



DOING BUSINESS IN SERBIA

Preface

Due to the economical changes, new modern legislations aimed on harmonization with EU and on attraction of foreign direct investments, low corporate tax rate, employment incentives, strong-skilled labor force, modern infrastructure and favorable geographical position, Serbia is now in a unique position to be widely used as a place of business and investments.

Its capital Belgrade was awarded the name „*The City of the Future in Southern Europe 2006/2007*“ on the Financial Time Competition 2006.

The Stabilization and Association Agreement between Serbia and the European Union was signed on 29th April, 2008 what is a big Serbia’s step on the way for EU.

Investors are advised to ask for professional assistance, since the booklet is not intended to be comprehensive. Our Company will be happy to assist you in any way.

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Introduction

Geography

Republic of Serbia is located in South East Europe at the intersection of Pan European Corridors Nr. 10 and Nr. 7 linking Europe and Asia and is bordered by [Hungary](#), [Romania](#), [Bulgaria](#), [Albania](#), [FYROM](#), [Montenegro](#), [Croatia](#) and [Bosnia and Herzegovina](#). Such a central position on the Balkan Peninsula enables Serbia intense international relations as well as inclusion in the international flows of trade.

Total Area is 88,361 km².

Climate

Serbia has the continental climate with cold snowy winters and hot summers with well distributed rainfall. A lot of spa centers, attractive mountains and the nearness of the seaside make life in Serbia more comfortable.

Population

The Country's population of 7.478.820 (excluding Kosovo and Metohija) of which 82.86% are Serbs, 3.91% Hungarians, 1.82% Bosniacs, Roms 1.41%, 0.94 Croatsians %, 0.82 % Albanians and then follow Slovaks, Romanians, Slavs, Muslims, Bulgarian etc.

Government

Serbia is parliamentary [representative democratic republic](#) with the [Prime Minister](#) as the [head of government](#), and of a [multi-party system](#).

Language

The official languages is Serbian, but nowadays English is becoming more and more used in business, and by the majority of the younger population as a second language. Other languages such as Russian, German, etc are also used by persons engaged in business.

Education

Primary and secondary education is free and universal. Primary education is compulsory and starts at the age of 7. Most elementary schools are state owned. There are 7 state owned universities with the long history. The biggest one, University of Belgrade was established at 1838.

Moreover, there is a thriving private sector in education offering specialized courses in different areas.

Economy

Economy in Serbia is based mostly on agriculture, services and industry. The growth of economy was stopped during nineties. After [2000](#), when Slobodan Milosevic is dethroned, the country succeeded faster economic growth the amount of economic growth in [2006](#) was 6.3% and in 2007 was 7.5%.

Serbia signed CEFTA Agreement (Central European Free Trade Area Agreement) which enables its members a customs free trade in the market of 60 million people, provided that some requirements from the agreement are met.

Beside CEFTA, in August 2000 Serbia concluded the Free Trade Agreement with Russia which means that the goods produced in Serbia with prevailing value added in Serbia are considered of Serbian origin, therefore free of customs in Russia.

Real Estate

Serbia has been awarded three times by Organization for Economic Co-operation and Development (OECD) as the best Greenfield investments location in South East Europe. Acquisition of real estate properties by foreigners requires only existence of reciprocity in the related country.

Banking

At the moment, there are 22 banks which majority of shareholders are foreigners operating in Serbia and offering wide range of banking services. Serbia is considered as the one of the most rapidly developing banking market in its area.

Currency

The Serbian currency is the dinar (RSD). Approximately 80.00 dinars correspond to 1 EURO.

Tourism

There is a lot of potential for tourism in Serbia including therapeutically spa, village tourism and great mountains.

Business regulations and accounting

Business entities

A company can be founded in the following forms:

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

As from January 2006, when Business Register Agency was established, the procedure has been simplified and it usually takes from 5 up to 18 days.

For formation of Limited liability Company which is the most common type, the following documents need to be submitted:

- Memorandum and Articles of Association
- The document which proves paying the capital
- OP form (verified signatures of representative person)
- Shareholder's identification documents.

Formation cost

Total formation cost for a local company is around €500 excluding the amount for capital which minimum for Limited Liability Company is €500.

Auditing and Accounting requirements

It is required by law that every company and other legal entities keep and maintain business and accounting books, prepare, present and publish financial statements in accordance with law, professional and internal regulations.

The following acts are considered as professional regulations:

1. The frame for preparing and presentation of financial statements
2. International Accounting Standards – IAS
3. International Financial Reporting Standards – IFRS
4. The commentary which are integral parts of the Standards
5. International Standards on Auditing – ISA
6. Code of Ethics for Professional Accountants.

International Accounting Standards – IAS and International Financial Reporting Standards – IFRS are obligatory for big and medium sized companies.

The audit of financial statements auditing is mandatory for:

1. large and medium sized companies
2. parent company obliged for submission of consolidated financial statements
3. companies which emit stocks and other financial instruments.

A medium sized company is defined by law as a company which, on the date of preparing financial statement, meets two out of the three following criteria:

1. the average number of employees is from 50 to 250
2. the yearly turnover is from EUR 2,500,000 to EUR 10,000,000 (equivalent in RSD)
3. the average value of assets of company is from EUR 1,000,000. to 5,000,000 (equivalent in RSD)

A company which has lower value in at least two above criteria is considered as a small sized company.

A company which has higher value in at least two above criteria is considered as a large sized company.

Regardless to above mentioned criteria, the banks, insurance companies, stock-exchanges and stock-brokers are considered as a large company.

Taxation

The principal taxes currently in force in Serbia are:

- corporate income tax
- personal income tax
- value-added tax (VAT)
- property tax
- social security contributions
- withholding tax

Corporate Income Tax

Introduction

Resident companies are taxed on their worldwide income at the rate of 10% on net profits. Resident companies are companies which are duly registered or whose management and control is being exercised in Serbia

A company incorporated in Serbia is taxed on its worldwide income. Nevertheless, if a bilateral tax agreement is in existence with the country from where the income is derived, double taxation is avoided. If there is no such agreement, then unilateral tax relief is provided.

Tax Holiday

- a) Investment tax incentive is granted to a company which invests in its own fixed assets an amount exceeding RSD 600 million (approximately EYR 7,5 million) or in which other company invests mentioned amount, and employs at least 100 additional employees on indefinite period of time during the investment period. Such a company is exempt from corporate profit tax for a period of 10 years, starting from the first year in which taxable profit is reported (tax holiday) given that investment is used for conducting registered company's activities in Serbia.
- b) Tax holiday up to 5 years is granted on the profit accruing from the subject of concession.
- c) Tax holiday can be granted to taxpayer in a period of 5 years who/which invests in business with special interest for Republic if required requirements are met.

Tax Credit

- d) The taxpayer who employs new employees on indefinite period of time is entitled to the tax reduction in amount of 100% of gross salaries paid to new employees, increased for the public contributions paid by employer.
- e) Tax credit is allowed to the company which invests in its own fixed assets at 20% of the invested amount, but such credit could not exceed 50% of total tax liability in the year when the funds are invested.
- f) Tax credit is allowed to a small company which invests in its own fixed assets at 40% of the invested amount, but such credit could not exceed 70% of total tax liability in the year when the funds are invested.
- g) The right on the tax credit at 80% of investments company which invests in its own fixed assets in the following sectors: agriculture, fishing, production of textile yarn and fabrics, garments, leather, base metals, standard metal products, machines, office machines, electrical machines, radio, TV and communication equipment, medical instruments, motor vehicles, recycling and video production. The allowed unused credit could be carried forward during the next 10 years.

Other incentives

Operating losses could be carried forward to the account of the profit in the next 10 years, with exception of the losses which determine capital gains and capital losses.

The taxpayer has the right on accelerated depreciation of fixed assets related to prevention of the air, water, energy saving, science research, education and staff training etc. at the rates of up to 25% higher than prescribed rate.

Inter-company dividends

A resident parent company has the right on reduction of corporate income tax for amount which its non-resident subsidiary company paid in other state on the profit from which the dividends included in the parent company's income has been paid as well as on that dividends, if parent company has held at least 25% of shares of subsidiary or has been executing indirect controlling of subsidiary through holding of shares of other non-resident subsidiary, at least 1 year before submitting of tax balance.

This tax credit can be carried forward for 10 years.

Personal Income Tax

Resident individuals are subject to tax on their worldwide income. An individual who has habitual residence or centre of business and vital interests in the territory of the Republic of Serbia or resides in the Republic of Serbia for a period exceeding 183 days which starts or begins in a related tax year will be considered as resident.

Tax is charged on income in respect of gains or profits from any employment, self employment, agriculture, royalties, capital, capital gains as well as incomes derived from immovable properties.

Non-residents are taxed only on income earned or generated in Serbia.

Income	Tax Rate
Salary	12%
Income accrued from agriculture and forestry	14%
Self employment	10%
Royalties	20%
Incomes accrued from capital	20%
Capital gains	20%
Immovable property	20%
Other incomes	20%

In the term of income salary tax, the deduction from the tax basis is allowed in the amount of 5.000 RSD (approximately 60 EUR).

Incentives

An employer who employs new employees on indefinite period of time will be exempt of the salary tax duties he would be liable to pay on a salary of that new employee, as follows:

- a) 3 years - if employs an apprentice younger then 30 years and is registered in National Employment Agency as non-employed individual;
- b) 2 years – if employs an individual younger then 30 years and is registered in National Employment Agency as non-employed individual for no less then 3 months at a time;
- c) 3 years – if employs disabled person;
- d) 2 years – if employs an individual older then 45 years and is registered in National Employment Agency as a user of non-employment pecuniary aid **or** is registered as a non-employed individual no less then 6 months at a time.

The yearly personal income is a subject to a 10% and 15% income tax, which, in the case of Serbian nationals, is imposed on any income which is higher than three times the average yearly salary, and in the case of residents foreigners is imposed on any income earned or generated in Serbia which is higher than five times then average yearly salary.

	Times higher than average yearly salary	Tax rate
Serbian nationals	3 - 6	10%
	over 6	15%
Foreigner resident	5 - 8	10%
	over 8	15%

The personal deduction from the taxable income is allowed for taxpayer in the amount of 40% of average yearly salary per employee in Serbia and in the amount of 15% for each dependent member of taxpayer's family. Total amount of deduction can not exceed 50% of total taxable amount.

Value Added Tax – VAT

Value added tax has been applied since the 1st day of January 2005.

Every legal and physical person who supplies the goods or provides the services which are subject of VAT must be registered for VAT purposes if its turnover exceeds 4.000.000 RSD per year or such amount is estimated as a highest profit amount which will be earned in next 12 months on starting business activity.

Business with turnover which is higher then 2.000.000 RSD but does not exceed 4.000.000 RSD could be registered for VAT voluntarily.

Taxpayer which turnover does not exceed 2.000.000 RSD is not VAT taxpayer. The general VAT rate for taxable supply of goods and services or import of goods shall be 18%.

Goods or services rated at special rate of 8% include: bread, milk, flour, sugar, fresh and frozen fruits and vegetables, meats and fish, eggs, medicines, personal computers, prosthetic means, as well as medical means-products that are surgically implanted in the organism, dialysis materials, fertilizers, pesticides, seed stock, nursery stock and complete fodder, mixtures for animal feeding, textbooks and teaching aids, daily newspapers, monographs and serial publications, firewood, accommodation in hotels, utility services, natural gas delivered to individual producers through the gas distribution network, etc.

Zero rated goods and services include services related with transportation to abroad, goods, entry of goods into the free zone, transportation and other services in direct relation with the export, delivery of ship, etc.

There is general rule that a place of service providing is deemed as a place when **provider or services** operating its business activities.

But, it will be considered that place of business is a place where **service receiver** is operating business activities, or has a branch through which the service has been provided, has headquarters or residence if the subjects of tax are following services: renting of movable property, except transportation vehicles, telecommunication services, commercial advertising services, transfer and assignment of copyrights, patents, licenses, trademarks and similar intellectual property rights, and making these available, banking, financial services and insurance services including reinsurance, except rental of safe deposit boxes, services provided by consultants, engineers, lawyers, auditors, and similar services, data processing and providing information, supply of personnel, services rendered electronically as well as mediation in rendering mentioned services.

Property tax

Property tax (immovable property rights)

Immovable property rights are levied at the following rates:

- Taxpayer who keeps books - 0.40%;
- Taxpayer who does not keep books – 0, 40% to 3%

Tax Basis in RSD	-	Payable tax amount
6.000.000	-	Up to 0,40%
6.000.000 15.000.000	-	The tax from previous point + 0,80% for the amount exceeding 6.000.000
15.000.000 30.000.000	-	The tax from previous point + 1,50% for the amount exceeding 15.000.000.
30.000.000	-	The tax from previous point + 3% for the amount exceeding 30.000.000.

Inheritance and gift

The taxpayers are both resident and non-resident who inherit or receive as a gift rights on real estate stated in Republic of Serbia. Residents are liable to pay a tax on movable things receive in Republic of Serbia as well as abroad, while non-residents are liable to pay a tax on movable things received only in Serbia.

The rates are progressive and they are set in the range from 2% to 2,5%.

Taxpayers related with the donor or descendent in the second order to succession are liable to pay tax at the following rates

<u>Tax Basis in RSD</u>	<u>Payable tax amount</u>
Up to 300.000	2 %
Over 300.000	6.000 + 2,5%

Taxpayers who are not in relation with donor or decedent or who are in relation in the third or any subsequent level will pay a tax by the rate 2,5%.

Absolute Rights Transfer Tax

The residents are subject to tax on the transfer of absolute rights performed in Serbia as well as abroad, while non-residents are subject to tax only for transfers performed in Serbia.

The rates are proportional:

- 0,3% on transfer of shares in a legal entity and securities
- 2,5% on transfer of the other rights (real property rights, intellectual property rights, property rights on the second-hand motor vehicle, property rights, usufruct rights on the urban building land, etc).

Social Security Contributions

Both Employer and Employee are obliged to pay Social Security Contribution at the following rates:

- Pension and Invalidity insurance – 11%
- Health insurance – 6,15%
- Insurance for the case of unemployment - 0,75%.

An employer who employs new employees on indefinite period of time would be exempt of the social security contribution payable on the tax basis as follows:

- a) 3 years in the amount of 100% if employs an apprentice younger then 30 years and is registered in National Employment Agency as non-employed individual;
- b) 2 years in the amount of 100% if employs an individual younger then 30 years and is registered in National Employment Agency as non-employed individual for no less then 3 months at a time;
- c) 2 years in the amount of 100% if employs an individual older then 50 years and is registered in National Employment Agency as a user of non-employment pecuniary aid **or** is registered as a non-employed individual no less then 6 months at a time;
- d) 2 years in the amount of 80% of payable contribution amount- if employs an individual older then 45 years and is registered in National Employment Agency as a user of non-employment pecuniary aid **or** is registered as a non-employed individual no less then 6 months at a time
- e) 3 years in the amount of 100% if employs disabled person.

Withholding tax

Dividends, royalty payments, interests, capital gains and lease payments paid to non-residents are taxed at 20% withholding tax rate, which may be reduced in case a more favourable tax treaty exists.

Dividends paid between resident companies are exempt from taxation.

Double Tax Treaties

Introduction

Serbia has concluded a great number of Double Tax Treaties. The main purpose of these treaties is the avoidance of double taxation on income earned in any of the countries that Serbia has entered into agreement with.

Double Tax Treaties, in conjunction with the other tax advantages, prevent double taxation and tax payable can be reduced to a minimum.

Under these agreements, a tax credit is usually allowed against the tax paid to the country the taxpayer has his permanent residence. Normally, the effect of these arrangements is that the taxpayer pays no more than the higher of the two rates. However the existence of these treaties combined with the low Corporation Tax of Serbia offer tremendous possibilities for tax planning through Serbia.

The list of treaties (including withholding tax rates)

Country	Dividends Individuals, Companies (%)	Dividends Companies ¹	Interest	Royalties
Albania	15	5	10	10
Belarus	15	5	8	10
Belgium	15	10	15	10
Bosnia & Herzegovina	10	5	10	10
Bulgaria	15	5	10	10
China	5	5	10	10
Croatia	10	5	10	10
Cyprus	10	10	10	10
Czech Republik	10	10	10	5/10 ²
Denmark	15	5	0	10
Egypt	15	5	15	15
Finland	15	5	0	10
France	15	5	0	0
Germany	15	15	0	10
Hungary	15	5	10	10
Italy	10	10	10	10
Korea (DR)	10	10	10	10
Kuwait	10	5	10	10
Latvia	10	5	10	5/10 ³
Macedonia	15	5	10	10
Moldova	15	5	10	10
Netherlands	15	5	0	10
Norway	15	15	0	10
Poland	15	5	10	10
Romania	10	10	10	10
Russia	15	5 ⁴	10	10
Slovak Republic	15	5	10	10
Slovenia	10	5	10	5/10 ³
Sri Lanka	12.5	12.5	10	10
Sweden	15	5	0	0
Switzerland	15	5 ⁵	10	10
Turkey	15	5	10	10
Ukraine	10	5	10	10
United Kingdom	15	5	10	10

Explanatory notes:

1. *If the company holds at least 25% of the capital or of the voting shares*
2. *Tax rate of 5% applies on any copyright of literary, artistic or scientific work except of computer software and including cinematograph films or films or tapes used for radio or television broadcasting*
3. *Tax rate of 5% applies on any copyright of literary, artistic or scientific work including cinematograph films or films or tapes used for radio or television broadcasting.*
4. *The lower tax rates applies if the company which beneficial owner holds at least 25% of the capital of the dividend paying company and has invested at least USD 100.000*
5. *If the Swiss company holds at least 20% of the capital of the dividends-paying company.*

Tax Diary 2008

It is compulsory that companies pay the imposed tax on monthly advance payments. The deadline for the filing of the tax return is March 10 of the following year.

Insurance Premium Tax	10 Januar
Submission of Definite Excise Calculation for previous year (for companies)	12 March
Submission for Annual Personal Income Tax Application	15 March
Submission of Property Tax Application	31 March
Submission of Property Tax Application for properties which has been used for performing business activity	2 April
Submission of Corporate Income Tax Application and Tax Balance Sheet for previous year	10 days after submission of financial statements
Paying of Social Insurance Contribution for previous month	The day of the salary payment
Payment of Withholding tax	The day of the payment of salaries, other remuneration and incomes
Submission Value Added Tax Return	10 days after expiry tax period

Group Taxation and Transfer Prices

Tax Consolidation

The right to apply for tax consolidation is given to a group of resident companies where a parent company direct or indirect controls at least 75% of shares of its subsidiary.

Once when is tax consolidation approved to group of companies, it shall be applied for at least 5 (five) years.

Tax consolidation gives the right to affiliated companies to offset the losses of one or more affiliated companies at the profit of another group companies.

Transfer pricing

A **transfer price** is considered as a price which is applied in transaction between related parties when there is possibility of controlling or considerable influence on the business decision. Such a price has **to be shown in tax balance** as well as "arm's length" prices which would have been applied between unrelated parties. The **difference between these two prices shall be calculated** in a tax basis.

A company or a person will be considered as related party if

- a) Holds more than 50% of shares or has the biggest portion of shares
- b) Has more than 50% of voting rights or has the biggest portion of voting rights
- c) The same individuals or legal entities take part in managing, controlling and basic capital in both parties by holding 50% or more of shares or have 50% or more voting rights.

Main method: The Comparable-Uncontrolled Price

Alternative methods: The Cost-Plus Method or The Resale Price Method

"Arm's Length" Interest and Thin Capitalization Rules

According to Arm's Length Principle, **the interest or pertaining costs** that are included in **income** and have been arising from a taxpayer's claim from debtor which is related person/entity, **can not be lower** than interest and costs which would have been generated if it had been agreed between unrelated person.

In case of loan between related person, **the interest and related costs will not be recognized as expenditures** in debtor tax balance **over amount** which is result of multiplying of 4 worth of a taxpayer's equity (difference between the company's average assets and debt liability) and

- a) 110% of interest rate which National Bank of Serbia charges on the RSD loans granted to commercial banks on 31st December of the previous year (for loan granted in RSD)
- b) 110% of interest rate charged by central bank of states which currency has been involved in loans granted to commercial banks on 31st December of the previous year (for loan granted in that foreign currency).

*(Exp < 4E * 110% of relevant interest rate)*

This is not applicable on the banks and other financial organizations.

LEA

Dasons Business Services Limited is also a member of the Leading Edge Alliance, an international network of over 100 independent CPA firms in more than 50 countries around the world. Through our membership we have access to a broad base of local resources worldwide. Our membership enables us to draw upon local experience in other markets so that we can provide our clients with the information they require without limitations restricting many other local and regional firms. Member firms have access to the best and brightest teams of business advisors – a peer-to-peer connection that provides the right business solutions for clients

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