Bosnia: The Taxman Cometh

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New broom at the Republika Srpska treasury tackles tax dodgers.

A curious thing happened in Republika Srpska, RS, when economist Dr Milica Bicic took over tax administration at the treasury.

People who hadn't paid taxes for years suddenly started doing so.

When she moved into the job in January, Dr Bicic found only around 589 people had submitted tax forms during 2001. Now the figure has shot up to more than 150,000. Formerly deserted revenue offices became full of people busily filling in tax forms.

Possibly they were impressed by Dr Bicic's methods. Companies found to have large tax bills were told to shut down until they paid them. The Dusani company in Prnjavor was allowed to remain open but only after treasury men drove away eight articulated trucks in lieu of payment.

For seven years, hardly anyone in RS had sent in tax forms. Somehow this escaped the notice of the 1,200 people working for the treasury's revenue departments who seemed to pursue a policy of "maximum tolerance".

The loss to the RS entity, which makes up half of Bosnia-Herzegovina, has been enormous. It was estimated that in 2001 unpaid taxes amounted to some 500 million konvertible marks, km, more than half of the RS annual budget.

This situation might have continued indefinitely if a law on tax administration had not been passed by the RS assembly in October last year. This legislation disbanded the largely ineffective public revenue administration and the financial police, replacing them with a single administrative body - the Republika Srpska Tax Administration.

The new body was made responsible for collection of all taxes and enforcement of payments. In addition, the law simplified the existing taxation system and imposed a direct obligation on taxpayers to declare their earnings. Previously, it had been up to tax officers to inform individuals of their duty.

By appointing Dr Bicic as director of the tax administration, the RS government finally found somebody able and willing to implement the law.

A professor of microeconomics at the University of Belgrade, she was brought in by her close friend, RS prime minister Mladen Ivanic, to kickstart economic reforms and played an instrumental role in designing the new tax law.

Nevertheless, finding herself in such a senior government post came as a big surprise. "This was a completely new situation for me," Dr Bicic said. "I'm a teacher and I'm used to dealing with economic problems as a researcher. I never dreamt that I would be director of the tax administration."
For Ivanic, the appointment proved to be a shrewd manoeuvre. With her determined, single-minded approach and her “outsider” status, Dr Biscic has enacted sweeping changes that no established official could have tackled.

The previous administration had been vulnerable to pressure from companies with allies in government.

Dr Biscic insisted on choosing her own staff based on their abilities and experience rather than political loyalties. Her first priority was to increase the control wielded by tax inspectors in the field.

"First, we changed the way we audited taxpayers, with the largest audited from our headquarters," she explained. "Secondly we introduced an investigation and intelligence unit at headquarters. And the most important thing was that we organised internal control."

All employees are now required to sign a personal pledge governing rules of conduct. Any infringement of the rules could lead to suspension or dismissal. For serious misdemeanors - such as soliciting or accepting a bribe - the minimum punishment is a 50,000 km fine and five years imprisonment.

These new controls have cost the jobs of 16 tax administration members. The message seems to be getting through.

"I see taxpayers in the town and sometimes they complain about new procedures but I haven't heard anybody complain about bribery," Dr Biscic said. "They just smile and ask me what have I done to the inspectors who now won't even accept a coffee."

Her first targets were the large private oil/petrol companies who had been running up huge tax debts since the end of the war. Targeting was based on three criteria: the size of the debt, regularity of tax payment and the probability of collection.

While many of the large state companies had also accrued huge tax debts they were not put in the immediate firing line, as they were patently unable to pay.

The administration sent out letters to offending companies, requesting immediate action. Any company that failed to respond within a specified period was earmarked for an official visit from Dr Biscic and her team.

"The first action was in April," she said. "We started at six companies simultaneously on the stroke of noon (people joked about 'High Noon'). We went for the Mandic company in Bijeljina, Dusanic in Prnjavor, Roguljic in Banja Luka, Siskovic and Promet in Trebinje and Romanic in Prijedor."

Between them, these six companies owed more than seven million km in back taxes. The raids were conducted without police support because it was feared officers might tip off the companies. Instead, senior members of the tax administration were requested to attend to ensure inspectors were able to do their jobs.

The six companies were all closed down - except for Dusanic whose articulated vehicles were impounded. But they reopened after either settling their debts, paying installments or securing bank guarantees.
Since those first raids, the administration has carried out 500 more enforcement procedures. They have so far netted the treasury 34.5 million km (29.1 million in direct payments and 5.4 million in installments).

Her crusading style has earned Dr Bicic the nickname "Eliot Ness" after the famous US crimebuster. While she finds the comparison flattering, she insists it is not her aim to close big companies, telling IWPR, "The goal of the tax administration is to have good, healthy and rich taxpayers."

The raids demonstrated that the new regime meant business. Since it started, more than 150,000 people have submitted income tax forms.

"The total revenue collected," said Dr Bicic "is more than one million km up to now. Which is ten times more than last year."

Despite this breakthrough, and the successes of her department, Dr Bicic's position still hangs in the balance. The relatively poor showing of Ivanic's Party for Democratic Prosperity in the recent elections in Bosnia means that a change in the composition of the government is highly likely.

If Ivanic fails to be re-nominated as the entity's premier, then it could be all change once again down at the tax office.

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