

# Bosnia & Herzegovina



 **Capital city:**  
Sarajevo

 **Superficy:**  
51 197 km<sup>2</sup>

 **Population:**  
3'900 M.

 **Language:**  
Bosnian/Serbian/  
Croatian

 **Political system:**  
Parliamentary  
federal republic

 **GDP/capita**  
**2015:**  
USD 4 249

 **Currency:**  
Mark convertible

 **ISO Code:**  
BIH

 **Telephone code:**  
+387

 **National day:**  
November 21st



# Bosnia Herzegovina

Corporate tax (FBiH, RS, Brčko District).....	10%
Income tax rates on individuals (FBiH, RS, Brčko District) .....	10%
VAT rates (BiH).....	17%
1 EURO =1,95583 BAM/KM	

## 1. Corporate taxation

### 1.1 Taxes on entities

Income tax payers in Bosnia and Herzegovina:

#### In Federation of BiH :

1. Companies and other legal entities, residents of the Federation who carry out economic activity independently and continuously sell products and goods and / or provide services for profit on the market in the Federation, Republika Srpska, Brčko District of Bosnia and Herzegovina or in the international market.
2. Branches of the legal entity from Republika Srpska and Brčko District, registered on the territory of the Federation, for realized profit in the Federation.
3. Taxpayer is also considered a business unit of non-resident legal entity operating through a permanent establishment in the Federation of BiH and is a resident of the Federation
4. Tax payers are also non-resident, based on the revenues derived from a resident of the Federation.

#### In Republika Srpska :

1. Legal entities from Republika Srpska for revenues derived from any source in Republika Srpska, Federation BiH, Brčko District of BiH or abroad,
2. Establishment of a legal entity based in the Federation of Bosnia and Herzegovina or Brcko District for the profit realized in the territory of Republika Srpska,
3. Foreign legal entities doing the business and having a permanent place of business in Republika Srpska, for the profit attributable to the permanent place of business in question,
4. Foreign legal entities that generate income from real estate located in Republika Srpska, for the profit attributable to the immovable property,

5. Foreign legal entity that generates revenue in Republika Srpska, based transfer prices, shall be taxed by a withholding tax
6. The legal entity referred to in items 1), 2) and 3) and in case that they make loss in the fiscal year as a result of their business activity.

#### **In Brčko District :**

1. Legal entities from the District, for the profit they generate from any source in Bosnia and Herzegovina or abroad;
2. Business units of legal entity headquartered in the entities, for the profit generated in the District;
3. Foreign legal entities engaged in the activity and having a fixed place of business in the District, regarding the profit attributable to the fixed place of business;
4. Foreign legal entities that generate income from immovable property located in the District, for the profit attributable to that immovable property;
5. Foreigners entities that generate income in the District based on transfer prices, pay withholding tax, as well as legal entities listed above and in case that, as a result of their business activity, they make loss in the tax year in question.

Income tax liability is indicated in the income statement, and is subsequently adjusted by the amount of non-deductible expenses in the tax balance. The rate of the income tax, in the whole territory of Bosnia and Herzegovina is 10%.

## **1.2 Residence and non-residence**

A resident of the Federation of Bosnia and Herzegovina is a legal entity which has its head office registered in the Register of Business Entities in the Federation and whose place of effective management and control operations is on the territory of the Federation.

A non-resident shall be considered a legal entity headquartered outside the borders of Bosnia and Herzegovina and / or whose place of effective management and control of business is located outside the borders of Bosnia and Herzegovina.

Laws on Income Tax of RS and Brčko District do not specify special resident and non-resident legal entities.

## **1.3 Tax year and filing**

The fiscal year in Bosnia-Herzegovina, in both entities and the District corresponds a calendar year and runs from 1 January to 31 December. Financial accounting is handed in by 28 February, and the Tax balance by 31 March of the current year for the previous one.

## 1.4 Types of income

- Revenues from sales of goods /products
- Revenues from sales of own goods and services
- Other operating incomes
- Financial incomes
- Revenues from sales of assets
- Other incomes

Taxable income in BiH, both entities and the District, shall be determined in the tax balance, adjusting income and expenses and capital gain / loss, in accordance with the regulations governing accounting and auditing. This gain is increased by non-deductible expenses in tax balance and gives a final basis for calculation of income taxes. The tax base is multiplied by a rate of 10% to give the amount of income tax for the fiscal year.

## 1.5 Group income and grouping arrangements

### **Federation of Bosnia and Herzegovina**

The parent company / company and its subsidiaries form a group of companies if among them there is no direct or indirect control over 50% of the shares or units. (The group of companies has the right to request a tax consolidation provided that:

All companies in the group are residents of the Federation of Bosnia and Herzegovina and there is a decision of participating companies that they agree with consolidation. The parent company shall submit application for approval of tax consolidation to the competent organizational unit of the Tax Administration. If all conditions for consolidation are met, the competent organizational unit of the Tax Administration shall, within 30 working days from the date of submission of the application, issue a decision approving the tax consolidation. Each member of the group is obliged to submit its tax balance, and the mother company submits its consolidated tax balance for the group. In the consolidated tax balance, losses of one or more companies are offset against profits of other companies in the group. Taxable income derived by a member of the group, which is reported in the consolidated tax balance, cannot be reduced by the amount of tax losses to be transferred from the previous years. The payer of the tax calculated by consolidated balance is the mother company. Once approved, tax consolidation shall apply for five years at least.

### **Republika Srpska defined the business association.**

Joint business activities of legal entities is considered an association for joint economic activities (hereinafter: Association). Association means that two or

more, and less than ten legal entities join together in order to perform a business activity or business venture. The Association shall terminate once all of the related activities come to its end, and it is considered that business activity is complete when at least 50% of the total interest in the joint venture is sold or replaced within 12 months period.

The Association is subject to the same accounting and tax regulations pertaining to partnership. The Association shall designate one entity, a resident of Republika Srpska, as the Tax Manager of the Association. The income, gain or loss, deductions and tax approvals of the joint venture shall be made through the association, based on the involvement of each of the participants in the joint venture.

In accordance with the Law, the association is responsible for determining the tax liability of each participant and making advance payment of taxes on behalf of each participant. The chargeability notification shall be submitted by Association to the Tax Administration within the deadline set for the submission of tax returns for the previous tax year.

### **Brčko Distrikt**

The group of legal entities registered in the District may choose to file consolidated annual tax return. The group of legal entities is a group of two or more legal entities from the District that are linked through the shareholding of the joint parent company / company under the condition that the parent company owns at least 80% of the stake in the legal entity which is included in the group of legal entities.

## **1.6 Capital gains**

Capital gains are generally treated as tax and other revenues. Dividends and profit shares in other legal entity based in the Federation of Bosnia and Herzegovina, Republika Srpska and the Brčko District are exempt of this in case they are paid out of profits on which the income tax was calculated and paid, as well as income in the form of a nominal or contractual interest debt securities issued by Republika Srpska and local governments, as its constituents.

### **National dividends**

Dividends and profit shares in other legal entity based in the Federation and Republika Srpska are not included in the calculation of the tax base if they are paid out of profits for which the income tax was calculated and paid. In FBiH the taxpayer is also required to submit, along with the tax return, a notarized declaration on taxed dividends paid by the payers of dividend.

**Foreign dividends**

Dividends and shares in the profits of foreign legal entities are taxed after deduction in both entities.

Withholding tax is calculated and paid during revenue payments to a foreign legal person applying the rate of 10% on the gross income of a foreign legal entity, unless the double taxation agreement provides otherwise. Withholding tax is calculated and paid during revenue payments of dividends and share in profits of foreign legal entity at the rate of 5% on the amount of that income, unless the double taxation agreement provides otherwise.

**Deductible expenses**

Capital losses are considered tax deductible expense.

**1.7 Losses**

If, when determining taxable profit, the tax balance shows the tax loss, this tax loss can be used to reduce the tax base in future accounting periods, but not longer than five years period. Tax losses not used in the tax balance for next year, is being used in the first following year in which the profit was made, so that the tax base is always reduced by losses sustained in previous years.

**1.8 Exemptions**

The following revenues are not included in the calculation of the tax base:

**In the Federation of BiH:**

Revenues from shares in the capital of another taxpayer, if paid out of profits for which the income tax is calculated and paid.

All write-offs that are not collected within 12 months from the date of maturity, or claims that are not brought to justice.

Incomes from provision reversal for environmental protection and for the guarantees.

**In Republika Srpska :**

Dividends and profit shares in other legal entity based in Republika Srpska, if they are paid out of profits for which the income tax was calculated and paid; income in the form of a nominal or contractual interest on debt securities issued by Republika Srpska and local governments within its competence; interest on bank deposits; gains determined directly in equity; income from provision reversal; gains on adjustments of property value which, in accordance with this Law, shall be subject to depreciation and incomes from revaluation.

## 1.9 Rates

Income tax is paid at the rate of 10% on taxable income determined in the tax balance in both entities and the District. 10% of the rate of withholding tax which is levied on all imported services and the gross amount of the import invoices.

### 1.10 Double tax relief

If during the tax period, the resident of the Federation realizes income outside the territory of Bosnia and Herzegovina, the tax that the resident has to pay in the Federation shall be reduced by the amount of the withholding tax, which is paid out of the territory of Bosnia and Herzegovina. If a taxpayer of Republika Srpska generates revenue in a foreign country, and the income is taxed both in Republika Srpska and in a foreign country, then the tax paid to a foreign country, whether paid directly or withheld and remitted by another person, is being deducted from corporate income tax in Republika Srpska.

Double- tax agreement ratified by or, on the basis of notification, accepted by Bosnia and Herzegovina shall apply to the taxation of profits or income of non-resident and will take precedence over the provisions of the Law on Income Tax of FBiH and RS.

## 2. Personal income taxation

Taxpayers of personal income in BiH are: individuals who earn income from self-employment and employment. Employment incomes are considered to be income from wages, and incomes made from overtime, night work, on-call work. Income from self-employment are considered to be incomes based on performance of registered activities in the field of agriculture and forestry, commercial business, property and property rights, capital investment and participation in competitions and games of chance. The rate of personal income tax is 10%, and the base is the difference between operating revenues and operating expenses incurred during the tax period, which is calculated by the cash method of accounting. The basis for the calculation of income tax from employment, is a gross salary reduced by the amount of contributions from salaries and personal allowances.

In Republika Srpska the rate of personal income tax is also 10%, except for small businesses owners who pay income tax at a rate of 2%, provided that the tax on small business owners, on an annual basis, shall not be less than 600 KM annually.

## 2.1 Taxes on income

The most important is the personal income tax, payable on income from employment or wages. For the payment of royalties, fees per contract or compensation of board members, a withholding tax shall be paid.

## 2.2 Residence and non-residence (FBiH, RS, Brčko District)

Residents are considered to be natural persons residing in BiH, i.e. persons residing in the territory of Bosnia and Herzegovina for more than 183 days a year. Consequently, non-residents are persons who reside in the territory of BiH for less than 183 days in the course of a tax year.

## 2.3 Tax year and filing

The tax year runs from 1 January to 31 December, and the tax returns shall be submitted by the physical persons by the 31 March of the current year for the previous year.

## 2.4 Types of income

### Income from agriculture and forestry

Income generated from the use of natural resources and the use of products derived by these activities, is considered to be income from agricultural and forestry activities.

### Industrial and commercial income

Operating income is considered to be an income generated from crafts and independent activities (lawyers, notaries, accountants, engineers, architects, translators, etc.).

### Non-commercial income

Non-commercial income is considered to be an income generated from prize games and games of chance.

### Wage income

In FBiH contributions are paid from wages and salaries, including the personal income tax. The base is the gross salary consisting of net salaries, contributions from salaries and personal income tax. Contributions from wages (paid by the

employee) are calculated in the amount of 31% on gross basis as follows:

Contributions to pension and disability insurance fund .....	17%
Contributions to health insurance fund .....	12,5 %
Contributions to unemployment insurance fund.....	1,5%

Salary reduction contributions (paid by the employer), amounting to 10.5%, are also calculated on a gross basis as follows:

Contributions to pension and disability insurance fund .....	6%
Contributions to health insurance fund .....	4%
Contributions to unemployment insurance fund.....	0,5%

Personal income tax is paid to the tax base at a rate of 10%.

In Republika Srpska 33% of the contribution are charged to the gross salary as follows:

Contributions to pension and disability insurance fund .....	18,5%
Contributions to health insurance fund .....	12%
Contributions to public fund for child protection .....	1,5%
Contributions to unemployment insurance fund.....	1%

Personal income tax is paid to the tax base at a rate of 10%.

## Other income

The term «other income» refers to all income of a natural person generated on any basis other than the grounds stated above.

## 2.5 Capital gains

Capital gain is the positive difference between the selling price of rights and property and its purchase value, which the taxpayer earns by selling, renting, or other transfer with or without compensation.

### Income from capital

Income from investment of capital that are taxable in the Federation are:

1. Income from interest on loans
2. Income from paid voluntary life insurance saved from premiums that were subject to deduction
3. When determining the income from the investment of capital expenditure, expenditures are not deductible.

Capital income represents the income generated by the lease or sublease of movable and immovable property, including the loan interest in Republika Srpska. Capital loss generated from the sale of a single right and property can be offset against capital gains generated from the sale of property and other rights in the same year, and net capital loss is being deducted from the income to determine the tax base of the taxpayer.

Domestic and foreign founders of business entities do not pay income tax on dividends paid out of profits for which the income tax has been paid.

## 2.6 Losses

Tax loss is transferred and compensated by decreasing tax base in the following tax years, not longer than five years period. In case that an individual generates loss abroad, it cannot be deducted in determining taxable income.

## 2.7 Exemptions

### Federation BiH

The following are not considered to be an income: dividends or shares; income of disabled veterans; social support; inheritance and gifts; indemnity in case of natural disasters; awards for participation in a quiz of knowledge; revenues from sale of assets used for private purposes; awards for outstanding achievements in science, education, culture, awarded by the state authorities.

### Republika Srpska

The following are not considered to be an income: dividends and shares; social support; compensation during unemployment; revenues from sale of assets used for private purposes; incomes of former soldiers and veterans and civil war victim; child and maternity allowances

## 2.8 Social security

Health contributions have been described under the title wage-income.

## 2.9 Expatriates

There are no special conditions for expatriates.

## 2.10 Stock Options

In FBiH, there are no particular defined rules that treat investment in valuable papers / securities.

The purchase price of securities in Republika Srpska, not being traded on the stock exchange or not being traded on the stock exchange at the time of the acquisition, is actually considered to be the price that the taxpayer documents as actually paid.

If a taxpayer for any reason does not document the price actually paid for securities, purchase price is considered to be their nominal value.

#### Partnerships

If several persons realize income through joint independent activity, each shall pay the tax for the share they are entitled to by the jointly realized income. Persons realizing joint income are required to appoint a joint activity executive who is responsible for bookkeeping, payment of taxes and other duties, submission of applications and fulfillment of other requirements arising from joint activity and joint property and property rights. A non-resident can not be named a joint activity executive.

## 2.11 Pensions

Pension fund contributions have been described under the title wage-income.

## 3. Inheritance and gift tax

In FBiH inheritance and gifts are not considered to be the income, and taxes on them are paid based on other federal or cantonal regulations. Most often it is a real estate transfer tax, which is regulated by cantonal laws. Inheritance tax is payable only in case of inheritance and the first order of inheritance (parent-child, spouse). Gifts in the RS (above 100 BAM annually) are taxable through the personal income tax.

In the RS, the gift and inheritance are subject to taxation through the property tax. Exceptionally, the property tax, the inheritance in the first inheritance order, shall not be paid

## 4. Wealth Tax

There is no wealth tax.

### 4.1. Real Estate

Property tax in FBiH is regulated by cantonal laws.

Municipal and city assemblies are obliged to make a decision on the amount of real estate tax.

## 5. Value Added Tax

The business entity is required to apply the VAT system, if, during the fiscal year, it makes a turnover in excess of 50,000 BAM / KM. Business entities registered for VAT, charge VAT on the taxable supply of goods and services carried out, as well as the importation of goods into Bosnia and Herzegovina.

Most goods and services are taxable. Taxpayers are required to calculate VAT when supplying goods and services. VAT must also be calculated if the goods and services used for non-business purposes. A taxpayer who is engaged in trade of goods and services exempt from payment of VAT, can calculate, nor can deduct the VAT paid during the purchase. Input VAT, in these cases, represents the cost at the expense of the taxpayer. VAT exempt activities are those of the public interest (i.e. medical services, education, social security, sports activities, etc.), financial and monetary services, and international transport.

The taxpayer who obtains goods from abroad, shall pay VAT on their import. The taxpayer that exports goods and services is not obliged to charge VAT on those services, or has the right to reclaim VAT that is paid for his purchases. Period of calculation of VAT is one calendar month. VAT payers are required to submit an application and pay VAT from 1st to 10th in the month following the expiry of the tax period.

### 5.1 Rates

VAT rate in BiH is unique and is 17%.  
Only for export rate is 0%.

## 6. Other taxes

### Registration duties

When registering a business entity the legal and administrative fees shall be paid.

The parafiscal charges in BiH are listed as follows:

### Federation of BiH

The special tax for protection from accidents that

Paid along with the payment of wages in the amount of 0.5% of net salary.

Special charges for general water supplies is paid in the amount of 0.5% of net salary.

Fee for rehabilitation, training and employment of disabled persons is paid along with the payment of wages in the amount of 0.5% of gross salary.

Utility fees to be paid annually, and the amount of the fee depends on the acti-

vity. The decision on communal tax is passed by municipalities.

Membership fee to the foreign trade chamber in the amount of 0.1% of the value of imports.

Water supply rates for legal entities and individuals who work with the public water supply, produce electricity, exploit water, emitting dangerous water substances etc.

The fee for the use, protection and improvement of the forest, which is regulated by cantonal regulations.

### **Republika Srpska:**

Special solidarity contributions payable at a rate of 0.4% on the net for salaries higher than 500BAM/KM.

Stamp duty

Administrative fees

Utility fees are defined by local regulations. Municipalities decide on their amount.

Water supply fees. Rates vary and depend on the activities of the company.

Forest protection fees at the amount of 0,07% of total revenue in a single year.

Fire protection fee is paid at the rate of 0.04% of an operating income of the company and other taxpayers.

Compensation for environmental pollution by waste packaging shall be paid by legal persons who purchase and use packaging.

Road fees are regulated by the Law on Public Roads.

Membership fees to the Chamber of Commerce of Republika Srpska is 0.03% of realized total revenue of more than 600,000 BAM / KM up to 100 million BAM / KM and may not exceed 20,000 KM or 0.02% of the total revenues in excess of 100,000.00 BAM / KM..

### **Brčko District**

The overview of parafiscal charges in Brcko District: fees, taxes, and dues, is given in the table attached to this analysis. A list of para-fiscal charges is determined under the Decision on payment accounts of budget revenues and funds of Brcko District of BiH.

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