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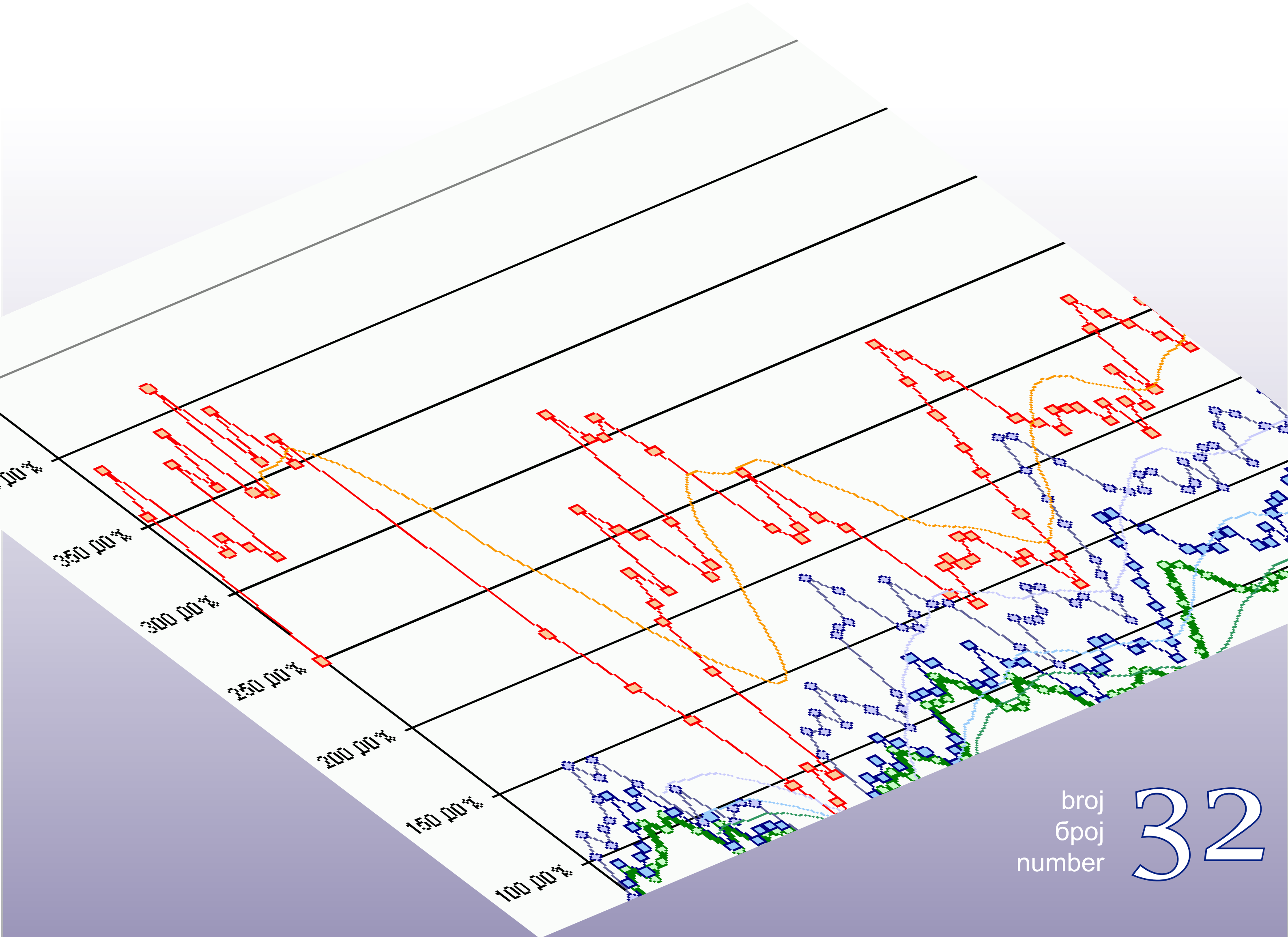
Odjeljenje za makroekonomsku analizu
Upravnog odbora Uprave za indirektno-neizravno oporezivanje

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

Process of preparation for introduction and implementation of value added tax and success achieved in this field, which were greeted by international community, are continuously in the shadow of requests for introduction of zero rate or exempts for wide range of goods and services for final consumption. As in other segments of the economic system, making a decision on introduction of differentiated rates in BiH means finding a balance between costs/risks and benefits of such decision. Key message of recent EC study on the system of VAT rates is that a single VAT rate is the best option for VAT taxation policy from economic point of view. It contributes to reduction of administrative costs of taxpayers and tax administrations, higher competitiveness and strengthening of EU internal market. Dedication of BiH towards European integrations obliges BiH to coordinate its policy of indirect taxes with EU. In order to run policy on VAT rates in BiH, it's necessary to understand genesis of policy on VAT rates in EU and analyze their experiences. In addition to that, it's necessary to review specifics of economic system in BiH and macroeconomic and social implications of differentiated rates. In this issue, we are providing you with analysis of policies on VAT rates since the establishment of common harmonized VAT system in 1977 until today along with elements of the EU strategy in this field until the end of this decade.

Since the introduction of ITA Single Account, allocation of indirect taxes to entities has been always in focus. The public very often misunderstands "scope" of decisions of the ITA Government Board in terms of allocation of indirect taxes. That is why we present you with overall review of the system for allocation of indirect taxes in BiH at all levels and analysis of allocation of indirect taxes from the ITA Single Account in 2007 with comparison to 2006.

We are also publishing regular analysis of collection of indirect taxes in January 2008 and an article about new Law on Income Tax in the Federation of BiH.

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Collection of indirect taxes – January 2008

(Author: Dinka Antić, Msc)

In January 2008, Indirect Taxation Authority collected the amount of 369,468 million KM[1] of net revenues from indirect taxes after refunds of VAT and other refunds of indirect taxes. Collection of indirect taxes was 15.31% higher than in January 2007. In comparison with December 2007, collection decreased by 11,5%.

Collection indicators for January 2008 should be analyzed in the context of two factors:

- Enormous growth of imports in January 2008 (in comparison with the same month in 2007, rate of growth was 28%)
- Unrealistically low refunds in January 2008, which are the result of constraints for allocation of reserves in ITA single account that led to postponement of due refunds.

Comparison of collection by types of revenue in nominal amount in terms of January 2007, we can see growth of all revenues especially in collection of VAT (Chart 1). However, this should be considered with reserves since most refunds of indirect taxes refer to VAT refunds.

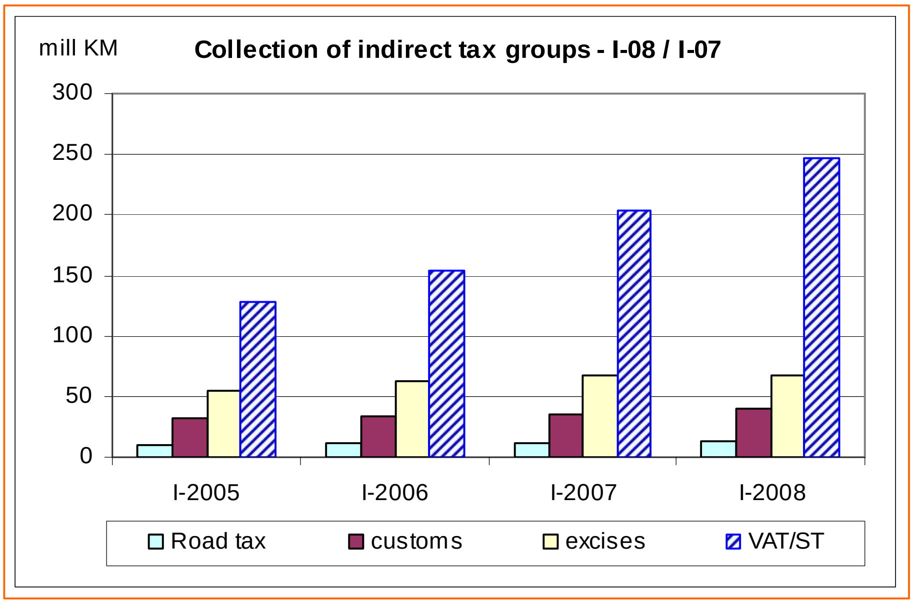

Chart 1

Although the growth rate for all indirect taxes is high, Chart 2 shows VAT growth rate was higher than the total growth rate. Growth of gross VAT on imports was 18% and growth of domestic VAT was 15%..

There was decrease in collection of excise, which is primarily due to decrease in collection of excise on import of oil and oil products and excise on domestic cigarettes. The collection of customs also significantly increased by 14,29%. It's interesting that the collection of road tolls, which is collected applying single rate on quantity of imported oil products increased by 5% in January compared to the same month in 2007. At the same time, collection of excise on oil products decreased by 4,48%. This shows changes in the structure of imported oil products in favor of diesel.

[1] In the same period, ITA collected additional 6,928 billion KM of indirect taxes that remained unadjusted on January 31st, 2008, after compilation of ITA IT systems (payment to single account and module for customs, excise and VAT).

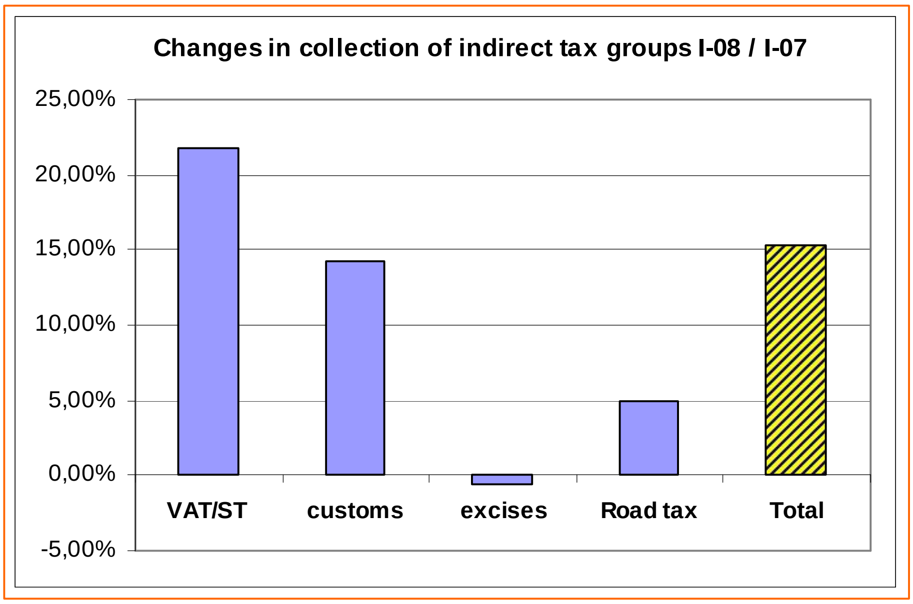

Chart 2

Allocation of indirect taxes in BiH

(Author: Mirela Kadić)

Complex and asymmetric administrative structure in Bosnia and Herzegovina created complex allocation of public revenues. BiH has two entities, the Federation of BiH with 80 municipalities across 10 cantons, and Republika Srpska with 64 municipalities, and Brcko District, which is an autonomous unit with its fiscal sovereignty. This vertical structure makes it difficult for elastic, fair and efficient allocation of revenues from indirect taxes. There are two layers for allocation of public revenues:

a. Allocation of indirect taxes at the state level
b. Allocation of revenues within entities

For the purpose of this Bulletin, we will focus on allocation of indirect taxes in vertical structure. System for allocation of indirect taxes as it is today has been in place since January 1st, 2005 at the state level and since January 1st, 2006 at the level of entities.

The Law on system of indirect taxation in Bosnia and Herzegovina created institutional and organizational basis for single system of indirect taxation in BiH, system of collection and allocation of indirect taxes between budgets of Bosnia and Herzegovina, Federation of BiH, Republika Srpska and Brcko District. Indirect Taxation Authority is a body responsible for implementation of laws on indirect taxation, system of collection and allocation of revenues from indirect taxes, other revenues and fees.

Indirect taxes cove import and export duties, excise, value added tax and other taxes calculated on goods and services, including sales taxes and road tolls[2]. In terms of the Law on payments to single account and allocation of revenues, other revenues and fees include revenues from storage charges, penalties, revenues from sales of goods seized by ITA or seized in the process of administrative or offence proceedings, revenues from customs escort, sale of EUR 1 forms and other revenues generated by ITA as part of its activities.

[2] Article 1. of the Law on system of indirect taxation, Official Gazette BiH No. 44/03 and 52/04

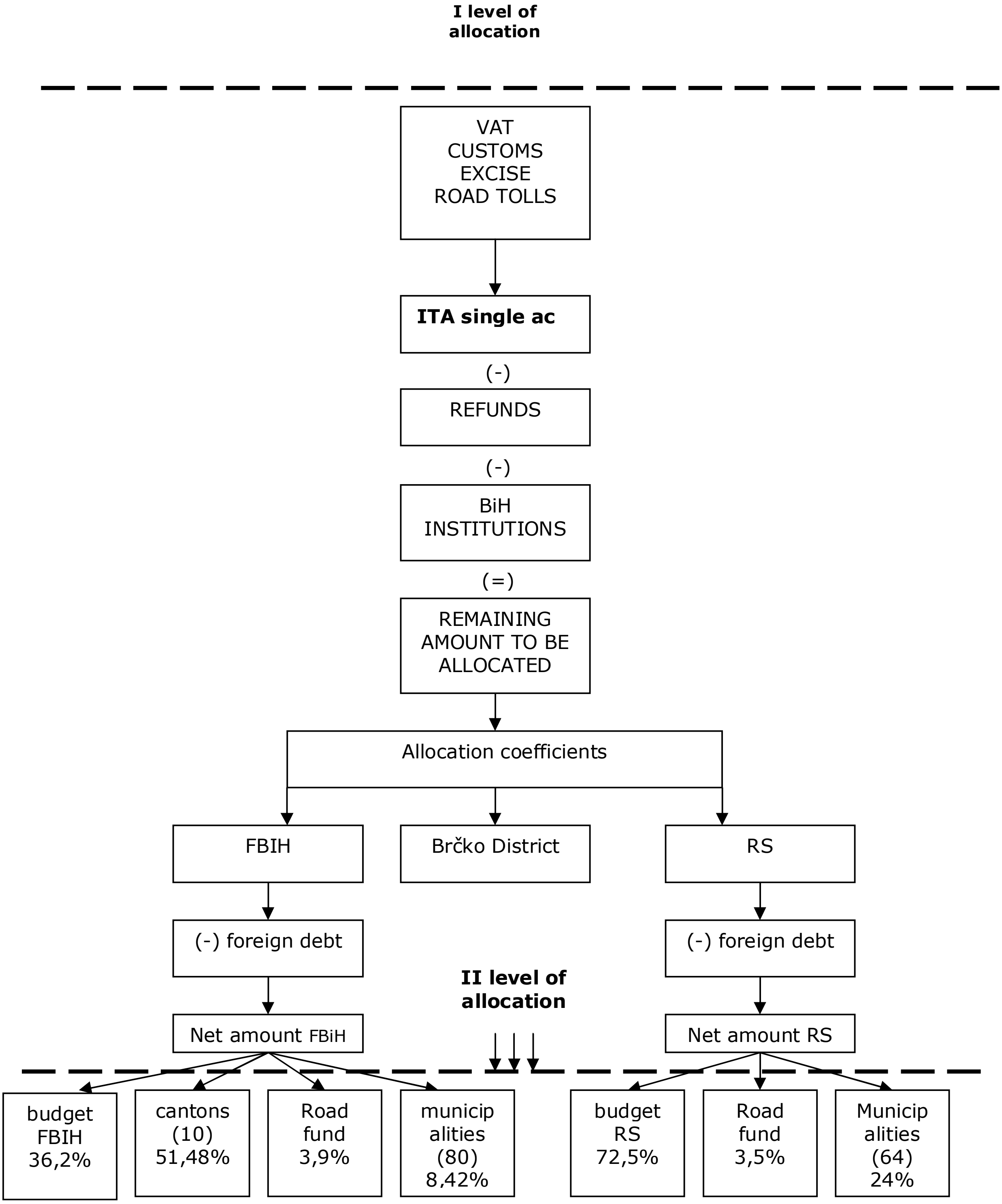

Chart 3. The system for allocation of indirect taxes in BiH[3]

[3] Dinka Antić, „Allocation of indirect taxes ", LIDER, issue no..11-12.2006, „Horizont", Banja Luka, pages. 14-18.

All revenues that ITA is responsible for are paid to the single account, which comprises of accounts in commercial banks and Central Bank. Deposit accounts in commercial banks are used for collection and transfer of funds to the account in the Central Bank. Account in the Central Bank is used for recording, keeping and allocation of revenues to the state, entities, District and keeping minimum reserves in the account[4].

Funds collected in the single account are allocated and transferred to accounts of beneficiaries on daily basis in accordance with legal provisions.

The system for allocation of indirect taxes, which includes allocation to beneficiaries at the level of the state, entities and District (level I) and allocation within entities (level II) is presented in the chart No. 3.

Refunds to taxpayers have priority in the allocation of revenues from indirect taxes. Total revenues collected to the single account are reduced by the amount of minimum reserves that ITA needs for continuous and smooth operations. The amount of minimum reserves is regulated by the Rulebook, which was prepared by ITA director and passed by ITA Governing Board. Rate of minimum reserves (10%) in the end of 2007 has proven as inadequate and led to blockage of VAT refunds to taxpayers. It has also drawn attention to importance of optimizing reserves in the ITA single account[5].
The Governing Board made the decision to regulate reserves on daily basis. It is the sum of refunds that have to be made the following working day[6].

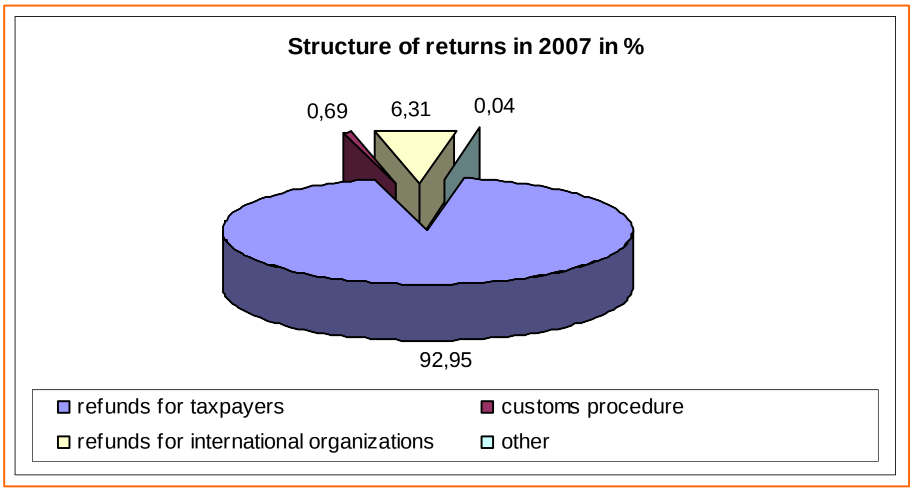

Chart 4.

Refunds are made to VAT taxpayers who are entitled to refunds in accordance with their VAT declarations as follows:

- Exporters who export more than 30% of their annual turnover. Refund is made within 30 days from the day when declaration is filed.
- Other taxpayers within 60 days from the day when declaration is filed.

These refunds are made to VAT taxpayers who mark "X" in the field 80 of their VAT declarations i.e. requesting refund. In other hand, those taxpayers who decide to use tax credits will automatically get refund of unused tax credits upon expiration of 6 months.

[4] Article 3. of the Law on payments to single account and allocation of revenues, Official Gazette 55/04
[5] More information in MAU Bulletin no. 19
[6] Just one month ago, reserves for refunds of indirect taxes were 10% of daily inflow to the single account. However, ITA Governing Board passed the decision and minimum reserves are still 10%, but in case of large number of requests, Article 9 of the Law shall be applied.

The following step in allocation is transfer of appropriate amount to the budget of BiH institutions. This amount is calculated as amount of the state budget for current year multiplied with coefficient that is obtained by dividing number 1 with number of ITA working days in current year.

After deduction of reserves and amount that belongs to the budget of BiH Institutions, remaining amount is allocated to entities. Entity allocation coefficients are regulated on monthly basis and they represent ratio of the sum of final consumption recorded in VAT declarations in the territory of relevant entity i.e. revenue beneficiary and the sum of final consumption recorded in VAT declarations in entire territory of BiH.

At the last session of the ITA Governing Board, which took place in February, the decision was made to keep current allocation coefficients (FBiH 64,58%, RS 31,87% and BD 3,55%) for the next four months (March, April, May and June 2008) until reaching decision for longer period. In accordance with the decision of High Representative that changed the Law on the system of indirect taxation and the Law on payments to single account and allocation of revenues from indirect taxes, coefficient for Brcko District is fixed as of June 2007 and it's 3,55% for 2007 and following years with minimum of 124 million KM.

Servicing of foreign debt is obligation of the state. However, real debtors are entities and District. That's why amount for servicing foreign debt is deducted from entity share in revenues from indirect taxes. Payment of foreign debt is made by the Central Bank as fiscal agent of Bosnia and Herzegovina. This is done on basis of the foreign debt payment plan provided by the BiH Ministry of Finance and Treasury.

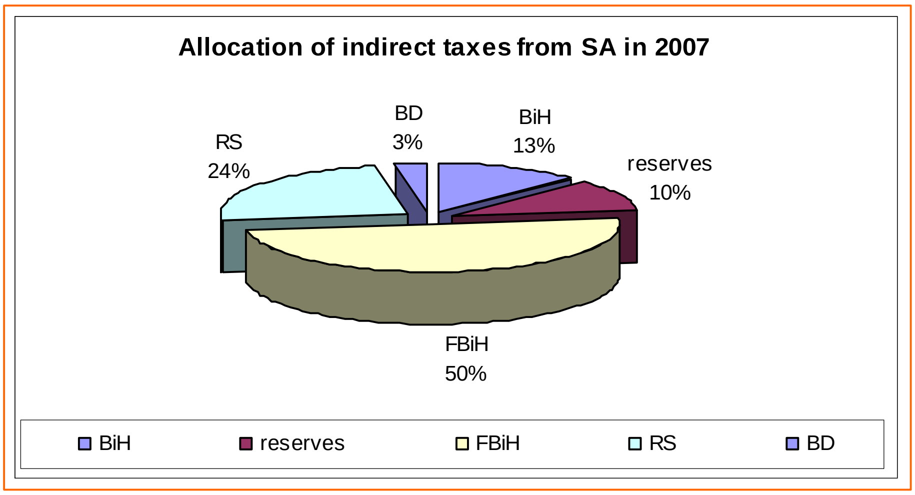

Chart 5.

Table 1.

REVIEW OF ALLOCATED REVENUES TO BENEFICIARIES IN THE PERIOD 01.01.- 31.12.2006/2007 (In million KM)

Beneficiary	01.01-31.12.2006.	01.01-31.12.2007.	Difference in KM (3-2)	Index (3/2)
1	2	3	4	5
Minimum reserves	444,13	528,81	84,68	119,07
BiH- financing institutions	566,00	637,51	71,51	112,63
Federation of BiH	2.253,44	2.669,41	415,97	118,46
Republika Srpska	1.070,00	1.307,74	237,74	122,22
Brčko District BiH	122,32	144,62	22,30	118,23
Total	**4.455,88**	**5.288,09**	**832,20**	**118,68**

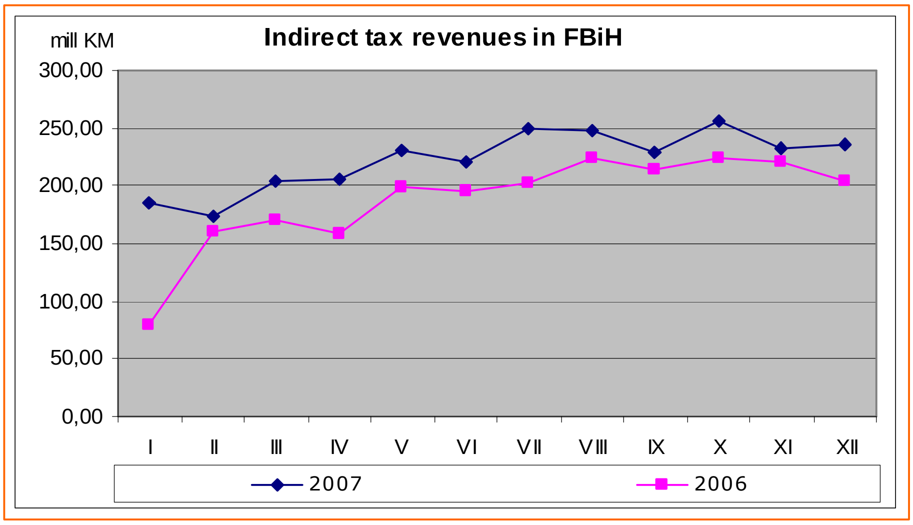

Chart 6.

Republika Srpska had largest increase in asbolute amount during 2007 compared to 2006. It increased by 237,74 million KM (22,22%).

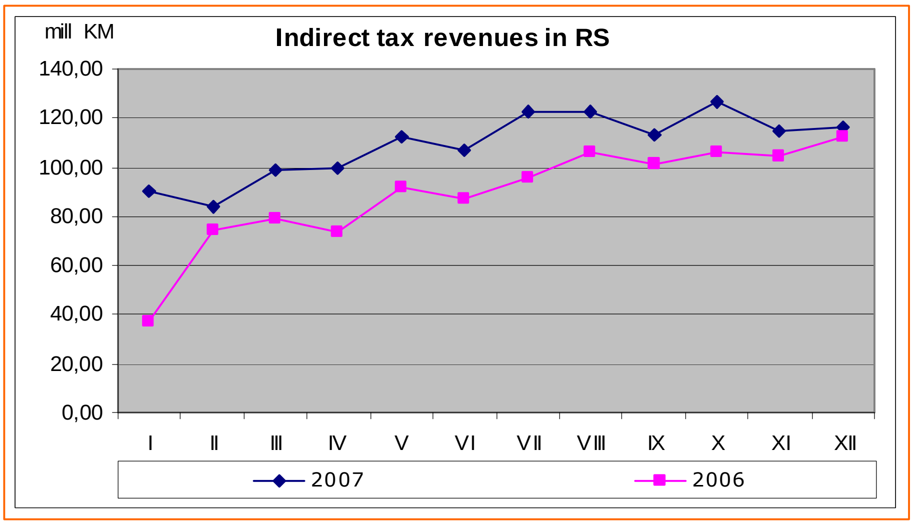

Chart 7.

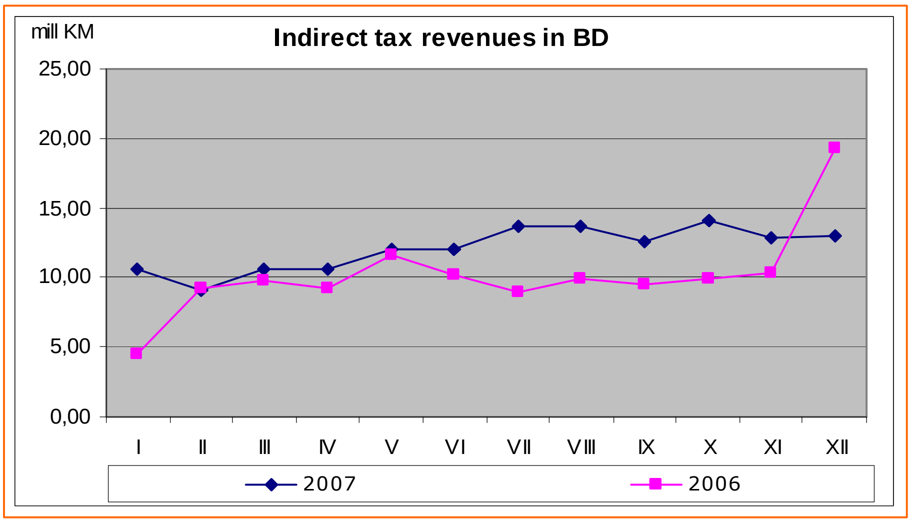

Chart 8.

If we observe average coefficients for 2007 in comparison with 2006, we can see gradual increase of RS share from 31,05 in 2006 to 31,73% and decrease in F BiH share from 65,40% in 2006 to 64,76%.
However, the allocation for 2006 and 2007 can not be considered as final yet[7].

Table 2.

	Foreign debt	% of total debt	%entity revenues	%total revenues	%total revenues
				gross	net
FBiH	144.771.000,00	61,00	5,73	2,87	3,73
RS	92.473.000,00	38,96	3,66	1,83	2,38
BD	87.400,00	0,04	0,00	0,00	0,00
TOTAL	237.331.400,00	100,00		4,70	6,11

Instead of the conclusion:

- Absolute **priority in allocation of revenues from indirect taxes are refunds** to VAT taxpayers and repayment of foreign debt. Keeping optimal reserves in the ITA single account is of strategic importance for fiscal and economic system of BiH in general. Insufficient reserves cause stagnations in economy due to blockage of refunds, bad and uncompetitive picture of BiH economy. It also increases expenditures of BiH budget due to payment of interest for every day of delay in making refunds. At the same time, excessive reserves leads to borrowing of lower administrative units due to deficit in inflows from the single account.
- In current system of allocation of revenues from indirect taxes, **the state is protected from oscillations in the collection of revenues**.
- Revenues from indirect taxes of entities, cantons and municipalities mainly depend on collection of these taxes. Collection currently exceeds all expectations, so entities and lower levels do not suffer. Negative side of current system for allocation of indirect taxes in case of higher collection is the fact that **fiscal surplus of lower levels of administration (entities, cantons, municipalities) can not be controlled i.e. can not be used for the purpose of stabilization and achievement of macroeconomic objectives**. In this sense, the Fiscal Council should take a role in coordination of fiscal and macroeconomic policy having in mind that the fiscal policy is fund

[7] Following the external audit, final decision on reconciliation between allocation beneficiaries (entities and District) will be made by ITA Governing Board.

Policy of VAT rates in EU

(By: Dinka Antić, Msc)

1. INTRODUCTION

In the last few years, there have been debates about introduction of differentiated rates of VAT in BiH. Process of the implementation and success achieved by introduction of new method of taxation were constantly in shadow of requests for introduction of zero rate or exempt on wide range of products and services.

What is very often neglected are two aspects, which are important for view on reality to introduce zero rate or differentiated rates of VAT in BiH:

1. Need for a harmonization of VAT system elements in BiH and European VAT system in order to prevent double taxation in transactions with EU, which would have negative impact on competitiveness of domestic companies in EU market and attraction of foreign investors to BiH market. There could also be non-taxation, which would jeopardize fiscal revenues in BiH and open space for international tax frauds,
2. Need to meet economic-political requirements that BiH has towards EU in process of meeting pre-accession duties.

For current phase of harmonization, Law on VAT is almost fully harmonized with European standards, and some segments (special scheme in construction) are more advanced than in other EU. However, since BiH wants to become full member of EU, it has to fulfill certain political and economic conditions required by European Commission in addition to compliance with VAT legal framework. In the process of negotiations, EU individually negotiates with every country and set conditions and deadlines for acceptance of EU standards.

It is of great importance for BiH to understand the following EU rules:

- Requirements set up by EU may differ from requirements to other countries in the process of negotiations,
- Benefits that EU granted to other countries in the process of negotiations may not be approved to BiH.

By dedication to European integrations, BiH is obliged to coordinate policy of indirect taxes (and other policies) with EU. In order to have policy of VAT rates in BiH, it's necessary to understand VAT policy in EU. It's not enough to partially consider segments of the VAT system and tax treatment of certain goods and services, but to review genesis of the system for VAT rates in EU, analyze current experience and operations of EU and EU VAT strategy by the end of this decade.

2. SYSTEM OF VAT RATES IN EU

Since the adoption of the first common system of value added tax (1977[8]) until today, the directive has been changed about 30 times. Since January 1st, 2007, new redesigned directive 2006/112/EC[9] is in force. Member states-founders of EC introduced VAT before establishment of the community and they kept specifics (rates, exempts, other derogations) in new common system of VAT after 1977. At that time, EU was community of nine member states. This made it easier for horizontal (between member states) and vertical (between member states and European Commission and Council) communication in EC, so more strict provisions in regards to approval of exempts and additional controls were not necessary. Increase in number of VAT rates and application of lower rates of wide range of products and services caused shortfall in revenues

[8] *(Sixth Council Directive of 17 May 1977 on the harmonization of the laws of the Member States relating to turnover taxes – Common system of value added tax: uniform basis of assessment* - 77/388/EEC)

[9] *Council Directive 2006/112/EC on the common system of value added tax, OJ L 347, 11.12.2006.*

and jeopardized budget of EU institutions. There as an urgent need to stop further approval of derogations and to uniformly regulate VAT rates in all member states. This was done in several phases by defining:

i. Range of reduced VAT rates (1992)
ii. Number of reduced VAT rates (1999)
iii. Minimum reduced VAT rates (1999)
iv. Minimum standard (general) VAT rate (2001)

The fact that it took ten years for EU to set up some kind of framework system for VAT rates that will be binding for all member states shows resistance and strong impact of politics in taxation policy. Amendments[10] of the sixth directive from 1992 introduced two cumulative requirements reducing scope of goods and services on which reduced rate can be applied:

1. Special annex H[11] was added and it **lists goods and services that can have reduced rate[12]**
2. **Reduced rate is limited with amount of input VAT that taxpayer can deduct. „***Every reduced rate is determined in the way that amount of value added tax that results from its application is the one obtained in usual way to enable deduction of entire value added tax that is deductible in accordance with provisions of the Article 17* " (which regulates right to deductions/Author's comment) – this requirement was introduced in order to protect public revenues and prevent taxpayers who sell goods and services with reduced VAT rate to have right to VAT refund..

These requirements were not sufficient to prevent erosion of the VAT system since the member states complied new requirements, but also introduced a range of reduced rates including zero rate. Application of high number of rates made it difficult to administer VAT in the member states and it imposed new costs for taxpayers in tax bookkeeping. It was especially a burden for the companies that had business operations in more member states. This jeopardized one of EU fundamental objectives – freedom of movement of goods, services and capital. In order to prevent further destruction of the system and enable smooth operations of the single market, European Commission made changes[13] of the Directive in 1999 and regulated **number of reduced rates and minimum level of reduced rate.** «Member states may apply or two reduced rates. These rates are determined as percentage of taxable amount, **which can not be lower than 5%** and are applied only on goods and services regulated by Annex H.»

Regulation of minimum level of reduced rates did not limit amount of standard rates, which was in some member states insufficient to provide stable level of budget revenues. Changes[14] of the Directive from 2001 introduced **minimum standard (general) VAT rate.** «Standard rate of value added tax is regulated by member states as a percentage of taxable amount and it is the same for goods and services. *As of January 1st 2001 until December 31st, 2005,* ***this percentage can not be lower than 15%.*** *At the proposal of the Commission following the consultations with European Parliament and Committee for Economic and Social Affairs, the Council unanimously decides on amount of standard rate to be applied after December 31st, 2005.»*

3. EU POLICY IN THE FIELD OF REDUCED VAT RATES (2000-2007)

With expansion of EU, great number of reduced rates and complexity of national tax systems in the member states became the problem for administering VAT and an obstacle to business

[10] Council Directive 92/77/EEC of 19 October 1992
[11] dated 1.1.2007.g. Annex III
[12] Under certain requirements, reduced rates may also apply to: food products for human and animal consumption; water supply, pharmaceutical products, medical equipment, disability aids, exclusive use of disabled persons, transport of passengers and their luggage, delivery of books, newspapers etc. except for materials that are fully or partially intended for advertising materials etc.
[13] Council Directive 1999/49/EC of 25 May 1999
[14] Council Directive 2001/115/EC of 20 December 2001

operations of companies in other member states as well as a treat to functioning of the single market in EU. The strategy of the European Commission in the last five years is going in direction of controlling expansion of derogations and rationalization of number of rates and goods/services on which reduced rates are applied. It goes in direction of final elimination of derogations from the VAT system in EU. The strategy for rationalization in the field of reduced rates in the VAT system in EU comprises of the following segments:

i. experimental application of reduced VAT rates on labor-intensive services

In addition to possibility of introducing reduced rate on goods and services referred to in the Annex H, amendments[15] of 6th Directive in 1999 approved temporary introduction of reduced rate on local labor-intensive services, provided to final customers under the condition that more favored treatment does not disturb competitiveness in the market. These are the following services as listed in new Annex K[16]:

- Small repair services (bicycles , shoes and leather goods, clothing and household linen;
- Renovation and repair in apartments,
- Window cleaning and cleaning in private households;
- hairdressing;
- Care services – taking care of children, help to elderly people, ill and disabled persons, and persons with special needs.

Up to the end of 2005, the European Commission granted reduced VAT rates for maximum of two categories of services listed in the Annex K to the member states that lodged the request. Since this is on experimental temporary basis, the Commission[17] and the member states must continuously monitor effects of reduced rates in these services. Intention of the Commission was to help opening new jobs through reduced VAT rates in services that have high added value. Other expected effect of these measures was decrease of prices of these services and increase of demand.

ii. Rationalization of the list of goods and services from the Annex H

Rationalization of the list of goods and services referred to in the Annex H, which can taxed with reduced VAT rates includes:

- Confining the current list of goods and services – the list of goods and services can not be extended to new categories of goods and services to which the member states currently apply standard rate

- Application of reduced rate may be extended to categories of goods and services to which the member states are already applying reduced rates by virtue of specific derogations (i.e. derogations from the 6th Directive that were automatically transposed with adoption of the Directive in 1977 and certain derogations, which the European Commission approved to some member states in special cases) with no apparent detriment of the smooth functioning of the single market. This measure covers restaurants, housing sector and delivery of gas and power.

iii. Rationalization of other reduced rates

[15] Council Directive 1999/85/EC of 22 October 1999
[16] dated 1.1.2007.g. Annex III
[17] ("*Report by the Commission to the Council and the European Parliament on the experimental application of reduced rates of VAT to certain labor-intensive services*", COM(2003) 309 of 2 June 2003)

It means abolishing derogations that permitted certain member states to maintain reduced rates on goods/services not listed in Annex H ("parking rates") and confining zero and super-reduced rates (below the 5% minimum) to goods and services listed in Annex H.

iv. Rationalization of reduced rates in certain geographical areas

Austria, Greece, France and Portugal are authorized to apply reduced rates on certain goods/services only in certain areas or regions and they apply standard rate in the rest of the country. Since every derogation and asymmetry in system of taxation jeopardizes single legal framework and opens room for frauds, the Commission proposes rationalization of permitted derogations only on goods and services consumed in dislocated regions (on islands and isolated areas) as it's easier to carry out control and audits.

4. ECONOMIC EFFECTS OF DIFFERENTIATED VAT RATES

Introduction of reduced VAT rates in EU member states is usually justified with social reasons, reduction of regressive VAT effects on population with lower income or even with demographic reasons. However, the practice has shown different effects. For instance, reduced rates on baby equipment, clothing for children, shoes or food did not contribute to increase of natality. Size of the effects of reduced VAT rates on prices and level of employment ultimately depend on many factors: preferences of consumers and price elasticity in demand for certain goods and services, level of competition within sector, volume of grey economy, the fact if it's labor or capital intensive activity etc..

It's possible to achieve certain economic benefits by reducing VAT rates if it's confined on sectors affected by grey economy i.e. non-formal, non-registered and non-taxed activities. If rates are reduced on goods and services produced by many companies or provided to households, it is assumed that this leads to higher demand for services or goodsfrom registered suppliers. This leaves room for focusing on more efficient and productive regular operations in formal economy instead of employees wasting their time on do it yourself jobs[18]. Increase of productivity leads to economies of scale effects, while redirection of of consumption to regular market leads to increase of demand for certain goods and services, which stimulates growth of employment in these sectors and overall growth of economy. All this leads to increase of tax revenues (direct and indirect). Reduction of rates on basic food products that are not price elastic will not lead to growth in demand and higher employment in this sector. It only contributes to limited social effects. If market structure is not good (small number of suppliers or monopoly), reduction of VAT rate may be used for increase of profits of suppliers. Reduction of VAT rate may have effects on higher employment if it applies to products and services with elastic demand (e.g. luxury goods). However, we should not forget that labor market is very rigid and it depends on sector (labor or capital intensive), strength of competition, so called structural unemployment and existence of fixed contracts. In certain sectors, it also takes longer period of time to achieve effects of higher employment through change of VAT rate. Application of reduced rates on goods and services for final consumption where there are substitutes that may lead to favoring of certain sectors stimulated by fiscal instruments, which can ultimately lead to directing resources to inefficient sectors.

Studies have shown that greatest effects on sales prices are achieved by reducing of VAT rate on products for final consumption, which are locally delivered. If the rate is reduced on products and services of regional type with mobile tax base, effects of reduced rate will disappear fast under impact of population migrations and market. Increased demand for such products and goods will lead to forming prices above desired selling prices..

[18] Popular abbreviation in English is DYI (*Do-It-Yourself*)

In other hand, reduction of VAT rate on semi products, raw materials and materials does not have effects on reduction of production costs and selling price in the sector, since VAT is not element in price costing. Theoretical VAT model is based on VAT neutrality on economic position of taxpayer. However, real VAT systems derogate from theoretical model. Introduction of threshold for VAT registration represents an important element in derogation from theoretical model, which leaves a number of small companies outside the system and leads to cascade effect. Input VAT from purchases of small companies burdens price costing in a small company. If small companies and so called non-taxable entities (e.g. banks, insurance companies, posts) are suppliers of goods and services to taxpayers, "hidden" VAT from input is transferred through supply chain to final consumer through cascade effect..

Ensuring competitiveness of EU companies in the world market is one of the priorities for EU Lisbon strategy. In order to achieve this objective, it's necessary to remove all obstacles to normal functioning of EU market. Certain obstacles can be identified in the VAT system. Position of some taxpayer and his product in the market should primarily depend on efficiency of internal economy and customer preferences. In addition, important elements of competitiveness are also market structure and possible fiscal factors. Privileged status of certain group and sectors in terms of VAT rates may represent tax discrimination of other groups producing substitutes and being taxed with standard rate. Policy of differentiated VAT rates may send wrong signals to investors on profitability of certain sectors, which may lead to irrational allocation of capital directing scarce and expensive resources to inefficient sectors.

VAT is calculated on base that is under impact of all aforementioned factors. Talks on differentiated rates usually focus on prices of consumer goods in order to protect social status of population. Focus is on direct measures i.e. reduction of VAT rate. However, it's possible to achieve better effects through analyses of calculation of selling price for goods and services, i.e. costing price and profit margin. Reduction of final selling price and not only VAT rate improves competitiveness of companies and has good impact on welfare of population.

We have seen that business operations with small companies leads to increase of costing price and final sell price if it is possible to prevail these costs to final consumer or it may lead to decrease of profit, which has economic consequences on future investments or welfare of shareholders. Size of the effect from VAT hidden in costing price on production costs of VAT taxpayer and final sell price depend on volume of purchases from suppliers who are not in the VAT system for certain goods or services i.e. connection of small companies with taxpayers. For some time now, there have been discussions on tax treatment of financial services, especially in the segment where the clients are VAT taxpayers. Through strengthening of link between private and financial sector, impact of "hidden" VAT on economic position of companies and final selling prices has become higher and it jeopardizes competitiveness of financial and private sector from EU in the world market. Financial sector in EU has become key leverage of economic growth and creation of new jobs. With ongoing process of globalization, it is of great importance in keeping competitiveness of European economy compared to the rest of the world[19]. Along with the growth of financial sector, impact of "hidden" VAT on prices of financial services and general price level is also increasing. In today's global price growth in the world market, it is in general interest to exclude all elements that do not have character of spending production factors from the costing price of goods and services. Number of those in favor of taxing services of financial intermediaries and insurance is increasing. Elimination of "hidden" VAT from price of services of financial intermediaries will contribute to reduction of costs for financial sector and economy. It will ultimately lead to reduction of selling prices of many goods and services in the supply chain to final consumers[20].

[19] Financial sector employs 6 million people and according to national accounts statistics, financial and insurance services represent 7,5% of GPD in EU.
[20] European Commission recently adopted the proposal to change Directive 2006/112/EC, which enables an option for taxation of financial services with uniform rules. Up to now, only some member states used this option, but with

Long researches and experience of EU member states confirmed facts that BiH policy makers in the field of VAT must be aware of. These are:

- Increase of VAT rate causes higher price growth than the increase of the rate itself, since traders use opportunity to increase their margin (profit) under the excuse of VAT rate increase,
- Reduction of VAT rate does not lead to reduction of selling price in the desired amount and one part of reduction is in favor of consumer and the other one in the favor of taxpayer[21].

This is very important for formulation of VAT rate policy since supporters of reduced rates (usually consumers and politicians in election campaigns) point out repressiveness of VAT as crucial reason for introduction of scale of VAT rates. To assess rate of VAT repressiveness, it's necessary to know structure of consumption for persons with lower and persons with higher income. If reduced VAT rates are intended for more balanced distribution of income and reduction of disparity, it's necessary to have stable structure of consumption of the population in longer period of time. According to the studies, largest disproportions in consumption amongst groups are in consumption of food and utilities. In poor countries with low income, most of the income goes on non elastic goods and services. Since the reduction of VAT rate can not achieve desired effects on prices, better solution is introduction of targeted transfers to certain groups of population or goods/services (subsidizing heating, power, purchase of school books, medicines etc.) along with progressive income taxation. However, in subsidizing energy consumption, care should be taken in terms of energy policy and protection of environment[22].

After years of applying aforementioned experimental project in EU, reduction of VAT rates in certain labor-intensive activities achieved minor results. European Commission tried to put reduction of VAT rates in economic context. Aim of the project was to use reduction of VAT rates as incentive for employment growth in certain local labor-intensive activities. Since labor-intensive activities usually have high added value, privileged tax treatment should not jeopardize budget (low input VAT) and it should stimulate creation of new jobs. Preliminary reports of the member states that participate in the experiment show that there was no growth in efficiency of these sectors and creation of new jobs. Reduction of VAT rates did not have much impact on decrease of prices, so there was not significant growth of demand for these services. Question arises on redistribution effects of the experiment since the rich part of society benefits from reduction of prices for certain services (e.g. renovation of apartments and houses). Analysis of the European Commission show that measures in the field of reducing burden on labor (rates of social contributions) have much higher impact on employment growth and reduction of VAT rates just puts burden on budget expenditures. At EU level, reduction of labor costs through reduction of contributions creates more jobs. Analysts are saying that **reduction of VAT represents dispersing of limited budget resources that can be used in much more efficient way** e.g. for providing targeted financial support for new jobs or as compensation for reduction of labor costs in order to achieve better effects with lower costs for every new job. Better effects can be achieved Isto tako, snažniji efekti mogu se postići korištenjem ostalih ekonomskih instrumenata, kao što su subvencije ili ciljani transferi.

5. EU STRATEGY UNTIL 2010

application of national rules, which led to unloyal competition between the member states. According to the data of the Commission, taxation of financial services in Belgium contributed to increase of efficiency of financial sector in that country as they had lowest costs for payment services in EU.

[21] We have an example from our neighborhood. Croatia first introduced rate of 22%. Two years later, they introduced zero rate on bread, milk etc. According to calculations, traders reduced prices by only ½ of calculated VAT and they increased their margin/profit for the rest of it.

[22] E.g. if subsidies or even reduced VAT rates stimulate use of power and coal instead of heating oil, there should be care in terms of total energy balance, climate changes, capacity of water plants and mines, required investments, draughts etc. Keeping high VAT rates on power may also lead to unplanned cutting of timbers and pollution of environment.

With the expansion of EU to 27 member states, high number of reduced rates and complexity of national systems of the member states have become problem for administering VAT, obstacle to business operations in other member states and treat to functioning of EU single market. According to the report of the European Commission from July 5th, 2007, total system of EU has great losses due to systems with differentiated rates. These losses are:

- fiscal – budgets of tax administrations are burdened with additional administrative costs and existence of reduced rates creates a room for tax frauds[23],
- economic – companies are burdened with additional costs for tax compliance in accordance with systems of differentiated rates. Costs of companies are burden for profit, which reduces investments in long term and overall welfare of shareholders. If this is not the case, then costs are transferred to selling prices, which increases prices and puts burden on income of population and it makes companies non competitive in external market.

Key message from recent study of the European Commission in terms of VAT rates system is that **single VAT rate is the best option for VAT taxation policy when it comes to economic point of view.** The study supports turning to single rate as the application of single rate has significant advantages in the segment of administrative costs of companies-taxpayers and tax administration. It was also underlined that the single rate reduces deviations in functioning of the internal market.

EC strategy in the last five years was in direction of rationalization of number of rates and goods/services with reduced rates. New strategy is in favor simplifying system of rates and elimination of derogations as the most of those finishes in the end of 2010. Implementation of the aforementioned measures requires certain period of time to achieve a political consensus amongst member states, implement EU directives in legislation of the member states and prepare tax administrations and taxpayers.

Due to these reasons, EU council extended the following until December 31st, 2010:

- minimum standard VAT rate of 15%
- experimental application of reduced VAT rates on labor-intensive services in all member states under same conditions,
- derogations permitted to some new member states in regards to reduced rates (permission refers to Checz Republic, Poland, Cyprus, Malta and Slovenia).

[23] Volume of VAT frauds is estimated at 2-2,5% of GDP in EU.

New tax regulations: Law on Income Tax in the Federation of BiH

(By: Dinka Antić, Msc)

BiH Federation recently passed new Law on income tax[24], which should apply from January 1st, 2009. Up to now, income taxation in F BiH under cantonal jurisdiction, which treated this issue in different ways as illustrated in the following table::

Table 3. Taxation of income and profit of physical persons in cantons – in force on December 31st, 2008

Cantonal taxes	KS	ZE-DO	TK	SBK	USK	BPK	HNŽ	ŽP	ŽZH	HBŽ
Profit tax for physical persons	25%	25%		30%	30%	25%	30%	30%	30%	30%
Income tax for physical persons	-	-	15%	-	-	-	-	-	-	-
Total income tax – physical persons	15%	+ *)	**)	-	10%	15%	10%	20%	10%	10%

*) Municipalities may decide to have proportional rates higher than 20% and progressive 10-40%
**) as part of income tax
Legend:
KS: Kanton Sarajevo, TK: Tuzlanski kanton, SB: Srednjobosanski kanton, ZEDO: Zeničko-dobojski kanton, USK: Unsko-sanski kanton, ŽP: Županija posavska, HBŽ: Herceg-bosanska županija, BPK: Bosansko-podrinjski kanton, HNŽ: Hercegovačko-neretvanska županija, ŽZH: Županija zapadno-hercegovačka

Taxation of other types of income was carried out in the following way:

- Tax on income from property and property rights (all cantons except TK)
- Tax on income from copyrights, patents and technical improvements (all cantons except TK)
- Tax on winnings from winning games (all cantons)
- Tax on income from agricultural activities (all cantons except TK and ŽP)

Adoption of single law on income tax represents another step towards harmonization of direct taxes in BiH, which eliminates tax competition between cantons in the Federation. In addition, reform is taking place just when Republika Srpska finalized reform of profit and income taxation. Although legal regulations are similar in F BiH and RS, there are also significant differences.

Basic rules from the Law

Taxpayer for income tax is:

- Resident of F BiH who generates income in the territory of F BiH and outside F BiH
- Nonresident who carries out independent activity in the territory of BiH through permanent place of business, dependent activity, generates income from movable and immovable property, copyrights, patents, capital investments etc..

Income tax rates is 10% Tax base is:

- For resident: difference between total taxable income and total deductions that are deductible in regards to income)
- For non-resident: paid income.

Taxable income and expenditures that can be recognized are determined in accordance with cash accounting principles.

Subject of income taxation is also income generated by:

i. Independent activity,
ii. Dependent activity,
iii. Property and property rights,
iv. Capital investments and
v. Participation in winning games and games of fortune.

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[24] Official gazette F BiH, No. 10/08

The following is not classified as income: income from dividends, pensions, social welfare and income regulated by special laws (e.g. disabled persons, demobilized soldiers etc.), damage compensation or insurance, inheritance and gifts (taxed in accordance with special regulations). Income tax is not paid on the following: income received as unemployment compensation, income of disabled persons, income received as compensation for body injuries, scholarships, income from interest on savings and interest on bonds etc.

Income from dependent activity includes: gross salary and additional income received as compensation or support paid from employer to employee. Expenditures that can be deducted include contributions (pension and health insurance, unemployment insurance).

Income from independent activity includes income that physical person generates through independent activity as basic or additional profession. It includes income from:

a. Crafts and craft related activities,
b. Agriculture and forestry,
c. Free lance occupations (medical workers, veterinarians, lawyers, notaries, tax advisors, accountants, engineers, architects, translators, tourist guides, scientists, writers, inventors, professors etc.),
d. Other independent activity (e.g. members of executive government bodies, members of assembly and supervisory board of company, steering board, bankruptcy managers etc.)
e. Occasional/part time activity (e.g. occasional activities of artist, journalist, expert, salesman along with carrying out basic activity etc.).

Business revenues from independent activity are revenues generated by independent or joint carrying activity, received in money or goods/services that are assessed using market value. In joint business operations, every person pays tax on his share of received income in accordance with mutual agreement or equal shares.

Business expenditures that can be deducted include costs related to carrying out business activity, annual membership fees paid to expert associations or chamber of commerce, compensations for meals of employees, contributions, education costs of employees, taxes paid on property and compensations related to property, interest on loans. Depreciation on fixed assets used in the territory of the Federation is also recognized as expenditure. It's possible to fully deduct depreciation for property with purchase value less than 1,000 KM and purchase of hardware and software. The following expenditures are recognized as percentage of generated revenues in previous year: costs of advertising and public relations (up to 3%), entertainment costs (up to 1%), sponsorship (up to 1%), donations (up to 0,5%). Taxpayers engaged in other independent activities (under e. above) get 20% of generated revenues recognized as expenditure and it is 30% if it's income from copyrights. Penalties, insurance premiums, expenditures occurred in business operations with related parties exceeding market value, sales losses or losses from transfer of property between related parties and donations to political parties can not be recognized as expenditures.

Income from property includes income generated by: renting real estate, alienation of property (sale, swap, transfer with compensation) or renting equipment, means of transport that are not used for carrying out independent activity. Costs occurred in process of real estate alienation are recognized 100% and as % of generated income from renting property (30% for real estate and movable property, 50% for renting apartments and rooms to tourists and passengers).

Income from property rights includes income generated by sale, cession, swap and transfer of copyrights, patents, licenses etc. For income received for time limited cession of property rights, expenditures are recognized as 20% of generated income.

Income from capital investment includes income from interest on loans and income from voluntary insurance.

Income from winning games and games of fortune is value of every individual award or winning, paid in money, goods or services that exceed value of 100 KM.

Total amount of taxable income for residents is reduced by basic personal deduction of 3,600 KM and by personal deductions ranging from 0,3 to 0,9 for dependent spouse, children etc. Personal deduction may be increased for amount of paid medical services and medicines and interest on house loan.

Taxpayers get tax credit for income tax paid in other country or entity/District in the way that income tax paid is deducted from income tax calculated in F BiH. Law also enables transfer of tax loss for the period of fiver years if it can not be compensated or deducted in the tax period when it occurred.

Pre-payment of income tax is calculated and paid in the following way:

- For dependent activity at every payment of salary or compensation,
- For independent activity in the amount of annual amount from previous period, but it's paid monthly as 1/12,
- On basis of other independent activities, tax is paid at the same rate with no right to personal deduction,
- For income from rent, monthly as 1/12 of annual amount determined in previous period,
- For income from renting houses, apartments and rooms to passengers and tourists at every payment of rent,
- For income from cession of property rights at the same time when income is received,
- For alienation of real estate and property rights on every received income,

Withholding tax is calculated and paid with no right to personal deduction on the following:

- Income of non-residents from carrying out occasional/part time independent activity,
- Income from interest or voluntary insurance,
- Income from winning games and games of fortune.

Taxpayer is obliged to file annual tax declaration for previous year until February 28th of the current year at the latest, if he received income from multiple sources or directly from abroad.

Tax reform effects

We already underlined that adoption of new law will enable income taxation in F BiH in uniform way. However, a chance was missed to use progressive taxation of income for rich layers of society and compensate regression effects of VAT single rate. Unlike the Federation, Republika Srpska introduced progressive rate of 15% for income that exceeds four average annual net salaries in previous year.

Secondly, personal deduction in nominal instead in relative amount (as it's case in RS by relating to 12 lowest salaries regulated by general collective agreement i.e. data of statistics agency for higher tax rate) makes the system of taxation inflexible. As salaries increase in the Federation over the time, even lowest income will be taxed.

Thirdly, cantonal regulations in this field must be harmonized with provisions of new law although it was expected to fully abolish cantonal laws once this law was adopted. Keeping cantonal regulations represents weak point of tax reform. Law envisages supremacy of Federal law over cantonal one in case of collision of cantonal and Federal regulations, which creates room for one sided changes of cantonal regulations that are not in accordance with single law.

We hope that all cantons will harmonize their regulations with provisions of new law within deadline.

Consolidated Reports

(prepared by: Mirela Kadić, research assistant)

Notes to table 4 (FBiH: Budget FBiH, cantons, municipalities)

1. The consolidated report includes:
   - revenues and expenditures of the budget of the Federation of Bosnia and Herzegovina,
   - revenues and expenditures of cantonal budgets in FBiH,
   - revenues and expenditures of municipal budgets in FBiH
2. Report includes foreign debt amortization
3. Data for the following municipalities are estimated: Drvar, Ravno, Kupres (all months); Tesanj (Oct, Nov); Pale-Prača, Domaljevac, Jablanica, Konjic, Mostar, Prozor, Široki Brijeg, Sapna (Nov)

* Includes indirect tax revenues according to Regulations by 31 Dec 2005
**Net lending = lending-repayment of borrowing
***Net financing = Credits received – repayment of debts (doesn't include foreign debt)

Notes to table 5, 6 and 7 (Cantons)

The consolidated report includes:
- revenues and expenditures of the cantonal budgets,
- revenues and expenditures of the budgets of related municipalities.

*Net lending = lending-repayment of borrowing
**Net financing = Credits received – repayment of debts (doesn't include foreign debt)

FBiH: Budget FBiH, cantons, municipalities, I-XI 2007

		I	II	III	IV	V	VI	VII	VIII	IX	X	XI	Q1	Q2	Q3	Q4	Total
1	**Total revenues** (11+12+13+14)	**253.277.637**	**244.571.841**	**279.747.100**	**275.053.799**	**310.628.751**	**307.141.245**	**410.220.530**	**330.447.566**	**304.013.078**	**335.557.939**	**302.477.416**	**777.596.578**	**892.823.795**	**1.044.681.174**	**638.035.355**	**3.353.136.902**
11	Tax revenues	222.208.803	211.867.831	233.877.703	231.860.164	270.354.810	265.145.386	280.359.124	287.423.766	262.685.801	286.454.122	254.758.913	667.954.337	767.360.360	830.468.691	541.213.035	2.806.996.422
	Income & profit tax	12.676.815	16.252.112	12.255.403	7.654.520	7.586.470	10.461.213	11.078.490	9.137.289	8.849.816	11.804.566	13.884.346	41.184.329	25.702.203	29.065.594	25.688.912	121.641.038
	Taxes on personal income and self-employment	13.728.867	15.669.690	17.681.293	19.270.554	18.116.140	18.275.869	20.088.292	18.294.742	17.905.692	20.219.537	19.967.357	47.079.850	55.662.564	56.288.726	40.186.894	199.218.034
	Property tax	6.517.060	8.371.664	5.193.779	6.015.047	6.923.244	5.919.064	6.115.456	7.608.450	6.338.666	7.259.993	6.214.042	20.082.503	18.857.354	20.062.572	13.474.035	72.476.465
	Indirect tax revenues *	188.078.914	169.853.772	194.783.186	197.487.982	236.301.533	229.196.269	241.509.447	250.481.950	228.118.854	245.512.447	213.001.028	552.715.872	662.985.783	720.110.251	458.513.475	2.394.325.381
	Other taxes	1.207.147	1.720.594	3.964.041	1.432.061	1.427.424	1.292.971	1.567.440	1.901.335	1.472.772	1.657.579	1.692.140	6.891.783	4.152.455	4.941.547	3.349.719	19.335.504
12	Non-tax revenues	30.058.659	31.548.210	44.358.883	41.927.429	38.135.576	39.050.390	127.893.216	40.704.414	38.477.007	46.417.953	42.142.507	105.965.751	119.113.395	207.074.636	88.560.460	520.714.243
13	Grants	915.403	782.376	1.236.698	994.566	1.768.740	2.094.231	1.446.555	1.937.244	2.442.572	2.195.800	4.262.627	2.934.478	4.857.538	5.826.372	6.458.427	20.076.814
14	Other revenues	94.772	373.423	273.816	271.639	369.625	851.239	521.634	382.143	407.698	490.065	1.313.369	742.012	1.492.503	1.311.475	1.803.434	5.349.423
2	**Total expenditures** (21+22)	**158.500.843**	**173.611.590**	**195.965.319**	**248.105.816**	**275.609.165**	**318.382.412**	**260.887.630**	**230.129.852**	**276.686.222**	**293.357.931**	**317.258.523**	**528.077.752**	**842.097.394**	**767.703.704**	**610.616.453**	**2.748.495.302**
21	Current expenditures	157.189.884	172.175.935	193.406.814	246.904.345	272.169.412	317.443.861	260.018.921	227.483.512	271.953.145	288.402.984	313.094.123	522.772.633	836.517.619	759.455.578	601.497.106	2.720.242.937
	Wages and compensations	79.530.423	81.336.217	86.056.991	89.158.708	94.694.632	128.113.872	77.448.361	87.393.628	91.839.375	98.348.475	101.758.510	246.923.631	311.967.212	256.681.364	200.106.984	1.015.679.192
	of which: Gross wages	63.611.832	66.090.524	67.976.296	71.646.767	74.430.407	84.023.409	63.861.533	72.847.560	75.103.571	75.126.238	78.018.519	197.678.653	230.100.583	211.812.664	153.144.757	792.736.657
	of which: Compensations	15.918.591	15.245.693	18.080.695	17.511.941	20.264.225	44.090.463	13.586.828	14.546.068	16.735.805	23.222.237	23.739.991	49.244.979	81.866.629	44.868.700	46.962.228	222.942.535
	Other taxes and contributions	7.549.548	7.774.314	8.208.965	8.539.022	8.866.559	10.168.625	7.666.797	8.766.159	8.990.301	8.955.324	9.382.937	23.532.826	27.574.206	25.423.257	18.338.262	94.868.550
	Purchases of goods and services	17.290.185	20.628.857	26.982.672	24.487.591	25.445.365	26.927.801	21.523.658	20.045.804	30.097.569	29.581.484	32.828.812	64.901.714	76.860.756	71.667.030	62.410.296	275.839.796
	Grants	49.573.592	59.026.584	68.467.905	120.673.160	139.478.298	137.343.476	152.862.430	109.243.185	131.293.566	147.885.915	163.803.561	177.068.081	397.494.934	393.399.181	311.689.477	1.279.651.672
	Interest	3.246.136	3.409.963	3.690.282	4.045.865	3.684.559	14.890.087	517.676	2.034.736	9.732.334	3.631.786	5.320.302	10.346.381	22.620.511	12.284.746	8.952.088	54.203.725
22	Other expenditures	1.567.154	2.489.950	2.601.202	1.549.666	1.811.656	2.515.325	1.273.260	1.888.027	2.349.410	1.428.769	2.521.573	6.658.306	5.876.647	5.510.697	3.950.343	21.995.994
23	Net lending**	-256.196	-1.054.295	-42.697	-348.195	1.628.097	-1.576.774	-404.552	758.313	2.383.667	3.526.177	1.642.827	-1.353.188	-296.872	2.737.428	5.169.004	6.256.372
3	**Net acquisition of nonfinancial assets**	2.870.829	576.514	5.882.466	-1.194.124	-1.699.846	26.002.884	22.882.161	21.393.578	15.287.676	19.421.720	31.089.062	9.329.809	23.108.914	59.563.415	50.510.782	142.512.920
4	**Government surplus/deficit** (1-2-3)	**91.905.966**	**70.383.736**	**77.899.315**	**28.142.106**	**36.719.432**	**-37.244.050**	**126.450.739**	**78.924.136**	**12.039.179**	**22.778.289**	**-45.870.168**	**240.189.017**	**27.617.488**	**217.414.055**	**-23.091.880**	**462.128.680**
5	**Net financing *****	**-5.642.893**	**-5.856.852**	**-5.372.408**	**-7.275.300**	**-8.756.266**	**-26.520.217**	**-7.551.077**	**-3.965.852**	**-20.762.241**	**-10.569.656**	**-19.833.009**	**-16.872.153**	**-42.551.783**	**-32.279.170**	**-30.402.666**	**-122.105.772**

Table 4.

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Una – Sana Canton, I – XII 2007

		I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	Q1	Q2	Q3	Q4	I-XII 2007	I-XII 2006
1	**Total revenues** (11+12+13+14)	**16.874.597**	**15.528.560**	**17.734.432**	**17.572.030**	**20.457.535**	**20.183.764**	**22.915.300**	**21.007.663**	**20.484.063**	**21.905.911**	**18.451.223**	**19.992.354**	**50.137.590**	**58.213.329**	**64.407.026**	**60.349.487**	**233.107.432**	**198.505.139**
11	Tax revenues	**13.791.433**	**12.491.690**	**14.502.314**	**14.706.696**	**16.741.791**	**15.718.415**	**19.217.370**	**17.152.939**	**16.594.488**	**17.948.234**	**14.717.675**	**15.671.045**	**40.785.437**	**47.166.901**	**52.964.797**	**48.336.954**	**189.254.089**	**165.820.970**
	Income & profit tax	342.461	519.429	379.963	450.985	711.071	386.566	672.973	313.841	311.734	345.571	364.011	477.635	1.241.853	1.548.623	1.298.548	1.187.216	5.276.240	3.965.187
	Taxes on personal income and self-employment	1.035.361	1.460.084	1.190.035	1.152.482	1.127.743	1.387.472	1.430.912	1.243.180	1.320.009	1.229.994	1.370.936	1.859.549	3.685.480	3.667.697	3.994.101	4.460.479	15.807.757	13.595.079
	Property tax	283.460	333.385	230.945	435.757	348.189	341.152	474.471	566.771	690.186	781.313	433.447	847.469	847.790	1.125.099	1.731.428	2.062.229	5.766.545	3.970.887
	Sales tax (incl.excises)(according to Regulations until 31,12,2005)	573.102	278.377	327.818	294.013	820.547	278.243	845.578	250.663	170.242	189.666	195.512	279.928	1.179.297	1.392.803	1.266.484	665.107	4.503.691	16.558.682
	Transfers from Single Account	11.510.659	9.852.723	12.312.678	12.317.180	13.682.962	13.233.305	15.714.351	14.713.221	14.033.309	15.336.981	12.287.063	12.113.064	33.676.060	39.233.447	44.460.881	39.737.109	157.107.498	126.890.689
	Other taxes	46.390	47.692	60.875	56.278	51.279	91.675	79.084	65.264	69.007	64.708	66.706	93.400	154.957	199.232	213.356	224.814	792.359	840.446
12	Non-tax revenues	2.825.588	3.004.292	2.946.737	2.768.200	2.796.732	4.326.772	3.038.392	2.890.011	3.321.978	3.372.769	3.114.368	2.360.720	8.776.617	9.891.704	9.250.381	8.847.857	36.766.558	29.601.759
13	Grants	**257.576**	**29.778**	**285.381**	**95.734**	**919.012**	**138.578**	**659.538**	**964.713**	**567.597**	**584.908**	**619.180**	**1.960.589**	**572.736**	**1.153.324**	**2.191.848**	**3.164.677**	**7.082.585**	**2.864.179**
14	Other revenues	0	2.800	0	1.400	0	0	0	0	0	0	0	0	2.800	1.400	0	0	4.200	218.231
2	**Total expenditures** (21+22)	**10.657.265**	**11.071.898**	**14.217.414**	**15.256.593**	**14.912.889**	**17.438.116**	**23.549.590**	**16.309.835**	**15.105.508**	**17.943.298**	**19.146.493**	**39.240.046**	**35.946.577**	**47.607.597**	**54.964.933**	**76.329.838**	**214.848.945**	**168.154.829**
21	Current expenditures	**10.657.265**	**11.075.142**	**14.217.582**	**15.256.593**	**14.984.552**	**17.427.464**	**23.549.590**	**16.309.835**	**15.105.508**	**17.961.148**	**19.146.493**	**39.240.046**	**35.949.989**	**47.668.608**	**54.964.933**	**76.347.688**	**214.931.218**	**168.855.606**
	Wages and compensations	6.929.460	7.420.399	8.817.654	8.858.335	8.536.904	11.186.847	8.013.463	8.652.912	8.863.956	8.948.193	9.750.345	13.010.791	23.167.513	28.582.086	25.530.331	31.709.329	108.989.257	91.444.799
	of which: Gross wages	5.851.223	6.350.605	7.028.958	7.217.380	7.146.306	7.780.356	6.711.306	7.486.912	7.629.801	7.160.264	7.716.689	8.390.720	19.230.786	22.144.042	21.828.019	23.267.673	86.470.520	74.725.190
	of which: Compensations	1.078.237	1.069.794	1.788.696	1.640.955	1.390.598	3.406.491	1.302.157	1.166.000	1.234.155	1.787.929	2.033.656	4.620.071	3.936.727	6.438.044	3.702.312	8.441.656	22.518.738	16.719.609
	Other taxes and contributions	698.939	751.245	929.274	788.965	875.529	931.931	848.951	922.079	915.154	864.706	930.434	994.467	2.379.458	2.596.426	2.686.184	2.789.608	10.451.675	8.917.470
	Purchases of goods and services	1.242.153	1.014.250	1.741.041	2.627.958	1.530.833	1.596.207	2.028.554	1.374.877	894.431	2.756.045	2.775.724	6.160.841	3.997.445	5.754.998	4.297.863	11.692.610	25.742.916	20.438.675
	Grants	1.662.082	1.708.065	2.509.369	2.756.110	3.849.988	3.501.181	12.475.147	5.082.659	4.179.176	5.251.762	5.457.769	18.731.738	5.879.515	10.107.279	21.736.983	29.441.269	67.165.045	44.534.522
	Interest	24.294	50.316	103.537	147.271	98.271	38.726	67.853	39.012	121.407	45.362	5.148	96.821	178.147	284.268	228.271	147.331	838.017	1.161.466
	Transfers to lower spending units	100.337	130.868	116.708	77.953	93.027	172.572	115.621	238.296	131.384	95.081	227.074	245.388	347.912	343.552	485.301	567.542	1.744.307	2.358.674
22	Net lending*	0	-3.244	-168	0	-71.663	10.652	0	0	0	-17.850	0	0	-3.412	-61.011	0	-17.850	-82.273	-700.777
3	**Net acquisition of nonfinancial assets**	**211.190**	**103.184**	**545.138**	**451.789**	**1.143.885**	**503.900**	**815.364**	**1.007.559**	**682.273**	**1.604.692**	**1.342.587**	**5.492.967**	**859.512**	**2.099.575**	**2.505.196**	**8.440.246**	**13.904.529**	**10.595.510**
4	**Government surplus/deficit** (1-2-3)	**6.006.142**	**4.353.478**	**2.971.880**	**1.863.648**	**4.400.761**	**2.241.749**	**-1.449.654**	**3.690.269**	**4.696.282**	**2.357.920**	**-2.037.858**	**-24.740.659**	**13.331.500**	**8.506.158**	**6.936.897**	**-24.420.596**	**4.353.958**	**19.754.801**
5	**Net financing ****	**-9.145**	**-9.098**	**-42.395**	**-9.098**	**-9.098**	**-29.164**	**-1.673**	**-1.673**	**-25.534**	**-1.673**	**-1.673**	**-8.903**	**-60.638**	**-47.360**	**-28.880**	**-12.249**	**-149.127**	**-233.782**

Table 5.

Central Bosnia Canton, I – XII 2007

		I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	Q1	Q2	Q3	Q4	I-XII 2007	I-XII 2006
1	**Total revenues** (11+12+13+14)	**13.855.796**	**12.243.721**	**15.733.810**	**14.020.326**	**15.535.645**	**15.006.931**	**17.417.766**	**16.309.884**	**15.973.326**	**17.670.171**	**15.304.142**	**20.801.352**	**41.833.327**	**44.562.902**	**49.700.976**	**53.775.665**	**189.872.869**	**155.365.582**
11	Tax revenues	**12.067.530**	**10.005.376**	**11.522.116**	**11.803.126**	**13.176.005**	**12.920.945**	**15.070.718**	**14.285.613**	**13.513.132**	**14.358.719**	**12.407.280**	**14.481.444**	**33.595.022**	**37.900.077**	**42.869.462**	**41.247.443**	**155.612.004**	**131.538.305**
	Income & profit tax	220.556	307.631	215.594	229.269	196.217	254.389	467.841	173.514	235.700	277.864	247.095	204.278	743.782	679.876	877.055	729.236	3.029.950	2.440.326
	Taxes on personal income and self-employment	1.264.224	1.143.837	1.223.899	1.245.760	1.387.133	1.407.171	1.461.496	1.282.113	1.272.922	1.377.498	1.581.820	1.831.267	3.631.960	4.040.064	4.016.532	4.790.585	16.479.141	13.773.088
	Property tax	748.645	374.689	324.736	443.450	412.242	461.451	380.242	771.353	644.960	673.337	413.569	421.958	1.448.070	1.317.143	1.796.556	1.508.864	6.070.632	4.659.700
	Sales tax (incl.excises)(according to Regulations until 31,12,2005)	294.358	226.095	214.664	293.740	338.533	210.305	335.594	153.985	186.483	144.427	218.809	598.176	735.117	842.578	676.062	961.411	3.215.169	12.759.649
	Transfers from Single Account	9.475.103	7.883.227	9.478.993	9.530.631	10.774.711	10.516.376	12.309.301	11.810.137	11.107.016	11.825.118	9.874.900	11.356.221	26.837.323	30.821.718	35.226.454	33.056.238	125.941.733	96.683.498
	Other taxes	64.644	69.895	64.231	60.276	67.169	71.252	116.242	94.511	66.049	60.476	71.088	69.545	198.770	198.698	276.803	201.108	875.378	1.222.045
12	Non-tax revenues	1.622.439	2.077.817	4.206.161	1.935.912	2.205.280	1.913.895	2.001.997	1.735.865	1.979.897	2.295.656	2.355.224	5.641.382	7.906.417	6.055.087	5.717.759	10.292.262	29.971.524	21.779.728
13	Grants	**253.057**	**160.528**	**5.533**	**281.288**	**154.359**	**172.091**	**345.051**	**288.406**	**480.298**	**1.015.796**	**512.608**	**678.525**	**419.118**	**607.738**	**1.113.755**	**2.206.929**	**4.347.540**	**1.835.896**
14	Other revenues	-87.230	0	0	0	0	0	0	0	0	0	29.031	0	-87.230	0	0	29.031	-58.199	211.653
2	**Total expenditures** (21+22)	**10.768.121**	**11.873.232**	**14.763.513**	**12.572.089**	**14.893.672**	**11.971.366**	**12.755.239**	**11.907.022**	**12.767.211**	**15.688.275**	**18.493.075**	**22.855.835**	**37.404.865**	**39.437.127**	**37.429.472**	**57.037.185**	**171.308.649**	**145.184.570**
21	Current expenditures	**10.768.121**	**11.873.232**	**14.763.513**	**12.572.089**	**14.893.672**	**11.971.366**	**12.755.239**	**11.907.022**	**12.767.211**	**15.688.275**	**18.493.075**	**22.855.835**	**37.404.865**	**39.437.127**	**37.429.472**	**57.037.185**	**171.308.649**	**145.184.570**
	Wages and compensations	6.586.019	6.936.043	8.331.013	7.050.661	8.761.975	6.695.278	8.476.637	6.784.944	7.023.646	7.300.685	7.369.924	7.313.487	21.853.075	22.507.914	22.285.228	21.984.095	88.630.312	78.519.047
	of which: Gross wages	5.230.826	5.468.163	5.567.040	5.588.006	5.475.635	5.255.271	5.409.962	5.489.488	5.617.504	5.670.946	5.783.908	5.721.175	16.266.029	16.318.912	16.516.954	17.176.029	66.277.923	61.461.314
	of which: Compensations	1.355.193	1.467.881	2.763.973	1.462.655	3.286.340	1.440.007	3.066.675	1.295.457	1.406.142	1.629.739	1.586.016	1.592.311	5.587.046	6.189.002	5.768.274	4.808.067	22.352.388	17.057.733
	Other taxes and contributions	620.349	643.854	650.320	670.799	666.649	653.399	659.939	677.472	689.039	701.617	693.415	681.610	1.914.523	1.990.848	2.026.450	2.076.641	8.008.462	7.362.133
	Purchases of goods and services	1.473.724	1.719.592	1.584.978	1.458.625	1.379.006	1.329.784	915.058	1.131.298	1.512.640	2.257.472	1.947.980	3.081.023	4.778.294	4.167.415	3.558.996	7.286.476	19.791.181	16.933.257
	Grants	1.945.554	2.502.314	4.132.181	3.294.278	4.014.534	3.222.612	2.635.948	3.241.762	3.476.115	5.343.054	8.407.932	11.664.956	8.580.048	10.531.424	9.353.825	25.415.941	53.881.238	40.735.101
	Interest	7.162	5.406	595	21.898	10.591	2.898	11.273	904	5.383	25.976	923	45.022	13.163	35.387	17.561	71.920	138.030	146.173
	Transfers to lower spending units	135.313	66.023	64.426	75.828	60.917	67.395	56.383	70.642	60.387	59.471	72.902	69.738	265.762	204.140	187.413	202.111	859.426	1.488.859
22	Net lending*	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
3	**Net acquisition of nonfinancial assets**	**-129.799**	**226.665**	**209.728**	**288.490**	**-563.239**	**492.715**	**616.235**	**1.244.098**	**567.124**	**1.366.294**	**1.072.898**	**2.980.648**	**306.595**	**217.966**	**2.427.457**	**5.419.839**	**8.371.857**	**9.470.933**
4	**Government surplus/deficit** (1-2-3)	**3.217.474**	**143.824**	**760.569**	**1.159.746**	**1.205.212**	**2.542.851**	**4.046.292**	**3.158.764**	**2.638.991**	**615.602**	**-4.261.831**	**-5.035.131**	**4.121.866**	**4.907.809**	**9.844.047**	**-8.681.360**	**10.192.363**	**710.079**
5	**Net financing ****	**0**	**0**	**-964**	**-972**	**-975**	**0**	**-18.721**	**-992**	**-2.246**	**-2.645**	**-2.247**	**997.352**	**-964**	**-1.947**	**-21.960**	**992.459**	**967.589**	**-280.138**

Table 6.

Sarajevo Canton, I –XII 2007

		I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	Q1	Q2	Q3	Q4	I-IV 2007	I-XII 2006
1	**Total revenues** (11+12+13+14)	**55.893.653**	**57.221.198**	**65.501.046**	**61.101.233**	**63.224.433**	**64.285.552**	**75.338.690**	**66.349.482**	**65.887.335**	**72.925.528**	**64.217.750**	**83.773.900**	**178.615.897**	**188.611.218**	**207.575.507**	**220.917.178**	**795.719.800**	**721.584.429**
11	Tax revenues	**46.742.283**	**48.007.226**	**52.280.853**	**50.577.359**	**54.245.478**	**52.719.698**	**63.642.264**	**58.150.121**	**55.445.859**	**61.012.658**	**53.754.132**	**69.553.799**	**147.030.361**	**157.542.535**	**177.238.244**	**184.320.589**	**666.131.729**	**617.670.437**
	Income & profit tax	4.024.279	6.240.866	3.939.355	3.608.856	2.501.215	2.978.892	4.313.461	4.291.773	4.488.031	5.162.645	5.323.161	7.932.914	14.204.501	9.088.964	13.093.265	18.418.720	54.805.449	46.715.002
	Taxes on personal income and self-employment	4.351.201	5.839.852	6.955.161	7.770.376	6.305.552	6.383.509	7.538.566	6.288.668	6.136.773	7.508.393	7.359.229	12.622.186	17.146.214	20.459.437	19.964.007	27.489.808	85.059.466	74.381.872
	Property tax	3.102.185	5.407.642	2.069.444	2.215.034	3.189.662	2.619.483	2.708.159	2.551.111	2.292.452	2.678.253	2.860.066	3.619.611	10.579.271	8.024.179	7.551.723	9.157.929	35.313.103	26.479.209
	Sales tax (incl.excises)(according to Regulations until 31,12,2005)	617.592	520.157	378.014	853.546	1.289.848	533.487	2.294.070	357.669	381.078	1.008.021	690.277	984.182	1.515.763	2.676.881	3.032.818	2.682.480	9.907.942	51.521.517
	Transfers from Single Account	34.349.633	29.600.555	35.625.820	35.643.281	40.479.317	39.766.542	46.289.447	44.224.448	41.683.460	44.175.254	37.033.036	43.732.325	99.576.008	115.889.140	132.197.354	124.940.615	472.603.117	415.276.240
	Other taxes	297.393	398.153	3.313.059	486.264	479.884	437.785	498.561	436.452	464.064	480.092	488.364	662.581	4.008.605	1.403.933	1.399.077	1.631.037	8.442.652	3.296.599
12	Non-tax revenues	9.012.770	7.847.685	12.238.783	8.816.000	7.273.274	9.744.198	9.288.371	6.959.703	8.934.655	9.791.863	8.343.681	11.617.718	29.099.237	25.833.471	25.182.729	29.753.262	109.868.699	95.651.754
13	Grants	**138.601**	**1.147.537**	**758.244**	**1.484.709**	**1.379.579**	**1.169.452**	**2.081.953**	**913.556**	**1.180.719**	**1.794.905**	**1.793.835**	**2.276.281**	**2.044.382**	**4.033.740**	**4.176.228**	**5.865.021**	**16.119.372**	**8.262.237**
14	Other revenues	0	218.750	223.166	223.166	326.102	652.204	326.102	326.102	326.102	326.102	326.102	326.102	441.916	1.201.472	978.306	978.306	3.600.000	
2	**Total expenditures** (21+22)	**37.127.001**	**42.675.425**	**48.768.518**	**74.269.214**	**55.848.550**	**59.626.552**	**61.846.624**	**51.774.273**	**63.255.598**	**65.858.787**	**67.653.858**	**118.152.023**	**128.570.944**	**189.744.316**	**176.876.494**	**251.664.668**	**746.856.422**	**664.192.655**
21	Current expenditures	**37.368.537**	**43.705.946**	**48.808.172**	**74.642.305**	**55.876.109**	**61.111.663**	**62.215.259**	**51.795.309**	**61.152.167**	**63.672.337**	**66.467.602**	**116.942.926**	**129.882.655**	**191.630.077**	**175.162.734**	**247.082.864**	**743.758.331**	**668.961.323**
	Wages and compensations	19.930.262	19.440.491	19.877.109	19.953.686	20.018.185	26.233.389	17.893.198	18.560.972	19.494.046	20.035.180	21.434.017	27.614.774	59.247.861	66.205.260	55.948.217	69.083.971	250.485.308	230.405.705
	of which: Gross wages	14.499.556	15.427.236	15.457.686	15.352.353	15.259.149	15.227.935	15.195.356	14.970.893	15.383.522	15.430.033	17.015.216	17.914.601	45.384.478	45.839.437	45.549.771	50.359.849	187.133.535	176.165.146
	of which: Compensations	5.430.706	4.013.255	4.419.422	4.601.333	4.759.037	11.005.454	2.697.842	3.590.080	4.110.524	4.605.147	4.418.802	9.700.173	13.863.384	20.365.823	10.398.446	18.724.121	63.351.774	54.240.558
	Other taxes and contributions	1.732.216	1.836.867	1.852.412	1.834.091	1.823.852	1.819.086	1.821.095	1.794.355	1.841.676	1.843.073	2.044.548	2.150.151	5.421.495	5.477.029	5.457.125	6.037.772	22.393.422	21.231.470
	Purchases of goods and services	2.810.398	4.403.242	5.481.028	4.929.231	5.254.223	5.677.680	3.564.544	3.421.230	4.961.930	5.244.720	5.679.510	12.214.181	12.694.667	15.861.133	11.947.704	23.138.410	63.641.914	62.785.384
	Grants	12.895.616	17.787.176	21.174.675	47.890.232	28.708.694	27.378.127	38.715.135	28.015.374	34.447.580	36.515.555	38.274.625	74.957.550	51.857.467	103.977.052	101.178.089	149.747.731	406.760.339	352.460.003
	Interest	44	238.171	422.949	35.067	71.155	3.382	221.288	3.377	406.935	33.809	-965.098	6.270	661.164	109.603	631.600	-925.019	477.347	2.078.761
	Transfers to lower spending units	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
22	Net lending*	-241.536	-1.030.521	-39.654	-373.091	-27.559	-1.485.111	-368.635	-21.036	2.103.431	2.186.450	1.186.256	1.209.097	-1.311.711	-1.885.761	1.713.760	4.581.803	3.098.091	-4.768.668
3	**Net acquisition of nonfinancial assets**	**-171.812**	**226.605**	**1.016.102**	**-7.606.483**	**3.074.711**	**1.731.861**	**1.581.977**	**4.356.669**	**2.569.241**	**1.748.323**	**4.941.036**	**22.173.101**	**1.070.895**	**-2.799.911**	**8.507.888**	**28.862.460**	**35.641.331**	**24.808.746**
4	**Government surplus/deficit** (1-2-3)	**18.938.464**	**14.319.167**	**15.716.426**	**-5.561.498**	**4.301.172**	**2.927.139**	**11.910.089**	**10.218.541**	**62.495**	**5.318.418**	**-8.377.143**	**-56.551.224**	**48.974.058**	**1.666.813**	**22.191.125**	**-59.609.949**	**13.222.047**	**32.583.027**
5	**Net financing ****	**-1.568**	**-19.445**	**-10.517**	**-10.524**	**-47.552**	**-10.539**	**-10.539**	**-9.722**	**-9.722**	**-9.722**	**-1.076.620**	**-9.723**	**-31.529**	**-68.615**	**-29.983**	**-1.096.065**	**-1.226.193**	**-121.275**

Table 7.

Activities of the Unit

Sarajevo, March 6th, 2008 – At the session of the Steering Committee of EU Fiscal Policy Support Project (EUFPS), work plan for the next six months was presented. Main activities were presented by Mr. Boris Petkov, Team Leader. These activities include seminars for project beneficiaries – BiH Ministry of Finance, entities, District and Macroeconomic Analysis Unit – trainings related to preparation of fiscal projections for direct and indirect taxes, establishment of a working group for fiscal policy and presenting the project to wider public and citizens. In addition to the project beneficiaries, representatives of EC Delegation, Directorate for Economic Planning, Central Bank and OHR were also present.

Sarajevo, March 11th, 2008. – As part of the Conference on Tax Policy in BiH, Dinka Antić, Msc, Head of Macroeconomic Analysis Unit made a presentation on "Policy of indirect taxes in BiH in the light of European Integrations". Due to macroeconomic implications, focus was on a need to define dynamics of harmonization of policy for indirect taxes after signing of the Agreement with EU. The Conference was organized by FEB, Sarajevo.