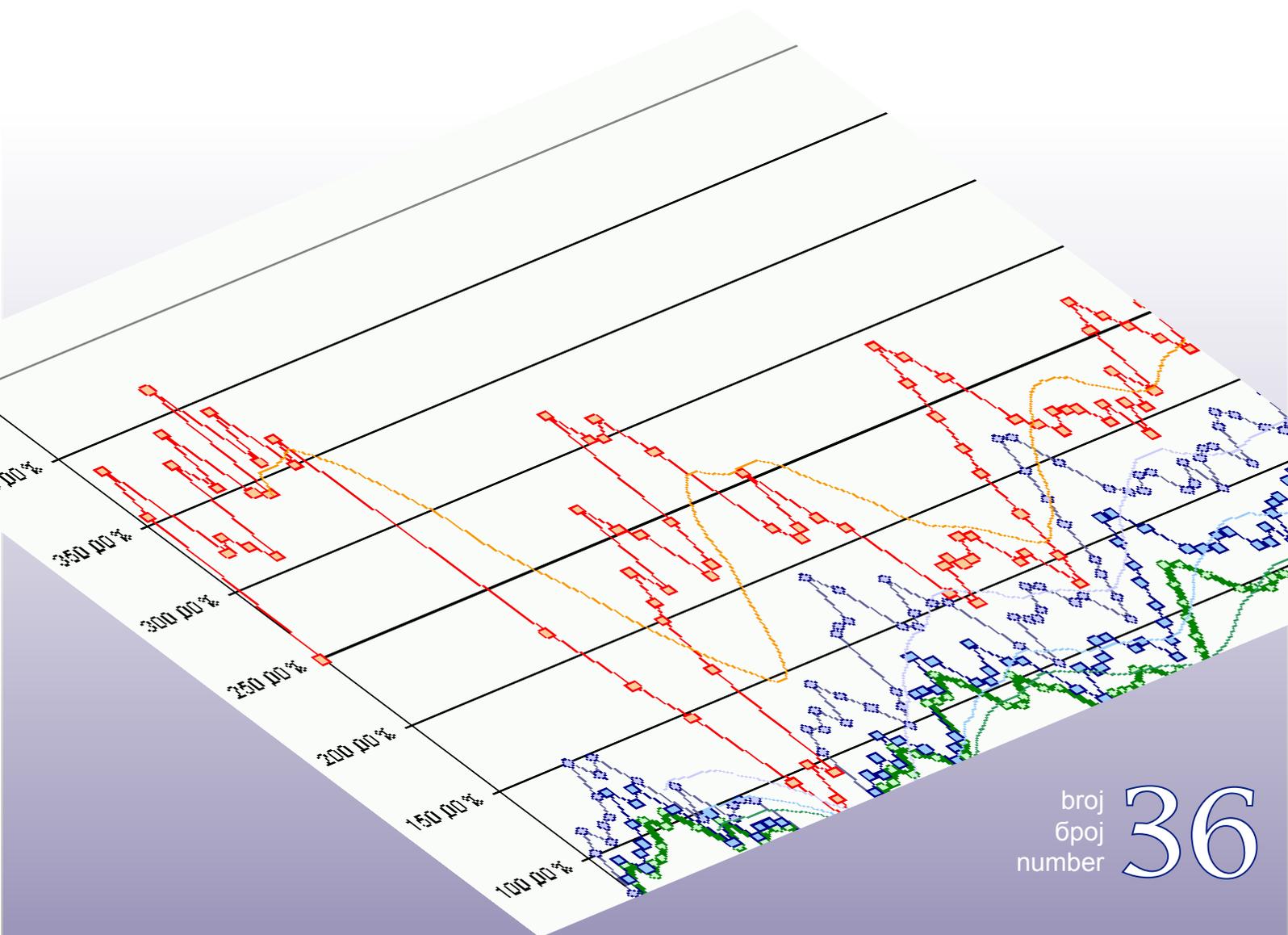




Macroeconomic Unit of the Governing Board of the Indirect Tax Authority

# *Oma Bilten*



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number **36**

## With this issue

Problem of indirect taxes allocation dates from the beginning of implementation of Value Added Tax. On few occasions, lively discussions on coefficients for allocation to entities and Brčko District resulted in blockage of the allocation of indirect taxes from the ITA Single Account.

Sharp debates on criteria for allocation of indirect taxes and mistrust between different levels of government overshadowed effects of the reform in the field of indirect taxation and excellent results in implementation of VAT system in BiH. Proposals that derived from the discussion on permanent methodology for allocation of indirect taxes ranged from radical ones, which required change of legal framework, to proposals for improvement of current system.

Balancing advantages and disadvantages of options being considered, the ITA Governing Board decided in favor of final consumption to be used as economic criteria for allocation of indirect taxes between entities. In addition, general dedication of the Governing Board is to improve current system, which should contribute to stability in financing all levels of government in BiH and elimination of blockages of ITA single account. New methodology includes passing temporary coefficients on quarterly basis, which leaves room to the Governing Board to focus on policy of indirect taxation and increase of efficiency in administering indirect taxes. Permanent methodology includes temporary balancing two times and final rebalancing after external audit, which will moderate potential negative effects of rebalancing on budget of entity that received more funds through temporary allocation. Methodology, along with the establishment of the Unit for final consumption, which should contribute to improvement in quality of data on final consumption, is incorporated in the Rulebook on allocation of indirect taxes to entities.

In this issue, we are also providing you with regular information on collection of indirect taxes in May 2008, and consolidated monthly reports in accordance with data availability. We are also presenting you with summary of the IMF report after their mission to Bosnia and Herzegovina as part of Article IV consultations.

Dinka Antić, MSc  
Head of Unit – Supervisor

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## News: Visit of IMF Mission to Bosnia and Herzegovina<sup>1</sup>

(Author: Aleksandar Eskić, Macroeconomist in the Unit)

As part of regular visit to Bosnia and Herzegovina, IMF Mission had several meetings with BiH fiscal authorities. We present here outcome of these talks in the form of preliminary conclusions of the Mission:

1. **Economy of Bosnia and Herzegovina is facing new challenges;** New challenges primarily refer to accelerating inflation, widening external debt, worsening external environment i.e. rising fiscal pressure and pressures to increase wages in both public and private sector, which will complicate adequate policymaking in the period ahead. With the risks to macroeconomic stability and growth rising, progress on fiscal and structural reforms is assuming added urgency. The welcome signing of the Stabilization and Association Agreement (SAA) opens the road to EU accession and becomes a catalyst for much needed reforms.
2. **Expansionary fiscal policy partially caused macroeconomic imbalances;** The general government registered a deficit of 0.3 percent of GDP in 2007, compared with a 2.2 percent surplus in 2006. As a result, fiscal policy added further stimulus to already strong domestic demand. With spending on wages and transfers to households rising sharply, total government expenditure increased by 4 percentage points of GDP to reach almost 50 percent of GDP in 2007. In the Federation of Bosnia & Herzegovina, mounting spending pressures have led to liquidity problems.
3. **Progress on structural reforms has been slow and BiH is behind world best performing economies that are in similar transitional state, on most structural indicators.** On the fiscal side, recent income tax reforms represent a welcome step toward greater harmonization and transparency. However, fiscal policy coordination has been weak and creation of a single economic space remains high priority task. Privatization advanced in the Republika Srpska (RS) last year, but has yet to take off in the Federation.
4. **There is agreement that fiscal policy is key for ensuring macroeconomic stability and promoting growth.** However, mounting commitments for transfers to households in the Federation and rapidly increasing public sector wages in RS are at odds with these objectives. . Alongside, we understand that the signing of the SAA will imply customs revenue losses that will not be fully offset by increases in excises. Thus, unless current spending is rationalized, capital expenditure will likely be squeezed (to keep the deficit under control), curtailing the country's growth potential.
5. **Better coordination among all levels of government remains key.** The mission welcomes the establishment of the *Fiscal Council* and encourages the authorities to make it operational as soon as possible. This will require putting in place a number of important elements, including harmonizing the budget calendars; establishing a comprehensive, timely, and transparent reporting of budget and execution data; and mandating all levels of government to provide such data to Macroeconomic Analysis Unit on a uniform and consistent basis. Agreeing on a permanent *indirect tax revenue allocation formula* was also mentioned as a priority goal to bring stability and predictability to budget planning, which actually took place at 90<sup>th</sup> session of the ITA Governing Board<sup>2</sup>.

<sup>1</sup> Source: Bosnia and Hercegovina – 2008 Article IV Consultation, *Preliminary Conclusions of the Mission*, IMF, June 24, 2008 (full text of the document may be downloaded from the web site: <http://www.imf.org/external/np/ms/2008/062408.htm>)

<sup>2</sup> More information on this in special article in this Bulletin

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6. **Strengthening administrative capacity and improving macroeconomic statistics are prerequisites for successful economic management.** U To this end, it is important to upgrade expertise and capacity at various relevant institutions (e.g., the Central Bank of Bosnia and Herzegovina, Directorate for economic planning, ITA GB Macroeconomic Analysis Unit). The mission urges the authorities to strengthen their efforts to improve the quality of fiscal data, to enhance the effectiveness of the Fiscal Council.



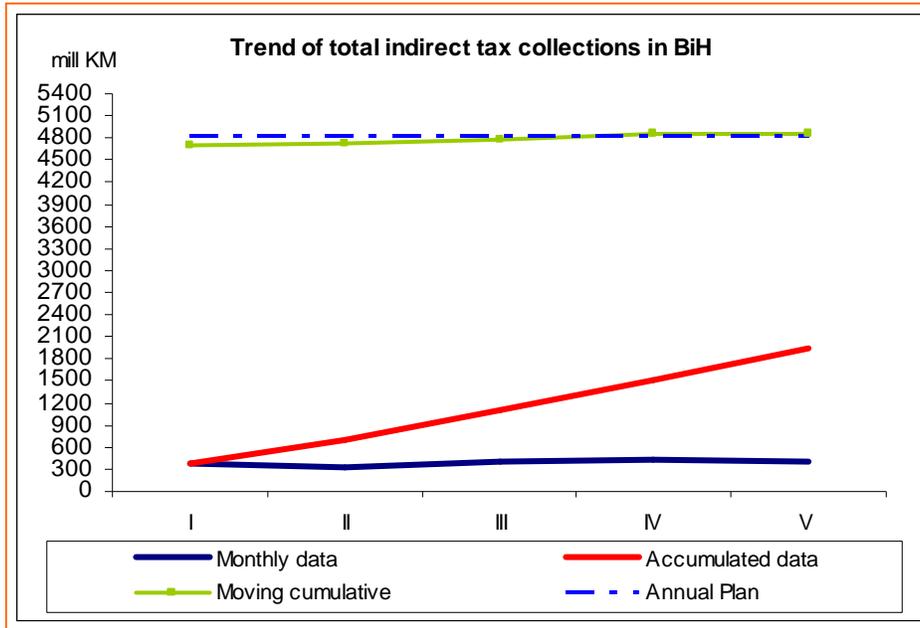
Macroeconomic Analysis Unit's staff at the Conference on public finances and fiscal management<sup>3</sup>

<sup>3</sup> More in the Section "From the Activities of the Unit" in this Bulletin  
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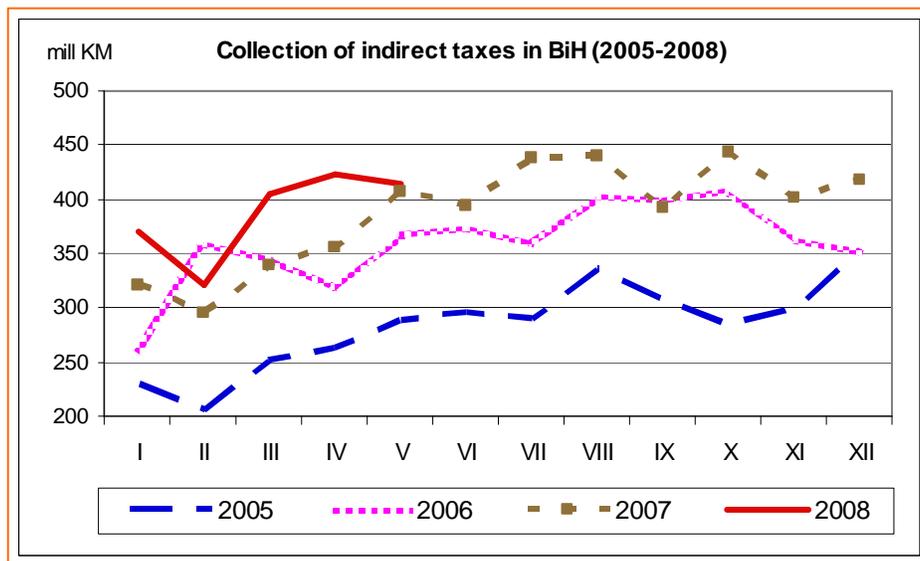
### Collection of Indirect Taxes: May 2008

(Author: Dinka Antić, MSc)

In the first five months of 2008, total amount of 1,933 billion KM of indirect taxes net<sup>4</sup> was collected after deduction of refunds of VAT and other indirect taxes. This represents an increase of 12,66% compared to the same period in 2007.



Graph 1

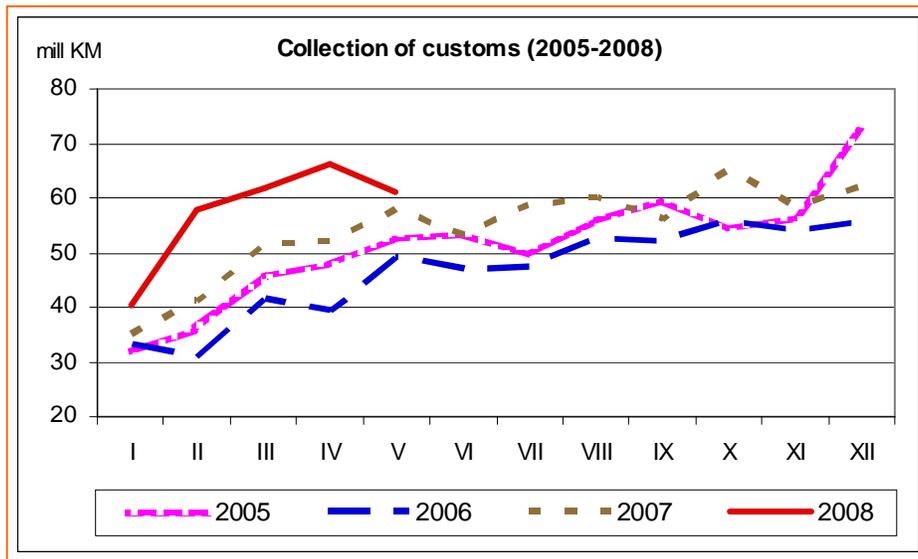


Graph 2

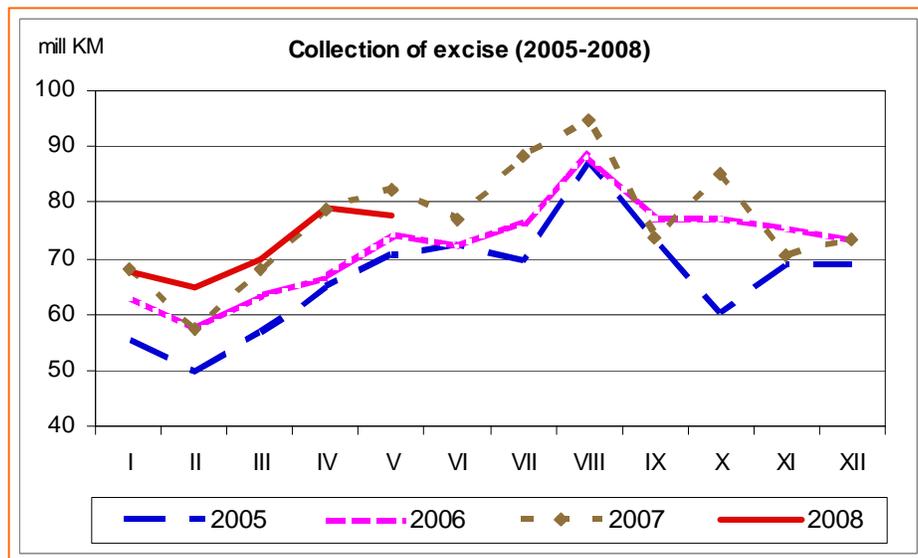
<sup>4</sup> In the same period, ITA collected additional 13,117 million KM of indirect taxes that on May 31st, 2008, remained unadjusted after the compilation of IT system module of ITA (payments to single account and module for customs, excise and VAT).

However, if observed on monthly basis, net collection of indirect taxes in May was only 1,86% higher than in the same month of 2007, and it was 2,45% lower than in previous month. If observed for main types of indirect taxes, we can conclude that there the collection of all types was lower in May than in April. So, decrease in collection of revenues from customs and customs duties was 7,78%, decrease in collection of excise 1,57%, decrease in collection of net VAT 1,41% and road tolls 2,43%. In comparison with May 2007, the collection in May 2008 increased for customs (5,36%) and VAT (gross 10,90%, net 4,06%). However, the collection of excise and road tolls was lower in May this year than in May 2007, by 5,47% and 4,51% respectively.

For the period of five months, the collection of customs revenues increased by 19,62% compared to the same period last year, which represents slower growth than enormous growth of customs in previous period. Significant reduction in collection is noted for excise and road tolls, For the period of five months, monthly increase in collection of excise was only 1,24% and for road tolls 1,41%.

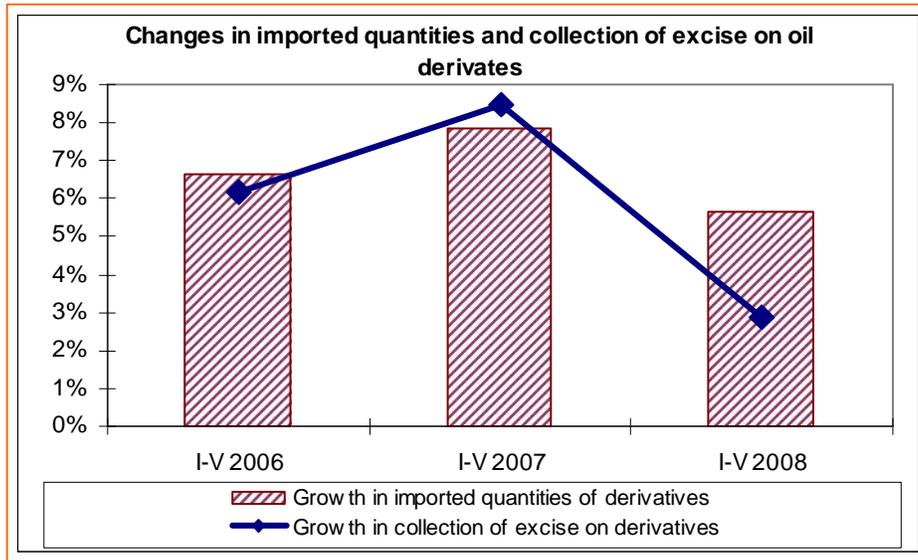


Graph 3



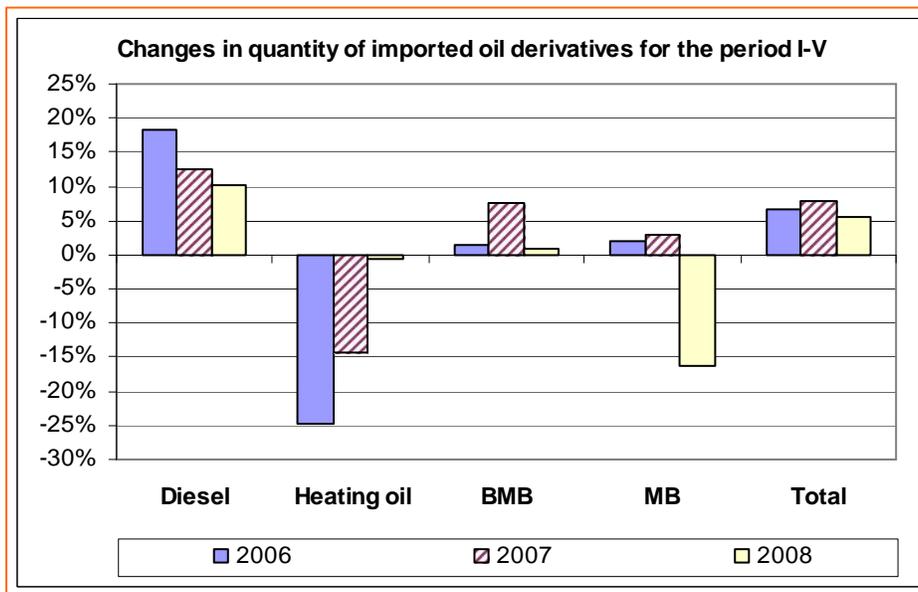
Graph 4

In order to analyze possible causes of decreased collection of excise in the first five months, we observed imported quantities of different types of derivatives, on which a scale of excise rates is applied to. In observed five month period 2005-008, total imported quantity of derivatives grew faster than collection of excise on derivatives. Analysis of the structure of imported oil derivatives, we can see that the share of diesel in total imports constantly grows from 55% in 2005, to 66% in 2006.



Graph 5

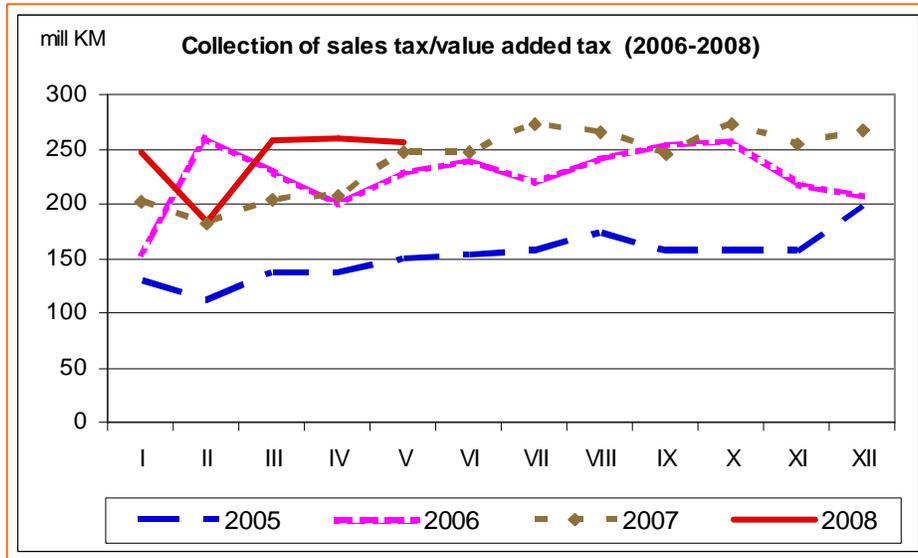
The chart above shows oscillations in imports and collection of excise on oil derivatives that represent most of the excise revenues. In the chart below, there are changes in the structure of derivatives import, where there was significant decrease in imports of motor gasoline in 2008. At the same time, imports of diesel increased but not as much as in the beginning of 2006.



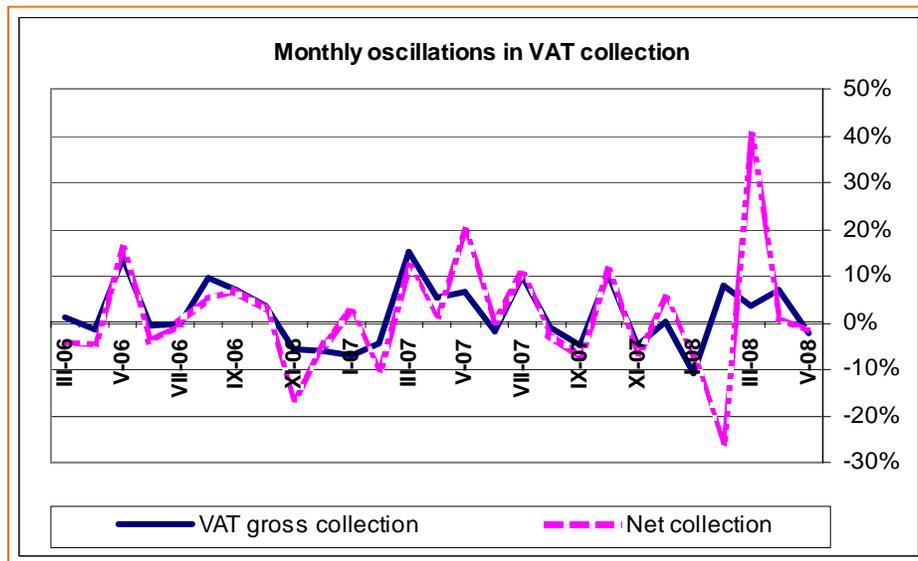
Graph 6

It's obvious that the application of the scale of excise rates contribute to change in the structure of imports of oil derivatives in favor of derivatives taxes with lower excise rates. However, higher increase in price of diesel compared to prices of unleaded gasoline will probably in long term lead to change in the structure of energy import, especially in the segment of household use. This has chain reaction on changes in the structure of car imports. Such trends are in line with EU efforts to reduce negative impact of diesel and motor gasoline on living environment.

VAT collection experienced major oscillations in the last five months. One of the reasons is unstable VAT refunds, and especially payment of refunds from 2007 in February (carried over from previous year).



Graph 7



Graph 8

However, if we exclude the effect of carried over refunds, there is still constant increase of VAT refunds, which is expected in accordance with the Unit's projections.

## Permanent methodology for allocation of indirect taxes from ITA Single Account

(Author: Dinka Antić, MSc)

### 1. PROBLEMS WITH INDIRECT TAXES ALLOCATION

In accordance with the system for allocation of indirect taxes, which was established by the Law on system of indirect taxation<sup>5</sup> and the Law on payments to Single Account and allocation of revenues<sup>6</sup>, basic beneficiaries of the indirect taxes allocation are the state, entities and District. We recently wrote about the system for allocation of indirect taxes from the ITA Single Account in the Bulletin<sup>7</sup>. Since the establishment of new system for allocation on January 1<sup>st</sup>, 2005, and especially since the introduction of VAT on January 1<sup>st</sup>, 2006, lower levels of government in BiH (cantons, municipalities and road funds) have become dependent on dynamics of filling and emptying of ITA account, and entity treasury accounts.

In accordance with the Law on System of Indirect Taxation, state and entities decide on allocation of indirect taxes as part of ITA Governing Board, while Brcko District has status of observer in the ITA Governing Board. In such situation, Brcko District was in bad position since it did not have any influence on allocation of indirect taxes from ITA Single Account. On June 1<sup>st</sup>, 2007, with purpose of protecting fiscal autonomy of the District, established by final arbitrage decision, High Representative imposed fixed coefficient for Brcko District in the amount of at least 3,55% or 124 million in absolute amount. New regime for Brcko District remains in the force until 2011. Coefficient of 3,55% represents share of the District average in final consumption stated in VAT declarations in 2006. According to changes of the Law imposed by High Representative, share of the District in allocation of indirect taxes is calculated according to the population of Brcko District (registered in CIPS database) with correction of 29,3%, until 2011. By fixing share of the District, issue of their funding is resolved for the next few years. However, the problem of determining allocation of indirect taxes between entities still remains.

In consideration of possible conceptions for allocation of indirect taxes between entities, offered options went into two directions:

- (i) Application of existing legal provisions i.e. criteria on final consumption stated in VAT declarations
- (ii) Application of other criteria that require change of legal framework of the indirect taxation system.

Second option requires significant time for change of the legal framework without taking into consideration time needed for discussions on definition of new criteria. In other hand, implementation of the first option does not require changes of the Law, but only improvement of final consumption data, which is the goal of ITA as well as of entities and lower levels of authorities. Final consumption is not only statistical category as it was first declared in VAT return forms. In certain phases of taxable sales of goods and services, where final consumption is not "visible" for ITA inspectors such as retail where it is easy to control avoidance of final consumption, which also means evasion of VAT that should be calculated and paid by taxpayer. So, it is in the interest of ITA and all beneficiaries who get funded from Single Account to improve data on final consumption in VAT declarations. International community placed the issue of adopting permanent methodology of indirect taxes in the focus of political and economic priorities of BiH. So, the Peace Implementation Council listed this as one of five goals that are requirement

<sup>5</sup> „Official Gazette BiH“ no. 44/03, 52/04, 34/07 and 04/08

<sup>6</sup> „Official Gazette BiH“ no. 55/04 and no. 34/07

<sup>7</sup> See Bulletin no. 32

for closure of the Office of High Representative<sup>8</sup>, and European Commission listed this issue amongst short term priorities in order to implement European partnership<sup>9</sup>.

## 2. BASIC ELEMENTS OF THE RULEBOOK

Using principles for allocation of indirect taxes explained in the introduction, ITA Governing Board recently passed the Rulebook on calculation of coefficients for allocation to entities. The Rulebook prescribes methodology and procedure for allocation of indirect taxes to entities, which remain after allocation of indirect taxes collected to ITA Single Account for minimal reserves used for refunds of indirect taxes and financing BiH institutions. Amount for financing Brcko District is allocated from remaining part. Out of the amount allocated to entities, amounts are deducted for financing external debt in the value of due liabilities and directly paid to the state budget.

The Rulebook defines the following basic principles for allocation of indirect taxes to entities:

- Dynamics for calculation of coefficients is quarterly
- Quarterly coefficients are temporary until final rebalancing for that fiscal year
- Temporary rebalancing for one fiscal year is done two times a year
- After external audit, final rebalancing is made between two entities
- After final rebalancing for certain fiscal year, it is not possible to make further corrections in allocation for given fiscal year.

It is necessary to underline that ITA makes temporary and final rebalancing between entities at the burden of current revenues of entities within 30 working days from the day when the decision on rebalancing was made. However, allocation beneficiaries may agree on a deadline for making temporary and final rebalancing that is shorter than this. The Rulebook defines scope of work of the Unit for final consumption, which should be established by the Governing Board in the following months.

## 3. METHODOLOGY FOR ALLOCATION OF INDIRECT TAXES

(1) Basic feature of temporary methodology is calculation of quarterly coefficients for allocation for calendar quarters, on basis of cumulative of final consumption stated in VAT returns for three month period, which covers the period (t-2) compared to the first month of quarter that refers to. On the 21<sup>st</sup> day of the month which precedes the quarter for which the coefficients are calculated, or on the first following working day, the ITA Director, in accordance with Article 13b of the Law on payments to single account and allocation of revenues, submits to the Governing Board a signed report on the final consumption of allocation beneficiaries as revealed in their VAT returns for each month of the previous year and for each month of the current year. The final consumption data referred to in the previous paragraph shall include all corrections of VAT returns generated on 20<sup>th</sup> in the month until 12 h, which pertain to VAT returns included in the calculation of the final consumption for given period. Quarterly coefficients of temporary allocation are calculated from data on final consumption from VAT returns in the following manner:

Quarter for which coefficients are calculated	VAT returns from which data on final consumption are taken into calculation
Quarter Q1 (I-III)	IX, X, XI from previous year
Quarter Q2 (IV-VI)	XII from previous year, I and II of current year
Quarter Q3 (VII-IX)	III, IV and V of current year
Quarter Q4 (X-XII)	VI, VII and VIII of current year

<sup>8</sup> www.ohr.int

<sup>9</sup> See: Council Decision of 18 February 2008 on principles, priorities and conditions contained in the European Partnership with Bosnia and Herzegovina and repealing Decision 2006/55/EC; 2008/211/EC, EU Official Gazette, L80 dated March 19, 2008

Quarterly coefficients of temporary allocation are calculated in a manner that cumulative of final consumption of each of the entities in the quarterly periods from the table above (left column) is put in relation to cumulative of final consumption of both entities for the same period.

Macroeconomic Analysis Unit prepares a proposal of coefficients for temporary quarterly allocation, which submits to the members of the Governing Board. Upon obtaining approval from the ITA Governing Board, quarterly coefficients for the allocation of the remaining amount shall be communicated to the ITA Director for execution.

The Rulebook defines carrying out temporary rebalancing twice between beneficiaries of allocation of indirect taxes:

- (i) First temporary rebalancing that is done on July 31<sup>st</sup> of current year, which refers to the period from January to June of current year
- (ii) Second temporary rebalancing that is done on January 31<sup>st</sup> of current year, which refers to previous fiscal year.

Date of the final rebalancing is set by the Governing Board with a special decision after approval of report of external audit. In any case, there is a legal deadline<sup>10</sup> within which it is possible to make corrections in allocation of indirect taxes for previous fiscal year up to December 31<sup>st</sup>. This is partially in a collision with legal provisions that say VAT returns for certain month may be changed within maximum period of 5 years<sup>11</sup>. This means that corrections in VAT returns after February 31<sup>st</sup> of current fiscal year, which refer to previous fiscal year that final rebalancing was made for will not have impact on allocation of indirect taxes between entities for that fiscal year.

Since the final rebalancing is made on basis of the report of external audit, it is necessary to prescribe methodology that auditors will use. This was also legal obligation of the Governing Board on basis of Article 13b, Paragraph (4) of the Law on payments to single account and allocation of revenues.

Coefficient of final rebalancing for every beneficiary of allocation is calculated by putting in relation cumulative of final consumption of every beneficiary of allocation according to VAT returns in the period from January to December for year of rebalancing, with cumulative of total consumption of two entities for the same period. The amount that should have been allocated to allocation beneficiary is calculated by applying coefficients for final rebalancing on total amount of funds from single account that was allocated to entities in the period from January to December for the year of rebalancing. In preparation of proposal for final rebalancing, external audit also takes into consideration information from Macroeconomic Analysis Unit in regards to fulfilling minimum amount for financing Brcko District, on basis of Article 13a, Paragraph (3) of the Law on payments to single account and allocation of revenues.

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<sup>10</sup> See the Law on payments to single account and allocation of revenues

<sup>11</sup> See the Law on procedure of indirect taxation (Official Gazette BiH no. 89/05)

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Dynamics for determining quarterly coefficients for allocation of indirect taxes and temporary rebalancing is provided in the table below:

Y-1	Y												Y+1								
XII	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	I	II	III	IV	V	VI			
				Q2																	
							Q3														
										Q4											
													Q1								
																Q2					
							I P														
	IIP																				

Legend:

	Quarterly period for which cumulative of final consumption is taken for calculation of quarterly coefficients
	Calendar quarter to which quarterly coefficients apply to
	Six month period for which cumulative of final consumption is taken for calculation of first temporary rebalancing
	Annual period for which cumulative of final consumption is taken for calculation of second temporary rebalancing and final rebalancing
	Month in which first temporary rebalancing is made
	Month in which second temporary rebalancing is made

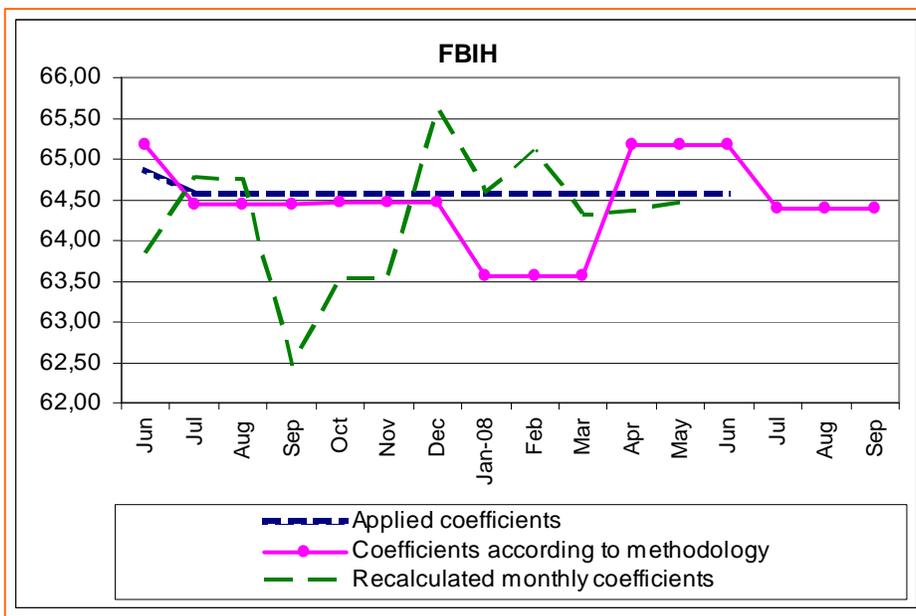
#### 4. EFFECTS OF METHDOLOGY

Important feature of new system for allocation of indirect taxes is certain degree of automatism in determining quarterly coefficients. If until the fifth day of the current calendar quarter for which the allocation coefficients are adopted the Governing Board does not approve the coefficients proposed by MAU, the ITA shall apply the allocation coefficients used as the basis for revenue allocation in the previous calendar quarter.

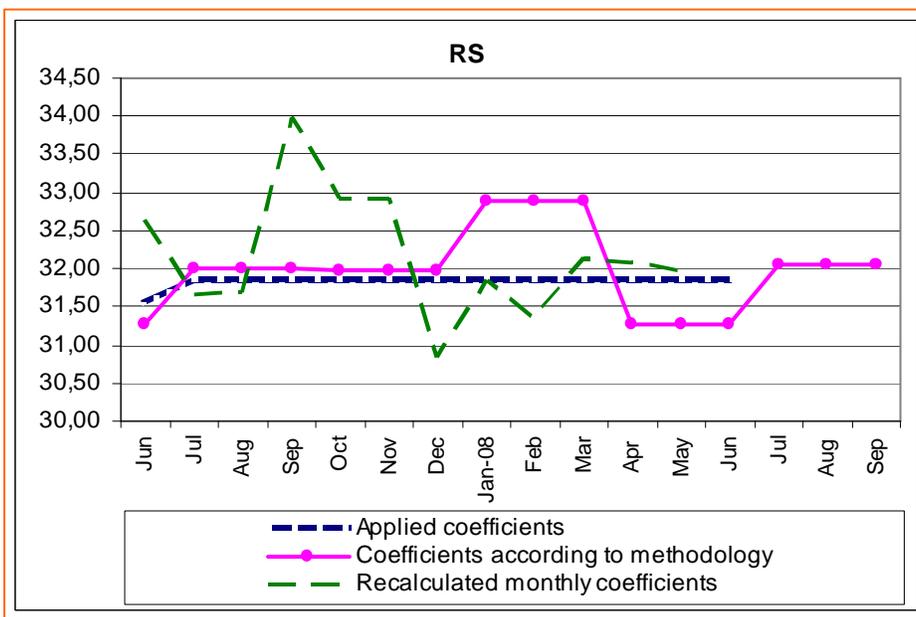
If in the course of the current calendar quarter the Governing Board adopts the temporary quarterly coefficients, the ITA shall apply them and make recalculation as of the 1<sup>st</sup> day of the quarter until the date the coefficients are adopted by the Governing Board.

In this way, blockage of single account is not possible, which provides high level of security to lower levels of authorities in terms of alimentering their budgets.

Positive effects in application of quarterly coefficients are multiple: political, fiscal and economic. First of all, tensions between entities will reduce and this will restore trust in entire system of indirect taxation and bring political stability. The Governing Board will be able to focus on harmonization of indirect taxes policy, which is ahead of us after signing of Stabilization and Accession Agreement with EU. It can also now focus on improvement of operational capacities and efficiency of ITA. Quarterly coefficients provide high level of stability and predictability, and lower oscillations in budget inflows since one of variables is fixed to certain time. This would be not be the case if monthly coefficients were applied, which would be calculated on basis of VAT returns for certain month.



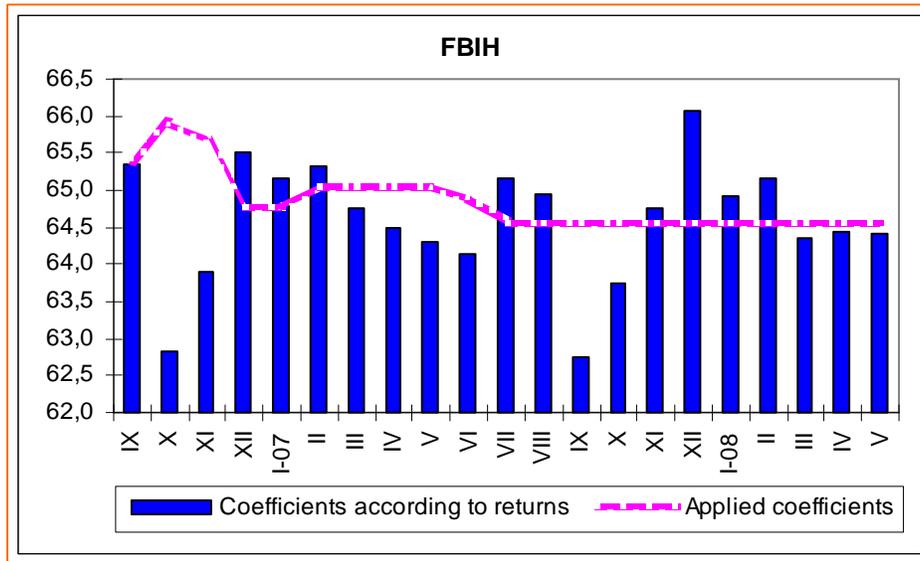
Graph 9



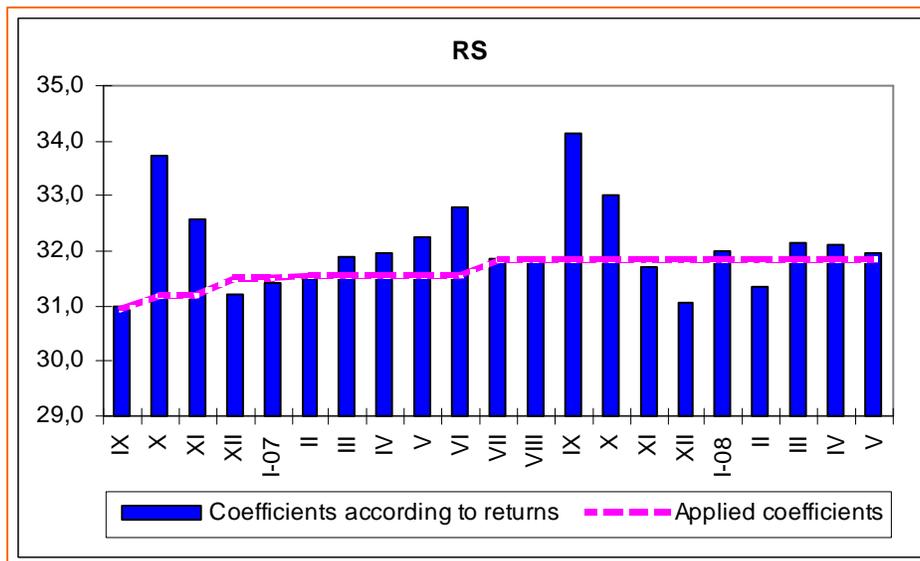
Graph 10

This is best illustrated by Charts 9 and 10, where we can see significant oscillations in monthly shares of entities in final consumption (curve "recalculated monthly coefficients"). We can notice that allocation applied so far used *de facto* fixed coefficients (from June 1<sup>st</sup>, 2007 to June 30<sup>th</sup>, 2008). We can also see oscillations in comparison with quarterly coefficients calculated with new methodology.

We should mention that this curve shows relative and not real shares of entities in final consumption in BiH since the share of Brcko is fixed to 3.55. Real shares of entities and District in final consumption in BiH are provided in the Charts 11, 12 and 13<sup>12</sup>.



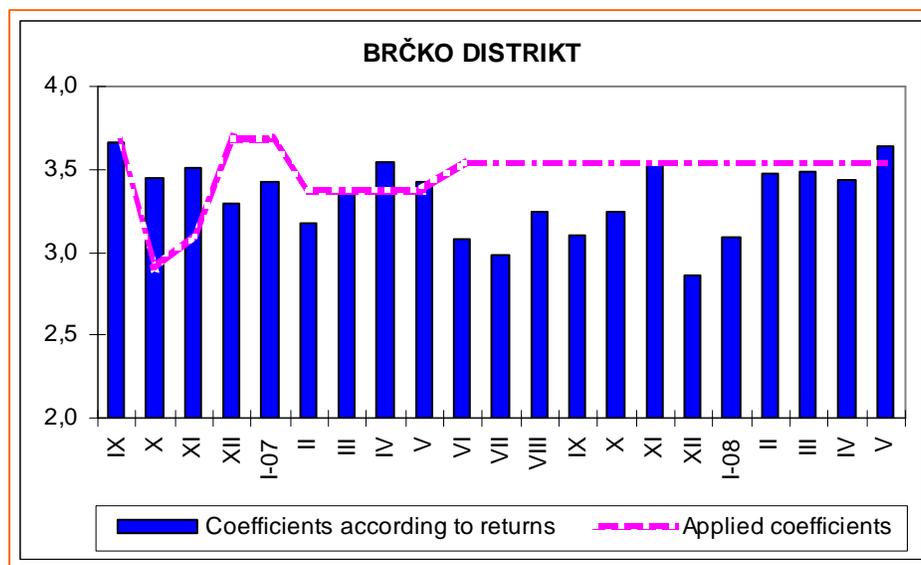
Graph 11



Graph 12

Analysis of entity shares show that temporary allocation coefficients that were applied so far on basis of ITA Governing Board decision were above monthly coefficients in the Federation of BiH and below monthly coefficients in Republika Srpska. Such situation led to the fact that the Federation was supposed to return funds after temporary and final rebalancing. Observing coefficients for Brcko District, we may notice that real shares of Brcko for 2007 in final consumption were below applied coefficients and especially after the decision of High Representative fixing the share to 3.55%.

<sup>12</sup> Data on June 20<sup>th</sup>, 2008.



Graph 13

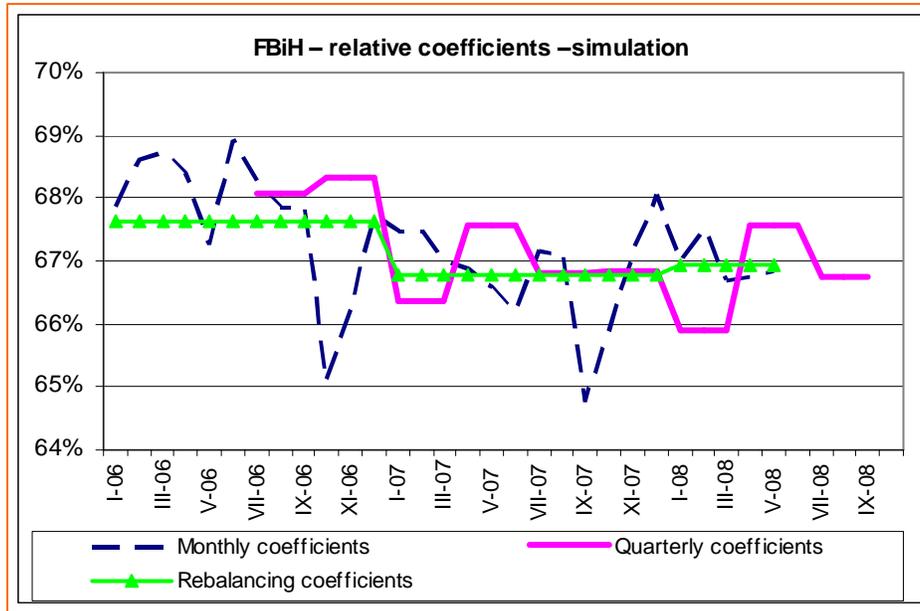
Allocation of indirect taxes in BiH is of multiple importance for financing all levels of administration. According to provisions of recently adopted the Law on Fiscal Council, one of Council's competencies would be adoption of "Global framework of fiscal balance and policy in BiH". Integral part of this framework should be also a proposal on allocation of indirect taxes for the next fiscal year. From very short provisions of the Law, it is not clear if the Fiscal Council takes full responsibility for determining allocation of indirect taxes or the Council just accepts decisions of the Governing Board. Regardless whether future allocation of indirect taxes will be determined by the Governing Board or Fiscal Council, in order to establish efficient fiscal coordination in BiH, it's necessary to adopt permanent methodology of allocation and establish mechanism for breaking deadlocks in making a decision on allocation of indirect taxes. This was very much implemented by new Rulebook.

We should bear in mind that problems in allocation of revenues is not something specific for BiH. Other countries have difficulties in determining fiscal ratios between level of administration and defining boundaries of fiscal sovereignty of lower levels of government (powers for defining rates and tax base, powers to carry out collection) and in terms of determining principles for distribution of revenues to lower levels. However, fiscal sensitivity is much lower in complex European countries than in BiH as ration of indirect and direct taxes are different (primarily profit tax and income tax). Due to low economic development, fiscal stability of BiH largely depends on collection of indirect taxes. 86,5% of tax revenues of the central government in BiH (it includes state, entities, District, cantons and municipalities) comes from indirect taxes<sup>13</sup>. So, financing the budgets of administration in BiH largely depends on two factors: collection of indirect taxes and share in allocation of indirect taxes. Adoption of permanent methodology for allocation of indirect taxes on basis of quarterly coefficients stabilizes financing all levels of administration. Due to carrying out rebalancing two times (temporary) and final rebalancing, possible seasonal oscillations compared to provided quarterly coefficients are moderated, amounts of rebalancing remain minimal and this reduces negative impact on budgets in the year of rebalancing.

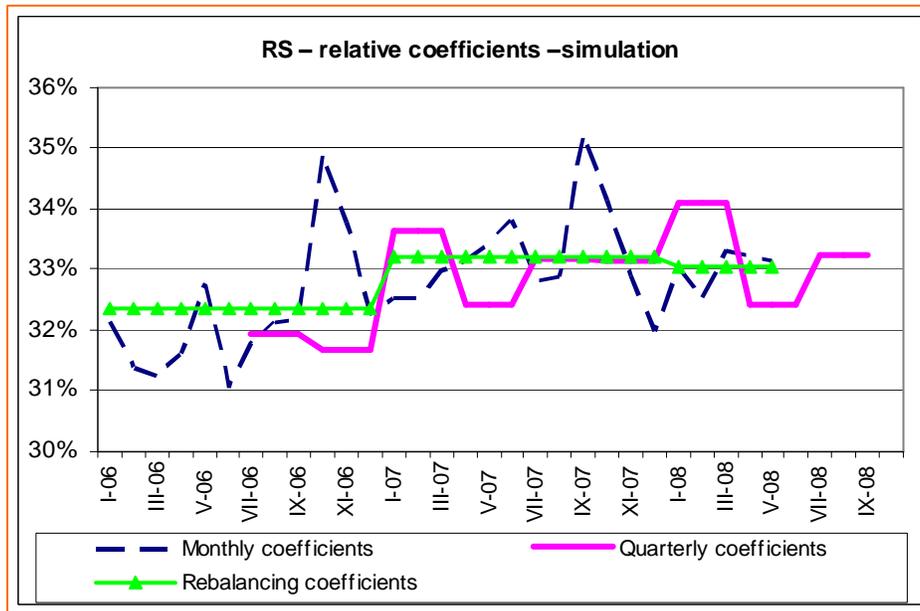
This is illustrated by simulation of methodology on data on relative entity shares in final consumption from January 1<sup>st</sup>, 2006 to May 2008. We took relative shares due to different system of allocation for 2006, when Brcko District was included in the same system as entities, and in 2007 and 2008 when Brcko District had its fixed share. Due to different position of Brcko District

<sup>13</sup> See MAU Bulletin no. 35, June 2008, [www.oma.uino.gov.ba](http://www.oma.uino.gov.ba)

in the system of allocation, we excluded final consumption of the District from this simulation. We took relative entity shares that ultimately determine direction of rebalancing. Charts 14 and 15 show strong oscillations of monthly relative entity coefficients, moderated curve of quarterly coefficients, curve of rebalancing for 2006 and 2007, and for current period in 2008.

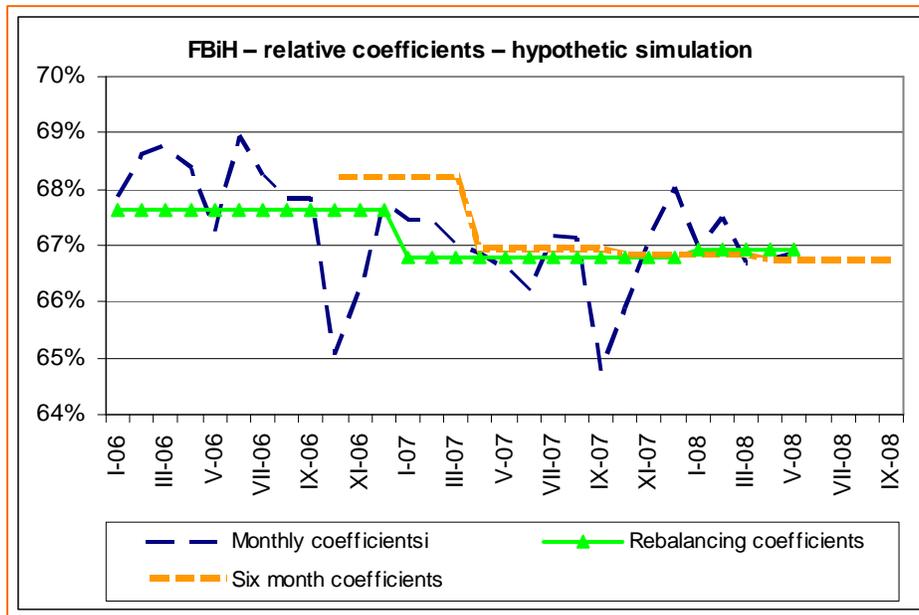


Graph 14

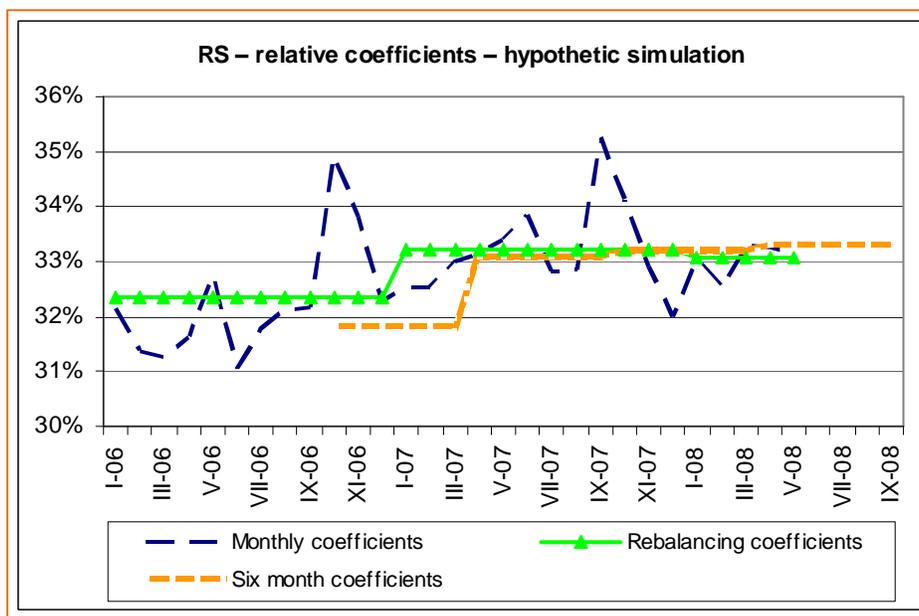


Graph 15

If entities decided to use six month coefficients instead of quarterly coefficients, amount of rebalancing (deviation of rebalancing curve from coefficient curve) would be minimal. Hypothetic simulation of this methodology on real data is provided in the Charts 16 and 17.



Graph 16



Graph 17

## 5. CONCLUSION

Allocation of revenues from indirect taxes should be fair, reliable, and simple. Simplicity as the criteria is observed from technical aspect i.e. application of allocation criteria by ITA should be simple, it should not require lots of time and additional resources, allocation of revenues should be easy to control and supervise by allocation beneficiaries. In order to prevent long politically sensitive negotiations on the share of allocation of indirect taxes, it is necessary for selected model of allocation to enable automatism in allocation in longer period of time.

Criteria of fairness are harder to define. For some, it represents fulfillment of everyone's needs in the same amount regardless of the fiscal efforts. For others, it means that jurisdiction that contributes most in collection of revenues should receive highest share in allocation. In other complex countries, indirect and direct taxes have equal share in tax revenues. Direct taxes are easier to allocate and indirect taxes are used for financing the central government / Federation (customs, excise), while VAT is used for vertical and horizontal fiscal harmonization. In BiH, such system of financing is not possible. Revenues from indirect taxes (predominantly VAT), are basic revenues for all levels of government, and they have to be allocated according to economic strength. Due to weak central government, fiscal harmonization is possible only within entities either by vertical or horizontal different types of transfers and social benefits. Having in mind specific internal structure of BiH, high level of fiscal decentralization, bad structure of tax revenues in favor of indirect taxes, it is necessary to use economic strength criteria (final consumption) in the first state of allocation to entities.

As it may be concluded, application of principle for share in final consumption is most fair because it reflects degree of economic power of allocation beneficiaries. Lack of this principle is technical complexity in application, which so far caused doubts in reliability of entire system. There is no doubt that the system needs to be upgraded and include best solutions, and even combination of some principles. However, discussions on current system of allocation should not block financing levels of administration in BiH, especially in the situation of very high inflows of revenues from VAT. Today, when authorities are facing with high pressure for higher social welfare and a problem to sustain budget balance, stable alimenting of budgets from ITA single account becomes very important issue in achieving fiscal stability in BiH. Since no system is for ever, we should not stop improving current system of allocation of indirect taxes. Improvements were already made by reaching consensus of key stakeholders and adoption of the Rulebook on allocation of indirect taxes.

However, improvement of the allocation system should be continuous task for fiscal authorities in BiH, as it is the case in all complex countries, which carry out mandatory audit of the allocation system in certain time period (usually every four years). Such approach to the system of allocation of taxes is not considered as weakness of the system. It represents a regular practice for its improvements and advancements.

## Consolidated Reports

(prepared by: Mirela Kadić, research assistant)

### Table 1. (Consolidated report: BiH: SA and Entiteties)

The consolidated report includes:

- revenues from indirect taxes collected by the Indirect Tax Authority on the Single Account,
- transfers from the ITA Single Account for external debt servicing,
- transfers from the ITA Single Account for financing Brčko District, cantons, municipalities and Road Directorates,
- revenues of the budget of Bosnia and Herzegovina from the ITA Single Account,
- revenues and expenditures of the budget of the Federation of Bosnia and Herzegovina,
- revenues and expenditures of the budget of the Republika Srpska.

### Table 2. (Consolidated report: BiH: State, Entiteties, Brčko Distrikt, Cantons)

1. The consolidated report includes:

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

2. Report includes amortization of foreign debt

3. 2007 year report is not fully comparable with previous year data because of separation of Health insurance fund of Brcko District as an independent financial institution.

4. The following data were estimated: April data for Una-Sana Canton, and capital revenue and expenditures for District Brcko (on the basis of available quarterly data).

### Table 3 (Consolidated reports: Cantons)

Consolidated report includes:

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

Notes:

\*Net domestic lending = lending-repayment of borrowing

\*\*Net domestic financing = Credits received . repayment of debts (doesn.t include foreign debt)

## BiH: entities, SA, I-V 2008

		I	II	III	IV	V	Q1	Q2	Total
<b>1</b>	<b>Current revenues</b>	<b>411,9</b>	<b>381,9</b>	<b>482,2</b>	<b>488,5</b>	<b>453,7</b>	<b>1276,0</b>	<b>942,3</b>	<b>2218,2</b>
11	Taxes	386,5	354,6	444,9	465,0	437,4	1186,0	902,5	2088,4
111	Indirect taxes	370,2	325,0	405,8	424,6	415,1	1101,0	839,7	1940,7
	VAT	247,3	183,8	257,3	260,5	256,9	688,5	517,4	1205,9
	VAT on imports	149,5	200,9	217,0	234,0	222,7	567,4	456,7	1024,1
	VAT from VAT returns	128,9	100,4	94,8	100,0	102,4	324,0	202,3	526,4
	VAT from automatic assessment done by ITA	0,0	0,0	0,0	0,1		0,1	0,1	0,1
	One-off VAT payments	0,3	0,1	0,2	0,1	0,1	0,6	0,2	0,8
	Other	1,2	1,1	1,0	1,1	1,9	3,3	3,0	6,3
	<b>VAT refunds</b>	<b>-32,6</b>	<b>-118,6</b>	<b>-55,7</b>	<b>-74,6</b>	<b>-70,2</b>	<b>-206,9</b>	<b>-144,8</b>	<b>-351,7</b>
	Custom duties	40,8	58,2	62,3	66,8	61,6	161,3	128,4	289,7
	Sales tax	0,5	1,5	0,9	0,7	1,7	3,0	2,3	5,3
	Excises	67,8	66,6	70,0	79,0	77,8	204,3	156,8	361,1
	on imports	53,9	55,0	57,9	65,9	64,2	166,8	130,2	297,0
	on domestic production	13,9	11,6	12,1	13,1	13,5	37,5	26,6	64,1
	Railroad tax	12,7	14,4	14,0	16,6	16,2	41,0	32,9	73,9
	Other	1,4	1,4	1,8	1,5	1,6	4,7	3,1	7,8
	<b>Other refunds</b>	<b>-0,4</b>	<b>-0,9</b>	<b>-0,6</b>	<b>-0,7</b>	<b>-0,6</b>	<b>-1,8</b>	<b>-1,3</b>	<b>-3,1</b>
112	Direct taxes	16,3	29,6	39,1	40,4	22,3	85,0	62,8	147,8
	Income taxes	8,0	18,8	26,6	27,4	11,0	53,4	38,4	91,8
	Other tax revenues	8,3	10,8	12,5	13,1	11,3	31,6	24,4	56,0
12	Non-tax income	24,3	27,1	37,1	22,8	16,2	88,5	38,9	127,5
13	Other revenues			0,1		0,1	0,1	0,1	0,1
14	Grants	0,2	0,0	0,0	0,5	0,0	0,2	0,5	0,8
15	Transfers from other level of government	0,9	0,1	0,1	0,2	0,1	1,2	0,3	1,4
<b>2</b>	<b>Current expenditures</b>	<b>305,0</b>	<b>400,2</b>	<b>427,7</b>	<b>490,1</b>	<b>444,6</b>	<b>1133,0</b>	<b>934,7</b>	<b>2067,7</b>
21	Consumption expenditures	48,5	68,7	85,7	80,2	74,2	202,9	154,4	357,3
211	Wages and compensations	45,2	61,0	68,5	67,1	63,7	174,6	130,8	305,4
212	Purchases of goods and services	3,3	7,7	17,2	13,2	10,5	28,3	23,6	51,9
22	Grants	13,7	53,5	64,6	79,5	68,6	131,9	148,1	279,9
	Transfers to households	10,7	48,5	43,4	56,1	50,4	102,7	106,4	209,1
	Transfers to institutions / organizations	0,3	1,2	5,9	5,1	8,9	7,4	14,0	21,4
	Subsidies	2,7	3,8	15,2	18,3	9,3	21,8	27,6	49,4
23	Interest payments	0,6	10,1	13,6	5,4	16,2	24,3	21,7	45,9
24	Other outlays	1,9	44,4	25,5	32,1	36,5	71,8	68,6	140,4
25	Transfers from Single Account	224,3	205,4	219,8	248,2	226,9	649,5	475,2	1124,7
	o/w : BiH Budget	51,6	51,6	61,5	57,6	52,3	164,8	109,9	274,7
	o/w: FBiH / Cantons, Municipalities, Road Fund	130,8	121,1	117,7	144,6	135,4	369,6	280,0	649,6
	o/w: RS / Municipalities, Road Fund	30,7	22,7	28,4	33,1	26,5	81,8	59,5	141,3
	o/w: Brcko	11,2	10,0	12,1	13,1	12,7	33,3	25,8	59,1
27	Transfers to lower levels of government	17,2	18,1	18,7	40,2	22,9	54,0	63,1	117,2
28	Net lending*	-1,3		-0,1	4,4	-0,7	-1,4	3,7	2,3
<b>3</b>	<b>Net acquisition of nonfinancial assets</b>	<b>4,7</b>	<b>4,7</b>	<b>8,4</b>	<b>13,3</b>	<b>6,3</b>	<b>17,8</b>	<b>19,7</b>	<b>37,5</b>
<b>4</b>	<b>Government surplus (+)/ deficit(-) (1-2-3)</b>	<b>102,2</b>	<b>-23,0</b>	<b>46,1</b>	<b>-14,9</b>	<b>2,8</b>	<b>125,2</b>	<b>-12,1</b>	<b>113,1</b>
<b>5</b>	<b>Net financing**</b>	<b>-0,57</b>	<b>-1,4</b>	<b>-35,2</b>	<b>-9,0</b>	<b>-5,6</b>	<b>-37,2</b>	<b>-14,6</b>	<b>-51,8</b>

Table 1

## BiH: State, entities, Brčko Distrikt, Cantons I-IV, 2008

		I	II	III	IV	Q1	Q2	I-IV2008
<b>1</b>	<b>Current Revenues</b> (11+12+13+14)	<b>423.908.782</b>	<b>419.886.962</b>	<b>483.075.246</b>	<b>553.349.381</b>	<b>1.326.870.989</b>	<b>553.349.381</b>	<b>1.880.220.371</b>
11	Taxes	365.884.873	361.235.083	419.732.927	439.829.555	1.146.852.882	439.829.555	1.586.682.437
	Income & profit tax	18.111.809	24.534.333	35.964.793	33.632.446	78.610.934	33.632.446	112.243.380
	Taxes on personal income and self-employment	20.074.584	28.816.874	25.692.452	31.885.083	74.583.910	31.885.083	106.468.993
	Property tax	2.214.127	2.371.659	1.696.239	1.745.895	6.282.024	1.745.895	8.027.919
	Transfers from Single Account	324.480.548	303.963.832	351.228.313	371.024.747	979.672.694	371.024.747	1.350.697.441
	Other taxes	1.003.805	1.548.385	5.151.130	1.541.384	7.703.320	1.541.384	9.244.703
12	Non-tax revenues	56.390.734	56.206.082	61.220.440	52.019.864	173.817.255	52.019.864	225.837.119
13	Grants	1.513.148	2.389.365	2.060.368	61.499.963	5.962.881	61.499.963	67.462.844
14	Other revenues	120.027	56.432	61.512	0	237.971	0	237.971
<b>2</b>	<b>Total expenditures</b> (21+22+23)	<b>316.069.234</b>	<b>365.838.658</b>	<b>372.742.039</b>	<b>464.087.808</b>	<b>1.054.649.932</b>	<b>464.087.808</b>	<b>1.518.737.739</b>
21	Current expenditures	315.663.677	363.339.245	369.622.128	455.297.775	1.048.625.050	455.297.775	1.503.922.825
	Wages and compensations	173.384.001	176.831.289	177.110.956	192.906.600	527.326.246	192.906.600	720.232.846
	of which: Gross wages	148.023.904	150.109.364	150.338.731	161.370.880	448.471.998	161.370.880	609.842.878
	of which: Compensations	25.360.098	26.721.925	26.772.225	31.535.720	78.854.248	31.535.720	110.389.968
	Other taxes and contributions	8.231.021	8.469.281	8.339.164	9.567.813	25.039.465	9.567.813	34.607.278
	Purchases of goods and services	26.331.686	35.358.117	44.612.437	42.284.724	106.302.240	42.284.724	148.586.964
	Capital grants	103.187.783	128.793.738	133.192.342	204.706.974	365.173.863	204.706.974	569.880.837
	Interest	4.529.186	13.886.820	6.367.230	5.831.664	24.783.236	5.831.664	30.614.900
22	Other expenditures	2.064.004	2.196.423	2.900.735	4.764.096	7.161.161	4.764.096	11.925.257
23	Net lending**	-1.658.447	302.990	219.176	4.025.937	-1.136.280	4.025.937	2.889.657
<b>3</b>	<b>Net acquisition of nonfinancial assets</b>	<b>9.699.508</b>	<b>7.637.176</b>	<b>10.308.974</b>	<b>20.122.395</b>	<b>27.645.658</b>	<b>20.122.395</b>	<b>47.768.053</b>
<b>4</b>	<b>Government surplus/deficit</b> (1-2-3)	<b>98.140.040</b>	<b>46.411.127</b>	<b>100.024.233</b>	<b>69.139.179</b>	<b>244.575.400</b>	<b>69.139.179</b>	<b>313.714.579</b>
<b>5</b>	<b>Net financing ***</b>	<b>-12.088.041</b>	<b>-12.710.168</b>	<b>-12.377.429</b>	<b>-8.838.801</b>	<b>-37.175.638</b>	<b>-8.838.801</b>	<b>-46.014.439</b>

Table 2

## Central Bosnia Canton, I-III, 2008

		I	II	III	Q1	I-III 2008	I-III 2007
<b>1</b>	<b>Total revenues (11+12+13+14)</b>	<b>16.015.798</b>	<b>13.894.783</b>	<b>16.408.958</b>	<b>46.319.539</b>	<b>46.319.539</b>	<b>41.833.327</b>
11	Tax revenues	13.387.956	11.225.963	14.029.694	38.643.612	38.643.612	33.595.022
	Income & profit tax	246.556	223.469	264.274	734.299	734.299	743.782
	Taxes on personal income and self-employment	1.408.130	1.413.751	1.447.687	4.269.568	4.269.568	3.631.960
	Property tax	450.566	319.485	436.794	1.206.845	1.206.845	1.448.070
	Sales tax (incl.excises)(according to Regulations until 31,12,2005)	190.326	567.959	445.738	1.204.023	1.204.023	735.117
	Transfers from Single Account	11.020.592	8.623.995	11.356.218	31.000.805	31.000.805	26.837.323
	Other taxes	71.785	77.304	78.984	228.073	228.073	198.770
12	Non-tax revenues	2.247.532	2.340.477	2.216.162	6.804.171	6.804.171	7.906.417
13	Grants	352.810	328.343	163.102	844.256	844.256	419.118
14	Other revenues	27.500	0	0	27.500	27.500	-87.230
<b>2</b>	<b>Total expenditures (21+22)</b>	<b>11.579.277</b>	<b>13.170.769</b>	<b>14.869.546</b>	<b>39.619.592</b>	<b>39.619.592</b>	<b>37.404.865</b>
21	Current expenditures	11.579.277	13.170.769	14.869.546	39.619.592	39.619.592	37.404.865
	Wages and compensations	7.141.901	7.499.816	7.443.584	22.085.301	22.085.301	21.853.075
	of which: Gross wages	5.594.489	5.727.419	5.774.171	17.096.078	17.096.078	16.266.029
	of which: Compensations	1.547.412	1.772.397	1.669.413	4.989.222	4.989.222	5.587.046
	Other taxes and contributions	687.751	700.190	707.070	2.095.011	2.095.011	1.914.523
	Purchases of goods and services	1.610.340	1.671.347	2.005.064	5.286.751	5.286.751	4.778.294
	Grants	2.047.067	3.214.946	4.586.870	9.848.883	9.848.883	8.580.048
	Interest	20.148	11.226	54.001	85.376	85.376	13.163
	Transfers to lower spending units	72.070	73.244	72.956	218.270	218.270	265.762
22	Net lending*	0	0	0	0	0	
<b>3</b>	<b>Net acquisition of nonfinancial assets</b>	<b>200.033</b>	<b>171.377</b>	<b>328.955</b>	<b>700.365</b>	<b>700.365</b>	<b>306.595</b>
<b>4</b>	<b>Government surplus/deficit (1-2-3)</b>	<b>4.236.489</b>	<b>552.637</b>	<b>1.210.457</b>	<b>5.999.582</b>	<b>5.999.582</b>	<b>4.121.867</b>
<b>5</b>	<b>Net financing **</b>	<b>-2.266</b>	<b>-2.282</b>	<b>-2.291</b>	<b>-6.840</b>	<b>-6.840</b>	<b>-964</b>

Table 3

## **Conference on “Public finances and fiscal management” takes place in Sarajevo”**

(Author: Mirela Kadić)

With the aim to strengthen fiscal policy in Bosnia and Herzegovina, EUFPS (*European Union Fiscal Policy Support to Bosnia and Herzegovina*), an EU funded project organized the conference on “Public finances and fiscal management” from July 1<sup>st</sup> to July 5<sup>th</sup>, 2008. The conference gathered together leading international experts and representatives of institutions, who share their experiences on government financial statistics, macroeconomic and fiscal forecasts, budget coordination, fiscal rules, taxation, expenditures, and assessment of fiscal policy and fiscal sustainability.

In presence of officials from the Ministry of Finance and Treasury of BiH, the Conference was opened by Mr. Marc Vanbrabant, first advisor in European Commission Delegation to BiH. Development of fiscal monitoring mechanisms, adequate environment for institutional cooperation within the framework of National Fiscal Council, permanent formula for allocation of revenues from indirect taxes, are pre-requirements that BiH has to fulfill for partnership with EU, said Mr. Vanbrabant. He expressed his pleasure with the progress that BiH made in the field of fiscal prudence and fiscal sustainability..

Boris Petkov, EUFPS team leader, expressed his thanks to the EC Delegation to BiH for financial assistance and underlined that adoption of the Law on Fiscal Council represents positive step in improving coordination and implementation of strong fiscal policy in entire country.

There were more than 50 representatives from the Ministry of Finance and Treasury of BiH, F BiH Ministry of Finance, RS Ministry of Finance, Directorate for Finance from Brcko District, BiH Central Bank, Directorate for Economic Planning of the Council of Ministers, representatives of international institutions and projects, professors and lecturers from a number of European countries. Prof. Dr. Paul Bernard Spahn gave a well visited lecture on problems in macroeconomic forecasting in BiH.

Representatives of Macroeconomic Analysis Unit from ITA Governing Board also actively participated in the conference. Dinka Antić, MSc, discussed on issues of fiscal coordination and evolution of fiscal federalism in BiH in the context of world trends. Mirela Kadić had presentation on the topic “Monthly fiscal reporting and monitoring”, carried out by the Unit. She emphasized importance of interventions of the Fiscal Council in passing the Rulebook and other bylaws, which will regulated scope and deadlines of reporting to MAU, ensure uniform application of international standards for fiscal reporting in BiH and international comparability of fiscal statistics with EU and other countries. Aleksandra Regoje, macroeconomist in the Unit, presented the process of revenue projections for indirect taxes, preparation of budget framework paper (BFP) at state, entity and District level. She also underlined the role of the Macroeconomic Analysis Unit in work of the Budget Coordination Board.