



Bosnia and Herzegovina

Country Profile

EU Tax Centre

July 2021

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

EU Member State No.

Double Tax Treaties With the following countries, territories and jurisdictions:

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

Most important forms of doing business

- Limited liability company (LLC);
- Branch;
- Joint Stock company (JSC).

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 the RS, respectively, or a business entity whose place of effective management or supervision is on the territory of the FBiH or the RS, respectively.

A non-resident entity (taxable only on income realized in the FBiH or the RS, respectively) is a business entity incorporated outside of the FBiH or the RS, respectively and/or whose place of effective management or supervision is outside of the territory of the FBiH or the 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 the FBiH;
- March 31 of the current year for the previous tax year in the 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 the 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 from another resident company are not taxable, if paid out from profits in relation to which tax has been calculated and paid. Dividends received from a non-resident company are taxable.

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 tax applies in the RS.

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

Stamp duties

No.

Real estate taxes

In the FBiH, the real estate tax (RET) applies to, inter alia, vacation real estate and rented real estate. RET is regulated at the cantonal level in the

FBiH (i.e. there are currently 10 different laws applicable in the FBiH) and further regulated by municipal decisions.

In the RS, the RET rate is set at a maximum of 0.20 percent and applies on an annual basis to all real estate situated in the RS, except for real estate that is used for production where the RET rate is set at a maximum of 0.10 percent. The RET base is the market value of real estate, whose market value is determined in accordance with municipal decisions.

Controlled Foreign Company rules

No.

Transfer pricing rules

General transfer pricing rules

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.

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.

Documentation requirement

Yes (see above).

Thin capitalization rules

There are no thin capitalization rules in the RS. In the RS, total interest expense is not deductible for CPT purposes in the amount of net interest expense (i.e. interest expense over interest income), which exceeds 30 percent of the tax base that excludes interest income and interest expense.

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 Provisions/Anti-Hybrid rules	No.
Advance Ruling system	Yes.
IP / R&D incentives	No.
Other incentives	<p>FBiH:</p> <ul style="list-style-type: none"> a) A 30 percent CPT incentive in the year of investment is available when the taxpayer invests in production equipment (excluding passenger vehicles) amounting to 50 percent of the current year's profit and the investment is made by using the taxpayers own resources (funds). b) A 50 percent CPT incentive is available for a five-year period when the taxpayer invests BAM 20 million (approximately EUR 10 million) from its own funds in fixed assets used for production activities. BAM 4 million (approximately EUR 2 million) must be invested in the first year. c) The taxpayer has the right to a tax-deductible expense that amounts to double gross salaries of newly hired employees, provided the duration of employment is at least twelve-months of full-time employment and the individual has not been employed by the taxpayer or its related party within the last five years. <p>RS:</p> <ul style="list-style-type: none"> a) A taxpayer is entitled to reduce the CPT base up to the amount corresponding to the value of the investment into property, plant and equipment (PPE) which are necessary for the purposes of conducting registered business manufacturing activities, prescribed by the Ministry, under the condition that the PPE is not sold or given for use to third parties within 3 years from the day that the PPE is put into use. This incentive cannot be used if property, plant and equipment is acquired as a gift.
VAT	The standard rate is 17 percent.
Other points of attention	No.

**Mandatory
Disclosure Rules
Updates**

For country specific information and updates on the EU Mandatory Disclosure Rules please visit KPMG's EU Tax Centre's [MDR Updates page](#).

**COVID-19
Resources**

An overview of tax developments being reported globally by KPMG member firms in response to the Novel Coronavirus (COVID-19) is available [here](#). For further insight into the potential tax, legal and mobility implications of COVID-19, please refer to the dedicated [KPMG page](#).

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