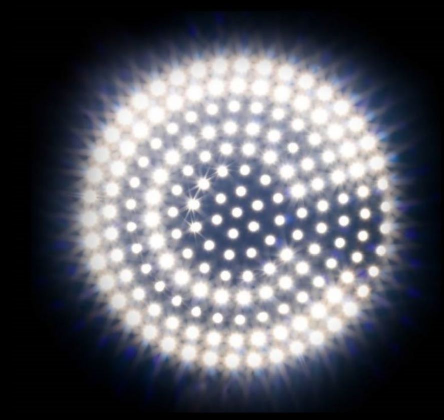
International Tax
Serbia Highlights 2017



Investment basics:

Currency – Serbian Dinar (RSD)

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

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

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

Corporate taxation:

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

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

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

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

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

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

Rate – 15%

Surtax – No

Alternative minimum tax – No

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

Participation exemption – See under "Taxation of dividends."

Holding company regime – No

Incentives – A 10-year corporate income tax incentive (tax credit) is available for large investors that invest over RSD 1 billion in fixed assets and hire an additional 100 employees over the period of the investment. Nonprofit organizations are exempt from income tax under conditions prescribed by law.

Withholding tax:

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

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

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

Technical service fees – No

Branch remittance tax – No

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

Other taxes on corporations:

Capital duty – No

Payroll tax – No

Real property tax – For taxpayers that follow IAS and IFRS fair value accounting, property tax is levied on immovable property located in Serbia at a rate of up to 0.4% of the fair market value of the property as of 31 December of the previous year.

Social security – The employer is required to make social security contributions on an employee's salary at rates of 12%, 5.15% and 0.75% for pension and disability insurance, health insurance and unemployment insurance, respectively.

Stamp duty – Stamp duty is payable according to a tariff based on the value of the document. If there is no value, a flat rate applies.

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

Anti-avoidance rules:

Transfer pricing – Transactions between associated entities (as defined) must be on arm's length terms. There are specific documentation requirements, and transfer pricing reports must be submitted by 30 June. Companies are considered related if one company has the ability to control or influence the business decisions of the other company, if the company holds at least 25% of the shares, stock or votes in the governing body of the other company.

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

Controlled foreign companies – No

Disclosure requirements – No

Other – There is a statutory general anti-avoidance rule.

Compliance for corporations:

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

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

Filing requirements – Serbia operates a self-assessment regime. Advance corporate tax is payable in monthly installments. A tax return must be filed and the balance of tax due paid within 180 days after the end of the tax period for which the tax return is filed. In cases of a change in status, liquidation or bankruptcy, the deadline is 15 days from the deadline for filing financial statements.

Penalties – Penalties may be imposed for failure to comply with the provisions in the tax proceedings and administration law. Entities also may be banned from carrying out their activities.

Rulings – Binding rulings are issued upon requests from taxpayers.

Personal taxation:

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

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

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

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

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

Capital gains – Capital gains are one of the categories of taxable income.

Deductions and allowances – Personal allowances are available for members of the taxpayer's family that are financially supported by the taxpayer.

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

Complementary income tax is levied at rates of 10% or 15%, applied to net worldwide income (or net Serbia-source income for nonresidents) in excess of a prescribed threshold.

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

Other taxes on individuals:

Capital duty – No

Stamp duty – Stamp duty is payable according to a tariff based on the value of the document. If there is no value, a flat rate applies.

Capital acquisitions tax – No

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

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

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

Net wealth/net worth tax – No

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

Compliance for individuals:

Tax year – Calendar year

Filing and payment – There are three different methods for tax compliance: Pay-As-You-Earn (PAYE), self-assessment and assessment by the tax authorities.

Tax on employment income is paid under the PAYE system, under which tax is deducted at source by the employer. Taxes on certain types of income also are withheld if the payer is required to withhold and pay such taxes on behalf of the individual recipient. Self-assessment is used for certain types of income and when the payer of the income is not obliged to withhold taxes. The individual must file a tax return and pay the tax due, at a rate depending on the type of income, within 45 days of receipt of the income. The tax authorities will issue an assessment for the complementary annual income tax and with respect to entrepreneurs' lump sum income.

Complementary annual income tax returns must be submitted by 15 May of each year.

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

Value added tax:

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

Rates – The standard VAT rate is 20%, with a reduced rate of 10%. Certain items are exempt or zero-rated. Exports are exempt from VAT

Registration – The registration threshold for VAT purposes is annual turnover of RSD 8 million.

Filing and payment – VAT taxpayers with taxable income exceeding RSD 50 million must file a monthly VAT return within 15 days after the end of the tax period and pay the difference between the amount specified in the tax return and the input VAT incurred. VAT taxpayers with taxable income below RSD 50 million must file a quarterly return within 20 days after the end of the tax period.

Source of tax law: Corporate Income Tax Law, Personal

Income Tax Law, Property Taxes Law, VAT Law, Tax Proceedings and Administration Law

Tax treaties: Serbia has concluded 54 tax treaties.

Tax authorities: Tax Administration, Customs Administration

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