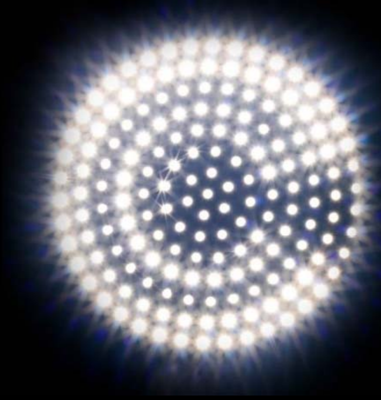
International Tax
FYR Macedonia Highlights 2018



Investment basics:

Currency – Macedonian Denar (MKD)

Foreign exchange control – Foreign exchange is regulated by the Foreign Exchange Law. Residents are required to report loan transactions with nonresidents to the national bank.

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

Principal business entities – These are the state-owned company, joint stock company, limited liability company, general and limited partnership and branch of a nonresident entity.

Corporate taxation:

Residence – A company is resident if it is established under Macedonian law or if its legal seat is in Macedonia.

Basis – Resident companies are subject to tax on their worldwide income. Legal entities that derive profits from a business activity in Macedonia are subject to profit tax.

Taxable income – Taxable income is calculated as the difference between income and expenses, increased by certain costs that are not recognized for tax purposes.

Taxation of dividends – Dividends paid between resident companies are tax-exempt.

Capital gains – Capital gains derived by companies are treated as ordinary income.

Losses – Losses may be carried forward for up to three years from the year in which the loss was recorded. The carryback of losses is not permitted.

Rate – 10%

Surtax – No

Alternative minimum tax – No

Foreign tax credit – A unilateral foreign tax credit is available for foreign tax paid, up to the amount of Macedonian corporate tax due.

Participation exemption – No

Holding company regime – No

Incentives – Taxable income is decreased by the amount of profit reinvested in fixed assets.

A 10-year profit tax holiday is available for companies operating in a free economic zone.

Withholding tax:

Dividends – Dividends paid to a nonresident are subject to a 10% withholding tax, unless the rate is reduced under a tax treaty.

Interest – Interest paid to a nonresident is subject to a 10% withholding tax, unless the rate is reduced under a tax treaty.

Royalties – Royalties paid to a nonresident are subject to a 10% withholding tax, unless the rate is reduced under a tax treaty.

Technical service fees – Management, consulting, financial, R&D and telecommunication service fees paid to a nonresident are subject to a 10% withholding tax,unless the rate is reduced under a tax treaty.

Branch remittance tax – No

Other – No

Other taxes on corporations:

Capital duty – No

Payroll tax – No

Real property tax – The owner of real property is subject to a municipal-level tax, at rates ranging from 0.10% to 0.20%.

Social security – The employer is required to make social security contributions on behalf of its employees, at a rate of 7.3% for health insurance; 0.5% for additional health insurance contributions; 18% for the pension and disability fund; and 1.2% for unemployment.

Stamp duty – No

Transfer tax – The transfer of real property is subject to a municipal-level transfer tax, at rates ranging from 2% to 4%.

Anti-avoidance rules:

Transfer pricing – The arm's length principle applies to transactions between related entities. Taxpayers should provide documentation at the request of the tax authorities to prove that a transaction is in compliance with the arm's length principle.

Thin capitalization – Interest expense incurred on loans granted by shareholders holding at least 25% of the capital of the company is nondeductible if the total amount of the loan exceeds three times the interest of the shareholder. The thin capitalization rules do not apply to financial institutions.

Controlled foreign companies – No

Disclosure requirements – No

Compliance for corporations:

Tax year – Calendar year

Consolidated returns – Consolidated returns are not permitted; each company must file a separate return.

Filing requirements – Companies must file a tax return by the end of February following the tax year. Companies must make monthly advance tax payments based on the tax paid for the previous year.

Penalties – Monetary penalties are imposed for failure to comply with the profit tax law. The authorities can prohibit business activities for up to 30 days.

Rulings – A taxpayer may request an advance ruling on the tax treatment of a transaction, but the ruling is not binding on the tax authorities.

Personal taxation:

Basis – Resident individuals are subject to tax on their worldwide income; nonresident taxpayers are subject to tax only on Macedonia-source income.

Residence – Individuals who have a permanent dwelling available in Macedonia or who have been present in Macedonia for more than 183 days within any 12-month period are considered resident for tax purposes.

Filing status – If required to file a return, each individual must file.

Taxable income – Taxable income includes income from employment, income from professional activities, income from property and property rights, income from royalties, income from capital, income from games of chance and other income.

Capital gains – Capital gains derived from the sale of immovable property, securities and equity participations in companies are subject to a 10% tax, levied on 70% of the gain.

Deductions and allowances – A personal allowance of MKD 89,472 annually, or MKD 7,456 monthly, may be deducted from salaries. The allowance is subject to indexation each year.

Rates – 10%

Other taxes on individuals:

Capital duty – No

Stamp duty – No

Capital acquisitions tax – No

Real property tax – The owner of real property is subject to a tax levied by the municipality, at rates ranging from 0.10% to 0.20%.

The transfer of real property is subject to a municipal-level transfer tax, at rates ranging from 2% to 4%.

Inheritance / estate tax – Inheritance and gift tax are levied at rates ranging from 2% to 5%, depending on the degree of succession.

Net wealth / net worth tax – No

Social security – The employer is required to make social security contributions on behalf of its employees, at a rate of 7.3% for health insurance; 0.5% for additional health insurance contributions; 18% for the pension and disability fund; and 1.2% for unemployment.

Compliance for individuals:

Tax year – Calendar year

Filing and payment – The employer must withhold tax on behalf of its employees and remit the tax to the state budget.

Individuals who earn only salaries or pensions are not required to file a tax return. If a return must be prepared, it must be filed by 15 March of the year following the tax year.

Annual income tax is determined by an assessment issued by the tax authorities based on the information reported in the annual tax return. Any difference must be paid within 30 days from the date of receipt of the assessment.

Penalties – Monetary penalties are imposed for failure to comply with the personal income tax law.

Value added tax:

Taxable transactions – VAT is levied on the supply of goods and the provision of services in Macedonia, and on the importation of goods.

Rates – The standard rate is 18%, with a reduced rate of 5% applying to food products, pharmaceuticals, production equipment, computers and public transportation. Exports are zero-rated. Exemptions include the supply of banking and financial services, insurance, health and education.

Registration – A taxpayer must register for VAT purposes if its turnover exceeds MKD 1 million per year. Voluntary taxpayer status also is possible.

Filing and payment – The VAT return must be submitted and any difference paid by the 25th day of the month following the tax period (which can be on a monthly, quarterly or annual basis, depending on turnover).

Source of tax law: Profits Tax Law, VAT Law, Personal Income Tax Law

Tax treaties: Macedonia has 48 tax treaties.

Tax authorities: Ministry of Finance, Tax Administration, Customs Administration

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