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International Tax
Serbia Highlights 2019

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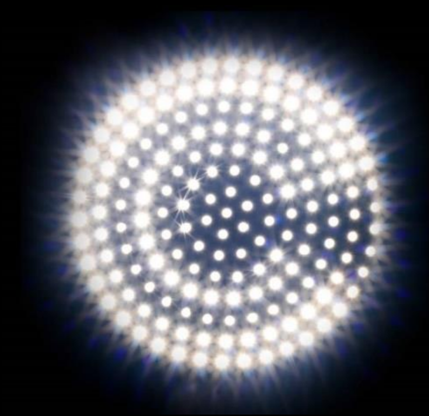

Investment basics:

Currency – Serbian Dinar (RSD)

Foreign exchange control – Foreign exchange is regulated by the Foreign Exchange Law. Payments must be documented for funds to be transferred abroad, and foreign loans must be registered with the central bank.

Accounting principles/financial statements – IAS/IFRS. Financial statements must be prepared annually.

Principal business entities – These are the joint stock company, limited liability company, general/limited partnership, socially and publicly owned company and branch of a foreign company.

Corporate taxation:

Residence – A legal entity is considered resident if it is incorporated in Serbia or managed or controlled from Serbia.

Basis – Resident entities are taxed on their worldwide income; nonresidents are taxed only on income generated in Serbia.

Taxable income – Taxable income includes both business income and capital gains. The taxable base is calculated in the tax balance sheet, based on the profit and loss account adjusted for tax purposes.

Taxation of dividends – Dividends paid by a Serbian-resident company to another Serbian company are exempt from corporate income tax. Dividends received by a Serbian resident company holding at least 10% of the shares in a nonresident distributing company for one year are eligible for a credit for foreign tax paid on the dividends.

Capital gains – Capital gains are subject to a 15% tax for residents (included in the annual income tax return) and 20% for nonresidents (based on the tax assessment).

Losses – Net operating losses may be carried forward for five years. Capital losses may be carried forward and offset against capital gains for five years. The carryback of losses is not permitted.

Rate – 15%

Surtax – No

Alternative minimum tax – No

Foreign tax credit – A tax credit is available for foreign tax paid, but is limited to the amount of Serbian tax payable on the foreign income.

Participation exemption – See under "Taxation of dividends."

Holding company regime – No

Incentives – A 10-year corporate income tax incentive (tax credit) is available for large investors that invest over RSD 1 billion in fixed assets and hire an additional 100 employees during the period of the investment.

Nonprofit organizations are exempt from income tax under conditions prescribed by law.

Expenses directly related to qualifying R&D activities performed in Serbia are eligible for double deduction as from 2019.

Under Serbia's IP box regime, which applies as from 2019, 80% of qualified income received by a taxpayer for the use of registered copyrights, patents or related rights (but not from a disposal of the right) may be excluded from the corporate income tax base.

As from 2019, a taxpayer (that is not a start-up company) that invests in the capital of a newly established company that performs innovative business activities (start-up) may be entitled to a tax credit of 30% of such investment. The tax credit applies provided that the taxpayer does not decrease the investment within a period of three years, and it applies only to monetary investments that are fully paid in.

Withholding tax:

Dividends – Dividends paid to a nonresident are subject to a 20% withholding tax, unless the rate is reduced under a tax treaty.

Interest – Interest paid to a nonresident is subject to a 20% withholding tax, unless the rate is reduced under a tax treaty. The rate is increased to 25% for payments made to a person resident in a jurisdiction with a preferential tax regime.

Royalties – Royalties paid to a nonresident are subject to a 20% withholding tax, unless the rate is reduced under a tax treaty. The rate is increased to 25% for payments made to a person resident in a jurisdiction with a preferential tax regime.

Technical service fees – Service fees paid to a nonresident legal entity for the provision of accounting and auditing services, market research services and legal and business consulting services are subject to a 20% withholding tax, unless the rate is reduced under a tax treaty. Payments for all types of services made to persons resident in a jurisdiction with a preferential tax regime are subject to a 25% withholding tax.

Branch remittance tax – No

Other – Payments made to a nonresident for the lease of movable and immovable property located in Serbia are subject to a 20% withholding tax, unless the rate is reduced under a tax treaty. Income from the lease of property and payments made for services provided by persons resident in a jurisdiction with a preferential tax regime are subject to a 25% withholding tax.

Other taxes on corporations:

Capital duty – No

Payroll tax – No

Real property tax – For taxpayers that follow IAS and IFRS fair value accounting, property tax is levied on immovable property located in Serbia at a rate of up to 0.4% of the fair market value of the property as of 31 December of the previous year. For other legal entities, fair market value is assessed based on the data published by the tax authorities, with certain exceptions.

Social security – The employer is required to make social security contributions on an employee's salary at rates of 12% and 5.15% for pension and disability insurance and health insurance respectively.

Stamp duty – There is no stamp duty. However, fees are charged by the competent authorities/notary when certifying documents on transfers of property.

Transfer tax – A 2.5% tax applies on transfers listed in the property taxes law, i.e. the transfer of real property, intellectual property, etc. A transfer of shares is exempt from transfer tax.

Anti-avoidance rules:

Transfer pricing – Transactions between associated entities (as defined) must be at arm's length. There are specific documentation requirements, and transfer pricing reports must be submitted within the deadline for filing the CIT return. Companies are considered related if one company can control or influence the business decisions of the other company, if the company holds at least 25% of the shares, stock or votes in the governing body of the other company.

Thin capitalization – Under the thin capitalization rules, interest and related expenses are deductible on loans that do not exceed four times equity for companies (10 times equity for banks and leasing companies). In addition, under the transfer pricing rules, a taxpayer must demonstrate that interest that is deductible under the thin capitalization rules is at an arm’s length level; otherwise, an adjustment of taxable income may be required.

Controlled foreign companies – No

Disclosure requirements – No

Other – There is a statutory general anti-avoidance rule (substance over form principle).

Compliance for corporations:

Tax year – The tax year is the calendar year, but may be shorter than 12 months where activities start or terminate during a calendar year or there is a change in the status of the entity. A taxpayer can opt for a tax year different from the calendar year (subject to the approval of the tax authorities).

Consolidated returns – Resident companies may elect group status and file a consolidated return. Companies are considered a group where one company (parent company) owns, directly or indirectly, at least 75% of the shares of another company. The parent company files a consolidated tax return in which gains and losses of group companies are offset and each company pays its share of the tax. Once elected, tax consolidation must be applied for at least five years.

Filing requirements – Serbia operates a self-assessment regime. Advance corporate tax is payable in monthly installments. A tax return must be filed and the balance of tax due paid within 180 days after the end of the tax period for which the tax return is filed. Shorter deadlines (generally 60 days after the end of the tax period) may apply in cases of liquidation, mergers, etc.

Penalties – Penalties may be imposed for failure to comply with the provisions in the Law on Tax Procedure and Tax Administration. Entities also may be prohibited from carrying out their activities.

Rulings – The Ministry of Finance issues rulings at the request of the taxpayer. A ruling is binding for the tax authorities.

Personal taxation:

Basis – Serbian residents are taxed on their worldwide income; nonresidents are taxed only on Serbia-source income.

Residence – An individual is considered resident for income tax purposes if he/she has a residence or center of business and/or vital interests in Serbia or stays in Serbia for at least 183 days in a 12-month period commencing or ending in the tax year concerned, or if he/she has a registered permanent domicile in Serbia.

Filing status – Spouses are taxed separately; joint filing is not permitted.

Taxable income – The principal taxable forms of personal income are employment income, business income, income from capital (dividends, interest and income from investment in an open investment fund), capital gains (e.g. from the sale of shares in a legal entity or from the sale of real estate), income from rent, royalty income and other income.

Residents whose annual net income exceeds three times the annual average wage in the tax year are subject to complementary annual income tax under the worldwide system. Nonresidents' earnings also are subject to complementary annual income tax if their Serbia-source income exceeds the same threshold.

Capital gains – Capital gains are taxed at 15%.

Deductions and allowances – Personal allowances are available for members of the taxpayer's family that are financially supported by the taxpayer only when complementary annual income tax is assessed. Allowances are fixed and do not depend on the level of spending of the taxpayer.

Rates – The personal income tax rate depends on the type of income. The rates are 10% for employment income (salary) and business income (entrepreneurs); 15% for income from capital, 20% for rental income, income from royalties and other income.

Complementary income tax is levied at progressive rates of 10% and 15% on net income in excess of prescribed thresholds.

Capital gains are taxed at a rate of 15%, with an exemption for gains derived from the sale of assets the taxpayer has owned for at least 10 years.

Other taxes on individuals:

Capital duty – No

Stamp duty – There is no stamp duty. However, fees are charged by the competent authorities/notary when certifying documents on transfers of property.

Capital acquisitions tax – No

Real property tax – Tax is levied on the "catalogue value" of real estate at progressive rates ranging from 0.3% to 2%.

A 2.5% tax applies on transfers listed in the property taxes law, i.e. the transfer of real property, intellectual property, etc.

Inheritance/estate tax – Tax is levied on inheritances and gifts at rates of 1.5% or 2.5%, depending on the relationship to the deceased. However, no inheritance tax is imposed on beneficiaries related in the first degree to the deceased.

Net wealth/net worth tax – No

Social security – The employer withholds social security contributions on behalf of its employees at rates of 14%, 5.15% and 0.75% for pension and disability insurance, health insurance and unemployment insurance, respectively. Social security contributions also are due by the employer at rates of 12% and 5.15% for pension and disability insurance and health insurance.

Compliance for individuals:

Tax year – Calendar year

Filing and payment – There are three different methods for tax compliance: withholding tax, self-assessment and assessment by the tax authorities. Generally, local Serbian entities that pay income must withhold the tax due (except in cases of payments to entrepreneurs). Self–assessment applies if the payer does not have the obligation to withhold the tax, as well as for certain types of income. The individual must file a tax return and pay the tax due, at a rate depending on the type of income, within 30 days of receipt of the income. The tax authorities will issue an assessment for the complementary annual income tax, capital gains tax and with respect to entrepreneurs' lump sum income.

Penalties – Penalties may be imposed for failure to comply with the provisions of the tax administration law.

Value added tax:

Taxable transactions – VAT is levied on the supply of goods and services by a VAT-taxable person, and on imports of goods into Serbia.

Rates – The standard VAT rate is 20%. A 10% reduced rate applies to certain supplies, and certain supplies are zero-rated or VAT exempt.

Registration – The registration threshold for VAT purposes for local entities (subsidiaries and branches) is annual turnover of RSD 8 million. There is no prescribed threshold for foreign entities.

Filing and payment – Both monthly and quarterly taxpayers with taxable income exceeding RSD 50 million should file VAT returns and pay any VAT due for the previous period on or before the 15th day of the current period. Where the deadline falls on a non-working day, i.e. a weekend or public holiday, the deadline is postponed to the next working day.

As of 1 July 2018, VAT registered persons (both resident and nonresident) are required to submit the POPDV form with every VAT return.

Source of tax law: Corporate Income Tax Law, Personal Income Tax Law, Property Taxes Law, VAT Law, Law on Tax Procedure and Tax Administration.

Tax treaties: Serbia has concluded 59 tax treaties, as at January 2019. The OECD multilateral instrument entered into force for Serbia on 1 October 2018, and applies to several tax treaties as of January 2019.

Tax authorities: Tax Administration, Customs Administration.

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