

## **High Representative Amends Laws to Secure Brcko Finances**

The High Representative, Christian Schwarz-Schilling, today imposed amendments to Bosnia and Herzegovina's Law on Indirect Taxation System and the Law on Payments into the Single Account and Distribution of Revenues.

The High Representative took this step to insulate Brcko District from the financial consequences of Entity wrangling over distribution coefficients that have been a regular feature of ITA Governing Board sessions since last year and which has been the subject of an on-going complaint to the Brcko Arbitral Tribunal by Brcko District.

Mr Schwarz-Schilling was forced to take action because members of the ITA Governing Board have failed to reach a long-term agreement on coefficients, despite the repeated urgings of the Peace Implementation Council Steering Board and impending deliberations on the matter by the Brcko Arbitral Tribunal.

Today's decision allocates 3.55%, and a minimum of 124 million KM, of Bosnia and Herzegovina's total revenue from indirect taxation to Brcko District.

According to the High Representative's Decision, Brcko will automatically receive its share of indirect tax revenues from the Single Account, after the State institutions but before the Entities; Brcko's coefficient in 2007 will be 3.55% (based on Brcko District's average VAT final consumption data in 2006 as provided by the ITA); and Brcko will receive a minimum of 124 million KM a year, the District's planned revenue from indirect taxation for this year, between 2007 and 2011.

The introduction of VAT in Bosnia and Herzegovina in January 2006 has proved more successful than expected and 2007 revenues are expected to be some 300 million KM greater than in 2006. This success has not prevented deep disagreement over the distribution of revenue.

The Finance Ministers of both the Federation and Republika Srpska have veto rights in the ITA Governing Board, the body that decides on allocation of indirect taxation revenue; Brcko District only has observer status in this body.

As a result, Brcko District has often found itself disadvantaged by decisions taken by the Entities on their revenue allocations. In four consecutive months in 2006, the ITA Governing Board allocated only 2.9% of indirect tax revenue to Brcko, although the 2006 VAT final consumption data showed that Brcko's appropriate share of revenue should have been higher.

Bosnia and Herzegovina's Entities are cushioned from the effects of delays in the allocation of indirect taxation revenues by their reserves. Brcko District lacks similar reserves with the result that Brcko District's ability to function, to make public sector payments in the health and education sectors for example, could be threatened.

The Dayton Peace Agreement provides for binding arbitration in the Brcko area in Annex 2. The High Representative acted today to assure the financial self-sustainability of the Brcko District and Bosnia and Herzegovina as a State.