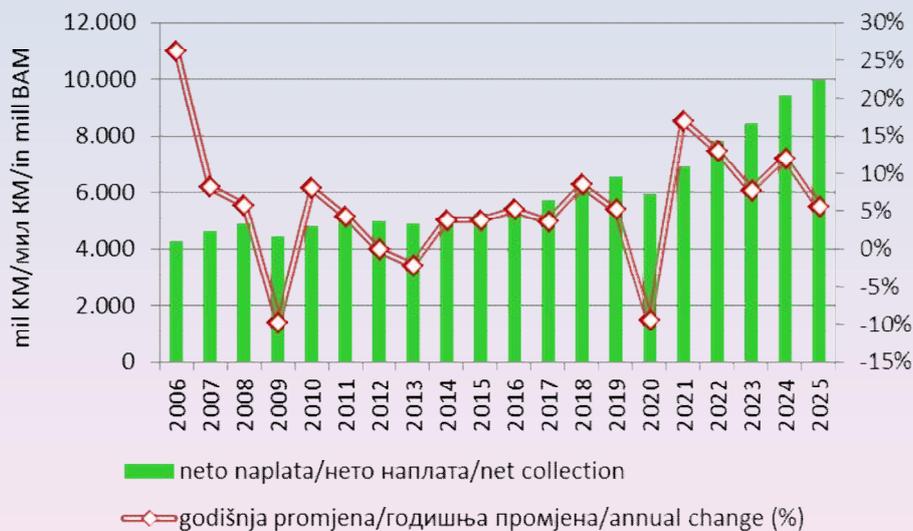




Macroeconomic Unit of the Governing Board of the Indirect Taxation Authority

# ОМЈА Вилтен



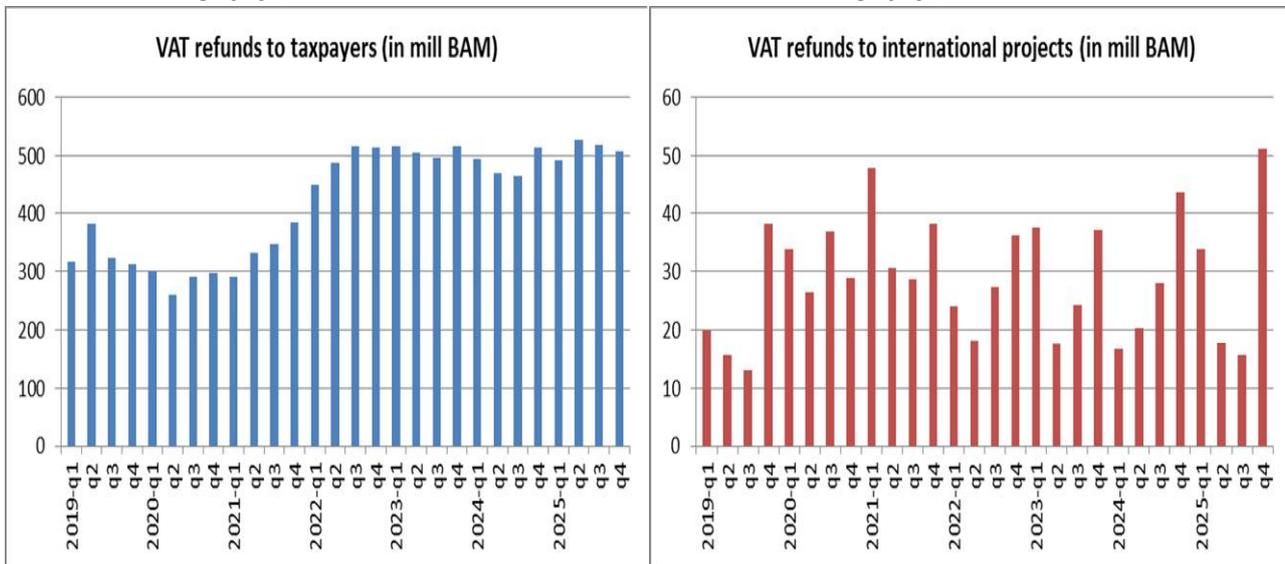
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**With this issue**

According to the preliminary report of the ITA, indirect tax refund payments in 2025 amounted to 2.202 billion BAM, which was 109.8 million BAM more than in 2024. The increase in refund payments reduced the growth of net indirect tax collection by 1.16 p.p. The increase mostly related to VAT refunds to taxpayers (+100 million BAM), while VAT refunds based on international projects increased by 9.8 million BAM. The review of quarterly refund payments indicates lower VAT refund payments to taxpayers in the period 2019-2021 (Chart 1). The recovery of the economy after the pandemic, and the inflationary effects of the rise in prices due to the outbreak of the war in Ukraine and the emergence of the energy crisis brought a strong increase in VAT refund payments to taxpayers. From 2022, payments are high and largely stable, with weak annual oscillations in a narrow range between -2.6% and +2.4% compared to average annual payments in the period 2022-2025.

Chart 1

Chart 2



Refunds based on international projects are a feature of the VAT system in Bosnia and Herzegovina, accounting for 5.4% of total refunds in 2025. The quarterly review of payments for this category of refunds shows strong annual oscillations (Chart 2), with a significantly larger range compared to the four-year average, between -6% and +3.9%. Payment fluctuations are inevitable, because it depends on the dynamics of the implementation of international projects in Bosnia and Herzegovina. On the other hand, although refunds to international projects are not significant in the structure of refunds, their oscillations introduce a high dose of unpredictability, which represents a risk for the realization of projections of revenues from indirect taxes.

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## Collection of revenues from indirect taxes in 2025

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

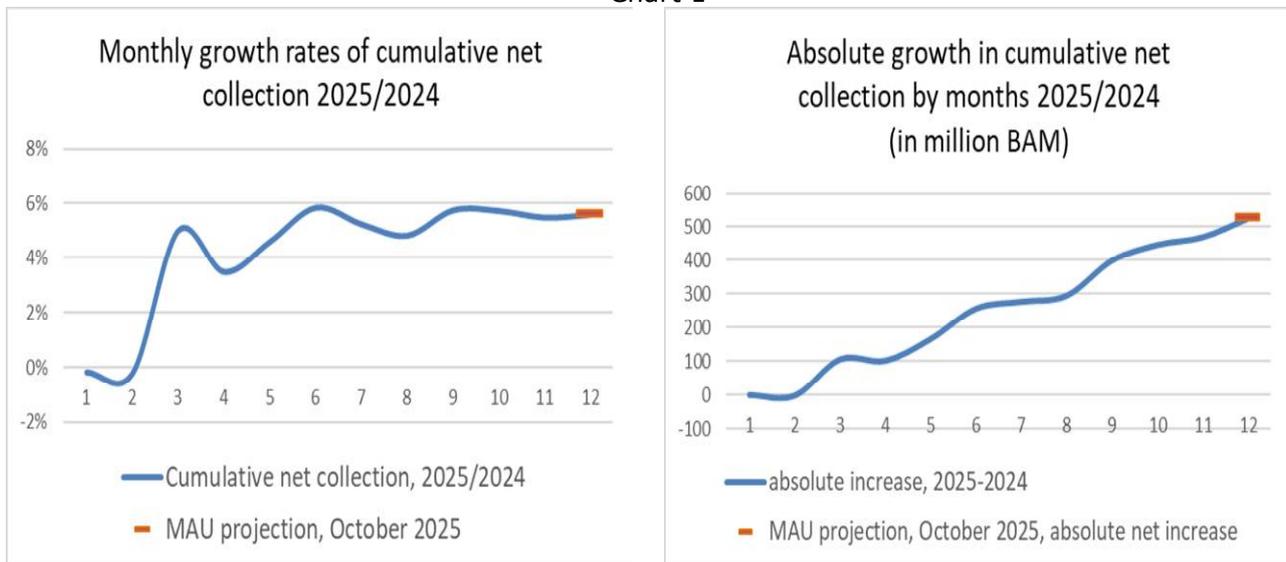
At the time of preparing this article, data on the total gross and net collection of indirect taxes on the Single Account of the Indirect Taxation Authority (ITA SA) in 2025 was available, while the report on revenue collection by types of revenue was not available. Therefore, in this issue, we publish a brief overview of the collection of indirect taxes in 2025 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 2025, with an overview of collection by revenue types.

### Collection in 2025, comparison with the previous year

The gross collection of revenues from indirect taxes amounted to 12,177.2 million BAM, which is 635.9 million BAM or 5.5% more than the gross collection in the previous year. Refund payments amounted to 2,202.4 million BAM, which was 109.8 million BAM or 5.2% more than in 2024. Finally, the net collection of indirect taxes amounted to 9,974.8 million BAM. The absolute growth of net revenue in 2025 compared to 2024 was 526.1 million BAM, while the relative growth was 5.6%.

Compared to the Unit's projections from October 2025, the net collection of indirect taxes is lower by 2.5 million BAM (Chart 1). **It can be concluded that the Unit's October projections were implemented by almost one hundred percent (99.98%).<sup>1</sup> The difference between the realization and the October plan of revenues from indirect taxes amounts to only 0.02% of realized net revenues.**

Chart 1



Source: Indirect Tax Administration of B&H, presentation of the MAU

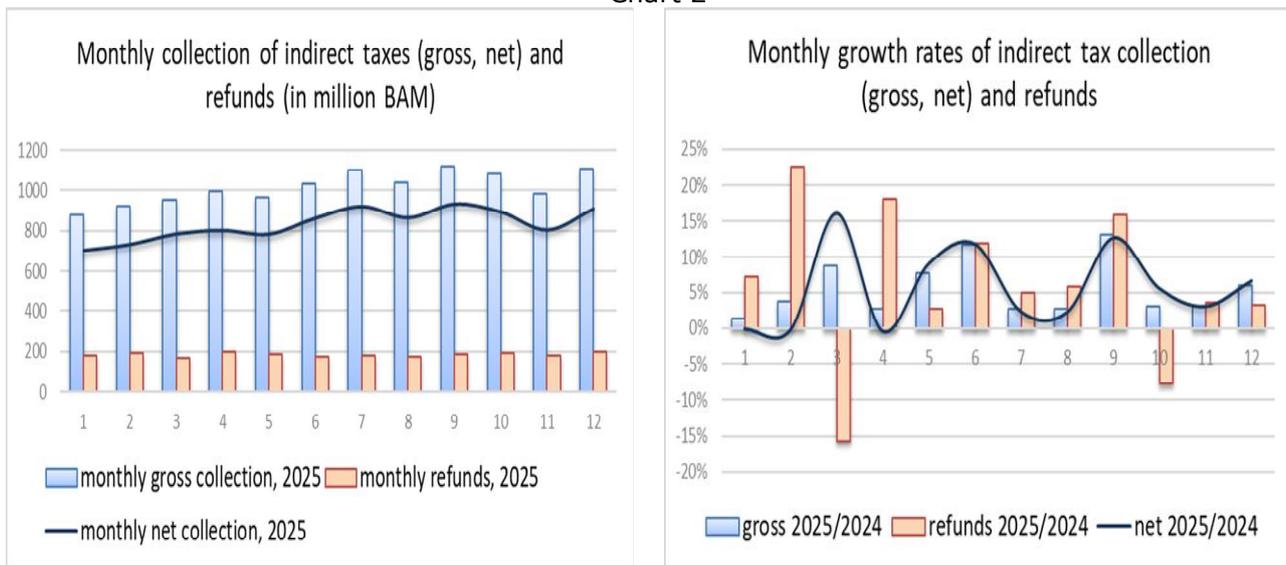
### Monthly collection of indirect taxes and refunds

<sup>1</sup> In relation to the Unit's projections of revenues from indirect taxes from April 2025 (OMA Bulletin No. 239/240), the realization of net revenue for 2025 is 54.2 million BAM higher. Projections from April were implemented by 100.5%. The difference between the realization and the April revenue plan is only 0.54% of realized net revenue.

The monthly amounts of gross collection of indirect taxes<sup>2</sup> ranged from 880.0 million BAM (January) to 1,120.4 million BAM (September). Compared to the previous year, the monthly gross collection was in a positive growth zone throughout the year (see Chart 2, right, blue bars). Growth rates of gross collection in relation to 2024 ranged from 1.2% (January) to 13.2% (September).

Monthly amounts of indirect tax refunds ranged from 167.4 million BAM (March) to 198.3 million BAM (April). In contrast to the gross collection, the line of monthly growth rates of refunds compared to the previous year crossed into the negative zone in two months, March and October (see Chart 2, right, orange bars).

Chart 2

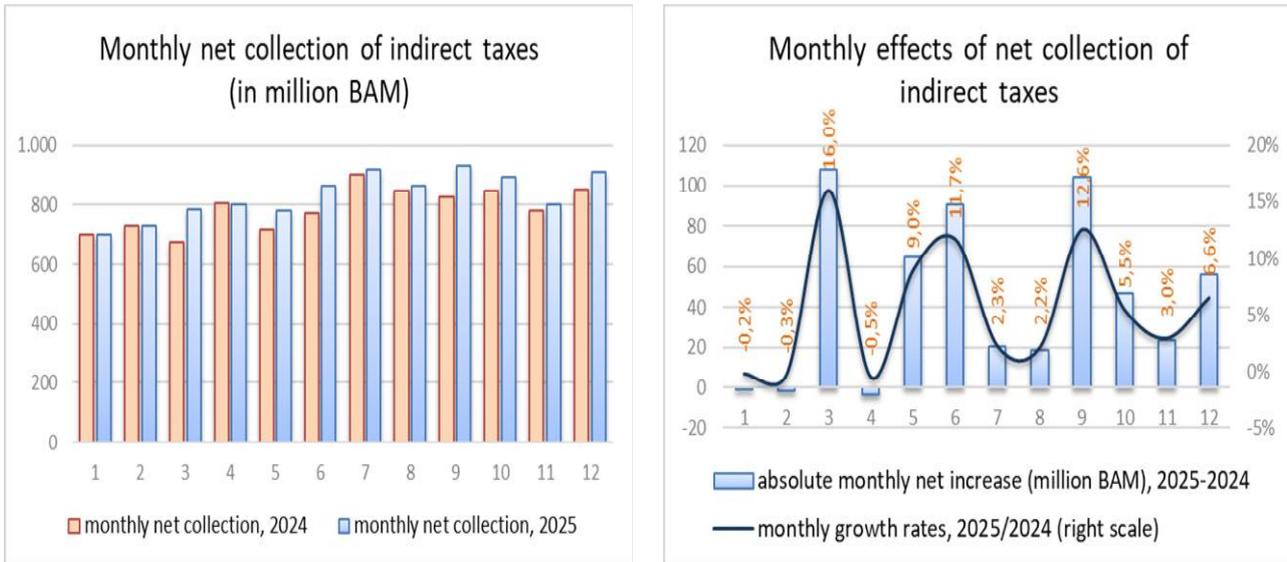


Source: Indirect Tax Administration of B&H, presentation of the MAU

The monthly amounts of net collection of indirect taxes (Chart 3, left, "monthly net collection") were in January, February and April 2025 slightly below last year's amounts (Chart 3, right, "net 2025/2024"), while in all other months of 2025 they were higher than in the previous year. In the course of 2025, the amounts of net collection of indirect taxes ranged from 699.5 million BAM (January) to 932.4 million BAM (September). Net revenue growth rates ranged from -0.5% (April) to +16% (March). Observed in absolute terms, the growth of the monthly net collection of indirect taxes ranged from -3.9 million BAM in April to a high of +108.2 million BAM in March.

Chart 3

<sup>2</sup> The monthly gross indirect tax collections in this article were calculated from the ITA's cumulative collection reports, as the difference between the revenues for a given month (m) and the revenues of the previous month (m-1). The same principle was used to calculate the monthly net collections and refunds.

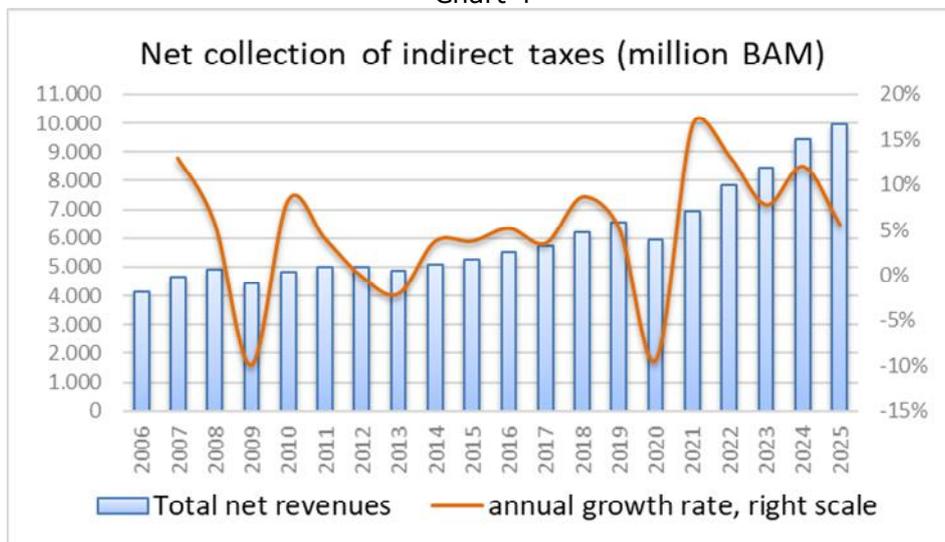


Source: Indirect Tax Administration of B&H, presentation of the MAU

**Analysis of collection in 2025 with regard to long-term trends**

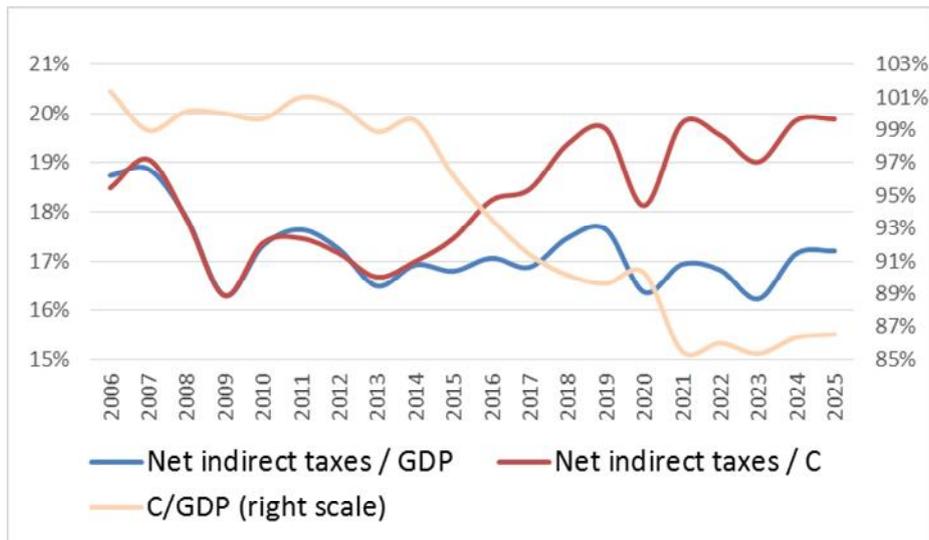
In 2025, a record amount of indirect taxes was collected since the establishment of the ITA. Compared to the year of VAT introduction (2006), the net collection was 142% higher. Relatively high rates of revenue growth were achieved in the previous five years (Chart 4). Thus, compared to the pre-crisis year 2019, in 2025, revenue growth of a high 52.5% was achieved.

Chart 4



Source: Indirect Tax Administration of B&H, presentation of the MAU

Chart 5



Source: Indirect Tax Administration of B&H, DEP, BHAS; presentation of the MAU

If we take into account the projections of macroeconomic indicators for 2025 of the Directorate for Economic Planning of B&H (DEP) prepared in September 2025,<sup>3</sup> we can observe the trends in the share of net indirect tax collection in GDP and consumption (Chart 5).

The estimated share of net collection of indirect taxes in GDP and total consumption in 2025 remained the same as in 2024 (17.2% and 19.9%, respectively). After the official data of the Agency for Statistics of B&H (BHAS) on macroeconomic indicators are available, it will be possible to calculate the official levels of the aforementioned shares.

<sup>3</sup> At the time of preparing this article, the official data from the Agency for Statistics of B&H until 2024 were available (Gross domestic product according to the production, income and expenditure approach, TB 01, January 2026)

## Twenty years of the VAT system in Bosnia and Herzegovina

(Prepared by: Dinka Antić, PhD)

*After three years of extensive preparations, on 1 January 2006, the value added tax (VAT) was introduced in Bosnia and Herzegovina as part of the final phase of the indirect taxation reform. In the last two decades, generations have grown up who are not familiar with any other system of taxation of goods and services other than VAT, nor are they aware of the significance of the largest economic reform that was successfully implemented in B&H after the war. With this in mind, in this article we present an overview of the theoretical concept of taxation by sales tax from which the theoretical concept of VAT has emerged, as its most efficient form, we explain the implementation phases and basic elements of the VAT system in B&H, and we briefly analyse the efficiency of the VAT reform.*

### TAXATION OF THE SALES OF GOODS AND SERVICES IN THE THEORY OF TAXATION

#### Evolution of sales taxation

Sales taxation was known to the ancient civilizations of Assyria, Babylon, Egypt, Greece, India and China. It was mentioned as early as the 5<sup>th</sup> century B.C.E., although at that time it appeared under the name of excise or excise duty, that is, as an individual tax on the sale of certain products. The general sales tax appeared only in the Middle Ages in Spain (1342) under the name *alcabala*. A new tax on the sale of a large number of products led to the collapse of Spain's economic power. The theorists of the classical school of economics considered the *alcabala* to be a classic example of bad tax policy. Taxation of sales of goods led to a strong increase in sales prices and produced serious macroeconomic disturbances in Spain at the time. Due to the higher prices of goods, Spain has become uncompetitive, which has resulted in the loss of the market, the decline of domestic supply and the reduction of domestic production, on the one hand, and the growth of imports of cheaper goods, on the other hand. Macroeconomic disturbances caused by the introduction of a new tax form threatened Spain's balance of trade and payments. Due to the poor preparation of the fiscal authorities, the implementation of the sales tax did not bring fiscal effects, but, on the contrary, led to strong resistance and tax evasion. Sporadic attempts to introduce a general sales tax were recorded in the second half of the 19th century in Germany, in the city of Bremen, in the USA during the civil war, and in Serbia in 1891.

The modern form of general sales tax appears as an extraordinary tax to finance the World War I in Germany (1916) and France (1917). Although, according to the original intention, it should have been abolished at the end of the war due to its generosity and large fiscal effects, this tax was not only retained in the mentioned countries, but was also adopted by other countries, including the USSR, and incorporated into their tax systems in order to raise funds to address the consequences of the war. The remaining developed countries of Europe, such as Great Britain, introduced a sales tax at the beginning of World War II with the aim of financing defense expenditures. Although in all the mentioned countries the sales tax had the character of an extraordinary tax, none of the countries abolished it after the end of the extraordinary circumstances. Moreover, sales tax, along with income and profit tax, was the main form of taxation in tax systems in the world in the second half of the 20<sup>th</sup> century. In underdeveloped and developing countries, whose fiscal capacity is mainly based on taxation of the consumption phase, revenue from sales tax represented the dominant revenue for financing the levels of government. In the last decades of the 20<sup>th</sup> century, the dominance of the sales tax was interrupted by the massive transition from the sales tax system to the value added tax (VAT) system. Today, the sales tax is applied only in about 40 countries in different forms, mostly as a single-phase retail

tax or as a gross sales tax, in a few developed<sup>4</sup> and a smaller number of underdeveloped countries in the world.

### Sales tax taxation

Value added tax (VAT) is a form of sales tax. The term "sales tax" includes all forms of taxation of sales of products and services. Sales tax and VAT belong to the group of indirect taxes that are collected on consumption according to the destination principle.<sup>5</sup> The tax base of the sales tax is the selling price of the product or service. Given that the tax base is expressed in monetary units, and the tax liability is determined as a percentage of the base, the general sales tax is considered as an *ad valorem* tax. Bearing in mind that the sales tax is most often collected in retail sales, the tax is calculated by applying the recalculated rate<sup>6</sup> on the basis that consists of the retail price including taxes. A sales tax payer is a seller of products and services. However, sales tax is not borne by the taxpayer, but by the final consumer as the tax bearer. Since it belongs to indirect taxes, the basic characteristic of sales tax is the passing of the tax burden on the final consumer. The taxpayer acts only as an intermediary who, on behalf of the state, calculates and collects tax from customers at the final consumption stage.

Sales tax is a pleasant tax from the customer's point of view. The tax is less visible to the customer compared to the income tax since it is hidden in the sales price of products and services. Since the tax is hidden in the price, during its introduction, there is not much resistance from taxpayers, who are popularly said to buy goods "under anesthesia".

Sales tax represents a very generous type of tax, because consumption, compared to income or profit, is less subject to oscillations in business cycles and the economy, and often exceeds realized income (e.g. due to income and received transfers from abroad, spending of accumulated savings or bank loans, due to income from the shadow economy, etc.). From the point of view of economic elasticity, revenues from sales tax due to the *ad valorem* base (sale price) enable adjustments to changes in product supply and demand without changing the elements of taxation.

### Forms of sales tax

Based on the tax object (subject of taxation), there is a breakdown into general sales tax, which taxes the sales of all or most products and services, and individual sales tax, if sales of only certain products are taxed.<sup>7</sup> There is also a classification according to the number of phases of the sales cycle that are subject to sales tax. The sales cycle begins with the phase of procurement of raw materials and other inputs necessary for the production of products or the provision of services. In the production phase, the acquired raw materials, materials and other inputs are transformed into finished products, using human labor and means of production. In most cases, the manufacturer sells finished products to wholesalers, since it is usually not financially viable for the manufacturer to establish its own retail sales. However, there are also cases of vertical diversification of the company's business portfolio when the company takes over the production of raw materials and organizes its own retail network. Wholesale buyers generally deal with manufacturers as suppliers and retailers as customers. Similar to manufacturers, wholesalers generally do not establish their own retail sale due to costs, and even when they do, they organize it as an addition to their core business within large shopping centers or as a supermarket chain. Sales tax can be introduced in all mentioned stages of the sales cycle (i.e. in manufacturing,

<sup>4</sup> Forms of sales tax are applied in the USA, Australia, Canada, New Zealand, and Singapore.

<sup>5</sup> The destination principle in the taxation of product and service transactions implies taxation in the country of consumption, in contrast to the origin principle, which implies taxation in the country of production.

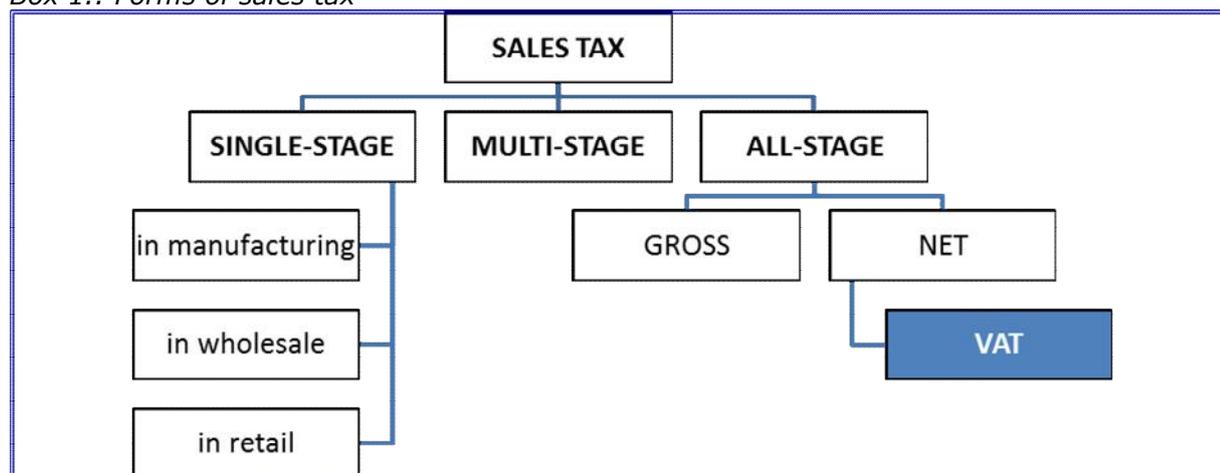
<sup>6</sup> Recalculated rate ( $p_p$ ) is calculated according to the formula:  $p_p = (p \times 100) / (p + 100)$ , where "p" represents the legal sales tax rate. For example, a recalculated sales tax rate of 10% is 9.09%.

<sup>7</sup> In the literature and the professional public, it is usual that the term "sales tax" is used for the tax of the turnover of most products and services, while the terms excises, special taxes or excise duties are used to tax of the turnover of individual products.

wholesale and retail) or it can be introduced only in some stages. Depending on the number of sales stages that are taxed, sales tax can be single-stage, multi-stage and all-stage sales tax (see Box 1).

Sales tax, which is collected only at the final stage of the transaction, is vulnerable to tax evasion. If sales tax is not paid at the final stage of the transaction, tax losses are maximized, since the tax base is highest at the retail stage.

Box 1.: Forms of sales tax



If it is a multi-phase sales tax, due to the cascading effect or the cumulation of taxes from previous sales stages, the sales tax is not neutral in terms of the impact on the economic position of the taxpayer on the market. The cascading effect of the sales tax leads to inefficiency and uneconomicalness in the entire transport chain, to a large extent affects the growth of prices of goods and services, makes exports unnecessarily more expensive, which makes domestic companies uncompetitive on the foreign market.

All-stage sales tax involves taxation of products in all stages of the sales cycle. It occurs as a gross and net all-stage tax, depending on the method of determining the tax base.

**Gross all-stage sales tax** is paid at each stage of the sales cycle, applying, as a rule, the same tax rate. The tax base of the gross all-stage sales tax represents the gross compensation that is realized at each stage of turnover. Although determining the tax base is simple, and tax rates are significantly lower than in other sales tax models, due to the strong cascading effect from an economic point of view, gross all-stage sales tax is an extremely economically unfavorable tax, with strong negative consequences for competitiveness, price levels, employment and exports. Although net all-stage sales tax also implies taxation of turnover at each stage of the sales cycle, the main difference between gross and net sales tax models lies in the method of determining the tax base. Unlike the gross model, in net all-stage sales tax, only the value added at each stage of turnover (taxation) is taxed. Due to this method of determining the base, net all-stage sales tax is also called value-added tax (VAT). In relation to the gross VAT model, due to the way in which the tax base is determined, the cumulation of taxes does not occur, and the number of stages of turnover that are taxed with VAT becomes irrelevant for the amount of the tax burden.

## THEORETICAL CONCEPT OF VAT

### Concept and characteristics

VAT belongs to the group of indirect taxes. Bearing in mind that the tax base for this form of tax is the value of the compensation received during the sale of goods or services, and the tax liability is determined as a percentage of the value of the compensation, VAT is a proportional, or *ad valorem*, tax. In a theoretical sense, VAT is a tax levied on the each stage of production with mechanisms that enable deduction of the tax paid on purchased goods or services from the tax liability on goods or services that are sold. Two fundamental characteristics of VAT are that it is collected and charged at each stage of turnover, and that the tax liability on output is reduced by the tax paid on the purchased inputs. Although VAT is collected at every stage of the production cycle, up to the retail stage, the input tax compensation mechanism from purchases *de facto* transforms VAT from a theoretical concept of tax on intermediate stages of the production cycle into a real concept of consumption tax. Given that all participants in the production cycle had the possibility of compensating the input tax, VAT is ultimately collected in the phase of final consumption.

From the point of view of the taxpayer's economic position, VAT is a neutral tax. The input VAT deduction mechanism is important for achieving neutrality of VAT taxation. In contrast to sales tax, the fact that each taxpayer in the chain has the right to deduct input tax from VAT purchases eliminates VAT from the costs of purchases and prevents the occurrence of a cascade effect and burdening the sales price with cumulative tax from purchases. Since VAT is not an element of the cost price, it becomes a financial obligation for the customer, and for the supplier a claim that he collects on behalf of the state. Neutrality is manifested from the point of view of VAT payers who collect and pay VAT on behalf of the state, and not from the point of view of end consumers who bear the entire tax burden. The principle of VAT neutrality is achieved through a VAT invoice. The VAT invoice, as a basic document, represents the basic pillar of the VAT system. For VAT payers, the invoice is a security because based on the invoice, the payer is entitled to a refund of the input tax calculated on the purchase of goods and services.

VAT is a self-monitoring form of taxation. The tax administration is not the only one interested in the correctness of VAT invoices. Every taxpayer in the supply chain is also interested in receiving a correct invoice from their supplier, since only on the basis of a correct invoice can the taxpayer claim the input VAT stated on the invoice. For this reason, the taxpayer should perform the following checks: to verify the identity of the supplier (i.e. whether the tax number exists in the register as an active number and, if so, whether the right company is registered under that number), and to verify the accuracy of the VAT calculation stated on the invoice.

VAT is an efficient tax, because the fundamental characteristics of the VAT concept contribute to the reduction of tax evasion. The fact that VAT is collected in each phase of the sales cycle reduces the likelihood of tax evasion.

If VAT is evaded at any stage of the transaction, the amount of tax evaded is significantly lower than the amount of tax evaded in a single-stage sales tax system. In the sales tax system, the entire amount of tax can be evaded, while, in the VAT system, the tax amount is lower because it is paid gradually at each stage. Finally, in the phase of final consumption, the sum of the total collected VAT in all phases must correspond to the sum of the collected sales tax in the last phase. Bearing in mind the stages through which the goods pass, the highest amount of VAT can be expected at the import stage or at the final consumption stage, when the tax base is at its highest.

### **VAT determination methods**

The theoretical concept of VAT starts from "added value", which is defined as the value that each participant in the production chain (producer, distributor, retailer, etc.) adds to the inputs of a certain stage before the sale of new or improved products and services. Added value essentially consists of labor costs and profit (earnings, margin, profit), and can be expressed in two ways, by

adding the components of added value (wages, depreciation, interest and profit) or by subtracting the input value from the output value. In practice, direct and indirect VAT calculation methods<sup>8</sup> are applied (Box 2).

**Direct method** of determining VAT implies the application of the VAT rate to the added value, which is obtained either by adding the components of the added value (1), or by subtracting the input from the output (2).

Box 2.: VAT determination methods

$$\text{added value} = \text{wage costs} + \text{profit} = \text{outputs} - \text{inputs}$$

**Direct method** → **addition-based method:**

$$\text{Tax amount} = (\sum \text{wages} + \text{depreciation} + \text{interest} + \text{net profit}) * \% \text{ VAT (1)}$$

**Direct method** → **subtraction method:**

$$\text{Tax amount} = (\sum \text{sales} - \sum \text{purchases}) * \% \text{ VAT (2)}$$

**Indirect method** → **subtraction method:**

$$\text{Tax amount} = \sum \text{sales (output)} * \% \text{ VAT} - \sum \text{purchases (input)} * \% \text{ VAT (3)}$$

**The indirect subtraction method** is the best-known method of determining VAT (3). It represents the basis of the VAT system in the EU, and is also applied in a large number of countries around the world. The tax liability is calculated as the difference between the amount of VAT in purchases and the amount of VAT in sales, according to records based on invoices. Tax experts use two colloquial names for the indirect method. Since the basic technical assumption for the application of this method is the existence of an invoice on which the VAT is stated, the indirect subtraction method is also called the **invoice method**. Considering that the taxpayer has the possibility to offset the input tax from purchases against the output VAT on sales, paying only the difference to the account of the state treasury, the method is also called the **credit method**. The credit method has a number of advantages compared to other methods of determining VAT. Since it is based on an invoice, the possibility of VAT fraud is reduced. In addition, since invoices contain individual items of turnover, the credit method facilitates the application of differentiated VAT rates to different goods or services, zero rates for exports or exemption from VAT<sup>9</sup>.

The sum of VAT on purchases is called input tax, and the sum of VAT on sales is called output VAT. Tax liability exists if the sum of output VAT is greater than the sum of input VAT. In the opposite case, the taxpayer is in overpayment, more VAT on purchases has been paid to the account of the state treasury than the output VAT on sales. The difference is reported as a claim from the state. Legislators can approve to the taxpayer in overpayment a refund or tax credit, which they can use to pay future VAT obligations or obligations based on other taxes (direct and even social security contributions or taxes and fees). For a more efficient application of the credit method, legislators require taxpayers to keep records of incoming and outgoing invoices.

### Theoretical forms of VAT

The fundamental characteristic of VAT as a net all-phase sales tax is the deduction of input VAT on purchases from the tax liability. The deduction mechanism allows VAT, although it is collected at

<sup>8</sup> See: Tait A. A., "Value Added Tax, International Practice and Problems", Washington, IMF, 1988; pp. 4 – 6.

<sup>9</sup> See: Ebrill L., Keen M., Bodin J-P, Summers V., "The Modern VAT", IMF, Washington, 2001., pp. 20 – 22.

all stages of the production cycle, to remain as a tax on final consumption in the end. The deduction of input VAT from purchases fully contributes to the neutrality of VAT taxation. However, the absolute right to deduct input VAT in some countries is limited in such a way that VAT from purchases of certain goods or services cannot be deducted from output VAT on sales. Most disputes regarding the right to deduct VAT exist in the tax treatment of capital (investment) goods in the VAT system. Some countries also refuse to allow VAT deduction for goods and services that can also be used for private purposes, e.g. cars or recreation, entertainment services or consumption by owners, management or employees (e.g. in connection with the use of resorts and means of transport owned by the company for non-business purposes).

With regard to the tax treatment of capital goods, there are three forms of VAT: production, income and consumption type (Box 3). **Product-type VAT** implies the exclusion of capital goods from the right to deduct input VAT. Given that VAT from the acquisition of capital goods cannot be deducted from the tax liability, the input VAT on capital goods becomes an expense, which burdens the cost price, i.e. the selling price, and is transferred in a chain to the next stages of the turnover cycle, where it is again taxed with VAT. The tax base of the product-type is *de facto* equal to the gross national product, since it includes consumption, investments and depreciation. Basically, this form of VAT implies gross all-stage VAT, which deviates from the theoretical concept of VAT as a net all-stage tax. The product-type of VAT produces a cascading effect and cumulating of taxes, with all the consequences described in the previous chapter.

**Income-type VAT** is a form of VAT where the tax base includes the gross national product less depreciation, which practically means that it is not possible to deduct VAT on the net purchase value (= purchase value - depreciation), which is taxed twice. Similar to the product-type, the income-type of VAT leads to the cumulating of taxes, violating the neutrality of VAT taxation and producing negative implications for the microeconomic and macroeconomic system. Both forms of VAT have a disruptive effect on companies' investment decisions. Given that it is not possible to fully deduct input VAT, companies will not be willing to invest, which can result in the transfer of capital from capital-intensive to labor-intensive activities. It is obvious that the product and income type of VAT jeopardizes the efficiency of the allocation of capital and other resources, bringing entities that operate in capital-intensive activities to a disadvantageous position on the market.

**Consumption-type VAT** is a form of VAT in which input VAT is allowed to be deducted from the tax liability on the purchase of all goods and services in full, including the purchase of capital goods. The tax base of the consumption type of VAT corresponds to the value of consumption in the national economy. Since the deduction of the total cost of acquisition of capital goods from the base is allowed, there is no double taxation and no cascading effect. Applying the consumption-type of VAT ensures the neutrality of taxation in relation to the economic decision-making of business entities and prevents the occurrence of tax cumulation. The consumption-type of VAT represents the basic form of taxation in almost all countries in the world that have switched to VAT.

## Box 3.: VAT forms

R. Musgrave presents forms of VAT based on the following equations \*):

- (1) Product-type: Tax base =  $GNP = C + In + D$   
 (2) Income-type: Tax base =  $GNP - D = C + In$   
 (3) Consumption-type: Tax base =  $GNP - D - In = C = \text{consumption}$

Legend:

GNP = gross national product

C = consumption

In = investment

D = depreciation

\*) Musgrave Richard A., Musgrave Peggy B., "Public Finance in Theory and Practice", Fourth Edition, McGraw-Hill Book Company, 1984., p. 446.

### Elements of VAT taxation

Real models of VAT differ to a certain extent from the theoretical concept. The emphasis during taxation is not on added value, but on taxation of consumption. Besides that, the right to deduct input tax and the scope of goods and services subject to VAT cannot be understood in an absolute sense, that the taxpayer has the right to deduct input tax on all purchases of goods and services, i.e. that all activities and all goods and services are subject to VAT taxation. The VAT system includes identical elements of taxation, which exist in other forms of taxation, such as the taxpayer, subject of taxation, tax rate, exemptions and reliefs. However, there are other elements, such as the right to deduct input tax and VAT refund, which are characteristic only for VAT and represent the fundamental features of the theoretical concept of VAT.

**A taxable object**, or subject to VAT taxation, is the turnover of goods and services that the taxpayer performs, within the scope of performing his/her activities, on the territory of the state for a fee, as well as the import of goods. The turnover of goods represents the transfer of the right to dispose of things to a person who can dispose of those goods as the owner, while the sale of services is considered to be all jobs and actions performed within the scope of performing an economic activity, which do not represent the sale of goods in accordance with the provisions of the law. The neutrality of VAT can be threatened by the exemption of certain goods and services from taxation. It is common practice that financial services, insurance and reinsurance services and postal services are exempt from VAT due to difficulties in determining the base. The exclusion of certain subjects and goods and services from VAT taxation leads to the appearance of a cascade effect. Small companies, which are below the VAT registration threshold, cannot deduct input VAT from their purchases, so that input VAT becomes part of the cost price and is shifted in a chain through the sales price to the next stages of turnover. Exempt entities do not have the right to deduct input VAT related to purchases for the production or provision of exempt goods and services. The cascading effect becomes significant if it occurs in the middle of the turnover chain, and can produce serious microeconomic consequences for companies, as well as macroeconomic disturbances.

**A taxpayer** in the VAT system is a natural and legal entity who permanently and independently performs economic activity in order to generate income. In order for a person to be considered a VAT payer, it is necessary that all the above characteristics are cumulatively represented. From the definition of a taxpayer, it implies that a VAT payer cannot be a person who does not perform economic activity, who performs activities occasionally and without compensation (e.g. non-profit associations). Legislators, with the aim of establishing an economical and efficient VAT system,

limit the range of VAT payers by prescribing the threshold for VAT registration. Usually, the threshold for registration corresponds to a certain level of annual turnover, and only an entity who, in addition to the above-mentioned characteristics, has an annual turnover that exceeds the amount of the prescribed threshold for registration can become a VAT payer. A VAT payer can only be an entity who has taxable turnover in terms of VAT regulations, and entities that provide exempt services (financial, public, postal, etc.) cannot be payers, unless they also provide taxable services. There are other forms of VAT registration that can be found in the national VAT systems. One is voluntary registration for VAT, which is made possible for small companies whose annual turnover does not exceed the threshold for registration. Another form of registration is joint registration, which implies the registration of a complex enterprise, which consists of several legal entities, interconnected by business, organizational and financial ties into a complex enterprise, as a single VAT payer (the so-called "VAT group").

**The tax liability** arises at the moment of delivery of goods or providing services, of issuing an invoice, payment or partial payment before the issuance of an invoice (advance payment), and at the moment of the obligation to pay customs liability when importing goods, whichever comes first. **The tax base** for VAT calculation is the taxable amount of compensation (in money, goods or services) that the taxpayer receives or should receive for delivered goods or services, including subsidies that are directly related to the price of those goods or services, which does not include VAT. Excise duty, customs and other import duties are included in the base, as well as other public revenues, except for VAT, all incidental and dependent costs that the taxpayer calculates for the recipient of goods and services.

**The tax rate** is proportional and is applied to the amount of compensation. It is possible that, in addition to the standard rate, the VAT system includes one or more reduced rates for certain goods or services, or even a zero rate. In most countries, exports are taxed at a zero VAT rate.

**The right to deduct input tax** is a fundamental characteristic of the VAT system. The taxpayer has the right to deduct the VAT which they are obliged to pay or have paid when purchasing goods or services from another taxpayer or when importing goods, if he uses those goods or services for the sale of goods and services that are subject to VAT.

**VAT refund** is an important factor in achieving the neutrality of the VAT taxation system. The extent to which the provisions regarding VAT refunds may undermine the neutrality of VAT taxation depends, primarily, on the scope of application of the right to a refund as well as on specific refund procedures: whether a minimum amount of VAT eligible for refund is prescribed, payment deadlines, whether the procedures related to the submission of refund requests are complex, whether supporting documentation and evidence are required, etc. The occasional declaration of the right to a refund is a normal occurrence, since the declaration of tax liability can be expected in the following tax period. Exporters account for the largest share of VAT refunds. In addition to exporters, the right to a refund over a longer period may also arise for some other groups of taxpayers, for example those engaged in seasonal activities (agriculture and the food industry, tourism, hotel industry or passenger transport, etc.), as well as for activities that have a long production cycle and long procurement periods (construction, shipbuilding, process industries) and for large investments in plants and equipment that require a longer investment return period.

Taxpayers are required to submit a VAT return within the prescribed time limits, and in the prescribed manner. The return includes data on import, export and domestic turnover, data on calculated input and output tax, and the net amount for payment (tax liability) or for refund (claim). The length of the tax period varies from country to country. In EU member states, there is a differentiated approach to returns, according to the characteristics of the taxpayer's cash flow. There are monthly (for large taxpayers), quarterly (for medium-sized companies), half-yearly and annual returns (for small and micro taxpayers). **The deadline for paying the VAT liability**

usually coincides with the moment of submitting the VAT return. From that moment, it is calculated a default interest (for taxpayers who do not pay the tax liability within the deadline), as well as the deadline for VAT refunds to taxpayers.

## **VAT SYSTEM IN BOSNIA AND HERZEGOVINA**

### **Reform of indirect taxation**

The introduction of VAT represented the last phase of the comprehensive reform of the indirect taxation system in Bosnia and Herzegovina (B&H), which began in 2003 with the adoption of the systemic Law on the Indirect Taxation System, which, after approval by the National Assembly of Republika Srpska and the Parliament of the Federation of B&H, transferred the competences for sales tax/VAT, excise duties, customs duties, road fees to the B&H level. It was the biggest economic reform after the war.

Unlike other countries in the region that replaced the sales tax system with a new taxation model, the introduction of the VAT system in B&H involved a complex operation. Bearing in mind the constitutional limitations before the introduction of VAT, a reform of the entire fiscal system in B&H was necessary.

VAT is a tax form that, in order to be efficient and functional, should be implemented at the level of the central government, in terms of legislation, administration and revenue distribution. Jurisdictions for taxation, according to the Constitution of B&H, were assigned to the entities, and later by an arbitration decision and to Brčko District, except in the limited area of customs, the introduction and administration of which fall under the competence of Bosnia and Herzegovina.

It was about a multidimensional reform that resulted in a complete redesign of the fiscal architecture in B&H and a redefinition of the financing system of all levels of government in the complex and decentralized fiscal structure of B&H.

The political aspect of the reform included the transfer of constitutional competences for sales tax/VAT and excise duties in the area of indirect tax policy from the entity and Brčko District to the state level. The legal aspect included the adoption of a set of laws at the B&H level in order to ensure the establishment and functioning of the new fiscal architecture in B&H (Law on the Indirect Taxation System, Law on Payments into the Single Account and Distribution of Revenues, Law on Indirect Taxation Administration, Law on the Indirect Taxation Procedure, Law on Forced Collection Procedure, ...), as well as a set of laws that transfer tax responsibilities in the area of indirect taxes at the B&H level (Law on Excise Duties in B&H, Law on VAT).

The administrative-operational aspect of the reform required in the first phase (2004) the merger of the customs administrations of the entities and Brčko District, then the establishment of the Indirect Taxation Administration (ITA). This created a completely new fiscal architecture in Bosnia and Herzegovina and redefined the division of tax responsibilities. Thus, the administrative competences for indirect taxes were assigned to the ITA, while the competences for direct taxes and social contributions were kept at the level of the tax administrations of the entities and Brčko District.

The new fiscal architecture required a new political-administrative entity, the Governing Board of the ITA, which is exclusively responsible for conducting the policy of indirect taxes in B&H. Since fiscal competences are left to the entities by the Constitution, the transfer of competences in the sphere of indirect taxes required the introduction of a management mechanism which, on the one hand, will be centralized enough to enable the introduction of VAT and the uniform implementation of the policy of indirect taxes and their distribution, and which, on the other hand, will enable the entities to retain a key role in that sphere through the veto mechanism, when making decisions on

taxes that have been transferred to the BiH level (VAT, excise taxes, road fees) and when making decisions about the distribution of revenues from indirect taxes.

Finally, the fiscal aspect of the reform of indirect taxes implied the centralization of the collection of revenues from indirect taxes in B&H (VAT, excises, customs, road fees, ...) to the Single Account of the ITA, the abolition of financing of Institutions of B&H by the entities<sup>10</sup>, the introduction of a new vertical system of distribution from the level of B&H, and reform of the system of distribution of tax revenues in the entities. The system of distribution of indirect taxes in B&H is specific in the world due to the unique role of VAT as a criterion for the allocation of collected indirect taxes to the entities and Brčko District. Starting from the theoretical premise that VAT is a tax on consumption, final consumption from VAT returns, i.e. the amount of VAT for which the taxpayer does not have the right to deduct, is used as the starting point for calculating the distribution coefficients among the entities.

### **Characteristics of the VAT system in Bosnia and Herzegovina**

On January 1, 2006, B&H replaced the sales tax system with the value added tax (VAT) system. Since the entities and the Brčko District were competent, according to the constitutional provisions, for sales tax, in the first phase of the centralization of the taxation of sales of goods and services, it was necessary to adopt the state Law on Sales Tax and abolish the entity regulations on sales tax. The law had a transitional character and was applied only during 2005 until the introduction of VAT. The centralization of taxation of goods and services in B&H resulted in a radical change in the tax structures of entities and Brčko District. As of 2006, they have lost their original revenues from sales tax, excise and road fees, and in the budgets, on the revenue side, instead of original revenues from indirect taxes, they have transfers of indirect taxes from the level of B&H.

Basically, the concept of the VAT system follows the theoretical concept, incorporating the basic elements of taxation and rules, which to the greatest extent were harmonized with the Sixth EC VAT Directive<sup>11</sup> in force at the time. The VAT system is consumable, and the indirect (credit) method is used to calculate VAT. The exemptions are fully aligned with EU rules, and limited to public sector services, social services, postal, financial and insurance services.

Despite the strong commitment of the domestic fiscal authorities and the international community in B&H, the basic concept of VAT in B&H, with a broad base and a single rate of 17%, was already derogated at the end of 2005, just before the introduction of VAT, in order to enable refunds of VAT to beneficiaries of funds from international aid projects approved by the Council of Ministers of B&H. The second derogation of the Law was carried out at the end of 2008, when it was possible to exempt from payment the VAT on the import and supply of goods and services in the country within the framework of EU projects financed from the EU Instrument for Pre-accession Assistance - IPA. The third derogation occurred in 2023, when supplies of goods for humanitarian purposes were exempt from VAT.

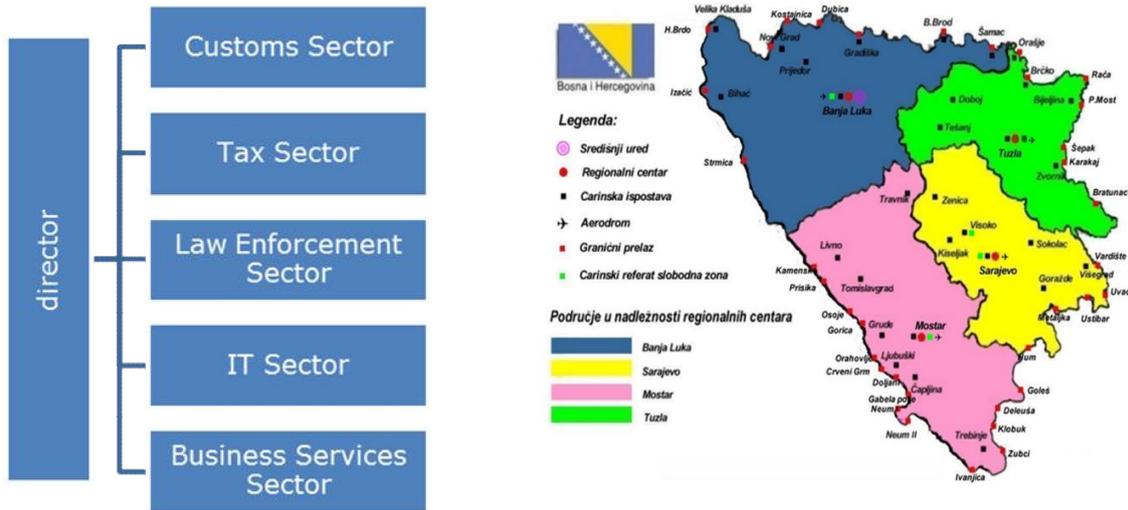
The specificity of the indirect taxation reform in B&H is also reflected in the unusual organizational structure of the ITA. Unlike most countries in Europe and the world, in which the responsibilities for administering taxes and customs duties are divided between the customs (for import duties) and tax (for domestic taxes) administrations, in Bosnia and Herzegovina, in accordance with the new fiscal architecture, the responsibilities for administering customs duties, VAT on imports and domestic VAT, excises/road fees on imports and domestic excises/road fees have been assigned to

<sup>10</sup> In accordance with Art. 8 (1) of the Constitution of B&H, the FB&H financed 2/3, and the RS 1/3 of the budget of the Institutions of B&H.

<sup>11</sup> As of 2006, Council Directive 2006/112/EC (*Council Directive 2006/112/EC on the common system of value added tax, OJ L 347, 11.12.2006.*).

the ITA. Tax administrations of entities and Brčko District have retained responsibilities for administering direct taxes and social contributions. It is an efficient and functional organization, consisted of five sectors (Box 4), which enables synergistic effects of customs and tax controls within the same institution, both for taxpayers and for the ITA, saving resources and shortening the time of controls, which ultimately leads to an increase in the efficiency of collecting VAT and other indirect taxes and better revenue collection.

Box 4: Functional and organizational structure (regional centers) of the ITA



**Efficiency of VAT collection**

Theoretically, due to multi-phase payments, VAT is an efficient tax form. The analysis of collection trends from the introduction of 2006 to 2024 indicates a long-term growth of VAT revenues, with high growth rates (Box 5, Chart 1), except during the global crises of 2009 (economic and financial crisis) and 2020 (coronavirus pandemic). High growth rates were particularly pronounced after the transition from sales tax and in the years after the pandemic. The share in total indirect taxes have increased significantly (Chart 2). The share of VAT revenue measured as a % of GDP increased at the time of the transition to VAT, and since then it has been stable, varying within a narrow range (Chart 3).

Box 5: Efficiency of VAT collection in Bosnia and Herzegovina

Chart 1

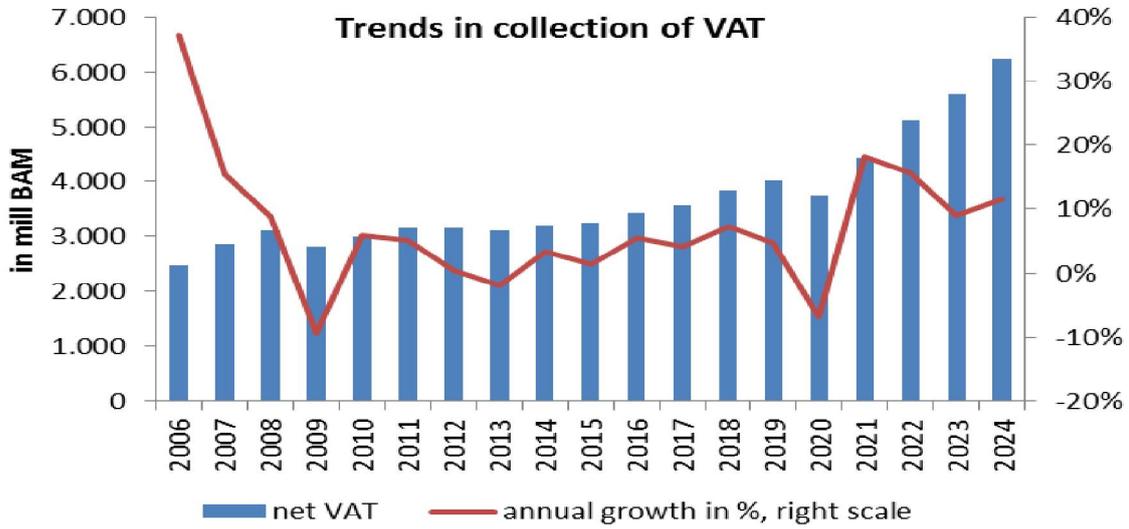


Chart 2

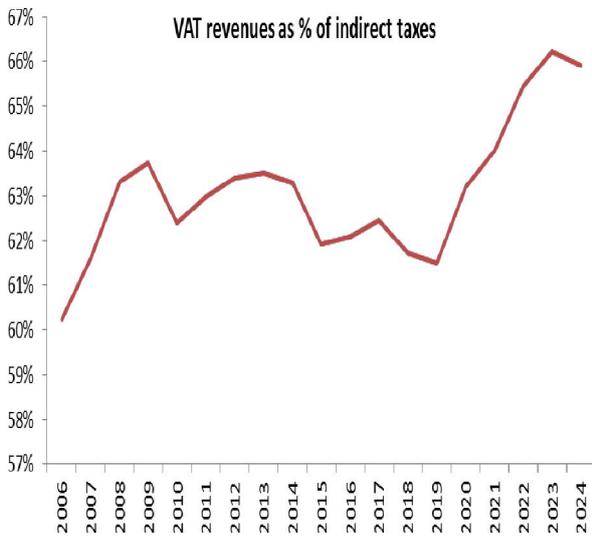
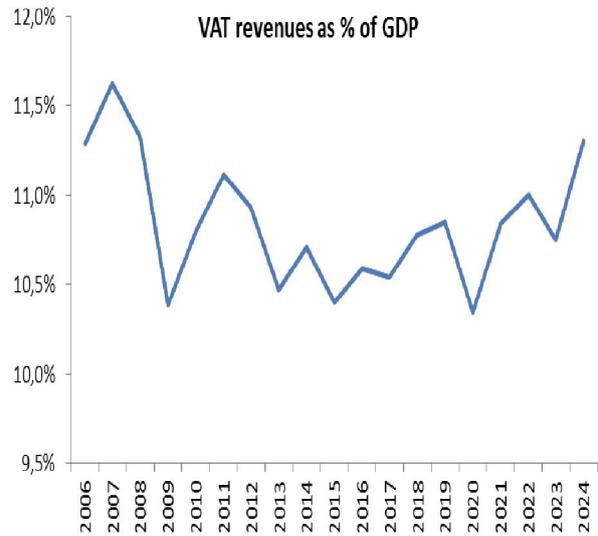


Chart 3



Source: Indirect Taxation Authority of B&H (revenues); Agency for Statistics of B&H (GDP according to expenditure approach - annual data, September 2025); author's calculation.

## Allocation of revenues from indirect taxes

(Author: Mirjana Popović, expert advisor - macroeconomist)

### Introduction

Revenues from indirect taxes represent the most significant source of public revenues in Bosnia and Herzegovina (hereinafter: BiH) and constitute a key instrument for ensuring the stability of public finances. The system of indirect taxation enables efficient revenue collection, thereby ensuring transparent and centralized management of public funds.

Within the fiscal system of BiH, the allocation of revenues from indirect taxes plays a particularly important role in ensuring fiscal balance and financing public needs. The allocation mechanism is based on established coefficients and rules applied in accordance with the prescribed methodology and the applicable legal framework. This system contributes to the stability and predictability of public revenues, which is essential for the planning and implementation of fiscal policy.

The period from 2021 to 2025 was marked by complex economic conditions and pronounced macroeconomic changes. Following the post-pandemic recovery, rising inflation, changes in global supply chains, and fluctuations in consumption affected the dynamics of the collection and allocation of revenues from indirect taxes. An analysis of this period provides insight into the main trends and developments in the allocation system, as well as the factors that shaped fiscal flows in the country.

### Summary

The analysis of the allocation of revenues from indirect taxes in BiH for the period 2021–2025 provides an overview of trends in collected and allocated revenues, taking into account the macroeconomic and fiscal circumstances that influenced their dynamics. Revenues from indirect taxes are collected into the Single Account of the Indirect Taxation Authority (hereinafter: the Single Account), and their allocation is carried out in accordance with the prescribed methodology and established allocation rules.

The observed period includes the phase of post-pandemic economic recovery, pronounced inflationary pressures, and the stabilization of market conditions, which was also reflected in the nominal growth of collected revenues. The analysis offers insight into annual allocation trends and changes in total revenue amounts, with particular attention paid to earmarked revenues from road tolls intended for the construction and reconstruction of highways and roads.

The objective of the analysis is to present the main tendencies in the allocation of revenues from indirect taxes in BiH, highlight the factors that influenced changes in their allocation, and contribute to a better understanding of fiscal flows and the efficiency of the indirect taxation system.

### Methodology

The analysis is based on data from the Indirect Taxation Authority and relevant macroeconomic indicators. The observed period covers the years 2021–2025, enabling the monitoring of multi-year trends and the identification of changes in the dynamics of the allocation of revenues from indirect taxes.

The data were processed on an annual basis using descriptive and comparative analysis, with a focus on trends in the total amounts of allocated funds, the revenue structure, and changes in earmarked revenues from road tolls. Particular attention was paid to the continuity of the

methodological approach in order to ensure comparability with previous analyses published in the Department's bulletins<sup>12</sup>.

The analysis was prepared in accordance with the applicable regulations and methodological guidelines governing the system of allocation of revenues from indirect taxes in BiH.

## 1. Allocation of Revenues from Indirect Taxes for the Period 2021–2025

### 1.1. Allocation of Gross Revenues to Beneficiaries

Gross revenues from indirect taxes represent the total funds collected and recorded in the Single Account<sup>13</sup> of the Indirect Taxation Authority. These revenues also include amounts earmarked for refunds to taxpayers, which have priority in the allocation process, as well as funds intended for financing the institutions of BiH, the Federation of BiH, the Republic of Srpska, and Brčko District. The total amount of funds available for allocation also includes resources designated for servicing external debt.

Chart 1 presents the structure of indirect tax refunds, i.e. the share of individual refund categories in total refunds in 2025.



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

The most significant share in the structure of indirect tax refunds in 2025 relates to VAT refunds to taxpayers, accounting for 92.7% of the total amount of refunds. VAT refunds to international organizations account for 5.4%, while refunds related to excise duties and customs procedures represent a significantly smaller portion of total refunds, with shares of 1.2% and 0.7%, respectively. Such a refund structure indicates the dominant importance of regular VAT refunds to taxpayers, which is consistent with the level of economic activity and the volume of taxable transactions.

<sup>12</sup> More about the system of allocation of revenues from indirect taxes in BiH in: Popović, M. (2019). "Analysis of the Allocation of Revenues from Indirect Taxes for the Period 2006–2018 – Trends and Structure." OMA Bulletin No. 168/169.

<sup>13</sup> VAT, customs duties, excises, tolls 0.15 BAM

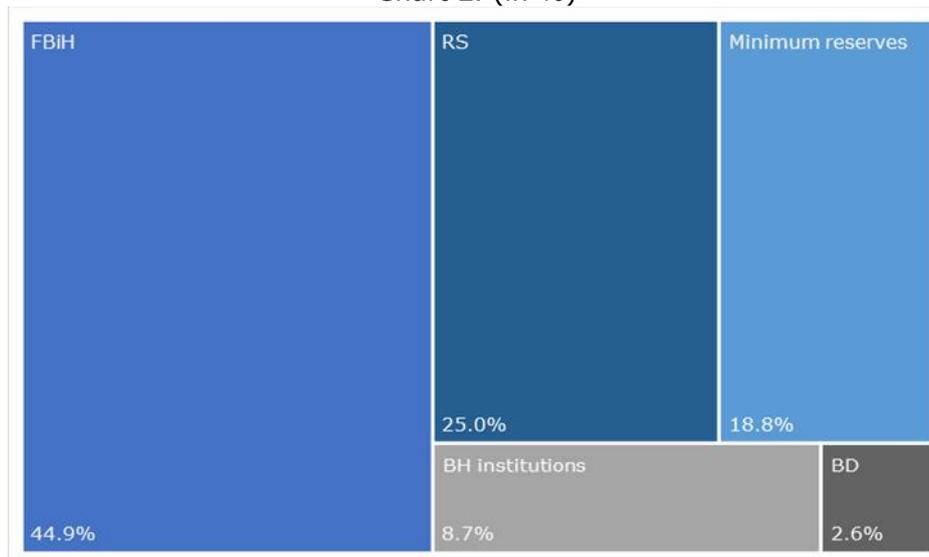
After indirect tax refunds are processed, the remaining portion of total collected revenues is reduced by the amount allocated to minimum reserves. Minimum reserves represent an instrument for ensuring the liquidity of the Single Account and the stability of the revenue allocation process. In 2025, allocations to minimum reserves accounted for 18.8% of revenues available for allocation, as shown in Chart 2 and Chart 3.

In the next phase of the allocation process, a fixed amount of funds is set aside for financing the institutions of Bosnia and Herzegovina, whose share in total revenues from indirect taxes in 2025 amounted to 8.7% (Charts 2 and 3).

After refunds have been executed and funds allocated for minimum reserves and the financing of BiH institutions, the remaining amount represents the base for allocation to the entities (the Federation of BiH and the Republic of Srpska) and Brčko District, including funds earmarked for servicing external debt (Chart 2).

Chart 2 presents the structure of the allocation of revenues from indirect taxes in 2025, including the shares of the Federation of BiH, the Republic of Srpska, and Brčko District, funds earmarked for servicing external debt, as well as allocations for minimum reserves and the financing of the institutions of Bosnia and Herzegovina.

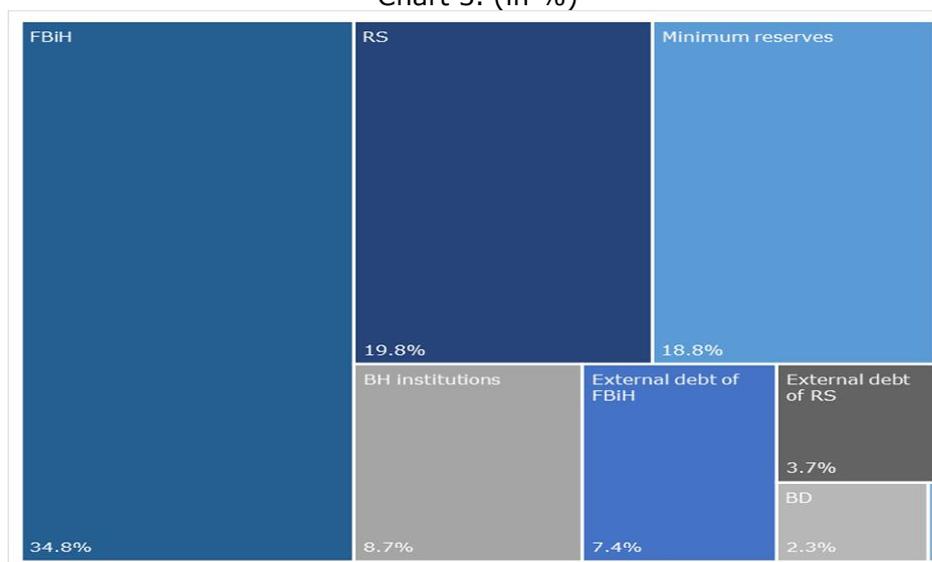
Chart 2. (in %)



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

Chart 3 shows the shares of the entities and Brčko District in the allocation of revenues from indirect taxes after the deduction of funds earmarked for servicing external debt. The chart also includes the shares of funds allocated for servicing the external debt of the entities and Brčko District, as well as allocations for minimum reserves and the financing of the institutions of Bosnia and Herzegovina.

Chart 3. (in %)



Note: ■ External debt of BD 0,1%

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

The allocation of revenues from indirect taxes between the entities and Brčko District is carried out on the basis of pre-determined coefficients, which are defined in accordance with final consumption data. The coefficients are determined and applied on a quarterly basis<sup>14</sup>, enabling timely adjustments of the allocation in line with current fiscal and economic developments.

The allocation coefficient for Brčko District is defined as fixed<sup>15</sup>, while the coefficients for the entities are periodically revised based on updated data from the Indirect Taxation Authority of BiH and the adopted allocation methodology. This approach contributes to the transparency and predictability of the allocation system, while simultaneously preserving fiscal stability and balance among different levels of government.

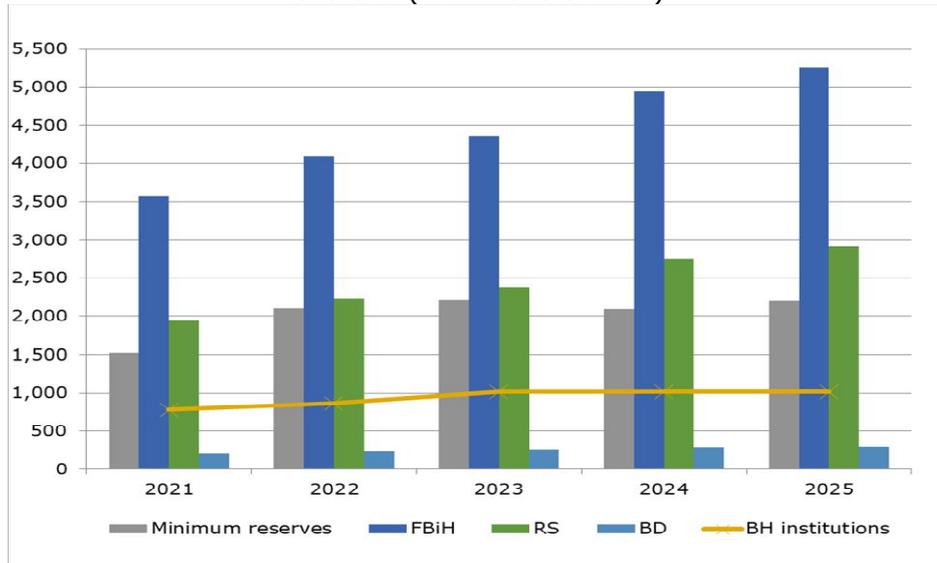
Chart 4 shows the trends in the allocation of revenues from indirect taxes over the period from 2021 to 2025, expressed in millions of BAM<sup>16</sup>.

<sup>14</sup> The ratio of the total final consumption reported in VAT returns by taxpayers in the territory of a given entity, or a given revenue user, to the total final consumption reported in VAT returns across the entire territory of BiH.

<sup>15</sup> The representative of 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 District had before the reform of the indirect taxation system, by decision of June 1, 2007 imposed a fixed coefficient for Brčko District for minimum of 3.55% or at least 124 millions of BAM per year in absolute terms.

<sup>16</sup> The amount of gross revenue excludes revenues from the dedicated toll.

Chart 4. (in millions of BAM)



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

The chart illustrates the evolution of the allocation of revenues from indirect taxes during the period 2021–2025. A stable and continuous increase in allocations to the entities and Brčko District is observed, accompanied by relatively stable financing of the institutions of BiH and occasional fluctuations in minimum reserves.

Compared to 2021, the Federation of BiH recorded a cumulative increase in allocations of 47.0% by 2025, while the Republic of Srpska achieved growth of approximately 49.9% over the same period. Brčko District also recorded significant growth, exceeding 48.0% over the five-year horizon.

On a year-by-year basis, the most pronounced single-year increase in allocations to the entities and Brčko District was recorded in 2024, when allocations to the Federation of BiH increased by 13.5%, to the Republic of Srpska by 15.3%, and to Brčko District by 14.1% compared to the previous year. At the same time, allocations to minimum reserves decreased by 5.2%, while the financing of the institutions of BiH maintained a stable level without year-on-year changes.

In 2025, the upward trend in allocations to the entities and Brčko District continued, while minimum reserves showed a mild recovery. This confirms a multi-year upward trend in allocations to sub-national levels of government, alongside the stable positioning of financing for the institutions of BiH.

Table 1 presents the structure of the allocation of revenues from indirect taxes over the period 2021–2025, expressed in percentages.

Table 1.

in %	2021	2022	2023	2024	2025
Minimum reserves	19.0	22.0	21.6	18.9	18.8
BH institutions	9.7	9.1	10.0	9.2	8.7
FBiH	44.5	43.0	42.7	44.6	44.9
RS	24.3	23.5	23.3	24.8	25.0
BD	2.5	2.4	2.4	2.6	2.6
Total	100	100	100	100	100

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

It is evident that the entities and Brčko District account for the dominant share of the allocation, alongside a stable share allocated to the financing of the institutions of BiH and a variable share of minimum reserves. The allocation structure confirms the long-term fiscal stability of revenue sharing among levels of government. Over the five-year period, the allocation structure does not show significant deviations, indicating consistency in fiscal allocation and stability in intergovernmental relations with respect to indirect taxes.

Table 2 presents changes in allocation shares of revenues from indirect taxes, expressed in percentage points (p.p.), for 2025 compared to previous years covered by the analysis. The observed differences provide insight into medium-term shifts in the allocation structure among levels of government and indicate trends in fiscal reallocation of revenues from indirect taxes.

Table 2.

change in p.p.	Index (2025-2024)	Index (2025-2023)	Index (2025-2022)	Index (2025-2021)
Minimum reserves	-0.1	-2.8	-3.2	-0.2
BH institutions	-0.5	-1.3	-0.4	-1.0
FBiH	0.3	2.3	2.0	0.4
RS	0.2	1.6	1.5	0.7
BD	0.0	0.1	0.1	0.0

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

Compared to 2024, 2025 recorded an increase in the allocation share to the entities, while the share of Brčko District remained stable. At the same time, the shares allocated to the financing of the institutions of BiH and to minimum reserves declined.

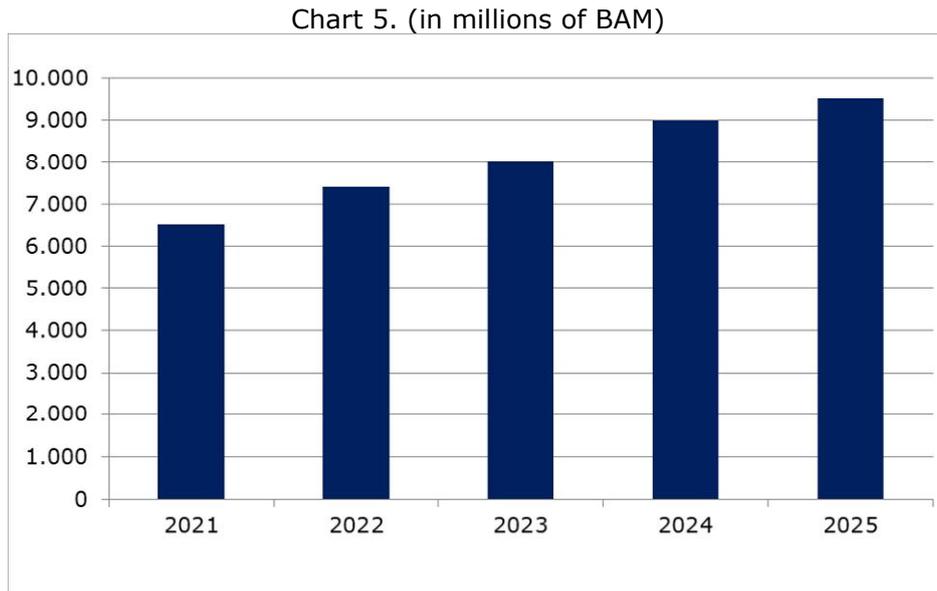
When analysed over a longer period, the changes are more pronounced. Compared to 2023, the largest increases were recorded by the Federation of BiH and the Republic of Srpska, confirming the strengthening of their shares in total allocation. The share allocated to the institutions of BiH decreased in all observed comparisons, ranging from -0.4 p.p. to -1.3 p.p., indicating a continuous reduction in the relative share of this segment of allocation in the medium term. Minimum reserves also recorded negative changes compared to previous years, most notably in the 2025–2023 comparison.

Overall, the trends indicate a gradual increase in the share of entity levels and Brčko District in the total allocation of revenues from indirect taxes, accompanied by a parallel decline in the shares of minimum reserves and the financing of the institutions of BiH in the medium term.

## 1.2. Allocation of Net Revenues to Beneficiaries

After the allocation of funds for minimum reserves, the remaining amount represents net revenues from indirect taxes intended for allocation to budget beneficiaries: the institutions of BiH, the Federation of BiH, the Republic of Srpska, and Brčko District.

Chart 5 presents the allocation of total net revenues from indirect taxes over the period 2021–2025, expressed in millions of BAM.



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

During the observed period, net revenues from indirect taxes exhibit a stable upward trend, resulting from a combination of economic and fiscal factors. The most significant influence in the period 2021–2024 was the post-COVID-19 economic recovery, accompanied by growth in consumption, imports, and production. Wage growth in both the public and private sectors, together with rising living standards and costs of living, contributed to increased consumption and higher VAT revenues. At the same time, inflationary pressures during the observed period raised the prices of goods and services, which directly affected the increase in VAT collection, given that the tax is calculated on the transaction value. An increased volume of imports<sup>17</sup>, particularly of energy products and basic goods, contributed to higher revenues from customs duties, excise taxes, and VAT on imported goods. Strengthening of fiscal administration through the digitalization of procedures, more efficient controls, and the reduction of tax evasion further improved revenue collection. The increased number of tourists<sup>18</sup> in BiH during the period also indirectly generated higher VAT inflows through consumption in the services and retail sectors.

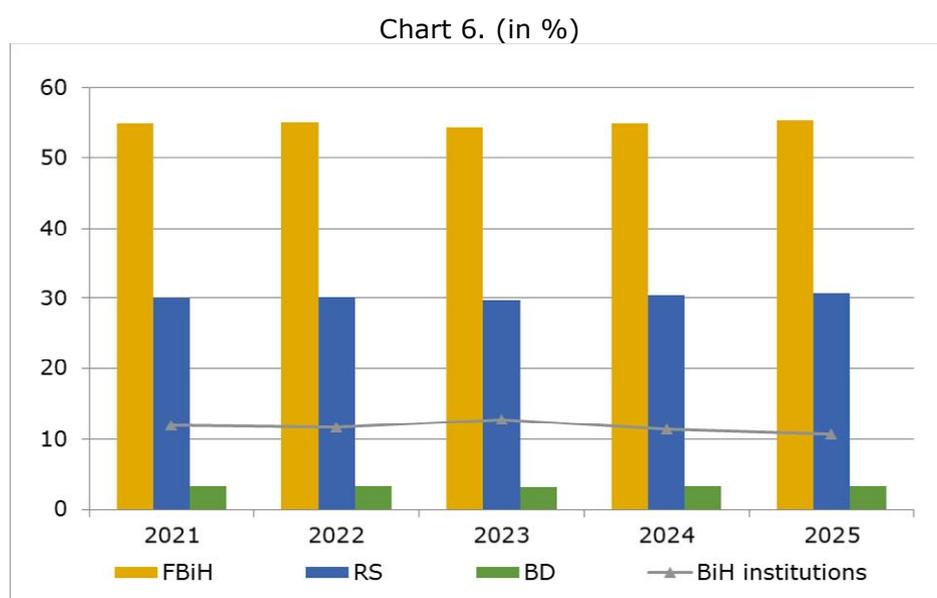
It is particularly significant that in 2025 the growth of revenues from indirect taxes continued, reaching the highest level of collection in the observed period. Compared to 2024, revenue growth of 5.6% in 2025 resulted from strengthened domestic demand, the stabilization of economic flows, and reduced inflationary pressures, which enabled growth in real consumption. Continued fiscal discipline, improved collection through digitalization and controls, and still favorable trends in international trade further contributed to revenue growth. The achieved results indicate that the increase in indirect tax revenues was not solely a consequence of inflation and post-pandemic

<sup>17</sup> Source: Agency for Statistics of BiH

<sup>18</sup> Source: Agency for Statistics of BiH

recovery, but also of structural improvements in the fiscal system and the economy, which may be considered sustainable in the medium term.

Chart 6 presents the shares of beneficiaries in the allocation of net revenues from indirect taxes over the period 2021–2025. The allocation includes the institutions of BiH, the Federation of BiH, the Republic of Srpska, and Brčko District. The chart analysis shows that the largest share of revenues is allocated to the Federation of BiH, followed by the Republic of Srpska, while the institutions of BiH and Brčko District receive smaller shares of the total allocation. This presentation provides insight into the structure of revenue allocation and year-on-year changes in beneficiaries' shares.



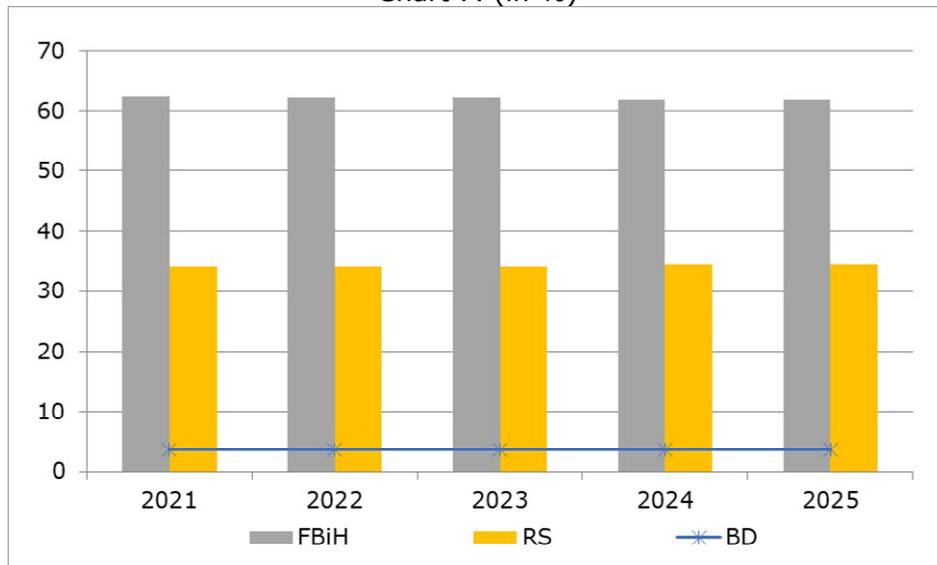
Source: Data from the Indirect Taxation Authority of BiH, MAU overview

Throughout the entire analysed period, the largest share of the allocation belongs to the Federation of BiH, which receives more than half of total revenues. The Republic of Srpska with a share of around 30% follows it, while the institutions of BiH receive a smaller but stable portion of the allocation (10–12%). Brčko District has the smallest share in the allocation, accounting for approximately 3%. The analysis shows that the allocation structure remains relatively stable over the observed period, with only minor changes in the shares of individual beneficiaries.

Chart 7 illustrates the allocation of net revenues from indirect taxes between the entities and Brčko District<sup>19</sup> over the period 2021–2025, after deducting the portion of revenues allocated to the institutions of BiH. This presentation provides insight into the relative shares of individual beneficiaries in total revenues and tracks the dynamics of allocation over the observed period.

<sup>19</sup> Including external debt of the entities and Brčko District

Chart 7. (in %)



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

The allocation of net revenues from indirect taxes between the entities and Brčko District is determined based on coefficients derived from final consumption, while the share of Brčko District is defined by a fixed coefficient. Over the observed period 2021–2025, the allocation coefficients remained relatively stable, without significant year-on-year fluctuations.

The Federation of BiH maintained the largest share of the allocation throughout the entire period, although a slight decline in its share has been recorded in the last two years compared to earlier years, alongside a modest increase in the share of the Republic of Srpska. The share of Brčko District remains constant in line with the fixed coefficient, while the portion of revenues allocated to the institutions of BiH was previously deducted.

The analysis indicates that the structure of the allocation of net revenues between the entities and Brčko District remained stable over the five-year period, with minor adjustments in shares reflecting changes in final consumption and economic developments in BiH. This presentation provides insight into the long-term dynamics of allocation and the stability of fiscal coefficients.

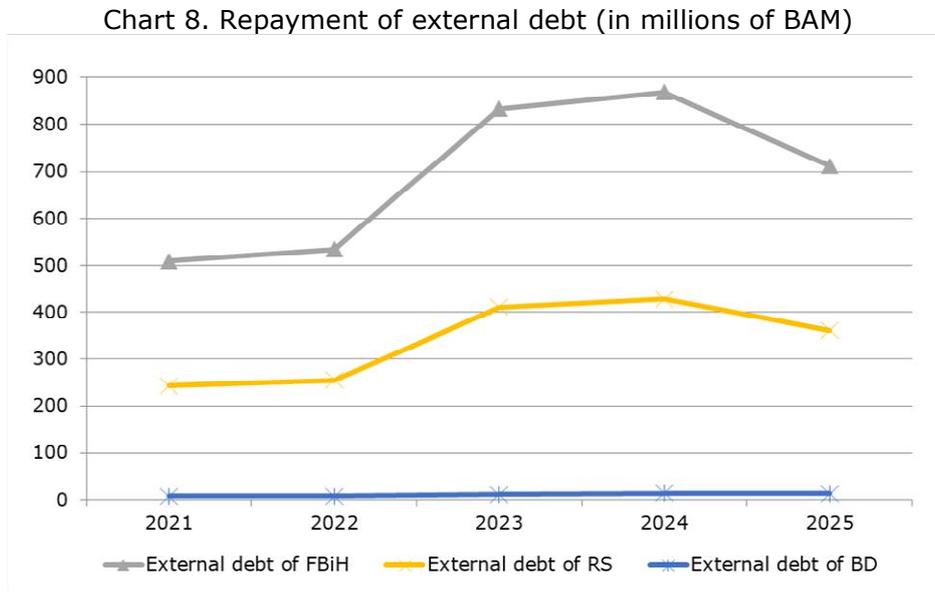
## 2. External debt

After the allocation of funds for minimum reserves and the financing of the institutions of BiH, the amount earmarked for servicing external debt is set aside as a priority, prior to the allocation of revenues to the entities and Brčko District. In line with the debt maturity schedule, amounts allocated for external debt repayment reduce the total funds available for allocation to the entities and Brčko District.

Although external debt is recorded as an obligation of Bosnia and Herzegovina towards foreign creditors, the actual fiscal burden is borne by the entities and Brčko District. Consequently, the funds allocated for the financing of external debt are not included in the amount to be distributed to their budgets, but are deducted in advance from total revenues, in accordance with the respective debt structure and maturity schedules<sup>20</sup>.

<sup>20</sup> The repayment plan and payment schedule 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 presents the trends in the allocation of revenues from indirect taxes earmarked for the servicing of external debt over the period 2021–2025, expressed in millions of BAM.



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

Over the observed period from 2021 to 2025, the chart illustrates the dynamics of annual external debt repayments of the Federation of BiH, the Republic of Srpska, and Brčko District, revealing significant differences in absolute amounts and in the intensity of servicing international obligations among the entities and Brčko District.

Throughout the entire analysed period, the Federation of BiH recorded the highest volume of external debt repayment. Following relatively stable repayment levels in 2021 and 2022, a pronounced increase in serviced obligations occurred in 2023, reflecting the maturity of a larger number of loan tranches from previously concluded international financing arrangements. The highest level of repayment was recorded in 2024, when the Federation of BiH reached the peak of its annual external debt obligations. In 2025, a noticeable decline in repayment amounts was observed, indicating a more favourable maturity structure and the completion of the most intensive debt-servicing cycle within the analysed period.

The Republic of Srpska exhibited a continuous and gradual increase in annual external debt repayment over the period 2021–2024, with the highest amount also recorded in 2024. Compared to the Federation of BiH, the absolute level of repayment is lower; however, the upward trend indicates a relatively even distribution of obligations arising from international credit arrangements. In 2025, a reduction in repayment amounts occurred, suggesting a decrease in budgetary pressure related to external debt servicing.

Although Brčko District participates with the lowest absolute repayment amounts, it recorded notable changes in relative terms. Throughout the entire period, a moderate but stable increase in annual repayments was observed up to 2024, when the maximum level was reached. In 2025, a slight decline in repayment amounts was recorded, consistent with the limited borrowing volume and the fiscal capacity of the District.

In accordance with previously assumed international obligations and the defined maturity schedule, 2024 stands out as a key year in terms of the intensity of external debt repayment for both entities and Brčko District. In that year, the entities increased their annual repayment amounts by 4.2% compared to 2023, while Brčko District recorded a significantly stronger

increase in repayments, amounting to 26.7%. These developments indicate increased fiscal expenditures aimed at the timely servicing of international obligations.

The chart clearly shows that the dynamics of external debt repayment are most pronounced at the level of the Federation of BiH, while the Republic of Srpska demonstrates a stable and predictable debt-servicing profile, and Brčko District maintains a low but relatively variable level of repayment. The reduction in repayment amounts in 2025 for both the entities and Brčko District may be interpreted as an indicator of eased budgetary pressure and a potentially more favourable medium-term fiscal outlook.

Table 3 presents the shares of the Federation of BiH, the Republic of Srpska, and Brčko District in total annual allocations for external debt repayment over the period 2021–2025, expressed in percentages. Total annual allocations for external debt repayment in each observed year are taken as the reference value, enabling a clear comparative analysis of the relative contributions of the entities and Brčko District.

Table 3.

in %	2021	2022	2023	2024	2025
External debt of FBiH	67.2	67.1	66.4	66.3	65.5
External debt of RS	31.9	31.9	32.7	32.7	33.2
External debt of BD	0.9	1.0	0.9	1.1	1.3
Total	100	100	100	100	100

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

The data presented in the table indicate a stable structure of the shares of the entities and Brčko District in total external debt repayment throughout the entire analysed period, with minor annual deviations consistent with the maturity of individual loan obligations.

The Federation of BiH holds a dominant share in total allocations, in line with its greater fiscal capacity, the volume of international credit arrangements, and previously assumed obligations. The Republic of Srpska participates with a significant but smaller share in total repayment compared to the Federation of BiH, while its percentage share remains relatively stable over the observed years. Such a structure indicates an even distribution of maturing obligations and a predictable dynamics of external debt servicing. Brčko District, although accounting for the smallest percentage share, maintains a clearly defined and continuous presence in total allocations for external debt repayment. Its share reflects the limited borrowing volume and fiscal capacity of the District, as well as the orderly fulfilment of its assumed international obligations.

Table 3 confirms that the structure of total allocations for external debt repayment over the period 2021–2025 is relatively stable and predictable, with a clear dominance of the Federation of BiH, a balanced participation of the Republic of Srpska, and a limited but consistent contribution of Brčko District. Such a structure represents an important element for assessing fiscal sustainability and planning future external debt management policies.

Table 4 presents changes in percentage points (p.p.) in the shares of the Federation of BiH, the Republic of Srpska, and Brčko District in total allocations for external debt repayment, with 2025 taken as the reference year and changes compared to previous years.

Table 4.

change in p.p.	Index (2025-2024)	Index (2025-2023)	Index (2025-2022)	Index (2025-2021)
External debt of FBiH	-0.7	-0.8	-1.6	-1.7
External debt of RS	0.6	0.5	1.3	1.4
External debt of BD	0.2	0.3	0.3	0.3

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

The results indicate that changes in the structure of total allocations for external debt repayment are of limited magnitude, confirming a high degree of stability in the distribution of obligations. Changes in the shares of the entities, expressed in percentage points, are minor and remain within a narrow range, without pronounced fluctuations compared to previous years. Brčko District also does not record significant changes in its percentage share during the observed period, maintaining a stable and almost unchanged share in total allocations for external debt repayment. Such developments indicate a continuous and predictable dynamics of debt servicing, in line with the District's limited borrowing volume.

Table 4 confirms that 2025 does not introduce structural changes in the distribution of the external debt repayment burden, but rather reflects stability and continuity in the shares of the entities and Brčko District, in accordance with previously assumed international obligations.

### 3. Toll revenues for highways

Toll revenues<sup>21</sup> are deposited into a special sub-account within the Single Account opened at the Central Bank of BiH. The allocation of these revenues is carried out in accordance with the Law on Payments to the Single Account and the Allocation of Revenues<sup>22</sup>.

Of the total collected toll amount, 10% remains in the sub-account of the Single Account and is used to reconcile revenues after determining the final allocation methodology, while the remaining 90% is allocated between the entities and Brčko District according to the established percentages: Federation of BiH 59%, Republic of Srpska 39%, Brčko District 2%<sup>23</sup>.

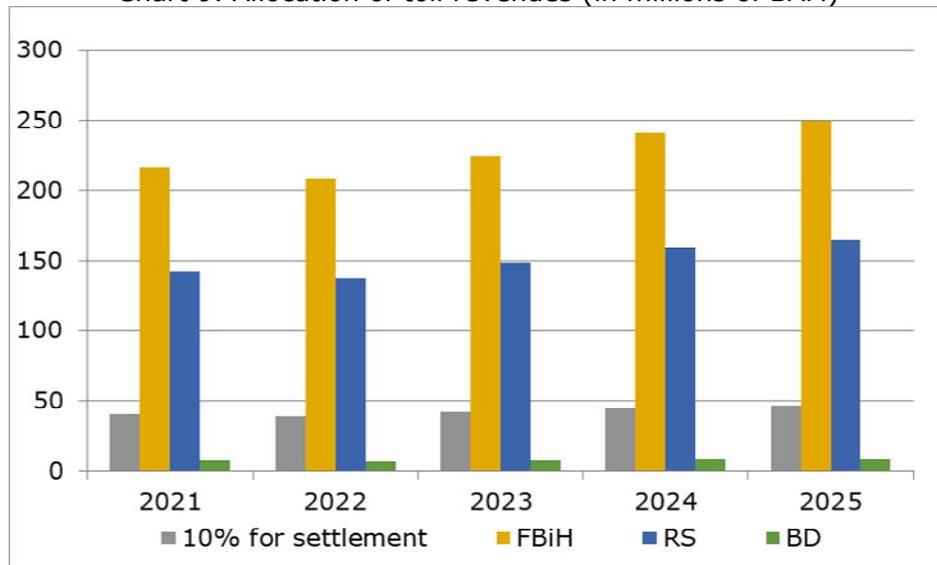
Chart 9 shows the amount allocated over the period 2021–2025, in millions of BAM.

<sup>21</sup> The amount of toll per liter of derivatives placed on the market in BiH during the analysed period is 0.25 BAM; Law on Amendments and Supplements to the Excise Duties Law in BiH, "Official Gazette of BiH", No. 91/17.

<sup>22</sup> "Official Gazette of BiH", No. 55/04, 34/07, 49/09, 91/17

<sup>23</sup> The allocation of revenues is carried out in accordance with the Decision on the Temporary Allocation of Revenues from Highway Tolls, "Official Gazette of BiH", No. 102/09, and the Decision on the Temporary Allocation of Revenues from Tolls for Highway Construction and for the Construction and Reconstruction of Other Roads, "Official Gazette of BiH", No. 50/18.

Chart 9. Allocation of toll revenues (in millions of BAM)



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

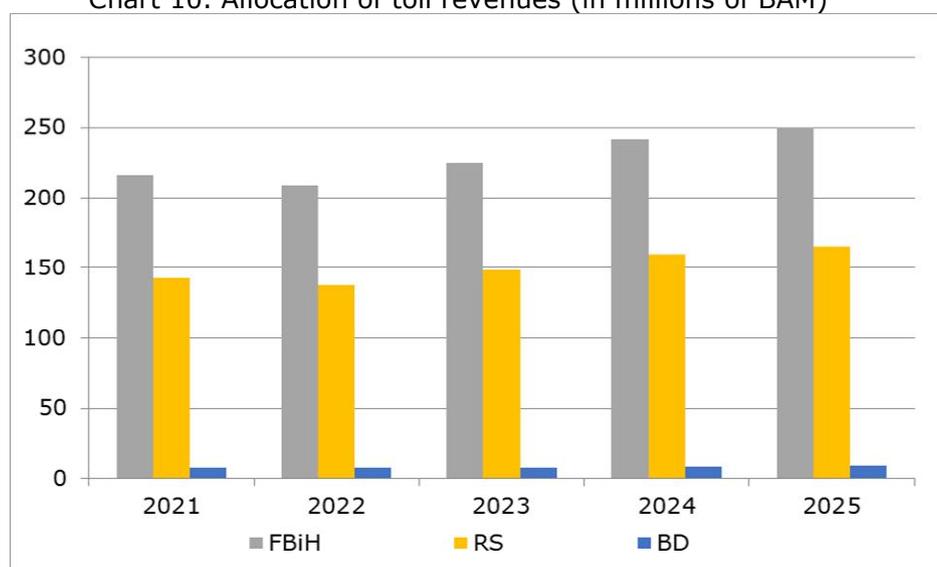
During the observed period, a trend of gradual growth in total allocated funds is visible, particularly in the last two years. The largest share of revenues continuously goes to the Federation of BiH, followed by the Republic of Srpska, while Brčko District receives a significantly smaller, but stable, amount of funds. The 10% amount retained in the sub-account of the Single Account for reconciliation also shows a slight increase, in line with the growth of total toll revenues collected.

According to current decisions, the 10% amount is retained in the sub-account of the Single Account and serves to reconcile revenues upon determination of the final allocation methodology. It accumulates until the decision of the Governing Board of the Indirect Taxation Authority on the temporary allocation of toll revenues for highways remaining in the sub-account of the Single Account is issued<sup>24</sup>.

Chart 10 shows the corresponding amount allocated to the entities and Brčko District during the regular allocation for the period 2021–2025, in millions of BAM.

<sup>24</sup> The allocation of the portion of the accumulated amount intended for reconciliation from the sub-account of the Single Account was not carried out during the five-year period presented in the analysis. It was carried out in earlier years in accordance with the Decisions on the Temporary Allocation of Revenues from Highway Tolls that were accumulated in the sub-account of the unified account, "Official Gazette of BiH", No. 83/11, 62/13, 67/15, 42/17. Additionally, in 2025, a certain amount of 240 million BAM of toll revenues was allocated pursuant to the decision of the High Representative ("Official Gazette of BiH", No. 44/2025). This allocation represents an exception to the standard methodology. It did not affect the main trends of revenue allocation to the entities and Brčko District.

Chart 10. Allocation of toll revenues (in millions of BAM)



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

The trend of toll revenue allocation shown in the chart does not cover the period of legal changes regarding the amount of dedicated toll revenues, nor the additional allocation carried out based on special decisions. During the observed period, no significant fluctuations in the annual allocation of toll revenues are observed; rather, there is a stable and gradual increase in total amounts.

During the observed five-year period, a continuous growth in total toll revenues is recorded, which continued in 2025, when the total allocated revenues increased by 3.7% compared to the previous year.

Considering the application of fixed allocation coefficients, the increase in revenues for the users (the Federation of BiH, the Republic of Srpska, and Brčko District) occurred proportionally to the overall growth of collected funds.

## Conclusion

The analysis of the allocation of revenues from indirect taxes in Bosnia and Herzegovina for the period 2021–2025 indicates a stable and predictable fiscal allocation system, which enables efficient revenue collection and transparent public fund management. During the observed period, total revenues from indirect taxes show continuous growth, resulting from a combination of post-pandemic economic recovery, increased domestic consumption, rising wages, inflationary trends, as well as structural improvements in the fiscal system, including digitalization and strengthened collection.

The allocation of gross and net revenues confirms a stable structure between the entities, Brčko District, and the institutions of BiH. The Federation of BiH receives the largest share of revenues, while the Republic of Srpska shows a gradual increase in its share, and Brčko District maintains a constant but smaller portion of the allocation. Minimum reserves and the financing of BiH institutions show relative stability, with minor changes reflecting adjustments to economic and fiscal developments. Servicing of external debt is carried out orderly and predictably, with the Federation of BiH having a dominant share and the Republic of Srpska and Brčko District contributing in a stable manner. The growth in the allocation of net revenues, including toll revenues for highways, confirms fiscal sustainability and the capacity of internal levels of government to plan and execute budgets in accordance with current revenues.

Overall, the analysis confirms that the system of allocation of revenues from indirect taxes in BiH is characterized by stability, transparency, and predictable growth trends, representing a key element for maintaining fiscal balance, improving public finances, and ensuring long-term sustainability of budgets at all levels of government.

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