

# *Doing Business and Investing in Serbia*

2013 Edition



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# Guide to Doing Business and Investing in Serbia

2013 Edition

The information in this book is based on taxation law, legislative proposals and current practice, **up to and including measures passed into law as of 31 December 2012**. It is intended to provide a general guide only on the subject matter and is necessarily in a condensed form. It should not be regarded as a basis for ascertaining the tax liability in specific circumstances. Professional advice should always be taken before acting on any information in the booklet.



# 1. Serbia: Country Profile



## 1.1 Introduction

### History

Serbia has a long and turbulent history wrought with conflict and struggle for independence. The most recent example was the war-torn 1990's which saw the collapse of communist Yugoslavia and the emergence of its former republics as independent states. The conflicts ended in 1999 with NATO led air strikes which resulted in Serbia agreeing to the introduction of UN administration in Kosovo and Metohija province in accordance with the UN Security Council Resolution 1244.

October 2000 saw Serbia defeat Slobodan Milosevic's regime and establishment of a democratic government led by Prime Minister Zoran Djindjic that set a firm reformist course geared towards privatization and free market economy.

Following a referendum held in Montenegro in 2006 (which signalled the dissolving of the State Union of Serbia and Montenegro) and the adoption of a new constitution in the same year, Serbia has re-established its status as an independent state.

In February 2008 Kosovo unilaterally declared independence from Serbia, which Serbia vehemently opposes. The issue has been brought before the International Court of Justice in an effort to determine the legality of such an action. In July 2010 the International Court of Justice issued its advisory ruling stating that "the adoption of the declaration of independence of 17 February 2008 did not violate general international law".

At the elections held in May 2012, Tomislav Nikolic was elected as a new president of Serbia and Ivica Dacic as a new prime minister.

The current government follows the path of economic and social reform centred on transition to free market economy and privatisation of the public sector. Ascension to the European Union remains a top

priority for Serbian administration. Efforts towards realising this goal are made through adopting new legislation as well as through bilateral application of the Interim Trade Agreement (which is a part of the Stabilisation and Association Agreement signed with the EU) as of February 2010. In March 2012 Serbia was awarded with an official EU candidate status.

### Geography and climate

The Republic of Serbia is located in South East Europe, central part of the Balkan Peninsula and covers 77,474 km<sup>2</sup> (excluding Kosovo and Metohija). It is situated at the intersection of Pan European Corridors Nr. 10 and Nr. 7 linking Europe and Asia. River Danube runs through Serbia (588 km).

The climate is temperate continental, with gradual transition between the four seasons of the year, warm summers and snowy winters. The average annual temperature is around 12°C. The temperatures in January and June average 0°C and 22-23°C respectively.

The average annual precipitation ranges from 660 mm to 800 mm in the plains to between 800 mm and 1,200 mm in the mountains.

Major cities are, the capital Belgrade (population around 1.6 million), Novi Sad (popn. 300,000), Nis (popn. 250,000), Kragujevac (popn. 175,000).

## 1.2 Government structure

The national legislature of Serbia is a unicameral assembly of 250 deputies chosen in direct general elections for a period of four years.

The deputies in the National Parliament elect the Government of the Republic of Serbia, which, together with the President of the Republic, represents the country's executive authority. The judiciary is independent.

## 1.3 Legal system

### Legislative framework

Serbia has a civil law system, meaning the courts interpret legislation rather than being bound by preceding rulings on the issue.

The Parliament is the supreme legislator. Certain bodies with executive powers, such as the government and ministries, are competent to pass decrees and by-laws in specific areas. Decrees and by-laws must be in compliance with parliamentary legislation. Legislative acts, decrees and by-laws come into force after publication in the Official Gazette of Serbia.

### Courts

The organisation of the court system in Serbia and jurisdiction of courts is regulated by the Law on Organisation of Courts, applicable as of 1 January 2010.

The court system consists of the Constitutional Court, courts of general jurisdiction and courts of special jurisdiction. The courts of general jurisdiction are the following: basic courts, higher courts, appeal courts, and the Supreme Cassation Court. The courts of specific jurisdiction are the following: commercial courts, Commercial Appeal Court, misdemeanour courts, Higher Misdemeanour Court, and Administrative Court.

Constitutional Court decides on constitutionality and legality of laws and bylaws, and protects human and minority rights and freedoms.

Basic courts are courts of first instance and are established to cover one or more

municipalities. Higher courts are established to cover the territory of one or more basic courts and are also courts of first instance, while in limited numbers of cases they act as courts of second instance to basic courts. Commercial courts adjudicate commercial matters, with the Commercial Appeal Court being the second instance court for these matters. Appeal courts are second instance courts to both basic and higher courts (except in limited number of cases when higher courts act as second instance courts to basic courts), Supreme Cassation Court is the highest court in Serbia and is competent to decide on extraordinary judiciary remedies and conflicts of jurisdiction.

Misdemeanour courts are second instance courts for misdemeanours ruled by state authorities in first instance, as well as first instance courts for misdemeanours for which state authorities are not competent in the first instance. Administrative Court is competent for adjudicating in administrative disputes.

Since in certain cases it may take several years to receive a final judgement, many business entities opt for arbitration, providing for it in their contracts. There is a Foreign Trade Court of Arbitration at the Serbian Chamber of Commerce in Belgrade. It is international, general (all conflicts arising from international business relations are considered), open (domestic and foreign citizens are on its list), independent and autonomous. Its judgments are final. Specific rules of procedure can be agreed between the parties and specialist arbitrators can be chosen. The United Nations Commission on International Trade Law (UNCITRAL) book of rules may be applied.

## 1.4 People

### Population

According to the recent data the population of Serbia (not including Kosovo and Metohija) is approximately 7.2 million, around 69% of which is of working age.

Statistics show that Serbia has, on average, an old population (the average year of age being cca. 41.3 according to recent information) which has been identified as a leading concern and is attributed mainly to emigration.

The country's population is mostly Serbian (83.3%) with the most significant ethnic minorities being Hungarian (3.5%), Bosnian (2%) and Roma (2%).

## Language

Serbian is the only official language while members of ethnic minorities are entitled to use their own language. English is taught as a compulsory foreign language, while in many areas students choose an additional language from German, French or Russian.

## Religion

Religion is practiced freely. Orthodox Christianity is the dominant religion (85%), while other prominent religions are Roman Catholic 5.5%, Islam 3.2% and Protestant 1.1%. Most Catholics reside in Vojvodina, Serbia's northern province, while Muslims are predominant in the region of Raska to the south of the country.

## Education

Elementary and high school education in Serbia is free with eight years elementary schooling being compulsory. Around 78% of the population completes elementary schooling while 11% achieves higher education.

## Living standards

The total percentage of the population living below the poverty line is 8.8%, according to 2010 estimates. The distribution of poverty is uneven with the gross average income

being significantly higher in cities (Belgrade in particular) than in rural areas.

According to the recent data average monthly gross salary in Serbia in 2012 amounts to RSD 58 thousand, while in Belgrade amounts to RSD 72 thousand.

# 1.5 Economy

## General description

Serbia is considered an upper-middle income economy by the World Bank, with a estimate of GDP for 2012 at \$79.7bn (\$10,528 per capita PPP). Since the political reforms of 2000, the country has experienced fast economic growth and has been preparing for membership in the European Union.

## Currency

Serbian official currency is Dinar (RSD). On 31 December 2012 the exchange rates were 1 EUR = 113.7183 RSD and 1 USD = 86,1763 RSD, according to the National Bank of Serbia (NBS).

## Transport

In Serbia all means of transportation are present. The total length of roads is 41,913 km. Railway network enables cost effective transportation thanks to good connections with all major European destinations through the Pan European Corridor 10.

There are 3 major airports in Serbia: Belgrade Nikola Tesla Airport, Nis Airport and the Vrsac international airport. Serbian rivers belong to the basins of the Black, Adriatic and Aegean Seas. Three of them, the Danube, Sava and Tisa, are navigable. The longest river is the Danube, which flows for 588 of its 2,857 kilometre course through Serbia. Serbia does not have access to sea.

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## 2. Business Environment



## 2.1. Business climate

### Aims of government policy

The key goals and instruments of the economic policy are:

- Maintaining exchange rate stability and curbing domestic aggregate demand through restrictive monetary policy,
- Further reduction of public spending, freezing public sector wages through tight fiscal policy,
- Price stability,
- Stimulative subventions for the economy

### Economic Development

Over the past ten years of extensive political and economic reforms, Serbia has developed into a stable democratic country with a fast growing market economy. As a member of the International Monetary Fund, Serbia exercises a sound and consistent economic policy resulting in a strong economic growth and rapid export expansion. The country's progress is fully supported by leading international development institutions, such as the World Bank and the European Bank for Reconstruction and Development, while the processes of the European Union and the World Trade Organization accession are under way.

## 2.2. International Agreements

Current status:

- Serbia's application for the WTO accession has been accepted; accession is expected in 2013,
- The Stabilization and Association Agreement and Interim Trade Agreement with the EU was signed in April 2008; status of candidate was granted in March 2012,
- Regional free trade agreement (CEFTA), was ratified by Serbia in 2007, integrates

the countries of the South East Europe, thus creating a possibility for companies to place their goods customs free to a market of close to 30 million people,

- Serbia is the only European country with free trade agreements with the EU, Russia, Belarus and Turkey.
- The trade with US is pursued under Generalized System of Preferences (GSP). The GSP program provides preferential duty-free entry for more than 4,650 products,
- Serbia is a member of the Black Sea Economic Cooperation (BSEC).

## 2.3. Regulations for Businesses

### Competition Law

The new Competition Law was adopted in September 2009.

The law applies to all market players, including state authorities and state-owned companies undertaking activities of public interest (except in the case when application of the law would prevent such activities).

Thresholds for concentration are set at:

- worldwide annual income of all concentration parties in previous year exceeding EUR 100 million, where at least one concentration party has generated income in Serbian market exceeding EUR 10 million;
- annual income of at least two concentration parties generated in Serbian market in previous year exceeding EUR 20 million, where at least two concentration parties generated income in Serbian market exceeding EUR 1 million each.

The deadline for notifying the Competition Commission of an event falling within the scope of a concentration event is set to 15 days as of the SPA signing date or the date of taking control.

The Competition Commission has the power to impose fines (of up to 10% of a company's annual income) in case of a breach of competition rules. In the past, a breach of competition rules was regarded only as misdemeanour, for which proceedings had to take place through a relevant court.

The law introduces new procedural penalties such as ordering of de-concentration and/or other structural/behavioural remedies. In accordance with the Law, the Competition Commission has broad procedural powers such as site investigation and access to companies' premises.

The procedure for determining a breach of competition rules may be initiated only ex officio; therefore, third parties have no longer the right to initiate proceedings. In accordance with the Law, third parties have the right to submit an initiative for determining a case of a breach of competition rules while the Competition Commission decides whether or not it will initiate proceedings.

## Consumer Protection

The Law on Consumer Protection (the LCP) was adopted in October 2010 and has been effective as of 1 January 2011. The LCP is harmonised with European standards implementing 15 key European consumer protection directives with the aim to provide adequate consumer protection in Serbia.

The LCP regulates the fundamental rights of the consumers, conditions and means of consumer protection, rights and responsibilities of the consumer protection organisations, establishment of the system of out-of-court settlement of consumer disputes and the rights and responsibilities of the state institutions in the area of consumer protection. It regulates, inter alia, indication of prices, unfair commercial practice, distance and off-premises agreements, unfair terms in consumer agreements, product liability, warranties etc.

The consumer is defined exclusively as a natural person who procures goods and

services on the market for his/hers personal needs. A consumer must be clearly informed by the trader on all necessary details on goods and services offered prior to entering into agreement.

For the first time there is a special protection of juveniles in place stipulating that selling tobacco products as well as selling and serving alcoholic beverages to persons aged under 18 is prohibited.

The LCP, inter alia, sets in more details rights and obligations arising out of distance agreements, off-premises agreements, sales agreements and specific agreements in tourism and time sharing.

The competent authorities involved in the consumer protection rights are the Serbian Ministry of Trade and Telecommunications and the National Consumer Protection Council.

## Intellectual Property (IP) Rights Protection- Patents, Trademarks, Copyrights

Most of the existing IP laws were enacted during the 2009 and are generally in compliance with the international conventions and EU standards. The set of IP laws regulates legal relations pertaining to the literary, scientific and artistic works, symbols, names and images used in commerce, computer programmes, inventions and topographies of integrated circuits. The laws dedicated to the protection of IP rights are:

- The Law on Copyright and related rights enacted on 2009, and amended in 2011 and 2012
- The Law on Protection of Topographies of Integrated Circuits enacted on 2009
- The Law on Patents, enacted on 2011
- The Law on Trademarks, enacted on 2009
- The Law on Legal Protection of Industrial Design enacted on 2009

- The Law on Geographical Indications enacted on 2010
- The Law on Special Powers for Efficient Protection of Intellectual Property Rights enacted on 2006 and amended in 2009

The most important IP conventions relating to IP protection ratified by Serbia are the Berne Convention, the Paris Convention, the European Patent Convention, Madrid and Nice Arrangements and other.

The authority involved in IP protection is the Intellectual Property Office of Serbia.

## Acquisitions

Acquisitions of limited liability and joint stock companies are subject to different legal treatment.

Transfers of stakes in limited liability companies are not subject to restrictions unless otherwise stipulated by the company's Memorandum of Association or the Law on Companies, meaning that stakes can be sold or otherwise disposed of freely. The specific requirements of the Law on Companies relate to the right of first refusal of other stake-holders.

### Takeover rules

Acquisitions of shares in joint stock companies are subject to the Law on Companies and Law on Takeover of Joint Stock Companies (Takeover Law).

The Takeover Law regulates the conditions and procedure for the takeover of joint stock companies headquartered in Serbia, rights and obligations of participants in the takeover procedure, and supervision over the takeover of joint stock companies.

The Takeover Law distinguishes mandatory and voluntary takeover bid.

Legal entity/individual is obliged to make a takeover bid when directly or indirectly, solely or jointly, acquires voting shares of the target company, in a way that together with the shares already acquired, exceeds

the threshold of 25% of voting shares of the target company.

The Takeover Law stipulates a number of exemptions from the obligation to publish a takeover bid, as in the case of inter alia:

- acquisition of the shares through the change in the company's legal status;
- acquisition of the shares of the target company from another legal person whose members or shareholders are, directly or indirectly, the same persons; or when shares are acquired through a transfer carried out for restructuring purposes within a holding;
- acquisition of the shares of the target company by inheritance or by means of division of the joint marital property;
- acquisition of the shares on a temporary basis only, while engaging in registered business activity of taking over (underwriting) the issue or reselling the securities on the market;
- acquisition of the shares of the target company as a bankruptcy debtor in bankruptcy proceedings;

Additionally, the Takeover Law shall not apply to the trade of shares of a particular issuer when shares are sold through a public tender on a regulated market, specifically, shares that were transferred to the Share Fund, shares whose legal holder is the Republic of Serbia Fund for Pension and Disability Insurance of the Employees, the Republic of Serbia Development Fund, as well as in other cases prescribed by the Takeover Law.

The competent body responsible for the implementation and supervision of the Takeover Law is the Securities and Exchange Commission (SEC).

### **Squeeze out rules**

In addition to the above, the Law on Companies regulates so called squeeze out procedure. Namely, a legal entity/individual holding at least 90% of shares of the target company and 90% of votes of all shareholders with ordinary shares (so called acquirer) may decide to squeeze out minority shareholders by means of cash compensation (forced sale). However, the squeeze out rule goes in both directions, meaning that in case that minority shareholders offer their shares for sale, acquirer would be obliged to purchase such offered shares (forced purchase). In both cases, compensation i.e. price which acquirer must paid to the minority shareholders should be determined by using the highest of three prices, as follows: (i) book value of shares, (ii) market value of shares, and (iii) valued value of shares done by an independent evaluator.

## **Land Ownership**

### **Law on Planning and Construction**

The new Law on Planning and Construction (the Construction Law) was enacted in September 2009 replacing the old Law on Planning and Construction, adopted in May 2003 and amended during 2006.

The Construction Law introduced several positive amendments aimed at improving disadvantages of the old law that have been noted in practice and harmonization with EU legislation and the Constitution of Republic of Serbia, relating to:

- privatization of the state-owned construction land
- issuance of construction permit
- zoning and spatial planning
- legalization

The Construction Law introduces different categories of construction land, namely:

- City Construction Land and
- Construction Land outside the City Construction Land.

In line with the Constitution of Republic of Serbia, the Construction Law allows for private ownership over any type of construction land and for further transfer of ownership rights. The provisions are aimed at replacing the right of use which was commonly used during previous periods when city construction land was state owned and when owners of buildings were entitled to the right of use over the land beneath them.

The Construction Law provides for automatic conversion of the right of use on state-owned developed construction land into ownership at no fee, subject to numerous exceptions. The main exception is related to the right of use on state-owned developed construction land currently or formerly held by companies that were subject to privatization, bankruptcy or enforcement laws which can be converted into ownership subject to the payment of a fee equal to the difference between the market value of the land at the conversion date and the amount paid for the acquisition of the right of use on such land.

### **Building permit**

A building is lawfully constructed if a building permit has been issued by the competent authority. The permit is issued on the basis of a location permit and technical documentation - main design.

One of the main features of the Construction Law is the possibility of a building permit transfer together with a transfer of property rights over building / land.

Municipalities are authorised to issue building permits. The competent Ministry is in charge of issuing building permits for the construction of nuclear plants, oil and gas production/processing industry objects, hydro-power stations, airports, traffic infrastructure and similar.

Upon construction, the investor will apply for a utilization permit.

### **New legislation on denationalisation**

The Law on Property Restitution and Compensation (Restitution Law) that is crucial to resolving issues of land ownership and restitution, has been enacted in 2011. It regulates terms, method and procedure for the restitution of and compensation for the property which was confiscated on the territory of the Republic of Serbia with the application of regulations on agrarian reform, nationalization, sequestration, and other regulations, on the basis of nationalization acts, after 9 March 1945. The Restitution Law also applies to restitution of the property whose confiscation was the consequence of the Holocaust on the territory which now forms the territory of the Republic of Serbia.

The Restitution Law stipulates that property shall be recovered in its natural form or by compensation in the form of government bonds of the Republic of Serbia, or in cash. The law proclaims the principle of priority of natural restitution, meaning that confiscated property shall be returned to the former owner to his or her possession and ownership, and if this is not possible, the

former owner shall have the right to compensation. Subject of restitution are immovable and movable properties in the public ownership of the Republic of Serbia, Autonomous Province and/or a local self-governments, as well as property in state, social and cooperative ownership, except for the property owned by co-operatives and property in the social and cooperative ownership which the holder acquired for a fee.

The property acquirer, who, after the nationalization of property, has legitimately acquired the property right, shall remain owner and holder of the property, and the acquired rights shall not be violated. Compensation shall be paid in the form of government bonds of the Republic of Serbia and in cash for the payment of advance compensation.

Under the Law on the Application for Restitution of Deprived Property, approximately 500.000 restitution claims were submitted to the Government of Serbia.

# 3. Foreign Investment



## 3.1 Foreign investment

### Investment Climate

Since January 2001, Serbia has shown a strong commitment to establishing a modern market economy and re-entering European and global markets. Substantial reforms have been initiated to that end, particularly in creating a business-friendly environment. These include legal and economic reforms in all areas, aimed at ensuring legal security and harmonization with EU legislation and economic policies.

In March 2012 Serbia became an EU candidate country. It is expected that by June 2013 Serbia will open the process of negotiations with the EU, while the full accession is not expected before year 2019. Notwithstanding its current position, the harmonization of local legal and regulatory framework with *acquis communautaire*, will remain a fundamental factor driving Serbia's stability and economic growth, which is expected to accelerate to some 3.9% by year 2015. Steps toward accession into the EU should lead to market improvements in the business environment of the country, enabling greater access to the export markets of EU member states and other countries.

#### Table - Main indicators

|   |  |
|---|--|
| <i>Current status in the EU accession process</i> | In March 2012 Serbia was awarded with a candidate status   |
| <i>Capital:</i>                                   | Belgrade   |
| <i>Currency:</i>                                  | Republic Serbian Dinar (RSD)   |
| <i>Population:</i>                                | 7.24 million (2012)  |
| <i>Government system:</i>                         | Parliamentary republic. National Assembly (250 members) names executive authority – prime minister |
| <i>Main industry sectors:</i>                     | Agriculture, Automotive, Food Processing, Metals and Chemicals                                     |
| <i>Foreign direct investments:</i>                | USD 3,125 (year 2011) source: NBS  |
| <i>Major trading partners 2012:</i>               | Germany, B&H, Italy, Russian Federation  |
| <i>Real GDP/ GDP per capita:</i>                  | EUR 28.63 billion/EUR 3,959  |
| <i>FX rates (December 2012) :</i>                 | 113,72 RSD / 1 EUR   |
| <i>VAT rates:</i>                                 | 20%/8% (reduced rate for basic foods and etc.)   |
| <i>Corporate/individual tax:</i>                  | 15%/10-15%   |
| <i>Next parliamentary elections</i>               | 2016   |
| <i>International organisations</i>                | Member in more than 50 of them, such as UN, Interpol, EBRD, UNHCR, WTO (observer status)           |

The key institutions responsible for foreign investment regulations are the following:

- Ministry of Foreign Affairs (www.mfa.gov.rs)
- Ministry of Finance and Economy (www.mfp.gov.rs)
- Ministry of Regional Development and Local Self-government (www.mrrls.gov.rs)
- Ministry of Foreign and Domestic Trade and Telecommunications (www.mtt.gov.rs)
- Serbian Investment and Export Promotion Agency (www.siepa.gov.rs)
- Serbian Chamber of Commerce and Industry (www.pks.rs)

## 3.2 Regulatory legislation

The legal framework relevant for foreign investment encompasses the following laws:

- Law on Foreign Investment
- Law on Free Zones
- Law on Foreign Exchange Operations
- Law on Foreign Trade Transactions
- Law on Customs
- Law on Privatisation
- Law on Companies
- Law on Capital Market
- Law on Takeover of Joint Stock Companies
- Law on Procedure of Registration before the Business Registers Agency
- Law on Public Private Partnerships and Concessions
- Law on Insurance
- Law on Bankruptcy
- Law on Games of Chance
- Law on Energy

## 3.3 Law on Foreign Investments

Foreign investments in Serbia are regulated by the Law on Foreign Investment (LFI). The fundamental aim of the Serbian Government is to create a business-friendly legal, economic and political environment for all foreign individuals and companies interested in doing business in Serbia, by equalizing the rights and responsibilities of domestic and foreign investors, and providing other necessary conditions. A long-term goal is also to create a legal system compatible with European Union legislation as a first step towards future integration.

The LFI regulates foreign investment in enterprises and other forms of establishment engaged in profit generating activities in Serbia.

### Definitions

A foreign investor is:

- a foreign entity whose headquarters are located abroad,
- a foreign natural person,
- a national of Serbia who has residency abroad for a period exceeding one year.

A foreign investment is:

- Investment in a local company through which a foreign investor acquires a stake or shares in the initial capital of that company,
- Acquisition of any other property rights in the sense of a realisation of a business interest in Serbia.

Main forms of foreign investment are the ones in which a foreign investor alone or together with another foreign or domestic investor performs one of the following actions:

- incorporates a local company
- buys shares in an existing local company.

## Legal status

A foreign investor is guaranteed national treatment, which means that any legal entity and natural persons who are investing in Serbia enjoy full legal security and protection, equal to those of local companies.

A stake held by a foreign investor or a company with a foreign investment cannot be the subject of expropriation, except when so required by the public interest as established and determined by the law. Moreover, in case of expropriation, the foreign investor or the company with foreign investment is entitled to compensation not lower than its market price.

The contribution of a foreign investor may be in the form of convertible foreign currency, contribution in kind, intellectual property rights and securities. A foreign investor may also convert confirmed receivables into capital i.e. shares in a company (debt to equity swap).

## Repatriation of capital and earnings

If the prescribed tax requirements and other outstanding commitments have been settled in Serbia, the foreign investor may, without any further limitation or delay, transfer financial assets relating to the foreign investment such as:

- Profit that was realised through the business activities of the company,
- Remaining property of the company, after dissolution of the company (so-called: liquidation surplus),
- Money assets relating to sale of shares,
- Money assets after decreasing the initial capital of the company ,
- Additional payments
- Compensation in the case of expropriation of the company property, as well as any indemnity.

Import of equipment representing the foreign investor's contribution is free,

subject only to environmental protection regulations.

## Procedural obligations

Companies are obliged to keep books and financial statements in accordance with Serbian legislation which has been brought in line with International Financial Reporting Standards (IFRS).

Any dispute related to foreign investment may be settled either before the Serbian court or in domestic or international arbitration, as agreed between the parties.

## Foreign Investors' Rights and Protection

The legal security of investments is guaranteed. No entity can be deprived of property nor can the property be limited, except in the case of invocation of a vital and indisputable public interest, in full respect of the procedure in which the existence of such interest is determined, and followed by the immediate payment of compensation, in the amount of the market value of the property before expropriation. The rights of a foreign investor gained upon registration of a foreign investment may not be curtailed by subsequent changes of a law or other regulations.

A company with foreign share capital has the right to freely perform payments under international business arrangements. Also, apart from the obligation to maintain accounts in accordance with Serbian regulations the company has the right to maintain accounts according to international accounting standards as well. If a bilateral or international treaty provides for conditions more beneficial for a foreign investor, its implementation has primacy over the provisions of relevant domestic legislation. The equipment which represents an investment may be imported free of customs and other import duties, except for motor vehicles and entertainment and gambling machines.

## Restrictions

Foreign entities are not permitted to own a majority interest in the management of companies or enterprises engaged in the production or trade of weapons or located in restricted zones. These kinds of foreign investments are subject to prior approval from the competent authority. Meeting all environmental protection standards and regulations is compulsory.

Foreign investments in certain fields are regulated separately by other laws, e.g. investment in insurance companies, banks, games of chance, customs free zones.

## 3.4 Foreign Exchange Regime

The foreign exchange regime is regulated by Law on Foreign Exchange Operations (FX Law) and relevant regulations issued by Government (Ministry of Finance) and NBS.

### General information on foreign exchange regime

Generally speaking, the Serbian foreign exchange regime is still strictly regulated and rigorously supervised by local regulators. These often tend to have a heavy – handed approach when interpreting FX Law, adhering to a principle that everything that is predicted by law is deemed permissible, and vice versa – everything which is not, is deemed restricted. Hence, if certain transaction is not clearly predicted by FX Law (or supplementary regulations), an investor should seek a professional advice in order to avoid or mitigate potential risks.

### Current transactions

Payments based on current transactions are free and without limitations. FX Law specifies which transactions should be regarded as current (payments in foreign trade – sale of goods and services, repayment of a portion of the principal sum plus interests on credits, return payments of investment funds, as well as transfers

abroad and repatriation of profit from direct investments, etc).

There is an obligation to inform NBS about import and export which are not paid / collected within 12 months, which is considered as commercial credit facilities/loans.

A resident may not perform collection, payments or transfers or issue payment order towards or from non-residents based on agreements lacking real price or concluded on the basis of false documentation.

Banks, residents (except resident – natural person), and non-residents may transfer, i.e. pay or collect claims and payables arising from residents' foreign trade of goods and services which are not considered commercial credit facilities or loans.

Resident-legal entity, branch of a foreign legal entity and entrepreneur can perform set-off of debts and claims arising out of realized foreign trade of goods and services of residents, which are not considered commercial credit facilities and loans. The Government prescribes in which manner and under which conditions this can be executed.

Bank, resident-legal entity, entrepreneur or branch office of a foreign legal entity can perform set-off of debts and claims arising out of international credit facilities in foreign currency with claim or debt arising out of them, realized foreign-trade of goods and services, as well as arising out of direct investments in immovables, in a manner closely prescribed by the NBS.

## Capital transactions

Payments and transfers of capital with regard to direct investments abroad, of residents-legal entities, entrepreneurs and natural persons as well as payments and transfer of capital of non-residents with regard to direct investments in Serbia may be executed freely.

Residents – legal entities, entrepreneurs and natural persons can perform payments and collections for the purpose of buying or selling of share in capital of a foreign company abroad which are not considered a direct investment, and non-residents can perform payments and collections for the purpose of buying or selling of share in capital of a resident company which are not considered a direct investment.

Residents can freely perform payments for the purpose of purchase of real estate abroad and non-residents for the purchase of real estate in Serbia.

Payments, collections, transfers, set-off, as well as reporting on operations with financial derivatives are performed under the conditions and in a manner closely prescribed by the NBS.

Furthermore, FX Law regulates international credit operations. For resident legal persons and entrepreneurs, banks may approve foreign currency loans for the payment of import of goods and services.

Banks can keep foreign currency deposits on bank accounts abroad without any restrictions. Still, residents (including legal entities) may open and keep foreign currency account in foreign banks only in specific conditions and in the manner closely prescribed by the NBS.

Non-resident which transacts business through a local non-residential account and resident - branch of a foreign legal entity, which transacts business through a residential account, may conduct transfers from such accounts abroad, provided that all tax liabilities towards the Republic of Serbia, arising from the relevant business operation, have been settled.

## Payment transactions

Contracting in foreign currency in the country is allowed. However, payment and collection has to be effected in RSD. By way of derogation from this rule, FX Law enumerates certain cases when payment and collection can also be effected in a foreign currency. Some of such exemptions include, inter alia, payments in respect of life insurance, sale and lease of real estate.

## 3.5 Public-Private Partnership and Concessions

Foreign investment can also take a shape of a public-private partnership (PPP). The entire PPP area is regulated by the Law on PPPs and Concessions, enacted in November 2011.

According to the said law, a PPP is considered as long term cooperation between public and private partner for the purpose of securing financing, construction, reconstruction, management or maintenance of infrastructural and other objects of public importance and performing services of public importance. It can be contractual or institutional.

Contractual PPP is a form of PPP where mutual rights and obligations in the realization of a PPP project are regulated by a public contract made between the parties. Institutional PPP is based on the relationship between public and private partner as members of a joint company which executes the PPP project. Such relationship can be based on contributions in a newly formed company or acquiring shares or capital increase of an already existing company.

A public partner is a public body (state authority, organisation, institution, and other user of state budget defined by law on budget, public company) A private partner can be a local or foreign natural person or legal entity. The procedure of choosing a private partner can be either a procedure of public procurement or the procedure for granting a concession depending of the nature of PPP.

Concession is a form of contractual PPP. As such a concession is granted by a public contract concluded between a public and private partner. A foreign investor may be granted a concession for the exploitation of natural resources, goods in general use which are public property or for performing an activity of public interest.

The duration of a public contract may range from 5 to 50 years with a possibility to conclude another after the expiration of the previous term, together with selecting private partner in accordance with the law. When a concession is granted by a public contract the duration is determined in accordance with the above given rule, unless stipulated otherwise by a special law.

Grantor of concession as a public partner can be the Government of Serbia, government of the autonomous province, Parliament of the local self-government (municipality) or state-owned enterprise i.e. legal entity authorised by special regulations to grant concessions. As the private party, the participant in the procedure of granting of a public contract can be both a foreign and local entity and natural person.

The parties can agree to settle disputes arising out of the public contract in a local or foreign arbitration. Foreign arbitration cannot be agreed if the private partner is a local legal entity or natural person, i.e. consortium made up solely of local legal entities or natural persons.

# 4. Banking, Finance and Insurance



## 4.1. Banking System

### Banking system

The banking system of Serbia consists of the central bank i.e. the National Bank of Serbia (NBS), commercial banks and other financial organisations. The founding, organisation, business activities and governing of banks are regulated by the Law on Banks and the corresponding by-laws of the NBS.

Domestic and foreign legal entities and natural persons may be founders of a bank in Serbia, which must be established in the form of a joint stock company. The NBS is authorised to supervise the activities of commercial banks and to issue or revoke operating licences for commercial banks in Serbia. The operating licence is issued within 30 days by the NBS following the issue of the preliminary approval (90 days) and filing of the request for issuing of this licence. The initial capital of the bank can be contribution in both money and in kind, which must be evaluated by an authorised person. The monetary portion of the share capital of the bank must be a minimum of EUR 10 million in RSD counter value.

### Banking Regulations

Significant characteristics of the Law on Banks are:

- Prescribed foundation procedures
- Strong role (ultimate) of the NBS as a regulatory and supervising authority
- Low shareholding threshold approval requirement
- Corporate Governance
- Supervision on Consolidated basis
- Merger Control
- Definitions and Management of Risks
- Definition of Credit

Minimum capital requirements prescribed by the Law on Banks are similar to Basel regulations and NBS is currently in the process of drafting by-laws that will be adjusted to Basel II regulations. The most significant requirements are listed below:

- The monetary portion of the share capital in RSD equivalent should at all time amount to at least EUR 10 million, calculated at the daily average exchange rate.
- A minimum capital adequacy ratio of 12 percent has to be retained, calculated as the ratio of the bank's capital to its risk-weighted assets.
- Large exposure of a bank means exposure of the bank to a single person or a group of related persons amounting to at least 10 percent of the bank's capital.
- The largest exposure of a single borrower is restricted to 25 percent of capital.
- The largest exposure of an affiliated borrower is restricted to 5 percent of capital.
- Aggregate exposure of the bank to persons related to the bank may not exceed 20 percent of the Bank's capital.
- Total of all large exposures of a bank, which may not be less than 400 percent or more than 800 percent of the bank's capital.
- Total foreign exchange risk position is restricted to 30 percent of capital.
- Investment of a bank in a single non-financial sector person must not exceed 10 percent of the bank's capital.
- Permanent investments (in the capital of legal entities and fixed assets) are restricted to below 60 percent of capital.
- Banks to have the stock of gross household dinar lending at the end of each calendar month lower than or equal to 200 percent of the value of their share capital.

Compliance with these ratios is supervised by the NBS on a quarterly basis.

The NBS may determine a higher capital adequacy ratio than that prescribed for a bank (12 percent). Banks that do not meet capital adequacy criteria are divided into three groups:

- Undercapitalized bank
- Significantly undercapitalized bank
- Critically undercapitalized bank

Special measures for undercapitalized and significantly undercapitalized banks are imposed by NBS.

At the end of 2012 the Law on Takeover of Certain Assets and Liabilities of Banks for the Preservation of Stability of the Serbian Financial System was adopted. It allows the transfer of assets and liabilities of state-owned banks that are facing great financial difficulties to the financially viable and stable banks.

## Banking Market

The Serbian banking market is still characterized by a large number of commercial banks. A large number of private banks have been successful in finding foreign partners such as Delta (Banca Intesa – Italy), Meridian (Credit Agricole- France), Atlas (Piraeus Bank- Greece), Nova Banka (Findomestic Banca - Italy), Centrobanka (Laiki group – Cyprus), Kulska, Niska and Zepter banka (OTP – Hungary), Nacionalna stedionica (EFG Eurobank – Greece), A banka (KBC Group- Belgium) Vojvodjanska (National Bank of Greece). In 2008, the NBS granted its first green field license to Moskovska banka AD Beograd which is 100% owned by Bank of Moscow-Russia. There are currently 9 state-owned banks.

In 2011, after completion of solvency control in Agrobanka it was determined that the bank is significantly undercapitalised and administrative receivership was introduced. As it failed to improve its business indicators, in 2012 the NBS revoked the licence of Agrobanka and gave the licence to Nova Agrobanka, a special purpose bank to

which assets and liabilities of Agrobanka were transferred. In December 2012, the Parliament adopted a new Law on Takeover of Certain Assets and Liabilities of Banks for the Preservation of Stability of the Serbian Financial System. Under the said law, it is expected that all the assets and liabilities of Nova Agrobanka will be transferred to Postanska stedionica Banka in the course of year 2013.

As for Razvojna banka Vojvodine, (another state-owned bank) it is still uncertain whether it will be sold, merged or its capital will be increased.

## Banking Products

The Serbian banking system has yet to reach western standards in the scope and quality of its services and capital market operations. The following types of operations are currently available:

- Deposit operations (acceptance of all kinds of deposits),
- Credit operations,
- Foreign exchange and foreign currency transactions,
- Issuing operations (issue of securities and credit cards),
- Treasury operations (money market foreign exchange),
- Custody operations (safekeeping and handling securities),
- Stock exchange related operations (purchase and sale of securities),
- Guarantee operations (extending warranties, guarantees, endorsements),
- Documentary operations,
- Cash management,
- Intermediation i.e. assuming the role of a broker in trading in securities,
- Purchasing and collection of claims,
- External payment operations and external loan operations, both of which are subject to special licences, issued in line with the federal law on foreign exchange operations,
- E-banking.

The availability of banking services is not consistent throughout the country, with the highest concentration of banking facilities and services being in Belgrade.

The financial instruments market is currently undeveloped. It is expected to expand in the near future, as Serbia advances in the EU accession process.

## National Bank of Serbia

The role of the NBS is regulated by the Constitution and the Law on NBS (enacted in 2003 and amended in 2004, 2005, 2010 and 2012).

In accordance with the Law on NBS, this institution is authorised to perform the following functions:

- Determine and implement monetary policy;
  - Autonomously pursue the dinar exchange rate policy and determine the dinar exchange regime with the consent of the Government;
  - Hold and manage foreign currency reserves;
  - Issue banknotes and coins;
  - Regulate, control and promote unhindered functioning of internal and external payment operations;
  - Issue and revoke operating licenses, carry out supervision of banks, insurance and leasing companies and enacts regulations in this field;
  - Issue and revoke licenses, i.e. authorization for carrying out insurance operations; perform control, i.e. supervision over insurance operations; carry out other duties in line with legal regulations governing insurance operations;
  - Perform statutory tasks for the Republic of Serbia;
  - Provides for the minimum scope of auditing and the minimum audit report content for banks, insurance and leasing companies;
- Perform other tasks provided for by this and other laws in accordance with the principles of central banking.

The NBS co-operates with the Serbian Government and other state institutions in order to execute its functions. The Republic of Serbia guarantees for all NBS's liabilities.

For more details on NBS, please visit the following site: [www.nbs.rs](http://www.nbs.rs)

## 4.2. Insurance

The Insurance law, introduced in May 2004 and amended in 2007, 2009 and 2011, entrusted the NBS with supervision of insurance companies.

Within its function, the NBS carries out supervision of insurance activity; issue licenses for performing insurance, reinsurance, intermediation and agency operations as well as those directly associated with insurance activity; gives approval for legally required enactments and actions; adopts regulations prescribed by law; processes statistical and other data, and considers complaints filed by the insured and other insurance beneficiaries.

In line with relevant EU directives, the Insurance Law divides the insurance business into life and non-life insurances. As of 31 December 2012, insurance companies are not be able to perform both life and non-life insurance activities within one legal entity.

Minimum capital requirements were also increased, depending on the activity performed by the company: EUR 1 million – accident and voluntary health insurance, EUR 2 million – life insurance and other property insurance, other liability insurance and other types of non-life insurance, EUR 2.5 million – motor vehicles insurance – full coverage, railway vehicles and obligatory traffic liability insurance; EUR 3 million – voluntary superannuation insurance, EUR 4 million – all types of life insurance and EUR 4.5 million – all types of non-life insurance and re-insurance operations.

The local insurance market remains relatively underdeveloped and needs more structural changes. Insurance products such as life, health, real estate, remain highly underdeveloped.

The total premium in the Serbian insurance market has reached over EUR 400 million in 2012. The predominant share i.e. 82.4% of total premium is held by non life insurance. Premiums from life insurance have increased from 15.8% in 2011 to 17.6% in 2012 reaching EUR 72.7 million.

### 4.3. Leasing

Financial leasing is regulated by the Law on Financial Leasing. It defines financial leasing activity and basic rights and liabilities of participants in financial lease operations. It also entrusts the NBS with supervision of leasing companies' operations as well as issuing of financial leasing licenses, approvals of appointment of leasing companies' managing bodies and enforcing corrective measures in respect of the companies if supervision reveals illegalities and irregularities in their operations. The NBS also enacts secondary legislation as provided in the law, whereby it regulates more closely the operations of leasing companies.

A subject of financial lease may be both movable and immovable property. Depending on the subject, the law sets out different minimum capital requirements. In particular, for dealing with movable property, a leasing company must have minimum capital of EUR 500,000, whilst for dealing with immovable property it must have minimum capital of EUR 5,000,000.

In order to establish a leasing company, the shareholders must obtain prior approval of the NBS. The NBS will grant approval only upon fulfilment of mandatory conditions pertaining to minimum pecuniary capital requirements, as well as technical and human capacities of the future company. Relevant NBS regulations provide a detailed list of necessary requirements and procedural information.

There are 16 registered leasing companies, with total assets amounting to EUR 1,350 million, operating in the Serbian market. Ten financial lease companies are owned directly or indirectly by foreign investors, five companies are owned wholly or predominantly by local owners, whereas one company is owned 50/50 by a local and foreign owner.

Four major leasing companies comprised 47.5 percent of the total market as at Q3 2012 (2011: 49.6 percent).

Corporate customers make up to 86.1% percent of the total leasing portfolio. Furthermore, motor vehicle leasing contracts make up to 61.7 percent of all leasing contracts whereas equipment contracts comprise 27.2 percent of all leasing contracts, as per Q3 2012 data.

### 4.4. Protection of 'users of financial services'

In May 2011 the Law on Protection of Users of Financial Services was introduced. The purpose of the said law is to provide additional protection to natural persons who use financial services provided by various financial institutions that are generally stronger parties and, as such, could impose unfavourable terms and conditions onto their "weaker" customers.

The said law is applicable only to natural persons, (as users of financial services), who do not use these services for the purpose of their business or any other commercial activity (entrepreneurs are excluded). The financial institutions subjected to this law are local banks and leasing companies.

The principles that represent the core of the aforementioned law are as follows:

- The right to equal treatment with the provider of financial services;
- The right to information;
- The right to a determination or determinability or contractual obligations;

- Protection against discrimination and
- The right to protection of rights and interests.

Important to note is that no receivables a bank has toward the natural persons as users of financial services may be transferred / assigned to another person / entity that is not another bank. This rule applies mutatis mutandis to leasing companies.

## 4.5. Capital Market

Capital market regulations suffered major changes in 2011, when the Law on Capital Markets was enacted. The new law introduced many novelties in the financial market regulations, with the main aim to synchronise the Serbian legislation and practice with the European Union directives.

The main changes impacted the organisation of the capital market. The law introduces two major segments of trading (i) regulated market, and (ii) multilateral trading platform (MTP).

In practice, the Belgrade Stock Exchange (BELEX) remained the only institution organising and dealing in securities' trading on the Serbian financial market. The regulated market encompasses Prime and Standard market (listing), where generally better performed securities are listed, and Open market (so-called: Over-the-Counter or OTC). MTP is also organised by BELEX (pursuant to the Law on Capital Markets, MTP can be organised by broker-dealer companies as well).

The vast majority of securities issued by local companies are placed and traded on MTP and Open market.

The structure BELEX being the only market organiser in Serbia is presented in the chart below:



Source: Belgrade Stock Exchange web site

In general, the global financial crisis took toll on securities' trading and BELEX. In the last couple of years BELEX records small trading activity, which makes the Serbian financial market still underdeveloped and barely liquid.

For more details on BELEX and securities placed thereon, please visit the following site: [www.belex.rs](http://www.belex.rs)

### Public offering

The process is initiated by publishing a public announcement and 'prospectus' on issue and offering of the securities. The prospectus must be previously approved by Serbian Securities and Exchange Commission (SEC), followed by a series of actions required for subscribing and paying for the securities and obtaining authorisation on the issue of securities from the SEC.

It ends with the transfer of securities to the securities account of the new owner.

### Trade in securities through secondary markets

Trade in securities on the secondary markets can be performed only through investment companies or authorised banks.

Public company is obliged to include their securities on regulated market for trading, and if these securities do not meet specified conditions for Listing than their securities will be included on the market segment that is not Listing i.e. Open market or MTP.

The law now regulates trading of debt securities in a new manner as with these securities may be traded on the regulated market, MTP and OTC simultaneously.

## Public companies

Upon the entry into force of the Law on Capital Markets a new institute called the 'public company' was introduced. In formal terms, the public company is any company that has successfully completed a public offering of its securities or whose securities are included in a trading on a regulated market or MTP. The status of public company includes a number of additional obligations and restrictions under the new regulations, which the company is exposed to. For instance, the obligation of regular audits of the financial statements, prohibition of performing more than five (5) consecutive audits by the same auditor, reporting to and control by SEC, the incompatibility of performing the audit and consulting services by the same entity in the same year, etc.

## Investor Protection Fund

Investor Protection Fund is a new institution in the financial market which performs the activity of protection of investors whose assets or financial instruments are exposed to the risk in case of bankruptcy of investment companies, credit institutions or management companies that provide certain services, i.e. other failures to fulfil obligations towards the clients.

The Investor Protection Fund is not a legal entity but it is organised and managed by the Fund Organiser that possess the authorisation of the SEC.

## Securities Exchange Commission

The SEC has a crucial role and significant power in supervising the local financial market. It is responsible, inter alia, for the rules relating to the application of the Law on Capital Markets and its sub-laws, issuing of licences and supervising the operations of authorised participants in the market, setting standards for registration of stock exchange trade operations, establishing the contents of mandatory information that is to be submitted to it and published, monitoring the state of affairs in the securities market and undertaking corrective measures.

For more details please visit the following site: [www.sec.gov.rs](http://www.sec.gov.rs)

## Central Securities, Depository and Clearing House

The Central Securities, Depository and Clearing House (CSD) represents and institution organised for keeping the records of all types of securities issued in Serbia. Its operations encompass registration of securities, including shares, bonds and treasury bills. To that end, all owners of securities in Serbia have to have their securities' accounts opened in the CSD.

The CSD operations also include transfers from one securities account to another, registering the collaterals over the securities, and clearing and settlement of both securities and money transactions.

More information can be found on the following link: [www.crhov.rs](http://www.crhov.rs)

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# 5. Importing and Exporting



The main principles of the foreign trade in Serbia are regulated by the Foreign Trade Law (the Law). This Law regulates foreign trade in a rather liberal way especially in comparison with the previous version of the same Law.

Import is the entrance of goods i.e. delivery of goods on the territory of Serbia from the territory of another state and should be made in accordance with Serbian customs regulations. This means, amongst others, that received goods should be declared for free circulation. However, this general rule has exceptions in cases when goods, although paid and delivered into Serbia, do not have to be imported if declared for one of the special customs procedures (e.g. customs warehousing, inward processing relief, transit).

The flow of goods designated for import is supervised by the Serbian Customs authorities. Customs supervision generally ends when goods are customs cleared and import duties paid.

Customs rules must also be adhered when carrying out export operations. Export (including re-export operations) is stimulated by the various incentives e.g. exemption from import duties on raw material that is processed in and re-exported from Serbia, more efficient VAT refund procedure for predominant exporters.

## 5.1 Trends in customs policy

Serbian Customs Law (the Law) applicable as of 3 May 2010 represents a step forward in the aligning Serbian customs legislation with Community Customs Code of the EU, and incorporates relevant customs standards, regulations and practice of the European Union (EU).

In the areas of the customs valuation, origin of goods, tariff classification and customs procedures, Serbia also tends to apply recommendations and views of the World Trade Organisation (WTO), World Customs

Organisation (WCO), and to implement global trading rules set by the General Agreement on Tariffs and Trade (GATT). Continuing trend is to bring customs regulations and practice fully in line with those of the EU and also with guidelines set by international organisations, as much as possible in the forthcoming periods.

For example, the Customs Tariff Law provides that Decisions on the classification of goods enacted by the Harmonized System (HS) Committee, as a body of the WCO, as well as those enacted in the EU and published in the Official Journal of EU, are enforceable in Serbia. These decisions are published in the Official Gazette of the Republic of Serbia.

Additionally, the Serbian Government is annually reconciling national Customs Tariff with the Combined Nomenclature (CN) of the EU.

One of the main customs issues in Serbia in the past was the fact that simplified customs procedures (e.g. simplified declaration, authorised exporter) were not implemented although provided by the regulations. The situation improved since the beginning of 2010 as simplified procedures and authorized exporter status started to be approved under the instructions issued by the Serbian Customs Administration.

With regard to regional integrations, Serbia ratified CEFTA in September 2007. In April 2008 Serbia signed the Stabilization and Association Agreement (SAA) and the Interim Agreement on Trade and Trade Related Matters (the Interim Agreement) with the EU. The Interim Agreement started to fully apply as of 1 February 2010. EU granted Serbia candidate status in March 2012. Serbia is also in the final stage of the process of accession to the World Trade Organisation (WTO), and it is expected that Serbia become its member in 2013.

## 5.2 Import restrictions

Serbian regulations do not impose significant restrictions on foreign trading. However, there are some restrictions on the import of certain types of goods, i.e. import licenses are required for certain pharmaceutical substances, precious metals, arms and dual-use goods.

Furthermore, restrictions are imposed on import/export payment and collection operations as defined by the Law on Foreign Exchange Operations.

Exports and imports of goods or services for which payment has not been collected and/or made for longer than one year from the day of execution of exports or imports, as well as goods or services that were not exported and/or imported for longer than one year from the day the advance payment was made and/or collected are considered as foreign loans and as such have to be registered with the National Bank of Serbia.

## 5.3 Customs duties

### Classification of goods

Serbia is a member of the WCO as well as a signatory to the Convention on Harmonized Commodity Description and Coding Systems (HS Convention). Furthermore, the Serbian Customs Tariff Law requires the Government to perform the reconciliation of the national Customs Tariff and the Combined Nomenclature (CN) of the EU on an annual basis. The current version of the Serbian Customs Tariff system is in line with the CN 2012 providing up to eight digits of the HS tariff codes.

A Binding Tariff Information (BTI) is a means available to Serbian importers which helps ensure proper tariff classification. The Customs Administration's Head Office is in charge of issuing BTIs.

## Valuation rules

Customs duties are charged on the customs value of imported goods. Serbia is applying globally accepted customs valuation rules i.e. those defined in the Agreement on Implementation of Article VII of the GATT. These rules are transposed in the Serbian Customs Law.

## Tariff rates

Goods imported in Serbia are subject to customs duty rates provided in the Law on Customs Tariff. These rates are ad valorem (with certain exceptions) and apply on goods originating in countries which have the Most Favoured Nation (MFN) status in trading with Serbia. Goods originating in other countries are subject to MFN rates increased by 70%.

At the moment, only Taiwan is out of the MFN clause in trading with Serbia.

Customs duty rates in Serbia are in the range between 0% and 57.6% and are as follows: 0%, 1%, 3%, 5%, 7%, 8%, 10%, 12%, 12.5%, 15%, 18%, 20%, 22%, 25%, 30% and 57.6% (the last rate currently applies only to other cigarettes containing tobacco - tariff code 2402 20 90 00).

The customs policy aims to protect the following sectors with high duty rates, but mainly on finished products:

1. Agriculture
2. Leather industry
3. Furniture industry
4. Textile industry
5. Household electrical appliances industry

On the other hand, customs rates are fairly low for the following groups of goods:

- Raw materials and semi-finished goods not produced in Serbia

- Inputs for export-orientated organisations as well as those producing for domestic market where there is high demand, especially in the following sectors:
  1. Black metallurgy
  2. Coloured metals
  3. Aluminium
  4. Wood industry
  5. Textile industry
  6. Graphics industry

## Free trade agreements

In April 2008, Serbia signed SAA and the Interim Agreement with the EU, however, their entering into force is delayed due to political reasons. In January 2009, Serbia decided to unilaterally abolish or gradually reduce import duties for goods with EU preferential origin as envisaged by the Interim Agreement. Finally, as of February 2010, both Serbia and the EU started to fully apply the Interim Agreement, thus enabling preferential trading between Serbia and the EU to become a two-way regime instead of the earlier two autonomous ones.

As previously mentioned, Serbia also ratified CEFTA in September 2007. This FTA should be the first step for all the parties concerned in their accession to the Pan-Euro-Med system of origin and a step forward in the EU accession process (Albania, Bosnia and Herzegovina, Croatia, Macedonia, Moldova, Montenegro, Serbia and UNMIK/Kosovo). The rules of origin defined in CEFTA are based on the Pan-European preferential rules of origin.

The main purpose of CEFTA is that its parties establish a free trade area in accordance with its provisions and in conformity with the relevant rules and procedures of the WTO. The aim of this free trade agreement was to establish free trade area in the region by 31 December 2010.

Serbia has in force the FTA with the Russian Federation, which is one of Serbia's advantages for attracting foreign investors. However, this FTA is not modelled by FTA template based on the Pan-European

preferential rules of origin, and therefore it has certain specificities that have to be considered.

As an example, rules of origin are rather simplified. For the purpose of obtaining preferential Serbian origin, goods are considered to be sufficiently worked or processed if these goods are worked or processed as a result of which the value of non-originating materials (raw materials, semi-finished goods and final products) used in that process does not exceed 50% of the EXW price of goods exported from Serbia. In July 2011, Serbia signed the accompanying Protocol on FTA agreement with Russian Federation that allows the cumulation of origin for material originated in Customs Union of Russian Federation, Belarus and Kazakhstan.

As of 31 March 2009, the FTA signed with Belarus started to temporarily apply, with rules similar to those envisaged in the FTA between Serbia and the Russian Federation. In June 2011 Protocol on amendments of FTA was signed which prescribes the rules for preferential origin that which consider the material originated from Customs Union of Russian Federation, Belarus and Kazakhstan as material with preferential origin.

The Free Trade Agreement of Serbia and Kazakhstan was signed on 7 October 2010 and it is temporarily applied as of 1 January 2011. This Agreement is intended to enhance and deepen mutual trade and economic cooperation between the parties. Contractual parties agreed their mutual trade in accordance with FTA as well as WTO rules. Rules on Preferential Origin provide the possibility of origin cumulation for goods originated in members of Customs Union of Russian Federation, Belarus and Kazakhstan.

FTA with Turkey was signed in 2009 and entered into force on 1 September 2010. This FTA is modelled in accordance with the Pan-European Rules of Preferential Origin and envisages annulment or gradual reduction of customs duty rates for industrial products as well as preferential customs duties within agreed quotas for importation of certain agricultural products.

Finally, FTA with EFTA countries was signed in 2009, and entered into force 1 October 2010 for Serbia, Lichtenstein and Switzerland, 1 June 2011 for Norway and 1 October 2011 for Iceland. The rules of origin defined in EFTA are based on the Pan-European preferential rules of origin. By signing EFTA, Serbia also concluded a set of bilateral agreements on trade with agricultural products with each individual EFTA member state, which actually represent constituent part of the Agreement.

## Excise tax

The Serbian Customs authorities are also in charge of assessing the excise duties payable for the importation of excisable goods – oil derivatives, tobacco products, alcoholic beverages and coffee (green, roasted and ground coffee and coffee extracts). Excise duty in Serbia is specific (for oil derivatives, alcoholic beverages, cigars and cigarillos), ad valorem (for coffee and pipe tobacco), and combined (for cigarettes - specific + ad valorem on retail price).

## Import VAT

VAT is payable on all imports, assessed together with customs duty. For most types of goods, the general VAT rate of 20% applies, calculated on the customs value and inclusive of customs and excise duty (if any). For the importation of certain goods (e.g. fruit and vegetables, meat, cereals, pharmaceuticals) the reduced VAT rate of 8% is applicable.

## Customs processing fees

There are a small number of specific types of administrative fees relating to Customs

processing, charged when customs declarations or requests for certain customs procedures are submitted. However, these fees are relatively low.

## Payment of customs duties

Import duties are payable after customs declaration is accepted and customs bill with calculated amount of duties is issued by the relevant customs office. The assessed duty amount should be paid within eight days on the special budget account for import duty payments. Import goods can be released after payment is being evidenced in the Customs IT system, or appropriate instrument for securing payment of duty amount is submitted (bank guarantee or cash deposit).

## 5.4 Temporary importation relief

Temporary importation, with total or partial relief from import duties, is possible for foreign goods intended for re-export without having undergone any change except normal depreciation due to the use made of them.

The amount of import duties payable in respect of goods placed under the temporary importation procedure with partial relief from import duties is set at 3%, on a monthly basis, of the amount of duties which would have been payable on the said goods had they been released for free circulation on the date on which they were placed under the temporary importation procedure, in other words, the import duties will be due for approximately 34 months.

The amount of import duties to be charged should not exceed that which would have been charged if the goods concerned had been released for free circulation on the date on which they were placed under the temporary importation procedure, leaving out of account any interest which may be applicable.

Prior to allowing temporary importation, the Customs authorities shall determine the period within which import goods must have been re-exported or assigned a new customs approved treatment or use.

Such period must be long enough for the objective of authorised use to be achieved, but not longer than 24 months.

One of the most important requirements when declaring goods for temporary importation is to present legal basis for receiving goods that are to be temporarily imported. Usually this is in the form of the rental agreement.

Additionally, when placing goods under temporary importation, it is highly recommended to present customs authorities with an invoice for customs purposes only, showing the value of rented goods, in order to make the procedure as efficient as possible. In this way they will be able to easily assess partial 3% import duties. However, if it is impossible to assess customs value in this way, the Customs authorities shall apply the customs valuation rules 2–5, and if that too is impossible, they shall determine the customs value as the rent for the agreed period of lease.

## 5.5 Customs duties incentives

In addition to previously prescribed incentives for investments (contribution in kind) in the capital of Serbian companies, the new Serbian customs regulations also incentivise import of new equipment and local production intended for export.

### Contributions to capital

Importation of equipment which represents contribution in kind of foreign investors to the share capital of Serbian companies is exempted from customs duties, with the exception of passenger cars and gambling and amusement machines. This equipment may not be sold, given for use, or used for purposes other than exemption from

customs duties within three years of the date of importation unless customs duties are paid. Additionally, this equipment may not be pledged.

In case of duty free import of equipment contributed by a foreign investor, VAT will nevertheless be due, but generally recoverable.

### Import of new equipment

The Customs Law envisages exemption of customs duties for import of new equipment intended for improvement and modernization of production process or for introduction of new technology, provided this type of equipment is not produced in Serbia.

This exemption is not applicable for import of passenger motor vehicles and apparatus for conducting games of chance. The procedure for application of this incentive is relatively simple: besides written statement that the equipment in question is intended for improvement and modernization of production or for introduction of new technology, the importer has to submit excerpt on company's registration and confirmation from the Serbian Chamber of Commerce that the type of equipment for which exemption is requested is not being produced in Serbia.

### Toll manufacturing

The Internal Processing Relief (IPR) procedure is a special customs regime enabling foreign goods designated for re-export to enter Serbia for processing purposes, either free of import duties (suspension system) or with a possibility of remission of the paid import duties (drawback system).

Processing of goods under IPR is possible within toll or contract manufacturing scheme. Within toll manufacturing scheme, the title over goods does not pass to the processing entity, whereas within the contract manufacturing scheme goods are sold to the processing entity.

Further sale of compensating products (either back to the seller or to the third party) should be agreed in advance i.e. before the approval for IPR is required.

IPR is limited in time, i.e. the approval for certain quantity of goods can be granted for the period up to 12 months. Usually, the approval for IPR can be obtained very quickly.

If import goods or compensating products are released for free circulation in Serbia, the holder of the approval would be liable to pay, apart from the customs debt, the annual compound interest of 23.5% on the customs debt payable on import goods.

Compensating products obtained within IPR could qualify for preferential Serbian origin.

Entrance of import goods, either within toll or contract manufacturing scheme, declared for IPR in the suspension system is not subject to Serbian VAT, i.e. VAT is not due. Furthermore, re-export of goods is exempt from Serbian VAT with the right to credit input VAT.

Processing fee charged for the processing service within toll manufacturing scheme is VAT exempt with the right to credit input VAT provided the compensating products are re-exported from Serbia.

## 5.6 Documentation and procedures

There is no prescribed list of mandatory documents that has to be filed with the customs declaration and declaration of customs value. There is only a general provision saying that Customs authorities could ask from importer/exporter any documents they consider necessary to confirm information stated in the customs declaration. Customs are also allowed to take samples of goods on import/export.

In practice, invoice is one of the main documents within the customs procedure. Therefore, it is advisable to present proper

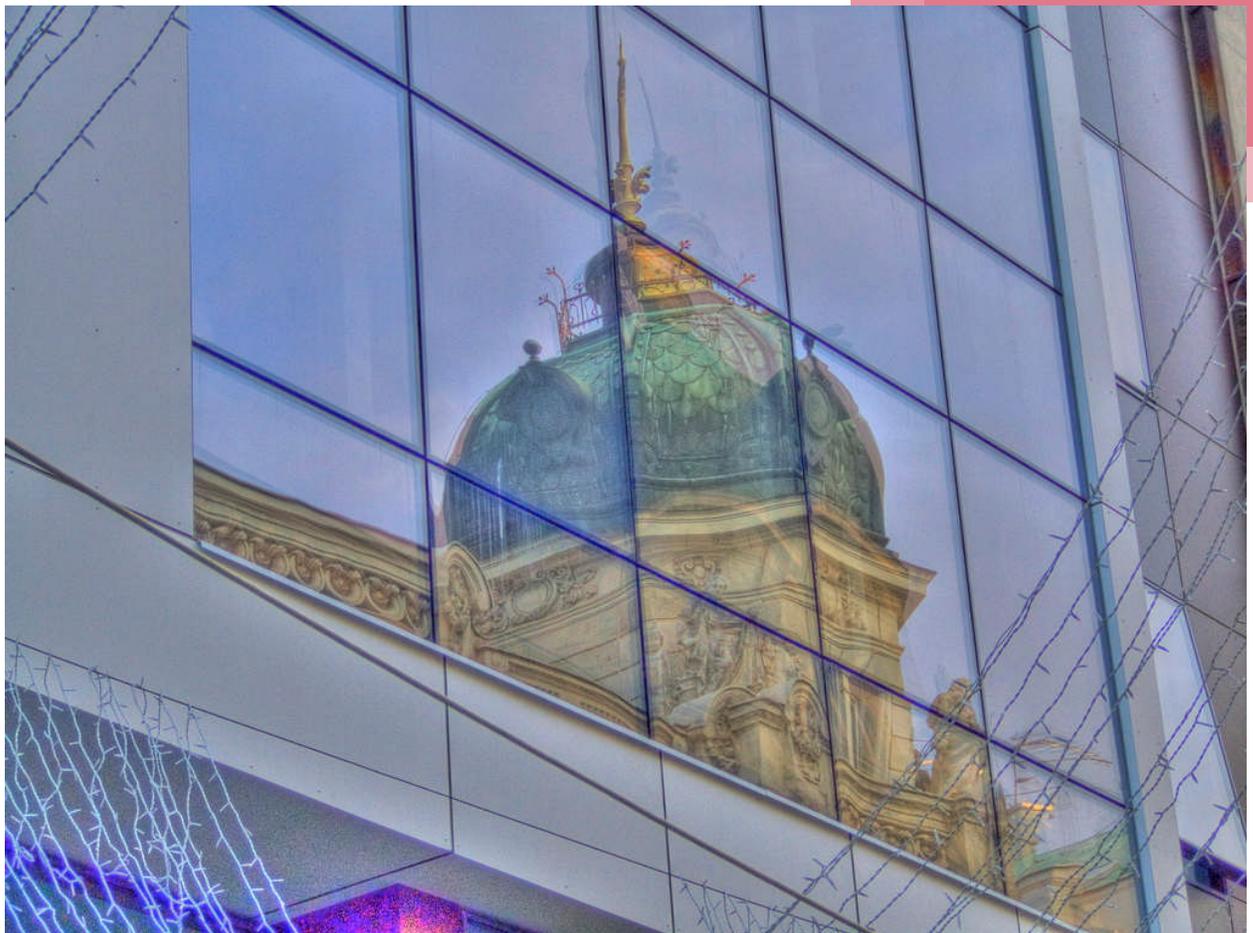
invoice to Customs office containing all relevant elements (buyer, seller, description of goods, value, terms for payment and delivery). It is also quite common and usually required to enclose transport documentation, i.e. CMR. The Customs authorities may often require declarants to provide them with a contract which would represent legal basis for certain transaction.

Serbian regulations do not require importers and exporters to be registered for customs purposes within the special register.

## 5.8 Re-exports

Import goods which have not been released for free circulation but have been placed under one of the customs procedures having a suspensive effect (customs warehousing, temporary importation with total relief from import duties, inward processing relief with suspension system, processing under customs control) may be re-exported from Serbian customs territory without payment of import duties.

# 6. Business Entities



## 6.1 Legal Framework

### Company law

The legal status of business entities in Serbia is regulated by the Law on Companies (the Company Law). The law sets out detail provisions on legal forms of business entities, its corporate governance structure, minimum capital requirements, status changes (mergers, spin-offs), management, liquidation of companies.

### 6.2 Choice of entity

Foreign investors may establish a company in the form of:

- Associations of capital: Joint-Stock Company (a.d), Limited Liability Company (d.o.o.)
- Partnerships: General Partnerships (o.d.), Limited Partnerships (k.d.)

In addition to the above, a foreign company may set up a branch or representative office of a foreign company.

In practice, foreign investors usually prefer to incorporate a limited liability company due to its simple form and easy incorporation requirements. Its advantages include the following:

- Capital increase may be made without supervision of the regulators
- Minimum share capital is less than EUR 1, (opposed to approx. EUR 27,000)

### 6.3 Joint Stock Company (a.d.)

A joint-stock company is a company the share capital of which is divided into shares held by one or more shareholders who are not liable for the company's obligations. A joint stock company can be founded by one or more natural persons and/or legal entities in the capacity of shareholders.

The initial share capital is divided into shares of specific value. The minimum initial capital of a joint stock company is approx. EUR 27,000 (RSD 3,000,000). The minimum par value of a share cannot be lower than RSD 100.

Before the registration of a company, its founding shareholders must pay in or make contributions representing minimum 25% of share capital, it being understood that the paid-in amount of money contributed to share capital cannot be lower than the minimum share capital prescribed by the Company Law.

Contributions of founders may be in money or in kind and are expressed in RSD. In kind contributions can be in the form of assets and rights.

Management of the company may be organised as a single-tier management system or as a two-tier management system. In case of a single-tier management system, company bodies shall include: (i) General Meeting; and (ii) one or more directors (in case there is more than two directors they form the Board of Directors). In case of a two-tier management system, company bodies shall include: (i) General Meeting; (ii) Supervisory Board, and (iii) one or more executive directors, (in case of more than two executive directors they form the Executive Board).

### 6.4 Limited Liability Company (d.o.o.)

A limited liability company is a company in which one or more company members hold equity interests in the company's share capital. The liability of members is up to the value of their investment.

Minimum initial capital of a limited liability company is RSD 100 (less than EUR 1). Contributions of founders may be in money or in kind and are expressed in RSD. In kind contributions can be in the form of assets and rights.

Management of the company may be organised as a single-tier management system or as a two-tier management system. In case of a single-tier management system, company bodies shall include: (i) General Meeting; and (ii) one or more directors. In case of a two-tier management system, company bodies shall include: (i) General Meeting; (ii) Supervisory Board, and (iii) one or more executive directors.

In a sole-member company, the function of the General Meeting is exercised by the sole shareholder. The Articles of Association shall specify whether a company's management is organised according to a single-tier management system or a two-tier management system.

In a sole-member company, the function of the General Meeting is exercised by the sole shareholder. The Memorandum of Association should specify whether a company's management is organised according to a single-tier management system or a two-tier management system.

## 6.5 Partnerships and Joint Ventures

### General Partnership (o.d.)

General partnership may have two or more partners – legal entities or natural persons. There are no requirements for minimum/maximum contribution. Contribution can be made in money, assets and rights, as well as in labour or services.

All partners bear unlimited liability for partnership debts and obligations.

### Limited Partnership (k.d.)

A Limited Partnership may be founded by two or more legal entities and/or natural persons, out of which at least one (the general partner) bears unlimited liability for the obligations of the partnership, and at least one (the limited partner) bears liability

for the obligations of the partnership limited to the value of his/her equity.

There are no requirements for minimum/maximum contribution. Contributions of a limited partner may be made in money, assets or rights, as well as in labour or services

### Joint ventures, strategic partnerships

Generally, Serbian legal system recognizes no major restrictions as to the rights of foreign investors to form/enter into joint ventures or strategic partnerships. Namely, a foreign investor may freely establish a company together with a local entity or invest in a local company, without any limitations. The choice depends on the terms established by the contractual parties. The amount of investment and the percentage of share ownership should be set out in a Memorandum of Association.

However, there are certain restrictions depending on the industry in which an investor wishes to invest. For instance, a foreign investor, alone or together with another foreign investor, may not establish a company for the manufacture and trade of weapons in Serbia or in an area specified as a restricted zone under the law. However, a foreign investor may establish company together with a local legal entity or invest into a company in mentioned sector as long as it does not acquire a majority share / management of such company. Also, in such case a foreign investor must obtain approval from a competent state authority. Apart from this there are no restrictions on joint ventures and strategic partnerships.

Generally, local partners will seek a partner who can:

- Preserve or extend their market position
- Provide financing (e.g. resolve liquidity and local financing problems)
- Leverage international brand power
- Provide know-how

## 6.6 Branches

A branch is considered to be a separate organisational unit of a foreign company through which that company carries on a business activity in Serbia. Therefore a branch does not have an independent legal capacity, and acts on behalf and for the account of the founder company in all transactions. A founder company bears unlimited joint and several liability for obligations towards third parties that arise in the operations of its branch.

Branch is incorporated upon the decision of the founder company, and must be registered in the public companies' register.

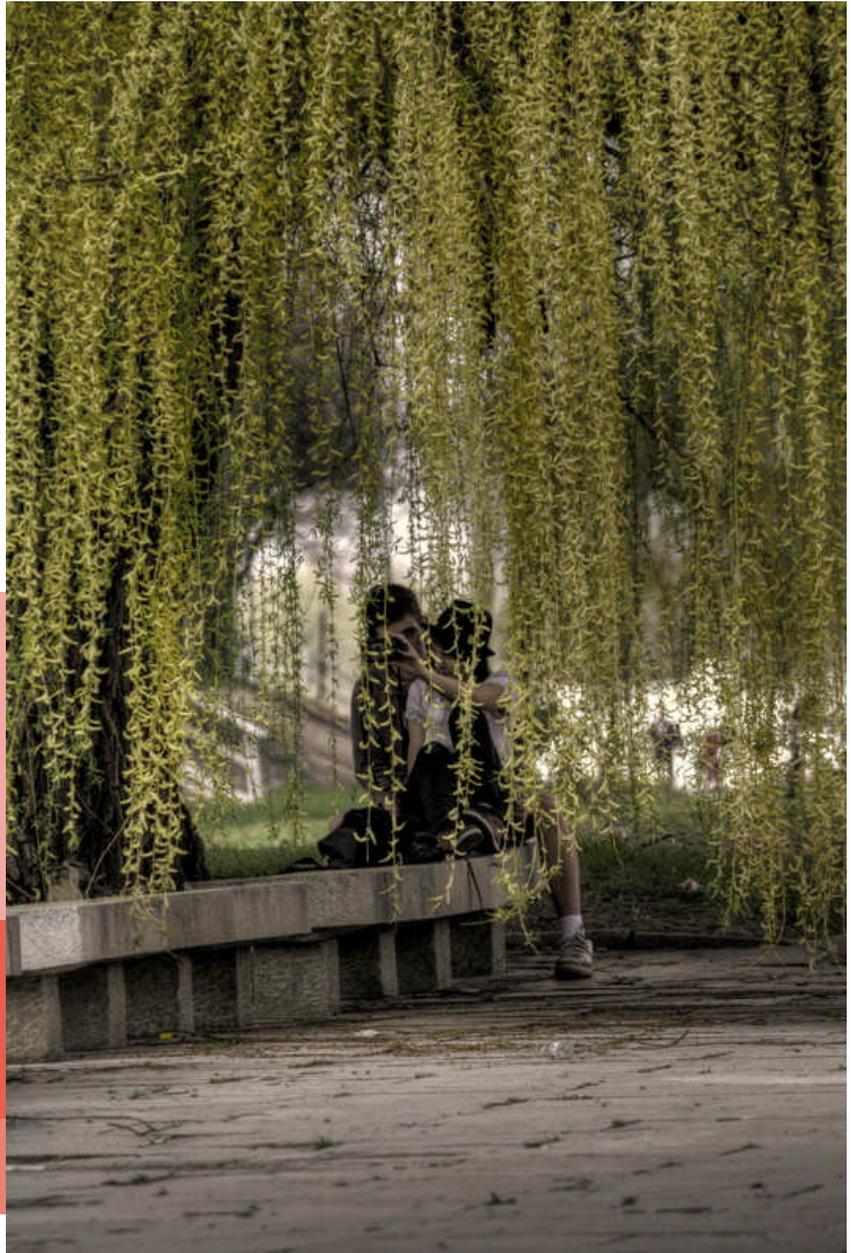
## 6.7 Representative Office

A foreign entity may establish a representative office in Serbia. A representative office of a foreign company is a separate organisational unit of a foreign company that may carry out preliminary and preparatory work leading to the conclusion of a transaction by that company. Since it is considered as a separate organisational unit of a foreign company it does not have an independent legal capacity. A representative office may only enter into transactions relating to its current operations. Foreign company is liable for any obligations towards third parties that may arise in the operations of its representative office.

Similar to branch, a representative office has to be duly register with the public companies' register

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# 7. Labour Relations and Social Security



## 7.1 Labour Market

The Serbian labour force is skilled and well trained, particularly those under 45 years of age. It is also still relatively inexpensive, although this is likely to change as salary expectations rise, especially with employers who are foreign investors.

According to the last available data published by the Republic Statistics Office, the officially registered unemployment rate in July 2012 was 25.5 percent. Accurate statistics on unemployment are difficult to obtain, as a significant proportion of the population works in the grey economy.

## 7.2 Labour Relations

### Employer/employee relations

The employment is established by concluding an employment contract. General work ability assumes that an employee is over 15 years of age. Special requirements may be determined at the discretion of the employer, depending on the type of job.

### Unions

Representative labour unions (organised on different levels: state, territorial unit, branch, and the employer) have the capacity to bargain and conclude collective agreements on respective levels. Union activity including the criteria for representativeness of unions is regulated by the Labour Law.

### Labour Code

The Serbian Labour Law (the Labour Law), enacted in 2005 and amended in 2009, regulates rights, obligations and liabilities of employers and employees. The Labour Law applies on all employment relations, except those in state institutions where there is a specific regime established by the Law on State Officials.

The Labour Law complies with EU standards and recommendations of the International Employment Organisation.

The Labour Law does not regulate many issues in detail, but leaves them to be regulated by collective agreements (CAs) or an internal act of the employer, that must be in compliance with the Law. CAs are concluded as a result of bargaining between the labour union and employer/union of employers, and can be concluded at different levels (within a company/employer, for a particular sector of economy, for a unit of local government or territorial autonomy, or for the territory of the Republic of Serbia.

The General Collective Agreement signed in 2008, ceases as of 17 May 2011, upon expiration of the 3 year period. Currently, there is no valid General Collective Agreement in place.

## 7.3. Working Conditions

### Salaries and Wages

Salaries are normally paid at least once a month. The minimum salary is determined by the Social Economic Committee following the criteria prescribed by the Labour Law. Minimum net salary for the period April 2012 –April 2013 amounts to RSD 115 net per working hour (approx. 1 EUR net per working hour).

The base salary has to be defined in the employment contract. An employee is entitled to increased salary on the basis of overtime, work at night, work during holidays and work in shifts and to an increase of 0.4 percent for each year of employment.

### Employment contracts

Employment contracts set the rights and obligations of the employee and must be concluded in writing, before commencement of work. The required minimum of contents of an employment contract is prescribed by the Labour Law.

An employment contract may be concluded either for indefinite period of time, or for definite period of time (up to 12 months, and only in the cases prescribed by the Labour Law).

## Working hours

Full time employment may range between 36 and 40 hours a week, subject to the decision of the employer. Overtime cannot exceed four hours a day and eight hours a week.

## Paid holidays

The minimum annual vacation is 20 days. Employees are entitled to annual leave after six months of continuous employment. The grounds and duration of the paid leave in other cases is specified in the Labour Law.

## Equal opportunities

Employees are to be paid the same for equivalent work, or for the same value of work, with the same employer. The Labour Law prohibits discrimination on any grounds towards employees as well as candidates for employment.

## Obligatory employing of disabled persons

As per the legislation in force as of May 2010, employers having 20 or more employees are obliged to employ a certain number of disabled persons, depending on the total number of employees. An employer may be exempt from this obligation by executing payments towards funds for professional rehabilitation and employment of persons with disabilities, or payments based on contract concluded in the procurement procedure, all under the conditions and in the minimum amounts defined by legislation.

## Termination of employment

Employment may be terminated unilaterally by either employer or employee, or by

mutual agreement of employer and employee. An employer may terminate employment with an employee in case there are justified reasons related to employee's working ability, behaviour or the employer's needs, i.e. in the following cases:

- Underperformance or lack of required knowledge and skills
- Violation of working duties
- Violation of working discipline
- An employee committing a crime at or in connection with the work
- Failure of an employee to return to work within 15 days from expiry of paid leave or dormancy of employment
- Misuse of sick leave by the employee
- Refusal of an employee to sign the annex to the employment agreement offered in accordance with the Labour Law, i.e. on specific legal grounds
- Cessation of the need for performance of a job or decrease of the volume of work due to technological, economic or organisational changes at the employer. The employer is obliged to pay redundancy compensation to the employee. Furthermore, if employment is terminated on these grounds, the employer is prohibited to employ another person at the same position in the period of six months following termination. If the demand for work on the same position arises before expiry of the six month period, preference shall be given to the employee whose employment on the same position was terminated. Adoption of a Redundancy Programme is the obligation of the employers if a certain number of employees, depending on the total number of employees, are to be declared redundant.

## 7.4. Social security system

### Compulsory social security insurance

Compulsory social insurance in Serbia covers pension and disability insurance, health insurance, and insurance for case of unemployment. Social security contributions are levied on both the employer and employee.

## 7.5. Foreign personnel

### Restrictions on employment

There are no general restrictions as to the number of foreign employees or duration of their employment in Serbia. There is no nationality that will encounter unusual difficulties entering the country for business purposes, nor will any enjoy favourable treatment.

### ID number for foreigners and Tax Identification Number

Upon the issue of residence permit, an evidence ID number is given to the foreigner, which is further used for obtaining Tax Identification Number for natural persons.

### Residence permit

The Law on Foreigners that is effective as of 1 April 2009 regulates inter alia visa regime and residence of foreigners.

Temporary residence enables a person to stay in Serbia for more than 90 days, up to one year, with the possibility of extension. If a foreigner holds a temporary residence visa (type D visa), there is no additional need to obtain residence permit upon arrival in Serbia. However, foreigners not holding such visa, who intend to stay in Serbia for

more than 90 days, must apply for a residence permit with the Police Office for Expatriates.

The conditions for issuing visas for temporary residence and temporary residence permits are the same. Grounds for temporary residence are: work, employment, execution of commercial or professional activity, education and training purposes, family reunion, and other justified reasons. In order to be issued a temporary residence certificate, a foreigner must demonstrate proof of health insurance, sufficient means for support, and grounds for temporary residence.

Extension of residence permit may be submitted 30 days before expiry of such permit at the latest.

A foreigner is required to register with the Police Station in the place where he/she intends to reside for more than 24 hours, within 24 hours of coming to that place. When staying in a hotel, or staying with someone, the hotel/host shall register the foreigner within 24 hours.

### Work permit

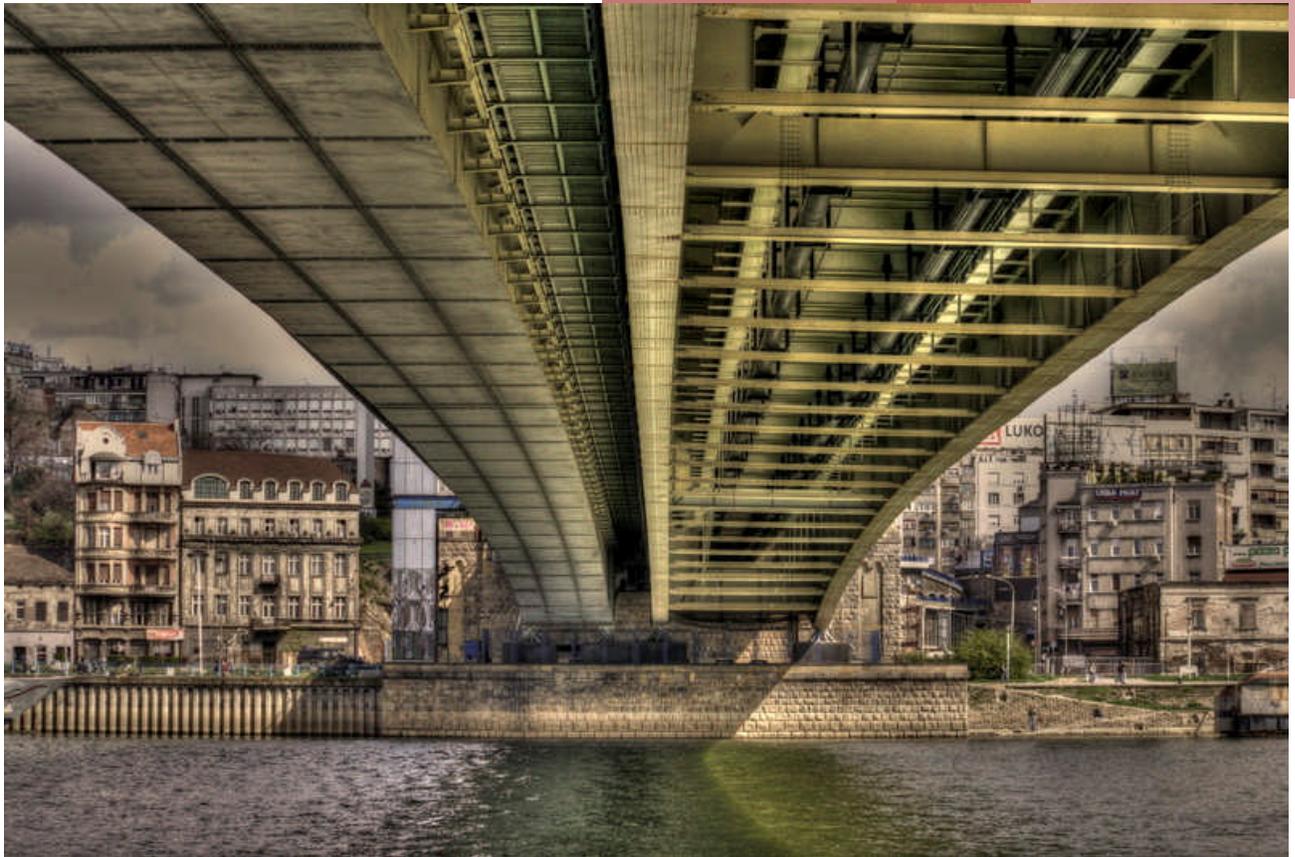
The general preconditions for foreigners getting employed in Serbia are:

- temporary residence permit/permanent residence permit; and
- work permit.

However, the work permit is not required for holders of temporary/permanent residence permit, entering into employment in Serbia for the purpose of executing work determined in a business cooperation agreement, long-term production cooperation, technology transfer, and foreign investment.

Work permit is issued by the Agency for Employment. For holders of temporary residence permit, request for work permit is submitted by the employer.

# 8. Accounting and Audit Requirements



## 8.1 Accounting

### Introduction of IFRS

In 2006, the Serbian Government adopted the Law on Accounting and Auditing (amended in 2009) by which legal entities are to apply the International Financial Reporting Standards (IFRS) in preparing their financial statements. The application of these standards and accounting framework are prescribed by Decrees of the Minister of Finance for companies, entrepreneurs, and broker-dealers, and the Governor of the National Bank of Serbia for banks. The Decrees and the Law differ in some aspects from IFRS, resulting in some deviations of local accounting standards actually applied from IFRS as explained in section entitled Significant accounting differences between Serbian standards and IFRS below.

This Law is applicable to: all legal entities, entrepreneurs who keep accounting records, subsidiaries of Serbian companies abroad if the host country does not require them to keep accounting records, branches and representative offices of foreign legal entities in Serbia (unless stipulated otherwise in other regulation), banks, pension funds, asset management companies for pension funds, investment fund, management companies for investment funds and leasing companies.

### Preparing financial statements

For the purpose of determining the legal requirements in terms of accounting and auditing, all entities are classified as Small, Medium and Large as follows:

| <b>Company Size</b> | <b>Criteria for Classification as per current Law on Accounting</b>   |
|---------------------|---|
| Small               | If the value of at least two criteria is lower than those for medium-sized entities, the entity is classified as Small.   |
| Medium              | 1) Average number of employees: 50 - 250;<br>2) Annual total income: EUR 2.5 – 10 million in RSD equivalent;<br>3) Average assets value: EUR 1 – 5 million in RSD equivalent.   |
| Large               | If the value of at least two criteria is higher than those for medium-sized entities, an entity is classified as Large. Banks, insurance companies, stock exchanges and stock brokers are considered as large legal entities. |

An entity determines its size in accordance with the above criteria at the date of preparing financial statements and uses it in the following accounting period. Newly established entities are classified based on the information from the current accounting period and the number of months of operation and the classification is used for the current and the following accounting period. Entities are obliged to submit the information on their classification together with the financial statements for the previous accounting period to the Business register (“Agencija za privredne register”) for the companies and to National Bank of Serbia for financial institutions.

Small legal entities may, and Medium and Large legal entities are obliged to prepare financial statements in accordance with Law on Accounting and Auditing as explained in the first paragraph. The Minister of Finance prescribes recognition, measurement and valuation rules for Small legal entities. Annual financial statements must be submitted to the National Bank of Serbia by 28 February and consolidated financial statements by 30 April. Approved consolidated and stand-alone financial statements together with the auditor’s opinion must be submitted by 30 September (All companies which are required to have an audit must publish their financial statements together with the auditor’s opinion by 30 September.

## Statutory requirements

Entities are obliged to perform inventory of assets and liabilities at the end of each financial year and to send a list of open invoices to its customers and reconcile balances with them. Any unreconciled balances should be disclosed in the notes to financial statements. The financial year for all entities ends December 31. Serbian subsidiaries of foreign entities with a different financial year end may, with the permission of the Minister of Finance or the Governor of the National Bank of Serbia (for financial institutions), have a financial year end the same as to the year-end of the parent company.

Financial statements consist of:

- Balance sheet
- Income statement
- Cash flow statement
- Statement of changes in equity
- Notes to financial statements, and
- Statistical annex

Entities are obliged to file the prescribed forms for balance sheet, income statement, statement of changes in equity and statistical annex. The classification and presentation of certain balance sheet and income statement items as required by these forms is not in accordance with IFRS. Cash flow statement form is based on the direct method. Statistical annex contains some general entity information (number of months of operation, size, foreign shareholders, the average number of employees) and an analysis of a number of balance sheet and income statement positions. There are no restrictions on the structure and content of the notes to financial statements.

Entities with one or more subsidiaries are also obliged to prepare consolidated financial statements unless their consolidated assets and revenues (excluding intercompany transactions and balances) show that the consolidated entity would be classified as Small.

Small companies submit only balance sheet, income statements and statistical annex.

## Significant accounting differences between Serbian standards and IFRS

Although the Law on Accounting and Auditing requires full scope IFRS to be applied, due to additional regulation issued by the Ministry of Finance the following Serbian accounting procedures differ from IFRS:

- The prescribed format of financial statements does not comply with the requirements of IAS 1 – Presentation of Financial Statements.
- Off-balance sheet assets and liabilities are recorded on the face of the balance sheet. According to accounting framework, off-balance sheet assets should include: leased assets, consignment stock, other third party's inventory held at the company's premises and guarantees. Counter entries of these items are off-balance sheet liabilities.
- Where total shareholders' equity is less than zero, an asset is recorded in the balance sheet under the caption "Loss exceeding equity", so that the total shareholders' equity equals zero.
- Exchange rate gains or losses on unpaid subscribed capital are credited /debited to equity in the balance sheet. Entities are obliged to prepare financial statements using Serbian Dinar (RSD) as a functional currency even where IAS 21 –The Effects of Changes in Foreign Exchange Rates would require them to use different functional currency.
- Consolidated financial statements for the current year are required to be filed by the end of April the following year, while stand-alone financial statements are required to be filed by the of February the following year.
- In 2009, the Ministry of Finance issued a rule by which in preparing 2008 financial statements entities were allowed to defer foreign exchange differences in the balance sheet. The rule was also applicable for 2009, 2010 and 2012 as well. The rule is optional and if applied,

net foreign exchange differences are recorded within accruals and prepayments in the balance sheet and released to the income statement when related asset or liability is realised. If an entity decides to apply this rule, that fact should be disclosed in the notes to financial statements.

## Profile of accounting profession

The Chamber of Certified Accountants issues certificates to Certified Accountants. In order to obtain the certificate, a person must have a university degree, three years of external or internal audit experience or five years of accounting experience, and must take the certification exam. The Chamber of Certified Accountants publishes the list of members on their website.

## 8.2 Chart of accounts

Chart of accounts for companies is prescribed by the Ministry of Finance, and chart of accounts for banks and other financial institutions is prescribed by the National Bank of Serbia. Separate charts of accounts are issued for:

- Companies
- Banks
- Stock exchanges and brokerage firms
- Voluntary pension funds
- Companies for management of voluntary pension funds
- Insurance companies
- National Bank of Serbia
- State budget
- Investment funds

The current chart of accounts was published in 2006 and updated in 2009. It is used (i) for working out typical accounting entries and (ii) as the basis in the preparation of financial statements. The main categories included in a chart of accounts are presented below.

The main categories of balance sheet accounts:

| <b>Description</b>  | <b>Number</b> |
|---|---------------|
| Subscribed capital unpaid                                     | 00            |
| Intangible assets   | 01            |
| Property, plant and equipment and biological assets           | 02            |
| Long-term financial investments                               | 03            |
| Inventories and advances paid to suppliers                    | 10 -13, 15    |
| Non-current assets held for sale and discontinued operations  | 14            |
| Receivables, prepayments and short-term financial investments | 20 -28        |
| Deferred tax assets   | 288           |
| Off-balance sheet assets                                      | 88            |
| Shareholders' equity  | 30 -35        |
| Long-term liabilities and provisions                          | 40 -41        |
| Short-term liabilities and provisions                         | 42 -49        |
| Deferred tax liability  | 498           |
| Off-balance sheet liabilities                                 | 89            |

The main categories of income statement accounts:

| <b>Description</b>                                       | <b>Number</b> |
|--|---------------|
| Revenues   | 60 -62        |
| Operating expenses                                       | 50 -55        |
| Finance income   | 66            |
| Finance expenses   | 56            |
| Other income   | 67 -68        |
| Other expenses   | 57 -57        |
| Net profit /loss attributable to discontinued operations | 69 /59        |
| Current corporate profit tax                             | 721           |
| Deferred tax   | 722           |

The prescribed chart of accounts is based on three digit accounts but companies may have more detailed accounts within these categories if they consider it necessary.

## 8.3 Audit requirements

Large and medium-sized entities are obliged to audit their financial statements. Audit reports must be submitted to the BRA by 30 September (31 October for consolidated financial statements). If financial statements filed by the last day of February are adjusted based on auditor's recommendation, companies should submit adjusted financial statements together with the audit report. If no adjustments have been made to the originally filed financial statements, only audit report is submitted.

Audit of financial statements is performed in accordance with the International Standards of Auditing (ISA). Audit must be performed by certified auditors, members of the Chamber of Certified Auditors and employed by an audit company. Audit

companies must have at least three licensed auditors to be allowed to perform an audit of a Large entity or at least one licensed auditor for an audit of a Medium-sized entity. Audit may be performed by the same audit company for no more than five consecutive years or, exceptionally, if licensed auditor is rotated after that period, for another five years. Audit companies are obliged to submit to the Ministry of Finance a list of concluded audit contracts by the end of the current financial year.

### Draft Law on Accounting and Draft Law on Auditing

Ministry of Finance has published Draft Law on Accounting and Draft Law on Auditing in November 2011, which will introduce changes in classification of entities and deadlines for submitting audited financial statements. It is expected that these draft laws will be submitted to the Parliament in the course of 2013.

| Company Size  | Criteria for Classification as per draft on changes of Law on Accounting  |
|---------------|---|
| <b>Small</b>  | <ol style="list-style-type: none"> <li>1. Average number of employees 50;</li> <li>2. Average annual gross revenues EUR 8.8 million in RSD equivalent</li> <li>3. Average assets value EUR 4.4 mil in RSD equivalent.</li> </ol>  |
| <b>Medium</b> | <p>If the value of at least two criteria is higher than those for small-sized entities, the entity is classified as Medium but not exceeding following criteria:</p> <ol style="list-style-type: none"> <li>1. Average number of employees not higher than 250;</li> <li>2. Average annual gross revenues not higher than EUR 35 million in RSD equivalent;</li> <li>3. Average assets value not higher than EUR 17.5 mil in RSD equivalent.</li> </ol> |
| <b>Large</b>  | <p>If the value of at least two criteria is higher than those for medium-sized entities, an entity is classified as Large. Banks, insurance companies, stock exchanges and stock brokers are considered as large legal entities.</p>  |

As per Draft Law on Accounting, companies are obliged to submit the information on their classification together with the financial statements for the previous accounting period to the Business Registration Agency. With Draft Law on Accounting only financial intuitions will be

submitting information on classification to National Bank of Serbia.

Small and medium entities may decide to apply IFRS for small and medium entities. IFRS for small and medium entities is approved by International Accounting Standards Board. Instruction for first application of IFRS for small and medium entities can be prescribed by Ministry of finance.

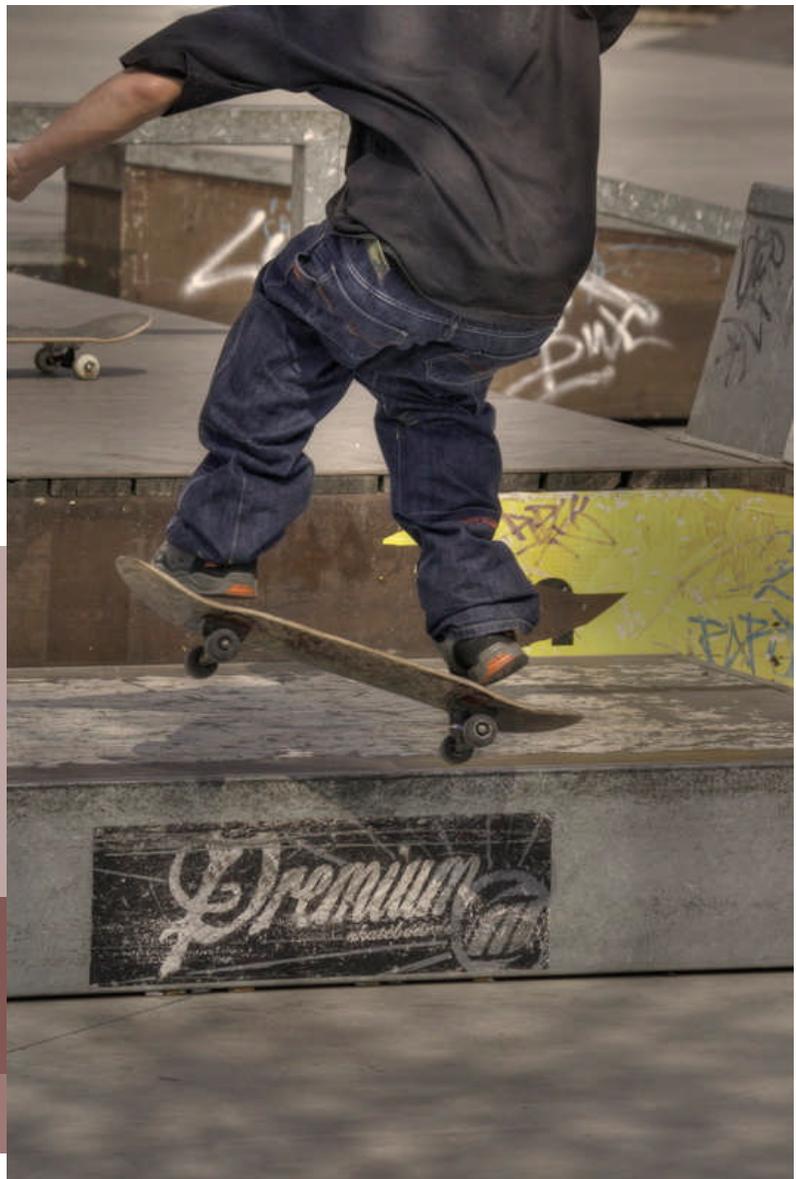
Statutory deliverables as per Draft Law on accounting have been amended for small and medium entities, and consist of:

- Balance sheet
- Income statement
- Notes to financial statements

Approved financial statements together with the auditor's opinion must be submitted by 30 June (31 July for consolidated financial statements). All companies which are required to have an audit must publish their financial statements together with the auditor's opinion by 30 June. Companies which have different reporting period than calendar year need to submit audited financial statements not later than 6 months after financial period ends.

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# 9. Tax System and Administration



## 9.1 Tax system

Serbia's tax environment is competitive compared to other Central and Eastern European countries.

Investors seeking room to reduce their overhead costs can take advantage of the numerous benefits, the following being the major ones:

- Favourable corporate income tax regime:
  - 15% tax rate
  - 10 year tax holiday for qualifying investments
  - Tax credits for investing in fixed assets of up to 40% of the invested amount
- VAT and personal income tax among the lowest in Central and Eastern Europe
- State subsidies for new employment.

### Administration of the tax system

In principle, taxes are administered by the central government, with a few exceptions such as property taxes.

### Registration requirements

A legal entity applies for a Tax Identification Number (PIB) at the moment of registration with the Business Registers Agency. The application is forwarded by the Agency to the Tax Administration who is also in charge of issuing a PIB to natural persons.

## 9.2 Direct and indirect tax burden

According to the information presented by the official Government statistics, the largest percentage of public revenues is collected from VAT and social security contributions, followed by excise duties and personal income tax.

## 9.3 Principal taxes

Below is a brief overview of major tax rates in Serbia.

| <b>Tax</b>                                   | <b>Tax Rate</b>  |
|--|--|
| Value Added Tax                              | Standard rate – 20%<br>Lower rate – 8% and 0%  |
| Corporate Income Tax                         | Uniform rate – 15%   |
| Withholding Tax on Payments to Non-residents | 20% (for dividends, shares in profits, royalties, interest income, lease payments for real estate and other assets, income from entertainment, sporting, artistic and similar performances that was not subject to personal income tax)<br>25% (for payments to non-residents from preferential jurisdictions (i.e. tax heavens) in respect of royalties, interest income, lease payments for real estate and other assets and service fees) |
| Tax on Capital Gains of Non-residents        | 20% (tax return is submitted by the non-resident taxpayer or its Serbian tax representative; tax is assessed by the Tax Authorities' decision)   |
| Personal Income Tax                          | Salaries – 12%<br>Other income – 20%   |
| Annual Income Tax                            | 10% to 15% (for annual income above three average annual salaries)   |
| Property Tax                                 | Individuals – Progressive rates ranging from 0.4% to 2%<br>Companies – Flat rate up to 0.4%, depending on municipality   |
| Social Security Contributions                | Individuals – 17.9%<br>Employers – 17.9%<br>Maximum social security contributions base is capped to five average salaries in Serbia.   |

## 9.4 Legislative framework

Serbian legislation is based on continental law; therefore, basic legal framework for taxation in Serbia encompasses the following acts:

- Personal Income Tax Law (enacted in 2001, amended in 2002, 2004, 2006, 2009, 2010, 2011, 2012)
- Corporate Income Tax Law (enacted in 2001, amended in 2002, 2003, 2004, 2010, 2011, 2012)
- Value Added Tax Law (enacted in 2005, amended in 2005, 2007, 2012)
- Law on Tax Procedure and Tax Administration (enacted in 2003, amended in 2003, 2004, 2005, 2006, 2007, 2009, 2010, 2011, 2012)
- Property Tax Law (enacted in 2001, amended in 2002, 2004, 2007, 2009, 2010, 2011, 2012)
- Excise Duty Law (enacted in 2001, amended in 2001, 2002, 2003, 2004, 2005, and 2007, 2009, 2010, 2011, 2012)
- Customs Law (enacted 2004, amended in 2005, 2006, 2007, 2010, 2012)

- Local Self-Government Financing Law (enacted in 2006, 2011, 2012)
- Law on Taxation of Non-Life Insurance Premiums (enacted in 2004)

In addition to acts and accompanying by-laws, legal framework includes opinions of the Ministry of Finance which are not legally binding, but they can help in clarification of tax regulations.

Laws are enacted by the Parliament, and are applied prospectively. In principle, retroactive application of law is not permitted by the Constitution. However, a few amendments to the tax legislation were enacted retrospectively during the past few years.

## 9.5 Tax treaties

Serbia imposes 20% withholding tax on the following income of non-residents: dividends, interest, royalties, leasing fees, income from entertainment, sporting, artistic and similar performances that was not subject to personal income tax. Specific 25% withholding tax rate applies for payments made to residents of jurisdictions with preferential tax system (i.e. tax heavens) in respect of royalties, interest income, leasing/rental fees and service fees. Capital gains of non-residents realized on sale of immovable property, shares and industrial property in Serbia are subject to 20% tax.

Serbia continues to honour the double taxation treaties concluded by the former Yugoslavia (The Socialist Federal Republic of Yugoslavia, Federal Republic of Yugoslavia and the State Union of Serbia and Montenegro). Besides Serbia has concluded a number of double taxation treaties after becoming an independent state. The chart below shows the tax rates on dividends, interest and royalties according to these treaties:

| Country    | Dividends <sup>1</sup> | Interest <sup>2</sup> | Royalties <sup>3</sup> | Applicable from |
|------------|------------------------|-----------------------|------------------------|-----------------|
| Albania    | 15/5                   | 10                    | 10                     | 2006            |
| Austria    | 15/5                   | 10/0                  | 10/5                   | 2011            |
| Azerbaijan | 10                     | 10/0                  | 10                     | 2011            |
| Belgium    | 15/10                  | 15                    | 10                     | 1982            |
| Belarus    | 15/5                   | 8                     | 10                     | 1999            |

<sup>1</sup> If the recipient company owns/controls at least 25 percent of the equity of the paying company, the lower of the two rates applies.

<sup>2</sup> In case of rate "10/0", a zero percent rate is applicable in cases when the income recipient is the Government or government owned banks.

<sup>3</sup> In case of rate "10/5", a tax rate of five percent will be applicable to literary, artistic and scientific works, including films and works created like films or other sources of sound and picture reproduction. A tax rate of ten percent will be applicable to: patents, petty patents, brands, models and samples, technical innovations, secret formulas or technical procedure.

| <b>Country</b>         | <b>Dividends<sup>4</sup></b> | <b>Interest<sup>5</sup></b> | <b>Royalties<sup>6</sup></b> | <b>Applicable from</b> |
|------------------------|------------------------------|-----------------------------|------------------------------|------------------------|
| Bosnia and Herzegovina | 10/5                         | 10/0                        | 10                           | 2006                   |
| Bulgaria               | 15/5                         | 10                          | 10                           | 2001                   |
| Canada <sup>7</sup>    | 10/5                         | 10/0                        | 10                           | N/A                    |
| China                  | 5                            | 10/0                        | 10                           | 1998                   |
| Croatia                | 10/5                         | 10                          | 10                           | 2005                   |
| Cyprus                 | 10                           | 10                          | 10                           | 1987                   |
| Czech Republic         | 10                           | 10/0                        | 10/5                         | 2006                   |
| Denmark                | 15/5                         | 10/0                        | 10                           | 2010                   |
| Egypt                  | 15/5                         | 15                          | 15                           | 2007                   |
| Estonia                | 10/5                         | 10/0                        | 10/5                         | 2011                   |
| Finland                | 15/5                         | 0                           | 10                           | 1988                   |
| France                 | 15/5                         | 0                           | 0                            | 1976                   |
| Germany                | 15                           | 0                           | 10                           | 1989                   |
| Ghana <sup>4</sup>     | 15/5                         | 10                          | 10                           | N/A                    |
| Greece                 | 15/5                         | 10                          | 10                           | 2011                   |
| Georgia <sup>5</sup>   | 10/5                         | 10/0                        | 10                           | N/A                    |
| Hungary                | 15/5                         | 10                          | 10                           | 2003                   |
| India                  | 15/5                         | 10/0                        | 10                           | 2009                   |
| Indonesia <sup>4</sup> | 15                           | 10/0                        | 15                           | N/A                    |

<sup>4</sup> If the recipient company owns/controls at least 25 percent of the equity of the paying company, the lower of the two rates applies.

<sup>5</sup> In case of rate "10/0", a zero percent rate is applicable in cases when the income recipient is the Government or government owned banks.

<sup>6</sup> In case of rate "10/5", a tax rate of five percent will be applicable to literary, artistic and scientific works, including films and works created like films or other sources of sound and picture reproduction. A tax rate of ten percent will be applicable to: patents, petty patents, brands, models and samples, technical innovations, secret formulas or technical procedure.

<sup>7</sup> Treaty will come into force once diplomatic notes confirming its ratifications in both countries are exchanged.

| <b>Country</b>         | <b>Dividends<sup>8</sup></b> | <b>Interest<sup>9</sup></b> | <b>Royalties<sup>10</sup></b> | <b>Applicable from</b> |
|------------------------|------------------------------|-----------------------------|-------------------------------|------------------------|
| Iran                   | 10                           | 10                          | 10                            | 2012                   |
| Ireland                | 10/5                         | 10/0                        | 10/5                          | 2011                   |
| Italy                  | 10                           | 10                          | 10                            | 1986                   |
| Kuwait                 | 10/5                         | 10/0                        | 10                            | 2004                   |
| Latvia                 | 10/5                         | 10/0                        | 10/5                          | 2007                   |
| Libya                  | 10/5                         | 10/0                        | 10                            | 2011                   |
| Lithuania              | 10/5                         | 10/0                        | 10                            | 2010                   |
| Macedonia              | 15/5                         | 10                          | 10                            | 1998                   |
| Malaysia               | 0 <sup>6</sup>               | 10                          | 10                            | 1991                   |
| Malta                  | 10/5 <sup>7</sup>            | 10/0                        | 10/5                          | 2011                   |
| Moldova                | 15/5                         | 10                          | 10                            | 2007                   |
| Montenegro             | 10                           | 10/0                        | 10/5                          | 2012                   |
| Netherlands            | 15/5                         | 0                           | 10                            | 1983                   |
| North Korea            | 10                           | 10/0                        | 10                            | 2002                   |
| Norway                 | 15                           | 0                           | 10                            | 1986                   |
| Pakistan               | 10                           | 10/0                        | 10                            | 2011                   |
| Palestine <sup>5</sup> | 10                           | 10/0                        | 10                            | N/A                    |
| Poland                 | 15/5                         | 10                          | 10                            | 1999                   |
| Qatar                  | 10/5                         | 10/0                        | 10                            | 2011                   |
| Romania                | 10                           | 10/0                        | 10                            | 1998                   |
| Russia                 | 15/5                         | 10                          | 10                            | 1998                   |

<sup>8</sup> If the recipient company owns/controls at least 25 percent of the equity of the paying company, the lower of the two rates applies.

<sup>9</sup> In case of rate "10/0", a zero percent rate is applicable in cases when the income recipient is the Government or government owned banks.

<sup>10</sup> In case of rate "10/5", a tax rate of five percent will be applicable to literary, artistic and scientific works, including films and works created like films or other sources of sound and picture reproduction. A tax rate of ten percent will be applicable to: patents, petty patents, brands, models and samples, technical innovations, secret formulas or technical procedure.

| <b>Country</b>         | <b>Dividends<sup>11</sup></b> | <b>Interest<sup>12</sup></b> | <b>Royalties<sup>13</sup></b> | <b>Applicable from</b> |
|------------------------|-------------------------------|------------------------------|-------------------------------|------------------------|
| Slovak Republic        | 15/5                          | 10                           | 10                            | 2002                   |
| Slovenia               | 10/5                          | 10/0                         | 10/5                          | 2004                   |
| Spain                  | 10/5                          | 10/0                         | 10/5                          | 2011                   |
| Sri Lanka              | 12.5                          | 10                           | 10                            | 1987                   |
| Sweden                 | 15/5                          | 0                            | 0                             | 1982                   |
| Switzerland            | 15/5                          | 10                           | 10                            | 2007                   |
| Tunisia <sup>14</sup>  | 10                            | 10                           | 10                            | N/A                    |
| Turkey                 | 15/5                          | 10/0                         | 10                            | 2008                   |
| Ukraine                | 10/5                          | 10/0                         | 10                            | 2002                   |
| United Kingdom         | 15/5                          | 10                           | 10                            | 1983                   |
| Zimbabwe <sup>15</sup> | 15/5                          | 10                           | 10                            | N/A                    |

## 9.6 Tax returns and payments

The tax year in Serbia is consistent with the calendar year. Tax returns must be signed and submitted on a prescribed form, together with other necessary documentation. Tax return can be submitted electronically or in hardcopy format. For “large taxpayers” the legislation prescribes shorter time limits and a different procedure. From 1 July 2014 the obligation to submit tax return electronically applies to entrepreneurs and legal persons (not just large taxpayers).

The tax procedure allows filing of amended tax return no later than the expiry of statute limitation period. Amended tax return can be submitted twice for the same tax period, and must be submitted in hard copy. Under these conditions, the error in original tax return will not be considered a tax offence. Taxpayers are prohibited from submitting an amended tax return once the audit of the concerning tax period has commenced.

The Tax Procedure and the Tax Administration Law prescribe an absolute statute of limitations of ten years for all tax liabilities, except for pension and disability insurance contributions, starting from the end of the year in which the tax became due.

<sup>11</sup> If the recipient company owns/controls at least 25 percent of the equity of the paying company, the lower of the two rates applies.

<sup>12</sup> In case of rate “10/0”, a zero percent rate is applicable in cases when the income recipient is the Government or government owned banks.

<sup>13</sup> In case of rate “10/5”, a tax rate of five percent will be applicable to literary, artistic and scientific works, including films and works created like films or other sources of sound and picture reproduction. A tax rate of ten percent will be applicable to: patents, petty patents, brands, models and samples, technical innovations, secret formulas or technical procedure.

<sup>14</sup> Treaty will come into force once diplomatic notes confirming its ratifications are exchanged.

<sup>15</sup> The treaty has not been ratified by both or one of the parties.

Tax collection can be performed on a regular basis or enforced. Regular tax collection is performed when tax liability becomes due; otherwise enforced collection rules are applied.

Tax collection is performed by depositing the amount of tax due in the prescribed Tax Administration account within prescribed payment date.

## 9.7 Assessments

Assessment of most taxes is performed either based on a self assessment or a tax decision issued by tax authorities. Tax authorities are entitled to issue the tax decision where self assessment is not prescribed by law or during the tax control where a taxpayer did not comply with the applicable laws and regulations.

Tax authorities are entitled to use the parification method, i.e. method of indirect assessment of the tax base. The parification method encompasses investigation of relevant taxpayer documentation upon which tax authorities determine the tax base. In addition to this, tax base can be determined as a difference between the net value of property at the end and at the beginning of calendar year respecting corrections prescribed by the legislation – indirect method.

## 9.8 Appeals

Taxpayers are entitled to file an appeal against tax assessments issued by the Tax Authorities. General deadline for filing an appeal is 15 days of the date of receiving the act. However, in some situations legislation may prescribe a different deadline.

Upon conducted second-level procedure, the second level tax authority may:

- Reject appeal;
- Annul administrative act entirely or in part;
- Amend the act.

The appeal generally does not delay execution of the appealed act.

## 9.9 Withholding Taxes

Serbian Corporate Income Tax Law imposes 20% withholding tax on a passive income of a non-residents realized from a Serbian resident. The following types of passive income are taxable: dividends, interest, royalties, leasing and rental fees, as well as income from entertainment, sporting, artistic and similar performances that was not subject to personal income tax.

Specific 25% withholding tax rate applies for payments made to residents of jurisdictions with preferential tax system (i.e. tax havens) in respect of royalties, interest income, leasing/rental fees and service fees. Jurisdictions which are considered to have preferential tax system (i.e. tax havens) are prescribed by the Rulebook of the Serbian Ministry of Finance and are listed in the table at the end of this section.

The withholding tax may be reduced or even eliminated by a bilateral Double Taxation Treaty between Serbia and the country of residence of the recipient of such income.

One of the requirements for use of the lower Double Tax Treaty rate is that the recipient presents a valid tax residency certificate. Only Serbian bilingual form prescribed by the Ministry and stamped by the relevant tax authorities of the recipient's country of residence represents a valid certificate.

**List of the countries with preferential tax systems:**

- |                            |                                      |
|----------------------------|--------------------------------------|
| 1. Andorra                 | 27. Macao                            |
| 2. Anguilla                | 28. Maldives                         |
| 3. Antigua and Barbuda     | 29. Marshall Islands                 |
| 4. Aruba                   | 30. Mauritius                        |
| 5. Bahamas                 | 31. Monaco                           |
| 6. Bahrain                 | 32. Montserrat                       |
| 7. Barbados                | 33. Nauru                            |
| 8. Belize                  | 34. Netherlands Antilles             |
| 9. Bermuda                 | 35. Niue                             |
| 10. British Virgin Islands | 36. Normand Isles                    |
| 11. Cayman Islands         | 37. Palau                            |
| 12. Christmas Islands      | 38. Panama                           |
| 13. Cook Islands           | 39. Saint Kitts and Nevis            |
| 14. Dominican Republic     | 40. Saint Lucia                      |
| 15. Falkland Islands       | 41. Saint Vincent and the Grenadines |
| 16. Fiji                   | 42. Samoa                            |
| 17. Gibraltar              | 43. San Marino                       |
| 18. Grenada                | 44. Seychelles                       |
| 19. Guam                   | 45. Solomon Islands                  |
| 20. Guernsey               | 46. Tonga                            |
| 21. Guyana                 | 47. Trinidad and Tobago              |
| 22. Hong Kong              | 48. Turks and Caicos Islands         |
| 23. Isle of Man            | 49. Tuvalu                           |
| 24. Jersey                 | 50. US Virgin Islands                |
| 25. Liberia                | 51. Vanuatu                          |
| 26. Lichtenstein           |                                      |

Under the Serbian legislation, corporations paying income to an individual are obliged to assess and withhold tax at the moment of payment of such income. For example, an employer needs to withhold both personal income tax and social security contributions at the moment of payment of salaries.

## 9.10 Tax Audits

Tax Audit can be performed as:

- Office control;
- Field control;
- Activities in order to reveal tax crimes.

Office control encompasses verification of the data presented in tax returns and other relevant documentation by the tax inspector. In order to verify the presented information, tax inspector compares data declared in tax return to the information of a taxpayer kept in the Tax Administration official records.

The aim of field control is to verify legality of business activity and accomplishment of tax liabilities. Field control is performed by the tax inspector in the business premises of a taxpayer or personal premises presenting a warrant for control. The taxpayer is obliged to present to the tax inspector all necessary documentation as per his request.

The Tax Police has authorities similar to those of the Internal Affairs. It is in charge of revealing tax crimes and performing various activities prescribed by the Criminal Law (interrogation, inquest of premises etc). Based on collected evidence, the Tax Police is entitled to initiate criminal procedure by informing the Public Prosecutor of the crime committed.

## 9.11 Penalties

Various penalties are prescribed if a taxpayer fails to submit a tax return, calculate and pay tax within the prescribed period. Tax penalties range from 1% to 20% of the tax due.

Penalty interest applied for late payment of tax is equal to annual discount rate published by the National bank of Serbia increased for ten percentage points, using simple interest calculation method.

# 10. Taxation of Corporations



## 10.1 Corporate Tax System

Taxation of corporations in Serbia is regulated by the Corporate Income Tax (CIT) Law (last amended in November 2012) and by subordinate by-laws issued by the Ministry of Finance.

### Taxable Entities

A taxable entity includes a company registered as a joint stock company, a limited liability company, a general partnership, a limited partnership, a socially owned company, a public enterprise, a cooperative selling on the market, or other form of legal entity which generate income predominantly by sale of products and services on the market. Serbian tax legislation does not recognise the concept of tax transparent entities.

### Dividends

Dividends paid to a non-resident entity are subject to 20% withholding tax, unless an applicable Double Tax Treaty stipulates otherwise. Dividends paid to a Serbian tax resident company are not subject to withholding tax.

### Territoriality

Serbian tax resident entities are taxed on their income generated on the territory of the Republic of Serbia, as well as on their worldwide income. An entity is considered a resident of Serbia if it is established or has its place of effective management and control in the territory of the Republic of Serbia. Non-residents are taxed only on their income sourced through a permanent establishment on the Serbian territory.

### Permanent establishment / Branches

A permanent establishment is any permanent place of business in Serbia

through which a non-resident conducts its business. Profits attributable to the permanent establishment are subject to CIT.

A branch constitutes a permanent establishment of a non-resident taxpayer per default. Consequently, CIT is payable on profit attributable to the operations of a branch. The concept of branch was introduced in Serbian legislation in November 2004 and the practice in relation to the operation and taxation of branches in Serbia is still not very developed.

## 10.2 Tax Incentives

In addition to the low 15 percent CIT rate, the following tax incentives are provided in the Serbian taxation regime:

### Tax Holidays

- Up to ten-year tax holidays for companies investing RSD 1 billion (approximately EUR 8.8 million) and employing at least 200 workers, determined as the ratio between value of the investment and total property, plant and equipment.

### Tax Credits

- Tax credit of 20 percent (small enterprises 40 percent) for investment in fixed assets, up to 33 percent (small enterprises up to 70 percent) of CIT liability. Any unused tax credit can be carried forward for ten years. Transfer of tax credits in mergers, de-mergers, spin offs and other corporate group reorganisations is not possible.

## Exemptions

- Special rules for tax exemption apply to non-profit organisations. Any surplus of income should not exceed the amount prescribed by Law (i.e. RSD 400 thousand). This surplus is not allowed to be spent on wages or transferred to the founders. In addition, employee wages should not exceed the amount of two average wages paid in the industry branch to which that non-profit organisation belongs;
- The tax liability for companies employing disabled persons is decreased in proportion to the percentage of such persons to the total number of employees;

## 10.3 Taxable income

### Accounting period

Accounting period which is to be used for tax purposes is the financial year. Financial year shall mean a calendar year, except when the business is dissolved, started up or status-related changes are made in the course of a year.

Financial year and calendar year can be different on a taxpayer's request, with the approval of the Minister of Finance (governor of the National Bank of Serbia), but the tax period must cover a 12 month period and once changed it has to be applied for at least five years.

### Accounting methods

The Serbian tax regime provides for accrual based accounting.

## Business profits

Business profits for tax purposes are determined by adjusting the accounting profit, as stated in the profit and loss account and determined in accordance with IFRS and accounting legislation, in accordance with the provisions of the CIT Law.

### Capital gains

Capital gains are taxed separately from operating profits. The tax rate is 15 percent. Capital losses can be carried forward for five years.

### Accounting for income

Revenue recognition generally follows IFRS.

### Inventory valuation

Cost of materials and the purchase value of merchandise are tax deductible up to the amount calculated by applying the average weighted cost method or FIFO method. If other methods are used, an adjustment for tax purposes should be made.

### Passive income

The total amount of interest earned is considered part of taxable income and taxed with 15% CIT. Interest income is recognized on accrual basis as per IFRS.

Dividend income distributed by a non-resident subsidiary is part of taxable income. Respective tax liability can be decreased by tax credits equal to withholding tax and underlying corporate income tax paid abroad. Tax credit cannot exceed the amount of corporate income tax that would have been paid in Serbia. Tax credit can be carried forward and utilized over a ten year period. In order to use dividend tax credit, taxpayer needs to hold at least 10% interest in non-resident subsidiary for at least one year.

Dividends and share in profits received from a Serbian tax resident subsidiary are exempt from taxation.

## Exempt income

The following types of income are exempt from CIT:

- Dividends and shares in profit of resident subsidiaries,
- Interest on bonds and other securities issued by Serbian Government, municipalities and National Bank of Serbia.

## 10.4 Deductibility of expenses

### Business expenses

Generally, business expenditures declared in the income statement in conformity with IFRS and accounting regulations are recognized in the determination of taxable income. However, the CIT Law stipulates that certain expenses should not be recognized for income tax purposes or should be recognized up to a certain amount. Partially deductible expenses are presented in a separate sub point.

### Accounting for expenses

Expenses should be recognized in the period in which related revenue is recognized.

Companies are not obliged to keep separate accounting for tax purposes.

### Depreciation

According to the CIT Law, assets qualifying for tax depreciation are tangible assets with useful life over one year, which are recognised as non-current assets under IFRS, excluding renewable natural resources, and intangibles. Goodwill cannot be depreciated for tax purposes.

Tax depreciable assets are divided into five groups, with the following depreciation rates:

1. Group I: 2.5 percent;
2. Group II: 10 percent;
3. Group III: 15 percent;
4. Group IV: 20 percent;
5. Group V: 30 percent.

A straight-line depreciation method is prescribed for the assets (mainly property) classified in the first group. A declining balance method is prescribed for assets classified in other groups. Further guidelines on the assessment of tax depreciation are provided in by-laws issued by the Ministry of Finance.

### Interest

Interest expense is recognized on accrual basis. Interest on debt incurred for business purposes is tax deductible, subject to meeting thin capitalisation and transfer pricing requirements.

Interest charged for untimely payment of taxes, contributions and other public charges is not recognized as expenditure for income tax purposes.

### Dividends

As derived from profit after tax, dividends are not deductible for income tax purposes.

### Bad and doubtful debts

Provisions (indirect write-off) for bad and doubtful debts are tax deductible if at least 60 days have expired from the due date. Provision has to be made individually for each receivable.

Write-off of individual debts, except for those from debtors who are at the same time creditors, is recognised as expense only under the following conditions:

- the related income has already been accrued, and
- they were written off as uncollectible, and
- taxpayer has initiated court procedure to collect debt, or duly reported the receivables in case of liquidation or bankruptcy procedure over the debtor.

Exceptionally, the first requirement above does not apply to receivables which are not recognised as income in accordance with IFRS.

Taxable income shall be increased for receivables that are written off and do not meet the above requirements and for which tax deductible provisions were previously made.

## Royalties and services fees

Royalties and service fees should be fully deductible in case they meet general tax deductibility requirements, i.e. they are incurred for business purposes and properly documented.

## Leasing

Leasing fees should be fully deductible in case they meet general deductibility requirements for business expenditures recognition.

## Employee remuneration

Total salary costs, as disclosed in company's books, are fully deductible for income tax purposes. Salary expenditures should be recognized on an accrual basis, i.e. regardless when/whether the effective payment has been made.

Accrued and unpaid redundancy or retirement remuneration to employees is not tax deductible. However, the expense will be recognized for tax purposes in the year when

the actual payment is made ("cash principle").

## Insurance premiums

Insurance premiums should be fully deductible in case they meet general deductibility requirements for business expenditures recognition.

## Other deductions

Long-term provisions are recognised for tax purposes if they are made for the renewal of natural resources, warranty period costs and retained caution money and deposits and other mandatory long-term provisions in accordance with the Law.

Revenues recognized on the basis of reversal of long term provisions which were not deductible in the period when they were created are not taxable.

## Losses

Operational losses can be carried forward for five years. Such facility should not be terminated in the case of corporate group reorganisations of the company.

## Non-deductible expenses

1. The following expenses are not recognized for CIT purposes:

- Expenses which cannot be documented;
- Bad debt provisions for individual receivables from persons who are at the same time creditors, to the amount of the liability due to that person
- Gifts and contributions to political organisations;
- Interest payable for the late payment of taxes, contributions and other public charges;
- Expenses arising from tax enforced collection procedures;
- Fines and penalties;
- Non-business related expenses;

- Expenses incurred on the basis of impairment of assets, except in the case of damage resulting from force majeure. However, these expenses will be recognized as an expense for the tax purposes in the tax period when impaired assets are disposed of or used.

**2. The following expenditures are partially deductible for CIT purposes (up to a prescribed threshold):**

- Depreciation computed in accordance with tax depreciation rules;
- Expenses for health care, scientific, educational, humanitarian, religious, ecological and sport-related purposes are tax-deductible up to 3.5 percent of total revenue;
- Expenses for cultural purposes are tax-deductible up to 3.5 percent of total revenue;
- Membership fees paid to chambers of commerce and other associations (except political parties) are deductible up to 0.1 percent of gross receipts;
- Advertising and promotional expenses are tax deductible up to 10 percent of total revenue;
- Business entertainment expenses are tax deductible up to 0.5 percent of total revenue.

**3. The following expenses are recognised on a cash basis:**

- Accrued but not paid retirement remuneration and remuneration payable on the basis of employment termination; and
- Provisions for issued guarantees and other securities.

## Carry forward of Tax Losses

Operational tax losses can be carried forward for five years. Tax losses should not be terminated in the case of corporate group reorganisations (e.g. mergers, de-mergers, spin offs etc). Tax losses cannot be offset with capital gains.

## 10.5 Related party transactions

The price of transactions between related parties is taken to be the transfer price. According to the CIT Law, related parties exist if there is a possibility of control or influence on business decisions between them. In the case of direct or indirect ownership of at least 25% of shares, it is considered that there is a potential control. Business decisions are subject to influence where an associated party holds at least 25% voting rights in the taxpayers' management bodies. If the same persons participate in management or control of both companies, a connection between the companies will be deemed to exist. Close family members are also regarded as related parties.

A company must separately disclose transactions with related parties in the tax balance sheet and compare transfer prices with arm's length prices for such transactions. Any difference is included in taxable profit.

Serbian CIT Law recognised the following methods for determining arm's length prices:

- Comparable uncontrolled price (CUP)
- Cost plus
- Resale minus
- Transactional net margin (TNMM)
- Profit split
- Any other method which allows determination of arm's length prices if none of the above methods can be applied.

It is mandatory to prepare and submit transfer pricing documentation together with the CIT return for periods from 1 January 2013.

Tax deductibility of interest on related party loans is subject to thin capitalisation limits (4:1 debt to equity ratio for companies, 10:1 for banks).

## 10.6 Foreign exchange gains and losses

Foreign exchange gains and losses have the same tax treatment as any other financial gain or loss. That means that foreign exchange gains or losses should be taken into account when computing income tax liability.

Foreign exchange gains and losses are recognized on an accrual basis.

## 10.7 Tax computations

### General aspects

The amount of tax payable should be computed in the tax return and tax balance sheet by adjusting accounting profit in accordance with CIT Law rules. Tax liability is computed by applying 15% CIT rate on the taxable income calculated in the described way.

Capital gains are taxed separately from operating profit. The tax rate is 15 percent.

Tax returns and tax balance sheets including all necessary documents (e.g. tax depreciation, tax credit, thin cap and other forms) must be filed with the tax authorities within 180 days from end of the tax period. A newly established company needs to register with the tax authorities within fifteen days of the date of registration with the relevant registry.

Corporate income tax is payable in advance in monthly instalments (based on previous year's tax return) by the 15<sup>th</sup> of the following month. The difference between monthly advance instalments paid during the year and final tax liability as determined in the

tax return is payable on submission of the tax return.

## Consolidation

Tax consolidation is allowed for a group of companies where all members are Serbian residents and one company directly or indirectly controls at least 75 percent of shares in another company. Each company files its own tax balance sheet and the parent company files a consolidated tax balance sheet for the whole group. In a consolidated tax balance sheet, losses of one or more companies are offset by the profits of other related companies. However, there is no possibility for any company within the group to use operational losses generated in the past period to offset its taxable profit in consolidated tax return. Each company is liable to tax proportional to its share in the taxable profit of the whole group. Tax consolidation must continue for at least five years; otherwise each company will have to pay all taxes that it would have paid if there had not been any consolidation.

## 10.8 Other taxes

### Excise tax

Excise taxes are levied on import and production of goods with the price inelastic demand (measured by responsiveness of the demand to the change of price). Excise duties are levied on the following goods:

- Oil derivatives
- Tobacco products
- Alcoholic beverages
- Coffee

Excise duties on oil derivatives range from RSD 20.50 per kilo of liquid oil gas up to RSD 62 per kilo for other petroleum products. Tobacco products are taxed using specific (ranging from RSD 43 per pack of cigarettes to RSD 18.78 per piece for cigars) and proportional (33% of retail price) excise duties.

Duties on alcoholic beverages range from RSD 17.45 for low-alcoholic beverages to RSD 265.17 for brandies made from grains and other agricultural products. Excise duty on coffee ranges from RSD 80 to RSD 300 per kilo.

An excise tax liability arises at the moment when the excisable product is produced or imported. Deferral of excise duty liability is possible by exercising right to hold a registered excise duty and/or customs warehouse.

### Property tax and transfer tax

Property tax is levied on the following rights relating to real estate: ownership right, right of occupancy, lease of property lasting longer than one year as well as the right to use urban and/or public building land of more than 10 acres. For taxpayers that keep books, tax base is generally the market value of the property. The tax rate is determined by local authorities and cannot exceed 0.40%.

Transfer tax is levied on the transfer (with consideration) of real rights over real estate, intellectual property rights, ownership over used vehicles, vessels and aircrafts (unless owned by the state), right to use urban and/or public building land as well as rights relating to expropriated real estate. The contracted price is used as a tax base unless it is determined to be lower than the market price (in which case the market price is used). Once the tax base is determined, the 2.5% tax rate is applied.

### Owners of motor vehicles

According to the Law on Taxes on using, holding and carrying of goods, an entity or individual who is the owner of a passenger car is obliged to pay tax on use of motor vehicle. This tax is payable upon registration, renewal of registration or replacement of registration plates. The amount of tax payable is prescribed by the Law as fixed amount and depends on owner of the vehicle (legal entity or individual) and vehicle's engine capacity. This amount is annually adjusted for consumer price index

#### Tax on use of cars and vans

| Engine capacity in cm <sup>3</sup> | Tax (RSD)   |           |
|------------------------------------|-------------|-----------|
|                                    | Individuals | Companies |
| up to 1150                         | 1.030       | 1.030     |
| over 1150 to 1300                  | 2.010       | 2.010     |
| over 1300 to 1600                  | 4.440       | 4.440     |
| over 1600 to 2000                  | 9.110       | 9.110     |
| over 2000 to 2500                  | 45.000      | 45.000    |
| over 2500 to 3000                  | 91.200      | 91.200    |
| over 3000                          | 188.490     | 188.490   |

## 10.9 Branch versus subsidiary

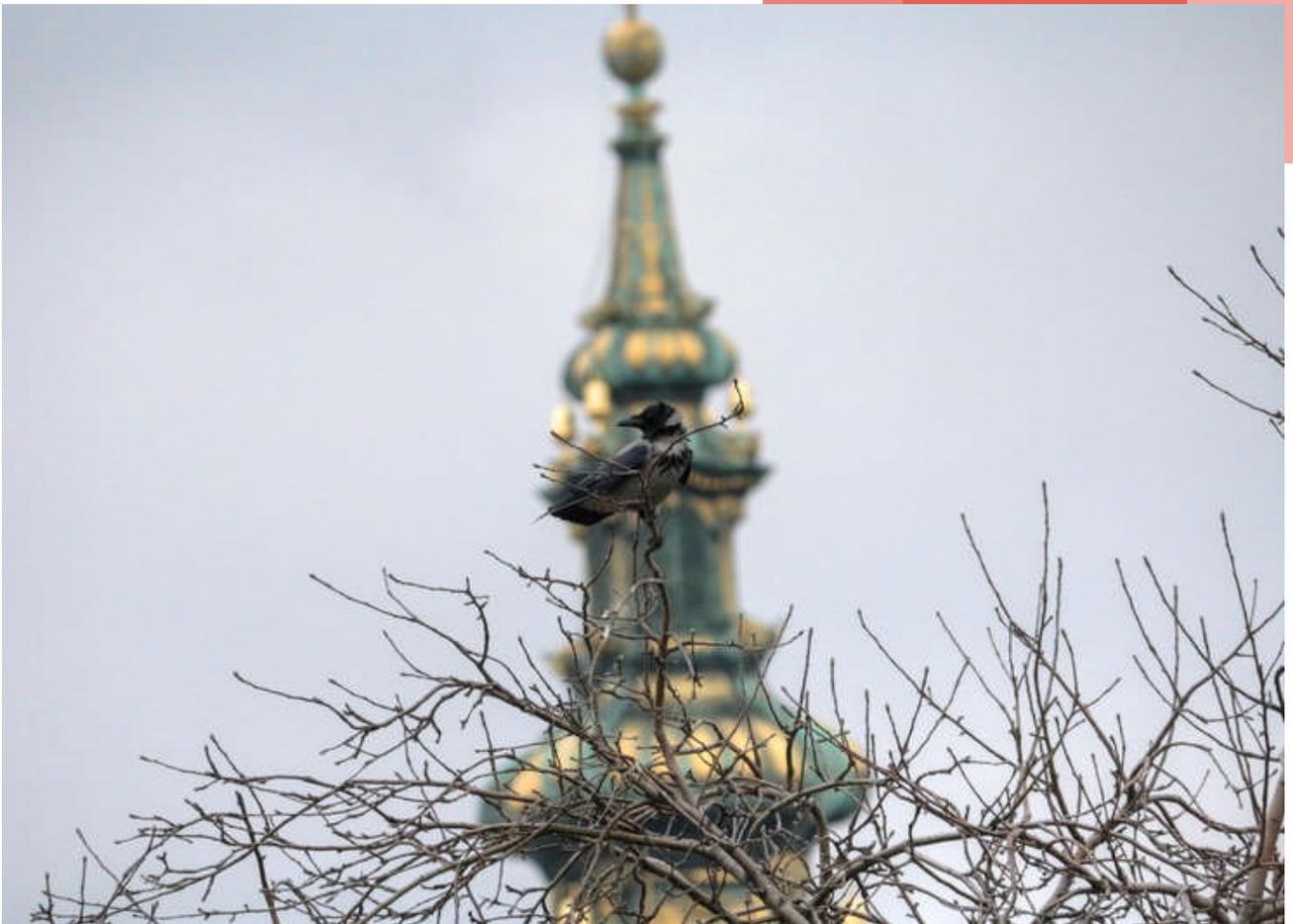
The following table summarises the main tax features of a subsidiary compared to those of a branch.

| <b>Item</b>   | <b>Subsidiary</b>   | <b>Branch</b>   |
|---|---|---|
| <b>Accounting and administration</b>                      | Generally straightforward.  | Practice is limited, while the legislation is vague and non-comprehensive.  |
| <b>CIT rate</b>   | 15%   | 15%   |
| <b>Determination of taxable profits</b>                   | Rules and practice generally clear and defined. Overall, favourable for a taxpayer. Services charged by the parent entity are, in principle, deductible if at arms length and documented. | Allocation of management and administration costs incurred by the head office for the branch may be disputable in practice. |
| <b>Tax incentives</b>                                     | Various tax incentives for investments in tangible assets and employment of new staff.  | Unclear if applicable.  |
| <b>Withholding tax on distribution of profit</b>          | 20%-25%, unless otherwise stipulated by the applicable DTT. However, a tax residency certificate needs to be obtained before the payment is made in order to apply DTT.                   | Repatriation of branch profit is not considered as a dividend payment, implying that there is no withholding tax.           |
| <b>Deduction of interest paid to parent/head office</b>   | Deductible up to thin cap and transfer pricing rules.   | Non-deductible (clearly stated by the Law).   |
| <b>Deduction of royalty payable to parent/head office</b> | Fully deductible, subject to transfer pricing.  | Non-deductible (clearly stated by the Law).   |

## 10.10 Holding companies

No special holding company regime exists in Serbia. Holding companies operate under the same rules as any other company.

# 11. Taxation of Individuals



## 11.1 Territoriality and residence

### Tax residence

According to Serbian Personal Income Tax (PIT) Law, individuals are regarded as Serbian tax residents if they:

- Have a domicile in Serbia, or
- Have their habitual place of abode in Serbia (i.e. if they stay in Serbia at least 183 days, whether or not consecutively, within a period of 12 months beginning or ending in the respective taxation year), or
- Have the centre of their business and vital interests in Serbia, or
- Are seconded abroad to carry on business there for a Serbian resident legal entity, a Serbian natural person, or an international organisation.

Residents are taxable on their worldwide income, whereas non-residents are only liable to tax on Serbian sourced income.

### Registration

Individuals do not have to register as taxpayers. Individual entrepreneurs do have to register themselves.

## 11.2. Taxable Income

Types of taxable income and applicable PIT rates are as follows:

- Income from employment (12%);
- Income from agriculture and forestry (10%);
- Income from independent activity (10%);
- Income from copyright, rights related to copyright and industrial rights (20% rate with actual/standard costs deduction);
- Income from capital – interest, dividends (15 %);
- Income from immovable property (20% with actual/standard costs deduction);
- Capital gains (15%);

- Other income – sportsmen, games of chance, leasing of moveable property, etc. (20% with actual/standard costs deduction) with exception of revenue from personal insurance (tax rate is 15%).

### Income from employment

#### Personal Income Tax

The taxable person is the employee, but the employer is responsible for calculating and withholding personal income tax on behalf of its employees. The taxable base is the gross salary including fringe benefits. The PIT Law provides a non-taxable monthly threshold of RSD 8,776<sup>1</sup> per month. It is adjusted annually in accordance with Consumer Price Index changes.

#### Social security contributions

Social security contributions are calculated and withheld by an employer from the salary paid to an employee up to specified cap. These contributions are payable by the employer and employee at equal rates. The amount borne by the employer is treated as an operating cost, while the portion payable by the employee is taken from the gross salary. The rates are as follows:

- Pension and disability insurance 11 percent
- Health insurance 6.15 percent
- Unemployment insurance 0.75 percent

The minimum social security contributions base is 35 percent of the average monthly salary in the Republic of Serbia, regardless of the qualifications of individual employees.

The maximum tax base for social security contributions remains five times the average monthly salary in the Republic of Serbia. The new maximum base for social security contributions is applied, starting from the first day of the month following the month in which the data is published.

## Supplementary annual taxation

Annual tax is the additional tax in Serbia. If the individual is a Serbian tax resident he is subject to Serbian annual tax on his net worldwide income exceeding a prescribed threshold. The progressive rates apply depending on the income levels presented in the following table:

| <b>Taxable income exceeding prescribed threshold</b>                | <b>Tax rate</b> |
|---|-----------------|
| Between three and six times the average annual salary <sup>16</sup> | 10%             |
| For income exceeding six times the average annual salary            | 15%             |

The non-taxable threshold for income earned in 2012 was RSD 2,067,480 (approximately EUR 18,470, three times average annual salary).

Taxable income may be reduced by personal deduction and allowances for supporting dependent family members. Personal deduction is 40 percent of the average Serbian annual salary in the year concerned and the allowance for each dependent family member is 15 percent of the average Serbian annual salary in the year concerned. Total deductions cannot exceed 50 percent of the taxable income.

Applicable deductions for 2012 were RSD 275,664 (approximately EUR 2,463) per taxpayer and RSD 103,974 (approximately EUR 924) per dependent.

<sup>16</sup> As per official data published by the Statistical Office of the Republic of Serbia

## Tax and social security contributions incentives

Provided that certain conditions are met, tax exemptions are available for employers which hire:

- New employees younger than 30 years
- Disabled persons
- Persons older than 45 registered with the National Employment Service

## Tax credits

Serbian residents are taxed on their worldwide income. When income generated in another country is taxed there, the taxpayer has the right to decrease the tax liability by claiming a tax credit to tax authorities in Serbia.

This tax credit is equal to the tax paid in another country, but it cannot exceed the amount of the tax that would have been paid in Serbia.

## 11.3. Non-taxable Income

Certain statutory allowances, such as disability living allowance, unemployment benefits, parenthood allowance, health insurance, state pensions, redundancy payments (within certain limits) and similar are exempt from PIT.

## 11.4. Taxation of non-residents

Non-residents are only liable to tax on Serbian sourced income.

Double Tax Treaties between Serbia and expatriates' residence countries can limit the Serbian right to tax or offer relief for the double taxation of certain types of income.

Double Tax Treaties provide for resolving tax residency disputes, i.e. situations in which, according to the local rules of the respective countries, a person is deemed to be a tax resident of both countries.

In certain cases, remuneration of non-residents working for diplomatic and consular missions or international organisations in Serbia is not taxable.

## 11.5. Tax compliance

### Obligations of withholding agents

For employment income the taxable person is the employee, but the employer is responsible for calculating and withholding personal income tax on behalf of its employees.

Other types of income are generally payable by method of withholding at the moment when the income is paid.

### Tax returns for individuals

Exceptionally, capital gains, income from independent activity and income from agriculture and forestry are payable on the basis of a Decision issued by the tax authorities. The taxpayer is obliged to file the tax return.

Supplementary annual PIT is also payable on the basis of Decision issued by the tax authorities. The deadline for filing the tax return is 15 March of the following year.

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# 12. Value Added Tax



## 12.1 Introduction

Serbian VAT Law has been adopted in 2004 and the latest amendments were made in September 2012. The increase of the standard rate entered into force on 1 October 2012 while most of other changes will be applicable as of 1 January 2013. It is in general based on the rules set out in the EU's Sixth Directive.

Starting from 1 October 2012 standard VAT rate increased from 18% to 20% and it is applied on all supplies of goods and services that are not zero-rated or do not qualify for a reduced rate or exemption. The reduced rate is 8% and it is applied to certain goods and services that include but are not limited to the following: basic foods, supply of drinking water, natural gas, the first-time transfer of residential property as well as each subsequent transfer under certain prescribed conditions, personal computers, teaching aids, tickets to cultural and entertainment venues.

## 12.2 Scope of VAT

For VAT purposes, a taxable transaction is considered to be the supply of goods and services within Serbian territory, as well as the importation of goods into Serbia.

A taxpayer is considered to be a person who independently, and in the course of their business activities, undertakes the supply of goods or services, or imports goods. Business activity is defined as the permanent activity of a manufacturer, salesman or service provider for the purpose of realizing income.

A branch or other operating unit can also be a taxpayer. A non-resident without a head office or permanent establishment in Serbia cannot register for VAT purposes and can only appoint a tax representative. In case a non-resident appoints a tax representative, it is considered to be the tax debtor; if there is no tax representative appointed, the debtor is the recipient of goods and services.

## Place of Supply

Goods are considered to be supplied within Serbian territory if the following conditions are met:

- Goods are located in Serbia when the transport begins or is arranged;
- Goods are located in Serbia when they are supplied without transport;
- Goods are installed in Serbia by or in the name of the supplier;
- If the recipient of supply of water, electricity, gas and heating is located in Serbia.

Under the general rule, the place of supply for services is the place where the service provider is established. Exceptions to the general rule are connected with:

- Services relating to immovable property, where the place of supply is where the property is located;
- Services of transport or those relating to culture, entertainment, movable property are deemed to be supplied where they are actually carried out;
- Intellectual services, services provided electronically, data processing, transfer of copyright, licences, banking and insurance services, supply of personnel, providing information by phone, clinical trials, providing access to the network for transmission of electricity and natural gas and other similar services are considered to be provided where the recipient is located.

## Reverse charge services

If a non-resident, who has no presence or a tax representative appointed in Serbia, supplies goods or provides services to a Serbian entity, the Serbian entity shall perform self-assessment of Serbian VAT on goods acquired and/or services received from a non-resident ("reverse charge mechanism").

If the recipient has the right to deduct input VAT (provided the expense is business related and relates to a taxable activity), no additional VAT liability arises from prompt application of reverse charge mechanism.

## Import of goods

The place of import is the point of entry into Serbian territory. The rate of VAT applicable on import is the rate that applies to a domestic supply.

## 12.3 Zero-rating supplies (exemptions with credit)

Supplies that are exempt with credit include the following:

- Export of goods, transport and other services in direct relation to export, transit or temporary import of goods (not being exempted without recovery right) as well as transportation and other services relating to import of goods if the value of such services is included in the customs base;
- International air or river (by boat) transport of passengers, where non-resident air/shipping companies are exempted under the reciprocity rule;
- Delivery of aircraft and ships and servicing, repairs, maintenance, charter and renting of aircrafts/vessels used mainly for international air/river traffic; delivery, renting, repair and maintenance of goods used for equipping such aircrafts/vessels;
- Sale of goods and services for the direct needs of the above aircraft/vessel;
- Goods carried in personal luggage up to the value of EUR 150 and dispatched abroad prior to the expiration of three calendar months from the delivery of such goods;
- Entry of goods into a free zone, transportation and other services related to entry of goods into a free zone;

- Supply of goods and services in the free zone for which the taxpayer would have the recovery right if the supply has been carried out outside the free zone;
- Supply of goods in the customs warehouse;
- Dispatch of goods to duty-free shops;
- Work performed on movable property obtained by a foreign user of the service in Serbia or imported for the purpose of refinement, repair or installation, and which is to be transported or dispatched abroad upon completion of the work;
- Supplies of goods and services carried out in conformity with donation and credit agreements stating that tax is not to be paid from the funds received, as well as supplies of goods and services in relation to other International agreements that provide tax exemption;
- Mediation services in relation to the above.

## 12.4 Exempt supplies (exemptions without credit)

The following supplies are exempt without credit:

- Most banking transactions;
- The business of investment and pension fund management companies in accordance with the relevant regulations;
- Insurance and reinsurance services, including the accompanying services of an insurance mediator and agent (representative);
- Land (agricultural, forest, construction, built or not built) and buildings (except the first-time transfer of the right to use new buildings);
- Shares, securities, postal orders, administrative fees and stamps by their value in Serbia;
- Supply of medical equipment and services;

- Public interest activities performed by non-profit organisations (e.g. education, welfare, culture, scientific research, sports, religion);
- Property (flats and buildings) rental services, if used for residential purposes;
- Postal services rendered by a public company, as well as delivery of the related goods;
- Public broadcasting, except services of a commercial nature; and
- Services of organising games of chance.

## 12.5 Supplies to Kosovo and Metohija

In accordance with the relevant VAT Decree and during the period to which the UN Security Council Resolution 1244 applies, supplies carried out by taxpayers from the territory of Serbia (apart from Kosovo and Metohija territory) to Kosovo and Metohija, are VAT exempted with credit. The exemption applies only if certain requirements are met (e.g. confirmation on supply to Kosovo and Metohija issued by Tax Authorities, proof that the supply has been paid by the recipient).

## 12.6 Taxable amount (base)

Generally, the value of supply (i.e. the taxable base) is the total fee, including incidental expenses that have been received or are to be received by the recipient or a third person for the goods delivered or services provided. The fee is assumed to be VAT exclusive, but includes excise, customs duty and other import charges, as well as other public revenues (VAT exclusive) and secondary expenses for which the taxpayer charges a recipient of goods.

In cases of an exchange of goods or services, the taxable base is the actual market value of goods or services on the date of their supply. The same rule is envisaged in the case of the free of charge supply of goods or services.

The VAT regulations provide the possibility to change VAT base in certain cases (e.g. return of the goods, cancellation of the contract etc.).

## 12.7 Non-deductible input VAT

Generally, input VAT incurred by a VAT registered person upon the purchase of goods and services and imports for the purpose of its own business activity can be recovered either by way of a credit against output VAT or as a refund.

Input VAT is non-deductible for exempted supplies without credit as listed above.

VAT cannot be recovered on supplies linked with motor vehicles (cars, motorcycles, yachts and boats, and aircraft), entertainment and decorative furniture and small value appliances.

## Direct attribution and proportional recovery

Serbian VAT Law has a system of direct attribution according to the EU model. Input VAT must first be attributed on the basis of economic affiliation of costs. It is only apportioned if it cannot be attributed either to the sale of goods and services to which input tax recovery applies or to the sale of goods and services to which recovery of input tax is not allowed. The apportionment calculation takes the form of the percentage of sales with the right to recover the full amount of sales (VAT exclusive). The percentage is then applied to the amount of input VAT that could not be attributed decreased by the input VAT without the right of recovery.

An annual adjustment of the total annual recovery is required at year end.

## Adjustment to VAT recovery

When VAT liability is determined by the decision of the Tax Authority, the recipient of goods and services has the right to recover input VAT, provided that the VAT in question is paid to supplier.

If within a period of five/ten years since first use in the case of acquisition of equipment/structures, and improvements in property, changes occur in the conditions that were crucial for the deduction of input VAT, correction of the previously recovered input VAT must be made for the period following the change.

The adjustment is done in the period when the conditions on the basis of which input VAT was recovered are changed. The correction is proportional to the difference between the ten/five year period and the total time of use of building/equipment.

Taxpayer has possibility of subsequent input VAT recovery for acquisition of equipment and buildings, and related investments if prescribed conditions are met.

Amendments to the Law also enable taxpayers to recover input VAT on stocks of goods acquired in 12 month period prior VAT registration providing that the taxpayer has performed stock count and submitted stock count list to the Tax Authority, he obtained invoice issued by the supplier with stated VAT amount and input VAT was paid.

## VAT cash accounting scheme

Taxpayer whose total turnover in the previous 12 months is not greater than RSD 50 million and who fulfils certain conditions can submit a request for VAT cash accounting scheme. Under this scheme taxpayer pays VAT only on the part of collected receivables, but also exercises recovery right on paid liabilities towards his suppliers.

If VAT payer does not collect the receivable within six months from the supply date, he is obliged to pay outstanding VAT.

## 12.8 VAT compliance

### Registration

#### **Compulsory registration**

Taxpayers whose annual turnover exceeds, RSD 8 million (approximately EUR 80,000) are obliged to register for VAT.

#### **Voluntary registration**

Taxpayers whose turnover/estimation does not exceed RSD 8 million (approximately EUR 80,000) are eligible to opt for VAT registration.

#### **Deregistration**

If a taxpayer ceases to perform its business activity, he/she must file an application to deregister. The request for deregistration has to be submitted no later than 15 days prior to removal from the public register.

The tax authorities will conduct deregistration procedure only on the basis of taxpayers request.

### Information on VAT invoice

The taxpayer is obliged to issue an invoice, or another document serving as an invoice, with all required data for every supply made to other taxpayers. The following data must be included from VAT perspective:

- Name, address and tax identification number (TIN) of the taxpayer/invoice issuer;
- Location, date of issue and invoice number;
- Name, address and TIN of the taxpayer/invoice recipient;
- Type and quantity of goods delivered, or type and volume of services;
- Date of sale of goods or services and the amount of advance payments;
- Taxable base amount;
- Applicable tax rate;
- VAT amount calculated;
- An appropriate note on tax exemption (if applicable).

- Note that VAT cash accounting scheme applies (if applicable).

In the case of providing of a time-limited or unlimited service which is longer than one year, interim bill shall be issued, provided that the period for which the bill is issued may not exceed one year

Taxpayer does not issue invoice in the case that VAT liability is determined by the decision of the Tax Authority.

Two copies of the invoice are obligatory.

Self-billing by the recipient of goods and services is considered as an invoice, provided certain conditions are met.

## Records

The taxpayer must keep VAT records in a manner that enables a tax audit/control to be conducted. VAT records must be preserved for a statute of limitation period for determination and payment of VAT or at least for a period of ten years from the moment of first use of structures and leasehold improvements.

## Returns and payments

The VAT Law requires that monthly taxpayers file VAT returns and pay VAT within 15 days while quarterly taxpayers submit VAT returns and pay VAT within 20 days of the end of each taxable period. Tax debtors who are not taxpayers submit tax return within 10 days of the end of taxable period. The usual taxable period is a calendar month, but if a taxpayer's total annual turnover is less than RSD 50 million

(approximately EUR 500,000), or is estimated (for the next 12 months) to be so, the taxable period is calendar quarter.

Any import VAT must be paid along with any customs duty. The customs authorities are in charge of collecting VAT on the importation of goods.

## Refunds

If the input tax amount is higher than the tax liability amount, the taxpayer is entitled to a refund of the difference. The taxpayer can choose to either receive the refund in cash or to have it offset against future liability.

The tax authorities must pay the refund no later than 45 days (15 days for those who have the status of predominant exporter) after the expiry of the time limit for filing tax returns.

## Reimbursements to a foreign taxpayer

According to the amendments of the VAT Law which are adopted and in effect starting from 1 January 2013, a foreign taxpayer who does not supply any goods or services in Serbia (except in case of transportation services) would have the right to VAT refund under certain conditions (inter alia VAT is stated on the invoice and paid, the amount requested for refund is greater than EUR 200).

Refund is available under terms of reciprocity.

# Introduction to PwC



## PwC worldwide professional network

PwC helps organisations and individuals create the value they're looking for. We are a network of firms in 158 countries with more than 180,000 people who are committed to delivering quality in assurance, tax and advisory services. Tell us what matters to you and find out more by visiting us at [www.pwc.com](http://www.pwc.com).

## PwC in Serbia

PwC in Serbia provides a full range of assurance, tax and business advisory services. Our clients are drawn from the full spectrum of the business community in Serbia and include local state owned and private enterprises, central government bodies, and leading international corporations present in Serbia. PwC in Serbia is fully incorporated into PwC Southeast Europe (SEE) cluster and Central and Eastern Europe (CEE) region. We combine our knowledge and experience with colleagues from other countries in order to develop fresh perspectives and practical advice to our clients. The key element of our success is the quality of our people. Our office is staffed with over a 170 local specialists with knowledge of local conditions and regulations and with eight international consultants with expertise in tackling issues faced by global enterprises. Our staff of local and expatriate assurance, tax and business advisors combines PwC worldwide experience with in-depth local knowledge to provide unparalleled solutions for the local business environment. The global PwC network enables our specialists to solve problems, supported by experience from different parts of the world.

## Our Services

### Assurance Services

The Assurance practice comprises internationally trained local and foreign auditors and accountants. All PwC staff are familiar with local and international accounting practices. As a part of our long-term development strategy, PwC Serbia requires its local employees to gain internationally recognised professional qualifications in accounting (UK ACCA), and to specialize in IAS/IFRS. Due to Serbia's transition to a market economy, the country's accounting and auditing legislation is changing rapidly. We are well placed to understand the practical implications of the new laws and practices on your company's activities, and we can help you develop appropriate strategies to obtain maximum benefit from each new situation.

Our services:

- Financial, operational and organisational audit under international and statutory regulation;
- Financial and accounting review, investigation and due diligence;
- Restatement of accounting records in accordance with standards of Serbia and in compliance with IAS/IFRS, UK GAAP, US GAAP;
- Accounting and consulting services in financial audit, general and management accounting, organisational restructuring;
- IAS/IFRS accounting training;
- Assistance in setting up an efficient internal audit department.

## Advisory Services

PwC Advisory Services are provided by trusted professionals with ample knowledge of business processes and technology, financial and accounting expertise, industry insight, and customer relationship skills. Through the use of these capabilities and the experience and resources offered by a global organisation, we assist clients in addressing many of the important business issues involved in enterprise management. Particular emphasis is placed on the priorities of performance improvement, transactions and forensic services. Due to the close regional cooperation of PwC Advisory Team we can provide assistance to all those companies that are thinking of entering South East Europe as a region and not only individual countries. This differs us from other competitors in the region. PwC Serbia has excellent knowledge of local market and has strong relationships with the most significant companies and state bodies in Serbia. These relationships enable us to resolve many issues quickly and to identify reliable sources of information. We serve different type of clients.

- Foreign investors coming to Serbia
- Foreign companies operating in the Serbian market
- Local prospective companies

### *Deals*

We help clients do better deals and create value through mergers, acquisitions, disposals and restructuring, working together to help them:

- Develop the right strategy before the deal
- Execute their deals seamlessly
- Identify issues and points of negotiation and value
- Implement changes to deliver synergies and improvements after the deal

We also help clients assess options, restructure and help them maximise value from troubled financial situations.

### *Consulting*

We help organisations implement their business strategies by consulting with them to:

- Build effective organisations
- Innovate and grow
- Reduce costs
- Manage risk
- Leverage talent

Our aim is to support our clients in designing, managing and executing lasting beneficial change.

## Tax Services

We provide tax and business advice on all aspects of inward investment into Serbia with a focus on structuring investments and trading activities for maximum tax advantage. Our team is composed of local and expatriate tax professionals with experience in the strategic industries of the country and who can provide detailed insight into the Serbian tax framework.

### *Indirect Taxation*

- Indirect Tax Compliance Services
- Indirect Tax Planning and Structuring
- Assistance in Dealing with the Tax Authorities
- Staff training
- Due diligence

### *Corporate Tax Services*

- Corporate Tax Compliance Services
- Corporate Tax Planning & Structuring
- Transfer Pricing
- Investment Incentives
- Mergers and Acquisitions
- Finance and Treasury Services

### *International Assignments*

- Strategic consulting
- Planning and compliance
- Programme administration
- Employment solutions

### *Expatriate Tax – International Assignment Solutions*

- Personal Tax and Social Security
- Immigration Services

#### Human Resource Services

Our Human Resource Services practice in Serbia is a part of the PwC network of more than 6,000 professionals in over 100 countries: one of the world's largest HR advisory organisations. Our multi-disciplinary approach allows us to advise on all aspects of people management, helping our clients to create value for their businesses through people. We help organisations actively manage employee costs, risks and opportunities. Our consultants work with clients to find tailored solutions to challenges encountered with international assignments to and from Serbia, employee performance, development and reward. We combine human resource best practices with detailed tax, legal and regulatory knowledge.

#### *HR Management*

- Maximising your return on human capital
- HR strategy
- HR audit

- HR function effectiveness review
- HR function set-up
- Saratoga HR metrics and benchmarking
- HR transactions advice
- Due diligence
- Post deal integration
- Employee engagement surveys
- Assessments
- 360 degree assessment
- Management development centres
- Development
- Development and training needs analysis
- Competency development programmes
- Training for human resource management skills
- Competency framework design
- Outplacement

#### *Reward*

- Job evaluation, grading and salary structures
- Executive pay
- Incentive compensation
- Compensation data

## Legal Services - PwC Legal

### *Milovanovic & Aksic attorneys at law*

Milovanovic & Aksic is a law office which provides clients with legal services covering all aspects of commercial law. We are working together with various professionals of the PwC being also a part of the international PwC Legal network which unites over 2,000 lawyers in more than 75 countries globally. With over 200 lawyers across 19 countries in Central and Eastern Europe (CEE), we serve clients effectively and provide them with local advice within an international context.

We offer our clients project-based specialist legal advice and ongoing general counsel support in multiple territories. In addition to providing a full service legal offering to our clients in the mould of the conventional law firm model, Milovanovic & Aksic law office as a part of the international PwC Legal network also provides clients with unique style of integrated legal advice on complex commercial projects with our lawyers frequently working in multi-disciplinary teams alongside specialist from within the PwC network, including tax advisers, human capital consultants, corporate finance experts, management consultants, and accountants.

We pride ourselves in our ability to leverage this wider expertise to provide fast and creative solutions to a range of problems, which enables us to produce both relevant and focussed advice to address client needs.

We cover a wide range of areas including incorporation of companies from various industries, corporate governance and compliance, corporate restructuring, mergers and acquisitions, bankruptcy and liquidation, financial services, banking, insurance, real estate, contracts and tort, employment, infrastructure and tax litigation.

Our lawyers, members of the Serbian and Belgrade Bar Associations, are dedicated professionals with excellent understanding of business environment and language skills ensuring good communication with clients and the ability to draft complex legal documents in both Serbian and English language.

## PwC's Academy

### *Experience knowledge*

We offer a variety of training courses covering work-related skills and abilities required in a modern business environment. The courses are based on the experiences of both our experts and PwC Global. What's more, they are suited to the needs of modern business and tailored to our clients' requirements. PwC's Academy in Serbia is part of PwC's growing network of Academies present in over 30 European countries. Through the network of PwC's Academies we continually exchange and test in practice our knowledge, experiences, competencies and methodologies.

The courses are divided into four areas of professional concentration:

- Technical skills and abilities (finance and accounting, tax and project management)
- Personal effectiveness skills (management skills and soft skills)
- International professional qualifications (ACCA, DipIFR, CIPD, PMP, CIA)
- Special educational programmes (Mini MBA, training programmes tailored to suit clients' requirements)

The courses are organised as:

- Open training courses accessible to everyone
- Internal training courses designed to meet individual client needs

The list of our training courses is not final. We are always open to new training courses designed closely with our clients to ensure that their needs and expectations are fully met.

The training courses at PwC's Academy are taught by our best managers holding the highest degree of theoretical knowledge verified and amplified through practice, in addition to a number of internationally recognised experts.

PwC's Academy premise are especially designed and equipped to address the diverse learning needs of the students.

*PwC's Academy is the educational segment of the global organisation PricewaterhouseCoopers (PwC).*

*PwC's Academy comprises experienced professionals who during workshops convey to the learners their knowledge and experience gained from and embedded in daily practice.*

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This Doing Business Guide is produced by PwC Serbia's Tax and Legal Department.

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