

- Businesses can free up valuable assets to invest in productive activities;
- Corruption will decline dramatically.

D. Tax Rates

Current business tax rates are among the highest in Europe. In the Federation these include:

- 10% tax on services;
- 10% tax on margin;
- 5% tax on cash deposits (retail sales);
- 87% tax on employees net salary;
- 36% tax on profits;
- Annual business registration taxes;
- Miscellaneous municipal taxes and levies, often retroactive.

Because most BiH companies operate with a thin 20-25% margin (compared to 50-100% margins in the West), these taxes quickly wipe out any profit. A company operating within the law and declaring all of its income will typically have a 3% year end profit margin. Given such low potential earnings, it makes more sense to deposit one's funds in a German bank and get a 4% to 5% annual return.

These high tax rates drive most businesses to operate at least partially in the underground economy. In the Brcko region it is estimated that as much as 80% to 90% of all economic activity is underground. Many workers remain unregistered, due to the high employment taxes. This deprives the municipal government of needed tax revenues. Given the current tax policies, Brcko will not recover economically unless the entire system is fundamentally altered.

Recommendations:

A wise tax policy is crucial to the economic growth of Brcko, as well as vital to the revenues of the municipality. A revamped tax system should:

- Abolish all current business taxes;
- Institute a VAT tax of 8% on all business transactions (as the economy strengthens this may be raised slightly higher);
- Lower the level of payroll contributions to 47% of net salaries;
- Offer a two year tax holiday to all new investment in Brcko.

Benefits:

- Attract new business investment to Brcko;