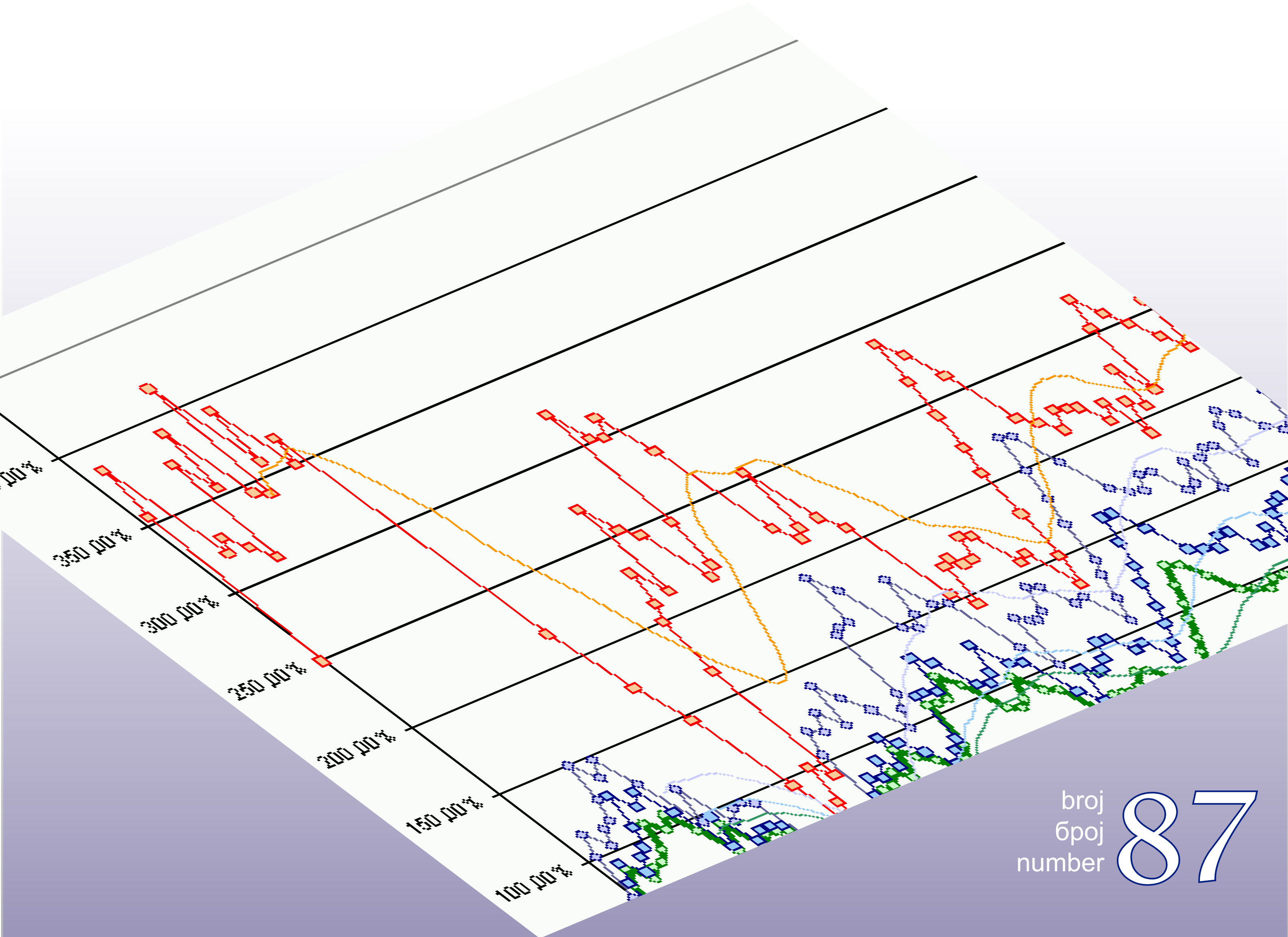
Bosna i Hercegovina
Odjeljenje za makroekonomsku analizu
Upravnog odbora Uprave za indirektno-neizravno oporezivanje

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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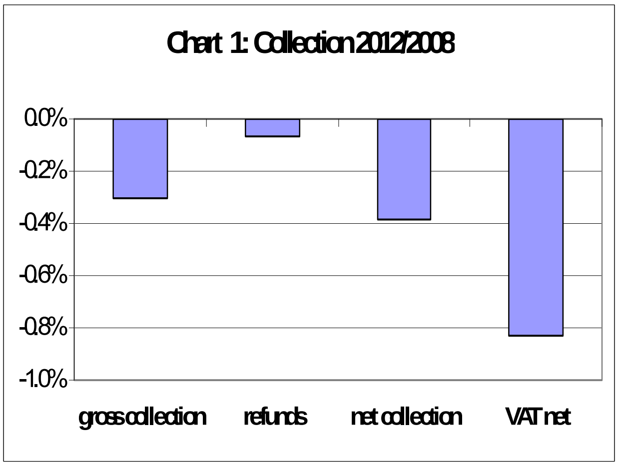
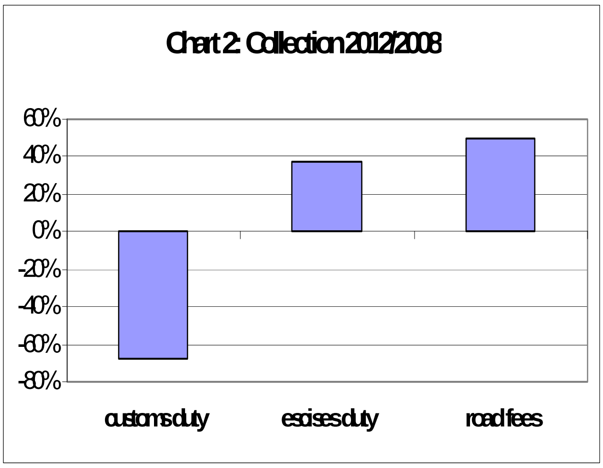
With this issue

In this issue, we provide regular quarterly analysis of revenue collection from indirect taxes. The main features of current trends in the collection of indirect taxes in 2012 are strong monthly fluctuations. After revenue growth in August there was a decline of income, so that the growth rate fell from 0,9% to only 0,05%. The biggest contributors to the fluctuations in collection are revenue from excise taxes on cigarettes and oil derivates. Although the VAT is dominant in the structure of indirect tax revenues, from year to year the revenues from excise taxes, particularly on tobacco products, are becoming increasingly important. The share of revenues from excise





taxes on tobacco for nine months of 2012 amounted to 15,3%, and on oil derivates including road fees to 14,1%. Therefore, any serious fluctuations in those revenues affect the total revenue. Instability of excises has different causes. In tobacco products it is the result of policies of a small number of large market participants, and in oil derivates it is mainly due to legal solutions that enable differentiated taxation of derivatives by type and purpose. Comparison with the pre-crisis year - 2008 shows a negative trend in collection (Chart 1), but also the effects of implemented policies in indirect taxes in the area of customs and excise / road fees (Chart 2). In this issue we present the analysis of the tax burden on oil products in the region, as well as the effects of tax policies on property in the EU member states, as a strategic measure that should contribute to their fiscal consolidation and economic recovery and growth

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Collection of revenue from indirect taxes, January – September 2012

(Author: Dinka Antić, PhD)

According to the preliminary report for the period January – September 2012, the ITA collected 3,669,7 billion KM of revenues from indirect taxes after deduction of refunds. September of 2012 brought the decline in net revenue collection from indirect taxes of 6%, which reduced a cumulative growth of 0,9% for the eight months of 2012 to only 0,05%, moving significantly the revenue collection away from the Unit's April projections (Chart 1).

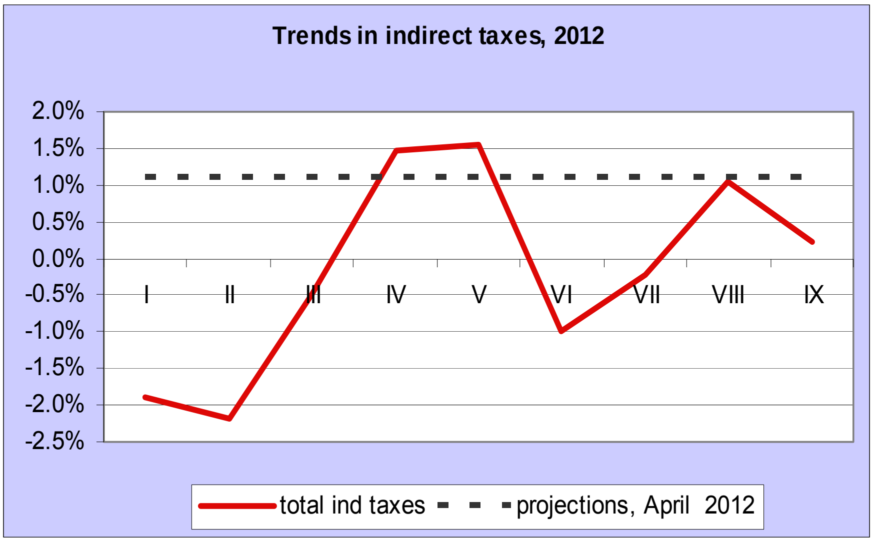


Chart 1

Observed by type of revenue, the growth was recorded in net revenue from VAT of about 27 million KM, and in revenue from excise duties of 22 million KM. The decline in revenue was recorded in customs (46 million KM) and revenue from road toll of 3,9 million KM (Chart 2).

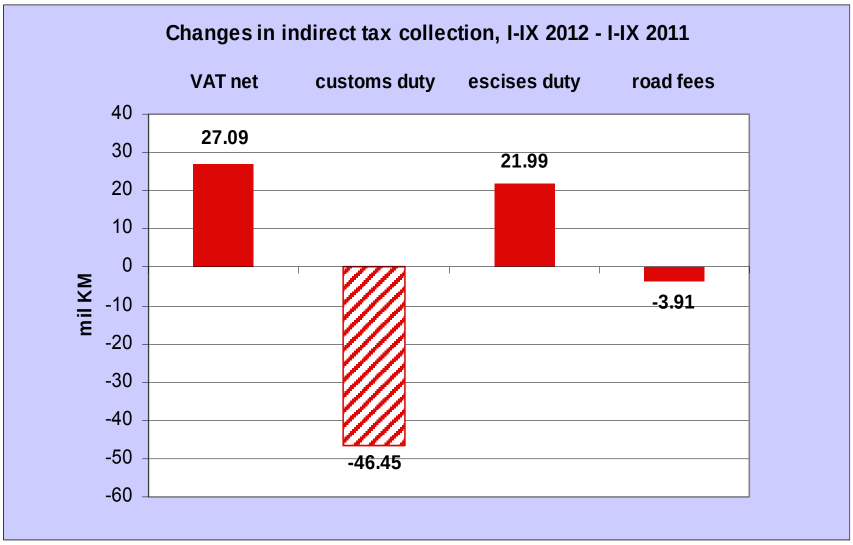


Chart 2

However, a comparison of collection in 2012 and 2011 quarterly provides a different picture of current trends (Chart 3). Traditionally, revenues from indirect taxes are higher in the second half of the fiscal year. However, it was reversed in 2011 due to the slowdown in economic growth in the second half of the year and the abolition of customs records in the fourth quarter. The result was that the revenue collection in the third quarter of 2012 was higher than in the same quarter of 2011.

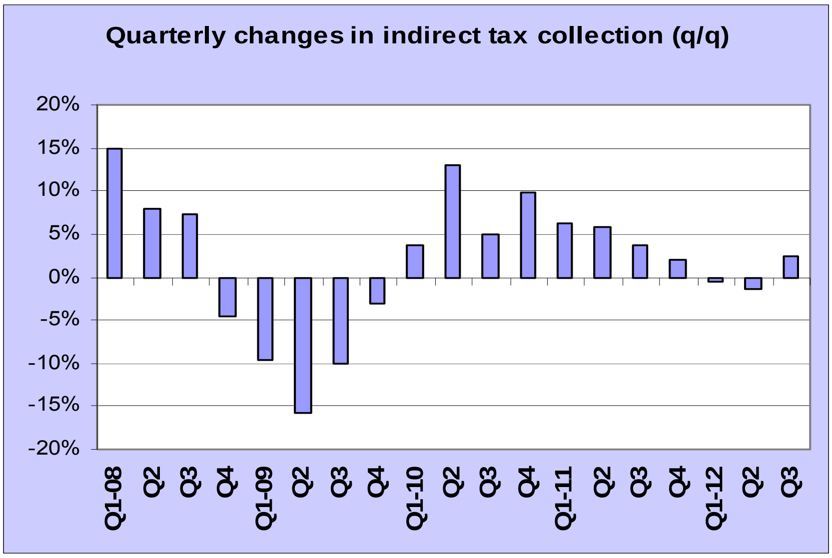


Chart 3

Trends by type

	IX 2012 / IX 2011	Cumulative I-IX 2012/I-IX 2011
customs duties	-26,96%	-22,18%
VAT	-6,18%	1,18%
excises	-6,77%	2,34%

Customs duties

Strong decline in customs revenue in 2012 was mainly the result of the abolition of customs records and, to a lesser extent, the implementation of the fifth phase of the reduction or abolition of customs duties on imports from the EU (Chart 4). Given that the abolition of customs records occurred at the beginning of the fourth quarter of 2011, the stabilization of customs revenue has been expected as of October 2012.

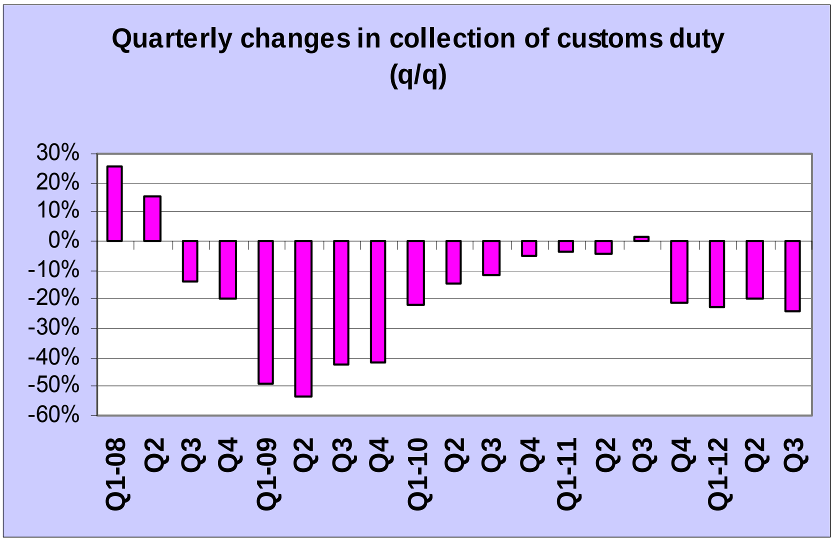


Chart 4

VAT

6% less of net revenue from VAT was collected in September than in the same month of 2011, which has cumulative net increase of VAT reduced to 1,18% (Chart 5). However, as, according to the preliminary report, 16 million KM of revenue registered at 31 of September could not at that time be adjusted with returns of indirect taxes, the improvement in VAT trends can be expected after the publication of the final report for September 2012.

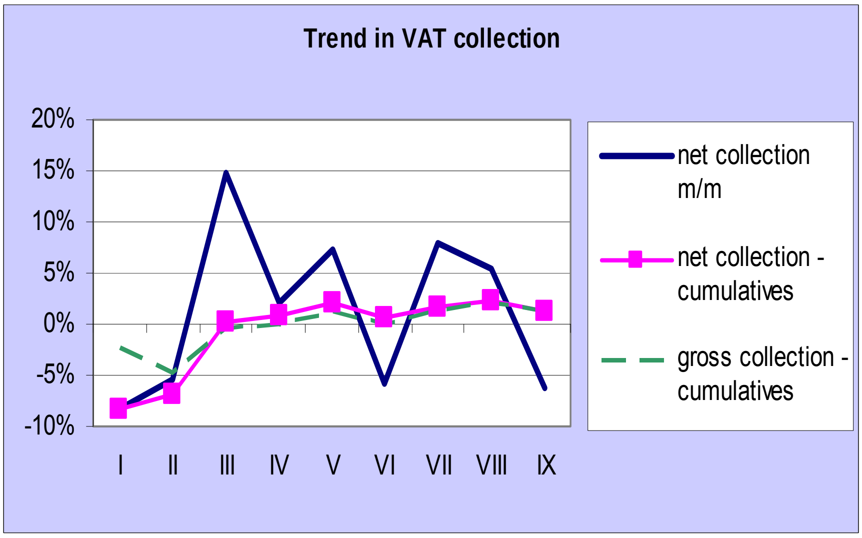


Chart 5

The cumulative increase in net revenue from VAT is by 0,28 percentage points above the annual projections of the Unit from April 2012 (Chart 6). Comparison of collection by quarters indicates the growing trend (Chart 7).

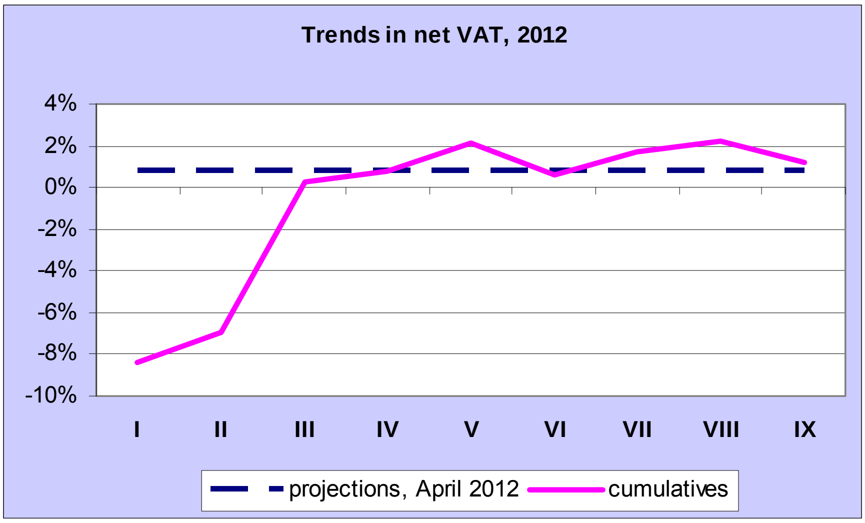


Chart 6

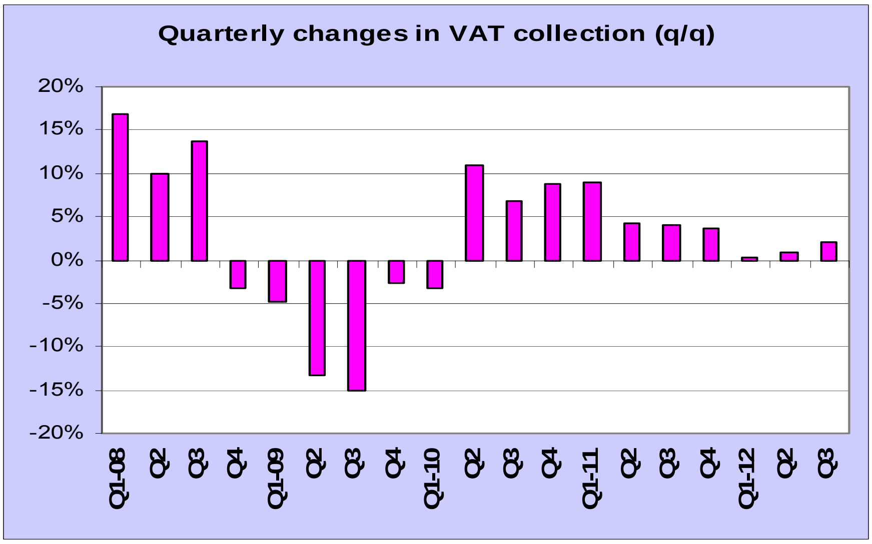


Chart 7

Refunds of VAT are higher by 1% in the period January-September compared to the same period in 2011, given that refunds to taxpayers are higher by 3,16% while to the international organizations and projects by 11,5%.

Refunds to	I - IX (mil KM)					2012/2011	2012/2008
	2008	2009	2010	2011	2012		
taxpayers	624.6	503.6	474.7	569.0	587.0	3.16%	-6.02%
international projects and organizations	26.2	46.6	50.1	69.5	61.5	-11.54%	134.52%
Other refunds	4.6	4.4	6.9	11.1	7.6	-32.01%	63.49%
Total	**655.5**	**554.6**	**531.8**	**649.7**	**656.1**	**0.99%**	**0.09%**

Excise duties

The increase in revenue from excise duties in the period of January-September 2012 deviates from the annual projections of the Unit for 4,3 percentage points. The reason for this is a small increase in revenue from excises on cigarettes than expected and a significant decline in revenue from excises on imported oil products. The movement of these revenues has become highly unpredictable due to strong monthly fluctuations in the collection (Chart 8).

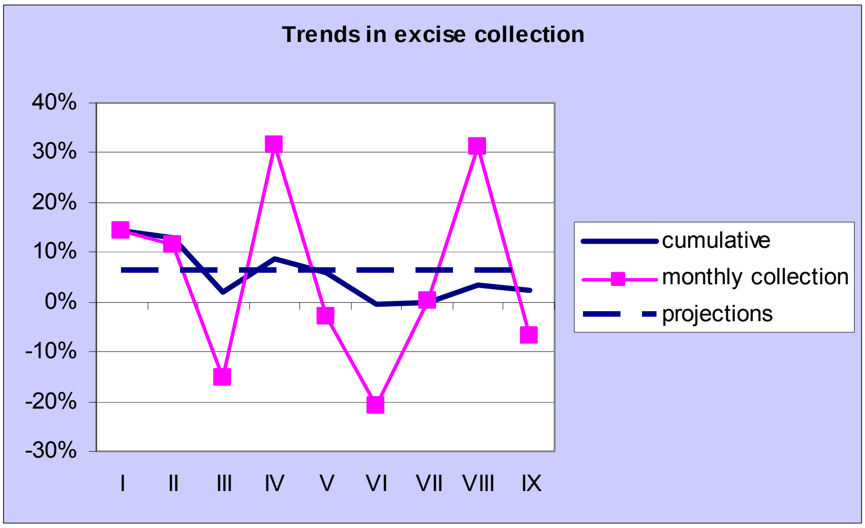


Chart 8

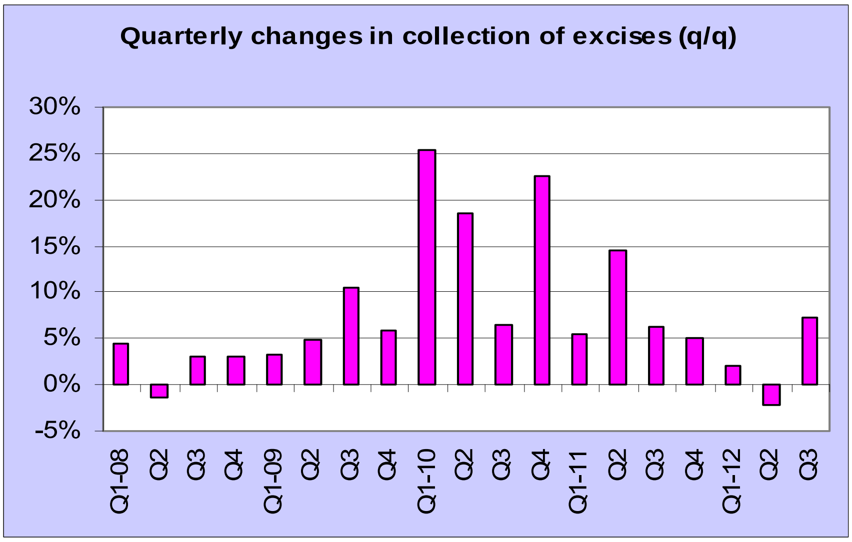


Chart 9

Comparison of collection per quarters 2012 with the same quarters of 2011 (Chart 9) shows a strong increase in revenue from excise duties in the third quarter of 2012 which is the result of an increase in the tobacco excise tax collection (Chart 10). However, the increase in excise duties on tobacco is still below the projected one due to business policies of leading companies and inconsistent legislation that favors fine-cut tobacco. Citizens, in order to avoid highly taxed manufactured cigarettes, use cut tobacco home-made cigarettes. **Harmonization of fine cut**

tobacco taxation with EU standards should lead to a reduction in the use of less taxed substitutes, thereby reducing the space for legal tax avoidance and legal tax evasion[1].

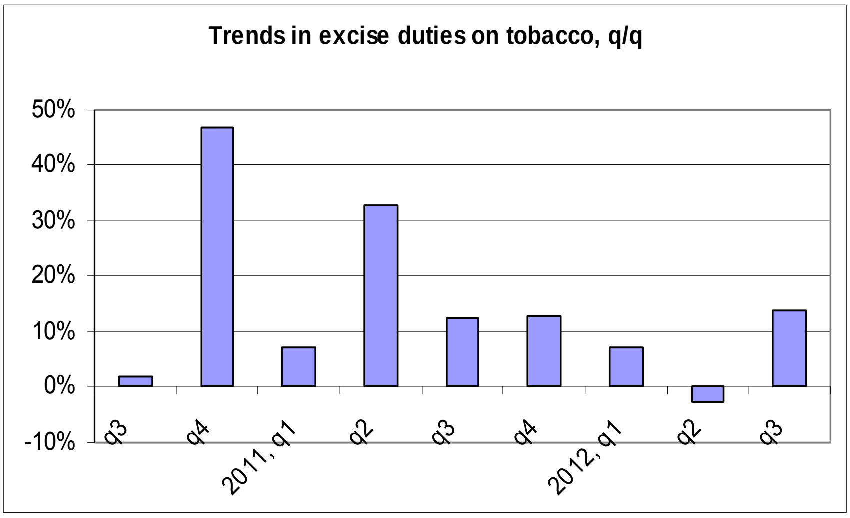


Chart 10

Overview of movements of monthly excise duties collection in September 2012 indicates a decrease in collection of excise duties on domestic cigarettes, coffee and imported oil products. At the level of January-September 2012 excise duty collection has been improved in most of excise products except for imported derivatives and domestic cigarettes.

	IX 2012/ IX 2011	Cumulative I-IX 2012/ 2011
Tobacco total	-4,94%	5,63%
Tobacco import	15,22%	7,69%
Tobacco domestic	-32,50%	-1,09%
Oil products	-9,06%	-3,09%
imported	-17,59%	-9,42%
domestic	0,75%	6,21%
coffee	-16,06%	6,65%
alcohol, beer	3,49%	1,42%
Road toll	-9,61%	-2,75%
Imported derivatives	-14,69%	-4,77%
Domestic derivatives	-3,01%	0,53%

Continuous negative trends in collection of excise duties and road tolls on imported derivatives deserve a special analysis. In the period January-September 2012, there were increasing amounts of domestic derivatives put on the market by 6% compared to 2011. This increase corresponds to the excise tax revenue growth and a slightly lower increase in road tolls, as part of the amount of diesel supplied by Refinery to the mines, power plants and railways is exempted from road tolls. On the other hand, it is evident a significant deviation of movements of imported quantities of heating-oil compared to the standard seasonal scheme which implies an increase in imports during the winter. Specifically, during the period from March to June 2012 there was the unusually large increase in imports of heating oil and then a sharp decrease in July and August. In any case, a significant decline in revenues from excise duties on imports of derivatives, divergent trends in relation to the imported quantity, and changes in the structure of imports require deeper analysis and adequate response of the ITA and fiscal authorities in reducing the scope for abuse and frauds.

[1] Compliance obligations are prescribed by the new Law on Excise Duties from 2009 in Article 21 paragraph (8).

Taxation of mineral oil derivatives in BiH and neighboring countries with reviewing most recent developments in this area in the EU

(author: Aleksandar Eskić, Macroeconomist in the Unit)

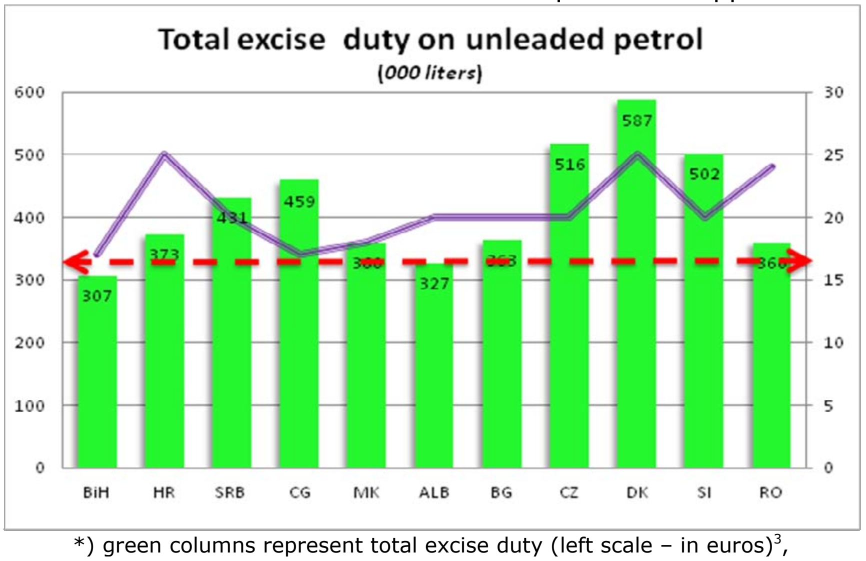
Introduction

The subject of this paper is to analyze the development of rates of excise duties on the two most used mineral oil products, petrol and diesel. In focus are the neighboring countries as well as some of the countries of the European Union. Analysis was carried out on the basis of information available in view of the rates of excise duties which are in most cases defined by national laws on excises. Inseparable part in the analysis of these duties is actual VAT rate which applies to trading of observed derivatives which all makes the largest part of the total tax levy on their use. A particular challenge is the comparative analysis of total tax burden since the very frequent changes in the tax treatment of mineral oil products (as well as the VAT rate) in different countries so that the data presented in this analysis should be taken with a certain degree of reserve[2].

Analysis of the total excise duty on unleaded petrol and diesel

As for Bosnia and Herzegovina, the total amount of excise duty on selected mineral oils derivatives is defined by the Law on Excises in BiH and it is unchanged since the second half of year 2009. It is important to emphasize that the total excise duty on these products consists of three parts: the excise tax - 0.35 KM/l for unleaded petrol and 0.30 KM/l for diesel, road fee - 0.15 KM/l and highway fee - 0.10 KM/l. So we have that the total excise duty for a liter of unleaded petrol is 0.60 KM per liter while for diesel is 0.55 KM. The applicable rate of VAT is 17%.

Chart 1: Overview of the excise tax on unleaded petrol and applicable VAT rate



*) green columns represent total excise duty (left scale – in euros)[3], magent curve line represents VAT rate (right scale – in %) while dashed red narrow line represents the amount of minimum excise duty In EU related to observed derivative (left scale – in euros)

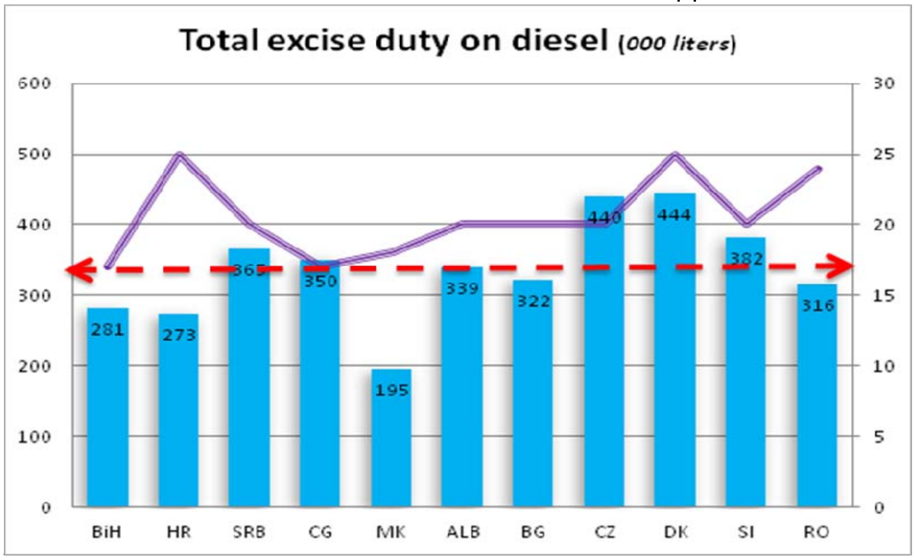
[2] Analysis of related policies is done on October 20th, 2012
[3] Excise Duty Tables – Part II – Energy products and Electricity, European Commission, July 2012

From the first Chart it can be seen that the current excise burden on unleaded petrol in BiH does not reach the minimum standards of the European Union (meeting approximately 85%). The same goes for diesel which is shown on Chart 2 (meeting of about 85% as well).

In Croatia the situation is somewhat more dynamic. The total amount of excise duties is defined by the Law on excise duties and up to October 18th, 2012 it amounted to 2.95 Kn/liter for unleaded petrol i.e. 2.05 Kn/liter for diesel (gas oil used as propellant fuel). Revenues from excise duties on mineral oil products are falling steadily so for the first 8 months of this year they fell by more than 5% compared to the same period of last year, while the decline was even more pronounced during the year 2011 (14%)[4]. From October 18th, 2012 the amount of excise duties have changed in the direction for additional burden on diesel - 2.20 Kn/l (fully meet EU minimum standards) while decreasing it on unleaded gasoline 2.85 Kn/l (meeting the minimum standards of the EU in the amount of 83%). In this way the difference between the tax treatments of these two products was reduced. The applicable rate of VAT is 25%.

Fiscal authorities in Serbia have opted for a slightly different approach to this issue. One of the main reasons for this specific solution is pronounced fall in the value of the domestic currency against the euro in the previous period as well as intention to cushion the impact of sudden changes in prices of mineral oil products on the world market.

Chart 1: Overview of the excise tax on diesel and applicable VAT rate



*) blues columns represent total excise duty (left scale – in euros), magent curve line represents VAT rate (right scale – in %) while dashed red narrow line represents the amount of minimum excise duty In EU related to observed derivative (left scale – in euros)

Until October 1st, 2012 the amount of excise duty on diesel was 37.07 din/l while on unleaded gasoline it was 49.60 din/l. Current legislation provides for the indexation of excise duties in national currency with the annual consumer price index in the calendar year preceding the year in which the adjustment is done according to the national authority responsible for statistics. If there is an increase in producer prices of mineral oil products, the Government may temporarily reduce the amount of excise tax for the amount of the oil price increase, but this reduction may not be more than 20% of the last reported amounts of excise determined in this manner. As an example of this we cite the Decision on the temporary reduction in the amount of excise duties on mineral oil products which entered into force on May 1st, 2012. New amounts of excise duties, which were

[4] Source: Ministry of finance in Croatia

in force until August 5th, 2102, were 48.10 din/l for unleaded petrol and 35.57 din/l for diesel[5]. From August 5th, 2012 the amount of excise duties has been restored to the level before that for the period before May 1st - The Decision on suspension of the Decision on the temporary reduction in the amount of excise taxes on mineral oil products[6]. From October 1st, 2012 new rate of excise duty on diesel is applied and amounts 42 din/l while for unleaded petrol remained at the same level of 49.6 din/l and it fully complies with the minimum EU standards for both products. The applicable rate of VAT is 20%.

Montenegro currently has the highest rates of taxation of observed oil derivatives from all countries in the region. The amount of excise duty on unleaded petrol is 0.459 EUR/liter and for diesel is 0.350 EUR/l and it fully complies with the minimum standards of the EU[7]. The applicable rate of VAT is 17%. Unlike Montenegro, Macedonia has the largest gap between the taxation of unleaded petrol and diesel. The current rates are around 22 den/l for unleaded petrol (fully complies with the minimum standards of the EU) and around 12 den/l for diesel (meets EU minimum standards at the level of 59%). The applicable rate of VAT is 18%. As for Albania, the amounts of excise duty on unleaded petrol and diesel are the same and equals to 37 lek/l. However, the total excise duty consists of the excise duty, tax on CO2 to be paid in the amount of 3 lek/l for diesel and 1.5 lek/l for unleaded petrol and additional tax of 7 lek/l for both types of derivatives. So we have that in the case of diesel Albania fully complies with the EU minimum standards and for unleaded petrol this indicator is at the level of 91%. The applicable rate of VAT is 20%.

EU Energy Directive

Other EU countries of course fully comply with the minimum standards, with the exception of Romania and Bulgaria, which are one step away from that in the case of diesel. The primary purpose of the taxation of derivatives is to achieve the priority objectives in the fight against climate change, improve energy efficiency and stimulate renewable energy sources and to ensure fair competition in the internal market. In order to achieve this, the European Commission has made a proposal so the basis of taxation is objective criteria - CO2 emissions and energy value (content)[8]. Benefits on the side of this proposal are: coherent taxation of energy products, provided opportunity for consumers to receive consistent price signal to reduce emission and to save energy. Also, double taxation and the overlap with the EU trading scheme (CO2) will be removed at the same time promoting the use of sustainable biofuels and biomass products.

In other words, taxes on polluting activities are the most serious candidates for shifting taxation away from labor in order to support economic growth and competitiveness. The impact of such far-reaching changes is addressed by providing for transitional periods up to 2023 i.e. 2025. Likewise, the Commission would insist on keeping the 'principle of proportionality' (see Box) while gradually harmonizing taxation of unleaded petrol and diesel.

[5] Official Gazzete in Sebia 43/12
[6] Official Gazzete in Sebia 76/12
[7] This Law entered into force on March 2011
[8] EP Report on Energy Taxation Proposal, Strasbourg, April 2012

Protocol on the application of the principles of subsidiarity and proportionality (Treaty of Amsterdam).
The application of the principles of subsidiarity and proportionality shall respect the general provisions and the objectives of the Treaty, particularly as regards the maintaining in full of the acquis communautaire and the institutional balance; it shall not affect the principles developed by the Court of Justice regarding the relationship between national and Community law, and it should take into account Article F(4) of the Treaty on European Union, according to which 'the Union shall provide itself with the means necessary to attain its objectives and carry through its policies'. For any proposed Community legislation, the reasons on which it is based shall be stated with a view to justifying its compliance with the principles of subsidiarity and proportionality; the reasons for concluding that a Community objective can be better achieved by the Community must be substantiated by qualitative or, wherever possible, quantitative indicators. The principle of proportionality is derived from German law, and it first affected EU law in 1970. Since then it has become one of the fundamental principles of the jurisprudence developed by the European Court of Justice. It is a safeguard against the unlimited use of legislative and administrative powers and considered to be something of a rule of common sense, according to which an administrative authority may only act to exactly the extent that is needed to achieve its objectives.

Conclusion

From this brief analysis it can be concluded that a very great deal of attention is paid to the taxation of mineral oil products in the modern world. Main tendencies are gradually equalizing the tax treatment of diesel and unleaded petrol (in some countries the use of leaded gasoline was banned), objectifying criteria pertaining to the taxation of these goods as well as different approaches and measures aimed at preservation of real value of collected revenues from excise taxes due to inflationary pressures. For the sake of truth, only over the past 6 months, almost all countries in the region have changed their regulations which define the total amount of excise duties. From EU countries this includes Spain, Ireland, Cyprus, Latvia, Portugal and Slovenia. Changing any element of related policies that deal with trade and taxation of mineral oil products has a huge importance and is reflected on the level of collected revenues, which again, because of its significance in the total revenues, deserves great attention from the fiscal authorities in any country.

Property taxation in the EU with regard to B&H

(Aleksandra Regoje, macroeconomist in the Unit)

Introduction

Europe still has not overcome the effects of the recession from 2008-2009 and the consequential debt crisis. The unemployment is still rising and inflation rates exceed long-term averages. While the highest growth after the crisis had been recorded at the beginning of 2011, the economy of the European Union recorded a decline in the last quarter of the year due to the strong growth in fuel prices, a slowdown of the world economy and the effects of escalating debt crisis in some member states.[9] However, given the positive trends at the beginning of 2011, the annual growth of 1,5% has been recorded. According to the European Commission's spring projections, a zero growth rate in real GDP in the EU-27 is expected in this year, and a decrease of 0,3% in the euro area.

Although no country had been immune to the recession, the recovery paths were quite different. The growth of world trade in 2010 helped the recovery of the export-oriented countries. Over the time this factor lost its relevance, and fiscal consolidation measures became the most important drivers. Given the seriousness of the economic situation, **it is necessary to consider the forms of taxation which maximally serve to economic growth and recovery.** It is considered in economic theory that property taxes are least detrimental to economic growth, followed by consumption taxes. Taxes on income and profits have the greatest adverse effect.

The current challenges of tax policy in the European Union are described hereafter, with a special focus on property taxes. When analyzing the current tax policy in the EU, property taxation is inevitable issue, given the stability and predictability of these revenues, as well as relatively low adverse effects on economic growth compared to other forms of taxation. It is also illustrated the comparison of the importance of revenues from property taxation in the financing of certain members of the European Union and Bosnia and Herzegovina, as well as an overview of current property tax regulations in our country.

Current tax policy challenges in the EU

Public debt crisis is far from over. Many countries recorded a strong growth of public debt in the past few years. The growth is partly a result of measures to stimulate the economy during the economic crisis, but to a much greater extent of the decline in revenue. Since 2008 to 2011, public debt of general government increased by 20 percent of gross domestic product (GDP), while, in the same period, it increased over 50 percent in the Ireland and Greece. Together with Italy and Portugal those are the countries which have the highest debt-to-GDP shares (over 100% in 2011). On the other hand, the member states with the lowest debt-to-GDP share are Estonia, Bulgaria and Luxembourg (below 20%), but they have also recorded their increase in the mentioned period.[10] It is expected the continuation of debt-to-GDP growth trend in the forthcoming period. It is estimated to reach 86% of GDP in the EU-27, and 92% of GDP in the euro area this year. It is expected to continue growing by 1 percentage point in both areas in 2013.[11]

[9] GDP decrease of 0,3% in both EU and euro area, *q-o-q*
[10] Eurostat database, General government gross debt (% of GDP), 1.10.2012.
[11] European Economic Forecast, Spring 2012, European Economy 1/2012

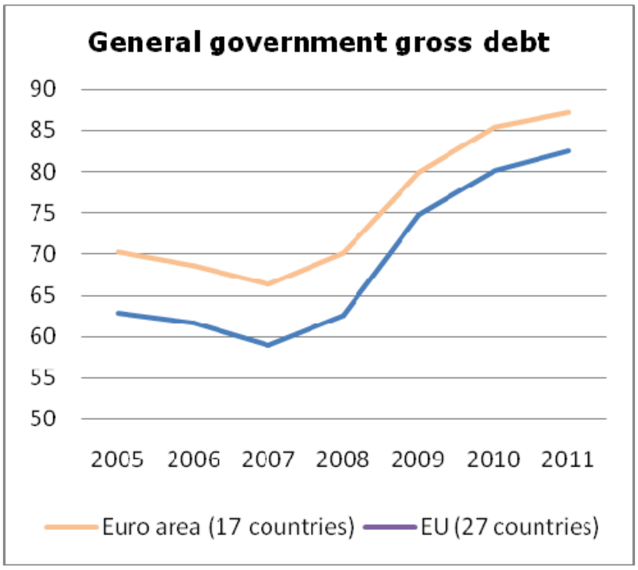


Chart 1

The growth of debt requires fiscal consolidation measures. Strong growth of public debt in the conditions of financial instability and low economic growth brings solvency risks, constraints in the fiscal policy measures, and can adversely affect the terms of borrowing. At the same time many countries are exposed to so-called age-related pressures or increase in public spending on pensions and social security, which further complicates the problem of financing. Reducing the debt ratios requires the improvement in budget balance. Fiscal consolidation requires measures on both revenue and expenditure side. One of the recommendations of the European Council from March this year and of Annual Growth Survey is the need to shift the burden of taxation away from labor, which discourages economic growth towards consumption and property taxes.

The EU member states are currently facing two major types of challenges in tax policy, and those are the following:

I. The fight against tax fraud and evasion, reduction of compliance gap[12] and improvement of efficiency of tax collection.

II. Improvement in tax structure in towards *growth-friendly* system, which means taking into account the influence of certain types of taxes on economic growth.

„European Council invites Member States, where appropriate, to review their tax systems with the aim of making them more effective and efficient, removing unjustified exemptions, broadening the tax base, shifting taxes away from labour, improving the efficiency of tax collection and tackling tax evasion“

European Council, Conclusions, March 2012

[12] More information on possibilities of increasing the VAT efficiency through the reduction of compliance gap can be found in Bulletin no. 83

Property taxation as a tool of fiscal policy

Given the need to find new sources of revenue in many countries, and the fact that property taxes are relatively low in many of them, in some cases increase of this kind of burden may be a suitable source of government financing. Furthermore, once a property taxation system is set up, its administrative costs are estimated to be relatively low, and it provides stable source of revenue.
Chart 2 shows the shares of property taxes in gross domestic product of EU countries in 2000 and 2010. It could be seen that it varies pretty much across member states. The highest shares could be found in Great Britain, France and Belgium, and the lowest in Czech Republic, Estonia and Slovakia (data for 2010). If we look at their dynamics in the mentioned period, we can see that highest increase of tax share in GDP has been recorded in France. On the other hand, it decreased in many member states, especially in Greece, Luxembourg and Netherlands.[13]

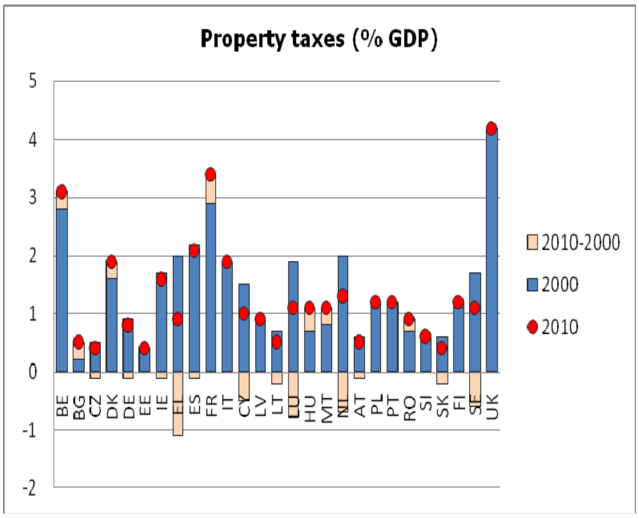


Chart 2

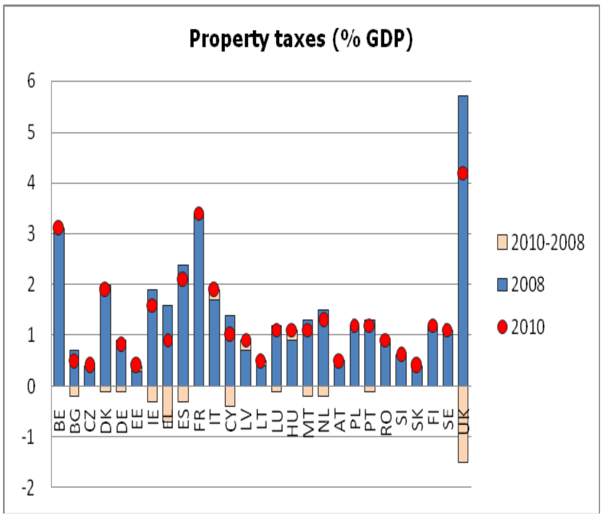


Chart 3

The situation is different if we analyze the „crisis period" from 2008 to 2010 (Chart 3). In that case, the sharpest decreases have been recorded in Great Britain and Greece.

When analyzing the dynamics of property taxes one should bear in mind that they include two subcategories which have very different characteristics and economic implications. Those are:

- Transaction taxes,
- Recurrent taxes on immovable property.

Transaction taxes

Transaction taxes are charged on the occasion of transfer of the property.[14] They are not stable source of revenue, given the significant impact of economic trends not only on property prices but also on the number of transactions. The fairness of this kind of taxation is also questionable or „penalizing" those who buy and sell property more frequently compared to others. If the transaction taxes are high enough to discourage transactions of property, disequilibria in this market may also spill over to labor market, and cause low mobility of workforce.

[13] Taxation trends in the EU, 2012 edition, table 2.2., p. 48
[14] It should be noted that this category includes not only immovable property.

Data from countries most affected by the crisis point to the risks of relying the budget on revenue from transaction taxes. In countries that have suffered a strong impact of crisis: Greece, Ireland and Spain the annual revenue levels of transaction taxes fell by between 0,4% and 0,6% of GDP in the period 2008 to 2011. That is what mainly affected the total revenue fall, showed in Chart 3. In the United Kingdom this share fell by even 1,5% of GDP, but this can be explained by a levy on the banking sector introduced as one-off in 2008. Although the shares of this revenue in GDP have varied a lot in some states, their average has not changed much at the level of the EU-27.

Recurrent taxes on immovable property

Recurrent taxes on immovable property are typically paid annually by the owner, and their amount is linked to the value of property. Recurrent taxes on immovable property are not characterized by disadvantages listed in transaction taxes. Revenues from this kind of taxation are stable and predictable. The possibility of tax evasion is much lower than in many other forms of taxation. However, their main disadvantages should also be noted. If we look at revenues from property taxes in the long run, the question is whether they keep pace with property prices. It should be borne in mind that the tax administration have not harmonized tax base with the actual values in the past, mainly due to the high cost of such administering. They have therefore typically opted for some sort of indexation instead.

It can be seen from the Chart no 4 that ratios of recurrent and transaction taxes in total property taxes are very dissimilar. Recurrent taxes make 61,7[15] of totally collected property taxes in the EU-27 in 2010.[16]

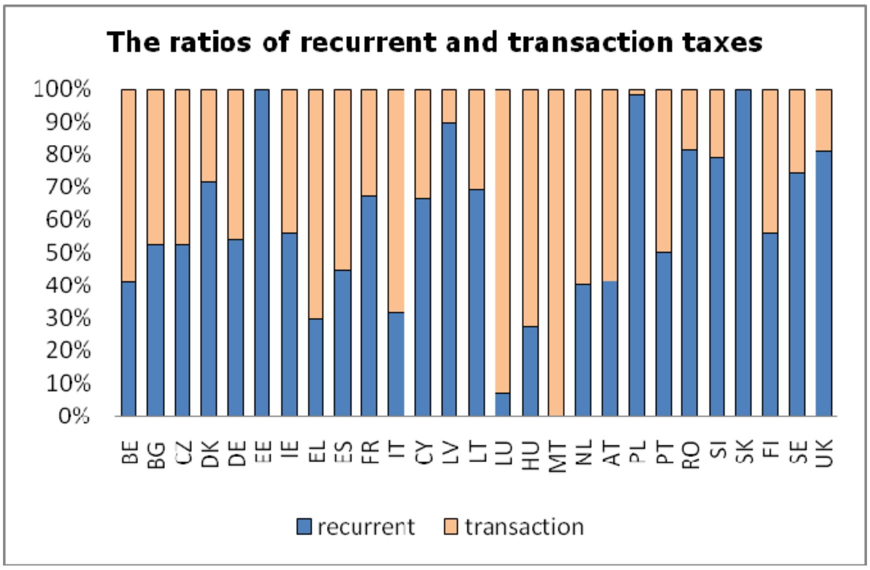


Chart 4

The share of recurrent taxes in GDP ratio in certain member states also varies significantly from the EU average (0,7%). It varies from 3,4% of GDP in Great Britain to 0% of GDP in Malta. Given the recommendations for growth-friendly taxation, it indicates that there is a room for conducting fiscal policy by increasing these taxes in many states. This certainly doesn't mean the increase of the tax burden, but a reduction of rates on taxes which have a stronger negative impact on economic growth, such as taxes on labor and profits.

[15] The arithmetic average of ratios of recurrent taxes in property taxes amounts 57,8%.
[16] Taxation trends in the EU, 2012 edition, tables 2.2.-2.4.

Italy, which was characterized by the highest ITR[17] on labor in the EU-27 in 2010, has recently gone in that direction. The December 2012 package includes measures that were intended to increase the share of property and consumption taxes in the total tax revenue, and reduce taxes on labor.

Taxation of property in B&H

Bosnia and Herzegovina has a much lower share of direct taxes in both tax revenue and GDP, than it is the case in the European Union. The direct taxes-to-GDP ratio in Bosnia and Herzegovina is by about 9,6 percentage points below the weighted average of the EU-27, while the share of direct taxes in tax revenue (including contributions) is even by about 23,9 percentage points below the EU average.[18] Therefore, it is not surprising the fact that the share of B&H property taxes in GDP (0,33% in 2011.) is about four times lower than the corresponding average indicator for the EU.

Brief overview of the legislation

Property taxation in B&H is the responsibility of different levels of government. The main differences in the concepts and methods of taxation of property are shown in Table 1.

Table 1: Concepts of property taxation in B&H

Elements of taxation	Federation of B&H	Republic of Srpska	Brcko District
Property taxation reform	-	since 2012	since 2009
Subject to taxation	movable and immovable property	immovable property = land and everything built on it	immovable property = land and everything built on it
Tax base	building area, volume of the vehicle, vessel length	market value of immovable property	market value of immovable property
Fiscal Register	no	yes	yes
Personal exemptions	no	50 m2 + 10 m2 per member of household	up to 25,000 KM of value of immovable property
Gift and inheritance taxation	yes	no	no
Transaction taxes[19]	yes	no	no

Source: Antić D., "Finansije i finansijsko pravo", Pan-European University "Apeiron", Banjaluka, April 2012

In Federation of B&H, taxation of property is the responsibility of cantons and local communities. Revenues from property taxes are divided between cantons and belonging local communities or are entirely the local revenues.

The **Republic of Srpska** adopted the Law on Real Estate Tax[20] in 2008, which provided property tax reform in line with international practice. The jurisdiction to determine the tax rate is divided between the Republic and the local communities, so that local communities determine the level of the tax rate, and the Republic sets in the Law the upper and lower limits of the range in which the tax rate can move. Due to the low response of the citizens to register the real estate in fiscal

[17] Implicit tax rate
[18] Data for 2010., Eurostat and MAU
[19] This is the second and every subsequent transfer of rights and immobility. The first transfer of the right to dispose of the immobility is taxed by VAT.
[20] Law on Real Estate Tax ("Official Gazette of RS " br. 110/08 i 118/09)

registry, the implementation of the Law began in 2012. The new Law repealed taxes on inheritance and gifts, as well as transaction taxes.

The reform of property taxation in B&H began in **Brcko District** as a pilot project under the supervision of an international project USAID TARA. Law on Real Estate Tax[21], which was adopted in 2007, involved the establishment of a fiscal registry and determining the market value of real estate. Property tax rate is set by the Government of the District in every fiscal year. Since 2009 the tax rate is 0,05%.[22]

Literature

Antić D., "Finansije i finansijsko pravo", Pan-European University "Apeiron", Banjaluka, April 2012., p. 322-340.
Taxation trends in the EU, 2012 edition
European Commission, Annual Growth Survey 2012, VOL. 5/5- Annex IV, Nov. 2011
European Council, Conclusions, March 2012
European Economic Forecast, Spring 2012, European Economy 1/2012

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From activities of the Unit

The first Steering Committee meeting relating to the EU project "Capacity Building for the compilation of accounting data within the scope of General Government and Public Finance Statistics" was held on 8 October 2012 in Sarajevo.

The Project aims to assist BiH to face the challenges of European integration in the field of fiscal statistics, in order to comply with obligations agreed within the SAA and implement the reforms needed to fulfill EU requirements from *acquis.*

The Project's main partners are as follows: Ministry of Finance and Treasury of Bosnia and Herzegovina, Federal Ministry of Finance, Ministry of Finance of Republika Srpska, Brčko District Finance Directorate, Macroeconomic Analysis Unit of the Governing Board of the Indirect Taxation Authority, and Central bank of Bosnia and Herzegovina.

The Project is funded by the EU Instrument for Pre-Accession Assistance (IPA) program and implemented by an international consortium led by Hulla & Co. Human Dynamics KG.

[21] Law on Real Estate Tax ("Official Gazette of BD" br. 27/07 i 41/07)
[22] More about property taxation in Antić D., "Finansije i finansijsko pravo", Pan-European University "Apeiron", Banjaluka, April 2012

Consolidated reports

(Author: Aleksandra Regoje)

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.*

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

**Includes: (A) Budget of the Republic and extra-budgetary funds recorded in Treasury General Ledger of the RS, (B) total foreign debt for the projects realized through municipalities and companies, and (C) Budget users who have their own bank accounts (including some foreign project implementation units established by ministries)*

Consolidated report: SA, B&H Institutions, entities, 2012

	I	II	III	IV	V	VI	VII	VIII	Total
Revenue	**418,2**	**402,4**	**532,5**	**503,0**	**501,9**	**541,0**	**519,9**	**570,5**	**3.989,5**
Taxes	382,4	357,6	455,6	440,0	460,7	441,2	484,6	508,9	3.531,0
Direct taxes	23,4	27,8	58,3	40,5	34,4	28,9	29,1	28,9	271,2
Taxes on income, profits and capital gains	22,8	27,1	57,3	39,6	33,4	27,9	27,9	27,8	263,8
Taxes on property	0,6	0,7	1,0	0,9	1,0	1,0	1,1	1,1	7,4
Indirect taxes (net)	358,8	329,8	397,1	399,5	426,2	412,0	455,3	479,9	3.258,5
VAT	217,9	210,1	264,0	252,3	267,4	260,0	282,4	300,0	2.054,1
Excises	105,9	85,2	91,1	102,9	114,4	109,1	124,5	129,3	862,5
Road fee	21,2	19,0	20,6	22,7	23,9	23,5	27,0	29,6	187,5
Customs	12,6	14,5	20,1	20,1	19,1	18,0	19,7	19,6	143,7
Other indirect taxes	1,2	1,0	1,3	1,5	1,4	1,4	1,6	1,4	10,8
Other taxes	0,2	0,1	0,1	0,0	0,1	0,3	0,3	0,1	1,3
Social security contributions	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Foreign grants	1,8	1,1	0,6	1,1	0,4	7,1	0,4	1,3	13,8
Other (non-tax) revenue	33,8	43,2	77,0	61,9	40,8	91,8	34,8	60,3	443,5
Transfers from other general government units	0,2	0,5	-0,7	0,1	0,0	0,9	0,1	0,0	1,1

	I	II	III	IV	V	VI	VII	VIII	Total
Expenditure	**421,0**	**386,8**	**457,0**	**480,2**	**456,3**	**484,7**	**504,2**	**535,5**	**3.725,8**
Expense	**416,5**	**382,3**	**453,2**	**475,3**	**450,4**	**468,8**	**490,1**	**524,9**	**3.661,4**
Compensation of employees	130,3	131,5	133,0	133,6	129,2	129,2	134,0	127,9	1.048,8
Use of goods and services	13,3	17,2	26,2	29,4	27,6	31,8	23,9	24,6	194,1
Social benefits	51,5	52,7	65,1	55,1	45,3	57,9	58,8	57,5	444,0
Interest	5,0	5,8	19,2	8,5	14,3	27,6	5,1	10,5	96,1
Interest payments to non-residents	4,2	4,4	9,7	7,3	9,8	20,7	3,1	7,3	66,5
Interest payments to residents other than general government	0,8	1,4	9,6	1,2	4,5	6,9	2,0	3,2	29,6
Subsidies	2,2	2,4	4,0	13,8	6,1	8,4	17,8	15,7	70,5
Grants (to non-residents)	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Transfers to other general government units	40,9	39,9	39,9	51,1	47,6	51,5	46,3	69,4	386,6
Transfers from SA (BD, cantons, municip,funds, road funds)	162,9	128,7	169,4	172,2	173,1	152,7	196,1	211,2	1.366,2
Other expense	10,2	4,0	-3,6	11,7	7,2	9,7	8,0	7,9	55,0
Net acquisition of nonfinancial assets	**4,6**	**4,5**	**3,8**	**5,0**	**5,9**	**15,9**	**14,1**	**10,7**	**64,4**
Acquisition of nonfinancial assets	4,7	4,9	4,3	5,3	6,2	17,7	14,6	11,4	69,0
Disposal of nonfinancial assets	0,1	0,4	0,5	0,3	0,3	1,8	0,5	0,7	4,6
Gross/Net operating balance (revenue minus expense)	**1,8**	**20,1**	**79,3**	**27,8**	**51,5**	**72,2**	**29,8**	**45,6**	**328,1**
Net lending /borrowing (revenue minus expenditures)	**-2,8**	**15,6**	**75,5**	**22,8**	**45,6**	**56,3**	**15,6**	**35,0**	**263,6**
Net financing = (Minus) Net lending /borrowing	**2,8**	**-15,6**	**-75,5**	**-22,8**	**-45,6**	**-56,3**	**-15,6**	**-35,0**	**-263,6**

Table 1