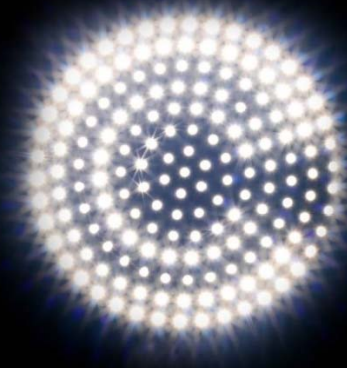


International Tax Bosnia and Herzegovina Highlights 2018



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). In addition, there is a third tax jurisdiction: Brčko District, which is not otherwise covered in this document. The rules in the different jurisdictions have been harmonized to a certain extent; however, significant differences still 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 fully applicable in BiH with respect to standards that have been translated to the local language. 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:

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.

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 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 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 – 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 – No

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 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, equipment and real estate necessary for carrying out registered business activity.

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 is 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.

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 is determined

by the municipality in which the property is located (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 for 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 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.

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 jurisdictions have prescribed the mandatory preparation of a transfer pricing study (note that a master file also may be required).

Thin capitalization – 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.

Controlled foreign companies – No

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

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 requirements – 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. 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. 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 BAM 5,000 to BAM 60,000.

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 the RS, each taxpayer must file an individual return; joint filing is not permitted.

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 social security contributions and 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).

Capital gains – Capital gains generally are 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 the 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 real estate taxpayer is the owner of the real estate. 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%.

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 – See under “Other taxes on corporations.”

Compliance for individuals:

Tax year – Calendar year

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.

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 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 every calendar month. 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 at the state and cantonal levels.

Tax treaties: BiH has 39 effective tax treaties.

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

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