



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

2016 REPORT

Banja Luka, January 2016

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I TAX COLLECTION MANAGEMENT

The Tax Administration exists and operates in a rather changing and complex environment that requires constant flexibility and ability to quickly adapt to changes.

Taking into account the general situation in the economy, a particular challenge for the Tax Administration was as well how to preserve fiscal discipline of taxpayers, especially those that were affected by the decline in economic activity. Situation like this required Tax Administration to have greater degree of caution and proactive action in terms of identifying cases of non-fulfillment of tax obligations, as well as the design of interventions and measures to assist in detection and prevention of such behavior. The Tax Administration has also made effort in such circumstances and was successful in increasing the efficiency of revenue collection, thus in the previous years we record increased public revenues collected. The reason of such results, among other things, are the measures taken with the aim of combating gray economy and activities related to control of taxpayers, as well as commitment of employees in the Tax Administration.

1.1. Collection of Public Revenues

The Tax Administration of Republic of Srpska collected **public revenues in the total amount of BAM 2,164 billion** during 2016. In addition to collection via public revenue accounts, the total amount above includes BAM 11,7 million based on the contributions for Solidarity Fund and BAM 2.827.990 million collected in RS internal debt bonds.

#	TYPE OF REVENUE	Budget	Realized (R)		R/A	16/15	Difference (2016-2015)
		Amendments (A)	2016	2015			
1.	Direct Taxes	469.000.000	434.275.107	409.320.838	93%	106	24.954.269
2.	Contributions	1.486.500.000	1.375.504.125	1.387.117.962	93%	99	-11.613.837
3.	Other Public Revenues	370.000.000	350.647.524	336.611.686	95%	104	14.035.838
4.	Past Due Liabilities in Indirect Taxes	5.000.000	4.021.794	32.815.888	80%	12	-28.794.094
TOTAL PUBLIC REVENUES MANAGED BY TARS		2.330.500.000	2.164.448.551	2.165.866.374	93%	100	-1.417.823

The level of realization of the 2016 collection plan is 93%, whereas relative to 2015 actuals the collection of public revenues have been approximately the same.

Revenues collected in connection with **direct taxes** are 6% higher relative to the last year, i.e. **BAM 434,3 million** or BAM 25 million higher. The highest percentage growth rateing regards to collected direct taxes is noted for **corporate income tax** in amount of **BAM 181,4 million** or 25% higher, which is BAM 36,4 million higher relative to the last year.

Collection of revenues pertaining the personal income tax is **BAM 216,1 million** or 4% lower i.e. BAM 8 million lower than in the last year. The lower collection of personal income tax is a result of amendments to the Law on Personal Income Tax that came into effect in September 2015, pertaining the abolishment of dividend taxation and share in profits of legal entities and deduction of tax base on grounds of paid life insurance premium.

Tax on the use, holding and bearing of goods was collected in the amount of **BAM 13.9 million BAM**. Legal solution was modified for these revenues, which provides that the tax on the use of motor vehicles, as well as the tax on the possession and carrying weapons is reduced and returned to the level prior to the changes in 2014, and this led to smaller collection of this type of revenues compared to 2015, by 19% or BAM 3,2 million.

Collection of revenues from **taxes on real estates** is **BAM 22.8 million**, which, compared to the last year, is lower by 1% or less for BAM 230 thousand, since there are three municipalities which did not submit necessary information for the issuance of tax bills for 2016 (Srbac, Gradiska and Trnovo), the Tax Administration was unable to print and deliver tax bills to taxpayers within the statutory time limit. If we consider that in 2015 the total of these three municipalities collected more than BAM 900 thousand, we can conclude that the collection of real estate taxes is higher than in 2015. Additionally, for real estates that directly deals with production lower tax rate of up to 0.10% of the estimated real estate market value was introduced, which also affects the collection of this kind of revenue.

In regards to the **other public revenues** category, the collection has been **BAM 350.6 million**, which, compared to the last year, is higher by 4% or BAM 14 million. Fees and charges are higher by 5% relative to the previous year i.e. BAM 10.6 million. Higher revenue collection on the ground of fees and charges was mainly influenced by higher collection of revenues on the basis of road fees, which is paid at an annual registration of motor vehicles.

Collection of revenues from **organization of games of chance** is **BAM 22.5 million**, which, compared to the last year, is 13% higher i.e. BAM 2.5 million.

Moreover, the collection of other revenues is **BAM 49 million** or 20% higher relative to the previous year i.e. higher by BAM 8 million. The higher collection of these revenues was mainly influenced by higher revenue collection based on income from dividends and share in profits of public companies and financial institutions.

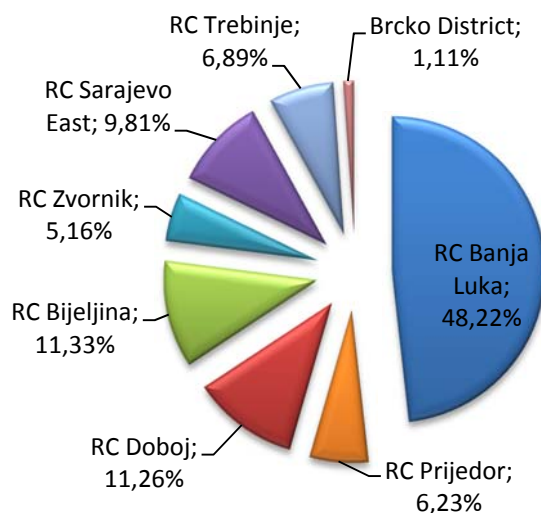
BAM 44,2 million was collected when it comes to **the revenues on the basis of concession fees**, which is BAM 7,6 million less than in the previous year i.e. 15% lower. Namely, with the entry into force of the Law on Amendments to the Law on fees for use of natural resources for production of electricity the amounts of fees for use of natural resources for the production of electricity and payment method were reduced, that is, returned to the level before the floods, which resulted in lower collection of this type of income.

In 2016, **collection of revenues pertaining the social insurance funds** is **BAM 1,376 billion**. More words about this issue will be mentioned in next Chapter.

A smaller collection is recorded pertaining **past due liabilities in indirect taxes** - compared to the previous year, BAM 28,8 million less was collected. This difference is related to the payment of "Oil Refinery" j.s.c. Brod on the basis of prepaid re-installment of the rescheduling in 2015.

Better collection results relative to 2015 have been achieved in almost all RS Tax Administration Regional Centers. An overall rate of increase in collection level for regional centers ranges from 87% (RC Doboje and RC Bijeljina) to 97% (RC Banja Luka).

TARS Regional Center's share in 2016 collection results



Moreover, the amount of BAM 24,05 million of contributions for pension and disability insurance has been collected for those contribution payers who are employed in the Brcko District and whose place of residence is in Brcko District and they are registered in the Unified System for Registration, Control, and Collection of Contributions of Republic of Srpska.

Social Insurance Funds' Revenue

The Tax Administration of the Republic of Srpska is particularly attentive to the collection of contributions. Total collected **revenues from social insurance funds** in 2016 are **BAM 1,376 billion** and shows that the actual against planned rate for collection is 7% lower. Relative to the previous year's collection, the revenues have been decreased in amount of **BAM 11,6 million**.

Increased collection has been noted pertaining pension and disability funds (collected BAM 757,2 million, which is BAM 3,8 million higher relative to the previous year) and child protection (collected BAM 56,9 million, which is BAM 420 thousands higher relative to the previous year).

FUND	Plan 2016	Actual 2016	Actual 2015	Actual vs. Plan	Index 16/15
Pension and Disability	800.000.000	757.183.714	754.405.877	95%	100
Health	580.000.000	518.776.871	539.042.865	89%	96
Child Protection	60.000.000	56.860.047	56.481.313	95%	101
Employment	42.000.000	38.373.950	38.325.659	91%	100
Employment of Disabled Persons	4.500.000	4.309.543	4.102.558	96%	105
TOTAL	1.486.500.000	1.375.504.125	1.387.117.962	93%	99

The table above shows that the actual against planned rate for collection of contributions for 2016 is 93%.

1.2. Debt Balance

According to the official records of the Tax Administration of the Republic of Srpska, the amount of due and outstanding debt on the day of 31 December 2016 was BAM 1,184 billion, out of which BAM 388 million relates to the debt by taxpayers who are under bankruptcy and liquidation.

All of the remaining outstanding debt is in the process of enforcement, that is, the process of regular collection, except for the debt by health institutions which is BAM 99.95 million, and in accordance with the Resolution of the Government of the Republic of Srpska from 14 July 2016, and where the Tax Administration of the Republic of Srpska has not initiated procedures for forced collection.

The amount of due and outstanding debt on the day of 31 December 2015 was BAM 1,259 billion.

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 40 decision documents in 2016 for payment of debt by bonds, for the total amount of BAM 2,83 million.** The decision documents have been forwarded to TARS regional centers for further action.

1.3. Decision Documents/Notices on Payment Liabilities

According to the new 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.

During 2016, 126.727 notices have been issued in regards to filing or payment of due liabilities for the amount of liabilities of BAM 445,52 million. Taxpayers paid BAM 116,96 million within the permitted period i.e. 26 % relative to the total amount of due liabilities included by issued notices.

Relative to 2015, 122% more decision documents/notices have been issued in 2016, with BAM 36,29 million more collected within voluntary period. The actual against planned rate for decision documents/notices on payment is 116%. The above mentioned good achievements within this part of TARS activities are resulted from the automatic issuance of notices available through the implementation of a new information system.

	Plan 2016	Actual 2016	Actual 2015	Actual/Plan	Index 16/15
Number of decision documents/notes	59.000	127.250	57.196	216%	222
Collected within the period	51.533.924	117.068.502	80.780.660	227%	145

1.4. Enforced Collection Procedure

44.926 enforced collections were initiated in 2016 pertaining to debt amount of BAM 130,16 million. Out of that amount, BAM 45,76 million were collected in enforced collection, whereas BAM 15,24 million were collected in relation to decision documents from the preceding period.

	Plan 2016	Actual 2016	Actual 2015	Actual/Plan	Index 16/15
Number of Procedures	53.100	44.926	54.818	85%	82
Debt, as per EC decision documents (BAM)	96.487.000	130.164.360	127.091.424	135%	102
Collected (BAM)	34.043.000	67.075.898	55.290.841	197%	121

Relative to 2015, the number of initiated enforced collections was lower by 9.892, but the amount of liabilities collected in these procedures was higher by BAM 11,78 million.

Relative to plan, there were 8.174 less enforced collection cases initiated, i.e. 15% below the plan, whereas the collection was 97% higher against the plan.

Minor offense reports and court decision documents take up the largest share in the structure of EC cases initiated in 2016, namely 48%, whereas decision documents ordering payment of reported liabilities make 31%. Furthermore, the significant part belongs to decision documents related to the real estate tax that make 16% of all EC initiated in 2016.

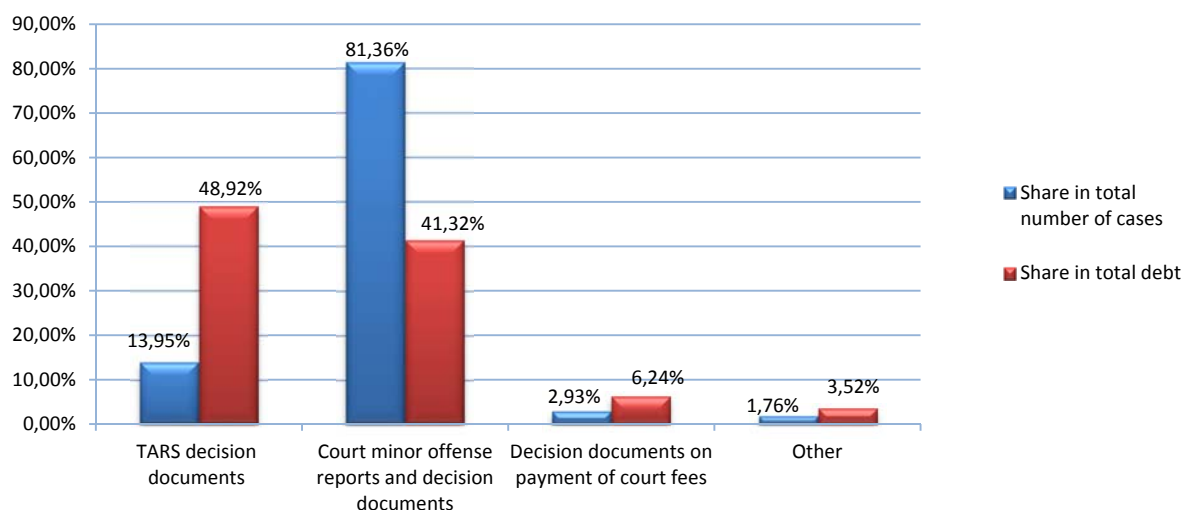
266 proposals were filed to competent court/Republic Administration for Geodetic and Property Affairs for registration of mortgage over tax debtors' real estate for the amount of BAM 11,28 million and 120 requests for cancellation of mortgage for the amount of BAM 13,64 million.

244 mortgages have been registered in 2016 in reference to BAM 11,09 million in liabilities. In addition, 61 decision documents have been issued on mortgage cancellation rejection for the amount of BAM 7,12 million, and 19 decision documents on mortgage rejection in reference to BAM 166.364 in liabilities.

Total of 50 proposals at the level of TARS was submitted to the Court for Initiation of Enforced Collection Procedure on the property of taxpayers for the amount of BAM 5,7 million in liabilities.

Total number of uninitiated EC procedures, as of 31 December 2016, was 70.369 in regards to debt amounting to BAM 22,35 million. Compared to the balance as of 31.12.2015. the number of uninitiated EC procedures was higher by 8.095. It should be noted that within the structure of uninitiated EC procedures, 81% of cases were related to misdemeanor orders and decisions delivered by the courts.

Structure of uninitiated EC cases as of 31/12/2016



**Other: Municipal inspection decision documents, TARS and PRARS minor offense decision documents, TARS minor offense warrants and enforcement costs.*

1.5. Agreements/Decision Documents on Extended Payment of Tax Liabilities

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, 31/14 and 44/16), the Law on Special Modalities for Tax Debt Servicing ("Official Gazette of RS", no. 66/13, and 52/14), and the Law on Deferred Payment of Tax Debt ("Official Gazette of RS", no. 94/15), **the RS Ministry of Finance issued 143 decisions documents on deferred payment of tax liabilities, namely for the amount of BAM 204,82 million.**

During 2016, BAM 15,62 million have been collected in connection with the above said decision documents, whereas **past due liabilities amount to BAM 11,56 million.**

In addition, RS Ministry of Finance issued and TARS received 46 decision documents abolishing the previously issued deferred payment decision documents pertaining to the amount of debt of BAM 16,94 million, due to taxpayers' failure to adhere to the given terms and deadlines, or a taxpayer filed the request by himself pertaining the abolishment of deferred payment. Moreover, the bankruptcy procedure was initiated in two cases, whilst one decision was annulled.

Moreover, 7 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 25,28 million, are not valid any more by cause of overdue payment. Enforced collection measures were initiated for those liabilities.

In the same period, TARS received from the RS Ministry of Finance 149 conclusions/decision documents dismissing/denying taxpayers' applications for deferred payment in connection with BAM 45,79 million in debt.

Moreover, 24 agreements were brought in regard of suspended procedure upon the request for the extension of deadline in connection with BAM 105,15 million in debt.

Relative to the previous year, collection pertaining to the respective RS Ministry of Finance decision documents decreased by 3%, with actual against planned ratio of 75%.

Agreements on Debt Reschedule in Line with RS Government Decisions

In 2016 apart from the decision of RS Ministry of Finance on deferred payment, **BAM 8,1 million were paid in rescheduled debt accordingly to decision of RS Government**, out of which BAM 703.571 were collected from due reschedule installments, BAM 2,78 million from RS internal debt bonds, and BAM 4,61 million through multilateral compensation system.

Due and unpaid rescheduled liabilities amounted to BAM 28,85 million, whereas outstanding debt for all reschedules signed accordingly to decisions of RS Government was BAM 114,22 million.

2016 plan pertaining to collection of rescheduled debt was fulfilled at the rate of 38%, and in comparison to the last year collection was BAM 38.2 million lower for rescheduled liabilities. The reason of low plan implementation percentage as well as less collected rescheduled liabilities in relation to the same period of previous year is mostly due to the advanced payment installments of rescheduled liabilities of the taxpayer "Oil Refinery" j.s.c. Brod in 2015.

Due to disobedience of the conditions prescribed by the agreement, RS Tax Administration cancelled 2 agreements in 2016 accounting for BAM 123.021,69 in tax liability and undertook enforcement collection measures in accordance with the Law on Tax Procedure of RS.

TARS Agreements/Decision Documents on Deferred Payment

Accordingly to the Law on Special Modalities for Tax Debt Servicing ("Official Gazette of RS", no. 66/13 and 52/14) and the Law on Deferred Payment of Tax Debt ("Official Gazette of RS", no. 94/15), **the RS Tax Administration issued 118 decisions documents on deferred payment of tax liabilities, namely for the amount of BAM 1.473.399**. At the same time, 129 of the said decision documents have been abolished for the amount of debt of BAM 1.701.162.

Please note in regard to the conditions and manners prescribed by the Law on Deferred Payment of Tax Debt, the director of Tax Administration shall decide to issue a decision upon the request for postponement of payment of the tax debt not exceeding BAM 30,000 KM.

In pursuance to 476 agreements/decision documents on deferred payment of liabilities (including the one from the preceding period) BAM 1,28million have been collected in 2016. In connection with the said agreements/decision documents BAM 323.804 are past due.

The remaining debt in connection with all signed agreements/decision documents on deferred payment is BAM 2,26 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 15% higher, whereas actual against plan ratio, for all agreements/decision documents, is 101%.

1.6. Specific Procedures

Bankruptcy and Liquidation

For 110 taxpayers, bankruptcy procedure has been initiated in 2016. Registered receivables amount to BAM 21,22 million, out of which BAM 8,17 million were endorsed. BAM 1,68 million have been collected in reference to all initiated bankruptcy procedures.

In 2016, liquidation procedure has been initiated for 225 taxpayers. The amount of registered receivables was BAM 17,24 million, out of which BAM 937.620 were endorsed. The amount of BAM 32.153 was collected in regard of initiated liquidation procedures.

An analysis has been prepared in regards to all initiated bankruptcy procedures from 2002 until 31.12.2016. Out of the 1.524 cases in total, 1.280 have been completed and 28 have been suspended. **Out of all initiated bankruptcy procedures involving TARS as a creditor, 216 procedures have been still in process.**

Out of 2.833 initiated liquidations, 2.120 have been completed, 469 have been suspended, and 244 are still in process.

In 2016, 72 previous procedures have been initiated in regards of opening the liquidation procedures pertaining to debt amount of BAM 9,7 million.

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. Based upon that, 82 decision documents were issued in 2016 on irrecoverable tax liabilities in connection to debt amount of BAM 106,47 million.

Accordingly to RS Tax Procedure Law ("Official Gazette of RS", no. 102/11, 108/11, 67/13, 31/14 and 44/16), 2.161 decision documents have been issued on irrecoverable tax liabilities based on statute of limitation, for the amount of BAM 809.468.

II AUDIT, INVESTIGATION AND INTELLIGENCE

2.1. Field and Desk Audits

There were **3.299 audits in 2016**, at TARS level, out of which 179 pertain to large taxpayers.

In addition to reported, unpaid liabilities, inspectors assessed additional liabilities in the amount of **BAM 26,19 million**. For unpaid portion of liabilities, following audits inspectors have issued decision documents on payment of liabilities for the total amount of BAM 36,97 million (principal debt + interest), whilst 105 appeals have been filed to the said decision documents, including the appeals to the inspectors' decisions made in previous period.

BAM 5,30 million, i.e. 14% of total liabilities were paid within the voluntary period stated in the decision documents on payment. Additional BAM 2,61million was collected within the voluntary period as a result of completed audits.

Relative to the previous year, there was 15% of audits less, whereas the actual against plan ratio for 2016 regarding the number of audits is 95%.

#	Type of Audit	Number of Audits			Actual vs. Plan	Index 16/15
		Plan 2016	Actual 2016	Actual 2015		
	Field Audits	1.476	1.438	1.752	97%	82
	Desk Audits	1.989	1.861	2.131	94%	87
	TOTAL	3.465	3.299	3.883	95%	85

In 2.106 audit cases, i.e. 64% of all cases, irregularities were identified pertaining to taxpayers' operations, whereas for 1.998 audits new liabilities were assessed.

Following audits, Tax Administration's auditors have filed 280 minor offence reports for the total amount of BAM 690.293, due to irregularities identified in operations of audited taxpayers. In addition, 42 requests have been filed for initiation of minor offence procedure.

2.2. Fiscalization

1.492 initial fiscalization applications were filed in 2016, and RS Tax Administration issued 1.490 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 i.e. from 2008 until 31 December 2016, **TARS issued 50.012 decision documents on taxpayer fiscalization**, whereas 50.021 initial fiscalization applications were filed.

Inspectors have conducted 10.172 fiscalization related controls. This figure also pertains to other activities in connection with fiscalization, such as module replacement, de-fiscalization, terminal replacement, change of address of sales outlets, and such like.

Actual against planned in the segment of fiscalization controls is 80%, with 16% decrease relative to 2015.

4.311 inspections were conducted in reference to recording of sales via fiscal cash registers, wherefrom plan realization level is 137% with 89% increase relative to 2015. 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 2016, 1.739 minor offence reports were issued for the amount of BAM 1.176.375, out of which BAM 319.289 have been collected in pursuance of 799 reports. 108 requests were filed to initiate minor offense proceedings, and **544 taxpayers were temporarily banned to conduct business**.

2016 Fiscalization Audit Plan Figures

#	Type of Control	Number of Controls			Actual vs. Plan	Index 16/15
		Plan 2016	Actual 2016	Actual 2015		
	Cash register fiscalization	12.660	10.172	12.109	80%	84
	Inspections of recording of sales via fiscal cash registers	3.157	4.311	2.283	137%	189
	TOTAL (1+2)	15.817	14.483	14.392	92%	101

2.3. Investigations and Intelligence

Throughout 2016, inspectors-investigators forwarded **31 reports to the competent Prosecutor's Office with total damage inflicted to the RS Budget in the amount of BAM 3.588.600,47:**

- 7 reports were filed due to reasonable doubt of criminal offense being perpetrated in regards to abuse of authority in business dealings (Article 263, Paragraph 2 of the RS Criminal Code),
- 2 reports were filed due to reasonable doubt of criminal offense being perpetrated in regards to bankruptcy fraud (Article 258 of the RS Criminal Code),
- 3 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),
- 13 reports in connection to reasonable doubt of criminal offense being perpetrated in regards to tax and contributions evasion (Article 287 of the RS Criminal Code),
- 1 report in connection to reasonable doubt of criminal offense being perpetrated in regards to filing of false tax return (Article 289 of the RS Criminal Code),
- 1 report in connection to reasonable doubt of criminal offense being perpetrated in regards to forgery of the permit (Article 274 of the RS Criminal Code),
- 1 report in connection to reasonable doubt of criminal offense being perpetrated in regards to intentional interference with the rights of another (Article 251, Paragraph 2 of the RS Criminal Code),
- 1 report in connection to reasonable doubt of criminal offense being perpetrated in regards to unauthorized performance of certain occupation (Article 393 of the RS Criminal Code), and

- 2 reports in connection to reasonable doubt of criminal offense being perpetrated in regards to damaging or favoring the creditors (Article 262 of the RS Criminal Code).

101 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.

94 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 50 depositions pursuant to the provisions of the Administrative Proceedings Law and 44 depositions pursuant to the Criminal Proceedings Code.

Moreover, 1.366 checks were conducted within TARS records upon the requests from Intelligence-Security Agency of Bosnia and Herzegovina as well as 287 checks in audits and within TARS official records at the request of other state authorities and organizations. In afore mentioned inspections, BAM 1.209.138,35 were assessed in tax liabilities.

2.4. Minor Offense Procedure

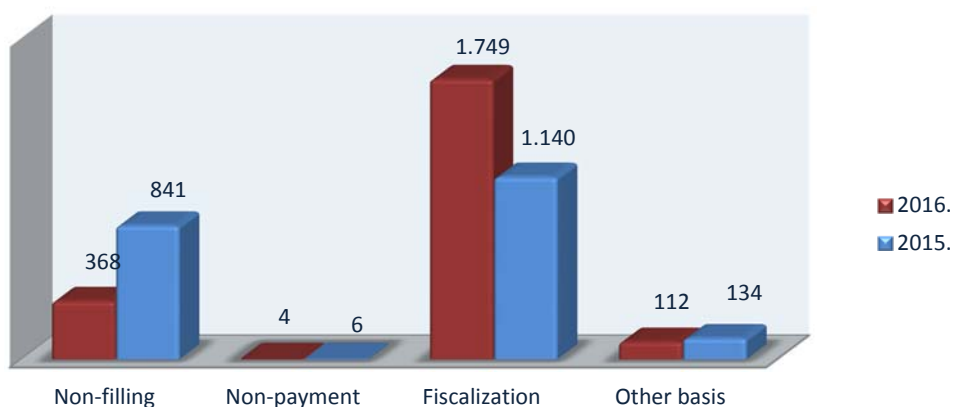
2.233 minor offense reports were issued in 2016 in reference to all procedures arising from the RS Law on Tax Procedure and other laws regulating minor offense sanctions enforced by TARS, with **penalties stated in the amount of BAM 2,01 million**. Out of that number 984 reports were approved, with BAM 546.459 collected respectively. 164 requests have been filed for initiating minor offence procedure. Moreover, 544 measures on prohibition of performance of activities have been issued.

The most of minor offence reports i.e. 1.749 were issued in regards to breach of regulations on fiscal cash registers, whereas 368 minor offense reports were issued due to non-filing of tax liabilities.

Relative to the previous year, the number of minor offence reports was higher by 112, with increase in collection by BAM 172.720 KM.

Out of the total number of issued reports, 949 are still in process (for the amount of fines of BAM 788.863), i.e. voluntary payment period extends beyond 31 December 2016.

Number of minor reports issued in 2016/2015



III TAXPAYER TREATMENT

3.1 Registered and De-registered Taxpayers

RS Tax Administration registered 48.695 new taxpayers in 2016, whereas 1.520 taxpayers were de-registered.

Taxpayers	Registered	De-registered
Legal persons	1.400	87
Physical persons (entrepreneurs)	3.146	740
Citizens	37.994	202
Other*	6.155	491
TOTAL	48.695	1.520

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

Until and inclusive of 31 December 2016, **1.955.947 taxpayers** were registered with the Tax Administration, out of which:

- 31.137 legal persons,
- 51.727 entrepreneurs,
- 1.813.141 citizens, and
- 59.942 other.

3.2 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.

Our mission is to continuously work in the area of improving services to taxpayers in order to reduce costs, stimulate voluntary tax compliance, and thereby increase the collection of public revenues.

In 2016, the Taxpayer Services Sector had the following number of contacts with taxpayers:

Type of Contact	Plan 2016	Actual 2016	Actual 2015	Plan against Actual	Index 16/15
Personal contact in TARS premises	480	660	516	138%	128
Telephone	15.000	22.428	19.870	150%	113
E-mail	950	1.148	987	121%	116

Correspondence	290	419	313	144%	134
Designated topic meetings	50	37	44	74%	84
Taxpayer seminars	10	14	13	140%	108
Public information in cooperation with TARS spokesperson	2	14	8	700%	175
Public notification for 2016 tax filing season	1	1	1	100%	100
2016 Tax Calendars	3	3	3	100%	100
Web Page information	120	119	101	99%	118
Opinion polls	1	1	1	100%	100

There were **597.281 hits on our web page** in 2016. 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. Relative to the last year, we have noted 39% more hits on TARS web page.

In order to send a message to youth on the importance of paying taxes and the benefits deriving from it, both for individuals, and the society as a whole, we took part in the **Conference of Youth**, established cooperation with high education institutions through organized student visits to the Tax Administration of the Republic of Srpska, and have undertaken activities to provide resources in order to initiate the project "**Tax Education of Youth**".

In the light of promoting tax morale in March 2016, a Conference "**The Economy in the Media -the Media in the Economy**" was held, where in the context of discussing the topic "Social responsibility of the media, strengthening cooperation between the media and institutions to promote business and tax morale, and the role of the media in shaping public attitudes about the economy" the presentation of the Tax Administration on the need to strengthen tax morale and cooperation between institutions and the media in the function of a common goal took place as well.

The Tax Administration in late 2016 launched the campaign "**Make a step, take the bill**" in order to raise the awareness of citizens, thus contributing the reduction of gray economy and strengthening the economic power of the country. We believe it is important to change bad habits and increase fiscal awareness among the citizens, as well as point out to the importance of taking the fiscal bill. With the very reason to assist in the search for solutions to improve the business climate and to raise awareness of the importance of issuing and taking the bills, the Tax Administration initiated the campaign.

The existing channels of communication between the Tax Administration and the mediawere presented, as well as the improving ways of cooperation by indicating the limiting factors in communication.

In 2016, RS Tax Administration had 266 media appearances, out of which 181 pertaining to Head Office public addresses, and 85 of those made by the Regional Centers. The most media appearances were made by RC Dobož (38), then follows RC Prijedor (15), RC Bijeljina (12) and RC E.Sarajevo (10). 41 announcements were published and TARS gave 17 press releases. Moreover, TARS responded to 97 press inquiries.

The greatest attention in the media was caused by topics related to the new Real Estate Law, and debts and blockades of public health institutions. In this period, the issue of turnover through fiscal

cash registers in dental offices, as well as campaign related to issuance of electronic certificates to taxpayers were ongoing topics for this period. Additionally, reporting period was marked by activities related to promotion of tax payments, as well as press inquiries regarding debts of taxpayers and enforced collection procedures. What is more, data on collection of public revenues and ranges of personal net income on the basis of employment for the previous month were regularly published.

3.3 Certificates Issued to Taxpayers

Tax Certificates

Tax Administration issued 102.957 tax certificates in 2016, out of which 19.685 were issued to legal persons, 6.400 to entrepreneurs and 76.872 to citizens. Total amount of tax arrears received in the process of issuing of tax certificate was BAM 24,67 million whilst in the process of issuing of tax certificate for de-registration of contribution payers was BAM 5,07 million pertaining to due and outstanding contributions.

2016 actual against planned ratio, in terms of issuing of certificates, is 119%, and relative to the previous year the amount of issued certificates was higher by 25%.

#	Certificates Issued in 2016				
	Number of tax certificates			Actual vs. Plan	Index 16/15
	Plan 2016	Actual 2016	Actual 2015		
Legal persons(1)	20.720	19.685	22.324	95%	88
Entrepreneurs(2)	6.940	6.400	7.797	92%	82
Citizens (3)	58.766	76.872	52.106	131%	148
TOTAL (1+2+3)	86.426	102.957	82.227	119%	125

Certificates Issued in Reference to TIN De-registration

2.673 requests were filed in 2016 pertaining to de-registration of TIN (including 12.911 open cases from the previous period). Respectively **1.063 certificates have been issued**. Therefore, 14.948 open cases pertaining to de-registration of TIN have been assigned to the next period.

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 but they were not approved.

In regards to the TIN de-registration procedure in 2016, BAM 120.422 have been collected in regular procedure, whereas BAM 2.191 were recovered through enforced collection.

Certificates Issued in Reference to TIN Registration

By means of the Law on Amendments to the Law on Tax Procedure ("Official Gazette of the Republic of Srpska", no. 44/16) Tax Administration, as a control body, is authorized to deny and take

away TIN from legal persons and entrepreneurs if their founders and related parties have due and unpaid tax liabilities.

All anticipated instances of denial of TIN are cases in which tax evasion is possible by individuals and legal persons who are the founders of a taxpayer who has outstanding tax liabilities by means of establishing new entities, without settling their liabilities or liabilities of the entities whose founders they were. Therefore, in cases of avoidance of paying taxes, the Tax Administration will not assign a tax identification number.

In order to be able to monitor the implementation of the aforementioned legal solutions a report with the information about issued certificates for the purpose of TIN registration was formed, thus, in the reporting period a total of 2,481 certificates were issued, of which 2,382 certificates on settled liabilities, 39 certificates of arrears and 60 certificates up to 1,500 BAM.

3.4 Refunds, Transfers and Corrections

Central Tax Documentation Processing Sector enters data into the System for Financial Information Management (SUFI), 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.

2.866 enforceable decision documents have been entered into the SUFI in 2016.

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 2016 was BAM 30.608,16.

During 2016, a mandatory multilateral compensation was held in accordance with the Law on the Unified System of Multilateral Compensation and Cession, whereas BAM 50,986,966.85 was paid out for the liabilities representing the revenues of the RS Budget, extrabudgetary funds and the local self-government units. The number of transactions processed under the multilateral compensation was 4.374.

Local offices within TARS received **12.679 requests for transfer and refund of more and/or incorrectly paid public revenues**, whilst 1.880 unsolved requests were transferred from the previous period, out of which 4.221 or 29% submitted requests were not made.

In addition to aforementioned activities, activities were performed in the Central Tax Documentation Processing Sector pertaining preparation, design, testing and delivery of reports to end users about the origin and settlement of tax liabilities for the period 1st January-31st December 2015, in accordance with the Rulebook on the System of Tax Accounting. Moreover, matters related to the exchange of data with end-users, submission of analytics to users of Report on Creation and Settlement of Tax Claims Based on Their Requirements.

3.5 Receiving and Processing Tax Returns

RS Tax Administration officers received **1.592.055 tax declarations** in 2016, 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 936.441 i.e. 59%.

Actual against planned index for 2016, when it comes to filing, is 109%.

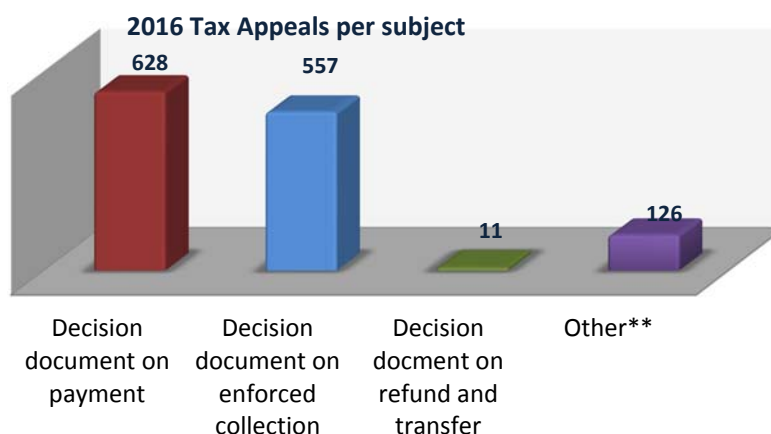
E-filing

During 2016, **668.312 MPO-1002 tax declarations**, i.e. 71% of the total number thereof, have been e-filed.

Entering into force the Rulebook on the Procedure and Manner of Filing Tax Returns ("Official Gazette of the Republic of Srpska", no. 81/16), among other things, stipulates that from 1st January 2017 all income payers, that is payers of contributors are required to submit monthly applications of withholding tax (Form 1002) exclusively in electronic form signed by electronic signature.

3.6 Tax Appeals – First Level of Appeal

TARS Regional Centers received 1.226 appeals in 2016 pertaining to all procedures in connection with the RS Tax Procedure Law, whereas 96 appeals from the previous period were resolved.



*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 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 2016:

- 23rd Principal Contact Persons Forum;
- Two area group – debt management workshops;
- Workshops: „Analysis and Efficient Use of Big Data - A Challenge for Tax Administrations“ and „Practical Implementation of the Automatic Exchange of Information“;
- Regional event – „Establishing IT Forensic Laboratory for Tax Purposes“;
- IOTA Large Taxpayers Forum;
- ISORA training;
- 20th General Assembly.

During 2016, IOTA in cooperation with The Organization for Economic Co-operation and Development (OECD), the Inter-American Center of Tax Administration (CIAT) and the International Monetary Fund (IMF) worked on a common basis for joint survey – ISORA, using the IMF's data collection platform RA-FIT. TARS took participation in ISORA survey. All IOTA members have been included in ISORA survey. Moreover, the IOTA's intention is to develop and implement flexible and secure Tax Administration Information Platform (TIP), which could be used by all members in order to obtain basic information for its benchmarking, research and other projects.

In addition, all IOTA members adopted the Work Program and the IOTA Budget for 2017.

International Monetary Fund (IMF)

During 2016, a training course was held pertaining the implementation of a summary risk assessment, i.e. strengthening the capacity of tax inspectors in the e-control of taxpayers as a new type of tax control by using the summary risk assessment as a non-commercial solution. The summary risk assessment is an operational program that the provincial tax administration in the Federal Republic of Germany applies in its regular work. The training was managed by tax inspectors from Germany, and at the end, the program was left on use to TARS. The training was organized as a joint activity of Fiscal Affairs Department within International Monetary Fund and the World Bank Group, supported by the Swiss Secretariat for Economic Relations (SECO).

During the period from 26 to 28 October 2016, the Resident Advisor from the Revenue Agency of the International Monetary Fund in Serbia held a three-day workshop for the TARS inspectors, titled „Indirect audit methods“.

World Bank

On 28 January 2016, as a part of cooperation with the World Bank, the meeting was held with the representatives of the World Bank within the Mission of supporting a implementation of Project „Capacity building for the medium term fiscal planning and forecasting in Bosnia and Herzegovina“. The main goal of the meeting was related to the exchange of opinions and the collection of the

necessary information for the preparation of the Project related to the cyclical adjustment of the fiscal deficit. During the reported period, the TARS was notified of the Report on the performed mission in Bosnia and Herzegovina (Aide Memoire).

During the period from 14 to 18 October 2016, the TARS inspectors attended a seminar "SEE Transfer Pricing Training" that was organized by the World Bank Group in Wien, Austria. The seminar is a part of a three-year Project for Strengthening Tax Administration and Transparency in the countries of Southeastern Europe, and a significant progress has been made in previous period pertaining the transfer pricing, including the improvement of the legal framework, as well as intensive work on improving knowledge and strengthening ability of tax inspectors.

In December 2016, the meeting was held with the representatives of TARS as a part of the Mission for Supporting the Project „Capacity building for the medium term fiscal planning and forecasting in Bosnia and Herzegovina“. The main purpose of the meeting was a collaboration with the authorities on developing of a customized Medium Term Fiscal Framework (MTFF) model and implementing the institutional mapping process related to the MTFF.

Regional initiatives - CEF

As part of the Project on Supporting Capacity Development of Tax Administrations in South East Europe, TARS representatives participated in learning events: "New Ways of Ensuring Tax Compliance", "Performance Management in Tax Administration" and "Taxpayer Service Approach to Solving Compliance Problems". In addition, TARS representative participated in the Annual Coordination Meeting of the European Commission, the IMF and the overall users of the technical assistance program on topic: "Strengthening Economic Governance and Public Finance Management in Southeastern Europe".

Swedish International Development Agency (SIDA)

In February 2016, a meeting was held with representatives from SIDA and Swedish Tax Agency. Also, on 16 February of the current year, a representatives of TARS attended the final meeting in the premises of the Swedish Embassy in Sarajevo. The purpose of the meeting was to identify and determine the guidelines of the initial areas for technical cooperation. TARS appointed the contact persons for two areas of cooperation: Taxpayer Services and Compliance Risk Management. During the period from 26 to 27 May of the current year representatives of Swedish Tax Agency engaged two experts from the above mentioned areas, who organized a two-day workshop in TARS premises.

In period from 17 to 21 October 2016, TARS representatives performed a study visit to the Swedish Tax Agency, during which they were introduced to the work of the Swedish Tax Agency, their strategy, tax system, e-services, tax gap studies, risk management, pre-filing and compliance strategy. In December 2016, and in relation to the input from TARS representatives as well as representatives of other tax administrations, a proposal of the Draft Cooperation Project was adopted and would be presented by Swedish Tax Agency to the Embassy of Sweden. The Project is to start in April 2017 and will last for the next 30 months.

International Labour Organization (ILO)

The ILO representatives visited TARS on September 28th 2016 and exchanged information on a system of collecting the contributions in RS, due to the development of a technical study on the extension of social insurance to employees in the "informal economy". One of the main topics was related to the discussion on implementation of more efficient collection of social security contributions, as well as the exchange of good practices and taking the next steps towards better compliance with the laws in the field of social insurance and Labour Law.

V OTHER ACTIVITIES

6.1. Implementation of the Integrated Information System (IIS)

Tax Administration has put into production a new Integrated Information System in the part of the functionality of reception and processing of tax returns, tax accounting, reminder payment of reported liabilities, administrative control procedure to misdemeanor procedure, office work, enforced collection procedures, deferred payment of tax liabilities – reprograms approved after the developments in production, tracking payments on account for the enforced collection and the interface of the existing system of Tax Administration for the processes that have not been put into production. All processes are integrated, and the processes that are ongoing are automated to a large extent (warnings for payment of reported liabilities, creation of candidates for enforced collection, updating the data on registration and changes in registration of taxpayers).

The process of monitoring collection of tax liabilities within the prescribed time is automated, and for each taxpayer who fails to pay the declared duty within the prescribed deadline a reminder for payment is created, and if payment of the liability is not carried out after receiving a warning a candidate for enforced collection is created in the system, which is delivered in enforced collection. By means of automated process of paying collection of tax liabilities, both regular and enforced, eliminated the subjective impact of employees in these proceedings, and it enabled full and complete monitoring of the collection process (regular and enforced) by the management of Tax Administration. All the aforementioned resulted in an increase of the collection which is shown in the report on payment reminders according to which the number of warnings and the amount of collected liabilities increased by 122% compared to 2015 in the number of warnings, and 45% in the amount of taxes collected, and regardless of series of changes in legislation that have influenced the reduction of collecting certain types of income, the collection has increased.

So far implemented functionalities have significantly improved the activities of Tax Administration, and we expect that completion of the remaining functions shall achieve the full impact of this project in the form of an increase in tax discipline of taxpayers, as well as changes in the behavior of employees in Tax Administration.

In the forthcoming period, in accordance with the Law on Public Procurement of Bosnia and Herzegovina, an international tender will be announced, which will lead the implementation of this Project to the end.

6.2. The Project of Establishing a Certification Body in TARS

Within the Project of reform of the fiscal sector (FAR), which is funded by the US Agency for International Development in BiH - "USAID", in cooperation with the Agency for Information Society of the Republic of Serbian for electronic filing of tax returns and the development of electronic services of Tax Administration, certification body was in Tax Administration, which performs user registration (legal persons, entrepreneurs and individuals) and issue electronic certificates for electronic signature, in accordance with the Law on electronic signature.

Establishing a certification body enabled the first service that uses an electronic signature. By finishing PPO application for electronic filing of tax returns, form 1002 for withholding tax, it is enabled

that tax return in the future can be sent signed by electronic signature issued by the certification body of Tax Administration. In this case, by signing tax return with an electronic signature, taxpayers are not obliged to perform certification of the basic list of the said form with Tax Administration.

It should be noted that throughout the project security standards and controls of the last generation were used, as well as the fact that the issuance of digital certificates to taxpayers and citizens is completely free.

Tax Administration in cooperation with the RS Chamber of Commerce organized seminars on the issuance of electronic certificates in regional centers of Tax Administration of Republic of Srpska in order for taxpayers to be acquainted with the benefits of electronic communication with the Tax Administration RS.

A total of 11,605 certificates for electronic signature, for a total of 31,845 taxpayers were issued in Tax Administration of the Republic of Srpska. Out of it 10,552 taxpayers filed tax returns on their own behalf, while 21,293 taxpayers submitted 1,051 tax returns were filed by accounting office, on the basis of authorizations.

Of the total number of issued certificates for digital signature, 11,410 were issued to legal entities and entrepreneurs (including accounting bureaus), while 195 certificates for electronic signature were issued to individuals.

6.3. FAR Project/Electronic Archive

In the end of 2015, an Action plan on the implementation of **Memorandum of Understanding between the Government of the Republic of Srpska and the USAID Mission on the Improvement of the Fiscal Sector** in order to precisely regulate the activities that will be implemented under the Project of Fiscal Sector Reform (FAR). This action plan specifies the relationship between TARS and Project of Fiscal Sector Reform in the implementation of the activities from the Memorandum.

FAR project consists of five components, of which the fourth component will be implemented in TARS "Improving the business environment through introduction of electronic documents, electronic issuance of tax certificates and providing other services and services to taxpayers by electronic means."

In 2016, within the aforementioned component of FAR project, activities were initiated on realization of "**Electronic Archive**" which anticipates digitization of the existing paper tax returns, filing of new electronic tax returns, and archiving electronic documents of TARS (tax invoices, certificates, documents of electronic office management). Namely, this would solve the problem of 10 million paper documents in the existing archives, of which over 70% must be permanently stored, which means that every year we have more than 700,000 new documents for permanent preservation, and the problem of high costs of handling paper documents and adequate storage space for such a large number of documents.

In 2016, the first phase in the establishment of electronic archive was completed, that is, software was developed for digitizing of applications from the Fiscal real estate register, containing over 3 million entries, which must be permanently stored.

6.4. Unified System for Registration, Control, and Collection of Contributions

On January 1st 2010 Tax Administration initiated the implementation of the new Unified system for registration, control, and collection of contributions (USC) with the aim to improve and increase the efficiency of control and collection of taxes and contributions. In that regard, the unified database was established, containing all relevant data and enabling exchange with extra-budgetary funds.

In that way, the regular dynamics of holding meetings with extra budgetary funds were introduced in order to resolve all open issues related to the functioning of Unified System for registration, control and collection of contributions in more frequent direct communication.

In 2016, five coordination meetings were held with representatives of the Pension and Disability Insurance Fund which discussed current issues in the domain of functioning of the USC. In the mentioned reporting period, one meeting was held with representatives of the Health Insurance Fund and Child Protection Fund where the data exchange was discussed.

In addition, a meeting was held with representatives of the Employment Bureau of the Republic of Srpska on the topic: Submission of MPO-1002 tax declarations.

Thereafter, one meeting was held with representatives of the Ministry of Foreign Affairs of B&H pertaining registration and payment of contributions for Pension and Disability Insurance Fund for spouses who are staying with an employee of diplomatic consular representations.

In addition to above mentioned meetings, a series of meetings were held with Ministry of finance RS and Ministry of Agriculture, Forestry and Water Management RS pertaining the exchange of data.

Officials of TARS daily contact with officials of the funds if there are any problems in the exercise of the rights of the insured persons, that is, the contribution payers.

6.5. Information Technologies

In addition to activities primarily related to the Implementation of Integrated Information System (IIS), in this period we have worked on other tasks which are not in direct relation with Project implementation.

At the end of 2016, preparations began for the project of electronic mailbox, which would be used for communication with taxpayers. In the first phase it would be used for delivery of bills for real estates, and later on this mailbox would be used for other purposes as well.

Of other important activities we should mention the following:

- generating tax bills for real estates,
- preparation of a set of reports for the exchange of information with tax administrations in Bosnia and Herzegovina.

In the reporting period there has been an increase in the number of new standard reports in the system for reporting of TARS, primarily due to report for implementation of the Integrated Information System of TARS, while one part of the report was created for the purpose of exchanging information between tax administrations at the level of Bosnia and Herzegovina.

When it comes to the reporting system, 58 existing reports were modified and 53 new reports were created. In addition, numerous activities were carried out on the development and maintenance of system and communication infrastructure.

Continuous activity of the IT Sector is also providing technical support to taxpayers, extra-budgetary funds, as well as regional units and functional sectors of TARS.

The development of documentation and user manuals was also carried out, and work was done in developing and maintaining applications for the processing of tax return Form 1002, for processing tax returns and other tax bills for real estate tax and other applications. User manual was created for regional units in relation to the procedure of issuing electronic certificates to taxpayers.

Particular importance within the IT Sector was given to activities pertaining the safety of information, as well as safety of ICT system.

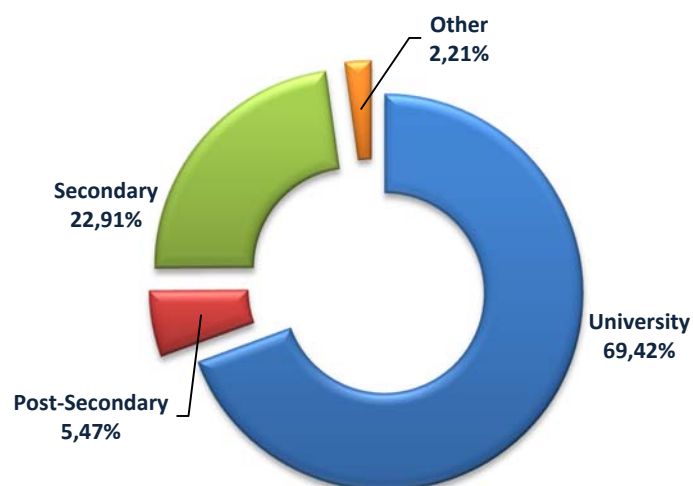
VI HUMAN RESOURCES

The number of full-time employees in TARS as of 31 December 2016 was 772, 69 part-time employees and 19 apprentices.

Educational structure of staff is as follows:

- 597 with university degree,
- 47 with postsecondary level of education,
- 197 with secondary level of education, and
- 19 other.

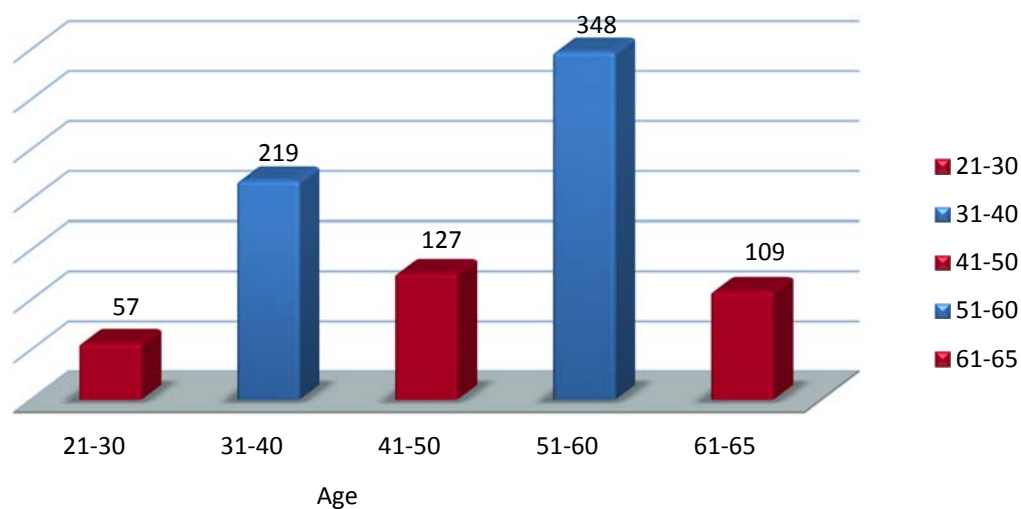
TARS Staff Educational Structure as of 31/12/2016



Age structure of staff is as follows:

- 6,63% staff in age group 21 to 30,
- 25,47% staff in age group 31 to 40,
- 14,77% staff in age group 41 to 50,
- 40,47% staff in age group 51 to 60, and
- 12,67% staff in age group 61 to 65.

TARS Staff Age Structure as of 31/12/2016



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.

Additionally, during 2016, the Tax Administration in cooperation with the University of Business Studies organized education of students regarding the application of tax regulations, as well as other activities that are the responsibility of Tax Administration.

VII LEGAL AND REGULATORY FRAMEWORK

In the past period, a set of laws was adopted, aimed at combating gray economy, which in the same time indicate measures whose operational conduction is the responsibility of Tax Administration, which have significantly contributed to improving the quality of Tax Administration.

Namely, the following legal documents were adopted:

- Law on Changes and Amendments to the Law on Registration of Business Entities in the Republic of Srpska ("Official Gazette of Republic of Srpska", no. 15/16),
- Law on Changes and Amendments to the Law on Fees for Use of Natural Resources for Electricity Generation ("Official Gazette of Republic of Srpska", no. 15/16),
- Law on Changes and Amendments to the Law on the Budget System ("Official Gazette of Republic of Srpska", no. 15/16),
- Law on Bankruptcy ("Official Gazette of Republic of Srpska", no. 16/16),
- Law on the Unified System of Multilateral Compensation and Cession ("Official Gazette of Republic of Srpska", no. 33/16),
- Law on Tax on the Use, Possession and Carrying of Goods Cession ("Official Gazette of Republic of Srpska", no. 44/16),
- Law on Changes and Amendments to the Law on Inspections in the Republic of Srpska Cession ("Official Gazette of Republic of Srpska", no. 44/16),
- Law on Changes and Amendments to the Law on Tax Procedure ("Official Gazette of Republic of Srpska", no. 44/16), and
- Law on Changes and Amendments to the Law on Minor Offences of the Republic of Srpska ("Official Gazette of Republic of Srpska", no. 110/16).

Of the mentioned laws, particularly noteworthy is the Law on Changes and Amendments to the Law on Tax Procedure ("Official Gazette of RS", no. 44/16), as a part of a set of laws which implement further reform of the economic system in the Republic of Srpska with the primary aim of combating "gray economy".

The most significant changes in the aforementioned Law relate to the extension of jurisdiction of Tax Administration in the sense that it introduces inspection over the obligation of registration of business entities. The inspectors' powers related to a measure of banning further operation due to failure to submit an application in a Unique system were extended. In addition to the previous office and field control, two new special controls, special control and unregistered entity control, were established. Cases of denial of awarding UIN were also stipulated. This legal norm will prevent further evasion of tax liabilities and thus prevent entities to continue abusing the possibility of establishing economic and business entities. A novelty in the amendments to the Law is the deadline for registration of employees in a Unique system, and it is the obligation of the employer to report contributors one day before the entry into operation. Changes related to check-out of the staff from the Unique system are also important, as well as deregistering of contributors ex officio. Amendments to the Law on Tax Procedure anticipate the possibility of filing tax returns electronically signed by a qualified electronic signature or electronic signature of the one filing it.

Additionally, at the end of the year the following were adopted: the Law on Changes and Amendments to the Law on Corporate Income Tax, the Law on Cessation of the Law on Special Contribution to Solidarity, as well as the draft of the Law on Tax System of the Republic of Srpska of

TARS, which was enabled by the introduction of certification bodies in Tax Administration of the Republic of Srpska.

It is important to note that throughout 2015, the legal documents were issued addressing the internal operations and processes in TARS, namely:

- Personal Income Tax Law (“Official Gazette of Republic of Srpska“, no. 60/15),
- Real Estate Tax Law (“Official Gazette of Republic of Srpska“, no. 91/15),
- Law on Deferred Payment of Tax Debt (“Official Gazette of Republic of Srpska“, no. 94/15),
- Law on Changes and Amendments to the Law on Contributions (“Official Gazette of Republic of Srpska“, no. 103/15), and
- Law on Special Solidarity Contribution (“Official Gazette of Republic of Srpska“, no. 110/15).

CONCLUSION

In 2016, Tax Administration of the Republic of Srpska achieved excellent results in certain segments of work.

Tax Administration of RS has maintained a positive trend in collection of public revenues **with collected BAM 2,164 billion** of public revenues, which can be attributed to everyday activities that Tax Administration undertakes within its jurisdiction, which are directed primarily to the field of control and regular collection. The reason for this lies in timely undertaking appropriate actions by Tax Administration, which prevents formation of debt, which in later stages of proceedings is harder to be charged.

First of all, implementation of a new Integrated Information System enabled us automatic issuing of warnings, as well as the development of solutions for enforced collection, which had a positive effect on the collection of public revenue under the jurisdiction of TARS.

Moreover, activities related to control of proper presentation of turnover through fiscal cash registers and registration of workers were intensified, which affected all taxpayers to improve tax compliance discipline and build a proper relation to tax compliance.

In addition to direct methods of control, we have applied the **indirect method for determining the tax base by assessment** that represents unreported income. In order for each taxpayer to pay a fair tax, in accordance with their revenues, income and assets, this indirect method was introduced in the process of tax audit, which has already yielded positive results in the control procedures.

Therefore, Tax Administration has focused major part of its activities in 2016 on combating gray economy as one of the most negative phenomena in our society. The amendments to the Law on Tax Procedure of RS, as part of the reform of the economic system of the Republic of Srpska, have already taken serious steps towards reducing the gray economy in Republic of Srpska. Control of unregistered subjects and control of registering workers in the Unified System for Registration, Control and Collection of Contributions by all inspection bodies in RS was enabled. Registration of business entities whose founders have unsettled tax liabilities, as well as those whose founders are also the founders of businesses that have outstanding tax liabilities were disabled.

In this light we launched the campaign "**Make a step, take the bill**" in order to raise awareness of citizens about the importance of taking fiscal bills, and thus make them also contribute to reducing the gray economy and strengthening of the economic power of the country.

In order to send a message to the youth, as future taxpayers, on the importance of paying taxes and benefits deriving from it, both for the individual and for the society as a whole, we took part in the **Conference for Youth**, established cooperation with high education institutions through organized visits of students to Tax Administration of the Republic of Srpska, and have undertaken activities to provide resources in order to start the project "**Tax Education of Youth.**"

Of the major activities in 2016, we single out the issuance and implementation of the **Project of Establishing a Certification Body of TARS** which formed a certification body of TARS for issuing electronic signatures to taxpayers. Establishing a certification body enabled the first service that will use an electronic signature - filing a tax return for withholding tax (MPO 1002), as the most massive

tax return. This service enabled significant savings in time and material costs, both to taxpayers and the Tax Administration.

One of the most important activities in 2016 in the field of work of TARS is further **implementation of the Integrated Information System**, taking into account the fact that these tasks involved significant material and human resources of the Tax Administration. Collection of public revenues is automated, warnings and forced collection solutions do not depend on subjective factors, which gave results in collection of public revenues. These implemented functionalities have significantly improved operation of TARS, and we expect that completion of the remaining functions shall achieve the full impact of this project in the form of an increase in tax discipline of taxpayers, but also the changes in behavior of employees in TARS.

In the future we will also try to implement all the tasks and objectives that are before us, with constant strengthening of public confidence in the tax system through full transparency of operation of Tax Administration.

Banja Luka, January 2017
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Director
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