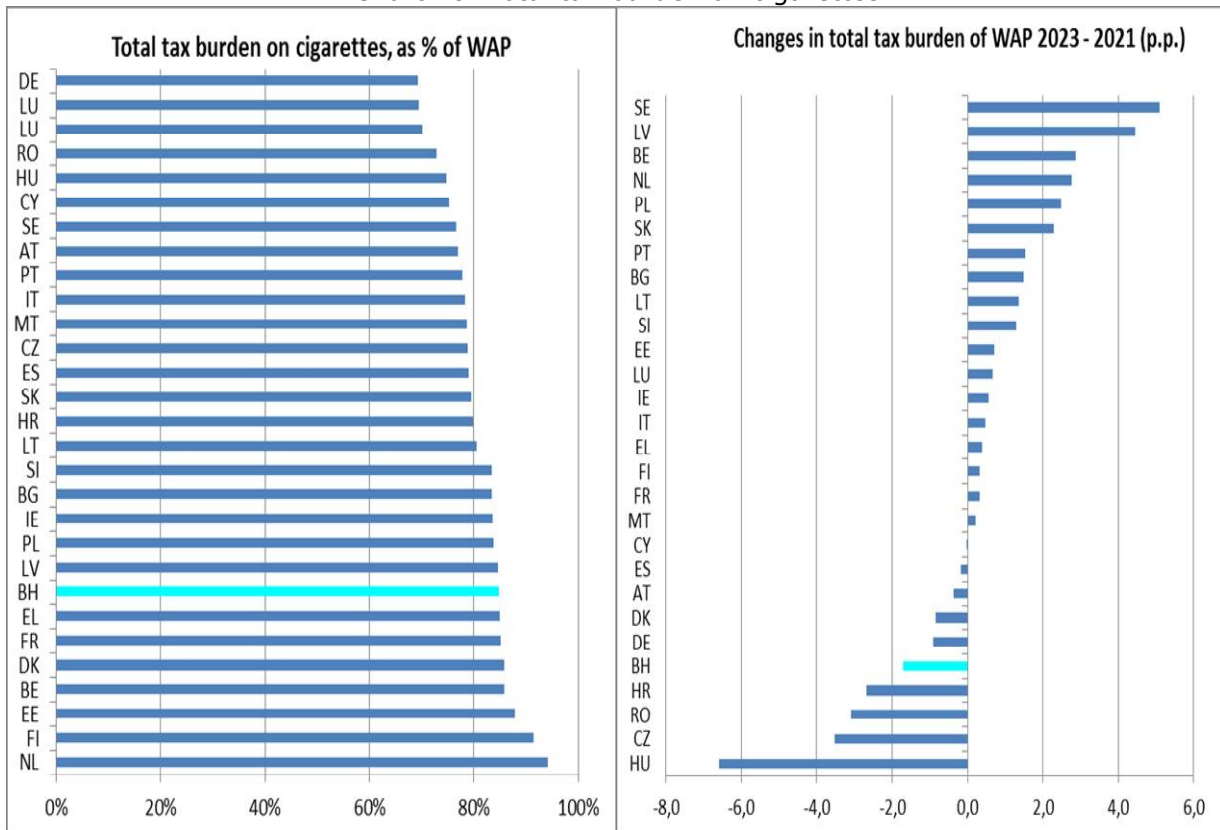
left), it can be seen that seven member states are ahead of B&H in terms of the total tax burden. In the last two years, with the completion of the process of harmonization with EU standards, the tax burden on cigarettes in B&H was reduced by 3.2 p.p. while in some member states there was an increase in the tax burden (Chart 10, right).

Chart 9. VAT rates in EU member states (% of TIRSP of cigarettes)



Source: European Commission, July 1, 2023; calculation and presentation of the author

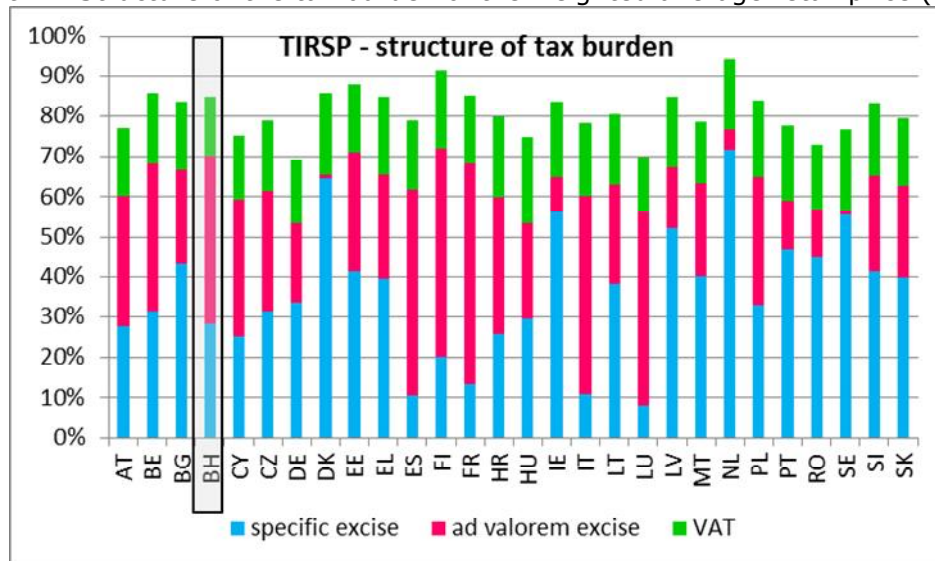
Chart 10. Total tax burden on cigarettes



Source: European Commission, database; calculation and presentation of the author

An overview of structure of the tax burden on WAP of cigarettes in the EU member states shows the different emphases of the excise policies (Chart 11). The structure of the tax burden in B&H shows an emphasis on the *ad valorem* component (*ad valorem* excise duty + VAT), but it is also balanced, having in mind the extreme policies, e.g. of the member states that have an *ad valorem* excise tax of 1%, or member states where the specific component is over 70% of WAP (Netherlands) or member states where the specific component is less than 10% of WAP (Luxembourg). It can be said that the low rate of VAT in B&H also serves as a corrective to the high excise burden on cigarettes, originating from *ad valorem* taxes.

Chart 11. Structure of the tax burden of the weighted average retail price (2023)



Source: European Commission, database; calculation and presentation of the author

Given that there are no announcements of an increase in excise duty rates on cigarettes in B&H, **it is realistic to expect a continuation of the trend of reducing the total tax burden on cigarettes in B&H in the coming years.**

That trend can be threatened from two sides:

- from outside, by adopting a new policy of taxation of tobacco products in the EU, which would imply an increase in the minimum standards of taxation or, at the very least, indexation of the "90 EUR" criterion with the rate of inflation, or
- internally, by a radical change in the VAT rate policy in B&H, where the eventual introduction of a reduced rate would require a significant increase in the standard rate in order to maintain the same level of VAT revenue.

Whether external factors will occur depends on reaching a consensus in the EU, and, consequently, a consensus in B&H regarding the new policy of taxation of tobacco products. On the other hand, a political consensus<sup>19</sup> is needed within B&H in order to change the policy of VAT rates, and, even in case of its achievement, several months of technical preparations are necessary for the implementation of differentiated VAT rates. Bearing all this in mind, it can be

<sup>19</sup> Changes to the VAT and excise duty policy require a majority vote of the members of the Governing Board of the Indirect Taxation Authority and, within the majority, the vote of both entity finance ministers.



expected that existing policies will be maintained in the coming years as well, which will ensure the continuation of the trend of reducing the tax burden on cigarettes.

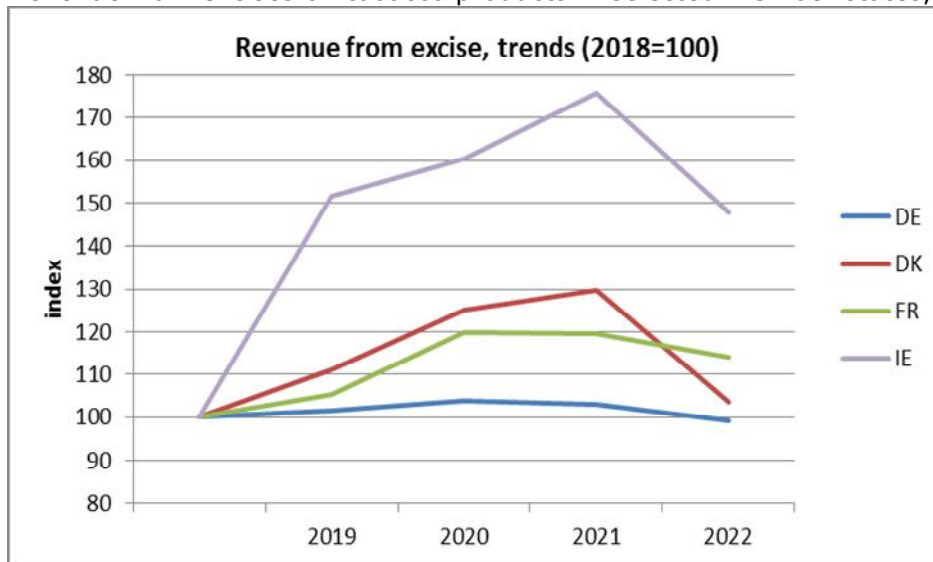
### INSTEAD OF CONCLUSION

The cigarette taxation policy in Bosnia and Herzegovina has remained unchanged since 2019, unlike the EU member states which have continued to adjust their excise policies for the past two years. Some, mostly more developed countries, increased excise taxes, while others reduced the tax burden on cigarettes. It is currently not possible to give an assessment of the effects of changes in the rate policy in EU member states on cigarette consumption and excise duty collection, as data on consumption and collected revenues in 2022 are only available for seven member states.<sup>20</sup> Bearing in mind the dynamics of data publication, assessments of the effects of the application of the rates introduced during 2023 can only be expected in a year or two.<sup>21</sup> Considering all the above, only a limited analysis is possible for the mentioned member states, which would illustrate the main trends.

A longer period is needed to see the effects of rate changes on revenue collections. For this reason, data on revenue collection for the aforementioned seven member states from 2018 to 2022 were taken for analysis, while the excise tax rate policy refers to the period 2018 - 2021, taking into account the *ex post* effect of the excise policy on excise collection.

The aforementioned member states did not change the VAT rate in the given period. Except for Germany, all the mentioned states increased the specific excise duty in 2021, compared to 2018, and among them Denmark and France by as much as 47% and 30%, respectively. On the other hand, in the same period, France increased the most the *ad valorem* excise tax, by 5.3 p.p., while Ireland increased it by 1.1 p.p., and Germany and Italy by 0.3 and 0.2 p.p. respectively.

Chart 12. Revenue from excises on tobacco products in selected member states, the trends



Source: European Commission, database; calculation and presentation of the author

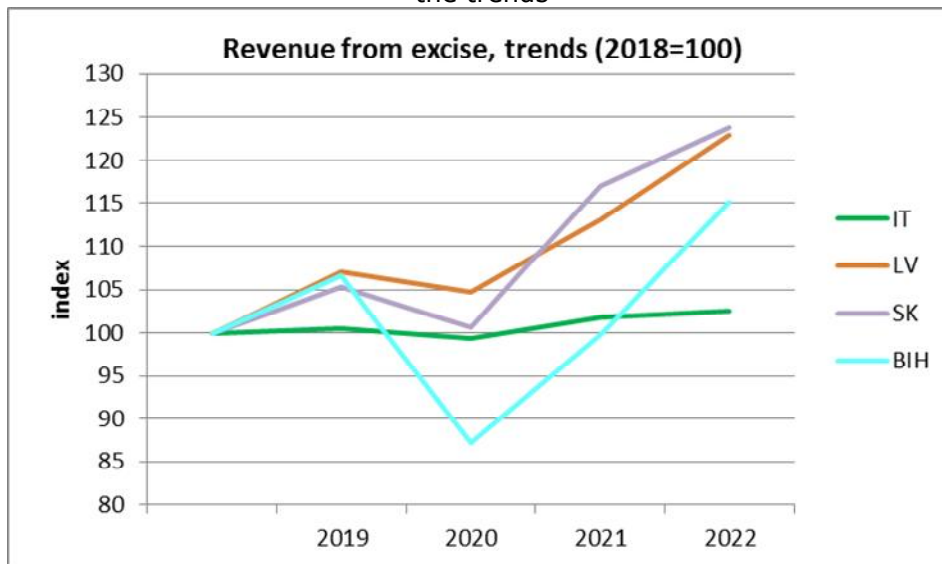
There is a noticeable drop in revenue from excises on tobacco products in 2022 in member states that significantly increased excise rates (France, Denmark, Ireland), while excise collection in

<sup>20</sup> Data for 2022 were published by Germany, Denmark, France, Italy, Ireland, Latvia and Slovakia.

<sup>21</sup> Unlike B&H, which prescribes excise duty rates with application from January 1 of the next year, member states usually change excise duty rates on March 1 or July 1 of the current year.

Germany, after a slight increase during the pandemic, fell to the level of 2018 (Chart 12). On the other hand, the collection of excise revenue in Latvia, Slovakia and Italy showed a growth trend in 2021 and 2022, which could be connected to a milder excise policy (Chart 13). In addition to these three countries, similar positive trends were also achieved in B&H, where the last increase in the specific excise tax on cigarettes was in 2019.

Chart 13. Revenue from excises on tobacco products in B&H and selected member states, the trends



Source: European Commission, database; calculation and presentation of the author

From the above brief analysis, it can be concluded that there are divergent consequences of the ambivalent policies of the member states on the collection of excise revenues. Member states that increase excise duties record a decrease in excise revenues, while others, which increase excise duties at a slower pace, realize revenue growth.

Member states that significantly increase the excise tax burden in a short period of time are aware of the negative consequences of such a policy on revenue collection. Bearing this in mind, it can be concluded that the goals of cigarette taxation in the EU are, in fact, radically different. The focus of cigarette taxation in developed member states, among which the Scandinavian countries are leading, is not excise revenue but the elimination of smoking. On the other hand, despite the proclaimed environmental and health goals, the less developed member states still focus on the traditional fiscal goal - to collect as much revenue as possible from excise taxes. Finally, a separate group consists of member states who have their own cigarette production and who, for economic reasons, in order to protect domestic production and jobs, maintain a high rate of *ad valorem* excise duty and thus increase the excise burden at a slower pace.

Bearing in mind the different goals of taxation in the member states, which are in conflict with each other, it will be difficult to reach a consensus in the discussions that are being held in connection with the redefinition of the existing minimum standards of cigarette taxation in the EU.

Bearing in mind the different goals of taxation in the member states, which do not coincide with each other, it will be difficult to reach a consensus in the discussions that are being held regarding the redefinition of the existing minimum standards of cigarette taxation in the EU.

## Analysis of the allocation of revenues from indirect taxes for the 2023

(Author: Mirjana Popović, Expert Advisor - Macroeconomists)

### Summary

The analysis of the allocation of revenues from indirect taxes for the 2023 is a continuation of the analysis published in previous issues of the Department's bulletin<sup>22</sup>. The analysis presents trends in the allocation of revenues from indirect taxes in Bosnia and Herzegovina (hereinafter: BiH) for the period 2021-2023 shown on an annual basis<sup>23</sup>. The focus of the analysis is the allocation system according to the vertical structure, in accordance with the prescribed methodology and allocation procedure. The analysis also presents the allocation of highway toll revenue for the same period<sup>24</sup>.

### 1. Allocation of revenues from indirect taxes for the period 2021-2023

#### 1.1. Allocation of gross revenues to users

Gross revenues from indirect taxes are total revenues collected on a single account<sup>25</sup> intended for refunds that have priority during allocation, as well as revenues intended for allocation to the institutions of BiH, the Federation of BiH, the Republic of Srpska and the Brčko District. The total amount of funds intended for allocation to the entities and Brčko District includes the amount intended for the financing of external debt.

Chart 1 shows the participation in the refund structure in 2023.

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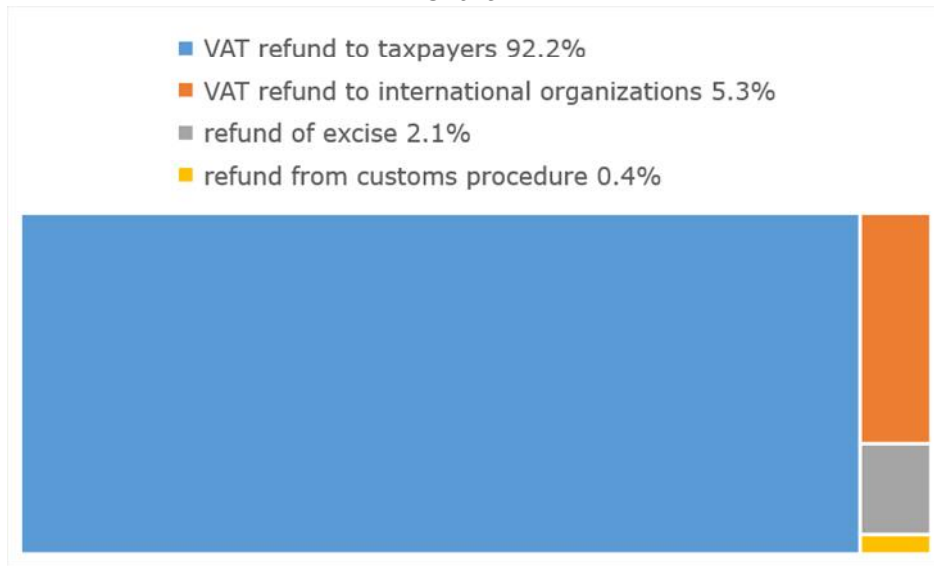
<sup>22</sup> More about the system of allocation of indirect taxes in Bosnia and Herzegovina in: Popović, M. (2019). "Analysis of the allocation of revenues from indirect taxes for the period 2006-2018 (trends and structure)". MAU bulletin no. 168/169

<sup>23</sup> Earlier analyses of the allocation of revenues from indirect taxes, and the latest Analysis of the allocation of revenues from indirect taxes for the 2022 published in MAU bulletin No 211/212 show the annual allocation of these revenues for the period 2006-2022. That analysis included the occurrence of several shocks in certain years and analyzed their impact on indirect tax revenues.

<sup>24</sup> Analysis of the allocation of revenues from indirect taxes for the 2022 - trends and structure published in MAU bulletin No 211/212 covers the period of allocation of highway toll revenue from July 01, 2009 to December 31, 2022. The focus of this analysis is the allocation of these revenues from 2022 in relation to the allocation from 2021, 2020, 2019 and 2017 (the year that represents the year before the changes in the legal regulations).

<sup>25</sup> VAT, customs, excise, toll 0.15 BAM

Chart 1.

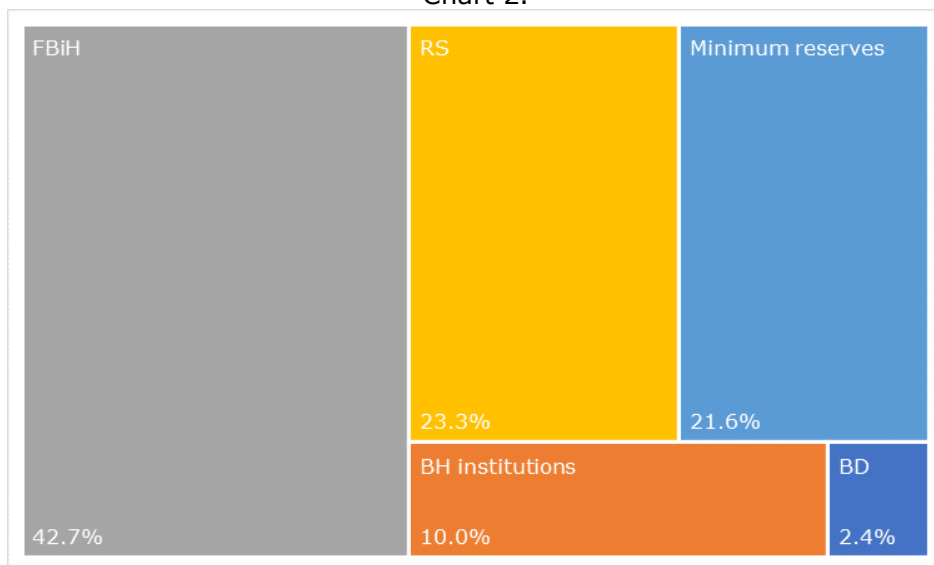


Source: Data from the Indirect Taxation Authority of BiH, MAU overview

The largest allocation in the refund structure in 2023 of 97.5% refers to the total VAT refund, of which 92.2% refers to the VAT refund to taxpayers who, according to their VAT returns, are entitled to a refund, while 5.3% refers to the refund of VAT to international organizations. A significantly smaller allocation in the total refund of 2.1% refers to the excise duty refund and the allocation of 0.4% refers to the refund based on decisions from the customs procedure.

After the refunds have been made, the remaining amount of the total collected revenues is reduced by the amount intended for minimum reserves whose share in the total revenues remaining after the refunds have been made in 2023 is 21.6% (chart 2 and 3).

Chart 2.



Source: Data from the Indirect Taxation Authority of BiH, MAU overview

After allocating part of the revenues intended for minimum reserves, the corresponding fixed amount of revenues intended for the financing of BiH institutions is allocated and remitted. In

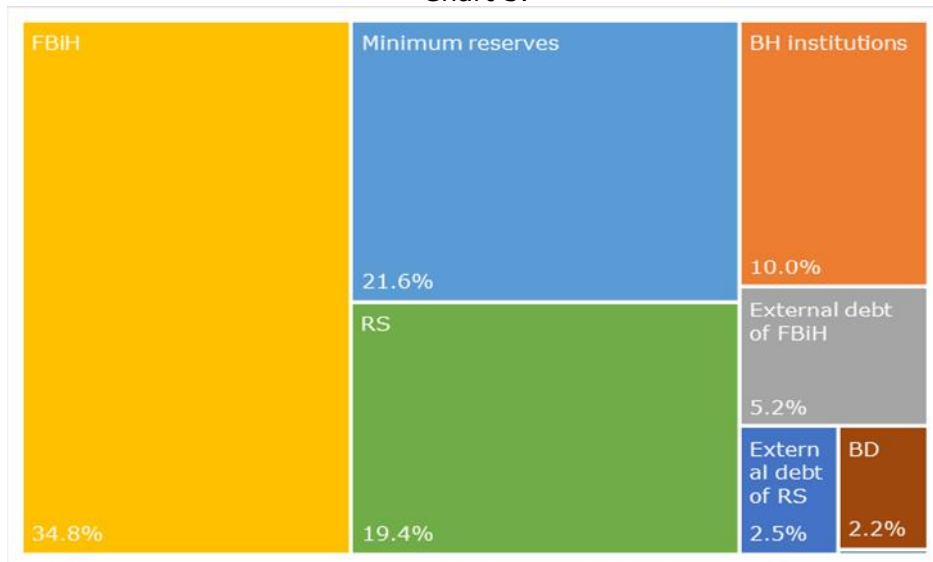
2023, this amount includes 10.0% of the total participation in indirect tax revenues (charts 2 and 3).

The remaining amount after deducting the amount for minimum reserves and the amount belonging to the budget of BiH institutions represents the amount for allocation to the entities and Brčko District, which includes the amount intended for financing the external debt (chart 2).

Chart 2 shows the participation in the allocation of revenues for the Federation of BiH, the Republic of Srpska and Brčko District, including the amount for financing external debt, as well as the participation in the allocation of revenues intended for minimum reserves and financing of BiH institutions.

Chart 3 shows the participation in the allocation of revenues to the entities and the Brčko District after the allocation of a part of the funds related to the financing of the external debt. In addition, the chart shows the participation in the allocation of revenues intended for the financing of the external debt of the entities and the Brčko District, as well as the participation in the allocation of revenues intended for minimum reserves and financing BiH institution.

Chart 3.



Note: ■ BD external debt 0.1%

Source: Data from the Indirect Taxation Authority of BiH, MAU overview

The allocation to the entities is carried out according to pre-determined allocation coefficients at the quarterly level<sup>26</sup>, while the coefficient for allocation to Brčko District is fixed<sup>27</sup>.

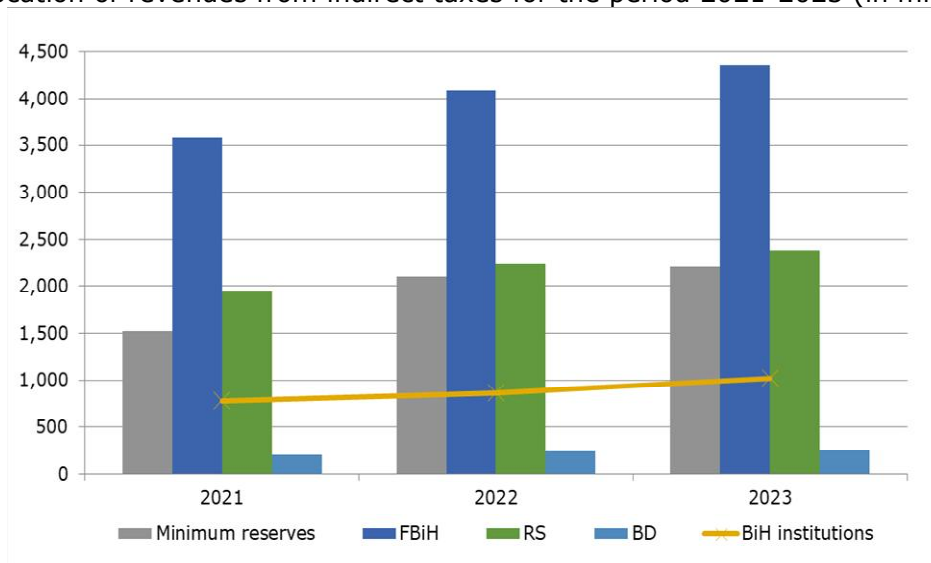
Chart 4 shows the allocation of revenues from indirect taxes for the period 2021-2023, in millions of BAM<sup>28</sup>.

<sup>26</sup> The ratio of the amount of final consumption stated in the VAT refunds of taxpayers in the territory of a given entity, or a given user of revenues and the amount of final consumption stated in VAT refunds in the entire territory of BiH.

<sup>27</sup> The representative of the Brčko District has the status of an observer in the Governing Board of the ITA, and does not participate in the decision-making on the allocation of revenues from indirect taxes from the Single Account by voting. The High Representative, protecting the fiscal autonomy that Brčko had before the reform of the indirect taxation system, by decision of June 1, 2007 imposed a fixed coefficient for the Brčko District for minimum of 3.55% or at least 124 millions of BAM per year in absolute terms.

<sup>28</sup> The amount of gross revenue excludes revenues from dedicated tolls.

Chart 4. Allocation of revenues from indirect taxes for the period 2021-2023 (in millions of BAM)



Source: Data from the Indirect Taxation Authority of BiH, MAU overview

Compared to the 2022, the highest growth in the 2023 was recorded during the allocation to the institutions of Bosnia and Herzegovina, 17.9%<sup>29</sup>, while 6.6% more was allocated to the Republic of Srpska, 6.5% more to the Federation of BiH and the same 6.5% more to Brčko District, and 5.1% more of these revenues intended for minimum reserves.

If we compare the allocation of these revenues by users in 2023 with 2021, the largest increase is noticeable for minimum reserves 44.5%, followed by the growth of these revenues intended for financing BiH institutions 30.8%<sup>30</sup>. In 2023, 22.2% more revenue from indirect taxes was allocated to the Republic of Srpska, 21.9% to the Brčko District and 21.8% more to the Federation of Bosnia and Herzegovina than in 2021.

Table 1 shows the participation in the allocation of revenues from indirect taxes for the period 2021-2023.

Table 1.

in %	2021	2022	2023
Minimum reserves	19.0	22.0	21.6
BiH institutions	9.7	9.1	10.0
FBiH	44.5	43.0	42.7
RS	24.3	23.5	23.3
BD	2.5	2.4	2.4
Total	100	100	100

Source: Data from the Indirect Taxation Authority of BiH, MAU overview

Table 2 shows the difference in participation in the allocation of revenues from indirect taxes in p.p. for the 2023 compared to the years specified for comparison for the purpose of this analysis.

<sup>29</sup> The amount intended for the financing of BiH institutions on an annual basis in 2023 was increased to 1,020.5 millions of BAM from 865.5 millions of BAM in 2022.

<sup>30</sup> The amount intended for the financing of BiH institutions on an annual basis in 2023 was increased to 1,020.5 millions of BAM from 780.0 millions of BAM in 2021.

Table 2.

change in p.p.	Index (2023-2022)	Index (2023-2021)
Minimum reserves	-0.4	2.6
BiH institutions	0.9	0.3
FBiH	-0.3	-1.9
RS	-0.1	-0.9
BD	0.0	-0.1

Source: Data from the Indirect Taxation Authority of BiH, MAU overview

Compared to 2022, in 2023 the participation in the allocation intended for minimum reserves was reduced (-0.4 p.p.) as well as the participation of the Federation of BiH (-0.3 p.p.) and the participation of the Republic of Srpska (-0.1 p.p.), while the share in the allocation intended for the financing of BiH institutions increased (0.9 p.p.). Participation in the allocation of revenues from indirect taxes intended for Brčko District in 2023 was maintained at the level of participation from 2022.

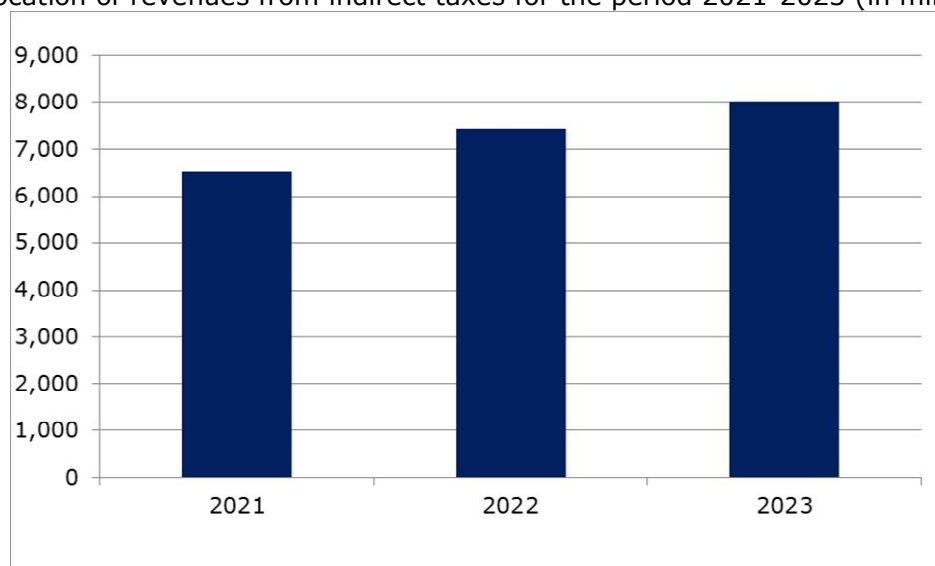
Compared to 2021, in 2023 the participation of the Federation of BiH (-1.9 p.p.), the participation of the Republic of Srpska (-0.9 p.p.) and the participation of Brčko District (-0.1 p.p.) decreased, while the participation in allocation intended for higher minimum reserves (2.6 p.p.), as well as participation in the allocation intended for financing BH institutions increased (0.3 p.p.).

### 1.2. Allocation of net revenues to users

The remaining amount after the allocated part of the funds intended for minimum reserves includes the amount of net revenues from indirect taxes that is intended for allocation to the beneficiaries: BiH institutions, the Federation of BiH, the Republic of Srpska and Brčko District<sup>31</sup>.

Chart 5 shows the total allocated net revenues from indirect taxes for the period 2021-2023, in millions of BAM.

Chart 5. Allocation of revenues from indirect taxes for the period 2021-2023 (in millions of BAM)



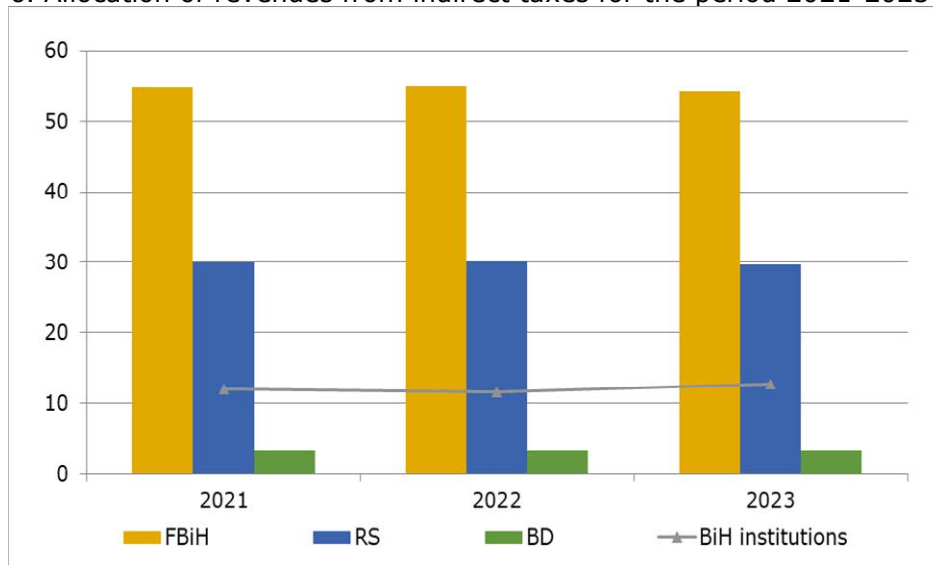
Source: Data from the Indirect Taxation Authority of BiH, MAU overview

<sup>31</sup> Including external debt of entities and Brčko District

In the observed period, net revenues from indirect taxes tend to grow on an annual basis. The occurrence of the Covid-19 pandemic had a negative impact on the collection and allocation of revenues from indirect taxes in 2020, when a huge drop in revenues from indirect taxes was recorded. The recovery of the economy from the pandemic, i.e. measures to combat the spread of the virus, resulted in a high growth in collection and thus in the allocation of these revenues in 2021. Despite the strong recovery of revenues in 2021, relatively high rates of their growth were achieved in the following two years as well. Global inflation in 2022 has led to a significant increase in prices, acceleration of cash flows, and an increase in revenues from indirect taxes in the country intended for allocation to users. The growth of inflation caused by various events on the world market, such as the war between Russia and Ukraine, unrest in the Middle East, as well as other geopolitical factors resulting in disruptions in supply chains and price increases, affected the growth of net revenues from indirect taxes allocated to users in 2023. Thus, in the last year, the historical maximum of total net revenues from indirect taxes intended for allocation to users was recorded, which in comparison to 2022 is higher by 7.8%, while in comparison to 2021 these revenues are higher by 23.0%.

Chart 6 shows participation in the allocation of net revenues from indirect taxes to beneficiaries: BiH institutions, the Federation of BiH, the Republic of Srpska and Brčko District<sup>32</sup>, for the period 2021-2023. The Federation of BiH, followed by the Republic of Srpska, the institutions of BiH and Brčko District, holds the largest participation in the allocation of these revenues.

Chart 6. Allocation of revenues from indirect taxes for the period 2021-2023 (in %)



Source: Data from the Indirect Taxation Authority of BiH, MAU overview

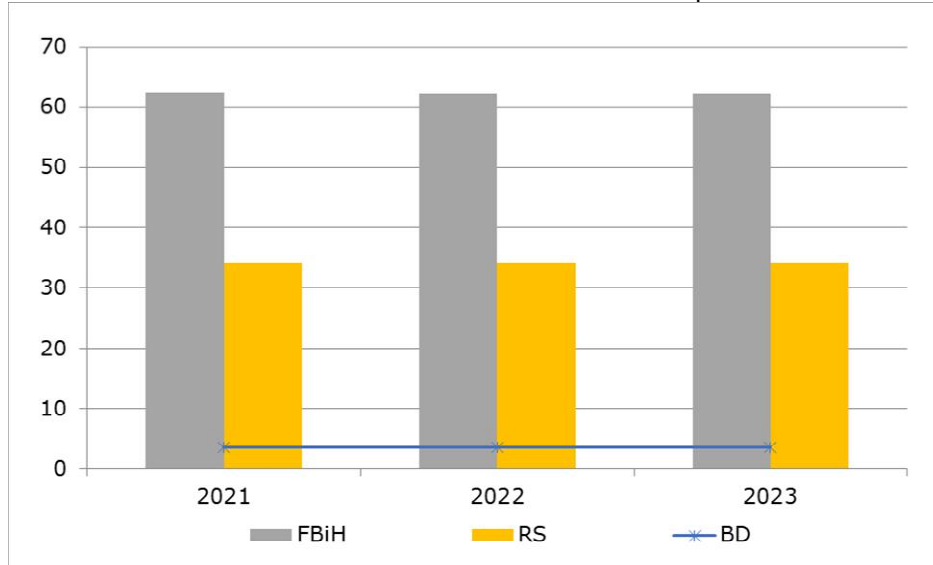
Chart 7 shows the participation in the allocation of net revenues from indirect taxes to the entities and Brčko District<sup>33</sup> in the period 2021-2023 after the allocation of the corresponding part to the institutions of BiH.

<sup>32</sup> Including external debt of entities and Brčko District

<sup>33</sup> Including external debt of entities and Brčko District



Chart 7. Allocation of revenues from indirect taxes for the period 2021-2023 (in %)



Source: Data from the Indirect Taxation Authority of BiH, MAU overview

Participation of entities in allocation is determined based on allocation coefficients based on final consumption, while participation of Brčko District is defined by a fixed allocation coefficient. In the observed three years, there were no significant fluctuations in the coefficients for the allocation of net revenues from indirect taxes to the entities on an annual basis. The Federation of BiH recorded the largest share in the allocation of these revenues in 2021 and the smallest share in 2023 in favor of the Republic of Srpska.

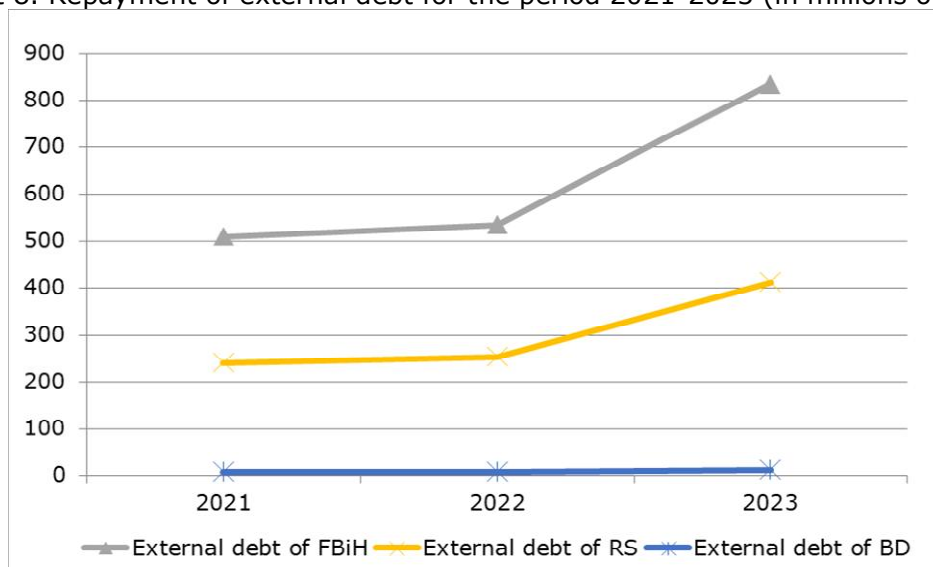
## 2. External debt

After the corresponding funds intended for minimum reserves are allocated from the total collected gross revenues, and after the corresponding amount is allocated for the financing of BiH institutions, the amount for financing the external debt is allocated as a priority, and before allocation to the entity and Brčko District budgets. In accordance with the maturity dynamics, the amount intended for financing the external debt is subtracted from the total funds intended for allocation to the entities and Brčko District. Although the external debt towards foreign creditors is recorded as a liability of BiH, it is a liability of the entity and the Brčko District. Therefore, the amount for its financing is not allocated to their budgets<sup>34</sup>.

Chart 8 shows the trend in the allocation of revenues from indirect taxes intended for financing external debt in the period 2021-2023, in millions of BAM.

<sup>34</sup> The repayment plan and payment dynamics are determined by the schedule of the Ministry of Finance and Treasury of BiH, while the payment procedure is carried out by the Central Bank as a fiscal agent.

Chart 8. Repayment of external debt for the period 2021-2023 (in millions of BAM)



Source: Data from the Indirect Taxation Authority of BiH, MAU overview

In accordance with previously assumed international obligations and the dynamics of external debt repayment, the largest repayment of entities and Brčko District in the observed period on an annual basis was recorded in 2023. Thus, in 2023, the Federation of BiH repaid 55.9% more, the Republic of Srpska 61.6% more, and Brčko District 48.5% more external debt compared to the repayment of this debt in 2022. Compared to the 2021, the Federation of BiH repaid 63.7% more, the Republic of Srpska 70.1% more, while the repayment of the external debt of Brčko District is 57.7% higher in 2023.

Table 3 shows the participation of entities and Brčko District in the total allocations for repayment of external debt for the period 2021-2023.

Table 3.

in %	2021	2022	2023
External debt of FBiH	67.2	67.1	66.4
External debt of RS	31.9	31.9	32.7
External debt of BD	0.9	1.0	0.9
Total	100	100	100

Source: Data from the Indirect Taxation Authority of BiH, MAU overview

Table 4 shows the difference in participation in the total allocations for repayment of external debt for the 2023 compared to the 2022 and compared to the 2021. The table shows that the participation of entities and Brčko District in 2023 is higher compared to 2022 and 2021.

Table 4.

change in p.p.	Index (2023-2022)	Index (2023-2021)
External debt of FBiH	298.8	324.3
External debt of RS	156.7	169.3
External debt of BD	3.7	4.2

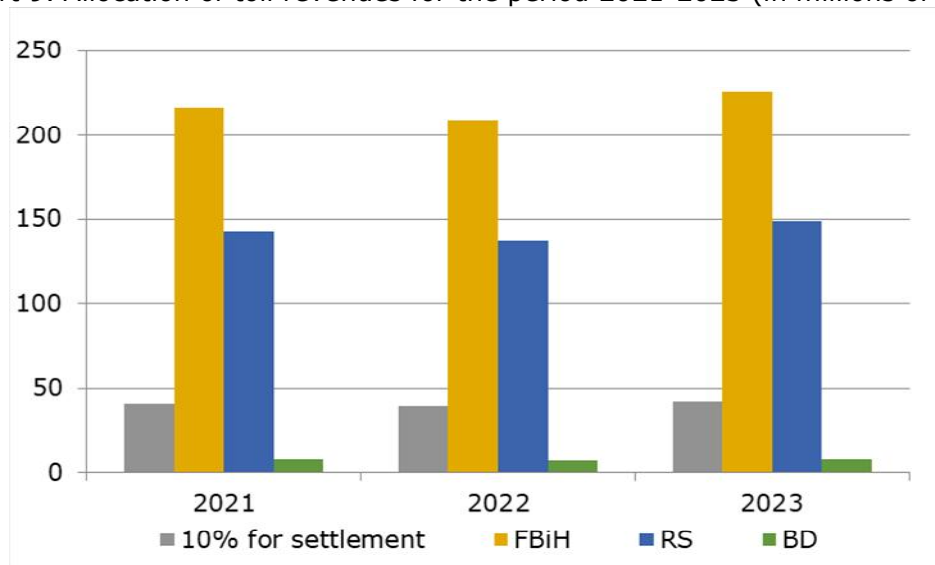
Source: Data from the Indirect Taxation Authority of BiH, MAU overview

### 3. Revenues from tolls for highways

Toll revenues<sup>35</sup> are collected on a separate sub-account within the single account opened at the Central Bank of BiH, and their allocation is done in accordance with the Law on Payments to the Single Account and Allocation of Revenues<sup>36</sup>. Of the total collected revenues, 10% remains in the sub-account of the single account and serves to settle the revenues after determining the final allocation methodology, while the remaining 90% is divided between the entities and Brčko District according to the established percentages – the Federation of BiH 59%, the Republic of Srpska 39% and Brčko District 2%<sup>37</sup>.

Chart 9 shows the amount that was allocated according to the prescribed methodology in the period 2021-2023, in millions of BAM.

Chart 9. Allocation of toll revenues for the period 2021-2023 (in millions of BAM)



Source: Data from the Indirect Taxation Authority of BiH, MAU overview

According to the current Decisions, the amount of 10% is retained in the sub-account of the single account and is used to settle the revenues after determining the final allocation methodology. It accumulates until the decision of the Governing Board of the Indirect Taxation Authority is made on the temporary allocation of toll revenue for highways that remained in the sub-account of the single account<sup>38</sup>.

Chart 10 shows the corresponding amount allocated to the entities and Brčko District during the regular allocation.

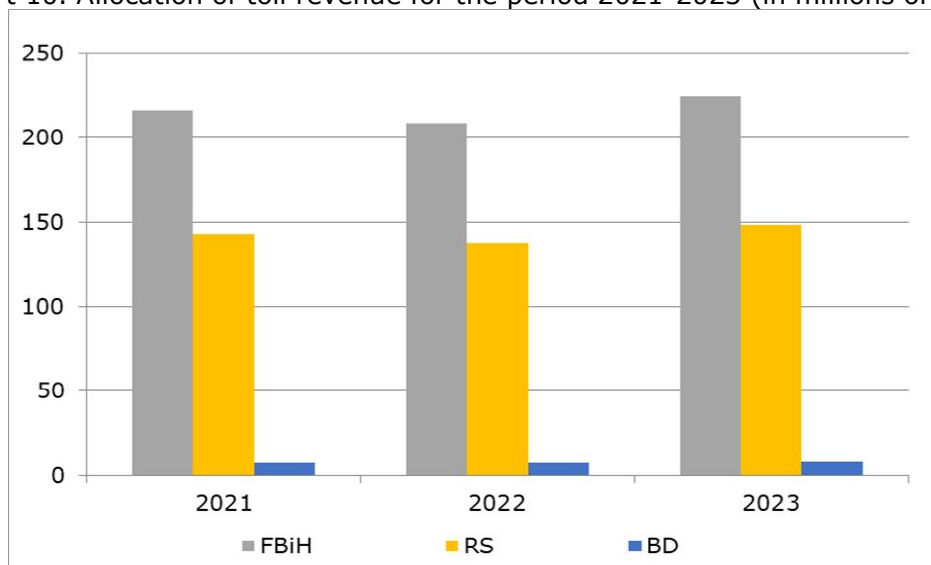
<sup>35</sup> The amount of road tax per liter of derivatives sold on the BiH market in the analyzed period is 0.25 BAM; Law on Amendments to the Law on Excise Taxes in BiH, "Official Gazette of BiH", No. 91/17

<sup>36</sup> , "Official Gazette of BiH", No. 55/04, 34/07, 49/09, 91/17

<sup>37</sup> In accordance with the Decision on the temporary allocation of toll revenues for highways, "Official Gazette of BiH", No. 102/09 and the Decision on the temporary allocation of toll revenues for the construction of highways and the construction and reconstruction of other roads, "Official Gazette of BiH", No. 50/18

<sup>38</sup> The allocation of part of the accumulated amount intended for settlement from the sub-account of the single account was not carried out in the period used in this analysis. More precisely, it was carried out in earlier years: 2011, 2013, 2015 and 2017. In accordance with the Decision on the temporary allocation of toll revenue for highways are accumulated on a sub-account of a single account; "Official Gazette of BiH", No. 83/11, 62/13, 67/15, 42/17

Chart 10. Allocation of toll revenue for the period 2021-2023 (in millions of BAM)



Source: Data from the Indirect Taxation Authority of BiH, MAU overview

The movement of allocation shown in the chart does not include the period of legal changes in the sense of the amount of revenue from dedicated tolls, as well as additional allocation in accordance with the Decisions. In the allocation of toll revenues, on an annual level oscillations that are more significant are not noticeable in the presented period. The total amount of revenue from tolls for highways in 2023 is higher by 7.8% compared to 2022, while compared to 2021 it is higher by 4.1%. That is proportional to the increase in users considering the fixed toll revenue allocation coefficient.

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