

# **PDHR Donald Hays Inaugurates IC Consultations on VAT and Customs Reform**

The efficient and timely introduction of a state-wide value-added tax (VAT) and the rationalisation of the BiH customs services are crucial in establishing a self-sustaining economy in BiH, Principal Deputy High Representative Donald Hays told a meeting of the Inter-Agency Group – Tax (IAG-T) in Sarajevo on Tuesday. “These reforms are part of a coherent strategy that will begin reversing the trend whereby young talented entrepreneurs choose to leave Bosnia and Herzegovina and pursue their careers elsewhere,” Ambassador Hays said. “We must offer constructive partnership to the domestic authorities to implement these urgent reforms as soon as possible so that citizens will start to reap the benefits as soon as possible.” It was also noted at the meeting that the introduction of VAT and the reform of the customs service would help the process of integrating BiH in European structures.

The IAG-T includes the BiH Central Bank, the World Bank, the IMF, the EC, CAFAO, USAID, GTZ, the US Treasury and the OHR.

The High Representative, Paddy Ashdown, established a working group on VAT, which is chaired by the IMF and OHR, and a working group on customs reform, which will be chaired by the European Commission (including CAFAO). These groups, representing sub-groups of the IAG-T, the main IC forum for taxation-related issues, will lead discussions with BiH leaders on the best way to move forward with effective and speedy reform.

Reform of the revenue system, through the introduction of VAT and further progress on improving the customs system, is one

of the “six tests of seriousness” that the High Representative set for the incoming BiH authorities when he spoke to international investors and economic administrators at the Joint Institutions Building in Sarajevo on 9 October.

BiH and its Entities need revenue. There is an adequate supply. The problem is that the revenue isn't collected. Tax evasion runs into the hundreds of millions of KM. Efficient revenue collection means more money for schools, hospitals, pensions and other social services. The present system of inefficient revenue collection means that these services are not being delivered to citizens.

VAT, introduced – as is the case in EU countries – at state-level, will vastly reduce the scope for tax evasion. At the same time it will significantly increase the spending power of the Entities, which will receive the income from VAT. Rationalisation of the Entity customs services will help eliminate over-manning and systemic inefficiency. Improvements have already been made in customs collection, finalising the customs reform process will bring the BiH customs system up to European standard.