



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

Most important forms of doing business

- Limited liability company (LLC)
- Joint Stock company (JSC)
- 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 Republika Srpska (hereinafter: "RS") and Brcko District.

Minimum capital requirement for the FBiH:

- EUR 500 for LLC;
- EUR 25.000 for JSC.

Minimum capital requirement for the RS:

- EUR 0.5 for LLC;
- EUR 10.000 for closed JSC;
- EUR 25.000 for opened JSC.

Residence and tax system

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.

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.

Compliance requirements for CIT purposes

The CPT return submission deadline is

- March 30 of the current year for the previous tax year in FBiH
- March 31 of the current year for the previous tax year in RS.

Corporate income tax rate

The standard corporate income tax rate is 10 percent.

Withholding tax rates**On dividends paid to non-resident companies**

5 percent in the FBiH and 10 percent in RS.

On interest paid to non-resident companies

10 percent.

On patent royalties and certain copyright royalties paid to non-resident companies

10 percent.

On fees for technical services

10 percent.

On other payments

10 percent.

Branch withholding taxes

10 percent.

Holding rules

Dividend received from resident/non-resident subsidiaries

Dividends received are generally not taxable, neither in the FBiH nor in the RS.

Capital gains obtained from resident/non-resident subsidiaries

Capital gains are taxable at the rate of 10 percent in both the FBiH and the RS.

Tax losses

Losses may be carried forward for 5 years. The carryback of tax losses is not allowed.

Tax consolidation rules/Group relief rules

Yes, tax grouping is generally allowed in the FBiH under the following conditions:

- if there is more than 50 percent direct/indirect control between the parent company and subsidiaries;
- all of the legal entities under consideration are FBiH residents;
- the legal entities under consideration prepare a statement of consent with regard to the consolidation.

Tax consolidation applies for at least 5 years once chosen and approved by the tax authorities.

Registration duties

Legal entity should be registered with the relevant court register depending on company location.

Transfer duties

On the transfer of shares

No.

On the transfer of land and buildings

Yes, in the FBiH a real estate transfer tax applies (amounts to 5 percent of the estimated value of a real estate).

No real estate transfer applies in the RS.

First transfer of new building is subject to VAT at flat rate of 17 percent.

Stamp duties

No.

Real estate taxes

Real estate transfer tax to be considered (see above).

Controlled Foreign Company rules	No.
Transfer pricing rules	<p>General transfer pricing rules</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. 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 rulings are set out in applicable Rulebooks on transfer prices of the FBiH and the RS.</p> <p>Documentation requirement?</p> <p>Yes (see above).</p>
Thin capitalization rules	<p>There are no thin capitalization rules in the RS.</p> <p>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.</p>
General Anti-Avoidance rules (GAAR)	Yes.
Specific Anti-Avoidance rules/Anti Treaty Shopping Provisions/Anti-Hybrid rules	No.
Advance Ruling system	Yes.
IP / R&D incentives	No.

Other incentives

(1) 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.

(2) 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 2018.

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