



Tax Card 2006

KPMG B-H d.o.o.

Bosnia and Herzegovina ("BiH") comprises three entities: the Federation of Bosnia and Herzegovina ("FBiH", which itself comprises ten cantons), the Republic of Srpska ("RS") and the Brčko District ("BD").

Corporate Profit Tax ("CPT")

Federation of Bosnia and Herzegovina

Taxpayer

A resident legal entity (registered by the court on the territory of the FBiH) is subject to CPT on income realised in the FBiH and abroad. A non-resident legal entity is subject to CPT only on income realised in the FBiH.

Rate

30% flat (unified within the territory of the FBiH).

Benefits available for:

- Newly established companies;
- Reinvestment of taxable profit;
- Investment of foreign capital in a resident company / Establishment of a local company by a foreign investor;
- Free Trade Zones: 100% tax holiday.

Tax treatment of business losses

Tax losses may be carried forward for five years subsequent to the year in which the original loss was incurred.

Tax consolidation in the FBiH

- Possible for a group of companies, provided that every member of the group is a tax resident of the FBiH.
- Once approved, consolidated taxation is available for a minimum of five years.

Withholding tax

Withholding tax at 15% is levied on dividends, interest, royalties and author compensations paid to non-residents of the FBiH

Transfer pricing in the FBiH

Any differences between transaction prices and market prices increase the taxable base.

Capital gains/losses

There are no capital gains provisions in the CPT law.

Republic of Srpska

Taxpayer

- A resident legal entity (registered by the court on the territory of the RS) is liable to CPT on income realised in the RS and abroad.
- A non-resident legal entity is liable to CPT on income realised in the RS.

Rate

10% flat (unified on the territory of the RS).

Benefits available for:

- Reinvestment of taxable profit.

Tax treatment of business losses

Tax losses cannot be carried forward.

Tax consolidation in the RS

No tax consolidation rules exist in the RS.

Withholding tax

There is no withholding tax.

Transfer pricing in the RS

Any differences between transaction prices and market prices increase the taxable base.

Capital gains/losses

Capital gains/losses are included into the tax base.

New CPT Laws

The CPT Laws in the FBiH, the RS and BD will be harmonised and will impose a CPT rate of 15% in all entities. Drafts of the new CPT Laws have been prepared, but it is still not known when the new CPT Laws will be adopted and implemented.

Value Added Tax ("VAT")

BiH introduced VAT from 1 January 2006.

Rate

The standard VAT rate is 17%. Zero rate applies to export of goods and certain services.

Exemptions

VAT exemptions (no input VAT recovery) include: financial services, insurance and reinsurance services, education, healthcare, betting and gambling, rent of residential property for a period of longer than 60 days, certain supplies of immovable property, services of public radio and television bodies, other than those of a commercial nature, dealing in shares, investment fund management, current postage stamps, tax stamps, and administrative and court stamps.

Taxation of services

Services are taxable in BiH if they are deemed to be supplied in BiH. The place of supply rules are similar to those in the EU. The self-charge mechanism applies.

Registration

The registration threshold is taxable supplies of KM 50,000 or more in the previous period.

A non-resident entity who does not have a seat or a permanent business unit, or a permanent residence in BiH, and who performs VATable supplies of goods or services in BiH, is obliged to register for VAT purposes and to appoint a tax representative where the appointed tax representative has joint and several liability to the tax authorities in BiH.

VAT Grouping

VAT grouping is available to entities, 100 percent directly or indirectly owned.

VAT Refund

At the request of the taxpayer, any refund due shall be paid no later than sixty days (thirty days for exporters) after the expiry of the deadline for submission of the VAT return. Any tax credit which has not been used after a period of six months will be refunded by the ITA. It is important to note that in the period from 1 January 2006 to 31 December 2006 the ITA will not effect VAT refunds (except to exporters). Any VAT refund should be carried forward and used as VAT credit in the next six VAT periods (months) or will be refunded after the six-month period expires.

CUSTOMS DUTY

- Customs duty rate: range from 0% to 15%.

- Administrative charge: 1% of the customs value of the goods imported into BiH is charged on imported goods.
- Import approvals mainly relate to the quality of goods imported such as food, fuel and similar. (KPMG B-H can assist in obtaining these approvals).

Customs exemptions

- Contribution in kind into the registered capital of a domestic company; however, prior approval must be obtained from the Ministry of Finance.

EXCISE DUTIES

- Excise duty taxpayer: a legal or a physical person which trades in excisable products.
- A taxpayer is liable for excise duty at:
 - a) The earlier of the issuance of an invoice or the delivery of the excisable products;
 - b) The time of customs clearance of the excisable products and the delivery of the excisable products to a "free customs area" or duty-free warehouse, or
 - c) The time the excisable products are taken for a taxpayer's own consumption.
- Payment terms
 - a) Excise duty is payable within 5 days of the end of the week in which the invoice was issued or the excisable products were delivered.
 - b) Excise duty is payable simultaneously with customs duty and other import duties.
 - c) Excise duty is payable immediately.

Personal Income Tax ("PIT")

Federation of Bosnia and Herzegovina

PIT is regulated at the cantonal level; therefore applicable PIT rates vary between cantons. (PIT is paid at the rate of 15% in the Canton of Sarajevo.)

Uniform PIT legislation

- The adoption and implementation of universal PIT legislation at the level of the FBiH is expected in 2006.
- Non residents will be taxed on income earned on the territory of the FBiH, and residents on their world-wide income.
- Income will be treated as the sum of all receipts

(rather than each receipt being treated separately as is the case at the date of publication of this Tax Card).

- Non-taxable income will include, but will not be limited to, the following: dividend income and shares in profit, pensions derived from pension schemes abroad, gifts and inheritance, child allowance.
- Exempt income will include, but will not be limited to, the following: certain insurance payments, income derived from the trade of securities, certain types of interest income.
- Tax free allowances will include, but will not be limited to, the following: severance paid in accordance with the relevant regulations, meal allowances, reimbursement of business trip expenses.
- The tax period will be the calendar year.
- The proposed tax rates are as follows:

Annual taxable income bands (KM)

0 - 3,600	10%
Above 3,600	15%

Republic of Srpska

PIT is regulated at the level of the RS.

Rate

The PIT rate is 10%.

Tax free allowances

Tax free allowances include, but are not limited to, the following:

- Retirement compensation;
- Daily allowances for business trips within the country and abroad, up to specified amounts; and
- Allowance for public transportation, in the amount equal to a monthly ticket price.

WAGE TAX ("WT")

Federation of Bosnia and Herzegovina

The WT is applicable at the level of the FBiH.

Rates

The WT rate on regular employment income is 5%. The WT rate on additional income is between 30% and 69%.

Payment

WT is paid monthly by the employer, together with social security contributions.

Tax free allowances

Tax free allowances include, but are not limited to, the following:

- Separate life allowance, of up to 50% of an average monthly net salary in the FBiH;
- Annual leave allowance, of up to 70% of the employee's average monthly net salary;
- Reimbursement of expenses for accommodation and other business trip expenses, up to the amount of actual expenses;
- Reimbursement of travel expenses to/from work;
- Meal allowances at work, of up to 2% of the average monthly net salary in the FBiH;
- Daily allowances for business trips within BiH, of up to 10% of the average monthly net salary in the FBiH (in addition to actual travel and accommodation costs);
- Allowances for field work, of up to a maximum of 70% of daily allowances; and
- Daily allowances for business trips abroad, up to specified amounts (country dependent).

Republic of Srpska

The PIT Law regulates the taxation of income earned by physical persons, including wages.

Social Security Contributions

Federation of Bosnia and Herzegovina

Social Security Contribution Category	Employee Contribution rate Gross Salary	Employer Contribution rate Net Salary
Pension	25%	10.294%
Health	19.118%	5.880%
Unemployment	2.941%	0.735%
Against injury at work	0.5%	
Total contributions	47.559%	16.909%
Total contributions		64.47%

Republic of Srpska

Social security contribution

Contribution rate

Category

(Employer and Employee)

Net Salary

Pension	24%
Health	15%
Unemployment	1%
Child protection	2%
Total contributions	42%

Double Tax Treaty Network

Belgium**	France**	Netherlands**	Serbia&Montenegro**
Croatia*	Germany**	Norway**	Slovakia**
Czech Rep.**	Hungary**	Pakistan*	Sweden**
Denmark**	Iran*	Poland**	Turkey*
Egypt**	Italy**	Romania**	UK**
Finland**	Moldova*		

* States with which BiH has ratified a DTT after the war (i.e. from December 1995 until February 2006).

** States with which the Socialistic Federative Republic of Yugoslavia ratified a DTT. As per the official Ministerial letter requested by KPMG, these treaties are applicable; however, they have never been published in Official Gazettes.

For further information, please contact:

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This card was prepared on 31 March 2006 as a quick-reference guide to the subject matter and should not be regarded as a basis for ascertaining the liability to tax or determining investment strategy in specific circumstances. In such cases specialist advice should be taken.