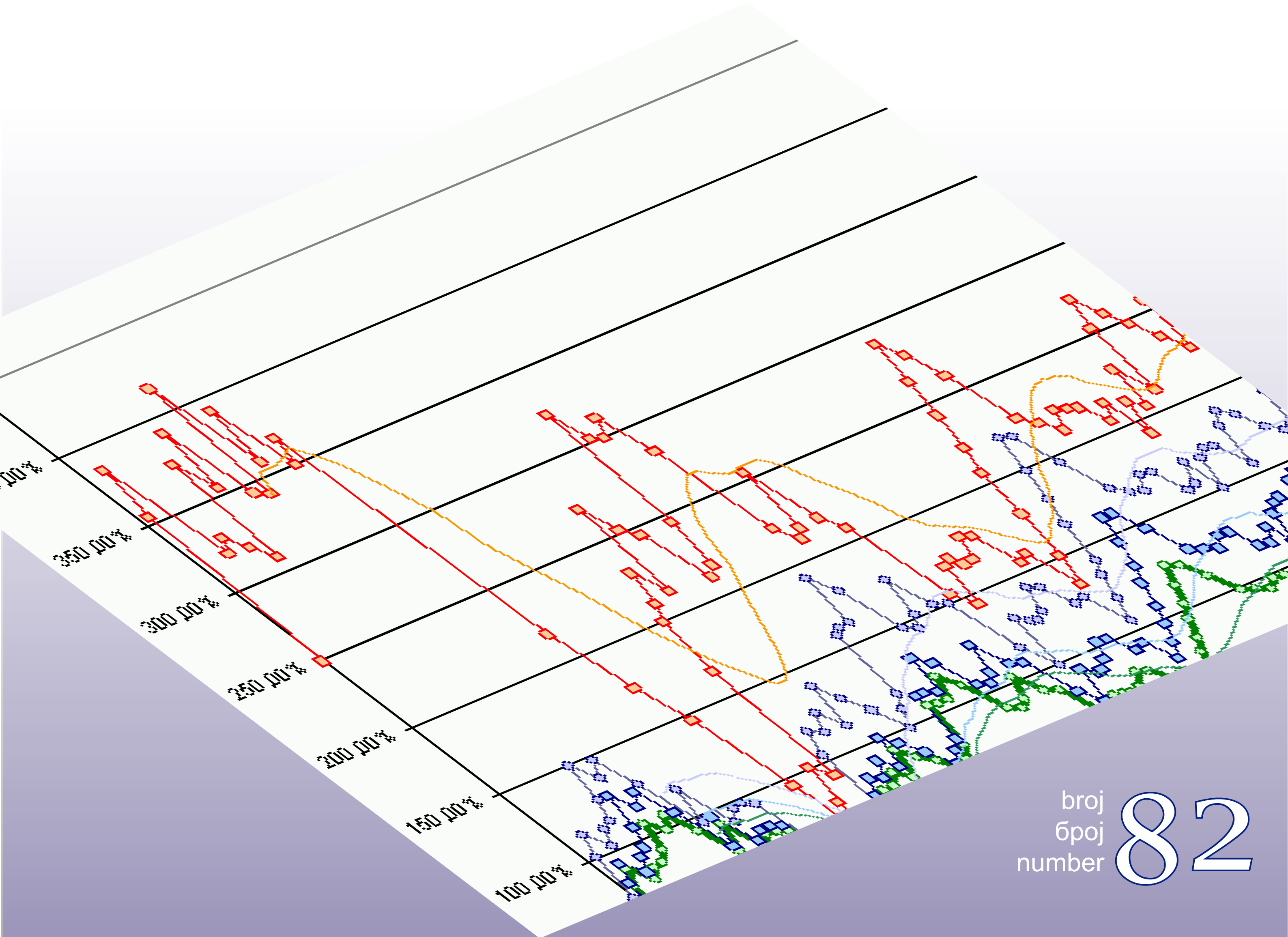
Bosna i Hercegovina
Odjeljenje za makroekonomsku analizu
Upravnog odbora Uprave za indirektno-neizravno oporezivanje

Босна и Херцеговина
Одјељење за макроекономску анализу
Управног одбора Управе за индиректно опорезивање

Macroeconomic Unit of the Governing Board of the Indirect Tax Authority

Oma Bilten



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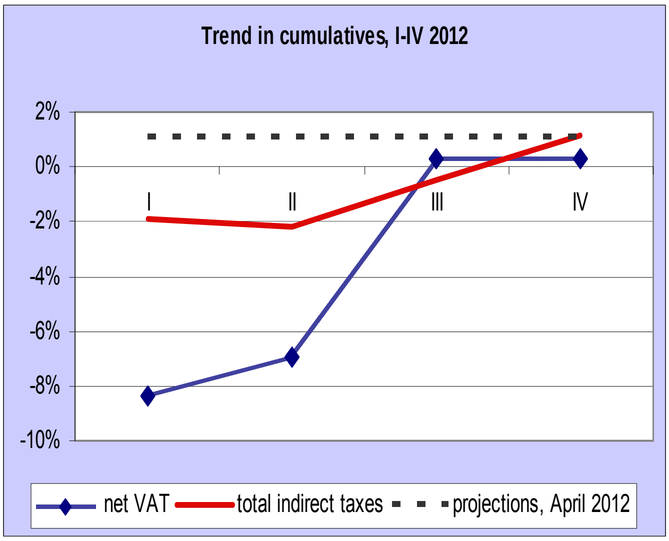
With this issue

According to the ITA preliminary report by type of revenue, gross collection in April is higher for 3,74%, but at the same time disbursement of refunds decreased by 8,37%. It brought monthly increase of 5,97% compared with April 2011. After a poor collection in the first quarter, revenue growth in April led to the consolidation of the cumulative collection at the four months level. In the four months of 2012, it is collected 1,493 billion BAM of indirect taxes after deduction of refunds, which is for 1,24% above the collection in the same period of 2011. This percentage includes approximately 15,7 mil BAM of collected revenues which remained unadjusted after matching payments on SA with returns/declarations in modules of the ITA IT system. April 2012 brought enormous revenue growth from excises on imported cigarettes (81%) and domestic oil derivatives (94%), which pulled total revenue growth from excises in April to approximately 31%.



In the first four months the highest nominally growth of collection was recorded in excises (30 mil BAM) and poorer in VAT. However, decrease in customs revenues reduced positive nominal effects to approximately 17 mil BAM. Cumulative revenue growth in the period January- April slightly exceeded last annual projections of indirect tax revenues from April 2012. (Chart on the left). Dynamics in revenue collection from indirect taxes in the first four months show the need of the more restrictive approach to drafting the budget of 2013. In the process of preparing the Budget Framework Documents, the Unit is obliged to prepare projections of revenue from indirect taxes, in accordance with provisions of the Law on Financing of Institutions of B&H. In this issue we bring short overview of the last projections for the period 2013-2015. Below is an overview of European law and practice in the area of policy of differentiated taxation of energy for agriculture and cost-benefit analysis of application of tax and budgetary instruments for the implementation of incentives in B&H agriculture.

Dinka Antić, PhD
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Table of contents:

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Projections of indirect tax revenues, 2012-2015, April 2012
(prepared by: Aleksandra Regoje, Macroeconomist in the Unit)

Last year, a growth of 4,04% in revenues from indirect taxes was achieved. The main growth driver was the policy of harmonization of excise duties on cigarettes with a minimum total excise prescribed by the Law on Excise Duties of 2009. Unfavorable trends in the economy and consumption, as well as weather conditions in February, undermined the revenue collection in early 2012, while data for March and April indicate a recovery in the collection. The projected growth in revenue from indirect taxes amounts 1,1 % by the end of 2012, while projected growth for 2013, 2014 and 2015 amounts 3,4%, 4,4% and 4,1% respectively. Basic assumptions of projections, projections of revenue by type, and risks of their achievements are explained below.

Basic assumptions

Projections of revenues from indirect taxes 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 Duties, which implies continuous adjustment of excise rates in B&H with the minimum standards in the EU,

The projections include the effects of increasing specific excise rate per package of cigarettes from 0,60 BAM to 0,75 BAM in 2013, as well as planned continuous increase of the same rate in the each following year of 0,15 BAM per package.

In addition to current and historical trends in collection, projections of indirect taxes take into account the other various inputs, such as macroeconomic projections, consumer preferences, company policies and announcements of policy changes.

Type of revenue- net	2011	2012	2013	2014	2015	2012	2013	2014	2015
VAT	3.147,4	3.173,4	3.276,6	3.395,5	3.520,7	0,8%	3,3%	3,6%	3,7%
Excises	1.262,7	1.345,2	1.426,7	1.509,9	1.574,2	6,5%	6,1%	5,8%	4,3%
Customs	274,1	216,2	198,4	217,5	239,0	-21,1%	-8,2%	9,6%	9,9%
Road fee	289,5	292,3	295,7	303,0	312,8	1,0%	1,2%	2,5%	3,3%
Other	23,1	25,1	25,8	26,6	27,4	8,9%	3,0%	3,0%	3,0%
TOTAL	4.996,8	5.052,1	5.223,2	5.452,5	5.674,1	1,1%	3,4%	4,4%	4,1%
Road fee (0,10 BAM/l)	-116,9	-116,9	-118,3	-121,2	-125,1	0,0%	1,2%	2,5%	3,3%
FUNDS FOR ALLOCATION	4.879,9	4.935,2	5.104,9	5.331,3	5.549,0	1,1%	3,4%	4,4%	4,1%

Table 1 Projections of indirect tax revenues, 2012-2015

Projections by type of revenue

VAT

It is expected that BAM 3173,4 mil of net VAT revenues will be collected in 2012, which is for 0,8% more than in the previous year. Based on the projected trends of macroeconomic indicators, expected growth of net VAT in the next three years amounts 3,3%, 3,6% and 3,7%.

Customs

The downward trend in customs revenues from previous years continued in early 2012. The reason for the negative trend is the application of the Stabilization and Association Agreement (SAA) with the EU since mid-2008. Given that the majority of customs duties have already been abolished on the most of the imports originating in EU, the effects of application SAA on customs revenues in 2011 were not as significant as they were in the first years of implementation of the Agreement. The other reason of decreasing those revenues is abolition of customs registration in October 2011. Taking into account changes in policies, current trends, as well as the projected growth rates of import, decrease of those revenues of 21,1% and 8,2% is expected in 2012 and 2013, while in 2014 and 2015, after a long period of time, increase of those revenues is again expected (9,6% and 9,9% respectively)

Excises and road fees

Trend growth in excise taxes on tobacco products is the result of a continuous increase of special excise tax, which is implemented from 1st July 2009, with annual burden increase of 0,15 BAM per package of cigarettes. Due to the fact that in the current recession the most important generator of additional revenue from indirect taxes becomes revenue from excise taxes on cigarettes, the projections in this segment have become more important. Policy of excise taxes on cigarettes and projections of these revenues will be explained in detail in the next issue of the bulletin.

Projections of excises on other products are based on DEP's projections of macroeconomic indicators, primarily of real growth rate of consumption and GDP. Since the adoption of new Law on Excises, revenues from excise on oil derivatives show unfavorable trends, caused primarily by differentiated tax policy regarding type of derivatives and their use. In addition to macroeconomic indicators, projections of excises on oil take into account the trends in changing consumption patterns of derivates, incurred as a result of differentiated excise policy, 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).

Differentiation policy of excise taxes on oil derivatives has affected the dynamics of road fee collection. The fourth quarter of 2010 recorded a decline in road fee revenues, and negative trend has been continued in 2011 and in the first quarter of 2012, primarily as a result of increased amounts of derivatives which are not taxed with road fee and changes in a consumption pattern of oil derivatives in favor of using heating oil as fuel. The net road fee collection in the amount of BAM 292,3 mil is expected to be collected until the end of 2012. In accordance with macroeconomic projections of DEP, the projected growth of those revenues for years 2013, 2014 and 2015 amounts 1,2%, 2,5% and 3,3% respectively.

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 2012-2015 is subject to the following risks:

(i) Deviation of macroeconomic indicators from the projected values (DEP);

(ii) Possible changes in the area of indirect taxes;

(iii) Higher risk of illegal trade and smuggling of cigarettes due to continuous increasing of special excise tax.

In addition to mentioned risks, two other factors which can influence revenue collection in 2012 and next years should also be mentioned:

(i) The growth of oil prices on world markets would, under normal circumstances, lead to growth of revenue from taxes on consumption since it automatically leads to higher prices of inputs, and thus the retail price of most goods and services. However, in times of recession, when unemployment rises and incomes are limited or reduced, the increase in oil prices could further jeopardize the operations of companies and living standards, providing incentives for the growth of smuggling, informal economy and creating space for tax evasion and loss of revenue from indirect taxes. In addition to the existing policy of differentiated excise duties on oil derivatives, it can be a strong incentive for fraud in the excise tax system, leading to the loss of revenues from excises on derivatives and VAT.

(ii) Joining Croatia to the EU should bring increase in revenues from customs, VAT and *ad valorem* excises on imports of goods which are currently under the duty-free arrangement of CEFTA. Also, the possible outcome of introducing tariffs on certain items from Croatia is the appearance of substitution of imports from Croatia with duty-free imports from the remaining members of CEFTA, which would offset or significantly reduce the expected positive effect of reintroduction customs on certain goods originating in Croatia. Finally, the announcement of the possibility that Croatia maintain its status in CEFTA after 1st July 2013 would mean the status quo in terms of revenues, but it might open other issues related to the position of other EU member states in trade with the B&H. Given all these unknowns, at this point it is neither possible to determine the direction of the effects of accession of Croatia to the EU on the collection of indirect taxes (increase / status quo / decrease), nor precisely quantify their value.

Trend of import as well as revenues from taxation of beer and cigarettes with focus on period January – April 2012

(Author: Aleksandar Eskić, Macroeconomist in Unit)

Introduction

The main objective of the analysis that follows is to provide insight into the trends of some of the basic variables that are immanent to beer and cigarettes. Time coverage, in both types of goods, refers to the period from year 2007 to year 2012. Since the most recent data that are currently available relate to the month of April 2012, and as a result of the strong seasonal influence on consumption of goods as well[1], certain adjustments were made on time series analysis in order for results to be comparable. In other words, in analysis were used data for the first four months of a year. In this way objectives that are achieved in this sense so the analysis is actual and analyzed figures comparable. As regards the data relating to beer, it is important to note that the import is expressed in millions of kilograms, while the value is expressed in millions of KM. When talking about cigarettes, the quantity of cigarettes is expressed through a number of excise stamps withdrawn by taxpayers regularly during the year and are required to be pasted on each package containing cigarettes, regardless the size of package.

Trends of basic variables on beer market

When talking about beer, import of beer in the sense of quantity and value as well as the ration between imported beer and domestically produces beer should be kept in mind in the first place[2].

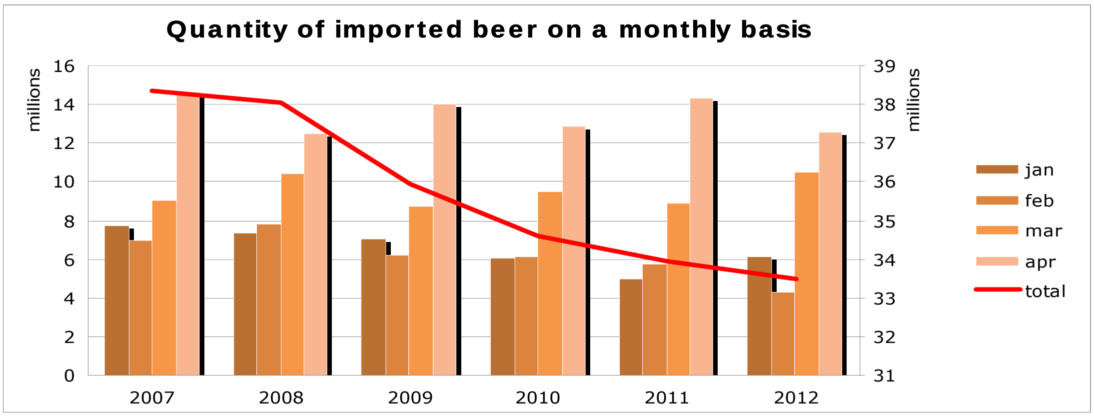

Chart 1

In the first part of the analysis available data were used that are taken from the Indirect Taxation Authority and for those goods that are classified on the following tariff numbers (custom numbers – CN): 2203 00 01 00, 2203 00 09 00 and 2203 00 10 00. What is common for goods classified under these three tariff numbers is a beer made from malt. The total quantity of imported beers for the first four months of selected years is shown by the red line (right scale) and there has been a downward trend throughout the analyzed period. On a monthly basis, during February and April 2012 there was a strongest decline and it recorded a historical minimum. It may also be noted that historical maximum for the first four months was reached at the beginning of the observed period i.e. for year 2007. Since then, the total quantity has been steadily declining, although

[1] See more in Bulletin 80 – Manifested trends of key variables on beer market for period 2007 - 2011

[2] It is easy to calcualte this indicator considering that the excise duty is 0.20 KM per litre according to the existing Law on excise in BiH.

somewhat slower in the last three years. As for the value of imported beers (Chart 2) significant oscillations are noticeable during the observed period. The total value of imported beers for the first four months reached its peak in year 2009 which represents an increase of 6.5% in comparison with the values in previous two years. This phenomenon is especially significant if we take into account a decline of imported beer in the same period (Chart 1). Then, although the quantity of imported beer fell dramatically at the end of the period compared to 2007, the value of imported beer just reaches the level from 2007 (a decrease of 6% compared to 2009), which leads to the conclusion that the unit price of imported beer grew significantly.

Chart 2

Things look different if beers with supplements are included in the analysis i.e. drinks that are classified under custom numbers 2206 00 39 009. It is known that these drinks, which are fiscally treated and taxed as beer, appeared several years ago and that their share is getting more important on the overall beer market.

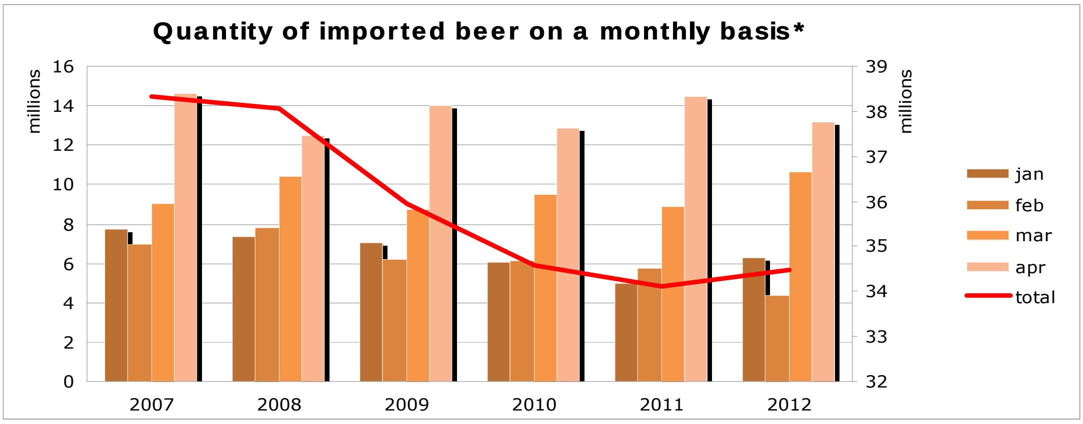

Chart 3

So we have that the total amount of imported beer for the first four months reached its minimum in year 2011 (a fall of over 11% compared to year 2007), while in year 2012 it records a slight recover (growth of 1% over the previous year). The occurrence of these types of beers and their growing influence is reflected in the total value of imported beers, particularly since the unit value of these types of beers are much higher than those obtained from malt beer. The manifestation of all the above is clearly seen on Chart 4. The total value of imported beer, after a slight recovery in year 2011, continues to grow in year 2012. Although the share of beer with supplements is modest in quantity terms, their impact on the increased value is much more important. In other words, if beers with supplements are abstracted from the analysis, the total value of imported beers fell by 1.5% in year 2012 over the previous year. Specifically, if beers with supplements are included in the analysis, it can be concluded that the value of imported beers in year 2012 grew by 1.3% over the previous year.

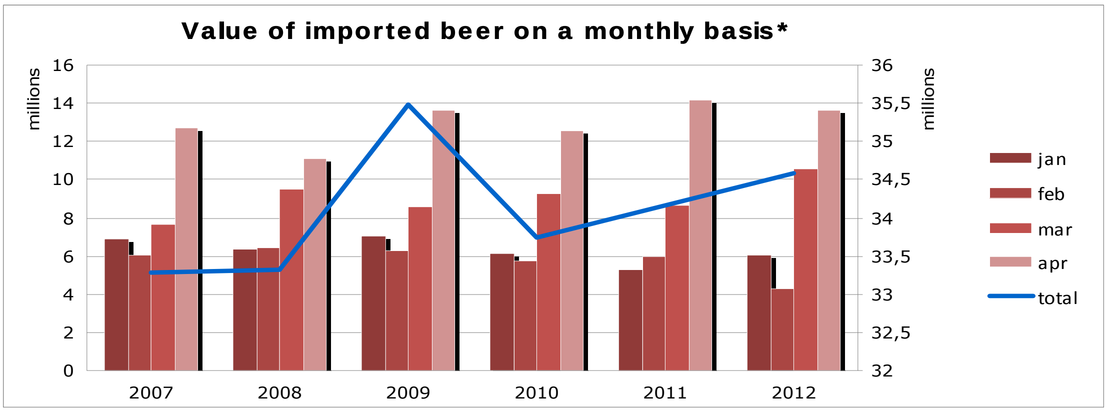

Chart 4

Chart 5 shows the tend of revenues from excise duties on beer during the first four months for the period 2007 - 2012. The left scale shows amount of revenue collected from excise taxes on beer; excise tax on imported beer and excise tax on domestically produced beer. We see that the total excise tax collected reaches its minimum in year 2011 (decline of 22% compared to year 2007).

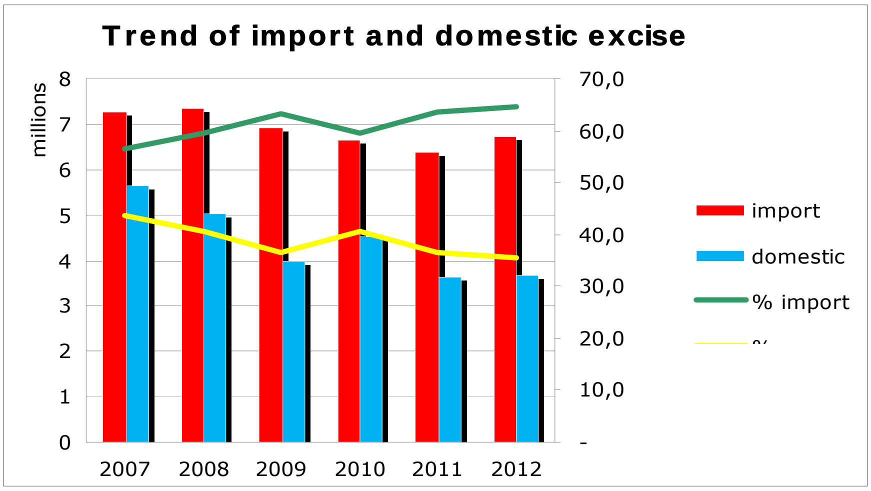

Chart 5

Viewed by type of excise tax revenue, drastic decline of domestic excise tax (over 35%) contributed to this strong decrease of excise collected in year 2011., while the excise tax collected from imported beer fell by 12%. Whatsoever, beer market in the first four months of the current year recorded a growth of 4% over the previous year and revenues from excise tax on beer increased in the same proportion. The increase in total collected excise duties has been achieved primarily due to strong growth of imported beers of nearly 6%.

Trend of basic variables on cigarette market

Now it is completely obvious that the new policy of taxation of cigarettes incorporated in the Law on Excise in BiH caused strong changes. The magnitude of these changes can be viewed from three aspects; producers (taxpayers), consumers and government (fiscus). Since half of 2009 when new BiH Law on Excise Duties entered into force, manufacturers constantly strive to maintain or increase its own share on the declining cigarette market accommodating a range of products targeting market segments according to their capabilities. At the same time they redesign the composition of the entire supply chain and systems of awarding of each of the participants in it. The impact of competition is huge, so every activity largely depends on the current or anticipated moves by major competitors. Also, the growing role of binding global health policy that is manifested through numerous specific tasks leads to additional costs and efforts on the side of tobacco industry.

The cigarette market is characterized by the presence of largest global tobacco companies, regional leaders and local manufacturers. Historically speaking, the largest market share had the producers in the country and in the region. Global tobacco companies had entered the domestic market through privatization of existing or construction of new facilities for the production of cigarettes in neighboring countries. The existing policy of taxation of cigarettes is a result of the historical context i.e. previous policies, the need for gradual adjustment to the minimum standards at the EU level at that time, as well as the projected impact on the fiscal position of all administrative levels in BiH.

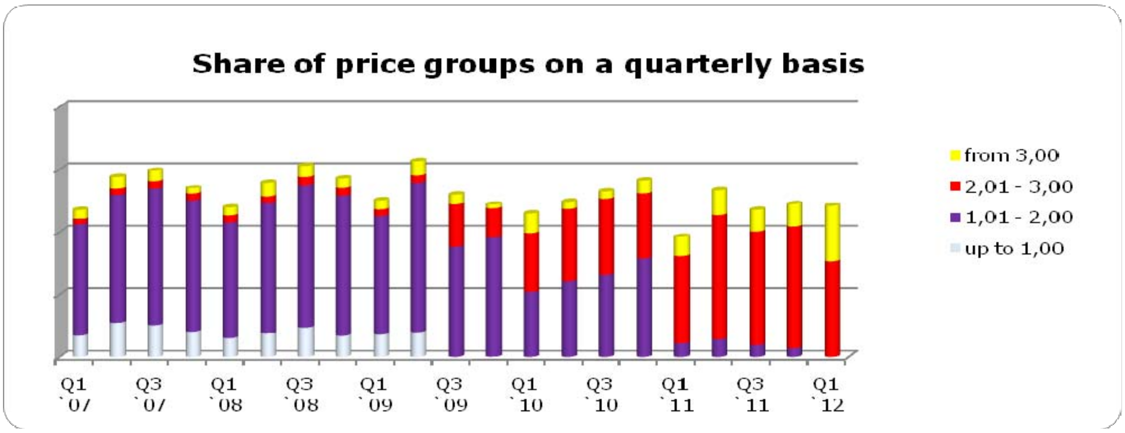

Chart 6

The influence of current cigarette taxation policy in terms of composition and participation of certain price groups of cigarettes on a quarterly basis for the observed period 2007 - 2012 is shown on Chart 6. Before the entry into force of the new Law on Excise it may be noticed that the most common price group of cigarettes was 1 KM to 2 KM (greatest share), followed by the price band of up to 1 KM. with the lapse of time, it is noticeable that the price groups with higher retail selling prices have become more important, while those with lower retail selling prices began to decline. The main reason for this is increasing of specific excise duty adopted by the Governing Board of the Indirect Taxation Authority each year with the aim of gradual harmonization with the minimum standards of the European Union. As a result of all the above, the share of price group of cigarettes of over 3 KM in 2012 amounts to about 47%, while only in the previous year it amounted to about 15%. Also, the share of price group of cigarettes of 2 KM to 3 KM in 2012 amounts to about 63% whereas in the previous year it amounted to 76%. The overall result of all this led to a nearly linear increase of the weighted average selling price of cigarettes on the market of Bosnia and Herzegovina which is presented on Chart 7.

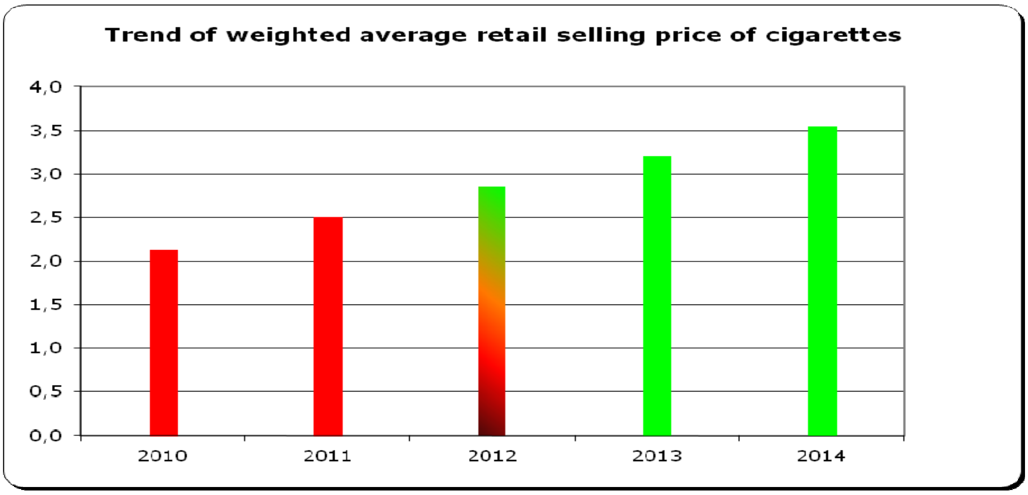

Chart 7

All this is reflected on collected revenues from excise duties on cigarettes during the analyzed period (Chart 8). The total collected excise tax on cigarettes (imported and domestic) was calculated for the first four months (January - April) for the period of 2007 - 2012.

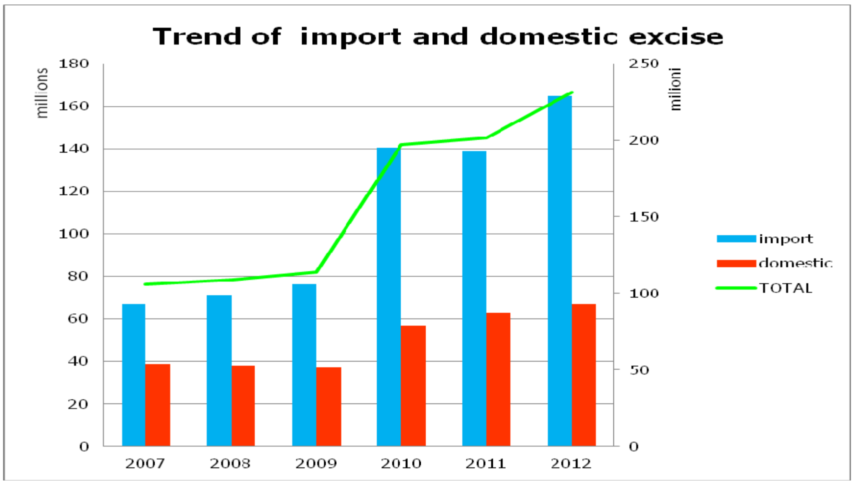

Chart 8

Before the entry of the Law on Excise Duties in BiH into force, the trend of total revenues from excise duties recorded the upward trend at an average rate of 3.5%. At the same time it is noticeable that the domestic excise recorded an average decline of 2% over the same period. Dramatic changes followed in the next analyzed period (for year 2010) because, specific excise duty was increased by two times in the meantime (at beginning of July 2009 and at the beginning of January 2010). Then the total collected revenues from excise duties on cigarettes increased by over 73% (imports for about 85%, and domestic for about 50%). A interesting phenomenon had occurred in year 2011 when the total collected revenue from excise duty increased by only 2%. There are two major reasons for this, one is that there has been a decline in cigarette consumption resulting from the increase of the average retail selling price of cigarettes in a very short period followed by decrease of the real income of the average consumer, and the other due to the fact that taxpayers have suddenly changed the dynamics of the withdrawal of excise stamps (and consequently the dynamics of discharging the obligations arising from excise duty on cigarettes) caused by derogation of existing policies when three months rule was abolished. In any case, the revenues from excise taxes continue to grow in 2012, which amounts to 15% over the same period of last year.

Conclusion

Domestic beer industry is failing to keep pace with strong competition, which consists of global market players. The reasons are numerous, and the manifestation of it is clearly seen on Chart 5 where the difference between the excise duty collected on imported beer and domestic beer continue to widen. Previously, we emphasized the growing importance of beer with supplements, but it must be said that this market segment has been almost completely covered from imports thus far.

As for the cigarette market, it is evident that the revenues from excise taxes on cigarettes currently represent the most potent public revenue. This is not just a case of Bosnia[3]. As the good side of the current cigarette tax policy, tax payers emphasize the predictability of the regulatory framework and the gradual harmonization with the minimum EU standards at that time. In the meanwhile, minimum standards have changed and now look different, neighboring countries have changed the legislation that regulates this are for several times, it was noticed that certain elements of current policy may be replaced with innovated solutions, the profitability of the tobacco industry has been declining on the market of Bosnia and Herzegovina, all of which is the motive to carefully develop a variety of options in order to provide better response to the new situation and anticipated developments associated with the cigarette market. Cigarette taxation policy should be balanced inside, leveled with the environment in order to prevent illicit trade and illegal production of cigarettes, which would seriously jeopardize the position of the government, including consumers and the tobacco industry as well.

Differentiated taxation of energy in the EU

(Author: Dinka Antić, PhD)

Introduction

A differentiated approach to taxing the use of derivatives in certain sectors has been introduced by the new Law on Excise Duties in B&H. Every year during the spring sowing the initiative to introduce exemption of excise duty on diesel used in agriculture becomes current. Analysis of implications of this initiative should consider all aspects, technical, fiscal and legal. On the other hand, it is necessary to examine the legal framework of the European Union. Current energy taxation policy for the EU is not primarily motivated by fiscal aims. Current application of 'Energy Directive' from 2003, despite a wide range of incentives for various sectors and the use of energy, has not proved to be an effective instrument for achieving social, health and environmental goals that go beyond national or regional interests. The Parliament is to consider the proposal of amendments to Directive which brings (i) new concept of energy taxation towards achieving the goals of the Energy Strategy „20-20-20", energy efficiency, energy saving, greater use of bio-energy and renewable energy sources, (ii) a significant increase of minimal excise duty on diesel by 25% compared to current EU minimal excise duty, and (iii) significant reductions of tax relief for the most of the privileged sectors, including agriculture as well.

[3] Croatia may serve as a good exaple where revenues from excise tax on cigarettes were higher for about 18,8% in the first qarter of 2012

EU Energy Directive

„EU Energy Directive", which lays down rules for energy excise taxation at the EU level, has been in force since 1st of January 2004. Directive allows differentiated approach to the taxation of energy products, in terms of lower rates, exemptions, refund of excise duty paid by the energy intensive companies as well as of the use of fuels that pollute less the environment or fuels produced from waste raw materials and various biomasses. Different goals are achieved in this way. In addition to the objectives of health policy and EU environmental policy, the use of waste materials and raw materials for energy production is stimulated as well as the use of hydro power and other energy sources (wind, solar and thermal, ..), while at the same it discourages further depletion of fossil fuels and mineral resources, natural gas sites, etc. Besides, any form of exemption or reduction of tax burden on the energy used by energy-intensive companies during the energy crisis, and now in time of global recession, represents a significant fiscal stimulus for maintaining economic activities and jobs, for strengthening the competitiveness in the global market, not only to companies to which the exemptions apply but to all other companies and all citizens.

Policy of differentiation of excise rates on energy products in the EU can be put into the context of national, regional and global goals. The EU members try to resolve the national policy of redistribution between the citizens and specific sectors by the differentiated approach to the **national tax policy.** Regardless of the national policy of the Member States, the focus of 'Energy Directive' includes the following economic **objectives of interest to the entire Union:**

- The achievement of the convergence of energy taxation;
- Elimination of tax competition between Member States;
- Achieving equal tax treatment of all energy products in the EU market regardless of type,
- Establishing a system of incentives for efficient use of energy;
- Stimulating the use of alternative energy sources to reduce EU dependence on imported fossil fuels and gas.

Policy of differentiated excise duties on energy at the EU level provides the preferential status and concessions to new Member States in realizing the **EU's enlargement policy**, so they could, in the most painless way for the economic and social system, be involved in the EU system of taxation. **At the global level,** differentiated approach is to strengthen the competitive position of EU companies in the world market but also to contribute to the policy of reducing global warming.

Modalities for differentiated policy of the EU

Given that fiscal policy does not belong to common policies of the EU, the decision making on fiscal arrangements concerning the implementation of the EU legal framework for taxation of energy products and electricity taxation that go beyond the minimum standards established by the Directive, in principle, is the responsibility of each Member State. Provisions of the Directive allow Member States to set different minimum level of taxation in accordance with the use of energy and electricity. Energy is used for business (commercial) and non-business purposes. However, a differentiated approach of energy excise taxation should not be regarded as a segment of an autonomous tax policy of the Member States, but rather the opposite – as a factor in the convergence of tax systems of EU Member States in the process so called positive integration of indirect taxes at the EU level by the European law. Differentiated excise taxation of energy involves the application of differentiated national rates of tax on the same product under certain circumstances or constant conditions but respecting the regulations at the EU level and competition rules in the EU market.

In principle, there are two approaches to the differentiation of excise duties on energy products in the EU, by type of energy products and by the use.

Both, regional and EU enlargement policies refract through these two approaches, by the granting derogations to certain member States as well as to the new ones under the certain conditions.

Differentiated approach to energy excise taxation with respect to the type of fuel is *de facto* the basis of the Directive. In earlier decades the policy of excise taxation was being brought in the context of fiscal goals, i.e. how to collect as much revenue on excise products which are treated as luxury goods. In addition, the policy of energy taxation followed the objectives of transport policy in the EU. As studies at that time showed that the drive on diesel fuel was more productive than the drive on petrol, scale of minimum rates of excise duties on energy products in the EU was set up in favor of diesel fuel. Differentiated minimum excise rates have led eventually to a change of consumer preferences and the structure of car production. In the meantime, new studies and cost-benefit analyses of using different types of fuels were made. Analyses showed that harmful effects of using diesel on the environment are larger then the savings on the driving energy costs. After the analyses have shown that there is no basis to conclude that diesel is less-polluting for the environment than lead-free petrol, processes of eliminating the motor (lead) petrol from the use and eliminating tax discrimination of lead-free fuel and cars on gasoline were started in the EU. Moreover, the new Energy Directive provides for a drastic increase in excise duty on diesel which should in 2018 be for 14,8% higher than the current excise duty on lead-free petrol, i.e. for 25% higher than the current excise duty on diesel. Comparing with the excise policy in B&H it can be noted that B&H is in line with trends in the EU at least when it comes to the elimination of gasoline imports and production.

Models of financing tax benefits to agriculture in the EU

Energy Directive provides different models for implementing differentiated energy taxation policy. In according with provisions of the Directive, a Member State may exempt or reduce excise payment in several ways:

i. Releasing or applying reduced rates
ii. Fiscal incentives
iii. Granting refund of tax paid, in whole or in part.

The application of differentiated taxation of energy products in the Member States is very complex. It is the practice of 27 states, wide range of taxable energy, for different uses and purposes, under variety of technical and other conditions, to achieve different objectives, etc. We chose to analyze[4] the practice of Member States while taxing the use of diesel and heating oil by farmers given that such analysis is of interest for Bosnia and Herzegovina. Provisions of Law on Excise Duties in B&H enable the refund of excise duty on heating oil which 'individuals use to heat residential and commercial buildings and facilities for agricultural production (greenhouses)' while the initiative to introduce the 'blue diesel' for farmers is in circulation for a while.

Heating oil

According to provisions of the „Energy Directive" rates of excise duties on heating oil are being differentiated in cases when it is used for heating (business or non-business use), then in agriculture, horticulture, forestry and fish farming. Only three Member States (Belgium, Luxemburg, Poland) granted exemptions from excise duties on heating oil used in agriculture and related activities. Sweden and Finland apply a reduced rate of excise duty for the use of heating oil in the agriculture, horticulture, forestry fish farming and two members apply exemptions under

[4] Data source: European commission, situation on day 1 January 2012.

certain conditions:

- France approves to farmers refund of excise duty on heating oil in the amount of 1,665 EUR/hl per year;
- Ireland applies super reduced rate of excise duty for the use of heating oil in the horticulture and cultivation of mushrooms (about 70% rate of excise duty on heating oil for heating).

Diesel

Under provisions of the „Energy Directive" while taxing diesel there are exemptions, reduced rates or refund system in case that diesel is used: in industry, for commercial purposes (except for agriculture), for heating (business and non-business use), in agriculture, horticulture, forestry, fish farming and for railways.

Most EU Member States enable differentiated taxation of diesel in the agriculture and related activities under certain conditions. Only five Member States do not provide any forms of excise exemptions. Modalities of differentiated taxation on 1 January 2012 include:

- Unlimited exemption (Belgium, Luxemburg);
- Limited exemption (Latvia, 100 l per ha; Lithuania in accordance with determined norm for a particular activity and activity in agriculture);
- refund:
    - 70% of excise duties on diesel used in agriculture (Slovenia[5])
    - Differences between standard excise duty on diesel for engine drive and reduced excise rate (Hungary, Austria, Romania, Greece)
    - In the amount from 60% to 85% of standard excise duty (Czech Republic)
- reduced rates (other members);
- a zero rate on biodiesel (Spain, until 31 December 2012.).

Tax versus budgetary instruments

For theoreticians of public finance there is no dilemma between the option of giving different tax reliefs (exemptions, reduced rates, refund) and option of direct targeted transfers to beneficiaries (farmers, households, industry). Proponents of budgetary instruments are of the opinion that tax differentiation opens the door to tax evasion. Tax administration loses focus of activities and, instead to taxpayers who brings most of the revenues, it redirects its resources and capacities to administrating a large number of requests for exemption/refund, neglecting its core tasks and controls of taxpayers. Tax administration usually has no jurisdiction to control the users of benefits, who are mostly not the taxpayers, and even when it does have the authorization, there is no capacity or time to control the granting of the relief.

Revenues from excise duties and VAT are endangered by tax exemptions on several grounds:

- Collection of revenue is reduced due to application of exemptions, reduced rates or refunds;
- at the same time, due to loss of focus in the control, collection of revenue from regular payers of indirect taxes is decreased, and finally,
- revenues are reduced due to tax evasion, given that tax exemptions are often used by those who are not entitled to them.

Connection between benefit and source for financing exemptions is not direct or visible. It is a result of a shared responsibility between those who approve tax reliefs (Ministries of Agriculture, industry, etc) and those who implement them (Tax Administration), which leads to general

[5] Reduced rate of excise duty on diesel in Slovenia used as fuel in agriculture amounted to 108,663 EUR/1000 l. Refund of excise duty in amount of 70% of reduced rate is paid to users.

indifference to the effective implementation and achievement of goals to be achieved. Given that institutions which grant the rights to reliefs are not responsible for fiscal effects of incentives (which can be expressed as the loss of revenue or the amount of increased refunds) officials in government agencies are not aware of the consequences of loosening of the criteria when granting rights to the reliefs on public revenues and government budget, especially if the granting of rights is in local or regional agencies.

In the system of direct transfers, the connection between benefits and sources is visible. Government agency which grants rights is responsible for granting rights but also for spending funds from the budget allocated for transfers (subsidies) to beneficiaries for that purpose so it is forced to follow the execution of that budgetary item. In this way a feedback effect on the allocation of rights is established, since the uncontrolled granting the rights on reliefs and to people who may not have the right or to the extent that does not correspond to real needs, directly threatens the execution of transfers. Unlike the granting tax reliefs whose effects on public revenues cannot be kept under control, the application of direct transfers allows direct control and possible subsequent corrections in case of unexpected events thereby increasing the efficiency of spending the funds of taxpayers. For these reasons it is not advisable for the states, in which the level of corruption is high, rule of law is weak and fiscal and any other responsibility of civil servants and agencies for public funds are at a low level, to introduce tax reliefs to a wide range of users.

Consolidated reports

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

The preliminary consolidated report includes

- revenues from indirect taxes collected by the Indirect Tax Authority on the Single Account,
- transfers from the ITA Single Account,
- 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 (Budget users outside the system of the Treasury General Ledger of the Republic who have their own bank accounts are included. Foreign project implementation units established by ministries are among them).

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

Tables 2.1- 2.3 (Consolidated reports: 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: SA, B&H Institutions, entities, 2012

	I	II	III	Total
Revenue	418,2	402,4	533,6	1.354,2
Taxes	382,4	357,6	455,6	1.195,6
Direct taxes	23,4	27,8	58,3	109,5
Taxes on income, profits and capital gains	22,8	27,1	57,3	107,2
Taxes on property	0,6	0,7	1,0	2,3
Indirect taxes (net)	358,8	329,8	397,1	1.085,7
VAT	217,9	210,1	264,0	692,0
Excises	105,9	85,2	91,1	282,2
Road fee	21,2	19,0	20,6	60,7
Customs	12,6	14,5	20,1	47,2
Other indirect taxes	1,2	1,0	1,3	3,6
Other taxes	0,2	0,1	0,1	0,5
Social security contributions	0,0	0,0	0,0	0,0
Foreign grants	1,8	1,1	0,6	3,5
Other (non-tax) revenue	33,8	43,2	77,7	154,7
Transfers from other general government units	0,2	0,5	-0,3	0,4
Expenditure	421,0	386,8	463,2	1.271,0
Expense	416,5	382,3	459,2	1.258,0
Compensation of employees	130,4	131,5	131,8	393,7
Use of goods and services	13,3	17,2	24,1	54,7
Social benefits	51,5	52,7	64,7	168,9
Interest	5,0	5,8	19,3	30,1
Interest payments to non-residents	4,2	4,4	9,8	18,4
Interest payments to residents other than general	0,8	1,4	9,6	11,8
Subsidies	2,2	2,4	3,9	8,5
Grants (to non-residents)	0,0	0,0	0,0	0,0
Transfers to other general government units	40,9	39,9	40,1	120,9
Transfers from SA (BD, cantons, municip,funds, road funds)	162,9	128,7	170,3	461,9
Other expense	10,2	4,0	5,1	19,3
Net acquisition of nonfinancial assets	4,6	4,5	4,0	13,1
Acquisition of nonfinancial assets	4,7	4,9	4,4	14,0
Disposal of nonfinancial assets	0,1	0,4	0,4	0,9
Gross/Net operating balance (revenue minus expense)	1,8	20,1	74,4	96,2
Net lending /borrowing (revenue minus expenditures)	-2,8	15,6	70,4	83,2
Net financing = (Minus) Net lending /borrowing	2,8	-15,6	-70,4	-83,2

Table 1

Tuzla Canton, I-XII 2011

		I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	I-XII
1	Revenues (11+12+13+14)	29.258.403	29.427.329	33.234.339	33.653.860	33.557.536	35.421.343	38.103.461	36.925.312	39.221.986	34.942.918	33.812.501	50.959.404	428.518.392
11	Tax revenues	24.479.665	23.973.696	27.296.619	26.790.937	27.718.306	28.622.115	31.650.988	30.095.403	29.686.069	27.653.402	27.235.646	33.849.245	339.052.091
	Income and profit tax	3.394.266	4.928.576	5.449.426	6.336.022	4.518.173	5.340.623	5.286.853	4.547.362	4.493.897	4.582.575	4.782.795	6.492.734	60.153.303
	Property tax	703.481	913.741	905.787	592.680	746.016	944.076	742.625	829.900	695.891	794.146	868.348	1.553.825	10.290.514
	Indirect taxes	20.378.786	18.124.720	20.939.333	19.859.699	22.448.706	22.335.374	25.618.984	24.715.449	24.483.874	22.271.960	21.575.792	25.777.881	268.530.558
	Other taxes	3.132	6.658	2.074	2.537	5.411	2.041	2.527	2.692	12.408	4.721	8.710	24.805	77.716
12	Non-tax revenues	4.278.143	4.879.414	4.890.158	5.735.365	5.076.244	6.146.441	5.076.326	6.436.279	7.830.502	6.166.998	4.935.984	14.165.237	75.617.092
13	Grants	500.294	574.220	1.047.267	1.127.558	761.450	648.231	1.372.647	385.120	1.688.815	1.120.988	1.622.673	2.928.929	13.778.191
14	Other revenues	300	0	294	0	1.536	4.556	3.500	8.510	16.600	1.530	18.198	15.994	71.018
2	Expenditures (21+22)	25.999.484	30.124.011	29.751.298	32.497.689	33.120.561	34.452.334	31.030.423	32.888.877	32.868.032	37.489.207	39.067.136	50.173.076	409.462.129
21	Current expenditures	26.130.634	30.232.692	29.895.562	32.609.503	33.252.303	34.588.216	31.159.606	33.017.553	32.996.154	37.039.568	39.082.131	50.215.577	410.219.499
	Gross wages and compensations	20.028.756	20.674.695	20.801.843	20.716.484	20.665.931	20.361.721	19.072.922	20.415.490	20.337.000	22.530.099	20.542.686	20.521.032	246.668.660
	Purchases of goods and services	3.527.319	4.570.798	5.141.467	5.708.966	4.869.624	5.569.670	4.330.065	4.666.029	4.428.147	6.108.270	6.476.808	10.537.500	65.934.665
	Grants	2.500.969	4.840.051	3.784.428	6.044.959	7.480.693	8.112.404	7.589.952	7.701.099	7.996.244	8.171.630	11.922.490	18.704.429	94.849.348
	Interests	5.916	3.473	2.931	3.007	72.378	380.805	33.910	82.886	2.075	156.788	85.546	244.760	1.074.475
	Transfers to lower budget units	67.674	143.674	164.893	136.086	163.677	163.615	132.756	152.050	232.689	72.781	54.601	207.855	1.692.351
22	Net lending	-131.150	-108.681	-144.264	-111.814	-131.742	-135.881	-129.183	-128.677	-128.122	449.639	-14.995	-42.501	-757.370
3	Net acquisition of nonfinancial assets	599.373	364.432	1.234.046	1.310.442	1.094.140	2.101.062	1.495.537	2.663.956	1.378.873	3.704.645	2.015.617	4.987.142	22.949.266
4	Government surplus/deficit (1-2-3)	2.659.546	-1.061.114	2.248.994	-154.272	-657.165	-1.132.054	5.577.501	1.372.479	4.975.081	-6.250.934	-7.270.252	-4.200.814	-3.893.003
5	Net financing	-403.015	-225.938	-224.359	-133.498	-469.539	-2.374.148	-164.885	-59.342	-64.427	2.829.402	-26.089	-2.698.372	-4.014.210

Table 2.1

Zenica Doboj Canton, I-XII 2011

		I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	I-XII
1	Revenues (11+12+13+14)	24.847.604	22.801.928	25.887.529	24.722.475	28.926.164	29.471.555	30.264.227	29.162.167	31.280.478	29.053.572	28.185.529	33.285.628	337.888.857
11	Tax revenues	20.009.986	18.605.517	21.745.997	20.545.454	23.770.071	23.626.530	25.377.644	24.098.579	24.373.158	23.019.695	22.252.479	24.434.266	271.859.376
	Income and profit tax	2.436.628	2.697.545	3.788.572	3.582.439	4.490.411	3.687.819	3.376.334	3.249.351	3.200.697	3.440.116	3.181.832	4.021.855	41.153.598
	Property tax	466.703	487.759	391.083	402.428	534.250	398.648	406.919	395.418	553.168	621.568	593.305	668.186	5.919.434
	Indirect taxes	17.103.788	15.418.125	17.564.086	16.557.453	18.738.484	19.536.154	21.592.637	20.450.943	20.610.706	18.955.719	18.474.621	19.749.831	224.752.549
	Other taxes	2.866	2.089	2.256	3.133	6.926	3.909	1.754	2.867	8.587	2.292	2.721	-5.605	33.795
12	Non-tax revenues	4.418.407	3.599.969	3.677.229	3.858.915	4.690.818	5.082.256	4.291.010	4.259.506	5.523.112	4.626.536	5.334.233	7.895.819	57.257.808
13	Grants	403.173	596.443	464.302	315.775	465.276	762.768	590.574	788.082	1.230.792	1.407.341	598.817	964.581	8.587.924
14	Other revenues	16.038	0	0	2.331	0	0	5.000	16.000	153.417	0	0	-9.038	183.748
2	Expenditures (21+22)	20.812.372	24.958.408	26.169.895	25.780.747	24.963.224	28.392.399	23.297.274	27.103.336	29.791.624	26.363.917	29.574.701	37.326.440	324.534.338
21	Current expenditures	20.812.372	24.958.408	26.169.895	25.780.747	24.963.224	28.392.399	23.297.274	27.103.336	29.791.624	26.363.917	29.574.701	37.326.440	324.534.338
	Gross wages and compensations	13.686.538	14.242.263	15.053.495	14.892.157	15.053.948	15.600.263	13.704.793	17.327.612	15.228.847	14.801.646	15.166.101	15.642.765	180.400.427
	Purchases of goods and services	3.148.473	4.986.701	5.021.479	4.286.085	3.976.155	4.702.854	3.445.535	2.856.004	5.176.436	4.121.716	5.907.547	8.693.192	56.322.176
	Grants	3.834.092	5.561.855	5.767.959	6.508.476	5.755.020	7.689.855	6.081.636	6.532.976	9.125.531	7.406.617	8.263.268	12.390.987	84.918.271
	Interests	131.000	16.000	77.059	15.325	78.702	82.508	26.684	158.402	14.387	20.279	78.962	47.399	746.706
	Transfers to lower budget units	12.270	151.590	249.903	78.703	99.400	316.921	38.627	228.343	246.424	13.658	158.823	552.097	2.146.759
22	Net lending	0	0	0	0	0	0	0	0	0	0	0	0	0
3	Net acquisition of nonfinancial assets	212.125	563.877	937.346	1.412.200	1.862.315	1.518.447	985.580	1.251.306	1.659.097	1.612.638	1.019.539	3.713.677	16.748.147
4	Government surplus/deficit (1-2-3)	3.823.106	-2.720.357	-1.219.713	-2.470.471	2.100.625	-439.291	5.981.374	807.524	-170.242	1.077.017	-2.408.711	-7.754.488	-3.393.628
5	Net financing	-130.364	-11.167	1.000.000	-1.000	497.167	-131.188	-22.153	-44.018	-286.506	-286.506	-12.821	0	571.445

Table 2.2