



Improving the Business Environment in BiH

PRESS RELEASE:

Federation Corporate Tax law in focus

FIC's welcomes recent actions taken by the FBiH Government

Tax relief finally granted for profits generated by FBiH businesses in Republika Srpska

Sarajevo, 21.01.2008: The Foreign Investors Council (FIC) welcomes the passing of the new Corporate Income Tax law in Federation BiH (FBiH). The FIC pushed strongly for this in 2007, and is encouraged that as of 1 January 2008 the law is effective. Lowering the rate from 30 to 10 percent brings the FBiH rate into line with the Republika Srpska (RS). In addition to this, there is now double tax relief granted to FBiH companies having suffered tax in relation to business activities in the RS or Brcko district. This is another step in helping BiH to become a smoothly functioning single economic space, and was a key recommendation in the FIC's 2007 White Paper. Mark Davidson, Head of Tax at PricewaterhouseCoopers Sarajevo stated: 'I expect this will strongly encourage the RS to reciprocate.' Under current RS law, no relief is granted to RS companies having suffered tax on business activities in FBiH.

The new law is pro-export. It states that if 30 percent or more of a company's annual income is related to exports, then the company is exempted from Corporate Income Tax. It is also pro-production, permitting a 5 year tax holiday linked to an investment in production activities of 20 million KM.

Similar to the RS, the tax concept of a Permanent Establishment is also now within the law. This brings the FBiH into line with OECD member states and all EU countries. It makes the taxation of foreign investors doing business in FBiH much clearer. Additionally there are grand-fathering provisions for foreign investors previously having qualified for the 5 year foreign investment tax credit, meaning that previously granted incentives will be respected in full. This is also most welcome.

Possible improvements are related to dividends. Under the current law, dividends are to be taxed at 5% when paid abroad. This does not compare favourably with either the RS or Croatia, where dividend withholding tax has been abolished.

Established in 2006 as a non-profit business association, the FIC represents the interests of foreign businesses in Bosnia and Herzegovina. The FIC's objectives are to support improvement of the investment and business environment in the country; and to promote cooperation and an ongoing dialogue between the Council and the authorities in BiH. In 2007, the FIC published the first WHITE PAPER outlining the priority solutions for obstacles to investment and growth in BiH. At the moment the FIC has 22 members and their total investment in Bosnia and Herzegovina exceeds 4 billion KM.

Technical content kindly provided by PricewaterhouseCoopers, a founding member of the FIC.

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Contact:

Ajla Mostarac, Executive Coordinator, Foreign Investors Council, Zmaja od Bosne 4/X, Sarajevo, BiH
Mobile: +387 61 173 918 Telephone/Fax + 387 33 228 015 Email: ajla@fic.ba