Tax Modernization Project (TAMP) in Bosnia and Herzegovina

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Revenue Performance and Tax Administration Modernization in Bosnia and Herzegovina 2001 – 2004

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Acronyms

BiH	Bosnia and Herzegovina
CPC	Central Processing Center
EIT	Enterprise Income Tax
EU	European Union
EU-CAFAO	European Union Customs and Fiscal Assistance Office
FBiH	Federation of Bosnia and Herzegovina
FP	Financial Police
GDP	Gross Domestic Product
GTZ	Gesellschaft für Technische Zusammenarbeit (German Technical Assistance Corporation)
IAG-T	International Advisory Group on Taxation
IC	International Community
IT	Information Technology
ITA	Indirect Taxation Authority
IMF	International Monetary Fund
KM	Convertible Mark
LTCU	Large Traders Control Unit
MoF	Ministry of Finance
NARS	National Assembly of the Republic of Srpska
OHR	Office of the High Representative
PIT	Personal Income Tax
PRAR	Public Revenues Administration of the Republic
RAS	Revenue Allocation System
TA	Tax Administration
TAFBiH	Tax Administration of the Federation of Bosnia and Herzegovina
TAP	Testing and Processing Center
TARS	Tax Administration of the Republic of Srpska
TABD	Tax Administration Agency of Brcko District
TIN	Taxpayer Identification Number
USAID	United States Agency for International Development
USG	United States Government
UST	United States Treasury
VAT	Value Added Tax

Executive Summary

From 2001 to 2004, the tax landscape in Bosnia and Herzegovina (BiH) improved dramatically. Tax revenues throughout BiH grew at an average annual rate of more than 15 percent—far outpacing economic growth, which slowed to less than 5 percent per year country-wide. While growth in the economy had some influence on revenue performance, this report finds that tax administration modernization played a far more important role in these trends.

This report focuses on those changes in tax administration that contributed most to recent improvements in revenue performance. Starting in 2001, the Entities and Brcko District embarked on parallel efforts to modernize and streamline their tax institutions with the goal of achieving more centralized, efficient and harmonized tax administration. With the support of the International Community, the three Tax Administrations introduced centralized taxpayer registries, providing the necessary controls for identifying and monitoring active taxpayers. They introduced unified systems for centralized processing of tax information, using innovative technologies to allow tax offices throughout the country to share information in "real time". They rationalized and automated their core business processes, leading to more efficient and effective processing of tax information. They also improved staff training and developed a new, service-oriented approach to dealing with taxpayers.

These modernization efforts had a clear impact on tax revenue performance. The re-registration process assigned a unique taxpayer identification number (TIN) to each existing taxpayer and enabled the Tax Administrations to clear out many files of defunct and "ghost" taxpayers, expanding the base of legitimate taxpayers from which to collect revenues. Centralized processing and the creation of a unified tax accounts database gave tax offices the ability to process tax declarations with greater efficiency and catch errors in taxpayer assessments, which both boosted government revenues and placed the onus of compliance more squarely on the taxpayer. Furthermore, special enforcement efforts, particularly with respect to large taxpayers, resulted in millions of KM of taxpayer liabilities, led to improvements in taxpayer discipline, and, ultimately, led to more revenues for the governments.

Despite the accomplishments to date, there is need for continuing improvement, both in terms of tax administration and of tax policy. The goal is to create a tax system that is economically efficient, with rational and fair tax policies, low costs of administration, and high compliance while also ensuring that the governments' revenue needs are met. Clearly, the progress in tax administration modernization that has been achieved already provides a solid foundation for more comprehensive reform of the BiH tax system.

Acknowledgements

Preparation of this report would not have been possible without the assistance and guidance of many people and the willing participation of the persons interviewed. We thank the many government officials, in each of the Entities and in Brcko, who provided us with their candid views, statistical information, and technical input, without which our analysis would have been severely lacking.

The research team benefited from the generous cooperation of the International Community. Many individuals took time to meet with us and speak by telephone, provided us with reports on their activities, and provided valuable data and recommendations throughout the research process. This report is in some respects a tribute to the International Community, whose support for tax modernization was critical to achieving many of the results highlighted in this report. We thank all those whom we called on for their cooperation in this project.

Last, but certainly not least, we owe special thanks to our colleagues at USAID-TAMP. In particular, thanks go to Mark Gallagher, who provided extensive guidance throughout the research process, offered valuable feedback on multiples drafts of the report, and gave this project highest priority. We are also very grateful for comments from Sam Greer and Pero Bosnić, both of whom reviewed drafts of this report and provided us with feedback and technical input. Sam explained with great proficiency the progress that has been attained in tax administration modernization, and offered fresh ideas on how these efforts contributed to revenue performance. Pero opened all the necessary doors in the Federation, and also offered a valuable insider's perspective on the tax tradition in BiH. In Banja Luka, Rajko Tomaš fielded countless questions and made sure that we understood the situation in the RS, and Zoran Drakulić gave us access to officials at the Tax Administration on more than one occasion. These and other TAMP colleagues provided important substantive input and editorial assistance in putting together this report, and we have tried to incorporate their comments into the final paper to the extent possible.

While we benefited from the assistance of all those mentioned, any factual errors, misunderstandings, or misinterpretations are our own. Furthermore, the analysis and opinions expressed in this report should not be construed as reflecting those of the United States Agency for International Development, the United States Government, or Development Alternatives, Inc.

Revenue Performance and
Tax Administration Modernization
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1. Introduction and background

This report analyzes tax revenue performance in Bosnia and Herzegovina (BiH) from 2001 to 2004 and identifies the key factors underlying that performance. Over the past four years, government revenues increased significantly throughout BiH, averaging more than 15 percent growth per year. Figure 1 shows this revenue performance with the contributions of BiH's three constituent parts: the Federation of Bosnia and Herzegovina (FBiH), the Republic of Srpska (RS), and the District of Brcko. In the FBiH, tax revenues increased at an average annual rate of nearly 18 percent. In the RS, tax revenues increased by more than 14 percent per year. In Brcko, total revenues grew by more than 18 percent per year.[1]

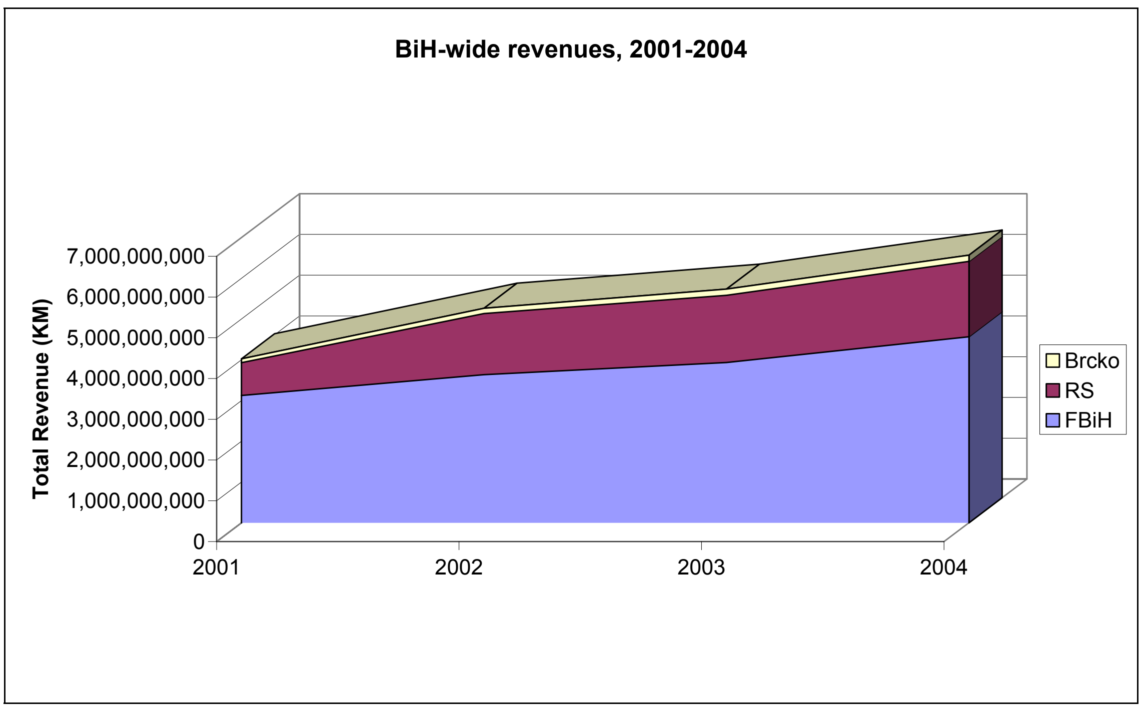

Figure 1: Revenue Performance in BiH, 2001-2004

[1] To the extent possible, revenue data throughout this report is taken directly from the Revenue Allocation System (RAS). The authors consider the RAS the most reliable source for such data, but also acknowledge that these data may differ from data provided by other valid sources.

These increases happened even as customs duties declined 38 percent in the FBiH, 33 percent in the RS, and 47 percent in Brcko.

Tax revenue performance far outpaced economic performance over this period. As Table 1 shows, growth in the BiH economy averaged just below 5 percent per year. In the RS, moreover, the economy grew at a much slower pace. In other words, a growing economy was not the only, nor was it the most important, explanation for the strong revenue performance throughout the country. This report demonstrates that revenues grew more because of critical achievements in modernizing and strengthening tax administration.

Table 1. Economic Performance in BiH, 2001-2004

	2001	2002	2003	2004
Nom. GDP, in KM millions				
Federation BiH	7,274	7,943	8,340	8,824
Republic of Srpska	2,993	3,061	3,151	3,108
Nom. GDP growth (%)				
Federation BiH		9.2	5.0	5.8
Republic of Srpska		2.3	2.9	-1.4
Public Revenues, in KM millions				
Federation BiH	3,090	3,289	3,614	3,788
Republic of Srpska	805	1,500	1,649	1,848
Public Revenues, Share in GDP (%)				
Federation BiH	42.5	41.4	43.3	42.9
Republic of Srpska	26.9	49.0	52.3	59.5

Sources: Central Bank of BiH; World Bank estimates.

Indeed, when tax administration modernization began in earnest in 2001, the tax system was in flux. A decade after the disintegration of Yugoslavia, taxes were beginning to play a more important role in government finances as the currency board eliminated the option of printing money. Still, the tax system was operating on weak foundations. Tax offices were in poor condition and lacked adequate hardware and communications infrastructure. Archives were in disorder and taxpayer registries were seldom up to date. The organization of staff was inconsistent with the changing responsibilities of tax officials. In the FBiH, audit selection was controlled by cantonal offices, leaving the process open to local influence. And in the RS, audit and enforced collection teams operated as one, creating opportunities for corruption and collusion. As a result, compliance rates were low, and tax evasion was rampant.

Starting in 2001, the FBiH, the RS, and Brcko District embarked on a series of modernization efforts with the support of the International Community (IC) that focused on building the basic infrastructure for sound, modern tax administration. Parallel initiatives undertaken by the three Tax Administrations redefined the roles and responsibilities of tax authorities and taxpayers; introduced centralized and unified systems for managing and processing tax information; created more effective control and enforcement teams; and, streamlined and automated the core business processes of tax administration. These changes vastly improved the way the tax authorities performed their core functions and interacted with the public, and ultimately enhanced their ability to collect public revenues. Of course, revenues were also influenced by various tax policy initiatives, which are highlighted in the report. However, these initiatives were limited and had far less impact on revenue performance than did the tax administration changes that form a major focus of this study.

This report is important and timely for a number of reasons. First, understanding the sources of tax revenue performance is critical not only to planning for future government financing needs, but also to creating an enabling environment that fosters private-sector investment and competitiveness. An efficient and productive tax system is a key aspect of this enabling environment.

Second, this report comes at a time when the new state-level Indirect Taxation Authority (ITA) is in the process of taking over administration of indirect taxes throughout BiH. As of January 1 2006, all indirect taxes, including excises, road fees, import and export duties, and all other customs charges will be the domain of the ITA. At the same time, the sales tax, consistently a major revenue source in all three jurisdictions, is set to disappear and be replaced by a State-wide Value Added Tax (VAT), which will also be administered by the ITA. This report provides a snapshot of revenue performance, and of the general health of the tax system, on the eve of this transition.

Third, with the BiH economy opening to Europe and greater trade partnering with its neighbors, the role of import duties as a crucial revenue source is rapidly on the decline. As taxes on international trade diminish in importance, domestic taxation takes on an increasingly important role in meeting the governments' financing requirements.

Finally, this report provides evidence that the aggressive efforts to modernize the tax system have actually paid off. In both Entities and in Brcko, the tax administrations committed to making changes that were politically unpopular and that often meant taking on very powerful people. By doing so, the tax authorities showed taxpayers that they would be held responsible for paying taxes, which ultimately led to greater taxpayer discipline. Without these efforts, the revenue results that are highlighted in this report would not have been possible.

Yet, despite the achievements to date in strengthening the tax system, many taxes are still poorly designed, are extremely difficult to collect, and yield little revenue at all.[2] Therefore, there is need for continuing improvement, both in terms of tax administration modernization, and of tax policy reform. The introduction of sound, new corporate and personal income tax laws in the two Entities, and the enhancement of systems and procedures for audit and enforcement (particularly for income taxes), are among the highest priorities on the reform agenda.[3] As these and other tax reforms unfold, there is also a critical need for forging effective cooperation between the three Tax Administrations and the ITA.

1.1. Organization of the report

The next two sections summarize important trends in tax revenue performance from 2001 to 2004, and then highlight the tax administration modernization efforts that contributed to this performance in the RS and the Federation, respectively. For the reader's reference, the Annex at the end of this report features tables for each of the Entities and Brcko showing annual changes in revenue performance by revenue type.

Section IV presents findings from a comparison of tax system conditions in BiH and tax systems around the region, with reference to select indicators and international standards of tax system performance, or "benchmarks". This is followed by a summary of International Community assistance to BiH in the tax area. The report concludes with some observations and "next steps," including a brief discussion of tax reforms currently underway.

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[2] See Gallagher and Bosnić (2004), *Toward an SME-Friendly Revenue System in Bosnia and Herzegovina*, USAID-Tax Modernization Project (TAMP), March 2004.

[3] Brcko District introduced a new unified Income Tax Law in 2003. The two Entities are expected to introduce new enterprise and personal income tax laws some time in mid-2005. In the FBiH, the new laws, when implemented, will replace a schedular system of income taxes that imposed different tax rates on different sources of income with one that taxes according to the level of income, or the "ability to pay". In the case of the personal income tax, the new laws will require withholding on salaries, one of the most important aspects of a sound personal income tax system. In the RS, a withholding system is already in place, but it will need to be updated to accommodate the structure of the new personal income tax.

2. Revenue Performance and Tax Administration Modernization in the Republic of Srpska

2.1. Revenue performance in the RS, 2001-2004

Economic growth in the RS slowed considerably after 2001, falling to less than 3 percent per year as a result of political changes and economic policies under the new government. Despite the economic slowdown, tax revenues in the Entity climbed significantly over the next three years.

Figure 2 presents the distribution of tax revenues and the major sources of revenue growth in the RS over the period from 2002 to 2004. This graph includes only revenues collected by the Tax Administration of the Republic of Srpska (TARS). Customs duties are excluded, since these are the domain of the customs administration and are not discussed in this report.[4]

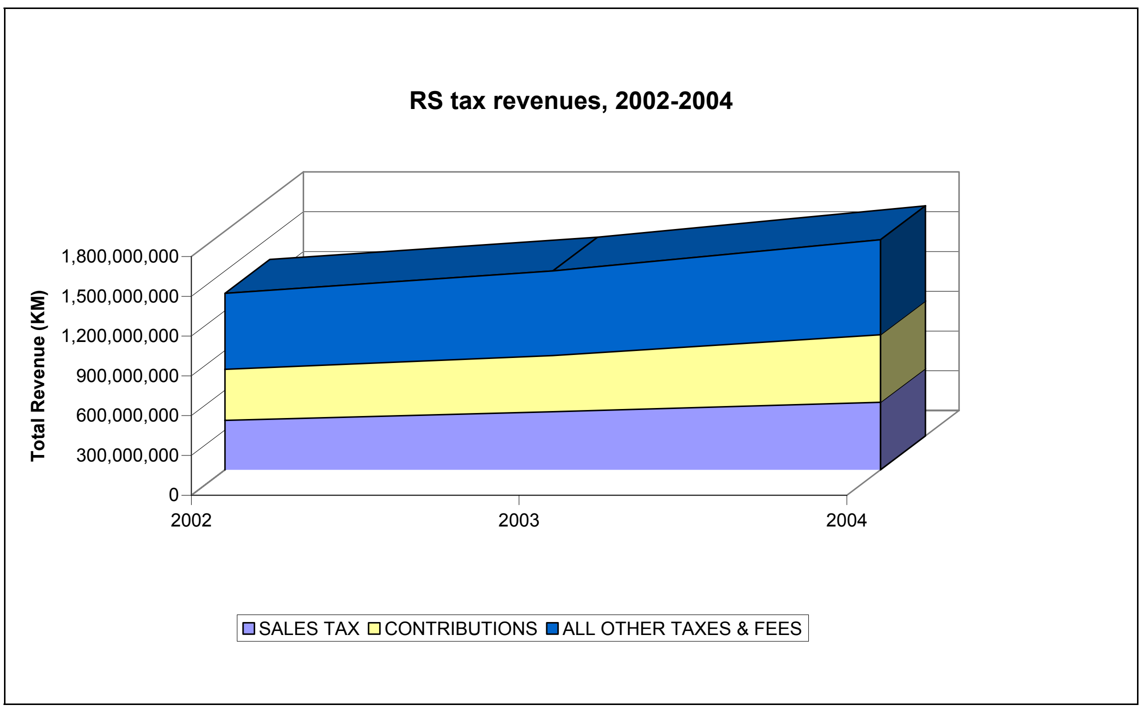

Figure 2: Revenue Performance in the RS

[4] For annual trends for customs revenues, see the table on 'Revenue Performance in the RS' in the Annex to this report.

The graph also excludes revenue performance trends for 2001. This is because data for contributions to the four funds (health, pension and disability insurance, child welfare, and the unemployment fund) were not automatically available to TARS until 2002, when all government units were connected to a new integrated treasury system. Because nearly a third of all revenues collected by TARS come from contributions, to include 2001 revenues without contributions would present a misleading picture of real revenue growth.

Nevertheless, contributions to the four funds experienced solid growth over the first three years that TARS administered them. Imposing a combined tax rate on income of more than 40 percent, contributions also became one of the largest sources of revenue in the RS over this period.[5]

One of the main reasons for the growth in these revenues was the enactment of the RS Law on Contributions in late 2001. The new Law broadened the tax base and introduced more discipline in paying contributions, which contributed significantly to the growth in contributions revenue from 2002 to 2004.

As the figure below illustrates, the increase in contributions revenue was also due, in part, to increases in the number of registered legal entities and entrepreneurs in the RS, as TARS launched a campaign in 2002 to clear the taxpayer rolls of invalid entries and register active taxpayers into a new, centralized taxpayer registry. (The new registration process is discussed in Section II.2.)

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[5] See the analysis in Gallagher and Bosnić (2004), pp. 22-23. Overall, contributions and wage taxes combined impose an overall marginal tax rate of 52 percent on salary in the RS.

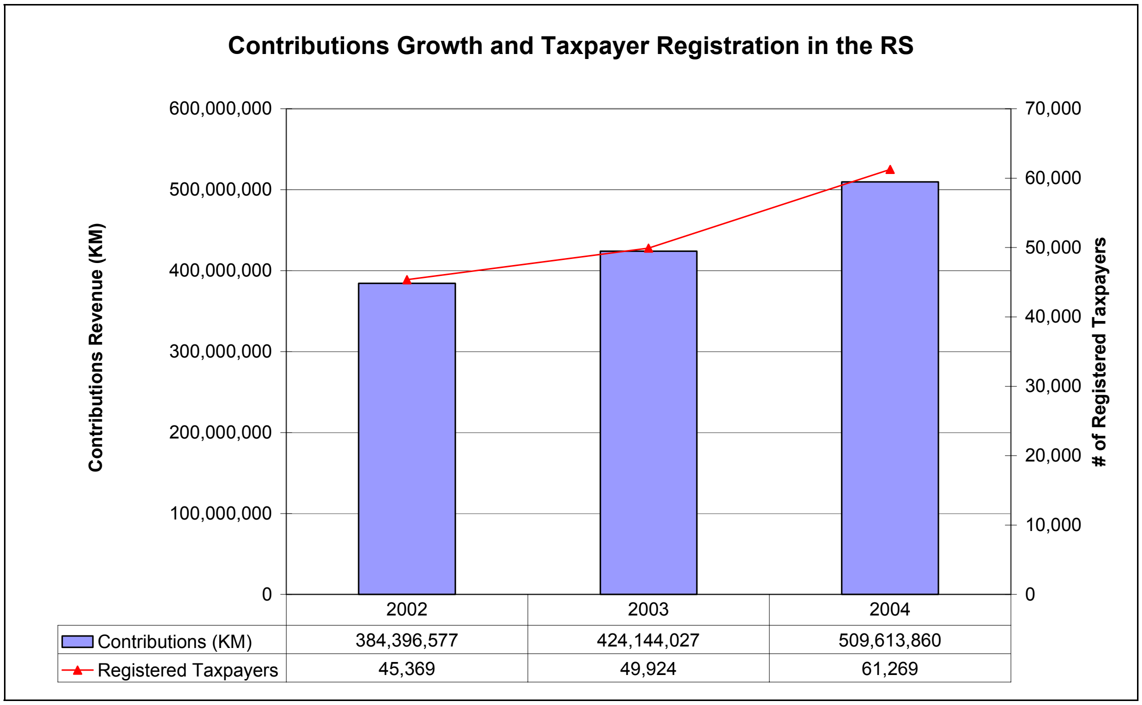


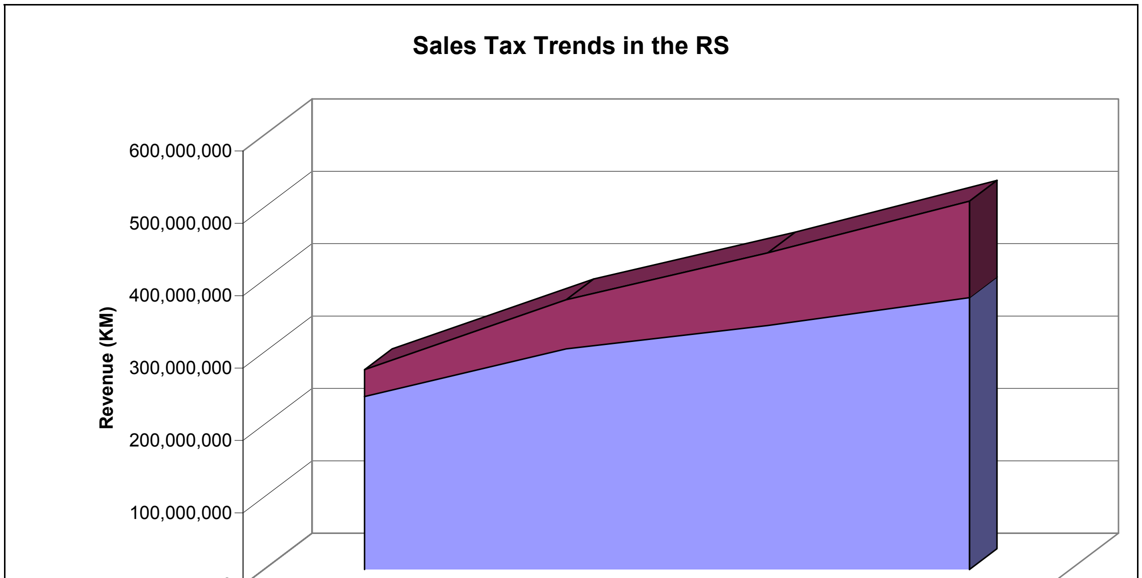
Figure 3: Contributions Trends in the RS

Contributions are paid by employers on behalf of their employees, hence the strong relationship between registrations and revenue growth. Because contributions payments are calculated using formulas based on wages, another contributing factor was steady growth in taxable income as represented by the average wage rate (i.e., the average wage per person). According to a recent study, the average wage rate rose by about 10 percent per year from 2002 to 2004, which was actually due more to a broadening of the legal definition of taxable income than to economic growth per se.[6] Whatever the reason, this trend helped to broaden the base from which contributions are paid and, ultimately, contributed to revenue growth.

Revenues from sales taxes increased even more rapidly than contributions, averaging more than 23 percent growth per year from 2001 to 2004. The figure below shows this growth and its key components. A major part of this growth came from sales taxes on "high-tariff", or excisable, goods (i.e., oil, tobacco, alcohol and non-alcoholic beverages, beer and coffee products), which increased more than three-fold over this period. This trend was, in part, the result of an amendment to the Law on Sales and Excise Taxes, which took effect

[6] *See* R. Tomas, Z. Przulj, and I. Sijakovic, *Nezaposleni: resurs ili socijalni problem*. University of Banja Luka, Faculty of Economics, 2004. The RS Law on Citizen Income Taxes, adopted September 26, 2001, broadened the definition of income to include, among others, a wide array of compensations paid to employees in lieu of salaries.

from August 1, 2003, that shifted the collection point for sales tax on these products from final consumption to collection at the border and *ex fabrica*.



	2001	2002	2003	2004
High-Tariff Goods (KM)	37,111,179	67,873,571	100,303,459	133,364,710
All Other Goods (KM)	239,078,327	304,961,249	337,428,575	375,749,057

Figure 4: Sales Tax in the RS

The shift in the collection point for high-tariff items was not the only reason, nor was it the most important reason, for growth in sales tax revenues in the RS. In fact, the greatest rate of increase occurred from 2001 to 2002, i.e., before the move to border and *ex fabrica* collection. This increase came about, in some measure, due to new enforcement procedures implemented by TARS starting in early 2002 that forced many businesses to settle their outstanding tax bills.

Sales tax revenue performance also benefited from the development of strict controls on taxpayer registration. The new Law on Tax Administration, enacted on October 24, 2001, introduced rigorous fines for failing to register and made it extremely difficult for businesses to operate without proper registration. As a result, taxpayer registrations increased significantly from 2002 to 2004, as TARS oversaw the re-registration of active taxpayers in the RS.

Parallel to the trend for sales taxes, excise revenues grew significantly from 2001 to 2002, rising nearly 50 percent year on year as increases in registered businesses broadened the base for payment of excises. Besides increases in registered taxpayers, collection improved, in part, because of stricter rules introduced in the 2001 Law on Sales Tax and Excises that required manufacturers and importers to pay excises prior to releasing their products for trade.

Table 2. Excise revenues in the RS, 2001-2004

Category	2001	2002	2003	2004
Excise Revenue (KM)	136,087,565	198,165,786	209,918,630	209,739,083
Annual change (%)	-	46	6	(0.1)

Source: Revenue Allocation System (RAS).

Another important trend in RS revenue performance was the sharp growth in revenues from "fees and charges". The figure below shows how fees and charges tripled between 2001 and 2004. A crucial part of this growth was the performance of the "fee for oil derivatives," which is actually an excise tax on petroleum. These revenues increased in large part because of special enforcement efforts by TARS.

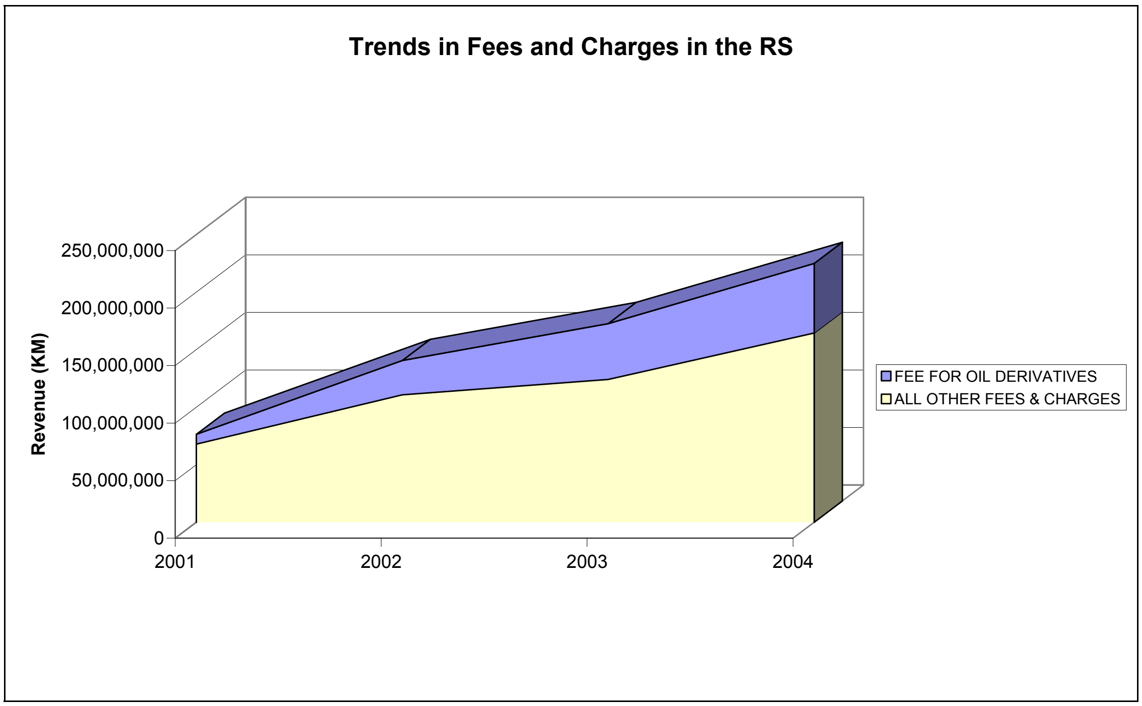


Figure 5: Fees and Charges in the RS

The increase in revenues was also due in part to the introduction of a modern treasury system, which centralized financial management and reduced the opportunities for municipal governments and other public institutions to conceal payments received for services they provided. In addition, prices for a number of services provided by Entity and municipal organs were raised over this period, leading to greater revenues for the RS government.

Figure 6 shows the performance of the wage tax in the RS from 2001 to 2004. The wage tax is a flat tax applied to wage and wage-related income, and like contributions to the funds, is paid by employers on behalf of their employees and by entrepreneurs on their independent earnings. Thus, the increase in wage tax revenues was due, in large part, to the growing number of registered businesses and entrepreneurs in the new tax registry.

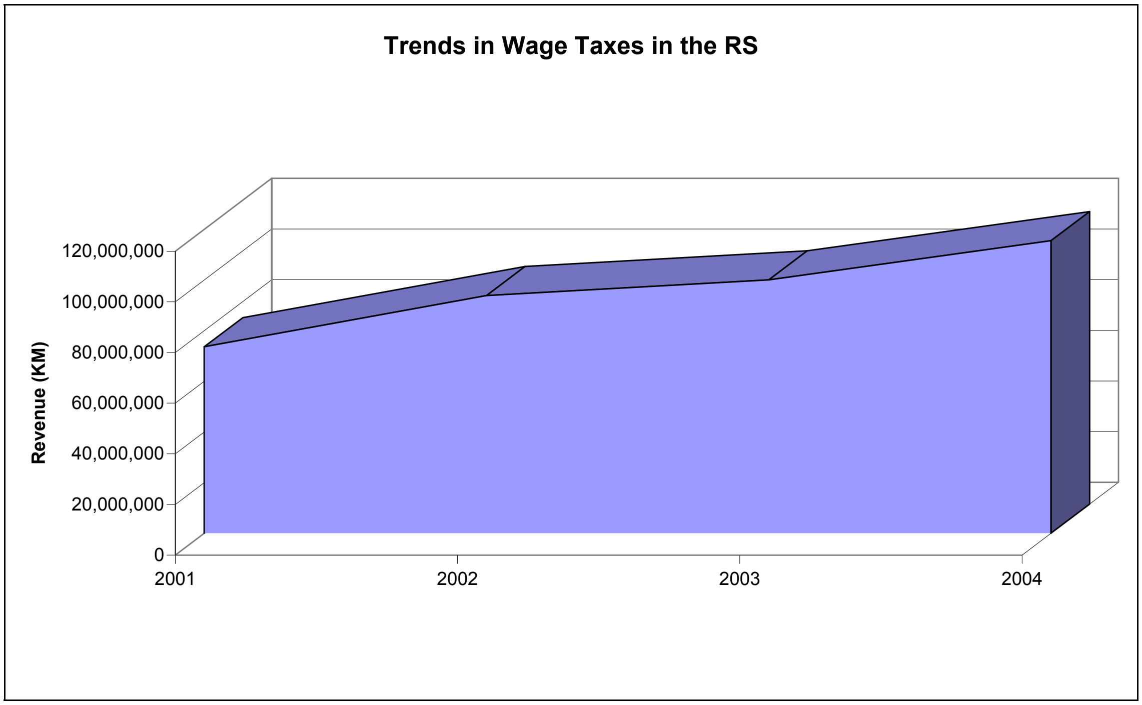


Figure 6: Wage Tax Revenues in the RS

The new RS Law on Citizen Income Taxes, adopted September 26, 2001, also played a part in this revenue growth. Besides introducing a flat 10 percent rate on all types of income, including wages, the new Law broadened the tax base by removing the distinction between wage and non-wage income for tax purposes. In the past, taxes were paid only on monies officially declared as "salary," but employees commonly received significant sums of money each month to cover transportation, meals, and other costs in lieu of wages. With the new Law, those types of payments had to be reported as salary and treated as taxable income.

In addition to the above changes, the new Law provided new incentives for companies and entrepreneurs to meet their wage tax obligations, setting high fines for non-payment. According to one TARS official, the prospect of stricter penalties, among other things, helped improve compliance and discipline among wage taxpayers.

While revenues from the wage tax grew steadily from 2001 to 2004, the performance of profit taxes was mixed. Figure 7 presents an illustration of these revenue fluctuations. In 2002, revenues grew 11 percent as a new Law on Profit Taxes, which took effect on January 1, 2002, broadened and defined the tax base for the profit tax. Revenues grew even as the new Law lowered the profit tax rate from 20 percent to a flat 10 percent. Compliance was also aided to some extent by the re-registration of active companies in the RS.

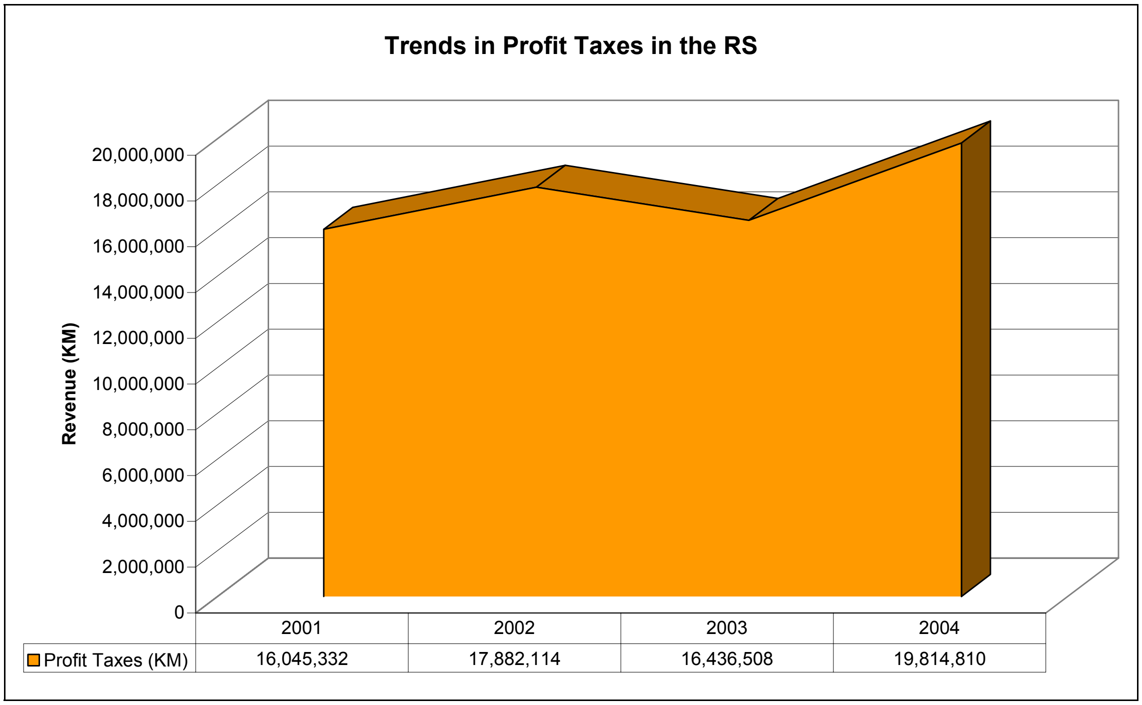


Figure 7: Profit Taxes in the RS

In 2003, proceeds from the profit tax fell 8 percent compared to the previous year, but then rebounded 20 percent in 2004. The decline in 2003 is a puzzling trend, but the following year's recovery was in large part the result of increases in registered companies. Still, as of 2004 revenues from the profit tax yielded little over one percent of total government revenues in the Entity, which is low by regional and international standards. Of course, taxation of corporate profits will change radically with the enactment of a new enterprise income tax law, which is expected some time in mid-2005.

Among the other direct taxes in the RS, the myriad "citizen taxes" accounted for less than 4 percent of total RS revenues collected between 2001 and 2004. However, revenues from these taxes nearly tripled over this period, as shown in the figure below.

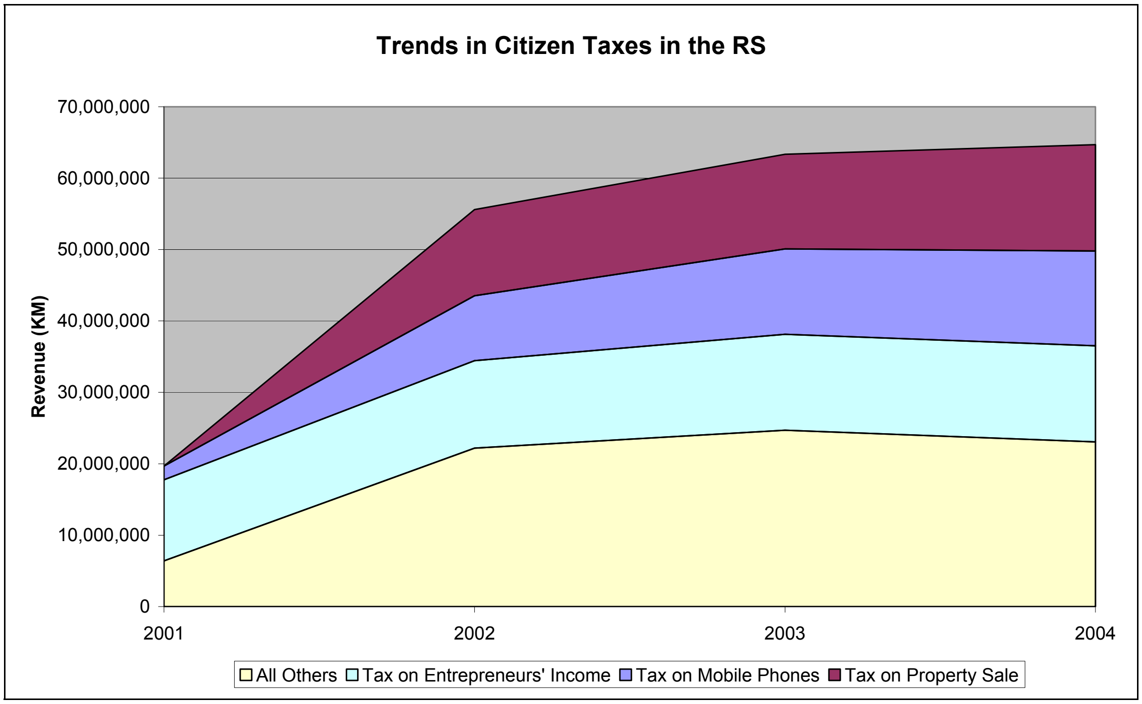


Figure 8: Citizen Taxes in the RS

Citizen taxes are levied on a variety of economic and business activities, including income of individuals above a certain minimum threshold; income from copyrights, patents and technical improvements; rental income; and, on the ownership, inheritance or sale of property. Citizen taxes are also levied like fees or charges on the possession or use of vehicles, boats, mobile phones, and weapons, among others.

The most significant increase in citizen tax revenues happened from 2001 to 2002, following the enactment of three new citizen tax laws in late 2001. First, a new Property Tax Law gave TARS responsibility for administering the valuation and collection of taxes on the ownership, inheritance and sale of property as of the beginning of 2002. As Figure 8 shows, revenues from property sales became an important source of citizen tax growth as a new market value approach to taxing property transfer took effect. Second, the Law on Tax on the Possession and Use of Goods strengthened enforcement on the collection of taxes for the use of various consumer products. A notable trend was the sharp increase in revenues from the tax on the use of mobile phones, which grew six-fold from 2001 to 2004 as mobile phone use rapidly expanded throughout the RS. Finally, and as mentioned above, the new Law on Citizen Income Taxes broadened the definition of income and, thus, broadened the base for taxation of individuals' income.

At the time that the research for this report was being completed, the draft of a new personal income tax law had been completed and its enactment was expected in mid-2005.

The new law, when enacted, will replace the long list of citizen taxes on income as well as the wage tax with a single tax on income of individuals.

2.2. Tax administration modernization in the RS

Until 2001, responsibility for tax administration in the RS was vested in two public institutions: the Public Revenues Administration of the Republic (PRAR) and the Financial Police (FP). PRAR was in charge of the collection of public revenues, while the FP handled audit and enforced collection of sales tax and excises paid by legal persons.

Prior to reform, the RS had 63 municipal tax offices, each with its own database for payments and liabilities. No communications infrastructure existed for sharing data among offices, nor was there a centralized taxpayer registry, which made tax administration difficult, disjointed and inefficient. Tax offices operated on old computer systems that lacked the capacity to accommodate many of the basic tax administration functions. Furthermore, tax assessments were made directly by tax officials, who would then inform the taxpayer of his/her tax liabilities and payment deadlines. This was not only labor-intensive and costly for the Tax Administration, but it also left open opportunities for local influence and corruption.

One of the major milestones of tax administration modernization in the RS was the enactment of the new Law on Tax Administration on October 24, 2001. This was followed, on December 25, 2001, with the approval of the "Rule Book" (or Regulations) on the organizational structure of the Tax Administration. The new legislation introduced the principle of "self-assessment", placing the burden of compliance more squarely on taxpayers. In addition, with the new legislation the PRAR and FP were dissolved and their functions were transferred to the newly established Tax Administration of the Republic of Srpska (TARS). TARS inherited the offices and equipment of the PRAR and FP and carried over many of their staff, although more than 200 people were let go in the restructuring.

TARS centralized tax administration operations in its Banja Luka headquarters, with 7 regional centers and 60 local offices reporting directly to the central office. Local offices were assigned responsibility for registration of taxpayers, receipt of tax declarations, and general taxpayer inquiries. The regional centers were charged with enforced collection as well as audit and investigation. The headquarters assumed responsibility for coordinating all the tasks performed at the regional and local levels and for overseeing the implementation of new systems, procedures and training throughout the institution.

TARS reorganized its units along functional lines of work, as opposed to by tax type as it had been organized in the past. Several new departments were established, including units for investigation and intelligence, taxpayer services, enforced collection, and a large taxpayers' unit. Tax officials received training to perform discrete tasks from taxpayer registration and receipt of tax documents to customer service and education. Tax forms were simplified and seminars were held to educate taxpayers on how to use the new forms and comply with filing requirements.

With the organizational change already underway, a crucial early initiative in the modernization of tax administration was the introduction of a new taxpayer registration system. The new system, based on a unique, 13-digit Taxpayer Identification Number (TIN), fed into a single, centralized taxpayer registry. The TIN was designed to link to a taxpayer account to which all tax activity for a particular person or entity would be directed, no matter where the transaction was initiated.

From the middle of 2002, all taxpayers in the RS were required to file a special declaration to re-register with TARS to obtain the new TIN. This applied equally to legal entities and entrepreneurs as well as to citizens and pensioners, who had to file a tax declaration regardless of whether they had a tax liability that year simply to get them into the system. By the end of 2003, TARS had already developed a database of more than 300,000 registered citizen taxpayers.[7]

The re-registration process helped to reduce the number of invalid and fraudulent company registrants in the taxpayer rolls in the RS. These entries had clogged the system for years and made enforcement of tax collections extremely difficult. As Figure 9 shows, by the end of 2004, TARS had managed to substantially raise the number of active taxpayers in the registry. Registered legal entities grew 12 percent from 2002 to 2003 and 18 percent from 2003 to 2004, while entrepreneurs registered in the tax system increased 9 percent and 26 percent, respectively, over the same period.

[7] Realizing that the costs of printing and processing the large volume of tax declarations were significantly higher than the revenues they generated, in January 2004 TARS decided that citizens with no income or property tax liabilities would no longer be required to file tax declarations.

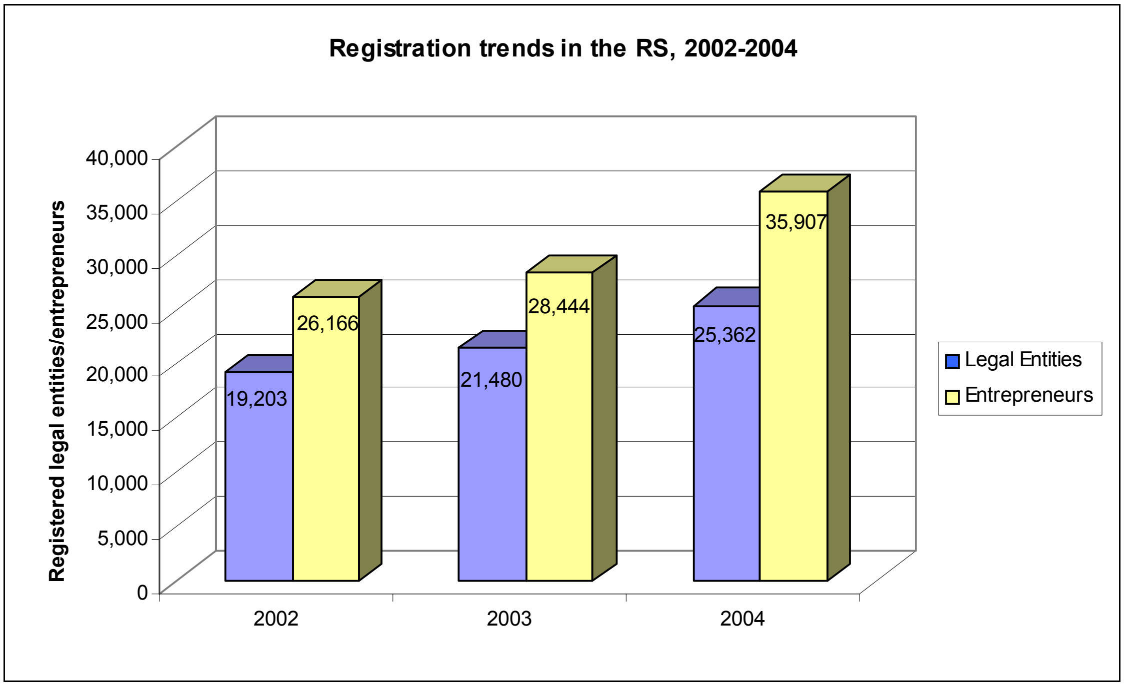


Figure 9: Taxpayer Registration in the RS

The new taxpayer registry formed one piece of a centralized and unified taxpayer accounts database that TARS began to develop in 2003. The new database brought together three sub-databases: the taxpayer registry, which contains basic taxpayer information (name, address, TIN, etc.); the payments registry, which records all payments made by taxpayers through the banking system; and a declarations registry, which reflects the taxpayer's self-assessed declaration of his/her tax liabilities.

The need for face-to-face contact with the taxpayer prior to filing was greatly reduced by the move to taxpayer self-assessment and the introduction of taxpayer education programs. Therefore, TARS established a central processing center (CPC) at its Banja Luka headquarters to handle the tedious work of data entry for tax declarations and to generate notices related to tax liabilities. For the new CPC, a combination of new technologies were developed, including electronic scanning of paper submissions, simplified and automated tax forms, and a direct link to the centralized taxpayer accounts database. To ensure reliable and efficient data transfer between the CPC and the rest of the Tax Administration, a microwave-based ("Canopy") communications system was installed that connected TARS offices to each other and to the taxpayer accounts database via a high-speed, low-cost network. As the CPC received and entered new declarations into the database, the system could maintain and update taxpayer accounts and cross-reference tax information including credits (taxes assessed) and debits (taxes paid). From the database, any TARS local office could now generate a "taxpayer card" with basic tax information and an account balance for a given taxpayer almost instantaneously. Among other things, this was an important step in improving the system for issuing taxpayer certifications, which the taxpayer must obtain and submit in order to get certain permits and services in the RS.[8]

As text box below describes, the CPC was designed with a thorough sequence of steps and procedures for absorbing and processing vast quantities of tax-related documents, with automated safeguards to detect and correct errors in reported tax information.

Text Box 1: Centralized Declarations Processing

Centralized processing in each of the Tax Administrations operates according to a comprehensive set of procedures. There are some variations between the procedures applied in the RS, the Federation and the District of Brcko, but these differences are subtle. The process begins with self-assessment by the taxpayer, who submits the completed declaration to a tax clerk in the local office where he is registered. The clerk will review the declaration for any obvious errors, and if none, will label the declaration with a unique Document Locator Number (DLN) for archiving and easy retrieval. To create an electronic record and to avoid future paper manipulation, the declarations are then scanned into the centralized tax accounts database.

At the CPC, the declaration is assigned to an Original Entry (OE) clerk who manually transfers the data into an electronic version of the same declaration. (In the RS, OE is performed directly by the tax clerk.) If all fields are filled out properly and if the information matches the data in the taxpayer register, the declaration is "validated" and recorded to the taxpayer's current account. However, if there are basic data or mathematical errors, a Key Verification (KV) clerk will perform second entry to correct the errors. The system will then validate the declaration, or if errors persist, it will forward the declaration to an Error Correction (EC) operator. The EC operator decides whether to validate the existing data or, if deemed necessary, generate an error notice to send to the taxpayer.[1]

A first notice informs the taxpayer that s/he needs to re-file the declaration with the requested changes. If the taxpayer does not respond within the specified period, another notice is generated and sent to the taxpayer informing him/her that the Tax Administration will revise the declaration and file it directly. If the taxpayer still fails to respond within the legally prescribed period, the responsible tax official files the tax declaration based on data from the previous assessment period and sends a final notice informing the taxpayer that the tax declaration has been filed. However, if the taxpayer does eventually respond, the system is reset and the whole process starts over from the beginning.

Centralized processing and tax accounting via the CPC contributed very quickly to more efficient and timely processing of tax declarations. The figure below shows that in 2002 and

[8] The taxpayer certificate, which is based on the taxpayer card, shows that the taxpayer is in good stead with the tax authorities. In 2002, both TARS and TAFBiH developed new applications to automate the taxpayer certification process, but the process was still not fully automated as of February 2005.

2003, the number of declarations filed with TARS far exceeded those processed. However, by the end of 2004 the CPC had significantly reduced this backlog as the systems and procedures for declarations processing became more fully developed.

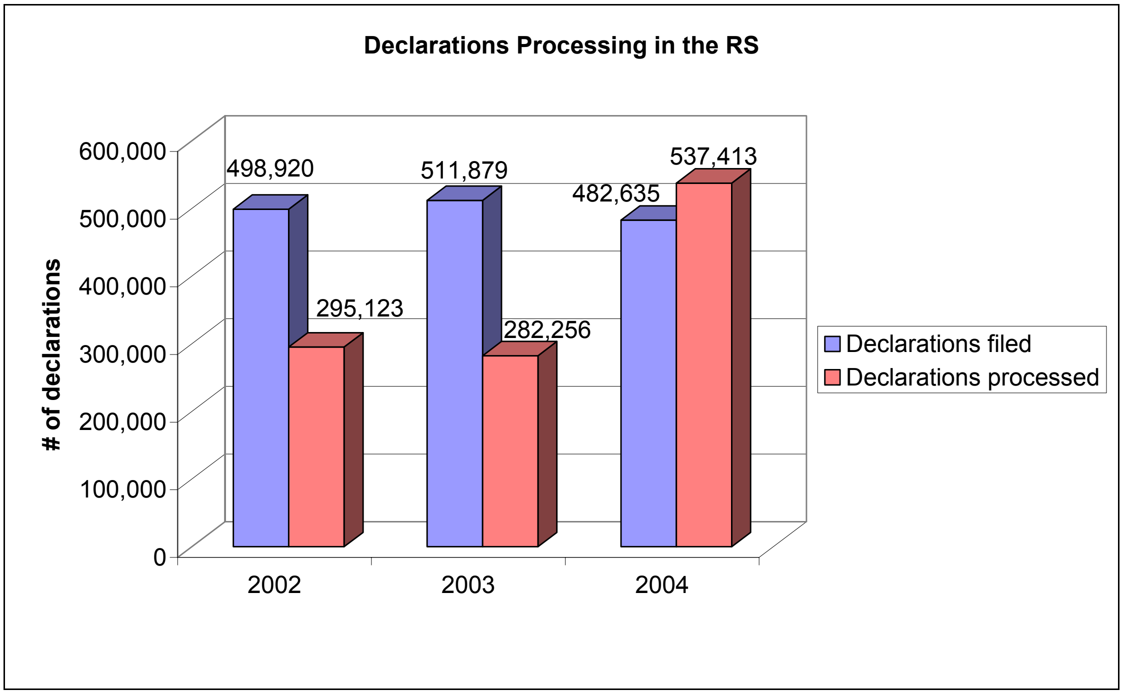


Figure 10: Declarations Processing in the RS

The Tax Administration now has daily updates on tax information whereas previously information was slow to transfer from one tax office to another. An individual declaration filed in one tax office can be received, transferred to the CPC, entered into the system, and then post to the taxpayer's account by the next day. The declaration can then be checked against payment orders made and other tax information that post to the same account to catch potential errors in the assessment, which in the past have overwhelmingly favored the taxpayer. The new systems therefore contributed in some measure to improvements in tax collection.

New systems and procedures also played a critical role in improvements in audit and enforcement. When TARS was formed in late 2001, it was faced with more than KM 300 million in unpaid tax debts. By March 2002, preparations were already underway to implement new procedures to reduce these tax arrears and improve enforcement in general. At the outset, it was important to warn taxpayers about the consequences of enforced collection.[9] Thus, in March TARS sent more than 6,000 notices to taxpayers with outstanding tax liabilities warning them of impending audits. The notices alone brought in an estimated KM 14 million in tax payments even before audits were launched. By the end of 2002, TARS enforcement efforts had resulted in an additional KM 24 million in tax payments. In 2003, TARS collected an additional KM 38 million, and in 2004 an additional KM 66 million in revenues from these efforts.

Figure 11 shows the significant increases in audit activity reported by TARS over the period from 2002 to 2004.[10] These numbers probably overstate the actual number of *audits* conducted by audit staff. Therefore, we use the term "customer interventions" to reflect both traditional field and office audits as well as routine contacts with taxpayers, such as telephone inquiries to clarify a particular tax issue.

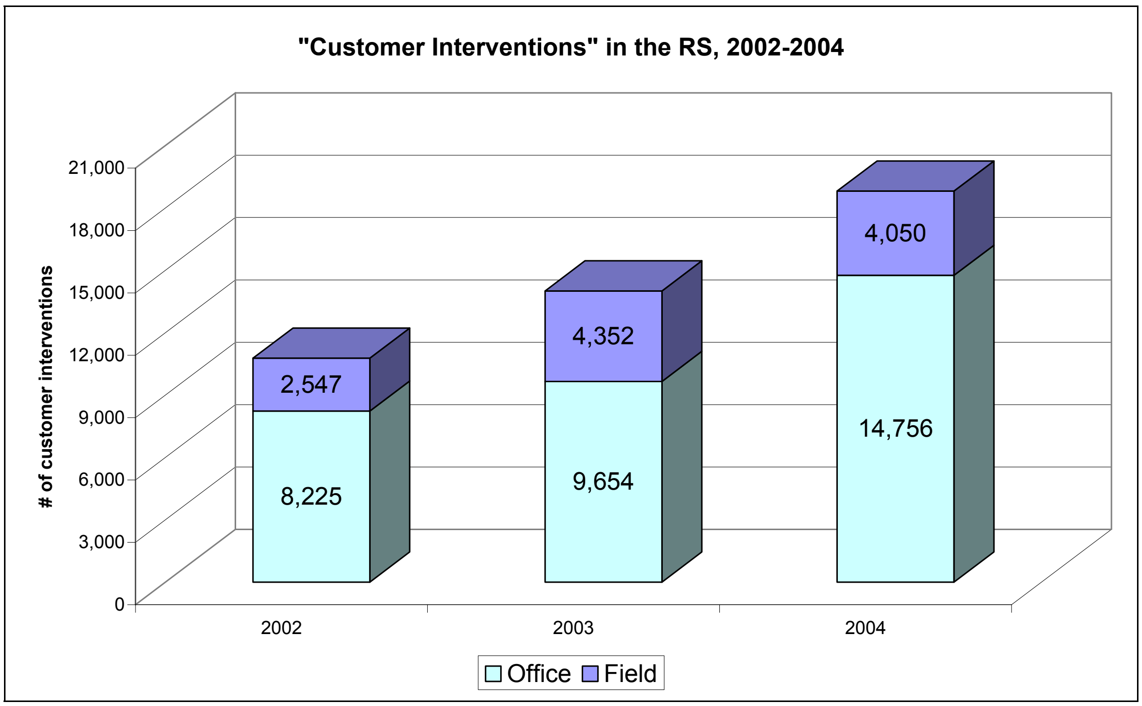


Figure 11: Audit and Enforcement in the RS

As the chart above shows, "customer interventions" nearly doubled from 2002 to 2004, despite the fact that the audit workforce barely changed over this period. A major reason for this increase in activity was improvements in tax administration systems. The establishment of the centralized tax accounts database and the introduction of basic applications for risk

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[9] Under the new Tax Administration Law, when a taxpayer fails to pay tax on time, a 10 percent fine is added to his liability, and another 5 percent penalty is added to cover the costs of enforced collection.

[10] These numbers exclude audits of large taxpayers conducted by the Large Traders' Unit.

assessment and audit selection gave tax officials the ability to make more informed and efficient decisions about who to pursue, and how to pursue them. These improvements both enhanced their ability to collect revenues, and gave them heightened credibility in the eyes of taxpayers.

An interesting way to evaluate tax administration modernization in the RS is to look at the gains in organizational efficiency achieved over this period. The restructuring of TARS led to a down-sizing of the workforce and a more rational distribution of responsibilities and staff across the institution. The immediate impact was more efficient tax administration with clearer reporting lines, better trained staff, and more clearly defined job responsibilities. As new business processes were implemented and tax systems automated, even the costs of collection in TARS began to see a dramatic improvement.

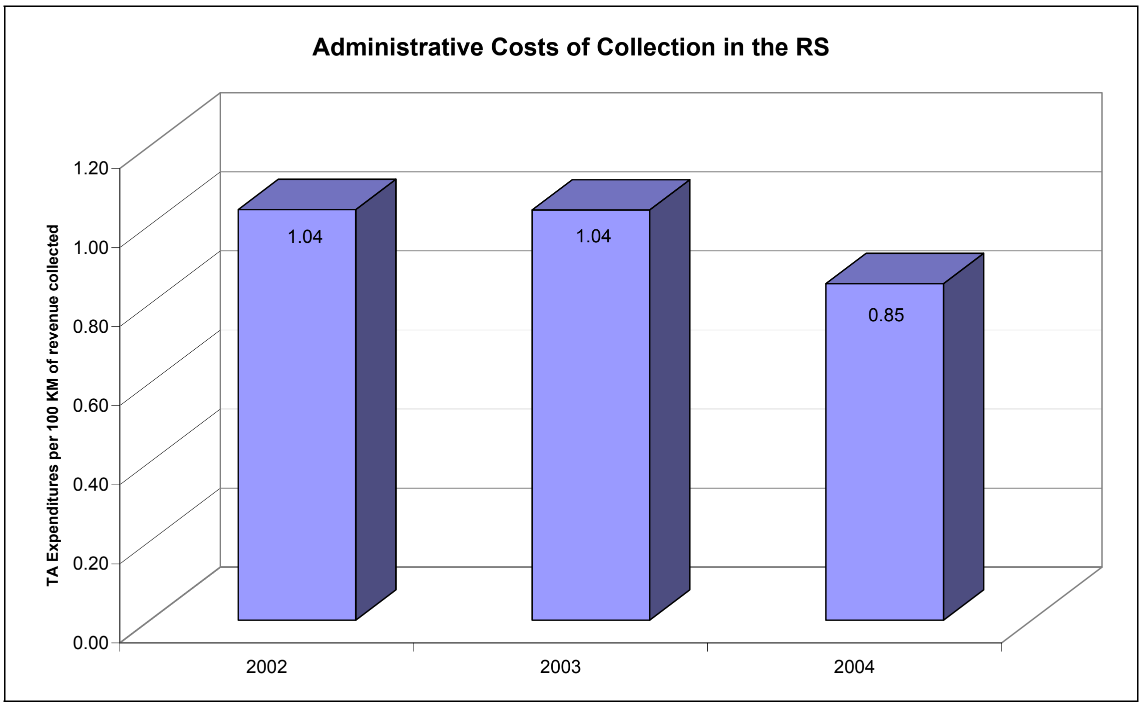

Figure 12: Administrative Costs of Taxation in the RS

As the figure above illustrates, from 2002 to 2003 the costs of tax administration hovered around one percent of revenues collected, but from 2003 to 2004 administrative costs declined more than 20 percent. Down-sizing in 2002 reduced tax administration staffing levels more than 20 percent, but the impact of the staff reductions and organizational change required time to filter into the system.[11] The Banja Luka CPC also played a big part in these

[11] From 2001 to 2002, TARS costs as a share of total tax revenues declined more than 50 percent, but this was due mainly to the introduction of contributions to the TARS revenue stream only in late December 2001.

costs reductions, as the introduction of automated systems for data entry and processing gave TARS the ability to cope with the increasing volume of document traffic as a result of taxpayer self-assessment with greater speed and accuracy.

Figure 13 shows the improvements in the productivity of tax administration in terms of average revenues collected per tax official.

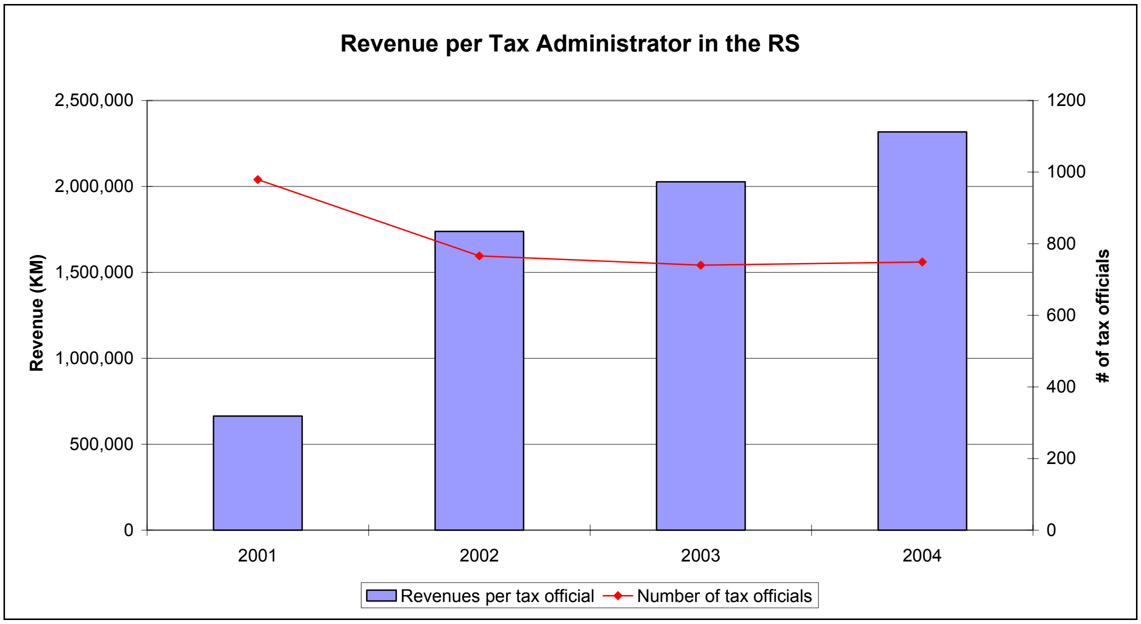

Figure 13: Revenues per Tax Official in the RS

As the figure illustrates, from 2002 to 2004, revenues per tax official consistently climbed even as the TARS workforce settled around 750 employees. This trend evinces considerable efficiency gains, especially considering the challenges of adjusting to changes in work responsibilities throughout the Tax Administration.

3. Revenue Performance and Tax Administration Modernization in the Federation

3.1. Revenue performance in the FBiH, 2001-2004

In the aggregate, tax revenues in the Federation grew impressively from 2001 to 2004, averaging nearly 18 percent growth per year excluding customs and excises on imports. As Figure 14 shows, revenue growth was particularly strong from 2003 to 2004 as the collective impact of a number of tax administration improvements deepened.

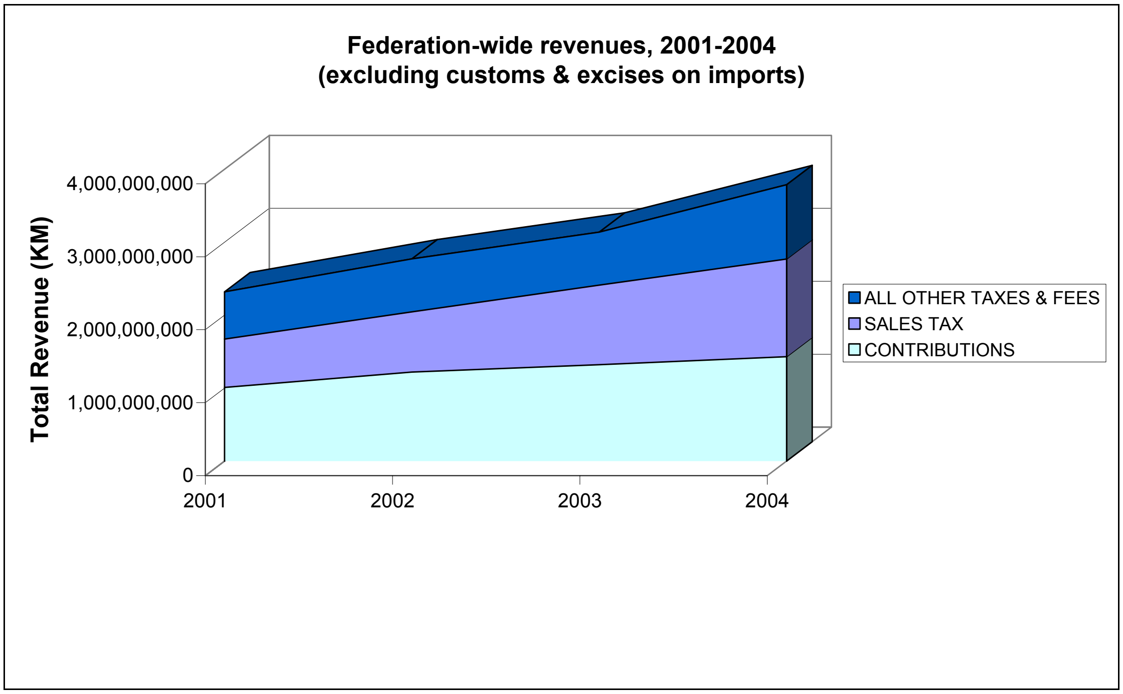

Figure 14: Revenue Performance in the FBiH

The graph includes only revenues administered by the Tax Administration of the Federation of Bosnia and Herzegovina (TAFBiH), although it is important to note that customs revenues declined sharply over this period as BiH opened to increasing trade partnering with its neighbors.[12]

Among the top performers in the Federation, sales tax revenues more than doubled from 2001 to 2004. Sales taxes also increased from 29 to 38 percent as a share of total tax revenues over this period. The increase was due, to some extent, to increases in the number of registered taxpayers as TAFBIH launched a campaign in 2002 to re-register taxpayers into its new, centralized taxpayer registry. The increase also benefited greatly from special

[12] For customs revenue trends, see the table on 'Revenue Performance in the FBiH' in the Annex to this report.

enforcement efforts, including more robust and proactive efforts to identify and investigate undeclared tax obligations, particularly with respect to collection of the sales tax and excises from large taxpayers. A number of big cases advanced to the prosecution stage and received considerable publicity, acting as a deterrent factor and contributing to the overall efforts of TAFBIH to improve levels of compliance.

As Figure 15 shows, not just the amount but also the structure of sales tax revenues changed significantly from 2001 to 2004. As in the RS, proceeds from sales taxes on "high-tariff" (excisable) goods rose substantially, only growth in these revenues was much more pronounced in the Federation. This trend began, first, with the shift in August 2002 from final consumption to border and *ex fabrica* collection of the sales tax on tobacco. This move required the taxpayer to pay both excises and sales tax before obtaining the special "tax stamps" necessary for sale. Following the change, revenues from the sales tax on tobacco products soared, accounting for nearly half of the 25-percent increase in overall sales tax revenues from 2001 to 2002.

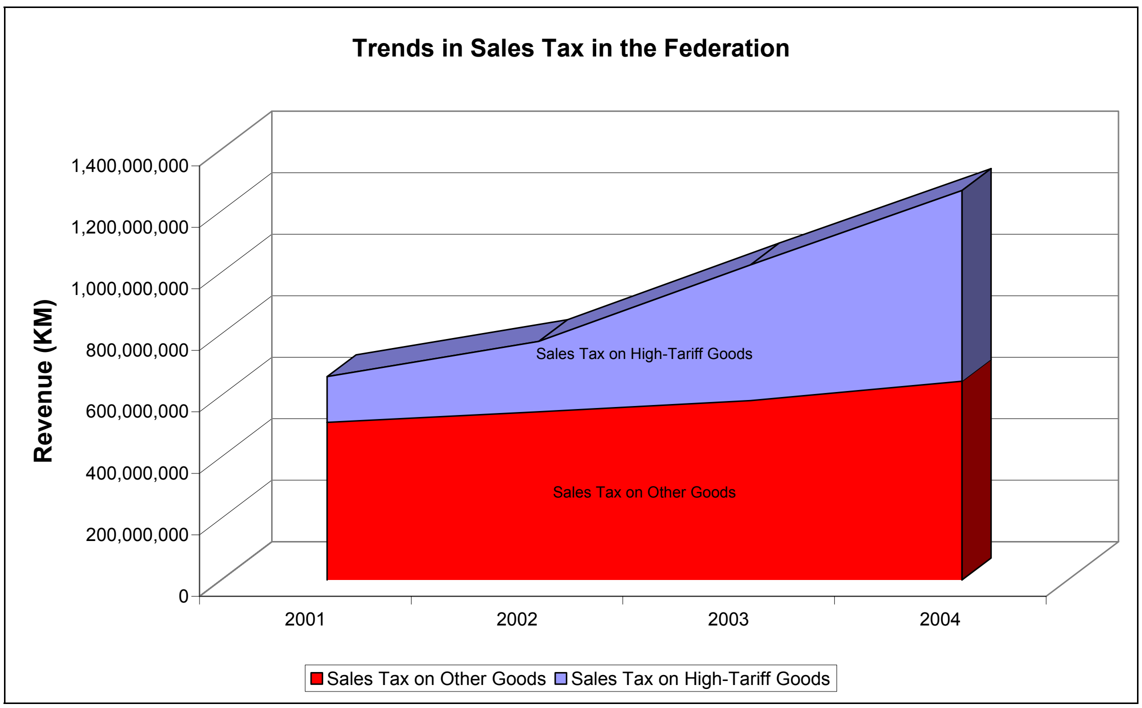

Figure 15: Trends in Sales Tax in the FBiH

In August 2003, the Federation Government amended the Law on Sales on the Turnover of Goods and Services, moving the collection point for sales taxes on *all* high-tariff goods to the BiH border and *ex fabrica*. The amendment aimed to reduce opportunities for sales tax fraud arising from the "final seller" principle and from weaknesses in the Cantonal-based tax control system. The change had a rapid and dramatic impact on revenues. Proceeds from sales taxes on high-tariff goods grew 93 percent from 2002 and 2003, contributing to a 32 percent increase in total sales tax revenues over the same period. The trend continued in 2004 as TAFBiH heightened enforcement efforts and as taxpayer registration brought more taxpayers into the tax system.

Aside from sales taxes, contributions to the social funds (health, pension and disability, and unemployment) account for the largest part of the Entity's revenue structure. Table 4 presents the trends in the growth of contributions from 2001 to 2004.

Table 3. Contributions revenues in the FBiH, 2001-2004

Category	2001	2002	2003	2004
Contributions Revenue (KM)	1,009,957,508	1,220,476,797	1,322,642,879	1,432,301,608
Annual change (%)	-	21	8	8

Source: Revenue Allocation System (RAS).

The large increase in contributions revenues from 2001 to 2002 was due, in part, to increases in registered taxpayers as TAFBiH introduced its new taxpayer registration process. In addition, starting in 2002 the Tax Administration strengthened enforcement especially with respect to public enterprises in the Federation. In the past, it was common practice for these enterprises to negotiate arrangements with the Tax Administration to avoid payment of contributions. Nevertheless, contributions growth slowed in 2003 and 2004 as TAFBiH devoted less attention to collection of contributions and more attention to enforcement of the sales tax and other revenue sources. As is the case in the RS, contributions in the Federation place an excessively high tax burden on labor, which creates a significant disincentive to compliance.[13]

Another important revenue source was revenues from fees and charges, which grew dramatically from 2001 to 2004 as shown in the figure below.

[13] See the analysis in Gallagher and Bosnić (2004), pp. 22-23. In Sarajevo Canton, contributions and wage taxes combined impose an overall marginal tax rate of 69 percent on net salary.

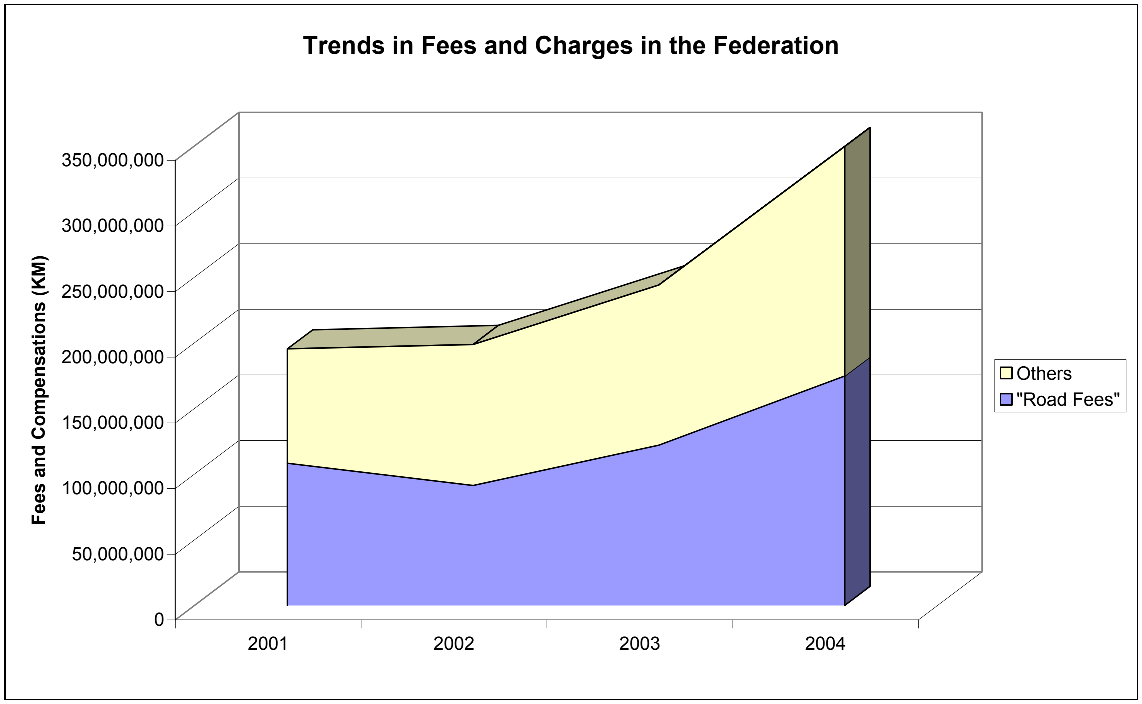

Figure 16: Fees and Charges in the Federation

There are myriad fees and charges created by cantonal and local governments and collected by TAFBiH. As at the end of 2004, these together accounted for more than 8 percent of tax revenues in the Federation. Revenue growth was driven by the strong performance of a number of "road fees," which like the special fee on oil derivatives in the RS, are actually an excise tax on petroleum. This increase came about, in large part, due to special enforcement efforts undertaken by the Tax Administration.

Among the other direct taxes, revenues from the wage tax grew at an average annual rate of 8 percent from 2001 to 2004, despite the lowering of the basic tax rate on wages from 15 percent to 5 percent in 2001.[14] Like in the RS, the Federation wage tax is a flat tax paid by employers and entrepreneurs on wages, although higher rates apply to various types of additional income, up to a top rate of 50 percent. Still, the wage tax accounts for just 5 percent of total Entity-wide tax revenues.

Growth in wage tax revenue was attributable, in part, to the significant increase in the number of registered businesses between 2002 and 2004 as the re-registration process brought thousands of active taxpayers into the centralized taxpayer registry. Growth was also due, in part, to economic factors. For instance, data from the FBiH Statistics Department show that the average wage rate in the Federation increased at a rate of about 7 percent per

[14] Pursuant to the Law on the Wage Tax of the Federation of Bosnia and Herzegovina (2001).

year from 2001 to 2004, which effectively broadened the base for the wage tax. Figure 17 illustrates the relationship between wage tax growth and the growth in average wages per person.

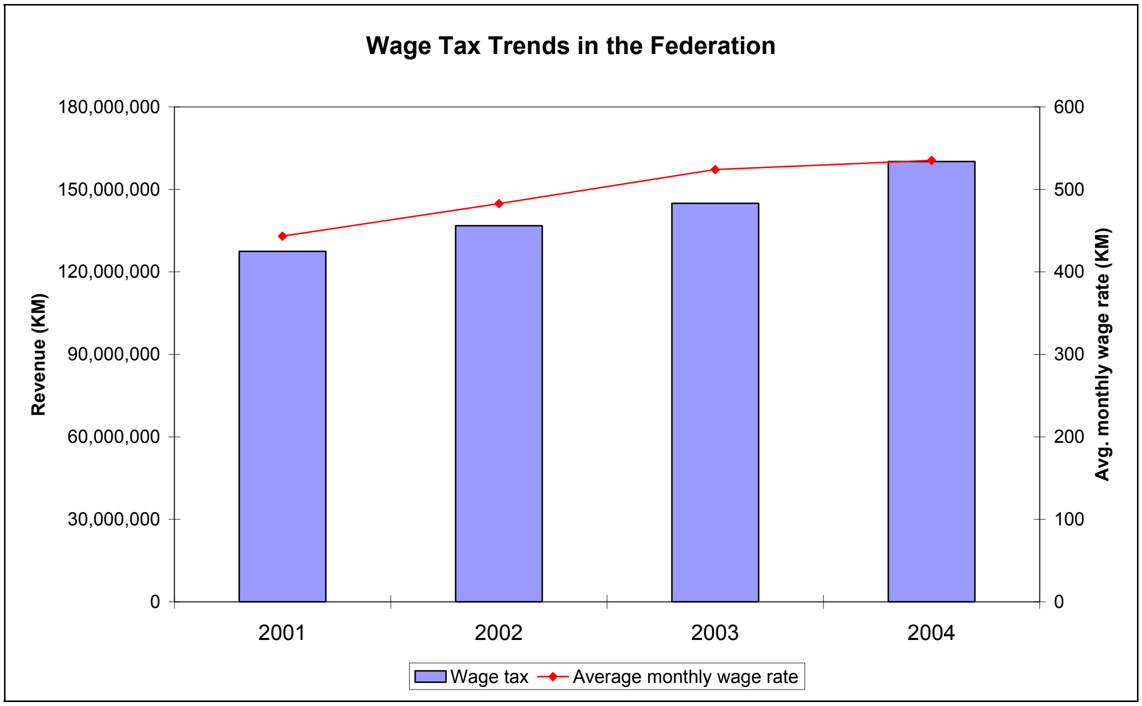

Figure 17: Wage Taxes in the FBiH

As in the RS, the draft of a new personal income tax law had been completed and was expected to be enacted by the FBiH Government some time in mid-2005. The new Law, when enacted, will replace the wage tax as well as a number of canton-created "citizen taxes" that tax different sources of income at different rates with a single personal income tax (PIT). The new PIT will tax individuals based on the level of income, or the "ability to pay." It will also institute withholding on salaries, one of the most important aspects of a sound personal income tax system.

In tandem with the new PIT Law, the Federation is expected to enact a new Enterprise Income Tax Law—also in the middle of 2005—that will replace the existing corporate profit tax with a flat-rate enterprise income tax (EIT). The table below shows the trends in the performance of the profit tax over the past four years. Particularly striking is the sharp drop in revenues in 2002 compared to 2001.

Table 4. Profit tax revenues in the FBiH, 2001-2004

Category	2001	2002	2003	2004
Profit Tax Revenue (KM)	67,924,267	41,119,514	54,555,343	67,498,869
Annual change (%)	-	(39)	33	24

Source: Revenue Allocation System (RAS).

This decline was probably the result of increasing numbers of large companies that took advantage of the tax credit for reinvestment of retained earnings in 2002. Besides the reinvestment credit, there are a number of generous allowances and tax holidays that make the profit tax a consistently weak performer.

Revenue performance turned around in 2003 and 2004 as the tax base expanded with the increase in registered companies in the new tax registry. Still, the profit tax continues to provide less than 2 percent of total government collections despite a single, 30-percent tax rate. This is a high nominal rate by international standards, but it nevertheless produces very little revenue. Among other things, the new EIT Law is expected to apply a lower tax rate than the current profit tax and will provide for fewer exemptions, deductions and allowances than presently offered.

3.2. Tax administration modernization in the FBiH

Prior to 2002, tax administration in the FBiH was inefficient and disorganized. Taxpayer assessment, audit and numerous other functions were performed directly by tax officials in branch offices. Each branch had its own database for taxpayers registered with that office, but it had no direct access to databases in other parts of the Tax Administration. There was neither the communications infrastructure necessary for data transfer between tax offices, nor a centralized database to which to refer for information concerning a particular taxpayer. As a result, tax collection was labor-intensive, and compliance rates were low.

A major milestone in the modernization of tax administration in the Federation was the enactment of the new Law on Tax Administration on August 27, 2002.[15] The new Law introduced the principle of taxpayer self-assessment and laid the foundation for a new, centralized organizational structure for TAFBiH. Reporting to the central office in Sarajevo, cantonal offices were charged with responsibility for performing a variety of functions, from enforced collection and audit to taxpayer registration, taxpayer services and taxpayer education. Meanwhile, the branch offices were given responsibility for handling taxpayer certification, distributing tax forms, and receiving tax declarations.

[15] Unlike in the RS, the Financial Police was not dissolved in the Federation, although TAFBiH did inherit many of its enforcement functions.

With the new Law, TAFBiH reorganized its divisions along functional lines of work, as opposed to the tax type divisions that had existed earlier. The organizational changes established clearer reporting lines and a more rational division of responsibilities from the central office down to the cantonal and branch offices. The Tax Administration retrained its staff to perform specific functions, from declarations processing and enforced collection to taxpayer services and education. It equipped its offices with the hardware, software and data communications systems to perform these and other basic tax administration processes. It also simplified tax forms, gave taxpayers free access to forms at the branch offices, and initiated seminars to educate taxpayers on how to fill out the new forms and determine their tax liabilities. Together, these efforts both changed the attitude of tax administrators toward dealing with taxpayers, and made compliance easier.

Tax enforcement intensified with the new Tax Administration Law. Several divisions that were established in the months preceding enactment of the Law—including units for Enforced Collections, Investigation and Intelligence, and a Large Traders' Control Unit (LTCU)—were carried over under the new organizational structure to perform a variety of enforcement-related functions.[16] Audit selection was shifted from the cantonal offices, which were rumored to be susceptible to local influence, to the Tax Administration headquarters in Sarajevo. With the establishment of the Investigation and Intelligence Unit, and with the cantonal offices reporting directly to the central office, audits and investigations began to be conducted on a more consistent basis.

New enforcement efforts, concentrated in the LTCU, focused on the collection of sales tax and excises on a number of goods that were known to be subject to rampant tax evasion, especially petroleum and cigarettes. Audits in 2002 of producers, importers and distributors of petroleum and cigarettes revealed KM 167 million in additional tax liabilities going back to 2000. LTCU audits in 2003 and 2004 uncovered another KM 230 million in understated liabilities. (Figure 18 shows the results of TAFBiH audits from 2001 to 2004.) While many taxpayers appealed the audit decisions, many cases were resolved, leading to payment of millions of KM in outstanding taxes and penalties between 2002 and 2004.

Efforts to catch tax criminals also heightened between 2002 and 2004. The Investigation and Intelligence Unit gathered intelligence on thousands of companies and initiated hundreds of criminal investigations for tax fraud, particularly with respect to tobacco, petroleum and alcohol traders. Many of these cases involved cross-Entity frauds where tax criminals were taking advantage of the three separate tax regimes. As part of these enforcement efforts, the

[16] These divisions were actually established with International Community assistance in November 2001, nearly a year prior to the enactment of the new Tax Administration Law.

Tax Administration conducted roadside checks and surprise inspections at local markets, seized millions of KM of goods from tax evaders, and closed thousands of shops for tax violations. Several large enforcement cases advanced to the prosecution stage and received special media attention, which served as a warning to taxpayers that they, too, would be caught and punished for tax evasion and fraud. In this way, the special enforcement efforts had a deterrent effect and contributed to the overall efforts of TAFBIH to improve levels of compliance.

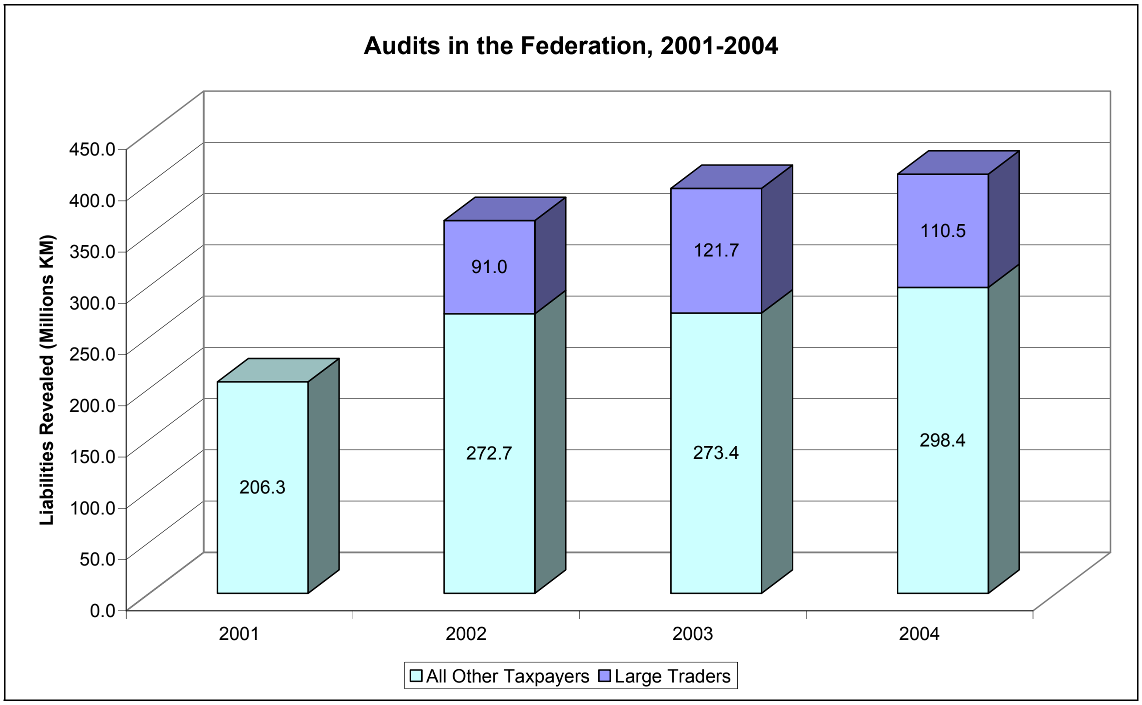

Figure 18: Audits in the FBiH

As in the RS, one of the cornerstones of tax administration modernization was the establishment of a centralized taxpayer registry based on the unique, 13-digit taxpayer identification number (TIN). Prior to the TIN system, the Federation's registries were outdated, inconsistent, and contained numerous entries for inactive taxpayers, companies that had gone out of business, and "ghost" companies to whom real traders would book transactions in order to avoid the tax liability.[17] In early 2002, TAFBiH launched its initiative to re-register Federation taxpayers, requiring each taxpayer to file for and obtain a

[17] In April 2000, the Federation had shifted the point of collection for sales tax to final consumption, which created new opportunities for tax fraud and smuggling.

new TIN. At the same time, the Tax Administration cleared the taxpayer rolls of thousands of invalid entries.[18]

The figure below shows the trends in taxpayer registration following establishment of the new TIN-based system. The relatively low registration levels seen in 2002 were largely a reflection of the efforts to clean up the taxpayer registry that year. This was followed in 2003 by a significant increase in registrations as thousands of taxpayers completed the registration process. Particularly striking was the increase in the number of registered entrepreneurs, although, again, this started from a point at which the taxpayer registry had already been cleared of a large number of invalid entries.

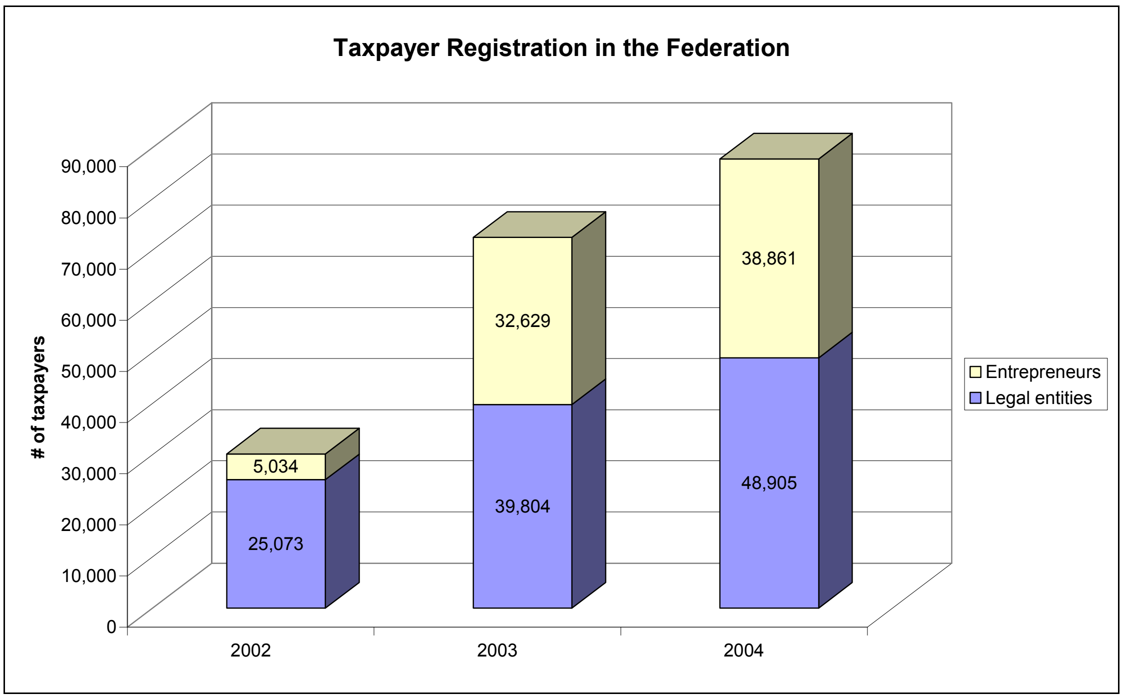

Figure 19: Taxpayer Registration in the FBiH

While the new TIN-based registration process was already underway, TAFBiH was laying the groundwork for centralized processing and management of tax information. Similar to the RS, this included the creation of an automated and unified taxpayer accounts database, installation and connection to the microwave-based "Canopy" communications network, and establishment of centers for centralized processing of the data flowing into the newly designed tax information system.

[18] TINs were assigned to legal entities and entrepreneurs, while citizens maintained the 13-digit JMB identification number that is assigned to each citizen at birth.

The first center was set up in Sarajevo Canton as a "test" operation because the Rule Book did not actually provide for the creation of a CPC. Called the Testing and Processing Center (TAP), it began operation in July 2003 and was similar in setup and functioning to the CPC in Banja Luka. (See the text box in Section II.2 for more on CPC operations.) A second center was established in the southern Federation city of Mostar in June 2004 to handle data entry for all FBiH declarations filed outside of Sarajevo Canton.

The centers in Sarajevo and Mostar have performed very positively since they started operation. Figure 20 shows the dramatic reductions in processing time required for declarations filed with TAFBiH, particularly with respect to "original entry," i.e., the first entry of data from the scanned declaration into the taxpayer accounts database. Between July 2003 and December 2004, processing time dropped from over three minutes to about one minute per declaration. In mid-2004, some difficulties with the deployment of a new application for "key verification", or second entry of data, temporarily increased the "error correction" workload at the TAP Center, but these problems have since been resolved.

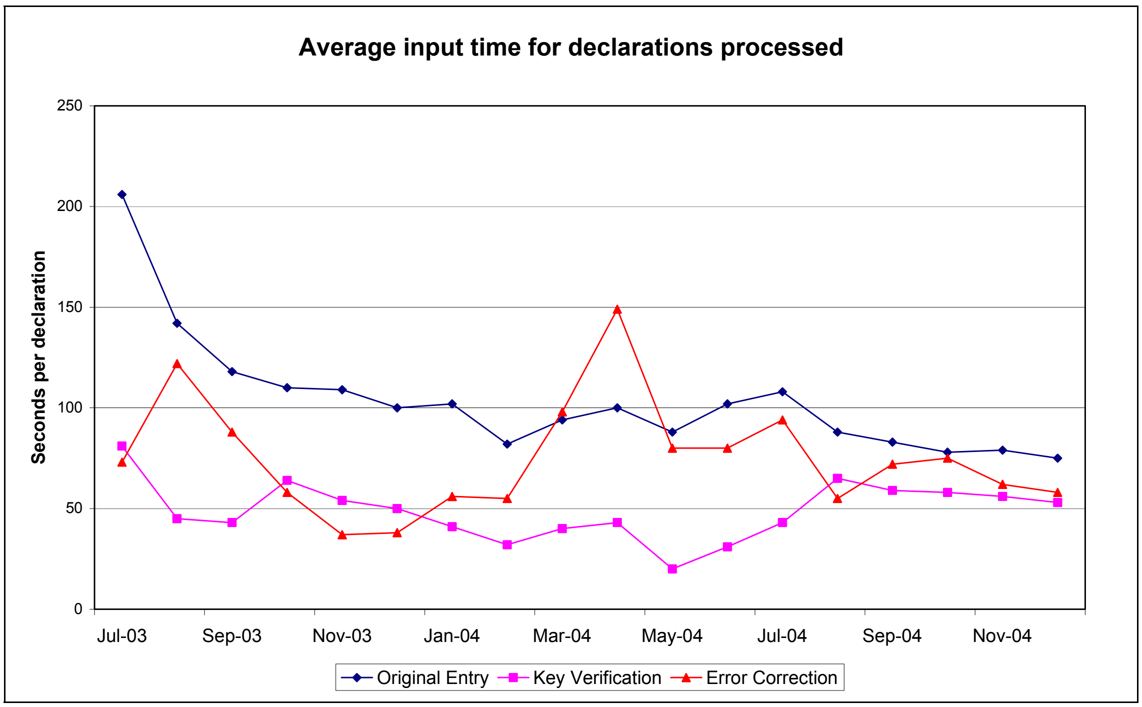

Figure 20: Declarations Processing in the FBiH

Problems have also been encountered with connecting the Mostar processing center to the microwave communications system. Among other things, this has caused lags in the processing of declarations filed with many TAFBiH branch offices.[19] However, these issues are being resolved slowly, and plans are now underway to expand the backbone for the data communications system to include fiber-optic lines as well as microwave and a number of back-up communications options. As the system is enhanced, the Tax Administration will have even more reliable connectivity, and at relatively little cost.

Despite the technical problems noted above, the processing centers have made tremendous advances in reducing the backlog of filed declarations in the Federation. In as little as one minute, an individual declaration can be entered into the unified database and post to the taxpayer's current account. That declaration can then be checked against a current record of payments made by the taxpayer in his/her account to catch discrepancies or errors in the assessment, enhancing the Tax Administration's ability to collect revenues due.

The transition to centralized processing, among other innovations, had a major impact on operational efficiency throughout TAFBiH. The figure below shows the changes in the costs of tax collection from 2001 to 2004.

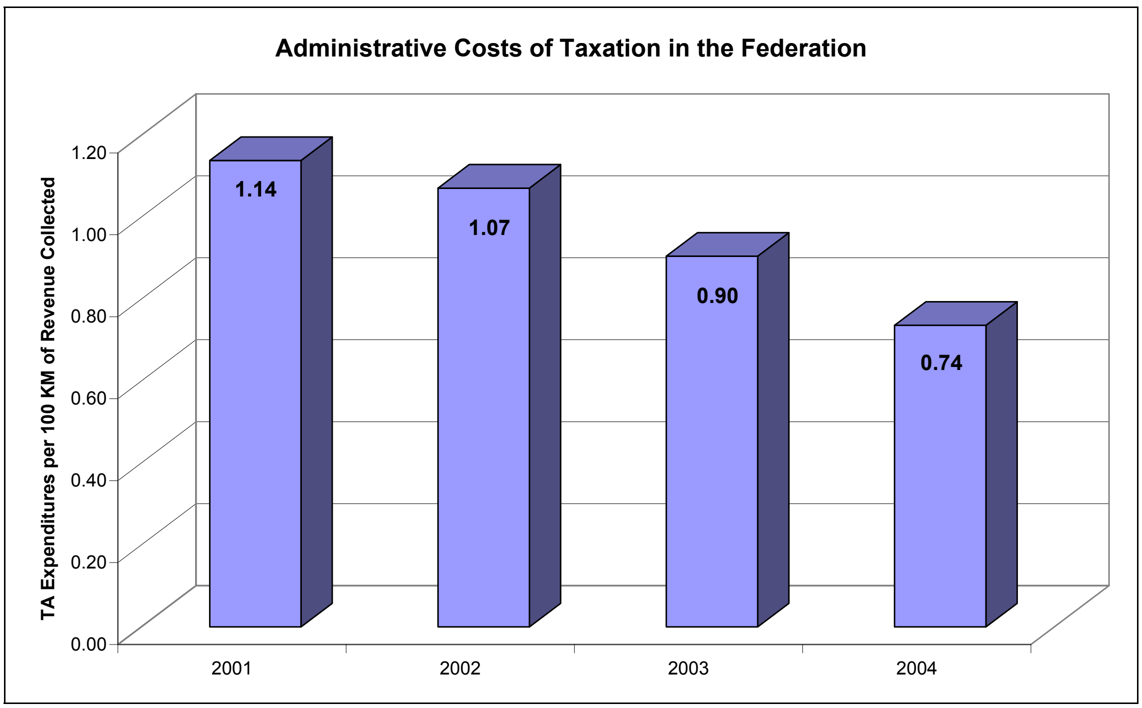

Figure 21: Reducing Costs of Collection in the FBiH

[19] Improvements in the taxpayer certification process have also experienced delays, as several branch offices responsible for large numbers of taxpayers have not yet been connected to the Canopy system.

Administrative costs declined steadily over this period, with the largest reduction occurring from 2003 to 2004. This happened even as TAFBiH staffing levels remained above 1,500 employees—twice the size of the TARS workforce—and despite little change in the annual expenditures of the Tax Administration.

Figure 22 shows the improvements in the productivity of tax administration in terms of average revenues collected per tax official. As the chart illustrates, from 2002 revenues per tax official rose even as the TAFBiH workforce grew by roughly 5 percent. Indeed, the Tax Administration managed to collect greater revenues year by year despite the fact that staff cuts after 2002 were only minor.

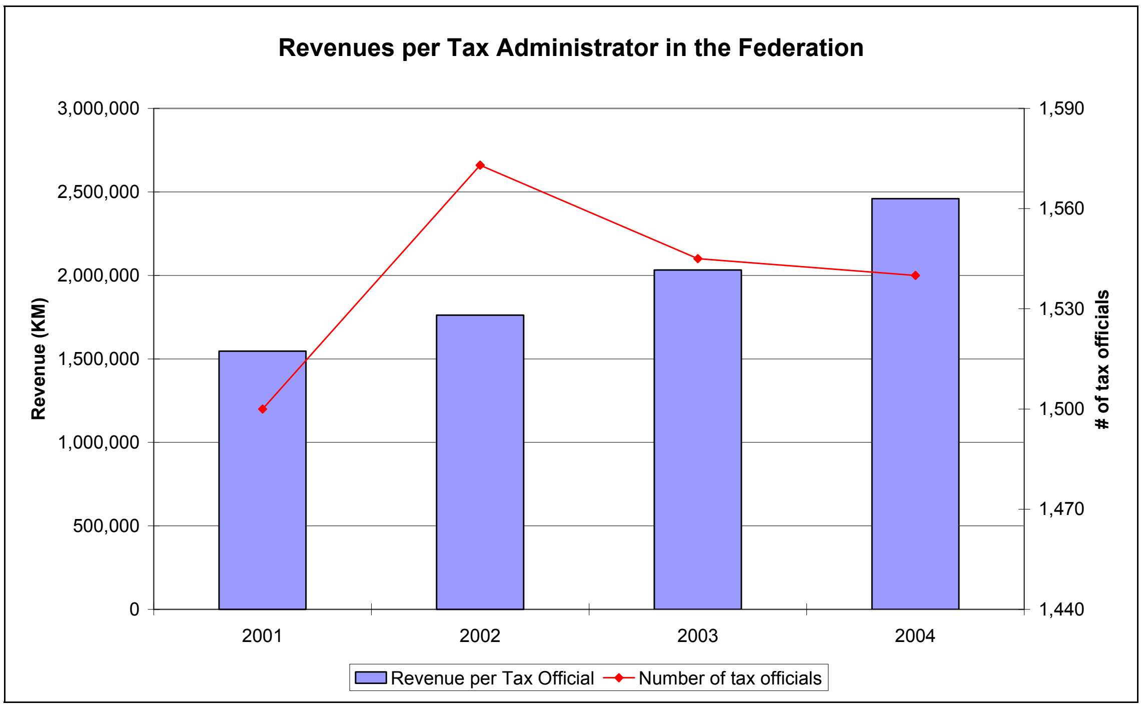

Figure 22: Revenues per Tax Official in the FBiH

4. The BiH tax system in the international context

This section presents findings, based on several performance indicators (or "benchmarks"), from a comparison of tax systems in BiH's two Entities with those of regional neighbors, as well as with international norms. Comparison is made difficult by the fact that there are three separately functioning Tax Administrations, and by the paucity of reliable data not only in BiH but also in some of the other countries considered here.

For some indicators, data are available in general resource volumes, such as the International Monetary Fund's *Government Finance Statistics* Yearbook. Other data come from the Inter-European Organization for Tax Administrations (IOTA)[20], a membership-based organization which most of the countries of Central and Eastern Europe have joined. Data are also taken from various other sources, such as select IMF reports, government publications, and from statistics available on government web sites. While the multiplicity of sources used here is suboptimal to a single source of comparators (which does not exist), this exercise offers some useful insights into how the BiH tax systems compare from the perspective of regional and international standards.[21]

In most cases, data for the Balkans region are from 2003 since data for this year was the most recent comprehensive data available. For many of the countries included in the calculations of international standards, data come from the mid- to late 1990s, although some data are more recent.

4.1. Tax administration staffing

Tax administration staffing looks at the size of the tax administration, its extension into general society, and, more specifically, its extension into the taxpayer population. A first indicator measures the number of employees in the national tax administration relative to the country's population. The international benchmark, based on observations in 59 countries, is about 0.77 tax officials per 1,000 of population. As the figure below illustrates, the FBiH and the RS have among the lowest staffing levels relative to population size in the region, each having about 0.5 tax officials for every 1,000 people.[22]

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[20] TARS and TAFBiH became members of the IOTA on June 14, 2004.

[21] The benchmarking methodology used in this section is based on Gallagher (2004), *Assessing Tax Systems Using a Benchmarking Methodology*, USAID - Fiscal Reform in Support of Trade Liberalization Project.

[22] Data for the Balkans region are from 2003. Data for other countries, for the most part, dates from 2000 onward.

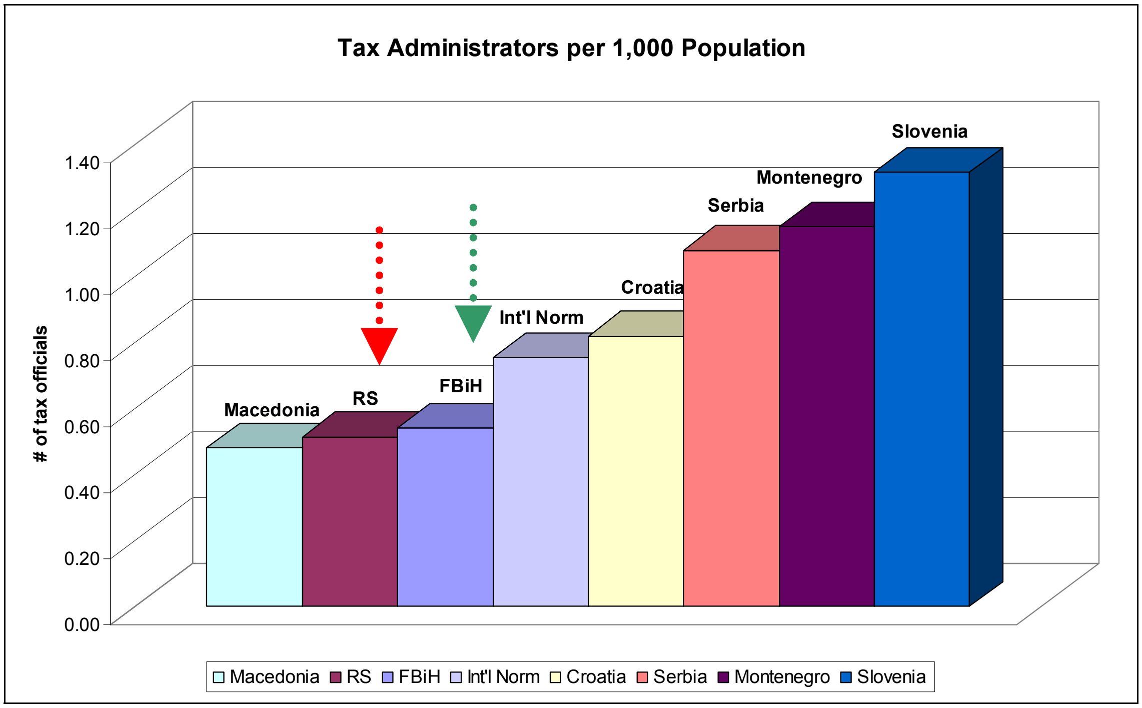

Figure 23: Regional Comparison of Tax Administrators per Population

These measurements assume a total BiH population of roughly 4 million people, based on data from the IOTA. Yet even with more conservative estimates of the size of the BiH population, the two Entities would still rank low compared to regional and international standards.

A second indicator—active taxpayers per tax official—measures the extension of the national tax institution into the active taxpayer population. Figure 24 shows that the FBiH and the RS have among the lowest ratios of taxpayers to tax administration staff in the region. Both are also far below the international standard of 382 taxpayers per tax official.

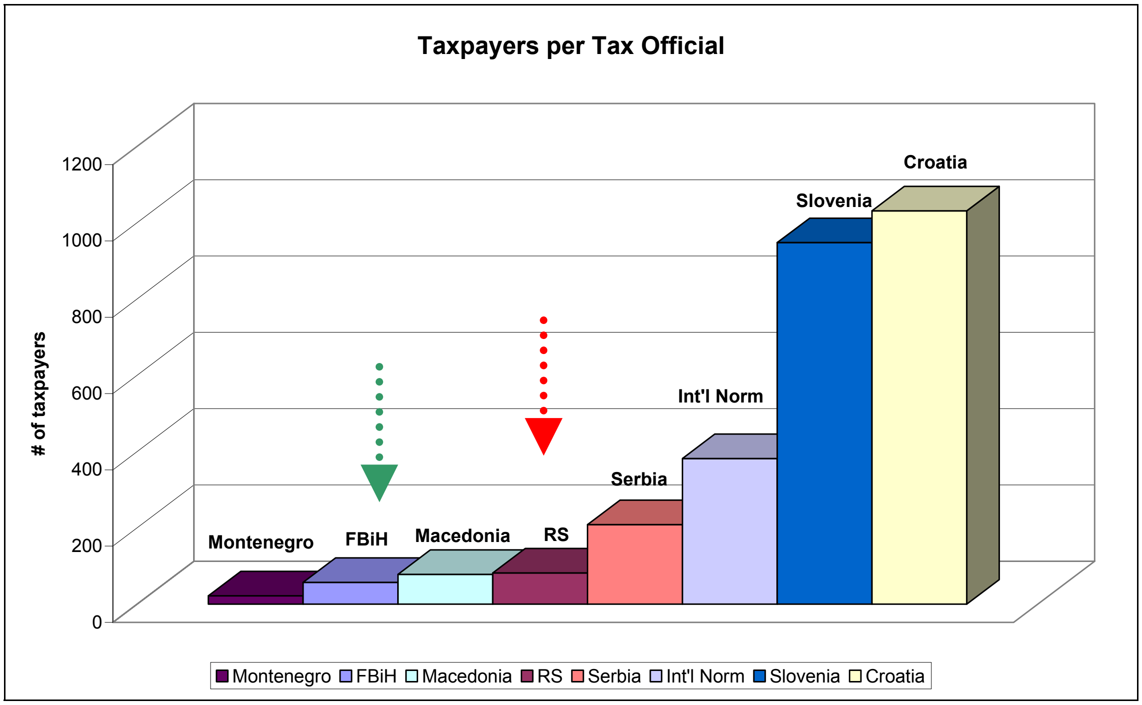

Figure 24: Regional Comparison of Taxpayers per Tax Official

This ratio varies widely from country to country, largely because many countries do not bother to register all those individuals who are part of their income tax systems. For instance, if tax is withheld from wages and the wage earner does not have multiple sources of income, that taxpayer is not required to prepare a tax declaration and probably need not be included in the taxpayer registry. The situation in BiH is somewhat different. In the RS, all individuals with incomes, including pensioners, have been registered regardless of their tax liabilities,[23] whereas in the FBiH, tax authorities have opted not to register taxpayers who are only liable for local taxes. Nevertheless, in both Entities, few individuals pay any income tax at all. Therefore, the taxpayer base for both the RS and the FBiH used here only includes legal entities and entrepreneurs.

4.2. Administrative costs of taxation

This indicator measures how much it costs, in administrative terms, for a government to impose taxation on its people. Internationally, administrative costs vary widely, with the richest countries generally having the lowest costs with respect to how much they collect, and the poorest countries having the highest costs. The figure below compares administrative

[23] As of January 2004, individuals with income below a minimum threshold were no longer required to register or file tax declarations in the RS.

costs of collection in BiH to a number of more developed countries both in Europe and around the world.[24]

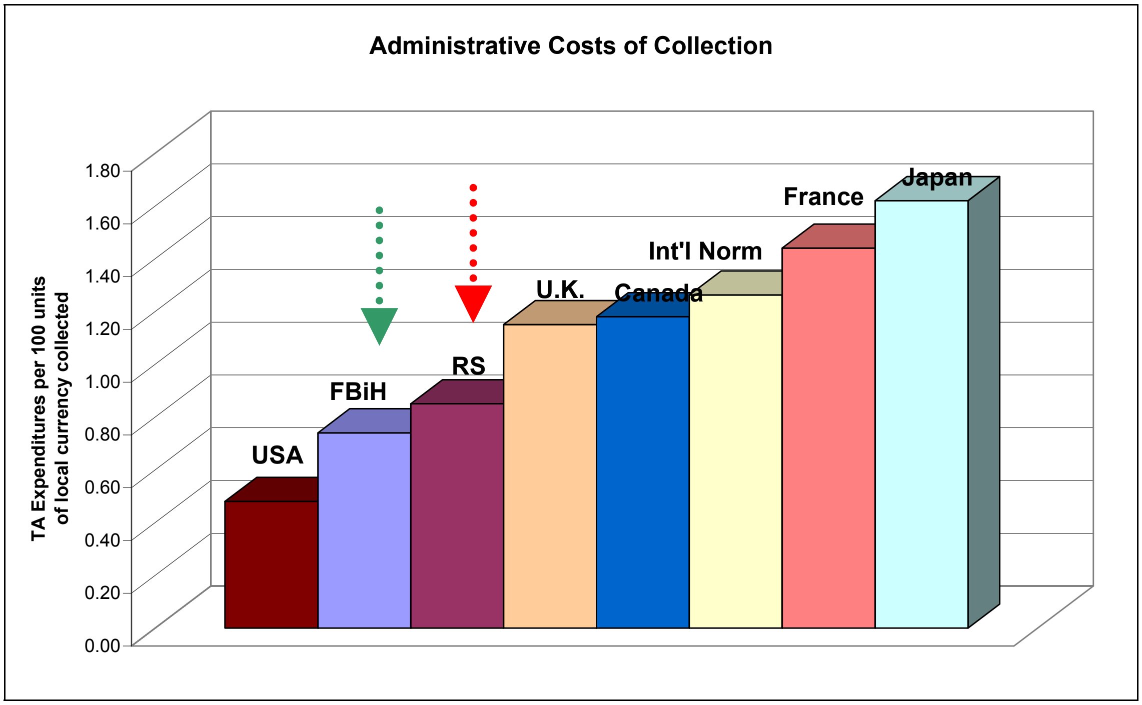

Figure 25: International Comparison of Administrative Costs of Taxation

With the tax administration modernization efforts in the RS from 2001 to 2004, the Tax Administration managed to handle rapidly increasing revenues even as its budget and staff were trimmed down. Parallel efforts in the Federation allowed TAFBiH to cope with its increasing workload as well. As a result, by 2004 the administrative costs of taxation in both Entities were well below many of the world's richest countries.

4.3. Income tax collections relative to GDP

This indicator measures the ratio of income tax collections to Gross Domestic Product (GDP). All things equal, the higher the per capita income, the higher is the expected ratio of income taxes to GDP. Figure 26 compares the BiH Entities to other parts of the former Yugoslavia with respect to this ratio for the year 2002, the most recent year in which income tax data were available for the whole region.

[24] The study team was unable to find data related institutional expenditures, or more generally to administrative costs, for other tax administrations in the Balkans region.

On the taxation of corporate income, revenues from the profit tax represent a mere 0.5 percent of GDP in both the RS and the FBiH, compared to much higher ratios for its neighbors. Indeed, the corporate income tax is an important aspect of most tax systems around the world, but in BiH its contribution to public revenues is minimal. This stems from a variety of factors, including weak systems and procedures for audit of enterprise income and a large, hard-to-reach informal sector. In the FBiH, the problem is compounded by a high degree of exemptions and exonerations, as well as generous tax holidays for new businesses.

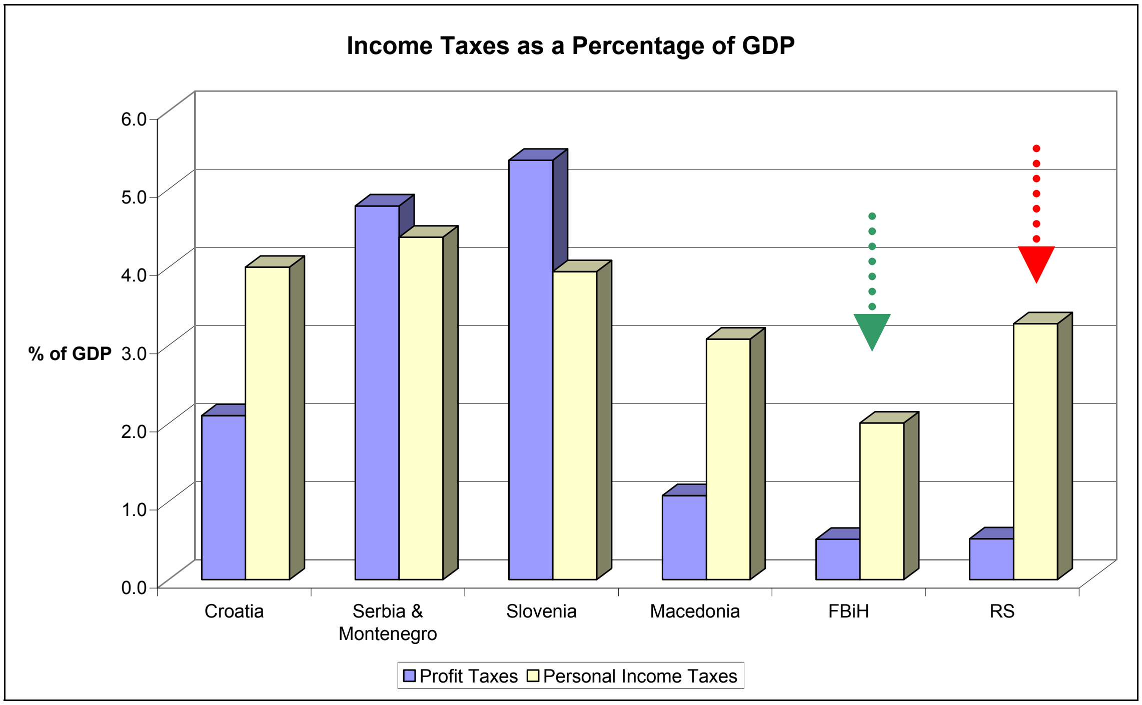

Figure 26: Regional Comparison of Income Tax Performance

With regard to personal income taxation, comparison is difficult because the BiH Entities impose a confusing array of taxes at varied rates on different sources of individual income. To achieve a more accurate comparison, income tax collections for the FBiH and the RS incorporate all revenues collected from "citizen taxes" on the income of individuals and independent businesspersons, as well as proceeds from the wage tax.

Figure 26 shows that the FBiH has the lowest ratio of personal income taxes collected to GDP in the region. The ratio in the RS is higher, but still ranks among the lowest in the region. The weakness of personal income tax performance in BiH is due to a variety of problems, including under-reporting of income and weak systems and procedures for audit of income taxpayers. In the FBiH, problems also stem from the schedular structure of income taxes that tax not the "ability to pay," but the source of income or type of taxpayer, and from the lack of withholding systems for salaries and other personal income . In the RS, a withholding system currently exists, but it may need to be upgraded to accommodate the structure of the new personal income tax when it is introduced.

5. International assistance and tax modernization

Since the late 1990s, several international organizations and donors have been involved in initiatives aimed at strengthening the BiH tax system: the United States Treasury (UST) and the United States Agency for International Development (USAID), the German Technical Assistance Corporation (GTZ), the European Union (EU), and the International Monetary Fund (IMF).

5.1. US assistance in tax administration modernization

Assistance provided by US Treasury since 2000 has focused on establishing the legal and regulatory framework for a modernized tax administration system. UST assistance has included preparing the Entity and Brcko District tax administration laws and regulations (or "Rule Books") to provide for self-assessment by taxpayers, a unified taxpayer identification number, a system of penalties and appeals, and a functional organizational structure for the tax institutions.

The majority of US assistance in the tax area is being funded by USAID in support of TAFBiH, TARS and TABD with the modernization of tax administration in a variety of process areas. This work, spanning from late 2001 to the present, is being carried out via the Tax Modernization Project (TAMP).

TAMP's objective is to assist in implementing a modern tax system that improves efficiency, reduces corruption, is fully consistent with applicable EU guidelines and leads to more standardized treatment of taxpayers throughout BiH, helping to move BiH toward a "single economic space." Assistance from TAMP has focused on the design and implementation of all new business processes; installation of new equipment, hardware and software; and staff training.

TAMP has been implemented in two phases: TAMP I and TAMP II. TAMP I, initiated in October 2001, worked with TAFBiH, TARS, and TABD to design a new set of tax administration business processes; develop automation recommendations; and, design the architecture, logistics, and human resource requirements of a modernized tax administration. This did not include any analysis or redesign work of the processes related to audit, enforced collections, large trader inspections, tax investigation and intelligence and criminal prosecution. These were on the work agenda of the European Union Customs and Fiscal Assistance Office (EU-CAFAO), which is discussed in the section below on EU assistance. TAMP I also provided technical assistance and equipment in the implementation of the new TIN-based taxpayer registration systems.

TAMP Phase II, launched in January 2003, focused on assisting the Federation, the RS, and Brcko District to develop automated systems and implement the new business processes designed under TAMP Phase I:

1. Taxpayer registration,
2. Receipt of declarations and documents,
3. Document management and control,
4. Tax accounting,
5. Taxpayer certification,
6. Taxpayer services and education, and
7. Notices.

TAMP staff developed manuals and training materials; provided training in the application of these new manuals and processes; designed, delivered, and installed computer and data communication systems; and, provided assistance in logistics, including the design of office space and workstations and purchase of equipment and hardware for new office spaces. In the FBiH, TAMP also helped to develop new forms for tax declarations and most other tax-related submissions. Aside from the development of the taxpayer databases and the centralization of taxpayer accounts, the overarching and unifying achievements of TAMP II have been the establishment of microwave communications among key Tax Administration offices, establishment of the Central Processing Centers (CPCs), and implementation of centralized declarations processing. This assistance has led to vast efficiency gains in the Entity Tax Administrations. TAMP also played an important role in helping to change the attitudes of tax administration officials toward taxpayers through extensive training and observational travel focused on taxpayer services and education.

Since mid-2004, TAMP II has extended its focus into new areas of tax administration modernization as well as direct tax reform. In addition to the ongoing process work highlighted above, TAMP is now beginning to assist the Tax Administrations in the design and automation of processes and the development and presentation of functional training materials for audit and other enforcement-related functions related to the impending introduction of new personal and enterprise income taxes. In late 2004, TAMP established a Direct Tax Commission to coordinate and accelerate direct tax reform efforts with other International Community members engaged in the areas of tax policy and administration. TAMP advisers are now working with the FBiH and RS governments in drafting the new personal and enterprise income tax laws, carrying on the work initiated by GTZ in designing a modern income tax system, as discussed below.

In early 2005, TAMP launched the first in a series of comprehensive trainings in tax policy for tax administration and finance ministry officials in the two Entities and Brcko

District. In addition, at the time of writing, TAMP staff were in the initial stages of analysis of real estate taxation in BiH in preparation for assisting in the design and implementation of a new property tax system.

5.2. German technical assistance

GTZ assistance to BiH has been focused on developing enterprise and personal income tax laws and pilot testing these in Brcko. The intention is to extend these two new tax laws throughout the Federation and the RS. GTZ first developed a general analysis of personal and enterprise income taxation in BiH, and in 2000 began the work of developing and drafting new income tax laws, covering both individuals and enterprises, at the request of the two Entities and Brcko.

Since 2001, GTZ has been working with a national working group comprising representatives from the Ministries of Finance from the RS, the Federation, and Brcko. The agreement reached in that group was to replace the variety of income taxes with a modern comprehensive approach for the whole country. The GTZ approach was accepted by this working level as a concept, which would be much easier to apply than the then current system.

On July 1, 2003, Brcko rolled out its new unified Income Tax Law, with application to personal income only during the first year of operation and to enterprise income starting January 1, 2004. Also in 2003, GTZ separated the comprehensive income tax drafts for the RS and the Federation into draft laws on the taxation of personal income and on the taxation of profits. This change was made at the behest of the International Advisory Group on Taxation (IAG-T), with support from the Ministries of Finance of the two Entities.

Since 2004, GTZ and USAID-TAMP have been working closely with counterparts in the FBiH and RS to complete the new personal and enterprise income tax laws. At the time that the research for this study was being completed, drafts of these laws had been completed, and it was expected that the laws would go into procedure for enactment by the Entity governments some time in mid-2005.

5.3. European Union assistance

The EU assistance to BiH is implemented through its CARDS programme primarily by projects supported by EU-CAFAO. EU-CAFAO has mainly been assisting TAFBiH, but also TARS, in the enforcement and debt management aspects of taxation since 1999. In mid-1999, EU-CAFAO produced several reports with recommendations on the reorganization of the Tax Administrations in BiH. The recommendations focused on the merger of the Tax

Administrations and the Financial Police into one authority and on the establishment of three new tax administration divisions: (1) a Large Traders Control Unit (LTCU), (2) an Investigations and Intelligence Unit, and (3) an Enforced Collections Unit. Although TAFBiH did proceed with creation of the new units, it did not adopt the recommendation to merge with the Financial Police. The resultant confusing overlap of responsibilities was largely reduced by the intervention of EU-CAFAO in drafting new legislation.

From 2000 to 2001, EU-CAFAO began assisting TAFBiH with the setup of the three new units described above, providing computers, vehicles and office equipment as well as technical assistance and training. EU-CAFAO also provided guidance to TAFBiH in the selection of staff for the new units, which commenced operation in November 2001. TARS did merge with the Financial Police and set up similar units on its own following the enactment of the RS Law on Tax Administration in October 2001.

Since 2001, EU-CAFAO's assistance to the Tax Administrations has focused mainly on the largest taxpayers in the Federation, including technical assistance in undertaking audits and inspections, training in accounting and audits, and limited provision of equipment. In the first year of operation, audits performed by the new LTCU contributed to about KM 100 million in additional tax liabilities. By the end of September 2004, the LTCU had conducted nearly 400 audits, resulting in more than KM 300 million in additional liabilities overall. However, most of the big cases have been appealed by taxpayers, and while those cases await resolution, only about KM 34 million have been collected.[25] The Investigation and Intelligence team played a large part in developing these cases, some of which involved cross-Entity frauds where tax criminals were taking advantage of the three separate tax regimes. In addition to identifying the additional liabilities, the law enforcement efforts also had a large deterrent effect, which has substantially contributed to the general improvements in revenue performance from 2001 to 2004.

In addition to the longstanding assistance to the Entity Tax Administrations in enforcement, EU-CAFAO has been providing assistance in enforcement, fraud and anti-smuggling control, and systems development to the Entity-level and Brcko Customs Administrations. EU-CAFAO is now also assisting in setting up the State-level ITA, which will be responsible for administering all customs, excises, and the new VAT. In fact, EU-CAFAO has been the lead IC participant in the overall drafting of legislation establishing VAT and the ITA. With the ITA now operational, EU-CAFAO is gradually withdrawing its assistance from the Entity Tax Administrations to focus greater attention on supporting the development of the ITA.

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[25] From discussions with EU-CAFAO representatives based on data provided by the LTCU.

5.4. IMF assistance

The International Monetary Fund (IMF) is responsible for overall macro-fiscal assistance to the State and the two Entities. In addition, the IMF is also providing technical assistance to help the ITA Governing Board establish a macroeconomic policy analysis unit that focuses on analyzing tax and revenue allocation issues at the State level. Indeed, assistance for establishing this new unit was expected to begin in earnest in March 2005.

6. Challenges ahead

While it is clearly true that tax administration modernization has led to rapid increases in revenues, almost all due to increased compliance, the future for the Tax Administrations in BiH is fraught with challenges and some uncertainty.

The recently created Indirect Taxation Authority (ITA), which operates at the State level, will take over control of domestic excises from the Tax Administrations and introduce a State-level Value Added Tax (VAT) system to replace the current Entity-level sales taxes. The ITA will need to recruit well qualified and motivated staff, many of whom will come from the former Customs and present Tax Administrations. At this point, the ITA has estimated the maximum and minimum number of staff it requires, but the final number depends on how many businesses are registered for VAT. This situation poses uncertainty for the Tax Administrations' managers and staff, as it is unknown how many of their colleagues will move to the ITA. The Tax Administrations and the ITA are working together to manage the situation, but the impact on their operational and staffing plans will be unclear until the ITA has finished recruiting.

As the administration of indirect taxation is shifted to the ITA, the Entities are each preparing for enactment new tax legislation. This legislation focuses on creating a new Personal Income Tax (PIT) and a new Enterprise Income Tax (EIT). The new PIT legislation introduces many important changes in the current treatment of taxes on personal income. Among these changes are: elimination of the scheduler treatment of income; withholding of tax on dependent income; elimination of numerous "citizen taxes" on incomes; a surcharge for cantons in the FBiH; and, harmonization between the two Entities.

The new EIT legislation eliminates most tax holidays, requires companies to file taxes in only one Tax Administration, and ensures complete harmonization in the two Entities.

Once these new income tax laws are enacted in the two Entities, Brcko District is planning to enact the same legislation, revising the income taxes it enacted only two years ago.

To adjust to the new situation, the Tax Administrations will need to establish the procedures and systems to handle the new declarations, the withholdings, and the estimated income tax payments. In the past, the Tax Administrations focused much of their audit and enforcement efforts on the sales tax. The sales tax will no longer be in their purview, but the audit and enforcement of income taxes is considerably more complex than that of the sales tax. The Tax Administrations require not only modern procedures for administering these new taxes, but they also require procedures and training to audit and enforce these new taxes.

In anticipation of these changes, the Tax Administrations have already begun to work together to make the necessary adjustments.

In addition to introducing new income taxes throughout the country, Brcko District is contemplating a radical reform of its taxes on real estate. This reform will introduce the following: taxation on the value rather than the size of real estate; taxation based on official assessments; taxation of all real estate; and, elimination of numerous fees and charges based on real estate. The legislation is only in draft form. The book of rules for this legislation needs to be developed. Most importantly, the methodology for mass assessments based on a valuation system needs to be designed and implemented, as well as a new real estate tax registry to ensure that all taxable real estate in the District is properly recorded for the purposes of taxation.

Other remaining challenges for Tax Administration ahead of us in 2005 include the completion of current accounts for all taxpayers, online taxpayer registration, completion of the automatic notifications system for stop filers and overdue accounts, and establishing back up data communications procedures.

7. Concluding remarks

Tax administration modernization has helped BiH achieve impressive revenue growth over the past four years, despite an economic slowdown and a steady decline in customs duties. Whether the efforts to date will lead to continued revenue growth, or whether the major impact of these modernization efforts has already been realized, remains to be seen.

The message that should be clear to the reader is that there is considerable room for improvement, both in terms of tax administration and tax policy reform. Audit and enforcement, particularly with respect to direct taxes, is still weak. In many cases, tax laws and their regulations are contradictory, making compliance and collection extremely difficult. Furthermore, as the revenue performance results highlighted here illustrate, with the exception of contributions, most revenue sources still yield very little revenue at all for the governments. If the country is ever to have sustained private sector investment and growth, contributions, too, will have to be reformed to significantly lessen the tax burden on labor.

The prospects for reform are positive. The Tax Administrations have already developed the basic data systems and implemented the organizational change necessary to accommodate more comprehensive tax reforms. The Entities and Brcko now have the opportunity to consolidate and build on the improvements in tax administration thus far, and devote new attention to rationalizing tax policy and creating an efficient, fair and business-friendly tax system.

8. Annex. Revenue Trends in BiH, 2001-2004

Table 5. Revenue Performance in the FBiH

TABLE 1. TAX REVENUE PERFORMANCE IN THE FEDERATION OF BOSNIA AND HERZEGOVINA, 2001-2004

	Revenues by year				Annual change (%)				Avg annual
TYPE OF REVENUE (KM)	2001	2002	2003	2004	2002/01	2003/02	2004/03	2004/01	change (%)
Total Public Revenues	3,122,642,563	3,634,093,815	3,931,619,107	4,565,023,240	16.4	8.2	16.1	46.2	13.6
Total Revenues (excl. customs)*	2,319,974,461	2,772,100,320	3,139,636,318	3,788,144,601	19.5	13.3	20.7	63.3	17.8
Total Indirect Taxes	1,552,468,448	1,789,554,241	1,972,340,655	2,202,407,665	15.3	10.2	11.7	41.9	12.4
Sales Tax	661,006,646	824,859,195	1,088,778,369	1,337,800,064	24.8	32.0	22.9	102.4	26.6
Excises on domestic goods	88,793,699	102,701,552	91,579,497	87,728,962	15.7	-10.8	-4.2	-1.2	0.2
Excises on imported goods**	122,668,102	345,993,495	317,982,789	356,178,639	182.1	-8.1	12.0	190.4	62.0
Customs***	680,000,000	516,000,000	474,000,000	420,700,000	-24.1	-8.1	-11.2	-38.1	-14.5
Total Direct Taxes	1,570,174,115	1,844,539,574	1,959,278,452	2,362,615,575	17.5	6.2	20.6	50.5	14.8
Wage Tax	127,475,256	136,773,833	144,930,729	160,129,078	7.3	6.0	10.5	25.6	7.9
Profit Tax	67,924,267	41,119,514	54,555,343	67,498,869	-39.5	32.7	23.7	-0.6	5.6
Citizen Taxes	60,842,295	75,490,471	83,448,048	82,321,089	24.1	10.5	-1.4	35.3	11.1
Fees and Charges	195,387,463	198,782,583	238,272,484	298,201,176	1.7	19.9	25.2	52.6	15.6
Fines	18,280,227	22,530,185	24,469,891	22,692,530	23.2	8.6	-7.3	24.1	8.2
Other Taxes and Revenues	90,307,099	149,366,191	90,959,077	299,471,225	65.4	-39.1	229.2	231.6	85.2
Contributions	1,009,957,508	1,220,476,797	1,322,642,879	1,432,301,608	20.8	8.4	8.3	41.8	12.5

*Revenues from taxes administered by the Tax Administration of the Federation of Bosnia and Herzegovina (TAFBiH) only.
**Data for excises on imported goods from TAFBiH annual reports
***Customs revenue data from TAFBiH annual reports.
Sources: Revenue Allocation System (RAS), TAFBiH annual reports.

Table 6. Revenue Performance in the RS

REVENUE CATEGORY (KM)	Revenues by year 2001	2002	2003	2004	Annual change (%) 2002/01	2003/02	2004/03	2004/02	Avg annual change (%)
Total Public Revenues	805,350,841	1,500,453,630	1,649,426,613	1,848,331,994	-	9.9	12.1	23.2	11.0
Total Revenues (excl. customs)*	650,345,506	1,331,588,828	1,499,465,138	1,735,581,531	-	12.6	15.7	30.3	14.2
Total Indirect Taxes	567,282,406	739,865,408	797,612,139	831,603,312	30.4	7.8	4.3	12.4	14.2
Sales Tax	276,189,506	372,834,820	437,732,034	509,113,767	35.0	17.4	16.3	36.6	22.9
Excises	136,087,565	198,165,786	209,918,630	209,739,083	45.6	5.9	-0.1	5.8	17.2
Customs	155,005,335	168,864,802	149,961,475	112,750,463	8.9	-11.2	-24.8	-33.2	-9.0
									0.0
Total Direct Taxes	238,068,435	760,588,222	851,814,474	1,016,728,682	58.0	13.7	18.6	113.0	30.1
Wage Tax	73,622,435	93,841,954	100,006,350	115,498,739	27.5	6.6	15.5	56.9	16.5
Profit Tax	16,045,332	17,882,114	16,436,508	19,814,810	11.4	-8.1	20.6	23.5	8.0
Citizen Taxes	19,690,058	55,593,687	63,341,164	64,691,622	182.3	13.9	2.1	228.5	66.1
Fees and Charges	76,294,578	140,416,768	172,527,996	224,788,841	84.0	22.9	30.3	194.6	45.7
Fines	8,122,732	10,294,704	12,684,584	13,767,681	26.7	23.2	8.5	69.5	19.5
Other Taxes and Revenues	44,292,609	58,162,419	62,673,845	68,553,130	31.3	7.8	9.4	54.8	16.2
Contributions**	690	384,396,577	424,144,027	509,613,860	-	10.3	20.2	32.6	15.2

*Revenues collected by the Tax Administration of the Republic of Srpska (TARS) only.
**2002 was the first full year in which TARS collected contributions.
Source: Revenue Allocation System (RAS).

Table 7. Revenue Performance in Brcko District

REVENUE CATEGORY (KM)	Revenues by year				Annual change (%)				Avg annual change (%)
	2001	2002	2003	2004	2002/01	2003/02	2004/03	2004/01	
Total Tax Revenues*	94,924,928	128,101,312	151,952,242	153,571,113	35.0	18.6	1.1	61.8	18.2
Total Revenues (excl. customs)	68,133,528	104,198,345	132,080,511	139,530,898	52.9	26.8	5.6	104.8	28.4
Total Indirect Taxes	80,144,269	109,612,453	131,891,157	130,335,600	36.8	20.3	-1.2	62.6	18.6
Sales Tax	20,607,824	29,803,870	43,855,763	64,152,788	44.6	47.1	46.3	211.3	46.0
Excises	32,745,045	55,905,616	68,163,663	52,142,597	70.7	21.9	-23.5	59.2	23.1
Customs	26,791,400	23,902,967	19,871,731	14,040,215	-10.8	-16.9	-29.3	-47.6	-19.0
Total Direct Taxes	14,780,659	18,488,859	20,061,085	23,235,513	25.1	8.5	15.8	57.2	16.5
Personal Income Taxes**	4,609,026	6,182,393	6,999,556	6,724,283	34.1	13.2	-3.9	45.9	14.5
Enterprise Income Tax***	432,378	836,894	1,243,902	1,662,392	93.6	48.6	33.6	284.5	58.6
Property Tax	606,700	586,922	657,458	814,228	-3.3	12.0	23.8	34.2	10.9
Other Taxes and Revenues	62,400	323,325	301,328	444,018	418.1	-6.8	47.4	611.6	152.9
Contributions	9,070,155	10,559,325	10,858,841	13,590,592	16.4	2.8	25.2	49.8	14.8

*Revenues from taxes administered by the Tax Administration Agency of the District of Brcko (TABD) only.

**Includes taxes on income of all individuals and entrepreneurs. The Personal Income Tax replaced the wage tax and other schedular income taxes on July

***Includes revenues from the profit tax up to 12/31/2003 and revenues from the Enterprise Icome Tax thereafter. EIT replaced the profit tax on January 1, 2(

Sources: Revenue Agency and Tax Administration Department of the District of Brcko.

9. List of persons consulted

Dzenana Softic, TAFBiH
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Zoran Drakulic, USAID-TAMP (Banja Luka)

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