

LAW ON PERSONAL INCOME TAX

I – BASIC PROVISIONS

1. General Provisions

Article 1

- (1) This Law prescribes the manner of assessment and payment of the Personal Income Tax for natural persons in the Federation of Bosnia and Herzegovina (hereinafter: Federation).
- (2) Allocation of income from personal income tax for natural persons shall be determined in accordance with special regulations.

2. Taxpayer

Article 2

- (1) Taxpayer of the personal income tax shall be a resident of the Federation and non-resident realizing income as follows:
 - 1) Resident realizing income within and outside of territorial boundaries of the Federation,
 - 2) Non-resident performing independent activity through permanent place of business within territorial boundaries of the Federation,
 - 3) Non-resident performing dependent activity in the Federation,
 - 4) Non-resident realizing income in the Federation from real estate, movable property, royalties, patents, licenses, capital investment or any other activity resulting in income realization that is taxable in accordance with this Law.
- (2) When several natural persons jointly realize income, taxpayer shall be each natural person individually for their share of the income realized in such manner.
- (3) Resident of the Federation for the purpose of this Law shall be:
 - 1) natural person with residence in the Federation,
 - 2) natural person who consecutively or with pauses spends a period of 183 or more days in the Federation during any tax period,
 - 3) natural person who has residence in the Federation and makes income by carrying out dependent activity outside the Federation from the budget of the Federation or Bosnia and Herzegovina.
- (4) Exceptionally, natural persons - returnees who have returned to the territory of Republika Srpska and/or Brcko District as well as other natural persons

residing in the territory of Republika Srpska and/or Brcko District who earn income from dependent activity provided by employers who have their headquarters in the Federation shall be considered residents of the Federation.

- (5) Non-resident, for the purpose of this Law, shall be a natural person without residence or permanent address in the Federation, spending less than 183 days in the Federation.
- (6) Permanent place of business pertains to a location where the activity is registered.

3. Natural persons not subject of taxation

Article 3

- (1) Natural persons with residence in the Federation who shall not be subject to calculation and payment of income tax include
 - 1) chiefs of foreign diplomatic missions,
 - 2) staff of foreign diplomatic missions and members of their households, unless they are citizens of Bosnia and Herzegovina,
 - 3) chiefs of foreign consulates and consulate officials authorized to perform consular functions and members of their households, unless they are citizens of Bosnia and Herzegovina,
 - 4) officials and experts of technical assistance programs of the Organization of United Nations and its specialized agencies, unless they are citizens of Bosnia and Herzegovina,
 - 5) professional consuls, members of consulates and consulate staff when these persons are members of the state that deployed them,
 - 6) honorable consuls of foreign countries for receipts received from the state that appointed them to perform consular functions, unless they are citizens of Bosnia and Herzegovina,
 - 7) natural persons employed as service staff in foreign diplomatic and consular offices and international organizations, unless they are citizens of Bosnia and Herzegovina, for income received from their state or international organization based on salary and reimbursement received for diplomat, consular and other activities.
- (2) Natural persons- residents of the Federation working for the Office of High Representative (OHR) are exempt from paying income tax.

4. Subject of Taxation

Article 4

Income tax shall be taxing incomes realized by a taxpayer from:

- 1) dependent activity,
- 2) independent activity,
- 3) property and property rights
- 4) capital investment
- 5) participation in the games of chance.

5. Income not considered as taxable income

Article 5

Income, for the purpose of this Law, not considered taxable income shall include:

- 1) income on basis of participation in allocation of profit of enterprises (dividends or shares),
- 2) pensions of residents obtained abroad and in Bosnia and Herzegovina,
- 3) financial support and other reimbursement based on special regulation on rights of disabled war veterans and civilian victims of the war, except salary
- 4) welfare, reimbursements or donations that the natural persons receive on the basis of donations made by the legal and natural persons for health care (surgeries, treatments, procurement of medication and orthopedic aids), which are not paid for by basic, additional or private health insurance,
- 5) child support and money for equipment of newborn baby,
- 6) inheritance and gifts on which tax is paid in accordance with some other Federal or Cantonal regulations
- 7) income from sales of property used for personal purposes,
- 8) damage compensation in natural disaster cases,
- 9) insurance or other damage compensation for property, in amount used for replacement or repair of damaged property,
- 10) rewards obtained in money, goods and/or services for knowledge shown in quizzes and other similar competitions,
- 11) employee income on bases of compensations, assistance and/or rewards paid by employer for a tax period and not exceeding the amount prescribed by the Rulebook on Application of the Law on Personal Income Tax,
- 12) rewards for special achievements in the area of education, culture, science etc. awarded by institutions of authorities on the occasions of celebration of special dates.

6. Incomes exempt from personal income tax

Article 6

Income tax shall not be paid for the following:

- 1) income based on compensation for unemployment period and inability to work, when paid from extra-budgetary fund,
- 2) income of disabled persons employed in an enterprise, institution or workshop for training and rehabilitation of disabled persons,
- 3) income based on compensation for body damage, lowered working ability and compensation for intangible damage suffered,
- 4) income based on compensation of damage for employees for the consequences of accident at work,
- 5) income based on rewards for members of the Academy of Sciences and Arts of Bosnia and Herzegovina and rewards for technical innovations,
- 6) compensation for convicted individuals for period of serving penalty in corrective-educational, that is, penal-corrective institutions,
- 7) monthly income on the basis of scholarships for pupils and students in regular studying process and maximally to the amount of 75% of average net salary per employee in the Federation, according to the most recent published data of the authority competent for the statistics,
- 8) income realized by pupils and students earned through pupil and student associations, over one calendar year, up to 4 average salaries in the Federation, according to the latest published information by Federal Statistics Bureau,
- 9) awards to pupils and students won in competitions within educational system and organized school and college competitions, up to the amount of two average net salaries per employee in the Federation, according to the most recent published data of the authority competent for the statistics,
- 10) salary remuneration paid to the persons during longer discontinuation of work not caused by the employee,
- 11) income based on interest on bank savings, savings and saving-credit union, bank accounts (giro-accounts, transfer accounts, etc., foreign currency accounts etc.), and interest on government-issued bonds.
- 12) income based on interest rates on paid salaries and pay differentials by decisions of competent courts;
- 13) income natural persons acquire from paid out life insurance premium savings, and voluntary pension insurance income paid by the insurance and reinsurance companies seated in the Federation, originating from premiums on which the obligatory contributions and income tax have been paid;
- 14) profits made by participating in prize games organized by companies for the purpose of promotion, which exclusively applies to product or package of products from own production line if value of such prize/profit does not exceed 1,000,00 BAM,

7. Tax Base for Personal Income Tax

Article 7

- (1) Tax base shall represent a difference between resident's total taxable income received in a tax period and total deductions that can be recognized during the same period (carried-forward loss, expenses required for generating the income and personal deduction).
- (2) Tax base for personal income tax for the non-resident from Article 2, paragraph 1, item 3) and 4) of this Law shall be income paid.
- (3) Revenues and expenses on basis of which taxable income is determined are determined on cash principle.

8. Tax Period

Article 8

- (1) Personal income tax shall be assessed and paid for a calendar year (hereinafter: tax period).
- (2) Tax period may be shorter than the calendar year in the following cases:
 - 1) when a resident during calendar year becomes a non-resident and vice versa,
 - 2) when, in accordance with provisions of this Law, the taxpayer status starts or ends for a resident.
- (3) In cases from paragraph 2 of this Article, rights referred to in this Law are applied for taxpayer's benefit on full months.

9. Rate of Personal Income Tax

Article 9

Personal Income Tax shall be paid per rate of 10 %.

II – INCOME ASSESSMENT

A. Income from dependent activity

Article 10

- (1) Income from dependent activity shall be considered to be: gross salary paid

by an employer to employee based on contract on labor or in goods, benefits, considerations in return and/or premiums, and other income for the work carried out in accordance with their instructions except for income from Articles 5 and 6 of this Law.

(2) Income from dependent activity shall also include:

- 1) additional income based on compensations, assistance etc. paid by the employer to employees exceeding prescribed amount by the Rulebook on Application of the Law on Income Tax,
- 2) salaries paid by a third party on behalf of the employer,
- 3) outstanding salaries, that is, differences in salaries relating to previous tax periods that the employee or former employee is being paid in the current tax period based on court decision, not including default interest rates that are not considered as taxable income from dependent activity,
- 4) all other incomes based on and related to dependent activity.

(3) Benefits received based on dependent activity shall be included in income as follows:

- 1) use of vehicle and other assets for personal use,
- 2) accommodation, food and use of other assets and services free of charge or per price lower than market price,
- 3) granted interest free loans or loans per rate lower than market interest rate,
- 4) settling of personal expenses by employer,
- 5) cancellation or write-off of debt by the employer.

(4) Incomes, not included in personal incomes from dependent activity, which are not subject to taxation include:

- 1) compensation for losses occurring as a consequence of natural disasters and reimbursement based on injuries and illness and paid by employer for employee or family member in an amount not exceeding amount established by special regulations,
- 2) food provided by employers on the employer's premises, not exceeding the amount of the compensation for meals, determined by special regulations.
- 3) accommodation provided by employer for an employee at location of activity performance when use of accommodation is required for employee in performance of working duties,
- 4) accommodation and payment of accommodation costs provided for public

officials, employed in diplomatic and consular offices abroad and other reimbursement paid and not exceeding amount prescribed by special regulations,

- 5) gift(s) given by employer to employees on one or more occasions during the tax period on state and/or religious holidays or company jubilees, in amount not exceeding 30% of the average monthly net salary paid in the Federation according to the last published data of the authority competent for the statistics;
- 6) severance pay in cases of termination of contract on labor in accordance with the Art. 100 of the Labor Law ("Official Gazette Federation of Bosnia and Herzegovina", no.43/99, 32/00 and 29/03) and General Collective Agreement.

Article 11

Expenses deducted from incomes when determining personal income from dependent activity shall be paid compulsory contributions from salaries as follows:

- 1) contribution for pension and disability insurance (hereinafter: PIO)
- 2) contribution for health insurance
- 3) contribution for insurance from unemployment

B. Income from independent activity

Article 12

- (1) Income from independent activity shall be considered income realized by a natural person through independent permanent performance of activity performed as principal or additional occupation with purpose of realizing income.
- (2) Incomes from independent activity shall include income from:
 - 1) crafts and related activities,
 - 2) agriculture and forestry,
 - 3) free-lance occupations, and
 - 4) other independent activities.

(3) Free-lance occupations in the sense of paragraph 2, item 3 of this Article, are the following:

- 1) independent activity of medical staff, veterinaries, lawyers, notaries, auditors, tax advisors, independent accountants, engineers, architects, translators, tourism employees and other similar activities;
- 2) independent activity performed by scientists, writers, inventors and other similar activities;
- 3) independent activity performed by educational activity and other similar activities;
- 4) independent activity performed by journalists, artists and athletes.

(4) Other independent activities in the sense of paragraph 2, item 4 of this Article shall be the following:

- 1) activities of representative bodies of government,
 - 2) activities of parliament members and members of steering boards of enterprises, liquidation managers and judge juries who do not have the status of court employees,
 - 3) occasional independent activities such as: temporary scientific activities, artists, experts, journalists, court specialists, traveling salespersons, collectors, sports referees and delegates, and other activities performed besides some basic or independent work.
- (5) Income realized through use of natural resources of land and use of products provided through performance of these activities shall be considered independent activity in agriculture and forestry. Natural person realizing income through agricultural and forestry activity shall be a taxpayer of personal income tax when, simultaneously, the person is a taxpayer of value added tax.

1. Tax Base

Article 13

(1) Income from independent activity shall represent a difference between business income and business expenses occurring in tax period.

(2) Tax base shall be determined applying cash method of accounting.

2. Business Income

Article 14

- (1) Business income (hereinafter: income) from independent activity shall include all incomes obtained through any source, received in cash, goods and services, realized through independent or joint performance of activity whether natural person is registered or not for performance of that activity.
- (2) When income is realized in the form of property (except cash) or services, amount of income equals market value of property received or service performed.
- (3) Market value for the purpose of paragraph 2 of this Article represents an amount that independent unrelated purchaser pays to independent unrelated seller at same time and place for same or similar goods and services under the conditions of fair competition.
- (4) An income of independent activity shall also include market values of economic goods and services that were exempt and given without a compensation or per price lower than the market price, and whose exemption did not follow based on performance of an independent activity.

3. Business Expenses

Article 15

- (1) Business expenses (hereinafter: expenses) deductible from income are the total costs paid during one tax period that are explicitly and directly related to performance of that independent activity.
- (2) Natural persons – personal income taxpayers who perform a registered independent activity, crafts and related activities, either as principal, additional or supplemental activity, who, for the performance of the registered activity, acquire goods or material and raw material, shall be bound to make inventory of stocks of goods, that is, of raw materials and materials in stock, or in finished products at the end of the business year as on 31 December, as follows:
 - Under purchase value with value added tax included, if they are not registered VAT payers;
 - Under purchase value without value added tax, if they are registered VAT payers.
- (3) Status established by inventory shall not be transferred and presented in the Record of revenues and expenses as opening balance for the subsequent

year. Purchase value of the goods or material and raw material for performance of activity for which a taxpayer is registered, shall be deemed business expense if it is presented in the Record of revenues and expenses verified in the Tax Administration on the grounds of credible documentation on acquisition and payment of that value.

(4) Taxpayers referred to in paragraph 2 may for one tax period, present the purchase value of goods or material and raw material that they acquired and paid during the tax period as business expense in the Record of revenues and expenses.

(5) Expenses subject to deduction also are:

- 1) annual fees or obligations paid to professional associations or professional chambers when related to taxpayer's business activity,
- 2) compensation for meals during working hours (meals) provided to the employees on employer's premises in amount not exceeding the amount determined by special regulations,
- 3) expenses occurring through use of car, including fuel and car maintenance for a vehicle used exclusively for performance of independent activity of a taxpayer,
- 4) contributions paid for employees and owner, in accordance with special regulations,
- 5) expenses occurring in relation with employees' education, including studying foreign languages,
- 6) benefits or compensations for employees that are included into employees' salaries and not exceeding prescribed amount,
- 7) special fee paid for protection against natural and other disasters, general water fee, fee for use of generally useful functions of forests and membership fee of tourism associations and other fees related to the activity of the taxpayer, in the amount determined by separate regulations,
- 8) paid property taxes and fees, which are recognized by this Law,
- 9) interest on loans and borrowings for business purposes,
- 10) awards to employees paid in accordance with special regulations,
- 11) travel expenses in accordance with special regulations,

(6) Expenses recognized in percentage:

- 1) advertising, public relations and promotion material in the amount not exceeding 3 % of the income realized in previous year,
- 2) representation expenses not exceeding 1% of income realized in previous year,
- 3) sponsorship not exceeding 1% of income for the purpose of supporting scientific, entertainment and sports events performed in the Federation,
- 4) donations not exceeding 0.5% of income realized in previous year given as goods, objects or money transferred to giro-account for cultural, educational, scientific, health, humanitarian, sport, and religious purposes, to associations and other persons who perform the activity in accordance with special regulations. Exceptionally, a donation exceeding the prescribed amount can be recognized in total under the condition that it is given in accordance with the decisions of authorized ministries on implementation and financing of special programs and actions for the purpose of common public interest, but not for regular activity of donation (gift) recipient,

(7) Persons realizing income from temporary independent activity from Article 12, paragraph 4, item 3 of this Law shall have expenses recognized in the amount of 20% from realized income.

(8) Royalties realized by persons who, as scientists, artists, experts, journalists and other persons from the activity from Article 12 Paragraph 4 item 3 of this Law, shall be recognized in the amount of 30 % from realized income or in real paid amount.

(9) Expenses not subject to deduction are:

- 1) Personal income taxes paid in the Federation,
- 2) Monetary fines, interest and penalties due because of the violation of any law,
- 3) Expenses not occurring related to income realization,
- 4) Expenses registered in business books and records and not supported by other documents,
- 5) Insurance premiums paid by an employer for their employees except when those premiums are included in employees' salary,
- 6) Expenses occurring in relation to business activity of related persons in such volume that exceeds market value of goods or services on the market,

- 7) Loss from sales or transfer of any property between related persons,
- 8) Donations to political parties.

4. Depreciation

Article 16

- (1) Depreciation shall be recognized as expense in fixed assets in the manner and per rates prescribed in bylaw passed by the Federal Minister of Finance (hereinafter: the Minister).
- (2) Depreciated assets with purchased value of less than 1,000 BAM might be completely deducted in a year of purchase under the condition that assets are put into operation.
- (3) Purchased value of computer hardware and software might be completely deducted in a year of purchase under the condition that hardware and software are put into operation.
- (4) Depreciation shall be recognized only for assets used in the Federation,
- (5) The Minister issues the regulation on manner of calculation of accelerated depreciation.

5. Joint business activities

Article 17

- (1) When several persons realize income through joint independent activities, each shall pay the tax for their respective share of jointly realized income.
- (2) Income realized by a natural person through joint performance of independent activity from Article 12, paragraph 2, items 1, 2, and 3 of this Law shall be assessed as single income divided among participants in this income in proportion determined by mutual agreement, and when not determined by an agreement, the income shall be divided into equal portions.
- (3) To the portion of income or loss belonging to a person based on jointly realized income determined on basis of paragraph 2 of this Article, the incomes realized by each of them for their work and other compensations shall be added to after business expenses are applied against jointly realized

income. From the portion of income or loss of each person determined in accordance with paragraph 2 of this Article, expenses occurring to individual person shall be deducted for those expenses that did not influence lowering of the income realized from joint activity.

- (4) Persons realizing joint income shall be obliged to appoint a person carrying joint activity that shall be responsible for keeping business books and records, payment of tax and other obligations, filing declarations and performance of other prescribed obligations arising from joint activity and joint property and property rights. Non-resident co-entrepreneur cannot be appointed as a person carrying joint activity. When person carrying joint activity is not appointed, the authorized organizational unit of Tax Administration of the Federation (hereinafter: Tax Administration) shall appoint him/her.
- (5) Person carrying joint activity from paragraph 4 of this Article shall be obliged to file tax declaration on assessed income from joint activity to authorized organizational unit of Tax Administration, upon termination of the tax period, within legally prescribed period, in accordance with their place of residence or place of registration of business entity.

6. Joint income from property and property rights

Article 18

Joint income from property and property rights shall be determined in accordance with the Articles 20 and 21 of this Law.

7. Business books and Records

Article 19

- (1) Taxpayer performing independent activity from Article 12, paragraph 2, items 1, 2, and 3 of this Law is obliged to assess income based on information from prescribed business books and records.
- (2) Business books and records from paragraph 1 of this Article are Books of Incomes and Expenditures, Book of Sales, Inventory List of Fixed Assets and Records on Receivables and Payables.
- (3) Taxpayer shall be obliged to provide information on realized daily turnover in Income and Expense Book or other records.
- (4) Taxpayer shall be obliged to issue an invoice for each sale or service performed.

- (5) Business books and records shall be kept in accordance with cash method of accounting. Cash method of accounting means that income shall be considered when actually received by the taxpayer at the moment of receipt or putting of income at their disposal or receipt to the benefit of the taxpayer. Expenses occur when paid.

C. Income from property and property rights

1. Income from property

Article 20

- (1) Income from property shall include:

- 1) income realized through lease of real estate (buildings, land etc.)
 - 2) income realized from real estate disposition,
 - 3) income realized through lease of equipment, transport vehicles and other movable property, unless when leased objects are used for performance of independent activity.
- (2) Real estate disposition according to paragraph 1 item 2) of this Article includes sale, replacement and other transfer of immovable property.
- (3) Exceptionally, for the purpose of this Law, real estate disposition includes transfer of ownership over real estate without compensation (gifts etc.), when this transfer is not subject to tax payment according to other Federation or Cantonal regulations.
- (4) The tax base at transferring the real estate is the difference between income realized in accordance with the market value of real estate and purchase value with increase of production prices of industrial products.
- (5) Income realized through lease and sales of land usable for agricultural or forestry purposes that was not used for some agricultural or forestry activity, shall be considered an income from the property.
- (6) Expenses occurred at disposition of real estate could be recognized at real value.
- (7) Expenses related to income from leasing:
- 1) Taxpayer has an option of deducting actual expenses per cash accounting

principle or recognizing these expenses in percentage from realized income.

- 2) When a taxpayer chooses percent based method of expense deduction, this method shall remain in use during current tax period and through five consecutive tax periods and shall be applied against all income from lease.
- (8) Expenses recognized in percentage from income realized based on property leasing shall be:
- 1) 30% of income realized from lease of real estate (buildings and lands, etc.) and movable property,
 - 2) 50% of income realized from lease of apartments, rooms and beds to travelers and tourists for whom the sojourn tax is paid.
- (9) Real estate in the sense of paragraph 1 item 2) of this Article shall include land, houses, apartments, etc. Income realized by sale of real estate that had been used for accommodation of a taxpayer and/or their dependents, prior to disposition, is not taxable, nor is the income from real estate disposition in period after 3 years from the date of acquiring it.

2. Income from property rights

Article 21

- (1) Income from property rights shall include income from disposition, that is, by sales, giving, exchange or other transfer with compensation for copyrights, patents, licenses, franchise and other property consisting exclusively from rights.
- (2) Income from time limited transfer of rights pertaining to copyrights and rights of industrial ownership (rights to use natural resources, right to technological process, business address books, etc.) shall be taxed only when this does not pertain to income taxable under independent activity income.
- (3) The basis for taxing the income from property rights is the difference between income determined in accordance with market value of property right that is sold, transferred, or exchanged with compensation and the purchase price increased for product price growth of industrial products.
- (4) Expenses that can be deducted from income realized through sales of property rights shall be recognized in the real amount based on the cash principle.
- (5) Expenses that could be deducted from income realized from timely limited

transfer of property rights shall be recognized in the amount of 20% of the income realized on this basis.

D. Income from investments of capital

Article 22

- (1) Income from investments of capital that is a subject to taxation is:
 - a. income realized based on interest from loans,
 - b. income realized from paid off capital of voluntary additional insurance (life insurance, pensions) saved from premiums that could have been a subject to deduction.
- (2) In determining the income from capital investments, expenses shall not be deducted.

E. Income from prize games and games of chance

Article 23

- (1) An Income from the prize games and games of chance shall represent a value of each individual reward or winning realized through participation in the prize games and games of chance, paid to the winner in cash, goods, services and/or rights, except rewards and gains from Article 5, paragraph 1, item, 10 and Article 6, paragraph 1, item 10 of this Law and gains in the value not exceeding 100 BAM.
- (2) The basis for taxation of the games of chance from paragraph 1 of this Article shall be each individual winning in amount exceeding 100 BAM, that is, winning made by participation in prize games in accordance with Article 5, Paragraph 1, item 10 of this Law if individual winning exceeds 1.000,00 BAM.
- (3) When the winnings consist of goods, services or rights, the tax base shall be market value of goods, services and/or rights at the time of winning them.
- (4) The expenditures shall not be deductible when determining an income from paragraph 1 of this Article.

III INCOME ADJUSTMENT

1. Personal deduction

Article 24

- (1) Resident taxpayers shall deduct, from the total amount of realized income, in accordance with Article 4 of this Law, basic personal deduction in the amount of 3,600 BAM for tax period where the obligation of tax payment exists. If tax period is shorter than calendar year, basic personal deduction in accordance with Article 8, Paragraph 3 of this Law shall be proportionally decreased and calculated in favor of taxpayer using full month.
- (2) Resident taxpayer referred to in Article 2, paragraph 3) and 4) of this Law may also deduct personal deduction:
 - 1) 0,5 of basic personal deduction from Paragraph 1 of this Law for dependent spouse as well as for the former spouse to whom he/she pays the alimony,
 - 2) 0,5 of basic personal deduction from Paragraph 1 of this Law for first child,
 - 3) 0,7 of basic personal deduction from Paragraph 1 of this Law for second child,
 - 4) 0,9 of basic personal deduction from Paragraph 1 of this Law for third and every further child,
 - 5) 0,3 of basic personal deduction from Paragraph 1 of this Law for every other dependent immediate family, and
 - 6) 0,3 of basic personal deduction from Paragraph 1 of this Law determined own disability and disability of immediate family members that the taxpayer takes care of.
- (3) Dependent immediate family members and dependent children from paragraph 2 of this Article shall pertain to natural persons whose personal income and other incomes that are, for the purpose of this Law, not considered an income, do not exceed the amount of basic personal deduction from paragraph 1 of this Article in the year for which personal income tax is assessed.
- (4) Personal deduction of the taxpayer shall be determined as a sum of basic personal deduction from paragraph 1 and personal deduction from paragraph 2 of this Article. When several persons support member(s) of immediate family and children, personal deduction for these persons shall be equally allocated to all persons supporting these members unless when differently agreed upon.

- (5) Children for the purpose of paragraph 2 items 2, 3 and 4 of this Article shall pertain to the children supported by parents, guardians, adopters, stepfathers and stepmothers as well as children for whom the parents pay the child support. Other dependent immediate family members for the purpose of paragraph 2 item 5 of this Article shall pertain to the parents of related taxpayer and parents of their spouse, ancestors and descendants in first line, if living in joint household.
- (6) Resident taxpayer referred to in Article 2 paragraph 3) and 4) of this Law may use personal deductions from paragraphs 1) and 2) of this Article for the period when a liability of tax payment exists and when the person is supported. Period is rounded up to the benefit of a taxpayer for full months, and unused deductions shall not be transferred into the following tax period.
- (7) Resident taxpayers referred to in Article 2, paragraph 3) of this Law, can increase personal deduction in a tax period by the amount of costs at the burden of taxpayer, which refers to purchase of medicines registered in the Federation of Bosnia and Herzegovina according to prescription issued by the authorized health institution and purchase of orthopedic aid devices and artificial limbs in the Federation. This includes members of immediate family that taxpayer supports under the condition that these costs are not covered from basic or additional health insurance and when they are not financed from donations received or from the employer. Costs shall be recognized based on valid documentation issued by the authorized health institution (hospitals, clinics, institutes etc.). This shall not pertain to the expenses for surgical operations or other treatments with the purpose of improvement of esthetic appearance.
- (8) Personal deduction of resident taxpayers referred to in Article 2 paragraph 3 of this Law, may be increased in tax period by the amount of interest paid on housing loans that taxpayer took in order to buy or build an apartment to resolve his own housing problem. Personal deduction on this basis may be increased by the amount of interest paid in tax period for which personal income tax shall be determined.
- (9) Personal deduction from paragraphs 8 and/or 9 (mistake – 7 and/or 8) of this article shall be recognized after personal deduction from paragraphs 1 and 2 of this Article and in final calculation of income tax, based on annual tax declaration filed and valid authentic documents as prescribed by bylaw.

2. Tax credit

Article 25

- (1) When natural person from the Federation realizes income in foreign country or the RS or BD (further on: other territory of Bosnia and Herzegovina) and the income realized is taxed in both in the Federation and foreign country or other territory of Bosnia and Herzegovina. In that case, income tax paid in foreign country or other territory of Bosnia and Herzegovina shall be deducted from the income tax in the Federation.
- (2) Tax deduction of income tax in the Federation for taxes paid abroad or in other territory of Bosnia and Herzegovina in a given tax period shall not exceed amount of income tax calculated by applying income tax rate from the Federation for a taxpayer for that tax period.
- (3) Taxpayer of income tax in the Federation may deduct income tax paid in foreign country or other territory of Bosnia and Herzegovina exclusively based on valid documentation verified by authorized foreign state bodies or other territory of Bosnia and Herzegovina.

3. Tax Loss

Article 26

- (1) Tax loss that could not be compensated at determining total income, that is, that cannot be deducted in the tax period that occurred is taken over and offset by decreasing the tax basis in the forthcoming tax periods, so that the right to take it over is lost after fifth year from the year it occurred.
- (2) In case of non-resident performing independent activity through permanent places of business in the Federation, par. 1 of this Article shall be applied pertaining only to taxable income and expenses that are subject to deduction and that are connected to that permanent place of business.
- (3) When natural person from the Federation has permanent place of business abroad that causes losses, those losses cannot be recognized as deductions when determining taxable income of natural person in the Federation.

IV PROCEDURE OF TAX ASSESSMENT AND COLLECTION

1. Assessment of advance payment of income tax from dependent activity

Article 27

- (1) Advance payment of income tax from dependent activity shall be calculated, withheld and paid at every payment of wage and/or other taxable remuneration in accordance with the regulations applicable on the day of payment. Advanced shall be made on the same day or the day after the payment of wage and/or other taxable remuneration.
- (2) Calculation, withholding and payment of advance payment for income tax from dependent activity shall make employer, or taxpayer him/herself. Employee shall be liable for income tax.
- (3) Advance payment of income tax from dependent activity realized with the employer who was given a tax card of his employee, shall be calculated on monthly basis from tax base, including all incomes from dependent activity realized during one-month period by the employee, deducted by paid expenses from Article 11 of this Law, decreased by monthly personal deductions from Article 24 paragraphs 1 and 2 of this Law, applying the rates from the Article 9 of this Law.
- (4) Advance payment of income tax from dependent activity realized with the employer who was not given a tax card of his employee, shall be calculated on monthly basis from tax base, including all taxable incomes from dependent activity realized during a given month, deducted for paid expenses from the Article 11 of this Law, applying the rate of 10%.
- (5) Exceptionally, employers - resident taxpayers referred to in Article 2, paragraph 4 of this Law, who incur income from employers, legal and natural persons with headquarters in the territory of the Federation, the advance payment of income tax from a dependent activity shall also be paid on the tax basis of all the taxable income from the activity that the employee performed for the employer in a given month, and deducted from the paid expenditure referred to in Article 11 of this Law and the amount of monthly personal deductions referred to in Article 24 paragraphs 1 and 2 of this Law.
- (6) Income tax based on dependent activity, calculated on realized income from labor performed during one month, not exceeding period of 10 days i.e. 80 hours, and where paid income shall not exceed 250,00 BAM, shall be calculated per rate of 10%, without calculation of personal deductions from Article 24 of this Law.
- (7) Withheld i.e. deducted and paid tax from paragraph 5 of this Article shall be considered final tax assessed for a tax period and taxpayer shall not be obliged to file annual tax declaration for this income. Taxpayer shall be entitled to include this income and paid advance payment amounts into annual tax declaration.
- (8) Foreign organizations without diplomat immunity in the Federation and

employees of such organizations with headquarters i.e. residence in the Federation, shall be obliged, at payment of dependent activity income to the citizens employed or to foreign citizens, calculate withholding tax in accordance with Paragraphs 1 to 6 of this Article and pay it in legally prescribed period.

- (9) Taxpayer employed in diplomatic or consular office of other state, international organization or representative office or organization that has diplomatic immunity in the Federation, when he/she is a taxpayer in accordance with this Law, shall be obliged to calculate advance payment of tax from dependent activity him/herself in accordance with provisions of paragraphs 1 to 5 of this Article and pay it to the legally prescribed account and period.
- (10) Taxpayer who realizes income from dependent activity directly from abroad shall be obliged to calculate advance payment of tax for that income in the manner from paragraphs 1 to 6 of this Article and pay it not later than five days upon income receipt.

2. Tax card

Article 28

- (1) Advance payment of income tax from dependent activity shall be calculated, withheld and paid by employer, that is, payer of wage or other taxable remuneration. Based on tax card that provided by employee to employer, an employee gets right to lower the base for calculation of monthly advance payments in accordance with Article 24, paragraph 1 to 6 of this Law. At the request of an employee, the tax card with determined deductions shall be issued free of charge by Tax Administration. Employer is obliged to hold a tax card until employment is terminated.
- (2) Employer shall be obliged to keep records on salaries paid and other taxable remunerations for each employee with data on calculated and paid contributions, borne by employee and PIT. The employer is obliged to forward these data to the authorized unit of Tax Administration until the fifteenth day of the current month for the previous month.
- (3) Employer shall be obliged to issue to employee a certificate on total salaries and other personal receipts paid as well as the information on tax withholdings executed in previous calendar year, by the end of February of the current year the latest.

3. Assessment of advance payment of income tax from independent

activity

Article 29

- (1) Advance payment of income tax from independent activity from Article 12, paragraph 2, items 1, 2 and 3 of this Law shall be assessed in annual amount based on income from the activity determined for previous tax period and paid monthly in the amount of 1/12 of annual amount of advance payment.
- (2) Taxpayer who is starting to perform newly registered activity for the first time shall not be obliged to file a declaration for advanced payment of income tax for the first business year.
- (3) Taxpayer may amend the amount of monthly advance payment from the paragraph 1 of this Article by enclosing valid documentation proving reasons for decrease or increase of reported amount of monthly advance payment of income tax.
- (4) Advance payment of income tax shall be paid monthly by the fifteenth day of current month for the previous month.
- (5) Tax Administration may, based on inspection or supervision performed, as well as the information from processed annual tax declarations or other information on taxpayer's business activities at its disposal, determine new amount of monthly advance payment in accordance with provisions of the Law on Tax Administration of the Federation of Bosnia and Herzegovina (Official Gazette of the Federation of BH, No. 33/02 and 28/04) (hereinafter: Law on Tax Administration).

4. Calculation of withholding income tax from independent activity

Article 30

- (1) Income tax from independent activity realized by a non-resident through temporary performance of independent activity (artists, athletes, writers etc.) including the activities related to journalism, radio, television, and organization of entertaining events, shall be paid per withholding per rate of 10% of the reimbursement without the right to personal deduction from Article 24 of this Law. In this way, calculated and paid tax shall be considered as final tax liability and generated income shall not be stated in the annual tax declaration.
- (2) Advance payment of income tax on basis of other independent activities from Article 12, paragraph 4 items 2 and 3 of this Law shall be calculated, withheld

and paid by payers of income at every payment at the rate of 10%, without the right to personal deduction from Article 24 of this Law.

- (3) Advance payment of income tax on basis of other independent activities from Article 12, paragraph 4 item 1 of this Law shall be calculated, withheld and paid by payers of income in the manner and at terms from the Article 27 of this Law prescribed for dependent activity.

5. Lump sum payment of income tax from independent activity

Article 31

- (1) Taxpayer performing independent activity from Article 12 paragraph 1 of this Law, who is not a taxpayer of value added tax, may assess income tax and pay it in a lump sum. Criteria to determine independent activities where income tax may be paid in a lump sum as well as monthly amounts of lump sum shall be determined by bylaws passed by the Minister.
- (2) Tax Administration may revoke lump sum payment of income tax for a taxpayer and, in accordance with Article 29 of this Law, determine and order payment of advance payment for income tax when, during a year, in a supervision procedure or based on data gathered on his/her income realized it is determined that he/she realized income exceeding the amount which, by applying of prescribed income tax rate, exceeds determined lump sum of the tax or when he realized income subject to payment of value added tax.
- (3) In case referred to in paragraph 2 of this Article the taxpayer shall be obliged to switch to assessment of income from independent activity in the manner prescribed by provisions of Article 19 of this Law.

6. Assessment of advance payment of income tax from property and property rights

Article 32

- (1) Advance payment of rent and lease income tax shall be paid in the amount of 1/12 of annual amount based on tax declaration of a taxpayer from previous year. In determining the advance tax payment amount, personal deduction of a taxpayer shall not be considered. Advance payment of income tax shall be paid by a taxpayer in procedure and manner from Article 29 of this Law.
- (2) Property income tax generated in accordance with Article 20 of this Law through lease of houses, apartments, rooms and beds to travelers and tourists, who pay sojourn fee, shall be calculated and paid together with rent fee. The tax shall be calculated at a rate of 10% on the tax base, made of the amount of rent paid reduced for the expenditures referred to in Article 20

paragraph 8, item 2 of this Law without the right to personal deduction. Withheld and paid tax shall be considered to be a final payable tax, and the income to which a tax on a deduction is paid is not included in the annual tax form.

- (3) Income tax from cession of property rights shall be calculated, withheld and paid by payer of income as withholding tax simultaneously with income payment at the rate of 10% on the amount of paid compensation reduced by expenses from Article 21 paragraph 5 of this Law without personal deductions from the Article 24 of this Law. Paid tax shall be considered to be final tax liability and taxpayer shall not enter this income in annual tax declaration.
- (4) Income tax from transfer of real estate and property rights taxpayers shall pay on each individually realized income according to Article 27, paragraph 1 of this Law. Advance payment shall be assessed from a tax base by applying a tax rate of 10%, in accordance with Articles 20 and 21 of this Law. Paid tax shall be considered to be final tax liability and taxpayer shall not enter this income in annual tax declaration.

7. Calculation of income tax on investments of capital

Article 33

- (1) Income tax from interest from the Article 22, Paragraph 1, item 1 of this Law shall be withheld applying the rate of 10%, without right to reduce tax base by personal deductions from the Article 24 of this Law.
- (2) Income tax on income from Article 22, Paragraph 1, item 2 of this Law shall be withheld applying the rate of 10%, without right to reduce tax base by personal deductions from the Article 24 of this Law.
- (3) Calculated and withheld income tax according to Paragraphs 1 and 2 of this article shall be considered to be final tax liability and taxpayer shall not enter this income in annual tax declaration.

8. Calculation of income tax from prize games and games of chance

Article 34

- (1) Income tax on winnings from prize games and games of chance from the Article 23, Paragraph 1 of this Law shall be withheld, applying the rate of 10%, without the right to reduce tax base by personal deductions from the Article 24 of this Law.
- (2) Income tax from the Paragraph 1 of this Article, determined, withheld and

paid, shall be considered to be final tax liability and taxpayer shall not enter this income in annual tax declaration.

- (3) The organizer or presenter of the prize games and games of chance shall calculate and withhold the tax on winnings from the rewarding games or games of chance at every payment of winnings to the natural person gaining it. The organizer or presenter shall be obliged to pay the withheld tax not later than the fifteenth, the last day of the month the tax is withheld in.

9. Annual income tax assessment

Article 35

- (1) Income tax, which must be filed in annual tax declaration, shall be calculated by a taxpayer upon the tax period expiry.
- (2) Income tax shall be calculated per rate from Article 9 of this Law on a tax base assessed in accordance with Article 7 of this Law.
- (3) Person who realizes income only performing independent activity, and employs persons with special needs and/or with a status of disabled persons with established disability percentage exceeding 50%, may reduce income tax by 10% for each of these persons, but not exceeding 50% of assessed tax liability, if those persons are employed not less than continuous 10 months in that tax period.
- (4) Resident, realizing income abroad i.e. in the other territory of Bosnia and Herzegovina, shall have income tax assessed based on provisions of this Law with recognition of withholding tax paid and advance payment of income tax paid abroad i.e. in the other territory of Bosnia and Herzegovina.
- (5) When assessing income tax in one tax period, and with the purpose of avoiding double taxation, the provisions of ratified international agreements or contracts (conventions) on avoidance of double taxation shall prevail over the provisions of this Law.
- (6) Taxpayer shall be obliged, in prescribed period for tax declaration filing, to settle in total liabilities on income tax basis for previous tax period in accordance with the provisions of the Law on Tax Administration.
- (7) When a taxpayer during one tax period paid as an advance payment of income tax the amount exceeding the amount of annual tax declared in tax declaration, surplus of the amount paid shall be directed by Tax Administration to settle taxes due on other basis. When the amount of overpayment exceeds the amount of tax liabilities due, taxpayer may declare whether he/she wants overpaid amount to settle future liabilities or to claim

refund of overpayment. Refund of overpayment shall be executed in a period not exceeding 90 working days upon expiry of the deadline for filing the tax declaration.

- (8) The Tax Administration shall determine the right to refund the overpaid personal income tax by passing the decision on tax refund, and the refund of the amount determined by such decision shall be carried out by the Ministry of Finance of a canton in whose territory the permanent residence of the taxpayer is located by payment to the current account of the taxpayer, within the deadline set forth in paragraph 7 of this Article.

10. Tax declaration

Article 36

- (1) Taxpayer shall be obliged, upon expiry of a tax period by the 31st March, to file annual tax declaration in the prescribed form and content to the authorized unit of Tax Administration, according to the place of payment of PIT and set in the Art. 37 of this Law. Person carrying joint activity, according to Article 17, paragraph 5 of this Law, shall be obliged to file tax declaration for the past year on assessed income from joint activity to the Tax Administration upon termination of tax period until the end of February of current year.
- (2) Form and content of tax declarations from paragraph 1 of this Article shall be prescribed by the Minister.
- (3) Taxpayer shall be obliged to file annual tax declaration to Tax Administration when realizing income from several sources determined in the Article 4, that is, income on basis of dependent activity from two or more sources, or income realized directly from abroad (without participation of resident employer) or when realizing income that obligation of filing annual tax declaration is prescribed for in accordance with this Law as well as in case when Tax Administration requests from a taxpayer to pay the tax on dependent activity basis afterwards.
- (4) Employee who realizes income from the dependent activity in a tax period working only for a employer and does not realize income from other sources during that period, for whom employer calculated, withheld and paid withholding tax on all salaries and taxable compensations paid to employee in that tax period in accordance with Articles 27 and 28, Paragraph 3 of this Law, shall not be obliged to file annual tax return.
- (5) Taxpayers shall not be obliged to file the annual tax return if, in the tax period, they only generated income on which tax deduction was calculated, withheld and paid and which, in accordance with this Law, is considered to be a final

tax liability (Article 27, paragraph 6, 32 (2) and 4 (4), 33 (3) and 34 (2) of this Law).

- (6) When a taxpayer in tax declaration presents inaccurate or insufficient information, income tax shall be assessed by authorized unit of Tax Administration.
- (7) Tax Administration, in accordance with the Law on Tax Administration, has authority to estimate income of a taxpayer and assess his tax liability, that is, file tax declaration on behalf of taxpayer in cases when a taxpayer fails to do it him/herself in legally prescribed period.

11. Place of paying tax

Article 37

- (1) Income tax on dependent activities generated by residents referred to in Article 2 paragraph 3 of this Law, determined in accordance with Article 27 of this Law shall be paid in accordance with the place of residency of the taxpayer.
- (2) Income tax on dependent activities generated by non-residents of the Federation of Bosnia and Herzegovina, referred to in Article 2 paragraph 4 of this Law, and foreign citizens, which is determined in accordance with Article 27 of this Law, shall be paid in accordance with location of employer, that is, the payer of compensation for work.
- (3) Income tax from independent activities determined in accordance with Articles 29, 30 and 31 of this Law shall be paid according to place of registration of activity.
- (4) Income tax on income from property and property rights shall be paid in accordance with the Article 32 of this Law, and in accordance with the place where the real estate is located, and for the movable property in accordance with the registration of independent activity, that is, residence of the taxpayer.
- (5) Income tax on income from investments of capital shall be paid in accordance with the place of realizing that income.
- (6) Income tax from prize games and games of chance shall be paid according to the place of residence of the natural person who realized gain from prize games and/or games of chance. If a natural person does not have residence in the Federation territory, calculated and withheld tax on profit shall be paid in accordance with the residence of payer.
- (7) Income tax realized from different sources is paid in accordance with the

place of residence of the taxpayer.

V – PROVIDING REPORTS AND OTHER LIABILITIES

Article 38

Taxpayers starting to perform independent activity from Article 12 of this Law as well as the ones starting to realize income directly from abroad, and ones starting to lease and rent movable property and real estate (except the ones leasing houses, apartments, rooms and beds to travelers and tourists paying sojourn fee) shall be obliged to report, to the authorized unit of Tax Administration, beginning of performance of the activity of leasing and renting and realizing income, not later than eight days from the day of beginning of activity, that is, the day of income realization.

Article 39

Bodies and administrations authorized for issuing licenses for performance of independent activities and free-lance activities licenses and decisions on temporary termination of the activity, banning or terminating the activity or free-lance occupations, shall be obliged to inform Tax Administration by forwarding one copy of a license or a decision.

Article 40

- (1) Natural persons and legal entities shall be obliged, upon request, to forward information on goods delivered or services provided by a taxpayer of income tax, as well as the information on paid salaries and other income based on dependent activity, to Tax Administration for the purpose of assessing or auditing declared income for a given tax period.
- (2) Banks and other financial institutions authorized to perform payment services shall be obliged, upon request, to forward the information to Tax Administration on transfers through the accounts of income tax taxpayers.
- (3) Natural persons, legal entities and organizations from paragraphs 1 and 2 of this Article shall be obliged to provide access to business books and records to Tax Administration with the purpose of determining and gathering information required for income tax assessment.

Article 41

Income payments of income considered personal income shall be paid to

taxpayer's account opened at authorized organization for payment services and, exceptionally, in cash, which is to be determined further in bylaw that shall be passed by the Minister.

Article 42

- (1) Information for assessment of income and information on public revenue payments shall be extracted from business books and records that the income tax taxpayers shall be obliged to keep.
- (2) All business changes shall be entered daily into business books and state of accounts shall match actual state at every moment.
- (3) Taxpayers of income tax who, in accordance with the provisions of this Law are obliged to keep business books, shall be obliged, prior to use, to stamp business books at authorized unit of Tax Administration.
- (4) Taxpayers of income tax shall be obliged to keep business books and other prescribed records at their business premises or at authorized accounting service, that is, residences and locations where the activity is performed (vehicles, stands at market, etc.) in a case when they do not have business premises. Business books shall be available to Tax Administration officials authorized to perform audit.

Article 43

Upon a request from the court and state bodies, Tax Administration shall be obliged to forward the information on income and tax base declared by the taxpayer in their annual declaration, that the Tax Administration assessed, except the information that shall, in accordance with the Law on Tax Administration, be considered tax secret.

VI – PROCEDURAL PROVISIONS

Article 44

Considering issues of collection, late interest, tax refund, appeals and statute of limitations, provisions of the Law on Tax Administration shall apply.

VII - PENAL PROVISIONS

Article 45

Natural persons, legal entities and organizations which violate the provisions of this Law or fail to comply with them, shall be subject to adequate penalty for tax violation prescribed by Articles 80 to 94 of the Law on Tax Administration.

VIII – INTERIM AND FINAL PROVISIONS

Article 46

Tax liabilities occurring prior to this Law coming into effect shall be executed in accordance with the regulations valid at the moment of liability occurring.

Article 47

Natural persons who, prior to this Law coming into effect, in accordance with cantonal regulations realized right to tax exemption or benefits pertaining to certain time period, when assessing and paying income tax from independent activity in accordance with the provisions of this Law shall be entitled to use exemptions and benefits until expiry of the period for their use.

Article 48

Minister shall issue bylaws for implementation of the provisions of this Law within 60-day period beginning the day of this Law coming into effect:

- 1) Rulebook on implementation of the Law on Personal Income Tax, prescribing in detail manner of determining the tax base, form and manner of issuing tax cards, form, content and manner of keeping business books and records, manner of calculation of annual personal income tax and preparation and filing of annual tax declaration,
- 2) Regulation on way and manner of determining accelerated depreciation,
- 3) Regulation on determining criteria for paying personal income tax in annual lump sum.

Article 49

In order to properly apply Article 10, paragraph 1, and Article 27 of this Law all employers are obliged to convert monthly salaries of their employees to gross salaries and state them as such in tax records and reports by the enactment of the Law or until the day of beginning of implementation of this Law, at the latest.

Employers who do not switch to gross basis by the time this Law comes into force shall be obliged to do calculation of contributions and wage tax on gross amount of salary, which shall be determined by recalculation of the existing net salary into gross salary using the following formula:

Article 50

On the day this Law comes into effect, prior to beginning of the implementation of this Law, cantons shall be obliged to adjust the provisions of their laws on taxes that pertain to assessment and payment of income tax for natural persons performing independent activity, property and property rights tax, tax on income from royalties, patents and technical innovations, tax on income from winnings in games of chance, tax on income from agricultural activity and tax on total income of natural persons.

Article 51

In case of collision of this Law with other relevant laws regulating this subject matter, except for the Law on Tax Administration, the provisions of this Law shall be applied.

Article 51a

Notwithstanding the provisions of Article 15, paragraphs (2) and (3) of this Law, as business expense for the year 2009, taxpayers who, for the performance of the registered activity, had been acquiring goods or raw materials and materials during the tax period, may also present the purchase value of the goods or raw materials and materials that they established by inventory on 31 December 2008 and transferred it as opening balance in the Record of revenues and expenses for the year 2009, provided that they possess for them proper credible documentation on acquisition and that they did not present it as business expense for the year 2008.

Article 51b

Notwithstanding the provision of Article 36, paragraph 1 of this Law, annual tax declaration for the year 2009, taxpayers shall file by 30 April 2010.

Article 52

On the day of this Law coming into effect the Law on Wage Tax shall be revoked ('Official Gazette of the Federation of Bosnia and Herzegovina', no. 26/96, 27/97, 12/98, 29/00, 54/00, 16/01, 7/02, 27/02 and 6/04).

Article 53

This Law shall come into effect on the eight day upon its publishing in the 'Official Gazette of the Federation of Bosnia and Herzegovina' and shall be implemented as of January 1, 2009.