

Tax system in Serbia

MERGERS & ACQUISITIONS

Financing

Financial assistance by the subsidiary

N/A

Subordinated debt (mezzanine capital)

N/A

Interest expenses for acquisition financing

Interest in connection with third party financing of the acquisition of shares is basically tax deductible.

Interest expenses on subordinate debt

Interest expenses are generally tax deductible, to the extent that subordinated capital is to be treated as a liability for tax purposes and not as a (disguised) capital contribution.

EU interest barrier

N/A

Squeeze-out options

Buy-out of minority shareholders ("squeeze-out")

Possible where there is an interest of at least 90% in the share capital (applicable to joint stock corporations), even if minority shareholders dissent.

Capital gains - corporations and partnerships

Sale of shares in a joint stock corporation (a.d.)

The gain of legal entities on the sale of shares in a joint stock corporation in general is taxable income.

Sale of shares in a limited liability company (d.o.o)

The gain of legal entities on the sale of ownership interest in a limited liability company in general is taxable income.

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Sale of interest in a partnership

N/A

International participation exemption

N/A

Sale of business

Definition

Sale of the business by individual sale of assets and liabilities ("asset deal") is possible.

Special labour law regulations have to be observed if employment contracts, leasing contracts etc. are to be transferred. Also, VAT rules should be considered

Valuation

For the sale of individual assets, the acquisition cost principle is applicable. The total purchase price is allocated to individual assets and liabilities at fair value, the difference constitutes goodwill.

Goodwill

For tax purposes, goodwill is not subject to amortisation

Mergers and demergers

Types of mergers described by commercial law

Upstream merger (possibly down-stream), side- stream merger, takeover of the business by the main shareholder (not in case of a corporation), spin-off, demerger.

Valuation

For financial accounting purposes, as a rule valuation of assets and liabilities is always optional, and in accordance with IFRS and IAS.

Valuation in financial accounting

Method 1 – carrying values Assets and liabilities recognized at carrying values, with difference possibly recognized as surplus on reorganization (under certain circumstances, as goodwill).

Method 2 – revaluation Assets and liabilities are valued at fair value, the difference is recorded as goodwill.

Provision requirements have to be considered (e.g. deferred taxes).

Method 3 - using the equity method in accordance with the new IAS 28.

Goodwill amortisation

For tax purposes, goodwill is not subject to amortisation

Tax consequences

Revaluation of assets is as a rule not tax deductible

Contributions (transfer of assets into the capital of a company)

Contributions in kind

In general, the contribution of assets is allowed (services cannot be contributed).

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Tax treatment

The exchange of individual assets against an interest in the company is subject to various taxes

Goodwill amortisation

For tax purposes, goodwill is not subject to amortisation

TAX CONCESSIONS

Direct

None

Indirect**Income tax concessions, e.g.**

Under certain conditions the following tax concessions are applicable:

- for the employment of new persons who were continuously registered as unemployed for at least six months before the National Employment Agency
- for the employment of a disabled person for an indefinite period of time
- for the employment of shareholder of new established company who perform innovative activity
- for the employment of qualified new employees
- for the employment of employees who are directly engaged in R&D

Tax credits**Family Bonus Plus:**

N/A

Children surplus:

N/A

Sole earner deduction pa.:

N/A

Single parent deduction pa.:

N/A

Child deduction:

there is a deduction prescribed for annual income tax for members of the family that are financially depend on the taxpayer

Alimony deduction:

N/A

if in employment / pension income p.a.:

N/A

Allowances and exemptions**Profit allowance:****TPA Steuerberatung GmbH**

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N/A

Investment allowance:

A taxpayer who invests in an alternative investment fund, i.e. in the purchase of an investment unit of an alternative investment fund, is granted the right to a tax credit for the annual personal income tax of up to 50% of the investment made in the calendar year for which the annual personal income tax is determined. The tax credit cannot exceed 50% of the annual tax liability.

Government subsidies

For employers salaries are financed by the Government for maternity leave of employees for the period of one year (two years for third child). Parental allowance for a child born on January 2023 and later, as follows:

- for first child - one off allowance in amount of EUR 2.611
- for the second child - 24 equal monthly installments of EUR 109
- for the third child - 120 equal monthly installments of EUR 131
- for the fourth child - 120 equal monthly installments of EUR 1196

DOUBLE TAXATION AGREEMENTS

Double taxation agreements

The right to taxation in the event of sale of shares in real estate companies is subject to differing provisions. In accordance with the OECD Model Agreement, for those countries for which there is a "yes" in the real estate clause column, the right to taxation lies not with the country of residence of the vendor but with the country in which the property is situated.

Country	Effective date	Real estate clause	Dividends* %	Interest %	Royalties %
Albania	17.11.2005.	yes	5/15	10	10
Armenia	03.11.2016.	yes	8	8	8
Austria	17.12.2010.	yes	5/15	10	5/10**
Azerbaijan	01.12.2010.	yes	10	10	10
Belarus	24.11.1998.	no	5/15	8	10
Belgium	26.05.1983.	no	10/15	15	10
Bosnia and Herzegovina	02.06.2005.	yes	5/10	10	10
Bulgaria	10.01.2000.	no	5/15	10	10
Canada	31.10.2013.	yes	5/15	10	10

Country	Effective date	Real estate clause	Dividends* %	Interest %	Royalties %
China	01.01.1998.	yes	5	10	10
Croatia	22.04.2004.	yes	5/10	10	10
Cyprus	30.01.1986.	no	10	10	10
Czech Republic	27.06.2005.	no	10	10	5/10**
Denmark	24.12.2009.	yes	5/15	10	10
Egypt	05.04.2006.	yes	5/15	15	15
Estonia	14.06.2010.	yes	5/10	10	5/10**
Finland	18.12.1987.	no	5/15	0	10
France	01.08.1975.	yes	5/15	0	0

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Country	Effective date	Real estate clause	Dividends* %	Interest %	Royalties %
FYROM (Macedonia)	22.07.1997.	no	5/15	10	10
Georgia	09.01.2013.	yes	5/10	10	10
Germany	03.12.1988.	no	15	0	10
Greece	08.06.2010.	no	5/15	10	10
Hong Kong	30.12.2020.	yes	5/10	10	5/10
Hungary	13.12.2002.	no	5/15	10	10
India	23.09.2008.	yes	5/15	10	10
Indonesia	03.12.2018.	yes	15	10	15
Ireland	16.06.2010.	yes	5/10	10	5/10**

Country	Effective date	Real estate clause	Dividends* %	Interest %	Royalties %
Iran	16.12.2011.	yes	10	10	10
Israel	25.10.2019.	no	5/15	10	5/10
Italy	03.07.1985.	no	10	10	10
Japan	05.12.2021.	yes	5/10	10	5/10**
Kazakhstan	24.11.2016.	yes	10/15	10	10
Kuwait	08.05.2013.	no	5/10	10	10
Latvia	19.05.2006.	yes	5/10	10	5/10**
Libya	06.08.2010.	yes	5/10	10	10
Lithuania	12.06.2009.	yes	5/10	10	10

Country	Effective date	Real estate clause	Dividends* %	Interest %	Royalties %
Luxembourg	27.12.2016.	no	5/10	10	5/10**
Malta	16.06.2010.	yes	5/10	10	5/10**
Marocco	19.04.2022.	yes	10	10	10
Moldova	23.05.2006.	no	5/15	10	10
Montenegro	21.12.2011.	yes	10	10	5/10**
Netherlands	06.02.1983.	no	5/15	0	10
North Korea	17.11.2016.	no	10	10	10
Norway	18.12.2015.	yes	5/15**	10	5/10**
Pakistan	21.10.2010.	yes	10	10	10
Poland	17.06.1998.	no	5/15	10	10

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Country	Effective date	Real estate clause	Dividends* %	Interest %	Royalties %
Qatar	09.12.2010.	no	5/10	10	10
Republic of Korea	05.06.2001.	yes	5/10	10	5/10**
Romania	01.01.1998.	no	10	10	10
Russia	09.07.1997.	no	5/15	10	10
San Marino	08.10.2018.	yes	5/10	10	10
Singapur	16.08.2021.	yes	5/10	10	5/10
Slovakia	15.10.2001.	no	5/15	10	10
Slovenia	31.12.2003.	no	5/10	10	5/10**
Spain	28.03.2010.	yes	5/10	10	5/10**

Country	Effective date	Real estate clause	Dividends* %	Interest %	Royalties %
Sri Lanka	22.03.1986.	no	12.5	10	10
Sweden	16.12.1981.	no	5/15	0	0
Switzerland	05.05.2006.	yes	5/15	10	0***
Tunisia	03.06.2013.	yes	10	10	10
Turkey	10.08.2007.	no	5/15	10	10
UAE	29.11.2001.	yes	5/10	10	10
Ukraine	02.07.2013.	yes	5/10	10	10
United Kingdom	16.09.1982.	no	5/15	10	10
Vietnam	18.10.2013.	yes	10/15	10	10

* If the recipient company holds at least 25 % (20 % in DTA with Switzerland) of the paying company, the lower of the two rates shown applies.

** For the use or the right of use of any copyrights of literary, artistic or scientific work, including cinematograph films, films and tapes for television and radio, tax shall not exceed 5 % of the gross amount of the royalties.

For the use or the right of use of any patent, trade mark, design or model, plan, secret formula or process, or for the use or the right of use of industrial, commercial or scientific equipment or for information concerning industrial, commercial or scientific experience, tax shall not exceed 10 % of the gross amount of the royalties.

*** Provided by the Protocol to the treaty between Serbia and Switzerland. Valid until Switzerland imposes withholding tax on royalties.

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TYPES OF ORGANISATIONS

Types of organisation

	<i>Name in local language</i>	<i>Registrable in commercial register / legal entity</i>	<i>Minimum capital</i>	<i>Sole shareholder company</i>
Limited liability company	društvo sa ograničenom odgovornošću (d.o.o.)	yes / yes	RSD 100 (approx. EUR 1)	yes
Stock company	akcionarsko društvo (a.d.)	yes / yes	RSD 3 million (approx. TEUR 25)	yes
Cooperative	zadruga (no abbreviation)	yes / yes	no	no
General partnership	ortačko društvo (o.d.)	yes / yes	no	no
Limited partnership	komanditno društvo (k.d.)	yes / yes	no	no
Registered branch office	ogranak (no abbreviation)	yes / no	no	-
Permanent establishment	stalna poslovna jedinica (no abbreviation)	no / no	no	-

	<i>Capital tax / Registration fees</i>	<i>Written form / notarization</i>	<i>Tax transparency</i>	<i>Registration with tax authorities</i>	<i>Statutory audit</i>
Limited liability company	no / Registration fee is due	yes / yes	no	yes	If it is classified as a large or mid-size entity. For the financial year 2023 a statutory audit is required if business revenue in 2022 exceeds TEUR 4,400 in RSD countervalue, regardless of its size.
Stock company	no / Registration fee is due	yes / yes	no	yes	If it is classified as a large or mid-size entity, or it issues shares via public offering. For the financial year 2023 a statutory audit is required if business revenue in 2022 exceeds TEUR 4,400 in RSD countervalue, regardless of its size.
Cooperative	no / Registration fee is due	yes / yes	no	yes	If it is classified as a large or mid-size entity. For the financial year 2023 a statutory audit is required if business revenue in 2022 exceeds TEUR 4,400 in RSD countervalue, regardless of its size.
General partnership	no / Registration fee is due	yes / yes	no	yes	If it is classified as a large or mid-size entity. For the financial year 2023 a statutory audit is required if business revenue in 2022 exceeds TEUR 4,400 in RSD countervalue, regardless of its size.
Limited partnership	no / Registration fee is due	yes / yes	no	yes	If it is classified as a large or mid-size entity. For the financial year 2023 a statutory audit is required if business revenue in 2022 exceeds TEUR 4,400 in RSD countervalue, regardless of its size.
Registered branch office	no / Registration fee is due	yes / yes	no	yes	as part of any audit of the head office
Permanent establishment	no / no	no / no	-	yes	as part of any audit of the head office

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Exchange rate: EUR 1 = RSD 117.3224 (rounded) 31.12.2022.

VAT

Tax rates

Standard VAT rate: 20 %

Reduced rate: 10 % (basic foodstuffs - bread, milk, flour, cooking oil, fresh and frozen fruits, vegetables, meat, fish and eggs, listed drugs, agricultural fertilizers, pesticides, textbooks, daily newspapers, accommodation services, public utility services gas, first transfer of ownership on residential buildings, secondary raw materials, etc.)

Flat rate scheme for farmers: 8 %

Supply of goods

Supplies of goods with consideration, withdrawal for private use (self supply) as well as any other supply without consideration on the territory of Serbia are taxable. Import of goods in Serbia is taxable.

Place of supply of goods

Principally the place where the item is located at the time disposal is transferred (static supply).

In case of dispatch/transportation by the supplier or purchaser: the place where dispatch/transportation begins (moving supply).

Importation from third country: Import country.

Supply of services

Supply of services with consideration, private use as well as supply of services without consideration for non-business purposes are taxable.

Place of supply of services

If supply is made to taxable person, place of supply is place of recipient (place where the recipient has established its business or has permanent place of business) – B2B rule

If supply is made to non-taxable person, place of supply is place of supplier – B2C rule

In case taxpayer's place of permanent residence and inhabitation are not the same, place of supply is taxpayer's inhabitation place. Certain special cases are prescribed for particular type of services.

Basic rule

B2B	B2C
Place of recipient (The place where the recipient of services has established its business)	Place of supplier (The place where the supplier of services has established its business)

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Special cases

	B2B	B2C
Supplies of services by intermediaries	Place of recipient (basic rule)	Place of the underlying transaction
Property services	Place of property	Place of property
Cultural, artistic, scientific, educational, sports, entertainment or similar services, like services in connection with fairs and exhibitions including services of the respective organizer; not applicable for admission and services relating thereto	Place of recipient (basic rule)	Where the services are physically carried out
Admission and other related services for events like fairs and exhibitions	Place of the event	Place of the event
Passenger transport	Distances covered in the territory of Serbia	Distances covered in the territory of Serbia
Transportation of goods (without intra-community goods transportation)	Place of recipient (basic rule)	Distances covered in the territory of Serbia
Intra-community goods transportation	N/A	N/A
Ancillary transport services	Place of recipient (basic rule)	Distances covered in the territory of Serbia
Appraisal and processing of movable tangible objects	Place of recipient (basic rule)	Place of service provider
Restaurant and catering services	Where the services are physically carried out	Where the services are physically carried out
Restaurant and catering services in connection with intra-community passenger transport	N/A	N/A
Renting of means of transport for up to 30 days	Where the means of transport is actually put at the disposal of the customer	Where the means of transport is actually put at the disposal of the customer
Renting of means of transport for over 30 days	Place of recipient (basic rule)	Place of recipient
"Listed services" to third country customers 1)	none	none
"Listed services" to customer in the EU	none	none
Electronically supplied services, radio and TV services	Place of recipient (basic rule)	Place of recipient

Mini-One-Stop-Shop (MOSS) / One-Stop-Shop (OSS)

N/A

Reverse Charge "reversal of tax liability"

Applicable to all taxable supplies with place of supply in Serbia (certain exceptions to this general rule apply), supply made between two registered VAT payers in construction industry (in case that turnover performed by VAT payer exceeds RSD 500,000, approx. EUR 4,260 without VAT), secondary raw material supply, electricity and natural gas supply made to a distributor and in certain other cases.

Requirements

The supplier has no domicile or habitual abode in Serbia, nor a permanent establishment in Serbia involved in supply or has not appointed a VAT representative in Serbia

Consequences

The recipient owes the VAT. If general conditions for VAT deduction are met, VAT charged by recipient could be claimed back (no cash flow implications for the recipient)

Special regulations

Apply to construction services

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Tax reliefs

Exemption (Input VAT deductible even though no VAT chargeable on supply of goods and services)

- export of goods and transportation and other services in direct relation to the export, transit or temporary import of goods;
- supply of goods in the customs warehousing;
- entering of goods in free zones, transportation and other services in relation to entering of goods into the free zone and supply of goods and services in the free zone;
- Supply of goods that are entered into the free zone, transport and other services directly related to such entry, and supply of goods in the free zone, made to a foreign entity who has concluded an agreement with the free zone user to incorporate those goods into the goods which will be dispatched abroad.
- supply, repair, maintenance, charter and lease of aircraft and river vessels predominantly operating in international traffic, as well as shipment, repair, lease and maintenance of goods for these aircraft and river vessels;
- supply of goods and services for the direct needs of the above-mentioned aircrafts;
- international air and river transport of passengers, where the non-resident company is exempted under the condition of reciprocity;
- the supply of goods and services to diplomatic and consular missions, international organizations, etc.;
- services performed on movables obtained by a foreign user of the service in Serbia or imported for the purpose of inward processing, repairing or incorporating and then exported;
- supplies of goods and services in relation to donation agreements concluded with the Republic of Serbia that state that tax is not to be paid from donation funds;
- supplies of goods and services carried out in line with credit and/or loan agreements concluded between Serbia and an international financial organization or another state or agreements between a third party and international financial organization or other states, where Serbia is the guarantor or counter-guarantor if agreements state that tax will not be covered from the obtained funds;
- supplies of goods and services carried out in line with other international agreements if tax exemption is provided in the agreement;

Zero rates ("non-genuine" tax exemption) (Input VAT is not deductible)

- financial, banking and insurance services;
- supplies of land (agricultural, forest land, construction, developed or undeveloped) as well as renting of land;
- operations involving securities, shares, postal orders, administrative fees and stamps by their value in Serbia;
- second and every subsequent sale of buildings and sale of parts of buildings, unless both parties in the transaction agreed to apply VAT on such transfer;
- the lease of immovable property for residential purposes;
- public interest activities, such as:
- postal services and related supplies of goods,
- medical services,
- education and professional retraining,
- social, child and youth welfare services,
- cultural services rendered by not-for-profit organizations,
- scientific, sport and religious services,
- services of organizing games of chance,
- public broadcasting, except services of a commercial nature, etc.
- transfer of virtual currencies and exchange of virtual currencies for cash.

Deductible input VAT

For VAT and import VAT invoiced for the supply of goods and services used for conducting business activity.
Generally no deduction of input VAT with respect to:

- non-deductible expenses
- representatives costs

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- acquisition, lease or rental and operation of passenger cars, yachts, aircraft, facilities for accommodation of these goods, spare parts, fuel and consumables for their needs, rental, maintenance, repairs and other services related to the use of these means of transport, as well as goods and services related to using facilities for the accommodation of those goods

expenses for the transportation of employees, i.e. other persons engaged in work for coming to work, i.e. leaving work, as well as expenses for meals, including drinks, of employees, i.e. other persons engaged in work, except expenses for meals, including drinks, of those persons in catering facilities of the liable party when the liable party charges a fee on that basis.

Input VAT correction

In case of fixed assets (resp. major repairs): If the circumstances which have been relevant for the input VAT deduction change subsequently, a corresponding positive or negative input VAT correction must be made.

As a general rule, the observation period for input VAT correction is 5 years.

Real Estate

Rentals

Renting of immovable property is subject to 20 % VAT

Exception:

Renting for residential purposes is tax exempt

Sales

First transfer of buildings and economically separable units is subject to 20 % VAT

First transfer of residential buildings and economically separable units is subject to 10 % VAT

Second and every subsequent transfer of real estate can be either:

- subject to VAT, provided that both parties - VAT payers in the transaction agreed to apply VAT and that buyer is allowed to fully recover VAT charged on the transfer as input VAT; or
- subject to 2.5 % transfer tax (unless VAT does not apply)

Input VAT refund for Serbian taxable persons within the EU

Based on reciprocity

Foreign taxable persons

Taxable persons without domicile or permanent establishment in Serbia

Registration

Available for foreign entities via VAT representative in Serbia and also for Serbian companies and individuals under certain conditions

Refund of input VAT for taxable persons domiciled in the EU

A foreign entity carrying out no supplies in Serbia (except in case of transportation services and in case the recipient of goods/services-VAT taxpayer has the obligation to calculate VAT liability) is allowed to have VAT refund under certain conditions

Refund of input VAT for taxable persons not domiciled in the EU

A foreign entity carrying out no supplies in Serbia (except in case of transportation services and in case the recipient of goods/services-VAT taxpayer has the obligation to calculate VAT liability) is allowed to have VAT refund under certain conditions.

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GENERAL MANAGERS

Civil law

General managers enter either into employment agreement or agreement on rights and duties of general manager, i.e. management agreement

Social insurance

Yes

Income tax

Subject to tax on salaries (if employment agreement is concluded) or tax on other income (if agreement on rights and duties of general manager is concluded), including all fringe benefits

VAT

None

Work permit

Work permit is required for non-resident general managers who are locally employed

Residence permit / settlement permit

Residence permit is needed if general manager is staying more than 90 days in Serbia in case he/she is not locally employed.

Liability

In case of gross negligence or fault.

Minimum remuneration

Subject to Labour Law regulations for employment engagement, otherwise appropriate remuneration.

SOCIAL INSURANCE AND NON-WAGE LABOR COST

Social insurance

Mandatory social security contributions are: health insurance, pension and disability insurance and unemployment insurance

Maximum contributions

Five times average monthly salary in Serbia paid in previous 12 months as per official statistics, adjusted annually.

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Self-employed persons

Health insurance

10.3%

Pension and disability insurance

24.00%

Obligatory pension fund

The Pension Fund of the Republic of Serbia.

Accident insurance

None

Maximum contributions

Contributions limited to a maximum of approx. EUR 3.800 on the monthly basis (EUR 51.178 on the annual level)

Employed persons

Health insurance

Employer: 5.15 %

Employee: 5.15 %

Pension and disability insurance

Employer: 10 %

Employee: 14 %

Maximum contributions

Contributions limited to a maximum of approx. EUR 3.800 on the monthly basis (EUR 51.178 on the annual level)

Others

Unemployment insurance paid by employee: 0.75 %

Severance fund

N/A

Non-wage labour costs

Besides the employer contribution to social insurance, there are no other non-wage labour costs

IMMOVABLE PROPERTY

Tax depreciation

straight-line

Immovable are included in I group of fixed assets for tax depreciation purposes. Straight-line method is applied

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additional

N/A

Depreciation categories

Land

No depreciation

Buildings

2,5 % as of activation moment

Tax base

Acquisition costs

Special depreciation

N/A

Write-ups

Not allowed for tax purposes

Real-estate income tax

Object of taxation

Capital gains from the sale of real estate by individuals and companies.

Tax rate

15%

Tax collection

The taxpayer is obligated to calculate, report and pay capital gain tax

Exemptions

For individuals that invest the gained funds with in a prescribed period for purchase of real estate for housing of the taxpayer and members of his family.

For the sale of real estate that had been in possession of individuals for at least 10 years prior to the sale continuously.

Property transfer tax

Objects of taxation

Transfer with consideration of (if transfers are not subject to VAT):

- ownership over immovable,
- rights of use over construction land,
- rights to permanent use of a parking space in an open apartment block or apartment complex.

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- rent of construction land in public ownership for a period longer than 1 year or for an indefinite time period for the purpose of constructing buildings

Basis of assessment

The basis of assessment is agreed sale price, which may be reassessed by the Tax Authorities if it is below market level

Tax rate

2.5 %

Property tax**Object of taxation**

- Ownership right over immovable property (buildings and land larger than 10 acres) of companies and individuals;
- Right of occupancy
- Tenancy right (in accordance with the specific regulations) for a period longer than one year or for an indefinite period
- Right of usage for construction land larger than 10 acres in area
- Right of usage of state-owned immovable
- Occupancy of the immovable for which the owner is unknown or undetermined
- Occupancy of the state-owned immovable without legal ground (sine causa occupancy);
- Occupancy or right of usage of the immovable based on financial lease agreement

Basis for taxation is market value per m2 determined by the local authorities (or net book value as of 31 December of previous year in certain cases or in case when immovable is recorded at fair value in the books of a taxpayer).

Tax rate - companies pay property tax at the rate of up to 0.4 % (the exact rate is determined by the local municipality). Individuals pay property tax with progressive rates.

Real estate funds**Owner of the fund assets**

No specific rules

Annual valuation

No specific rules

Borrowing

No specific rules

Diversification of risk

No specific rules

Tax liability

No specific rules

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OTHER TAXES

Business tax

None

Wealth tax

None

Inheritance and gift tax

Inheritance and gifts are taxed depending on the level of inheritance order at 1.5% and 2.5 %.

Property transfer tax

Motor vehicles, vessels and aircrafts (if they are not subject to VAT)

Capital duties and fees

Contract duties

None

Registration fees

Entries in the Land Register, Business registers, and other public registers

Capity duty

None

FILING DATES AND DEADLINES

Annual tax returns

Corporate income tax - 180 days after the end of the tax year

Annual Income tax - 15 May of the following year. Deadlines for particular income vary depending on type of income

VAT interim returns

Filing on the 15th of the following month VAT return should be accompanied with detailed breakdown of the VAT. Option to apply for quarterly VAT return.

No annual VAT return is prescribed

European Sales Listing

N/A

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INCOME TAXES

Tax rate

flat rate 10 %: employment income

Special tax rates

Income from:

1. Self-employment at 10% rate
2. Royalty at 20%
3. Capital at 15%
4. Capital gain at 15%
5. Real-estate income at 20%
6. Other at 20%

Annual tax on income at 10% and 15% for annual income above 6 average annual salaries as published by the Statistical Office of the Republic of Serbia

Tax liability

Residents are due to pay tax on worldwide income. Non-residents are liable to report tax only on Serbian sourced income. Non-resident taxpayer who spends up to 90 days in Serbia in 12 months is exempt for income taxation if that income is derived from a non-resident principal who does not perform the business activity or other activity in the territory of Serbia.

unlimited

On worldwide income (except where DTA restricts the right to property tax):
individuals with their residence or habitual abode in Serbia

limited

On certain income in Serbia:

- individuals, who have neither their residence nor their habitual abode in Serbia, on certain income in Serbia

Tax assessment period

None

Income categories

Income from:

1. Employment
2. Self-employment
3. Royalty
4. Capital
5. Capital gain
6. Real-estate income
7. Other

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Accounting

Only needed for certain categories of self-employed individuals

Loss set-offs

Only capital gains could be offset with capital losses

Loss carryback

Not possible

Loss carryforwards

Applicable only to capital losses and losses generated by self-employment income; 5 years carryforward period.

No loss carryback

Operating expenses

Expenses of the business

Tax allowable expenses

Deductible costs are set out depending on type of income (copy right income, service agreement income, etc.)

Lump sum option

For income from self-employment under certain conditions an entrepreneur can register with the tax authorities to pay taxes on a lump sum based on an assessment of the tax authorities regardless of the actual income and expenses.

Motor vehicles

Same as for corporate income tax

Social insurance

Deductible

Withholding tax

Interest

15 % or applicable DTA

(under certain conditions may be exempt)

Royalties

20 % or applicable DTA

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Dividends

15 % or applicable DTA

CORPORATE INCOME TAXES

Object of taxation

Income

Tax rate

15 % flat rate

Tax liability

Companies, permanent establishments, branches

unlimited

Corporations resident or managed in Serbia, on worldwide income

limited

Foreign legal entities neither resident nor managed in Serbia, on certain income in Serbia

Financial year

Calendar year; alternative fiscal year possible if financial year differs from the calendar year (under approval of the Ministry of Finance / National Bank and the Tax Authorities)

Accounting

Double-entry bookkeeping (mandatory application of IFRS, IFRS for SMEs and IAS for certain entities).

Loss carryback

Not possible

Loss carryforward

Loss carry forward for limited period of 5 years

Shell company purchase

In case of acquisition of shares and restructuring the loss carryforward can be used for limited period of 5 years.

Operating expenses

Expenses of the business.

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Operating expenses

Expenses of the business.

Transfer prices

Arm's-length basis. Companies are obliged to prepare and submit a transfer pricing documentation to the Tax Authorities in case of related party transactions together with annual corporate income tax calculation. Ultimate parent entities of international group are obligated to submit Country-by-country (CBC) report, if total consolidated revenue reported in the consolidated financial statements exceed revenue of EUR 750 million in RSD equivalent.

Interest on debt financing of acquisition

Deductible under the same conditions as interest payable on other type of borrowings made in the course of business

Debt / equity

Between related parties maximum tax deductible interest is based on debt / equity ratio 4:1 (for banks and leasing companies 10:1 ratio applies)

Tax depreciation

For tax purposes fixed assets, except intangible assets, are divided into five groups:

I group (immovable) = straight line method Intangible assets = straight line method, whereby the depreciation rate would be determined on the basis of useful life or the duration of contract on the right to use intangible asset.

II - V group (all other assets) = straight line method Fixed assets consisting of movable and immovable parts will be classified on the basis of the applied accounting treatment of such assets.

Accounting depreciation depends on accounting policy of the company. If the amount of accounting depreciation is lower than the amount of depreciation costs calculated by using tax depreciation rates, accounting depreciation will be recognized as a tax-deductible cost in the tax period. However, depreciation of intangible assets will be always recognized in the amount of accounting depreciation costs.

Provisions

Tax deductible provisions:

- long-term provisions for renewal of natural wealth
- warranty period costs
- retained caution money deposits
- mandatory provisions in line with special laws for banks, insurance companies etc. are tax deductible to the extent legally required
- all other long term provisions made in accordance with IAS and IFRS/IFRS for SMEs are deductible on deferral basis i.e. when used

Motor vehicle expenses

10 % tax depreciation rate; straight-line method

Non-deductible expenses

- non-documented costs
- interest costs for late payment of taxes
- penalties imposed by the authorities, contractual and other penalties
- non-business driven expenses
- expenses for investments in culture and expenses for humanitarian aid, i.e. the elimination of consequences incurred in case of an emergency exceeding 5 % of total revenues
- representation expenses exceeding 0.5 % of total revenues
- membership fees exceeding 0.1 % of total revenues
- impairment of assets (recognized when disposed)
- penalty interest between related parties, etc.

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Tax incentives:

Costs directly related to R&D carried out by the tax- payer in Serbia may be deducted for CIT purposes in a doubled amount.

The qualified royalty income generated by the taxpayer, holder of a copyright or related right on the basis of compensation for the exploitation of the rights, may be excluded from tax base in the amount of 80 %, under certain conditions.

Only 20 % of capital gains arising from the sale of the entire copyright and related rights, or rights related to the invention will be included in the taxable base. Exceptionally, the taxpayer may decide not to include capital gains realized by transferring intellectual property rights (royalties and related rights, as well as invention rights) to the capital of a resident legal entity in the taxable base, provided that the resident legal entity does not alienate such acquired rights within two years as of the date of acquisition, as well as that the right is not conceded for use in whole or in part at a price lower than the market price, if the cession was made to a related party.

Taxpayer who makes monetary equity investment into newly established business entity, which performs innovative activities, will be granted tax credit in the amount of 30 % of the investment made, under certain conditions.

Interest barrier

Between related parties maximum tax deductible interest is based on debt / equity ratio 4:1 (for banks and leasing companies 10:1 ratio applies).

Interest and royalties to intra-group companies

Non-deductible: Interest payments to intra-group companies, if the interest rate is above the rate as published by the Ministry of Finance.

Withholding tax

Statutory withholding tax rate is 20 %. A lower rate can apply, provided it is envisaged by a double taxation agreement (DTA).

Exceptionally, on income from royalties, interest, rental fees and services generated by non-residents who are established, have their seat or effective place of management in a state with a preferential tax system, withholding tax rate of 25 % will apply.

Interest

20/25% (a lower rate may be provided in the applicable DTA)

Royalties

20/25% (a lower rate may be provided in the applicable DTA)

Dividends

20% (a lower rate may be provided in the applicable DTA)

Controlled foreign corporation (CFC) rules

Ultimate parent entities of international group are obligated to submit Country-by-country (CBC) report, if total consoli- dated revenue reported in the consolidated financial statements exceed revenue of EUR 750 million in RSD equivalent.

Hybrid mismatches

None

National parent-subsidiary exemption

No minimum holding period / no threshold

- Dividends are tax exempt
- Capital gains are subject to tax

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- Capital losses are generally deductible over 5 years

International investments

None

International parent subsidiary exemption and portfolio investments

None

Goodwill amortisation

Not tax deductible

Group taxation / pooling

Tax group

Tax consolidation allowed on request if all associated parties in group are Serbian residents and if parent company indirectly or directly hold more than 75 % of the shares of the associated companies.

Pooling

None

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