



Bosnia and Herzegovina

Introduction

Bosnia and Herzegovina (BiH) consists of two territorial and administrative entities (the Federation of BiH (the FBiH)) and the Republic of Srpska (the RS) and one district, the Brcko District (BD). Due to the insignificant size of the BD, this document will address only the legislation of BiH's entities. Each entity has its own income tax legislation. Generally, in both entities, a person's personal income tax (PIT) status is determined by residence status for PIT purposes and the source of the income derived by the individual. The PIT base is determined by subtracting allowable deductions from the total income.

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Key messages

Extended business travelers staying less than 183 days in a year in the territory of the FBiH or the RS are taxed on the income earned in the FBiH or the RS, respectively.

Income tax

Liability for income tax

Unless otherwise specifically stated, the information provided below applies to both the FBiH and the RS.

A person's PIT liability in the FBiH/RS is determined by residence status. The FBiH/RS PIT Law defines a resident taxpayer as an individual who:

- Has residence in the FBiH/the RS
- Has residence in the FBiH and spends a cumulative period of at least 183 days in the FBiH/the RS during a calendar year
- Has residence in the FBiH and earns income by carrying out a dependent activity outside the FBiH that is paid from the budget of the FBiH and/or BiH (only the FBiH).

A nonresident is considered to be an individual spending less than 183 days in the FBiH/the RS during any calendar year.

The general rule is that residents are taxed on their worldwide income and nonresidents on income earned in the territory of the FBiH/RS. Extended business travelers are likely to be considered nonresident of the FBiH/RS for tax purposes unless they stay in the FBiH/RS for more than 183 days over one calendar year.

Tax trigger points

In the FBiH and the RS, the PIT trigger point arises simultaneously with the payment of income.

Types of taxable income

The following types of income are subject to PIT: income realized through dependent activity (i.e., employment), independent activity, property and property rights, capital investment, etc. For extended business travelers, the types of income that are generally taxed are employment income and all related benefits in kind.

Tax rates

The PIT rate in both the FBiH and the RS is 10 percent (as of February 1, 2011 in the RS).

Social security

Liability for social security

Social Security Contributions (SSC) in BiH are regulated at the level of the entities.

Total SSC rates applicable in the FBiH amount to 41.50 percent, applicable to gross salary. Out of that, 31 percent is withheld from salary and 10.5 percent is paid in addition to salary.

Total SSC rates applicable in the RS as of February 1, 2011 amount to 33 percent, all of which is withheld from salary.

The existence of a totalization agreement between BiH and the home country of an expatriate may have a bearing on SSC liabilities.

Compliance obligations

Employee compliance obligations

An individual is required to submit an annual return no later than March 31 of the current year for the previous year in both entities if in that calendar year the individual had income from more than one source (e.g., two employment contracts, rental income, and similar).

Employer reporting and withholding requirements

Employers performing business activities in both entities are obliged to withhold and pay PIT and SSC for their employees in each entity, respectively.

Other

Work permit/visa requirements

A visa is not required for most foreigners entering BiH (such as EU and U.S. residents), that is, they can enter BiH under the visa-free regime. However, foreign nationals must obtain a work permit in order to work in BiH.

Double taxation treaties

IBiH has entered into double taxation treaties (DTTs) with several countries to prevent double taxation. Further, BiH has incorporated into its legal system, through succession, a number of DTTs from the former Socialist Federative Republic of Yugoslavia.

Permanent establishment implications

A permanent establishment could theoretically be created as a result of extended business travel, but this would be dependent on the type of services performed and the level of the employee's authority.

Indirect taxes

Value-added tax (VAT) is applicable at 17 percent for taxable supplies. The registration threshold is taxable supplies of 50,000 Bosnian marks (BAM) (approximately EUR25,000) or more in the previous year.

Transfer pricing

Both the FBiH and the RS have a transfer pricing regime, and if a business travelers' costs and taxes are recharged to an entity in the FBiH or the RS or if a service fee is charged on the duties performed by the business traveler, such charges may be subject to scrutiny under the transfer pricing rules.

Local data privacy requirements

BiH has data privacy legislation.

Exchange control

Generally, there are restrictions on transfer of foreign currencies for residents. Certain reporting obligations are imposed to control tax evasion and money laundering. In addition legislation requires financial institutions and other cash dealers to give notification of cash transactions over BAM30,000 (approximately EUR15,000) or suspicious cash transactions.

Nondeductible costs for assignees

Generally, costs paid to assignees not employed by the company are considered as a nondeductible expense or an entertainment expense, unless the company can prove the business purpose of the travel.

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The material contained within draws on the experience of KPMG tax personnel and their knowledge of local tax law in each of the countries covered. While every effort has been made to provide information current at the date of publication, tax laws around the world change constantly. Accordingly, the material should be viewed only as a general guide and not be relied on without consulting your local KPMG tax adviser for the specific application of a country's tax rules to your own situation.

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