

Bosnia and Herzegovina: New Personal Income Tax Law

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Effective on January 1 2009, a new Law on Personal Income Tax (New PIT law) for the Federation of Bosnia and Herzegovina (FBiH) was adopted in April 2008. The New PIT Law will have a direct impact on the taxation of personal income in the FBiH and an indirect impact on labour regulations.

According to the labour law of the FBiH, salaries are regulated by the collective agreements governing employees in the relevant industry, as well as by the internal regulations of the employer and relevant employment agreements. In practice, most employers in the FBiH have historically used a net system of salary payment, with very few choosing to implement a gross system. Under a net system, salaries are expressed in net amounts. The employer calculates, withholds and pays relevant taxes and contributions on the basis of the net amounts and pays the net salary to the employee.

The Wage Tax Law and Wage Tax Regulations cover in detail both the gross and net methods of wage tax calculation.

The New PIT law will bring in significant changes, requiring that all income from dependent activity (all employment-related payments) be treated as a gross wage paid to the employee. In order to implement this gross system of salary payment, the New PIT law requires all employers to calculate and show salaries in the tax records and all other reports in the gross amount. Employers are obliged to do so no later than January 1 2009, when the New PIT law comes into force. If an employer does not meet this deadline, it will be obliged to recalculate taxes and contributions for the salaries of all employees in terms of gross amounts determined on the basis of a statutory formula for the conversion of net salary amounts into gross amounts.

Employers in the FBiH that use the net salary payment system will have to undertake crucial reforms of their internal employment regulations in order to comply with the new gross payment system. Many employers have already begun the adaptation of their internal regulations. Entities or individuals that plan to become employers in the new year should familiarise themselves with the New PIT law and ensure that they adopt the proper internal systems for salary payment.

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