

# Doing business in Serbia 2009

April 2009



# **DOING BUSINESS IN SERBIA 2009**

*April 2009*



**BDO International**

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# Introduction

The aim of this publication, which has been prepared for the exclusive use of BDO Member Firms and their clients and prospective clients, is to provide background information for setting up and running a business in Serbia, in compliance with the legislation in force on 31 December 2008. It is of use to anyone who is thinking of establishing a business in Serbia as a separate entity, as a branch of a foreign company or as a subsidiary of an existing foreign company and to anyone who is considering coming to work or live permanently in Serbia.

The publication describes the business environment in Serbia and outlines the financial and legal implications of running, or working for, a Serbian business. The most important issues are included, but it is not feasible to discuss every subject in detail within this format. Accordingly, *Doing Business in Serbia* is written in general terms and is not intended to be comprehensive. If you would like to know more, please contact the BDO Member Firms with which you normally deal, who can provide you with information on any further issues and on the impact of any legislation subsequent to 31 December 2008.

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*Doing Business in Serbia* has been written by BDO BC Excel, the Serbian Member Firm of BDO. Its contact details may be found on page 52 of this publication.

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# 1. The Business Environment

## General Information

### Geography

Serbia is a country situated in the Balkans, the southeastern part of Europe and in the Pannonian Plain, a region of Central Europe. Serbia lies on the most important route which is linking Europe and Asia. The country is mostly covered in mountains, but its main rivers give the country its beneficial geographical position. The main rivers include: the Danube, the Sava, the Tisa, the Drina and the Morava. The Danube River flows 588 km through Serbia and connects the Western European and Central European countries with the countries of South-Eastern and Eastern Europe.

Its climate is temperate continental, with a gradual transition between the four seasons of the year.



The capital city of Serbia is Belgrade, with a population of 1.576.124 citizens.

The country itself occupies the territory of 77.474 km<sup>2</sup> and its border length has a total of 2.027 km.

Serbia borders:

- Croatia (in the northwest)
- Hungary (in the north)
- Bulgaria (in the east)
- Republic of Macedonia (in the south)
- Montenegro (in the west)
- Bosnia and Herzegovina (in the west)
- Romania (in the northwest)
- Albania (in the west)

Serbia was one of the six republics that made up the country of Yugoslavia, which broke up in the 1990s. In February 2003, Serbia and Montenegro were the remaining two republics of former Yugoslavia, forming a loose federation. In 2006, Montenegro seceded from Serbia.

## *Government and Political Powers*

The Republic of Serbia has a framework of a parliamentary representative democratic republic, where the Prime Minister of Serbia is the head of the government and of a multi party system. The executive power is implemented by the government and the legislative power is vested in both the government and the National Assembly of Serbia. The Judiciary is independent of the executive and the legislature.

The current President of Serbia is Boris Tadić, leader of the center-left Democratic Party (DS). The new Prime Minister, Mirko Cvetković, was nominated by Serbian President Boris Tadić.

## *Population and Language*

The ethnic population of the Republic of Serbia is heterogeneous - a result of the country's turbulent history. The majority of the population is Serbs, but another 37 ethnicities also live in Serbia. All citizens have equal rights and responsibilities and enjoy full ethnic equality.

The majority population in Serbia is Christian Orthodox. The Serbian Orthodox Church, which has been autonomous since 1219, has played an important role in the development and preservation of the Serbian national identity. The Romanian, Bulgarian and the majority of the Roman population is also Christian Orthodox. Beside the Christian Orthodox population, there are also other religious communities in Serbia: Islamic, Roman Catholic, Protestant, Jewish and others.

Serbia has a population of 7,498,001, with a major concentration in the Central Serbia and Vojvodina. Total median age is 37.5 years and a total life expectancy at birth is 75.3 years.

Table: Age structure and gender ratio in Serbia

Age	% of population	Gender ratio (male/female)	Male	Female
0-14	15.7	1.06	604,258	572,503
15-64	67.1	0.98	2,494,719	2,538,086
65+	17.2	0.74	546,953	741,482
<b>Total Population</b>	<b>100</b>	<b>0.95</b>	<b>3,645,930</b>	<b>3,852,071</b>

Source – The Republic Statistical Office 2002 Census

The official language in Serbia is Serbian and the script in official use is Cyrillic, while Latin script is also used. In the areas inhabited by ethnic minorities, the languages and scripts of the minorities are in official use, as provided by law.

## *Currency*

The official currency in Serbia is the dinar (RSD), but Euros can be exchanged freely.

## *Time, weights and measures*

Serbia is in the Central European Time (CET) zone (GMT+1 hour). Summer time (GMT+2 hours) lasts from the end of March until the end of October.

Serbia uses the metric system of weight and measures.

## *Economic Data*

The key principles of the Government of the Republic of Serbia are:

- Commitment to a European future for Serbia, going towards EU, for all parts of Serbia, including the Autonomous Province of Kosovo and Metohija,
- Need to strengthen the economy,
- Increasing the social responsibility of the Government,
- Stepping up efforts to combat crime and corruption,
- Observing the international law.

The unemployment rate in Serbia, at the end of April, 2008, was 14%.

## *Inflation*

The annual rate of inflation in July 2008 reached 10.0%.

## **Business entities**

### *Registration of Companies and Corporate Forms*

The Serbian Business Registration Agency was established on 4 January 2005, with the competence for registration of business entities, which was transferred from commercial courts and local authorities. By establishing this Agency, the registration procedure was simplified by reducing the time for registration from previously estimated 51 days to 10, enabling enterprises to be registered in one place, with the future possibility of an on-line registration. The Serbian Business Registration Agency has been designed as a centralized electronic database of registered business entities, contracts on financial leasing and pledges, and, starting from 2006 it will also serve as a central register for foreign representative offices.

Foreign investors may establish a company or enterprise in the form of:

- Joint Stock Company (a.d.)
- Limited Liability Company (d.o.o.)
- Limited Partnership (k.d.)
- General Partnership (o.d.)

In practice, foreign investors usually choose to incorporate a Limited Liability Company (d.o.o), given the fact that the minimal obligatory pecuniary part of the initial capital of a company cannot be less than 500 EUR in RSD equivalence.

### *Joint Stock Company (a.d.)*

- A Joint Stock Company may be closed or public (depending on whether they are listed on the stock exchange or not).
- A closed joint stock company may have a maximum of 100 shareholders.
- Shareholders - A Joint Stock Company is organized by one or more legal entities and/or natural persons.
- Minimum Capital - RSD equivalent of 10,000 EUR for closed Joint Stock Company and RSD equivalent of 25,000 EUR for public joint stock company.
- Share and Contribution Requirements - The registered value of a share cannot be less than RSD equivalent of 5 EUR. A shareholder's contribution for the issuance of shares may be made in money or in kind but not in labor or services, notwithstanding whether they are performed or will be performed in the future
- Specific characteristics - Public Joint Stock Company must have management board, while closed joint stock company must have either director or management board.

There are higher minimum capital requirements for companies acting as:

- Banks - RSD equivalent of 10,000,000 EUR
- Insurance Companies:
  1. Life insurance - RSD equivalent of 2,000,000 EUR
  2. Voluntary pension insurance- RSD equivalent of 3,000,000 EUR
  3. All types of life insurance – RSD equivalent of 4,000,000 EUR
  4. Non-life insurance
  5. Accident and voluntary medical insurance- RSD equivalent of 1,000,000 EUR
  6. Motor vehicles total insurance and obligatory insurance against traffic risks - RSD equivalent of 2,500,000 EUR
  7. Other forms of property insurance, other liability insurance and other types of non-life insurance- RSD equivalent of 2,000,000 EUR
  8. All types of non-life insurance – RSD equivalent of 4,500,000 EUR
  9. Reinsurance – RSD equivalent of 4,500,000 EUR

#### ***Limited Liability Company (d.o.o.)***

- Members - maximum 50 individuals or legal entities
- Minimum capital - RSD equivalent of 500 EUR
- Stakes and contribution - A member's contribution to a limited liability company may be made in money or in kind including past, but not future labor or services performed for the company. The stakes are freely transferable between the partners. A stake may be transferred to a third party, in which case other members of the company and the company have pre-emptive rights.

#### ***Limited Partnership (k.d.)***

- Limited partners/general partners – Two or more individuals
- Minimum capital – no minimum capital required
- Characteristics - Limited partnership is a company established for the purpose of performing business activities under the joint business name. In this form of an enterprise, a general partner has unlimited liability, while a limited partner bears the risks and obligations only to the extent of his or her investment.

#### ***General Partnership (o.d.)***

- Partners - Two or more
- Minimum capital - No minimum equity requirements, however stakes of the partners have to be equal in value.
- Characteristics - In the general partnership all the partners may contribute in money, or in kind including past or future labor and services. All partners are jointly and severally liable for the obligations of the general partnership.

#### ***Representative Offices and Branches***

A representative office is a separate, subsidiary organizational unit of the founder who conducts in the territory of the Republic of Serbia preliminary and preparatory works in connection with conclusion of contracts, but does not have the capacity to conclude contracts apart from those for its own needs.

A branch is a separate and legally dependent organizational unit of the founder, which permanently performs in the Republic of Serbia the activities for which the founder was registered in the domicile country. A branch cannot have a broader business capacity than its founder and must operate in line with Serbian regulations, with a resident status.

Branch and representative office of a foreign legal entity, i.e. other commercial enterprise, is registered with the Serbian Business Registers Agency at the request of the foreign founder.

## **Labor Relations and Working Conditions in Serbia**

### ***Availability of Labor***

According to the Statistical Office of the Republic of Serbia, the total annual labor force, at the end of March 2008, amounted to 2,676,125.

### ***Labor Relations in Serbia (Employee-Employer Relations)***

Labor contracts may be signed for an indefinite or a definite period of time. A labor contract for a definite period of time may be established for specific engagements which include:

- seasonal jobs
- specific projects

Contracts for a definite period of time may last maximum 3 years with or without recess.

The Labor Law allows for temporary contracts defining temporary work relating to the employer's line of business that does not exceed 120 days during a calendar year. In that case, an employee is entitled to pension, disability insurance and health insurance. In addition, companies can meet their needs by using part time working contracts. Finally, short-term agreements include special service contracts for jobs outside the company's line of business, in particular, physical labor or intellectual work.

## **Working Conditions**

### ***Equal Pay***

Serbia as a country requires equal pay for men and women, not only for the equal work but also for work that can be deemed to be of equal value.

### ***Minimum Pay***

Social Economic Council of the Republic of Serbia, held on 5 September 2008, increased the minimum wage from 70 RSD per hour to 78 RSD per hour, which gives a minimum monthly pay of 13,572 RSD per month

### ***Health and Safety***

In accordance with Article 49 paragraph 2 of the Law on Security and Health on Workplace (Official Gazette of the Republic of Serbia, number 101/05), the companies are obligated to record and keep records of security and health on workplace. The work time is considered to start from the time an employee leave his/her home to work until he/she comes home from work.

The company must keep record on:

1. Workplaces with a high risk;
2. Employees that are placed on duties with a high risk, as well as medical records of employees placed on the same duties.
3. Work injuries, professional diseases connected with workplace;
4. Healthy and safe workplace;
5. Dangerous chemicals and materials used on the workplace;
6. Safety evaluation of a workplace;
7. Equipment evaluation used on workplace;
8. Record of death, collective injuries at workplace, injuries that take more than 3 days absence for recovery, professional diseases caught on workplace or marks that can compromise health and safety of workers.

Employment may be established with a person who is in good general health, who is over 15 years of age and who meets the criteria for the position established in relevant enactment of the employer.

### ***Holidays and Working Hours***

The working week has 40 working hours. A Book of Rules signed between the employer and an employee may conclude a reduction in the number of working hours which cannot be lower than 36h per week. In the case of a sudden increase in the scope of work and in other cases imposing the need for completion of unplanned work within a specific time limit employees can work overtime, no more than four hours a day, and, at the most, eight hours per week. For each calendar year, an employee has the right to at least 20 working days of annual leave for a period to be determined by a general act or contract of employment.

There are nine non-working days for Holidays in Serbia.

<b>Jan 1</b>	<b>New Year's Day</b>
Jan 2	New Year Holiday
Jan 7	Orthodox Christmas Day
Feb 15	National Day (Sretenje)
Apr 25	Great Friday (Orthodox Good Friday)
Apr 27	Orthodox Easter
Apr 28	Orthodox Easter Monday
May 1	May Day
May 2	May Day Holiday

### ***Alternative Employee Benefits***

In order to ensure that employees with special skills were maintained, employers have availed themselves a range of alternative benefits that may include:

- Profit sharing
- Share options
- Scholarship programs
- Tuition Reimbursement
- Child Care Reimbursement

### **Social Security**

According to the Law for Social Security, Paragraph 2, companies are obligated to contribute:

1. (PIO) Pension and disability insurance 11%;
2. Health insurance 6,15%;
3. Unemployment insurance 0,75%.

### **Foreign Employees**

Where foreigners are concerned, work permits are required for foreigners employed in Serbia and are issued with a validity of 3 to 12 months. An application for a work permit is submitted in person or by mail to the Labor Market office in Belgrade. The average time for obtaining the work permit is two days. The work permit can be renewed without obstacles and the procedure is identical with the first application.

Steps for obtaining a work permit:

1. A residence permit issued by the Ministry of Foreign Affairs
2. An application by the company
3. An application by the individual
4. A work permit issued by the Labor Market office

## *2. Finance and investment*

### **Regulation of Business**

#### *Price and Competition Control*

Considering the prices in Serbia, the government can control the prices of certain basic products like milk, bread, flour, cooking oil; the prices of utilities, public transportation, telecommunication services and petroleum. Looking over the rest, the government has no direct control over prices, but it can influence costs through numerous state-owned enterprises.

The competition control is regulated in accordance with the Law on Protection of Competition, Article 1. The Law protects the competition on market in order to provide identical conditions for the undertakings. The aim is to improve the economic efficiency and accomplish the economic welfare for the society. The companies must follow the rules and the following is considered to be the violation thereof:

1. Agreements, which considerably prevent, restrict or distort competition;
2. Abuse of dominant position, and
3. Concentration causing considerable prevention, restriction or distortion of competition, particularly as a result of the creation, i.e. strengthening of the dominant position on market.

#### *Consumer and Environmental Protection*

In order to provide support and protection to citizens, The National Bank of Serbia set up a special organizational unit, the Centre for Financial Services Consumer Protection and Market Supervision. This organizational unit is organized to help the citizens through better understanding of the financial advantages and risks that need to be considered before using any financial service or product.

In accordance with the Official Gazette of the Republic of Serbia, number 135/04, from 21 December 2004, the Environmental Protection System in Serbia drafted four new laws: the Law on Environmental Protection, the Law on Strategic Environmental Impact Assessment, the Law on Environmental Impact Assessment and the Law on Integrated Pollution Prevention and Control.

The aim of those laws is coordination with the international law regulations within the EU, building the institutional and normative conditions in order to protect the environment.

The subjects of The Law on Environmental Protection are: the Republic, autonomous districts, counties, cities, local and foreign citizens and entrepreneurs, education and specialty organizations and public services, groups of citizens and their clubs, as well as the professional and other organizations.

#### *Import and Export Controls*

In accordance with the Official Gazette of the Republic of Serbia, the Law on Foreign Trade Import and Export of Goods of the Republic of Serbia, no. 101/05, is reflecting the local and foreign entrepreneurs as follows:

1. Regulation on domestic goods is applied on imported goods, except the regulation which is applied to the origin check of the domestic goods.
2. Domestic goods are considered to be the goods from the Republic of Serbia, concerning the regulation for the origin of the same goods.
3. Import, export and transit of the goods have to satisfy the sanitary, veterinarian and phytosanitary terms, if they are regulated by the Law.

The technical regulations, standards and regulations for putting the goods on market:

1. Imported goods have to satisfy the technical regulations and regulations for trading which are applicable in the Republic of Serbia.
2. Compatibility with the standards does not represent the term for import.
3. Goods that are not the subject of the legal trade in the Republic of Serbia cannot be imported or exported.
4. Technical regulations, in accordance with the Law, are affirming the necessary criteria for putting the goods in trade, with a view to protect the living, health and safety of the people, animals and plants, as well as the environmental protection. The technical regulations are applicable and have the character of a technical specification, terminology, symbols, packaging, marking, as well as processes and methods of manufactured goods.

In other words, foreign trade is free without limitations and the quantity restriction of import and export can be imposed only in the cases provided by the Law.

The quantity restriction is the highest total volume of particular goods, determined by the value or quantity, which is allowed to be imported or exported in a certain time limit, including also the restriction of import and export. The quantity restriction is divided into quotas and a quota is a share in the quantity restriction allocated to a certain entity or a group of entities. The Ministry, on the basis of a public announcement for filing an application for allocating quotas, allocates quotas to particular entities, in accordance with the provisions enacted/regulated by the Law. The decision on allocating quotas contains conditions under which a quota is allocated, as well as the timeline for making use of a quota, which cannot be longer than six months and the manner of informing the Ministry of the making use of a quota. The Government is entitled to enact conditions for allocating quotas.

## **Intellectual Property Rights**

### *Patents*

In accordance with the Official Gazette of the Republic of Serbia, no. 32/04, the Law on Patents provides that the subject which can be regarded as a patent can include products like (device, substance, composition, or biologic material etc.) or an act. There are two types of patents, the first one is a short-term patent of 10 years and the other is a long-term patent of 20 years. Depending on the product or act, companies or individuals chose the most suitable one.

### *The Law on Copyright and Related Rights*

According to the Official Gazette of the Serbia and Montenegro, no. 61/04, it is provided that the Law on Copyright and Related Rights includes the following:

- Written art (books, brochures, articles, etc.);
- Oral work (teaching, speeches, allocution, etc.);
- Theatrical, theatrical-musical, choreographically and pantomime rights, as well as the rights of folklore;
- Music art, with or without words;
- Movie art (cinematography and television rights);
- Artwork (pictures, drawings, graphics, sculptures, etc.);
- Architecture art, applied art and industrial shapes;
- Cartography rights (geographical and topographic charts);
- Projects, drafts, sketches, dummies and photography;
- Computer programs (in export, object and executive code).

### ***Regulation Concerning the Keeping of Records of Works of Authorship and the Subject of the Related Rights***

In accordance with the Official Gazette of the Federal Republic of Yugoslavia, no. 50 from 30 July 1999, the Law on the regulation concerning the keeping of records of works of authorship and subject of related rights says that keeping the record and committal of copyrights and related rights is done at the same time, while the carrier of that same right is getting and keeping the testimonial.

### ***The Law on Trademarks***

According to the Official Gazette of the Serbia and Montenegro, no. 61/04, the Law on trademarks is protecting the rights on release of goods and services.

Trademark is the right that is protecting the mark, by which goods and services differentiate in the market.

Trademark could be individual or collective. A collective trademark can be used by more than one person, while an individual can only be used by a single person.

### ***Law on the Legal Protection of Designs***

In accordance with the Official Gazette of Serbia and Montenegro, no. 61/2004, the Law on the legal protection of designs is protecting the external rights, shape of goods and products, as well as the designs, pictures and drawings that could be transferred on goods and products.

### ***Law on Geographical Indications***

According to the Official Gazette of the Federal Republic of Yugoslavia, no. 15 from 24 March 1995, the Law on Geographical Indicators protects the rights on geographical mark of its background. Individuals and legal persons, as well as goods and products on the specific geographical grounds are also protected.

### ***Law on Protection of Topographies of Integrated Circuits***

In accordance with the Official Gazette of the Federal Republic of Yugoslavia, no. 12 from 6 March 1998, the Law on protection of topographic of integrated circuits is protecting the rights of authors and creators and their achievements, as well as the rights of companies or other legal persons in which the topographies are made.

## **Banking System**

The National Bank of Serbia is the central bank of the Republic of Serbia. According to the Constitution of Serbia and the Law on the National Bank of Serbia, the main responsibilities of the National Bank of Serbia include:

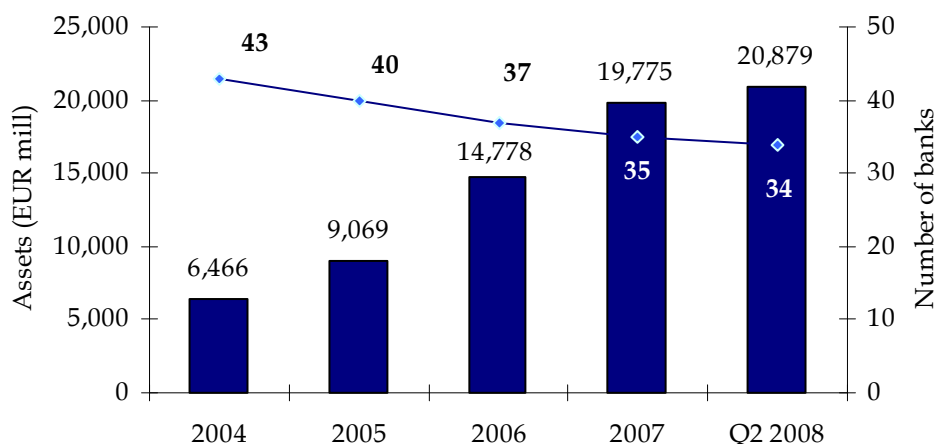
- Protection of price stability, and
- maintenance of financial stability

The core functions of the National Bank of Serbia include:

- Determination and implementation of the monetary policy
- Exchange rate policy
- Management of the foreign currency reserves
- Issue of banknotes and coins
- Maintenance of efficient payment and financial systems

At the end of the second quarter, in the year 2008, the total assets of the banks, in the Republic of Serbia, was 1.649.012 million RSD (EUR 20.879 million), which represents the growth of 5.6% (in RSD), compared with the end of 2007.

In the past five years, total assets of the banks in Serbia were constantly rising despite the decrease in the number of banks. The graph below shows the movement of the total assets and the number of banks in Serbia since 2004.



The short-term and long-term financing, in the Republic of Serbia, are provided by the banking system.

### *Equity Markets*

The capital market institution in the Republic of Serbia is the Belgrade Stock Exchange. It was reestablished in the year 1989. The members of the Belgrade Stock Exchange are exchange mediators, brokers and dealers with branches in almost all cities in Serbia. The stock exchange currently has 91 members.

The Belgrade Stock Exchange acts in accordance with the law and has harmonized rules with the EU regulation standards.

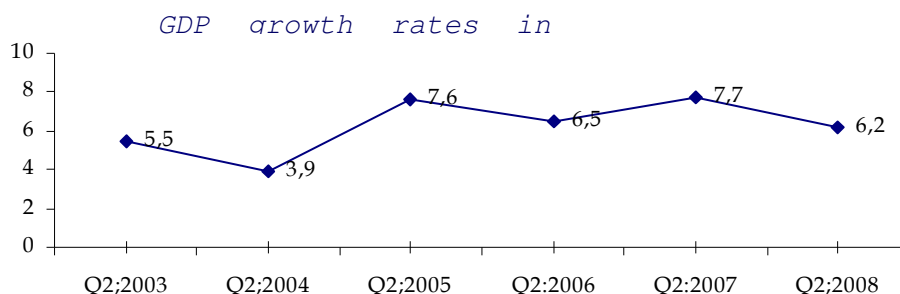
Share trading on the Belgrade Stock Exchange is carried out by the single price auction method, the method of continuous trading and the minimal price method, reserved for stocks from the Share Fund portfolio. Shares are traded on a daily basis, in accordance with the strict rules, in the electronic trading system BELEX.

## Investment Opportunities and Incentives

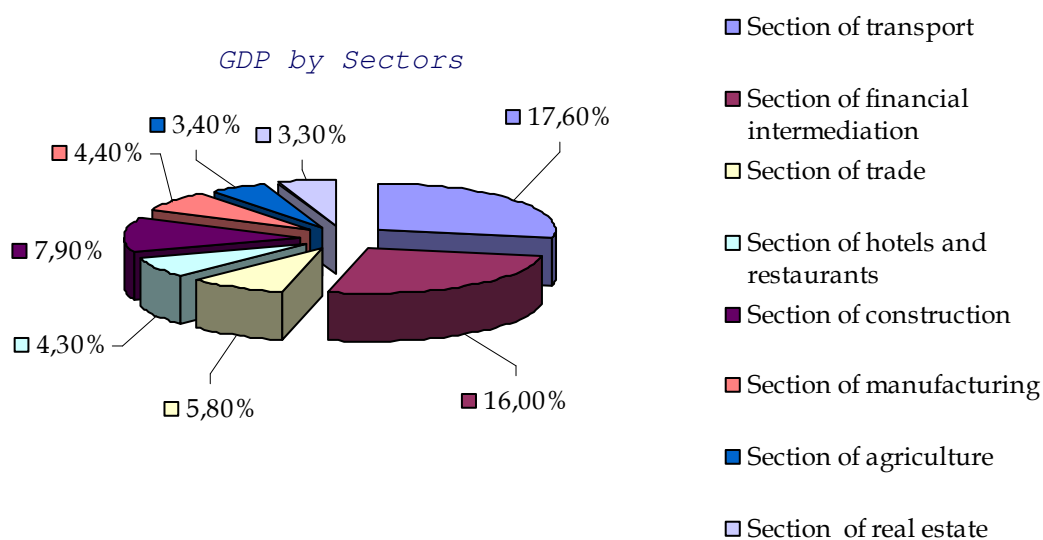
### The Economy

In the second quarter of the year 2008, GDP grew by 6.2%, in comparison with the year 2007, where Serbia had the GDP of 31.1 billion EUR.

The following graph is showing the GDP growth rates in the past 6 years.



Regarding the activities, the GDP in the second quarter is noted in the graph below:



Source – the Republic Statistical Office

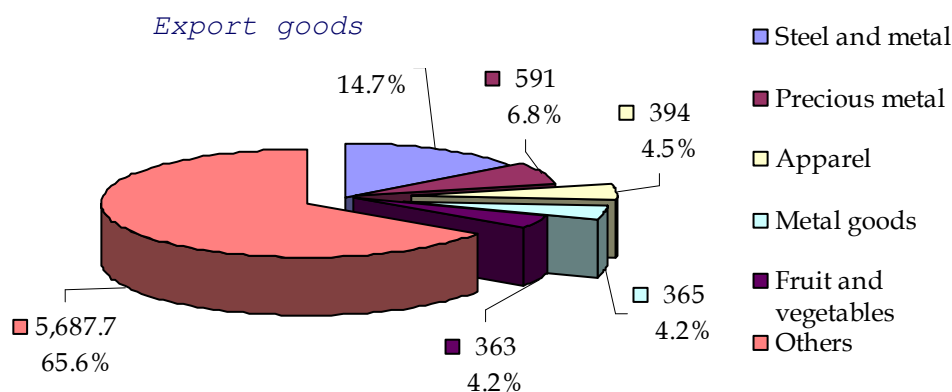
It should be noted that a sector of gas, electricity and water decreased by 3.6%.

### External Trade

According to the Statistical Office of the Republic of Serbia, in the period January-September 2008 the external trade grew by 38.4% (Serbia had an external trade of USD 26,730 millions), compared to the same period in the previous year.

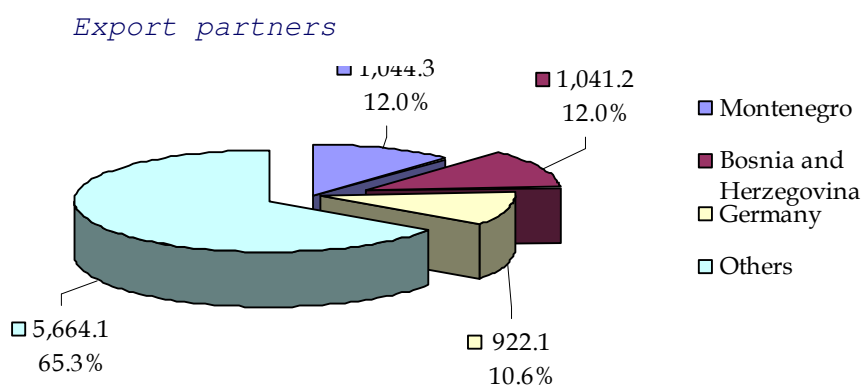
Exports marked a growth of 36.4% compared to the same period in the previous year, which represented an amount of USD 8,672 millions.

Exported goods include: steel and metal, precious metal, apparel, metal goods and fruit and vegetables. These five sectors represent 34% of total exports. The graph below shows the export (in USD million).



Source – the Republic Statistical Office

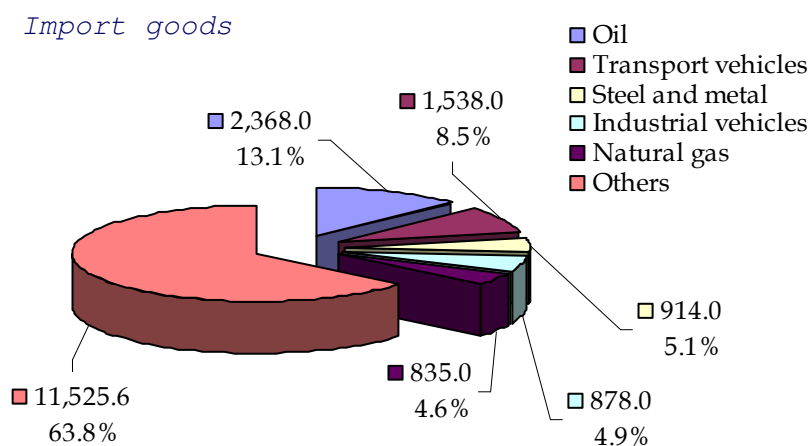
Main export partners include: Montenegro, Bosnia and Herzegovina and Germany. The graph below presents the exports (USD in millions).



Source – the Republic Statistical Office

Imports of the Republic of Serbia recorded the growth of 39.3%, compared to the same period in the year 2007. The total value of imports for the period of January-September was USD 18,659 millions.

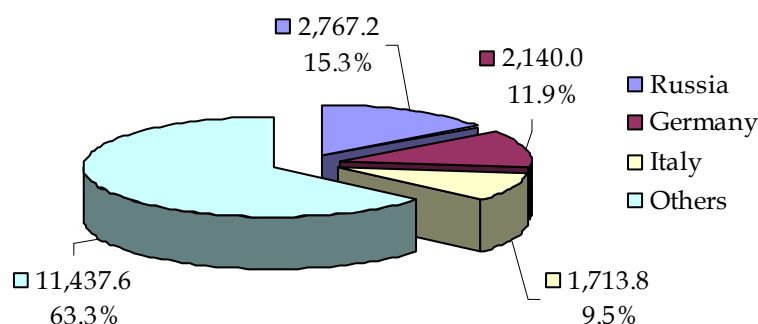
Imported goods include: oil, transport vehicles, steel and metal, industrial vehicles and natural gas. These five sectors represent 36.2% of total import. The graph below presents the import (in USD million).



Source – the Republic Statistical Office

Main import partners include: Russia, Germany and Italy. The graph below shows the imports (in USD million).

*Import partners*



Source – the Republic Statistical Office

### *Serbia's advantages include:*

- Strategic positioning for markets in Europe, Asia and the Middle East
- Duty Free access to the South East Europe Free Trade Zone of 60 million consumers
- The only country outside the CIS with a free trade agreement with the Russian Federation
- Not yet an EU member; greater flexibility and investment advantages
- The lowest corporate income tax rate in Europe
- Skilled labor at a reasonable cost
- Highest percentage of English language speakers in SE and Central Europe
- Stable economy:
  - ▶ Sound monetary policy and fast implementation of key macro economic laws
  - ▶ Simplified foreign trade and foreign investment regulations
  - ▶ Facilitated procedure for establishing a company, including the regime for foreign nationals to obtain residency, business registration and customs

### *Investment incentives*

In the Republic of Serbia, investment incentives consist of external trade and foreign investment.

The two major agencies in Serbia include:

- SIEPA (Serbia Investment and Export Promotion Agency)
- AOFI (The Export Credit and Insurance Agency)

### **SIEPA**

Serbia Investment and Export Promotion Agency was found in 2001 by the Government of the Republic of Serbia. SIEPA has a mission of supporting foreign companies, buyers and investors; all their services are free of charge.

Services offered by SIPEA include: pre-investment services, investment set-up services and post-investment services.

## **AOFI**

The Export Credit and Insurance Agency was found by the Republic of Serbia in accordance with the Official Gazette of the Republic of Serbia no. 61/2005.

The mission of the AOFI is to export promotion of Serbian companies by insuring and financing the export ventures. Moreover, the Agency is cooperating with similar institutions with partners from all around the world, with the aim to raise the competitiveness of domestic economy.

## **Accounting Practice and Audit Requirements**

### ***Investor Considerations***

The current *Law* on accounting and auditing requires application of IAS/IFRS for medium and large legal entities

#### *Legal framework:*

The current Law on Accounting and Auditing, adopted in June 2006. Based on this Law Ministry of Finance and National Bank of Serbia prescribed rules on chart of accounts and contents of official annual financial statements as follows:

- The Rules on Chart of Accounts for Enterprises, Cooperatives, Entrepreneurs and other Legal Entities, in force as of 2006, amended in 2008 and 2009
- The Rules on the Format and Contents of Items in the Forms of Financial Statements for Enterprises, Cooperatives, Entrepreneurs and other Legal Entities, in force as of 2006, amended in 2008
- The Rules on Chart of Accounts and Content of Accounts within Chart of Accounts for Banks in force as of 2007, amended in 2008 and 2009
- The Rules on the Format and Contents of Items in the Forms of Financial Statements for Banks in force as of 2008, amended in 2009
- The Rules on the Chart of Accounts and Content of Accounts within the Chart of Accounts for Insurance Companies, in force as of 2007, amended in 2009.
- The Rules on the Format and Content of Items in the Forms of Financial Statements for Insurance Companies, in force as of 2007, amended in 2009.

#### *The Law on Accounting and Auditing*

The current Law on Accounting and Audit was adopted on 2 June 2006.

The criteria for company classification are crucial for determining the implications of the Law on Accounting and Audit.

## *Classification Criteria*

<b>Company Size</b>	<b>Criteria for Classification</b>
<b>Medium</b>	1) Average number of employees: 50-250; 2) Annual total income: EUR 2.5 - 10million in RSD equivalent; 3) Average assets value: EUR 1 - 5million in RSD equivalent.
<b>Small</b>	If the value of at least two criteria is lower than those for Medium.
<b>Large</b>	If the value of at least two criteria is higher than those for Medium. Irrespective of the criteria specified, banks, insurance companies, stock exchanges and stock brokers, finance lessors, voluntary pension funds, voluntary pension fund management companies are considered as large legal entities, whilst entrepreneurs shall be considered to be small legal entities..

## *IAS/IFRS*

In accordance with the Law on Accounting and Auditing, small legal entities and entrepreneurs may apply IAS and IFRS, whilst large and medium sized legal entities, parent companies which prepare consolidated financial statements in accordance with the law, companies involved in the issuance of securities and other financial instruments that are traded on organized markets as well as all issuers of securities and other financial instruments shall be obliged to apply IAS and IFRS.

For small entities, the accounting principals are defined by the Ministry of Finance as the Rules on recognition and measurement of assets, liabilities, income and expenses of small legal entities and entrepreneurs became effective as of June 2006

## *Annual Financial Statements*

Annual financial statements should comprise:

1. Balance sheet,
2. Income statement,
3. Cash flow statement,
4. Statements of changes in equity,
5. Statistical annex
6. Notes to the financial statements in accordance with IFRS/ IAS

## *Submission of Financial Statements*

Only annual financial statements must be prepared (as at 31 December), and they must be submitted to the National Bank of Serbia. The annual financial statements of an entity must be submitted by 28 February, consolidated financial statements by 30 April, and the approved financial statements, together with the auditor's opinion, by 30 September (or 30 October for consolidated financial statements). In addition, all companies which require an audit (see below) must publish their financial statements, together with the auditor's opinion, e.g. on their website, by 30 September.

An exception to the rule (of preparing annual financial statements by 31 December) relates to subsidiaries of foreign companies whose financial year differs from the calendar year. They may prepare and submit financial statements coterminous with the financial year of their parent company. However, the approval from the Ministry of Finance is required.

Another exception relates to entities undergoing a change of status e.g. merger, liquidation, and bankruptcy. Such entities are required to prepare financial statements by the date the procedure concerned is completed.

### ***Audit Requirements***

The audit of annual financial statements is obligatory for large and medium-sized legal entities, parent companies which are obliged to prepare consolidated financial statements, legal entities which are listed on the stock exchange or have securities listed.

Audit of financial statements is performed in accordance with the International Standards on Auditing and by licensed certified auditors who are members of the Chamber of Auditors.

Rotation of the audit company is compulsory after five consecutive annual audits with the same legal entity. The audit company can be appointed for another five years with the same legal entity, unless stipulated by another law, if the certified auditor is rotated. In accordance with the Law on Banks, compulsory rotation of the audit company for audit of financial statements of banks is after three years without any exception.

### ***Chart of Accounts***

Records must be kept in accordance with the prescribed Chart of Accounts. The released Charts of Accounts comprise accounts designed to provide proper classification of transactions to be recognized, measured and presented in accordance with IAS and IFRS for all of the above mentioned types of legal entities.

The legal entity appoints personnel for the storage and maintenance of the accounting books and preparation of financial statements. The legal entity is regulated by its own acts, qualifications, experience and other conditions for the personnel responsible for the storage and maintenance of accounting books and preparation of financial statements.

### ***Requirements for Retention of Records***

Salary records, which contain important information about employees, must be kept permanently; financial statements and audit reports for 20 years; the general ledger for ten years; and supporting documentation for five years.

Financial institutions are obliged to keep data on payment clearance for five years.

Auditing firms are required to retain working papers and other audit documentation for 5 years.

## ***Organization of Audit Profession***

Based on the current Law two new bodies were founded:

- the Chamber of Certified Auditors; and
- National Accounting Committee

### *The Chamber of Certified Auditors*

The Chamber of Certified Auditors was established with the main purpose of enhancing and developing the auditing profession, applying the International Accounting and Auditing regulations and the harmonization with such regulations, the protection of public and individual interests while performing audit services, organizing and providing audit services, conducting examinations for the acquisition of titles, granting and withdrawing licenses to perform audit of annual financial statements, as well as for the purposes of achieving other goals.

Members of the Chamber are Certified Auditors employed by an auditing company, Certified Internal Auditors, and Auditing Companies.

The Chamber is a legal entity, with its headquarters in Belgrade.

The Chamber has been accredited to become a member of IFAC, under the Articles of Association of that federation.

The Chamber shall have the following bodies: the Assembly, the Council, the Supervising Board and the Disciplinary Committee.

The Council is an executive body of the Chamber and consist of president and vice-president nominated by members of the Chamber, from members of the Chamber, and nine members representing as follows: one represents Ministry of Finance, one represents the National Bank of Serbia, one represents the Association of Serbian Banks, one represents the Securities Commission of the Republic of Serbia, one university professor and four Certified Auditors employed with auditing companies.

President and Vice president of the both, Council and Supervisory board, cannot be elected from members of political parties or officials in the spirit of the law regulating the prevention of conflict of interests in public offices or from officials of the Union.

### ***The National Accounting Committee***

The Government of the Republic of Serbia established, at the proposal of the Ministry of Finance, a National Accounting Committee, consisting of president and six members, as a monitoring body, to perform the monitoring, proposing and cooperation, such as: implementation of EU Directives in the field of accounting and auditing; implementation of the International Accounting Standards and International Financial Reporting Standards; amendments to the International Accounting Standards and International Financial Reporting Standards and International Standards on Auditing and inform the Ministry of Finance on them; propose strategy, guidelines and action plan to improve the quality of financial reporting; initiate either new accounting regulations or amendments to the existing ones; cooperation with the Ministry, the Chamber, Universities in respect of the accounting and auditing educational programs, as well as, with national and foreign professional accounting organizations

The National Accounting Committee is obliged to submit to the Ministry its Activity Report, not less than once a month.

### 3. The Tax System

#### **The Tax Structure**

##### *Taxing Authorities*

Taxes are levied by the government and the local communities. Taxes are codified in the Corporate Income Tax Law, Individual Income Tax Law, Value Added Tax Law, Property Tax Law, Law on Tax Procedure and Tax Administration, Excises Law and Customs Law.

##### *Principal Taxes*

Direct taxes:

- Corporate income tax
- Individual income tax
- Property tax

Indirect taxes:

- Value added tax (VAT)
- Tax on transfer of absolute rights
- Inheritance and gift taxes
- Customs and excise duty

##### *Corporate Tax Structure*

For companies no distinction is made according to the nature of the income. All kinds of income earned are considered as business income and taxed in that way.

##### *Income Tax Structure*

As Serbia has a cedular type of the individual income tax, the following categories of income have to be distinguished:

- salary/wage
- revenue from agriculture or forestry
- revenue from self-employment
- revenue from intellectual property rights
- revenue from yield on capital
- revenue from real estate
- capital gains
- other income
- annual income

##### *International Aspects*

Non-residents (companies and individuals) are subject to the Serbian tax on the income derived from Serbian sources. Serbian double tax treaties generally provide that the foreign entity subject to tax in Serbia benefits from a tax credit or tax exemption in its country of residence, thus avoiding double taxation.

## **Announcements**

According to the announcements of the Serbian Government, the following changes to tax regulative shall be made:

1. tax on transfer of securities and share in companies will be repealed,
2. exemption from transfer tax for contribution in kind of absolute rights in limited liability and stock companies will be recognized only for resident companies,
3. personal income tax on capital gains will be suspended till the end of the year 2009, for capital gain stemming from sale of valuable papers and share in companies.

## ***4. Taxes on Business***

### **Corporate Tax System**

#### ***Taxable Entities***

Corporate tax is payable by stock companies, limited liability companies, general partnership, limited partnership, socially owned companies, public companies and any other legal entity if it earns income by selling products on the market or providing services for a fee.

#### ***Territoriality and Scope***

Companies resident in Serbia are taxable on their worldwide income and gains and non-resident companies are liable to Serbian corporate tax on their Serbian-source income only.

A resident company is a legal entity founded or having its head office of actual management and control in the territory of the Republic of Serbia.

#### ***Tax Period***

The tax period for which the tax on profit is calculated is a business year, which is a calendar year, except in case of cessation or commencement of business activity in the course of a year, including the change of status.

#### ***Accounting Methods and Taxable Profit***

The corporate income tax base shall be the taxable profit, which is determined in the tax balance, by adjusting the taxpayer's profit declared in the income Statement, made in accordance with the IAS and accounting regulations, in the manner determined by the CIT Law.

#### ***Capital Gains/Losses***

Capital gain shall be understood to mean any revenue a taxpayer realizes by selling or transferring in some other way against compensation the following:

- 1) Right of ownership to real estate;
- 2) Intellectual property rights;
- 3) Shares in the assets of legal entities, shares and other securities.

A capital gain shall be the difference between the sale price of rights, shares and securities and their purchase price adjusted in accordance with the provisions of the Law; if the difference is negative, it is a capital loss.

For the purposes of the present Law, in the determination of capital gains, the sale price shall be understood to mean the contract price or the market price as determined by the competent tax office, if it finds that the contract price is lower than the market one. The purchase price shall be understood to mean the price for which the taxpayer concerned has acquired the right, share or security, decreased for depreciation.

If the price at which property was acquired is not declared in the taxpayer's books or is not declared in conformity with Law, the acquisition price to be taken for the purpose of determining the capital gain shall be its market price on the date of acquisition, as determined by the competent tax office.

Any capital gain shall be included in the taxable profit in the amount set in the way referred in the CIT Law. Any capital loss incurred in the sale of a proprietary right may be offset with the capital gain made in the sale of another proprietary right in the same year. If a capital loss is declared even after the offsetting, it is permissible for it to be offset with future capital gains in the next 10 years.

Any take-over, merger or partition of a legal entity shall defer the commencement of tax liability on the basis of capital gains. The tax liability on the basis of capital gains shall run from the moment the legal entity that came into being by change of status sells the property taken over on the basis of such change of status. In that case any capital gain shall be calculated as the difference between the sale price of property and its acquisition price paid by the legal entity that had brought that property into the legal entity that came into being by the change of status, adjusted according to CIT Law, from the date of acquisition to the date of sale. The right to the deferment of payment of corporate income tax on the capital gains shall apply if the owner of the legal entity which had transferred property on the occasion of a take-over, merger or partition has received compensation in the form of shares or interest in the legal entity to which the property was transferred, as well as any compensation in cash, the amount of which is not greater than 10% of the par value of the obtained shares or interests. If the compensation in cash is greater than 10% of the par value of the obtained shares or interests, the tax liability on capital gain runs from the moment the change of status is made and the capital gain shall be calculated as the difference between the price at which the property could have been sold on the market and the acquisition price referred to in Law.

### ***Deductions***

All business expenses recognized in the income statement, in accordance with the IAS and accounting regulations, shall be recognized for determining the taxable profit, except for the expenses for which otherwise is prescribed by the CIT Law. The cost of materials and the value of sold merchandise shall be recognized in the amounts calculated by the average price method or FIFO method and the costs relating to wages and salaries shall be recognized in the amount charged to operating costs. Also, any paid property tax, social security contributions payable by the employer, etc., shall be recognized as expense.

### ***Non-deductible Expenses***

All business-related expenses are deductible, except the following:

- 1) expenses that cannot be documented;
- 2) corrections of values of individual claims from persons against whom the debt exists concurrently;
- 3) presents and donations to political organizations;
- 4) presents and other advertising expenses that are not documented, or the consignee is an associated person;
- 5) Interest for unduly paid taxes, contributions and other public duties;
- 6) Fines and penalties;
- 7) Earnings of employees or other persons based on share of profit;
- 8) Expenses not generated in the course of performing of a business activity, if not otherwise prescribed by CIT Law.

### ***Interest Expense***

As a general rule, all interest payments are deductible. Exception is the interest charged for the untimely payment of taxes, contributions and other public charges.

In case of credits received from associated persons, the accounted interest shall be reduced to market rate.

Any interest and related costs based on a loan extended to a permanent establishment by its non-resident head office shall not be recognized as expense of that PE.

### ***Royalties***

Any compensation based on copyrights and industrial property rights (hereinafter: the royalties) paid by PE to its non-resident head office, shall not be recognized as expense.

### ***Severance Wages***

Calculated but not paid severance wages and financial compensations to the employee on the basis of retirement and cessation of employment on other grounds, shall not be recognized as an expense for tax purposes.

### ***Corrections of the Value***

As expense in the tax statement of banks and other financial organizations shall be recognized as an increase of the general correction of the value, determined in accordance with the regulations of the National Bank of Serbia, as a difference between the value of this correction at the beginning and at the end of the tax year, i.e. in the period of the making of the tax statement.

### ***Long-term Reservations***

Long-term reservations for the renewal of natural resources, for expenses within the warranty period and withheld securities and deposits shall be recognized as expenses.

### ***Devaluation of Property***

As expenses in the tax balance recognized as expenses shall be costs incurred on the basis of devaluation of property, which is determined as the difference between the purchase price of the property, established with this Law and its estimated refundable value, except in the case of damages due to force majeure.

### ***Write-off***

Write-off of the values of individual claims shall be recognized as an expense, if the following conditions are met:

- 1) it is doubtlessly proven that those claims had previously been included in the taxpayer's income;
- 2) that the claim in the taxpayer's books was written off as non-collectable;
- 3) that the taxpayer gives evidence on the unsuccessful collection of these claims through court.

The corrections of the value of certain claims shall be recognized as expenses if at least 60 days passed from the date of its collection.

### *Expenses for Health, Cultural, Educational and Other Purposes*

Expenses for health care, cultural, educational, scientific, humanitarian, religious, environmental protection and sport-related purposes shall be recognized as an expense amounting to not more than 3.5% of the total revenue.

Expenses for humanitarian purposes shall be recognized only if they were made through humanitarian organizations registered for such purposes.

Expenses on investment in the field of culture shall be recognized as an expense amounting to not more than 1.5% of the total revenue.

Membership fees paid to chambers, unions and associations shall be recognized as an expense item in the tax statement up to 0.1% of the total revenue.

Membership fees the amount of which is determined by law shall be recognized as an expense in the amount determined by law.

The costs relating to advertising, publicity and entertainment shall be recognized as an expense up to 3% of the total revenue.

Only the gifts and other expenses serving towards the promotion of the taxpayer's performance shall be recognized as publicity expense in the tax statement.

### *Depreciation*

Two types of depreciation are available: straight-line and reducing-balance. Depreciation of fixed assets categorized into group 1 is calculated using the proportional method for each asset individually, on purchased value of the asset. Depreciation of fixed assets categorized into groups 2-5 is calculated using the degression method on total value of assets (their sum) classified into individual groups. Depreciation of assets is calculated using the prescribed rate in the first year on purchased value and in the following years on the amount that is not written off.

Depreciation groups and rates are as follows:

#### **Group 1**

2.5% (asphalt surfaces, ship docks, power plants, bridges, hangars, gas and oil pipelines, roads and highways, parking spaces, etc.).

#### **Group 2**

10% (planes, cars, ships and other vehicles, medical equipment, office material, air conditioners, etc.).

#### **Group 3**

15% (buses, fiscal registers, trucks, photocopying equipment, research equipment, TV antennas).

#### **Group 4**

20% (equipment for TV and radio broadcasting, oil rigs equipment, equipment for the treatment of minerals, telegraph and telephone equipment, etc.).

#### **Group 5**

30% (computers, system and application software, equipment for informatics infrastructure, rental cars, billboards, video tapes, CD's, DVD's, etc.).

## Losses

Carry-forward of losses is limited to 10 years. The utilization of the tax facility shall not be terminated in the event of a change of status based on a merger and take-over, or in the event of a socially owned enterprise being set up as a stock company or a limited liability company or in other cases of a taxpayer's organization. In the event of partition, the facilities shall be divided proportionally and the competent tax office shall be notified accordingly.

Capital losses can be offset only with capital gains and carry forward up to 10 years.

## Tax Incentives

The following tax incentives are applied in Serbia:

### TAX INCENTIVES

TYPE OF INCENTIVE	DESCRIPTION	LENGTH	PROPORTION
Tax credits			
	Investment tax credit for investments in fixed assets in own registered activity, under conditions defined in CIT Law.	Unused part can be carried forward 10 years, since the year when investment is made.	- 20% of investment, but no more than 50% of calculated tax in the year of investment, for large and medium companies; - 40% of investment, but no more than 70% of calculated tax in the year of investment, for large and medium companies; - 80% of investment, no other limit, for certain activities defined in CIT Law.
	Tax credit for employment of new workers for indefinite period of time.	Just in the year of employment.	100% of the gross salaries paid to such employees plus the corresponding public revenues paid as a charge to the employer.
Tax reliefs			
	Tax relief for investment of more than 600 million dinars in its own fixed assets; if they are used in own registered business and additional employment of workers for indefinite period of time.	10 years since the year when first profit appeared	In proportion to investment.
	Tax relief for concession-related investment.	5 years since the date of completion of concession investment.	The profit accrued on the basis of income stemming from the subject matter of concession
	Tax relief for companies engaged in vocational training, professional rehabilitation and employment of disabled persons.	No limit	In proportion to the share of such persons in the total number of its employees.
	Tax relief for non-profit organization, under conditions determined in CIT Law.	Just in year when law conditions are met.	Only if income is up to 300,000 dinars higher than its expenditures, exemption is granted.

## ***Transfer Pricing***

A transfer price is the price in transactions involving assets or making commitments among related parties.

Related party with a taxpayer is an individual or a legal entity in whose relations with the taxpayer there is a possibility of exercising control over or exerting considerable influence on business decisions and specifically: if an entity has the possession of more than 50% or the largest single portion of shares or interests in the taxpayer, or more than 50% or the largest number of votes individually in the taxpayer's controlling bodies, or a legal person in which, like in the taxpayer, the same legal entities, directly or indirectly, participate in control.

Taxpayer must declare transfer transactions in the tax balance, even if they are at market prices. The taxpayer shall declare the value of such transactions at prices that would have been fetched on the market for such or similar transactions, had an associated person not been involved (the "arm's length" principle) and the difference shall be included in the tax base. Comparative market prices shall be used in the determination of the transaction price by the "arm's reach" principle and when that is not possible, by the cost plus the usual profit margin method or the resale price method.

## ***Thin Capitalization***

In case of a debt to a creditor having the status of a related party referred, the interest and related costs greater than four times the value of the taxpayer's own capital shall not be recognized as expense of any taxpayer other than a bank or other financial organization and, 1) in case of a loan denominated in dinars, 110% of the interest rate charged by the National Bank of Yugoslavia on the loans it extended to commercial banks as on 31 December of the previous year; and 2) in case of a loan in foreign currency, 110% of the interest rate charged by the central bank of the country whose currency is involved, on the loans it extended to commercial banks as on 31 December of the previous year.

The taxpayers own capital shall be understood to mean the difference between the assets on the basis of which a taxpayer earns income, which is included in the total income and the debts associated with it, where assets and debts are declared in their average amount as on 1 January and 31 December of the current year.

In case of banks and other financial organizations, the limit shall be equal to the result of ten times the value of own capital and the interest rate mentioned above.

## ***Inter-Company Dividends***

For dividends received from resident subsidiaries, participation exemption is recognized.

For dividends received from non-resident subsidiaries, direct and indirect tax credit is granted, as it will be described in Section – Taxation of foreign operations.

## ***Tax Consolidation***

Any parent company and its resident subsidiaries make up a group of associated companies, if direct or indirect control over at least 75% of shares or interests exists among them.

Related parties shall have the right to apply for tax consolidation on condition that all of them are residents of the Republic. Each member of a group of associated companies shall file its own tax statement and the parent company shall file the consolidated tax return for the group of associated companies.

The losses of one or several associated companies may be offset in the consolidated tax return at the expense of other associated companies in the group. Each member of a group shall be a payer of the tax calculated in the consolidated tax statement, in proportion to the taxable profit declared in an individual tax return.

Once approved, any tax consolidation shall be applied for at least five years. If prior to the expiration of the term several associated companies or all associated companies in a group subsequently opt for individual taxation all associated companies shall pay proportionally the balance of the privilege they had used.

### ***Tax Treatment of Liquidation and Bankruptcy of a Taxpayer***

Any profit, meaning positive difference between the taxpayer's assets at the beginning and at the end of the liquidation proceedings, determined in the proceedings for the liquidation shall be taxable.

The assets remaining in the liquidation estate after debts have been paid to creditors (liquidation surplus) over and above the invested capital shall be regarded as capital gain.

### ***Controlled Foreign Company (CFC) rules***

Serbia has no CFC legislation.

### ***General Anti-avoidance Rule***

Serbian Law on Tax Procedure and the Tax Administration prescribed the Principle of Establishing Facts. Under this principle tax facts shall be determined according to their economic essence, meaning that tax authorities may re-characterize for tax purposes any transaction if it can be established that a transaction was chosen to avoid tax. Taxpayer may overcome this situation if it proves that the transaction has a legitimate financial or economic purpose.

If simulated legal business conceals some other legal business, the basis for assessing the tax liability shall be the dissimulated legal business.

When income is made, or property gained in a manner that is against the regulations, the Tax Authority shall assess the tax liability in accordance with the Law by which the appropriate kind of tax is regulated.

### ***Taxation of Foreign Companies***

#### ***Permanent Establishment (PE)***

Any non-resident shall be subject to taxation of any profit it generates through a PE in the territory of Serbia. Non-resident is to be understood as a legal entity founded and having its head office of actual management and control outside the territory of Serbia. Non-resident taxpayer shall keep in the PE records containing all data relating to income and expenses, as well as other data necessary to determine the profit generated by PE in the territory of Serbia.

Any interest and related costs based on a loan extended to a permanent establishment and copyrights and industrial property rights provided by its non-resident head office, shall not be recognized as an expense of that PE.

#### ***Serbian Subsidiaries***

Serbian subsidiaries of foreign companies are subject to corporate tax in the same way as Serbian companies.

## ***Taxation of Foreign Operations***

### ***Branch Income***

Resident companies are tax subjects on their worldwide income. Therefore, the income of a foreign branch is subject to the Serbian corporate income tax in the year in which it is earned, whether or not it is repatriated. The tax credit is granted in the amount of the foreign tax. The tax credit may not be greater than the amount that would be calculated by applying the provisions of CIT Law.

### ***Income from Foreign Subsidiaries***

For dividends received from non-resident subsidiaries tax credit is recognized. Income of a resident parent company will be grossed up for dividend and the corporate income tax paid in the country of the subsidiary on profit which is distributed as dividend and withholding tax on dividend. Then, the calculated corporate income tax for a resident parent company shall be decreased for corporate income tax paid in a foreign country (indirect tax credit) and withholding tax paid in a foreign country (direct tax credit). Recognized tax credit cannot be larger than the tax that would have been levied on profit and dividends in conformity with the provisions of the Serbian CIT Law.

The right to the tax credit shall be recognized to the parent company if: it has possessed 25% or more shares or interests of the non-resident subsidiary and for at least the whole year preceding the presentation of tax balance.

The unused part of the tax credit may be carried forward, but not longer than for 10 years.

### ***Rates of Corporate Tax***

The corporate income tax rate in Serbia is proportional and uniform and is 10%.

### ***Returns and Assessment***

#### ***Self-assessment System***

Self-assessment system is in use for the companies in Serbia. The taxpayer is obliged in the tax return to calculate income tax for the tax period for which the tax return is filed. With the tax return taxpayer shall file the tax balance and the related financial statements.

#### ***Payments on Account***

The taxpayer during the year pays the income tax in monthly advance payments, the amount of which is established on the basis of the tax return for the previous year. The monthly advance payment is paid on the 15th of the current month for the previous month.

If the taxpayer paid less tax as advance than he was obliged to pay under the obligation calculated in the tax return, he must pay the difference at the latest until filing of the tax declaration. If the taxpayer paid more taxes as advance than he was obliged to pay under the obligation calculated in the tax return, the excess tax shall be calculated as advance payment for the subsequent period, or is returned to the taxpayer upon his request.

### ***Withholding Tax***

On the income gained by the non-resident taxpayer from the resident taxpayer on the basis of dividends and share in the profit of a legal entity, copyright fees, interests, capital gains and compensations for the lease of real-estate and movables, withholding tax at the rate of 20% is calculated and paid, if not otherwise prescribed by DTA.

Withholding tax is not assessed and paid if the income is paid to the permanent establishment of the non-resident.

If rules of DTA are applied, resident taxpayer needs that the non-resident proves the status of the state with which Serbia has DTA and that the non-resident is the actual owner of the income. Otherwise, he is obliged to pay the difference between the paid tax and the tax owed under CIT Law.

### ***Guarantee***

The payer of income shall guarantee the payment of withholding tax.

All partners in a legal entity set up as a general partnership shall be jointly and severally liable for that general partnership's outstanding tax debts to the extent of their assets.

The general partner in a legal entity set up as a limited partnership shall be jointly and severally liable for outstanding debts of that partnership.

Any shareholder owning more than 75% of shares of a subsidiary company shall be jointly and severally liable for the outstanding tax debts of that subsidiary company.

### **Value Added Tax (VAT)**

Serbia introduced value added tax legislation with the VAT Law in 2004. This Law replaced Sales Tax Law which was effective as of 31 December 2004. Solutions which are named in the VAT Law are in compliance with the principals of the VI Directive by the EU Council.

### ***Taxpayer***

Taxable persons are legal entities, individuals operating a registered business and other individuals who make taxable supplies of goods and services and import of goods.

### ***Tax debtor***

Tax debtor is:

1. Taxpayer;
2. Tax representative appointed by a foreign person without a head office or a permanent organizational unit in the Republic, who performs supply of goods and services in the Republic;
3. Recipient of goods and services, if the foreign person does not appoint a tax representative;
4. Person who states the VAT in an invoice or other document serving as the invoice, even though it is not obliged to calculate and pay the VAT;
5. Person who imports goods.

### ***Non-residents***

Non-residents are obliged to register for VAT if they perform a taxable business activity in Serbia. Therefore, it is of great importance to determine the place of supply of goods and services and distinguish whether the supply was made on the territory of Republic of Serbia.

## ***Registration Thresholds***

Taxpayers who are required to register for VAT purposes are all legal entities and entrepreneurs with year's turnover of goods and services:

- Over RSD 4,000,000;
- Between RSD 2,000,000 and RSD 4,000,000, but only if they file registration form to the competent tax authority at the beginning of the year;
- Lower than RSD 2,000,000, by default will be removed from the VAT system.

## ***Tax Base***

The tax base is the amount that a taxpayer receives or is entitled to receive for the sale of goods and services. It includes any payment in cash or in kind, incidental expenses, as well as taxes, duties, excise payments and charges other than VAT. The taxable amount of imported goods includes customs duties determined by custom authorities.

## ***Tax Rates***

The VAT rates applied in Serbia are 18% and 8%. There is no 0% rate, but there is a turnover which is exempt of VAT with and without the right to deduction of the input VAT. The standard VAT rate is 18%.

### *The reduced 8% rate*

The supply of the following goods and services is taxable at the rate of 8%:

- Basic foodstuffs (bread, milk, flour, cooking oil, fresh fruits, vegetables, meat, fish and eggs),
- Listed drugs,
- Medical devices,
- Agricultural fertilizers, pesticides,
- Textbooks and teaching aids,
- Daily newspapers,
- Hotel services,
- Public utility services,
- Gas supplied to individual consumers,
- Flats,
- Personal computers etc.

### *Supply Exempt of VAT*

In addition to the above tax rates, a 0% tax rate is also applicable (predominantly on export of goods and services related to export).

### *Supplies Exempt of VAT with the right to Deduction of the Input Tax:*

- transportation and other services relating to the imports of goods, where the value of these services is included in the base;
- export of goods;
- supply of goods forwarded by a foreign recipient within the luggage carried with him abroad;
- deliveries of aircrafts, servicing, repair, maintenance, chartering and renting of aircrafts that are primarily used against consideration in international air transportation;
- deliveries of gold to the National Bank of Serbia;
- goods and services intended for:
  - (1) official needs of diplomatic and consular missions;
  - (2) official needs of international organizations, where this is provided for by an international treaty;

- (3) personal needs of foreign personnel of diplomatic and consular missions, including the members of their families;
- (4) personal needs of foreign personnel of international organizations, including the members of their families, where this is provided for by an international treaty, etc.

#### *Supplies Exempt of VAT without the Right to Deduction of the Input Tax*

VAT shall not be paid in the trade of money and capital on the following transactions:

- transactions and transaction mediation in legal means of payment, except for paper money and coins that are not used as legal means of payment, or that have a numismatic value;
- transactions and mediation in transactions with stock, shares in companies and corporations, bonds and other securities, except for transactions relating to keeping and managing of securities;
- credit transactions, including mediation and monetary loans;
- services of assessing solvency of natural and legal persons;
- at assuming of obligations, guarantees and other security means, including mediation, etc.

VAT shall not be paid also in the supply of the following:

- insurance and reinsurance services;
- land, as well as letting of such land;
- structures, except for the first transfer of the right of disposal of a newly established building structures or economically divisible units within these structures, as well as the first transfer of owner's share in newly constructed structures or economically divisible units within such structures;
- services of renting the apartments, if used for residential purposes;
- shares, securities, postal securities, revenue and other current stamp duties;
- postal services provided by a public enterprise;
- services provided by health-care institutions,
- services provided by physicians, dentists or other health-care workers;
- services of social welfare and care, children protection and protection of the young people, social protection services;
- educational services and services of professional retraining;
- services of religious character provided by registered churches and religious communities;
- services of making arrangements for chance games, etc.

#### *The 18% rate*

All supplies of goods and services which are neither exempt of VAT, nor taxable at the rate of 8%, are taxable at the rate of 18%.

#### *Special tax regime*

There is a special tax regime for certain taxpayers:

1. *Small taxpayers*, whose turnover is between RSD 2,000,000 and RSD 4,000,000, are not liable for VAT. However, they may, at the beginning of a calendar year, decide to pay the VAT by filing a registration form to the competent tax authority;
2. *Farmers*, for supplies of goods and services are entitled to the VAT compensation of 5%. If their turnover exceeds RSD 2,000,000, they can register for VAT;

3. *Travel agency*, tax base is the difference between the total fee paid by the passenger and the actual costs paid by a travel agency for previous tourist services, with the deduction of VAT included in that difference;
4. *Used goods, objects of art, collection work and antiques*, tax base is the difference between the selling and the purchasing price of these goods, with the deduction of VAT included in that difference.

### ***Property***

As a general rule, VAT is not paid if there is liability for absolute rights transfer tax. However, VAT shall be paid when there is the first transfer of real estate, unless the real estate is intended for the housing purposes.

### ***Penalties for Overdue Tax***

Penalties for unduly payments of value added tax are between RSD 100,000 and RSD 1,000,000.

## 5. Taxes on Individuals

### Income Tax

#### *Territoriality and Residence*

Resident individuals are subject to personal income tax on their worldwide net income and non-residents only on Serbian-source income.

In Serbia there is a mixed type of Personal Income Tax – cedular taxation during the year (each category of income is separately taxed and has separate deductions) and complementary annual global tax.

For the purposes of the PIT Law, a resident of the Republic shall be understood to mean any individual:

- 1) Whose residence or centre of business and vital interests is in the territory of the Republic;
- 2) Who resides in the territory of the Republic for 183 or more days, continuously or with breaks, over a period of 12 months beginning or ending in the respective taxation year.

A resident of the Republic shall also be understood to mean any individual who is sent abroad or to the other republic for the purpose of working for an individual or legal entity, who/which is a resident of the Republic, or an international organization.

#### *Taxable revenues*

- 1) Wages and salaries;
- 2) Revenue from agriculture and forestry;
- 3) Revenue from self-employment;
- 4) Revenue from copyrights and industrial property rights;
- 5) Revenue from yield on capital;
- 6) Revenue from real estate;
- 7) Capital gains;
- 8) Other revenues.

#### *Tax Exemptions*

Tax exemptions recognized in the PIT Law in Serbia, are as follows:

- 1) Regulations dealing with the rights of disabled veterans;
- 2) Parent and child allowance;
- 3) Allowance for being assisted and nursed by another person and compensation for disability;
- 4) Unemployment benefit;
- 5) Sustenance granted in conformity with law;
- 6) Health insurance benefits, with the exception of compensation for wage/salary;
- 7) Property insurance indemnity, other than indemnity for lost profit, as well as personal insurance indemnity for damage suffered, unless it was made good by the perpetrator;
- 8) Indemnity for material and consequential damage, with the exception of indemnity for lost profit and compensation for wages (salary) or lost wages (salary);
- 9) Relief given in the event of death of an employee, member of his/her family or retired employee, up to RSD 35,000;
- 10) Relief given because of destruction of or damage to property in consequence of natural disasters or other extraordinary occurrences;
- 11) Organized welfare and humanitarian aid;

- 12) Grants and loans to pupils and students amounting up to RSD 6,000 a month;
- 13) Meal allowance paid to amateur athletes by amateur sport clubs in conformity with the law dealing with sports amounting up to RSD 5,000;
- 14) Remuneration and reward for the work done paid to convicts and juvenile delinquents kept in penitentiaries and reform establishments;
- 15) Remuneration and reward for the work done paid to inmates of psychiatric establishments;
- 16) Remuneration for the work done by persons in the bodies conducting elections or population census;
- 17) Old age pension and disability pension;
- 18) Retirement gratuity, up to minimum amount according to Labor Law;
- 19) Severance pay/gratuity paid by the employer to a redundant employee, in conformity with the law dealing with labor relations, up to the amount determined by that law;
- 20) Non-recurrent compensation paid in money to a person whose employment is terminated in the process of enterprise restructuring and preparation for privatization, bankruptcy and liquidation, in conformity with the Resolution Determining the Welfare Program for Employees whose Employment is Terminated in the Process of Enterprise Restructuring and Preparation for Privatization, Bankruptcy and Liquidation (Official Gazette RS, No. 12/2002), up to the amount set in that program and an unlimited amount in the case of persons over 50 years of age.
- 21) Remuneration for the work done by a sustainer and remuneration for supporting the beneficiary in the sustainer family;
- 22) Remuneration for the soldiers in military service and student at military schools
- 23) Premiums, regresses and subventions for farmers, according to law
- 24) VAT compensation for farmers, according to law
- 25) Prizes and awards for pupils and students relating achieved successes during education and won on educational contests.

### ***Avoidance of Double Taxation***

If a resident of Serbia earns revenue in some other country, on which tax was paid in that country, he/she shall be allowed a tax credit amounting to the income tax paid in another country, but no more than the amount that would be obtained by applying the provisions of the present PIT Law.

### ***Taxation of Employment Income***

Besides salary employment income includes: receipts in the form of bonds, monetary certificates, shares other than those acquired in the ownership transformation procedure, or goods, those stemming from performance or provision of facilities, forgiving a debt, as well as covering the taxpayer's expenditures by a monetary compensation or direct payment.

Employee's part in profit sharing is taxed as yield on capital.

#### *Expenditures and Tax Relieves*

For each employee the standard expenditure is recognized in the amount of RSD 5,560.

Recognized tax relieves are as follows:

- public transport allowance (to and from the place of work), up to the price of a monthly ticket, but no more than RSD 2,000
- daily allowance on business trips in the country no more than RSD 1,200 a day and on business trips abroad, up to the amount set by the competent authorities
- accommodation allowance on business trips, against the presented bills
- transport allowance on business trips, against public carrier bills, and when the use of the employee's own car is permitted under laws and regulations, up to 30% of the price of a liter of super petrol, but no more than RSD 3,500 a month
- solidarity relief in the event of sickness, medical rehabilitation or disability of an employee or a member of his/her family, up to RSD 20,000
- Christmas presents for children of employees, to the age of 15, no more than RSD 5,000 per child
- jubilee awards for employees, according to the Labor Law, no more than RSD 10,000 annually
- additional receipts of any alien resident employed by a resident or in a permanent operating unit of a non-resident, relating to the coverage of additional expenses stemming from employment in Serbia, shall be exempt from tax up to the amount that is not greater than 35% of the wages/salary paid, under conditions determined in the PIT Law
- tax shall not be payable on the wages/salaries of disabled persons employed in enterprises for the occupational training and employment of the disabled
- premium for additional pension insurance paid from salary, according to relating law, but no more than RSD 3,000 per month
- contribution to private pension fund paid from salary, according to relating law, but no more than RSD 3,000 per month
- tax relieves for employment of unemployed persons younger than 30 years, older than 45 years and disabled persons, under conditions determined in PIT Law

#### *Additional Receipts of an Alien Resident*

Additional receipts of any alien resident employed by a resident or in a permanent operating unit of a non-resident, relating to the coverage of additional expenses stemming from employment in Serbia, shall be exempt from tax up to the amount that is not greater than 35% of the wages/salary paid, under the following conditions:

- 1) If he/she was a resident of another state prior to taking up employment, on the basis of which he/she is receiving additional income;
- 2) If he/she has become a resident of the Republic for reasons of taxation only, on the basis of employment;
- 3) If his/her employment does not last more than three years.

#### *Tax Rate*

Tax rate on salary is proportional and it is 12%.

#### *Tax on Revenue from Agriculture or Forestry*

Revenue from agriculture and forestry is the cadastral or real revenue from these branches, and it is taxed at rate of 14%.

### ***Tax on Revenue from Self-Employment***

Revenue from self-employment is revenue stemming from a business and provision of professional and other intellectual services, as well as from other activities.

Tax base is the income determined in the tax balance and the lump-sum taxation is recognized.

The tax rate is 10%.

Same expenses and relieves are recognized, as for companies.

### ***Tax on Revenue from Intellectual Property Rights***

Revenue from intellectual property rights is taxed at the rate of 20%.

Standard expenditures are recognized as 40-60% of revenue, or real expenditures if they can be documented.

### ***Tax on Yield on Capital***

Tax on yield on capital is paid on interest and other revenues based on loans, savings and other deposits (time or sight), bonds and related securities, dividends and other revenues based on profit sharing, employee's part in profit sharing, revenue stemming from investment unit, usage of company's property for private purposes of the owner of the company.

The tax rate is 20%.

For residents 50% of dividend or revenue stemming from the share of profit or revenue stemming from investment unit; for residents and non-residents 100% of interest on RSD deposits and public loans

### ***Tax on Revenue from Immovable Property***

Revenue from immovable property is taxed at the rate of 20%.

Standard expenditure is 20% of the revenue.

### ***Tax on Capital Gains***

Capital gains are taxed at the rate of 20%.

Capital gain shall be understood to mean any revenue a taxpayer realizes by selling or transferring in some other way against compensation the following:

- 1) Right of ownership to real estate;
- 2) Perpetual right of using and building on urban building land;
- 3) Intellectual property rights;
- 4) Shares in the assets of legal entities, shares and other securities, other than bonds issued in conformity with the regulations dealing with the settlement of commitments of the Republic based on a loan taken towards economic development and the household foreign exchange savings;
- 5) Investment unit
- 6) Investment unit in a private pension fund
- 7) Accumulated assets on the basis of the programmed payment to a member of a private pension fund.

A capital gain shall be the difference between the sale price of rights, shares and securities and their purchase price adjusted in accordance with the provisions of the Law; if the difference is negative, it is a capital loss.

Tax relief is recognized if money obtained from selling a private house is used for housing.

### *Tax on other revenue*

Other revenue is revenue stemming from a contract of hiring work, contract of provision of temporary or occasional services, revenue received by a member of a pupil, youth or student co-operative younger than 26 years for temporary or occasional services, youth or student co-operative younger than 26 years remuneration received by members of boards of directors and supervisory boards of legal entities, fees paid to members of parliament and councilors, remuneration paid for the work done in connection national defense, civil defense and protection against natural disasters, receipts referred to in Article 9 of the present Law in excess of the non-taxable amounts, revenues of bankruptcy managers, court experts and jurors, prizes, reimbursements and financial support to the unemployed, other revenue received by a member of a pupil, youth or student co-operative younger than 26 years and revenue earned by individuals by collecting secondary raw materials, forest products and medical herbs.

Expenditures are recognized as 20-40% of revenue.

Tax rate is 20%.

### *Annual Income Tax*

Taxable income is the sum of:

- 1) Wages/salaries;
- 2) Taxable revenue from self-employment;
- 3) Taxable revenue from copyrights and industrial property rights;
- 4) Taxable revenue from real estate;
- 5) Taxable revenue from leasing out chattels;
- 6) Taxable revenue from personal insurance;
- 7) Taxable revenue of athletes and athletic specialists;
- 8) Other taxable revenues;
- 9) Referred income earned and taxed in other state.

Taxable income shall be reduced for taxes and social contributions paid on these revenues, in the country and outside. Taxable revenue shall be the difference between the taxable income and non-taxable amount (triple average annual salary per employee for residents and fivefold average annual salary per employee for alien-residents).

Tax base is the difference between the taxable revenue and personal deductions, which are 40% of average annual salary per employee and 15% for dependent members, but the total deductions can not exceed 50% of taxable revenue.

Annual income tax is progressive tax and the tax rates are:

Residents:

- 1) For income up to six fold average annual salary – 10%,
- 2) For income larger than six fold average annual salary – 15%;

Alien-residents:

- 1) For income up to eightfold average annual salary – 10%,
- 2) For income larger than eightfold average annual salary – 15%.

## *Tax Charging and Collection*

The payer shall charge, withhold and pay tax on the following revenues:

- 1) Wages/salaries;
- 2) Revenues from copyrights and industrial property rights;
- 3) Yield on capital;
- 4) Revenues from real estate, if the payer of revenue keeps books;
- 5) Revenues from leasing out chattels, if the payer of revenue keeps books;
- 6) Games-of-chance winnings;
- 7) Revenues from personal insurance;
- 7a) Revenues of athletes and athletic specialists;
- 8) Other revenues, if the payer keeps the books.

Taxes shall be charged and paid on the following revenues by the decision of the competent tax offices:

- 1) Revenues from agriculture and forestry;
- 2) Revenues from self-employment;
- 3) Capital gains;
- 4) Other revenues on which withholding tax is not payable.

### *Guarantee*

The payer of revenue shall guarantee for the payment of withholding tax.

### *Gift and Inheritance Tax*

Gift and inheritance tax is paid when ownership rights and other rights related to real estate are inherited by heirs or received by the donees as a gift. Inheritance and gift tax shall also be paid on money inherited or received as gift, savings deposits, bank deposits, monetary claims, intellectual property rights and interests in a legal entity, securities and the right of ownership to a second-hand motor vehicle or second-hand vessel and other chattel. Gift tax shall also be paid in case of transfer of a legal entity's property without compensation.

Taxpayer of a gift and inheritance right can be a resident or a non-resident of the Republic of Serbia, in the following situations:

- Taxpayer is a resident or non-resident of the Republic who inherits or receives as a gift the right in relation to real estate existing in the territory of the Republic;
- Taxpayer is a resident of the Republic who inherits or receives as a gift the right in relation to a movable property existing in the territory of Serbia or abroad;
- Taxpayer is a non-resident of the Republic who inherits or receives as a gift the right in relation to an object existing in the territory of the Republic.

Taxpayers who are in the second order of succession according to the legal order of succession in relation to the decedent or donor (spouse, children, parents and siblings) shall pay the inheritance and gift tax at the following rates:

Tax base	Payable tax
Up to RSD 300,000	2%
Over RSD 300,000	RSD 6,000 + 2.5% of the amount in excess of RSD 300,000

The taxpayers that are in the third and any subsequent order of succession in relation to the decedent or donor or the taxpayers that are unrelated to the decedent or a donor shall pay inheritance or gift tax at the rate of 2.5%.

### *Tax Exemptions*

Inheritance and gift tax shall not be paid on the money inherited or received as a gift, savings deposits, bank deposits, monetary claims, intellectual property rights, interests in a legal entity, securities, right of ownership to a second-hand motor vehicle or second-hand vessel and other chattel, if the individual market or nominal value of the object of taxation or individual amount is smaller than RSD 9,000.

The inheritance and gift tax shall not be payable by on the following:

- 1) A heir in the first order of succession, decedent's spouse and parent and a donee in the first order of succession and donor's spouse;
- 2) A farmer heir or donee in the second order of succession who inherits or receives as gift the property serving to him for farming purposes, if he/she has lived with the decedent or donor in the same household for at least five years running prior to the decedent's death or prior to receiving the gift;
- 3) A heir or donee in the second order of succession - on an inherited or received as gift dwelling, if he/she has lived with the decedent or donor in the same household for at least a year prior to the decedent's death or prior to receiving the gift;
- 4) A donee - on the property relinquished to him/her in the probate proceedings, which he/she would have received had the heir/donor waived inheritance;
- 5) A funds and foundations - on property inherited or received as gift, which serves exclusively for the purposes in the aid of which funds or foundations are established;
- 6) A heir or donee to special motorcars with built-in devices for the transport of patients, special driving school motorcars with dual controls and motorcars for taxi and rent-a-car service, which are marked accordingly;
- 7) The Republic of Serbia, autonomous region or local units as legal heir;
- 8) Transfer of shares without charge in the privatization procedure, in conformity with the regulations dealing with privatization, from the entity undergoing privatization to the acquirer of shares;
- 9) Transfer of bonds issued according to regulations dealing with the settlement of the liabilities of the Republic of Serbia based on loan towards economic development of Republic of Serbia, or household foreign exchange savings;
- 10) Transfer of bonds issued by the Republic of Serbia, autonomous region, local units or National Bank of Serbia;
- 11) Recipient of donation according to international agreement between Republic of Serbia, when such an agreement stipulates that on received money, things or rights gift or inheritance tax shall not be paid;
- 12) Property gained by Republic of Serbia, autonomous region, local units.

## 6. Other taxes

### Customs duties

Goods imported into Serbia are subject to customs duties at rates determined by the Customs tariff. Tariff rates in Serbia range from 0% to 30%. Lower tariff rates range from 1% to 5% and are applicable on raw materials and materials for reproduction that are not domestically produced. It should be emphasised that over 50% of tariff headings have the rates ranging from 1% to 5% and over 75% of products of tariff headings the 10% tariff burden is applicable. Only 15% of goods are burdened with high tariff rates within the range of 25% to 30%.

### Excise Duties

Certain goods (oil derivatives, tobacco products, alcohol-ethanol, alcoholic beverages, imported refreshing non-alcoholic beverages, coffee) are subject to excise duties. The excise tax base is a unit of measure of excise goods (litre, kilogram, piece, package, etc.) or their value. The excise taxpayer is any person that produces and puts on the market or imports the excise products.

### Property Tax

Property tax includes tax on (immovable) property, inheritance and gift tax and absolute rights transfer tax.

#### *Property Tax*

The property tax is applicable to the following rights related to real estate: ownership rights, usufruct, the right of use and the right of occupancy, the right to use property on the basis of time sharing and the right to lease a dwelling or a residential building (in accordance with the laws on housing), the right to use urban construction land of over 1,000 square meters surface.

Immovable property owned by legal entities is taxable at the rate of 0.40% applied to book value of the real estate on 31 December of the previous tax year, for a taxpayer who keeps business books.

For a taxpayer who does not keep business books, tax rates for property tax are progressive and they are as follows:

<b>Tax base</b>	<b>Payable tax</b>
Up to RSD 6,000,000	0.4%
Between RSD 6,000,000 and RSD 15,000,000	RSD 24,000 + 0.8% of the amount in excess of RSD 6,000,000
Between RSD 15,000,000 and RSD 30,000,000	RSD 9,600 + 1.5% of the amount in excess of RSD 15,000,000
Over RSD 30,000,000	RSD 321,000 + 2% of the amount in excess of RSD 30,000,000

If the tax base is smaller than RSD 400,000, there is no liability for property tax.

There are also tax relieves which reduce the tax liability in following cases:

<b>Tax relieves</b>	<b>Reduction of payable tax</b>
Tax on a building or apartment where taxpayer lives with members of his/hers household	By 40% for the taxpayer and 10% for every member of household, but no more than 70%
Tax on a building or apartment where taxpayer's members of household live	By 10% for the member of household, but no more than 30%
Tax on a housing building or an apartment where persons over 65 years of age live (apartments up to 60 m2)	By 75%

*Assessment and collection of property tax* - The taxpayer is obliged to file the tax form by 31 March of the year for which the tax is assessed. The annual tax is paid on a quarterly basis, in the form of advance payments based on the level of tax assessed for the previous year.

### ***Absolute Rights Transfer Tax***

The property transfer tax is levied on the transfer of ownership rights on real estate, intellectual property, shares in legal entities and securities. The taxpayer is the seller, i.e. the entity/person transferring the ownership rights. Residents are obliged to pay the tax on transfer of property worldwide, while non-residents are obliged to pay the tax only on transfer of rights taking place on the territory of the Republic of Serbia.

*Tax base* - The tax base is the agreed price. If tax authorities estimate that the price is lower than the market value, the tax shall be levied on the market price determined by tax authorities.

*Tax rates* - A 2.5% tax rate is applied to the transfer of ownership rights to real estate and other taxable property, except for securities and shares in legal entities. A reduced 0.3% tax rate is applied to the transfer of shares/stakes in a legal entity and to transfer of securities.

*Assessment and collection of absolute rights transfer tax* - The absolute rights transfer tax is due within 10 days from the taxable event in question and should be paid within 15 days of the day when the tax authorities decide on its level.

## **Local (Municipal) Taxes**

### ***Urban Construction Land Use Charge***

Legal entities are liable to local city tax - city construction land use fee. This fee is assessed based on the size of the property, the city area in which it is located, the type of activity it is used for and other criteria. The fee is paid monthly.

### ***Public Name Disclosure Charge (Signboard Tax)***

Tax is paid monthly based on the assessment of the Tax authorities, in each municipality where the legal entity has placed its signboard.

### ***Environmental Protection and Improvement Fees***

The amount of this fee is determined at the local level. It is paid monthly together with public utilities or in special cases by the 5th day of the month for the previous month.

## 7. Social Security Contributions

### Introduction

Employer's costs consist of net salaries, taxes on salaries, social security contributions (payable by both the employer and the employee in the same amount) and membership fees paid to the Chambers of Commerce. Employee gross salary consists of the net salary, tax on salary and social security contributions payable on his behalf. Employers have to withhold and pay social security contributions and taxes on gross salaries.

### Contributions

Social security contributions are calculated and withheld by the employer, although contributions are payable on behalf of the employee as well as on behalf of the employer. Base for the contributions consists of salary and fringe benefits.

Following contributions are payable on behalf of the employee and the employer at equal rates:

Type of contribution	Employee 2008	Employer 2008	Threshold 2008	Ceiling 2008
Pension and disability insurance	11%	11%	35% of the monthly average salary paid in the previous quarter, determined quarterly by the Republic statistical body	Fivefold monthly average salary determined by the Republic statistical body at the beginning of each month
Unemployment insurance	6.15%	6.15%		
Health care insurance	0.75%	0.75%		
<b>Total</b>	<b>17.9%</b>	<b>17.9%</b>		

Individuals who are self-employed pay social security contributions at rates which represent the sum of rates for employers and employees, that is, the rate of 22% for pension and disability insurance, 12.3% for unemployment insurance and 1.5% for health care insurance – total of 35.8%.

## Incentives

There are certain incentives regarding social security contributions (SSC):

- Employer who hires a person who is older than 50 years and is registered at the National Employment Service, is exempt from the payment of SSC for two years;
- Employer who hires a person who is older than 45 years and is registered at the National Employment Service, can reduce its liability for SSC by 80% for two years;
- Employer who hires a person as a trainee that is younger than 30 years and is registered at the National Employment Service, is exempt from the payment of SSC for three years;
- Employer who hires a person that is younger than 30 years and is registered at the National Employment Service for an indefinite period of time, is exempt from the payment of SSC for two years;
- Employer who hires a person with disability for an indefinite period of time, is exempt from the payment of SSC for three years.

For countries with which Serbia has signed the Social Security Agreement, rules of those agreements will be applied.

## 8. BDO BC Excel

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## Appendix

### Double taxation agreements

Serbia has income and capital tax treaties with the following jurisdictions:

Albany	Ghana	Norway
Belarus	Germany	Poland
Belgium	Hungary	Romania
Bosnia and Herzegovina	India	Russia
Bulgaria	Italy	Slovak Republic
China (People's Republic)	Iran	Slovenia
Croatia	Kuwait	Sri Lanka
Cyprus	Korea (DPRK)	Sweden
Czech Republic	Latvia	Swiss
Denmark	Macedonia	Turkey
Egypt	Malaysia	Ukraine
Finland	Moldova	United Kingdom
France	Netherlands	

Serbia has also concluded treaties with Guinea, Greece, Zimbabwe, Azerbaijan, Vietnam, Zambia, Armenia, Jordan, South Africa, Qatar, Libya, Lithuania, Malta, Morocco, Tunis, Spain, but these are not yet in force.

### Estate tax treaties

Serbia has no treaties to avoid double taxation on gifts and inheritances.

### Social security treaties

Serbia has bilateral agreements with:

Austria	Egypt	Montenegro
Bosnia and Herzegovina	France	Sweden
Bulgaria	Libya	Turkey
Croatia	Luxemburg	
Czech Republic	Macedonia	

## BDO Member Firm Offices

BDO Member Firms have offices in the following countries:

Angola	Hungary	Peru
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Australia	Indonesia	Poland
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Bahrain	Israel	Reunion
Belgium	Italy	Romania
Bolivia	Jamaica	Russia
Botswana	Japan	Saudi Arabia
Brazil	Jersey	Senegal
British Virgin Islands	Jordan	Serbia
Bulgaria	Kazakhstan	Seychelles
Canada	Korea	Singapore
Cape Verde	Kuwait	Slovakia
Cayman Islands	Latvia	Slovenia
Chile	Lebanon	South Africa
China (PRC)	Liechtenstein	Spain
Colombia	Lithuania	Sri Lanka
Comoros	Luxembourg	Suriname
Croatia	Macau	Sweden
Cyprus	Madagascar	Switzerland
Czech Republic	Malaysia	Taiwan
Denmark	Malta	Thailand
Dominican Republic	Mauritius	Trinidad and Tobago
Ecuador	Mexico	Tunisia
Egypt	Morocco	Turkey
El Salvador	Mozambique	Turkmenistan
Estonia	Namibia	Ukraine
Fiji	Netherlands	United Arab Emirates
Finland	Netherlands Antilles	United Kingdom
France	New Zealand	United States of America
Germany	Nigeria	Uruguay
Gibraltar	Norway	Vanuatu
Greece	Oman	Venezuela
Guatemala	Panama	Vietnam
Guernsey	Pakistan	Zambia
Hong Kong	Paraguay	Zimbabwe

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