



# 2022 REPORT

Banja Luka, January 2023

## **A. Introduction**

### **OVERVIEW OF COMPETENCES**

The Tax Administration of the Republic of Srpska, as a body within the Ministry of Finance of the Republic of Srpska, was established under the Law on the Tax Administration of the Republic of Srpska („Official Gazette of the Republic of Srpska“, No. 51/01), which entered into force on 24 October 2001 and which governs the basis for implementing and executing tax legislation of the Republic of Srpska and the bylaws based on the legislation, and defines tax minor and criminal offences, and tax sanctions.

The competences of the Tax Administration of the Republic of Srpska are defined by the Tax Procedure Law of the Republic of Srpska ("Official Gazette of the Republic of Srpska", No. 78/20 and 37/22).

Pursuant to this Law, the Tax Administration is responsible for:

- registration and identification of taxpayers
- establishment and maintenance of a register of taxpayers,
- determination of tax liability in accordance with the law,
- exercising control of legality and regularity in application of tax regulations,
- regular and enforced collection of taxes and surtaxes,
- control of gross salaries of employees in terms of law and provisions of the General Collective Agreement and other contracts based thereon,
- detecting and preventing execution of crimes and tax offenses within its jurisdiction and submitting reports to the Public Prosecutor's Office,
- conduct the first instance tax proceedings,
- imposing protective measures and penalties for tax offenses in accordance with the law,
- keeping tax records and tax accounting,
- maintaining fiscal real estate register and other stipulated registers,
- managing Unified System for Registration, Control, and Collection of Contributions,
- issuing the residency certificates to natural and legal persons,
- informing and education of taxpayers,
- issuing certificates on data within its official records,
- exercising control over organizers of games of chance,
- drafting reports on work and their publication on the RSTA's official webpage,
- control of foreign exchange operations and
- other duties in accordance with law.

In addition to the aforementioned competences, the Tax Administration of the Republic of Srpska is also responsible for the inspection of the mandatory business entities registration that is pursuant to the law regulating the work of inspections in the Republic of Srpska.

## ANNUAL RESULTS SUMMARY

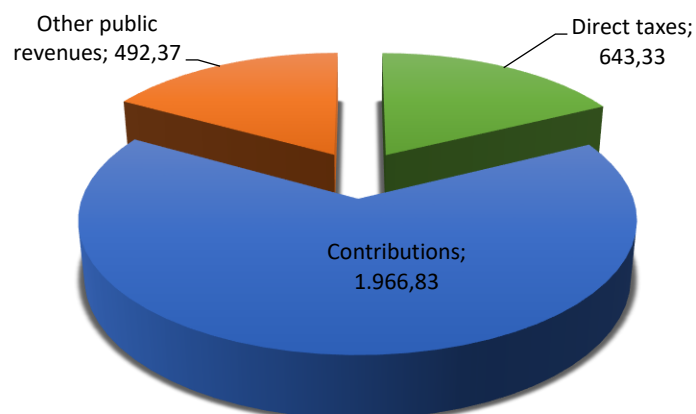
After analyzing the performance the RSTA made in the last year, we can be satisfied with the results, especially bearing in mind, firstly, the Corona virus pandemic, and now the latest economic crisis caused by the war in Ukraine, has had on the economy and market conditions.

The achieved results of work in the previous period indicate that the planned development path of the RS Tax Administration in 2022 was realized, meaning that the Tax Administration of the Republic of Srpska should become a modern institution that provide easier and fairer business conditions for all taxpayers, better quality of services, modern information system and efficient organizational structure.

This is further supported by the fact pertaining the cost efficiency of the Tax Administration of the Republic of Srpska, that is, the efficiency of spending allocated budget funds. Namely, we calculated the ratio of the RTSA's planned annual budget and the total collected public revenues under the jurisdiction of the Tax Administration of the Republic of Srpska, which is a common indicator for measuring the efficiency of tax administrations. **The efficiency indicator of the RS Tax Administration for 2022 is almost 1.00%, which means that the RS Tax Administration collected over 99 BAM of public revenue under its jurisdiction for every single BAM spent.** When we compare the data from 2021, when this coefficient was 1.18%, i.e. when the RS Tax Administration **collected over 85 BAM of public revenue for every BAM spent**, we can conclude that the RS Tax Administration actually spends less and less money on collecting one BAM of revenue which indicates the increasing efficiency of the RS Tax Administration.

### Collection of Public Revenues

In 2022, the Tax Administration of the Republic of Srpska collected public revenues in total amount of BAM 3,103 billion, which was BAM 362,1 million or 13% higher compared to the previous year, i.e. 10% higher compared to the collection projections for 2022. Positive indicators in the process of collection were primarily influenced by regular activities of the Tax Administration of Republic of Srpska in the field of control of reporting and payment of public revenues, as well as the measures that were adopted by the Government of RS to overcome the consequences caused by the Corona virus pandemic. Additionally, a responsible attitude of the majority of taxpayers to their tax liabilities, that is, a greater degree of voluntary fulfillment of tax compliance, is certainly responsible for stable collection.



At the same time, we managed to stop the accumulation of tax debt, which was reduced by BAM 220 million during the reporting period. According to official records of the Tax Administration of the Republic of Srpska, debt due balance and outstanding debt on December 31, 2022 was BAM 1,037 billion. For the purpose of comparison, the debt balance as of December 31, 2021 was BAM 1,257 billion. The reasons for such a significant reduction in debt lie in the regular settlement of liabilities by taxpayers, the write-off of liabilities based on statute of limitations as well as the write-off of liabilities based on bankruptcies and liquidations.

### **Notices on Payment Liabilities and Enforced Collection Procedure**

According to the RS Law on Tax Procedure, to a taxpayer who has not fully or partially declared or, after the due date, has not settled the tax liability, the Tax Administration delivers a reminder about the type and amount of the tax liability due, reminding him to either declare underreported tax liability or to settle the tax liability due for payment.

In reporting period, **109.609 notices have been issued in regards of payment of due liabilities** for the amount of liabilities of BAM 375,74 million. Taxpayers paid BAM 126,62 million within 8 days i.e. 34% of the total amount of due liabilities included by issued notices. Related to the same period of the last year 4% less notices have been issued, while BAM 13,02 million less collected within allowed period. Plan of notice issue for payment is 100 % realized.

Moreover, in 2022, the RS Tax Administration handed out 92.789 reminders for not submitting tax returns.

The RS Tax Administration, among other things, is responsible for enforced collection of taxes and surtaxes. **65.995 enforced collection procedures were initiated** in 2022 pertaining to debt amount of BAM 168,31 million whereas BAM 45,63 million were collected in relation to decision documents from the preceding period. In enforced collection procedure in relation to all decision documents the total amount of BAM 82,57 million were collected.

Relative to the same period of the previous year, 7.378 of enforced collection procedures were initiated less and the total amount of collected liabilities by the decisions of enforced collection that has been initiated in the reporting period is lower by BAM 9,04 million than in the same period in 2021. Relative to the planned number, 35.885 less procedures have been initiated, i.e. 35% less than planned number, and 20% more collected than in the enforced collection plan.

**Total amount of uninitiated enforced collection procedures on December 31, 2022 was 69.625** for the debt amount of BAM 5,75 million. Debt participation related to uninitiated enforced collection procedures in total payable and outstandable debt was 0,97% on December 31, 2022. It should be noted that in the structure of uninitiated enforced collection procedures, 84% of issues are related to the other bodies' acts (minor offence reports, decisions delivered by the Courts etc.).

### **Audit, Investigation and Minor Offence Procedures**

Apart from rising the awareness among the citizens that tax compliance gives more benefits to all citizens than non-compliance, the practice has shown that the existence of a law does not mean that it is fully applied. For that reason, the audits exist as well as sanctions for non-compliance of the law, which at the same time represent an assurance for compliance of the same.

**There were 4.444 audits in 2022**, out of which 4.091 pertain to regular field and desk audits, 274 bankruptcy and liquidation audits and 79 repeated audits. Out of all conducted audits, 186 pertain to large taxpayers. Relative to the previous year, there were 479 audits more, whereas the actual against

plan ratio for 2022 was 119%. For unpaid portion of liabilities, following audits, the inspectors issued decision documents on payment of liabilities for the total amount of BAM 36,84 million (principal debt + interest), while 378 minor offence reports were issued due to detected irregularities for the amount of BAM 1.013.146.

Moreover, during the last year, the RS Tax Administration's auditors conducted **3.336 inspections in reference to recording of sales via fiscal cash registers** and issued 1.495 minor offence reports due to detected irregularities for the amount of BAM 5.477.000, meaning the increase in both, the number of inspections as well as the amount of fines imposed and compared to the previous year. In 2022, 352 audits were conducted pertaining the registration of workers, whereas 177 undeclared workers were revealed and 167 minor offence reports were issued due to detected irregularities for the amount of fine BAM 566.000. At the same time, 22 taxpayers were temporarily banned to conduct business.

Throughout 2022, inspectors-investigators from the Department for Investigations and Intelligence of the RS Tax Administration **forwarded 37 reports to the competent Prosecutor's Office** perataining the exposed criminal acts **with total damage inflicted to the RS Budget in the amount of BAM 4,5 million**. In that period, inspectors submitted reports for tax and contribution evasion, as well as abuse of authority in business dealings, improper allocation of funds and illegal business conduct. In the forthcoming period, we will intensify activities to uncover criminal acts that cause damage to the Budget of the Republic of Srpska.

Moreover, **3.989 minor offense reports were issued** in 2022 in reference to all procedures arising from the laws regulating minor offense sanctions enforced by the RSTA, with penalties stated in the amount of BAM 10,29 million. Out of that number 2.154 reports were approved, with BAM 3,34 million collected respectively. 96 requests have been filed for initiating minor offence procedure. Moreover, 22 measures on prohibition of performance of activities have been issued.

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

Deferred payment of tax liabilities is regulated by the Law on Deferred Payment of Tax Debt („Official Gazette of the Republic of Srpska“, No. 94/15 and 28/21). On the basis of this Law, tax debt can be settled by deferred payment on a one-time basis no longer than one year or in equal monthly instalments no longer than 60 months. Deferred Payment of tax debt may be approved to the tax debtor if the following conditions are met: the tax debt became due for payment no later than in the year preceding the year of submission of the request for deferred payment, the tax debt is secured, and individual liabilities, which are based on pension and disability insurance contributions for employees whose rights from pension and disability insurance become due during the deferral, are settled.

The Minister of Finance shall issue the decision on the request for **deferred payment if the tax debt exceeds BAM 30.000**. Accordingly, to the Law on Deferred Payment of Tax Debt (Official Gazette of the Republic of Srpska, No. 94/15 and 28/21) the Ministry of Finance of the Republic of Srpska has issued 60 decision documents on deferred payment of tax debt namely of the amount of BAM 46,96 million. In the reporting period, BAM 16,98 million have been collected in connection with the above said decision documents, including the decision documents brought in the previous period.

The Ministry of Finance of the Republic of Srpska issued and the Tax Administration received 55 decision documents abolishing the debt rescheduling for the amount of BAM 170,18 million and 43

conclusions/decision documents that rejected/denied the request of the taxpayer to defer the payment of tax liabilities, in the amount of debt of BAM 13,73 million. In addition, 47 conclusions were issued pertaining the procedure suspension per request for extension of the deadline, to the amount of the debt of BAM 40,35 million.

Relative to the previous year, and to the Ministry of Finance of the Republic of Srpska decision documents on deferred payments of tax liabilities, 101% more liabilities were collected, and the collection plan is 209% realized by these decisions.

In 2022, apart from the decision of Ministry of Finance of the Republic of Srpska on deferred payment, BAM 1,35 million were paid in rescheduled liabilities according to the **Decision of the Government of the Republic of Srpska from the previous years**.

The Director of Tax Administration of the Republic of Srpska shall issue the decision on the request for **deferred payment if the tax debt is not exceeding BAM 30.000** under the conditions and in the manner prescribed by the Law on Deferred Payment of Tax Debt. Accordingly, to the Law on Deferred Payment of Tax Debt (Official Gazette of the Republic of Srpska, No. 94/15 and 28/21) the Tax Administration of the Republic of Srpska has issued 27 decision documents on deferred payment of tax liabilities namely for the amount of BAM 435.187.

In pursuance to the RSTA's 152 agreements/decision documents on deferred payment of liabilities, BAM 355.857 have been collected in the same period. Due and outstanding liabilities by these agreements/decision documents are in total of BAM 74.283. The remaining debt in connection with all signed agreements/decision documents on deferred payment is BAM 726.796. 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 the last year and based upon the RSTA's agreements/decision documents on deferred payment of liabilities, the collection is 10% lower, whereas actual against plan ratio, for all agreements/decision documents, is 100%.

### **Certificates Issued**

In 2022, the RS Tax Administration issued 171.308 tax certificates, out of which 159.273 certificates refer to all types of tax and other certificates issued by the Tax Administration (for settled liabilities, state of tax liabilities and structure of tax liabilities according to special tax regulations, etc.) and 12.035 certificates pertaining to issuance and de-registration of TIN.

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

In accordance with the deadlines for submitting tax returns in 2022, employees of the Tax Administration of the RS received **1.767.582 tax returns**, including tax returns for registration in the Fiscal Real Estate Register and returns related to the Unified System for Registration, Control and Collection of Contribution. The majority of filed tax returns pertain to the Monthly Withholding Tax Form 1002, totaling to 783.314 i.e. 44%.

## Other Activities

The strategic commitment of the RS Tax Administration is to provide our taxpayers with the highest possible quality of the service, that is, to enable them to meet their tax obligations much simpler by designing new methods and channels of communication and improving the existing ones, which has been realized with the full implementation of the Integrated Information System. Namely, the IIS implementation gave us the significant results in the area of automation of certain business processes, which again had a positive effect on the collection of public revenues, simplification of procedures, improvement of taxpayer service and management of tax compliance.

To achieve the foregoing, the RS Tax Administration has made a big step forward in the area of business digitalization by enabling the **electronic submission** of all tax returns and launching the "**Electronic Mailbox**" service, allowing us to complete the electronic communication between taxpayers and the RS Tax Administration in all tax procedures and practically making us the pioneers of electronic business in the Republic of Srpska and beyond.

In 2022, we also executed **media campaigns** (a total of 3 media campaigns) in order to point out to citizens the importance of using electronic services, i.e. the fact that using electronic services saves them both time and money.

All this led to **increase in the number of users of electronic services of the RS Tax Administration**, so at the end of 2022 we had 39.913 users, i.e. **10% more users** compared to the previous year. In the coming period, the Tax Administration of the Republic of Srpska will continue with its development of electronic services and strive to encourage taxpayers to actively use them.

One of the more significant activities in 2022 covered the inclusion of the RS Tax Administration in the Project of the Government of the Republic of Srpska "**Optimization of Administrative Procedures and Formalities at the Republican Level**". Simplification of administrative procedures and formalities refers to the elimination of unnecessary documentation, abolition or reduction of fees and charges, shortening the deadline for the actions of competent authority, extending the validity of formalities, unifying procedures and formalities, conducting procedures electronically and other simplifications that contribute to reducing administrative burdens.

In that regard, the RS Tax Administration proposed **an ex officio automated data check**, i.e. the possibility for institutions to receive a Certificate for Settled Tax Liabilities in electronic format, confirming that the taxpayer did not declare the due tax liabilities and/or did not pay the declared ones, and therefore taxpayers would also be enabled to gain insight into data on submitted applications and paid liabilities through electronic services. Therefore, during the past year, activities were initiated pertaining the creation of an automated certificate and the selection of institutions that would be users of the RSTA system in the pilot project.

Given that in 2023 we expect the **start of the implementation of the Law on Determining the Origin of Property and Special Property Tax**, over the past year, the RS Tax Administration has formed a Working Group for the establishment of the Sector for Determining the Origin of Property and Special Property Tax, while at the same time the Rulebook on Internal Organization and Systematization of Job Positions in the Republic of Srpska Tax Administration has been brought, defining the competence and organizational units of that new Sector, whereby a numerous of activities and measures have been taken in order to welcome the start of the implementation of this Law.

Furthermore, the RS Tax Administration expects **the implementation of a new system of fiscalization**, i.e. e-fiscalization. In 2022, the RS Tax Administration launched the public procurement procedure for

the establishment of an information system for fiscalization. Namely, over the past period, shortcomings have been detected in the existing system of fiscalization as well as the fiscalization procedure itself, among which, in addition to technological obsolescence, there is an impossibility of checking whether the fiscal invoice issued to the customer has been registered in the taxpayer's records and the prescribed taxes have been paid. Hence the improvement of the fiscalization procedure has been inevitable and the introduction of e-fiscalization is ahead of us.

The RS Tax Administration, guided by the quality policy, has so far introduced **three ISO standards**: ISO 9001 (Quality Policy), ISO 37001 (Anti-corruption Policy and Information Security Management System) and ISO 27001 (Information Security Management Policy) which was introduced in 2022 to ensure the continuity of management of all business processes, as well as further improvement of operations and the provision of the highest quality services to taxpayers.

Also, there is a continuous **strengthening of international cooperation** in the light of changes in the area of taxation at the international level, the tax treatment of the new digital economy and the obligations assumed from membership in the OECD Inclusive Framework for BEPS and the Global Forum. In that regard, the following activities were realized during the previous year: participation in the activities pertaining the OECD Global Forum and the Inclusive Framework, participation of the RSTA's representative in the Subcommittee for Trade, Industry, Customs and Cooperation with Other Candidate Countries within the Stabilization and Association Committee in front of the Republic of Srpska, participation in IOTA activities, implementation of a new project with the Swedish Tax Agency, implementation of the IMF Technical Assistance Project - Strengthening Cooperation with Tax Administrations in the Region, participation in the activities of the EU Program Fiscalis, as well as participation in working groups pertaining the system of coordination in the process of European integration within BiH and among the institutions of the Republic of Srpska (Free Movement of Capital, Company Law, Taxation and Financial and Budgetary Provisions).

The Tax Administration of the Republic of Srpska will continue to undertake all measures and activities within its jurisdiction in order to contribute to the implementation of reform processes, as well as the tasks and goals that lie ahead, through the constant strengthening of public trust in the tax system and through the complete transparency of the work of the Tax Administration of the Republic of Srpska.

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Director

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