

High Representative Establishes Indirect Tax Policy Commission

The High Representative, Paddy Ashdown, today issued a Decision establishing an Indirect Tax Policy Commission tasked with introducing a single customs administration and a single State-wide VAT system in BiH, within the framework of an Indirect Taxation Administration which will operate at State level.

The High Representative described the introduction of a single customs administration and state-level VAT as “the most important reforms that I have been involved in since I became High Representative. The current system has turned customs and sales tax into factories for fraud. These reforms will help ensure that KM 1.4 bn that is lost to fraud every year under the current system instead goes to the hospitals, schools and pensions where the money is desperately needed. These reforms will also help open up the economy to new investment and new jobs. And in the long-term, these reforms will help BiH qualify for membership of the European Union.”

The Commission will consist of seven members – two from each Entity and two from the state, chaired by a senior international official to be appointed by the European Commission. Until a permanent appointment is made, Principal Deputy High Representative Donald Hays will serve as acting Chair. The first meeting of the Commission will take place before 3 March. The Commission will be responsible for proposing the draft laws and regulatory framework necessary for the introduction of a single customs administration and state-level VAT.

“This Commission will need to work out how revenue will be

allocated, how the administration will be structured, how it will be supervised by the Entities and the state, and how it will be audited," the High Representative said. He added that in view of the concentration of state institutions in Sarajevo, "there is a very strong case for locating the Indirect Tax Administration outside of BiH's capital city."

The High Representative emphasised that a single customs administration and state-level VAT will not deny revenue to the Entities. "The principles for the introduction of these reforms that I have established today *guarantee* that the Entities will receive at least as much revenue as they receive from the current system," he said, adding that the reforms will not remove competencies given to the Entities under Dayton or result in the greater centralisation of BiH.

He said that only a BiH-wide solution could address the current loss to the Entity budgets of more than a billion KM in revenue annually through sales-tax evasion and customs fraud, and he emphasised that this approach is fully supported by the entire International Community.

"As the EU foreign ministers, Chris Patten, Javier Solana and the EU Ambassadors in BiH have all said, a single customs administration and state-level VAT are essential preconditions to membership," the High Representative noted. "Every other normal European country has single customs and countrywide VAT, why should BiH be the exception? When foreign investors look at BiH, they see two economic administrations, two bureaucracies, two sets of paperwork for everything. In fact, two economies too small and too complex to be worth investing in, so investors take their money to neighbouring countries that have more normal and more simple systems. The result: jobs lost for BiH."

The High Representative was joined at today's press conference by Ambassador Hays and by US Ambassador Clifford Bond, Head of the EC Delegation in BiH Ambassador Michael Humphreys and

Yolanda Valassopoulou, representing the EU Presidency. The other speakers noted that a single customs administration and state-level VAT are fundamental prerequisites for continued international aid to BiH and for BiH's acceptance in the World Trade Organisation and its eventual integration in the European Union.

The High Representative concluded: "The Decision that I have issued today on behalf of the citizens of BiH means that it is no longer a question of whether BiH will introduce a single customs administration and state-level VAT. But how."