



Tax&Legal Highlights

Bosnia and Herzegovina

On the 146th regular session held on 07.06.2018 the Government of the Federation of BiH established the Proposal of the Law on Contributions.

The Government of the Federation of BiH Sarajevo, after a 90-day public hearing, conducted on the basis of the conclusions of both Houses of the FBiH Parliament, established the Proposal of the Law on Contributions. The proposed provisions will result in simplification of the calculation and payment of contributions, strengthening of supervisory function and financial discipline. The proposed solutions have also been harmonized with the provisions of the Labor Act and the Pension and Disability Insurance Act.

The new law covers contributions for all compulsory insurance. It is very important that this area is regulated with one law in order to avoid large degree of inequality in terms of rates, bases and obligations of contribution. As the FBiH Tax Administration has established the Unified Register of Insured persons, better quality supervision will be ensured. The total contribution rate decreases from the current 41.5 percent to 33.5 percent. At the same time, the basis for calculating contributions was extended, except

for salaries and meal and regress fees. On income from the basis of temporary and occasional jobs, occasional self-employment, supplementary work and other activities will be calculated pension contribution for pension insurance at the rate of 18.5 percent if it is secured on a different basis. If the recipient of the receipt is not secured on a different basis, the taxpayer is obliged to pay at the rate of 18.5 percent of the pension and disability insurance contribution and the 13.5 percent health insurance contribution, with the pension contributions paid for pension insurance being included in the retirement pension basis in accordance with the Pension Insurance Act.

By adopting this law, a legal basis will be created for more efficient recording, collection and control of all contributions for compulsory insurance, for reconciliation of the coverage of payments subject to contribution payments, and for harmonization of the total rate throughout the territory of BiH.

On the 146th regular session held on 07.06.2018 the Government of the Federation of BiH established the Proposal of the Law on Income Tax.

The law provides progressive taxation of two rates, namely 10 and 20 percent, on a predetermined basis of income. A taxpayer on income tax is a natural person who realizes income. Thus, a taxpayer is an individual (and not a legal person) who receives a salary, fee, or authoring fee, owns income-generating craft etc. The taxpayer is considered a resident and a non-resident. A resident is a person residing in the Federation. A non-resident is a person who does not have a permanent or temporary residence in BiH, but realizes income in the FBiH. Income tax will not be paid if an individual receives funds from state, entity and cantonal budgets, as well as out-of-budget funds, regardless of the amount he received.

Income is defined as the difference between income and expenses incurred during the tax period determined by the cash principle, ie only after received payments or payments made. Income taxed comes from six sources of income: from self-reliant and independent labor, property and property rights, from capital investment, from prizes to games of chance and other income.

Income from employment is defined as the difference between all forms of income and expenditures (social security contributions and personal deduction of 700 BAM per month) incurred during the tax period. The income tax thus obtained is subject to tax rates of 10 and 20 percent. The introduction of personal deduction will be reflected as a zero income tax rate of up to 700 BAM. In this way employees with income up to 700 BAM are exempt from paying income tax. The threshold of 700 BAM was set on the basis of data reported by the Federal Ministry of Finance and Tax Administration of FBiH, and by which, out of the total number of employees in the territory of FBiH, there are about 55 percent of employees in the category of receiving up to 8,400 BAM annually (700 BAM per month).

Income from self-employment is defined as the difference between business income and expenditures related to doing business and rates of 10 and 20 percent are also applied to it. This category of income includes so-called freelancers who, due to the development of information technology, are intensively developing in the territory of FBiH.

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Income from prizes and games of chance includes the taxation of winnings of more than 100 KM, and the tax is paid at each payout at 10 and 20 percent rates.

The tax base includes other income of the FBiH resident, such as income of athletes and sports experts, income from occasional free professions and others that are not clearly covered by the total world income. The basis for the taxation of income from casual free activities is the amount of income reduced by 30 percent on behalf of the cost.

The law also includes tax incentives to improve the development of voluntary pension funds, so that the annual income tax amount is reduced by 10 percent of the annual personal allowance, or 840 KM per year.

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