

# DOING BUSINESS

IN BOSNIA AND HERZEGOVINA

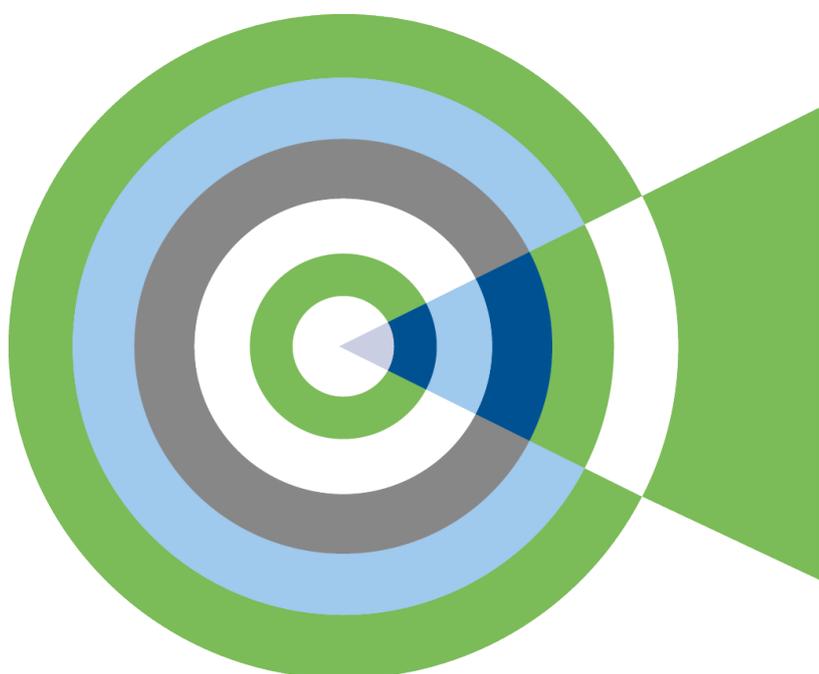


The network  
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business

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# 1 – INTRODUCTION

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UHY is an international organisation providing accountancy, business management and consultancy services through financial business centres in around 100 countries worldwide.

Business partners work together through the network to conduct transnational operations for clients as well as offering specialist knowledge and experience within their own national borders. Global specialists in various industry and market sectors are also available for consultation.

This detailed report providing key issues and information for investors considering business operations in Bosnia and Herzegovina has been provided by the office of UHY representatives:

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Information in the following pages has been updated so that they are effective at the date shown, but inevitably they are both general and subject to change and should be used for guidance only. For specific matters, investors are strongly advised to obtain further information and take professional advice before making any decisions. This publication is current at July 2022.

We look forward to helping you do business in Bosnia and Herzegovina.

## 2 – BUSINESS ENVIRONMENT

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### BACKGROUND

Bosnia and Herzegovina, a heart-shaped country, is located in south-eastern Europe in the central part of the Balkan Peninsula. Throughout history, Eastern and Western civilizations have met, merged and enriched each other in this area. Bosnia and Herzegovina is a country with many nations, cultures and traditions, with diverse landscapes and centuries-old history, a place where for centuries people from all over the world have met, exchanged ideas and did business.

Bosnia and Herzegovina is very liberal and very open to economic cooperation with other countries, trade and foreign investment, and the profitability of doing business in BiH has been shown by many successful investments so far. The advantages for investing and doing business in Bosnia and Herzegovina are reflected primarily in the favourable geographical position, the extraordinary natural resources available to both educated and qualified labour.

Bosnia and Herzegovina has a very favourable geographical position - at the crossroads between West and East, Mediterranean and Continent, and two hours of flight away from European business centres. Bosnia and Herzegovina has extraordinary natural potentials and resources that may be of interest to foreign investors.

Bosnia and Herzegovina has an educated and motivated labour, with a long tradition of industrial production. Companies in BiH have a rich tradition of successful participation in international projects around the world. The Law on Foreign Direct Investments in BiH provides foreign investors with national treatment, i.e. foreign investors have the same rights and obligations as residents of Bosnia and Herzegovina. She is a full member of the World Bank and the International Monetary Fund. The BiH convertible mark (KM) is directly linked to the EURO and is one of the most stable national currencies in Southeast Europe. Inflation is under control and does not exceed the inflation rate in the European Union.

Bosnia and Herzegovina has a single value added tax (VAT) rate of 17%, which is the lowest in the region.

Bosnia and Herzegovina has a large number of available industrial zones, attractive locations and production facilities.

Bosnia and Herzegovina is a significant producer and the only exporter of electricity in the region with constant new investments in energy, especially renewable sources, wind farms and solar power plants.

Bosnia and Herzegovina has signed a number of regional and bilateral trade agreements that allow the placement of products from BiH duty-free on markets of over 50 million consumers under the Free Trade Agreement (CEFTA and EFTA), as well as an additional 80 million consumers under the Free Trade Agreement with Turkey (FTA).

Bosnia and Herzegovina has a clear prospect of joining the European Union, which in the long run means a further increase in its economic competitiveness. BiH has largely harmonized legislation with EU standards.

Bosnia and Herzegovina is an attractive tourist destination which, in addition to natural beauty, has a specific combination of different cultures and civilizations and due to the temperate climate is a pleasant place to stay and rest during the summer heat, and also during the winter offers various opportunities for recreation and winter sports.

It borders with Serbia, Croatia, Montenegro and exits to the Adriatic Sea. For most of the 20th century, Bosnia and Herzegovina was part of a state called Yugoslavia, which had a communist system and social enterprises. Bosnia and Herzegovina became an independent state in 1991 when a democratic, multi-party political system was adopted and political and economic reforms were introduced.

Bosnia and Herzegovina is striving to become a candidate country and a member state of the European Union (EU).

### General economic indicators

**Table 1: General economic indicators**

Indicators	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Nominal GDP (billion EUR)	13.4	13.4	13.7	14.0	14.6	15.3	16.0	17.1	18.0	17.5	19.3 <sup>*)</sup>
GDP per capita (EUR)	3,791	3,793	3,878	3,967	4,155	4,355	4,578	4,891	5,168	5,038	
Real GDP growth rate (%)	1.0	-1.0	2.5	1.2	3.1	3.2	3.2	3.7	2.8	-3.2	5.8 <sup>*)</sup>
Industrial production growth rate (%)	5.6	-5.2	6.7	0.1	2.6	4.3	3.1	1.6	-5.5	-6.2	10.7
Average net wages (EUR)	417	422	423	424	424	428	435	449	471	489	510
Annual inflation rate (%)	3.7	2.1	-0.1	-0.9	-1.0	-1.1	1.2	1.4	0.6	-1.0	2.0
Annual unemployment rate (%)	27.6	28.0	27.5	27.5	27.7	25.4	20.5	18.4	15.7	15.9	17.4
Foreign currency reserves (mill EUR)	3,284	3,328	3,614	4,001	4,400	4,873	5,398	5,942	6,440	7,090	8,359
Coverage of import by export (%)	53.0	51.5	55.2	53.6	56.7	58.3	61.0	61.8	58.9	62.3	66.1
Net FDI inflow (mill EUR)	357	307	208	415	326	316	436	493	305	347	445 <sup>*)</sup>
FDI contribution to GDP (%)	2.7	2.3	1.5	3.0	2.2	2.0	2.7	2.9	1.7	2.0	
Deposits of households in Commercial Banks (mill EUR)	3,605	3,914	4,276	4,623	5,044	5,451	5,763	6,210	6,770	7,036	7,514
Population (mid-year, in million)	3.54	3.54	3.53	3.53	3.52	3.51	3.50	3.50	3.49	3.48	

Source: Central bank of B&H and Agency for Statistics of B&H) Preliminary CBB&H data for 2021.

## 3 – FOREIGN INVESTMENT

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### INVESTMENT IN BiH

There is no difference between domestic and foreign investors regarding the legal status of foreign investment in BiH.

When foreign investors are found or participate in companies in BiH, they acquire rights and take responsibility under the same conditions and have the same status as domestic investors. Everything that refers to the relations between domestic investors also refers to foreigners when they invest capital.

Foreign legal entities in BiH are allowed to invest capital in a company, bank or insurance company, start an independent trader or craftsman and obtain a concession for the use of natural resources or other property of interest to BiH.

Foreign persons are allowed to acquire shares and stakes in existing public and private limited liability companies.

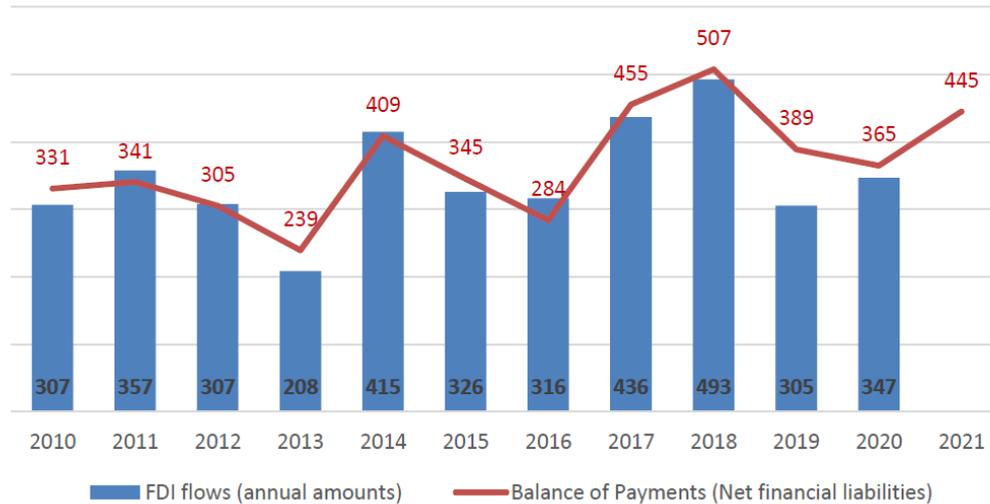
Bosnia and Herzegovina recognizes the importance of attracting foreign investors, appreciating the management, commercial knowledge and fresh capital they bring in. Therefore, foreign investors are entitled to additional guarantees that do not extend to domestic investors. For example, rights acquired through capital investments are not reduced by any law or other regulation.

### FOREIGN DIRECT INVESTMENT ANALYSIS

Foreign direct investment (FDI) in Bosnia and Herzegovina has growing despite the COVID-19 pandemic. The stable amount of foreign direct investment in 2020 stimulated by reinvestment and a significant increase in 2021 confirm the expected growth of FDI in Bosnia and Herzegovina (B&H).

In 2020, according to the Central Bank of B&H (CBBH), foreign direct investments amounted to 346.8 million EUR (or 678.2 million BAM) and increased by 13.7% compared with previous year.

Official FDI data for 2021 are expected in August this year, and according to the first preliminary data of the Central Bank within the Balance of Payments of B&H, the item Net financial liabilities for the period January - December 2021 amounts 444.8 million EUR (869.9 million KM), which is an increase of 22.1% compared to 2020 (according to the same source).

**Table 2: Flow of FDI and Net financial liabilities in B&H, million EUR**

Source: Central Bank of B&H (CBBH), March 2022

In 2007 B&H attracted 1.3 billion EUR that is absolutely the highest amount recorded till now, mainly thanks to the privatization of certain large state-owned enterprises. In 2008 FDI inflow (684 million EUR), without the expected privatization, could be considered as satisfying, especially if we take into account its positive structure (investment in production sector and high contribution of Greenfield investments).

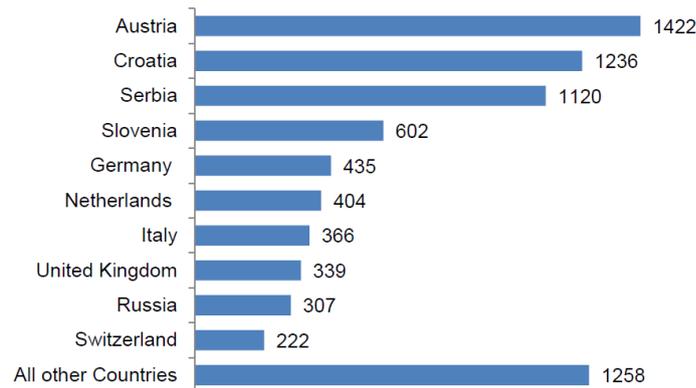
The global economic crisis significantly affected the decrease of foreign investments in 2009. In the period from 2010 to 2020, the trend of FDI inflows is variable and unequal. The annual average inflow of FDI for the previous five years was 379 million EUR and the largest annual amount of FDI in the mentioned period was registered in 2018.

After the decline in 2019, 2020 has marked a positive increase of FDI by 13.7%. According to the Central Bank of B&H "Investment inflows could be considered as positive, related to the deep global recession that has affected the ability of foreign investors. However, it should be noted that the majority of investments were reinvested earnings from existing companies with foreign investment, while investments in the form of ownership shares were much lower."

### FDI Stock till December 2020

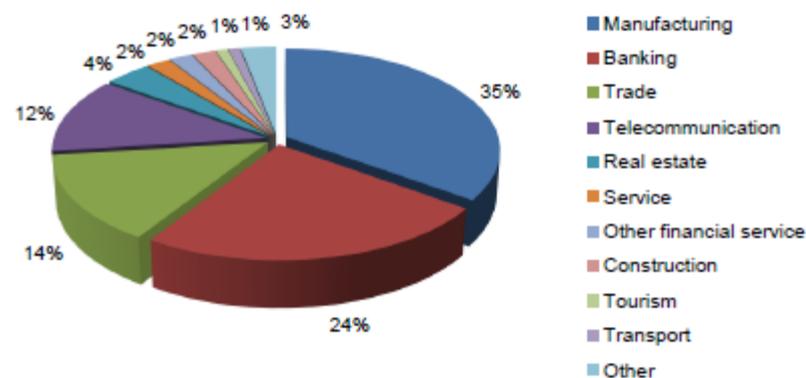
Total amount of Foreign Direct Investment (FDI) in Bosnia and Herzegovina was 7.7 billion EUR (7,711 million EUR). In the structure of FDI, for the period May 1994 till December 2020, equity and reinvested earnings were 6.2 billion EUR (6,195 million EUR) and other capital was 1.5 billion EUR (1,516 million EUR).

According to the FDI Stock by countries the largest share still refers to Austria (1.4 billion EUR), Croatia (1.2 billion EUR), Serbia (1.1 billion EUR) and Slovenia (0.6 billion EUR). Despite the growth of investments from the Russian Federation and the Middle East, European countries are still the most important investors in Bosnia and Herzegovina. Investments from EU-27 countries amounted to 64% of total FDI in B&H.

**Table 3: Flow of FDI and Net financial liabilities in B&H, million EUR**

Source: Central Bank of B&H (CBBH), September 2021

Out of total foreign direct investments, 35% have been invested within the production (primary, industrial and electricity production), followed by the banking sector with 24%, trade 14% and telecommunications 12%.

**Table 4: FDI Stocks by Industry (%) May 1994 - December 2020**

Source: Central Bank of B&H (CBBH), September 2021

### Foreign Direct Investment in B&H in 2020

According to the official data of Central bank of B&H foreign direct investment in 2020 were 347 million EUR (or 678 million BAM). In the structure of foreign direct investment: 77.9 million EUR was equity, reinvested earnings were 299.8 million EUR, while the other capital was -30.9 million EUR. Based on structure of FDI in the previous year, it is evident that the reinvestment of companies with foreign capital maintained the inflow of FDI in 2020. Equity was significantly lower, while the negative amount of other capital was a consequence of a possible liability based on indebtedness.

The FDI increase by 13.7% in 2020 is a positive indicator considering the strong negative impact of the pandemic in the global flows of foreign investment, emphasizing that growth percentage is compared to 2019 when low FDI inflow was recorded in Bosnia and Herzegovina.

The increase of foreign direct investment encouraged by reinvestment confirms the positive business and expansion of the capacity of existing foreign investors, which is certainly a good indicator for potential investors.

Main investor countries in B&H in 2020 were Croatia (76.4 million EUR) and Serbia (69.2 million EUR). The following countries also registered significant capital increases: Germany (39.6 million EUR), United Kingdom (38.5 million EUR), Austria (36.5), Slovenia (36.5), Turkey (28.1) and Italy (19.0 million EUR).

According to the activities, the biggest share of FDI in 2020 has been in: Financial service activities – banking (80.3 million EUR) and followed by: Wholesale trade (48.0), Electricity, gas, steam and air conditioning supply (45.3). Significant capital increases has been registered also for: Retail trade (21.9), Real Estate (21.4), Manufacture of chemicals and chemical products (19.3), Mining of metal ores (16.4), Manufacture of motor vehicles, trailers and semi-trailers (15.7) and Manufacture of food products (14.1 million EUR).

According to preliminary data, an increase of FDI was registered in 2021. Although the first and preliminary data are subject to revision, the growth of foreign direct investments is a positive indicator with the expected continued FDI growth trend in the future. Reasons that creates positive expectations of FDI levels growth in Bosnia and Herzegovina were made upon on-going projects, the investment opportunities, intention of privatization many strategic companies and interest of foreign investors for potential projects. Success stories of foreign investors confirm that Bosnia and Herzegovina is favorable destination for foreign investment, and that we could be optimistic in terms of the FDI inflows in the coming period.

## **INVESTMENT DATA**

The Law on Encouraging Investment and Improving the Investment Climate offers a wide range of tax incentives for foreign and domestic investors.

Tax aid for companies refers to capital investments and depends on the size, number of employees and/or location of the investment project. Tax credits cannot exceed the investment amount. Non-tax incentives are in the form of grants or interest subsidies and are given as the case may be, after detailed application.

To apply for investment incentives, the investment must relate to one of the following:

- production and processing activities;
- development and innovation activities;
- strategic business support activities; or
- providing high value-added services.

Furthermore, the investment should ensure environmentally sound business activities and achieve at least one of the following goals:

### **Benefits for foreign investors**

#### **State level/BiH level**

In accordance with the Law on Foreign Direct Investment Policy in BiH ("Official Gazette of BiH", no. 17/98, 13/03, 48/10 and 22/15) foreign investors are guaranteed the following:

- National treatments of foreign investors, i.e. foreign investors have the same rights and obligations as residents of Bosnia and Herzegovina.

- Foreign investors have the right, for the purpose of their investments, to open accounts with any commercial bank in the territory of Bosnia and Herzegovina in domestic or freely convertible currency.
- Foreign investors will have the right to freely employ foreign nationals from abroad, unless otherwise provided by the laws in Bosnia and Herzegovina on labour and immigration.
- Foreign investors are protected from nationalization, expropriation, requisition and measures with equal effect; such measures may be taken solely in the public interest, in accordance with applicable laws and regulations, with the payment of appropriate compensation.
- Foreign investors have the same property rights as BiH legal entities.
- Foreign investors have the right to make transfers abroad, freely and without delay, in a freely convertible currency, of the profits resulting from their investment in Bosnia and Herzegovina.
- The rights and privileges granted to foreign investors and the obligations arising from the Law on Foreign Direct Investment Policy may not be revoked or annulled with the entry into force of subsequently enacted laws and bylaws. If such subsequently enacted laws and bylaws are more favourable to foreign investors, they have the right to choose the regime that will be applicable to their investment.

### **Tariff preferences**

Foreign investment will be exempt from customs obligations, except for passenger cars, slot machines and games of chance.

- Non-production equipment that is not produced in Bosnia and Herzegovina, which is imported for new or expansion of existing production, modernization of production, introduction of new or modernization of existing production technology, and which performs direct production activity, is exempt from payment of import duties.
- Production means and other equipment belonging to a company that definitively ceases its activity in another state and is moved to the customs territory of Bosnia and Herzegovina for the purpose of performing a similar activity are exempt from the payment of import duties.
- If the enterprise to be moved is an agricultural holding, the animals on it shall also be exempt from import duties.

In order to use the customs privilege for foreign investments, with a written request for exemption from import duties, the beneficiary of the privilege shall submit to the customs authority competent according to the place of residence of the beneficiary of the privilege:

- contract or other appropriate investment act under which the equipment for which relief from import duties is sought is imported
- proof of registration of a foreign deposit with the competent state authority
- specification of equipment according to tariff codes and names from the Customs Tariff of BiH, with marking the quantity and individual and total value, certified by the beneficiary
- investor statement that the equipment is not older than 10 years
- a certificate that the imported equipment meets the standards regarding the protection of the human environment and other standards in the field of occupational safety, issued by the institution or other body competent for the field of that activity.

- The customs service shall make a decision within 15 days from the day of submitting the request.

### **Free zones**

Free zones in BiH are part of the customs territory of Bosnia and Herzegovina and have the status of a legal entity. Pursuant to the Law on Free Zones of BiH, the founder of a free zone may be one or more domestic or foreign legal and natural persons registered in BiH. - Free zone users do not pay VAT and import duties on equipment that will be used for production. Investments in free zones, profit transfer and investment transfer are free. The establishment of a free zone is economically justified if on the basis of the attached study on the economic justification of the establishment of a free zone and other attached evidence it can be estimated that the value of goods exported from the free zone will exceed at least 50% of the total value of goods leaving the free zone in 12 months.

### **ENTITY LEVEL**

#### **Tax exemptions**

In the Federation of BiH:

According to the provisions of the FBiH Law on Profit Tax, foreign investors enjoy the following benefits:

- A taxpayer who invests from his own funds in production equipment in the amount of more than 50% of the realized profit of the current tax period, the obligation of the calculated income tax is reduced by 30% of the amount in the year of investment.
- A taxpayer who in the period of five consecutive years makes an investment from his own funds in the total amount of BAM 20 million, with the fact that in the first year he invests BAM 4 million, the liability of calculated income tax is reduced by 50% in the years of investment.

The taxpayer is entitled to a tax-deductible expense in the amount of twice the amount of gross salary paid to newly hired employees if he meets the following conditions:

- the duration of the employment contract must be at least 12 months full-time and
- the newly hired employee has not been employed by a taxpayer or related party in the previous five years.

#### **In the Republika Srpska:**

A taxpayer who invests in equipment and facilities on the territory of the Republika Srpska for the performance of a registered production activity has the right to reduce the tax base by the value of the investment made.

### **Brčko District - benefits**

The Law on Incentives for Economic Development in the Brčko District provides the following:

- Exemption from utility fees for prominent company name
- Fee of court fees for registration of a business entity and entry of changes in the register for newly established companies and entrepreneurs
- Reimbursement of connection costs to water supply and sewerage network
- Fee of paid fees necessary to obtain the location, building permit and approval for the use of the facility
- Reimbursement of costs in the amount of the difference between the price of electricity and water paid by companies and the price paid by households
- Compensation of paid employment contributions in the total amount for newly employed persons
- Salary compensation for maternity leave in the amount of 100%
- Employer incentives in the amount of 50% of the total health insurance obligations of newly employed workers
- Reimbursement of the amount of money invested in the purchase of fixed assets that are entered in the list of fixed assets, up to the amount of determined and paid income or income tax for the year in which the purchase of fixed assets, with the difference between profit or income and purchases made cannot be carried forward to the following year.

### **SECTOR LIMITATIONS**

#### **Investments in BiH are welcome and encouraged.**

However, some areas of investment are limited and subject to special conditions and approval procedures by the competent authorities. This includes areas of foreign ownership of real estate, especially agricultural land, forests and other protected areas of nature, as well as industries related to national defence and security. By the way, the regulatory framework for the establishment and operation of companies in BiH by investors is relatively simple and in line with basic EU standards.

Specific licenses or permits are required only for certain activities, such as banking, insurance, stock brokerage and similar financial services.

### **OWNERSHIP OF IMMOVABLE PROPERTY**

The most complicated aspect of foreign investment in BiH is the purchase of land, registration and development of the site for various post-war deviant appearances of money laundering, terrorist financing and other negative appearances. After significant progress and regulation of this area at all levels, there has been great liberalization.

Only companies registered in BiH are considered domestic legal entities/residents/and can acquire property rights over real estate without any restrictions.

Foreign natural persons (non-EU citizens) may acquire property with the prior approval of the Ministry of Foreign Affairs, based on the opinion of the Ministry of Justice on the basis of reciprocity.

**PROFIT AND CAPITAL AGAIN**

There are no restrictions on the return on profits or capital investments.

There are no restrictions on the transfer of profits abroad after payment of tax liabilities, which includes 10% of both income tax and 5% withholding tax if foreign nationals, if applicable.

Tax losses can be carried forward for a maximum of five years.

Foreign investors can transfer abroad the profit from the capital invested in BiH or the income from the sale of shares or stakes after settling outstanding liabilities, and they can transfer the capital after the sale. The profit of a foreign contractor participating in capital projects in BiH can be transferred abroad.

## 4 – SETTING UP A BUSINESS

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Bosnia and Herzegovina has such a legal system that has two entities, the Federation of BiH and the Republika Srpska.

The legal system in investment provides for a number of entities common in other legal systems. There are no restrictions on the establishment of business entities by foreign investors.

The procedures for establishing, registering and operating companies in BiH are relatively simple. According to the Companies Act, four basic types of organizations are available:

- Limited Liability Company
- Joint stock company
- Partnerships - limited, unlimited and quiet.

According to the law, companies are also recognized as business associations. Foreign investors can opt for a branch or representative office (possible only for non-EU investors) as the most efficient way of doing business in BiH.

### COMPANY REGISTRATION PROCEDURE

Nowadays, a large number of unemployed people in Bosnia and Herzegovina are tempted to start their own business and take risks, or like everyone else to get a job with existing companies that have a stable market position and can provide us with a regular income.

All of the above has both advantages and disadvantages.

In this article, we will list the advantages and disadvantages of starting your own business, and what risks you should be willing to take as a future entrepreneur.

The benefits of starting your own business are great, from the pleasure of turning an idea into a realization, managing a company and a team of people (rather than being subordinate), flexible working hours, making a profit and contributing to society.

Disadvantages can be interpreted in several ways.

Some will not even view them as disadvantages because they are not afraid to take risks or responsibilities and are willing to sacrifice their private lives and take more time to invest in starting a business.

In order to help you with the decision to start your own business, we will outline what steps and activities should be taken during registration (in this case **Ltd.**), required time and resources.

Prior to the registration of the company, it would be good for the founder to prepare a business plan in order to have an insight into all the advantages and disadvantages of starting a business, business development activities and the timeframe for the return on investment. In addition, there are several stages in the process of establishing and registering business in BiH.

This procedure includes:

- Check company name availability
- Notarization of documents
- Determination of share capital
- Company registration in the municipal court
- Registration with the cantonal or entity statistical office
- Opening a business account so that the initial capital can be transferred to the company account
- Registration with the tax administration.

When establishing a limited liability company or a joint stock company, a foreign investor may invest money, goods and rights.

For the registration of a limited liability company, the basic item is a deposit of at least BAM 1.000,00, and for the director to obtain a Certificate of no public debt from the Tax Administration which costs BAM 20, 00 and a Certificate of outstanding financial obligations which should amount to BAM 0.00 and withdraw is with the Misdemeanour Court and costs BAM 15, 00. The required period for the listed documents is 2 days.

**The steps and documentation required for company registration are:**

**Decision on establishment (founding act)** - The decision on establishment is made by a notary and it is made when it comes to one owner, while the founding act is made when there are 2 or more owners, who must submit their ID cards to the notary for inspection.

The founding act defines the owners of the company, the role, the appointment of the director, the rights and obligations of the founder as well as the director, and the activities that the company plans to engage in.

Several activities can be listed, while the notary will emphasize those that require special consent from the competent institutions.

The notary is also preparing the accompanying documentation, i.e. the completed form for the registration of the company, the forms for foreign trade activities, the decision on the appointment of the director as well as the advertisements for publication.

The decision on establishment, i.e. the founding act is prepared in 3 copies (for the Court, the Bank and for the founder).

The procedure lasts up to two days and costs BAM 450-500.

**Payment of deposits (capital)** - With the prepared decision on establishment for the bank, the founder pays the capital in one of the commercial banks, and keeps a copy of the payment slip for the Registration of the company.

**Company registration** - In the competent Municipal Court, the founder, with the documentation prepared by the notary, submits a request for registration of the company.

The applicant for registration also pays a fee of BAM 10.00.

Registration lasts from 7 to 15 days.

After registration, it is necessary to pay a fee of BAM 70, 00 for raising the Decision on registration.

The total cost of registration is BAM 80, 00. It would not be bad if the Decision on registration is copied and certified in the Municipality in several copies.

**Making a seal** - After registration, and above all, it is necessary to make a stamp at an authorized stamp cutter.

Making a stamp takes a day and costs 35-50, 00 KM, depending on the shape and size of the stamp.

**Business premises lease agreement** - If the owner of the company rents the space, it is necessary to sign the business premises lease agreement on behalf of the company and to certify it.

If the owner of the company performs the activity in its own spaces, it is necessary to obtain a land registry excerpt with the exact address of the business space.

It would not be bad to copy and certify the lease agreement or the Land Registry excerpt in the Municipality in several copies.

**ID number and statistics** - Certified copy of the lease agreement or Land Register entry, certified copy of the Registration Decision, 2 completed POR-500 forms and Annexes A, B and C (application for registration of legal entities).

The procedure is free and lasts from 7-10 days.

After obtaining the ID number, it is necessary to submit an application for classification by activity of the business entity (RPS form) to the Statistical Office, which can also request certified copies of the Registration Decision and the Lease Agreement, as well as the ID Number Certificate for inspection.

The procedure is free and lasts 2-3 days.

**Request for dedicated consent** - while the procedure of issuing the ID number and the certificate from Statistics is in progress, in the competent Municipality the founder submits a request for dedicated consent for the use of business premises, where the request is accompanied by a certified copy of the Registration Decision or Excerpt from the Register of Business Entities or space lease agreements.

The procedure takes about 15 days and costs BAM 4 (may depend on the fee set by the Municipality).

**Notice of commencement of work** - It is necessary to submit to the competent Cantonal Inspectorate a notice of commencement of work (on the company's memorandum), as well as a statement that all legal requirements for performing the activity are met (P1 form) and a copy of the Registration Decision.

The application is submitted 5 days after the start of the company and is free of charge.

**Opening an account** - A business account is opened with a commercial bank (where the owner of the company paid the capital).

To open an account, it is necessary to issue a Registration Decision, Statute or Decision on Establishment, ID number, Classification from Statistics, ID card and CIPS application form (certified copies or original for inspection).

The procedure is free, and the time limit depends on the bank.

**Employee registration** - if the company has more than 30 employees, it is necessary to adopt the Rulebook on work and systematization of jobs.

Employee registration is done in the competent Tax Office of the municipality, and you need a completed JS3100 form for each employee (two copies), employee tax card and deregistration from the Employment Bureau if the employee was previously at the bureau. For personal records, the employer must also have Health Certificates for each employee. Sometimes the Tax Administration also requires a copy of the Registration Decision. The procedure is free and lasts a day.

**Login to the VAT system** - if the owner of the company estimates that by the end of the year it will realize a turnover higher than BAM 50.000,00, it is necessary to register the VAT system.

For that, he needs to pay a fee for the application for registration and entry in the Unified Register of Indirect Taxpayers (BAM 10), a fee for issuing a decision on registration and entry in the Unified Register of Indirect Taxpayers (BAM 10) and a fee for issuing a certificate of registration/entry in the Unified Register of Indirect Taxpayers (BAM 20).

In the ITA BiH you fill in the application (form ZR1), with which you enclose the following documentation: a certified copy of the entry in the court register, a certified copy of the registration certificate in the FBiH Tax Administration, a certified copy of the notification on classification of entities according to identity card of the director, a certified copy of the card of deposited signatures from the bank in which the transaction account is opened, a statement on import or export of goods by the company, a statement on the feasibility of the planned turnover and proof of turnover from concluded business contracts, a copy of the lease agreement space or proof of ownership in the form of an excerpt from the land register and personal documents of the responsible accountant.

The procedure lasts 10-15 days and costs BAM 40.

**Fiscalization** - this is the last step in company registration.

The founder of the company or the authorized representative enters into an agreement with the authorized distributor for the introduction of fiscal systems.

It is necessary for the founder to fill in the ZIF document which can be downloaded from the Tax Administration website, and submit it to the authorized distributor, as well as the decision on company registration, Tax Registration Certificate (ID), VAT registration certificate and Classification Statistics Certificate.

The authorized distributor carries out the fiscalization procedure, while the company is obliged to start recording sales data within 2 days after taking over the device, and in accordance with the Law.

The procedure lasts up to 5 days and costs up to BAM 700, depending on the choice of cash register.

These are the basic steps of registration of a limited liability company, it lasts a month and a half to two months, and it takes about BAM 2.500,00, of which BAM 1.000,00 is the capital available to the company upon transfer to a newly opened account.

It is necessary to pass the Company's Articles of Association within 60 days from the day of registration, which must be certified by the Notary who drafted the founding act, and one copy must be submitted to the Court where the company was registered.

Prospective employers should be ready to earn little or no income in the first months of work, and to invest maximum effort in advertising the company and attracting clients, which will require additional costs or investments, but with a good business plan, prepared work and propaganda activities, in a very short time. Within the term the employer will be able to return the invested funds and start making a profit.

We hope that our instructions will help you make the decision to start your own business. All you need is good will, enthusiasm, perseverance and a willingness to take risks and responsibilities as a future employer.

If you want additional information and help when starting your own business, contact us, we are here to help you.

## **CONCESSIONS AND FREE ZONES**

As foreign persons cannot become owners of certain types of real estate, the Law on Concession Rights regulates the rights to concessions.

Concessions may be granted for the use of natural resources and other resources, if such activities are considered to be in the interest of BiH or its entities or cantons if the concessions are at a lower level. There is also a difference in the number of years a local unit of a municipality, canton or federation can grant a concession

The concession can be granted for a period of up to 50 years (20 years for agricultural land).

Free zones can be established on the basis of a concession granted by the government. Domestic and foreign legal or foreign natural persons cannot find the zone, but they can be users of the zone. Based on the agreement concluded with the domestic founder of the zone, they can perform all activities within the zone (production and processing of goods, wholesale trade, trade intermediation, services, banking transactions, insurance services, etc.) except retail.

Working in a free zone provides the following advantages:

All forms of foreign trade can be done within the zone and restrictions

The Trade Act and the Foreign Exchange Trade Act do not apply to such operations

- Goods can be freely imported or exported, or remain within the zone indefinitely
- No customs duties or taxes are charged on goods stored in the zone.
- Zone users pay income tax reduced to 50% of the standard rate (i.e. 10%).

The provisions for free zones described in the VAT Act are in line with the provisions of European Council Directive 2006/112. Trade in goods and services within free zones is subject to VAT, except in cases where goods and services are purchased for future export outside the EU.

Due to the availability of skilled and productive workforce, modern infrastructure and excellent geographical position offered by the European Union market of 500 million consumers, many international companies from Italy, Germany, Austria, Switzerland and France have already established their free zones in BiH. In addition, BiH is a member of CEFTA, which gives it the possibility of duty-free exports to those countries.

## 5 – LABOUR

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### EMPLOYMENT

Bosnia and Herzegovina has a highly qualified and well-educated workforce, which gives it a competitive advantage over some countries that also export labour. The world labour market is changing rapidly with the entry of new professionals who are well versed in foreign languages, especially English, German and Italian. The education system of the former Yugoslavia was very good, so that workers from BiH were sought after and appreciated all over the world, especially engineers, doctors, computer scientists, nurses, construction workers, but also miners, farmers and others.

Unemployment is relatively high and according to official sources in 2019 it amounted to 19, 1% of the workforce, but these data are not the most reliable due to the high rate of undeclared work. Despite the government's efforts to encourage employment through various incentive programs for employers, the unemployment rate remains a significant social and economic burden.

### EMPLOYMENT CONTRACTS

The Labour Law is the main instrument that regulates the relationship between employers and employees in BiH through employment contracts and a number of institutions that protect workers' rights. These laws are the responsibility of the entities.

Employment contracts must be concluded in writing, regardless of the duration of employment. The contract must contain the place of employment, job description, basic salary and additional income. The employer and the employee have the right to agree on conditions more favourable for the employee than those prescribed by law. The Labour Law defines full-time employment as a 40-hour week. Employees are entitled to a minimum of three weeks of paid annual leave. Vacation days must be approved by June 30 of the current year for the previous year. The holiday pay or salary paid during the annual leave must be half the average salary at least the average salary in the previous three months if the firm is not at a loss. Workers are entitled to paid retirement and health insurance, as well as compensation for religious holidays.

### DISMISSAL

Employment may be terminated by mutual agreement, retirement, dismissal, death of the employee or the expiration of the term for which the employment contract was concluded. The Labour Law prescribes notice periods depending on the length of employment. In general, a permanent employment contract cannot be terminated without sufficient justification, unless the employment contract is terminated due to the negligent behaviour of employee. Each severance pay is determined based on the duration of the employment relationship. The minimum severance pay is calculated as one third of the average monthly salary paid in the last three months before the dismissal, for each year of employment with a particular employer. In addition, there are certain protections for employees in cases where a company files for bankruptcy, such as a priority in salary benefits three months before the start of the process, holiday pay and severance pay. If the employee's contract is temporary, the employer may dismiss him only if such a contract of dismissal is included in the employment contract. When the employer and the employee terminate the employment by agreement, they are free to decide on the appropriate conditions.

#### SOCIAL SECURITY

The BiH social security system includes regulations related to pension, health insurance and unemployment insurance. Bosnia and Herzegovina introduced crucial changes to its pension system in 1998, enacting new laws.

Following international trends, Bosnia and Herzegovina has also increased the retirement age, which is 65 for men and 60 for women and a minimum of 20 years of employment. Health insurance in BiH includes basic health insurance. Basic health insurance is compulsory and consists of the right to health care and the right to cash benefits. Entitlement to various cash benefits includes sick pay (including maternity leave) and transport costs incurred through the use of health services. Supplementary and private health insurances are voluntary insurances with the user paying a monthly insurance premium.

#### EMPLOYMENT OF FOREIGNERS

Economic zone (meaning EU and EFTA) and third-country nationals (including Switzerland and Liechtenstein). However, citizens from European Union countries who have imposed restrictions on Croatian citizens (Malta, the Netherlands, Austria, the United Kingdom and Slovenia) in their labour market must go through the same procedure as third-country nationals.

## 6 – TAXATION

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### Taxes in BiH

Basic tax categories:

- Value added tax
- Income tax
- Income taxes
- Property tax
- Social security contributions paid by the employer and the employee,
- Excise duties are a special type of tax paid on some of the products such as petroleum products, tobacco products, soft drinks, non-alcoholic beverages, beer, wine and coffee.

### CATEGORIES OF TAX RATES

- Value added tax 17% (FBiH, RS, BD)
- Income tax 10% (FBiH, RS, BD)
- Income tax 10% (FBiH, RS, BD)
- Value added tax (VAT)

Unique VAT rate 17%. The Indirect Taxation Authority is in charge of collecting value added tax and coordinating fiscal policy issues as a whole. This body is also responsible for collecting customs and excise duties throughout BiH.

### VALUE ADDED TAX-VAT

Value added tax is a comprehensive consumption tax and is assessed on the basis of value added tax on goods and services. It is a direct tax that applies to all business activities including the production and distribution of goods and the provision of services. VAT is a consumer tax because the total amount of VAT is not paid by the company, but by the final consumer. It is evaluated as a percentage of the price of products or services.

The amount of tax is visible in all phases, from production to distribution. When paying the tax liability, the taxpayer will reduce the value added tax from the amount of tax he has already paid to other taxpayers at the time of purchase. This ensures tax neutrality regardless of the number of transactions involved.

### PROFIT TAX

Income tax rate in BiH Federation of BiH - 10% Republika Srpska - 10% Brčko District - 10%  
Income transferred from abroad is not taxed in BiH. Profits transferred from abroad are not taxed if they are previously subject to taxation abroad.

Method of calculating income tax

Profit is calculated in accordance with applicable laws, minus expenses from income. The tax base includes profit, income and capital gains, in accordance with accounting regulations. Expenditures must comply with accounting standards.

**Income tax rates**

In FBiH - Income tax is 10% of net salary (according to the gross model).

In RS - Income tax is 10% of net salary (according to the gross model).

**FOREIGNERS AND TAXES IN BIH**

All foreigners residing in the Federation of BiH and the Republika Srpska pay tax on income earned in a calendar year on the territory of BiH. Equally, all foreigners who do not reside in BiH, but who earn income in the Federation of BiH and the Republika Srpska are considered taxpayers.

In the Brčko District, foreigners are treated as taxpayers if they reside in the territory of the Brčko District for an uninterrupted period of at least 183 days.

**TAX SYSTEM**

The tax system is based on the principles of equality and fairness. The system of indirect taxes and customs is organized at the state level, while the system of direct taxes is organized at the levels of the entities and the Brčko District.

**GENERAL TAX LAW**

The General Tax Law prescribes tax processes and relations between taxpayers and tax authorities. The General Tax Law covers broad issues related to tax proceedings, in particular completion, payment, refund, deferral, forced payment, proof and dispute resolution. This law also defines the main tax principles, such as the principle of equal attention, the principle of inactive application of tax regulations, the principle of established factual facts, tax secrecy, the principle of dishonesty and the principle of economic substance. The provisions of this law define the rights of taxpayers, clearly defining the relationship of debtors, creditors and heirs in terms of payment, disbursement, guarantee, compensation and calculation of tax liabilities or claim procedure. It also clearly defines the relationship in the proceedings of pledge, assignment and capture of property or rights.

**REAL ESTATE TRANSFER TAX**

A taxpayer is a person or entity that acquires real estate (purchase and sale, exchange, inheritance, giving, merging or withdrawing property from a company, purchasing property in liquidation or bankruptcy proceedings and on the basis of a court decision). The acquisition of property on which VAT is paid is not considered a transaction subject to real estate transfer tax. This tax is paid by domestic and foreign legal and natural persons, unless otherwise stipulated by an international agreement. Real estate transfer tax is paid at the rate of 5%.

The tax base is calculated as the market value of the asset at the time of acquisition.

The Real Estate Sales Tax Act provides for general tax relief, tax relief on contributions to society in the form of real estate and tax relief on inheritance, gifts and other real estate acquisitions free of charge. According to the Companies Act, real estate transfer tax is not paid if the property is contributed as the company's share capital.

## **INHERITANCE AND GIFT TAX**

Inheritance tax is generally levied on inheritance of property located in BiH. The inheritance tax base is generally the market value of the property reduced by the costs and debts incurred on the property. Several inheritance tax exemptions are available. The tax rate is up to 5%.

Gift tax is paid if the gift of property is made to another person (i.e. the user). The taxable base of a gift is usually the net value of the gift. The gift tax rate is usually 4%. Again, depending on the circumstances of the gift, several gift tax exemptions are available.

## **SPECIAL TAXES**

In BiH, special taxes (excise duties) are introduced on coffee, mineral oils, alcohol, beer, soft drinks, tobacco products, cars and other motor vehicles and luxury products. The persons required to pay excise duty are manufacturers and importers.

## **OTHER TAXES**

There are other, less relevant taxes for companies. These include a tax on road motor vehicles, a tax on holiday homes and a tax on shared gaming and entertainment machines.

## 7 – ACCOUNTING & REPORTING

### ACCOUNTING

Companies that exist and do their business in BiH are required to keep records and prepare annual financial statements in accordance with International Financial Reporting Standards (IFRS) issued by the International Financial Standards Board and certified by the State Accounting and Auditing Commission of BiH, which is a member of IFAC.

Large enterprises and public interest entities prepare annual financial statements in accordance with International Financial Reporting Standards (IFRS), while small and medium-sized enterprises prepare their reports according to the standards for small and medium-sized enterprises that are applied in BiH.

The size of the company is determined according to the criteria published in the Accounting and Auditing Act. The classification is based on the following criteria, i.e. meeting two of the following three criteria:

Size of enterprise	Number of employees	Asset value	Total income
LOW	up to 50	up to 4 mil. KM	up to 8 mil
MEDIUM	50-250	4-20 BAM million	8-40 BAM million
LARGE	over 250	over 20 BAM million	over BAM 40 mil.

+ banks, MCOs, insurance, leasing, funds, brokers...

Small legal entities:

- they are not required to submit semi-annual accounts
- only BS and BU submit for the annual calculation
- are not liable to audit the financial statements

Large companies are those that cross the two boundaries mentioned above.

The external audit of financial statements is determined by the FBiH Law on Accounting and Auditing and the Law on Accounting and Auditing of the Republika Srpska. According to the Law on Accounting and Auditing, companies that are required to have an annual external audit are:

- large and medium-sized companies
- subjects of public interest
- large and medium-sized groups
- companies whose shares or securities are being prepared for listing on an organized securities market
- companies involved in business combinations or divisions as takeovers or start-ups.

Auditors in BiH work according to International Standards on Auditing and International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS). Their main organization is the Bosnia and Herzegovina Chamber of Auditors in Sarajevo, and licenses and performance control are administered by the entity ministries of finance.

## REPORTING

The annual financial statements must contain these basic reports:

- Statement of financial position (balance sheet)
- Income statement (success sheet)
- Cash Flow Statement
- Statement of changes in capital
- Notes with financial statements

According to the Law on Accounting and Auditing in the FBiH (Official Gazette 83/09), the fiscal year is equal to a calendar year. However, the same law allows a fiscal year to differ from a calendar year if this is regulated by other regulations or for the needs of entrepreneurs.

When the fiscal year is equal to a calendar year, income tax returns must be submitted to the tax authority no later than April 30 of the following year.

Income tax must be submitted to the tax administration no later than February 28 of the following year.

From 1 January 2016, for tax returns for 2015, the tax authority is authorized to independently calculate the annual liability/income tax return of taxpayers if it has all the data on the taxpayer's income in the tax period.

All companies are required to submit annual financial statements and auditor's report to the Financial Agency (FIA) for the purpose of public disclosure and control by 2/28 of current year for the previous year

The annual consolidated financial statements must be submitted by April 30 of the next year.

## 8 – UHY REPRESENTATION IN BOSNIA AND HERZEGOVINA

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# UHY REVIDENT D.O.O. MOSTAR BOSNIA AND HERZEGOVINA



## CONTACT DETAILS

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Liaison contact:	Antonio Vukoja
Email:	antonio.vukoja@uhy-ba.com
Liaison contact:	Matko Knezevic
Email:	matko.knezevic@uhy-ba.com

## SOCIAL MEDIA CONNECTIONS

- Facebook: <https://www.facebook.com/pages/uhy-ba.com>
- LinkedIn: <http://www.linkedin.com/company/uhy-ba.com>
- YouTube: <http://www.youtube.com/user/uhy-ba.com>

Year established: 1997  
Number of partners: 1  
Total staff: 10

## BRIEF DESCRIPTION OF FIRM

Our company UHY REVIDENT DOO provides all services in the field of audit, tax, accounting and business consulting, valuation of tangible and intangible assets of all kinds of analysis, due diligence, analysis of merger separation and valuation, and bankruptcies and liquidations to all companies regardless of their size. The capital of the company amounts to BAM 35.000,00 and is fully paid up.

The ownership structure consists of prof.dr.sc. Božo Vukoja, certified auditor 51% and director dipl. oec. Antonio Vukoja 49%. The member of the Company is prof.dr.sc. Božo Vukoja, certified auditor. The Company is not a proprietor of UHY International Hacker Young Limited. The company is registered in the Register of Auditing Companies of the Audit Chamber FBiH 100001180.

The Company has offices with departments in Mostar Grude, Sarajevo and Banja Luka. Email: bozo.vukoja@uhy-ba.com, UHY Revident doo Mostar, based in Mostar, Bosnia and Herzegovina, has six employees, all of whom have a university degree and an active knowledge of the English language. It has three certified auditors, five certified accountants, three internal and three forensic auditors. Grude has three certified auditors, three internal and three forensic auditors and five accountants. For now, Mostar covers Sarajevo and Grude covers Banja Luka.

UHY Revident d.o.o. provides services in the field of audit, tax, accounting and business consulting and agreed procedures to all companies regardless of their size. Our clients include manufacturers and companies, charities and non-profit organizations.

UHY Revident's expert team provides consulting services to clients' requirements, which helps them to improve their organizational structure, business processes, financial structure and tax treatment. This approach focuses on identifying and locating relevant business hotspots in order to enhance the client's ability to compete and thrive in a complex business environment.



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business



# UHY REVIDENT D.O.O. MOSTAR BOSNIA AND HERZEGOVINA



Wide range of services provided by UHY Auditor in the field of audit and consulting services, Audit of companies in accordance with domestic regulations, international financial reporting standards and US GAAP standards, Forensic audit, Due diligence and valuation, Audit of increase and decrease of share capital of companies, Internal audit, Audit of other status changes of companies, and other related matters.

## VISION

Remain a leading domestic audit firm in the territory of Bosnia and Herzegovina, contributing to the development of the audit profession in Bosnia and Herzegovina and beyond.

## MISSION

Build long-term customer relationships for mutual satisfaction, backed by human resources, professional working methods and a wide range of services.

## KREDO

Corporate growth and diversity, which are a means of improving existing businesses and actively expanding into new areas of activity, and creating new opportunities and challenges for both individual professional development and for the advancement of society as a whole.

## STRATEGY

Continue to provide the best audit services, thus maintaining the trust and respect of clients and business partners, backed by a work environment where respect is universal, teamwork is routine, creativity is encouraged, learning is permanent, and ethics is beyond question.

## HUMAN RESOURCES

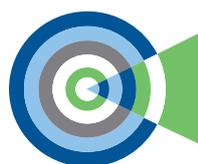
The UHY Revident team is made up of experienced and professional people with a high reputation in the business public. In addition to an educational approach aimed at further training of employees. Employees of the company Revident d.o.o. with their theoretical knowledge and audit practice are trained in the professional, consistent and independent application of an internationally recognized and well-known audit methodology, which ensures at the highest professional level the full implementation of the audit procedures set out in International Standards on Auditing and in accordance with the Audit Law.

UHY Revident d.o.o. provides auditing, tax, accounting and business consulting services and agreed upon procedures to all companies, regardless of their size. Our clients include manufacturers and companies, charities and non-profit organizations. UHY Revident's expert team provides consulting services to clients' requirements, which helps them to improve their organizational structure, business processes, financial structure and tax treatment. This approach focuses on identifying and locating relevant business hotspots in order to enhance the client's ability to compete and thrive in a complex business environment.

Both companies from both LRC and BISNODA have high AAA ratings for 2018 and 2019 and the Company has a high rating and ISO 9001-2015.

## SERVICE AREAS

- Audit and outsourcing services
- Tax consultancy
- Forensic accounting and litigation support
- In depth analysis
- Corporate Finance (Acquisitions, Sales, Fundraising and Flotation) Transfer Pricing



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# UHY REVIDENT D.O.O. MOSTAR BOSNIA AND HERZEGOVINA



- Transfer pricing studies
- Accounting
- Bankruptcies

## SPECIALIST SERVICE AREAS

- Company evaluation

## PRINCIPAL OPERATING SECTORS

- Computers and peripherals
- Electrical components and equipment
- Hotels
- Industrial products
- Information technology (IT) and services
- Textiles and clothing

## LANGUAGES

Croatian, English, German

## CURRENT PRINCIPAL CLIENTS

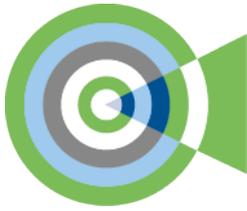
- Fis d.o.o. Vitez,
- Violeta d.o.o. Grude,
- Grafotisak d.o.o. Grude,
- Planet d.o.o. Posušje,
- Dara d.o.o. Posušje,
- Profine Bh d.o.o. Živinice,
- Vecernji list BH d.o.o. Mostar,
- MI Rakitno d.o.o. Posušje,
- Hercinvest d.o.o. Trebinje
- More Screens d.o.o. Mostar,
- Lagermax AED d.o.o. Sarajevo,
- Kristal d.o.o. Vitez,
- BET-live d.o.o. Vitez,
- Sport Plus d.o.o. Novi Travnik,
- Alfe-MI d.o.o. Živinice,
- ADK d.o.o. Novi Travnik,
- Penava d.o.o. Posušje,
- Frankstahl d.o.o. Vitez,
- TT Kabeli d.o.o. Široki Brijeg,
- JU Bolnica Nova Bila Travnik,
- Eagle Technology d.o.o. Žepče,
- GS-TMT d.o.o. Travnik...

## BRIEF HISTORY OF FIRM

The company was first registered in 2016 under the name SMART UP MOSTAR to receive a license from the FBiH Ministry of Finance in 2018 and began auditing.



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## LET US HELP YOU ACHIEVE FURTHER BUSINESS SUCCESS

To find out how UHY can assist your business, contact any of our member firms. You can visit us online at [www.uhy.com](http://www.uhy.com) to find contact details for all of our offices, or email us at [info@uhy.com](mailto:info@uhy.com) for further information.

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