

1. Serbia – general info

Serbia is a democratic republic, positioned in the Balkan Peninsula (80%) and in Central Europe (20%) on the main roadways between Central and South Europe. Two important European corridors, No. 7- the River Danube and No. 10 - the international highway and railroad, intersect on Serbian territory, providing excellent transportation connections with Western Europe and the Middle East. By using well developed road connections, a shipment from Serbia can reach even the remotest parts of Europe in less than 72 hours.

Serbia itself is a market of approx. 8 million inhabitants but Serbia is also a member of CEFTA – which means that everything produced in Serbia could be exported without customs duties. Serbia signed several Agreements of Free Trade, so with an investment in Serbia you will have opened your door to the markets of Russia, Turkey, Ukraine and Belarus.

2. Company incorporation

Limited liability company (d.o.o)

Limited Liability Company may have up to 30 members (natural persons or legal entities).

Minimum dinar equivalent of EURO 500 for the pecuniary part of the initial capital; there are no requirements in respect of the minimum contribution of each member. The liability of members is up to the value of their investment. There are no requirements for citizenship for the office bearers. Set up time, when all paperwork is provided is between 5 to 10 business days.

Joint stock company (a.d)

A joint stock company is a company founded by legal entities or individuals. If 1 or more natural persons or legal entities formed simultaneously (buying all shares through incorporation – ie closed joint stock company), 2 or more for companies formed successively (issue of a prospectus intended for third parties – open joint stock company). The maximum number of shareholders in a closed joint stock company is 100. Joint stock company having more than 100 shareholders is deemed an open joint stock company

Initial capital is divided into shares of specific value. Minimum dinar equivalent of EURO 10.000 for the pecuniary part of the initial capital for companies formed simultaneously and URO25.000 for the companies formed successively. A minimum 50% of both the founding capital and the equity of each shareholder must be paid before incorporation. Contribution of the members may be money, property or rights but not in labour or services.

LLC compared to JSC

In practice, foreign investors usually prefer to incorporate an LLC, due to its simple form and faster incorporation. The advantages is also that increase in capital may be made without formal voting procedures and without supervision of the Securities Exchange Commission

3. Corporate taxation

Taxable income and tax rate

The taxable income is based on the accounting profit stated in the income statement established in accordance with IFRS and accounting regulations and further adjusted for tax purposes.

The corporate income tax is levied at the rate of 10%.

Withholding tax

Withholding tax of 20% is levied on the certain types of income paid to a non resident entity by a resident taxpayer. Subject to withholding tax are the following types of income:

- Dividends and share in profit
- Royalties
- Interests
- Capital gains

- Income from leasing moveable and immovable property derived by non resident entity, beneficial owner of the income
- Earnings of sportsmans and musicians

The withholding tax is not calculated and paid on the income paid to a permanent business unit of a non resident entity. The provisions of the Double Taxation Treaty can be applied providing that a non resident provides evidence on his status of a resident in the country signatory of the Treaty and providing the non resident is a beneficial owner of the income.

Tax incentives

Tax credit for investment in fixed assets

A taxpayer who invests in the fixed assets used in his registered business activity is entitled to a tax credit equivalent to 20% of the value of investment in the year of investment. The tax credit is limited to 50% of the assessed tax in the respective year. The unutilized portion of tax credit may be carried over to the future accounting period, but not longer than 10 years. Any unutilized tax credit from the previous year(s) may be applied in the current year once that current year's tax credit has been used, in the order of investment.

Tax credit for investment in fixed assets for taxpayers in certain areas of industry

Taxpayers registered for business activity in certain areas of industry are entitled to the tax credit equivalent to 80% of the value of investment. The credit is not limited. Unutilized portion of tax credit may be carried over to the future accounting period of up to 10 years. The areas of industry to which this tax incentive applies include agriculture, textile industry, basic metal industry, standard metal products industry, machine industry, electrical/household appliances industry, car industry, recycling etc.

Income tax relief for large investments

The law prescribes a special tax relief for investments in excess of 8 million EUR, subject to the fulfillment of the following conditions:

- Investment of over 800 million dinars (approx. 8 million EUR) in fixed assets, and
- Employment of 100 new employees for an indefinite period of time

The tax relief is granted in proportion to the value of investment: the income tax is reduced based on the ratio between the value of new assets and total assets, including the newly acquired assets. The tax relief runs from the year in which the first taxable income is generated, after the above conditions are fulfilled. New employees, for the purposes of this incentive are not considered to be the individuals formerly employed in the company, which is directly or indirectly related to the taxpayer.

4. Financial incentives

For large investors, a special financial package is available. If a project's value exceeds €200 million, with the minimum of 1,000 new jobs created, the state may cover 25% of the investment. Investments of over €50 million that create the minimum of 300 new jobs can be subsidized for 20% of the project's value.

For standard-scale Greenfield and Brownfield projects in the manufacturing and export-related services sectors, non-refundable state funds are offered in the range between €2,000 and €10,000 per new job created.

5. VAT

Since 1 January 2005, supply of goods and services on the territory of Serbia is subject to VAT, at the standard rate of 18%. Certain goods are subject to the reduced rate of 8%.

VAT is based on the principle that VAT paid on input can be used as deduction for the purposes of calculation of taxpayer's VAT liability. Output VAT is triggered by supply of goods and services or collection of payment, whichever event comes first.

Taxpayer is entitled to the refund of the excess of input VAT over output VAT. The deadline for refund is 45 days from the deadline for the submission of the tax return, except in the case of predominant exporters where the deadline for VAT refund is 15 days from the deadline for filing the tax return. Alternatively, taxpayer can use VAT credit to cover his future VAT liability.

Taxpayers with turnover over 4 million RSD are obliged to register for VAT. The taxable period is a month. The deadline for filing VAT return is by 10th of the month for the previous month.

6. Employment

Serbia's labour force combines exceptional working efficiency with sizable labour supply. With a unique combination of high-quality and low costs, it is one of the key factors in reaching a strong business performance.

The labour relationship is established by an employment contract concluded between the employer and the employee. There are several types of employment contract:

- Permanent employment contract
- Temporary employment contract (for a predetermined period of time)
- Employment contract for a trial period (no longer than 6 months)
- Employment contract based on special terms for first-time employees

Full time employment is 40 hours in a week. Overtime cannot last longer than 4 hours per day.

For sick leave, the employee has the right to 65% of full salary. The minimum break during the working day is 30 minutes, between consecutive working days it is 12 hours and at the weekend 24 hours. The minimum annual vacation is 20 days.

Average salaries in Serbia (350 net as per today) are low enough to ensure cost-effective operating. Total costs for employers stand at merely 50% of the level in EU countries from Eastern Europe. Social insurance charges (17.9% per employer and employee) and Salary Tax (12%) amount to roughly 65% of the net salary but the tax burden for employers can be reduced through a variety of financial and tax incentives available. The termination of employment could be achieved relatively straightforward.