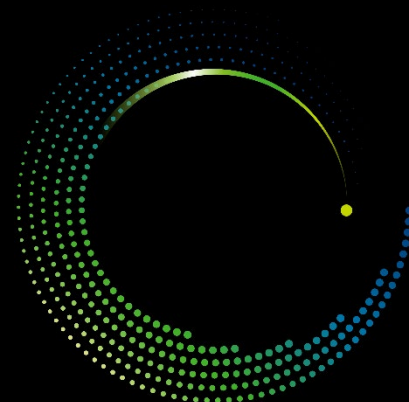


## International Tax Bosnia and Herzegovina Highlights 2023

Updated January 2023



### Investment basics

**Currency:** Bosnian 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). The third tax jurisdiction, Brčko District, is not covered in these Highlights. The rules in the three jurisdictions have been harmonized to a certain extent but some differences exist.

**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 applicable in BiH with respect to standards that have been translated into the local language. In RS, there is an exception that permits legal entities to prepare financial statements in accordance with standards that have not been translated into the local language and published by the competent professional association under certain circumstances, e.g., where the legal entity's parent legal entity or ultimate parent legal entity has its registered office abroad. Rules also are provided in the Laws on Accounting and Audit at the jurisdiction level, and the "framework law" at the BiH level.

**Principal business entities:** These are the joint stock company and the limited liability company. Foreign companies may open representative offices and/or branch offices in BiH, but such offices do not have legal entity status. A representative office may perform only limited business activities.

### Corporate taxation

#### Rates

Corporate income tax rate	10%
Branch tax rate	10%
Capital gains tax rate	10%

**Residence:** A company in the FBiH/RS is resident if it is registered as a legal entity in the relevant jurisdiction, or if the FBiH/RS is the place of effective management. An entity has a taxable presence in the FBiH/RS if it carries out business activities in the jurisdiction that meet the criteria for a permanent establishment, or if it carries out temporary business activities in the jurisdiction that are subject to withholding tax.

**Basis:** Resident companies are subject to tax on worldwide income, while nonresident companies are taxed only on income derived from the relevant jurisdiction. The profit of a branch is determined as the profit that would be generated by the branch if it were an autonomous and independent legal entity.

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

**Rate:** The standard corporate income tax rate is 10%.

**Surtax:** There is no surtax.

**Alternative minimum tax:** There is no alternative minimum tax.

**Taxation of dividends:** Dividends received by companies from their subsidiaries located in the same tax jurisdiction are exempt from corporate tax. Dividends received from abroad are included in the tax base; however, the related tax expenses may be credited against the total tax liability.

**Capital gains:** Capital gains generally are included in taxable income and taxed at the standard 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. Losses may not be carried back.

**Foreign tax relief:** 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:** There is an exemption for dividends received from companies registered in the same tax jurisdiction as the dividend recipient. Sales of shares are taxable (unless an applicable tax treaty allows for different treatment).

**Holding company regime:** There is no holding company regime.

**Incentives:** The FBiH offers the following tax incentives:

- A 50% decrease in the corporate tax liability if a company invests more than BAM 20 million in production assets (property, plant, and equipment) during a five-year period (with a minimum of BAM 4 million in the first year), and the investment is financed by the company's own assets (the incentive is valid for five years);
- A 30% decrease in the corporate tax liability if a company invests an amount exceeding 50% of the value of its pre-tax profits in equipment for production, and the equipment is financed from the company's own assets; and
- A double tax deduction for salary expenses related to hiring of new employees for a period exceeding 12 months.

The RS offers a decrease in the corporate tax liability if a company invests in equipment and plant for production necessary for carrying out a registered business activity.

## Compliance for corporations

**Tax year:** The tax year is the calendar year if it corresponds to the 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 50% of its subsidiaries (all consolidated subsidiaries must be located in the FBiH). The RS does not allow for consolidated returns; each entity must file a separate return.

**Filing and payment:** The tax return in the FBiH must be submitted and the 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., the return and payment are due by 30 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. The tax year may be subject to change under certain conditions. The annual withholding tax return must be submitted within 30 days of the end of the tax year, and in the case of a calendar year-end, no later than 31 January of the following year.

**Penalties:** In the FBiH, late payment interest is 0.04% per day and penalties range from BAM 3,000 to BAM 100,000. In the RS, late payment interest is 0.03% per day and penalties range from 30% of the tax liability due up to a maximum of BAM 200,000 in the case of failure to submit a tax return and failure to pay the tax liability.

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

## Individual taxation

Rates	FBiH	RS
<b>Personal income tax rate</b>	10%	8%/10%/13%
<b>Capital gains tax rate</b>	10%	13%

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

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

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

**Rates:** The standard personal income tax rate is 10% in the FBiH. In the RS, the standard personal income tax rate on employment income is 8%, a 10% rate applies to income from self-employment (although certain small entrepreneurs pay a 2% tax on total gross revenue), and a 13% rate applies to other income.

**Capital gains:** Capital gains are taxed at a rate of 10% in the FBiH and at a rate of 13% in the RS, although some exemptions apply, depending on the type of property, family relations, and the manner of acquiring the 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 deduction in the amount of BAM 12,000 per calendar year and a BAM 1,800 allowance for each dependent family member. Additional deductions in the RS include paid voluntary social security contributions in the amount of BAM 1,200 per year and life insurance payments in the amount of BAM 1,200 per year.

**Foreign tax relief:** Resident taxpayers are entitled to a tax credit for tax paid abroad, up to the personal income tax liability in the FBiH/RS.

## Compliance for individuals

**Tax year:** The tax year is the calendar year.

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

**Filing and payment:** Returns must be filed monthly and/or annually.

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

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

## Withholding tax

Rates				
Type of payment	Residents		Nonresidents	
	Company	Individual	Company	Individual
Dividends	0%	0%	5% (FBiH)/ 10% (RS)	0%
Interest	0%	0%	10%	0%
Royalties	0%	0%	10%	0%
Fees for technical services	0%	0%	10%	0%

**Dividends:** Dividends paid to a nonresident company are subject to withholding tax at 5% or 10% where the payer company is resident in the FBiH or RS, respectively, unless the rate is reduced under an applicable tax treaty. Dividends paid to residents or to nonresident individuals are exempt from withholding tax.

**Interest:** Interest paid to a nonresident company is subject to a 10% withholding tax, unless the rate is reduced under an applicable tax treaty. Interest paid to residents or to nonresident individuals is exempt from withholding tax.

**Royalties:** Royalties paid to a nonresident company are subject to a 10% withholding tax, unless the rate is reduced under an applicable tax treaty. Royalties paid to residents or to nonresident individuals are exempt from withholding tax.

**Fees for technical services:** Fees for technical services paid to a nonresident company are subject to a 10% withholding tax, unless the rate is reduced under an applicable tax treaty. Fees for technical services paid to residents or to nonresident individuals are exempt from withholding tax.

**Branch remittance tax:** There is no branch remittance tax.

**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.

## Anti-avoidance rules

**Transfer pricing:** In both the FBiH and the 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 jurisdictions have prescribed the mandatory preparation of a transfer pricing study and a master file also may be required.

**Interest deduction limitations:** A thin capitalization rule applies in the FBiH, under which interest expense relating to debt in excess of a 4:1 debt-to-equity ratio is nondeductible. In the RS, under thin capitalization rules, net interest expense above 30% of the tax base is nondeductible.

**Controlled foreign companies:** There are no CFC rules.

**Hybrids:** There is no anti-hybrid legislation.

**Economic substance requirements:** There are no economic substance requirements.

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

**Exit tax:** There are no exit tax provisions.

**General anti-avoidance rule:** There is no general anti-avoidance rule.

## Value added tax

### Rates

<b>Standard rate</b>	17%
<b>Reduced rate</b>	0%

**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 the 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 the BiH must register through a VAT representative.

**Filing and payment:** VAT is calculated for each calendar month. VAT returns and payments are due by the 10th day of the following month.

## Other taxes on corporations and individuals

Unless otherwise stated, the taxes in this section apply to both companies and individuals and are imposed at the national level.

**Social security contributions:** 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 31% of the gross salary; employers do not make contributions.

**Payroll tax:** There is no specific payroll tax, but in both the FBiH and the RS, the employer withholds personal income tax from salary on a monthly basis.

**Capital duty:** There is no capital duty.

**Real property tax:** Property tax is levied in the FBiH at the cantonal level. In the RS, the tax rate is determined by the municipality in which the property is located (see also "Transfer tax," below).

**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 the 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. The tax base for real estate tax purposes is the estimated market value of the property. Each municipality determines its own tax rate, which may range from 0.05% to 0.5%.

**Stamp duty:** There is no stamp duty.

**Net wealth/worth tax:** There is no net wealth tax or net worth tax.

**Inheritance/estate tax:** For individuals, inheritance and gift taxes are imposed at the cantonal level in the FBiH, with tax due on the transfer of immovable and movable property. The rate varies between cantons, from 2% to 10%. There is no inheritance tax in the RS.

**Tax treaties:** BiH has concluded around 40 tax treaties. The Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (MLI) entered into force for BiH on 1 January 2021.

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

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