

By
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Taxes in Serbia

What an investor needs to know

The tax system in the Republic of Serbia has been fundamentally reformed over the past few years, with new tax regulations being enacted or existing ones replaced every year.

Since 2001, when the new Corporate Profits Tax Act was passed, it has been amended three times, once in each of the succeeding three years until 2004. This indicates that Serbia's policy of corporate profits taxation has gone through a period of intense transition. The changes made to the Act have been in the direction of cutting the tax rate from 20 percent to 14 percent to the current 10 percent. There have also been attempts at finding the most adequate tax incentives, which are reflected in amendments and supplements to the Act.

Serbian resident companies report and pay taxes according to the principle of world-wide profits, whereas non-resident firms only pay taxes on profits made in the territory of the Republic of Serbia. The basis for the tax is the taxable profits shown in the tax balance. Particular revenue and

expenditure items presented in financial reports in accordance with international accounting standards (IAS) need to be corrected for the purpose of drawing up tax balance sheets, with the effect of expenditure corrections mainly being to raise the tax base. Also, only depreciation calculated in accordance with the Corporate Profits Tax Act, which provides for five groups of fixed assets, is recognized for the purpose of profit taxation.

In the case of non-resident firms that operate in the Republic of Serbia through their permanent business units, transfers to their headquarters of receipts relating to interest, copyright and industrial property rights are not recognized as expenditure.

The amount of taxable profit is also affected by capital gains or losses realized upon the sale of real estate, intellectual property rights, financial stakes and shares. Capital gains and losses made in the same year may offset one another. But if such offsetting results in a capital loss, this can be offset against future capital gains over a period of the next ten years.

A scene in Pozarevac





AFP/Getty Images

Assembly line for Serbia's notorious Yugo car

Operating losses (with the exception of capital losses) can be carried forward and offset against profits in subsequent accounting periods but only for up to 10 years.

Profits that may result from bankruptcy or liquidation are subject to taxation.

The tax rate on profits is proportional and stands at 10 percent. However, if a taxable resident company pays dividends, royalties, rents, interest or capital gains to a taxable non-resident firm, it is liable to account for withholding profit tax at a rate of 20 percent, if not otherwise stipulated by an international agreement to avoid double taxation.

A corporate group (parent company and subsidiaries) can apply for tax consolidation only if all its companies are resident in the Republic of Serbia. Tax consolidation is granted for a period of at least five years. Transactions among affiliated entities are shown separately in the tax balance, with all such or similar transactions being treated according to the "arm's length" principle.

The corporate profits tax is assessed based on the tax balance sheet and tax return, both of which must be submitted by March 10 for the previous year. During the fiscal year monthly tax pre-payments are paid in the amount of 1/12 of the tax liability for the previous year. The prepayment amount can be changed at the initiative of either the taxable entity or the tax administration.

Tax incentives:

- One of the tax incentives envisaged is the taxable entity's right to accelerate the depreciation of fixed assets intended for environmental protection purposes, scientific research, staff training and computer hardware.
- Non-profit organizations are exempt from corporate profits tax as long as their profits do not exceed 300,000 dinars.
- A five-year tax holiday is granted for profits derived from concession-related investments, starting from the day the concession investment has been completed.
- Profits made by companies employing people with disabilities are exempt from corporate profits tax, in proportion to the share of these persons in their total number of employees.
- A reduction in the amount of tax due (tax credit) can in principle be 20 percent of the amount invested in fixed assets, but it cannot exceed 50 percent of the total tax liability. Some agricultural and industrial activities are entitled to receive a tax credit in the amount of 80 percent of the investment made in fixed assets. Small companies are granted a tax credit in the amount of 40 percent of the investment made, provided that the credit does not exceed 70 percent of the tax due. The unused credit can be carried forward to succeeding fiscal periods for up to 10 years.
- For companies hiring new workers a tax credit is envisaged in the amount of the gross salaries paid out to newly employed workers in the current fiscal period.
- If a company's own or foreign investment in its fixed assets exceeds 600 million dinars and if during the time of investment it employs more than 100 new workers, it is entitled to a 10-year tax exemption proportionate to this investment.

This last exemption is applicable to companies in all sectors provided that the following conditions are met:

- Investment is made in new fixed assets designed for the performance of registered activities and exceeding 600,000,000 dinars. Initial capital is not treated as investment within the meaning of these legal provisions.
- Investment in fixed assets can be made by the taxable entity itself (company, bank or other legal entity) or some other legal or natural person (investor),
- During the investment period the taxable entity employs at least 100 new workers for an indefinite period of time, provided that these persons have not up to that time worked in an affiliated company.

Tax exemptions begin to apply when these conditions are met cumulatively, starting from the first year in which a taxable profit is made. The amount of tax due is reduced proportionately to the share of investments in fixed assets in the total value of fixed assets. In this case, there is no limit to the amount of tax credit. Fluctuations in the number of workers employed during the course of investment are of no significance either. What counts is that the number of workers increases by 100 or more by the end of the investment period.

If an investment lasts for several years, the taxable entity is eligible, within the period of investment and until the above-mentioned conditions are cumulatively met, for partial tax breaks that are provided separately for investment or job creation such as:

- a tax credit in the amount of 20 percent of the investment made in fixed assets but not exceeding 50 percent of the tax due for the year in which the investment is made, or
- a tax credit or a reduction of the tax due by an amount equal to gross salaries paid to newly employed workers (irrespective of their number).

In previous legislation, the tax break for newly created jobs was subject to the condition that the number of employees remained the same in the 12 months prior to and 24 months after new employment. Since 2004, only the net effect is taken into account, that is, what counts is that the number of new jobs exceeds the number layoffs. ■

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