



## International tax

# Bosnia and Herzegovina Highlights 2016

### Investment basics:

**Currency** – Convertible Mark (BAM)

**Tax jurisdictions** – There are two main tax jurisdictions in Bosnia and Herzegovina (BiH): the Federation of BiH (FBiH) and the Republika Srpska (RS).

**Foreign exchange control** – Foreign exchange is regulated by the Foreign Exchange Laws of the FBiH and the RS and the Foreign Exchange Policy Law of BiH.

**Accounting principles/financial statements** – IAS and IFRS are fully applicable in BiH. Rules also are provided in the Laws on Accounting and Audit and the framework law at the state level.

**Principal business entities** – These are the joint stock company and the limited liability company. Foreign companies can open representative offices and/or branch offices in BiH, but such offices do not have legal entity status.

### Corporate taxation:

**Residence** – A company in the FBiH/RS is resident if it is registered as a legal entity in the relevant jurisdiction. An entity has a taxable presence in the FBiH/RS by carrying out business activities in the jurisdiction that meet the criteria for a permanent establishment or by having a branch office.

**Basis** – Resident companies are subject to tax on worldwide income, while nonresident companies are taxed only on income derived from the relevant jurisdiction.

**Taxable income** – The taxable base is determined by adjusting the accounting profit or loss for allowable expenses.

**Taxation of dividends** – Dividends received by companies from their subsidiaries are exempt from corporate tax.

**Capital gains** – Capital gains generally are taxed as profits at a rate of 10%.

**Losses** – Tax losses may be carried forward for up to five years. Losses may be offset against the first available profits, with the oldest losses offset first. The carryback of tax losses is not permitted.

**Rate** – 10%

**Surtax** – No

**Alternative minimum tax** – No

**Foreign tax credit** – Resident taxpayers are entitled to a tax credit for tax paid abroad up to the corporate income tax liability in the FBiH/RS.

**Participation exemption** – No

**Holding company regime** – No

**Incentives** – Taxpayers who invest into production equipment (buys fixed assets such as plant and equipment) in the value higher than 50% of the achieved profit of the ongoing tax period, is being exempted from the payment of 30% calculated corporate income tax liability for the year of investment. Taxpayers who invest into production (invests into fixed assets such as real estate, plant, equipment) in the value of minimum 20 million BAM in the period of five consequent years and four million BAM during the first year, is being exempted from the payment of 50% of corporate income tax liability. Taxpayers are entitled to tax-deductible expenses in the double amount of gross salary, paid to newly hired employees, under certain conditions. All costs relating to R&D may be recognized as expenditure.

Tax incentives are granted in the RS for investment in equipment, plant and real estate necessary for the taxpayer's business operations, up to the amount of the investment. Tax incentives also are granted for hiring at least 30 new employees for an indefinite period of time, up to the amount of personal income tax and social security contributions payable in respect of the employees.

### Withholding tax:

**Dividends** – Dividends paid to a nonresident are subject to a 5% withholding tax unless the rate is reduced under a tax treaty;

**Interest** – Interest paid to a nonresident is subject to a 10% withholding tax unless the rate is reduced or the payment exempt from withholding tax under a tax treaty.

**Royalties** – Royalties paid to a nonresident are subject to a 10% withholding tax unless the rate is reduced under a tax treaty.

**Technical service fees** – Technical service fees are subject to a 10% withholding tax unless the rate is reduced or the payment is exempt from withholding tax under a tax treaty.

**Branch remittance tax** – No

**Other** – A 10% withholding tax is levied on other payments to nonresidents for services provided in the FBiH/RS unless the rate is reduced under a tax treaty. In addition FBiH has introduced withholding tax of 10% on sales of real estate/ stock of companies located on territory of FBiH by a non-resident company.

### Other taxes on corporations:

**Capital duty** – No

**Payroll tax** – In both the FBiH and RS, the employer withholds personal income tax from salary on a monthly basis.

**Real property tax** – Property tax is levied in the FBiH at the cantonal level. In the RS the tax rate amounts 0.20% (see also under "Transfer tax").

**Social security** – In the FBiH, the employer contributes 10.5% of the employee's gross salary and the employee contributes 31% of the gross salary as social security contributions. In the RS, the employee contribution is 33% of gross salary.

**Stamp duty** – No

**Transfer tax** – The acquisition of real estate in the FBiH is subject to real estate transfer tax, levied at the cantonal level. The tax base is the purchase value of the property at the time of the transaction. Either the buyer or seller may be responsible for payment of the tax, depending on the real estate transfer tax law in the particular canton. There is no real estate transfer tax in the RS, although the purchaser/owner of property automatically becomes the real estate taxpayer according to the real estate tax law.

### Anti-avoidance rules:

**Transfer pricing** – In both the FBiH and RS, the difference between the price determined by applying the arm's length principle and the transfer price must be included in the tax base and will be taxed. Both FBiH and RS require preparation of a transfer pricing study.

**Thin capitalization** – FBiH applies a thin capitalization ratio of 4:1. RS has no thin capitalization rules.

**Controlled foreign companies** – No

**Disclosure requirements** – Transactions between related parties must be separately disclosed in the tax return.

### Compliance for corporations:

**Tax year** – Calendar year, if it corresponds to financial year of the company.

**Consolidated returns** – Group taxation is allowed in the FBiH for a group of resident companies where the parent company holds at least 90% its subsidiaries. The RS does not allow for consolidated returns; each entity must file a separate return.

**Filing requirements** – The tax return in the FBiH must be submitted and tax due paid to the authorized branch office of the tax authorities within 30 days after the statutory deadline for the submission of the financial statements, which is the end of February of the following year, i.e. no later than end of March of the following year. The tax return in the RS must be submitted within 90 days of the end of the tax year, and in the case of a calendar year-end, no later than 31 March of the following year.

**Penalties** – In the FBiH, late interest is 0.04% per day and penalties range from BAM 2000 to BAM 100,000. In the RS, late interest is 0.03% per day and minimum penalties are BAM 500, BAM 1,000 and BAM 1,500.

**Rulings** – The tax authorities and the Ministry of Finance will issue rulings at the request of a taxpayer.

### Personal taxation:

**Basis** – Tax residents of the FBiH and RS are taxed on worldwide income; nonresidents are taxed only on FBiH/RS-source income.

**Residence** – An individual is considered resident for personal income tax purposes if his/her residence or center of business and/or vital interests is in the FBiH/RS, or if he/she is present in the FBiH/RS for at least 183 days in the aggregate during a tax year.

**Filing status** – In both the FBiH and RS, each taxpayer must file an individual return; joint filing is not permitted.

**Taxable income** – The tax base in the FBiH is total gross taxable income paid by the employer less employee contributions and deductible allowances (e.g. the monthly basic personal allowance, dependent family member allowance(s)). In the RS, the tax base is total gross taxable income paid by the employer less social security contributions and deductible allowances (e.g. dependent family member allowance(s), interest paid on housing loans, and pension contributions paid for voluntary pension insurance up to a ceiling, where applicable).

**Property income** – Property income is generally taxed at a rate of 10%, although some exemptions apply, depending on the type of property.

**Deductions and allowances** – Personal deductions in the FBiH are BAM 3,600 per calendar year. Additional deductions include the dependent family member allowance, interest paid on home mortgages and certain payments for health services. In the RS, there is a personal allowance in the amount of BAM 2,400 per calendar year and a dependent family member allowance.

**Rates** – 10% in both the FBiH and the RS.

### Other taxes on individuals:

**Capital duty** – No

**Stamp duty** – No

**Capital acquisitions tax** – No

**Real property tax** – The acquisition of real estate in the FBiH is subject to real estate transfer tax levied at the cantonal level. The tax base is the purchase value of the property at the time of the transaction. Either the buyer or seller may be responsible for payment of the tax, depending on the specific legislation in the particular canton. The purchase of real estate in the RS is not subject to real estate transfer tax, but the taxpayer is the owner of the real estate. The tax base for real estate tax purposes is the estimated market value. Tax rate amounts 0.20%.

**Inheritance/estate tax** – Inheritance and gift taxes are levied at the cantonal level in the FBiH, with tax due on the transfer of immovable and movable property. Since the tax rate is levied at the cantonal level, it varies between 2% and 10%.

**Net wealth/net worth tax** – No

**Social security** – In the FBiH, the employer contributes 10.5% of the employee's gross salary and the employee contributes 31% of the gross salary. In the RS, the employee contribution is 33% of gross salary.

### Compliance for individuals:

**Tax year** – Calendar year

**Filing and payment** – Returns must be filed monthly and annually.

**Penalties** – In the FBiH, late interest is 0.04% per day and penalties range from BAM 500 to BAM 50,000. In the RS, late interest is 0.03% per day and minimum penalties are BAM 500, BAM 1,000 and BAM 1,500.

### Value added tax:

**Taxable transactions** – VAT is levied at the state level and applies to the supply of goods or services supplied for consideration; the import of goods; the use of business assets or inventory for nonbusiness or personal purposes; and the provision of services for no or reduced consideration or for nonbusiness purposes.

**Rates** – The standard rate is 17%. Certain transactions are exempt, including certain public services, health and medical services and financial services. Exports of goods are zero rated.

**Registration** – Registration is compulsory if the individual/legal entity performs or intends to perform taxable activities in BiH. The threshold for VAT registration is BAM 50,000. Voluntary registration is possible if the threshold is not met in certain cases. A taxable person established abroad that carries out taxable economic activities in BiH must register through a VAT representative.

**Filing and payment** – VAT is calculated on a calendar month basis. VAT returns and payments are due by the 10th day of the following month.

**Source of tax law:** Corporate Income Tax Law and Regulations in the FBiH and RS, Personal Income Tax Law and Regulations in the FBiH and RS, Value Added Tax Law and Regulations on state level

**Tax treaties:** BiH has concluded 40 tax treaties.

**Tax authorities:** Tax Authority of the FBiH, Tax Authority of the RS and Indirect Taxation Authority of BiH

**Deloitte contact**

Emir Ibišević

E-mail: [eibisevic@deloittece.com](mailto:eibisevic@deloittece.com)

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