

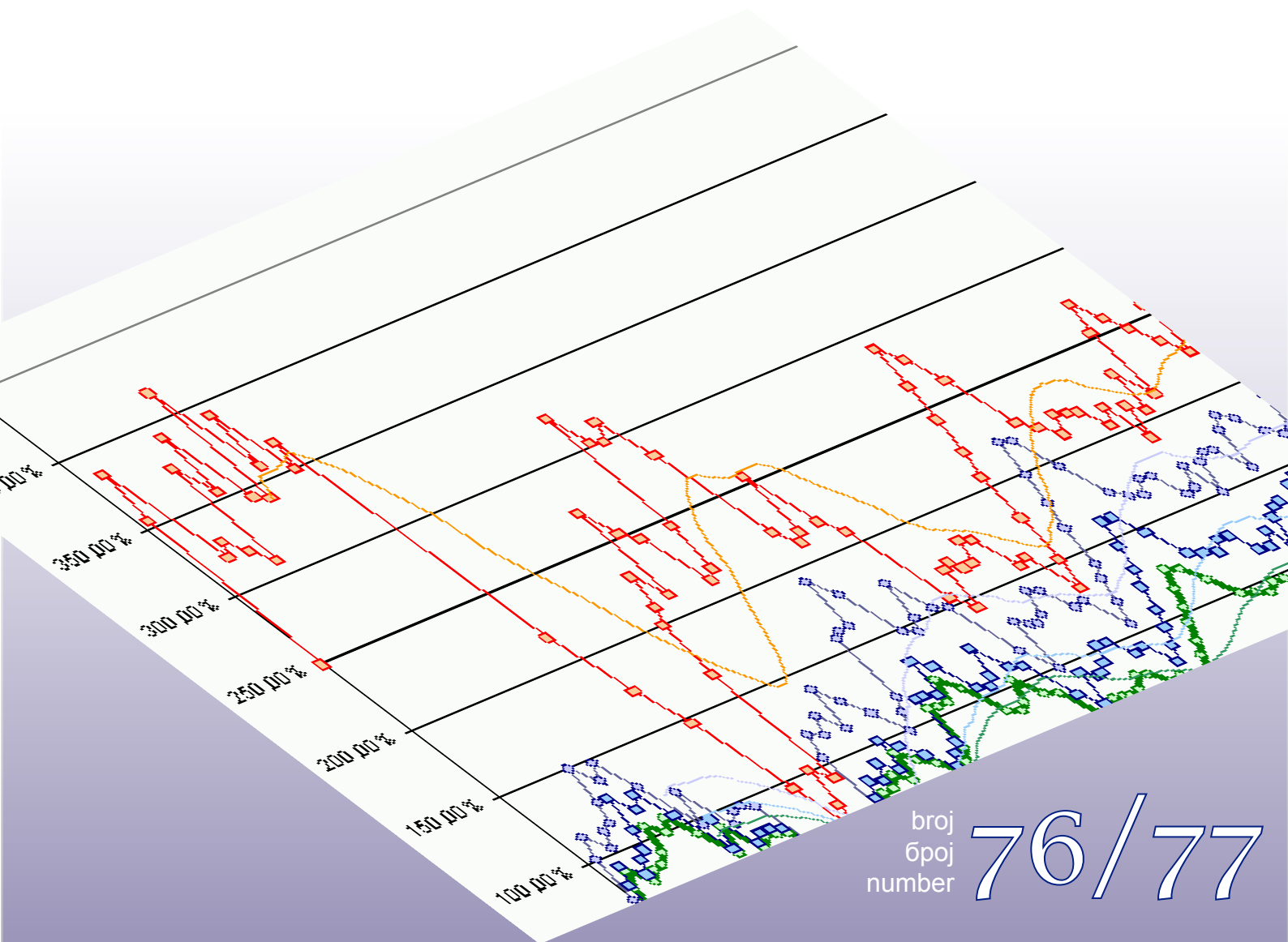
Bosna i Hercegovina
Odjeljenje za makroekonomsku analizu
Upravnog odbora Uprave za indirektno-
neizravno oporezivanje



Босна и Херцеговина
Одјељење за макроекономску анализу
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With this issue

The debates over the introduction of differentiated rates of value added tax in B&H date back to the period of the introduction of value added tax (VAT). Initiatives in this regard have been intensified again recently, due to the impacts of global economic crisis on the social status of citizens. Introduction of differentiated VAT rates is a complex operation with a wide range of implications. The analysis limited only to the fiscal effects, i.e. to the calculation of the potential losses of revenues from indirect taxes, would not correctly illustrate all the potential economic and fiscal effects of changes in policies of VAT rates in B&H. Except for the fiscal implications, VAT rates policy implications on macroeconomic system and real sector should also be considered, given their difficult situation and weak competitiveness in domestic and world markets. The analysis should consider the legal, IT, operational and budgetary aspects of the preparation for the introduction of differentiated rates, as well as the dynamics of the legislation change that includes significant number of institutions at state and entity level. Bearing in mind the European path of B&H, problem of introducing reduced VAT rate should be considered in the context of European law and practice, the evolution of the VAT rate policies in the EU and Member States, the current directions in VAT reforms in the EU and the EU's strategic objectives by 2020. Study on the implications of introducing differentiated VAT rates in BiH, which summary has been presented in this issue of Bulletin, showed that the VAT system in BiH is largely more effective than in other countries due to the application of a single rate. Differentiated rates in the EU have become „quicksand“ - on the one hand they are very difficult to abolish because of lingering political background, and, on the other hand, fiscal consolidation requests a significant increase in the standard rate. According to the analysis of the European Commission, the higher standard rates have not significantly contributed to fiscal consolidation of Member States, but have influenced the expansion of informal economy, confirming the validity of the Laffer curve, according to which increasing tax rates at a certain point becomes counterproductive for the achievement of the higher revenues. Furthermore, the VAT system in B&H coincides with the VAT model advocated by EU, OECD, IMF - the model that includes a broad tax base and a single moderate rate. What remains to the fiscal authorities in B&H is a continuous synchronization of the existing system with a legal framework and best practices in the EU.

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Implications of introducing the differentiated VAT rate in Bosnia and Herzegovina – Summary

(author: Dinka Antić, PhD)

Introduction

1. **Introduction of differentiated VAT rates is a complex operation with a wide range of implications.** Besides the fiscal impacts, the analysis should include both microeconomic and macroeconomic effects, which will ultimately reflect on economic growth, social status of the citizens, and retrospectively, on the fiscal position of the country. The initiatives should be analysed both in terms of harmonization of VAT regulations in B&H with European directives and best practices, and in the context of reform and strategic objectives of the EU as well, bearing in mind that the time horizon for B&H to adjust the obligations of the *acquis* from the time of obtaining candidate status coincide with the period of implementation the new EU tax strategy until 2020.

EU legal framework and practice of developed countries

2. **Evolutionary time of the policy of VAT rates in the EU shows continuous activities of the European Commission and the Council with the ultimate goal of elimination of reduced VAT rates in Member States.** The appearance of distortions in the EU market with the loss of VAT revenues, which escalated after opening the EC single market (1992) and the process of expansion of the Community, endangered the achieved level of harmonization of VAT at the EC level. In order to achieve a higher degree of convergence in the field of VAT rates over the past twenty years at the EU level, the measures were adopted which include the following: abolishing the VAT zero rates, prescribing a maximum of two reduced rates, determining the minimum reduced rate of VAT in the amount 5%, prescribing the list of goods and services on which reduced rates could be applied, abolition of derogations or maximum rationalization of previously acquired privileges, with the introduction of time limits of duration of zero or reduced rates application.
3. **Although the vast majority of member states in their tax systems still use differential VAT rates, usage of reduced and especially zero VAT rates is, in principle, limited because each year the scope of eligible goods and services increasingly narrows.** Except from Denmark, which has a single rate system, reduced rate is applicable in 11 Member States, two rates in 13 States, while two (Luxembourg and Ireland) States have three reduced rates. Zero rates are still applicable in the systems of 7 Member States. However, zero rates are applicable to strictly limited range of goods in four States, mainly to newspapers and periodicals, while only three States (Ireland, Malta and UK) apply zero rates on a wider range of goods / services from the approved list of goods / services. The mentioned three countries are islands, which reduces the mobility of goods, so the application of zero VAT rates have a negligible distorting effect on the common market of the Union, as well as on the formation of the chain cross-border frauds.
4. **With the appearance of global economic crisis, rationalization of number, level and scope of reduced rates becomes the most important measure of anti-crisis national policies of the huge number of EU Member States.** Opting for the stronger taxing of consumption, in order to close or at least reduce fiscal deficits, 15 Member States have increased the reduced rates, abolished zero rates or narrowed the scope of goods to which those rates refer, while 13 Member States increased standard VAT rate. Given the planned increase of the rates in the following two years, the average standard rate in EU will increase from 19.5% in 2008 to 21% in 2013.

5. **The new VAT strategy, as an integral part of the new EU tax strategy until 2020, puts VAT policy in the function of two goals: (i) the short-term - fiscal consolidation and faster economic recovery, and (ii) long-term – economic growth and strengthening the competitiveness.** According to Commission estimates, Member States are able to collect only 55% of potential VAT revenue due to reduced rates and exemptions. The concept of an ideal VAT system, currently advocated by EU, OECD and IMF, is based on a single VAT rate, the wider tax base and minimum extent of exemptions. VAT system with these characteristics can provide the maximum possible tax neutrality and increase the efficiency of VAT collection without the increase of fiscal burden. Significant part of the informal economy would be included in regular flows through the widening of tax base and reducing the standard VAT base, because the "costs" of tax evasion and black economy business would become higher than VAT liability. Finally, the lower single rates have weaker regressive influence on low income households than the one that current high standard VAT rates have on the costs of energy, utilities, communications and others that make up the bulk of the costs of most households.

VAT system in Bosnia and Herzegovina

6. **The implementation of the flat rate system in B&H is a logical continuation of the development trend of VAT systems in the world in the past two decades.** Based on the IMF recommendations and bad experiences of EC countries and other countries with "mature" VAT systems that use differential rates, the most countries in the world, who have introduced VAT in the past twenty years, chose flat VAT rate. After negative experiences with differential rates, in recent years several countries have announced the return to a flat rate (the Czech Republic from 2013, Switzerland from 2017), and some have carried out serious researches on the effects of the rate unification (Great Britain).
7. **The comparative analysis of the efficiency of VAT system in B&H and EU Member States indicates that the VAT system B&H is far more efficient.** The most important factor of the VAT system efficiency in B&H is precisely the existence of a single rate, which is of a moderate amount (currently only two EU Member States have lower standard VAT rate than in B&H), and which leaves less room for VAT frauds.
8. **Previous experiences of EU Member States and analysis of European Commission and IMF indicate that differentiated VAT rates produce a series of universal implications,** which could also be expected in the case of B&H:
- the existence of two or more VAT rates threatens the choice of consumers, and thus the choice of the manufacturer;
 - manufacturers are always trying to adjust the price policy to the "threshold of consumer resistance", and will strive to maximally transfer the costs of higher rate on consumers, which would nullify any reduction of prices on the items that are in the regime of lower rates;
 - benefits from reduced rates will not only have low income households, but the high income households as well;
 - preferential tax treatment is discriminatory for the producers of substitutes;
 - more VAT rates makes room for tax frauds, mostly because of the problem of defining the goods and services which are in the preferential regime, regarding a wide range of products and "gray zones" which exist in such a product line, and also because of the increase of standard rate;
 - higher VAT rate will not bring the expected revenue growth, while the administrative costs will significantly increase at the same time.

9. **Introducing the differential VAT rates in B&H will produce the following implications:**

- fiscal,
- microeconomic,
- macroeconomic.

Fiscal implications

10. **Fiscal implications include (i) loss of VAT revenues related to goods / services which are under preferential tax regime and (ii) increase in expenditures of the budget of B&H for the ITA, due to greater complexity of administration and control of the taxpayers.** In case of introducing zero or reduced rate of 5% or 8% on basic food, medicines, medical supplies and orthopaedic support devices, agricultural inputs, paper for the printing industry, books and newspapers various models for calculation of VAT revenue losses indicate the following range of VAT revenue losses:

	mil BAM		
	0%	5%	8%
MIN	548	387	290
MAX	1,348	852	714

The maximum amounts of losses relates to the situation of applying zero or reduced rate to all goods that were tax free or taxed at reduced rate in the sales tax system.

11. **If the same level of revenue is to be sustained after introducing the differential rates, standard rate should be increased on the all other goods and services.** Standard rate should also be increased for the amount of estimated revenue loss due to tax evasion. Level of the new standard rate in case of applying zero or reduced rates of 5% and 8% in B&H is estimated in the following ranges:

	0%	5%	8%
MIN	20.81%	19.68%	19.02%
MAX	30.91%	26.82%	24.36%

12. **Introducing the differentiated VAT rate in B&H is a complex technical operation which implies the existence of a dynamic elaborate plan for the implementation and timely insuring of legal, operational, IT, material-technical and financial assumptions.** According to the ITA estimates, it takes minimally two years to finalize all preparations. Furthermore, the ITA estimates that additional 110 employees in Tax sector and minimally 10 additional IT experts should be hired in the case of applying two rates, because of complexity of administration and control of VAT. In order to manage the project the maximum engagement of many institutions on B&H level and in entities is needed in the complex process of making the changes in VAT legislation.

Microeconomic implications

13. **Dealing with two VAT rates leads to the increased costs of obeying VAT regulations by taxpayers.** Those costs include the costs of adapting IT systems and records, the costs of continuous maintenance of data on products which also include the VAT rate, the additional costs of hiring accountants and other administrative staff who keep the records necessary for the calculation of VAT and filing of VAT return, the costs related to the additional communication with the ITA. Besides that, VAT taxpayers in B&H will have the additional costs of adapting fiscal systems and cash registers.

14. **Increasing the standard VAT rate, as an inevitable consequence of the introduction of reduced rate, worsens the position of small companies which are not in the VAT system.** Entities which are outside the VAT system and purchase their inputs from VAT taxpayers will be affected by higher costs of procurement, since they can not deduct input VAT from their purchases. The possibilities of shifting the higher costs of purchases at the consumer are limited, and it can be expected that a large number of small companies will be faced with the problem of sale of goods, which may further worsen their position in the market, threaten their survival and lead to the closure of shops and trades and losing jobs.
15. **Increasing the standard VAT rate can lead to the increase of the prices of services which are exempted in the VAT system (financial services, insurance and postal services).** The mentioned sectors procure their inputs from the VAT taxpayers and they can not deduct the most of the input VAT from the possible liability for the residual of the taxable turnover, so they transfer it on their clients through the higher prices, which will ultimately threaten the liquidity, increase financing expenses and reduce profit of the users of services.

Macroeconomic implications

16. **Increase in standard VAT rate will lead to the growth of the prices and fiscal burden of citizens and contraction in consumption and economic activities, which will postpone the coming out of the crisis and slowdown the expected dynamics of the economic growth in B&H.** Previous experiences of traders in the world, but also in B&H in similar situations when the tax rates have been changed, confirmed the existence of two models of the behaviour of traders:
 - **increase in the VAT rate leads to a higher sales price increase than a mere level of rate increase**, as traders often use the opportunity to increase their profits under the cover of rate increase;
 - **reduction in the VAT rate often does not lead to a reduction in sales price by the amount of taxes abolished**, in a way that one part of reduction goes to the benefit of consumers in the form of lower prices than it was before the rate cuts, and the other goes to the benefit of taxpayers in the form of higher margin. If it is a monopolistic good, local good or inelastic demand good, then the merchants can keep the same price regardless of the reduction or elimination of the VAT, because the buyers don't have other choice or the purchase of goods outside the place of residence is unprofitable in relation to the possible savings on VAT.
17. **Increase in standard VAT rate will lead to the growth in expenditures of public sector institutions.** The consequences will be felt by the social and health sector, because it can be assumed that the costs of other inputs such as energy, medical and other equipment, material costs and costs of services will exceed the positive effects of introducing a lower rate of VAT to certain food, medicines and medical supplies.
18. **At the macroeconomic level the rise in prices of financial services affects the overall price level.** The rise in prices of these services have an adverse impact on both small companies which are not in the VAT system, and on citizens, regarding the increase in lending rates and the costs that they have in transactions with banks. Increases in prices in the financial sector, postal and insurance sector have the negative impact on the financing of business activities and investment, employment and economic growth, while in the case of citizens, there is an adverse effect on private consumptions, which is already severely affected by the economic crisis, and whose growth is necessary to stimulate the economic growth. Finally, the public sector is also affected by cascading VAT, which regularly borrows

from commercial banks in order to overcome the financial problems of adjustment of income inflows and expenditure outflows.

19. **The introduction of differentiated VAT rates will affect adversely the competitiveness of B&H and investments.** Administrative and tax complexity of B&H in that case would be further increased, which would have a negative impact on competitiveness indexes B&H, B&H attractiveness for investment and the perception of investors, creditors and the business community about the business environment in B&H.
20. **Inevitable increase of the standard rate of VAT will reduce the fiscal competitiveness of B&H,** regarding the use of all the benefits that moderate standard rate of VAT on excise and other goods have for the carriers of goods, the consumption of people in transit and touristic consumption.

Social implications

21. **Analyses and studies have shown that the differentiated rates are the most ineffective way to provide help for poor households.** Studies of the EU, IMF and OECD have confirmed that the differentiated VAT rates can not significantly improve the social status of the population, and that the ultimate net effect of this measure, which also takes into account the budgetary effects of the tax administration, taxpayers and citizens, is negative. Furthermore, the reduction of VAT rates is a waste of limited budget resources, which can be used in much more efficient manner through use of transfers and subsidies targeted at the socially endangered categories of the population.

Note:

An integral text of the „Study on implications of introducing the differentiated VAT rates in Bosnia and Herzegovina” is available on web site: www.oma.uino.gov.ba



To all our associates in Ministries of Finance of BiH, Federation, Republika Srpska, Brcko District, cantons, municipalities and extra budgetary funds, as well as to all readers, we wish happy and succesfull New 2012!



Projections of indirect tax revenues, 2011-2014

(Prepared by: Aleksandra Regoje)

Current trends

The first effects of global economic crisis in Bosnia and Herzegovina have been felt at the end of 2008. Decrease in economic activity and personal consumption was reflected in the public revenues of B&H. Decrease in revenue from indirect taxes has been recorded in the last quarter of 2008, which continued throughout the entire year of 2009. The additional effects on revenues were also brought by the provisions of the Stabilization and Association Agreement (SAA) with EU, which entered into force on July 1, 2008. They make a significant impact on the collection of indirect taxes since they prescribe the abolition of customs duties on imported goods originating in the EU, immediately or gradually, according to the agreed schedule until 2013. The fall in customs revenues was most pronounced in 2009, because in that year, in addition to the effects of the second phase of reductions in tariffs (from 1.1.2009), the delayed effects of tariff reductions of the first phase were also included (due to the start of the application since the half of 2008).

Table 1

Area of policy change	effect	2008				2009				2010				2011				
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
SAA- customs	↓			1		2				3				4				
tobacco	↑							1		2				3				
road fee	↑																	
customs reg.	↓																	

Table 1 provides an overview of the most significant effects of policy changes in indirect taxation in the past few years. The periods in which tax policy changes had the greatest effects on dynamics of revenues (observed y/y-1) were shaded darker. The phases of abolition of customs under the provisions of the SAA, as well as those of the rate adjustment of excises in B&H with the minimum standards in the EU, were marked by numbers.

Despite the effects of the change in excise and road fee policies which entered into force in the second half of 2009, indirect tax revenues decreased by 9,9% due to decline of almost all components of gross domestic product as well as to the customs burden. The growing trend of revenues arrived again in 2010. It is collected 8,3% more indirect taxes in comparison with the previous year. Stopping the negative trend from 2009 is a result of gradual stabilization and recovery of economy, as well as the effects of change in special rate of excise on tobacco since January 1, 2010. It should be, also, borne in mind the delayed effects of changing the road fee and excise on tobacco rates (entered into force on 1st July 2009), which appeared in the first two quarters of 2010.

Gross revenue growth of indirect taxes recorded in the first ten months of 2011 was 7% compared with the same period of previous year, but net revenue growth amounted to 4,6%, due to the strong growth of refunds. The continuation of positive trend has been contributed again by changes in tobacco taxation policy, i.e. by increase in the special excise tax on tobacco at the beginning of the year. On the other hand, changes in the Law on Customs Policy (abolishment of customs registration) which entered into force in October 2011 will bring negative effects on revenue collection in the forthcoming period.

Projections

Projections of revenues from indirect taxes for the period 2010-2013 are based on the following assumptions:

- a. Projections of relevant macroeconomic indicators prepared by Directorate for Economic Planning (DEP) for the mentioned period,
- b. Further implementation of the Stabilization and Association Agreement (SAA) in accordance with the dynamics of the reduction and elimination of tariffs on imports of goods originating in the EU,
- c. Application of article 21 of the Law on Excise, which implies adjustment of excise rates in B&H with the minimum standards in the EU,
- d. Changes in the Law on Customs Policy - abolishment of customs registration in the amount of 1% of customs value, starting from October 2011 (on the total imports).

The projections include the effects of increasing specific excise rate per package of cigarettes from 0,45 BAM to 0,60 BAM in 2012, as well as planned continuous increase of the same rate in the each following year of 0,15 BAM per package.

According to preliminary ITA report by type of revenue, BAM 4,128 billion of net indirect taxes were collected in the period I-X 2011. This amount includes approximately BAM 24,6 mil of collected revenues which stayed unadjusted after adjusting payments to the Single Account with the submitted returns/declarations in modules of the ITA IT system.

Taking into account current trends, historical dynamics and seasonal patterns, adjusted for one-off effects of indirect tax refunds transferred from previous years which are estimated to 0,7 of 2010 revenues, the collection of BAM 4994,9 mil in 2011 is expected, or 4% more than in 2010.

According to projections for 2012-2014, the coming period is expected to continue with the upward trend in indirect taxes from 2010 and 2011. Projected growth of indirect taxes for years 2012, 2013 and 2014 amounts 4,3%, 5,3% and 6,1% respectively, based on the current trends, forecasts of macroeconomic indicators and assessment of the effects of legal changes in the sphere of indirect taxation.

VAT

According to the ITA preliminary report, gross VAT revenue collection increased for 8,2% in the first ten months of 2010, compared with same period of the previous year. The strong growth of refunds had also been recorded in the same period, which reduced the effects of growth in net VAT revenues. The impact of refunds on net VAT collection was additionally intensified by the transfer of the part of requests for refunds from 2010 to 2011.

It is expected that BAM 3150 mil of net VAT revenues will be collected in 2011, which is for 5,1% more than in the previous year. Projected net VAT growth in the next three years period amounts 4%, 5% and 5,5%, based on the projected growth of consumption, imports and exports.

PROJECTION OF INDIRECT TAXES (2011-2014)*(mil BAM)*

November 2011

	Type of revenue (net)	2010	2011	2012	2013	2014		2011	2012	2013	2014
I	VAT	2.996,2	3.150,0	3.277,0	3.441,1	3.630,2		5,1%	4,0%	5,0%	5,5%
II	Excises	1.171,5	1.254,8	1.387,7	1.497,9	1.607,1		7,1%	10,6%	7,9%	7,3%
III	Customs	295,9	272,5	224,3	214,4	235,2		-7,9%	-17,7%	-4,4%	9,7%
IV	Road fees	305,5	287,6	293,6	305,4	320,0		-5,9%	2,1%	4,0%	4,8%
V	Other	33,7	30,0	26,8	26,9	27,1		-11,0%	-10,7%	0,4%	0,7%
VI	TOTAL	4.802,9	4.994,9	5.209,3	5.485,7	5.819,6		4,0%	4,3%	5,3%	6,1%
VII	Road fee (0,10 BAM/l)	-122,4	-115,0	-117,4	-122,2	-128,0		-6,0%	2,1%	4,1%	4,7%
VIII	FUNDS FOR ALLOCATION	4.680,5	4.879,9	5.091,9	5.363,6	5.691,6		4,3%	4,3%	5,3%	6,1%

Table 2

Excises

According to the ITA preliminary report, gross excise revenue collection increased by 8,8% in the period from January to October 2011 in comparison with the same period of the previous year. The excise growth is primarily caused by strong growth of excises on tobacco. The net collection in the amount of BAM 1254,8 mil is expected until the end of the year, which is 7,1% more than in the previous year.

Projections of excise revenues in the forthcoming years (2012-2014) are based on DEP's projections of macroeconomic indicators, primarily of real growth rate of consumption and GDP. The projections of revenues from excises on tobacco include effects of increasing the specific excise rate of 0,15 BAM per package of cigarettes in the each following year, and projections of excises on oil take into account the trends in changing consumption patterns in favor of those products that are taxed at lower excise rate (diesel, heating oil), or in favor of products which are not taxed with road fee or which can be reimbursed for excise (heating oil).

Road fee

The trend of strong monthly growth rates of road fee, caused by the effects of increasing rates from 0,15 to 0,25 BAM/l as of July 1, 2009 is limited to the second half of 2009 and the first half of 2010 (table 1). Gross road fee revenue collection increased by 4% in the first ten months of 2011 in comparison with same period of previous year. Projections of road fee for 2011 are adjusted for transferred road fee refunds which relate on the second half of 2009, and whose implementation started not before the end of 2010.¹

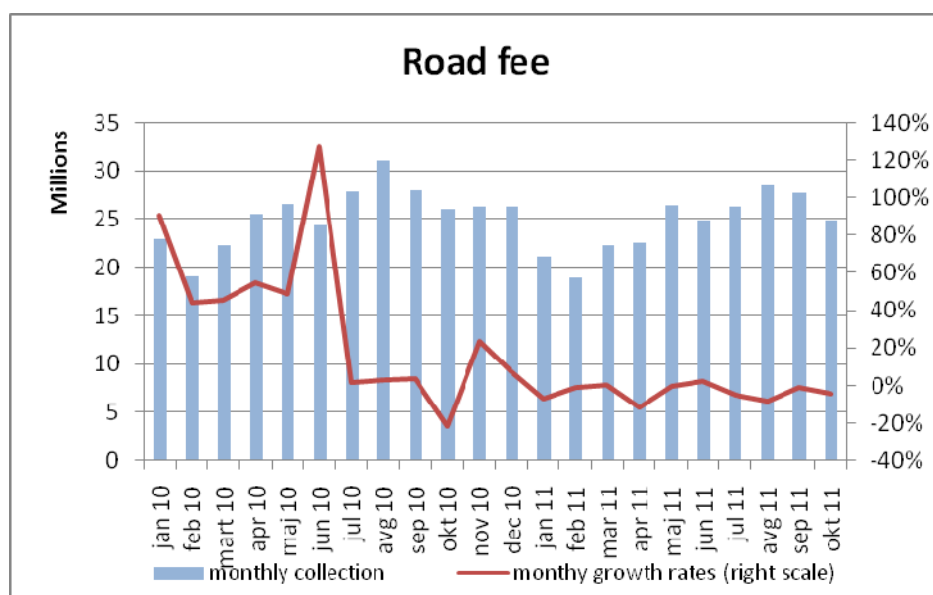


Chart 1

¹ This refers to road fee refunds to mines, power stations and railways. In accordance with the Law on Excises the listed taxpayers are exempted from paying road fee. Since there was a delay with the determination of quantities exempted from the road fee for the second half of 2009 and then, with the adoption of the implementation act related to the exemption, the ITA GB made the decision on refunds of the road fee paid by the exempted taxpayers in the second half of 2009. Exemptions for fiscal 2010 and further are being implemented in accordance with decisions made by entity governments and by the ITA GB.

The net road fee collection in the amount of BAM 287,6 mil is expected until the end of the year. In accordance with macroeconomic projections of DEP, the projected growth of those revenues for years 2012, 2013 and 2014 amounts 2,1%, 4% and 4,8% respectively.

Customs

Implementation of Stabilization and Accession Agreement B&H with EU continued in 2011, in accordance with dynamics of reducing and abolishing the customs on imports of goods originating in the EU. Nevertheless, gross customs revenue collection decreased only by 3,1% in the first ten months of 2011, mainly because of the large part of imports originating in the EU is already in customs-free regime, as well as of the strong growth of the whole imports. Customs registration in amount of 1% of customs value has been abolished on the whole imports since October 2011, which would have negative impact on revenues in the forthcoming period. In accordance with mentioned legal changes, current trends and projections of imports and exports, it is projected that BAM 272,5 mil of net customs revenues will have been collected by the end of the year.

Customs duties are already abolished on the most of the imports originating in EU, and their complete abolition is planned by 2013. So, the strong effects on customs revenues according to these measures could not be expected in the future, as it was at the beginning of implementation of the SAA. Significant effects are expected for the total abolition of customs registration. Taking into account the mentioned, as well as the projected growth rates of import in the next years (table 3), decrease of those revenues of 17,7% and 4,4% is expected in 2012 and 2013, while in 2014, after a long period of time, increase of those revenues is expected again (9,7%).

Table 3. Projection of import growth

Year	2012	2013	2014
Projection of import growth	7,9%	9,5%	9,7%

Source: DEP, November 2011

The risks for projections

Given the basic assumptions of the projections of indirect taxes and overall economic conditions in B&H and world, the achievement of projected level of revenue from indirect taxes in the period 2011/2014 is subject to the following risks:

- The projections of indirect tax revenues are tightly related to the projections of macroeconomic indicators prepared by DEP. Therefore, any deviation of these parameters from the projected values indicates the risk for revenue projection;
- Dynamics and pace of recovery of major export partners (EU, CEFTA countries) are still highly uncertain, which increases the level of risk for the achievement of macroeconomic projections, and therefore the projection of revenue from indirect taxes in general;
- Continuously increasing of special excise tax in order to meet the minimum EU standards brings growth of revenue from excise taxes on cigarettes, but it also increases the risk of illegal trade and smuggling.

Tax treatment of oil and oil products and its effects in BiH and in the EU

(Author: Aleksandar Eskić – Macroeconomist in the Unit)

Foreword

Oil currently represents one of the most important goods in the national economy of BiH. Availability, price and quality of oil products impact the pace of economic activity in almost every national economy. At the same time, consumption and tax treatment of oil and oil products² to some extent affects the amount of public revenues that is the range and dynamic of delivering services of public interest. Bosnia and Herzegovina is no exception in this regard. Therefore, all public policies related to oil and oil products and other complementary products need special attention. Similarly, one can argue that it is extremely important to timely respond and adapt related policy to changes that are happening at the global, regional and local level as well. Besides, it must be remembered that trade of oil and oil products is one of the largest and most profitable businesses in general. Bosnia and Herzegovina is a good example of this in terms of number of companies registered for this economic activity and the number of gas stations in relation to population. The big question is whether national resources are used rationally this way.

Along with the evolution of these public policies, it is needed to constantly increase the level of understanding of the role and importance of these products they have in the national economy. The ultimate goal, in this sense, could be the importance of a continuous supply of consumers with these goods at affordable prices, as well as estimates of possible costs and damages that might arise if there are distortions in this market segment. At the same time, Bosnia and Herzegovina needs to improve administrative and technological capacity in order to get closer to optimal level of use of these products, on the one hand, and adequately and be fully integrated into the international market, on the other hand.

One of the main characteristics of the global oil market is that virtually all countries of the world are on the demand-side while only some of them are on the supply-side. The final result is that economies of some developing countries rely heavily on the exploitation of oil deposits. A good example of this is certainly Saudi Arabia. Recently, exploitation of oil has increased importance in the Russian Federation, Norway and Azerbaijan. The best scenario for the producing countries would be to maximize their revenues by increasing the price of oil. But if oil prices exceed the equilibrium level, it causes decline in economic activity, the consequent fall in demand for these goods and a decrease in revenues of exporting countries. This would stimulate the use of alternative energy sources which could jeopardize long-term position of oil as a commodity which it has in the modern world. Despite all this, here could be drawn a conclusion that the oil producing countries generate additional benefits other than purely economic, and directly or indirectly accomplish their national interests from the fact they have something that is a precondition of development i.e. welfare of the rest of the world.

The second characteristic is that the demand for the goods has been constantly increasing at the global level. Therefore, a large human efforts and financial resources have been invested in discovering new deposits of oil in order to close the gap between supply and requirements of demand in the long-run. And it's not just about the discovery of oil deposits, but also linking of oil exporting countries with final consumers. Two-thirds of crude oil reserves are located in the Middle East or Russia, while nearly 90% of oil is consumed in the other regions. The most common means of transportation of oil to the end consumers are through the pipeline, marine channels (tankers) or by land (trucks and rails). Between oil and the end users are also oil refining facilities. All this points to the importance of oil, size of required investments, running costs, staff involved

² ITA has collected around 750 millions of BAM only as excise duty and road and highway fees on oil products in 2010
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in each stage that follows the path from producer to consumer in today's world orientated towards oil. At the same time, during the last few decades there has been hyperinflation in activities aimed at increasing energy efficiency. Since oil is used primarily as an energy source, efforts have been made to maximize the energy value in exploitation of oil and oil products. A good example is the continuous improvement of internal combustion engines so the same quantity of oil product delivers more power. Another downside is that the need for comfort and safety has been constantly increasing, which reflects negatively on the absolute level of consumption.

Consumption of oil and oil products should not be considered separately from other energy sources at the macroeconomic level. Each national economy actually has a portfolio of energy sources consumed in order to conduct their activities. In recent decades, environmental aspects started playing an important role in the choice of energy sources and ways of its exploitation³. This brings us to the fact that the price, accessibility, availability, reliability, calorific value, long-term sustainability of existing and new technologies, as well as the least negative environmental effects is the main conditions that determine the portfolio of energy consumption at the level of the national economy. Corporate and personal as well, are sometimes in conflict with the public interest and thus the treatment of energy away from the optimum level.

Role and importance of statistics in the analysis of oil market

Detailed, complete, timely and reliable statistics is an essential prerequisite for monitoring the situation in the energy sector, both at national and international level. Energy statistics on supply, traffic, stocks, transformation and demand are basic figures so that any decisions in the field of energy policy should be based on.

For example, the oil market - which is single most traded good in the world - should be carefully monitored so that all market participants know at any time what is produced, traded, stored, and consumed and by whom.

In terms of the role and importance of energy in the modern world it could be expected that fundamental information related to the energy sector are available and reliable. This is not always the case and could even be noticed a erosion of the quality, coverage and timeliness of the statistics of the energy sector over the past few years. There is no miracle solution that would prevent erosion of the existing statistics. Therefore, it is clear that statistics and statisticians should be fully integrated into decision-making in the field of energy policy at the national level. Also, in the text that follows an important problem will be emphasized and that is the relation mass and volume of certain oil products⁴. The density is a variable physical feature that changes

³ What's interesting is that, although there is common understanding that the coal-burned energy is followed by a series of negative implications for the environment (externalities), it still has no alternative due to the large deposits of coal in North America (especially the state of Wyoming) and multiple lower unit price (2 US cents per MWh) compared to other energy sources. A similar situation is with nuclear energy especially when compared with the solar energy which is considered as one of the 'cleanest'. Offered solutions are moving in two directions, one group of solutions related to improving the Architecture of public institutions, particularly with a view to reduce energy consumption and make savings in water consumption (because about 90% of the water price actually is the cost of energy), while the second group of solutions are related to the budget support infrastructure adapted to use solar energy. Long-term sustainability of these investments is emphasized as a major advantage because the excess of energy produced in this way would be sold to an energy supply company, but the main drawback pointed out is large initial investment that would significantly burden on household budgets. Source: Seminar on energy efficiency, Friday Center, University of North Carolina at Chapel Hill, 2005.

⁴ *Example:* Motor gasoline MB-98 is transported by the truck.

In the refinery the following density is measured at 15°C 0.773 g/mm³ and the mass of 21,250 kg or 27,490 l, and with that amount the refinery charges the recipient.

Measurements at the recipient, we found that the density is 0.779 g/mm³ at the temperature of 10 ° C.

From the table we find the coefficient of correction for the density of 0.773 to 0.000755.

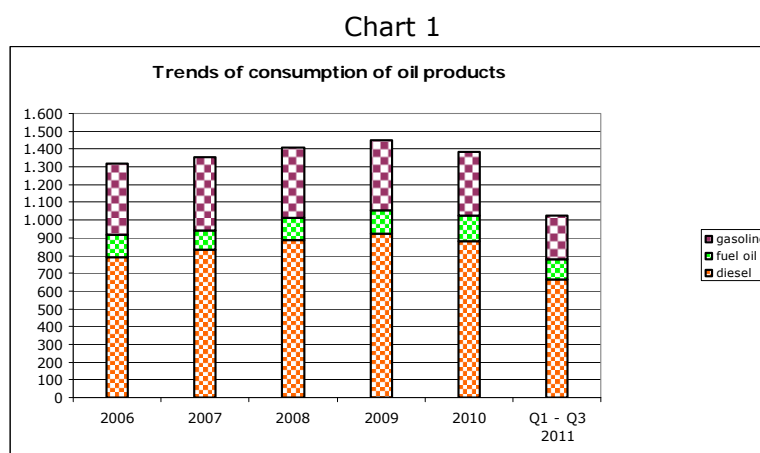
with the change of temperature. If the temperature increases the density decreases and vice versa. From the defined density a following mathematical form is derived:

$$C = M / V \text{ kg/m}^3$$

Where is: C - density, M - mass, V - volume

Current trends in the structure of consumption of oil products and revenues as well

From the Chart 1 it can be concluded that the total consumption of oil products reached its peak in 2009⁵. Since then, the consumption recorded a negative trend so that it fell slightly less than 5% in 2010. Using previously mentioned sources of conversion factors from mass to volume units, it can be concluded that there was a slight decrease in the total quantity of oil products for the first nine months of this year compared to same period last year.



$$0.000755 \times 5 = 0.00377$$

thus the density at 15°C is:

$$0.779 \text{ to } 0.00377 = 0.7752 \text{ g/ml.}$$

Dividing the weight listed in the related transport documentation with the resulting density gives a volume in liters that should be remembered:

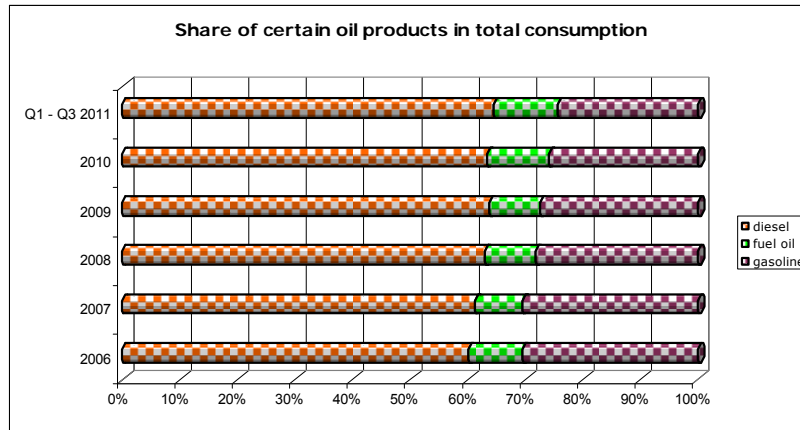
$$21,250 / 0.7752 = 27,412 \text{ l}$$

The recipient is charged with this amount; with the conclusion that it is delivered 78 l less than what is written in the related transportation documents.

⁵ In the analysis the following sources were used in order to convert mass (kg) of oil products in volume units (liters): Energy Statistics Manual, OECD/IEA, 2004, page 181, and Instructions on operations at gas stations, PETROL joint stock company, 2008, Table 2. Also it should be noted that the final figures are influenced substantially by the goods recorded at positions 2710 19 41 10 2710 19 45 10 and 2710 19 49 10 – fuel oil – in current Customs Tariff. Specifically, these are the products whose chemical composition fall into the category of gas oil, but are used for heating and they are treated in terms of taxation as fuel oils, which is also in line with the European principles and practice. This means that on these products is accounted only excise duty of 0.30 BAM/l.

Namely, it can be seen a decrease in consumption of unleaded gasoline by over 9% in 2010. The negative trend continued in 2011 so it has been recorded further decline in consumption of this oil product by an additional almost 8% for the first three quarters of this year.

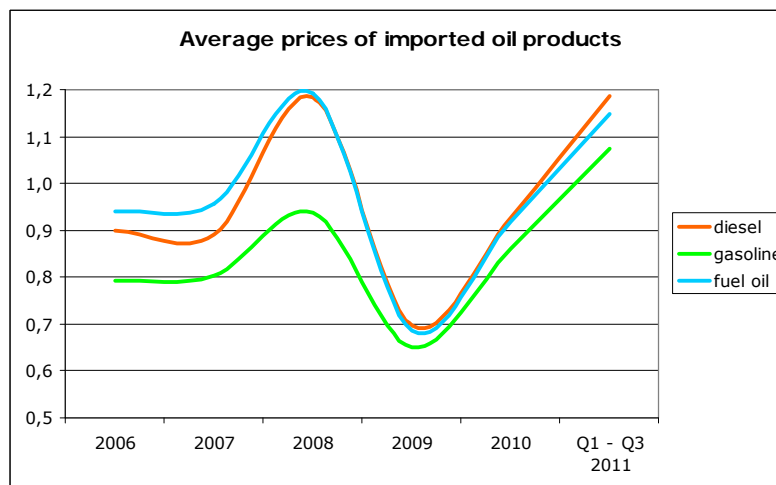
Chart 2



It is noteworthy that for the first nine months of 2011 the import is decreased of about 5% of oil product, while deliveries of domestic producer are less for almost 11%.

In the Chart 2 it can be seen a continuous growth of participation of diesel and fuel oils in the structure of consumption of oil products. Things look a little different when viewed in absolute terms. According to data from the ITA, there was a drop in consumption of diesel oil by about 5% in 2010, whereas during the first three quarters of the current year the consumption of diesel oil rose by almost 2% comparing with the previous period. Consumption of fuel oils i.e. oil products used for heating recorded the largest increase. In 2010 it was nearly 15% while for the first nine months amounted to over 14%.

Chart 3

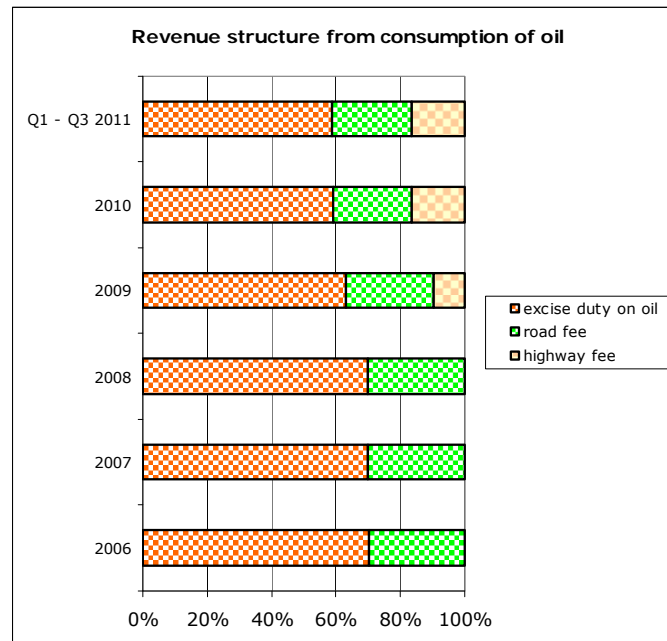


The question is what caused such strong fluctuations in the consumption of observed oil products during the analyzed period. One reason is certainly the price. Chart 3 shows the movement of average prices of oil products. It is necessary to recall the sudden rise in oil prices on world markets in late 2007. Then the price of oil continued to rise and reached its peak during the 2008. at that time imbalances in global financial markets became visible which was soon reflected in the

economic trends of many national economies. The effect of the reaction of world leaders in terms of prices of oil and oil products is reflected in a sharp lowering of oil prices during 2009 in order to prevent a decline in economic activity with which many of the world economies were faced with. However, this was short lived. The price of oil continued to grow after that and again was approaching the limit of \$ 100 per barrel in 2010 and even exceeded the limit of \$ 100 per barrel in 2011. Similarly, it can be seen from the upper chart that the average price of imported oil products in Bosnia were at the level of 0.70 BAM in 2009 and so that in just two years has reached the level of over 1.10 BAM, which represents an increase of over 50%.

The lower Chart shows the structure of revenues from taxation of oil products. In 2009 a new type of tax/income was introduced and that is the fee for highways amounted at 0,10 BAM per liter of oil products⁶. Until then, the ratio between the collected excise duties and road fees (0.15 BAM/l) was approximately 70:30. With the introduction of fee for highways this ratio is changed so there has been the decline of relative share of excise duty on oil products. Please note that due to drop of gasoline consumption and increasing consumption of fuel oil, extra light and special light, average excise tax per liter of oil products has decreased, but simultaneously the importance of road and highway fee is decreasing since it is not applied on fuel oils i.e. oils products used for heating purposes. At the same time, the Law provided exemption from paying road and highway fees on diesel fuel used by mining companies, power plants⁷ and railways in the amount determined by the ITA Governing Board based on a proposal from the entity governments and Brcko District government. These amounts are about 1.50% of the total amount of diesel consumption. Further, the legislator has given the possibility to individuals and legal entities to return of excise duty paid on fuel oil used for heating residential and commercial buildings and facilities for agricultural production.

Chart 4



Due to all the abovementioned revenues from the consumption of oil products for the first nine months of this year were lower by about 3.5% compared to the same period of last year, noting that revenues from road and highway fees recorded sharper decline of almost 4%.

⁶ Law on excises in BiH (Official Gazette BiH, 49/09)

⁷ Transformation sector

Evolution of tax treatment of oil products in the EU

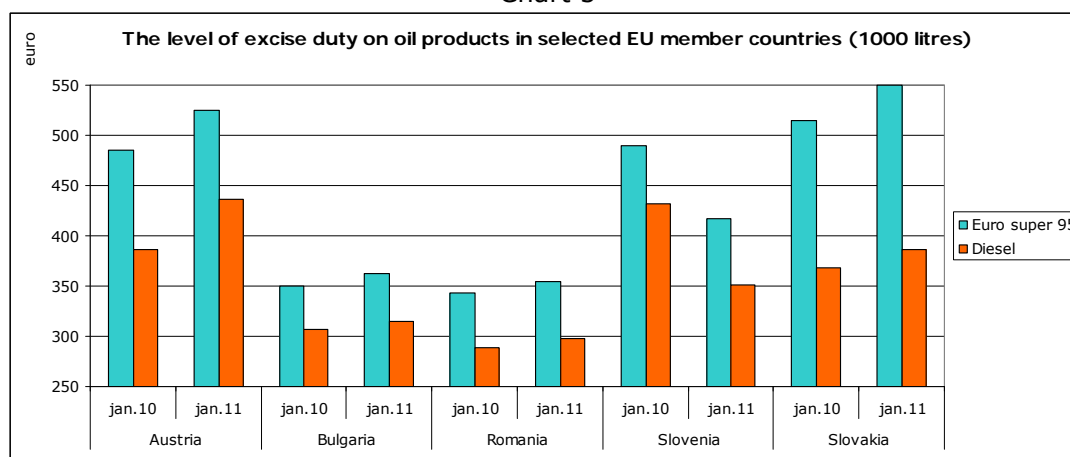
EU Council has adopted Directive 2008/118/EC on December 16, 2008 concerning the general framework of excise duties on energy products which put Directive 92/12/EEC out of force.

The table below provides an overview of the amount of excise duties on oil products at the EU level, as well as a comparative review to what extent BiH meets the current minimum standards in this regard.

In Euros per 1000 liters	From 01.01.2004. EU	From 01.01.2010. EU	From 01.07. 2009. BiH	%
Unleaded gasoline (2710 11 31, 2710 11 41, 2710 11 45, 2710 11 49)	359	359	307	85
Diesel and gas oils (od 2710 19 41 do 2710 19 49)	302	330	281	85

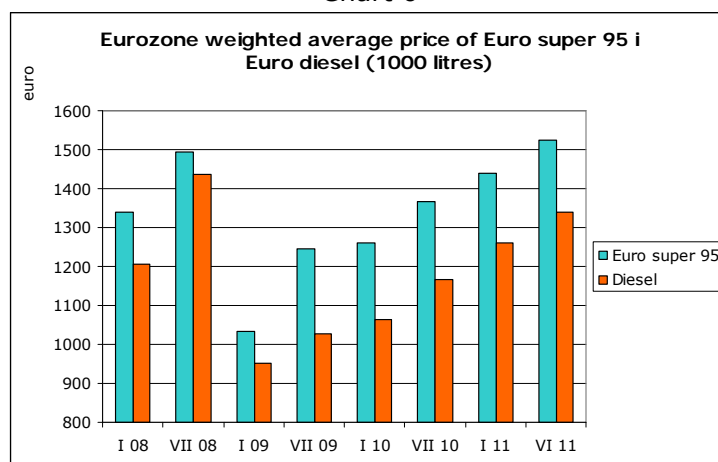
The following provides an overview of reactions of selected EU countries on the rise of prices of oil and oil products on world markets and signs of a serious slowdown in economic activity, with the aim of maintaining the competitiveness of their national economies. All countries, except Slovenia, have decided to increase excise duties on oil products. It can be assumed that one of the main reasons is a reduction of current and accumulated fiscal deficits. However, additional pressure was created by this to the citizens and companies who have to struggle with a new price increase.

Chart 5



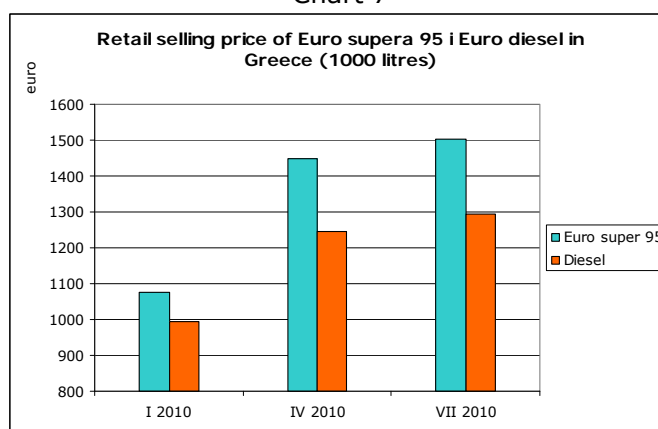
The following Chart shows trends in average weighted retail selling prices of Euro super 95 and Euro diesel in the analyzed period. Similar to the situation in BiH even at the EU level it can be noticed that the prices of these oil products, after rapid growth during 2008, fell sharply in early 2009 and since then has been increasing steadily, while in the mid 2011 the price of Euro super 95 exceeds the level of one in 2008.

Chart 6



It is interesting to see how varied retail prices selling of selected oil products in Greece during the first 6 months of 2010. This may be even more interesting if we take into account everything that happened afterwards in this country. One of the main reasons for the increase of retail selling prices is a decision by Greek authorities to increase the VAT rate from 19% to 21% on March 15, 2010. This rate affects and oil products too. The main motive was to consolidate public finances as quickly as possible. Not long after that a new decision followed by the government to further increase the VAT rate from existing 21% to 23% on July 1, 2010. This reflected on the overall increase in retail selling prices of oil products for over 30% within only 3-4 months.

Chart 7



Europa 2020 – Strategy for smart, sustainable and inclusive growth - *continue*

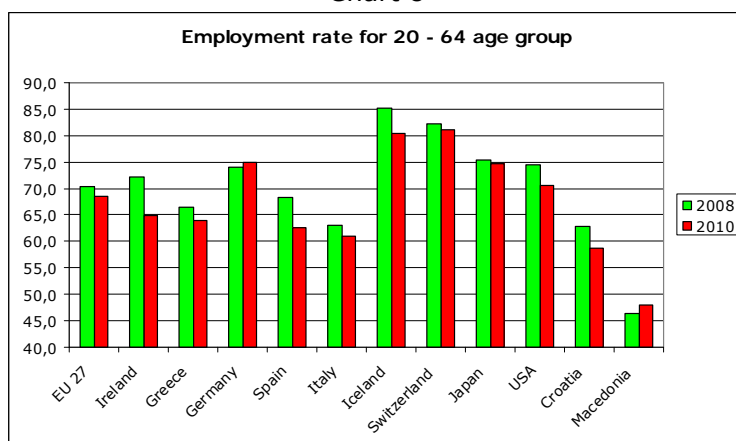
The need for transformation of the European Union is an imperative. The crisis, that has been lasted for several years, has seriously shaken the foundations of member countries individually and the entire community as well. Years of economic growth and social development are behind us. Structural weaknesses have come to the surface. The environment is changing rapidly and the main challenges are the future of globalization process, increased demand for resources and intensified process of aging of population.

Three main goals are presented that the Commission suggests in the EU Strategy:

→ **75%** of population aged 20-64 should be employed

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Chart 8

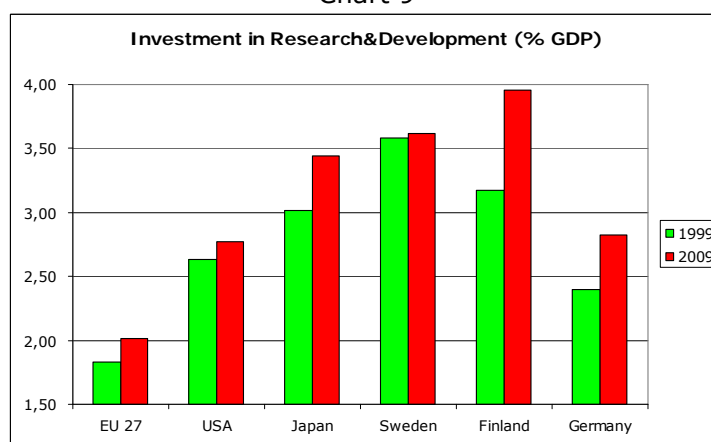


Source: Eurostat

On the Chart above it can be seen clearly the range of impact of the crisis on employment of active population, as well as the size of deviations from the identified goal. In the course of just two years employment of working-age population in the EU27 fell by 1.8%. The most important decline was recorded in Ireland (7.4%) and then Spain (5.8%). Only Germany has recorded a growth of 0.9%.

→ **3%** of GDP should be invested in research and development

Chart 9

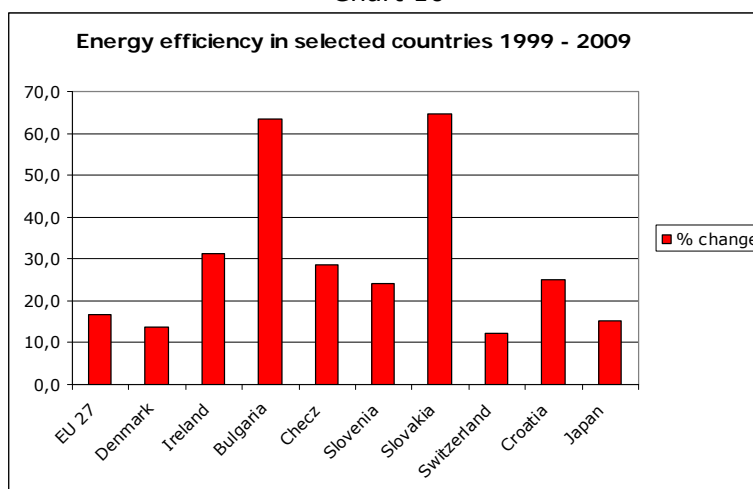


Source: Eurostat

From the above chart it could be seen that the EU27 has increased spending for research and development in the observed period and according to the estimate of Eurostat it just crossed the limit of 2%. At the same time, countries such as Finland, Sweden and Japan have spent over 3% for this purpose for many years. This is probably one of the main reasons why these countries are technological leaders at the global level.

→ **20/20/20** climate/energy goals should be met

Chart 10



Source: Eurostat

As for increasing the efficiency of energy⁸ usage during the reviewed period, there has been an increase of 16.82% at the level of EU 27. The biggest breakthrough in this regard has been made by Slovakia and Bulgaria. However, Slovakia still needs 5 times more energy than Switzerland or Japan in order to produce an additional unit of GDP. At the same time, Bulgaria needed almost 9 times more energy while Croatia needed three times more energy than the Switzerland.

These objectives are interrelated and very important for overall success. The Commission proposes that the EU goals should be transposed as national goals in order to ensure that each country adjust common strategy for their specific circumstances.

Conclusion

The mere fact that oil is the most important single commodity in terms of public revenues tells enough about the structure and competitiveness of the BiH economy. Furthermore, strong fluctuations in terms of size of consumption of analyzed oil products requires additional attention of the local authorities in order to prevent any irregularities and to ensure a seamless functioning of economic system and eventually to deliver public services in order to meet public needs.

⁸ This indicator is the ratio between the gross inland consumption of energy and the GDP for a given calendar year. It measures the energy consumption of an economy and its overall energy efficiency. The gross inland consumption of energy is calculated as the sum of the gross inland consumption of five energy types: coal, electricity, oil, natural gas and renewable energy sources. The measurement unit used is kgoe – kilogram of oil equivalent.

Tax incentives for rising competitiveness

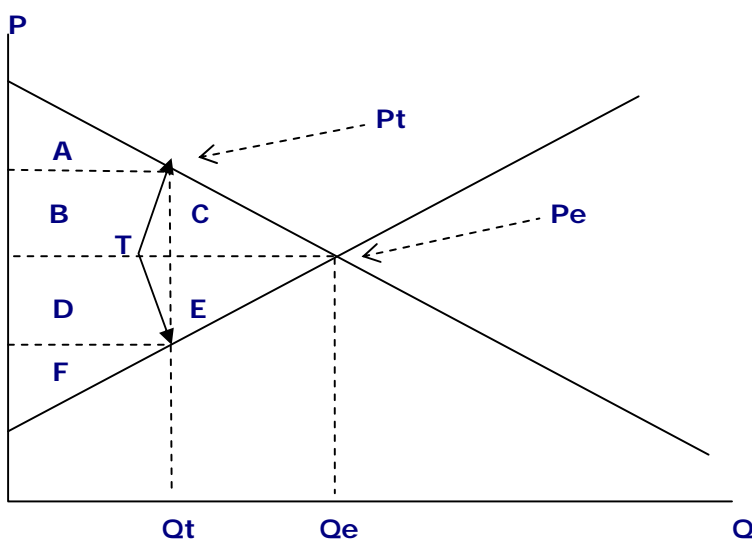
(Author: Mirela Kadić)

Introduction

Recession has shown that fiscal system and fiscal policy should be strategic instrument in designing a framework for competitive and viable business environment sustainable in turbulent conditions brought by globalization and increased capital mobility. There are five accepted features of a 'good' tax system⁹:

- Economic efficiency.** Tax system should not interfere with effective allocation of resources, i.e. it should be as less distortive as possible.
- Administrative simplicity.** Tax system should be simple and relatively inexpensive to implement.
- Flexibility.** Tax system should be capable to react easily to changing economic circumstances (in some cases automatically).
- Political responsibility.** Tax system should be formulated so that individuals can check what they pay, and how exactly the system reflects their preferences.
- Equity.** The tax system must be fair to different individuals

The tax system has no role in creating competitive advantage, or well-being, but 'only' to ensure a favourable economic environment, and generally has as neutral effect on the economy as possible. In theory, but also in practice, it is considered that all taxes (excluding lump sum taxes) are introducing some distortions in the economy, and thus disturb the perfect performance of the market and reduce its effectiveness. Picture 1 shows tax introduction on a market. Tax shifts the equilibrium price P_e up, and equilibrium output Q_e is shifted left, i.e. it is reduced, the equilibrium is now set at the price P_t . Resources allocation of a country is no more Pareto optimal¹⁰, the inefficiency is introduced to the system, and the market size is reduced.



Picture 1

⁹ Stiglitz J.E. „Public sector economy“, Faculty of economics, Belgrade, 2008

¹⁰ Pareto optimality is reached when there is no way to re-arrange production or reallocate goods in a way to fix one's position, and at the same time not to adversely affect someone else's situation.

Consumer's surplus¹¹ before the tax (area ABC) is reduced to area A, and producer's surplus¹² is reduced to area F. Area BD represents the tax value. If we compare the welfare of consumers and producers before and after taxes and the welfare reduction compare with the value State has generated from taxes, it still remains a value (area CE) that has been lost. So, part of the welfare is lost, as consumers and producers have lost more than State has received from taxes. This kind of consequence in taxation is called *deadweight loss*.

Tax incentives

Tax exemptions or incentives, as a concession that the State is making in relation to a taxpayer, the tax base, tax rates or amounts of tax revenue in relation to the general tax regime, further complicates the picture.

Tax incentives, as part of State aid, are, in tax theory, the most criticized form, but in practice the most common form of state intervention administered at constructing a competitive, attractive business environment and general welfare of society.

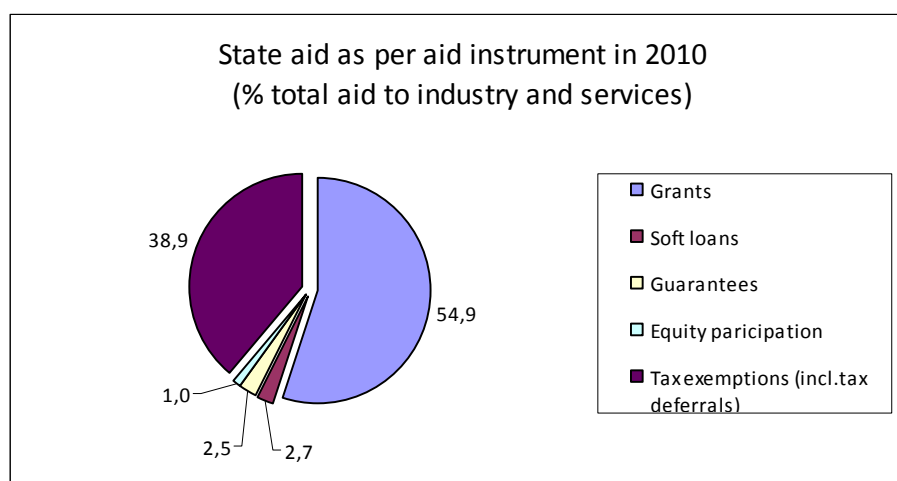


Chart 1¹³

Chart 1 shows the percentage of share of individual instrument of State aid in 2010, where it is clear that a large part, almost 39%, goes to tax exemptions. The image of the most commonly used tools of fiscal policy is partially distorted because of the measures taken due to the global economic crisis. In 2009 EU Member States have, in accordance with the available fiscal space, significantly increased the amount of their State aid¹⁴.

Direct forms of financial assistance (in the form of subsidies and grants) are typical for developed countries as opposed to the underdeveloped ones and developing countries that lack free assets, so they must resort to indirect measures such as tax incentives. Today, we often hear proposals from various professional and less professional spheres for introducing tax incentives to achieve specific developmental or social goals. However, one should be warned that any tax incentive has different implications, different benefits and costs, in short and long term, and in different fiscal spaces, so before the introduction of a tax incentive in one tax system it is necessary a sound *'cost-benefit'* analysis to be made.

¹¹ Value that consumer is willing to pay for a certain good minus the price that he actually pays on the market.

¹² Value that producer gets on the market for his good minus the good production costs.

¹³ Source: „Commission Staff Working Paper“, European Commission, autumn 2011.

¹⁴ More on this in MAU bulletin no. 74

Basic trade-off confusions

In the debate on tax incentives few facts should be taken into consideration.

- Tax incentives by their nature and favouring a particular subject introduce distortions in the market and the possibility of abuses and tax evasions. In order to optimize the efficiency of markets with the least possible deadweight loss, tax incentives should be integrated part of a good industrial policy.
- Tax incentives can be the result of discretionary measures of fiscal policy makers, or they can be incorporated in the form of so-called *automatic stabilizers*. Incentives as a measure of discretionary policy create major market distortions, and they have direct impact on economic trends. Built-in incentives as opposed to ad hoc measures, are causing less distortion, they increase investment security, reduce opportunity for corruption, and influence the reduction of administrative costs.
- Incentives may be temporary or permanent. Temporary incentives can be extremely useful for newly established businesses, especially in terms of imperfect markets, the promotion of the so-called 'infant industry'. When it comes to permanent incentives, possibility or rather the fear of transition of such incentive to general tax regime should be considered. In order to avoid that, so-called *sunset provision or sunset clause*¹⁵ should be incorporated in tax legislative.
- Tax incentives can be general and selective, and selective incentives can be regional and sectoral. Selective incentives distort the market balance, regional less than sectoral, and in order for them to be effective they are applied only temporarily and only in areas or sectors of special national interest.
- In terms of globalization and high mobility of capital and labour, no tax system can exist as an island by itself, but must take into account the country in its environment, as well as the country's strategic partners (avoiding the double taxation).
- The complexity of certain governmental structures, their inertia, and the influence of lobbying interest groups keen in maintaining tax incentives, even when it is no longer economically viable, is leading to the conclusion that the state often has no analytical ability to determine (better than the market) appropriate economic structure, to know how to choose the winning branch and also to stop the provision of tax incentives in a timely manner.

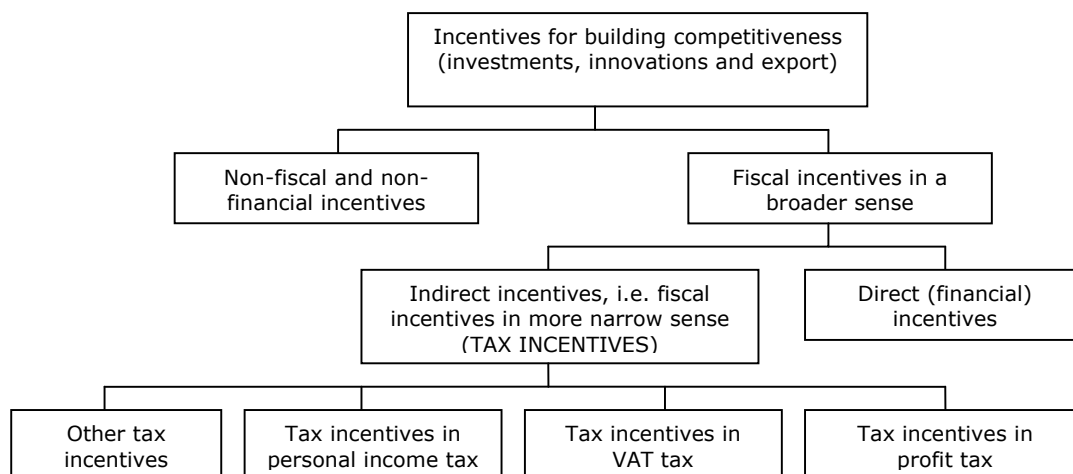
Classification of tax incentives by tax types

Picture 2 represents the classification of tax incentives for building competitiveness¹⁶.

¹⁵ Sunset clause is a clause in legislative (law, statute, regulation) that provides that the law shall cease to have effect after a specific date, unless further legislative action is taken to extend the law. Most laws do not have sunset clauses and therefore remain in force indefinitely.

¹⁶ According to: Šimović H, 'Porezni poticaji za izgradnju konkurentnosti', Faculty of economics, Zagreb, 2008.

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Picture 2

Incentives in the profit tax can be realized through tax rates, tax "holidays", and incentives for investments.

- **Profit tax rate.** The relatively low tax rate, with few exceptions is the simplest tool to encourage investment, but it also can be discouraging, because the value of benefits does not vary with increased investment. Also, when considering the profit tax rate it is necessary to take into account the effective rate for comparisons with different time series and different countries, because the statutory rate does not reflect an actual tax burden.
- **Tax holidays.** Tax holidays represent the exemption of a certain object from taxation in total or partial amount for a certain period. This incentive, by favouring a certain subject, distorts the neutrality and equity principal, and therefore leads to significant tax loss and opens a broad possibility for abuses.
- **Investment incentives** can be exemption based on accelerated depreciation, investment allowance or investment tax credit. Accelerated depreciation has an effect similar to reduced tax rate, provided that this incentive is more equitable, since the amount of benefits depends on the amount of investments, and also has a stimulating effect. Also, 'The nomenclature of the fixed assets' determines which fixed asset is to be written off faster than the other, so certain governmental policy can be channelled in this way as well (eg, technology transfer, environmental protection, etc.).

Income tax can significantly affect economic growth through its impact on the costs of labour in a certain country, and also on savings and investments. Both economic theory and practice show that taxation of labour reduces employment and lowers the potential output. The so-called *tax*

wedge, i.e. the difference between labour costs and net wages, is the essential indicator through which the impact of tax on labour market is calculated.

How much of the tax wedge is allocated to the employer and thus shaping the labour demand (Figure 1), and how much on the employees and thus affecting the labour supply in the market, depends on the tax incidence ability, i.e. whether the tax will be forward-shifted or back-shifted. This in turn depends on the slope of the curve of supply and demand, on the elasticity of supply and demand, and on the type of market (monopoly, oligopoly, etc).

Value added tax in general should have no impact on investment decisions, due to the fact that in most states consumption form of VAT is applied, and it allows input tax deductions on all purchased goods and services, including capital goods. On the other hand, the experience of countries that have incorporated social component in the system of VAT in the form of zero and reduced rates indicate that VAT is not an effective instrument for achieving uniformity of distribution and equity¹⁷. Direct effect of the consumption tax on the growth is generally negligible on long-term basis, because a consumption tax does not affect the decision on the moment of consumption, and therefore does not encourage capital accumulation¹⁸.

Conclusion

The role of tax incentives varies from different theoreticians. While some claim that they have an impact on investment decisions and growth¹⁹, the others feel that this influence is not crucial, and that a lot also depends on political stability, infrastructure, consistent and stable macroeconomic policy, the efficiency, transparency and accountability of public administration, on the size of the market production factors and products, on skilled workforce.

Tax incentives, in any case, undermine economic relations in the market and they have a distorting effect. Therefore, before introducing some form of incentives on the market, we must consider what are the objectives to be achieved thereby, whether the benefits exceed the costs of a given stimulus or that stimulus is most effective for a given fiscal space, i.e. for a given country.

¹⁷ Antić dr.D, 'Implications of differentiated VAT rates in B&H', study, Macroeconomic Analysis Unit GB ITA, Banjaluka, July 2011.

¹⁸ Kesner-Škreb M, 'Porezna politika i gospodarski rast', Public Finances Institute, no 73/1999, Zagreb

¹⁹ 'The countries in the era of globalization become more and more alike, especially the countries within the same regional economic integration like the EU, and in such circumstances incentives are playing a ever growing role in promoting competitiveness and economic activities.' Easson Zolt, 'Tax incentives', World Bank Institute, 2002.

Consolidated reports

(Authors: Aleksandra Regoje and Mirela Kadić)

Table 1 (Consolidated report: B&H institutions, entities, SA)

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 and expenditures of the institutions of Bosnia and Herzegovina,
- revenues and expenditures of the budget of the Federation of Bosnia and Herzegovina,
- revenues and expenditures of the budget of the Republika Srpska.

Report doesn't include unadjusted revenues collected on ITA SA.

Table 2 (Consolidated report: General government)

Preliminary consolidated report includes:

- revenues and expenditures of the budget of Institutions of Bosnia and Herzegovina,
- revenues and expenditures of the budget of the Federation of Bosnia and Herzegovina, cantons, municipalities and funds,
- revenues and expenditures of the budget of the Republika Srpska, municipalities and funds,
- revenues and expenditures of the budget of Brčko District and funds.

Foreign financed project data are not included.

Table 3 (Consolidated report: Central government)

Preliminary consolidated report includes:

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

Foreign financed project data are not included.

Tables 4.1-4.2. (Consolidated report: Cantons)

1. The consolidated report includes.

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

2. Net financing = loans received – repayment of debt

Consolidated report: B&H, entities and SA, I-X 2011

	I	II	III	IV	V	VI	VII	VIII	IX	X	Total
Revenues	409,1	387,7	484,9	460,3	478,9	537,9	527,1	530,8	554,3	523,3	4894,3
Taxes	383,4	362,1	440,3	413,0	451,0	503,1	468,4	469,2	486,8	455,8	4433,0
Indirect taxes	366,1	338,5	387,3	373,0	419,3	464,9	438,8	439,8	458,6	428,2	4114,4
VAT	237,7	222,1	230,2	247,6	249,5	275,9	261,9	284,7	294,7	278,4	2582,6
VAT on imports	138,3	180,4	210,4	204,1	202,2	227,2	218,3	220,3	228,6	222,0	2051,8
VAT from VAT returns	149,5	115,6	98,3	108,2	117,9	118,2	109,7	131,6	137,2	123,0	1209,3
VAT from automatic assessment done by ITA	0,0	0,1	0,1	0,1	0,1	0,3	0,0	0,1	0,0	0,0	0,8
One-off VAT payments	0,3	0,2	0,3	0,1	0,1	0,0	0,1	0,1	0,1	0,0	1,2
Other	2,7	2,6	3,0	2,6	2,4	2,5	1,6	3,8	3,4	2,7	27,2
VAT refunds	-53,1	-76,8	-81,9	-67,4	-73,2	-72,4	-67,9	-71,3	-74,6	-69,3	-707,9
Custom duties	15,5	20,9	26,5	23,9	24,1	24,9	25,1	26,7	27,1	23,4	238,1
Excises	93,2	76,4	107,8	79,2	118,0	138,2	124,1	98,7	108,3	100,3	1044,4
on imports	60,6	54,1	70,7	52,3	80,2	92,9	74,4	75,9	62,6	61,2	684,8
on domestic production	32,6	22,3	37,1	27,0	37,8	45,4	49,7	22,9	45,7	39,1	359,6
Railroad tax	21,2	19,0	22,3	22,6	26,5	24,9	26,4	28,5	27,8	24,9	244,0
Other	1,5	1,3	1,4	1,6	2,2	2,0	1,8	1,8	1,7	1,7	17,0
Other refunds	-3,1	-1,2	-0,9	-1,9	-1,0	-1,0	-0,5	-0,6	-0,9	-0,6	-11,7
Direct taxes	17,3	23,6	53,0	40,0	31,6	38,1	29,6	29,4	28,2	27,7	318,6
Profit tax revenues	8,7	10,7	35,1	23,6	13,5	20,0	12,4	11,0	11,1	10,6	156,6
Income tax revenues	8,1	12,1	16,9	15,5	17,2	17,2	16,3	17,4	16,3	16,1	152,9
Other direct taxes	0,6	0,8	1,0	0,9	0,9	0,9	1,0	1,0	0,9	1,0	9,1
Contributions	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Non-tax revenues	23,8	24,3	41,0	46,5	27,5	33,2	33,6	29,4	34,0	38,1	331,4
Grants	1,9	1,3	3,6	0,9	0,4	1,6	0,2	1,1	3,5	0,3	14,8
Other revenues	0,0	0,0	0,0	0,0	0,0	0,0	25,0	31,2	30,0	29,0	115,2

	I	II	III	IV	V	VI	VII	VIII	IX	X	Total
Expenditures	393,2	372,1	492,6	522,1	461,7	509,0	531,3	489,6	544,3	505,1	4821,0
Wages and compensations	118,2	118,8	150,3	130,5	131,4	131,2	142,4	127,4	131,3	134,3	1315,7
Purchases of goods and services	9,9	14,1	19,2	23,2	26,3	31,2	22,3	26,7	27,9	24,0	224,7
Subsidies and transfers	89,2	83,7	142,8	182,8	105,9	113,5	138,2	112,5	128,6	137,3	1234,4
Interests (domestic and foreign)	3,3	5,9	9,2	4,7	10,3	19,8	8,2	8,6	21,0	7,1	98,1
Interests on foreign debt	3,3	4,6	8,2	3,9	10,3	18,1	3,5	8,6	10,1	6,2	76,6
Interests on domestic debt	0,0	1,4	1,0	0,8	0,0	1,7	4,7	0,0	10,9	0,9	21,5
Other current expenditure	2,9	3,4	11,8	15,4	16,4	18,5	14,0	12,6	3,4	12,0	110,4
Capital expenditures	0,2	0,4	1,0	1,3	2,6	12,6	3,1	7,4	26,7	6,1	61,4
Other expenditures	4,2	2,7	6,8	8,0	7,5	10,1	6,0	5,0	-3,4	7,7	54,6
SA transfers	166,9	144,5	165,0	160,1	173,9	187,8	198,9	190,5	235,4	175,7	1798,6
Net lending and capital gains	-1,5	-1,5	-13,5	-4,1	-12,5	-15,6	-1,7	-1,2	-26,5	0,9	-77,0
Balance	15,9	15,6	-7,7	-61,7	17,2	28,9	-4,2	41,3	10,0	18,2	73,3
Financing	-15,9	-15,6	7,7	61,7	-17,2	-28,9	4,2	-41,3	-10,0	-18,2	-73,3

Table 1

Consolidated report: General government B&H, I-IX 2011

	Q1	Q2	Q3	Total
Revenues	2.437,0	2.767,8	2.869,5	8.074,3
Tax revenue	1.267,7	1.459,9	1.499,1	4.226,6
Indirect taxes	1.048,0	1.207,5	1.288,7	3.544,2
Direct taxes	219,7	252,3	210,4	682,4
Profit tax	79,7	88,6	58,5	226,8
Income tax	110,0	133,6	131,9	375,4
Other direct taxes	30,0	30,2	20,1	80,3
Social contributions	913,9	1.018,3	1.014,2	2.946,4
Nontax revenue	242,8	271,6	259,5	774,0
Grants	12,6	18,0	10,5	41,1
Other revenues	0,0	0,0	86,2	86,2
Expenditures	2.421,6	2.792,4	2.742,5	7.956,5
Gross wages and compensations	787,5	808,0	805,3	2.400,7
Purchases of goods and services	400,3	486,2	460,2	1.346,8
Subsidies and transfers	1.077,4	1.263,9	1.218,8	3.560,1
Interest payments	30,6	38,2	45,7	114,4
Foreign	17,3	33,3	23,5	74,1
Domestic	13,3	4,9	22,2	40,3
Other current expenditure	81,9	141,1	126,3	349,3
Capital expenditure	35,0	86,9	106,1	227,9
Other expenditure	26,5	10,8	9,6	46,8
Net lending and capital gains	-17,6	-42,7	-29,3	-89,7
Balance	15,4	-24,6	127,0	117,8
Financing	-15,4	24,6	-127,0	-117,8

Table 2

Consolidated report: Central government B&H, I-IX 2011

	Q1	Q2	Q3	Total
Revenues	1.251,9	1.455,0	1.561,5	4.268,4
Tax revenue	1.110,9	1.288,5	1.315,0	3.714,3
Indirect taxes	939,3	1.088,5	1.149,4	3.177,2
Direct taxes	171,6	200,0	165,6	537,2
Profit tax	78,9	88,1	58,0	225,0
Income tax	84,5	103,7	101,4	289,7
Other direct taxes	8,2	8,2	6,1	22,5
Social contributions	0,0	0,0	0,0	0,0
Nontax revenue	133,8	162,7	155,0	451,6
Grants	7,3	3,7	5,4	16,3
Other revenues	0,0	0,0	86,2	86,2
Expenditures	1.210,8	1.466,2	1.434,2	4.111,1
Gross wages and compensations	672,7	683,8	687,0	2.043,5
Purchases of goods and services	87,1	132,4	123,8	343,3
Subsidies and transfers	379,6	503,7	480,2	1.363,5
Interest payments	19,9	36,6	39,5	95,9
Foreign	16,5	33,1	22,9	72,5
Domestic	3,4	3,5	16,6	23,4
Other current expenditure	46,6	84,6	67,4	198,6
Capital expenditure	8,3	32,4	46,2	86,8
Other expenditure	13,8	25,6	14,0	53,3
Net lending and capital gains	-17,1	-32,9	-23,8	-73,8
Balance	41,1	-11,2	127,3	157,3
Financing	-41,1	11,2	-127,3	-157,3

Table 3

Bosnia-Podrinje Canton, I-IX 2011

	I	II	III	IV	V	VI	VII	VIII	IX	I-IX 2011
1 Revenues (11+12+13+14)	3.695.903	2.791.961	3.071.111	2.847.705	3.319.509	3.217.450	3.542.475	3.363.352	3.564.566	29.414.032
11 Tax revenues	2.456.661	2.272.590	2.579.410	2.473.520	2.751.851	2.753.520	3.144.966	2.857.088	3.148.702	24.438.308
Income and profit tax	183.883	231.726	260.066	266.829	254.359	288.785	293.240	273.934	293.877	2.346.700
Property tax	36.696	57.396	17.098	18.943	32.594	16.238	17.212	38.266	7.930	242.372
Indirect taxes	2.236.037	1.983.262	2.302.100	2.187.529	2.464.619	2.448.225	2.834.328	2.544.691	2.846.677	21.847.467
Other taxes	45	205	147	219	279	272	186	198	218	1.769
12 Non-tax revenues	333.662	249.238	296.102	256.423	257.152	276.204	287.414	316.831	340.030	2.613.056
13 Grants	897.894	266.564	187.133	113.492	307.750	170.457	96.765	182.074	66.584	2.288.712
14 Other revenues	7.686	3.569	8.466	4.271	2.756	17.269	13.329	7.360	9.250	73.956
2 Expenditures (21+22)	2.785.359	3.139.473	3.183.829	3.212.852	3.007.930	3.686.707	4.067.645	3.200.757	3.294.942	29.579.493
21 Current expenditures	2.785.359	3.139.473	3.182.929	3.212.852	3.008.178	3.686.707	4.067.645	3.200.757	3.294.942	29.578.842
Gross wages and compensations	1.806.673	1.845.386	1.884.689	1.874.802	1.847.800	1.844.746	1.778.089	2.027.603	1.827.167	16.736.956
Purchases of goods and services	250.893	490.418	380.919	340.401	289.200	281.638	297.319	262.130	312.037	2.904.954
Grants	679.792	803.295	916.989	997.361	870.937	1.560.109	1.948.726	910.880	1.155.630	9.843.718
Interests	48.001	373	332	288	242	214	43.511	145	108	93.214
Transfers to lower budget units	0	0	0	0	0	0	0	0	0	0
22 Net lending*	0	0	900	0	-249	0	0	0	0	651
3 Net acquisition of nonfinancial assets	16.181	38.022	73.619	131.687	58.399	190.014	179.208	149.896	173.363	1.010.389
4 Government surplus/deficit (1-2-3)	894.363	-385.534	-186.337	-496.833	253.181	-659.272	-704.378	12.699	96.261	-1.175.850
5 Net financing **	-144.272	-14.754	-14.623	-14.291	-14.291	-14.185	-152.815	-14.472	-14.391	-398.094

Table 4.1.

West Herzegovina Canton, I-VIII 2011

	I	II	III	IV	V	VI	VII	VIII	I-VIII 2011
1 Revenues (11+12+13+14)	6.383.860	6.324.170	9.487.345	7.476.649	7.470.798	8.487.875	8.315.304	6.991.431	60.937.433
11 Tax revenues	5.302.509	4.908.246	7.704.580	6.119.850	5.835.272	7.304.805	6.339.079	5.912.909	49.427.249
Income and profit tax	1.000.130	1.033.332	3.316.684	1.911.862	1.369.581	1.967.629	1.280.245	1.308.886	13.188.349
Property tax	182.459	241.592	297.482	130.384	123.635	134.796	74.563	72.893	1.257.804
Indirect taxes	4.044.846	3.619.005	4.062.373	4.053.752	4.325.606	5.184.554	4.964.200	4.514.307	34.768.644
Other taxes	75.074	14.318	28.040	23.852	16.449	17.826	20.070	16.823	212.452
12 Non-tax revenues	1.025.771	1.398.059	1.737.165	1.222.108	1.256.893	967.111	1.162.947	1.037.442	9.807.496
13 Grants	55.581	17.865	45.600	134.691	378.634	215.960	710.243	41.080	1.599.654
14 Other revenues	0	0	0	0	0	0	103.035	0	103.035
2 Expenditures (21+22)	5.946.209	7.759.915	7.262.244	6.950.964	7.238.335	6.911.131	7.301.280	5.758.890	55.128.968
21 Current expenditures	5.946.209	7.759.915	7.262.244	6.950.964	7.238.335	6.911.131	7.301.280	5.758.890	55.128.968
Gross wages and compensations	4.228.682	4.499.391	4.768.105	4.782.014	4.772.539	4.553.891	4.791.460	3.963.418	36.359.501
Purchases of goods and services	944.132	1.287.042	937.446	782.406	1.136.274	655.475	617.754	542.710	6.903.239
Grants	435.656	1.605.707	1.186.298	1.210.091	1.007.091	1.364.426	1.567.991	954.763	9.332.023
Interests	73.458	101.888	87.896	109.373	88.484	75.968	100.508	105.789	743.364
Transfers to lower budget units	264.281	265.888	282.498	67.080	233.947	261.372	223.566	192.209	1.790.842
22 Net lending*	0	0	0	0	0	0	0	0	0
3 Net acquisition of nonfinancial assets	-10.270	133.816	-711	97.896	103.890	54.589	26.263	-5.326	400.148
4 Government surplus/deficit (1-2-3)	447.921	-1.569.562	2.225.813	427.789	128.573	1.522.155	987.761	1.237.868	5.408.318
5 Net financing **	-511.902	-587.157	-525.810	-290.139	-208.655	-257.348	-283.477	2.090.393	-574.094

Table 4.2.