



Executive on the Move

Serbia 2009

January, 2009

Introduction

The objective of Executives on the Move – Serbia 2008 is to provide general information on the Serbian taxes that may apply to individuals from abroad coming to take up employment in Serbia. The information is based on legislation and regulations in force at 31 December 2008.

The most important issues are included, but it is not feasible to discuss every subject in detail within this format. Accordingly, Executives on the Move – Serbia 2008 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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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.

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.

Fiscal considerations

General outline of tax system

The direct taxes most likely to affect an expatriate executive working in Serbia are personal income tax, gift and inheritance tax. The fiscal year is the calendar year.

Direct taxes are administered by the Tax authority (*Poreska uprava*), which is a department of the Ministry of Finance. Social security contributions are paid to Pension Insurance Fund (*Fond za penzijsko i invalidsko osiguranje*), Health Insurance Fund (*Fond za zdravstveno osiguranje*) and National organization for employment (*Nacionalna služba za zapošljavanje*), but calculation and paying of contributions are controlled by the Tax authority.

Nature and territorial scope of income tax

Nature of income tax

Serbia has a mixed tax system. There are eight categories of taxable revenue and each category is separately taxed, with individual tax rates and recognized expenditures. At the end of the year, individuals who earned triple/fivefold (depending whether they are residents or alien-residents) average annual salary per employee in the Republic are due to pay additional annual income tax.

Taxable revenue

Taxable revenues and corresponding tax rates are given below:

1) Wages and salaries	12%
2) Revenue from agriculture and forestry	14%
3) Revenue from self-employment	10%
4) Revenue from copyrights and industrial property rights	20%
5) Revenue from yield on capital	20%
6) Revenue from real estate	20%
7) Capital gains	20%
8) Other revenues	20%

Territoriality and Residence

Resident individuals are subject to personal income tax on their world wide 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.

Effect of double tax treaties

Serbian taxation may be limited through tax treaties with other states. Serbia has double taxation agreements with 40 countries, which may override the residence and taxability rule described above. All treaties have a provision that an individual's residence shall be determined according to his place of residence. The general effect of these treaties is that Serbia renounces taxation rights on remuneration of the visiting non-resident employees who are present for less than 183 days in the year unless the employee's remuneration is borne by permanent establishment, fixed place of business in Serbia or a Serbian entity.

Treatment of the family

Serbia does not have a special tax regime for the family. Individuals are separately taxed, and only for annual income tax is the tax credit recognized for a dependant family member of 15%, but if two or more family members are taxpayers for annual income tax, only for one is this tax credit recognized.

Special rules for expatriates

Expatriate on a temporary assignment to Serbia may claim a special tax exemption up to 35% of the salary, for additional receipts relating to the coverage of additional costs stemming from employment in Serbia. This exemption, which is available for 3 years, is recognized only to individuals who were residents of another state prior to taking up employment in Serbia and they become residents of Serbia only for reasons of taxation.

Other deductions available are:

1. the standard exemption of RSD 5,560
2. public transport allowance (to and from the place of work), up to the price of monthly ticket, but no more than RSD 2,000
3. premium for additional pension insurance paid from salary, according to the relevant law, but no more than RSD 3,000 per month
4. contribution to private pension fund paid from salary, according to relating law, but no more than RSD 3,000 per month

Detailed treatment of remuneration from employment

Salary

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.

Tax base shall be:

- 1) Nominal value of bonds, monetary certificates and shares;
- 2) Price that would be fetched when selling goods on the market;
- 3) Price that would be fetched on the market for the service or facility provided to the tax-payer;
- 4) Monetary value of covered expenditures,

plus the public revenue commitments payable by employees from their wages/salaries, and reduced for payments that an employee pays to the employer in connection with these incomes.

Domestic-source

Employment income from the Serbian source is fully taxable, for residents and non-residents.

Foreign-source

Resident individuals (but not non-residents) are taxable in Serbia on employment income from foreign sources.

Profit sharing scheme for employees

Employee's part in profit sharing – in money or in kind of options or shares, is taxed as yield on capital. This kind of revenue is taxed at the rate of 20%, but the tax base is 50% of gross revenue.

Grant of option

There is generally no tax charge at the time the option is granted.

Vesting of option

There is generally no tax charge at the time of vesting.

Exercise of the option

Exercise of an option gives rise to income tax charge and the taxable amount is treated as yield on capital, in the hands of the employee.

If the option is for the purchase of or subscription for shares the taxable income is calculated as the difference between the market value of the shares at the time of exercise and the employee's cost price for the share less any option premium. It is taxed at the rate of 20%, but only 50% of income.

Social security contributions

Social security contributions are not payable on income stemming from profit sharing in kind of shares or options.

Assessment

The income tax arising from sharing profit in kind of shares or options, shall be calculated and paid by employer – payer of income.

Treatment of directors

Director's remuneration is classed as income from employment and subject to salary tax. Directors are also treated as employees for social security purposes.

Benefits-in-kind

All benefits received from the employment are, in principle, taxable income. They are considered as part of salary and subject to tax on salaries and social contributions. As salaries are taxed with PAYE technique, all benefits must be valued monthly, when tax return is submitted.

Direct payments of goods and services on behalf of an employee are not a benefit, but a taxable salary payment and the cash equivalent is treated as salary.

Company cars

Private use of a company car is a taxable benefit, calculated as 1% of market value according to competent authority, on 31 December in the year prior to the year when the company car is used, for each month after the usage of the company car started.

Accommodation

The value of the benefit for accommodation provided to an employee at below the market rent is rental income at market rent in the city/town where apartment is placed.

Additional insurance and contribution to private pension fund

Premiums for additional insurance and contributions to private pension fund paid by a company for its employees are included in employment income; exceptions are the premiums for collective insurance for work accidents and the amount of additional pension insurance and contribution to a private pension fund exempted of SSC.

Income stemming from performance or provision of privileges

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.

Tax base shall be:

- 1) Nominal value of bonds, monetary certificates and shares;
- 2) Price that would be fetched when selling goods on the market;
- 3) Price that would be fetched on the market for the service or facility provided to the tax-payer;
- 4) Monetary value of covered expenditures,
plus the public revenue commitments payable by employees from their wages/salaries and reduced for payments that employee pays to employer in connection with these incomes.

Expenditures and tax relieves

For every employee 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 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 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 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 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.

Tax rate

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

Treatment of investment income

Dividends

Both domestic and foreign dividends received in Serbia by an individual are subject to an income tax on revenues stemming from capital, at the rate of 20%. However, for resident taxpayers tax base is 50% of the received dividend.

Dividends received abroad by residents are subject to the same rules (income tax of 20% on 50% of received dividends).

Interest

Both domestic and foreign-source interest received in Belgium is subject to an income tax on revenues stemming from capital, at the rate of 20%.

Income from property

Income from the Serbian real estate is always taxable in Serbia. The amount of taxable income from real estate in Serbia is the rental income, or market rent determined by the tax authority which could be achieved according to the local opportunities, if rental income is less then market rent. Taxpayer may claim standard deduction of 20% of rental income, or real expenditure if it is larger and he has evidence.

For foreign real estate, taxable income is the actual rent received or rental value and the same rules for deductions apply. If resident paid tax in a foreign country, he 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.

Where the property is situated in a treaty country, rules of treaty shall be applied if they are more favorable.

Capital gains

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 the 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. Any taxpayer, who, prior to sale, has been keeping his/her rights, shares or securities in his/her portfolio before 24 January 1994 shall not be deemed to have made a capital gain by selling them.

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, determined according to Law. The purchase price shall be increased by the retail price growth rate from the date of acquisition to the date of sale, as published by the republic authority dealing with statistics and in the case of real estate, it shall be reduced on the basis of depreciation calculated by applying the proportionate method at the rate set in the nomenclature of assets for depreciation.

In the case of securities quoted on the stock exchange, the purchase price shall be understood to mean the price the taxpayer documents as actually paid and if not documented, the lowest registered quotation in the year preceding the sale of securities. In the case of securities not quoted on the stock exchange, the purchase price shall be understood to mean the price the taxpayer documents as actually paid and if not documented, their par value.

Capital gains shall be taxed at the rate of 20%.

Annual Personal Income Tax

Annual personal income tax is paid only by individuals – residents and alien residents, who earned more than triple/fivefold average annual salary in Serbia.

Taxable income is 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 the 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 the average annual salary per employee and 15% for dependent members, but the total deductions can not be larger than 50% of the 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%.

Avoidance of double taxation

If resident of Serbia earns revenue in another 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.

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 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, 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 gift and inheritance right can be resident or 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 inheritance and gift tax at the following rates:

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

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 if the individual amount is smaller than 9,000 RSD.

Social Security Contributions

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

The following contributions are payable on behalf of employee and 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%		
Total	17.9%	17.9%		

Filing 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 books.

Taxes shall be charged and paid on the following revenues by decision of 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.

Salary tax

Each employer established in Serbia is required to withhold from each payment of an employee's remuneration amounts in respect of each employee's income tax liability (salary tax). The employer is liable for any insufficient withholding. Remuneration paid or attributed abroad is, in principle, also subject to the Serbian salary tax if the salary in question is, for tax purposes, to be considered at the charge of an employer subject to the Serbian income tax (or if paid by a Serbian-resident intermediary).

Payments on account

Self-employed people make monthly payments on accounts. These payments are due to be paid 15 days upon the end of the each month. Self-employed people must submit the tax return and the tax balance for the previous year till 15 March. On the basis of that tax return advance payment for the current year will be calculated.

Annual personal income tax should be paid 15 days upon the tax decision being provided, but the tax return must be submitted till 15 March of the following year in respect to year when income is realized.

Tax return for tax on capital gains and other income, which is not withheld, must be submitted 15 days upon the beginning of the realization of income. Tax must be paid 15 days upon the tax decision being provided.

BDO BC Excel

BDO BC Excel is the BDO Member Firm in Serbia. Its postal address is:

Knez Mihailova 10/III
11000 Belgrade, Serbia

Telephone: + 381 11 3281 288

Fax: + 381 11 3281 808

Web site: www.bdo.co.rs

E-mail: bdo@bdo.co.rs

Contacts:

Olivera Doslic olivera.doslic@bdo.co.rs

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	

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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

BDO Global Coordination BV

Boulevard de la Woluwe 60

B-1200 Brussels

Belgium

Tel: +32 2 778 0130

Fax: +32 2 778 0143

e-mail: bdoglobal@bdoglobal.com

Web site: <http://www.bdointernational.com>

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