

Foreword

Dear Readers,

We have the pleasure to present you the fourth publication of the RS Tax Administration Annual Report.

The Report outlines the results achieved in 2012, an extremely dynamic and challenging year for us. Nonetheless, we have successfully realized all tasks and objectives with the contribution, effort, and knowledge of our entire staff, as well as the support of compliant taxpayer.

Publication of the 2012 Report aims to present our business results to the broader public, in observance of the principles of transparency and publicity of our work, all in order to gain more support from the public and boost voluntary compliance.

Hopefully, we will have succeeded in this endeavor and ensured your support in the future.

Banja Luka, February 2013

*Director
of the Tax Administration of Republic of Srpska*



Zora Vidović

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I RS TAX ADMINISTRATION LEGAL FRAMEWORK AND WORK ORGANIZATION

RS Tax Administration, being a constituent part of the RS Ministry of Finance, was established in line with the Law on Tax Administration of Republic of Srpska („Official Gazette of RS“ no. 51/01), in effect as of 24 October 2001, which is governing the basis for implementation and pursuance of tax laws and bylaws in Republic of Srpska, and defining tax related minor offences, crimes, and respective sanctions.

Our Vision Statement

„Tax Administration of Republic of Srpska vision is that of a modernly organized administration serving as pillar of Republic of Srpska statehood, a highly professional and efficient organization, dynamic, open, and enjoying respect of taxpayers, the Republic of Srpska Government, and of public in general.“

The Law on Tax Procedure of RS is in effect as of 01 January 2012 („Official Gazette of RS“ no. 102/11), governing organization, competences, rights, and obligations of RS Tax Administration, rights and obligations of taxpayers, regular and enforced collection of tax liabilities, as well as other methods for termination of tax liabilities, tax audit, legal remedies and supervision, and tax related misdemeanors.

In line with the provisions of above said Law, TARS is in charge of: registration and identification of taxpayers, tax assessment, supervision over application of tax regulations,

regular and enforced collection of all taxes, control of calculation of gross salaries of employees in line with laws and provisions of the General Collective Agreement, identification and prevention of criminal offenses and tax related misdemeanors and reporting to the competent prosecutor's office, managing of the first-instance tax proceedings, statement of measures and sanctions for tax related misdemeanors, keeping tax records and tax accounting, managing the Fiscal Register of Real Estate, and other prescribed registers, public information and education of taxpayers, issuing certificates from relevant records, and reporting.

In line with the Rulebook on Changes and Amendments to the Rulebook on Internal Organization and Systematization of Positions in RS Tax Administration („Official Gazette of RS“, no 49/12), the following basic organizational units were established: Head Office, Regional Centers, Local Offices, and Temporary Offices.

RS Tax Administration Head Office is in charge of coordination, surveillance and control over operations and unified implementation of tax policy, and to that extent, the provision of professional assistance and education to employees at all organizational levels.

Our Mission Statement

„Our mission is to consistently, impartially, and efficiently collect public revenues thus providing service to both, the Republic of Srpska and its citizens.“

The Head Office incorporates the following organizational units:

- ❖ Expert Management Affairs Department,
- ❖ Audit, Investigations, and Intelligence Sector,
- ❖ Tax Collection Management Sector,
- ❖ Taxpayer Service Sector,
- ❖ Information Technologies Sector,
- ❖ Central Tax Documentation Processing Sector,
- ❖ Human Resources Sector, and
- ❖ Common Affairs Sector.

The following Regional Centers were established, as basic organizational units within RS Tax Administration, with the sector status:

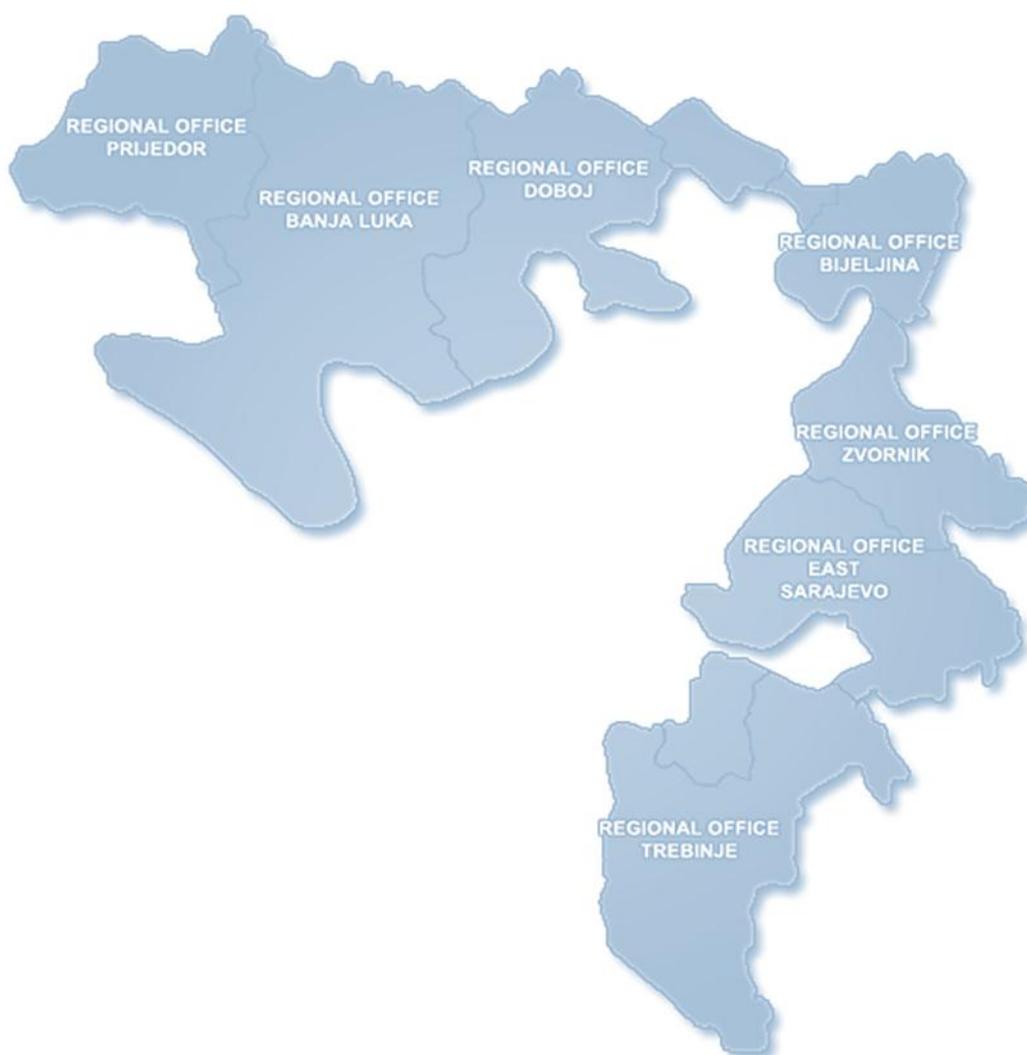
- ❖ Regional Center Banja Luka, seated in Banja Luka,
- ❖ Regional Center Prijedor, seated in Prijedor,
- ❖ Regional Center Doboj, seated in Doboj,
- ❖ Regional Center Bijeljina, seated in Bijeljina,
- ❖ Regional Center Zvornik, seated in Zvornik,
- ❖ Regional Center Sarajevo East, seated in Sarajevo East, and
- ❖ Regional Center Trebinje, seated in Trebinje.



Regional Centers incorporate the following organizational units:

- ❖ Audit Department,
- ❖ Taxpayer Service and Regular Collection Department,
- ❖ Enforced Collection Department,
- ❖ Legal and Administrative-Technical Affairs Department,
- ❖ Local Offices, and
- ❖ Temporary Offices.

Territorial organization of RS Tax Administration



II HUMAN RESOURCES

The number of staff employed in TARS as of 31 December 2012 was **764**, including:

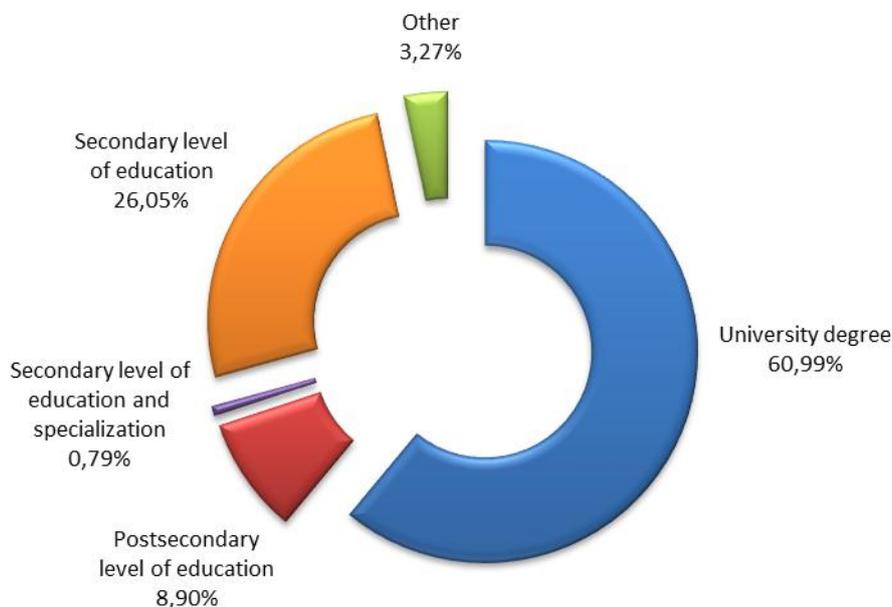
- 729 full-time employees,
- 27 part –time employees, and
- 8 apprentices.

The new **Rulebook on Internal Organization and Systematization of Positions in RS Tax Administration** („Official Gazette of RS“ no. 49&12), has been issued in 2012 resulting in relevant allocation of staff. The Rulebook established 155 positions for 820 staff members. In addition, a **Rulebook on Criteria for Allocation of Civil Servants** has been developed for the purpose of staffing of positions defined under the Rulebook on Internal Organization and Systematization of Positions in RS Tax Administration, in cases where the new Rulebook foresees elimination of a position or reduction of number of staff required for the function relative to the previous Rulebook.

Educational structure of staff is as follows:

- 466 with university degree,
- 68 with postsecondary level of education,
- 6 with secondary level of education and specialization,
- 199 with secondary level of education, and
- 25 other.

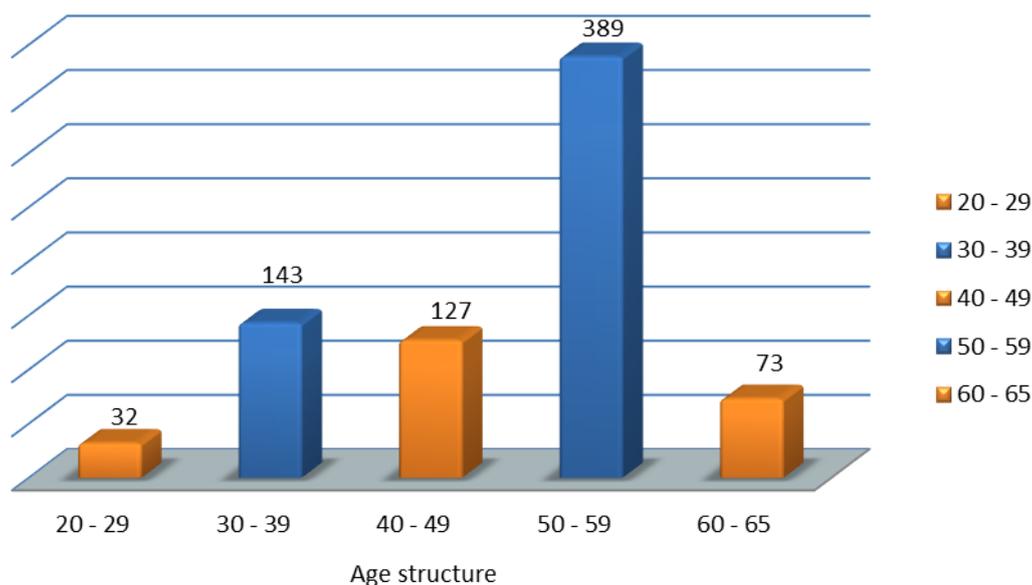
Educational structure of staff as of 31/12/2012



Age structure of staff is as follows:

- 4,19% staff are of age 20 to 29,
- 18,72% staff are of age 30 to 39,
- 16,62% staff are of age 40 to 49,
- 50,92% staff are of age 50 to 5, and
- 9,55% staff are of age 60 to 65.

Age structure of staff as of 31/12/2012



Despite the fact that in the previous years numerous changes have taken place in terms of tax policy related regulations, such as the introduction of the Unified System for registration, control, and collection of contributions, application of Real Estate Tax Law, Personal Income Tax Law, and the Law on Contributions, adding greatly to the workload within Tax Administration's scope, we managed to respond to all challenges with the current number of staff.

Having recognized employee education as an extremely important aspect in realization of set tasks and objectives, TARS provided its staff a possibility to expand their knowledge and exchange experiences in different segments of tax policy through various types of seminars, trainings, and other similar events.

In 2012, **44 internal and external trainings have been conducted, enveloping 633 staff members.**

III TAXPAYER TREATMENT

Being an institution in charge of collection of public revenues and implementation of laws and regulations, as well as provision of services to taxpayers, RS Tax Administration has the obligation to consistently, efficiently, and impartially implement all laws pertinent to the Tax Administration's scope of work, as well as to provide quality services to taxpayers and timely inform the public on all current affairs in the field of tax policy in order to improve the level of voluntary compliance.

3.1. Taxpayer information and media activities

Self assessment and voluntary compliance constitute a key factor of RS tax system. Higher voluntary compliance level reduces the costs of collection of public revenues and, on the other hand, imposes an obligation for the RS Tax Administration to perceive its role more as that of a service to taxpayers. For that reason, we have made it possible for taxpayers to address us in different ways.

In 2012, the Taxpayer Services Sector had the following number of contacts with taxpayers:

Type of Contact	2012 Plan	2012 Actual	2011 Actual	Plan against Actual	Index 12/11
Personal contact in TARS premises	500	704	680	141%	104
Telephone	11.900	17.063	16.757	143%	102
E-mail	655	966	981	147%	98
Correspondence	430	355	594	83%	60
Designated topic meetings	4	13	7	325%	186
Taxpayer seminars	4	6	3	150%	200
Public information in cooperation with TARS spokesperson	10	25	46	250%	54
Public notification for 2012 tax filing season	1	1	1	100%	100
2012 Tax Calendars	3	3	3	100%	100
Tax Guides and leaflets	0	4	0	-	-
Opinion polls	4	2	1	50%	200
Web Page information	65	132	108	203%	122

The Table above shows that 13.576 various taxpayer services were planned for 2012, whereas 19.274 were realized, namely the plan was exceeded by 42%. Relative to 2011, almost the same number of services were provided to taxpayers.

Throughout 2012, we have worked to improve the quality of services provided to taxpayers through our web site, www.poreskaupravar.org, where we posted and provided access to all relevant information pertaining to tax policy.

Quality of the Web Page and its contents is illustrated through the number of hits. Namely, there were 342.729 hits on our web page. The highest number of hits was noted in February and

March due to the fact that most tax returns are due by the end of the first quarter. Relative to the last year, we have noted 27% less hits on TARS web page. One of the reasons behind the high number of hits in 2011 is the fact that 31 March 2011 was the deadline for registration of real estate, and a very high number of taxpayers used the web site as the main source of information on the Real Estate Tax Law.

In addition to notifications and instructions to taxpayers, the web page offers timely information on all changes to regulations, as well as relevant news items in regards to filing and payment deadlines.

Tax Administration needs public support, and for the public to understand our role, responsibility, and function, the work we do remains transparent and resta upon the application of provisions of the RS Tax Procedure :aw and the Law on Freedom of Access to Information.

In 2012, RS Tax Administration had 294 media appearances, out of which 205 pertaining to Head Office public addresses, and 89 of those made by the Regional Centers. The figure does not include press articles, namely 104 published throughout 2012.

The hot topic in the last year was the implementation of the Law on Real Estate Tax, in connection with which we have had public appearances on monthly basis, including numerous campaigns, i.e. calls for registration of real estate, filing of claims, collection of bills, and payment of the relevant liability.

3.2. Registered and De-registered Taxpayers

RS Tax Administration registered 58.354 new taxpayers in 2012, whereas 2.704 taxpayers were de-registered.

Taxpayers	Registered	De-registered
Legal persons	1.286	268
Physical persons (entrepreneurs)	2.793	1.753
Citizens	49.468	180
Other*	4.807	503
УКУПНО	58.354	2.704

* Ex-officio (de)registration of branch offices of legal persons from FBiH and Brcko District, foreign diplomatic missions, aliens, and non-residents.

Until and inclusive of 31 December 2012, **1.764.728 taxpayers** were registered with the Tax Administration, out of which:

- 26.568 legal persons, branch offices excluded,
- 43.571 entrepreneurs, branch offices excluded,
- 1.651.957 citizens, and
- 42.632 others.

IV MAJOR RESULTS OF THE RS TAX ADMINISTRATION

4.1. Collection of Public Revenues

In 2012, RS Tax Administration collected BAM **2,05 billion in public revenues**. In addition to collection via public revenue accounts, the total amount above includes BAM 13,34 million collected in RS internal debt bonds. The level of realization of the 2012 collection plan is 96%, which comes close to the collected rate of 2011.

#	TYPE OF REVENUE	Budget Amendments (A)	Realized (R)		R/A	12/11	Difference (2012-2011)
		2012	2012	2011			
1.	DIRECT TAXES	419.145.646	418.926.590	418.773.856	100%	100	152.734,06
1.1.	Personal Income Tax	260.272.386	263.685.648	251.349.171	101%	105	12.336.477,49
1.2.	Corporate Income Tax	124.106.000	128.569.456	136.259.657	104%	94	-7.690.201,65
1.3.	Tax on use, holding, and bearing of goods	11.096.000	11.225.740	10.899.054	101%	103	326.686,07
1.4.	Real estate tax, property taxes	23.671.260	15.445.747	20.265.975	65%	76	-4.820.227,85
2.	CONTRIBUTIONS	1.361.891.254	1.320.800.282	1.328.621.697	97%	99	-7.821.414,76
2.1.	Pension and Disability Insurance Fund	745.891.254	705.297.223	708.833.595	95%	100	-3.536.372,35
2.2.	Health Insurance Fund	518.400.000	520.460.345	524.976.397	100%	99	-4.516.052,61
2.3.	Child Protection Fund	56.500.000	54.604.822	54.684.783	97%	100	-79.960,43
2.4.	Employment Bureau	37.200.000	36.823.489	36.136.696	99%	102	686.793,69
2.5.	Fund for employment of disabled persons	3.900.000	3.614.403	3.990.226	93%	91	-375.823,05
3.	OTHER PUBLIC REVENUES	338.336.456	299.492.165	303.401.433	89%	99	-3.909.268,70
3.1.	Fees and charges	206.643.722	195.155.085	191.879.387	94%	102	3.275.697,40
3.2.	Charges for organization of games of chance	14.877.662	14.624.361	14.108.868	98%	104	515.492,99
3.3.	Fines	21.504.766	19.668.033	22.127.134	91%	89	-2.459.101,25
3.4.	Other revenues	29.885.462	38.176.403	47.106.373	128%	81	-8.929.969,58
3.5.	Concession fees	65.424.844	31.868.282	28.179.670	49%	113	3.688.611,74
4.	PAST DUE LIABILITIES IN INDIRECT TAXES	1.436.290	6.030.742	4.193.762	420%	144	1.836.979,60
TOTAL PUBLIC REVENUES MANAGED BY TARS		2.120.809.646	2.045.249.779	2.054.990.749	96%	100	-9.740.969,80

The highest growth rate in regards to collected direct taxes, relative to the last year, is noted in personal income tax (5%). In addition, collection rate is 3% higher relative to 2011 for tax on use, holding, and bearing of goods.

Revenues collected in connection with social insurance funds are at the last year's level, i.e. BAM 1,32 billion have been collected. More details on the social insurance funds' revenues are available in the next Chapter.

Corporate income tax revenues are 6% lower than in the last year, partly due to reduced economic activity as a consequence of the economic crisis impact on the general state of economics in Republic of Srpska, and lower profit used as basis for calculation of the tax. Real estate and property taxes collection is 24% lower relative to the last year's level, which is due to the fact that this was the initial year of implementation of the Law on Real Estate Tax, with many problems occurring such as inability to issue tax bills, problems with delivery of the bills, claims filed by taxpayers, and such like.

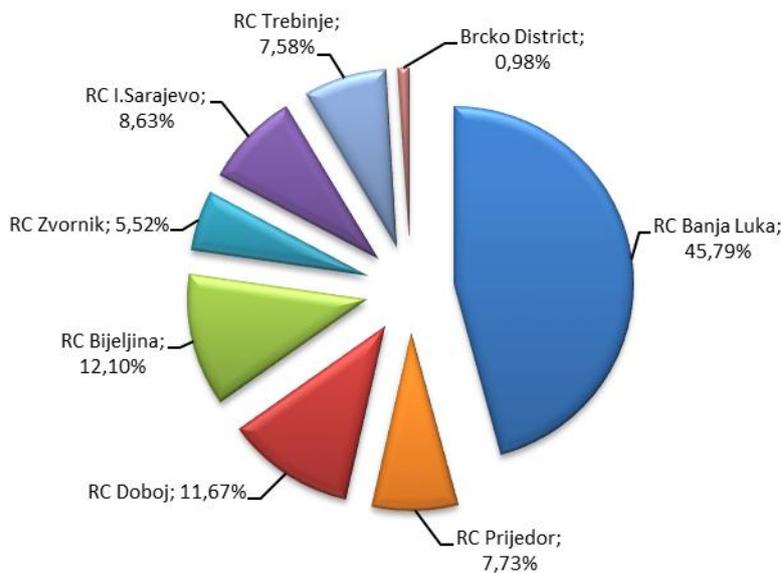
In regards to the other public revenues category, concession fees collection has increased by 13%, and that regarding organization of games of chance by 4%, relative to 2011, whereas revenues collected in regards to fees and charges are 2% higher than in the last year. Collection of past due indirect tax liabilities is higher than in 2011 by BAM 1,84 million.

Comparison of collection actuals against the plan shows the highest growth rate in the category of other revenues (128% of the amended figure), followed by corporate income tax (104% of the amended figure)), and tax on use, holding, and bearing of goods with the actual against plan index of 101% of the amended figure. Actual against planned figures in regards to collection of other public revenues ranges from 49% (concession fees) to 98% (charges for organization of games of chance). Collection of past due indirect tax liabilities in 2012 is more than 4 times higher than planned.

Public revenues collection by Regional Centers, relative to 2012 collection plan, ranges from 94% (RCs Sarajevo East and Trebinje) to 100% (RC Prijedor).

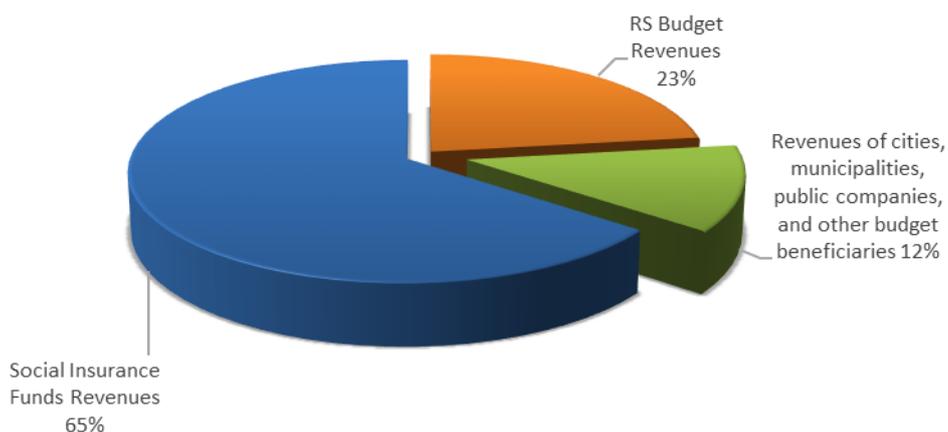
Better collection results relative to the last year have been achieved in RC Prijedor, whereas RCs Banjaluka and Bljeljina are at the last year's level, and the remaining RCs are close to 2011 collection rates.

TARS Regional centers share in 2012 revenue collection



Out of collected BAM 2.045.249.779 in public revenues, BAM 468,03 million have been allocated through the Treasury account as the source revenue of the RS Budget, BAM 1,32 billion is the revenue of social insurance funds, whereas BAM 256,42 million pertains to the revenues of cities, municipalities, public companies, and organizations which are budgetary beneficiaries.

The share of individual types of revenues in total 2012 revenues collected by TARS



4.2. Social Insurance Funds' Revenues

RS Tax Administration is in charge of assessment, control, and collection of social contributions to finance the pension and disability insurance, the health insurance, the unemployment insurance, and child protection. As of 20 March 2009, TARS is controlling the calculation and payment of the social contribution for employment of disabled persons.

Total collected revenues from social insurance funds in 2019 are BAM 1,32 billion.

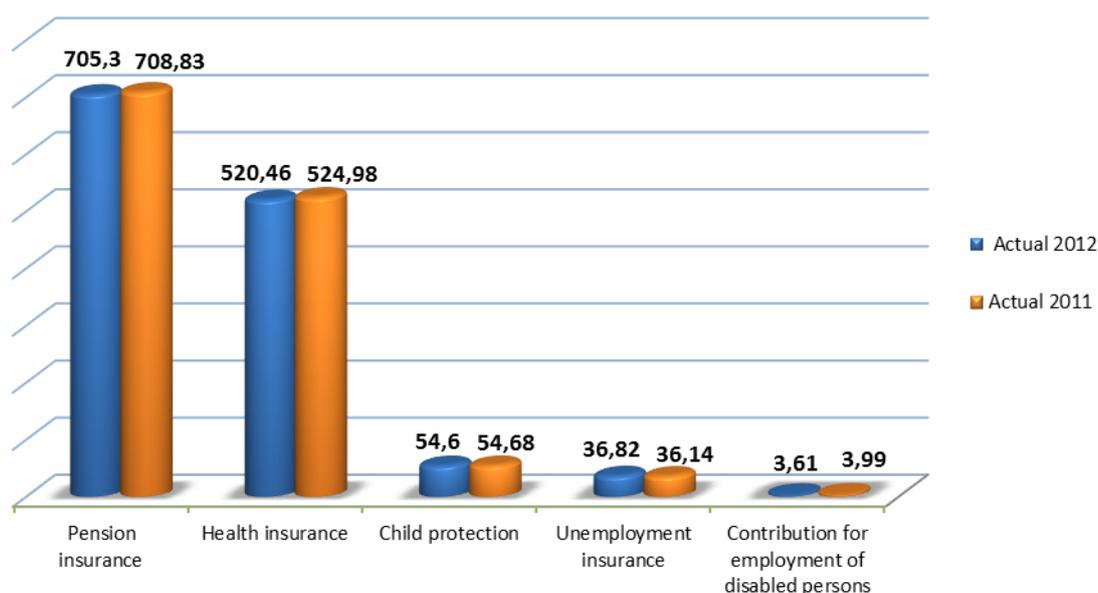
2012 social contributions collection plan and actuals

FUND	2012 Plan	2012 Actual	2011 Actual	Actual vs. Plan	Index 12/11
Pension and Disability	745.891.254	705.297.223	708.833.595	95%	100
Health	518.400.000	520.460.345	524.976.397	100%	99
Child Protection	56.500.000	54.604.822	54.684.783	97%	100
Employment	37.200.000	36.823.489	36.136.696	99%	102
Employment of Disabled Persons	3.900.000	3.614.403	3.990.226	93%	91
TOTAL	1.361.891.254	1.320.800.282	1.328.621.697	97%	99

The Table above shows that the actual against planned rate for collection of contributions for 2012 is 97%. Individually, the rate ranges from 93% (Professional Rehabilitation Fund and employment of disabled persons) to 100% (Health Insurance Fund).

Relative to the previous year, BAM 7,82 million, i.e. 1% less has been collected in social contributions. Employment contribution collection is 2% higher than in 2011, whilst Pension and Disability Fund as well as Child Protection Fund remain at the last years level. Health Insurance Fund collection is 1% lower than in the last year, and as for collection of contribution for employment of disabled persons, the rate of reduction is 9% relative to the same period last year.

Collected contributions in 2012/2011 (in milion KM)



Throughout 2012, TARS has closely monitored compliance in regards to timely filing and payment of contributions. To that respect, TARS filed 1.170 minor offense reports against taxpayers who failed to file the contributions declarations.

Problems due to which minor offense reports have not been filed against non-filers primarily pertain to significant number of irregular tax returns, which have to be corrected retrospectively in contact with the taxpayers, then the large number of taxpayers who have ceased the operations but have failed to de-register their TIN, large number of taxpayers from the Federation of BiH, and such like.

The procedure of minor offense reporting does not yield full effect since most taxpayers subject to the minor offense procedure seek court proceedings. TARS inspectors have to attend the hearings, and most taxpayers get conditional discharge.

Given the problems the TARS is facing and the current economic and business environment, we deem that the rate of 97,2% of filed returns relative to plan, as well as collection rate estimate for social contributions of 88,6% in 2012 is more than good result in regards to our work on implementation of the Law on Contributions.

In the past ten years, collection of contributions has increased manifold, from BAM 384 million in 2002, up to BAM 556,8 million in 2005. and BAM 1,32 billion in 2012. Such rate of collection is certainly a result of changes in legislation in the field, as well as that of work and effort of the Tax Administration. Introduction of the Unified System for Registration, Control, and Collection of Contributions created the conditions for a more efficient control and collection of contributions and, at the same time, it implied additional obligations for Tax Administration in regards to collection and, to a large extent, realization of rights of contribution payers, which is a particularly sensitive issue. Tax Administration did not get additional resources for the newly assumed tasks, nonetheless it had to dedicate one part of existing resources to the new task ahead. In future, Tax Administration will be facing a specific challenge regarding the maintenance of this rate of collection of contributions and, at the same time, provision of timely and quality services to contribution payers in regards to their rights.

4.3. Receiving and Processing Tax Returns

Tax declaration constitutes the taxpayer's report to the Tax Administration pertaining to income produced, expenditures incurred, profit, property, and other facts and documents relevant to establish the tax liability (RS Tax Procedure Law, Article 30, Paragraph 1).

RS Tax Administration received 1.644.733 tax declarations in 2012, including the registration forms for the Fiscal Real Estate Register and declarations pertaining to the Unified System for Registration, Control and Collection for Contributions.

Majority of filed tax declarations pertain to the Monthly Withholding Tax Form 1002, totaling to 879.623. In addition, 159.611 real estate registration forms have been filed in 2012,

although the filing deadline for these forms expired on 31 March 2011.

Actual against planned index for 2012, when it comes to filing, is 110%.

E-filing

Since 2007 TARS made it possible for taxpayers to e-file the monthly withholding tax declarations (MPO-1002). The software reduced the number of manually entered and scanned declarations.

The Rulebook on Filing Procedure and Method ("Official Gazette of RS", no. 35/12) foresees compulsory e-filing of the 1002 Form for taxpayers with more than 15 employees, which significantly improved the promptness of tax declaration processing.

During 2012, **530.528 MPO-1002 tax declarations**, i.e. 60% of the total number thereof, have been e-filed. The value of personal income tax declared through e-filing is BAM 284,57 million, and BAM 1,61 billion in contributions.

#	Item	2012 Plan	2012 Actual	2011 Actual	Actual vs. Plan	Index 12/11
1.	Number of e-filed declarations	150.000	530.528	414.226	354%	128
1.a	Number of e-filers	20.000	19.865	16.314	99%	122
2.	Number of items in e-filed declarations	3.300.000	8.498.279	7.225.236	258%	118
3.	Amount of tax declared through e-filing [KM]	144.000.000	284.572.745	235.380.296	198%	121
4.	Amount of contributions declared through e-filing [KM]	1.140.000.000	1.614.036.751	1.412.075.739	142%	114

4.4. Unified System for Registration, Control, and Collection of Contributions

As part of the pension system reforms in Republic of Srpska, on 01 January 2010 Tax Administration initiated the implementation of the new **Unified system for registration, control, and collection of contributions (USC)**.

The essence of the new system for collection of contributions is the fact that RS Tax Administration took over the procedure of registration of employers and contribution payers, and the control of reported and executed payments of contributions, and also continued with collection of existing debt, whereas extra-budgetary funds continued to provide services and payments to their beneficiaries. To that extent, RS Tax Administration developed the unified database containing all relevant data and enabling exchange with extra-budgetary funds.

173.168 USC related returns have been received in 2012 (PD 3100, PD 3110, PD 3120, PD 3210), whereas 169.538 returns have been entered into PD processing application (97,91% of the total number of received returns). The percentage of entered returns indicates a high promptness of tax officials in local offices regardless of increased workload due to initiation of the USC.

The following Table provides an overview of received USC returns in 2012:

Type of tax return	2012 Plan	2012 Actual	Actual vs. Plan
PD 3100 - Registration/Change/Deregistration of contributions	149.445	150.807	101%
PD3110 - Registration/Change/Deregistration of individual payment of contributions	9.664	7.201	75%
PD 3120 – Registration/Change/Deregistration of contributions in specific circumstances	3.363	3.132	93%
PD 3210 – Request to deregister contributors	877	12.028	1.372%
PD 3220 – Request to amend data in the annual contributions certificate	13.184	0	0%
TOTAL	176.533	173.171	98%

4.5. Fiscal Real Estate Register

RS Tax Administration's competences in regards to application of the Real Estate Tax Law ("Official Gazette of RS", no. 110/08 and 118/09) include:

- registration of all taxable and non-taxable real estate in Republic of Srpska,
- set up and management of the Fiscal Real Estate Register,
- assessment of real estate value,
- preparation and issuing of tax bills,
- record keeping on tax payments and tax bills, a
- other TARS obligations set under the respective Law.

According to the New Real Estate Tax Law, in application as of 01 January 2012, real estate market value is the basis for taxation.

Activities pertaining to registration of real estate with the Fiscal Real Estate Register began in 2009, and 2,77 million registration forms have been received so far.

The following Table provides an overview of filed real estate registration forms in 2009, 2010, 2011, and 2012:

#	Type of return/activity	PFRN	ZOPN	ZUPO	TOTAL
1.	Received/entered in protocol	2.157.767	300.106	313.062	2.770.935
2.	Entered	2.153.001	295.837	309.652	2.758.490
Yet to be entered (1-2)		4.766	4.269	3.410	12.445

PFRN – Registration Form
 ZOPN – Tax Exemption Form
 ZUPO – Tax Base Reduction Form

The Table above shows that not all of the forms have been entered yet, since they do not contain all the required data. TARS contacted those taxpayers who filed incomplete forms in order to amend and/or correct the data, nonetheless the taxpayers have not answered.

**Overview of forms entered in protocol
to be entered into Fiscal Real Estate Register in 2012**

Type of Form	2012 Plan	2012 Actual	Actual vs. Plan
PFRN – Registration Form	135.151	159.611	118%
ZUPO – Tax Base Reduction Form	23.022	41.920	182%
ZOPN – Tax Exemption Form	21.085	46.375	220%
PNVN – Alteration of Use or Value of Real Estate	5.225	1.257	24%
PVON – Change of Owner/De-registration of Real Estate	27.873	5.639	20%
TOTAL	212.356	254.802	120%

Fiscal Real Estate Register is designed to include all respective data prescribed under the Law on Real Estate Tax.

Real estate is taxed based on its market value, as assessed by the Tax Administration, to which an appropriate tax rate is applied and consequently a tax bill is issued. In regards to the model for mass appraisal of real estate value, Tax Administration performed this task successfully, which is demonstrated by the fact that least claims filed against tax bills were pertaining to market value assessment.

#	DESCRIPTION	Amount
1.	Total number of registered real estate	2.715.704
2.	Surface of all real estate	18.094.873.630,95
3.	Assessed value of all real estate	45.377.615.365,84
4.	Tax Base reduction (ZUPO)	8.841.747.773,24
5.	Tax exemption (ZOPN)	12.115.160.719,92
Tax Base (3-4-5)		24.420.706.872,68

The total of 412.288 real estate tax bills have been issued until 31 December 2012. Tax bills have been issued for all declarations, which contained complete and accurate data on taxpayers and on real estate. The unissued tax bills (14.816) pertain to declarations containing various irregularities, and the correction thereof is in process.

Significant number of tax bills have not been delivered. The process was organized through internal couriers and postal service, nonetheless in both cases there were numerous unsuccessful attempts. As for the undelivered bills, in line with Article 18, Paragraph 3 of the RS Tax Procedure Law, the bill shall be considered delivered within three days as of the date of delivery to the postal service.

Of course, tax bills delivered as described above will have significant impact on rate of collection, i.e. the reduction thereof, since the taxpayers will not have been informed of the obligation to pay the tax.

Out of the total number of claims filed against tax bills 87% have been resolved, nonetheless the amount of tax pertaining to the resolved claims is a much lower one, only 29%, which indicates that the unresolved claims pertain to higher liability, i.e. more complex bills.

4.6. Implementation of the Integrated Information System (IIS)

RS Tax Administration has entered into Contract on procurement and implementation of the integrated information system, on 18 June 2012, with "S&T SERBIA" DOO from Belgrade and "SIRIUS" DOO from Banjaluka. The basic objective of implementation of the IIS is to enable efficient management of public revenues in RS through simplified process of provision of services to taxpayers and public institutions. IIS implementation is expected to result in increased public revenues, at least 3% growth rate per annum, and reduced Tax Administration costs by about 20%, which concretely speaking means about BAM 60 million more in revenues and around BAM 4 million savings in operational costs.

IIS implementation will take 4 years and will run in three functional phases. Project preparation, which preceded the first phase, took place in December 2012 and resulted in Project Scope Document, which defines the functionalities to be implemented throughout the Project. In addition, the following documents have been adopted: Project Draft, Project Plan, Project Standards, and Project Rules of Procedure. Several workshops were held prior to development of the said documents, which included representatives of TARS, for individual functions, and representatives of "S&T SERBIA" DOO as the implementer.

The first functional phase will include the following business processes:

PHASE	PERIOD		BUSINESS PROCESSES
PHASE I	15/01/2013	01/04/2014	
Post-Impl. support	01/04/2014	30/05/2014	
TRM			Fees of the Republic Company fees Residential fees (Other charges, taxes on games of chance, taxes on registered weapons – during BBP phase it will be decided whether these declarations would also be included in implementation up to the initial transfer to production) This decision will be made if, and only if, both the implementer and the user should deem that the respective activities would not impede set deadlines
PSCD FI			All PSCD processes Relevant certificates FI – synthetic records for tax accounting All other account entries – manually in Phase 1 Taxpayer register – as supplementary records, until full cancelation of the current register
CRM-CM			Administrative proceedings: 1. Enforced collection, up to account blocking 2. Audit procedure (with provisional collection security procedure)
BI	01.05.2013.		Reporting on this level
HR			Part of process – organizational structure and personnel files
nonSAP			Salary calculation software
CRM-IC CRM-Content Management			Chancellery functions Decision during BBP 1 st functional phase on the moment of implementation

During October and November 2012, training was held in the field of ASAP methodology, i.e. project implementation methodology, as well as the basic ARIS training, i.e. software tool used in business process modeling. The first round of training included the implementation team members, and after individual functional project teams have been set up, similar trainings will take place for the respective project team members.

In November 2012, a study visit to SAP Headquarters, in Waldorf, Germany, was organized for TARS representatives, including the Director General. SAP is the producer of software to be implemented in TARS. Objective of the visit was to ensure additional support from the software producer.

During the forthcoming months and years we will face intensive activities towards implementation of the IIS. We can expect improved effectiveness and efficiency of TARS with new IIS in place, nonetheless the successful functioning thereof requires the involvement of all TARS employees in the implementation.

4.7. Audit, Investigation, and Intelligence

4.7.1. Field and Desk Audits

RS Tax Administration inspectors were engaged in control of regularity of taxpayers' books and records, filing and payment of obligations, as well as to assessment of tax.

There were 4.226 audits in 2012, at TARS level, out of which 168 pertain to large taxpayers.

In addition to reported, unpaid liabilities, inspectors assessed additional liabilities in the amount of BAM 33,10 million, i.e. BAM 56,93 million with interest. For unpaid portion of liabilities, inspectors have issued decision documents on payment of liabilities for the total amount of BAM 74,15 million (principal debt + interest).

BAM 10,57 million, i.e. 14,26% of total liabilities were paid within the voluntary period stated in the decision documents on payment, issued upon field audits. Additional BAM 4,41 million have been collected within the voluntary period as a result of 59 audits.

Relative to 2011, there were 308 audits more, whereas the actual vs. plan ratio for 2012 regarding the number of audits is 111%.

Type of Audit	Number of Audits			Actual vs. Plan	Index 12/11
	2012 Plan	2012 Actual	2011 Plan		
Field Audits	1.786	1.675	1.508	94%	111
Desk Audits	2.037	2.551	1.508	125%	106
TOTAL	3.823	4.226	3.918	111%	108

In 2.860 desk audits, i.e. 68% of cases, irregularities were identified pertaining to taxpayers' operations, whereas for 2.626 audits new liabilities were assessed.

	2012			2011			Index: 2012/2011		
	No. of taxpayers	Newly assessed liability	Newly assessed liability with interest	No. of taxpayers	Newly assessed liability	Newly assessed liability with interest	No. of taxpayers	Newly assessed liability	Newly assessed liability with interest
Field Audits	1.326	31.414.227	54.634.144	1.202	39.847.404	65.201.456	110	79	84
Desk Audits	1.300	1.686.731	2.298.174	1.270	1.613.104	2.865.698	102	105	80
TOTAL	2.626	33.100.959	56.932.318	2.472	41.460.508	68.067.154	106	80	84

Following audits, Tax Administration's auditors have filed 405 minor offence reports for the total amount of BAM 427.301, due to irregularities identified in operations of audited taxpayers.

In addition, 34 requests have been filed for initiation of minor offence procedure, whereas 98 appeals were filed against issued decision documents.

4.7.2. Fiscalization

In 2008, RS Tax Administration started the implementation of the Law on Fiscal Cash Registers („Official Gazette“ of RS, no. 69/07). Objective of the fiscalization process was to level the status of all taxpayers, regulate the market in RS, reduce grey economy, increase fiscal discipline, and such like.

1.127 initial fiscalization requests were filed in 2012, and RS Tax Administration issued 1.135 decision documents on fiscalization (one part of decision documents on fiscalization pertain to requests filed in 2011).

Since the start of implementation of the Law on Fiscal Cash Registers until 31 December 2012, TARS issued 45.160 decision documents on fiscalization of taxpayers, whereas 45.171 requests for initial fiscalization were filed (realization level is 99,98%).

Overview of filed and processed ZIFs in TARS Regional Centers as of 31/12/2012

	B.Luka	Bijeljina	Doboj	Zvornik	Prijedor	Sarajevo E.	Trebinje	Total
Fiscalization requests	20.078	6.225	5.632	2.760	4.089	3.760	2.627	45.171
Decision documents on fiscalization	20.071	6.223	5.632	2.760	4.088	3.760	2.626	45.160
Realization percentage	99,97%	99,97%	100,00%	100,00%	99,98%	100,00%	99,96%	99,98%

Inspectors have conducted **13.542 fiscalization related controls**. This figure also pertains to other activities in connection with fiscalization, such as module replacement, de-fiscalization, terminal replacement, change of address, and such like. Actual against planned in the segment of fiscalization controls is 120%, whereas 23% less controls were conducted relative to 2011.

In addition, **7.624 inspections were conducted in reference to recording of sales via fiscal cash registers**, wherefrom plan realization level is 98%. Inspectors are controlling sales registration using fiscal cash registers,, software and fiscal seals in the cash register and the terminal, transfer of data via terminal, and control of the software. Noteworthy, the inspectors are also controlling the application of the Decree on Terms and Method of Cash Payment.

In reference to inspection of recording of sales via fiscal cash registers in 2012, 3.387 minor offence reports were issued for the amount of BAM 2,62 million, out of which BAM 311.749 have been collected in pursuance of 511 reports.

Realization levels of 2012 fiscalization audit plan

Type of Control	Number of Controls			Actual vs. Plan	Index 12/11
	2012 Plan	2012 Actual	2011 Actual		
Cash register fiscalization	11.270	13.542	12.355	120%	110
Inspections of recording of sales via fiscal cash registers	7.938	7.624	10.373	96%	73

TOTAL	19.208	21.166	22.728	110%	93
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Audit Risk Management

Throughout 2012, the Audit Risk Management Department, part of the Audit, Investigations and Intelligence Sector, prepared operational audit plans analysis of filing and payment of contributions, monitored filing and payment for specific types of returns, monitored actuals against plan, prepared internal reports, and such lie.

DESCRIPTION	2012 Plan	2012 Actual	Actual 2011	Actual vs. Plan	Index 12/11
Developing monthly audit plans	96	96	96	100%	100
Collecting and monitoring data related to audit risk	4.300	4.987	4.333	116%	115
Analysis of audit plan realization	136	136	136	100%	100
Internal reports	17	17	17	100%	100

Taxpayer cards analysis was used as the basis for audit plan of TARS regional centers (debt, unpaid contributions and personal income tax, corporate income tax returns for 2009, 2010, and 2011, and corporate income tax advance for 2011 and 2012). For the same purpose, a range of other taxpayer reports and data were used: data on registration, business activity type, facilities, number of employees, filed tax returns, income statements and balance sheets for current and previous years, report on fiscalization and regularity of submission of daily reports, as well as the time lapsed since the last audit.

In addition, we acted on the grounds of reports received from employees, anonymous reports, and in line with requests of other institutions: Health Insurance and Pension and Disability Insurance Funds, Public Security Center Banja Luka, RS Ministry of Interior, RS Inspectorate, RS Agency for Games of Chance, RS Insurance Agency, Association of Farmers, BiH Intelligence-Security Agency, Ministry of Industry, Energy, and Mining, and Ministry of Agriculture, Forestry, and Mining.

147 large taxpayers in total were included in the operational audit plan for the period, whereas 248 taxpayers were made a part of plan for all regional centers. 4.987 taxpayers were subject to analysis, 2.686 in regional centers, 1.508 large taxpayers, and 793 taxpayers as proposed by regional centers.

2011 contributions filing and payment analysis has been conducted for 445 large taxpayers, as well as analysis of health insurance payments based on Social Welfare Centre allowances and health insurance payments made by Employment Bureau, as well as analysis of large taxpayers share in revenues collected from contributions and corporate income tax in 2010 and 2011. In addition, analyses were made in regards to compliance of taxpayers engaged in provision of services in the field of mass event organization, notaries, lawyers, dentists, as well as analysis of compliance and updating of information on audit results in regards to residence fee, and analysis of large taxpayers based on segmentation of activities.

Moreover, compliance has been monitored in regards to charges for betting and slot machines for the period January-November 2012, balance sheets and income statements were analyzed for micro crediting organizations, as well as compliance of sports clubs as requested by the RS Ministry of Family, Youth, and Sports.

4.7.3. Investigations and Intelligence

RS Tax Administration is continuously working to investigate and uncover illegal actions resulting in breach of provisions of the Law on Tax Procedure and other laws enforced by TARS; analyses are performed in connection with trends and occurrences related to such cases, and measures proposed for prevention, detection, and sanctioning thereof; investigations are conducted in cooperation with other bodies in RS and Federation of BiH and with competent Prosecutor's Offices; and reports are filed to the Prosecutor's Offices in line with the Criminal Procedure Code.

Throughout 2012, inspectors-investigators have worked to investigate facts and collect evidence on more complex tax related offences and criminal acts. Furthermore, they have submitted reports to competent Prosecutor's Offices pertaining to reasonable doubt of criminal act being perpetrated in connection with taxes, all in line with the Criminal Procedure Code; they have also provided data and findings to other organizational units of TARS, and other state and inter-state level bodies.

Special investigation activities were aimed to identify hidden income using cash payments to employees, cash deficits, loans to companies, loans disbursed to employees instead of salary payments, unrealistic expenditures, all for the purpose of avoiding taxes.

Out of 18 reports forwarded to the Prosecutor's Office:

- 11 reports were filed due to reasonable doubt of criminal offense being perpetrated in regards to abuse of power (Article 263 of the RS Criminal Code),
- 3 reports in connection to reasonable doubt of criminal offense being perpetrated in regards to tax fraud (Article 287, Paragraph 1 of the RS Criminal Code),
- 1 report in connection to reasonable doubt of criminal offense being perpetrated in regards to business fraud (Article 265, Paragraph 2 of the RS Criminal Code),
- 1 report in connection to reasonable doubt of criminal offense being perpetrated in regards to misleading for the purpose of obtaining a loan or other benefits (Article 283), and forging of documents (Article 377 of the RS Criminal Code),
- 1 report in connection to reasonable doubt of criminal offense being perpetrated in regards to violation of basic workers rights in conjunction with criminal offense in regards to violation of workers rights to social insurance (Articles 226 and 228 of the RS Criminal Code), and
- 1 report in connection to reasonable doubt of criminal offense being perpetrated in regards abuse of false bankruptcy (Article 258) in conjunction with criminal offense in regards to abuse of power in business (Article 263 of the RS Criminal Code)

with total loss to the RS Budget in the amount of BAM 4.551.850,16.

91 consultation meetings were held with competent Prosecutor's Offices where instructions have been provided in regards to further actions in connection with the requests of the Prosecutors.

185 depositions related to audit findings were taken from suspects and witnesses in the process of audit in companies and in line with the order of the Prosecutor's Office; namely 101 depositions pursuant to the provisions of the Administrative Proceedings Law and 84 depositions pursuant to the Criminal Proceedings Code. In afore mentioned inspections, BAM 2.643.124 were assessed in tax liabilities, and BAM 354.900,78 were collected during the inspection process.

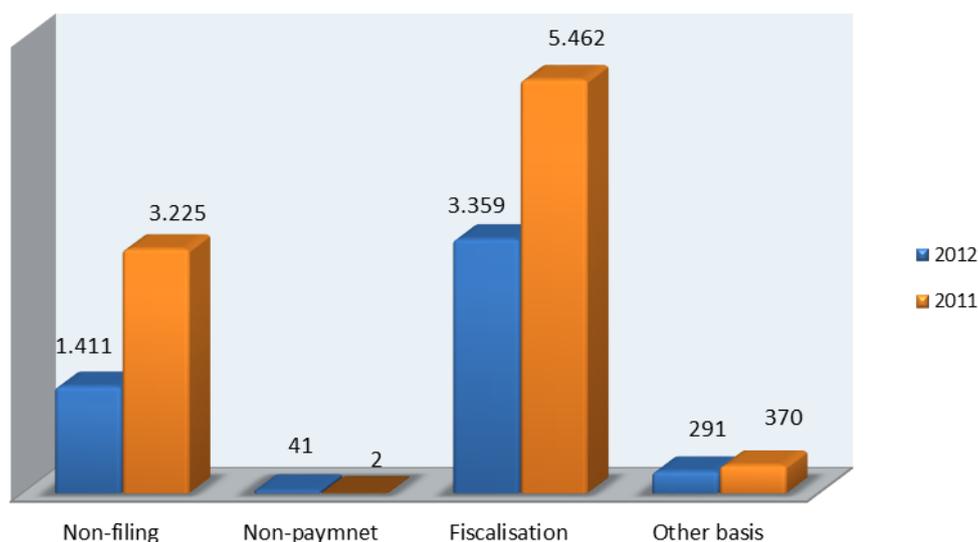
In addition, inspections have been completed in regards to calculation and payment of public roads fee, which is paid during motor vehicle registration process, namely so for the period 2007-2010, all in line with the RS Government Conclusion no. 04/1-012-2-2614/11 dated 10 November 2011.

4.8. Minor Offense Procedure

5.102 minor offense reports were issued in 2012 in reference to all procedures arising from the RS Law on Tax Procedure, with penalties stated in the amount of BAM 3,89 million. Out of that number 1.452 reports were endorsed, with BAM 461.066 collected (BAM 425.754 within legal deadline and BAM 35.312 through enforced collection). 83 requests have been filed for initiating minor offence procedure.

1.411 minor offense reports have been issued due to non-filing with total fines amounting to BAM 988.120, whereas 41 reports were issued due to non-payment of tax with the total files amounting to BAM 24.925. In regards to breach of regulations on fiscal cash registers, 3.359 minor offense reports were issued with total fines amounting to BAM 2,63 million, whereas 291 orders have been issued in regards to other legal basis with total fines amounting to BAM 244.182.

Number of minor offence reports issued for 2012/2011



Relative to 2011, the number of minor offence reports was lower by 3.957, and collection was lower by BAM 295.252.

Out of the total number of issued reports, 1.762 are still in process (for the amount of fines of BAM 1,42 million), i.e. voluntary payment period extends beyond 31 December 2012.

4.9. Decision Documents/Notices on Payment of Due Liabilities

According to the new RS Law on Tax Procedure, the taxpayer who failed to, fully or partially, file or to pay the liability on due date will receive from the Tax Administration a Notice regarding the type and the amount of due tax liability, forewarning the taxpayer to file or pay the liability. For liabilities filed prior to 2012, Tax Administration will continue to issue decision documents for payment of filed, non-paid, liabilities.

During 2012, **8.385 of the above said decision documents** have been issued (83 decision documents per employee, in average), for the amount of liabilities of BAM 82,46 million. Out of that, BAM 6,89 million have been collected within voluntary period (BAM 563.231 pertain to decision documents issued in the preceding period). Taxpayers have filed 146 appeals against the said decision documents.

13.299 notices have been issued in 2012, in regards to filing or payment of due liabilities (251 notices per employee, in average) for the amount of liabilities of BAM 135,50 million. Taxpayers paid BAM 35,29 million within the voluntary period.

Relative to 2011, twice as many decision documents/notice have been issued in 2012, with BAM 16,48 million more collected within voluntary period.

For the purpose of improvement of efficiency of work in regards to above decision documents/notices, activities have been initiated to develop a software for automated notification system. The software should be completed during 2013.

4.10. Enforced Collection Procedure

42.143 enforced collections were initiated in 2012 pertaining to debt amount of BAM 171,03 million. Out of that amount, BAM 47,13 million were collected in enforced collection in line with 10.108 decision documents, whereas BAM 6,68 million were collected in relation to 3.424 decisions documents from the preceding period.

Relative to 2011, the number of initiated enforced collections was higher by 12.738, as well as the amount of liabilities collected in these procedures, i.e. it was higher by BAM 24,22 million.

Relative to plan, there were 16.383 more enforced collection cases initiated, i.e. 64% above the plan, whereas the collection was more than tripled against the plan.

	2012 Plan	2012 Actual	2011 Actual	Actual vs. Plan	Index 12/11
Number of Procedures	25.760	42.143	29.405	164%	143%
Debt, as per EC decision documents (BAM)	49.317.000	171.027.764	115.138.794	347%	149
Collected (BAM)	17.871.016	53.804.231	29.580.378	301%	182

Minor offense reports and court decision documents take up the largest share in the structure of EC cases initiated in 2012, namely 60%, whereas decision documents ordering payment of reported liabilities make 26%.

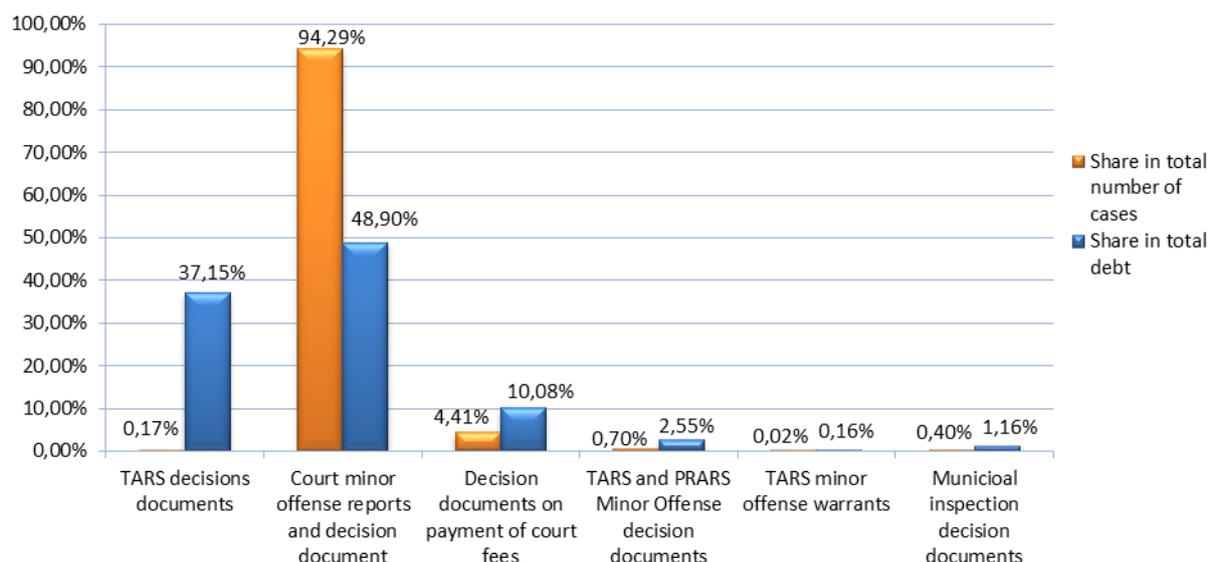
Throughout 2012, 13 RS Government Conclusions have been received pertaining to temporary deferral of enforced collection of debt, namely for the amount of BAM 3,87 million, which will stay in effect until 31.12.2013.

249 mortgages have been registered in 2012 in reference to BAM 30.149.972,22 in liabilities. In addition, 27 decision documents have been issued on mortgage cancellation in reference to BAM 2.408.468,57 million in liabilities. 273 proposals were issued by Regional Centers for registration of mortgage for tax debtors for the amount of BAM 39.033.018,10, as well as 43 requests for cancellation of mortgage for the amount of BAM 1.378.930,02.

48 proposals were issued in 2012 to initiate executive proceedings in regards to taxpayers debt, namely for the amount of BAM 10,84 million.

Total number of uninitiated EC procedures, as of 31 December 2012, is 53.846 in regards to debt amounting to BAM 13,17 million.

Structure of uninitiated EC cases as of 31/12/2012



Since minor offense reports take up the largest share in the structure of uninitiated procedures (around 90%), and that staff working in enforced collection are overburdened with this type of decision documents, a development of an application for monitoring of minor offense procedures in enforced collection has been initiated. This application would largely automate the preparation of decision documents for enforced collection, taking into consideration all measures being undertaken and available data from TARS records (Taxpayer Register, Citizen's Card – data on employment, etc.). The application is in use as of 30 December 2012.

For the purpose of a comprehensive monitoring of enforced collection procedures, the existing "Enforced Collection Deposit Account" application has been upgraded to enable automated reporting. The upgraded application also contains an e-log of EC cases, which eliminates manual recording and reporting. The e-log will be in operation as of 01 January 2013.

4.11. Agreements/Decision Documents on Extended Payment of Tax Liabilities

Agreements on debt reschedule in line with RS Government Decisions

BAM 10,25 million were paid in rescheduled debt in 2012, out of which BAM 3,03 million were collected from due reschedule installments, and BAM 7,23 million from internal debt bonds.

The outstanding liability for all reschedules is BAM 230,35 million.

2012 plan realization level for collection of rescheduled debt is 112%, and in comparison to the last year collection rate was 10% lower for rescheduled liabilities.

Due to taxpayers' failure to pay due installments in line with the agreements, as well as to their failure to pay current liabilities, RS Tax Administration cancelled 7 agreements in 2012, which enveloped BAM 4,97 million in tax arrears.

RS Ministry of Finance Decision Documents on Deferred Payment

Accordingly to RS Tax Procedure Law and the Decree on terms, method, and procedure for deferral of tax obligations, the RS Ministry of Finance issued 211 decisions documents on deferred payment of tax liabilities, namely for the amount of BAM 77.898.986,28 (the amount includes 25 decision documents which have been abolished in the meantime, i.e. BAM 6.337.110,41).

Out of BAM 11,99 million liabilities with due date in 2012, BAM 7,13 million have been collected, with BAM 4,98 million remaining in past due liabilities.

At the same time, the Ministry has denied 282 request for deferred payment of tax liabilities (BAM 11.528.312,95; in 82 cases amount of liabilities is not stated).

Moreover, the Ministry issued 6 conclusions on reversion to prior status for the amount of debt of BAM 985.953,55 (amount unknown for 2 conclusions), thus abolishing the conclusion to deny the request for deferred payment.

Meeting was held in 2012, with RS Ministry of Finance representatives to define the request for development of a software application to monitor the filing of requests for deferred payment of tax liabilities.

TARS Agreements/ Decision Documents on Deferred Payment

Accordingly to RS Tax Procedure Law, RS Tax Administrations issued 51 decisions documents on deferred payment of tax liabilities in 2012, namely for the amount of BAM 164.759.

In pursuance to 240 agreements/decision documents on deferred payment of liabilities (including the one from the preceding period) BAM 7,09 million have been collected in 2012. BAM 3,15 million are past due.

The remaining debt in connection with all signed agreements/decision documents on deferred payment is BAM 6,74 million. The amount pertains to all active agreements/decision documents, including the ones for which interest has not yet been calculated, or it has been calculated but not paid.

Relative to last year, collection in this area is 6% lower, whereas actual vs. plan ratio, for all agreements/decision documents, is 118%.

In connection with compliance level with respect to above agreements/decisions documents, the TARS Director has issued an order on cancellation of all agreements which are past due with payments and initiation of an executive procedure for agreements covered by mortgage.

All Regional Centers are ordered to continuously monitor this process in order to enable timely measures to collect the receivables. It has also been ordered to make the final calculation of any pending interest.

Forecast has been prepared, for the needs of the RS Ministry of Finance, i.e. an estimation of collection of liabilities subject to above agreements, which were active on 31 December 2011, with collection expected in 2012. The forecast has been prepared analytically, per taxpayers and per qualification of liability in regards to its allocation (PRA, local communities, funds, etc.)

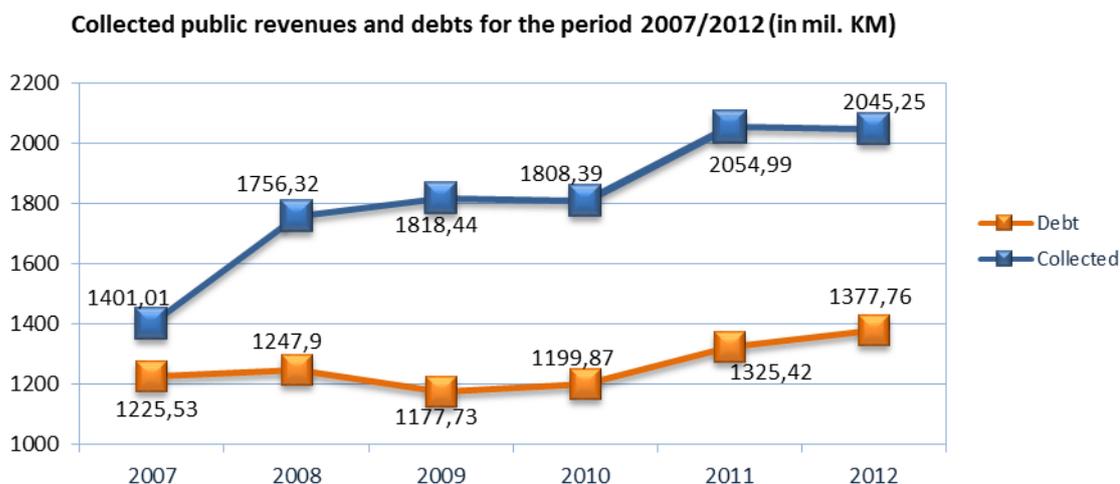
4.12. Debt and Overpayments

According to official records of RS Tax Administration, **debt balance on 31.12.2012 was BAM 1,38 billion and overpayments balance BAM 325,09 million.**

Comparative overview of debt and overpayments balance for 31.12.2012/31.12.2011

#	Period	Total Overpayment	Total Debt
1.	31.12.2012.	325.090.434,25	1.377.759.590,37
2.	31.12.2011.	369.725.752,23	1.325.423.136,09
3.	Difference (1-2)	-44.635.317,98	52.336.454,28
4.	As percentage	↓ 12,07	↑ 3,94

The above table indicates a tendency of growth of total debt by BAM 52,34 million or 3,94%, whereas the total overpayment is lower by BAM 44,64 million or 12,07% relative to debt balance as of 31.12.2011.



Data source: TARS Annual Reports for 2007, 2008, 2009, 2010, and 2011. Report 03.02.01. "Public Revenue Collection" from Report Server

Debt reconciliation against bonds

Pursuant to the Decree on payment of tax liabilities with Republic of Srpska bonds ("Official Gazette of RS", no: 58/09), which regulates the terms and procedure for payment of due tax liabilities, incurred until 31.12.2007, by means of Republic of Srpska internal debt bonds, the RS Ministry of Finance issued 343 decision documents in 2012 for payment of debt with bonds, for the total amount of BAM 13,34 million. The decision documents have been forwarded to TARS regional centers for further action.

Out of the total of **1.260 decision documents, for payment of debt with bonds**, issued by the RS Ministry of Finance in line with the above mentioned Decree, **pertaining to the total amount of BAM 69,46 million**, liabilities pertaining to 72 decision documents, i.e. BAM 2,20 million were not taken off of the official TARS records (TP Card) until 31.12.2012.

4.13. Specific Procedures

Tax Administration is engaged in activities pertaining to the so-called specific procedures. These included assessment of tax liabilities for taxpayers subject to specific procedures, and reporting on results of initiated and completed procedures.

Bankruptcy and Liquidation

For 143 taxpayers, bankruptcy procedure has been initiated in 2012. Registered receivables amount to BAM 57,68 million, out of which BAM 27,07 million were endorsed.

BAM 2,99 million were collected in 2012 in reference to previously initiated procedures.

In 2012, liquidation procedure has been initiated for 217 taxpayers. The amount of registered receivables was BAM 1,18 million, out of which BAM 754.156 million were endorsed.

In regards to all liquidation procedures initiated in 2012 and prior to it, BAM 60.486 were collected.

Decision documents for initiation of bankruptcy and liquidation have been delivered to regional centers, activities and tasks were respectively coordinated in regards to registration of receivables and recording thereof in TP Cards.

Moreover, an analysis has been prepared in regards to all initiated bankruptcy procedures from 2022 until 31.12.2012. Out of the 1.021 cases in total, 708 have been completed, 14 have been suspended, and 299 are still in process. Out of 1.981 initiated liquidations, 1.443 have been completed, 296 have been suspended, and 242 are still in process.

Insolvency

30 taxpayers have been declared insolvent in 2012, with BAM 2,77 million of temporarily uncollectible liabilities.

Write-off of receivables on the grounds of bankruptcy and statute of limitation

Following completion of bankruptcy related court procedure, Tax Administration issues a decision document on incollectibility of the remaining tax arrears from the respective taxpayer.

79 decision documents were issued in 2012 on incollectibility of tax liabilities in connection with bankruptcy procedure, for the amount of BAM 72,51 million. In addition, RC Banja Luka alone issued 76 decision documents on incollectibility of tax liabilities based on statute of limitation, for the amount of BAM 592.704.

4.14. Certificates Issued to Taxpayers

Tax Certificates

Tax Administration issued **35.781 tax certificates in 2012**. In addition, 20 Conclusions were issued on rejection/suspension of tax certificate requests and 20 decision documents on denial of tax certificate request. Total amount received in the process of issuing of tax certificate was BAM 18,96 million.

Additional 30.588 certificates were issued in 2012 for other purposes, out of which 5.240 pertain to data form the Unified system for registration, control, and collection of contributions, and 25.348 to other purposes (child support allowance, etc.).

19.943 requests were received to check the contributions payment for the purpose of de-registration of contribution payers. Respectively, 19.828 decision documents have been issued, and BAM 22,86 million have been collected as the result thereof.

2012 actual against planned ratio, in terms of issuing of certificates, is 37%, and relative to 2011 the amount of issued certificates was higher by 2.317.

Tax certificates issued in 2012

	Number of tax certificates			Actual vs. Plan	Index 12/11
	2012 Plan	2012 Actual	2011 Actual		
Legal persons	12.513	24.081	11.345	192%	212
Entrepreneurs	4.287	9.370	2.903	219%	323
Citizens	218.327	52.746	69.632	24%	76
TOTAL	235.127	86.197	83.880	37%	103

Certificates issued in reference to TIN de-registration

3.701 requests were filed in 2012 pertaining to de-registration of TIN (including 9.674 open cases from the previous period). Respectively **2.966 certificates have been issued**.

Lower number of issued TIN de-registration certificates could be interpreted by the fact that all tax liabilities must be paid in full before a certificate can be issued to taxpayer, and that, accordingly to the new RS Tax Procedure Law, an audit is to be conducted prior to de-registration.

10.409 requests have not been processed in full in regards to TIN de-registration, namely for 2.127 thereof tax assessment procedure has been initiated, for 2.422 tax assessment procedure has been completed, whereas 5.860 requests have not yet been addressed.

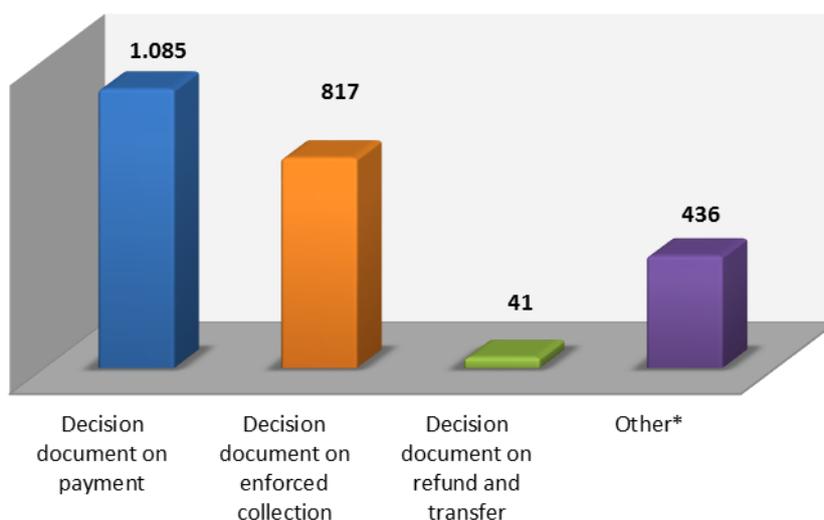
In regards to the TIN de-registration procedure in 2012, BAM 490.482 were collected in regular procedure, whereas BAM 22.508 were recovered from enforced collection.

4.15. Tax Appeals – First Level of Appeals

TARS Regional Centers received **1.784 appeals** in 2012, pertaining to all procedures in connection with the RS Tax Procedure Law. Out of that number, 95 appeals were dismissed, 299 decision documents were superseded, and 1.334 appeals have been forwarded to Tax Appeals Board. 47 appeals have been waived.

In addition, out of 595 appeals received in an earlier period, 75 were dismissed, 7 were superseded, and 503 appeals have been forwarded to Tax Appeals Board. 22 appeals have been waived.

Number of tax appeals in 2012 per subject of appeal



*Decision documents on statute of limitation, registration of mortgage, ban of activity, denial of de-registration request, tax bill appeals, etc.

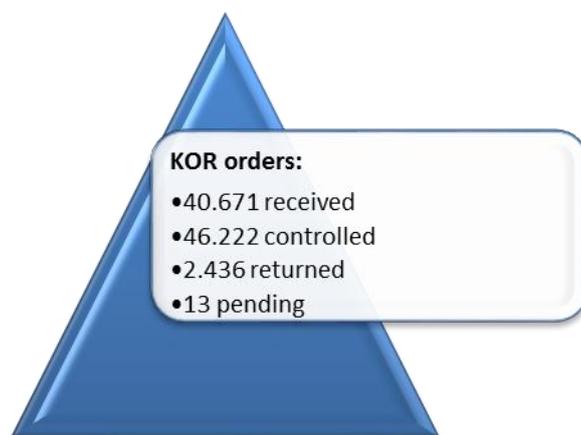
4.16. Refunds, Transfers, and Corrections

Central Tax Documentation Processing Sector performs data entry into the System for Financial Information Management (SUFI), creates forms, in line with the Instruction on the format, contents, and method of completion of forms used in treasury operations of the budgetary beneficiaries ("Official Gazette of RS", no. 86/02, 5/03, 109/03, and 117/05), and creates entry notifications.

3,045 enforceable decision documents have been entered into the SUFI in 2012. In addition to this, SUFI is also used to record tax refunds approved and paid on the basis of Form 1004-Annual Personal Income Tax Return. The amount of the respective refund processed via SUFI in 2012 was BAM 2,279,268,99.

TARS processed 48,658 orders in 2012, whereby various transactions were recorded pertaining to corrections arising from administrative and other procedures.

Processing of transactions implies formal and substantial review of documents pertaining to corrections, including regularity and analysis of data in relation to status of records. This activity is much more time consuming than the review of tax returns.



4.17. Information Technologies

The entire year has seen several important projects evolve in IT sector. Primarily, implementation of the Integrated Information System (IIS) has been initiated, activities have been undertaken to develop new opening balances and new KPO application, including the work regarding the real estate project. In addition to this, some of other, currently used applications have been modified too.

In mid 2012, procedure has been initiated to organize databases in the sense of archiving of data pertaining to prior years. In parallel to this, new KPO application has been created, and reference system between liabilities and payments has been introduced. In addition, a function is enabled which creates due dates for liabilities. All of the said changes were aimed to better organize taxpayer cards, and to prepare for the IIS implementation.

Completion level of the “Real-Estate” project activities is the following:

- Data contained in the forms have been entered into Fiscal Real-Estate Register (FRR), and each real estate has been assigned a single tax number (PBN).
- The Model for mass appraisal of real estate value has been developed to establish the tax base for 2012.
- An application has been developed for automated control of formal and logical correctness of registration forms to be entered into Fiscal Real-Estate Register (PFRN), the forms for reduction of tax base for real estate (ZUPO), and forms for tax exemption for real estate (ZOPN); in addition, an application was developed for large volume printing of real estate tax bills, using the TARS reporting system.
- Real estate tax bills have been created throughout the year for taxpayers subject to the procedure;
- An application has been developed for processing of real estate tax bills and respective claims, which provides for the following:
 - log of receipt certificates for bills and claims;
 - creation and printing of individual tax bills for the given taxpayer and municipality;

- overview of real estate value calculation for individual items in the tax bill, as well as overview of real estate value calculation for the given protocol number of the registration form;
- preparation of the corrected tax bills, in case of an error made by Tax Administration in regards to entry of data on registration of real estate an tax base (ZUPO, ZOPN);
- processing of claims stated against tax bills, subject to Tax Administration decision documents, through automated data generation and printing of a decision document using PP_KV program;
- an application to resolve claims made by taxpayers within first-instance appeals level in TARS;
- recording the data on the second-instance appeals of taxpayers in regards to real estate tax bills;
- Automated replacement is enabled for PNVN and PVON forms with PFRN forms in cases where changes to real estate status have occurred until 31.12.2011;
- Automated registration of taxpayers – citizens has been made for those who were not included in taxpayers register nor IDDEEA Register, and who are meeting the criteria.

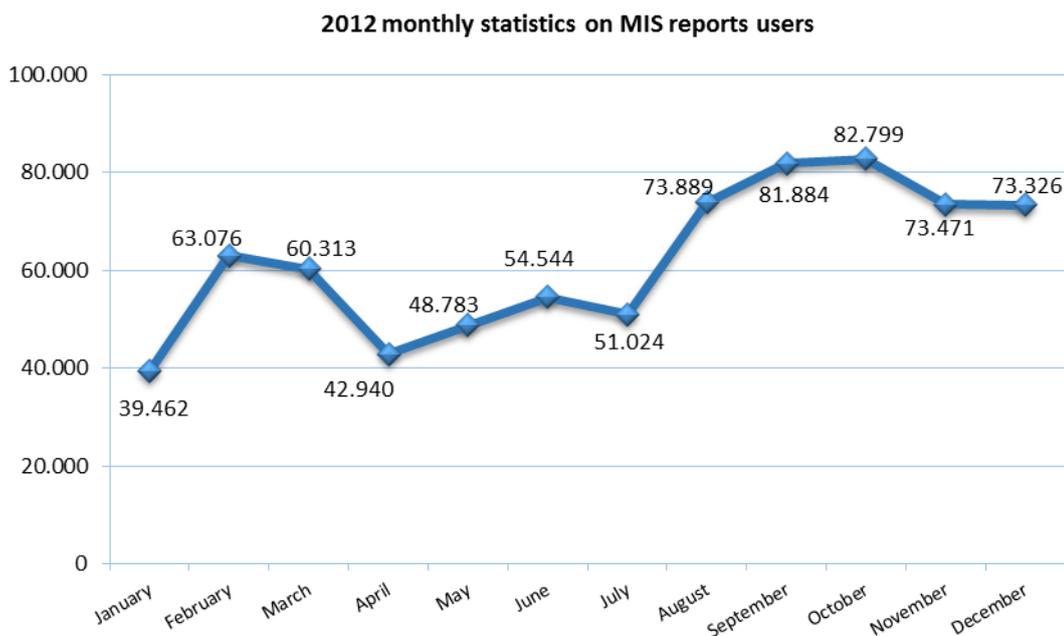
At the end of December, new version of the DRPN has been released, which now includes certain functions of KUP and PN.

In addition to above mentioned, activities were undertaken in regards to maintenance of fiscalization software. Quantity of data generated from fiscal cash registers, which needs to be processed until the following day, is large, so at the end of 2012 we have started the activity to organize the procedures for the processing of the data.

To enable better quality of services, the fiscal cash register owners are enabled to check the status of their reports in TARS server using the TARS Website. In addition, a set of reports has been developed to be used by municipalities, which can also be accessed to via our Website.

During 2012, 5 standard reports have been modified and 9 new created. In addition, 99 one-off, designated reports have been created, at th request of TARS organizational units or other institutions.

Statistics on system usage level indicate a 16% increase in number of report access relative to 2011.



4.18. Common Affairs, Administration, Finance and Accounting

To ensure undisturbed functioning of all its organizational parts, RS Tax Administration also deals with general, administrative and financial-accounting affairs.

2.812 legal documents were produced in 2012 in reference to legal affairs in the field of labor, contractual obligations, and administrative-legal affairs.

In regards to significant litigations involving Tax Administration, in 2012, 19 first-instance, second-instance, and revised court decisions have been made in total. The value disputed in the case was in the amount of BAM 5.535.931,32 in charges made against Tax Administration, and BAM 23.797 in the case where TARS was the plaintiff.

All claims against Tax Administration were rejected in first-instance, second-instance, and revised court proceedings, except for 2 rulings adjudicating the amount of BAM 1.726,75 to be paid by TARS. One revised court case, originally adjudicating BAM 123.950,47, was altered to BAM 51.299,35 to be paid by TARS.

V INTERNAL CONTROL AND AUDIT

Internal Control and Audit Department performed 35 controls in 2012:

- 7 controls in TARS Head Office,
- 13 controls in regional centers, and
- 15 controls in local offices.

Controls carried out in Head Office included the application of the Rulebook on Internal Control Processes, application of regulations in updating the taxpayers statuses in TARS records, and illegitimate actions of one employee in TARS.

Controls carried out in regional centers and local offices included: status of legal persons marked as “in de-registration process” in TARS records, application of regulations and procedures for de-registration, adherence to procedure for (de)registration of employees, application of regulations in calculation of real estate transfer, application of regulations and procedures for initiation of minor offense procedure for tax filing procedure and registration of taxpayers, application of the Rulebook on Internal Control Processes, and controls based on anonymous reports.

Actual vs. plan index in 2012 is 83%, whereas in relation to 2011 there were 49 controls less. It should be noted that in 2012, the number of staff in internal control has been reduced from four to two.

The above mentioned controls resulted in 27 findings-reports, out of which 5 pertain to controls initiated or completed in 2011. Out of the 27 findings, in 22 cases irregularities were identified in regards to operations of TARS employees.

Out of the 27 internal control findings-reports, 9 were conducted accordingly to 2012 Plan, 4 were ordered by TARS Director, and 14 were conducted in pursuance to citizens’ reports.

VI INTERNATIONAL AND REGIONAL COOPERATION

2012 was marked by regular and planned activities in terms of international cooperation. This primarily entails cooperation with the IOTA and the IMF, as well as the regional level cooperation with tax administrations from Former SFRY.



Cooperation with the Intra-European Organization of Tax Administrations (IOTA)

Tax Administration of Republic of Srpska is a full member of the Intra-European Organization of Tax Administration (IOTA) since 2004, actively participating in all events facilitated by this Organization.

IOTA's mandate is to provide a forum for exchange of tax policy related information and experiences between member states, as well as to promote cooperation between tax administrations.

The following activities were realized in line with the agreed plan of cooperation with IOTA in 2011:

- **IOTA Events**

2012 IOTA EVENTS ATTENDED BY TARS REPRESENTATIVES			
#	Event	Venue	Date
1	18 th Forum of Principal Contact Persons	Lisbon, Portugal	23-24 February
2	Area Group Meeting – Debt Management	Baku, Azerbaijan	06-08 March
3	Area Group Meeting – Strategic Management and Benchmarking	Basel, Switzerland	25-27 April
4	16 th General Assembly	Oslo, Norway	05-06 July
5	Area Group Meeting – Debt Management	Bruges, Belgium	03-05 October
6	Area Group Meeting – Strategic Management and Benchmarking	Arlandastadt, Sweden	17-19 October a
7	Use of Communications to Influence Taxpayer Behavior	Prague, Czech Republic	24-26 October
8	Innovative Approaches in Managing TA Business Processes	Vienna, Austria	14-16 November
9 / 10	„Data Warehouse“ and „Data Mining“	Budapest, Hungary	3-7 December

All information pertaining to above listed evens are available to registered users on www.iota-tax.org.

- **Technical Enquiries**

Ten responds to other tax administration's enquires were forwarded using the IOTA Technical Enquiry service. In addition, TARS sent three direct enquiries to other IOTA members.

Regional Cooperation Agreement – Group B6

Regional cooperation, at the level of B6 Group, has continued through several activities throughout 2012. The 3rd Regional Meeting took place in Budva, Montenegro, on April 23 and 24, 2012, where common issues were discussed regarding tackling of the gray economy and tax frauds. It has been concluded that no tax administration is able to function on its own, at the times of globalization, and that collaboration is required at all levels.

TARS and BiH Indirect Taxation Authority hosted the 4th Regional Meeting, taking place in Banja Luka on 18 and 19 October 2012. Several presentations have been included in the meeting agenda covering the following topics:

- Real Estate Taxation - TARS;
- Integrated Information System (SAP) – TARS;
- New Measures to Collect Tax Arrears – TA Croatia;
- Improvements to the Central Register of Companies – TA Montenegro;
- VAT Refund Frauds – ITA BiH;
- Enforced Collection – TA Federation of BiH.

In addition, the Serbian TA has organized 2 trainings in regards to B6 Group cooperation. Namely, on 29 and 30 March 2012, seminar was organized for senior managers addressing the topic of „Improved Management of Large Taxpayer Segment”. In addition to B6 Group members, the invitation was extended to include the tax administrations of the FYR Macedonia, Hungary, Bulgaria, Romania, and Albania..

The second seminar, again organized by the Serbian TA, in cooperation with the IMF, involved tax audit managers and took place on 2-6 April 2012.

The IMF Missions in TARS

Addressing the 2012 IMF Technical Assistance Plan, TARS proposed the following topics:

- Debt Management,
- Audit, and
- Taxpayer Services.

Large taxpayer audit has been addressed in the period between 26 March and 03 April 2012. The IMF advisor held several individual meetings with TARS representatives working in the area, as well as one-day workshop for TARS auditors to discuss the use of indirect audit methods. A comprehensive report followed the visit.

When it comes to debt management area, the IMF advisor visited TARS from 15 to 26 October 2012, to work on the following issues:

- overview and analysis of current status of tax collection and debt management, including strategic and operational planning, procedures, regulations, etc,
- development of recommendations to improve the collection function, drawing from best international practices and current state of affairs,

Conclusions and recommendations were provided in the form of a comprehensive report supplied in December 2012.

In addition, the IMF Fiscal Department Mission for BiH visited TARS from 25 to 27 September 2012. Its task was to analyze the status of recommendations from the IMF Report produced in June 2011.

USAID TAF (Tax and Fiscal Proejct)

Meetings with the USAID TAF Project representatives took place early in 2012, addressing the signing of the Memorandums on the Unified System for Registration, Collection, and Control of Contributions (USC), and future collaboration between the Project and TARS.

The first Memorandum pertains to the status of the USC related activities as of 15 December 2012, when USAID's IT representatives officially completed their work in TARS regarding the USC.

The second Memorandum was related to the implementation of the USC Phase II, whereby the USAID TAF Project would supply the TARS with all applications (modules), relevant documentation, and source codes to be used by TARS in independent implementation of the modules.

VII INTERNAL INSTRUCTIONS, GUIDELINES, AND RULEBOOKS

Throughout 2012, several legal documents have been issued addressing the internal operations and processes in TARS, namely:

- **5 Instructions (tax returns processing, courier service, taxpayer records),**
- **6 Guidelines (tax returns processing, real estate tax bill related appeals, payment notices, residence certificates), and**
- **13 Rulebooks (Internal organization and systematization of positions in TARS, appointment of civil servants, real estate tax bill, real estate valuation, reporting, tax accounting, allowances, fire protection, e-system for check in/out of TARS employees, internal control)**

On 17 August 2012, a new **Order on Payment of Specific Budgetary Revenues of the Republic, Municipalities, Cities and Funds** has been issued ("RS Official Gazette", no. 25/12), which is applied by TARS.

The new **RS Tax Procedure Law** ("RS Official Gazette", no. 102/11) is in effect as of 01 January 2012, as the most important legal document governing the organization, competences, rights, and obligations of TARS. The **Corrigendum to the RS Tax Procedure Law** has also been issued ("RS Official Gazette", no. 108/11). The Law places emphasis on voluntary compliance, as well as on acceleration of procedures within TARS, as well as on access to information and transparency of work.

The new Law on Games of Chance ("RS Official Gazette", no. 111/12), was enacted in November 2012, governing systems and terms for organization of games of chance, the tax on winnings, as well as law enforcement and supervision, offenses and sanctions in the field.

Moreover, new **Law on Contributions** ("RS Official Gazette", no. 116/12) has been issued, where, amongst other, rates of contributions have been changed. In addition, some new categories of contribution payes ave been introduced, and palce of payment defined, etc. The Law will be in effect as of 01 January 2013.

VIII OTHER ACTIVITIES

Within the scope of the 2012 IMF's technical assistance program TARS developed and adopted the „ **2013-2015 Strategy Paper**“. The Strategy is to provide for consistent application of the RS Tax Procedure Law, the new method of real estate taxation, new laws pertaining to administrative and company fees, as well as new regulations in the field of taxation of games of chance. The strategic plan is to enable the fulfillment of the overall objective, namely the collection of adequate amount of taxes, contributions, fees, and other charges in pursuance of the laws and annual budgetary framework set by the RS Government and issued by the RS National Assembly. Following the adoption of the Strategy, the **Implementation Action Plan** was developed, precisely defining activities, responsible parties, and deadlines for individual actions. All of the TARS organizational units have taken the Strategy Paper and the Action Plan into consideration whilst developing the 2013 Plan of Work.

At the close of February 2012, **Memorandum of Cooperation** was signed **in the field of data exchange between TARS and Association of Cities and Municipalities** . Accordingly, municipalities have been provided access to a set of reports (7 reports in section 16.01 in Report Server), and an automated reporting system was put in place as well as direct internet VPN access for municipalities which have opted for this method of use of reports. This has resulted in uniform reporting system towards local communities, and has reduced the need for one-off “ad hoc” reports.

Some municipalities expressed the need to develop reports to monitor the application of the new Real Estate Tax Law, wherefrom procedures have been initiated to develop two more reports with respect to the said Law.

TARS has taken part in the multi-sectoral task team, which is to propose concrete solutions to improve the **process of registration of Legal persons in Republic of Srpska**. The task team activities are coordinated by the RS Ministry for Economic Relations and Regional Cooperation. All of the task team products have been adopted by the RS Government at the end of the year.

The legal persons registration reform in RS defines the „one-stop-shop“ concept for registration of companies with the Agency for Intermediary, IT, and Financial Services as an administrative-technical service, with e-link between all institutions involved in registration process, with primary role resting with commercial courts/municipal departments for economy, and with unchanged role of the public notaries, whereby cost of registration would be drastically reduced by reduction or cancellation of certain fees and charges.

Following the adoption of task team products (documents), a smaller team should be established and put in charge of realization of the project.

In October 2011, the RS Government appointed representatives to take part in the **Interim Committee and in sectoral subcommittees for monitoring of realization of obligations arising from the Stabilization and Accession Agreement and Temporary Agreement on Trade and Trading Issues**. TARS representatives are involved in the Temporary Committee. During February 2012, intensive activities were undertaken to develop a Discussion Paper for the 4th meeting of the Trading, Industry,

Customs, and International Cooperation Subcommittee and EC representatives, held on March 20-21 2012 in Sarajevo. Section of the Discussion Paper, pertaining to direct taxation and TARS administrative capacities, contains an information on relevant activities for the period March 2011 – February 2012, which has been delivered to coordinators within the RS Ministry of Finance and RS Ministry for Economic Relations and Regional Cooperation.

CONCLUSION

Taking into consideration all of the problems that TARS is facing with in its work, and the general economic situation, we can be satisfied with the results achieved in 2012.

Primarily, we would like to emphasize that we have **collected BAM 2,05 billion public revenues** in 2012, out of which BAM 1,32 billion pertains to social contributions funds. In addition, significant promptness is achieved in regards to entry and processing of tax returns, number of non-filers is reduced, and number of e-filers increased, which is amongst other the result of the Rulebook on filing of tax returns ("RS Official Gazette", no. 35/12), which prescribes compulsory e-filing for 1002 forms for taxpayers with more than 15 employees.

Regular collection activities have been intensified in the form of decision documents/notices issued on payment of liabilities, as this measure is yielding significant collection results.

Application of the Real Estate Tax Law, followed the planned dynamics. Fiscal Real Estate Register is designed to include all respective data prescribed under the Law on Real Estate Tax. In regards to the model for mass appraisal of real estate value, Tax Administration performed this task successfully, which is demonstrated by the fact that least claims filed against tax bills were pertaining to market value assessment. Numerous claims to tax bills have been resolved, and future emphasis will be on delivery of the remainder of tax bills and on resolution of more complex claims.

Activities pertaining to **implementation of the Integrated Information System** have continued throughout 2012. The system will enable efficient public revenue administration in RS through simplified process of provision of services to taxpayers and public institutions. Procurement Contract for purchase and implementation of the IIS was signed in June 2012, with four-years implementation period.

Noteworthy, all of the changes and reforms in regards to tax system and legislation, the Unified System for Registration, Collection, and Control of Contributions, the Fiscal Real Estate Register, and other have been implemented without additional material or human resource allocations, through maximum reorganization and rationalization of operations in TARS.

We will continue to invest efforts to complete all tasks and objectives ahead of us, primarily defined under the "2013-2015 Strategy Paper", constantly working to strengthen public trust in the tax system through full transparency of our work.

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