



**REPUBLIC OF SRPSKA  
MINISTRY OF FINANCE  
TAX ADMINISTRATION**

# ***2014 REPORT***

*Banja Luka, January 2015*

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## I RS TAX ADMINISTRATION LEGAL FRAMEWORK AND WORK ORGANIZATION

In line with the provisions of the law on Tax Procedure of RS, TARS is in charge of: registration and identification of taxpayers, tax assessment, supervision over application of tax regulations, regular and enforced collection of all taxes, control of calculation of gross salaries of employees in line with laws and provisions of the General Collective Agreement, identification and prevention of criminal offences and tax related misdemeanors and reporting to the competent prosecutor's office, managing of the first-instance tax proceedings, statement of measures and sanctions for tax related misdemeanors, keeping tax records and tax accounting, managing the Fiscal Register of Real Estate and other prescribed registers, public information and education of taxpayers, issuing certificates from relevant records and reporting.

In accordance with the Rulebook on Internal Organization and Systematization of Positions in RS Tax Administration („Official Gazette of RS“, no 49/12 and 11/13), the following basic organizational units were established: Head Office, Regional Centers, Local Offices and Temporary Offices.

### Guidelines Internal Instructions and Rulebooks

Throughout 2014, several legal documents have been issued addressing the internal operations and processes in TARS, namely:

- **4 Guidelines** (Tax return processing *PP-ON;PP-GRT & PP-RO*, Changes and Amendments to Manual on Enforced Tax Collection pertaining to the securities);
- **3 Instructions** (Tax return processing related to the agricultural husbandry, Changes and Amendments to Instruction on application of the Law on Specific Modalities for Servicing Tax Debt related to the special rule on interest write-off and Instruction on acting of the organizational units within TARS in pursuance of Article 8, Paragraph 2 of the Real Estate Tax Law (“Official Gazette of Republic of Srpska“, no. 110/08, 118/09 and 64/14) prescribing the tax exemption in cases of causing the material damage to real property by the effects of natural disaster whereas the Special Decree on Tax Exemption must be brought by the Municipal Assembly for the specific tax period);
- **2 Rulebooks** (Internal organization and systematization of positions in TARS and application of Personal Income Tax Law).

The new **Order on Payment of Specific Budgetary Revenues of the Republic, Municipalities, Cities and Funds**, applied by TARS, came into effect on 18.08.2014 (“RS Official Gazette“, no. 73/14). The Order places emphasis on payments of specific budgetary revenues of the Republic, municipalities, citizens, funds and other public revenues beneficiaries that are regulated by law apropos other rules and legal provisions. It also defines the form and how to fill out the payment order, subsequently public revenues payment methods and public revenues type codes for municipalities and budgetary organizations of the Republic, municipalities and cities.

**Law on Changes and Amendments to the RS Tax Procedure Law** (“Official Gazette of RS“, no. 31/14) was issued in 2014, enabling Tax Administration to suspend the enforced tax collection if the deferred payment is approved to the taxpayer by the body competent to identify those tax liabilities. Furthermore, it enables TARS to provide the data and information for being kept as tax secret to other Tax Administrations in BIH and based upon the special agreement.

**The Law on Unique System for Multilateral Compensations and Cessions** (“Official Gazette of RS”, no. 20/14) was enacted in March 2014, defining TARS to control the reporting of tax liabilities in the unique system for multilateral compensations and cessions.

Due to the consequences of May floods, the set of laws applied in the work of TARS has been changed: **Real Estate Tax Law** (“Official Gazette of RS”, no. 64/14); **Law on Budget System of Republic of Srpska**; **Law on the Use, Possession and Carrying of Goods**; **Law on Special Republic Fees**; **Law on Changes and Amendments to the Law on Specific Modalities for Servicing of Tax Debt** (“RS Official Gazette”, no. 52/14).

## II HUMAN RESOURCES

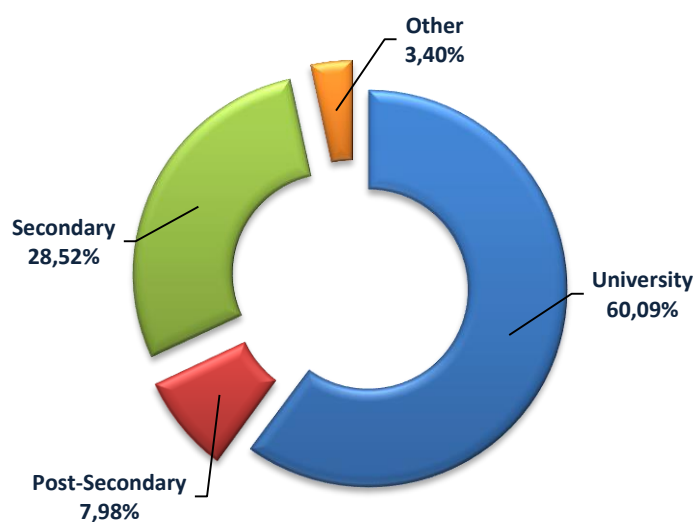
The number of staff employed in TARS as of 31 December 2014 was **852**, including:

- 797 full-time employees,
- 33 part-time employees, and
- 22 apprentices.

Educational structure of staff is as follows:

- 512 with university degree,
- 68 with postsecondary level of education,
- 243 with secondary level of education, and
- 29 other.

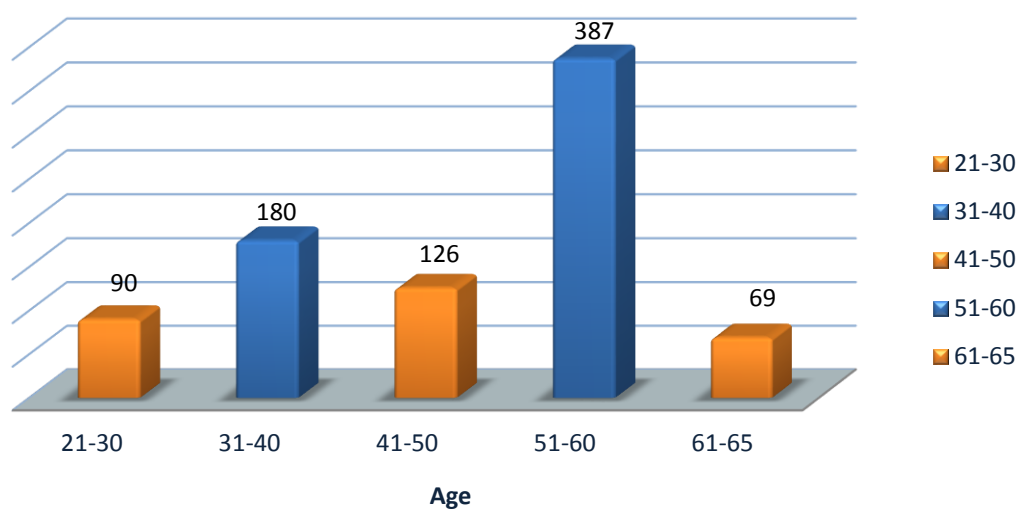
**TARS Staff Educational Structure as of 31/12/2014**



Age structure of staff is as follows:

- 10,56% staff in age group 21 to 30,
- 21,13% staff in age group 31 to 40,
- 14,79% staff in age group 41 to 50,
- 45,42% staff in age group 51 to 60, and
- 8,10% staff in age group 61 to 65.

TARS Staff Age Structure as of 31/12/2014



Having recognized employee education as an extremely important aspect in realization of set tasks and objectives, TARS provided its staff a possibility to expand their knowledge and exchange experiences in different segments of tax policy through various types of seminars, trainings, and other similar events.

In 2014, 56 internal and external trainings have taken place, enveloping 825 participants/staff members.

### III TAXPAYER TREATMENT

#### 3.1 Taxpayer information and media activities

Being an institution in charge of collection of public revenues and implementation of laws and regulations, as well as provision of services to taxpayers, RS Tax Administration has the obligation to consistently, efficiently, and impartially implement all laws pertinent to the Tax Administration's scope of work, as well as to provide quality services to taxpayers and timely inform the public on all current affairs in the field of tax policy in order to improve the level of voluntary compliance.

During the period January 1 to December 31, 2014, the Taxpayer Services Sector had the following number of contacts with taxpayers:

Type of Contact	Plan 2014	2014 Actual	2013 Actual	Plan against Actual	Index 14/13
Personal contact in TARS premises	500	594	469	119%	127
Telephone	15.000	20.263	14.237	135%	142
E-mail	840	1.049	1.030	125%	102
Correspondence	300	329	289	110	114
Designated topic meetings	0	28	14	-	200
Taxpayer seminars	6	31	13	517%	238
Public information in cooperation with TARS spokesperson	8	5	7	63%	71
Public notification for 2014 tax filing season	1	1	2	100%	50
2014 Tax Calendars	3	3	3	100%	100
Opinion polls	2	0	0	0	-
Web Page information	120	113	140	94%	81

**There were 471.672 hits on our web page in 2014.** The highest number of hits was in February and March due to the fact that most tax returns are due by the end of the first quarter. We have exceeded the last year's results by 21%.

In 2014, RS Tax Administration had 225 media appearances, out of which 143 pertaining to Head Office public addresses, and 82 of those made by the Regional Centers. The figure does not include press articles, namely 100 published throughout 2014.

The most frequently asked questions were related to the tax collection, especially enforced collection as well as tax collection of certain individuals, the highest reported personal income, the real estate tax collection percentage, the number of employees with minimum wages, and such like.

At the end of 2014 and as a part of media campaign related to the real estate tax, we were intensively informing the public about the Decision on Real Estate Tax Exemption for the municipalities that sustained flooding. Also, at the same time TARS intensified media appearances related to the tax card requests filing season.

### 3.2 Registered and De-registered Taxpayers

Until and inclusive of 31 December 2014, **1.866.324** taxpayers were registered with the Tax Administration, out of which:

- 28.492 legal persons, branch offices excluded,
- 46.822 entrepreneurs, branch offices excluded,
- 1.741.693 citizens, and
- 49.317 other.

RS Tax Administration registered 61.638 new taxpayers in 2014, whereas 2.677 taxpayers were de-registered.

Taxpayers	Registered	De-registered
Legal persons	1.392	467
Physical persons (entrepreneurs)	3.174	1.441
Citizens	52.883	237
Other*	4.189	532
<b>TOTAL</b>	<b>61.638</b>	<b>2.677</b>

\* Ex-officio (de)registration of branch offices of legal persons from FBiH and Brcko District, foreign diplomatic missions, aliens, and non-residents.

### 3.3 Certificates Issued to Taxpayers

#### Tax Certificates

**Tax Administration issued 86.671 tax certificates in 2014**, out of which 21.663 were issued to legal persons, 29.563 to entrepreneurs and 57.108 to citizens. Total amount received in the process of issuing of tax certificate was BAM 19,65 million whilst in the process of issuing of tax certificate for de-registration of contribution payers was BAM 18,86 million.

2014 actual against planned ratio, in terms of issuing of certificates, is 47% since the local offices planned the issuing of annual certificate from the Unified system for registration, control, and collection of contribution that consists data on pensionable service, paid and/or unpaid contributions and income balance. Those certificates were not issued in 2014 due to the lack of financial funds for delivery expenses. Lower percentage of plan realization, in terms of issuing the certificates, had the impact on the lower percentage of total realization of the plan.

#### Certificates Issued in 2014

	Number of tax certificates			Actual vs. Plan	Index 14/13
	2014 Plan	2014 Actual	2013 Actual		
Legal persons	20.961	21.663	22.212	103%	98
Entrepreneurs	6.839	7.900	7.777	116%	102
Citizens	122.335	57.108	57.247	47%	100
<b>TOTAL</b>	<b>150.135</b>	<b>86.671</b>	<b>87.236</b>	<b>58%</b>	<b>99</b>



## **Certificates issued in reference to TIN de-registration**

3.319 requests were filed in 2014 pertaining to de-registration of TIN (including 10.446 open cases from the previous period). Respectively **2.219 certificates have been issued**.

Lower number of issued TIN de-registration certificates could be interpreted by the fact that all tax liabilities must be paid in full before a certificate can be issued to taxpayer, and that, accordingly to the provisions of the RS Tax Procedure Law, an audit is to be conducted prior to de-registration. Current number of tax audits does not cover the number of the open cases. Therefore, TARS initiated the changes of legal provisions in this particular section.

In regards to the TIN de-registration procedure in 2014, BAM 72.247 have been collected in regular procedure, whereas BAM 19.464 were recovered through enforced collection.

## **3.4 Refunds, Transfers and Corrections**

Central Tax Documentation Processing Sector enters data into the System for Financial Information Management (SUFİ), creates forms, in line with the Instruction on the format, contents, and method of completion of forms used in treasury operations of the budgetary beneficiaries ("Official Gazette of RS", no. 86/02, 5/03, 109/03, and 117/05), and creates entry notifications.

3.064 enforceable decision documents have been entered into the SUFI in 2014. In addition to this, SUFI is also used to record tax refunds approved and paid on the basis of Form 1004-Annual Personal Income Tax Return. The amount of the respective refund processed via SUFI in 2014 was BAM 309.627,87.

Local offices within TARS received 9.549 requests for transfer and refund of more and/or incorrectly paid public revenues, whilst 1.593 unsolved requests were transferred from the previous period, out of which 1.824 or 16% submitted requests were not made.

TARS processed 55.659 orders in 2014, whereby various transactions were recorded pertaining to corrections arising from administrative and other procedures.

Processing of transactions implies formal and substantial review of documents pertaining to corrections, including regularity and analysis of data in relation to balances entered into records. This activity is much more time consuming than the review of tax returns.

## **3.5 Receiving and Processing Tax Returns**

**RS Tax Administration officers received 1.524.992 tax declarations in 2014**, including the registration forms for the Fiscal Real Estate and declarations pertaining to the Unified System for Registration, Control and Collection of Contributions.

The majority of filed declarations pertain to the Monthly Withholding Tax Form 1002, totaling to 941.125.

Actual against planned index for 2014, when it comes to filing, is 108%.

## E-filing

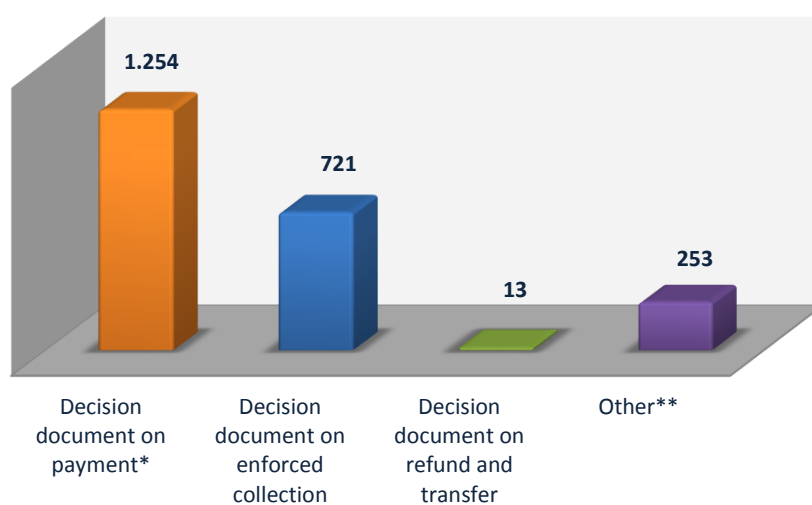
During 2014, **611.890 MPO-1002 tax declarations**, i.e. 65% of the total number thereof, have been e-filed. It is evident the growth trend of e-filing.

The value of personal income tax declared through e-filing is BAM 261,2 million, and BAM 1,7 billion in contributions.

## 3.6 Tax Appeals – First Level of Appeals

TARS Regional Centers received **2.192 appeals** in 2014 pertaining to all procedures in connection with the RS Tax Procedure Law.

2014 Tax Appeals per subject



\*Decision document on payment –reported, unpaid, and assessed liabilities, court fees

\*\* Decision documents on statute of limitation, registration of mortgage, ban of activity, denial of de-registration request, tax bill appeals, etc..

## IV TAX COLLECTION MANAGEMENT

### 4.1. Collection of Public Revenues

During the period January 1 to December 31, 2014, RS Tax Administration collected BAM **2,136 billion in public revenues**. In addition to collection via public revenue accounts, the total amount above includes BAM 13,36 million collected in RS internal debt bonds. The level of realization of the 2014 collection plan is 106%, whereas relative to 2013 actuals, 78,7 million more have been collected, i.e. 4%.

#	TYPE OF REVENUE	Budget Amendments (A)	Realized (R)		R/A	14/13	Difference (2014-2013)
		2014	2014	2013			
<b>1. DIRECT TAXES</b>		<b>369.385.914</b>	<b>396.514.633</b>	<b>431.537.663</b>	<b>107%</b>	<b>92</b>	<b>-35.023.030</b>
1.1.	Personal Income Tax	215.443.397	227.925.438	261.670.589	106%	87	-33.745.152
1.2.	Corporate Income Tax	125.968.001	131.656.983	134.015.649	105%	98	-2.358.666
1.3	Tax on use, holding, and bearing of goods	11.797.000	14.157.889	11.599.137	120%	122	2.558.752
1.4.	Real estate tax, property taxes	16.177.516	22.774.323	24.252.287	141%	94	-1.477.964
<b>2. CONTRIBUTIONS</b>		<b>1.278.150.753</b>	<b>1.389.437.419</b>	<b>1.311.458.893</b>	<b>109%</b>	<b>106</b>	<b>77.978.526</b>
2.1.	Pension and Disability Insurance Fund	700.407.214	738.612.590	716.460.614	105%	103	22.151.976
2.2.	Health Insurance Fund	488.347.750	512.243.714	501.233.118	105%	102	11.010.596
2.3.	Child Protection Fund	50.687.834	54.539.589	53.522.684	108%	102	1.016.905
2.4.	Employment Bureau	34.917.954	37.046.754	36.310.144	106%	102	736.610
2.5.	Fund for employment of disabled persons	3.790.000	4.350.332	3.932.333	115%	111	417.999
2.6	Solidarity Fund	0	42.644.460	0	-	-	42.644.460
<b>3. OTHER PUBLIC REVENUES</b>		<b>341.748.426</b>	<b>345.061.026</b>	<b>310.513.581</b>	<b>101%</b>	<b>111</b>	<b>34.547.446</b>
3.1.	Fees and charges	200.226.348	191.332.493	190.990.192	96%	100	342.300
3.2.	Charges for organization of games of chance	17.011.578	17.058.882	16.354.813	100%	104	704.070
3.3.	Fines	19.510.500	19.154.069	19.494.594	98%	98	-340.525
3.4.	Other revenues	50.000.000	81.057.808	38.284.202	162%	212	42.773.606
3.5.	Concession fees	55.000.000	36.457.775	45.389.780	66%	80	-8.932.006
4.	<b>PAST DUE LIABILITIES IN INDIRECT TAXES</b>	<b>18.200.777</b>	<b>4.720.193</b>	<b>3.512.275</b>	<b>26%</b>	<b>134</b>	<b>1.207.918</b>
<b>TOTAL PUBLIC REVENUES MANAGED BY TARS</b>		<b>2.007.485.870</b>	<b>2.135.733.271</b>	<b>2.057.022.411</b>	<b>106%</b>	<b>104</b>	<b>78.710.860</b>

The growth is noted in almost all categories of public revenues, relative to the last year, except personal income tax, real estate tax and concession fees.

Personal income tax is 13% less compared with the same period last year. Change of legal regulations had impact on personal income tax collection decline. Namely, in accordance with Law on

Changes and Amendments to the Law on Personal Income Tax (“Official Gazette of RS”, no. 107/13), the tax base for tax calculation has been diminished and the personal income deduction is BAM 2.400 per year i.e. BAM 200 per month.

Revenues collected in connection with real estate tax are 6% lower relative to the last year's level due to the Decisions brought by assemblies of cities and municipalities for 2014 regarding the write off liabilities for the owners of flooded real estates.

Revenues collected in connection with the concession fees are BAM 8,9 million or 20% lower relative to 2013 partly due to the changes of legal regulations and partly due to the decline in economic activity in the flooded areas with inherent capacity to exploitate the natural resources.

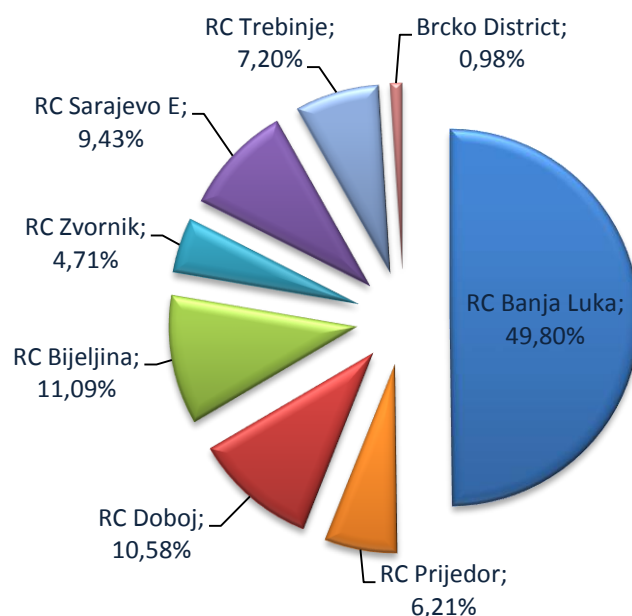
Collection of revenues pertaining the social insurance funds is by 6% higher than the year before. More words about this issue will be mentioned in next chapter.

Partial payment of the accumulated income of the company „Elektroprenos BIH“, the amount of BAM 40 million that belong to RS, had an impact on growth of other revenues.

Comparison of collection actuals against the plan shows that the collection has been realized according to the plan in almost all categories or approaches the achieving limit except the collection of revenues in connection of the above mentioned concession fees (66% actual/plan).

We would like to emphasize that the plan of public revenue collection has been changed pertaining to the personal income tax, corporate income tax, real estate tax, and contributions for the Regional Centers i.e. the certain municipalities and cities affected by May floods.

**TARS Regional Centers' share in 2014 collection results**



Out of collected BAM 2,136 billion in public revenues, **BAM 487,16 million** have been allocated through the **Treasury account** as the source revenue of the RS Budget.

## Social Insurance Funds' Revenue

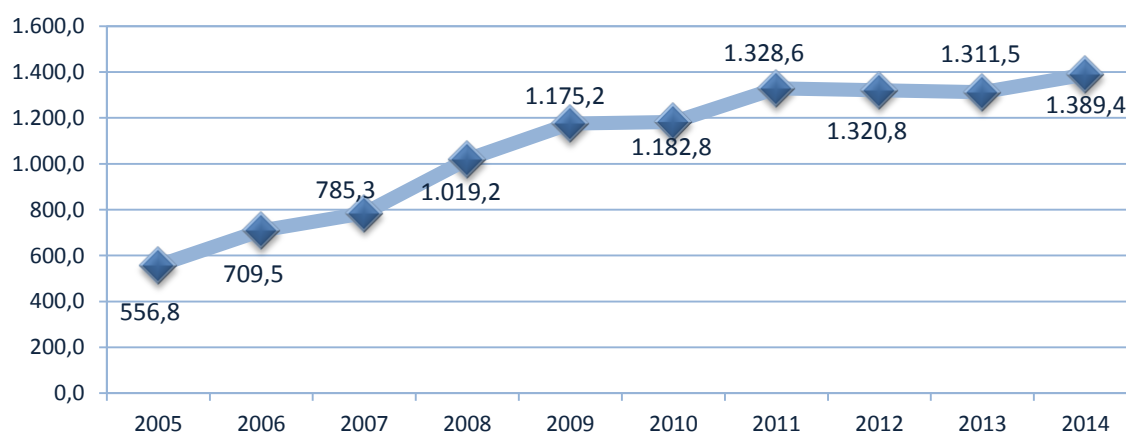
During the period January 1 to December 31, 2014, total collected **revenues from social insurance funds are BAM 1,389 billion**. Relative to the previous year's collection, the revenues have been increased with BAM 77,98 million i.e. 6%.

It is evident that the collection of contributions is increased regardless the changes of the Personal Income Tax Law of RS pertain to the implementation of non-taxable amount BAM 200 and having an impact on the decrease contribution basis. Since one of the main TARS focuses is on collection of contribution, it is to expect the increase of tax disciplinary in this section.

FUND	2014 Plan	2014 Actual	2013 Actual	Actual vs. Plan	Index 14/13
Pension and Disability	700.407.214	738.612.590	716.460.614	105%	103
Health	488.347.750	512.243.714	501.233.118	105%	102
Child Protection	50.687.834	54.539.589	53.522.684	108%	102
Employment	34.917.954	37.046.754	36.310.144	106%	102
Employment of Disabled Persons	3.790.000	4.350.332	3.932.333	115%	111
Solidarity Fund	0	42.644.460	0	-	-
<b>TOTAL</b>	<b>1.278.150.753</b>	<b>1.389.437.419</b>	<b>1.311.458.893</b>	<b>109%</b>	<b>106</b>

The Table above shows that the actual against planned rate for collection of contributions for 2014 is 109%.

Social Insurance Funds' Revenues 2005-2014 (BAM mil.)



## 4.2. Debt Balance

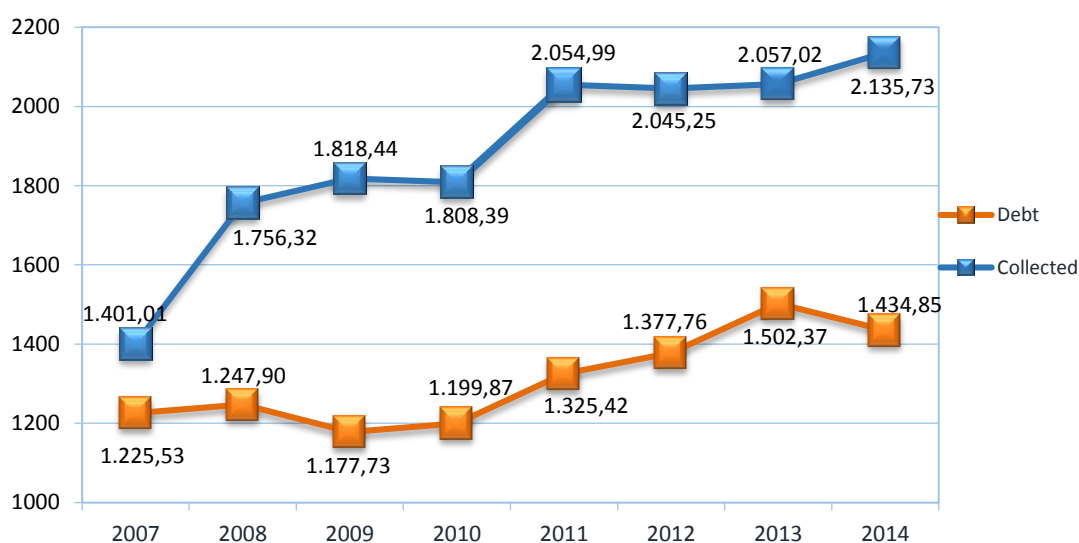
According to official records of RS Tax Administration, **debt balance as of 31.12.2014 was BAM 1,435 billion**.

## Comparative overview of debt and overpayments balance for 31.12.2014/31.12.2013

#	Period	Total Debt
1.	31.12.2014.	1.434.851.161,80
2.	31.12.2013.	1.502.371.086,19
3.	Difference (1-2)	-67.519.924,39
4.	As percentage	↓ 4,49

The above table indicates a tendency of reduction of total debt by BAM 67,52 million or 4,49% relative to balance as of 31.12.2013.

## Collected public revenues and debt for the period 2007-2014 (BAM mil.)



## Debt reconciliation against bonds

Pursuant to the Decree on payment of tax liabilities with Republic of Srpska bonds ("Official Gazette of RS", no: 58/09), which regulates the terms and procedure for payment of due tax liabilities incurred until 31.12.2007, by means of Republic of Srpska internal debt bonds, **the RS Ministry of Finance issued 132 decision documents in 2014 for payment of debt by bonds, for the total amount of BAM 13,36 million.** The decision documents have been forwarded to TARS regional centers for further action.

## 4.3. Decision Documents/Notices on Payment of Due Liabilities

According to the RS Law on Tax Procedure, the taxpayer who failed to, fully or partially, file or pay the liability on due date will receive from the Tax Administration a Notice regarding the type and the amount of due tax liability, forewarning the taxpayer to file or pay the liability. For liabilities filed prior to 2012, Tax Administration will continue to issue decision documents for payment of filed, non-paid, liabilities.

During 2014, **1.345 of the above said decision documents** have been issued (in average 19 decision documents per employee), for the amount of liabilities of BAM 10,56 million. Out of that, BAM 145.668 million have been collected within voluntary period (BAM 15.445 pertain to decision documents issued in the preceding period). Taxpayers have filed 8 appeals against the said decision documents.

**Also, 48.405 notices have been issued in 2014, in regards to filing or payment of due liabilities** (in average 550 notices per employee) for the amount of liabilities of BAM 210,9 million. Taxpayers paid BAM 69,62 million within the voluntary period.

Relative to 2013, 47% more decision documents/notices have been issued in 2014, with BAM 6,26 million more collected within voluntary period. The actual against planned rate for decision documents/notices on payment for 2014 is 169%.

#### 4.4. Enforced Collection Procedure

**51.395 enforced collections were initiated in 2014 pertaining to debt amount of BAM 112,89 million.** Out of that amount, BAM 28,2 million were collected in enforced collection in line with 15.322 decision documents, whereas BAM 16,97 million were collected in relation to 6.169 decisions documents from the preceding period.

Relative to 2013, the number of initiated enforced collections was higher by 2.511, but the amount of liabilities collected in these procedures was lower by BAM 31,13 million.

Relative to plan, there were 34.091 more enforced collection cases initiated, i.e. 96% above the plan, whereas the collection was 90% higher against the plan.

	2014 Plan	2014 Actual	2013 Actual	Actual/Plan	Index 14/13
Number of Procedures	35.392	51.395	48.884	145%	105
Debt, as per EC decision documents (BAM)	79.379.252	112.891.385	218.738.167	143%	52
Collected (BAM)	26.275.923	50.018.931	76.317.025	190%	66

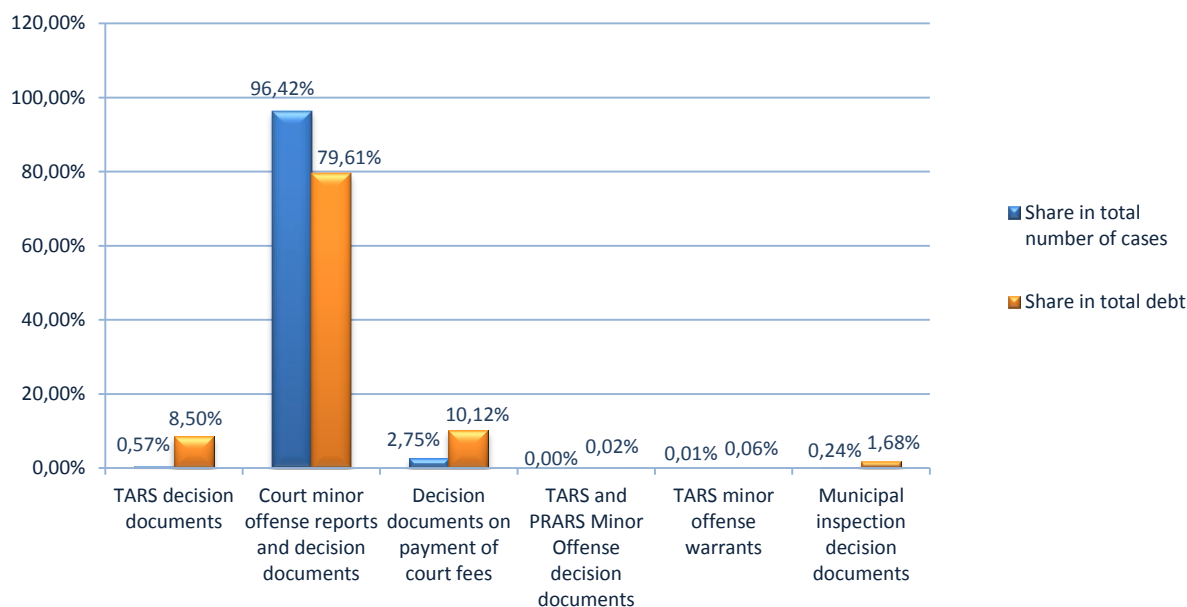
Minor offense reports and court decision documents take up the largest share in the structure of EC cases initiated in 2014, namely 46%, whereas decision documents ordering payment of reported liabilities make 28%. Furthermore, the significant part belongs to decision documents related to the real estate tax that make 17% of all EC initiated in 2014.

502 proposals were filed to competent court/Republic Administration for Geodetic and Property Affairs for registration of mortgage over tax debtors' real estate for the amount of BAM 36,63 million and 114 requests for cancellation of mortgage for the amount of BAM 18,66 million.

455 mortgages have been registered in 2014 in reference to BAM 49,08 million in liabilities. In addition, 7 decision documents have been issued on mortgage rejection for the amount of BAM 711.122,87, and 59 decision documents on mortgage cancellation in reference to BAM 11,32 million in liabilities. Moreover, 502 proposals were filed by Regional Centers to competent courts regarding registration of mortgage over tax debtors' real estate for the amount of BAM 36,63 million.

Total number of uninitiated EC procedures, as of 31 December 2014, was 68.475 in regards to debt amounting to BAM 11,22 million.

Structure of uninitiated EC cases as of 31/12/2014



#### 4.5. Agreements/Decision Documents on Extended Payment of Tax Liabilities

##### Agreements on debt reschedule in line with RS Government Decisions

**BAM 14,01 million were paid in rescheduled debt** in 2014, out of which BAM 1,28 million were collected from due reschedule installments, and BAM 12,73 million from internal debt bonds.

**Due and unpaid rescheduled liabilities amounted to BAM 22,95 million**, whereas outstanding debt for all reschedules signed accordingly to decisions of RS Government was BAM 179.66 million.

2014 plan pertaining to collection of rescheduled debt was fulfilled at the rate of 67%, and in comparison to the last year collection rate was 62% higher for rescheduled liabilities.

Due to taxpayers' failure to submit the request for conversion of debt into proprietary company share, as well as due to disobedience of the conditions prescribed by the agreement, RS Tax Administration cancelled 11 agreements in 2014 accounting for BAM 8.65 million in tax liability.

##### RS Ministry of Finance Decision Documents on Deferred Payment

Accordingly to RS Tax Procedure Law ("Official Gazette of RS", no. 102/11, 108/11, 67/13, and 31/14), and the Law on Special Modalities for Tax Debt Servicing ("Official Gazette of RS", no. 66/13, and 52/14), **the RS Ministry of Finance issued 181 decisions documents on deferred payment of tax liabilities, namely for the amount of BAM 100,58 million.**



During 2014, BAM 10,15 million have been collected in connection with the above said decision documents, whereas **past due liabilities amount to BAM 10,9 million.**

In addition, RS Ministry of Finance issued and TARS received 109 decision documents abolishing the previously issued deferred payment decision documents pertaining to the amount of debt of BAM 49,56 million, due to taxpayers' failure to adhere to the given terms and deadlines, or to taxpayers having filed for conversion of debt into share in ownership, which automatically abolishes the deferred payment decision documents.

Moreover, 14 decision documents that RS Ministry of Finance is not in charge on their abolition and are related to one-off deferral of payment of tax liability for the amount of debt of BAM 22,99 million, are not valid any more by cause of overdue payment.

Relative to the previous year, collection pertaining to the respective RS MF decision documents decreased by 31%, with actual against planned ratio of 95%.

### **TARS Agreements/ Decision Documents on Deferred Payment**

Accordingly to RS Tax Procedure Law and the Law on Special Modalities for Tax Debt Servicing, **the RS Tax Administration issued 224 decisions documents on deferred payment of tax liabilities, namely for the amount of BAM 2,69 million.** At the same time, 40 of the said decision documents have been abolished pertaining to the amount of debt of BAM 457.287,30. In addition, 7 Agreements signed accordingly to the old Tax Administration Law have been abolished in connection with the amount of debt of BAM 1.359.743.94 due to taxpayers' failure to adhere to the provisions of the Agreement.

In pursuance to 252 agreements/decision documents on deferred payment of liabilities (including the one from the preceding period) BAM 777.981 have been collected in 2014. In connection with the said agreements/decision documents BAM 333.728 are past due.

The remaining debt in connection with all signed agreements/decision documents on deferred payment is BAM 3,43 million. The amount pertains to all active agreements/decision documents, including the ones for which interest has not yet been calculated, or it has been calculated but not paid.

Relative to last year, collection in this area is 39% lower, whereas actual against plan ratio, for all agreements/decision documents, is 131%.

## **4.6. Specific Procedures**

### **Bankruptcy and Liquidation**

For 92 taxpayers, bankruptcy procedure has been initiated in 2014. Registered receivables amount to BAM 12,41 million, out of which BAM 8,38 million were endorsed.

BAM 2,77 million have been collected in 2014 in reference to all initiated bankruptcy procedures.

In 2014, liquidation procedure has been initiated for 171 taxpayers. The amount of registered receivables was BAM 1,83 million, out of which BAM 1,75 million were endorsed.

In regards to all liquidation procedures (initiated in 2014 and prior to it), BAM 56.285 have been collected.

An analysis has been prepared in regards to all initiated bankruptcy procedures from 2002 until 31.12.2014. Out of the 1.264 cases in total, 993 have been completed, 27 have been suspended, and 244 are still in process. Out of 2.319 initiated liquidations, 1.859 have been completed, 352 have been suspended, and 108 are still in process.

In 2014, 64 previous procedures have been initiated in regards of opening the liquidation procedures, out of which 35 have been opened, two have been dismissed whilst the open liquidation procedures have been still in process for 27 taxpayers.

### **Write off of receivables on the grounds of bankruptcy, interest and statute of limitation**

Following completion of bankruptcy related court procedure, Tax Administration issues a decision document on irrecoverable tax arrears from the respective taxpayer, i.e. debtor.

232 decision documents were issued in 2014 on irrecoverable tax liabilities in connection with bankruptcy procedure, for the amount of BAM 120,09 million. In addition, 1.523 decision documents have been issued on irrecoverable tax liabilities based on statute of limitation, for the amount of BAM 953.238. 944 decision documents were issued based on interest write-off for the amount of BAM 10,96 million.

## V AUDIT, INVESTIGATION AND INTELLIGENCE

### 5.1. Field and Desk Audits

There were **4.394 audits in 2014**, at TARS level, out of which 172 pertain to large taxpayers.

In addition to reported, unpaid liabilities, inspectors assessed additional liabilities in the amount of **BAM 35,57 million**. For unpaid portion of liabilities, following audits inspectors have issued decision documents on payment of liabilities for the total amount of BAM 51,4 million (principal debt + interest). In reference to the said decision documents, 129 appeals have been filed.

BAM 8,7 million, i.e. 16,88% of total liabilities were paid within the voluntary period stated in the decision documents on payment, issued upon field audits. Additional BAM 4,4 million have been collected within the voluntary period as a result of completed audits.

Relative to 2013, there were 87 audits less, whereas the actual against plan ratio for 2014 regarding the number of audits is 115%.

Type of Audit	Number of Audits			Actual vs. Plan	Index 14/13
	Plan 2014	Actual 2014	Actual 2013		
Field Audits	1.823	1.692	1.956	93%	87
Desk Audits	2.009	2.702	2.525	134%	107
<b>TOTAL</b>	<b>3.832</b>	<b>4.394</b>	<b>4.481</b>	<b>115%</b>	<b>98</b>

According to the above-mentioned table, the actual against planned for 2014 has been exceeded with exception of the field audits due to May floods. Namely, inspectors were engaged with activities concerning disaster resilience in areas most affected by floods (property inventory, issuing data on sales via fiscal cash registers that were ruined). Moreover, the lower number of field audits was caused by the inspector staff turnover as well as the increased number of audits in reference to recording of sales via fiscal cash registers, engagement of inspectors in audits of deregistration of Taxpayer Identification Numbers, and in implementation of the Integrated Information System (IIS) etc.

In 2.781 audit cases, i.e. 63% of all cases, irregularities were identified pertaining to taxpayers' operations, whereas for 2.577 audits new liabilities were assessed in amount of BAM 35,6 million..

Following audits, Tax Administration's auditors have filed 317 minor offence reports for the total amount of BAM 625.427, due to irregularities identified in operations of audited taxpayers. In addition, 42 requests have been filed for initiation of minor offence procedure.

### 5.2. Fiscalization

1.272 initial fiscalization applications were filed in 2014, and RS Tax Administration issued 1.275 decision documents on fiscalization (one part of decision documents on fiscalization pertain to requests filed during the previous year).

Since the start of implementation of the Law on Fiscal Cash Registers until 31 December 2014, **TARS issued 47.897 decision documents on taxpayer fiscalization**, whereas 47.902 initial fiscalization applications were filed.

In 2014, inspectors have conducted **17.950 fiscalization related controls**. This figure also pertains to other activities in connection with fiscalization, such as module replacement, defiscalization, terminal replacement, change of address of sales outlets, and such like.

Actual against planned in the segment of fiscalization controls is 137%, with 9% increase relative to 2013.

In addition, **2.916 inspections were conducted in reference to recording of sales via fiscal cash registers**, wherefrom plan realization level is 97%. Inspectors are controlling sales registration using fiscal cash registers, software and fiscal seals in the cash register and the terminal, transfer of data via terminal, and control of the software. Noteworthy, the inspectors are also controlling the application of the Decree on Terms and Method of Cash Payment.

In reference to inspection of recording of sales via fiscal cash registers in 2014, 1.562 minor offence reports were issued for the amount of BAM 1.029.100, out of which BAM 164.303 have been collected in pursuance of 309 reports. 22 requests were filed to initiate minor offence proceedings, and 31 taxpayers were temporarily banned to conduct business.

**2014 Fiscalization Audit Plan Figures**

Type of Control	Number of Controls			Actual vs. Plan	Index 14/13
	2014 Plan	2014 Actual	2013 Actual		
Cash register fiscalization	13.090	17.950	16.414	137	109
Inspections of recording of sales via fiscal cash registers	3.003	2.916	3.366	97	87
<b>TOTAL</b>	<b>16.093</b>	<b>20.866</b>	<b>19.780</b>	<b>130</b>	<b>105</b>

### 5.3. Investigations and Intelligence

Throughout 2014, inspectors-investigators forwarded 25 reports to the competent Prosecutor's Office:

- 6 reports were filed due to reasonable doubt of criminal offense being perpetrated in regards to abuse of office (Article 263 of the RS Criminal Code),
- 11 reports in connection to reasonable doubt of criminal offense being perpetrated in regards to irregular allocation of funds in legal entity (Article 292 of the RS Criminal Code),
- 3 reports in connection to reasonable doubt of criminal offense being perpetrated in regards to tax and contributions evasion (Article 287, Paragraph 3 of the RS Criminal Code),
- 3 reports in connection to reasonable doubt of criminal offence being perpetrated in regards of misuse of official position or authorization (Article 347 of RS Criminal Code),
- 1 report in connection to reasonable doubt of criminal offense being perpetrated in regards to violation of basic workers rights (Article 226 of the RS Criminal Code), and
- One report in connection to reasonable doubt of criminal offense being perpetrated in regards to forgery (Article 263 of the RS Criminal Code),

with total loss to the RS Budget in the amount of BAM 4.249.854,04.

121 consultation meetings were held with competent Prosecutor's Offices where instructions have been provided in regards to further actions in connection with the requests of the Prosecutors.

146 depositions related to audit findings were taken from suspects and witnesses in the process of audit in companies and in line with the order of the Prosecutor's Office; namely 108 depositions pursuant to the provisions of the Administrative Proceedings Law and 38 depositions pursuant to the Criminal Proceedings Code. In afore mentioned inspections, BAM 855.921,64 were assessed in tax liabilities.

Special investigation activities were aimed to identify hidden income using cash payments to employees, cash deficits, loans to companies, loans disbursed to employees instead of salary payments, unrealistic expenditures, all for the purpose of avoiding taxes.

#### 5.4. Minor Offense Procedure

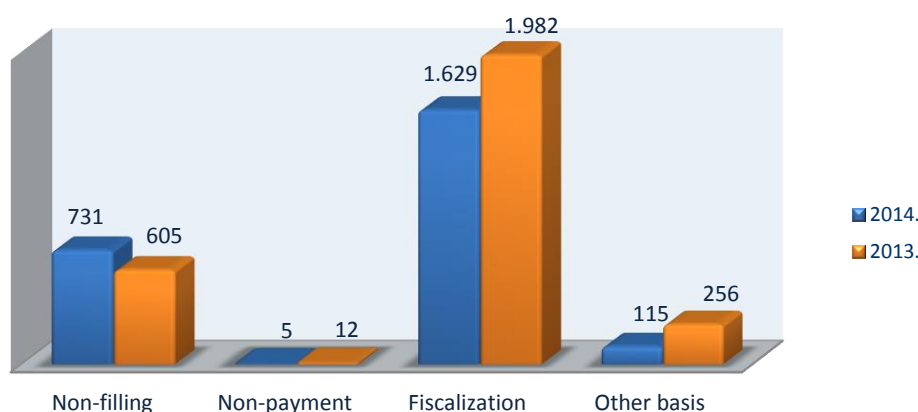
**2.480 minor offense reports were issued in 2014** in reference to all procedures arising from the RS Law on Tax Procedure and other laws regulating minor offense sanctions enforced by TARS, **with penalties stated in the amount of BAM 2,06 million**. Out of that number 659 reports were approved, with BAM 245.912 collected respectively (BAM 230.312 within legal deadline and BAM 15.600 through enforced collection). 67 requests have been filed for initiating minor offence procedure.

The most of minor offence reports were issued in regards to breach of regulations on fiscal cash registers. 1.629 minor offence reports were issued due to non-filing with total fines, and 731 minor offence reports.

Relative to 2013, the number of minor offence reports was lower by 375, with decrease in collection by BAM 39.830.

Out of the total number of issued reports, 984 are still in process (for the amount of fines of BAM 845.303), i.e. voluntary payment period extends beyond 31 December 2014.

**Number of minor reports issued in 2014/2013**



## **VI INTERNAL CONTROL AND AUDIT**

Internal Control and Audit Department performed 52 controls in 2014:

- 13 controls in TARS Head Office,
- 24 controls in regional centers, and
- 15 controls in local offices.

Upon the conducted controls, 28 internal control findings-reports were issued as well as 2 reports. Out of 28 findings, In 15 cases irregularities were identified.

Irregularities have been solved mostly and directly upon conducted internal control. In 2015, TARS will continue with the exclusion of the evident irregularities related to the work of the employees, whereas the internal control will be working continually on discovering of the eventual and illegal activities of employees within Tax Administration.

In 2014, the Common Affairs Sector initiated three and completed four disciplinary procedures. Based on the procedure dated from 2013, a decision was made on exoneration of disciplinary accountability. Out of the all procedures in 2014, there is one case with fine for two months and 20% salary deduction, one case with fine for three months and 20% salary deduction (the procedure led without the order of internal control) and one conclusion on suspension of disciplinary accountability due to statute of limitation.

Actual against planned ratio for internal controls in 2014 is 158%, with 6 internal controls more than in 2013.

## VII INTERNATIONAL AND REGIONAL COOPERATION

### Cooperation with the Intra-European Organization of Tax Administrations (IOTA)

The following activities were realized in line with the agreed plan of cooperation with IOTA in 2014:

- Two principal contact persons forums;
- Two area group – debt management workshops;
- Four workshops: „Enhancing e-Services as a Strategic Goal of Tax Administration“, „Contact Centres“, „Use of Social Media and Mobile Communication Solutions by Tax Administrations“ and „Strategies to Transform Ageing IT Systems“;
- 18<sup>th</sup> General Assembly.

### International Monetary Fund (IMF)

Regular mission of the Fiscal Affairs Department within IMF for BiH was held during the period from 7 to 24 April 2014. TARS prepared and submitted the requested data in accordance with the IMF model for Revenue Administration Fiscal Information Tool (RA-FIT). In addition, a workshop titled „Sovereign Liability and Risk Management “ was held for the representatives of TARS, Indirect Taxation Authority of Bosnia and Herzegovina, and Tax Administration of Brcko District.

At the beginning of June, Fiscal Affairs Department within IMF (FAD) announced the additional mission titled „Improvement and Coordination of Taxpayers' Disciplinary Management“ for the period from 16 July to 5 August 2014. Based on the common opinion of both, the Ministry of Finance of Republic of Srpska as well as TARS, the goal of the above mentioned mission i.e. „Considering the Improvement on the Implementation of Centralized Application for Risk Management within the Memorandum on the Institutional Cooperation and Data Exchange among Tax Administrations“, has overstepped its bounds by imposing „centralized“ and for TARS unacceptable solution in connection with the risk evaluation and data exchange among the tax administrations in Bosnia and Herzegovina. TARS representatives decided to seclude themselves from the work of this mission.

### World Bank

The representatives of the World Bank visited TARS in period from 2 to 9 April 2014 in connection with the draft report PEFA (Public Expenditure and Financial Accountability for Bosnia and Herzegovina). The main topic was related to the discussion pointing comments and remarks on submitted draft report as well as defining further steps for improvement of financial management within institutions of Bosnia and Herzegovina, Federation BiH and Brcko District.

### Other

The TARS representatives attended the training course titled „Market Value-Based Taxation of Real Property“, organized by the **Center of Excellence in Finance (CEF)** in Ljubljana. Also, TARS representatives attended the Conference for Heads of Tax Administrations in Southeast Europe with

the main object to discuss strategies and methods to manage taxpayer compliance by high-wealth-individuals (HWI).

At the end of May, the RS Ministry of Finance delivered the notification claiming that European Commission initiated the preparation of IPA 2014 state program for Bosnia and Herzegovina, whereas one of the key priority is related to the support for BiH assistance in EU programs named „Instrument in support of EU integrations and assistance to EU programs“. Therefore, for the next period 2014-2020, BiH has an open possibility to participate in programme „**Fiscalis 2020**“.

The programme „Fiscalis 2020“ should support with its most part the cooperation between tax institutions and, if possible, other interested parties. The support should be realized via networking, human resource development, and IT capacity. Furthermore, it should be realized by the exchange of good practices and operative knowledge between the member countries and countries participating in educational programme, by participating in conferences, and similar. Also, there would be funds for the adequate infrastructure and systems that grant tax administrations within EU to develop into completely functional administrations based on E-Commerce.

In October 2014, acting upon the request of the RS Ministry of Finance, TARS delivered the official notice related to the initiative for the programme „Fiscalis 2020“. TARS stated backing the intention for creating of the team for support and coordination in relevant institutions as the action that would ensure for all BiH tax jurisdictions to be equal while involved in EU Programme „Fiscalis 2020“.



## VIII OTHER ACTIVITIES

### 8.1. Information Technologies

In addition to activities primarily related to the implementation of the Integrated Information System (IIS), in this period we have worked on other tasks which are not in direct relation with Project implementation. In that sense, the most significant activity was to provide IT support to Central Tax Documentation Processing Sector for the initial balance creation along with creation of report for the RS Ministry of Finance on issuing and settlement of tax receivables, pursuant to the Rulebook on Tax Accounting ("Official Gazette of RS", no. 47/12). Moreover, we worked partially on the Project named "A One-Stop Customer Service Counter System"

With regard to the reporting system, 73 reports were modified and 25 new reports were created. Out of the external users, the most active were fiscal cash registers repair services (70.875 activations), and RS Ministry of Finance as part of public administration (app. 4.000 activations).

In addition, numerous activities have been conducted in connection with the development and maintenance of the system and the communication infrastructure.

In February and March 2014, the increased number of taxpayers' phone calls was registered pertaining to the software application PPO for e-filing of tax return form 1002 (withholding tax) due to the changes of the Personal Income Tax Law that went into force on 2 February 2014, and consequently changed the very same software application PPO.

Moreover, the activities pertaining to preparation of documents and user manuals were implemented as well as the activities related to development and maintenance of tax returns (tax return form 1002, PPO/PPO\_PU/PPO\_SJ). Also, modification have been made to software applications concerning processing the other tax reports and tax bills for real estate (PP/PP\_KV), KOR orders and other.

One of the most significant roles of IT Sector is to ensure the safety of information and communication technology (ICT).

### 8.2. Implementation of the Integrated Information System (IIS)

In 2014, the activities related to the implementation of the first ASAP phase were continued. According to the Project and Activity Plan, the following activities were implemented:

Upon the completion of installment and testing of functionality that ensure the integration of module CRM- Control and CRM-Enforced collection with PSCD-tax accounting whereto the previous integrated tests were not successful, the first integrated test was performed again on 24 April 2014. The first integrated test was successful, considering the technical system functioning as well as the planned integrity functioning. In this regard, at the session that was held on 8 May 2014, the Supervisory Board verified the ninth checkpoint: „Verification of the First Integrated Test Results“.

At the end of April last year, TARS project team representatives organized the initial training of the final users that were appointed to represent the regional centers with the basic objective to enable the final users to test independently the implemented functionalities. The Document titled „Plan on Training of the Preferential Final Users“ was adopted. The following training courses of the preferential

final users were performed until the end of 2014: training with the project team for TRM module, team for master data, and team for official documents management. Moreover, the training was performed continually with the team for PSCD module whereas the largest number of functionalities was set for testing. The trainings of the preferential final users would be final upon the completion of test environment within the system.

The training course for IT key users was held at the end of 2014, pertaining to the output forms and the first part of training for the programming language AVAR.

While working towards the better quantity and quality of testing, the members of the TARS Collegium approved the document titled „Testing Organization“ that was later on adopted at the session of Supervisory Board.

Data migration is of the crucial and strategic importance for further work on the Project, especially migration of the master data, open items, closed items, administrative procedures, official documents management, and personnel files. The migration of the above mentioned data is the condition for test quality of all migration items.

Some individual tests within the modul were performed during last year. The 2<sup>nd</sup> Integrated Test is to be performed as soon as the conditions are fulfilled for testing of all project teams on test system.

During the 19<sup>th</sup> Session of Supervising Board that was held on 24 December 2014, changes and amendments of the Draft Project and Plan Project were adopted. By the changes of Plan Project, the deadline of completion for the 1<sup>st</sup> functional phase was rescheduled from 21 December 2014 to 30 June 2015, whilst the post-implementation support as 5<sup>th</sup> ASAP phase is planned for the period from 1 July 2015 to 31 August 2015.

Implementation of 2<sup>nd</sup> functional phase is planned for the period from 7 July 2015 to 29 February 2016, whereas 3<sup>rd</sup> functional phase is planned for the period from 1 March 2016 to 31 July 2016.

### **8.3. Unified System for Registration, Control, and Collection of Contributions**

The most significant activity in relation to Unified System for Registration, Control, and Collection of Contributions was signing the Protocol on Intra-Institutional Cooperation within Unified System for Registration, Control, and Collection of Contributions (USC) between RS Tax Administration and Social Insurance Funds.

The basic objective of this Protocol is to improve the mutual cooperation and coordination between signatory institutions in order to provide as much as possible of the service qualities to the citizens for acquiring the social rights. The Protocol defines the procedures for better resolving of eventual and disputable situations in cases where the citizens suffer due to mutual uncoordination of institutions.

In addition to the regular activities within USC, TARS representatives had numerous meetings with social insurance funds during the last year in connection with solving the issues related to the system functioning. Therefore, the Ministry of Agriculture, Forestry and Water Management initiated the issue related to the status of farmers and their contribution payments that resulted the array of meetings with Ministry of Finance, Ministry of Health and Social Security, Health Insurance Fund, RS Tax Administration, and occasionally with Pension and Disability Insurance Fund. The main topic was related to the establishment of the register for farmers as the most important condition for sustainable

and effective system for contribution collection. Also, the representatives discussed the situation when the register was in preparation phase for its establishing.

During the last meeting in 2014, it was stated that the contribution collection from farmers was not satisfactory. Therefore, Ministry of Agriculture, Forestry and Water Management prepared and delivered the Information to RS Government regarding this issue. It is to be expected the initiation of certain activities for long-term resolving of this matter.

Aside from the constant communication via email and telephone, the TARS representatives had four coordination meetings with RS Pension and Disability Insurance Fund concerning USC. 629 ex officio registrations were performed and 199 more requests were solved in some other ways. The initiative was proposed to IT Sector for creating the application on admission of such requests for registration and further processing.

Moreover, there were intense contacts with all funds related to the reporting in line with the Rulebook on tax accounting.

## CONCLUSION

Taking into consideration all of the problems that TARS is facing with in its work, and the general economic situation, particularly after May floods that affected Republic of Srpska, we can be satisfied with the results achieved in 2014.

Primarily, we would like to emphasize that **we have collected BAM 2,136 billion public revenues** in 2014 that is BAM 78,7 million more comparing to the previous year and out of which BAM 1,389 billion pertains to social contributions funds or 65% of all collected public revenues within TARS.

During 2014, RS Tax Administration invested a lot of effort in collection of contribution. We would like to emphasize that beside the law changes on lower gross base for calculation of contribution by imposing the nontaxable part of income, the collection of contribution have been increased with the amount of BAM 77,98 million or 6% more comparing to the previous year. The needs of social insurance funds are definitely higher but we may state confidently that TARS has been engaging the maximum of all its material and human resources for the collection of contribution. Although the Main Service for the Audit of the public sector of RS gave the remark in its report on performance audit titled "Contribution Collection Management" stating the open possibility for further improvement in contribution collection, we shared the opinion that the significant improvement of contribution collection might not be achieved without increased employment rate.

Special challenge for RS Tax Administration was after May floods in the direction of providing the assistance to taxpayers who were directly affected by floods as well as to ensure the tax disciplinary with the taxpayers who did not sustain the direct damage. Therefore, we paid special attention to the field audits, regular collection activities, and control of fiscal receipts.

Activities concerning the regular collection have been escalated by issuing the decisions/warnings since the same measures ensure the significant results in collection of reported and unpaid liabilities. In 2014, 49.750 decisions/warnings were issued and BAM 69,77 million were paid by the deadline.

2.916 inspections were conducted in reference to recording of sales via fiscal cash registers, whereas 1.562 minor offence reports were issued for the amount of BAM 1,03 million. 22 requests were filed to initiate minor offense proceedings, and 31 taxpayers were temporarily banned to conduct business.

TARS have been continually working on updating of tax records. Payments and liabilities have been reassessed and linked, conditions have been set up for automated closure of open items from earlier periods, as well as for posting of the opening balances, automated settlement of liabilities with overpayments within the same category of revenues, and automated matching of payments.

The reports have been issued based on the Unique Records on Reported and Paid Taxes, and in accordance with the Rulebook on RS Tax Accounting System ("Official Gazette of RS", no. 47/12) have been further passed on to the RS Ministry of Finance and final users.

Activities concerning implementation of the integrated information system continued throughout 2014, aiming to enable efficient public revenues administration in RS. This Project is of primarily significance for TARS and currently is implemented via its 1<sup>st</sup> functional phase. The RS Tax Administration makes the maximum effort pertaining to the reorganization and rationalization of work

in order to ensure the engagement of employees with the IIS project so the same would be able to act upon their daily duties and with no additional payments provided.

TARS has been continually posting on its web page the list of tax debtors, audit plans and results, reports on collection of public revenues, as well as data on (de)registered taxpayers, which makes it the most transparent tax body in Bosnia and Herzegovina and region.

In 2014, intensive cooperation was continued with local communities with regards to the Memorandum on Cooperation in connection with data exchange between TARS and Association of municipalities and cities. Moreover, our cooperation with the Social Insurance Funds was continued and as the result, in June 2014, we signed the Protocol on Intra-Institutional Cooperation within Unified System for Registration, Control, and Collection of Contributions (USC). The main objective was to provide the most service qualities to the citizens for acquiring their social rights.

We shall continue towards implementation of all tasks and objectives ahead of including building the public trust in the tax system through full transparency of our work.

*Banja Luka, January 2015*  
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*Zora Vidović*

