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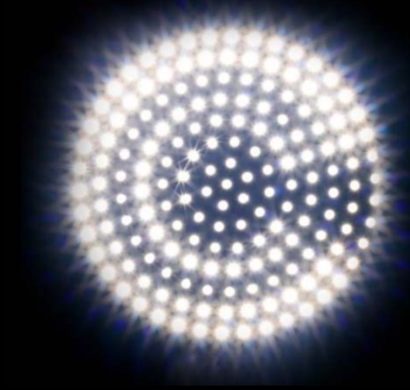
International Tax
Montenegro Highlights 2018



Investment basics:

Currency – Euro (EUR), even though Montenegro is not part of the EU

Foreign exchange control – No

Accounting principles/financial statements – International Accounting Standards are applied. Financial statements must be filed annually.

Principal business entities – These are the joint stock company, limited liability company, partnership and branch of a foreign corporation.

Corporate taxation:

Residence – A company that is registered in Montenegro or that has its management and control there is deemed to be resident for tax purposes.

Basis – Resident companies are taxed on worldwide income; nonresidents are taxed only on Montenegro-source income.

Taxable income – Taxable income is based on accounting profit, adjusted for tax purposes by nondeductible expenses, nontaxable income, tax depreciation, etc.

Taxation of dividends – Dividends paid between residents are subject to withholding tax, but are not included in taxable income. Dividends received from abroad are included in taxable income, but a resident taxpayer can claim a tax credit for foreign tax paid.

Capital gains – Capital gains are included in taxable income and are subject to the normal corporate tax rate of 9%. Capital gains are calculated in accordance with the tax rules and may be offset only against capital losses.

Losses – Tax losses (including capital losses) may be carried forward for five years. The carryback of losses is not permitted.

Rate – The main rate of 9% applies to both domestic and foreign companies.

Surtax – No

Alternative minimum tax – No

Foreign tax credit – An ordinary tax credit is available for foreign income tax paid. The credit is limited to the amount of Montenegro tax attributable to the foreign-source profits.

Participation exemption – See under "Taxation of dividends."

Holding company regime – No

Incentives – An eight-year tax holiday is granted to companies engaged in production activities in an underdeveloped area. The incentive is not applicable in the agriculture, transport, shipbuilding, steel and fishery sectors.

Withholding tax:

Dividends – A 9% withholding tax is levied on dividends paid to a nonresident (unless the rate is reduced under a tax treaty) and on dividends paid to a resident.

Interest – A 9% withholding tax is levied on interest paid to a nonresident entity (a 5% rate applies to interest paid to a nonresident individual), unless the rate is reduced under a tax treaty.

Royalties – Royalties paid to a nonresident are subject to withholding tax of 9%, unless the rate is reduced under a tax treaty.

Technical service fees – Service fees paid to a nonresident for market research, advisory and audit services are subject to a 9% withholding tax.

Branch remittance tax – No

Other – Capital gains generated by a nonresident are subject to a 9% withholding tax when the associated income is paid by a resident legal entity to the nonresident; otherwise, the gains are taxed based on the applicable tax assessment.

Other taxes on corporations:

Capital duty – No

Payroll tax – The municipal authorities levy a surtax of up to 15% on an employee's salary. In addition, labor fund contributions are levied on the gross salary, at a rate of 0.2%.

Real property tax – Property tax is levied on the ownership/use of property at rates ranging from 0.25% to 1%. Limited tax exemptions exist for construction companies.

Social security – The employer is required to make social security contributions at a rate of 10.3% of an employee's salary. The contribution comprises pensions (5.5%), health (4.3%) and unemployment (0.5%). The maximum base for contributions in the calendar year is EUR 50,000.

Benefits provided to employees in addition to the basic salary are exempt from social security contributions.

Stamp duty – No

Transfer tax – A transfer tax of 3% is levied on the transfer of immovable property.

Anti-avoidance rules:

Transfer pricing – Transactions between related parties (as defined) must be at arm's length. The comparable uncontrolled price method may be used, but in the absence of any direct comparables, the taxpayer may use the cost-plus or the resale price method.

Thin capitalization – There are no specific thin capitalization rules, but interest paid to a nonresident (whether or not related) must be on arm's length terms.

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 – The tax return must be filed within three months after the year-end.

Penalties – A penalty of 0.03% per day is imposed for late payment.

Rulings – No

Personal taxation:

Basis – Resident individuals are taxed on worldwide income; nonresidents are taxed only on Montenegro-source income.

Residence – An individual is resident if he/she is in Montenegro for 183 days or more in a calendar year or if his/her center of vital interests is in Montenegro.

Filing status – Joint returns are not permitted.

Taxable income – Taxable income comprises income from employment, business and professional income, investment income (dividends, interest and royalties) and income from immovable property.

Capital gains – Capital gains are taxable at a rate of 9%.

Deductions and allowances – There are no deductions or allowances.

Rates – Salary is subject to progressive tax at rates of 9% and 11%. Gross monthly salary up to the amount equivalent to the average salary in the previous year (EUR 750) is subject to the 9% tax rate; the portion of monthly gross salary exceeding this amount is subject to 11% tax. A 9% income tax generally is levied on other types of personal income, such as dividends, interest and capital gains.

Certain income, such as income from personal services, is subject to tax at a rate of 9% on a tax base that is equivalent to 70% of income.

Salary paid to an employee of a start-up company (except for businesses in the agriculture, transport, shipbuilding, steel and fishery sectors) in an underdeveloped area is tax-exempt for eight years. The total tax exemption during this period is limited to EUR 200,000.

A 9% withholding tax is levied on dividends and royalties paid to a nonresident individual; the rate on interest is 5%.

Other taxes on individuals:

Capital duty – No

Stamp duty – No

Capital acquisitions tax – No

Real property tax – Property tax is levied on the owner/user of property at rates ranging from 0.25% to 1%. Deductions are available.

Inheritance/estate tax – A 3% tax is levied on the inheritance of real estate. An exemption is available for the transfer of property as a gift or inheritance to children, parents or a spouse.

Net wealth/net worth tax – No

Social security – Social security contributions due by an employee are levied at a rate of 24%. These include contributions for pensions (15%), health (8.5%) and unemployment (0.5%). The employer also must make a contribution. The maximum base for contributions in the calendar year is EUR 50,000.

Benefits provided to employees in addition to the basic salary are exempt from social security contributions.

Compliance for individuals:

Tax year – Calendar year

Filing and payment – Employment income is taxed via withholding by the employer. Individuals that receive only employment income from one employer are not required to file an annual return.

Individuals that receive income from several sources must file an annual tax return, with tax paid during the year deducted from the final tax due. The return is due by 30 April following the tax year-end.

A nonresident with Montenegro-source income that is not subject to withholding tax must file a tax return to report such income.

Penalties – A penalty of 0.03% per day is imposed for late payment.

Value added tax:

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

Rates – The standard rate is 21%. A reduced rate of 7% is levied on the supply of certain goods and services. Exports are zero-rated and exemptions exist for financial services, the sale of land, etc.

Registration – Taxpayers with revenue in excess of EUR 18,000 must register for VAT purposes.

Filing and payment – A VAT return must be filed monthly and tax must be paid by the 15th day of the month, for the previous month.

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

Tax treaties: Montenegro continues to apply the tax treaties signed by the former Yugoslavia and Union of Serbia and Montenegro until Montenegro signs new treaties. Certain new treaties have been signed and others are being negotiated.

Tax authorities: The tax authorities are organized within the Ministry of Finance and at the municipal level.

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