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## The key features of the VAT system in Bosnia and Herzegovina

According to many tax experts and other officials, the tax reform in Bosnia and Herzegovina (B&H) started by the passing of the Law on VAT in 2006. The VAT law represents an important milestone towards the inclusion of B&H into the EU integration process. The Law, which is aligned with the Sixth EU Directive on the VAT, introduced the obligation to regulate the VAT system on the whole territory of B&H and formed the Indirect Taxation Authority as the competent institution responsible for payment and calculation of VAT.

### VAT Law Basics

The standard tax rate of 17% is valid in both the Federation and the Republic of Srpska. The Law on VAT treats imports of goods into the territory of B&H as well as goods and services supply in the territory of B&H.

In accordance with the law, persons and entities subject to VAT include:

- Taxpayers who made supply of goods or services;
- Tax representatives for taxpayers without seat or permanent establishment in B&H;
- Recipients of services purchased for business improvement in the case when the service provider is not based in B&H and hasn't designated a tax representative;
- Any person who is issuing invoices with VAT; and
- In the case of imports - the recipient of goods (customs debtor), and for cases of construction of real estate - the recipient of goods and services;

The period of calculation of VAT is the calendar month, whereas the VAT payers are obliged to submit an application and payment of VAT by the 10-day in the month after the tax period.

### Activities exempt from VAT

The Law has defined the activities of public interest related to postal services, medical and health care, social security, education and sports which are exempt from VAT. In addition, the relief includes services related to insurance, granting and managing loans, deposits, savings and bank accounts and management investment funds.

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It is worth mentioning that the zero VAT rate applies in case of export of goods from B&H and on behalf of the seller, providing of services (transportation) directly related to export or import of goods, also for humanitarian delivery and charitable activities and services in behalf of other brokers, or services performed by the agent or done outside of B&H. Specific exemptions apply to the importation of goods intended for free trade zones and warehouses (except customs), delivery of goods in accordance with customs regulations, which are temporarily stored, and any services in connection with such traffic.

### **Place of taxation of goods and services**

In accordance with the provisions of the Law, VAT is paid at the place of supply of goods.

Following the general rulings regarding defining the origin of tax liability and the place of completed services, set by the law, the source of the completed services will be considered as the source of the service provider's jurisdiction. However certain exceptions apply relating to specific areas.

In addition, the law stipulates several exemptions, such as transfer, transfer of property rights, intellectual property rights, advertising, legal services, auditing, accounting, interpreting and translating and other related consulting services, banking, insurance, reinsurance, employment mediation, mediation services and telecommunications services as well as mediation related to these services. In such cases, the calculation and payment of VAT depends on the location of service recipients. Accordingly, if such services are performed from locations not based in B&H, the place of service is considered to be a place where the recipient of services has its headquarters or domicile.

### **Economic reasons**

The main reason for the adoption of uniform legislation is related primarily to economic reasons, creating prerequisites for financing the budget of B&H institutions and the separation of tax powers at the state level. A novelty in the VAT system in B&H is the announcement of the Indirect Taxation Authority regarding the work on fulfilling technical prerequisites for the introduction of the electronic submission of VAT returns in order to eliminate errors and expedite the entire procedure of calculation and payment.

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