Article by the PDHR, Donald Hays: “Reforms will not deprive Entities of their revenues”

(as submitted by the OHR to Blic)

The way forward on customs and VAT reform in BiH will be decided this week. These reforms will affect every man, woman and child in the RS.

On Wednesday, the High Representative will establish the Commission that will oversee the process of setting a single customs administration and state-level VAT. He will also issue a legal Decision setting out the remit and framework for the Commission’s work.

The debate about customs and VAT reform has so far generated a lot of misinformation. The citizens of the RS deserve better. So today, I want to set the record straight for your readers.

Let me start by saying what these reforms are NOT.

These reforms are NOT about denying revenue to the entities. In fact, by reducing fraud, these reforms could end up meaning more money for the entities.

These reforms are NOT about undermining the autonomy of the entities. The entities will still be responsible for schools, hospitals and all the other competencies they have today.

These reforms are NOT about centralizing BiH. When BiH introduced a State Border Service, did BiH become more centralized? No, but the administration of BiH’s borders

became more professional. The same will be true for customs and VAT.

I can only conclude that those RS politicians who are telling you this are either deliberately misinforming you, or are dangerously economically illiterate.

Let me just set out what these reforms ARE.

These reforms ARE about making sure the KM 4-500 million in customs and tax revenue that is lost in fraud EVERY YEAR in the RS goes to citizens instead of criminals.

These reforms ARE about making sure BiH can one day join the European Union. All the countries wanting to join the EU are required to have a single customs administration and country-wide VAT, and so will BiH if it wants to qualify.

And these reforms ARE about making sure BiH has the sort of open and integrated economy that will attract the investment and jobs that the country so desperately needs.

Let me now deal with myths that are out there in the media, many of them put there deliberately by people defending their own interests rather than those of the citizens.

MYTH: The RS will lose 2/3rds of its revenue if these reforms are introduced.

FACT: The customs and VAT reforms that are going to be introduced GUARANTEE that the entities will receive at least as much revenue as they get from the current system. All the customs revenue collected in RS would be returned to the RS, and automatic mechanisms established for passing VAT revenue to the entities.

MYTH: The inefficiency and fraud in collecting customs and sales-tax in the RS could be tackled without introducing a single customs administration and state-level VAT.

FACT: The RS loses KM 4-500 million every year from customs and sales tax fraud. Money that should be going to you, the citizen, ends up in the hands of criminals. The reason why so much money is lost to fraud is precisely because the divisions in the current customs and sales tax systems make them a playground for criminals.

MYTH : The RS would lose control over the collection of customs and VAT if it agrees to a single administration and state-level VAT.

FACT: The proposed reforms will GUARANTEE a role for the entities in supervising and auditing the customs administration.

MYTH: BiH could join the European Union without introducing a single customs administration and state-level VAT.

FACT: Javier Solana, Chris Patten, the Council of EU foreign ministers, all the EU Ambassadors in BiH have expressed their united view that a single customs administration and state-level VAT are an essential pre-condition for BiH one day joining the European Union. All the countries of the EU have a single customs administration and state-level VAT. All the countries about the join the EU have a single customs administration and state-level VAT. If BiH wants one day to join Europe, it too will have to introduce a single customs administration and state-level VAT.

MYTH: The international community is not united in supporting the introduction of a single customs administration and country-wide VAT.

FACT: The international community has never been more united. The EU supports these reforms at all levels. The United States has said that it supports the introduction of a single customs administration and state-level VAT, and furthermore have said that BiH will have to introduce these reforms if it wants to join the World Trade Organisation. And

the Peace Implementation Council, which includes the Russian Federation, has said they support the introduction of a single customs administration and state-level VAT as a matter of urgency.

MYTH: BiH can attract investment and new jobs without introducing a single customs administration and state-level VAT.

FACT: BiH currently does not have one economy, it has two. When foreign investors look at BiH, they see two separate economic administrations, two separate rules on customs, two separate rules on indirect taxes, two separate bureaucracies. Who can blame them if they decide, as they do time after time, to take their money elsewhere and invest it in countries that have more straightforward and normal systems? And who pays the price? You do, the citizens of BiH, denied the jobs and opportunities that investment brings.

MYTH: Entity level VAT would work as the Entity would keep the VAT it collects

FACT: A VAT system functions differently to sales tax and is charged in each business transaction. Because of this, countries such as Belgium, which have very clearly defined national regions and significant sub national governments operate ONE VAT as two or more would not work. Top officials at the Belgian Ministry of Finance have told us that two VATs under the RS government model would not work.

So when you think about customs and VAT, ask yourself the question:

Why do some of my politicians support a corrupt and divided system that is denying my schools and hospitals money, and denying me and my family jobs? Why do they let criminals get KM 4-500 million each year that should be going to the citizens?

Ask yourself: Is it because they are really looking after my interests? Or looking after their own? (as submitted by the OHR to Blic)