FOREWORD

A country’s tax regime is always a key factor for any business considering moving into new markets. What is the corporate tax rate? Are there any incentives for overseas businesses? Are there double tax treaties in place? How will foreign source income be taxed?

Since 1994, the PKF network of independent member firms, administered by PKF International Limited, has produced the PKF Worldwide Tax Guide (WWTG) to provide international businesses with the answers to these key tax questions.

As you will appreciate, the production of the WWTG is a huge team effort and we would like to thank all tax experts within PKF member firms who gave up their time to contribute the vital information on their country’s taxes that forms the heart of this publication.

The PKF Worldwide Tax Guide 2015/16 (WWTG) is an annual publication that provides an overview of the taxation and business regulation regimes of the world’s most significant trading countries. In compiling this publication, member firms of the PKF network have based their summaries on information current on 1 January 2015, while also noting imminent changes where necessary.

On a country-by-country basis, each summary such as this one, addresses the major taxes applicable to business; how taxable income is determined; sundry other related taxation and business issues; and the country’s personal tax regime. The final section of each country summary sets out the Double Tax Treaty and Non-Treaty rates of tax withholding relating to the payment of dividends, interest, royalties and other related payments.

While the WWTG should not to be regarded as offering a complete explanation of the taxation issues in each country, we hope readers will use the publication as their first point of reference and then use the services of their local PKF member firm to provide specific information and advice.

Services provided by member firms include:

- Assurance & Advisory;
- Financial Planning / Wealth Management;
- Corporate Finance;
- Management Consultancy;
- IT Consultancy;
- Insolvency - Corporate and Personal;
- Taxation;
- Forensic Accounting; and,
- Hotel Consultancy.

In addition to the printed version of the WWTG, individual country taxation guides such as this are available in PDF format which can be downloaded from the PKF website at www.pkf.com
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JUNE 2015

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For further advice or information please contact:

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<thead>
<tr>
<th>City</th>
<th>Name</th>
<th>Contact details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beograd</td>
<td>Petar Grubor</td>
<td>+ 381 11 30 18 445</td>
</tr>
<tr>
<td></td>
<td></td>
<td><a href="mailto:petar.grubor@pkf.rs">petar.grubor@pkf.rs</a></td>
</tr>
</tbody>
</table>

BASIC FACTS

Full name: Bosnia and Herzegovina
Capital: Sarajevo
Main languages: Bosnian, Croatian and Serbian
Population: 3,871,643 (2014 census)
Major religion: Islam, Christianity
Monetary units: Convertible Mark (BAM)
Internet domain: .ba
Int. dialling code: +387

KEY TAX POINTS

- Bosnia and Herzegovina consists of the Federation of Bosnia and Herzegovina (FBIH) and Republika Srpska (RS), with the Brčko District (BD) region administered by both.
- The CIT rate in the Federation of Bosnia and Herzegovina, the Republika Srpska and the Brčko District is 10%.
- Capital gains are generally taxed as profits at a rate of 10%.
- Representative offices of foreign companies can be registered in all three administrative units, however, a branch of a foreign legal entity can only be registered in Republika Srpska.
- Value Added Tax (VAT) is applied at a standard VAT rate of 17%, and the VAT regime applies equally throughout the country.
- There are no local taxes in Bosnia and Herzegovina.
- Taxable profit is determined by adjusting the accounting profit determined in accordance with International Financial Reporting Standards, International Accounting Standards (IFRS/IAS), and accounting legislation and in accordance with the provisions of the CIT law.
- Transfer pricing requirements are imposed at the entity level. The Federation of Bosnia and Herzegovina, Republika Srpska, and Brčko District have different regulations in place, including different rules in regard to applicable methods, related parties, and documentation.
- There are not exchange controls in Bosnia and Herzegovina.
- (FBIH and RS) tax residents are subject to tax on their worldwide income; non-residents are taxed on the FBIH/RS source income only.
An individual is considered resident for income tax purposes if he/she has a residence or center of business and/or vital interests in the FBiH/RS, or stays in the FBiH/RS for at least 183 days in aggregate during the tax year.

In both the FBiH and the RS, each taxpayer must file a return; joint filing is not permitted.

A. TAXES PAYABLE

FEDERAL TAXES AND LEVIES

COMPANY TAX

Bosnia and Herzegovina consists of two entities: Federation of Bosnia and Herzegovina (FBiH) and Republika Srpska (RS), with a third region, the Brčko District (BD), being administered by both. Direct taxes are imposed at the entity/district level, while indirect tax regulations are imposed at the state level.

CIT systems in Bosnia and Herzegovina have been partially harmonized in the past few years, but significant differences remain. The Federation of Bosnia and Herzegovina, Republika Srpska, and the Brčko District tax resident corporations on a worldwide basis. Non-residents are taxed on income realized in the FBiH, RS, and BD territories.

Federation of Bosnia and Herzegovina (FBiH) CIT

A CIT payer in the Federation of Bosnia and Herzegovina is a resident business association or other legal entity performing independent and permanent business activity through the sales of products and providing services on the market for the purpose of generating profit.

A CIT payer in the Federation of Bosnia and Herzegovina is also a non-resident who generates profits through business activity from a business unit in the territory of the Federation of Bosnia and Herzegovina.

A non-resident whose registered seat or management is not in the Federation of Bosnia and Herzegovina and who does not have a business unit in the Federation of Bosnia and Herzegovina is subject to withholding tax (WHT) for income generated in the Federation of Bosnia and Herzegovina.

The CIT rate in the Federation of Bosnia and Herzegovina is 10%.

Republika Srpska (RS) CIT

A CIT payer in Republika Srpska is:

• A legal entity from Republika Srpska that generates income from any source in Republika Srpska or abroad.

• A business unit of a legal entity that generates income in the territory of Republika Srpska.

• A non-resident legal entity that conducts business activity and has a permanent establishment (PE) in Republika Srpska, for income that is related to that PE.

• A non-resident legal entity that generates income from immovable property in Republika Srpska, for the income generated in Republika Srpska.
• A non-resident legal entity that generates income in Republika Srpska, not mentioned above, and is subject to WHT in accordance with the CIT law of Republika Srpska.

The CIT rate in Republika Srpska is 10%.

**Brčko District (BD) CIT**

A CIT payer in Brčko District is:

• A legal entity from Brčko District that generates income from any source in Bosnia and Herzegovina or abroad.

• A business unit of a legal entity with headquarters in the Federation of Bosnia and Herzegovina or Republika Srpska, for income generated in Brčko District.

• A non-resident legal entity that conducts business activity and has a PE in Brčko District, for income that is related to that PE.

• A non-resident legal entity that generates income from immovable property in Brčko District, for the income generated in Brčko District.

• A non-resident legal entity that generates income in Brčko District, not mentioned above, and is subject to WHT in accordance with the CIT law of Brčko District.

The CIT rate in Brčko District is 10%.

**FBiH Residency**

Under FBiH CIT law, a resident is a legal entity whose headquarters (registration) is entered into a court registry or whose management and supervision over the business activities is located in the Federation of Bosnia and Herzegovina.

**FBiH Permanent Establishment**

A PE of a non-resident is a permanent place of business through which the non-resident performs activity in whole or partially throughout the territory of the Federation of Bosnia and Herzegovina. A PE under FBiH CIT law is considered to be one of the following:

• Management headquarters.

• Branch office.

• Business office.

• Factory.

• Workshop.

• Location of natural resources extraction.
• Construction site (construction or mounting project) when the work is performed during a period exceeding six months.

• Providing consulting or business services lasting for a period exceeding three months consecutively over a 12-month period.

• A representative acting independently on behalf of a non-resident related to the activities of signing a contract or keeping supplies of products delivered on behalf of a non-resident.

**RS Residency**

Under RS CIT law, a resident is a legal entity registered in Republika Srpska.

**RS Permanent Establishment**

A PE is considered to be a place of business of a non-resident in Republika Srpska (i.e. construction works, installation and assembly works, infrastructure used for research or exploitation of natural resources or supervisory of the same).

A PE shall also be considered to be a place of business where an individual or legal person has the authorisation to conclude contracts for a foreign legal entity.

**BD Residency**

The BD CIT law prescribes that a resident is a legal entity registered in Brčko District.

**BD Permanent Establishment**

A PE of a non-resident in Brčko District is considered to be:

• Construction works, installation and assembly works, infrastructure used for research or exploitation of natural resources, or supervisory of the same; or,

• A place of business where an individual or legal person has the authorisation to conclude contracts for a foreign legal entity.

**CAPITAL GAINS TAX**

Capital gains are generally taxed as profits at a rate of 10%.

**BRANCH PROFITS TAX**

Representative offices of foreign companies can be registered in all three administrative units.

A branch of a foreign legal entity can only be registered in Republika Srpska. The tax treatment of the branch of a foreign legal entity is still quite unclear from the local perspective, so we recommend contacting a tax and accounting specialist.

Amendments to the Company Law of the Federation of Bosnia and Herzegovina introduced the possibility for foreign companies to establish one or more branch offices. However, registration of a
branch office of a foreign legal entity is still not enabled in practice. BD regulations do not allow registration of branch of a foreign legal entity.

**VALUE ADDED TAX**

The standard VAT rate is 17%, and the VAT regime applies equally throughout the country of Bosnia and Herzegovina.

There is no reduced VAT rate in Bosnia and Herzegovina.

Taxable persons are all individuals and legal entities registered, or required to be registered for VAT. Any person making taxable supplies of goods and services that exceeds or is likely to exceed a threshold of 50,000 konvertibilna marka (convertible mark or BAM) (25,000 euros [EUR]) is required to register as a VAT payer. The export of goods is zero-rated.

Taxable transactions include the supply of goods and services in Bosnia and Herzegovina by a taxable person, as well as the importation of goods to Bosnia and Herzegovina by any person. The following transactions are also taxable:

- Transactions for no consideration or for a consideration less than the market value.
- The private use of taxable goods by a taxable person (self-supply).

The following services are exempt from VAT in Bosnia and Herzegovina:

- The leasing and subletting of residential houses, apartments, and residential premises for a period of longer than 60 days.
- The supply of immovable property, except for the first transfer of the ownership rights or the rights to dispose of newly constructed immovable property.
- Financial services.
- Insurance and reinsurance services.
- Educational services provided by private or public educational institutions.
- Postal services.

The VAT period is one calendar month. Any tax credit that has not been used after a period of six months shall be refunded. Registered exporters are to be refunded within 30 days.

**FRINGE BENEFITS TAX**

**FBiH Social Security Contributions**

Mandatory social security contributions in the Federation of Bosnia and Herzegovina are due by the following rates:
Contribution Type | Employee’s contributions (%) | Employer’s contributions (%)
--- | --- | ---
Contribution for pension and invalid insurance | 17.0 | 6.0
Contribution for health insurance | 12.5 | 4.0
Contribution for unemployment insurance | 1.5 | 0.5

The base for calculation of social security contributions is the gross salary. In the Federation of Bosnia and Herzegovina, the employer also pays 0.5% of contribution for protection from natural and other disasters, as well as 0.5% of the water protection charge, calculated on net salary. Personal income tax (PIT) of 10% and social security contributions has to be calculated and withheld by an employer with the salary payment.

**RS Social Security Contributions**

In Republika Srpska, the following rates of mandatory social security contributions have to be applied:

<table>
<thead>
<tr>
<th>Contribution Type</th>
<th>% of gross salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contribution for pension and invalid insurance</td>
<td>18.5</td>
</tr>
<tr>
<td>Contribution for health insurance</td>
<td>12.0</td>
</tr>
<tr>
<td>Contribution for unemployment insurance</td>
<td>1.0</td>
</tr>
<tr>
<td>Contribution for child protection</td>
<td>1.5</td>
</tr>
</tbody>
</table>

In Republika Srpska, mandatory social security contributions are calculated on gross salary and have to be withheld by the employer, as an income payer.

**BD Social Security Contributions**

Persons who are working in Brčko District can opt to which fund of pension insurance, either the fund of Republika Srpska or fund of the Federation of Bosnia and Herzegovina, they would like to pay pension and invalid insurance contributions. Health insurance contributions are calculated in the amount of 12% on gross salary.

**LOCAL TAXES**

There are no local taxes.

**OTHER TAXES:**

**CUSTOMS DUTIES**

The customs policy law and the rates of customs tariffs to be applied exist and are largely based on European Union (EU) standards. Bosnia and Herzegovina has signed the Stabilisation and association
Agreement (SAA) and the Central European Free Trade Agreement (CEFTA).

**EXCISE DUTIES**

There is a single excise regime throughout Bosnia and Herzegovina, which levies excise tax on the following products:

- Petroleum products: BAM 0.3 to BAM 0.4 per litre.
- Tobacco products: 42% on retail price and an additional BAM 0.75 per pack of 20 cigarettes. If the calculated excise duty is lower than the minimally prescribed excise duty, then the minimal excise duty should be paid (the minimal duty is determined every year by the indirect tax authorities by special regulation).
- Non-alcoholic drinks: BAM 0.1 per litre.
- Alcohol and alcoholic drinks: BAM 8 to BAM 15 per litre of absolute alcohol.
- Beer and wine: BAM 0.2 to BAM 0.25 per litre.
- Coffee (unroasted, roasted, and ground coffee and coffee extracts): BAM 1.5 to BAM 3.5 per kilogram.

**PROPERTY TAXES (REAL ESTATE)**

**FBiH Property Taxes**

FBiH property taxes are imposed at the cantonal level (ten cantons in total), and the rates as well as the taxpayers are different between the cantons. The taxes are paid in the range of BAM 0.5 to BAM 3 per square metre.

**RS Property Taxes**

RS property taxes are imposed at the entity level. The annual tax rate is between 0.05% and 0.5% of the market value of the property. The applicable tax rate is determined every year by the municipalities.

**BD Property Taxes**

BD property taxes are imposed by the BD assembly. The annual tax rate is between 0.05% and 1% of the market value of the property. The rate is adopted by the assembly for every year based on the proposed annual budget.

**TAX ON TRANSFER OF LAND AND REAL ESTATE**

**FBiH Transfer Taxes**

The FBiH tax on transfer of land and real estate is imposed at the cantonal level. The rate differs by canton; however, it cannot be higher than 5%.
RS Transfer Taxes

There is no tax on transfer of land and real estate in Republika Srpska.

BD Transfer Taxes

There is no tax on transfer of land and real estate in Brčko District.

B. DETERMINATION OF TAXABLE INCOME

Taxable profit is profit determined by adjusting the accounting profit as stated in the profit and loss statement and determined in accordance with International Financial Reporting Standards, International Accounting Standards (IFRS/IAS), and accounting legislation and in accordance with the provisions of the CIT law.

DEPRECIATION

FBiH Depreciation

Depreciation cost is deductible only if it relates to the property subject to depreciation and being used. Depreciation of fixed assets is deductible up to the amount established by proportionate application of the highest annual depreciation rates using the linear method, prescribed by the FBiH government, as follows:

<table>
<thead>
<tr>
<th>Assets</th>
<th>Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings, except:</td>
<td>10</td>
</tr>
<tr>
<td>Management, administration, office, and other buildings for</td>
<td>3</td>
</tr>
<tr>
<td>providing service activities</td>
<td></td>
</tr>
<tr>
<td>Apartment houses, hotels, restaurants</td>
<td>14.3</td>
</tr>
<tr>
<td>Roads, communal objects, upper railway rails machine</td>
<td>14.3</td>
</tr>
<tr>
<td>Equipment, vehicles, mechanicals except:</td>
<td>20</td>
</tr>
<tr>
<td>Equipment for water management, water-supply, and canalization</td>
<td>14.3</td>
</tr>
<tr>
<td>Computers and equipment for environment protection</td>
<td>33.3</td>
</tr>
<tr>
<td>Crops</td>
<td>14.4</td>
</tr>
<tr>
<td>Livestock units</td>
<td>40</td>
</tr>
<tr>
<td>Intangible non-current assets</td>
<td>20</td>
</tr>
</tbody>
</table>

Property being depreciated with a value of less than BAM 1,000 may be fully deducted in the purchase year, on condition that that the property was put in service. The purchase value of computer hardware and software may be deducted fully in the year the purchase was made.

A depreciated assets, once depreciated, shall not be re-included in the depreciation calculation for the purposes of the tax balance. Depreciation is allowed for increases in the value of fixed assets due to revalorization in accordance with IFRS/IAS, up to the amount of calculated depreciation on the revalorization base and by using the proportion method prescribed by law.
RS Depreciation

Depreciation deductions are allowed only with respect to depreciable assets that are being used. A depreciable asset is any tangible or intangible asset that is held for use in the production or supply of goods and services, for rental to others, or for administrative purposes. Land or any other asset that does not decrease in value through wear and tear or obsolescence is not considered a depreciable asset.

Assets are depreciated using the linear method of depreciation, except for machines and equipment, which can be depreciated with acceleration (first year at 40%, second year at 30%, and third year at 30%).

The CIT Rulebook prescribes a wide range of accepted depreciation rates, depending on type of assets, ranging from 1% to 50% annually.

BD Depreciation

Depreciation deductions are allowed only with respect to depreciable assets that are being used. A depreciable asset is any tangible or intangible asset that is held for use in the production or supply of goods and services, for rental to others, or for administrative purposes. Land or any other asset that does not decrease in value through wear and tear or obsolescence is not considered a depreciable asset.

Assets are depreciated using the linear method of depreciation, except for machines and equipment, which can be depreciated with acceleration (first year at 40%, second year at 30%, and third year at 30%).

The CIT Rulebook prescribes a wide range of accepted depreciation rates, depending on type of assets. The calculation of depreciation for newly purchased property starts the following month on the day when it was put to use. The calculation of depreciation for newly constructed buildings starts from the first day of the following year in which it was put to use.

INVESTMENT INCENTIVE – CAPITAL ALLOWANCES

FBiH Investment Incentive

A taxpayer who invested in production within the territory of the Federation of Bosnia and Herzegovina for five consecutive years for a minimum fee of BAM 20 million will be relieved from taxation for a period of five years, starting with the first year in which it has invested at least BAM 4 million.

RS Investment Incentive for Production Companies

For a taxpayer who invests in property, plant, and equipment (PPE) for performing its own registered business activity in the territory of Republika Srpska, a deduction is allowed for the amount of the investment.

Only companies registered for production activity in accordance with special Ministry decision can use this tax incentive. If the taxpayer disposes of the PPE within three years of the year for which the tax incentive was used, the taxpayer will have to pay the additional tax as if they never used the incentive, as well as penalty interest for late payments.
**BD Investment Incentive**

For a taxpayer who invests in machines and equipment for performing its own registered business activity on the territory of Brčko District, a deduction is allowed for the amount of the investment.

**STOCK / INVENTORY**

**FBiH Inventory Valuation**

Expenses of production in accordance with accounting regulations and IFRS/IAS shall be recognized in the value of stocks of unfinished production, semi products, and finished products for the calculation of taxable profit. The inventory is valued by using the average price method.

**RS Inventory Valuation**

Inventory includes goods used for resale, final goods produced by the taxpayer, semifinal goods used for further production, as well as main and auxiliary materials for production. Purchase value of inventories at the beginning and end of a fiscal year has to be expressed using the same method for determination of purchase value of inventories. The purchase value of inventories can be determined by using the first in first out (FIFO) method or the weighted average cost method.

**BD Inventory Valuation**

The purchase value of inventories can be determined by using the first in first out (FIFO) method or the average cost method.

**CAPITAL GAINS AND LOSSES**

**FBiH Capital Gains**

The taxable base shall include profit from liquidation and capital gain from the balance sheet.

**RS Capital Gains**

Capital gain is realized through the sale or other type of transfer of capital or investment assets and represents a difference between the sales price and adjusted base of an asset.

The sales price is the contracted price (i.e. the market price established by the competent tax authority in case it finds the contracted price to be lower than the market price).

Capital gains or losses realized during the fiscal year can be offset, and the realized net gain or loss is added or subtracted from the taxable base, if they are not already included in the income or expense.

**BD Capital Gains**

A capital gain is realized by sale or transfer of capital and investment goods and represents positive difference between the sales price and adjusted property base.
DIVIDENDS

Taxation of dividends – In the FBiH, dividends are not taxable. In the RS, only dividends paid to individuals are subject to tax.

FBiH Dividend Income

Dividends realized based on participation in the capital of other taxpayers shall not be included in the tax base. Shares in the profit of a business association will be considered dividends.

RS Dividend Income

Income from dividends is not included in the taxable base.

BD Dividend Income

Income from dividends is not included in the taxable base.

INTEREST DEDUCTIONS

FBiH Interest Expenses

Interest expense is generally tax deductible, except for interest that is not calculated at arm’s length and interest on taxes, social security contributions, and other public revenue.

RS Interest Expenses

Interest on loans used for business purposes are tax deductible. The exceptions are interest that is not at arm’s length, interest on loans for private use, and interest on overdue tax payments.

BD Interest Expenses

Interest on loans used for business purposes are tax deductible. The exceptions are interest that is not at arm’s length, interest on loans for private use, and interest on overdue tax payments.

LOSSES

Tax losses may be carried forward for up to five years. Tax losses carried forward from the current year are utilized in the first year in which taxable profits are available for offset, so that the tax base is always reduced by the oldest losses.

The carry back of losses is not permitted.

FOREIGN SOURCED INCOME

FBiH Foreign Income

The Federation of Bosnia and Herzegovina taxes resident corporations on a worldwide basis. There are no deferral or anti-deferral provisions in the Federation of Bosnia and Herzegovina.
RS Foreign Income

Republika Srpska taxes resident corporations on a worldwide basis. There are no deferral or anti-deferral provisions in Republika Srpska.

BD Foreign Income

Brčko District taxes resident corporations on a worldwide basis. There are no deferral or anti-deferral provisions in Brčko District.

INCENTIVES

FBiH Special Needs Employment Incentive

A taxpayer who employs more than 50% of handicap or special needs individuals within its company for a period of time longer than one year is relieved from CIT for the year in which more than 50% of handicap or special needs individuals are employed within the company.

FBiH Export Incentive

A taxpayer who realizes more than 30% of annual income by export will be relieved from CIT for that year.

RS Employment Incentive

For a taxpayer who employs 30 new employees (which were registered in the RS unemployment agency) for an indefinite period of time during the tax period, a deduction is allowed for the paid personal income tax and social security contributions for those employees.

If the taxpayer lets go of employees within three years for whom the tax incentive was used, the taxpayer will have to pay the additional tax as if they never used the incentive, as well as penalty interest for late payments.

BD Employment Incentive

For a taxpayer who employs new employees for an indefinite period of time during the tax period, a second deduction is allowed for the total amount of paid gross salaries for the new employees.

C. FOREIGN TAX RELIEF

FBiH Foreign Tax Credit

When a taxpayer generates income or profit through business activities outside of the Federation of Bosnia and Herzegovina (directly or through a business unit) and pays the profit tax on such activities, the tax paid abroad shall be credited, up to the amount of the profit tax that would have been paid for the income or profit generated by the same activities in the Federation of Bosnia and Herzegovina.
RS Foreign Tax Credit

If a legal entity from Republika Srpska obtains revenue from a foreign state and the revenue is taxed both in Republika Srpska and in the foreign state, then the tax paid to the foreign state, whether paid directly or withheld and remitted by another person, is to be credited from RS CIT, unless such legal entity from Republika Srpska elects to treat the foreign tax as a deductible expenditure in determining the fiscal year tax base.

BD Foreign Tax Credit

If a legal entity from Brčko District obtains revenue from a foreign state and the revenue is taxed both in Brčko District and in the foreign state, then the tax paid to the foreign state, whether paid directly or withheld and remitted by another person, is to be credited from the BD CIT, unless such legal entity from Brčko District elects to treat the foreign tax as a deductible expenditure in determining the fiscal year tax base.

D. CORPORATE GROUPS

FBiH Group Taxation

A business association has the right to request tax consolidation on the condition that all businesses in the group are residents of the Federation of Bosnia and Herzegovina. A headquarters company and its branches may form a business association when there is direct or indirect control between them with no less than 90% share.

A request for tax consolidation must be filed to the authorized branch office of the tax authorities by a headquarters company. Each group member is required to file its tax balance, and the headquarters of the business association may file a consolidated tax balance for the group. The consolidated tax balance may offset losses of one or more businesses against the profit of other businesses in the association.

Individual group members are liable for the tax calculated on the consolidated balance proportionately to the profit from the individual tax balance, and the headquarters is the payer of the tax calculated on the consolidated balance.

Once approved, tax consolidation shall be applied for the consecutive period of no less than five years. When one, several, or all the businesses in the association later opt for individual taxation, all group members shall be obligated to pay the difference proportionately on behalf of the tax privilege they have used.

RS Group Taxation

An affiliated group of legal persons located within Republika Srpska may elect to file a consolidated annual tax declaration. An affiliated group of legal persons is a group of one or more legal entities from Republika Srpska that are connected through the ownership of stock with a common parent, provided that the common parent owns at least 80% of the stock in a legal person that is included in the affiliated group.

If the common parent does not own at least 80% of the stock in a legal person that is included in the affiliated group, then the parent may file a consolidated tax declaration if one or more other legal persons in the affiliated group own at least 80% of the stock in such legal person.
BD Group Taxation

An affiliated group of legal persons located within Brčko District may elect to file a consolidated annual tax declaration.

An affiliated group of legal persons is a group of one or more legal entities from Brčko District that are connected through the ownership of stock with a common parent, provided that the common parent owns at least 80% of the stock in a legal person that is included in the affiliated group.

E. RELATED PARTY TRANSACTIONS

Transfer pricing requirements are imposed at the entity level. The Federation of Bosnia and Herzegovina, Republika Srpska, and Brčko District have different regulations in place, including different rules in regard to applicable methods, related parties, and documentation.

The regulations in place do not differ if the transactions are within one entity, cross-border, or international. Basically, this means that all transactions can fall under the transfer pricing scope. With Bosnia and Herzegovina not being an EU or an OECD member, the local legislation does not have the same requirements with respect to transfer pricing documentation as in EU countries nor does the legislation refer to the OECD guidelines.

FBiH Related Parties

In the Federation of Bosnia and Herzegovina, a related party is considered to be an individual or legal person who has the possibility of control or significant influence on the business decisions of the taxpayer. Owning more than half or individually the most stocks or shares in a company is considered to be enabled control.

Significant influence is considered to be mutually high sales turnover, technical dependence, or otherwise gained control over the management.

FBiH Prescribed Methods

The FBiH CIT law recognizes only two methods:

- Comparable uncontrolled price (CUP) method (primary method).
- Cost plus method.

RS and BD Related Parties

As per the applicable RS and BD legislation, related parties of a legal person are considered to be physical or legal persons if those persons possess more than 10% of active shares with voting rights. A legal person can be a related party if it possesses more than 10% active shares in the other person indirectly or directly. Indirect ownership is considered to be:

- If a legal person possesses more than 10% of a dependent company, and that dependent company possesses more than 10% in the other legal person.
• If both legal persons have a common shareholder who possesses more than 10% active shares with voting rights in both legal persons.

**RS and BD Prescribed Methods**

The RS and BD regulations prescribe the following five methods that can be used in order to establish whether the prices are in accordance with the arm’s-length principle:

• CUP method (primary method).
• Cost plus method.
• Resale price method.
• Profit split method.
• Transactional net margin method.

**F. WITHHOLDING TAX (WHT)**

**FBiH Withholding Tax**

WHT in the Federation of Bosnia and Herzegovina is calculated on non-resident income generated throughout the territory of the Federation of Bosnia and Herzegovina.

The base for calculation of WHT is the gross amount paid by a resident of the Federation of Bosnia and Herzegovina to a non-resident for dividends, interest, royalties and other intellectual property rights, compensations for market research, tax consulting services, auditors’ services, fun and sports events, premium insurance for insurance or reinsurance of risk in the Federation of Bosnia and Herzegovina, telecommunication services between the Federation of Bosnia and Herzegovina and other countries, as well as all other services performed on the territory of the Federation of Bosnia and Herzegovina.

WHT shall be paid at the rate of 5% on dividend payments and 10% for interest, royalties, and other, if not reduced under a tax treaty.

**RS Withholding Tax**

Any legal or physical person from Republika Srpska, as well as any non-resident legal or physical person with PE in Republika Srpska, who pays revenue to a non-resident legal person is to withhold tax from the total payment of revenue and is to remit the withheld tax to the Public Revenues Account of Republika Srpska.

The WHT applies to the following revenue payments, regardless of whether the revenue is received in Republika Srpska or abroad:

• Payment of interest or its functional equivalent under financial instruments and arrangements from a resident.
• Payment for entertainment or sporting activities carried out in Republika Srpska, regardless of whether the revenue is received by the entertainer or sportsman or by another person.
Bosnia and Herzegovina

- Payment for the performance of management, consulting, financial, technical, or administrative services, if the revenue is from a resident or if the revenue is paid by or included in the books and records of a PE in Republika Srpska or if such payment is deducted for the purpose of determining the tax base.

- Payment in the form of insurance premiums for the insuring or reinsuring of risks in Republika Srpska.

- Payment for telecommunication services between Republika Srpska and a foreign state.

- Payment of royalties.

- Payment of lease for movable property.

- Payment for the performance of other services in Republika Srpska.

WHT is not due on dividend payments. The WHT rate in Republika Srpska is 10%.

**BD Withholding Tax**

Any legal or physical person from Brčko District, as well as any non-resident legal or physical person with PE in Brčko District, who pays revenue to a non-resident legal person is to withhold tax from the total payment of revenue and is to remit the withheld tax to the Public Revenues Account of Brčko District.

The WHT applies to the following revenue payments, regardless of whether the revenue is received in Brčko District or abroad:

- Payment of interest or its functional equivalent under financial instruments and arrangements from a resident.

- Payment for entertainment or sporting activities carried out in Brčko District, regardless of whether the revenue is received by the entertainer or sportsman or by another person.

- Payment for the performance of management, consulting, financial, technical, or administrative services, if the revenue is from a resident or if the revenue is paid by or included in the books and records of a PE in Brčko District or if such payment is deducted for the purpose of determining the tax base.

- Payment in the form of insurance premiums for the insuring or reinsuring of risks in Brčko District.

- Payment for telecommunication services between Brčko District and a foreign state.

- Payment of royalties.

- Payment of lease for movable property.

- Payment for the performance of other services in Brčko District.

WHT is not due on dividend payments. The WHT rate in Brčko District is 10%.
G. EXCHANGE CONTROL

There are not exchange controls in Bosnia and Herzegovina.

H. PERSONAL TAX

The FBIH and the RS tax residents on their worldwide income; non-residents are taxed on the FBIH/RS source income only.

An individual is considered resident for income tax purposes if he/she has a residence or center of business and/or vital interests in the FBIH/RS, or stays in the FBIH/RS for at least 183 days in aggregate during the tax year.

In both the FBIH and the RS, each taxpayer must file a return; joint filing is not permitted.

The tax base in the FBIH is total gross taxable income paid by the employer less employee contributions and deductible allowances (the monthly basic personal allowance, less dependent family member allowance(s)). In the RS, the tax base is total gross taxable income paid by the employer less social security contributions and deductible allowances (less dependent family member allowance(s), interest paid on housing loans, and pension contributions paid for voluntary pension insurance up to a ceiling, where applicable).

In the RS, capital gains are taxed at a rate of 10%. Capital gains in the FBIH are not subject to tax.

Personal deductions in the FBIH are BAM 3,600 per calendar year. Additional deductions include the dependent family member allowance, interest paid on housing loans, life insurance up to BAM 2,520 per annum and certain payments for health services. In the RS, deductions include the dependent family member allowance, interest paid on housing loans and pension contributions paid for voluntary pension insurance up to BAM 1,200 per annum.

The rate is 10% in both the FBIH and the RS.

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

<table>
<thead>
<tr>
<th>Tax Treaty Rates:</th>
<th>Dividends (%)</th>
<th>Interest (%)</th>
<th>Royalties (%)</th>
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<tbody>
<tr>
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<td>5/15 (1)</td>
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<td>10</td>
</tr>
<tr>
<td>France</td>
<td>5/15 (1)</td>
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<tr>
<td>Germany</td>
<td>15</td>
<td>0</td>
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<tr>
<td>Greece</td>
<td>5/15 (1)</td>
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<tr>
<td>Hungary</td>
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<td>0</td>
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<tr>
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</tr>
<tr>
<td>Italy</td>
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<tr>
<td></td>
<td>Dividends (%)</td>
<td>Interest (%)</td>
<td>Royalties (%)</td>
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<tr>
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<td>---------------</td>
<td>--------------</td>
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</table>

NOTES:

1. The lower rate applies if the beneficial owner is a company (other than a partnership) that directly holds at least 25% of the capital of the company paying the dividends.

2. The lower rate applies if the beneficial owner is a company (other than a partnership) that directly holds at least 20% of the capital of the company paying the dividends.

3. The lower rates apply if the beneficial owner is a company (other than a partnership) that directly holds at least 10% of the capital of the company paying the dividends. The competent authorities of the contracting state shall, by mutual agreement, settle the mode of application of these concessions.