

**DOING
BUSINESS
IN**

SERBIA



HLB DST-Revizija

HLB T&M Consulting

*doing business
in Serbia*

foreword

This booklet has been prepared for the use of clients, partners and staff of HLB International member firms. It is designed to give some general information to those contemplating doing business in Serbia and is not intended to be a comprehensive document. You should consult us, therefore, before taking further action. HLB Serbia and HLB International cannot be held liable for any action or business decision taken on the basis of information in this booklet.

Laws in Serbia that regulate businesses and taxes are numerous and complex. Therefore we would advise you to consult an HLB International member firm in Serbia before taking any specific action.

HLB DST-Revizija d.o.o.

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about HLB International

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contents

FOREWORD	1	Corporate Income Tax	16
		Transfer pricing	17
ABOUT HLB INTERNATIONAL	2	Depreciation	17
		Property	17
GENERAL INFORMATION	4	Equipment	18
Location, Climate and Population	4	Intangible investments	18
Language and Currency	4	Double Tax Treaty Network	18
Constitution and Legal System	4	Personal income tax	18
The Economy and Economic Arrangements	5	Taxation of local citizens employed by foreign employers in Serbia	19
		Tax treatment of salaries of foreign citizens employed on the territory of Serbia	19
INVESTMENT FACTORS	6	Tax treatment of employing foreigners in special situations	19
Government Incentives	6	Withholding Tax	20
Financial support for investors	6	Taxation of dividends	20
Incentives for recruitment of new staff	6	Income from interest and remuneration	20
Free Customs Zones	7	Capital gain and capital loss	21
Sources of finance	7	Inheritance tax	21
Other investment factors	8	Value Added Tax	21
Foreign Exchange control	8	Excise duty	21
Employment regulations	8	Real Property Tax	22
Registration of stay	8	Property Transfer Tax	22
Types of stay and visas	8	Stamp duties	22
Work permits	9	Local Taxes - Utility fees	22
Taxes and contributions for social insurance	10		
TYPES OF BUSINESS ORGANIZATIONS	11	HOW TO CONTACT US	23
Business entities	11		
Classification of legal entities	11		
Legal forms of companies	11		
Classification of companies	11		
Formation Procedures	12		
Directors	12		
ACCOUNTING & AUDIT AND BALANCE SHEET DATE	14		
Financial statements	14		
Submitting of financial statements	14		
Authorized auditors and audit companies	14		
TAXATION	16		
Fiscal year	16		
General structure	16		
Corporate income tax payers	16		

general information

Location, Climate and Population

Serbia is a country located at the crossroads of Central and Southeast Europe, covering the southern part of the Pannonian Plain and the central part of the Balkans. It covers an area of 88,361 km². Its climate is moderate continental, with a gradual transition between the four seasons of the year.

The Morava valley route, running across the country in a north-south direction, is the easiest route of travel from continental Europe to Greece and Asia Minor. Important European routes pass through the country. The E70 (westwards from Belgrade), E75 (from Hungarian border to Leskovac), a short segment of E80 (to Niš) as well as smaller road segments including parts of the Belgrade bypass are modern highways of motorway standard.

As of October 2011, Serbia (without Kosovo) had an estimated population of 7,120,666 (according to the 2011 census). The 2011 census was not carried out in Kosovo, which was under United Nations administration at the time. According to some estimates, Kosovo has around 1.8 million inhabitants.

The ethnic composition of the population of the Republic of Serbia is very diverse, which is a result of the country's turbulent past. The majority of the population of Serbia are Serbs, but another 37 ethnicities also live on its territory. All citizens have equal rights and responsibilities and enjoy full ethnic equality. The Constitution of the Republic of Serbia guarantees rights to minorities, in accordance with the highest international standards.

Language and Currency

The official language of Serbia is the Serbian

language. The official script is Cyrillic, however the Latin script is commonly used. The Serbian language differs very little from Croatian, and it is almost the same as Montenegrin and Bosnian; it is also spoken and well-known in Slovenia and FYROM.

The English language is well known in all regions of Serbia.

The official currency of the Republic of Serbia is the dinar (RSD).

Foreign currency can be exchanged in all banks and post offices, as well as in the many authorized exchange offices.

Constitution and Legal System

Serbia's legal system derived from continental legal systems with a significant influence from the French legal system. Serbia is a parliamentary democracy. Serbia possesses a multi-party system based on the principle of three branches of government (system of tripartite authority): legislative, executive and judicial.

The President of the Republic is the head of state, is elected by popular vote to a five-year term and is limited by the Constitution to a maximum of two terms. In addition to being the commander in chief of the armed forces, the president has the procedural duty of appointing the prime minister with the consent of the parliament, and has some influence on foreign policy.

The Government is composed of the prime minister and cabinet ministers. The Government is responsible for proposing legislation and a budget, executing the laws, and guiding foreign and internal policies.

The National Assembly is a unicameral legislative body. The National Assembly has the power to enact laws, approve the budget, schedule presidential elections, select and dismiss the Prime Minister and other ministers, declare war, and ratify international treaties and agreements. It is composed of 250 proportionally elected members who serve four-year terms. The largest political parties in Serbia are the centre-right Serbian Progressive Party, leftist Socialist Party of Serbia and centre-left Democratic Party.

Serbia has a three-tiered judicial system, made up of the Supreme Court of Cassation as the court of last resort, Courts of Appeal as the appellate instance, and Basic and High courts as the general jurisdictions of first instance. Courts of special jurisdictions are the Administrative Court, commercial courts (including the Commercial Court of Appeal at second instance) and misdemeanor courts (including the High Misdemeanor Court at second instance). The judiciary is overseen by the Ministry of Justice. Serbia has a typical civil law legal system.

The Economy and Economic Arrangements

Serbia has passed through a period of dramatic change during the previous fifteen years. The impact of the international financial crisis and numerous rounds of elections have slowed down necessary structural reforms in the country. However, more recent trends point to a move toward greater fiscal responsibility and a reengagement on critical issues such as state owned enterprise reform, financial sector reform, and public sector efficiency. In January 2014, Serbia started membership talks with the European Union (EU) after making progress in negotiations with Priština, Kosovo.

Growth in Serbia for 2013 is estimated at 2.5%, but is expected to decline to just 1% in 2014, reflecting the impact of fiscal tightening, lower inflow of investments, and the ongoing fragile situation in the domestic and international financial sectors. More robust growth rates of around 2-3% are forecast over the medium term.

Serbia's per-capita Gross Domestic Product (GDP) was approximately \$6,134 in 2013.

Serbia's primary industries include processing of motor vehicles, base metals, furniture, food processing, machinery, chemicals, sugar, tyres, clothes and pharmaceuticals. The main export products of Serbia in 2013 were: motor vehicles, electrical machines, fruit and vegetables, cereals and non-ferrous metals. The main Serbian agriculture products are wheat, maize, sunflower, sugar beet, fruit (raspberries, apples, sour cherries), vegetables (tomatoes, peppers, potatoes), beef, pork, and meat products, milk and dairy products, grapes/wine. Agriculture accounts for 7.9% of Serbia's GDP and almost one fourth of the country's total exports, with around 23.9% of the population working in the industry.

Serbia is the member of major international organizations such as: UN, Council of Europe, OSCE, Interpol, World Bank, Partnership for Peace, Stability Pact for South Eastern Europe, UNCTAD, UNESCO, UNHCR, UNIDO, UNMIL, UNOCI, World Tourism Organization, Universal Postal Union, World Confederation of Labour, World Customs Organization, World Meteorological Organization and World Health Organization.

Serbia has free-trade agreements with the EFTA and CEFTA, a preferential trade regime with the European Union, a Generalized System of Preferences with the United States, and individual free-trade agreements with Russia, Belarus, Kazakhstan and Turkey.

Serbia is currently in the process of adoption of outstanding pieces of legislation and is working closely with relevant members of WTO to conclude the remaining bilateral negotiations that could lead to its accession to the WTO.

investment factors

Government Incentives

Serbia offers a number of opportunities which make it interesting for investors:

- The educated labour force available at competitive prices;
- A good educational system;
- A benign tax system with one of the lowest income tax rates in Europe of 15 %;
- Duty free export to the countries of the Southeast Europe, Russia, Belarus, Kazakhstan;
- Corporate income tax exemption for investments higher than 8 million euros or if at least 100 new workers employed;
- Customs duty exemption on imports of equipment and material under specific conditions;
- Loans and benefits for Greenfield investments;
- Incentives for employees/businesses who create employment;
- Extremely favourable geographical location in the centre of the Southeast Europe, which provides beneficial conditions for the production and export of merchandise to more developed markets, such as above all Russia, Turkey, Belarus, as well as for export to the countries of former Yugoslavia by virtue of signed free trade agreements.

Financial support for investors

The programme of the Government of the Republic of Serbia for allocation of non-repayable financial funds for investments in:

- Manufacturing sector (to be realized in devastated areas and in areas of special interest), total funds shall be allocated in amounts ranging from

4,000 to 10,000 euros per new work position for minimum investment amount of 500,000 euros and for a minimum number of new work positions of 50;

- automobile, electronic or ICT industry (to be realized in an area of special interest), total funds shall be allocated: from 5,000 to 10,000 euros per new work position, for a minimum investment amount of 500,000 euros and for a minimum number of new work positions of 50;
- manufacturing sector (to be realized in other areas of the Republic of Serbia), total funds shall be allocated in amounts ranging from 2,000 to 5,000 euros per new work position for a minimum investment amount of a million euros and for a minimum number of new work positions of 50;
- service sector, total funds shall be allocated: from 2,000 to 10,000 euros per new work position, for a minimum investment amount of 500 million euros and for a minimum number of new work positions of 10.

An exception shall be made for investments of special importance. For investments exceeding a total amount of 200 million euros and providing the generation of at least 1,000 new work positions, funds shall be allocated in the amount of 25% of the total investment.

For investments exceeding an amount of 50 million euros and providing the generation of at least 300 new work positions, funds shall be allocated in the amount of 20% of the total investment.

Incentives for recruitment of new staff

Employer - entity, i.e. an entrepreneur who recruits a new person shall be entitled to a refund of the part of taxes on salaries and of the part of contributions for compulsory social

insurance, charged both to employer and to employee, arising from the salary for a newly employed person, paid up to June 30, 2016.

Employers shall be entitled to a refund of taxes and contributions, as follows:

- 65% if they recruited at least one, and at most nine newly employed persons;
- 70% if they recruited at least 10, and at most 99 newly employed persons;
- 75% if they recruited at least 100 newly employed persons.

Free Customs Zones

In Serbia, currently, there are eleven free zones, which include the following cities and areas: Subotica, Pirot, Novi Sad, Zrenjanin, Šabac, Kragujevac, Užice, Smederevo, Niš, Kruševac, Svilajnac, and opening of a Free zone in Apatin is in preparation.

Free zones offer a number of benefits in operations for foreign investors:

- Various fiscal incentives – exemption from any tax burdens for direct foreign investments, VAT, charges and local government taxes;
- Customs duty exemption for imports of equipment, raw materials, building material etc;
- Financial incentives – free flow of capital, profit and dividends;
- Efficient administration within the zone;
- Simple and fast custom treatment;
- Local subsidies for using the infrastructure;
- Providing a set of services to users at preferential prices.

Sources of finance

The Banking system of the Republic of Serbia consists of the National Bank of Serbia and commercial banks. The business operations and functioning of National Bank of Serbia is determined by the Law

on National Bank. The National Bank of Serbia acts as a state regulator of the banking system and is a supervisor for commercial banks. The work of commercial banks is regulated by the Bank Law.

Commercial banks are stock companies. Significant number of banks are owned by foreigners, and there are also domestic banks, such as Komercijalna banka, AIK banka, Vojvodanska banka.

Most commercial banks offer a wide range of banking services such as credit lines, loans, payment operations, deposits, investment banking etc.

Banking services are not subject to VAT and profit is taxed under the same regulations that apply to companies.

The State is involved in development priorities, especially in the development of certain undeveloped regions, either through budget stimulation or state grants, as well as through Development Fund of the Republic of Serbia and Serbia Investment and Export Promotion Agency (SIEPA) grants.

The Development Fund of the Republic of Serbia offers credits for investments, credits for current assets and credits for liquidity, start-up credits, and it issues guarantees for the loans that companies raise with the commercial banks. If a credit beneficiary provides a bank guarantee or a guaranteed bill of exchange, the annual interest rate shall be 2%, and for other collateral 3%. The credits for investments by legal entities shall be granted for a repayment period of up to 10 years, and for entrepreneurs with a repayment period of up to 7 years, with a grace period of up to 2 years. Credits for current assets and start-up credits have a repayment period of up to 5 years, with a grace period of up to 2 years. Short-term credits for liquidity shall be granted for a period from three to twelve months, with an interest rate of 2.5%. The Fund credits are granted with the

application of the currency clause and, during the repayment period, the business entity shall not reduce the number of employees

SIEPA is a government organization dedicated to effectively helping foreign investors and buyers, while raising Serbia's profile in the minds of international business decision-makers. Established in 2001 by the Government of the Republic of Serbia, the mission of SIEPA is to support foreign companies seeking to set up or expand in Serbia and Serbian companies when doing business worldwide.

Sources of financing are also long term banking credits which are given under conditions determined by the business policies of banks. Banks have full freedom to set, on economically rational basis, the financial policy of their investment projects, starting from their own business interests.

Other investment factors

Company law enables foreign investors to gain the same rights and obligations as local investors when they register companies in Republic of Serbia.

Foreign legal entities and individuals can establish new companies or obtain stocks or shares in existing companies in Serbia.

Foreign investors (companies) can have a company, branch office or representative office in Serbia, provided that the companies and branch offices are registered in accordance with the law that regulates the registration of companies in Serbia.

Foreign Exchange control

A foreign investor can, regarding any payment related to foreign investment, freely convert local currency into any foreign convertible currency and vice versa. A company with a foreign stake can keep foreign currency in a foreign currency account with an commercial

bank and can freely perform payments within international business relations.

Employment regulations

Labour relations in Serbia are regulated by Labour law, collective and individual contracts, and regulations adopted by employers.

The Labour Law is broadly in line with Western European legislation. The main stipulations regulate employment agreement, working hours, salary, minimum wage, holidays, period of employment, termination of an employment agreement, severance/redundancy.

Trade unions are also able to promote the interests of employees, to set minimum wages and to engage in collective bargaining with employers.

Registration of stay

All foreigners are required by law to register themselves with the police station in their district within 24 hours of receiving a Serbian entry stamp at a border crossing or airport. Registration is done automatically by hotel staff upon check-in. If the foreigner is staying in private accommodation, the responsibility falls on himself and the host to register with the police in the district of the place of staying.

Types of stay and visas

A foreigner who does not need a visa or a travel document to enter the Republic of Serbia may stay in the country for a maximum period of 90 days, within a timeframe of six months starting from the day of the first entry.

Types of stay for foreigners in Serbia:

- Stay of up to 90 days (the stay of a foreigner either without a visa or on the grounds of a Short stay visa - type C). A short stay visa shall be issued for the purpose of tourism, business and other traveling for a single,

double or multiple entries into the Republic of Serbia. The duration of an uninterrupted stay, and/or the total duration of successive visits of a foreigner with a short stay visa shall not exceed 90 days within a period of six months which started on the day of the first entry. A short stay visa with the multiple entry option shall be issued with a term of validity of up to one year.

- Temporary residence (on the grounds of Temporary residence visa - type D). A temporary residence visa shall be issued for the purposes, under the conditions and with the term of validity stipulated by this Law with respect to the permission for temporary residence. If a foreigner intends to stay more than 90 days in the Republic of Serbia, he/she shall be obliged to obtain this visa or to obtain the permission for temporary residence from the competent authority during his/her stay in the Republic of Serbia. The host organization is obliged to organize a work visa application.

Temporary residence may be permitted to a foreigner whose intention is to stay in the Republic of Serbia longer than 90 days for the purposes of work, employment, performance of economic or other professional activities;

If the reason for the stay is employment or professional work and the foreigner will be staying over 30 days, he/she must apply for a temporary residence permit within 3 days of entering the country. The authority in charge of issuing residence permits is the Police Department (Secretariat of Internal Affairs) operating in the municipal district where he/she has declared his/her residence.

Typically, long visas are issued for periods of 1 year or 6 months.

- Permanent residence:

Work permits

The Law on Employment of Foreign Citizens

prescribes two conditions which a foreigner must fulfill in order to enter a labour relation:

- to have a permission for residence (permanent or temporary);
- to obtain approval for entering a labour relationship (work permit).

A foreigner may enter a labour relationship without permission for residence in order to perform technical tasks as stipulated by:

- business and technical cooperation contract,
- contract on long term cooperation in production,
- agreement on technology transfer and
- contract on foreign investment.

The Law on Employment and Unemployment Insurance prescribes that a work permit to a foreigner and to a person without citizenship shall be issued by the National Employment Service.

A foreign citizen with a temporary residence may obtain a work permit at the request of the employer.

A work permit is a document on the basis of which the foreigner may be employed in the Republic of Serbia, in accordance with the Law. A work permit may be issued as a personal work permit or as a work permit, only one of these two types of permits may be issued within the same time period.

- 1) A personal work permit is the work permit that allows a foreigner in the Republic of Serbia to be freely employed, self-employed, and to exercise rights in the event of unemployment. This permit shall be issued at the request of the foreigner provided he/she has a permission for a permanent residence or a refugee status, or he belongs to a particular category of foreigners;
- 2) A work permit shall be issued as a work permit for employment, or a work permit for particular cases of employment. A

foreigner with a work permit may, in the Republic of Serbia, perform only the jobs the permit was issued for. The work permit for employment shall be issued solely upon the request of the employer, and is issued by the National Employment Service.

A labour relationship of a foreigner shall be terminated:

- upon expiry of residence;
- by cancelling a residence permission;
- upon expiry of a contract.

Taxes and contributions for social insurance

The calculation of taxes and contributions on salaries of the employees is carried out on the gross salary at the following rates:

Tax on salaries – 10% charged to the employee;

Contributions for compulsory retirement and disablement insurance – 14% charged to the employee and 12% charged to the employer;

Contributions for compulsory health insurance – 5.15% charged to the employee and 5.15% charged to the employer;

Contributions for unemployment insurance – 0.75% charged to the employee and 0.75% charged to the employer;

types of business organizations

Business entities

Foreign legal and natural persons may establish a company in accordance with Company Law and the Law on Foreign Investments. Foreign investors in respect of their shares enjoy equal status, rights and obligations as domestic natural and legal persons.

Classification of legal entities

- Company;
- Entrepreneur;
- A branch of a company;
- Representative of a foreign company;
- Business Association;
- Other forms of organization.

Legal forms of companies

According to the Company Law in Serbia there are the following forms of companies:

- 1) General Partnership „o.d.“ (company of two or more partners who are liable for unlimited joint liability over all their assets).
- 2) Limited Partnership „k.d.“ (company that has at least two members, of whom at least one person is liable for unlimited joint liability (general partner), and at least one person is liable to the limited extent of the agreed contribution (limited)).
- 3) Limited Liability company – „d.o.o.“ (company in which one or more members (natural persons and/or legal entities) have shares in the capital. Members of company are not responsible with their property for company's liabilities, except in the case of abuse of the rules on limited liability).

Capital investment into a limited liability company shall be in cash or in kind, and it is expressed in RSD. Capital investment

in kind shall be in property and rights. The capital of a limited liability company amounts to at least 100 RSD, unless a special law provides for a larger amount of capital for companies that perform certain activities.

- 4) Joint-Stock Company – „a.d.“ (joint-stock company) is founded by one or more natural/legal persons, shareholders, and the company's capital is divided into stocks. Shareholders are not liable for obligations of the company, except in the case of abuse of the rules on limited liability. A joint-stock company is liable for its obligations with all its property. The minimum capital for establishing a joint-stock company is 3,000,000.00 RSD, unless a special law provides for a higher amount.

A joint stock company may be a public (one that has issued securities) or a non-public company.

Company Law allows transformation from one form of company into another.

At the moment, Serbia does not have a lot of partnership companies and limited partnership companies. Most of them are limited liability companies, followed by joint stock companies.

Classification of companies

Legal entities are classified as micro, small, medium and large ones, depending on average number of employees, operational income and average value of assets determined as at the day of preparing regular annual financial statements for the accounting year.

Classification in accordance with the aforementioned criteria is done by the legal entity itself, as at the day of preparation of the

financial statements, and the resulting data are used for the following accounting year.

Newly established legal entities are classified on the basis of data from the financial statements for the accounting year in which they were formed and of the number of months of operating, and the resulting data are used for that accounting year and for the following one.

National Bank of Serbia, banks and other financial institutions supervised, according to the law, by National Bank of Serbia, insurance companies, financial lease providers, voluntary pension funds, companies to manage voluntary pension funds, open and closed investment funds, companies to manage investment funds, stock markets and broker-dealers, as well as factoring companies under this law are considered to be legal entities.

Entrepreneurs are, under this law, considered to be micro legal entities.

Formation Procedures

For the formation of business entities, when applying to the Business Registers Agency, it is necessary to submit the following documentation (with the proof of payment of the registration fee):

- a proof of the founders' identity (a photocopy of the natural person's identity card or passport, and/or the abstract from a Register where the legal entity was registered);
- the company deed of foundation (decision or agreement) with the founders' authenticated signatures;
- a bank receipt of a deposit into the interim account and/or evaluation of non-monetary capital of the company;
- a decision on appointment of the company representative, if the representative has not been appointed by the founding act;
- authenticated signature of the representative.

The formation fee at the Business Registers Agency is approximately 50 EUR, but the total formation costs may vary from 50 EUR to 1,500 EUR depending on the costs of translating and notarizing the necessary documents.

Directors

Foreigner-nonresident may, in accordance with the Labour Law, perform the function of a director in a local company, by entering a labour relationship through an employment contract, or by concluding the contract on rights and obligations of directors without entering a labour relationship. In both cases, these contracts specify the rights and obligations of a director, and particularly the amount of salary, i.e. work fee.

A labour relationship with a director, either a permanent or a temporary one, is based on employment contract, concluded between a director and the competent body of the employer (e.g., supervisory board or board of directors). By entering a labour relationship director shall get the status of an employee and exercise all rights and obligations as other employees.

In a case when the affairs of a director are to be performed without entering a labour relationship, the mutual rights, obligations and responsibilities of a director shall be determined by a special contract on mutual rights and obligations between the director and the employer. With a person, who is to perform the duties of a director without entering into a labour relationship, a contract shall be concluded. This is not a contract of employment, because a labour relationship is not being entered into, but a contract to determine mutual rights and obligations between a person appointed a director and the employer. Unlike an employment contract, the elements of the contract on determining mutual rights and obligations of the company director are not determined by any particular regulation. Therefore, the content of such a contract, apart from the basic determinants (basic data on contracting parties, its subject etc) shall depend

solely on the will of the contracting parties. In this case as well, the contract on determining the rights and obligations of a director, shall be concluded with the director, by a competent body of the employer in the name of the employer.

In order to employ a foreigner in Serbia and for him/her to be appointed as a director as well, the Law on Employment of Foreign Citizens should be respected.

According to the provisions of this Law, the employment of foreigners may be finalised provided that a foreigner has:

- a permission for a temporary residence irrespective of the duration of stay, or
- a permission for a permanent residence in accordance with the Law on Foreign Citizens, and
- a work permit.

accounting & audit and balance sheet date

Financial statements

According to the Accounting Law, companies prepare regular annual financial statements and special financial statements in case of status changes. Parent companies prepare consolidated financial statements.

Financial statements comprise Balance Sheet, Income Statement, Statement of Other Results, Statement of Changes in Equity, Cash Flow Statement, Notes to the Financial Statements and Statistical Annex.

Depending on the type and size of the company, the minimum content and reporting formats are determined by Accounting Law.

Submitting of financial statements

Legal entities, i.e. entrepreneurs, are obliged to submit regular annual financial statements for the reporting year to the Business Registers Agency, for public disclosure, no later than June 30 of the following year, unless regulated otherwise by a special law.

Legal entities, which have an accounting year different to a calendar one, are obliged to submit regular annual financial statements for the reporting year to the Agency, for public disclosure, no later than six months after the statements were prepared.

Legal entities that prepare consolidated annual financial statements (parent companies) are obliged to submit consolidated annual financial statements for the reporting year to the Agency, for public disclosure, no

later than July 31 the following year, unless regulated otherwise by a special law.

Legal entities, i.e. entrepreneurs that prepare extraordinary financial statements, are obliged to submit them to the Agency, for public disclosure, within 60 days from the day of the preparation of these statements.

A legal entity which had no transactions, nor within its business books has any data on property or liabilities, is obliged to, by the end of February of the following year, to submit to the Agency a declaration of inactivity relating to the reporting year.

Authorized auditors and audit companies

Audit of the regular financial statements and consolidated financial statements is performed in accordance with the Audit Law, other laws that regulate financial statement audit for certain legal entities, International Audit Standards (IAS) and Code of Ethics for Professional Accountants.

A Financial Statement Audit can be performed by the same audit company for a maximum of seven consecutive years for the same legal entity. Exceptionally, it is possible that an audit company performs the audit for the same legal entity for another seven years, provided that the audit is performed by a different authorized auditor of the same audit company (rotation of auditors).

This exception does not apply for the financial statement audit of public companies. The financial statements audit for public companies can be performed by the same audit company

for a maximum of five consecutive years for the same legal entity. After this period a new audit company should be elected.

Also, the auditor referred to in the previous paragraph can not perform in the same year both the financial statement audit of the company and provide consultancy services, nor can he carry out the audit for a year in which he provided those services.

taxation

Fiscal year

The tax period for the calculation of company income tax is a calendar year. Legal entities can receive special approval from the National Bank of Serbia to have different business and calendar year, but the tax period must last 12 months.

General structure

In Serbia taxes are levied by state and local governments. Serbia most important state taxes are:

- corporate income tax,
- personal income tax,
- value added tax,
- inheritance tax,
- property transfer tax.

Throughout Serbia there are the same taxes (except from very few and unimportant exceptions regarding utility fees).

Corporate income tax payers

Resident companies and individuals are tax payers on income they realize in Serbia. Serbia has double taxation avoidance agreements with numerous countries, which guarantee relief from international double taxation, either by exemption from tax in Serbia as tax is paid abroad, or by allowing taxes paid abroad to be recognized as a tax credit – a Serbian tax reduction.

If a tax payer realizes profit by doing business in another country, and if the tax on such profit has already been paid in another country, such a tax payer shall have the right to a tax credit on corporate income in Serbia up to the amount of the tax paid in another country.

A resident parent company is given the right to reduce its calculated corporate income tax by an amount which has been paid abroad by its non-resident branch office.

Non-residents are tax payers on income from permanent business units and property in Serbia. They are also obliged to pay taxes and contributions on salaries paid to employees in Serbia.

Dividends paid by Serbian companies are generally always taxed in Serbia, unless otherwise provided for in an international agreement on avoiding double taxation.

An individual is considered a Serbian resident if, on the territory of the Republic of Serbia, continuously or intermittently, he/she stays in Serbia for 183 or more days in a period of 12 months beginning or ending in the tax year in question.

An income tax payer is also a person who is not resident – non-resident – an income obtained on the territory of the Republic of Serbia.

Corporate Income Tax

A legal entity founded or having its place of real management and control on the territory of Serbia is subject to taxation on income realized on the territory of Serbia and out of the territory.

A non-resident of the Republic is subject to taxation on income realized through a permanent business unit situated on the territory of Serbia.

Taxed income, more precisely the base for calculating and paying income tax consists of income established in the profit and loss statement, corrected for income and expenses which are not recognized for tax purposes or

are recognized in a different way. Some of the expenses which are not recognized for tax purposes are: interest on late paid state taxes and other revenue, fines and penalties, gifts and contributions given to political organizations, while a different way of recognition is prescribed for: expenses for advertising and propaganda (recognized up to 10% of total income), expenses for representation (recognized up to 0.5% of total income), expenses of interest and additional expenses based on debt to a related party, depreciation expenses.

The income tax rate is 15%. Legal entities pay corporate income tax in the form of advance payments due for payment by 15th day of the month every month.

A legal entity is exempted from payment of corporate income tax for a period of 10 years under the condition of its making investment in fixed assets for carrying out the company's own registered activities in an amount higher than one billion dinars and additionally to permanently employ, in the period of investment, at least 100 persons.

The base for paying income tax can be reduced for by losses shown in company's tax return for earlier period of up to 5 years.

Transfer pricing

The company is required to present transactions between related entities separately in the Company Tax Return.

A party related to the company is considered to be a natural or a legal person in whose relationship with the company there is a possibility of control or significant influence on business decisions.

It is considered there is a possibility of control over the company in the case of indirect or direct possession of at least 25% of shares or stakes.

There is also a possibility of significant influence

on business decisions, in addition to the case provided for above, when a party either indirectly or directly possesses at least 25% of the votes in a company's management bodies.

A party related to the company is also considered to be a legal entity where, as well as with the company, the same natural or legal persons either indirectly or directly participate in management, control or equity, in the manner provided in the third and fourth paragraphs.

Parties related to the company are considered to be spouse or extramarital partner, descendants, adoptees of the descendants, parents, adopters, brothers and sisters and their descendants, grandparents and their descendants, as well as brothers and sisters and parents of the spouse or extramarital partner, of a person related to the company in the manner provided in the third and fourth paragraphs.

Exceptionally, a party related to the company is also considered to be all non-resident legal persons within the jurisdiction of a preferential tax system (tax haven).

Depreciation

Calculated depreciation for tax and accounting purposes can be different, taking into consideration that Company Income Tax Law stipulates the method of calculation and rates of depreciation for certain permanent assets, which are recognized as expenses on the occasion of establishing income subject to taxation. Depreciation is calculated for all permanent assets, except natural resources which are not consumable, as well as intangible assets, except goodwill. All permanent assets are divided into 5 depreciation groups for the calculation of depreciation for tax purposes, whereby property is classified in the first group, and equipment into groups from II to V.

Property

Depreciation of property is established by

applying a proportional method to the base consisting of the purchase value of the asset, for each permanent asset separately. The annual rate for depreciation calculation is 2.5%.

Equipment

Depreciation of equipment is established by applying the declining balance depreciation method, to the base that in the first year consists of the purchase value, and in the following years the value that is not yet written-off. Depreciation is calculated for each group of fixed assets separately by applying the required rate to the base consisting of value that is not written-off at the end of previous year, increased by the value of purchases and reduced by the value of transferred fixed assets from that group during the year.

If the final balance of a separate depreciation group from II to V is lower than five average annual gross salaries paid per employee in Serbia in the final month of the period for which depreciation is calculated per the information published by the authorized Serbian institution for statistics, the total balance of the group is recognized as an depreciation expense and the balance of the group equals zero.

The depreciation rate varies in the range from 10% to 30% depending on the group to which fixed assets belong, in accordance with the law.

Intangible investments

Depreciation of intangible investments is calculated at the rate of 10% on the base consisting of the value of intangible investments that is not written-off.

Double Tax Treaty Network

Serbia currently has a treaty for the avoidance of double taxation (for individuals on salaries and pensions, property, director's salary and for companies on the profit from business operations, maritime traffic and air traffic

and the profit of related companies) ratified and in effect with the following countries:

Albania, Austria, Azerbaijan, Belgium, Belarus, Bosnia and Herzegovina, Bulgaria, Montenegro, Czech Republic, Denmark, DPR Korea (North Korea), Egypt, Estonia, Finland, France, Georgia, Greece, Holland, Croatia, India, Iran, Republic of Ireland, Italy, Canada, Qatar, China, Cyprus, Kuwait, Latvia, Libya, Lithuania, Hungary, Macedonia, Moldova, Malta, Malaysia, Norway, Germany, Pakistan, Russia, Romania, Poland, Slovenia, Slovakia, Sweden, Switzerland, Sri Lanka, Spain, Tunisia, Turkey, United Arab Emirates, Ukraine, United Kingdom, Vietnam.

Personal income tax

On the salaries of employees tax is paid at the rate of 10% and contributions for social security at a total rate of 37.8%.

The base for these levies is the gross salary. Allowances for meals, reimbursement for field work, allowances made for previous experience and allowances for holidays are deemed to be part of the salary and are included in the tax base.

In Serbia there is an annual tax on citizens' income, whose tax payers are persons – residents (citizens of Serbia and foreign residents). The non-taxable part of income for residents and foreign residents is three times the average annual salary per employee in Serbia in the year in which the tax is determined. Annual tax on citizens' income is paid at the following rates:

- 1) 10% to the amount up to six times the average annual salary per employee in the Republic of Serbia;
- 2) for amounts over six times the average annual salary per employee in the Republic of Serbia – 10% plus 15% to the amount that exceeds six times the average annual salary.

Taxation of local citizens employed by foreign employers in Serbia

On the salaries of Serbian residents, employed by foreign employers in Serbia tax is paid at the rate of 10% and contributions for social security at a total rate of 37.8%.

Tax treatment of salaries of foreign citizens employed on the territory of Serbia

– Foreigners employed by local legal entities and individuals

Foreigners employed by local legal entities and individuals have the same status as local citizens employed by local employers, and have all the rights and liabilities based on those grounds. Tax on salaries is calculated and paid on the salaries of foreigners employed by local legal entities or entrepreneurs at the rate of 10%. Foreigners who have started employment with a local legal entity or individual on the territory of Serbia for the purposes of mandatory social security have the status of an employee, as well as all the other employed citizens of Serbia, so they are payers of contributions for mandatory social security at the rate of 37.8%.

– Foreigners employed by foreign legal entities and individuals in Serbia

Foreigners who work for foreign employers in the Serbia for their work receive salaries subject to payment of statutory tax liabilities. Calculation of these tax liabilities, when the payer is a foreign employer in Serbia, has the following characteristics:

a) Salary tax at the rate of 10% is paid on salaries received by foreigners employed by foreign legal entities and individuals. Exceptionally, per certain international agreements, tax is not paid in Serbia but only if the three conditions are fulfilled cumulatively:

- 1) that the receiver of a salary does not stay in the Serbia longer than 183 days in a year;

- 2) that the salary is paid by a person who is not resident in Serbia (or by another person on behalf of the said person);
- 3) that the salaries are not paid by a permanent unit that the employer has in Serbia.

b) as for the contributions for social security, foreigners employed by foreign legal entities and individuals on the territory of the Serbia are payers of contributions at a rate of 37.80% in the following cases:

- 1) when they are employed by foreign legal entities and individuals, unless it is not otherwise provided by double tax treaty agreements;
- 2) when they are employed by international organizations and establishments and in foreign diplomatic and consular representative offices, if such insurance is provided by international agreement.

If according to an international agreement a foreigner should not pay contributions for social security, then only tax at the rate of 10% is calculated on his gross salary.

Tax treatment of employing foreigners in special situations

– Foreigners that work in Serbia based on exchange of experts

In accordance with the regulations on contributions for social security, the contribution payers for health insurance at the rate of 10.30% are employers, for foreign citizens who, on the territory of Serbia, work for a local employer based on a special agreement on exchange of experts or agreement on mutual technical cooperation.

– Foreigners on education or professional training in Serbia

In accordance with the regulations on contributions for social security, contribution

payers for health insurance at the rate of 10.30% include amongst others foreigners receiving education or professional training in Serbia.

Withholding Tax

Withholding tax is paid by individuals on income from various sources obtained in a calendar year. Types of income subject to withholding tax and rates are given below:

- salaries – 10%;
- income from copyrights and rights on industrial property – 20%;
- income from capital – 15%;
- income from lease of movable property – 20%;
- income from insurance claim – 15%;
- other income – 20%;

Taxation of dividends

If dividend payment is made to a shareholder who is a foreign individual, non-resident in Republic of Serbia, the tax treatment of such a payment is as follows:

- 1) if the dividend is paid to a foreign individual with whose resident state the Republic of Serbia does not have a double taxation avoidance agreement – the dividend is taxed at the rate of 15%, and the tax base is the total amount of the dividend paid;
- 2) if the dividend is paid to a foreign individual with whose resident state the Republic of Serbia has a double taxation avoidance agreement, and such an individual has submitted evidence on his/her resident status in the state with which the Republic of Serbia has a double taxation avoidance agreement – the dividend is taxed at the rate established by the international double taxation avoidance agreement between The Republic of Serbia and the country of residence of the non-resident tax payer.

When dividends are paid to legal entities, the situation is following:

- 1) When a resident legal entity in Republic of Serbia pays dividends to its own shareholder – a legal entity – resident of the Republic of Serbia, such dividends are not subject to payment of tax. A dividend received by such legal entities as shareholders, from another resident tax payer, represents financial income.
- 2) If the resident legal entity pays dividends to non-resident legal entity, on such payment withholding tax is calculated and paid at the rate of 15%, unless it is otherwise provided in a double taxation avoidance agreement. If the receiver of a dividend or participation in profit is the permanent business unit of a non-resident legal entity, withholding tax is not paid, except in cases when an income payment is made to the permanent business unit of a non-resident legal entity from a jurisdiction with a preferential tax system, a so called „tax haven“.

Income from interest and remuneration

If the payer of interest and remuneration is the non-resident branch office of a legal entity or a non-resident legal entity of a state with which Serbia has an international double taxation avoidance agreement, the legal entity – resident in the Republic of Serbia obtains its tax credit by deducting from its tax payable the amount of withholding tax paid abroad.

For interests and remunerations received by a non-resident legal entity from a resident legal entity, withholding tax is calculated and paid at the rate of 15%, unless it is otherwise provided in a double taxation avoidance agreement. Exceptionally, for income from interest and remuneration received by a non-resident legal entity in a jurisdiction with a preferential tax system, a so called „tax haven“, withholding tax is calculated and paid at the rate of 25%. If the receiver of interest and remuneration is a permanent business unit of the non-resident legal entity, withholding tax is not paid, except in cases when the payment of income is made to the permanent business unit of a

non-resident legal entity in a jurisdiction with preferential tax system, a so called „tax haven“.

Capital gain and capital loss

A capital gain that a tax payer realizes by sale or other transfer with reimbursement of property, represents part of the taxed income on which corporate income tax is paid. A capital gain represents the positive difference between the sales price of the property and its purchase value, established in accordance with Corporate Income Tax Law. Property, whose sale can result in a capital gain for which corporate income tax is calculated and paid, includes property used by tax payer as a fixed asset for carrying out its registered activity; rights to industrial property; a stake in the capital of legal entities and shares and other securities, which, in accordance with IAS or IFRS, represent long term financial investments.

If property and industrial property rights are obtained with the purpose of further sale and are initially shown in the accounts as stocks or permanent assets intended for sale, on the occasion of their sale, corporate income tax is payable.

A capital loss represents a negative difference between the sales and purchase price of the property. A capital gain realized from the sale of one right from property can be offset against the capital loss realized from sale of another right from property in the same year. If, after the offset of a capital loss against a capital gain, a capital loss appears, its offset is allowed against future capital gains in the following five years.

Inheritance tax

Inheritance tax is paid on inherited cash, savings deposits, deposits in banks, monetary receivables, intellectual property rights and the right of ownership of vehicles, vessels or aircraft and other movables. Inheritance tax exemption applies to money, rights and things inherited by a recipient in amounts

up to 100,000 dinars in one calendar year.

The tax base for inheritance tax is the market value of inherited property, reduced for the amount of debts, expenses and other liabilities.

Inheritance tax rate is proportional and amounts to 1.5% for a recipient on a second inheritance and 2.5% for a recipient on any further inheritances.

Value Added Tax

A VAT tax payer is a legal entity/ individual which realizes a total turnover of goods and services in the period of 12 months higher than 8 million dinars.

VAT is paid on sales of goods and services including imports, at a general or a special rate. The general rate for taxed turnover of goods and services is 20%. A special rate of 10% VAT is paid on certain goods such as: food, medicines, school books and teaching aids, daily newspapers, services of accommodation in hotels, motels, resorts, campuses etc. The law prescribes exemptions from VAT payment on certain sales of goods and services, including the export of goods.

A tax payer establishes its liability for VAT by deducting from calculated VAT on taxable outputs, the VAT incurred on purchases of goods and services in the period or paid on the occasion of import of goods.

Excise duty

Producers or importers calculate and pay excise duties on the following types of excise products: petroleum products, biofuels, tobacco products, alcoholic beverages and coffee. The buyer – end user of certain petroleum products can exercise its right to reimbursement of the excise duty paid if the petroleum products are used in transport purposes, including for freight transport in the local river traffic, for agriculture purposes, and for heating, as well as industrial purposes.

Real Property Tax

Legal entities and individuals – holders of rights over properties located on the territory of Serbia, are property tax payers. Property tax rates and bases on which they are calculated vary depending on whether the tax payer retains business evidence in accordance with the regulations of the Republic of Serbia or not.

The base for establishing the tax on a property of tax payers who keep business records consists of the value of property shown in business records on December 31, in the calendar year previous to the year for which corporate income tax is established. The property tax rate is 0.4%.

Property Transfer Tax

The property transfer tax shall be paid when transferring for a fee a property right on real estate, an intellectual property right, the ownership right for a motor vehicle, a right of use of construction land.

The property transfer tax shall also be paid when leasing construction land in public property, in accordance with the law governing planning and construction, for a period longer than one year or for an indefinite period, in order to construct buildings.

The property transfer tax rate is 2.5%.

Stamp duties

Stamp duty is payable according to a tariff based on the value of the document. If there is no value, a flat rate applies.

Local Taxes - Utility fees

Utility fees may be significant depending on the city zone, activity code and the size of business premises.

HLB in Serbia

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