

# Bosnia and Herzegovina Country Profile

EU Tax Centre

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## Key tax factors for efficient cross-border business and investment involving Bosnia and Herzegovina

**EU Member State** No

**Double Tax Treaties** With:

Albania	Greece	Poland
Algeria	Hungary	Qatar
Austria	Iran	Romania
Azerbaijan	Ireland	Serbia and Montenegro
Belgium	Italy	Slovakia
China	Jordan	Slovenia
Croatia	Kuwait	Spain
Cyprus	Macedonia	Sri Lanka
Czech Rep.	Malaysia	Sweden
Egypt	Moldova	Turkey
Finland	Netherlands	UAE
France	Norway	UK.
Germany	Pakistan	

**Forms of doing business** Limited liability company

Joint Stock company

Branch

**Legal entity capital requirements** Bosnia and Herzegovina (hereinafter “BiH”) consist of two territorial entities: the Federation of Bosnia and Herzegovina (hereinafter “FBiH”) and the Republic Srpska (hereinafter “RS”) and Brcko District.

In FBiH the capital requirement is EUR 500 and in RS it is 0.5 EUR.



<b>Residence and tax system</b>	<p>For the purposes of both the FBiH Corporate Profit Tax (“CPT”) Law and the RS CPT Law, a resident (which is taxable on its worldwide income) is either a business entity incorporated in the FBiH or RS, respectively, or a business entity whose place of effective management or supervision is on the territory of the FBiH or RS, respectively.</p> <p>A non-resident entity (taxable only on income realized in the FBiH or RS, respectively) is a business entity incorporated outside of the FBiH or RS, respectively and/or whose place of effective management or supervision is outside of the territory of the FBiH or RS, respectively.</p>
<b>Compliance requirements for CIT purposes</b>	<p>With regard to 2016, in the FBiH CPT return submission deadline is March 30, 2017 and in the RS it is March 31, 2017.</p>
<b>Tax rate</b>	<p>The standard corporate income tax rate is 10 percent.</p>
<b>Withholding tax rates</b>	<p><b>On dividends paid to non-resident companies</b></p> <p>5 percent in the FBiH and 10 percent in RS.</p> <p><b>On interest paid to non-resident companies</b></p> <p>10 percent.</p> <p><b>On patent royalties and certain copyright royalties paid to non-resident companies</b></p> <p>10 percent.</p> <p><b>On fees for technical services</b></p> <p>10 percent.</p> <p><b>On other payments</b></p> <p>10 percent.</p> <p><b>Branch withholding taxes</b></p> <p>10 percent.</p>
<b>Holding rules</b>	<p><b>Dividend received from resident/non-resident subsidiaries</b></p> <p>Dividends received are generally not taxable, neither in FBiH nor in RS.</p> <p><b>Capital gains obtained from resident/non-resident subsidiaries</b></p> <p>Capital gains are taxable at the rate of 10 percent in both the FBiH and the RS.</p>



<b>Tax losses</b>	Losses may be carried forward for 5 years. The carryback of tax losses is not defined.
<b>Tax consolidation rules/Group relief rules</b>	<p>Yes, tax grouping is generally allowed in the FBiH under the following conditions:</p> <ul style="list-style-type: none"> <li>- if there is more than 50 percent direct/indirect control between the parent company and subsidiaries;</li> <li>- all of the legal entities under consideration are FBiH residents;</li> <li>- the legal entities under consideration prepare a statement of consent with regard to the consolidation.</li> </ul>
<b>Registration duties</b>	Legal entity should be registered in relevant court register depending on company location.
<b>Transfer duties</b>	<p><b>On the transfer of shares</b></p> <p>No.</p> <p><b>On the transfer of land and buildings</b></p> <p>Yes, in FBiH a real estate transfer tax applies (amounts to 5 percent).</p> <p>No real estate transfer applies in RS.</p> <p>First transfer of new building is subject to VAT at flat rate of 17 percent.</p> <p><b>Stamp duties</b></p> <p>No.</p> <p><b>Real estate taxes</b></p> <p>Real estate transfer tax to be considered (see above).</p>
<b>Controlled Foreign Company rules</b>	No.
<b>Transfer pricing rules</b>	<p><b>General transfer pricing rules</b></p> <p>In both the FBiH and the RS, prices for the sale of goods and services between related parties should be at arm's length; if not, the difference exceeding the arm's length value will be added to the tax base and is therefore taxable.</p> <p>New CPT Laws for both the RS and the FBiH took effect as of January 1, 2016 and March 5, 2016 respectively.</p> <p>The new FBiH and RS CPT Laws contain more detailed transfer pricing rules. Both CPT Laws require taxpayers to include transfer pricing documentation in their tax returns as proof that transactions with related parties were at arm's length. Further details with regard to transfer pricing</p>



rulings are set out in applicable Rulebooks on transfer prices of the Federation of Bosnia and Herzegovina and Republic of Srpska.

**Documentation requirement?**

Yes (see above).

**Thin capitalization rules**

There are no thin capitalization rules in the RS.

In the FBiH, financial expenses for interest per financial agreements and instruments to related parties are generally recognized for tax purposes. However, if the ratio between these obligations per financial agreements and the registered share capital of a taxpayer exceeds the ratio of 4:1, then the financial expenses exceeding the 4:1 are not recognized for tax purposes and cannot be transferred to another tax period. However, this does not apply to banks and insurance companies.

**General Anti-Avoidance rules (GAAR)**

Yes.

**Specific Anti-Avoidance rules/Anti Treaty Shopping Prov.**

No.

**Advance Ruling system**

Yes.

**IP / R&D incentives**

No.

**Other incentives**

**FBiH:**

- a) Taxpayers that make investments from their own resources in production equipment worth more than 50 percent of the profit of the current tax period may reduce their profit tax liability in the year of investment (same tax period) by 30%.
- b) A 50 percent CPT exemption for a five-year period provided that the taxpayer invests BAM 20 million (approx EUR 10 million) in production facilities in the FBiH (BAM 4 million must be invested in the first year),
- c) The taxpayer is entitled to a tax-deductible expense of twice the amount of the gross salary paid to new employees if the following conditions are met:
  - the duration of the employment contract must be at least 12 months for a full-time contract;
  - the new employee was not employed by the taxpayer or a related party in the preceding five years.

**RS:**

- a) Taxpayers that make investments in production equipment worth more



than 50 percent of the profit (tax base) of the current tax period on the territory of RS may reduce their profit tax liability in the year of investment (same tax period) by 30%.

**VAT**

The standard rate is 17 percent.

**Other points of attention**

No

Source: Bosnian tax law and local tax administration guidelines, updated 2017.



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