

**The Potential for a Property Tax in
Bosnia and Herzegovina**

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Abstract

In November 1995 the Dayton Peace Accords were signed, ending a three-and-one-half-year war in Bosnia and Herzegovina. Despite being constituted as a single country under the Accords, Bosnia and Herzegovina were divided into two largely independent Entities: the Federation of Bosnia and Herzegovina and the Republika Srpska. Since then a lot of effort and resources have been devoted to establishing a new governmental structure, with increasing responsibilities being given to sub-Entity units of governments. In turn these units of government—Cantons and municipalities in the Federation and municipalities in the Republika Srpska—are searching for ways to expand and diversify their tax bases.

This paper analyzes whether a property tax is feasible as a source of revenue for sub-Entity units of government, especially municipalities. Attention is paid to the technical and administrative steps that would be needed to develop and implement a successful property tax system in Bosnia and Herzegovina. Since major components necessary for a property tax are currently in place, the authors present a plan that outlines the steps for its implementation.

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The Potential for a Property Tax in Bosnia and Herzegovina

Introduction

In November 1995 the Dayton Peace Accords were signed, ending a three and one-half year war in Bosnia and Herzegovina, were signed. The war caused enormous amounts of damage both in terms of loss of human life and destruction of property; over 200,000 people died, millions were displaced, and there was massive devastation of homes and industry.

More than three years after the signing of the Peace Accords some aspects of the agreement remain unfulfilled and others have proven difficult to implement. Nonetheless, the Dayton Peace Accords have been successful because they were instrumental in stopping the fighting and have set Bosnia and Herzegovina on a course of reconstruction and reconciliation.

Under the terms of the Peace Accords the State of Bosnia and Herzegovina was set up within the original borders of what had formerly been the Yugoslav Republic of Bosnia and Herzegovina. Despite being constituted as a single country under the Accords, Bosnia and Herzegovina was divided into two largely independent Entities: the Federation of Bosnia and Herzegovina (Federation) and the Serb Republic (Republika Srpska). Due to migration and displacements that largely were the result of the war, the Serb Republic is mostly populated by ethnic Serbs while the Federation is made up mainly of Bosniacs (Bosnian Muslims) and Croats. The Federation had its genesis in early 1994 as a mechanism to end fighting between Croats and Bosniacs.

Since the Accords, the State of Bosnia and Herzegovina has been working to establish a viable system of government and government finance. This paper is concerned with the potential of an expanded role for the property tax in Bosnia and Herzegovina. The property tax offers the potential for additional revenue for local governments and increased local autonomy in Bosnia and Herzegovina.

The paper first describes the current structure of government and then reviews the existing fiscal structure. Understanding government and government finance is essential to appreciate the potential for a property tax. The next section examines the prevailing property tax practices in Bosnia and Herzegovina. The last two sections discuss the importance of a property tax in local government finance and the implementation issues facing such a tax in Bosnia and Herzegovina.

Government Structure

The Bosnia and Herzegovina (BiH) constitution set up a state made up of two Entities: the Federation of Bosnia and Herzegovina and the Republika Srpska (Dayton Peace Accords, 1995). It guaranteed free movement of people, goods, services, and capital. Sarajevo was designated as the capital city.

Under the BiH constitution, state institutions are responsible for: foreign policy and trade policy; customs policy; monetary policy with the Central bank operating as a currency board and with a foreign Governor for six years; finances of the institutions and international obligations of BiH; immigration and refugee policy; international and inter-Entity law enforcement; common and international communications facilities; and regulation of inter-Entity transportation.¹

The Entities are able to have special relationships with neighboring states under the BiH constitution. This provision allows the Federation to establish special agreements with Croatia while the Republika Srpska maintains similar ties with Yugoslavia. These can include, among other things, trade, financial and cultural agreements. One example is the new agreement just worked out by Croatia and the Federation that allows Croatia free passage through the 24 km. coastal section of BiH, and the Federation will have use of the Croatian port of Ploče.²

The State has a Parliamentary assembly made up of a House of Peoples and a House of Representatives. The Presidency has three members, one from each ethnic group. A Council of Ministers, approved by the House of Representatives, includes three Ministries: Foreign Minister, Foreign Trade and Civil Affairs. The State sets a budget every year and the Entities are required to finance it, with the Federation contributing two-thirds of the required amount and the Republika Srpska contributing one-third.

The Federation has a House of Representatives with 140 members and a House of Peoples with 60 members. The structure of government in the Federation of Bosnia and Herzegovina is fairly decentralized. The Federation consists of ten Cantons. There are five majority Bosniac Cantons, three majority Croat Cantons, and two mixed Bosniac and Croat Cantons. Cantons are then divided into municipalities, with around 110 in the Federation. The final number is not yet decided.

The Federation has responsibility for foreign affairs; defense; citizenship; economic policy; regulating commerce and financial institutions; and financing its activities by taxation, borrowing or other means.

The Federal and Canton governments share responsibility for: human rights; health; environmental policy; infrastructure; social welfare policy; implementation of citizenship laws; immigration and asylum; tourism; and natural resources.

Cantons have all responsibility not expressly granted to the Federation. This includes: police; education policy; cultural policy; housing policy; public services; regulating local land use, including zoning; promoting local business; local energy production; radio and television policy; social welfare service implementation; tourism; and financing its activities by taxation, borrowing or other means.

Cantons may delegate their responsibilities to Municipalities or to the Federation government. Cantons must delegate education, culture, tourism, local business, charitable organization and radio and television responsibilities to Municipalities whose majority population differs from the Canton's majority population. Cantons can enter into

agreements with countries or international organizations only with the consent of the Federal Legislature. Municipal governments have self-rule on local matters.

In the Republika Srpska there is no middle level of government equivalent to the Cantons in the Federation. There is the Republic and approximately 90 municipalities with one Parliament at the Republic level.

Fiscal Structure

The BiH constitution allows each Entity total control over fiscal policy, except in the area of customs. Both Entities have a similar tax structure due to the fact the current laws governing taxation have evolved from the same set of Yugoslav laws. Direct taxes include wage taxes and contributions, corporate profit taxes, and taxes on other types of personal income. Indirect taxes include sales, excise, and other taxes.

In the Federation, the exact fiscal responsibilities of the Federation and Cantons is not absolutely clear. At the end of 1996, the Federation passed a law called *The Law on the Allocation of Public Revenue* (Federation, 1996) that set out the tax and expenditure responsibilities more clearly. The Federation is responsible for financing all Federal organs: courts, legislature, government plus “institutions and bureaus which are of significant interest to the Federation” which include health, education, social care, science, culture and sport, as well as aid to Cantons (Table 1).³ The same article states that Cantons finance, along with cantonal legislatures: health, education, culture, social issues and other areas of significant interest to the Cantons.⁴

On the revenue side, the law states that the Federation is to receive: customs, customs fees, excises, federal administrative taxes, court taxes of the Federation courts, fines, revenues from natural resources, and other revenues (from property etc.).⁵ All revenues but the final category—other revenues—are to be determined by special Federal Laws. Therefore, the only current law the Cantons can change is the Citizen Tax Law, which falls into the “other” category.

Article 7 of the law assigns the following revenues to the Cantons: sales tax on products and services, corporate profit tax, wage tax, Canton financial penalties, donations, and other revenues. A note was added to the final version of the law that states that the Federation determines the regulations pertaining to sales tax, corporate profit tax and wage taxes. Cantons are to determine which revenues go to the municipalities. The Federation Ministry of Finance initially suggested the Cantons give 20% of their revenues to the Municipalities, which most followed the first year. However, there was a great deal of variance among Cantons in both 1997 and 1998 (Table 2). Overall Municipalities received 14% of combined revenues in 1997 and 15% in 1998. The lowest share in both years was in the Sarajevo Canton with only 1% in 1997 and 3% in 1998 going to the Municipalities. The highest share in both years was Herceg-Bosanski Canton at around 30%. The two mixed Cantons, Middle Bosnia and Mostar also had relatively high levels of sharing with Municipalities.

In the last year, some Cantons have been more assertive in testing the limits in tax legislation. Four Cantons have passed, or are in the process of passing, a new version of the Citizen tax Law. It appears that this is consistent with the Law on the Allocation of Public Revenues, as long as wage taxes are not included. Sarajevo Canton has also passed a beverage tax covering drinks sold in cafes, which is also consistent with the Law. The new laws and draft laws are modeled very closely on the Federation Citizen tax.

Also, during the past year a problem has arisen because the Federation government has passed decrees exempting different activities from sales taxes. Sales taxes are a significant source of Canton revenue, thus resulting in unplanned changes in Canton revenues which makes it very difficult for Cantons to prepare and stay within their approved budgets.

The Republika Srpska has a much more centralized system with no intermediary level between the Entity government and municipalities. The Entity writes and enforces all tax legislation and designates the proportion of revenues from each tax going to municipalities.

Tax Harmonization

Table 3 lists the characteristics of the main taxes in both Entities. Although the Entities are very different in structure, with decentralization in the Federation and centralization in the Republika Srpska, both sets of laws evolved from the same system. In June 1998, the Republika Srpska introduced a new set of laws including an attempt at a global personal income tax. Regressive rates were introduced for both personal and corporate income taxes.

The International Community has been working on harmonizing tax rates between the Entities. Since fiscal policy is an Entity issue, this has to be voluntary. The main issues so far have been sales and excise taxes, including what goods are covered and where the taxes are collected. As inter-Entity trade has increased in the last year or so, legal avoidance of taxes has increased. For example, sales tax on excisable goods could be legally avoided by bringing goods to the Federation through the Republika Srpska where all sales tax was levied at the retail level. Because sales tax on excisable goods is paid by the importer or producer in Bosnia and Herzegovina, the goods also escaped tax in the Federation.⁶ Excise taxes could be avoided by importing through the Entity that did not tax the good.⁷

Progress had been made by the end of 1998. The point of taxation for sales and excise goods is now the same in both Entities and there is only a difference in coverage in autos and luxury goods, plus an export tax on timber in the Republika Srpska.

Currently, the basic sales tax rates are 20% for goods and 10% for services in the Federation and 18% for goods and 9% for services in the Republika Srpska. Excise taxes are still in the process of being harmonized.

Tax Administration

Tax administration differs in the two Entities. In 1995 tax administration and the financial police (auditors) were taken out of the payment bureau (treasury) in the Federation and put into the Ministry of Finance. In 1996, a unified tax administration law was passed under which all Canton and Municipal offices became part of the Federation tax administration. The financial police were also centralized.

The centralization of tax administration and the financial police was pivotal to getting an important Federal institution working. But, it also has caused some problems. Canton Ministers of Finance do not feel they have enough say about whom is audited or why someone is audited. In addition, the Federation tax administration collects all Canton taxes.⁸

In the Republika Srpska both tax administration and financial police are centralized. The financial police have a larger role here than in the Federation. In fact, in 1997, the head of the financial police was also designated as the Minister of Finance in the Republic's government.

Revenues in 1998

Total revenues of all three levels of government in the Federation of Bosnia and Herzegovina raised more than 1,757 DM in 1998 (Table 4). Approximately 37% of this revenue went to the Federation coffers, 53.5% went to the Cantons, and slightly more than 9% went to the municipalities. By far the largest sources of revenue for the Federation were customs and excise taxes, with the former accounting for almost 47% and the latter accounting for slightly more than 49% of Federation revenue.

The sales tax is the largest source of revenue for Cantons, accounting for more than 68% of their revenue. The wage tax constitutes almost 18% of Canton revenues, while the profit tax accounts for 7% and fines and fees raise slightly less than 4% of total revenue.

Similarly the sales tax is the largest source of revenue for municipalities, accounting for approximately 42.5% of revenue, and the wage tax raises slightly more than 22% of municipal revenue. The Citizen Tax is the third largest source of revenue for municipalities, raising approximately 20% of total revenue.⁹ The Citizen Tax is composed of a number of different kinds of taxes including a corporate income tax for physical persons; tax on property; tax on income from property and property rights; tax on income from authors rights, patents, and technical development; tax on inheritance and gifts; tax on profit from gambling; tax on income from agriculture; tax on the total income of physical persons; and tax on the consumption of alcohol and non alcohol beverages in catering.¹⁰

The importance of the Citizen Tax varies among Cantons and municipalities (Table 5). At one extreme, the Citizen Tax accounts for over 99% of municipality revenue in the Sarajevo Canton. At the other extreme, it accounts for virtually no municipality revenue in the Posavski (Orasje) Canton. In four other Cantons, the Citizen Tax is a significant source of municipality revenue, raising from 16% to 23.7% of total revenue. In the

remaining four Cantons, the tax accounts for less than 10% of municipality revenue. In all ten Cantons, the Citizen Tax is a minor source of revenue at the Canton level, raising less than 5% of total revenue.

During 1998 the Republika Srpska raised 434 DM in tax revenue (Table 4). Excise and customs taxes were large sources of revenue, accounting respectively for 24.3% and 21.4% of total revenue. Other taxes raised approximately 23.2% of total revenue and sales taxes raised an additional 13.6%.¹¹

Property-Based Taxes

Service responsibilities and infrastructure needs, including reconstruction, are straining the already limited budgets of units of government below the Entity level in both the Federation of Bosnia and Herzegovina and the Republika Srpska. For example, almost every government unit has difficulty meeting payroll in a timely manner. In the short run operating a government with inadequate funds is arduous. In the long run the lack of adequate funds will undermine the capacity of local governments to meet citizens' differential preferences for services.

Cantonal and municipal units of government have limited control over their revenue sources and limited flexibility to expand their tax bases. Municipalities have very little control. Sub-entity revenues are generated from a number of sources, most notably the sales tax, wage tax, and profit tax. Property-based taxes also are a part of the revenue sources available to sub-entity governments. Reliance on such taxes has been limited, their application has been uneven in both Entities, the administrative process is weak, and compliance is modest. In addition, the property-based taxes currently in use are essentially excise taxes rather than traditional property taxes

The property-based taxes available at the Cantonal and municipal levels in the Federation and at the municipal level in the Republika Srpska are a continuation from the socialist period. These taxes appear to be secondary taxes after the more important customs, foreign excise, domestic excise, sales, wage, and profit taxes. Apparently these taxes have played a modest role in financing cantonal and municipal expenditures. Yet, there is some indication these taxes have been used extensively on occasion. For example, property-based taxes were used to finance the infrastructure development associated with the 1984 Olympic Games in Sarajevo.

Property-based taxes were largely suspended during and after the war. As a result the administrative and political infrastructure associated with property-based taxes has deteriorated. In addition, the two Entities have taken different paths with regard to property-based taxes and even within the Federation there has been some divergence in tax policy.

Types of Property-Based Taxes

Property-based taxes historically have been included in a category of taxes called the

Citizen Tax.¹² Four property-based taxes that fall under the Citizen Tax rubric deserve mention: tax on property; tax on income from property and property rights; tax on inheritance and gifts; and tax on income from agriculture (Table 6). In addition, the tax on non-movables, contained in the new cantonal tax laws is a significant property-based tax.

In the Federation two Cantons have eliminated the Citizen Tax and have substituted in its place cantonal tax laws. Two other Cantons are in the process of doing this.¹³ These cantonal tax laws closely mirror the taxes that originally were contained in the Citizen Tax, in many cases utilizing the same name and many of the features of these taxes. In addition, these Cantons have designed and implemented a new property-based tax called the tax on non-movables.¹⁴ The Republika Srpska includes property-based taxes in its new citizens income tax, which combines the wage tax and citizens tax. It still taxes different sources of income differently, but puts the legislation in one law.

To date, the remaining six Federation Cantons continue to use the Citizen Tax nomenclature. However, not all property-based taxes are applied throughout the Federation and the Republika Srpska. For example, the Sarajevo Canton and Neretva-Herzegovacki Canton (Mostar) in the Federation do not use the tax on income from agriculture while the Republika Srpska does.

Description of Tax Bases and Rates

Tax on Property

In the Federation the base for the tax on property is comprised of nine categories of property. Each municipality can determine its own rates above the minimums set by the Federation. The categories and minimum rates are:

- Second homes (buildings or apartments for rest and recreation)¹⁵—2DM per m²
- Businesses—3DM per m²
- Garages—2DM per m²
- Luxury automobiles—100DM
- Motorcycles—50DM
- Boats in excess of 5 m length—120DM
- Casino gaming tables—12,000DM per table
- Slot machines—2,400DM per machine
- Pinball machines—840DM per machine¹⁶

The branch offices of the Federation Tax Administration, which are part of the Ministry of Finance, administer the tax on property. The tax on property is self-reported and collected by the tax administration offices. It is estimated there is approximately a 70% rate of compliance in the Sarajevo Canton.¹⁷ The level of compliance in other Cantons is unknown at this time, but we speculate that it is lower than in Sarajevo.

In the Republika Srpska the tax on property is on the books but currently is not being implemented.

Tax on Income from Agriculture

In the Republika Srpska, the tax on income from agriculture is based on the highest and best use of agricultural land, using a land classification system. Land is classified into eight categories and these categories are tied to the expected productivity of the land.¹⁸ Classification of land in rural areas is performed by a special land survey commission with an agronomist serving as chairperson. In urban sectors the municipal assembly designates economic zones based on recommendations of geodetic experts. The basic criterion for these zones is distance from the city center. The classification is reported to and recorded by the cadastral office in one of the four regional centers in the Directory of Geodactic and Ownership Affairs.

In rural areas the taxable value of the land is determined by multiplying the productivity factor times the land's dimensions. In urban areas, land is assigned a coefficient of value based on its classification with regard to productivity and location. This coefficient multiplied by the area of land produces the base for the tax on agricultural income. We do not have information on the frequency of updates on the classification of rural or urban land but there is no evidence that these updates are done with any regularity.

It is the responsibility of the cadastral office to ascertain the value of land in its jurisdiction. Once the value has been determined, a report on the value of property is sent to the municipal tax administration office. A rate of 15% is applied to the value of the land and the tax administration office sends a notice of tax owed to the taxpayer.¹⁹ Income generated by this tax goes to the municipality and is referred to as cadastral income.

Generally property not under structures, up to 1,000 square meters in area, is exempt from taxation.²⁰ This means in many cases the tax only pertains to the land that structures sit on and not to lawns and garden areas surrounding the structure(s). It appears the amount of revenue generated by this tax is small.²¹

Currently the tax on income from agricultural land is not being implemented in the Federation.

Tax on Income from Property and Property Rights

In both Entities the tax on income from property and property rights is an annual tax on income generated from renting real property. The tax base is equal to the annual contract rent minus a 30% allowance for the cost of operation and maintenance.²² In the Federation tax rates are determined by municipalities and range from 15 to 30 percent. Throughout the Republika Srpska the tax rate is 15%.

Annual contract rent is self-reported to the cantonal tax administration office in the Federation and the municipal tax administration office in the Republika Srpska. The

renter of the property is required to fill out a form that contains detailed information on ownership, location, and rental rates on the property. Because the contract rent is self-reported, questions can be raised about the accuracy of the rental amount. Ideally tax administration officials in both Entities would verify the reported contract rent, but there are at least three major impediments. First, most of the rental transactions are on a cash basis meaning there are limited records available for audit. Second, tax administration has a limited audit staff and finds it more cost-effective to focus on larger taxpayers and tax issues. Third, no process or criteria exists to impute what a reasonable rent for a specific geographic area should be.

In addition to obstacles to ensuring the reporting of the correct amount of contract rent, there exists a strong incentive to fail to report rental property. No one really knows how many rental properties exist and there is no formal approach to ensure compliance. Instead there is reliance on an ad hoc voluntary approach and reliance on information gathered from neighbors and housing associations to identify property that is being rented but not reported.²³

Tax on Non-Movables

The two Cantons that have adopted cantonal tax laws have designed a new tax—the tax on non-movables.²⁴ This is a tax based on the sales price of real property. Each Canton can determine the tax rate, but the rate cannot exceed 15%. Initially the Sarajevo Canton set its rate at 15% but recently lowered the rate to 8%.²⁵

The seller of the property must file a form describing the conditions of the sale including the sale price. The authenticity of the sale price is validated by a committee comprised of three individuals who are employed in the municipal government. The municipality chooses two of the members. These individuals are expected to have some real estate experience and usually have an engineering, architectural, or a surveying background.

There is reason to doubt the authenticity of the sale price even with the review and recommendation of the aforementioned committee. Despite the expectation that members have some real estate experience, there is little to guarantee they actually possess these skills. This outcome can be attributed to the fact that the members have full time employment in other areas of municipal government, there is a lack of training in real estate appraisal techniques, and committee members do not receive compensation for services provided.

The success of this tax as a revenue-raising device is dependent on the number of sales that occur and the extent of compliance with the tax. The degree of activity in the real estate market varies in the Federation. In at least one municipality of the Sarajevo Canton there appears to be an active real estate market. In the Ilidza municipality in 1998 approximately 9% of agricultural parcels and 50% of commercial property changed hands.

There is uncertainty about the rate of turnover of residential parcels, but the market is thought to be active.²⁶ When housing privatization begins, turnover should increase. The

exact degree of compliance is not known in the Federation. However, in the same municipality, it is estimated that compliance is around 90%. The relatively high degree of compliance can be attributed to the fact that one must pay this tax in order to get her/his property deed recorded.

A tax on non-movables also exists in the Republika Srpska. The rate of 15% is applied to the sales price of property. As is the case in the Federation, a form regarding the property transaction must be filed which contains information about the property including the sales price. Tax administration officials can accept the reported sales price or, if the price does not seem reasonable, send out a three-person commission to view the property. The commission members are chosen by the municipality executive board and usually have backgrounds in engineering, architecture, and surveying. The commission, after viewing the property, renders a decision with regard to the value of the property sold.

Tax on Inheritance and Gifts

Both the Federation and the Republika Srpska impose a tax on inheritances of property. It skips the first degree of inheritors.²⁷ The taxing body determines the market value of the property. There is an exempt portion in the Republika Srpska after which a tax rate of 3% applies. In the Federation, the tax rate is 8%. The relatively high rate in the Federation has provided an incentive not to properly record property ownership in order to evade the tax. The tax is due upon recordation and the clearance of all back taxes.

The Need for an Expanded Property Tax

As Bosnia and Herzegovina's economy recovers from the ravages of the war a lot of attention has been focused on establishing a governmental structure that is able to ensure security, protect the public welfare, guarantee public safety, promote trade and commerce, and enhance economic development. Inevitably, as progress is made toward these goals more responsibility falls to sub-Entity levels of government. In order to meet their increased responsibilities and growing service demands, both Cantons and municipalities in the Federation and municipalities in the Republika Srpska are searching for ways to expand and diversify their tax bases.

Currently the Cantons rely most heavily on the sales tax for revenue. To date this revenue source and other sources of cantonal revenue have been insufficient to fund necessary services and programs. And recent actions at the Federation level have furthered narrowed the base of the sales tax, making it increasingly difficult for Cantons to prepare and meet their budgets. This, in turn, has implications for municipalities that must rely on the Cantons to decide what revenues flow to their coffers. The result is increased interest at the cantonal and municipal levels of government in ways to enhance revenue from existing sources and to identify new sources of revenue.

Officials in Bosnia and Herzegovina have expressed interest in exploring whether a property tax is a viable option for generating additional sub-Entity revenues. As seen above, there already exists a familiarity with property-based taxes, dating back to the

former Yugoslav Republic. Historically these property-based taxes have not generated significant amounts of revenue. However, judging from other countries' experiences it is understood that a more traditional property tax could generate significant amounts of much needed revenue. In addition, a traditional property tax could help move toward a decentralization of government power (Bahl, 1992).

The interest in a traditional property tax seems reasonable given the history of the property tax and its role as a generator of significant amounts of revenue in other parts of the world. Also, both Entities have an information infrastructure already in place that can be used to structure and implement a traditional property tax system in Bosnia and Herzegovina.

The property tax commonly is used to support local governments in the United States, parts of Asia, and South America. It is common in those countries that have historical ties to England. The financial support provided by the property tax in these countries can be substantial. In developing economies the property tax is less significant especially when compared to GDP; nevertheless, the property tax often represents 20 percent of own source revenue for local governments (Bahl and Linn, 1992). In a comparison of the importance of the property tax in urban centers in developed and developing countries, the property tax was actually more important as a percent of own source revenue in the developing countries (Bahl, 1998). The property tax is also being used in the transitional countries in Central and Eastern Europe (Bird, Ebel, and Wallich, 1995).

The property tax is a direct tax and requires an overt act of payment on the part of most taxpayers. The direct nature of the tax is one of the reasons that the tax is attractive to many analysts. Because taxpayers are aware of the tax they become concerned with the determination of the amount of the tax they must pay and in the course of doing so become engaged in the democratic process. Ideally the property tax allows citizens to make decisions about the tradeoffs between taxes and the benefits from government expenditures. Because taxpayers are concerned about spending it forces policy makers to be responsive to their demands, increasing the level of accountability for local officials (IRRV, 1997).

It is also a tax that is reasonably easy to understand for most taxpayers. When a property tax bill is presented to a taxpayer he is able to judge the fairness of the assessed value. The property tax is a tax that is difficult to evade. Taxpayers have few options but to remit the tax that is due once their property has been discovered. For the same reason that the property tax is difficult to evade, the lack of mobility also makes it an important local tax. It can be imposed and the possibility of the tax base fleeing is very remote (Bird, 1993).

The property tax is one of the few taxes in transitional economies that has the potential to allow local governments to eventually have control over at least one source of revenue. Having such local control allows governments to determine if they want to spend more or less on goods and services. Differential levels of services are important in providing citizens with a chance to choose what type of community they want to reside in. On balance a property tax could foster decentralization, which is thought to improve local discretion, identify preferences, and establish linkages between revenues and expenditures (Huxhold and Levinson, 1995).

Taking advantage of the property tax base may also allow the rates on other taxes to not become too high. It may also prevent the use of distorting taxes imposed on a number of narrow bases (Tanzi, 1991). A property tax system could also provide information that would allow tax administrators to crosscheck the reporting of other taxes. Because the property tax is difficult to avoid it usually has a high compliance history. Tax administrators can compare property tax records with records from other taxes like the sales tax or the tax on individuals to determine tax compliance. Finally, the property tax is regarded as a non-distorting tax and one where the benefits and costs are roughly equal.

Currently, a significant amount of revenue realized by municipalities in both Entities is from shared revenue sources. Effectively the revenue is transferred from the cantonal level to the municipal level in the Federation and from the Entity level in the Republika Srpska. The property tax is preferable to shared revenue and transfers among local policy makers because shared revenue and transfers allow no say in the level of the shared revenue and transfer and policy makers suffer no consequences if the supporting taxes are too high. They can spend revenue without great fear that they will be held responsible for the imposed cost. Therefore shared revenue and transfers reduce the incentive for responsible decisions on the part of local officials while a property tax enhances the incentive.

The property tax has its share of serious shortcomings. Its direct nature can cause political problems for elected and appointed officials. Taxpayers often find the tax objectionable because of its direct nature and the fact that the tax is usually paid in a lump sum once or twice a year. Eliminating low value property from the tax and spreading the tax payments out over a long period of time can offset part of the political problem.

There is also a problem that the cost or burden of the tax does not correspond to the value of the benefits received from the services provided by the tax. This is a more difficult dilemma to resolve but it is a predicament that often accompanies processes that produce publicly provided goods. There is no easy way to map taxes paid to the benefits of publicly provided goods. It can be inelastic and thus not respond to growth in the economy. On the plus side the inelastic nature of the property tax does offer long-term revenue stability to local governments.

Another problem that often arises is the uneven distribution of the property tax base, leaving some local governments unable to provide basic services. Intergovernmental

transfers are often used to offset inadequate tax bases. The property tax also is difficult and modestly expensive to implement and administer. Therefore the tax must be administered in a reasonable way. The cost of collection must be measured against the revenue received and the compliance cost of the tax.

Given the growing need for additional revenue at the sub-Entity level and the success of the property tax in other parts of the world, it seems reasonable to more closely analyze whether a property tax makes sense for Bosnia and Herzegovina. Important considerations include how far along Bosnia and Herzegovina is in meeting the basic technical and administrative requirements for an effectively operating property tax system and identifying the steps that would need to be taken to implement a property tax system.

Administrative Issues Related to the Property Tax

As the Federation and the Republika Srpska continue to stabilize there will be an increased demand for public services, infrastructure, and revenue. The property tax has the potential to help meet the expected growing demand for additional revenue. In order to develop and implement a successful property tax system, a variety of challenging technical and administrative actions must be taken. The technical and administrative steps are as follows:

- Discovery
- Identification
- Property Classification
- Data Collection and Analysis
- Valuation
- Billing and Remittance
- Audit
- Appeals

In the past property-based taxes played a relatively modest role in financing public activities in Yugoslavia. However, because property-based taxes exist there is a familiarity, among public officials in both Entities, with aspects of what is needed to create and implement an ad valorem property tax. The degree of familiarity varies among the various administrative units within each Entity.

Discovery and Identification

Officials in both Entities are acquainted with the first two steps, discovery and identification. A property tax system requires the ability to determine the existence of each parcel of property. Once discovery is accomplished a unique identifier is also needed to determine ownership for each parcel.

Throughout Europe the cadastral land record system has been used to provide the basis for a land records. These cadaster land records are an important component of the discovery and identification of property necessary for a property tax.²⁸

In both Entities a good cadastral system exists. The Entities' cadastral land record systems have been evolving for over one hundred years, resulting in a historical record of land development and ownership. These records were modernized in 1968 when a large portion of the former Republic of Yugoslavia benefited from aerial photography. Aerial photography is a critical ingredient in maintaining accurate land records and accurate land records are essential to an effective property tax system. Therefore, in this respect, both Entities are well positioned for the adoption of a property tax.

Both Entities have done a reasonable job keeping cadastral land records up to date, especially in light of the war and its aftermath. Nevertheless, modern technology such as satellite remote sensing and geographic information systems (GIS) could be used to further improve these records. GIS does not necessarily require large investments in capital and personnel (Huxhold and Levinson, 1995). Current geographic information systems easily can be combined with basic cartographic equipment to provide up-to-date land information.²⁹

Both Cadastral systems use a unique identifier for parcel records.³⁰ The records include detailed information on the owner(s), size of the parcel, location of the parcel, and an area description of permanent improvements to the parcel. Parcel records are kept current because of the requirement that all planned changes in land use, construction of improvements, or alteration of existing improvements must be reviewed and approved by local authorities. The request for approval must begin and end with the cadastral office.

Information about changes in land use, improvements to land, and ownership is critical to an efficiently operating property tax system. It minimizes the possibility of property tax evasion, reduces the cost to collect information, and facilitates accurate valuation of property. There also exist strong synergisms with other government functions. For example, up-to-date land information assists in planning for many public services such as waste, water, and transportation infrastructure development and placement.³¹

Legally the laws of the Entities govern both cadastral systems.³² Organizationally there are differences between the Entities' cadastral systems. In the Republika Srpska the cadastral system is a unit of the Entity with offices dispersed throughout the Republic. It is hierarchical, centralized, and procedures are based on uniform laws and regulations. This arrangement facilitates coordination between regions and helps promote constancy. In addition, systems that are centralized are more likely to receive adequate funding.

In the Federation the cadastral office is part of the municipal government. Better customer service is one advantage associated with this decentralized structure. However, the disadvantages are the potential for loss of uniformity and limited financial support from fiscally strapped municipalities.

The cadastral systems in the Entities adequately support the existing property-based

taxes and with some modest revisions and enhancements could successfully support a traditional property tax system. One area that will require attention is the determination of ownership for some parcels of land. The completeness and accuracy of cadastral land records have been affected by the war. There has been mass movement of ethnic groups between regions of the country resulting in widespread occupancy of residences by individuals who are not owners of the property. The magnitude of these displacements varies among regions of both Entities and the effects are likely to be long-term.

The implementation of a property tax system could help resolve the problem of ownership by forcing ownership issues to be responded to in a systematic and timely way (Youngman, 1997). When it is necessary to supplement the existing cadastral land records due to the divergence between possession and ownership in parts of the Entities, one solution may be to take advantage of existing billing records maintained by electric, water, and wastewater utilities. A comparison of cadastral land records and billing records would reveal differences between ownership and possession.³³

Property Classification

Currently the property-based taxes in both Entities make little distinction between the type of property and the use of property. If more reliance on a property tax is planned, a distinction between land and improvements to land should be considered. Both Entities seem to have reasonably good information about land including quality and productivity. This suggests that they should consider using a land tax as a cost efficient way of raising revenue for municipalities. One of the attributes of a land tax is its neutrality. Imposing a land tax before the economy is fully developed results in fewer distortions than if it is implemented after land values have increased. A land tax lacks the disincentives for improving the land that a tax on land and structures contains, thus encouraging the highest and best use of land.³⁴

Information concerning improvements to land is more limited. This information tends to be restricted to the footprint of the structure. However, the current tax on non-movables provides an opportunity to construct a substantial database on improvements over time. Currently a committee, chosen by the municipality, views the subject property to ascertain whether the reported sales price is reasonable. However, there is some question how well the committee can completely carry out its current responsibilities without formal training in appraisal techniques.

An appraisal-training program would have a number of benefits. First, it would result in a more transparent and defensible tax on non-movables. Second, appraisal training would allow for the collection of detailed structural information on improvements. Third, a modest investment in training would facilitate the implementation of a tax on improvements made to land. Finally, the presence of trained appraisers would facilitate the certification of collateral on underwritten loans for the purchase of real property.

Data Collection

In addition to the aforementioned information on land and improvements it is necessary to collect and analyze market transaction data for a property tax system to operate effectively. The use of these data facilitates timely updating of land and improvement records for valuation. In the absence of such data, tax administrators will be hard pressed to accurately estimate market value.

Typically the data are collected via a reporting form on property transactions. Generally a modest fee or tax is imposed to help defray the cost of collecting data and recording ownership data.

There already is a data collection vehicle in place in some of the Federation cantons. The tax on non-movables provides the opportunity to collect the necessary data. While the current forms are not adequately articulated to capture all the information required if the desired result is a market valuation, only modest revisions to the form would be required to collect the essential information.

A drawback of the existing process is the high rate of taxation on non-movables. The current rate of 15% promotes tax evasion or the underreporting of contract prices.³⁵ And, the existing system used to verify that contract prices are correctly reported is deficient because a committee of lay individuals performs the review. The remedy is to reduce the rate and to provide appraisal training for individuals involved.

The self-reporting of data on the characteristics of the land and improvements to land is a technique that warrants consideration. The Czech and Slovak Republics have both adopted a program for taxpayers to report annually information for the assessment of the property tax. The compliance rate in both countries seems to be reasonable. In the Czech Republic the self-reported data is now being compared to the cadastral data helping to insure cooperation from taxpayers and also improving the cadastral records. Taxpayers pick up the self-reporting forms and booklets describing the necessary steps for completion of the forms from municipal offices and post offices and return them to a variety of public offices.

In the long run the goal is to develop a data infrastructure sufficient to support the application of a computer assisted appraisal system (CAMA). Self-reported forms coupled with the good cadastral system already in use makes achieving such a goal likely.

Property Valuation

Once data collection has been completed it is necessary to value the property in order to arrive at a base for the property tax. Typically the value that is assigned to a property can be determined in one of two ways. The first is based on capital value and reflects the price that results from an arms length transaction. An arms length transaction is what a willing buyer would offer for the property and a willing seller would accept. In other words, market value is determined. The second approach is to base value on the rental

rate of the property. This system is referred to as a rating or annual value system (Youngman and Malme, 1994).

Because property is sold infrequently appraisers must estimate market value. The need to estimate capital or market value makes the first approach harder to do. Three techniques are commonly employed to estimate the market value of property—the cost approach, the comparative sales approach, and the income approach. The cost approach is the most easily adaptable technique to the situation found in transitional economies. It has been referred to as the contractor method or the quantity-survey method because it is based on the estimated costs of constructing the subject structure. The cost data are acquired from information gathered from current construction activities. Cost of construction information appears to be available in both Entities yet is not presently collected to the degree or in the format needed.

The comparative sales approach is based on comparing the property being appraised to other properties that have recently sold. Once a sufficient number of acceptable sales have been found a trained appraiser can estimate the probable sales price of a property.

Clearly a reasonable number of real estate market transactions is essential to the comparative sales approach. In both Entities the real estate market currently is in its infancy meaning effort must be made to promote the market and time must be allowed for it to grow. It is likely that the market will develop more quickly in the Federation, especially in the more urban Cantons such as Sarajevo.

The income approach is the least likely approach to be applicable. The current economy is largely based on cash transactions and does not provide sufficient data to complete an income approach. In addition, this income approach requires assessors with substantial training in appraisal coupled with experience.

The valuation process for a rating system requires that information about rents be collected on a frequent basis. If rents are changing rapidly, as we would expect in both Entities, the data would need to be collected annually. The rating system has a long history of use in countries like England and Singapore and could be developed in each of the Entities. One distinct advantage is that it can be implemented without the necessary training of appraisal personnel. Rental information can be self reported and is somewhat easy to verify via audits. However, the trend internationally is to move away from rating systems toward a capital value approach.

In many situations property is valued using less robust surrogate measures for market value. One such technique is an area-based measure. An area-based measure multiplies the total area of the parcel or improvement by a coefficient of value usually expressed in per meter units. This technique is similar to the Federation's tax on property currently in place and the tax on agricultural land used in the Republika Srpska. Area-based property tax systems offer a number of advantages. Data requirements associated with an area-based tax are less than those associated with the traditional measures of valuation. Trained assessors are not required for the system to work. Self-appraisal and self-reporting of values can be easily accomplished with an area-based system. With a modest

investment in process design area-based techniques can easily be modified to account for differences in the location of the property and the quality and type of building. Area-based systems can also easily be indexed to reflect price level changes in land and improvements.

An even more simple approach for valuation is to stipulate a flat tax for each parcel.³⁶ This method has been used in areas where no values can be determined or where the values are so low there is scant economic justification to make the administrative effort to value the property.

Billing and Collection

A property tax system needs an information infrastructure to notify the owner or occupier of each property of the tax due. This system requires current information regarding the name and address of the owner/occupier. Much of this information currently exists in the cadastral system or in the property registry.³⁷ The regional housing ministries also have data on housing occupancy throughout the Federation.³⁸ The temporary registry to be used with housing privatization will also provide information.

The billing responsibility can be imposed on the taxpayer. In self-reported valuation systems it is a smooth transition to require the taxpayer to calculate the tax due and remit the tax using the same form that property characteristics are reported on. This information can also easily be entered into a computer system.

A concern about the property tax is who should be legally responsible for payment of the tax. In developing countries and countries in transition a useful practice is to impose the tax *in rem* or on the individual parcel of property. Using this technique does not require the taxing authority to explicitly determine ownership. The tax can be billed to the occupant of the property or to the owner. Discussion on who actually must pay the tax becomes a contract issue between the owner and the occupant. It is a flexible system that recognizes the difficulty of identifying the owner of a property.

Because there is a concern about nonpayment of property taxes, it always is important to establish mechanisms to foster payment. An established device to encourage payment of taxes owed is the imposition of fines and interest penalties for nonpayment. Unfortunately, the effectiveness of fines and penalties in a transitional economy often are not very promising. Therefore, it may be more sensible to limit access to water and power in order to induce payment of the property tax. Under such a scheme the taxpayer would have some essential services withheld until he makes an effort to pay his property tax.

Audit

The auditing process is concerned with several issues. First, a successful property tax system requires accurate appraisal of land and improvements. Examinations of the accuracy of the appraisal system must be conducted frequently. These audits can take the

form of sales/ratio studies and measures to determine the uniformity of the system, such as coefficient of variation studies or coefficient of determination studies. Audits should also be driven by the desire to capture a maximum amount of revenue for their efforts. This generally requires that property tax audits be focused on large taxpayers, e.g., industrial and commercial establishments and large rental complexes. Finally, audits must be concerned about the issue of coverage. Every parcel of property should have a very high probability that it will be on the tax rolls regardless of taxable value. Currently, due to lack of resources and training in both Entities, the implementation of an effective audit program would require significant resources.

Appeals

Because the value of property tax bases is often estimated there is room for error and disagreement. To avoid unfair taxation of parcels there should be a process for the objective review of assigned values. The process needs to be easily accessible to the taxpayer, transparent, timely, and cost-effective. It also requires trained professionals serving on the appeal boards. Appeal procedures exist in both Entities but these procedures are hampered by a lack of training among members of the appellate body and a general lack of comprehension by the typical taxpayer of his rights.

Other Issues

The level at which a traditional property tax is administered is an important consideration. Centralized administration allows for more competencies among employees and more resources to support their efforts. Decentralized administration is more likely to pique the interest of local authorities because the revenue generated ends up in the local government's budget.

Implementing an Ad Valorem Property Tax System

Major components of the technical and administrative infrastructure that would be necessary to implement an ad valorem property tax already are in existence in Bosnia and Herzegovina. A carefully laid out plan to expand the use of property based taxes seems to be the most logical way for sub-Entity units of government to begin the quest to expand their tax capacity and raise the revenues needed to meet growing expenditures. The plan should use the existing information and administrative infrastructure associated with the current property-based taxes as it outlines steps that need to be taken for a gradual evolution toward a traditional property tax. Clearly, the successful completion of the plan will require cooperation between the finance, cadastral, and tax administration offices of the Entities' sub-national governments.

The plan should cover three related concerns. First, the plan must be designed to help foster and develop a positive climate for the property tax. Because of the need to estimate values and collect a direct tax, this type of climate is never easy to establish. The second need is for the development of an articulated property tax policy. Questions such as what

fiscal significance can reasonably be expected from the property tax would be part of the policy discussion. The third issue is the necessity to design an administrative framework to support a property tax. The failure to design and implement appropriate administrative plans and decisions has reduced the effectiveness of a number of tax reform programs (Schlemenson, 1992). None of the phases of the plan will be successful if these three areas are not part of the planning process.

The objective of the overall plan should be to strengthen local public finance in Bosnia and Herzegovina. This objective can be reached by improving the operation of the current property-based taxes and by increasing the use of a traditional (*ad valorem*) property tax.

A number of things make the environment conducive to the serious consideration of a traditional property tax in both Entities. Limited property-based taxes already are in existence in both the Federation and the Republika Srpska. A system of land records exists in both Entities along with a tradition of careful land use decisions. A real estate market is emerging in the Federation, and will in the Republika Srpska as housing privatization begins.

Based on the above findings and observations we believe that preparations should be made to facilitate the implementation of a traditional property tax in Bosnia and Herzegovina in the not too distant future. The initial step should be for officials from both Entities to attend and participate in overview and training session(s) on property-based taxes. These officials would include tax administrators, cadastral administrators, financial officers, and policy makers from the Federation, Republika Srpska, cantonal, and municipal levels of government. The focus of these training sessions would be to help participants understand the technical and administrative issues as well as the policy issues of the property tax. The training sessions would be participative in nature. As part of the attendance, officials would work with the training group to flesh out ideas about how a property tax would work in Bosnia and Herzegovina.

Following the training sessions a planning process should be initiated for the implementation of a traditional property tax system. This process would involve tax policy and administration officials from all levels of government and representatives from appropriate international organizations such as the World Bank, the Lincoln Institute of Land Policy, and the United States Treasury. The planning processes will require active involvement by all parties. The property tax system cannot be designed without full consideration of the unique issues in Bosnia and Herzegovina.

As the process progresses a series of appraisal review and training sessions for officials currently involved in valuing property under the existing property-based taxes should be developed. This initiative will help increase the professionalism of those involved and can be used to improve the process of information gathering so important for an efficiently operating property tax system. The International Association of Assessing Officers (IAAO) and the Institute of Revenues Ratings and Valuation (IRRV) could both help provide these training sessions. As part of this training an appraiser education and certification program should be developed in both Entities. Again, the IAAO or the

IRRV could provide the required support to begin a certification program.

The information systems resident in the cadastral offices, tax administration offices, and housing offices in both Entities should be linked so that all three offices can share information to help accomplish their organizational objectives. Forming an electronic link with utility information databases should also be explored.

Laws to enable the implementation of a traditional property tax system in both Entities should be drafted. A few model laws have already been developed and should be carefully considered as guides for drafting such a law (Hussey and Lubick, 1992).

Finally, an audit and appeal process for property taxes in both Entities should be developed.

The implementation of a property tax system in Bosnia and Herzegovina will not be accomplished overnight. It will take careful planning, education, financial resources, enhancement of information and data systems already in use, and political support to come to fruition. The process must also be viewed in a comprehensive and strategic fashion. Failure to create the needed political, policy and administrative infrastructure will eventually undermine the system (Kelly, 1992). However, the basic building blocks are in place and there exists a culture in both Entities that has relied on property to generate revenue in the past. So, the obstacles are not insurmountable; in fact the prospects seem quite positive.

Endnotes

- ¹ Including agreements about use of and fees collected from the use of BiH airspace.
- ² This provision allowing special agreements also can result in arrangements not intended. An example are special customs regimes where goods from Croatia only have a 1% processing fee, and goods to Republika Srpska from Yugoslavia have the same. Since customs is a State responsibility, these special customs regimes are considered illegal.
- ³ See Article 15 (Federation, 1996).
- ⁴ Obviously there is some ambiguity here. Currently the trend seems to be towards each Canton wanting at least one University and clinical hospital.
- ⁵ See Article 4 (Federation, 1996).
- ⁶ Obviously there is no tax on the producer in this case and movement of the goods between the Republika Srpska and the Federation constitute movement of goods within Bosnia and Herzegovina.
- ⁷ For example, fruit drinks were not taxed in the Republika Srpska.
- ⁸ Discussions continue over the role of the Federation tax administration in the collection of Canton taxes and the role of the financial police.
- ⁹ Cantons receive slightly less than 1.5% of their total revenue from the Citizen Tax.
- ¹⁰ The Citizen Tax is a holdover from the old Yugoslav Republic. Not all of these taxes are being used in all Cantons or in the Republika Srpska (The Republika Srpska has one personal income tax law that combines the wage tax and citizens taxes). Two Cantons—Podrinski Canton (Gorazde), and Neretva-Hercegovacki (Mostar) have adopted new cantonal tax laws. The laws are in the legislative process in Sarajevo Canton and draft laws exists in Una-Sana Canton (Bihac). These tax laws replace the Citizen Tax Law but tend to be modeled closely after the old law.
- ¹¹ Taxes that historically would have fallen under the category Citizen Tax are now reported under the Other Taxes category. This category includes the new income tax that is called the tax on citizens. The tax on citizens began in July 1998.
- ¹² As was mentioned in the previous section the Citizen Tax had its origin in the former Republic of Yugoslavia. This category of taxes included: corporate income tax for physical persons; tax on property; tax on income from property and property rights; tax on income from author rights, patents, and technical development; tax on inheritance and gifts; tax on profits from gambling; tax on income from agriculture; tax on the total income of physical persons; and tax on the consumption of alcohol and non

alcohol beverages in catering.

- ¹³ Two Cantons, Una-Sana (Bihac) and Neretva-Hercegovacki are in the process of passing a cantonal tax law to take the place of the Citizen Tax law.
- ¹⁴ In principle this tax is similar to the property transactions tax in the United States. The transaction tax in the United States primarily is used as a vehicle to collect information on property transactions. In the Federation the tax rate is significant implying the tax is intended as a revenue generator more than an information generator.
- ¹⁵ This does not apply to the first owner-occupied residence.
- ¹⁶ Luxury automobiles, motorcycles, boats, casino tables and slot machines, and pinball machines are tangible personal property.
- ¹⁷ When asked why approximately 30% of taxpayers fail to comply, the main obstacle noted was lack of money to pay the tax.
- ¹⁸ This classification system is similar to greenbelt plans in use in the United States.
- ¹⁹ The tax rate is the same throughout the Entity.
- ²⁰ Exempting smaller parcels of land is a common practice (Dillinger, 1992).
- ²¹ This was an opinion rendered by Milan Predragovic, Head of Cadaster of Real Estates, Banja Luka.
- ²² This tax based on net rental income is similar to the property tax found in England and its colonial derivatives.
- ²³ It is suspected that a significant portion of property rented to expatriates fails to be reported, or if reported, to be reported accurately. This is a problem given the large number of expatriates and the high rent paid by them.
- ²⁴ The two Cantons currently in the process of adopting new cantonal tax laws also have included a tax on non-movables.
- ²⁵ The trend to reduce the rates on real estate transaction taxes has also been observed in other emerging countries such as the Czech and Slovak Republics. The reason is that high rates deter compliance.
- ²⁶ Estimates were provided by Mr. Sefkija Duranovic, Director of the Municipal Planning Department, Ilidza municipality, Sarajevo Canton.
- ²⁷ The first degree of inheritors refers to the spouse, children, parents, or siblings of the deceased.

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- ²⁸ The role of the cadastral system in designing a property tax is described in Deakin (1996).
- ²⁹ During and after the war NATO and its allies mapped both Entities. Therefore this may be another source of GIS information.
- ³⁰ It is not obvious whether the parcel identifiers are unique to the sub-national units of government or to the Federation and Republika Srpska.
- ³¹ A strong tradition of land use planning exists in the Federation and the Republika Srpska.
- ³² We have yet to review the two laws.
- ³³ Using utility data would be most effective in identifying ownership or possession of single owner houses or flats. The problem of identification is less troublesome in multi-unit structures because, presumably, the owner of the structure would have information about tenants.
- ³⁴ Suggesting a land tax in a transition country does bring some policy controversy (Bertaud and Renaud, 1994).
- ³⁵ The rate in the Sarajevo Canton recently was lowered to 8 percent.
- ³⁶ The purpose is more data collection than revenue generation. Therefore it can serve as a first step toward a more sophisticated property tax.
- ³⁷ The registry is comparable to the German *Grundbuch*.
- ³⁸ Another approach is to rely on utility billing information.

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Table 1: Expenditure Responsibilities of Federation and Cantons

Level of Government	Expenditure Responsibilities
<i>Federation</i>	Federal Government Courts Legislature Science Sport Aid to Cantons Institutions and bureaus of significant interest to the Federation
<i>Canton</i>	Legislature Other areas of significant interest to Cantons
<i>Shared</i>	Health Education Social Care Culture

Source: *Law on the Allocation of Public Revenues*, Dec. 1996

Table 2: Canton and Municipal Tax Revenues, 1997 and 1998
(million DM)

	Total Tax 1997	Percent of Combined Total	Total Tax 1998	Percent of Combined Total
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Bihac	Canton	68.191		89.943	
	Municipality	20.529	23.1%	26.306	22.6%
Tuzla	Canton	142.967		166.670	
	Municipality	33.149	18.8%	36.421	17.9%
Zenica	Canton	84.9		109.077	
	Municipality	29.352	25.7%	27.426	20.1%
Gorazde	Canton	9.823		9.895	
	Municipality	0.437	4.3%	1.643	11.6%
Sarajevo	Canton	360.74		356.995	
	Municipality	3.026	0.8%	10.228	2.8%
Posavski (Orasje)	Canton	13.541		15.194	
	Municipality	2.2	14.0%	2.760	15.6%
West Hercegovinia	Canton	37.636		41.000	
	Municipality	8.356	18.2%	9.080	18.2%
Herceg-Bosanski	Canton	10.812		13.123	
	Municipality	4.674	30.2%	5.836	30.7%
Central Bosnia	Canton	45.085		63.426	
	Municipality	16.002	26.2%	20.364	24.3%
Mostar	Canton	64.706		76.284	
	Municipality	18.256	22.0%	24.414	24.2%
Total Federation	Canton	838.3		941.6	
	Municipality	135.98	14.0%	164.5	14.9%

Table 3: Comparison of Taxes: Federation and Republika Srpska

Sales Tax on Goods and Services		
	Federation	Republika Srpska
Level responsible for:		
Legislation	Federation	
Setting rates	Federation	
Receiving revenues	Canton	
Base:	Turnover for goods	Turnover for goods
	Retail markup for services	Retail markup for services
Rates:	20% general rate, goods	18% general rate, goods
	10% services	9% services
	Lower rates: 5%, 10%, 15%	Lower rate: 8%
Other:	Collection at retail level except excisable goods at wholesaler for imports, manufacture for domestic	

Excise Taxes		
	Federation	Republika Srpska
Level responsible for:		
Legislation	Federation	
Setting rates	Federation	
Receiving revenues	Federation	
Base and rates:	Coffee: 1-3 DM/kg Oil derivatives: .20-.40DM/liter Tobacco: .22-2.3 DM/ pack, 7.5-15 DM/kg Beer: .20-.30 DM/liter Non-alcoholic drinks: .10-.20 DM/liter Alcohol: 1.2-16DM/liter absolute alcohol Imported cars: 10% value	Coffee: 1-4 DM/kg Oil derivatives: .10-.30DM/liter Tobacco: .10-1.0 DM/pack, 3-6 DM/kg Beer: .15-.30 DM/liter, Imported Non-alcoholic drinks: .20 DM/liter Alcohol: .20-3.50DM/liter Luxury products: 10% value (diamond, pearls, imported leather) Exported timber: 3-10%
Other:	Mostly specific rates, vary by source	Mostly specific rates, vary by source

Wage Tax		
	Federation	Republika Srpska
Level responsible for:		
Legislation	Federation	
Setting rates	Federation	
Receiving revenues	Cantons	
Base:	Gross wages less contributions	All personal income (but agricultural and property based taxes use different rate). Personal exemption is 15%.
Rates:	15%	Below 15,000 DM 0%, Up to 15,000 DM 25%, Up to 25,000 DM 20%, Above 25,000 DM 15%
Other:	There are plans to move to a global income tax, allowing Cantons to piggyback	Income from real estate or moveable property, or sale of real estate taxed at 15%. Agriculture

Social Contributions		
	Federation	Republika Srpska
Base:	Gross wages	Gross wages
Rates:	Pensions: 7% employer, 17% employee, Health: 5% employer, 13% employee, Unemployment: 1% employer, 2% employee	Pensions: 11% employer, 11% employee, Health: 9% employer, 9% employee, Unemployment: 0.5% employer, 0.5% employee, Child protection: 1.5% each
Other:	Unified pension law for Federation passed 7/98	Higher rates for other income

Corporate Profit Tax		
	Federation	Republika Srpska
Level responsible for:		
Legislation	Federation	
Setting rates	Federation	
Receiving revenues	Cantons and Federation (as of mid 1998)	
Base:	Taxable profit defined in law	Taxable profit defined in law

Rates:	30%	Under 100,000KM 20% Up to 300,000KM 15% Up to 500,000KM 12% Above 500,000KM 10%
Other:	Unified law passed 12/97	New law passed 6/98

Customs		
	Federation	Republika Srpska
Level responsible for:		
Legislation	State of BiH	State of BiH
Setting rates	State of BiH	State of BiH
Receiving revenues	Federation	RS
Base:	Import price	Import price
Rates:	0%, 5%, 10%, 15%	0%, 5%, 10%, 15%
Other:	Passed mid 1998, not implemented yet. Illegal special custom arrangement with Croatia (1%) and agriculture protection continues.	Passed mid 1998, not implemented yet. Illegal special custom arrangement with Yugoslavia (1%) and agriculture protection continues.

Citizens tax		
	Federation	Republika Srpska
Level responsible for:		
Legislation	Federation unless Canton replaces (some ambiguity here)	
Setting rates	Federation unless Canton replaces	
Receiving revenues	Cantons	
Base:	Non wage income: Property (second homes, luxury), Income from property, Authors rights, patents, Inheritance and gifts, Gambling, Agriculture	Part of Income tax in RS, but treat agriculture, income from property and moveables similarly to Federation Citizens tax law
Rates:	5%-30% depending on type of income	15% on the above items—not included in income tax base.

Other:	Bosniac majority Cantons using 1984 Republic law, Croat majority Cantons using different law. 4 Cantons have or will pass new laws.	
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Table 4: Total Revenue by Source for the Federation and Republika Srpska
1998 (million DM)

<i>Revenue Source</i>	Federation of Bosnia and Herzegovina			Republika Srpska*
	<i>Federation</i>	<i>Canton</i>	<i>Municipality</i>	<i>Republika Srpska</i>
<i>Customs</i>	304.6			92.8
<i>Excises</i>	320.5			105.5
<i>Sales tax</i>		644.1	69.9	59.2
<i>Wage tax</i>		167.2	36.5	
<i>Profit tax</i>	10.3	66.0	2.8	
<i>Citizens' tax</i>		13.7	33.6	
<i>Other taxes</i>		6.2	2.6	100.6
<i>Fines and fees</i>	14.1	35.1	17.9	
<i>Money penalties</i>	1.5	9.4	1.2	
<i>Other income**</i>				75.9
<i>TOTAL</i>	651.0	941.7	164.5	434.0

* Converted from Yugoslav Dinar by CAFAO. Only customs on imported cars, a tax on foreign salaries and some fees were paid in DM; all other taxes are paid in Yugoslav Dinar.

** Includes two taxes on the sales tax base: two percent for railroads, amounting to 76 million Dinar and five percent for financing the army, amounting to 141.3 million Dinar. Both were abolished by 1/1/99.

**Table 5: The Importance of the Citizen Tax Across Cantons
and Municipalities in the Federation**
1998 (million DM)

		Citizen Tax	Total Tax	<u>Percentage</u>
Bihac	Canton	0	89,943,586	0.0%
	Municipality	4,252,079	26,306,481	16.2%
Tuzla	Canton	325,077	166,670,943	0.2%
	Municipality	8,620,262	36,421,740	23.7%
Zenica	Canton	0	109,077,372	0.0%
	Municipality	4,379,657	27,426,567	16.0%
Gorazde	Canton	433,844	9,895,420	4.4%
	Municipality	156,655	1,643,774	9.5%
Sarajevo	Canton	10,801,725	356,995,486	3.0%
	Municipality	10,140,580	10,228,420	99.1%
Posavski (Orasje)	Canton	524,078	15,194,567	3.5%
	Municipality	25	2,760,500	0.0%
West Hercegovinia	Canton	183,876	41,000,787	0.5%
	Municipality	562,296	9,080,575	6.2%
Herceg-Bosanski	Canton	218,764	13,123,318	1.7%
	Municipality	218,641	5,836,475	3.8%
Central Bosnia	Canton	0	63,426,977	0.0%
	Municipality	3,607,058	20,364,796	17.7%
Mostar	Canton	1,212,861	76,284,915	1.6%
	Municipality	1,641,717	24,414,951	6.7%

**Table 6: Description of Property-Based Taxes
in Bosnia and Herzegovina**

Tax	Description	Comments
Tax on Property	Base of tax includes nine categories of property: second homes; businesses; garages; luxury automobiles; motorcycles; boats in excess of five meters in length; casino gaming tables; slot machines; and pinball machines	An excise tax on real and personal property
Tax on Income from Agriculture	Land is assigned a coefficient of value based on its classification with regard to productivity and location. This coefficient of value is multiplied by the size of the land to arrive at the tax base	A tax based on land productivity
Tax on Income from Property and Property Rights	Annual tax on income generated from renting real property	An indirect tax on property wealth assuming rent is correlated with the value of rental property
Tax on Non-Movables	Tax base is the sales price of property	A real estate transactions tax
Tax on Inheritances and Gifts	Tax base is inherited property	A tax on inherited property wealth