DOMESTIC RESOURCE MOBILIZATION CASE STUDY: BOSNIA AND HERZEGOVINA

Leadership in Public Financial Management II

(LPFM II)

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EXECUTIVE SUMMARY

After the dissolution of Yugoslavia and the Bosnian War, the Dayton Accords established peace and defined the new institutional structure for present-day Bosnia and Herzegovina (BiH). It created two so-called entities, the Federation of BiH predominantly populated by Bosniaks and Bosnian Croats, and Republika Srpska, almost entirely populated by Bosnian Serbs, and a special district (Brčko), populated by all three main ethnic groups. During the post-war period, both entities and Brčko worked from the foundation of the tax laws from the former Yugoslav federation, with slight modifications, until the early 2000s.

Commencing from 2000, BiH moved from a fragmented, overly complex, distortionary, corruption-riddled, and costly system to a more uniform and predictable system with lower compliance costs. The authorities replaced a complex, irksome sales tax collected by the two entities and Brčko with a highly efficient, broad-based value-added tax (VAT) system collected by the newly-established Indirect Taxation Authority that met European Union (EU) standards. Other notable reforms included the introduction of new personal and corporate income taxes that treat taxpayers similarly in all jurisdictions, harmonization of excises with EU standards, and displacement of trade taxes with enhanced domestic tax revenues. These reforms were complemented with substantial improvements in tax administration, including streamlining and automation of major business processes, a new taxpayer registry and taxpayer identification number (TIN), creation of central processing centers, and improved data sharing throughout the system thanks to a new high-speed, low-cost microwave- based data network.

These reforms enabled the authorities to lower headline tax rates, but maintain or increase revenue collections. Improvements in tax policies and regulations have also strengthened the business-enabling environment, as reflected in BiH's performance on the *Paying Taxes* indicator from the World Bank's *Doing Business* report. For instance, BiH's distance-to-frontier (DTF) score, measuring the degree to which a country is applying tax best practices, showed steady, considerable improvement. From 2006 to 2017, the BiH's score on this indicator rose from 46 percent to 60 percent.

The BiH case illustrates several basic lessons about donor efforts to support DRM. First, the structures established for donor coordination were critical to ensure that donors spoke with a single voice and that assistance was well coordinated. Second, considerable investment (at least $127 million from donors over 15 years) and time is required to make progress in post-conflict environments. In BiH, it was about ten years after the signature of the Dayton Accords that the first major tax reform was achieved. Third, tax policy is important. Initial efforts to improve tax administration would have been more effective had tax policy been rationalized first. Fourth, accession to the EU is a powerful incentive – in BiH, it helped to motivate important VAT, excise and customs reforms. Finally, enhanced indicators and reporting for DRM projects help donors to better capture their impact and adapt projects during implementation.

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Acronyms

BiH	Bosnia and Herzegovina
CIT	corporate income tax
DRM	domestic resource mobilization
DTC	Direct Tax Commission
DTF	distance to frontier
EU	European Union
IMF	International Monetary Fund
ITA	Indirect Taxation Authority
ITC	Indirect Tax Commission
PIT	personal income tax
SSC	Social Security Contribution
TAF	Tax and Fiscal project
TAFBiH	Tax Administration of the Federation of Bosnia and Herzegovina
TAMP	Tax Administration Modernization Project
TARA	Tax Reform Activity
TARS	Tax Administration of the Republika Srpska
TIN	taxpayer identification number
VAT	value added tax

Domestic Resource Mobilization Case Study: Bosnia and Herzegovina

Programs to strengthen domestic resource mobilization (DRM) in developing countries are critically important not only to reduce reliance on donor funding, but more importantly, to provide governments with a dependable, steadily expanding, and sustainable source of revenue for investing in development and delivering essential public goods and services. Transparent DRM systems are a foundation for building good governance and enhancing accountability in public finance management. In addition, DRM programs can deliver major economic benefits by creating tax systems that foster more efficient private sector development.

The 2015 Addis Ababa Action Agenda on Financing for Development placed DRM front and center as a goal in its own right and as the most viable mechanism for achieving the Sustainable Development Goals. To follow up on the Addis Agenda, the Addis Tax Initiative was established, underpinning the international community's commitment to help developing countries strengthen their DRM efforts.

In seeking to improve revenue performance, developing countries face enormous challenges, including weak administrative and enforcement capacity; an inherently narrow tax base owing to low incomes; a prevalence of informal sector activities; a culture of low tax compliance; and, deep-seated problems with corrupt practices.

Notwithstanding these challenges, many developing and transition countries—including Bosnia and Herzegovina (BiH)—have shown remarkable progress in strengthening DRM. This case study tells the story of BiH's successful efforts to enhance revenue system performance.

Introduction

After four years of civil war, the warring factions signed the Dayton Peace Agreement[1] in Paris on December 14, 1995. Dayton serves not only as a peace accord, but also as the country's constitution. Dayton established two sub-national entities, the Federation of BiH, predominantly populated by Bosniaks and Bosnian Croats, and Republika Srpska, almost entirely populated by Bosnian Serbs. A third special district, Brčko, which collects taxes but not customs revenue, is populated almost equally by all three main ethnic groups. The Federation is further broken into 10 cantons and 79 municipalities. The Republika Srpska is broken into 64 municipalities. Above all these levels of government is the central government, referred to as the *State,* which initially had very few resources and few authorities.

While Dayton established that BiH would be an independent republic, it was initially subject to heavy external oversight (though declining over time), particularly manifested through the Office of the High Representative (OHR). Dayton provided for the creation of this *ad hoc*

[1] Whereas the formal name of this peace agreement is The General Framework Agreement for Peace in Bosnia and Herzegovina, it is also known as the Dayton Accords, the Paris Protocol, the Dayton-Paris Agreement, or simply Dayton.

institution with the authority to oversee the implementation of the civilian aspects of the Dayton Accords, including, among other things, the authority to enact legislation and to remove people from official and political positions.

Under Dayton, foreign trade and customs policy were designated as State government responsibilities, while customs administration was placed under the purview of the entities and later Brčko District. This division was initially quite complex because of the absence of State structures acceptable to all parties. Dayton allowed the entities and Brčko to manage their own tax systems, including customs and operation of excises, but import duty rates were a State-level policy purview—that is, the entities could not alter duty rates. At the same time, Dayton delegated Social Security to the entities, while Brčko employees were free to choose to participate in either the Federation or Republika Srpska Social Security system.

Tax Reform Goals and Objectives from Dayton to Today

- Set up basic tax administration and gain control over goods entering the country
- Capture enough revenue to adequately fund all levels of government
- Improve the business-enabling environment through less burdensome tax compliance
- Create a "single economic space," including through the harmonization of taxation
    - Harmonization of personal and corporate income taxes across the entities and Brčko
    - Single organization for administration of trade and excise taxes
- Accede to the European Union
    - EU standards for VAT, excises and customs

Fiscal authority was oddly distributed. The State had almost no taxing authorities other than to set tariff and excise rates, and no tax administration of its own. It relied on contributions from the entities. The State set customs and excise policy, but revenue collections were the responsibility of the entities and Brčko. If a truck were to enter goods into the country, the import duties and excises would be collected by the customs agency that controlled the particular crossing point, and the revenues would stay with that entity or Brčko.

After duties and excises, the main source of public revenue was retail sales taxes, which were collected by the two entity and Brčko tax administrations. In the Federation, sales tax revenues belonged to the cantons or municipalities, each of which could impose differing rates. In addition, the cantons and municipalities as well as the entities levied myriad taxes on incomes of different sources, on different business activities, as well as on property and the transfer of property.

Bosnia and Herzegovina's Success in Building Modern Tax Systems

Success of BiH's tax system modernization efforts should be assessed not only on how much revenue has been collected, but also on improvements in *how* revenue is mobilized and on how revenue mobilization affects people and the economy.

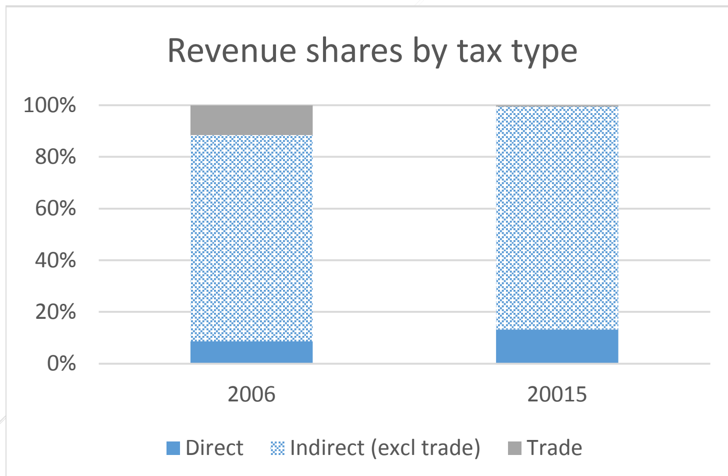
The most important tax modernization successes from 2001 to 2016 were the replacement of a complex, irksome sales tax collected by the two entities and Brčko with a highly efficient, broad-based VAT, collected by the Indirect Taxation Authority (ITA); harmonization of direct taxes, namely introduction of new personal and corporate income taxes; harmonization of excises with EU standards; and displacement of trade taxes with enhanced domestic taxes.

BiH moved from a fragmented, overly complex, distortionary, corruption-riddled, and costly system with myriad payments to myriad government offices to one of much greater uniformity and predictability with a much lower compliance burden. The prior fractious polity and its atomized revenue systems made for a poor business environment in which it was difficult for businesses to operate throughout this rather small country.

Improvements in tax policies and regulations have strengthened the business-enabling environment. BiH's performance on the *Paying Taxes* category of the World Bank's *Doing Business* report demonstrates this progress.[2] For instance, BiH's distance-to-frontier (DTF) score, measuring the degree to which a country is applying tax best practices, shows steady, considerable improvement from 2006 to 2017, rising from 46 to 60 percent.[3] At the same time, the number of tax payments the typical company must make declined from 55 to 34 per year.

BiH has sustained adequate government revenue levels in the face of trade liberalization. Average import duties declined over the past 15 years, from about 15 percent of revenue to only a negligible share today. This decline in import duties resulted from a reduction in the average duty rate from 7.7 percent in 2006 to only 2.4 percent in 2015. In BiH's case, it is clear that fiscal reform has helped support trade liberalization.[4]

Replacing trade revenue with domestic taxation



Source: Appendix C.

Moreover, improvements in customs operations led to meeting revenue needs, achieving EU standards, and facilitating trade. For instance, the World Bank's *Doing Business* DTF score for Trading Across Borders, which measures the overall degree to which a country is applying best practices, shows considerable, steady improvement. From 2006 to 2017, BiH's score on the indicator rose from almost 67 percent to almost 92 percent. In addition, because of streamlining of customs and border practices, BiH is now ranked 36th out of the 190 economies on this indicator.

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2 For more information on the World Bank's Doing Business methodology and program, visit www.doingbusiness.org.

3 Indicating that the country was closer to the "frontier" of best practice.

4 Reliable, consistent data are not available for years before 2006.

How Did BiH Achieve These Results?

Reforms to Tax Policy[5]

Both entities and Brčko began the post-war period applying the tax laws carried over from Yugoslavia, with some slight modifications introduced from time to time until the early 2000s, such as the "harmonization" of sales tax rates across the country.

In 2005, the BiH Parliament enacted the VAT law, effective January 2006. The VAT would more than replace all sales taxes that had, at the time, been the purview of the entity and Brčko tax administrations. There were several reasons for implementing the VAT. The sales taxes were extremely burdensome to comply with and somewhat distortionary. They were levied in different ways in different parts of the country and were an impediment to achieving the concept of the "single economic space." Because the VAT is trade-friendly, it offered the potential to promote the country's international competitiveness. Finally, any country seeking to accede to the EU had to have a VAT in place and the VAT had to meet several exacting standards, including very few exemptions or exclusions, which the BiH VAT did.

Today BiH has a near consistent set of personal and corporate income taxes that treat most taxpayers alike, regardless of where they operate in the country. In the Federation, the new personal income tax (PIT) replaced about 70 different schedular taxes on incomes imposed by sub-Federation cantons, while in the Republika Srpska this new tax replaced seven so-called citizen taxes, resulting in revenues immediately soaring fourfold, albeit from a rather small base. Although direct taxes remain a small portion of total government revenues, between 2006 and 2015, they quadrupled in Brčko, doubled in Republika Srpska, and nearly doubled in the Federation.

The Republika Srpska first in 2007 and then the Federation later in 2009 enacted new corporate income tax (CIT) laws. During the first full year of the new CIT in the Republika Srpska, despite maintaining the headline tax rate of 10 percent, revenues nearly doubled. The new CIT law was a bigger change for the Federation because it lowered its corporate tax rate from 30 percent to only 10 percent, but at the same time, reduced many tax holidays. Despite a lower tax rate, CIT revenues nearly doubled in the first year.

Reforms to Tax Administration[6]

By 2000, the Federation, Republika Srpska, and Brčko had set up basic tax administrations. During this early period, the governments enacted new tax administration legislation that would create the post-Yugoslav tax administrations. The regulations to guide the implementation of these new tax administration laws followed. During 2001–2004, new, more streamlined business processes were reengineered and fully automated, greatly enhancing the control, speed, and reliability of tax administration services and activities and facilitating taxpayer services. By 2005, the three tax administrations (the entities and Brčko) had solid, comprehensive information technology (IT) systems. In all cases, these were bespoke systems

[5] Appendix A is a timeline of important tax policy and legislative reform milestones.

[6] Appendix B is a timeline of important tax administration modernization milestones from 2003 to 2016.

rather than commercial-off-the-shelf software, with all design, development, and deployment executed in the country.

During 2003 and 2004, the Federation tax administration (TAFBiH) set up central processing offices in Mostar and Sarajevo, while the Republika Srpska tax administration (TARS) set up a similar processing center in Banja Luka. This made it much easier for the tax administrations: a) to know who had paid their taxes; b) whether the taxes were paid on time; c) whether the right amount of tax was paid; d) who should be audited; and e) what supporting information was to be used for conducting audits. Central processing of taxpayer declarations made it much easier on taxpayers to deliver their returns to tax administration offices because now they could simply drop the return off, receive a stamped receipt, and leave. Earlier, a tax officer scrutinized each tax return at the tax office, including reviewing the overall return for completeness and, to a degree, for accuracy. This process caused very long queues and wait times.

In December 2003, the BiH Parliament adopted the Law on Indirect Taxation System,[7] thereby setting the legal basis for establishing the Indirect Taxation Authority (ITA), a State-level institution with over 2,300 employees today. ITA is a semi-autonomous revenue authority responsible through its governing board[8] to the Council of Ministers of Bosnia and Herzegovina. Its purview includes customs and all the indirect taxes for the entire country—that is, VAT, customs duties, and excises, including the road tax collected on fuels. In doing so, the ITA exercises considerable leeway in internal operations and human resource management and with considerable budget independence.

The VAT took effect in January 2006, with the first revenues flowing into the ITA in February of the same year. When planners first helped to establish the VAT, they were expecting about 20,000 firms to register. Today, more than 37,000 firms are VAT payers. The parties fiercely debated how the VAT and other indirect tax revenues would be shared among the Republika Srpska, Federation, Brčko, and State budgets. Since January 2005, all revenues collected by the ITA go directly into the Single Account opened in the Central Bank of Bosnia and Herzegovina. The legal framework requires that revenues be allocated on a *pro rata* basis among the entities and remitted daily.[9]

During 2002–2003, the three tax administrations developed a taxpayer identification number, with unique control and internal intelligent digital technologies. The tax administrations then reregistered all known taxpayers, issued each taxpayer a new taxpayer identification number, and removed old, outdated, or fraudulent taxpayers from the taxpayer registry. The number of

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[7] See Law on Indirect Taxation System in Bosnia and Herzegovina ("Official Gazette of Bosnia and Herzegovina," No. 44/03 and 52/04). Available at: http://www.uino.gov.ba/download/Dokumenti/Dokumenti/eng/Porezi/PDV/Books_of_rules_on_the_implementation_of_the_Law_on_VAT_9305.pdf.

[8] The ITA reports to, and is overseen by, the Governing Board, which is subordinate to the Council of Ministers of BiH. The ITA Governing Board includes six members, of whom three are ministers of finance who are the ex officio members.

[9] Levitas (2007) tells the fascinating story of how agreement to the allocation of these revenues was finally achieved.

taxpayers (companies and persons) during this period rose threefold, despite bogus registrations being discarded (Rozner, Šahinagić, and Marjanović 2005).

Excise and import duty rates were established uniformly throughout the country, though each entity and Brčko actually collected these taxes whenever goods flowed into the country within their individual jurisdictions. Brčko, while applying the same rates, applied a different methodology for calculating the tax base for petroleum imports, and thereby importers were able to import this product into the country at a lower cost than if they were to bring the product in via either Republika Srpska or Federation border positions. Add to this that Brčko customs service operated 24/7, was considered free of corruption, and demonstrated a customer orientation.

Contribution of Donor Support

The main donors involved with DRM in BiH include the EU; the U.S. government, both USAID and the U.S. Treasury; and the German government through its then German Society for Technical Cooperation (GTZ) (today, the German Society for International Cooperation, or GIZ).

EU assistance began immediately after hostilities ceased. When the international community decided to emphasize indirect tax reform, leadership, especially from the EU and the OHR, worked with counterparts from entity and State governments to establish the Indirect Tax Commission (ITC).

The ITC, and especially the EU, focused on establishing customs and excises operations first at the entity level, with a particular aim to stem the flow of contraband. EU assistance also worked with the entity tax administrations in the area of sales tax collection and enforcement. Eventually, EU assistance took the lead in developing VAT legislation, designing, setting up, and outfitting the ITA, and providing capacity-building assistance for the ITA. The EU indeed had an important role in the initial governance of the ITA; for instance, the first board director was appointed by the OHR but was an EU-funded expert.[10]

GIZ assisted Brčko in developing a PIT law, which was enacted by the Brčko Parliament in 2003. The law was subsequently repealed and replaced by a new law that was more in harmony with the new PIT laws enacted in the entities with USAID assistance.

During 2000 – 2001, the U.S. Treasury (Office of Technical Assistance (OTA)) assisted the two entity tax administrations to design and carry out overall reorganizations, which included development of new organizational structures and preparation of so-called rule books, or implementing regulations, as well as change management guidance and management support. Meanwhile, USAID provided similar organizational development assistance to help establish and start up the Brčko tax administration.

Over the next three years, USAID assisted the three tax administrations by undertaking comprehensive business process reengineering and automation, essentially streamlining and automating almost all tax administration processes and procedures. Three other USAID

[10] The U.S Government also was represented on the board by a non-voting *ex officio* board member.

initiatives supported further tax administration modernization, namely: (1) the redesign of the taxpayer register and the reregistration of all known taxpayers, (2) the establishment of data processing centers, and (3) the innovative replacement of the data communications system with a microwave-based system.

These efforts had tangible impacts. The reregistration process enabled the tax administrations to clear out many files of defunct and fraudulent taxpayer identities, expanding the base of legitimate taxpayers. The new data processing centers in Banja Luka, Mostar, and Sarajevo comprised an essential component of a streamlined, taxpayer-friendly declarations process, but also eliminated data entry backlogs for declarations, which at the time were three years behind. USAID efforts to design and deploy a data communications system to connect all tax offices and central processing centers via a high-speed, low-cost microwave-based network facilitated the immediate transmission of imaged taxpayer declarations to new central processing centers, enabling the tax administrations to eliminate the backlog and bring data entry completely up to date.

When USAID and the U.S. Department of State (State) decided to replicate the success of the ITC, USAID broached the subject with counterparts. In this instance, the counterparts supported the idea of a Direct Tax Commission (DTC) but requested that it not include BiH government officials; instead, they requested that the DTC serve as a single voice of the international community. Once established, the DTC members included USAID, State, OTA, the German Embassy, OHR, IMF and the World Bank. All proposals for direct tax policy reform, including property taxation, were discussed and agreed to among DTC members, and the DTC spoke with one voice on these matters with counterparts at all levels of BiH governments.

Subsequent U.S. assistance focused on harmonization of direct taxation, design and implementation of new property taxation, and development of a new system for supporting the migration of social security contributions (SSC) to the tax administrations.

More recently, USAID has been assisting TARS in strengthening the basic infrastructure needed to fully implement and expand e-filing and e-payment. As indicators of TARS's success, most payroll taxes and contributions are now electronic, and 70 percent of Republika Srpska revenues are paid via the e-payment mechanism.

Unfinished Business

In BiH, the SSC funds the social pension system, public health care, unemployment insurance, and child protection and flood protection in Republika Srpska. Total SSC revenues come to about 15 percent of GDP for the entire country, one of the highest rates in the world. The SSC is a payroll tax imposed at 41.5 percent of salary in the Federation and 33.9 percent in the Republika Srpska, both rates near worldwide highs. Only France, Germany, and a few other countries have higher SSC burdens.

The problem with high SSC rates is they impose a large wedge between what employers pay for workers and what workers take home. The greater this wedge, the less inclined businesspersons will be to create new jobs, even if business is growing. And, the greater this wedge, the less inclined would-be workers are to accept jobs that leave them with little in their pockets. Considering the very low tax on capital, namely the ten percent corporate income tax rate, to the extent businesses do seek to expand through new investment, they will be inclined to favor capital-intensive over job-creating technologies. In part, this may explain why formal sector jobs seem to be disappearing despite some economic growth.

Fixing the financing of the social security sector in BiH will not be an easy task, such as delinking payroll entirely from SSC as has been implemented in Georgia. More modest options to fund these important social protection programs while reducing the bias against formal sector job creation could include building progressivity into the personal income tax by introducing higher tax brackets. Another would be to raise the corporate income tax rate from its currently very low rate of only ten percent. But, deeper analysis and discussion should take place before determining the solutions.

Lessons Learned

Providing technical and material assistance for DRM in BiH took place within a particular environment. Other DRM case studies discuss how donors and local partners have been able to build a single, national-level tax system. In the case of BiH, donors worked with counterparts first to establish three subnational tax systems, then to build two separate customs services, and finally, to build a countrywide tax authority that then took over all responsibility for customs and all indirect taxation.

All this tax system design, organization, capacity building, and institutionalization was done in a post-conflict context, where low-level conflict continued and continues to this day, and where interethnic group and interregional cooperation is hard to achieve. The people, organizations, and countries that contributed to building these four tax systems did so in a space that had not been an independent country before the war had started. The tax systems started with officials who had very little, if any, experience in tax and customs administration. They had little or no equipment, and had very little in terms of adequate office space, procedures, processes, and even leadership.

We draw our lessons learned in light of this complex, post-conflict context.

Donor coordination is crucial. For both direct and indirect tax reform, establishing the two commissions was key to both speaking with a single voice as well as ensuring that assistance and reforms all be appropriately coordinated. Without these two commissions at their respective times, it is likely that gaining consensus for reform would have remained out of reach.

Was it worth it? The case is clear that, for the most part, the central donor objectives were achieved: Donor-assisted reforms helped establish operational tax systems that would support the "single economic space" concept. They helped to achieve and sustain adequate revenues to fund public services, even as trade liberalization reduced trade taxes to negligible levels. And, they did so while trimming back unnecessary burdens on business and society.

Donors have spent considerable sums to build these tax systems and make sure they would meet the required standards. Between 2002 and 2017, the EU spent about $80 million, USAID about US$35.0 million, the U.S. Treasury up to $10.0 million, and the German government about $2 million—with smaller contributions from other donors. Overall, donors spent an estimated $127 million to help build tax systems, and BiH has mobilized about $35 billion (from 2006 to 2017) in total tax revenues (excluding payroll tax for social contributions).

Reform can take a long time. By early 2004, both BiH and international community leadership were well aware of the need to reform not only indirect but also direct taxation. Despite having developed a clear agenda, personal and corporate income tax reform took several years to come to fruition. Indeed, although one team of USAID experts worked closely with counterparts to develop legislation and methods in 2005, it was not until 2006 when the first reform was enacted into law, and several more years before personal and corporate income taxes were reformed and harmonized throughout the country. Indeed, until today, the Federation still has not enacted new property tax legislation.

Tax policy is important. Both USAID and the OTA charged headlong into tax administration modernization for several years without considering the implications that tax policy had on the business-enabling environment or the labor market. Donors should always assess tax policy before determining a path of assistance in DRM development.

Accession to the EU was a powerful incentive. There was and continues to be considerable opposition among some ethnic or political leaders to any moves toward creating a single economic space, but almost all BiH citizens and their leaders want greater freedom of movement, access to European markets, and access to assistance from the EU, which all remain limited as long as BiH remains outside of the EU. Unification of excises and customs and implementation of a VAT that meets EU standards are key points in this accession quest and bring the country together. Without the hope of eventual accession to the EU, these reforms might not have been feasible.

Enhanced indicators and reporting are needed. The significance of many of the improvements to the BiH tax system over the past two decades was difficult to assess for lack of available baseline information and monitoring of performance measures. DRM assistance projects should develop better performance indicators and conduct more evaluations to both assess the value they create as well as to be able to attribute benefits that arise from specific actions. USAID's Georgia Business Climate Reform project developed a variety of indicators that were very useful for both valuing the benefits derived from specific tax reform measures and being able to attribute these benefits arising from specific measure that were taken. McMorran, Dod, and Rozner (2014) further elaborate on this topic.

Some indicators that DRM projects, especially those whose objectives include improving the business-enabling environment, should consider include:

- *Taxpayer costs of compliance surveys,* which measure the burden in time and money spent by taxpayers on pre-filing, filing, and post-filing activities. Taxpayer compliance cost surveys are relatively low-cost ways of assessing how much businesses spend merely on complying with tax law and regulations. This method can serve to both target reforms and assess the economic impact of reform.[11]
- *Savings to taxpayers* in terms of reduced queuing, simplified record keeping, improved data management, and more efficient filing of forms from innovations such as e-filing, e-

[11] See Coolidge, Ilic, and Kisunko (2011) for in-depth discussion of how to conduct a taxpayer cost of compliance survey.

payments, elimination of nuisance taxes, consolidation of taxes, charges and fees, among others.

- *Revenue impacts*, ex ante and ex post, from specific administrative measures, such as cleansing the taxpayer registry, reregistration, implementation of risk-based audit systems, and specialized training in fields such as audit of the financial and insurance sectors.
- *Savings in tax administration staff and related costs* that arise from certain modernization and streamlining of processes, such as online filing, online taxpayer compliance certifications, and risk-based audit selection. Such savings can be redirected to priority areas, such as collections and audit of high-risk, high net-worth taxpayers.

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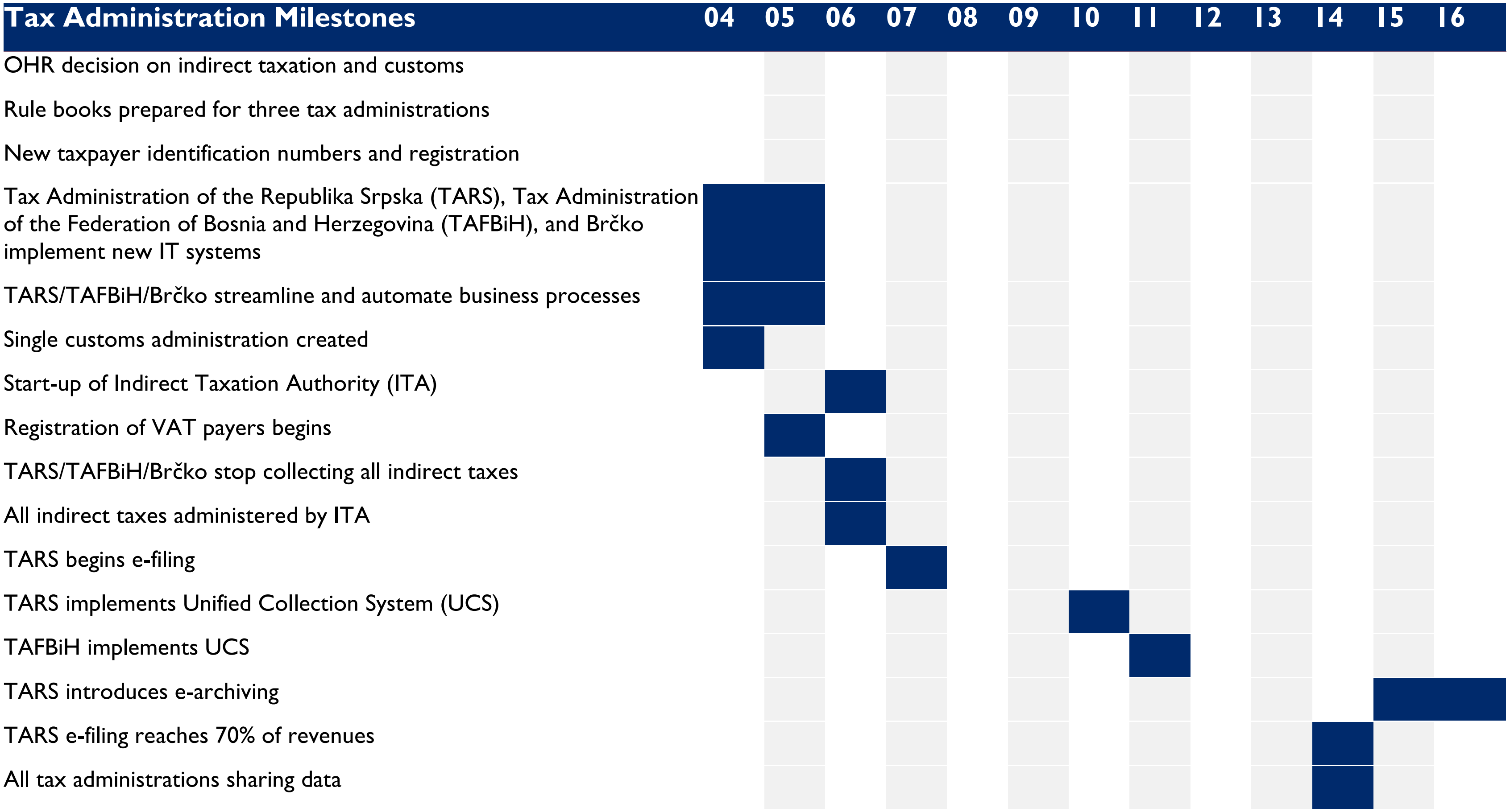
Appendix A: Milestones on Tax Policy and Legislative Reform

Tax Policy Milestones	03	04	05	06	07	08	09	10	11	12	13	14	15	16
Office of the High Representative (OHR) issues decision on indirect taxation	■													
Brčko enacts personal income tax (PIT)	■													
BiH parliament enacts VAT law			■											
VAT law takes effect				■										
Republika Srpska (RS) enacts new PIT				■										
RS enacts new corporate income tax (CIT)					■	■	■							
Brčko enacts property tax					■	■	■							
Republika Srpska enacts property tax						■								
Federation PIT law						■								
Republika Srpska regulations on cadaster							■							
Republika Srpska regulations on property evaluation							■							
Excises revised according to EU standards							■							
Federation implements PIT								■						
Republika Srpska ups social contribution rate									■					
Republika Srpska law on taxes													■	
Federation rev. CIT enforcement														■
Republika Srpska rev. CIT enforcement														■

Appendix B: Milestones on Tax Administration Modernization 2004-2016



Appendix C: Aggregate Economic and Revenue Data for BiH, 2006–2016

Aggregate w/ Indirect Taxation Authority (ITA)	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
General Overview of Economy											
Real GDP growth, annual % change	5.38	5.73	5.48	-2.87	0.77	0.91	-0.93	2.39	1.08	3.02	1.99
Population growth, annual % change	-0.05	-0.14	-0.28	-0.45	-0.66	-0.90	-1.11	-1.19	-1.09	-0.85	-0.54
Household final consumption, % of GDP	85	83	84	81	83	83	82	80	82	79	80
Labor force participation rate, total	44.6	45.7	46.6	46.4	46.9	46.5	47.0	46.5	46.2	46.1	46.0
Imports (G&NFS), % of GDP	63.0	56.5	59.3	48.8	51.3	55.8	55.9	54.2	56.8	53.6	na[12]
Overseas development assistance (ODA), as % of GDP	4.05	3.68	2.35	2.28	2.93	3.33	3.28	2.83	3.38	2.18	na
ODA, as % of government domestic revenue	6.33	6.25	3.90	4.72	5.61	5.72	5.66	5.11	5.72	3.91	na
Domestic Revenue Mobilization (% of GDP)											
Tax revenues	21.69	21.40	20.31	18.96	19.70	20.32	20.50	19.78	19.82	19.98	na
Personal income tax (PIT) revenues (includes citizen+)	1.44	1.19	1.30	1.00	1.03	1.90	1.97	1.94	1.83	1.80	1.81
Corporate income tax (CIT) revenues	0.66	0.78	0.84	1.26	1.32	1.06	1.10	1.11	1.11	1.21	1.50
Excise revenues	4.29	4.07	3.68	4.03	4.63	4.83	4.98	4.76	4.81	4.51	4.97
VAT revenues	15.08	15.46	15.88	14.37	14.66	15.32	15.41	15.28	15.99	15.21	15.47
Trade revenues	2.78	2.91	2.55	1.40	1.19	1.07	0.87	0.81	0.88	0.86	na
Non-tax revenues	1.52	0.93	1.67	0.61	0.05	0.18	0.14	0.13	0.15	0.12	na
Social contributions	12.64	12.90	13.99	14.68	15.04	15.40	15.45	15.39	15.51	15.18	na
Domestic revenues, total	38.01	38.64	37.90	37.39	38.40	38.87	39.53	38.50	39.50	38.68	na
Tax Performance											
VAT productivity	0.89	0.91	0.93	0.85	0.86	0.90	0.91	0.90	0.94	0.89	0.91
VAT gross compliance ratio	104	109	111	104	104	109	111	112	115	113	114
Import duties, % of total tax revenue	0.04	0.11	0.06	0.02	0.00	na	na	na	na	0.00	na
Import duties, % of imports (G&NFS)	na	na	na	na	Na	na	na	na	na	na	na

[12] na = not available.

Aggregate w/ Indirect Taxation Authority (ITA)	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Import duty rate, average	7.71	6.83	6.6	3.72	3.34	3	2.88	2.77	2.79	2.35	na
VAT collected by Customs,	Na	na	na	na	Na	na	na	na	na	na	na
Excises, as % of tax revenue	19.8	19.0	18.1	21.2	23.5	23.8	24.3	24.0	24.2	22.6	na
Non-tax revenue, as % of tax revenue	0.07	0.04	0.08	0.03	0.00	0.01	0.01	0.01	0.01	0.01	na
Tax Structure											
VAT rate	17	17	17	17	17	17	17	17	17	17	17
VAT threshold	Na	na	na	36,761	35,600	32,950	32,950	na	na	na	na
VAT year	2006	2006	2006	2006	2006	2006	2006	2006	2006	2006	2006
CIT rate	Na	na	na	na	Na	10	10	10	10	10	10
Tax, Business, and Trade Environment											
Doing Business (DB): Paying Taxes DTF	Na	na	na	na	51.96	53.16	54.58	55.10	55.39	62.95	63.07
DB: Number of tax payments	Na	55	55	55	55	55	55	44	40	45	34
DB: Trading across borders DTF	66.9	67.3	67.7	69.4	69.6	68.8	69.4	69.6	69.6	91.9	91.9
Firms expected to give gifts in meetings with tax officials, % of firms	67.6 (2005)		na	1.5	na	na	na	7.4	na	na	na
Tax Administration Efficiency											
Tax administration costs, ITA only, %	0.22	0.21	0.19	0.18	0.19	0.19	0.19	0.18	0.19	0.18	0.19
Tax administration staff, number	2,226	2,249	2,313	2,464	2,410	2,437	2,427	2,443	2,490	2,499	2,432

Sources: Country economic and social data are generally from the World Bank's World Development Indicators database, available at: https://data.worldbank.org/data-catalog/world-development-indicators.

Information about Doing Business, paying taxes, trading across borders indicator is available at: doingbusiness.org.

Tax data for the VAT, excises, and import duties are from reports of the Macroeconomic Unit of the Governing Board for the Indirect Taxation Authority; these can be downloaded from: http://www.oma.uino.gov.ba/04_izvjestaji.asp?l=e.

Appendix D: Revenue and Related Data for Federation of BiH, 2006–2016

Indicator	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
General Overview of Economy											
Real GDP growth, annual % change	1.12	1.12	0.97	1.03	1.03	1.01	1.02	1.03	1.05	na	na
Population growth, annual % change	0%	0%	0%	0%	0%	0%	0%	0%	0%	na	na
DRM (% of GDP)											
Personal income tax (PIT) revenues ++	2.21	1.82	2.01	1.54	1.58	1.45	1.47	1.47	1.51	1.51	na
Corporate income tax (CIT) revenues	0.76	0.72	0.54	1.05	1.27	0.84	0.88	0.88	0.91	1.00	na
Social contributions	13.60	14.11	15.25	15.31	15.83	15.55	15.58	15.44	15.67	15.30	na
Domestic revenues, total	17.61	17.70	18.96	18.97	19.94	19.00	19.10	18.97	19.30	19.03	na
Tax Performance											
Tax-to-GDP, %	4.01	3.59	3.70	3.65	4.11	3.45	3.53	3.53	3.64	3.73	na
CIT-to-GDP, %	0.76	0.72	0.54	1.05	1.27	0.84	0.88	0.88	0.91	1.00	na
CITPROD[13]	0.08	0.07	0.05	0.10	0.13	0.08	0.09	0.09	0.09	0.10	na
PIT to GDP, %	2.21	1.82	2.01	1.54	1.58	1.45	1.47	1.47	1.51	1.51	na
Social contributions, as % of GDP	13.60	14.11	15.25	15.31	15.83	15.55	15.58	15.44	15.67	15.30	na
Tax Structure											
PIT, minimum rate	na	10	10	10	10	10	10	na	na	na	na
PIT, minimum income level	na	0.79	0.61	0.54	0.54	na	na	na	na	na	na
PIT, maximum rate	na	10	10	10	10	10	10	na	na	na	na
PIT, maximum income level	na	0.79	0.61	0.54	0.54	na	na	na	na	na	na
Social security rate (payroll tax)	na	43.5	41.5	41.5	41.5	41.5	41.5	na	na	na	na
Tax Administration Efficiency											
Tax administration costs	5.2%	5.5%	5.4%	5.0%	4.6$	5.1%	4.6%	4.3%	4.2%	3.4%	3.2%
Tax Administration of the Federation of Bosnia and Herzegovina (TAFBiH) staff	1,266	1,302	1,340	1,340	1,424	1,424	1,283	1,316	1,356	1,344	1,342
Taxpayers per tax staff, number	147 (2005)	na	na	na	171	na	na	na	na	na	na

Tax revenue and tax efficiency data are directly from the TAFBiH. Other international measures of tax revenue productivity are either calculated based on available data or derived from USAID's Collection Taxes Database, available at: https://www.usaid.gov/data/dataset/cdeb8a1b-3440-4e88-b6cb-81b2428f8cea. Moreover, entity population data

[13] Corporate Income Tax Productivity indicator.

are from the BiH Agency for Statistics, and GDP information is from the Central Bank of BiH.

Appendix E: Revenue and Related Data for Republika Srpska, 2006–2016

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
General Overview of Economy											
Real GDP growth, annual % change	1.12	1.15	0.97	1.01	1.04	0.99	1.02	1.01	1.04	1.04	na
Population growth, annual % change	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	na
DRM (% of GDP)											
Tax revenues	15.73	14.61	16.52	18.21	18.14	19.95	20.06	19.69	19.94	20.13	18.64
Personal income tax (PIT) revenues	2.49	1.79	2.01	1.55	1.60	2.89	3.06	2.98	2.56	2.46	2.24
Corporate income tax (CIT) revenues	0.48	0.93	1.39	1.67	1.44	1.57	1.49	1.52	1.48	1.57	1.88
Social contributions	10.66	10.66	11.98	14.23	14.19	15.27	15.33	14.91	15.63	15.85	14.28
Tax Performance											
Tax-to-GDP, %	5.06	3.95	4.54	3.98	3.94	4.81	4.86	4.91	4.46	4.47	4.51
CIT to GDP, %	0.48	0.93	1.39	1.67	1.44	1.57	1.49	1.52	1.48	1.57	1.88
CITPROD	0.05	0.09	0.14	0.17	0.14	0.16	0.15	0.15	0.15	0.16	0.19
PIT to GDP, %	2.49	1.79	2.01	1.55	1.60	2.89	3.06	2.98	2.56	2.46	2.24
Social contributions, as % of GDP	10.66	10.66	11.98	14.23	14.19	15.27	15.33	14.91	15.63	15.85	14.28
Tax Structure											
CIT rate	10	10	10	10	10	10	10	10	10	10	10
PIT minimum rate	na	10	10	10	10	10	10	10	10	10	10
PIT minimum income level	na	0.85	0.59	0.42	0.42	0	0	0	0	0	0
PIT maximum rate	na	15	15	15	15	10	10	10	10	10	10
PIT maximum income level	na	7.98	5.49	4.23	4.23	0	0	0	0	0	0
Social security rate (payroll tax)	na	33.3	30.6	30.6	30.6	30.6	30.6	30.6	30.6	30.6	30.6
Tax Administration Efficiency											
Tax administration costs	1.09%	1.48%	1.11%	1.24%	1.13%	1.14%	1.22%	1.17%	1.27%	1.27%	0.95%
Tax staff, number	766	766	766	775	744	724	729	781	797	794	772
Taxpayers per tax staff, number	652	1,253	1,464	1,545	2,219	2,360	2,421	2,314	2,342	2,403	2,534
Tax returns per tax staff, number *	914	1,077	1,345	1,351	2,179	4,371	2,256	1,950	1,913	2,013	2,062

* TARS data on registered taxpayers appears inconsistent with international reporting practice, so we have chosen to use tax returns per tax staff in its stead.

Sources: GDP and population data for Republika Srpska from RS Economic Statistical Agency. Tax administration efficiency data from TARS. Other tax revenue productivity measures from sample calculations or USAID's Collecting Taxes Database, available at: https://www.usaid.gov/data/dataset/cdeb8a1b-3440-4e88-b6cb-81b2428f8cea.

Appendix F: Revenue Data for Brčko District, 2006–2016

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
General Overview of Economy											
Real GDP growth, annual % change	1.15	1.08	0.94	1.02	1.06	0.99	1.03	1.05	1.08	0.00	na
Population growth, annual % change	na	na	na	na	na	na	na	na	na	na	na
DRM (% of GDP)											
Tax revenues	3.24	2.07	2.84	2.92	2.75	2.79	3.80	3.71	8.23	8.27	na
Personal income tax (PIT) revenues	0.26	0.29	0.26	0.30	0.28	0.28	0.24	0.29	0.24	0.26	na
Corporate income tax (CIT) revenues	0.53	0.50	1.21	1.10	0.81	0.98	1.98	1.84	1.49	1.77	na
Domestic revenues, total	2.99	1.78	2.58	2.62	2.48	2.51	3.56	3.42	7.99	8.01	na
Tax Performance											
Tax-to-GDP ratio, %	3.24	2.07	2.84	2.92	2.75	2.79	3.80	3.71	3.23	3.45	na
CIT to GDP ratio, %	0.53	0.50	1.21	1.10	0.81	0.98	1.98	1.84	1.49	1.77	na
CITPROD, %	0.05	0.05	0.12	0.11	0.08	0.10	0.20	0.18	0.15	0.18	na
PIT to GDP, %	0.26	0.29	0.26	0.30	0.28	0.28	0.24	0.29	0.24	0.26	na
Tax Structure											
CIT rate, %	10	10	10	10	10	10	10	10	10	10	10
Tax Administration Efficiency											
Tax administration costs	na	na	na	8.6%	9.8%	10.5%	6.6%	7.6%	8.0%	6.8%	6.6%
Tax staff, number	65	65	65	65	65	65	65	65	65	65	65
Tax returns per staff, number	79	83	92	82	85	82	78	82	86	85	93
Taxpayers per staff member, number	63	153	196	318	455	504	498	499	502	527	568

Sources: Tax revenue and tax efficiency data are directly from the BD Tax Administration. Other international measures of tax revenue productivity are either calculated based on available data or derived from USAID's Collection Taxes Database, from USAID's Collection Taxes Database, available at: https://www.usaid.gov/data/dataset/cdeb8a1b-3440-4e88-b6cb-81b2428f8cea. Moreover, entity population data are from the BiH Agency for Statistics, and GDP information is from the Central Bank of BiH.