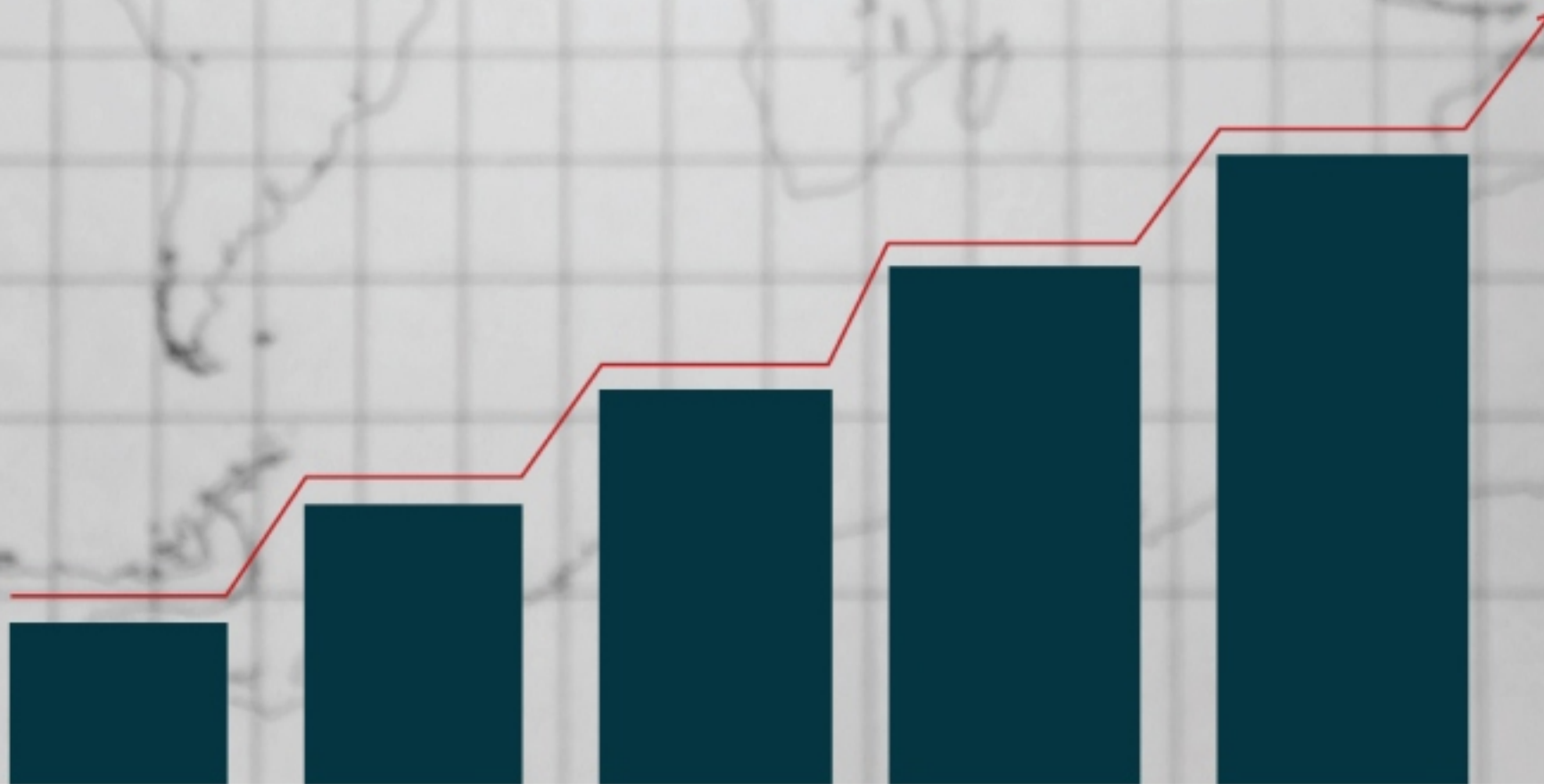




Republic of Srpska
Ministry of Finance
TAX ADMINISTRATION



ANNUAL REPORT 2010

FOREWORD

Dear Reader,

We have the pleasure to present you the second printed version of the RS Tax Administration Annual Report, hoping to see this type of public communication becoming our regular practice in the future.

Being the most important publication of the Republic of Srpska Tax Administration, the Annual Report outlines all the business results achieved in 2010, with respect to our scope of work.

In the year behind us, we were driven by our vision and mission of becoming the leading tax administration in the region and a true service to our citizens, and have endeavored to consistently, impartially, and efficiently collect public revenues.

Publication of the 2010 Report aims is to present our business results to the broader public, in observance of transparency and publicity of our work, all in order to gain more support from the public and thus boost voluntary compliance.

Hopefully, we will have succeeded in this endeavor thus ensuring your future support.

Banja Luka, February 2011

Acting Director
Tax Administration of Republic of Srpska



Mile Banika

TABLE OF CONTENTS

DEFINITIONS AND ACRONYMS..... 3

I RS TAX ADMINISTRATION LEGAL FRAMEWORK AND WORK ORGANIZATION 5

II HUMAN RESOURCES..... 7

III TAXPAYER TREATMENT 10

 3.1. *Taxpayer information and media activities*..... 10

 3.2. *Registered and De-registered Taxpayers*..... 12

IV MAJOR RESULTS OF THE RS TAX ADMINISTRATION 13

 4.1. *Collection of Public Revenues*..... 13

 4.2. *Revenues of Social Insurance Funds*..... 14

 4.3. *Receiving and Processing of Tax Returns*..... 14

 4.4. *Audit, Investigation, and Intelligence*..... 16

 4.4.1. *Field and Desk Audits*..... 16

 4.4.2. *Fiscalization*..... 17

 4.4.3. *Decision Documents on payment of reported due liabilities*..... 18

 4.4.4. *Investigations and Intelligence*..... 19

 4.5. *Minor Offense Procedure*..... 19

 4.6. *Enforced Collection Procedure*..... 20

 4.7. *Agreements on extended payment of debt*..... 21

 4.8. *Balance of debt and overpayments*..... 23

 4.9. *Specific Procedures*..... 24

 4.10. *Tax Certificates Issued to Taxpayers*..... 25

 4.11. *Tax Appeals – First Level of Appeals*..... 25

 4.12. *Refunds, Transfers, and Corrections*..... 26

 4.13. *Information Technologies*..... 27

 4.14. *Common, Administrative, and Financial-Accounting Affairs*..... 28

V UNIFIED SYSTEM FOR REGISTRATION, CONTROL AND COLLECTION OF CONTRIBUTIONS 30

VI INTERNAL CONTROL AND INTERNAL AUDIT 32

VII INSTRUCTIONS AND RULEBOOKS..... 33

VIII COOPERATION WITH OTHER INSTITUTIONS AND ORGANIZATIONS..... 35

CONCLUSION 39

DEFINITIONS AND ACRONYMS

- TARS** - Tax Administration of Republic of Srpska
- TIN** - Taxpayer Identification Number
- TPC** - Taxpayer Card
- JSND** - Unified System for Registration, Control, and Collection of Contributions
- KOR** - Application used for entry of corrections following ex officio procedures
- KUP** - Application used to monitor taxpayer audit procedure
- PN** - Application used for management of enforced collection procedure
- FISKAL** - Support system for fiscal cash register process
- ZIF** - Initial fiscalization request
- IFBK** - Fiscal cash registry identification number
- KOK** - Calculation of final interest
- DRPN** - Application used for management of changes to the enforced collection deposit account
- TAIEX** - EC Technical Assistance and Information Exchange instrument
- ADU** - Republic of Srpska Civil Service Agency
- TAZ** - Regional organization for education, scientific research, improvement of judicial, economic, administrative, and educational institutions and organizations
- ICITAP** - International Criminal Investigative Training Assistance Program
- USAID TARA** - Tax Reform Activity
- IOTA** - Intra-European Organization of Tax Administrations
- SUFI** - System for Financial Information Management
- PFRN** - Registration form for Fiscal Real Estate Register
- ZUPO** - Request for Real Estate Tax Base Reduction
- ECDL** - European Computer Driving License
- SKIOP** - Audit, Investigations, and Intelligence Sector
- KM** - Convertible Mark



I RS TAX ADMINISTRATION LEGAL FRAMEWORK AND WORK ORGANIZATION

RS Tax Administration, being a constituent part of the RS Ministry of Finance, was established in line with the Law on Tax Administration of Republic of Srpska („Official Gazette of RS“, no. 51/01), in effect as of 24 October 2001, which is governing the basis for implementation and pursuance of tax laws and bylaws in Republic of Srpska, and defining tax related minor offences, crimes, and respective sanctions.

In line with the Law on Tax Administration of RS, tax means any payment to the budget of Republic of Srpska, city, municipality and funds, which shall be rendered under tax laws, laws on contributions and laws on fees as well as pursuant to other Laws prescribing charges which is compulsory, non-repayable and not made in exchange for a specific type of goods or service.

To that respect, Tax Administration implements fiscal policy and collects taxes and other public revenues within its competence, in line with tax related laws and international agreements; it provides assistance to taxpayers in fulfillment of their tax obligations; monitors and analyses the functioning of the fiscal system and makes proposals aimed to enhance the fiscal system in RS; cooperates with other state bodies, institutions, and organizations; delivers reports to external users; and provides legal assistance to international bodies in resolving tax related cases.

In line with the Rulebook on Internal Organization and Systematization of

The Law on Tax Administration, with relevant changes and amendments thereto („Official Gazette of RS“, no: 112/07 – consolidated text, no. 22/08 and 34/09) constitutes the legal framework defining the scope of work, organization, method of work, and management of RS Tax Administration, as well as its mandate and responsibility in regards to tax collection and tax records, and safety and confidentiality of collected information.

Tax Administration of Republic of Srpska was established with the main task to consistently, impartially, and efficiently collect public revenues.

Positions in RS Tax Administration („Official Gazette of RS“, no 66/09, 98/09), the following basic organizational units were established: Head Office, Regional Centers, Local Offices, and Temporary Offices.

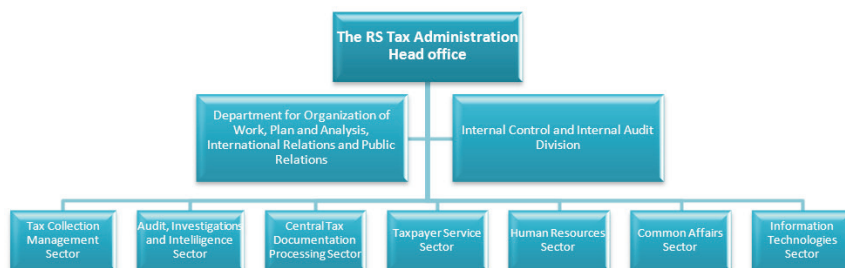
RS Tax Administration Head Office is in charge of coordination, surveillance and control over operations and unified implementation of tax policy, and to that extent, the provision of professional assistance and education to employees at all organizational levels.

The Head Office incorporates the following organizational units:

- ❖ Department for Organization of Work, Plan and Analysis, International Relations, and Public Relations,
- ❖ Internal Control and Internal Audit Division,
- ❖ Audit, Investigations, and Intelligence Sector,
- ❖ Tax Collection Management Sector,
- ❖ Taxpayer Service Sector,
- ❖ Information Technologies Sector,
- ❖ Central Tax Documentation Processing Sector,
- ❖ Human Resources Sector, and
- ❖ Common Affairs Sector.

The following Regional Centers were established, as basic organizational units within RS Tax Administration, with the sector status:

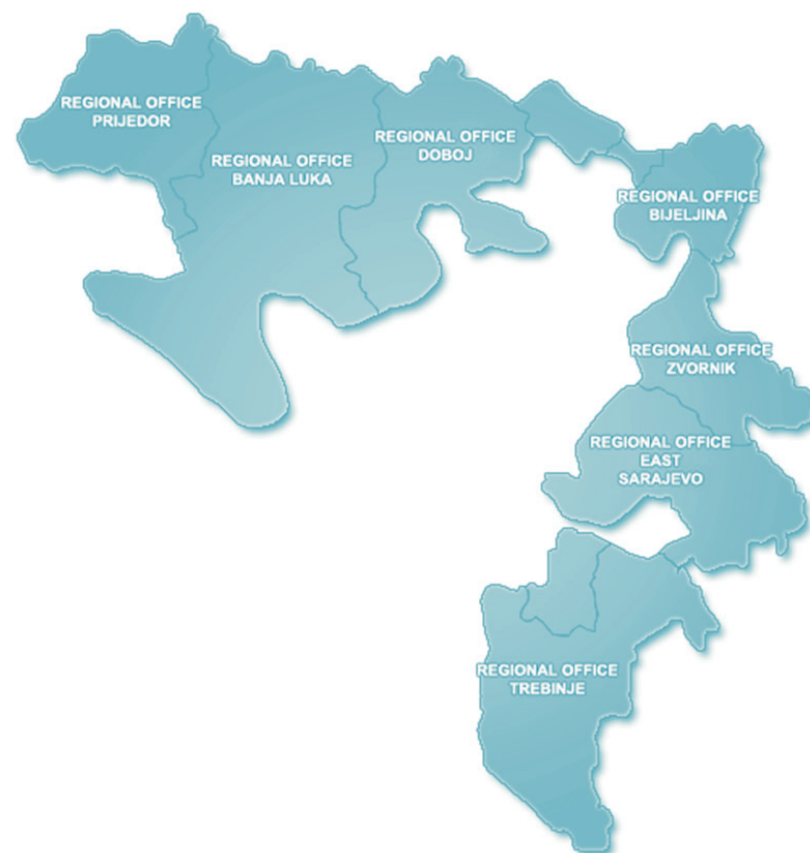
- ❖ Regional Center Banja Luka, seated in Banja Luka,
- ❖ Regional Center Prijedor, seated in Prijedor,
- ❖ Regional Center Doboј, seated in Doboј,
- ❖ Regional Center Bijeljina, seated in Bijeljina,
- ❖ Regional Center Zvornik, seated in Zvornik,
- ❖ Regional Center Sarajevo East, seated in Sarajevo East, and
- ❖ Regional Center Trebinje, seated in Trebinje.



Regional Centers incorporate the following organizational units:

- ❖ Department for Taxpayer Service, Audit, and Collection,
- ❖ Department for Legal and Administrative-Technical Affairs,
- ❖ Local Offices, and
- ❖ Temporary Offices.

Territorial organisation of RS Tax Administration



II HUMAN RESOURCES

Human resources, their creativity, innovativeness, motivation, level of information, and other qualities, constitute the most important success factor in any organization, including RS Tax Administration.

Quality of human resources is the measure of success in any organization.

In line with the current Rulebook on Internal Organization and Systematization of Positions in RS Tax Administration („Official Gazette of RS“, no 66/09, 98/09), 145 positions are foreseen, accommodating 826 staff members. In 2010, RS Tax Administration drafted a Proposal for changes and amendments to this Rulebook, which is expected to be adopted in 2011.

The number of staff employed in TARS as of 31 December 2010 was **787**, including:

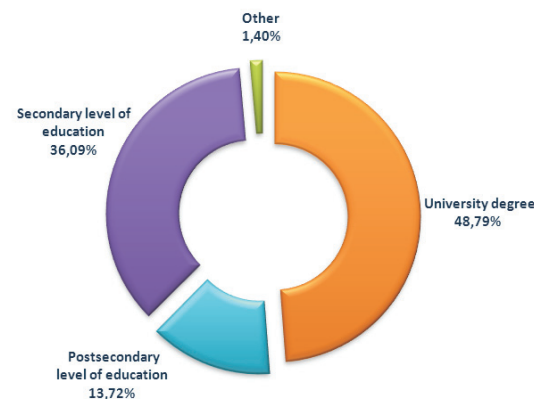
- 744 full-time employees and
- 43 part-time employees.

Educational structure of staff:

- 384 with university degree,
- 108 with postsecondary level of education,
- 284 with secondary level of education, and
- 11 other.

Tax officer must treat data and information obtained through work as professional secret.

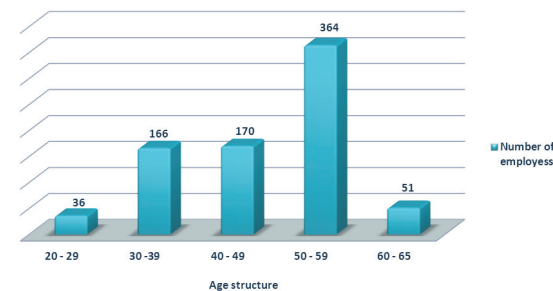
Educational structure of TARS staff



Age structure of staff:

- 4,57% staff are of age 20-29,
- 21,09% staff are of age 30-39,
- 21,60% staff are of age 40-49,
- 46,25% staff are of age 50-59, and
- 6,48% staff are of age 60-65.

Age structure of staff



TARS took part in the **RS Government project for employment of university degree interns**, and in addition to afore-mentioned 787 staff members, we recruited 42 interns in 2010, providing them with an opportunity to gain experience and fulfill the conditions for taking professional exam required for employees of public administration.

Despite the fact that 2010 has seen numerous changes in terms of tax policy related regulations, such as the introduction of the Unified System for registration, control, and collection of contributions, application of Real Estate Tax Law, and Personal Income Tax Law, adding greatly to the volume of work within Tax Administration's scope, we managed to meet all challenges with the current number of staff. Nonetheless, the quality and volume of work will be jeopardized unless positions foreseen in line with the Rulebook on Systematization continue to be staffed (currently, 39 positions are not staffed, including those occupied by part-time workers).

Having recognized employee education as an extremely important aspect in realization of set tasks and objectives, TARS provided its staff a possibility to expand their knowledge and exchange experiences in different segments of tax policy through various types of seminars, trainings, and other similar events.

2010 Training Overview

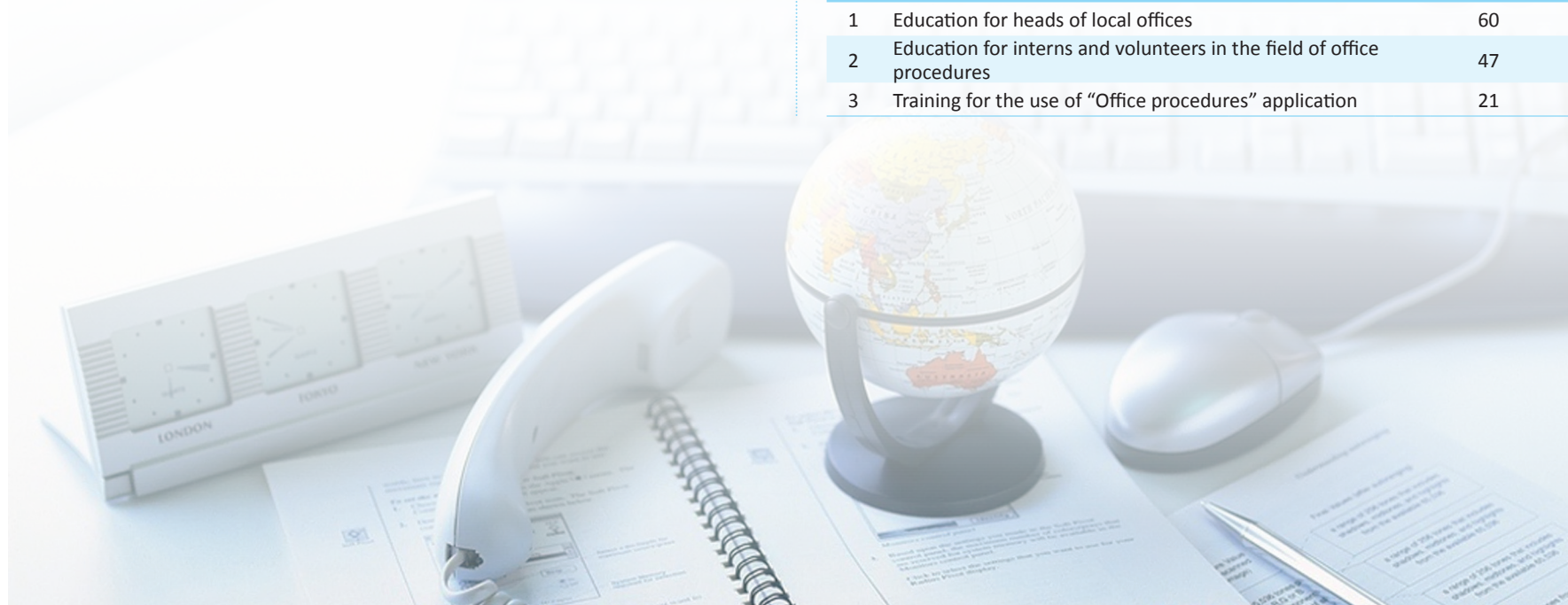
External trainings in line with 2010 Training Plan		Organizer	No. of attendants
1	Financial crime and investigations	RS MoI, TAIEX	1
2	English language	ADU	17
3	Consultation meeting of IT experts	ADU	1
4	Personal information protection	Personal Data Protection Agency	3
5	Profit in insurance companies	USAID TARA	5
6	Individual and collective rights of employees in Republic of Srpska	RS Association for labor law and social protection	1
7	15 th educational seminar for budget beneficiaries	RS Accounts and Auditors Association	2
8	Tax and accounting treatment of provisioning costs for reduction/write off of receivables	USAID TARA	15

9	Mortgage and collateral as warranty for receivables – legislation and judicial practice	TAZ	1
10	Initial steps for EU IPA Funds for BiH	Apriori BiH	2
11	Professional training of administrative staff	BiH Foreign Chamber of Commerce	1
12	Web services, web applications and web services security, PKI	ADU	8
13	Work appraisal and performance management	ADU	9
14	Taxation of non-residents and avoidance of double taxation	USAID TARA	15
15	Microsoft e-government workshop	RS Government Secretariat	3
16	Financial investigations	ICITAP	1
17	Advanced investigations and criminal prosecution techniques for financial crimes, including money laundering	ICITAP, US Dpt. of Justice	6
18	Trafficking and illegal immigration abatement impact group	BiH State Prosecutor's Office, TAIEX	1
19	Training of interns, newly-employed civil servants and employees	ADU	25
20	Synergy 2010	Synergy	4
21	Practical application of Public Procurement Law and procedures	Revicon d.o.o	1
22	New Rulebook on budgetary classifications, contents of accounts, and changes to chart of accounts for revenue beneficiaries of the budget of RS, municipalities, cities, and funds	RS Accounts and Auditors Association	2
23	Continuous professional education for certified accountants and auditors	RS Accounts and Auditors Association	1
24	Linux & FOSS	ADU	3
25	Seminars on public procurements	RS Association of Economists	1

2010 Report

26	Presentation of the "Centralized automated system for online monitoring of games of chance" project	RS Administration for Games of Chance	1
27	IOTA workshops	IOTA	10
Ongoing external trainings			
28	Conversational English language courses	ADU	11
29	French language course	French Embassy and French Center of Culture in BiH, ADU	3
30	Professional exam for protection at work	-	1

Internal educations in line with the 2010 Training Plan		No. of attendants
1	Training on Methodological instruction for tax audit	100
2	Introduction to the new approach in the work of analysts	17
3	Trainings pertaining to JSND	83
4	Fire protection training	184
5	Education of newly-employed civil servants and employees	31
6	Introductory education for interns	42
7	Education pertaining to personal income tax and fiscal real estate register	56
8	Education pertaining to corporate income tax	25
9	Practical work exercise in n clerk offices procedures	42
Internal educations unrelated to 2010 Training Plan		
1	Education for heads of local offices	60
2	Education for interns and volunteers in the field of office procedures	47
3	Training for the use of "Office procedures" application	21



III TAXPAYER TREATMENT

Being an institution in charge of collection of public revenues and implementation of regulations, and provision of services to citizens, RS Tax Administration has the obligation to consistently, efficiently, and impartially implement all laws pertinent to the Tax Administration's scope of work, as well as to improve the quality of services provided to citizens and timely inform the public on all current affairs in the field of tax policy in order to boost voluntary compliance.

3.1. Taxpayer information and media activities

Voluntary compliance constitutes a key factor of a tax system. Higher compliance level reduces the costs of collection of public revenues, and, on the other hand, imposes an obligation for the RS Tax Administration to perceive its role more as that of a service to taxpayers. For that reason, we have made it possible for taxpayers to address us in different ways.

When it comes to taxpayer contacts in 2010, the Taxpayer Services Sector achieved the following results:

Contact	2010 Plan	2010 Actual	2009 Actual	Plan execution	Index 10/09
Personal contact in TARS premises	650	668	959	103%	70
Telephone	7.300	14.485	19.363	198%	75
E-mail	1.000	772	1.546	77%	50
Voice mail	70	70	63	100%	111
Correspondence	400	422	512	106%	82
Thematic meetings	4	8	8	200%	100
Taxpayer seminars	3	3	1	100%	300
Public information in cooperation with TARS spokesperson	1	25	28	2.500%	89
Public notification for 2010 filing season	1	1	1	100%	100
2010 tax calendars	3	3	3	100%	100
Opinion-poll	1	1	1	100%	100

Table above shows that 9.433 various taxpayer services were planned for 2010, whereas 16.458 were realized, namely the plan was exceeded by 74%. Relative to 2009, a decrease is noted of 27%, i.e. 6.027 less services.

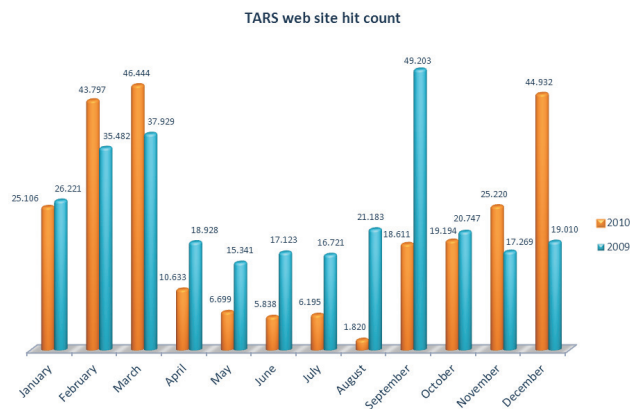
During 2009, significant changes were introduced with respect to the Law on Personal Income Tax and Law on Contributions. In addition, initial deadline for registration of real estate was coming to an end, and start of application of the new Law on Real Estate Tax was near. Due to these changes, interest of taxpayers, as well as contacts with them, were more intense, with larger number of telephone calls coming from taxpayers, more incoming letters and e-mails, and more taxpayers coming to TARS offices.

Since above mentioned changes were well in place by 2010, and the application of the Law on Real Estate Tax was postponed, the interest of taxpayers somewhat decreased, as well as the number of services provided.

In future, TARS will work to shift the basis for taxpayer services from taxpayers' own initiative to TARS initiative through seminars, trainings, target group meetings, and such like.

Throughout 2010, we have worked to improve the quality of services provided to taxpayers through our web site, www.poreskaupravar.org, where we posted, and provided access to, all relevant information pertaining to tax policy.

There were **257.489 hits on our web site** in 2010, with highest count in March, November, and December, which is due to the fact that most citizens' returns are due by the end of the first quarter, and that the deadline for filing tax card request was 27 December 2010.



*Data on web site hits in August 2010 are for 30 and 31 August only, due to changes in the web site hits counting system.

Public notification for tax returns filing was prepared and distributed at the beginning of 2010, as well as the tax calendars for legal persons, entrepreneurs, and natural persons.

Tax Administration needs public support, and for the public to understand our role, responsibility, and function, the work we do remains transparent and rests upon the application of provisions of the Law on Tax Administration of RS and the Law on Freedom of Access to Information.

The 2010 TARS media campaigns focused on information to taxpayers on the Unified system for registration, control and collection of contributions and the obligation of registration of real estate with the Fiscal Real Estate Register (regardless of extension of deadline).

The public was most interested in the following issues:

- Public revenue collection (contributions, CIT, etc.),
- Unified system for registration, control and collection of contributions,
- Fiscalization (audit of fiscal cash register slips and fiscal cash registers maintenance),
- Largest debtors,
- Tax returns (filing deadlines, registration with the Fiscal Real Estate Register, tax cards),
- Reschedules (signed and cancelled reschedule agreements, account blockings),
- Registered and de-registered taxpayers,
- Financial investigations (tax evasions, false tax returns, reports to the Prosecutor’s Office).

#	Media activities per types	2010 Plan	2010 Actual	2009 Actual	Plan realization level	Index 10/09
1	Replies to inquires	115	117	146	102%	80
2	Telephone statements	18	33	51	183%	65
3	Press releases	31	80	65	258%	123
4	Denials	0	1	5	-	20
5	TV/Radio shows	6	35	31	583%	112
6	Notifications	26	122	192	469%	64
7	Interviews	3	18	78	600%	23
8	Public communiqués	17	39	28	229%	139
9	Press conferences	4	3	4	75%	75
10	E-mail replies	21	33	20	157%	165
11	Press articles	63	137	58	217%	236
TOTAL		304	618	678	203%	91

During 253 workdays in 2010, RS Tax Administration staff took part in 618 media activities, i.e. more than two activities per day.



3.2. Registered and De-registered Taxpayers

RS Tax Administration registered 452.496 new taxpayers in 2010 (out of which 1.930 are branch offices of existing taxpayers), whereas 4.175 taxpayers were de-registered.

Taxpayers	Citizens	Legal Persons (with branch offices)	Entrepreneurs	Others*	Total
Registered	426.714	2.803	3.216	19.763	452.496
De-registered	17	1.333	2.172	653	4.175

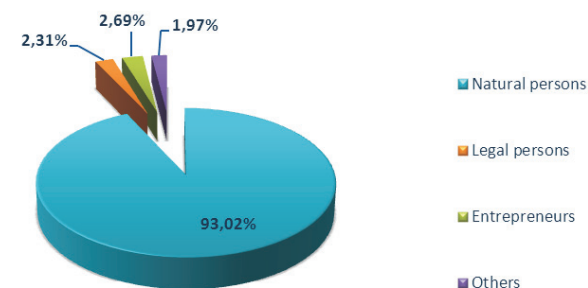
*Ex-officio (de)registration of branch offices of legal persons from FBiH and Brcko District, foreign diplomatic missions, aliens, and non-residents.

In addition, 303 branch offices of companies from Federation of BiH and Brcko District were registered.

Until and inclusive of 31 December 2010, **1.651.222 taxpayers** were registered with the Tax Administration, out of which:

- 1.536.034 citizens,
- 38.165 legal persons with branch offices,
- 44.414 entrepreneurs, and
- 32.609 others.

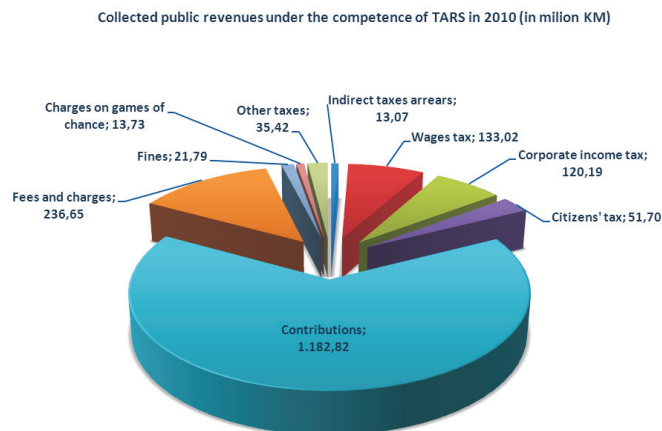
Registered taxpayers as of 31/12/2010



IV MAJOR RESULTS OF THE RS TAX ADMINISTRATION

4.1. Collection of Public Revenues

In 2010, RS Tax Administration collected 1.808.394.389 KM in public revenues. The total amount above includes 15,50 million KM collected in internal debt bonds. The level of realization of the 2010 collection plan is 96%, with increase of more than 3,55 million KM relative to 2009.



Increase in direct taxes collected, relative to the same period last year, is due to the amount of collected charges for organization of games of chance (35%), which again is partially a result of the enactment of the Law on Games of Chance – consolidated text („Official Gazette of RS“, no. 67/10), and of intensified audits of organizers of games of chance.

A 16% increase is also noted in other taxes, again relative to 2009, including 4% in wage tax, and 2% in citizens taxes.

Collection of social contributions is by 1% higher than the year before. However, if we put aside the RS Budget funded portion of Health Insurance Fund, RS Tax Administration collected 27,65 million KM in contributions or 2,5% more than in 2009.

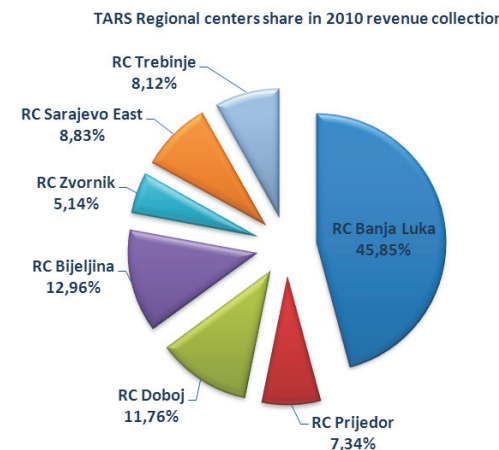
Relative to 2009, collection is 1% lower in fees and charges, and 3% lower in fines.

As for the corporate income tax, 13% less is collected than the year before, partly due to deterrent effects the global economic crisis has had on Republic of Srpska economy in terms of lower profit margins.

Collection of past due liabilities pertaining to indirect taxes, in 2010, is 9% higher than the year before. Out of 13,07 million KM collected in past due liabilities pertaining to indirect taxes 4,79 million KM were covered from internal debt bonds. Collection of this category of public revenues is conditional upon indirect taxes liabilities that were due for payment until the end of 2005.

If looking at the actual collection against the plan, the largest downfall is noted in corporate income tax (83% against planned). Other public revenue categories are at the threshold, with the percentage of actual realization ranging from 92% (charges for organization of games of chance) to 102% (citizens taxes).

When it comes to actual against planned ratio in terms of public revenues collected by RS Tax Administration Regional Centers, the figures range from 92% (RC Trebinje) to 102% (RC Zvornik). Relative to the last year's actuals, the best results were achieved in RC Zvornik (6% higher than in 2009) and RC Prijedor (2% higher than in 2009). As for Regional Centers Banja Luka, Bijeljina, and Sarajevo East, the actuals against planned are at the last year's level, while Regional Centers Doboj and Trebinje collected 1%, i.e. 4% less than in 2009.



Out of 1.808.394.389 KM in public revenues collected by RS Tax Administration, by 31 December 2010, **379, 47 million KM** were allocated via Treasury account to RS Budget.

4.2. Revenues of Social Insurance Funds

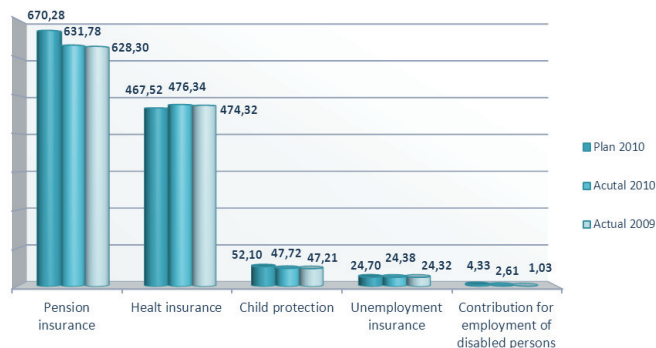
Tax Administration of Republic of Srpska is in charge of assessment, control, and collection of contributions funding the pension and disability insurance, health insurance, unemployment insurance, and child protection. As of 20 March 2009, TARS is also controlling the calculation and collection of contribution for employment of disabled persons.

Total revenues of 1,183 billion KM were collected for social insurance funds in 2010.

Relative to the same period last year, 1%, i.e. 7,65 million KM more were collected in contributions. In breakdown, collection of pension-disability and child protection contribution is 1% higher, whilst health and unemployment insurance remained at the last year's level.

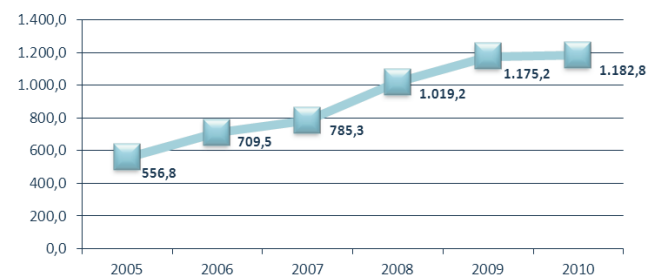
In addition, 2,61 million KM were collected in contribution for employment of disabled persons, which is by 1,57 million KM more than last year; nonetheless, one should keep in mind the fact that the control of calculation and payment of this type of contribution is under TARS competence as of 20 March 2009.

Collected contributions in 2010 (in million KM)



The cumulative 2010 actual against planned ratio for contributions is 97% (individual breakdown: pension and disability insurance 94%, health insurance 102%, unemployment insurance 99%, child protection 92%, and employment of disabled persons 60%).

2005-2009 annual contributions (in million KM)



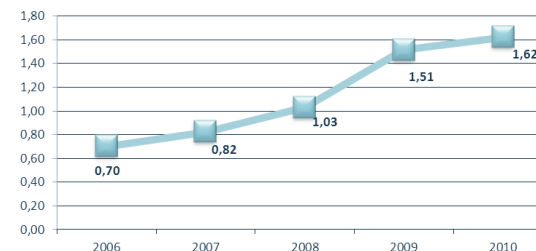
4.3. Receiving and Processing of Tax Returns

Law on Tax Administration introduced self-assessment principle.

Respectively, taxpayers are legally obliged to report their liabilities in line with the procedure and deadlines prescribed under tax laws.

RS Tax Administration received 1.621.010 tax returns in 2010. In order to have a full perspective of increase in volume of received and processed tax returns, suffice it to state that back in 2006 we received 700.210 tax returns, meaning that this figure has more than doubled over the four-year period.

Number of received tax returns in 2010 (in million KM)



2010 Report

The 2010 actual against planned ratio pertaining to receiving tax returns is 78%. Lower ratio is due to extension of filing deadline for registration of real estate with the Fiscal Real Estate Register, causing a downfall in terms of interest of citizens for filing the registration forms.

1.458.201 tax returns have been forwarded to the Central Tax Documentation Processing Sector in 2010, and 1.456.961 were scanned, i.e. almost 100%. Relative to 2010 plan for the Sector, 47% less tax declarations were received and processed and, on the other hand, relative to the same period last year, 39% more tax returns were received, i.e. 37% more scanned.

In addition, 999.233 tax returns were subject to control, out of which 821.501 were controlled by the Sector, thus scoring 93% ratio of actual against planned. Relative to 2009, 16% less tax returns were controlled.

	2010 Plan	Forwarded to Sector in 2010	2010 Actual	2009 Actual	Plan realization level	Index 10/09
Received TR	2.729.052	1.462.355	1.458.201	1.046.759	53%	139
Scanned TR	2.729.052	1.459.138	1.456.961	1.062.809	53%	137
Controlled TR	882.050	873.138	821.501	973.232	93%	84

Tax Base Reduction on the grounds of Annual Personal Income Tax Return (1004)

Pursuant to the Law on Personal Income Tax, taxpayers are entitled to tax base reduction for the amount of paid interest on housing loans and for dependants, i.e. household members not producing any income or with income not exceeding 3.000 KM in 2009. In reference to the afore stated, during 2010 RS Tax Administration received **136.615 requests for tax base reduction/issuing if tax card**.

58.129 returns were forwarded to and processed by the Central Tax Documentation Processing Sector, whereas 57.419 of these returns were entered into SUFI. The **amount of refund approved on the grounds of annual personal income tax return** and entered into the SUFI system (57.419 tax returns) in 2010 is **9.653.288,15 KM**.

Fiscal Real Estate Register

Activities pertaining to registration of real estate with the **Fiscal Real Estate Register** were initiated back in 2009, and the data obtained will be used in real estate market value assessment.

The new Real Estate Tax Law, which will be in application as of 01 January 2012, introduces the *ad valorem* basis of taxation, whereby actual market value of real estate will constitute the basis for taxation. The Computer-Assisted Mass Appraisal Model (CAMA Model) will be used to assess the market value of real estate.

Fiscal Real Estate Registration Forms Overview for 2010

Regional Center	No. of forms entered in protocol	No. of forms entered into software application	Index Forms entered in the system/entered in protocol
RC Banja Luka	50.397	62.021	123
RC Prijedor	26.787	49.851	186
RC Doboј	44.057	34.166	78
RC Bijeljina	23.016	27.360	119
RC Zvornik	63.437	56.063	88
RC Sarajevo East	45.690	84.906	186
RC Trebinje	32.118	25.623	80
TOTAL	285.502	339.990	119

Although the deadline for registration with the Fiscal Real Estate Register was extended until 31 March 2011, RS Tax Administration maintained all the activities aimed at ensuring the current filing level, in order to be fully prepared for the start of application of the respective Law. To that extent, TARS continued the media campaign, throughout 2010, informing the public about the obligation to register their real estate, particularly having in mind that extension of deadline had a deterrent effect in terms of citizens' interest to file the form.

E-filing

RS Tax Administration provides its taxpayers the option to e-file monthly withholding tax returns (MPO-1002). This software application resulted in less manually entered and scanned returns.

156.986 MPO-1002 returns were e-filed in 2010. The total of 165,49 million KM in personal income tax and additional 1,29 billion KM in contributions, were reported in e-forms.

#	Item	2010 Actual	2009 Actual	Index 10/09
1	Number of e-filed forms	156.986	99.799	157
1.a	Number of e-filers	7.083	5.158	137
2	Number of items in e-forms	3.931.723	2.978.290	132
3	Amount of tax reported in e-forms [KM]	165.492.315,37	149.285.465,68	111
4	Amount of contributions reported in e-forms [KM]	1.294.905.460,98	1.003.998.030,60	129

4.4. Audit, Investigation, and Intelligence

4.4.1. Field and Desk Audits

In 2010, RS Tax Administration inspectors were engaged in control of regularity of taxpayers' books and records, filing and payment of obligations, as well as to assessment of tax in line with Article 4 of the Law on Tax Administration of RS.

1.415 field audits were conducted in 2010, out of which 1.000 were pertaining to regular procedure, 74 to repeated procedure, whereas 341 audits were undertaken for taxpayers subject to bankruptcy procedure.

In addition to reported, unpaid liabilities, inspectors assessed additional liabilities in the amount of 46,91 million KM. For unpaid portion of liabilities, inspectors issued decision documents on payment of liabilities for the total amount of 85,41 million KM (principal debt + interest).

Only 7,79 million KM, i.e. 9,12% of total liabilities were paid within the voluntary period stated in the decision documents on payment, issued upon audits.

Following field audits, Tax Administration's auditors have filed 250 minor offence reports for the total amount of 197.196 KM, due to irregularities in operations of audited taxpayers. In addition, 39 requests were filed for initiation of minor offence procedure, whereas 106 appeals were filed against issued decision documents.

In 1.223 field audits, i.e. 86% irregularities were identified pertaining to taxpayers' operations.

Relative to 2009, there were 253 less field audits, however the amount of liabilities paid within the voluntary period was higher by 956.201 KM. The 2010 field audit plan is almost fully realized (95%).

The following table provides an overview of 2010 actual against planned ratio for field and desk audits:

Audit Type	Number of Audits			Plan realization level	Index 2010/2009
	2010 Plan	2010 Actual	2009 Actual		
Field Audits	1.486	1.415	1.668	95%	85
Desk Audits	2.706	1.999	2.665	74%	75
TOTAL AUDITS (1+2)	4.192	3.414	4.333	81%	79

It should be noted that audit plan was prepared in observance of foreseen number of inspector positions. The plan was not met, since not all of the foreseen positions were staffed in line with the current Rulebook on internal Organization and Systematization of Positions in RS Tax Administration ("Official Gazette of RS", no. 66/09). Were it based on current staffing level, the 2010 audit plan would have been realized at the level of 108%, for field audits, and 83% for desk audits.

1.999 desk audits were conducted in 2010.

In addition to reported, unpaid liabilities, inspectors have, in desk audits, assessed additional liabilities in the amount of 2,67 million KM. For unpaid portion of liabilities, inspectors issued decision documents on payment of liabilities for the total amount of 4,63 million KM (principal debt + interest).

2010 Report

239,744 million KM, i.e. around 5% of total liabilities were paid within the voluntary period stated in the decision documents on payment, issued upon audits.

Relative to 2009, there were 666 less desk audits, and the amount of liabilities paid within the voluntary period was also lower by 138.146 KM. The 2010 desk audit plan is realized at the level of 74%.

Following desk audits, Tax Administration's auditors have filed 26 minor offence reports for the total amount of 14.850 KM, due to irregularities identified in operations of audited taxpayers. In addition, 1 request was filed for initiation of minor offence procedure, whereas 50 appeals were filed against issued decision documents.

In 1.434 desk audits, i.e. 72% of cases, irregularities were identified pertaining to taxpayers' operations.

Additional 2,3 million KM were paid in 2010 within the voluntary period, following field and desk audits, and 13 minor offense reports were issued for fines amounting to 27.662 KM.

4.4.2. Fiscalization

In 2008, RS Tax Administration started the implementation of the Law on Fiscal Cash Registers („Official Gazette“, no. 69/07). Objective of the fiscalization process is to equalize the status of all taxpayers, regulate the market in RS, reduce grey economy, increase fiscal discipline, and such like.

2.363 initial fiscalization requests were filed in 2010, and RS Tax Administration issued 3.004 decision documents on fiscalization (one part of decision documents on fiscalization pertain to requests filed in 2009).

Since the start of implementation of the Law on Fiscal Cash Registers until 31 December 2010, TARS issued **42.710 decision documents on fiscalization of taxpayers, whereas 42.682 requests for initial fiscalization were filed** (realization level is 99,93%).

Overview of filed and processed ZIFs in TARS Regional Centers as of 31/12/2010

	B.Luka	Bijeljina	Doboj	Zvornik	Prijedor	Sarajevo E.	Trebinje	Total
Fiscalization requests	18.786	5.832	5.344	2.676	3.922	3.598	2.551	42.710
Decision documents on fiscalization	18.774	5.827	5.344	2.675	3.917	3.594	2.551	42.628
Realized	99,85%	99,91%	100%	99,96%	99,87%	99,89%	100%	99,93%

Inspectors have conducted **14.273 fiscalization related controls**. This figure also pertains to other activities in connection with fiscalization, such as module replacement, de-fiscalization, terminal replacement, change of address, and such like.

848 fiscalization dynamics controls were undertaken in the report period (inspection of filing of initial fiscalization requests), which means that 2010 plan realization level is 86%.

In addition, **9.968 inspections were conducted in reference to recording of sales via fiscal cash registers**, which is 64% more than planned in 2010.

Realization levels of 2010 fiscalization audit plan

Audit Type	Number of Audits			Plan realization level	Index 2010/2009
	2010 Plan	2010 Actual	2009 Actual		
Cash register fiscalization	2.952	14.273	28.142	484%	51
Fiscalization dynamics	984	848	3.998	86%	21
Recording sales via fiscal cash registers	6.084	9.968	3.697	164%	270
TOTAL AUDITS (1+2+3)	10.020	25.089	35.837	250%	70

NOTE: Since fiscalization process was completed in line with deadlines

prescribed in the Law on Fiscal Cash Registers, all activities pertaining to inspection of fiscalization of cash registers, registration of sales of goods and services, and fiscalization dynamics were planned and executed at a lower rate than in the previous year; therefore the 2010/2009 indexes are low. In addition, the lower realization percentage of audit plan for fiscalization dynamics (86%) is due to the fact that emphasis in terms of audits was on recording of sales via fiscal cash registers (plan realization level is 164%) for the reason of insufficient number of staff.

Audit Risk Management

In 2010, the Audit Risk Management Group, operating as a part of the Audit, Investigations and Intelligence Sector, was engaged in the following activities:

WORK DESCRIPTION	2010 Plan	2010 Actual	2009 Actual	Plan Realization Level	Index 10/09
Developing monthly audit plans	96	96	96	100%	100
Collecting and monitoring data related to audit risk	4.192	4.291	4.126	102%	104
Analysis of audit plan realization	136	136	16	100%	850
Preparing internal reports	17	17	8	100%	212

Operational plan of the Department for Large Taxpayer Audit included 160 taxpayers, whereas the audit plan for regional centers included 1.394 taxpayers.

Taxpayer cards analysis was used as the basis for audit plan of TARS regional centers. For the same purpose, a range of other taxpayer reports and data were used: data on registration, business activity type, facilities, number of employees, filed tax returns, income statements and balance sheets for current and previous years, report on fiscalization and regularity of submission of daily reports, as well as the date of last audit.

Taxpayers were proposed for audit on the basis of debt recorded in tax card, failure to pay contributions and taxes on wages, corporate income tax returns for 2009 and advance corporate income tax paid in 2010, and due to errors in calculation of contributions and extraordinary discrepancies in regular operations, with emphasis on taxpayers who produced 1 to 6 million KM income in 2008 and 2009.

In addition, we acted on the grounds of reports received from employees, received anonymous reports, in line with requests of Health Insurance and Pension and Disability Insurance Funds due to irregular payment of contributions, and in line with requests of the RS Tourist Board and RS Inspectorate, and others.

In line with the RS Government Conclusion, the plan also included taxpayers with higher number of employees, as well as those who are irregularly paying contributions and wage tax.

In development of fiscalization dynamics plan, an analysis was made in reference to taxpayers proposed for audit by TA regional centers (969 taxpayers); and all activities pertaining to audit of fiscalization dynamics were completed by 31 March 2010.

4.4.3. Decision Documents on payment of reported due liabilities

6.609 decision documents were issued in 2010 for payment of reported due liabilities (in average, 91 decision documents per employee) for the amount of 47,71 million KM. Out of that amount, 9,10 million KM were paid within the voluntary period, or 19,08% of the total amount due for payment. Taxpayers filed 80 appeals against decision documents issued for payment of reported-unpaid liabilities.

Additional 438.040 KM were collected in reference to 100 decision documents issued in the preceding period with payment deadline still in effect.

Relative to 2009, the number of issued decision documents was higher by 607, whereas 749.690 KM more were collected within the voluntary period.

The table below includes data on decision documents issued for payment of due liabilities, for the period 01.01-31.12.2010/2009, relative to 2010 plan:

	2010 Plan	2010 Actual	2009 Actual	Plan Realization level	Index 10/09
No. of decision documents	7.130	6.609	6.002	93%	110
Paid in due time (KM)	8.091.500	9.538.504	8.788.814	118%	109

4.4.4. Investigations and Intelligence

RS Tax Administration is continuously working to investigate and uncover illegal actions resulting in breach of provisions of the Law on Tax Administration and other laws enforced by TARS; analyses are performed in connection with trends and occurrences related to such cases, and measures proposed for prevention, detection, and sanctioning thereof; investigations were conducted in cooperation with other bodies in RS and Federation of BiH and with competent Prosecutor's Offices, all in line with the provisions of the Criminal Code; and reports were filed to the Prosecutor's Offices in line with the Criminal Procedure Code.

Throughout 2010, inspectors-investigators have worked to investigate facts and collect evidence on potential, tax related offences and criminal acts. Furthermore, they have submitted reports to competent Prosecutor's Offices pertaining to reasonable doubt of criminal act being perpetrated in connection with taxes, all in line with the Criminal Procedure Code; they have also provided data and findings to other organizational units of TARS, and other state and inter-state level bodies.

Out of **16 reports submitted to the Prosecutor's Office**, 12 pertain to existence of reasonable doubt of criminal acts having been committed in reference to abuse of authority in companies, 2 reports pertain to reasonable doubt of criminal acts perpetrated in reference to evasion of taxes and contributions, and 2 pertaining to filing of false tax returns, with **financial damage inflicted to RS Budget amounting to 2.898.633,60 KM**.

Investigations and Intelligence Department issued 50 minor offence reports pertaining to the amount of 30.900 KM.

Competent Prosecutor's Offices have organized 98 meetings where instructions were provided and consultations made on further actions in line with Prosecutor's demands.

111 depositions related to audit findings were taken from suspects and witnesses in the process of audit in companies and in line with the order of the Prosecutor's Office; namely 74 depositions pursuant to the provisions of the Administrative Proceedings Law and 37 depositions pursuant to the Criminal Proceedings Code. In afore mentioned audits 3.795.259,92 KM were assessed in tax liabilities, and 1.617.728,02 KM were collected during the audit process.

4.5. Minor Offence Procedure

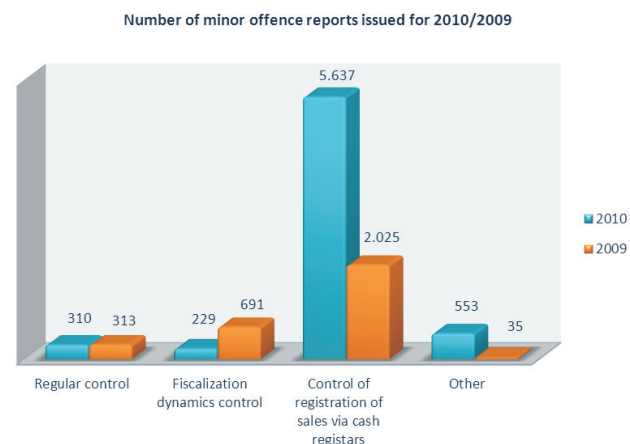
6.729 minor offence reports were issued in 2010 in reference to all procedures arising from the Law on Tax Administration of RS, with penalties stated in the amount of 4,8 million KM. Out of that number 2.209 reports were endorsed, with 896.122 KM collected (808.504 KM within legal deadline and 87.618 KM through enforced collection). 154 requests have been filed for initiating minor offence procedure.

Relative to 2009, the number of minor offence reports was higher by 3.665, and collection was higher by 288.839 KM.

Fiscalization audits in 2010 have resulted in 229 minor offence reports, with fines stated in the amount of 180.500 KM, out of which only 6.129 KM were collected.

Audit of registration of sales via fiscal cash registers in 2010 resulted in 5.637 minor offence reports issued, with fines stated in the amount of 4,14 million KM (out of which 757.333 KM were collected).

Out of the total number of issued reports, 2.307 are still in process (for the amount of fines of 1,78 million KM), i.e. voluntary payment period has not elapsed yet.



4.6. Enforced Collection Procedure

18.802 enforced collections were initiated in 2010 **pertaining to debt amount of 119,20 million KM**. Out of that amount, 11,34 million KM were collected in enforced collection in line with 4.614 decision documents issued in 2010, whereas 3 million KM were collected in relation to 1.632 decisions documents from 2009.

Relative to last year, the number of initiated enforced collections was higher by 7.472, as well as the amount of liabilities collected in these procedures (procedures initiated in 2010 and earlier, based on which collections were realized in 2010), i.e. it was by 2,77 million KM or 16.27% higher than in 2009.

Relative to 2010 plan, there were 6.960 more enforced collection cases initiated, i.e. 59% above the plan, whereas the collection was more than doubled against the plan.

	2010 Plan	2010 Actual	2009 Actual	Plan Realization Level	Index 10/09
No. of EC cases	11.842	18.802	11.330	159%	166
Debt, in line with EC decision documents (KM)	40.384.994	119.201.815	70.356.154	295%	169
Collected (KM)	7.750.843	17.026.742	14.256.124	220%	119

Minor offense reports and court decision documents take up the largest share in the structure of EC cases initiated in 2010, as shown in the table below:

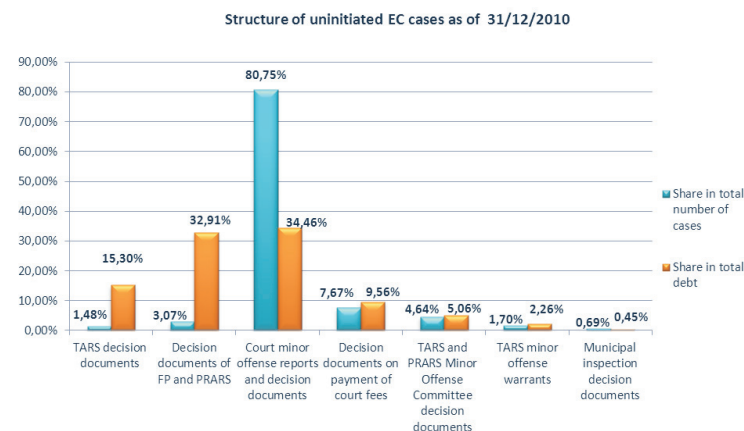
EC case basis	Number	Share in total number of cases
Court minor offense reports and decision documents	12.788	67,84%
Decision documents on payment of liabilities	2.699	14,32%
TARS minor offense reports	888	4,71%
Decision documents on payment of court fees	781	4,14%

TARS decision documents – field audits	723	3,84%
TARS decision documents – desk audits	621	3,29%
TARS and PRARS Minor Offense Committee decision documents	215	1,14%
Municipal inspection decision documents	120	0,64%
Decision documents of FP and PRARS	15	0,08%
TOTAL	18.850	100%

The most frequent measures undertaken, in reference to enforced collection, included seizure of cash (6.986 taxpayers), seizure of movable assets (4.865 taxpayers), account blocking (4.641 taxpayers), and seizure of personal wages (2.406 taxpayers). Five seizures of receivables were undertaken in 2010, and only two seizures of immovable assets.

Enforced collection over tax liabilities in the amount of 55.256.752,61 KM was temporarily suspended as a result of 56 Conclusions of RS Government on suspension. Out of that number, 42 conclusions are still in effect, pertaining to the amount of debt of 40.868.269,77 KM.

Total number of uninitiated EC cases, on 31/12/2010, was 30.603, for the amount of debt of 15,31 million KM, out of which 10.569 cases pertain to RC Banja Luka, with the amount of debt of 7,50 million KM.



Analysis of initiated enforced collection cases, still in process

Pursuant to the order of the acting director general, regional centers were obliged to deliver the list of all initiated, uncompleted enforced collection cases by 30/06/2010, and to continuously report on measures undertaken in regards to 240 largest (in terms of amount of debt) initiated, uncompleted cases in enforced collection, until the 5th of the month for the previous month.

Analysis of the initial, largest 240 cases, per regional centers, (1.680 cases in total with the amount of debt of 246,38 million KM as of 30/06/2010) showed that the most frequently applied measure in enforced collection, as of 30/06/2010, is the decision document on account blocking, which takes the share of over 50% of all measures stated in enforced collection procedure, followed by decision document on seizure of movable assets (around 23%), whereas seizure of receivables is the least used measure.

In the period 01/07–30/11/2010, only 30 cases were closed, wherefrom 731.198,49 KM were collected. Out of that number, 13 cases were fully collected, whereas for 17 cases bankruptcy procedure was initiated, or the taxpayer has signed a debt reschedule agreement.

Information above indicates that the dynamics of processing of these cases is very slow. The amount of debt is still very high, and collection is negligible. In addition, considerable number of taxpayers are either in process of de-registration or inactive. Moreover, large percentage of activities pertaining to verification of taxpayers' movable or immovable assets, or personal wages will not result in enforced collection, since most taxpayers usually have no assets available to cover the debt.

Analysis of Tax Administration burden with minor offense reports and court fees relative to enforced collection procedure

An analysis was conducted in 2010, assessing the level of burden for TA human resources in relation to court fees and minor offense reports in enforced collection, i.e. initiation of enforced collection in line with requests of third parties. Data from the RS Tax Administration 2009 Report and data from 2010 were used in the analysis, as well as data from regional centers prepared for the purpose of the analysis.

Analysis of initiated enforced collections shows a much higher number of uninitiated cases in 2010 relative to 2009. One of the reasons for that is significantly higher number of minor offense reports and court decision documents. Namely, approximately four times more of third-party minor offense reports were submitted in 2010 relative to 2009. These reports constitute almost 79% of uninitiated cases in 2010, nonetheless, they take up only 20% in the total debt amount.

Out of the total of 25.981 initiated enforced collections, for the amount of 154.251.204,82 KM, 14.974 cases pertain to third party minor offense reports (court fees, etc.), i.e. 57,70% (with share in total debt of 5.734.027,14 KM, i.e. 3,71%).

It should be noted that the above analysis was prepared with breakdown as of 31/10/2010, and that by and inclusive of 31/12/2010 there were 30.180 initiated EC cases; 18.653 cases pertain to third party minor offense reports. Therefrom, the number of initiated EC cases pertaining to third party minor offense reports has increased by 3.679 cases over a two months' period.

Above-mentioned facts indicate a trend of further growth of this type of cases in the total volume of EC cases, as well as high level of burden for the enforced collection division staff in terms of court fees and third party minors offense reports, with minimum financial effects on the other hand. The only way to overcome the issue is to use information technologies to the maximum, i.e. create software application, which would automatically produce decision documents for initiation of enforced collections, using own database.

4.7. Agreements on extended payment of debt

Agreements on debt reschedule in line with RS Government Decisions

15,45 million KM were paid in rescheduled debt in 2010, out of which 6,49 million KM were collected from due reschedule installments, 7,78 million KM from internal debt bonds, whereas 722.968 KM of interest were written off.

Total due unpaid liabilities related to all active reschedules amount to 12,10 million KM, with outstanding debt in the amount of 276,67 million KM.

2010 plan realization level for collection of rescheduled debt is 131%.

At the session held on 30/12/2009, Republic of Srpska Government issued a Decision on changes to a Decision on settlement of due tax liabilities allocated to RS Budget, budgets of cities and municipalities and extra-budgetary funds of Republic of Srpska, stating that due tax liabilities eligible for reschedule include all liabilities as of 31.12.2008.

In line with the above-mentioned Decision, 41 Agreements were signed in 2010 on payment of due tax liabilities, for the total amount of debt of 16,74 million KM.

In addition, in case of 26 taxpayers, RS Ministry of Finance issued a conclusion on rejection of requests to extend the payment deadline of due tax liabilities, for the total amount of debt of 12,55 million KM.

Due to taxpayers' failure to pay due installments in line with the agreements, as well as to their failure to pay current liabilities, RS Tax Administration cancelled 46 agreements in 2010, which enveloped 24,32 million KM in tax debt.

Agreements on extension of payment deadline in line with Article 75 of the Law on Tax Administration of RS

70 Agreements on extension of payment deadline have been signed in 2010 (Article 75 Law on Tax Administration of RS – consolidated text, "Official Gazette of RS", no. 112/07) **for the amount of 9,36 million KM**, whereas 12 agreements were cancelled in the same period, for the amount of debt of 1,21 million KM. In addition, remaining debt pertaining to one agreement, in the amount of 1,91 million KM, was approved for reschedule.

These agreements are secured with bank guarantees for the amount of agreements, or with mortgages over immovable assets of another party, in line with the Rulebook on Terms for Extension of Deadline for Payment of Liabilities.

5,14 million KM were collected from 164 agreements (including those signed in the preceding period. The amount of due, unpaid liabilities pertaining to all agreements is 651.161 KM.

Relative to last year, more than double was collected in liabilities arising from Agreements on extension of payment deadline, whereas plan realization rate in reference to these agreements is 173%.

40 legal mortgages have been registered in 2010, for liabilities in the amount of 17.168.963,87 KM, and 11 agreed mortgages for liabilities in the amount of 18.457.683,22 KM.

Analysis of adherence to terms arising from deferred payment of tax liabilities

In reference to the order of the director from 31/03/2010 pertaining to cancellation of agreements on deferred payment of tax liabilities in cases of noncompliance with prescribed terms, an analysis has been conducted of reschedules approved in line with the RS Government Decision, with Article 75 of the Law on Tax Administration of RS (extension of payment deadline), and in line with RS Government recommendations on temporary deferral of enforced collections. It was established that 172 taxpayers have due, unpaid liabilities in the amount of 125.319.132,18 KM.

The following activities were undertaken in reference to the 172 taxpayers enveloped by the analysis:

- 42 taxpayers' accounts were blocked,
- 13 enforced collections were initiated,
- in the period 01/04–04/06/2010, 2,14 million KM were collected (voluntarily and via enforced collection),
- 29 reschedules were cancelled, as well as 4 Agreements signed in line with Article 75 of the TA Law,
- In case of 15 taxpayers, RS Government issued new recommendations on temporary deferral of enforced collection,
- 26 decision documents were issued on debt balance for the purpose of debt settlement using bonds,
- 16 taxpayers applied for reschedule, and 3 taxpayers applied for signing of the Agreement in line with Article 75 of the TA Law,
- 3 new reschedules have been signed,
- 19 decision documents on payment were issued,

2010 Report

- for 12 taxpayers, an executive procedure was initiated for collection of debt against assets,
- 4 audits are in process,
- 1 certificate was issued on offsetting of debts and claims.

In November 2010, new overview was compiled of taxpayers noncompliant with reschedules and agreements, as well as an overview of RS Government recommendations on temporary deferral of payment of tax liabilities. These were delivered to regional centers. Regional centers supplied information on reasons for noncompliance in order to enable the cancellation of reschedules and agreements for noncompliant taxpayers. In the light of above mentioned information, an order was issued instructing the regional centers to initiate enforced collections for all due liabilities, using all legal options and activating all means of securing the collection. The order enveloped 70 taxpayers and the total amount of liability of 67.478.522,72 KM. End of 2011 is the deadline for submitting the information of results of these measures.

4.8. Balance of debt and overpayments

In line with official records of RS Tax Administration, **debt balance on 31/12/2010 was 1.199.873.439 KM and overpayments balance 448.136.757 KM.**

The following table provides an overview of debt and overpayments balance as of 31/12/2010, for all categories:

Balance of debt and overpayments as of 31.12.2010

#	Category	Total overpayments	Total debt
1	Total Liabilities (2+3+4+5)	448.136.756,86	-1.199.873.438,93
2	Reschedules	1.020.180,76	-280.273.261,50
3	Article 75	832.420,36	-4.099.776,93
4	Bankruptcy	5.911.473,79	-261.607.208,15
5	Regular Liabilities (6+7+8+9+10)	440.372.681,95	-653.893.192,35

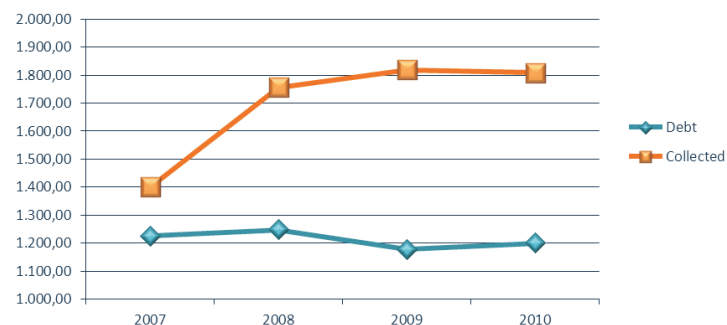
6	Taxpayers in bankruptcy	1.106.365,34	-1.676.196,30
7	Insolvent taxpayers	148.664,11	-79.396.827,30
8	De-registered taxpayers	8.346.546,16	-6.284.896,57
9	Deprived TINs	81.739,33	-30.197.472,25
10	Active taxpayers	430.689.367,01	-536.337.799,93

Comparative overview of debt and overpayments balance as of 31.12.2010/31.12.2009

#	Period of report	Total overpayments	Total debt
1	31/12/2010	448.136.756,86 KM	-1.199.873.438,93 KM
2	31/12/2009	577.728.588,63 KM	-1.129.613.837,36 KM
3	Difference	129.591.831,77 KM	70.259.601,57 KM
4	As percentage	22,43%	6,22%

The above tables indicate a tendency of reduction of total debt by 6,22% relative to 31/12/2009 balance.

Collected public revenues and debts for the period 2007/2010



In addition, total overpayments balance as of 31/12/2010 was lower by 22,43% relative to 31/12/2009 balance. Lower overpayments balance is partially due to **automated "offset" of overpayment cases in the amount of**

1.609.519.713 KM using 4.332 orders for transaction - type OO (overpayment offset) in KPO:

- 190 orders for “offset“ of 440.957.531 KM in overpayments, for types of revenues pertaining to tax returns PP GOP and Form 1002,
- 287 orders for “offset“ of 121.905.977 KM in overpayments, for types of revenues pertaining to other tax returns,
- 3.855 orders for “offset “ of 1.046.656.205 KM in overpayments, for types of revenues not under RS Tax Administration competence in the sense of assessment and control, and not contained in TARS records.

Write-off of receivables pertaining to interest rate

Provisions of Article 4d of the Law on Write-Off of Receivables (“Official Gazette of RS”, no: 32/02, 83/05, and 34/09) prescribe that receivables pertaining to interest rate, with due date on 31 December 2007, shall be written off given that the taxpayer has paid the principal debt no later than 31 December 2009. Based on this Law, **175 decision documents have been issued in 2010 pertaining to write-off of interest related receivables for the total amount of 9,56 million KM.**

Debt reconciliation against bonds

Pursuant to the Decree on payment of tax liabilities with Republic of Srpska bonds (“Official Gazette of RS”, no: 58/09), which regulates the terms and procedure for payment of due tax liabilities ,incurred until 31/12/2007, with Republic of Srpska internal debt bonds, the RS Ministry of Finance issued 263 decision documents in 2010 for payment of debt with bonds, for the total amount of 14.454.341 KM. The decision documents have been forwarded to TARS regional centers for further action.

Out of the total of **435 decision documents, for payment of debt with bonds**, issued by the RS Ministry of Finance in line with the above mentioned Decree, **pertaining to the total amount of 45,42 million KM**, liabilities pertaining to 57 decision documents, i.e. 3,09 million KM were not taken off of the official TARS records (KPO) until 31/12/2010.

4.9. Specific Procedures

Throughout 2010, RS Tax Administration was engaged in activities pertaining to the so-called specific procedures. These included assessment of tax liabilities for taxpayers subject to specific procedures, and reporting on results of initiated and completed procedures

Bankruptcy and Liquidation

For 78 taxpayers bankruptcy procedure has been initiated in 2010. Registered receivables amount to 54,22 million KM, out of which 30,86 million KM were endorsed.

There were no collections in connection with bankruptcy procedures initiated in 2010, whereas 4,7 million KM were collected in reference to 29 previously initiated procedures.

A breakdown analysis was made, for the period of the report, of initiated and completed bankruptcy procedures by regional centers, and an overview was created containing information on dates and numbers of decision documents on initiation/closing of cases, amounts of reported, endorsed and collected receivables, KPO balance, and such like, so that all relevant information pertaining to initiation, management, and closing of bankruptcy cases are made available in one place.

Bankruptcy cases breakdown analysis by regional centers, as of 31/12/2010

#	Regional Center	Bankruptcy cases				Receivables	
		Initiated	Completed	In process	Suspended	Registered	Endorsed
1	Banja Luka	246	158	88	0	148.982.084,54	84.210.931,43
2	Prijedor	58	39	19	0	54.833.908,66	25.488.461,68
3	Doboj	60	28	31	1	42.742.223,09	30.461.568,45
4	Bijeljina	67	41	25	1	39.559.316,90	19.232.012,47
5	Zvornik	58	23	33	2	48.829.064,92	20.223.461,36
6	Sarajevo E.	79	29	49	1	60.993.784,29	20.869.849,93
7	Trebinje	65	18	46	1	26.481.549,66	12.070.440,61
	Total	633	336	291	6	422.421.932,06	212.556.725,93

2010 Report

Since not all tax liabilities can be collected in bankruptcy procedure, RS Tax Administration developed a concept of a decision document by which tax liabilities can be stated uncollectible. All regional centers are to adhere to this procedure.

64 decision documents were issued in 2010 on incollectibility of tax liabilities in connection with bankruptcy procedure, for the amount of 15,61 million KM. No decision documents were issued on incollectibility due to limitation of liabilities.

In 2010, liquidation procedure has been initiated for 251 taxpayers. The amount of registered receivables was 3,36 million KM, out of which 1,31 million KM were endorsed.

For liquidation procedures initiated in 2010, and in previous period, the total of 80.482,06 KM was collected.

Insolvency

69 taxpayers were declared insolvent in 2010, with 32,66 million KM of temporarily uncollectible liabilities.

42 drafts of insolvency decision documents were reviewed in 2010, for liabilities in the amount of 15,36 million KM.

4.10. Tax Certificates Issued to Taxpayers

Tax Certificates

Tax Administration issued **48.304 tax certificates in 2010**. In addition, 278 Conclusions were issued on rejection/suspension of tax certificate requests.

Total amount received in the process of issuing of tax certificate was 13,26 million KM, out of which 12,97 million KM pertain to tax certificates issued to legal persons and entrepreneurs, and 288.173 KM to tax certificates issued to natural persons/citizens.

112 staff members were engaged in the process of issuing tax certificates (at TARS level, in average, 431 tax certificates were issued per employee).

Additional 32.244 tax certificates were issued in 2010 for other purposes, out of which 4.380 pertain to data form the Unified system for registration, control, and collection of contributions, and 27.864 to other sources (child allowance, and such like).

2010 actual against planned ratio, in terms of issuing of tax certificates, is 117%, and relative to 2009 the amount of issued tax certificates was higher by 9.779 (14%).

Planned vs. issued tax certificates in 2010

	Number of certificates			Plan realization level	Index 10/09
	2010 Plan	Issued in 2010	Issued in 2009		
Legal persons	8.770	10.640	7.928	121%	134
Entrepreneurs	3.800	3.009	2.542	79%	118
Natural persons	56.037	66.899	60.299	119%	111
TOTAL	68.607	80.548	70.769	117%	114

Certificates issued in reference to TIN

4.262 requests were filed in 2010 pertaining to de-registration of TINs (including 5.921 open cases from the previous period). 2.611 certificates were issued on TIN de-registration (466 for legal persons and 2.145 for entrepreneurs). Lower number of issued TIN de-registration certificates could be explained by the fact that all tax liabilities must be paid in full before a certificate can be issued to taxpayer.

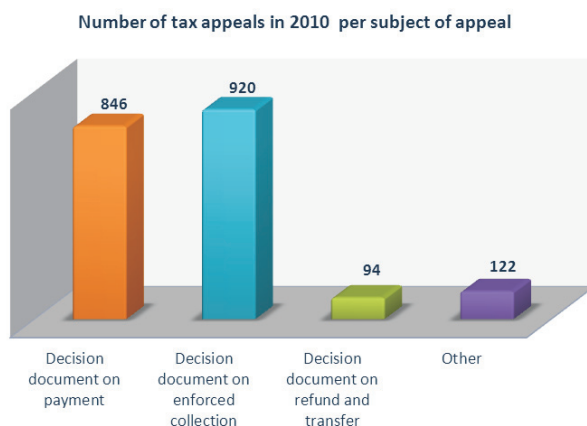
To that respect, 689.707 KM were collected in regular procedure, whereas 48.928 KM were recovered from enforced collection.

4.11. Tax Appeals – First Level of Appeals

Regional Centers received 1.747 appeals in 2010, pertaining to all procedures in connection with the Law on Tax Administration of RS. Out of that number, 125 were dismissed, 98 decision documents were superseded, and 1.447 appeals have been forwarded to Tax Appeals Board. There were 27 waivers of appeal.

In addition, when it comes to cases from the previous period, out of 235 filed appeals, 20 were dismissed in 2010, 8 were superseded, and 199 were forwarded to Tax Appeal Board. There were 5 cases of waiver of appeal.

A conclusion follows that during 2010, 1.982 appeals were processed (1.747 filed in 2010, and 235 filed in the preceding period).



Out of the total number of appeals addressed in 2010, 920 were stated against enforced collection decision documents, and 846 against tax payment decision documents (reported-unpaid and assessed liabilities).

In conclusion, 46% of appeals pertain to enforced collection decision documents. The reason behind higher number of appeals stated against this type of decision documents is in increased number of enforced collection cases/decision documents relative to the year before.

Reasons for stating appeals against enforced collection decision documents include the following:

- inability to pay,
- improperly served decision document on payment,
- expiry of payment deadlines.

Out of the three above-mentioned reasons, improper serving of decision document on payment constitutes a very frequent reason for annulment of decision

document on enforced collection. Improper serving is primarily due to serving being made to the last known address of a taxpayer (Article 18 of the Law on TARS) and the fact that this is considered as basis for execution of payment. District courts have by rule, in administrative-court proceedings, annulled improperly served decision documents, and this practice was also adopted by the second level of appeals.

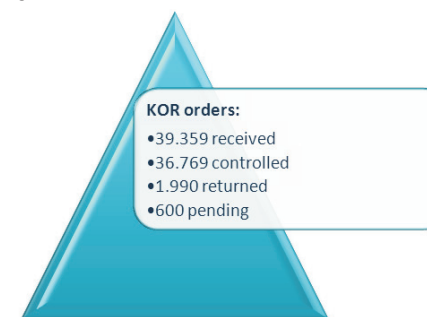
4.12. Refunds, Transfers, and Corrections

Central Tax Documentation Processing Sector performs data entry into the System for Financial Information Management (SUFI), creates forms, in line with the Instruction on the format, contents, and method of completion of forms used in treasury operations of the budgetary beneficiaries ("Official Gazette of RS", no. 86/02, 5/03, 109/03, and 117/05), and creates entry notifications.

2.843 executive decision documents have been entered into the SUFI in 2010. In addition to this, SUFI is also used to record tax refunds approved and paid on the basis of Form 1004-Annual Personal Income Tax Return. In 2010, 57.419 decision documents on personal income tax refund were entered into SUFI.

TARS processed 38.759 orders in 2010, whereby various transactions were recorded pertaining to corrections arising from administrative and other procedures.

Processing of transactions implies formal and substantial review of documents pertaining to corrections, including regularity and analysis of data in relation to status of records. This activity is much more time consuming than review of tax returns.



4.13. Information Technologies

Last year was a very dynamic one for Information Technologies Sector in terms of design and redesign of software applications, maintenance of IT system, and other activities. In addition to regular and planned activities of the Sector in 2010, several additional projects were undertaken as a result of new legislation being issued, as well as due to other, external factors influencing the work of Tax Administration

The focus in 2010 was on the following six tasks:

1. completion and optimization of software applications (PPO, Fiskal, DRPN, PP, PP-KV, KOR, TP Register),
2. implementation of the Unified system for registration, control, and collection of contributions, including the upgrade of current software linked to JSND,
3. development and consolidation of server system (virtualization of support and service servers) and implementation of Active Directory security infrastructure,
4. preparations for relocation of TARS Head Office, RC Banja Luka and LO Banja Luka,
5. support to implementation of legislative changes pertaining to TARS' scope of work,
6. reconstruction of intranet WEB page reporting system.

Development and maintenance of software applications

Largest efforts were invested in optimization of **software for entry and processing of tax returns**, where several interventions were made to improve the speed of processing of returns. Amongst other things, entry and review of Form 1002 was enabled, changes were made to the processing of ZPK-1001, as well as several corrections to PPO. New instruction was prepared for processing of MPO-1002, which is expected to increase the level of quality of input data, which in turn should yield multiple positive effects in terms of processing of these tax returns.

During 2010, significant changes were introduced to **TP Register software**, since new forms had to be implemented as well as the provisions of the new

Rulebook on Registration and Identification of Taxpayers ("Official Gazette of RS", no. 25/10), all in order to support the Unified system for registration, control, and collection of contributions. In addition, TP Register was updated with CIPS data and VAT taxpayer data, whereas the taxpayer subtype codes were expanded to accommodate taxpayers outside of RS.

KOR application also endured several changes in the sense of creation of new and updates of existing KOR orders. In addition, automated recording of corporate income tax advance to taxpayers' accounts was enabled for taxpayers who failed to file the form APD-1104 in 2010, whereas the browsing of entry documents was accelerated using the number of order.

To finalize the **DRPN software, data warehouse** was created, which is a new and alternative way of reporting, more adapt to high volume data systems. The plan is to use the concept for all report types, i.e. *data warehouse* structures should be the basis of all TARS reports, which will result in better consistency.

During 2010, and in reference to **fiscalization process**, a report was posted to MIS on wholesale cash register data; several reports were created for the RS Ministry of Finance; access was enabled to applicative reports contained in maintenance software; and services were provided to taxpayers regarding information on submission of daily reports.

New web service was created for external users (High Judiciary and Prosecution Council of BiH) to provide information on employers. Several other external institutions have expressed interest in this service, such as the RS Investment-Development Bank and RS Inspectorate, and we will work to accommodate this demand in future.

Besides in-house developed solutions, the following software was taken over from external suppliers in 2010:

1. Clerk(office) operations (supplier: E-INFO Banja Luka),
2. HR Records (supplier: Mediapro-Line Prijedor),
3. Salary calculator (supplier: Mediapro-Line Prijedor),
4. Procurement monitoring module (sub-module to SUFI, used by RS Treasury).

Development and maintenance of system and communication infrastructure

When it comes to system and communication infrastructure maintenance, most time was invested in establishment and maintenance of JSND system infrastructure. To that extent, several interventions were made, independently and in cooperation with the USAID ELMO staff and other project stakeholders.

In addition to that, the following activities were undertaken:

1. establishment and maintenance of JSND system infrastructure and reorganization of current resources (including server room),
2. completion of activities pertaining to implementation of AD infrastructure in all TARS regional centers,
3. migration of local network in the Head Office and RC Banja Luka to new IP address location aiming to provide long-term solution to IP address issue,
4. installation and start of operation of new data-center system with VMWARE virtual environment and migration of most production and database servers to new platform,
5. needs analysis and preparation for procurement of Kaspersky Antivirus software,
6. external WEB site was transferred from BLIC-server to our local server, and page code migrated from php to net technology,
7. activities pertaining to relocation of TARS Head Office, RC Banja Luka, and LO Banja Luka,
8. preparations for migration to new MS Exchange Server based e-mail platform in Hyper-V environment,
9. external access to TARS network was enabled for institutions requiring reports available on TARS intranet,
10. system solution using logon/logoff scripts for back-up of important documents kept on local PCs for TARS employees,
11. preparation for procurement and distribution of new GPRS modules for mobile access to TARS network.

New section was posted on internal/external site to monitor the filing process of PD returns. In addition, English language version of our external WEB page was developed, and new content was posted, such as media calendar.

During 2010, important activities were initiated in regards to procurement of integrated information system for TARS, based on globally accepted solutions.

Pursuant to RS Government Conclusion no. 04/1-012-2-1372/09, dated 16/07/2009, preparations were undertaken in the sense of obtaining the consent for expenditure of funds and of positive opinion from the Republic of Srpska Information Society Agency, whereby a "Committee was established to develop tender documentation and implement procurement procedure for integrated information system based on modern, globally accepted solutions, for the needs of Tax Administration of Republic of Srpska". This Committee completed most of the preparatory activities in 2010, whereas finalization is expected in 2011.

Procurement of integrated information system will run in four phases. RS Tax Administration obtained consent from RS Government in reference to the plan of expenditure of capital investment funds for the first phase of procurement, which will be realized using the enforced collection deposit account funds.

4.14. Common, Administrative, and Financial-Accounting Affairs

To ensure undisturbed functioning of all its organizational parts, RS Tax Administration also deals with general, administrative and financial-accounting affairs.

2.591 legal documents were produced in 2010 in reference to legal affairs in the field of labor, contractual obligations, and administrative affairs:

- 1.135 decision documents,
- 144 certificates,
- 453 contracts, and 3 annexes to contracts,
- 128 notices,
- 118 authorizations,
- 4 appeals and legal claims,
- 606 other documents (statements on appeals, decisions, etc.).

Budgetary Expenditure

The level of 2010 RS Budget funding approved for RS Tax Administration was in the amount of 20.490.000,00 KM, including reallocations, with salaries and allowances portion amounting to 16.586.000,00 KM, and 3.904.000,00 KM in material costs.

Since relocation of RS Tax Administration to new premises, which occurred at the beginning of October 2010, was not taken into consideration during planning and issuing of the 2010 Budget, reallocations were made, from accounts in which savings were achieved in 2010, to the lease account.

Breakdown of approved and operational budgetary funds in 2010

#	Description	2010 Budget	2009 Budget Rebalance	Index 10/09
611100	Gross salaries	16.258.000	17.716.000	92
611200	Salary allowances	650.000	651.000	100
612100	Allowance taxes and contributions	150.000	183.000	82
613100	Travel costs	44.700	91.000	49
613200	Electricity	372.800	405.000	92
613300	Utilities	708.400	730.000	97
613400	Office/material supplies	326.000	700.000	47
613500	Fuel and transportation	104.700	125.000	84
613600	Property and equipment lease	1.510.000	1.465.000	103
613700	Maintenance	129.800	155.000	84
613800	Insurance and bank fees	60.000	68.000	88
613900	Contracted services	175.600	185.000	95
613000	Total material costs	3.432.000	3.924.000	87
821300	Capital expenditures	0	0	-
TOTAL EXPENDITURES		20.490.000	22.474.000	91

In line with the RS Ministry of Finance Instruction, a 2011-2013 mid-term plan was developed, as well as 2011 budgetary request.

V UNIFIED SYSTEM FOR REGISTRATION, CONTROL AND COLLECTION OF CONTRIBUTIONS

As part of the pension system reforms in Republic of Srpska, on 01/01/2010 Tax Administration initiated the implementation of the new **Unified system for registration, control, and collection of contributions (JSND)**.

The system represents the continuation of efforts of the SITAP Project initiated by the World Bank to improve and increase the efficacy of control and collection of taxes and contributions. In realization of the project, we have relied upon already developed procedures and technology for processing of tax returns, developed by TARS in past years, whereas USAID donated certain equipment and provided funds for development of applicative software.

In view of support to JSND, software application was developed in 2009 for entry and control of PD forms, including multiple corrections and amendments to it; in addition, employees and taxpayers were trained/educated respectively. **Law on Changes and Amendments to the Law on RS Tax Administration** ("Official Gazette of RS", no. 34/09), as well as **Rulebook on registration with the Unified system of registration, control, and collection of contributions** ("Official gazette of RS", no. 110/09, 78/10) were issued in 2009 and served as legal grounds for application of the Unified system. The Rulebook establishes the manner and the procedure for filing registration forms for entry of data and registration with the Unified system, the procedure for assigning the personal identification number (LIB) to contribution payers, the procedure for change of data of contribution payers, as well as the procedure for de-registration and change of status of contribution payers.

The essence of the new system for collection of contributions is the fact that RS Tax Administration took over the procedure of registration of employers and contribution payers, and the control of reported and executed payments of contributions, and also continued with collection of existing debt, whereas extra-budgetary funds continued to provide services and payments to their beneficiaries. To that extent, RS Tax Administration developed the unified database containing all relevant data and enabling exchange with extra-budgetary funds.

Advantages of the Unified system for registration, control, and collection of contributions

Employees:	Employers:	RS Tax Administration:	Extra-budgetary funds:
<ul style="list-style-type: none"> • Better discipline of employers in terms of payment of contributions • Employees will receive information, on annual level, on all contributions paid in the previous year 	<ul style="list-style-type: none"> • Simplified registration procedure for employers and employees • Time and money savings 	<ul style="list-style-type: none"> • Improved collection of contributions for social insurance • Additional data available to improve control of collection of contributions 	<ul style="list-style-type: none"> • Improved collection of contributions for social insurance • More emphasis on rights and funding of rights associated to contributions

Start of application of JSND encountered certain problems related to technical functioning of the system, non-elaborated procedures, cooperation with other institutions involved in the process (RS Pension-Disability Insurance Fund, RS Health Insurance Fund, RS Public Child Protection Fund, RS Employment Bureau), as well as staffing and organizational problems within TARS.

All possible measures and activities were undertaken during the first quarter of 2010 to eliminate the above-mentioned problems. Several trainings were organized for TARS staff, as well as for taxpayers, which yielded certain results, so the implementation of the reform entered a somewhat more stable phase during the second quarter of 2010.

We will strive to improve the established system in the forthcoming period, especially in the sense of exchange of data between institutions involved in the process, as well as to enable e-filing for PD forms. At a later stage, activities should be undertaken to enable the possibility to issue automated annual certificates on paid contributions. Nonetheless, a need is evident even now for issuing of variety of certificates, which were until now issued by the Funds. The plan is to achieve these goals by mid-2011.

2010 Report

Since JSND is integrated into TARS system, the focus in 2010 was on analysis and optimization of JSND system processes in the sense of full integration thereof with TARS information system, in order to achieve full efficiency. This objective is almost accomplished.

Receipt and processing of JSND forms

173.097 JSND related forms were received in 2010 (PD 3100, PD 3110, PD 3120, PD 3210), whereas 168.458 (97,32%) were recorded into PD form entry and review application. The above percentage of entered forms indicates a high level of promptness of tax officers in TARS local offices, regardless of increased workload due to start of application of JSND.

The following table provides an overview of received JSND forms in 2010:

Tax Return	Received in 2010
PD 3100 – Registration/change/de-registration of contribution payment	155.069
PD 3110 - Registration/change/de-registration of individual contribution payment	14.834
PD 3120 – Registration/de-registration of contribution payment in relation to specific circumstances	2.815
PD 3210 – Request to deregister contribution payer	379
TOTAL	173.097



VI INTERNAL CONTROL AND INTERNAL AUDIT

Internal Control and Internal Audit Division performed **43 internal controls** in 2010 (35 in Regional Centers, 2 in Local Offices, and 6 in Head Office Sectors). **One internal control** was conducted in reference to application of the Rulebook on Internal Control Procedures in RS Tax Administration. The audit identified several omissions in terms of application of the above-mentioned Rulebook, in all organizational parts of TARS. Consequently, certain recommendations were provided in the minutes to eliminate the omissions.

Upon completion of controls, the Internal Control and Internal Audit Division prepared 13 findings – internal control reports. Ten of these reports established

irregularities in operations. Disciplinary procedure was initiated on the grounds of one finding, whereas two findings were developed upon request of the RS Ministry of Finance and District Prosecutor in Bijeljina.

Significant number of taxpayer complaints was received in 2010, addressing the internal control with various issues, most frequently in relation to alleged unprofessional conduct of Tax Administration's staff in tax refund cases and in issuing tax cards. Managers in competent organizational units were informed about all complaints.



VII INSTRUCTIONS AND RULEBOOKS

Whole range of legal and general documents applied in RS Tax Administration operations were issued in 2010, as follows:

1) Manuals and Instructions:

- **Manual on Planning and Reporting on RS Tax Administration operations** was developed to enable uniform practice in development of plans and reports, providing comprehensive information on RS Tax Administration performance and better definition of tasks and activities in the forthcoming period;
- **Manual on Procedures for Development and Exchange of Reports via TARS Intranet**, defines the procedure for development and exchange of reports via TARS intranet, the responsible parties in the process of development and exchange of reports, as well as standardization of reports in terms of format and contents;
- **Manual on TIN De-registration Based on Cessation of Business Activity**, prescribes unified practice and operations undertaken in the process of deregistration of taxpayer identification number due to cessation of performance of business activity and in line with the written request of the taxpayer;
- **Official Instruction on filing and completion of monthly withholding tax return - Form 1002** ("Official Gazette of RS", no. 118/10) regulates the procedure of filing and the manner of completion of monthly withholding tax return;
- **Official Instruction on filing of tax return for miscellaneous charges - PP-ON** ("Official Gazette of RS", no. 111/10 and 115/10) regulates the procedure and deadline for filing and the manner of completion of tax return for miscellaneous charges.

2) Other Instructions:

- Internal Instruction on application of the Decision on the manner of settlement of due tax liabilities;
- Internal Instruction on practice applied in determination of taxpayer status, i.e. "inactive", in records on registered taxpayers;
- Internal Instruction on entry of municipality data for natural persons - aliens, in cases where 000 code – unknown municipality, was entered during registration process;
- Internal Instruction on application of the Decree on settlement of tax liabilities through RS bonds, in reference to settlement of rescheduled tax liabilities using RS bonds
- Internal Instruction on corrections to daily reports;
- Internal Instruction on achieving higher level of promptness in daily operations and tasks in reference to faster processing of all tax base reduction request;
- Internal Instruction on practice pertaining to uninitiated enforced collection cases, in case of expiry of deadlines, starting from the date of enforceability of the payment decision document, as prescribed in Article 94 of the Law on Tax Administration of RS;
- Internal Instruction on assessment of corporate income tax advance for taxpayers having declared less corporate income tax advance in 2010 relative to 2009;
- Official Instruction on application of Rulebook on terms for extension of deadline for payment of liabilities ("Official Gazette of RS", no. 10/02);
- Internal Instruction on the process of de-registration of contribution payers from the Unified system for registration, control, and collection of contributions;

- Internal Instruction on offset of overpayments of contributions;
- Internal Instruction on offset of overpayments of taxes, fees, and charges;
- Internal Instruction on real estate tax collection;
- Internal Instruction for LOs on procedure pertaining to monthly withholding tax returns, Form 1002, returned after review conducted by the Central Tax Documentation Processing Sector;
- Internal Instruction for LOs on procedure pertaining to requests for issuing tax card for 2011.

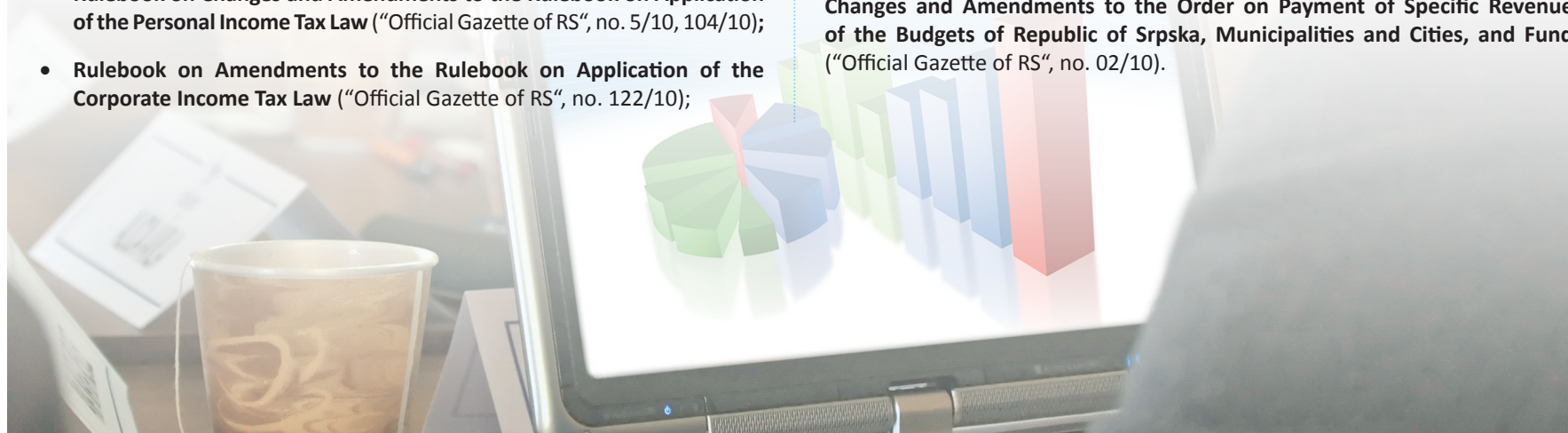
3) Rulebooks:

RS Minister of Finance enacted several Rulebooks in 2010, with active support of RS staff in the process of development thereof:

- **Rulebook on Registration and Identification of Taxpayers** (“Official Gazette of RS”, no. 25/10), governs the procedure for registration, recording, and identification of taxpayers, as well as the procedure for de-registration and depriving of the taxpayer identification number;
- **Rulebook on Changes and Amendments to the Rulebook on Application of the Personal Income Tax Law** (“Official Gazette of RS”, no. 5/10, 104/10);
- **Rulebook on Amendments to the Rulebook on Application of the Corporate Income Tax Law** (“Official Gazette of RS”, no. 122/10);

- **Rulebook on Amendments to the Rulebook on Registration with the Unified System for Registration, Control, and Collection of Contributions** (“Official Gazette of RS”, no. 78/10);
- **Rulebook on Changes to the Rulebook on Calculation and Recording of Winnings from Games of Chance** (“Official Gazette of RS”, no. 110/10);
- **Rulebook on Terms and Manner of Organization of SMS Betting and On-Line Games of Chance** (“Official Gazette of RS”, no. 116/10), prescribes the facility related and technical conditions and the manner of organization of SMS betting and on-line games of chance, the procedure for registration and identification of players, the processing of incoming and outgoing payments for SMS betting and on-line games of chance, conditions pertaining to software and hardware support, as well as to surveillance, security principle, and liability of organizers.

In addition to above-mentioned documents, **Law on Changes and Amendments to the Law on Games of Chance** was issued in 2010 (“Official Gazette of RS”, no. 53/10), as well as **Corrections to the Law on Games of Chance – consolidated text** (“Official Gazette of RS”, no. 62/10), **the Law on Games of Chance – consolidated text** (“Official Gazette of RS”, no. 67/10), and the **Order on Changes and Amendments to the Order on Payment of Specific Revenues of the Budgets of Republic of Srpska, Municipalities and Cities, and Funds** (“Official Gazette of RS”, no. 02/10).



VIII COOPERATION WITH OTHER INSTITUTIONS AND ORGANIZATIONS

Significant portion of RS Tax Administration activities pertains to cooperation with international organizations and active involvement in their projects undertaken in Republic of Srpska. Respectively so, Tax Administration of Republic of Srpska had a very fruitful cooperation with, primarily, other tax administrations in the region, with US Treasury, USAID, IOTA, and other institutions and organizations. This cooperation, entailing a whole range of seminars, workshops, and case studies, as well as engagement of experts in various fields, enabled us to stay current with all key reforms in the fiscal system.

Cooperation with the Intra-European Organisation of Tax Administrations (IOTA)



Tax Administration of Republic of Srpska was accepted as a full member of the Intra-European Organisation of Tax Administration (IOTA) at the 8th IOTA General Assembly held 14 – 16 June 2004 in Prague, and since then has been actively participating in all events facilitated by this Organisation.

IOTA's mandate is to provide a forum for exchange of tax policy related information and experiences between member states, as well as to promote cooperation between tax administrations.

The following activities were realized in line with the agreed plan of cooperation with IOTA in 2010:

- Initial meeting of the Human Resources Area Group,
- 15th and 16th Principal Contact Persons Forum,

- Two regular meetings of the Large Taxpayer Treatment and Audit Area Group,
- Workshop on Audit Risk Management,
- Workshop on Tax Treaties,
- IOTA General Assembly,
- Regular meeting of the Human Resources Area Group,
- Workshop on IT Solutions in Tax Administrations,
- Workshop on Tax Gap.

In addition to that, 20 technical enquires were received from other tax administrations, IOTA members, pertaining to the following:

- TA competence over collection of different types of public revenues,
- Tax evasions and sanctioning thereof,
- Taxation of winnings from games of chance,
- Registration of cash sales,
- Performance measurement – indicators, methods, and techniques to measure performance of inspectors,
- Tax administration reorganizations (merging with other institutions),
- Tax base reduction and other benefits pertaining to personal income tax,
- Legal provisions pertaining to depreciation (depreciable property, the base, the method, etc.),
- Legal provisions pertaining to tax secret,
- Legal provisions pertaining to interest on past due liabilities, to appeals procedure, and to interpretation of laws and provision of official opinions by TA,
- TA competences in conduct of tax investigations,
- Taxation of motor vehicles, vessels, and real estate,
- Right to appeal, i.e. postponing tax audit due to filed appeal,
- Legal provisions pertaining to seizure of taxpayer's assets,

- Legal provisions pertaining to tax amnesty,
- Legal provisions pertaining to right to access taxpayer information kept in banks (loan history of legal and natural persons),
- Taxation of capital gain of natural persons arising from transactions of securities,
- Taxation of real estate owned by non-residents,
- Regulations and procedures pertaining to publication of natural persons' tax liabilities,
- 2007 – 2009 tax audit data.

RS Tax Administration sent an enquiry to Tax Administrations of Serbia, Macedonia, Croatia, and Montenegro in reference to records on inactive taxpayers.

In December 2010, RS Tax Administration delivered its proposal of topics for the 2012 IOTA Work Program:

1. Legislative solutions in the field of social contributions and technical (IT) support for its implementation;
2. Taxpayer data – corrections in TA records/databases in line with ex officio/administrative procedures;
3. Development of human resources management strategy, policies, and systems, which fully support the tax administration's business strategy.

In addition, according to IOTA request, information were updated in the “on-line” database on large taxpayers treatment and audit (including organization of this type of work, number of inspectors, revenues, and such like), which will be available on IOTA web site.

Cooperation with the US Treasury

2010 Work Plan agreed with the US Treasury was fully accomplished.

Training was conducted in three parts, with the first one pertaining to lectures on the work of analysts and their new and expanded role and responsibilities in line with the new Rulebook on Internal Organization and Systematization of Positions in TARS.

The second part was about practical application of acquired analytical skills in reference to field reviews of different functions in TARS. Functional reviews included audit, collection and taxpayer services. The plan anticipated 49 functional reviews in regional centers, out of which 41 were conducted.

The third part included assessment of status of recommendations, i.e. action plans developed during the second part of training. To that respect, review teams have prepared reports following the functional reviews where, amongst other issues, they established the actual situation in the office subject to review and proposed recommendations to eliminate difficulties in operation identified in some of the regional centers, or to improve certain aspects of work. TARS Head Office provided 339 recommendations in total, however, it should be noted that most functional recommendations coming from line sectors are repeated for most of the regional centers.

US Treasury advisors held a closeout meeting with the acting director of TARS where they stated their positive opinion on the work of all sectors in TARS, when it comes to functional reviews, as well as on overall cooperation and progress achieved in TARS since its establishment until present day. US Treasury advisors also left some recommendations and guidelines for further activities pertaining to functional reviews.

Completion of this year's activities also marks the end of long-term and successful cooperation we have had with the US Treasury ever since TARS was established. US Treasury was involved in development of the Law on Tax Administration, and drafting of other laws and bylaws pertaining to direct taxes and TARS operations. In addition to that, numerous trainings of TARS staff have been conducted in various fields of work, from management and leadership to implementation of performance standards. Long-term cooperation between the US Treasury and RS Tax Administration was mutually assessed as very successful.

Cooperation with Other Tax Administrations

Long-term, successful cooperation between Tax Administration of Republic of Srpska and Tax Administration of Republic of Serbia yielded in **Cooperation Agreement in the field of direct taxes**, signed between the two institutions on 14 October 2010 in Belgrade.

The Agreement is in concordance with the Cooperation Agreement in the field of finance, signed on 23 July 2010 in Belgrade, between the Ministries of Finance of Republic of Srpska and Republic of Serbia.

The Agreements aim to strengthen mutual cooperation and exchange of experiences in the field of direct taxes impacting the observance of the very basis of special-parallel relations existing between Republic of Srpska and Republic of Serbia; to enhance social, democratic and economic development, as well as to establish new positive environment in mutual economic relations and exchange of information aiding the economic restructuring and modernization.

On 15 December 2010, Tax Administration of Republic of Serbia hosted the **first regional meeting of tax administrations** with the aim to define the proceeding of future direct contacts and discussions pertaining to issues being of common interest and to current priorities, as well as to enable regular assessment of issues and topics, which may have long-term impact and strategic importance in development of regional tax administrations.

In addition to the host, representatives of Tax Administrations of Republic of Srpska, Croatia, Slovenia, Montenegro, Federation of BiH, and ITA BiH also attended the meeting.

Marking its 20th anniversary, the **Tax Administration of Russian Federation** organized an international tax conference “Thinking of Taxes in a New Way”, held in Moscow on 19 November 2010.

The Conference welcomed directors of tax administrations of other countries, top managers in leading international companies, as well as representatives of the IMF, the World Bank, OECD, and IOTA. Delegation of Republic of Srpska, in addition to representatives of the RS Ministry of Finance, also included the acting director of RS Tax Administration and the acting assistant director in TARS Sector for Tax Collection Management.

The Conference emphasized the role of taxation and tax administrations in nation building, and the global approach to taxes. Separate discussions were dedicated to establishment of business friendly tax environment, new view of tax administration system, tailoring tax policies and administration to the needs of economic modernization, the role of property rights and taxation of property,

as well as to key issues and challenges in implementing administrative reform initiatives.

As part of cooperation with other tax administrations, a **study visit to the Danish Tax Administration** was organized from 21 through 24 September 2010. Danish TA and European Commission, i.e. TAIEX program, facilitated the visit. Main topics included issues related to personal and corporate income taxes, and relevant application of IT.

Considering the successful implementation of the Law on Fiscal Cash Registers in RS, with the primary objective to enable equal status of all taxpayers, regulate RS market, fight gray economy, increase fiscal discipline, and such like, the Tax Administration of Federation of BiH addressed the RS Ministry of Finance and RS Tax Administration with a request to grant them the right to use the “Fiskal” software, developed by RS Tax Administrations.

Consequently, RS Government issued a Conclusion whereby it consented to the **signing of an Agreement between the Tax Administration of Republic of Srpska and Tax Administration of Federation of FBiH**. The Agreement regulated the granting of the right to use software modules developed by RS Tax Administration, as well as mutual rights and obligations between the signatories.

Objective of the Agreement is to improve the development of a single market in BiH, as well as to equalize the conditions for and control over sales of goods and services in the entire BiH. The Agreement also covers the transfer of knowledge and experience the RS Tax Administration has gained in the fiscalization process.

Cooperation with Other Organizations and Institutions

Throughout 2010, **cooperation was intensified with institutions involved in the Unified system of registration, control, and collection of contributions** (RS Pension and Disability Insurance Fund, RS Health Insurance Fund, RS Public Fund for Child Protection, RS Employment Bureau), as well as with our implementing partner - USAID ELMO, as mentioned above. Moreover, cooperation was established with several new, external institutions, such as the Agency for Development of Small and Medium Size Enterprises and RS Hail Protection Agency. High level of cooperation was maintained with institutions we have

established cooperation with in the previous period. We have also established cooperation with IDDEEA BiH in connection with approximation of records on natural persons kept in RS Tax Administration's registers (TP Register) and in IDDEEA BiH.

In March 2010, **several working meetings were held with the representatives of the USAID TARA Project** aimed to improve enforced collection procedure. The meeting involved TARS management, staff in the Head Office, as well as regional center staff directly engaged in enforced collection cases. Closeout meeting included a presentation of a detailed report, opinions and suggestions

for improvement of operations of staff engaged in enforced collection, with emphasis on development of a strategy and accomplishment of set objectives.

During 2010, there was a whole range of meetings with representatives of other institutions, including the World Bank, in connection to the regional technical assistance project for labor market. In addition, one meeting was held with representatives of the International Finance Corporation (IFC) World Bank Group in connection with the initiated implementation of "investment generation" initiative, which is a part of the IFC's current BiH competitiveness strengthening project.



CONCLUSION

Looking back at 2010, we can be satisfied with achieved results in terms of both, the collection of public revenues and further improvement of other areas within our scope of work.

Successful start of implementation of the Unified system for registration, control and collection of contributions adds to our satisfaction, regardless of some initial difficulties that were successfully overcome thanks to full engagement of RS Tax Administration staff. With current staffing level, we managed to achieve and maintain daily system promptness, again thanks to efforts invested by our people. The Supreme Office for Republic of Srpska Public Sector Auditing completed, in 2010, the audit of 2009 operations of RS Tax Administration. Audit report on RS Tax Administration's financial reporting in 2009 was appraised as positive, with recommendations for correction of certain flaws. To that extent, RS Tax Administration developed an Action Plan to accommodate the Audit Office recommendations. Part of recommendations, with completion deadline in 2010, was realized. Amongst other things, the TARS Information System Development Strategy was created, as well as Standards for documentation of TARS software developed in-house, TARS Security Policy, and the Rulebook on Accounting Policies. In addition, activities pertaining to

redefinition of internal web site reports and standardization of their use are in final stage.

It should be noted that in October 2010, TARS Head Office, RC Banja Luka, and LO Banja Luka were successfully relocated to new premises, providing better work conditions for our staff, as well as higher quality of services for taxpayers. It is also worth noting that the approved Budget for Tax Administration in 2010 was 9% lower than that in 2009. We have also incurred extraordinary lease costs due to relocation to new premises, and have managed to cover them by savings realized in other Budget lines.

Despite the current economic situation, RS Tax Administration managed to outmatch its 2009 business results in almost all segments of work. Hopefully, we will continue to successfully answer all the challenges ahead of us in 2011, and in doing so we will certainly require support from RS Ministry of Finance and RS Government, as well as from entire public.

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