

B O S N I A A N D H E R Z E G O V I N A
Federation of Bosnia and Herzegovina
FBiH Ministry of Finance
Federation of BiH Tax Administration
S a r a j e v o

STRATEGIC PLAN OF THE
FEDERATION OF BOSNIA AND HERZEGOVINA
TAX ADMINISTRATION
2019 – 2022

Sarajevo, October 2018

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1. Introduction

The Federation of Bosnia and Herzegovina Tax Administration /hereinafter: FBiH Tax Administration/ is an administration within the FBiH Ministry of Finance. Its remit is regulated by the Law on the FBiH Tax Administration ("Official Gazette of the Federation of BiH, number: 33/02, 28/04, 57/09, 40/10, 27/12, 7/13, 71/14 and 91/15).

This law provides the basis for application of all tax laws, the Law on the Single System of Registration, Control and Collection of Contributions, the Law on Fiscal Systems and the Law on Contributions in the Federation of Bosnia and Herzegovina and related subordinate legislation, and it stipulates specific tax-related offenses and sanctions thereof.

The Tax Administration is competent for conducting and implementing activities in relation to all types of Federation, cantonal, city and municipal taxes and contributions, charges, fees, tourist board membership fees, membership fees of chambers of trades and crafts and tax offence fines.

The main tasks of the FBiH Tax Administration are:

- Taxpayer registration and identification,
- Registration of payers of contributions and insured persons,
- Receipt and processing of tax returns and statements, tax assessment, tax collection and refund,
- Regular and enforced collection of tax arrears,
- Establishing the timeliness, legality and accurateness of filed tax returns,
- Conducting audits,
- Conducting tax investigations,
- Issuing tax rulings,
- Cooperation with tax and other authorities and other tasks in accordance with law.

2. State of play in the FBiH Tax Administration

Organization-wise, the FBiH Tax Administration consists of the Headquarters in Sarajevo and 10 cantonal tax offices with 73 outposts.

As at 24 October 2018, the FBiH Tax Administration has 1,253 employees, which means that compared to the approved establishment level of 1,744 positions, according to the Rulebook on Internal Organization of the FBiH Tax Administration, there is a shortfall of 491 employees. The unfavorable staffing structure is further aggravated by the fact that the average age of staff is 54 years. There is continuous attrition due to retirement, voluntary termination of employment and death. The shortfall is particularly acute among staff with university degree qualifications, where the current staffing level is 707 compared to the official establishment of 928 civil servant positions.

Inadequate staffing levels compared to the Rulebook on Internal Organization of the FBiH Tax Administration adversely affect the performance of the main activity in all organizational units.

Notwithstanding the unfavorable staffing structure, over the past period the Tax Administration has been strongly oriented towards reform of the organization and tax laws with which a modern, developed and efficient tax system will be achieved. The following period will see continuation of these activities.

In order to attain the strategic and operational goals, in the past three years the Tax Administration launched a number of activities in different areas of its business activity and operations. These primarily include awareness raising and strengthened tax compliance activities through continuous and transparent communication with the general public, taxpayers, in particular with specific target groups (unregistered workers, accountants, certified auditors, citizens, etc.). In addition to these activities, focus is placed on more efficient collection of public revenues, positive reforms across all business processes, launching initiatives to regulate the status of the Tax Administration and laws within its remit, education of staff and raising reputation and professional competence of the entire organization.

The FBiH Tax Administration's Strategic Plan 2019-2022 defines the mission, vision and basic values. The Tax Administration's values are the principles on which present and future activities, which are continually carried out by all employees, are based.

Key directions of strategic development of the FBiH Tax Administration are focused on achieving the main strategic goals which, however, are contingent on different factors.

The complexity, lack of harmonization of and frequent amendments to legislation pose critical barriers to the FBiH Tax Administration's performance. Due to its distinct constitutional set-up the BiH tax system is very complex.

Tax laws and executive bodies are divided into several levels. Institutional basis for taxation, i.e. division of fiscal and tax spheres of competence with pronounced decentralization of the tax authority, further contributes to the complexity of the current tax system and produces numerous negative implications.

Specifically, BiH has four tax administrations which are competent for application of tax legislation: the Indirect Taxation Authority of BiH, the FBiH Tax Administration, the Brčko District Tax Administration and the Republika Srpska Tax Administration. The legislative framework and frequent amendments to the legislation strongly affect the FBiH Tax Administration's performance and operational excellence.

The lack of financial resources represents a years-long challenge for the FBiH Tax Administration. Owing to the limited budget capacities of the Federation of BiH, feeble economic development and acute unemployment, the FBiH Tax Administration has been allocated insufficient funding for its overall operations over the last few years.

Operating under a complex and complicated tax system in BiH where tax laws are adopted at different levels of government, the FBiH Tax Administration is unequivocally committed to creating a new business model where maximum attention is paid to efficiency and effectiveness of performance and improvement of taxpayer services.

These improvements call for reform of the FBiH Tax Administration's information system with a view to providing better taxpayer services and increasing tax compliance and revenue collection. Significant workload

increase followed the application of new tax laws, which without any significant recruitment of new staff has dictated maximum engagement and commitment of all employees.

Over the past years, the Tax Administration's work has focused on raising taxpayers' awareness and compliance, increasing collection of public revenues, launching positive reforms across all business processes, initiating initiatives to regulate the Tax Administration's status and legislation within its remit, educating all employees and enhancing the reputation and competence of the institution.

The most important indicators of the Tax Administration's successful performance are results achieved in the collection of public revenues. In 2017 the amount collected was KM 4,820,307,452 which is KM 363,340,947 or 8.15% more than in 2016.

A three-year growth index for the period 2017/2014 was 126.97%, which means that in 2017 the total of KM 1,023,758,862 in public revenues was collected more than in 2014. This upward trend continued throughout 2018, and for the nine months of 2018 the revenue collection totaled KM 3,834,629,567, which compared to the same period last year was 7.41% more or KM 264,488,358.

Significant headway has been achieved over the past three years in the field of information exchange between tax administrations in BiH, which comes as the result of a Memorandum of Institutional Cooperation and Exchange of Taxpayer Information the aim of which is to improve revenue collection. Cooperation is continually enhanced through direct software-based information exchange, and recently new members have been added to the list with the joining of the FBiH Financial and Information and the RS Agency for Intermediary, IT and Financial Services. The portal has been made more user-friendly with enhanced access speed.

The Administration plays an active role and invests significant efforts to improve and enhance the tax system of the Federation of BiH through different initiatives and legal proposals. In the past period, proposals were made to adopt or amend over 35 pieces of legislation, which shows the institution's great social responsibility and its contribution to building a more sound tax system in the Federation of BiH and BiH.

The Tax Administration continually issues open calls and notifications to taxpayers and citizens. The target groups also include workers and the accounting profession which plays an important role in thwarting illegal activities of taxpayers. Continuous communication with the public through the media has significantly contributed to raising tax awareness and compliance.

The FBiH Tax Administration is actively involved in several important projects with international financial institutions and organizations: CILAP, FISCALIS 2020, ICIS (business environment and institutional strengthening technical assistance), a Swedish Embassy project implemented through the Swedish Tax Agency, IMF technical assistance notably in the field of compliance risk management and strengthening the audit function.

Notwithstanding a number of objective setbacks, all Tax Administration staff have invested great efforts to implement the strategic goals and achieve good performance results. Moreover, the Tax Administration is particularly indebted to citizens whose reports have helped the Tax Administration uncover various

irregularities. Citizens have reported non-compliance with tax laws, unregistered employment, failure to issue fiscal receipts and other corrupt activities.

The main challenges ahead include:

- Improving the information system to further automate processes in all segments of operation, especially towards conducting more efficient desk audits and providing better taxpayer services,
- Activities to produce new systematic solutions for regular and enforced collection,
- Higher e-filing rates,
- *Online* connection with the banks,
- Continued activities to reduce the shadow economy,
- Activities to improve the status and standing of the Tax Administration,
- Setting up a register of taxpayers and tax accounting,
- Active participation in the adoption of all legislation relating to the work of the Tax Administration and
- Continued education of all Tax Administration staff.

3. Factors affecting performance - SWOT analysis

Performance results to be achieved in the next 4 years are to a large extent contingent on the current external and internal factors, or the most important positive segments in the Tax Administration, its weaknesses, but also threats and opportunities coming from external factors.

Strengths

- Years-long experience of some of the staff
- Clear and manifest motivation of the staff for positive changes
- E-contributions (*online* portal to check paid contributions)
- System for *online* monitoring of taxpayers organizing games of chance through betting and slot machine clubs

Weaknesses

- Shortfall in staffing levels
- Unfavorable age structure (average age of staff is 54 years)
- Shortage of funds
- Inadequate working conditions (material and technical) and inadequate accommodation capacities
- Decentralized management and position establishment levels in some organizational units not corresponding to actual needs and workload
- Absence of a Risk Management Unit
- Absence of internal control

Opportunities

- Continued in-house education of staff, sharing of knowledge, e-learning methods
- Projects and cooperation with international institutions
- Improving the system of e-services
- Raising tax awareness and taxpayer education
- Automatization and streamlining of operations
- Aligning tax legislation with EU countries
- Register of taxpayers and tax accounting

Threats

- Dissonant tax legislation within BiH, frequent amendments, complex and non-harmonized legislation
- Long recruitment procedures
- Substantial participation of cash in payment operations
- Lack of taxpayers' trust in government institutions, non-transparent and irrational spending of budget funds

4. Mission, vision and values

MISSION

Full implementation of applicable laws and regulations in the procedure of just, rational and efficient determination and collection of tax liabilities, transparent cooperation with taxpayers and respect of their rights and obligations.

VISION

The FBiH Tax Administration seeks to be a just, rational and efficient tax authority which will act as a reliable partner to taxpayers and perform efficient collection of public revenues. The FBiH Tax Administration seeks to build a just, clear and stable tax system to meet the country's development needs.

Basic values and ethical principles of the FBiH Tax Administration include:

- Consistent and reciprocal application of legislation by taxpayers and the Tax Administration,
- Fair, just, unbiased treatment of and trust between the taxpayers and the Tax Administration,
- Operational effectiveness and efficient collection of public revenues,
- Transparent and timely reporting on the Tax Administration's performance and activities,
- Top-level professionalism and competence,
- Respect of the Employee Code of Ethics in order to protect the interests of the institution and common values.

5. Key strategic goals

Meeting the key strategic goals requires a high level of coordination and constant upgrading of the organizational set-up, and to a large extent depends on the provision of additional funding to ensure implementation of the goals.

The FBiH Tax Administration has identified 7 key strategic priorities for the period 2019-2022:

- 1. Just, rational and efficient collection of public revenues through correct application of tax laws and development of the concept of voluntary filing and payment of tax liabilities*
- 2. Reducing tax evasion, combating the shadow economy and improving compliance*
- 3. Setting up an accurate register of taxpayers and tax accounting*
- 4. Strengthening the reputation of and taxpayers' trust in the Tax Administration*
- 5. Upgrading, development and maintenance of the Tax Administration's information system in keeping with new business processes and changes*
- 6. Continued development and management of the quality of taxpayer services*
- 7. Reshaping the organizational units' activities, FBiH Tax Administration's processes and operational procedures and employing expert and educated staff to contribute to the modernization of the Tax Administration.*

The role of the Internal Audit Department is one of particular importance for the implementation of all strategic goals through individual audit procedures selected based on performed analysis and risk assessment, the aim of which is to improve business processes in the Tax Administration's organizational units.

5.1. Just, rational and efficient collection of public revenues through correct application of tax laws and development of the concept of voluntary filing and payment of tax liabilities

With continued modernization of the FBiH Tax Administration, in particular its IT system, coupled with constant education of staff and improvement of taxpayers' awareness, the Tax Administration aims to keep building a just, clear and stable tax system to meet the country's development needs.

The streamlining of the FBiH Tax Administration requires continuous and thorough planning, clear identification of responsibilities, coordination of recruitment and training activities, modernization of operational methods, improvement of taxpayer services and careful building of relations with all external counterparts.

Activities to reach goals:

- Ensuring conditions to increase e-filing rates in order to achieve more efficient employee performance (amendments to the legislative framework, adequate technical capacities and support),
- Initiating necessary legislative amendments, particularly in relation to enforced collection procedures in order to ensure more efficient arrears collection,
- Promoting voluntary e-filing and payment of tax liabilities,
- Introducing automated reminders to taxpayers to file tax returns (SMS, e-mail, etc.),
- Establishing a Contact Centre.

5.2. Reducing tax evasion, combating the shadow economy and improving compliance

Many taxpayers lack sufficient awareness of the application of tax laws for voluntary filing and payment of tax liabilities. Raising tax awareness is not a short-term process and the onus for it rests not only with the Tax Administration but also with all other segments of the society and government, all of which have to work in a systematic way towards strengthening it through tailored marketing programs. The FBiH Tax Administration has been detecting an ever-increasing number of taxpayers that engage in different forms of tax evasion, which represents a major challenge for the FBiH Tax Administration and requires ongoing education and information exchange with other tax administrations. On the other hand, upgrading the tax system which would be based on simple but all-inclusive legal solutions is the most efficient response to the shadow economy.

Activities to reach goals:

- Promoting the importance of the fight against the shadow economy and encouraging citizens to report all irregularities and illegal activities to control authorities,
- Systematic, synergetic and more efficient action of all control authorities, courts and prosecutor's offices,
- Timely, efficient and balanced audits across the Federation of BiH,
- Setting up a Risk Management Unit and developing systematic risk management practices.

5.3. Setting up an accurate register of taxpayers and tax accounting

In order to increase operational and planning efficiency, the FBiH Tax Administration has launched several pilot projects and working groups to update its database and establish an accurate taxpayers and tax accounting register.

Activities to reach goals:

- Continuous updating of the database,
- Setting up a register of passive taxpayers,
- Setting up a register of active taxpayers.

5.4. Strengthening the reputation of and taxpayers' trust in the Tax Administration

Although without approved budget for the marketing campaign, the Tax Administration seeks to make its work as transparent and open to the public as possible. Through its web site and media appearances the Tax Administration regularly updates the public on its performance and calls on the citizens and taxpayers to conform to the laws and file and pay taxes in order to avoid incurring any costs related to non-compliance.

Activities to reach goals:

- Building taxpayers' trust and transparent communication,
- Upgrading the quality of public relations,
- Transparent and up-to-date posting of information and notifications on the website,
- Developing good cooperation and relations with the entire social and economic community, in particular with educational institutions, academic community, trade and professional associations operating in the realm of economy and finance, etc.

5.5. Upgrading, development and maintenance of the Tax Administration's information system in keeping with new business processes and changes

Continuous upgrading of the information system is key to the functioning of the Tax Administration and fulfillment of its strategic goals. Only in this way can all business activities be carried out effectively and challenges in the field of tax evasion and fraud be confronted. The improvement of the Tax Administration's IT system is a precondition for harmonizing the tax system of the Federation (and BiH) with developed and modern tax systems and present day trends.

Activities to reach goals:

- Improving and developing solutions to support business processes with a view to boosting process automatization across all work segments,
- Developing new and enhancing the existing e-services,
- Securing the necessary financial resources to ensure the viability and development of the information system,

- Implementing and applying modern tools of the Tax Administration's information system to further process, analyze and present information for the business decision-making system,
- Improving and promoting the intranet at work, while continuously updating the content,
- Continuous education of all staff to implement new IT solutions, applications and services.

5.6. Continued development and management of the quality of taxpayer services

In the past years, the FBiH Tax Administration applied efforts to develop its services. Since 2009 taxpayers have been provided with the use of electronic services and services related to different legal solutions, the most important of which are the Law on Corporate Income Tax, the Law on Personal Income Tax, the Law on the Single System of Registration, Control and Collection of Contributions, the Law on Fiscal Systems, the Law on Games of Chance, etc. Considering that electronic services are a dominant factor in the development of tax administrations in all countries, the Tax Administration will also work on their development and higher usage rate. At the same time, this type of business activity incurs reduced costs both for the Tax Administration and taxpayers. The FBiH Tax Administration is clearly committed to being the best possible service provider and to offering high-quality services to its taxpayers.

Activities to reach goals:

- Ensuring higher e-filing rates,
- Introducing new electronic services,
- New communication channels and free counselling services in relation to tax issues,
- Education of staff in the field of provision of taxpayer services.

5.7. Reshaping the organizational units' activities, FBiH Tax Administration's processes and operational procedures and employing expert and educated staff to contribute to the modernization of the Tax Administration

Employees represent the most important asset and value of the FBiH Tax Administration. In the following period it is necessary to actively work to eliminate all human resources-related problems in order to set up a good organizational structure, adequate recruitment policy and continuous education of all staff.

Activities to reach goals:

- Drafting a proposal for a new Rulebook on Internal Organization of the FBiH Tax Administration which will allow the development of a more modern structure of the FBiH Tax Administration,
- Recruitment of staff in accordance with the proposed Rulebook on Internal Organization,
- Continuous internal and external education of all staff,
- Improving the performance of the Human Resources Department,
- Promoting the organizational culture, values and key goals of the FBiH Tax Administration,
- Adequately organizing the efficiency measurement system for the Administration's organizational units and performance-based rewarding of employees.

6. Budget of the FBiH Tax Administration

Below are the main budget items as per the approved budget for 2018 as well as budget proposals for the period 2019-2021, for which the FBiH Ministry of Finance issued Budget Instruction 2 establishing the budget ceiling:

Budget of the FBiH Tax Administration for 2018 and the Budget Proposal for 2019-2021

Title	2018 Budget	2019 Budget Proposal	2020 Budget Proposal	2021 Budget Proposal
Gross salaries, allowances and employee contributions	38,579,626	41,325,779	42,161,203	42,206,203
Expenditure for material and services	6,035,068	6,612,421	6,114,493	6,113,634
Capital expenditure	1,250,000	2,335,000	1,480,000	1,686,000
Expenditure for enforcing court judgments (principal)	167,189	1,000,000	300,000	400,000
Total	46,031,883	51,273,200	50,055,696	50,405,837

Although the FBiH Tax Administration's performance in the past few years was highly successful and, notwithstanding all the problems and constraints, brought about considerable increase in revenue collection, the institution's budget was significantly trimmed down and largely served to finance current expenses.

The execution of planned activities and achievement of strategic goals will mostly depend on additionally approved financial resources. The amount of required financial resources by year is as follows:

- Year 2019 KM 61,025,605
- Year 2020 KM 56,821,557
- Year 2021 KM 57,270,900

Funds from the Federation of BiH Budget represent the only source of financing for the Tax Administration and the lack of the necessary funding will undoubtedly affect the quality and quantity of planned activities.

7. Conclusion

Consistent application of the Strategic Plan is expected to produce measurable strategic results. Guided by the established key strategic goals, competent departments will determine the implementation of the goals with detailed description of the processes, activities and indicators of the implementation by means of annual work plans and three-year activity programs of the FBiH Tax Administration.

Performance monitoring and assessment rests with the top management of the FBiH Tax Administration, who will continually carry out appraisal of the strategic goals.

In the following period, the Tax Administration will actively work on solving the existing problems on which the implementation of the set strategic goals is directly contingent. Notwithstanding the foregoing setbacks, the FBiH Tax Administration will continue to campaign for a just, clear and stable tax system which will meet the country's development needs. In its future work the Administration will invest maximum efforts to enhance productivity, quality and operational efficiency.

Countries without a well-regulated tax system are under-developed, unstable and distinctly corrupt, violate rights and by all criteria are poorly ranked on the well-regulated countries index. As one of the most important pillars of the fiscal system, the Tax Administration has a very important role to play in future modernization and development reform processes.