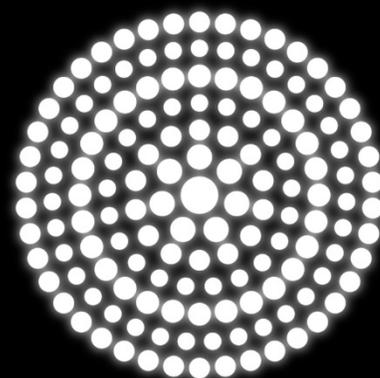


International Tax Montenegro Highlights 2021

Updated January 2021



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

Rates

Corporate income tax rate	9%
Branch tax rate	9%
Capital gains tax rate	9%

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. Branches are taxed in the same way as subsidiaries.

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

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

Surtax: No

Alternative minimum tax: No

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.

Foreign tax relief: 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, but the exemption is limited to EUR 200,000 over the eight-year period. This incentive does not apply to the agriculture, transport, shipbuilding, steel, and fishery sectors.

A taxpayer that settles its tax liability by the prescribed deadline is entitled to reduce the liability by 6%.

Compliance for corporations

Tax year: Calendar year

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

Filing and payment: 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

Individual taxation

Rates	
Individual income tax rate (for salary)	9%
Capital gains tax rate	9%

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.

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

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

Rates: Salary is subject to tax at a rate of 9% (rates of 9% and 11% applied until 31 December 2019) . The same rate generally applies to 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 four years provided certain conditions are fulfilled.

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

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

Deductions and allowances: There are no deductions or allowances.

Foreign tax relief: An ordinary tax credit is available for foreign income tax paid up, to the amount of Montenegro tax attributable to the foreign-source income.

Compliance for individuals

Tax year: Calendar year

Filing status: Joint returns are not permitted.

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.

Rulings: No

Withholding tax

Rates				
Type of payment	Residents		Nonresidents	
	Company	Individual	Company	Individual
Dividends	9%	9%	9%	9%
Interest	0%	0%	9%	5%
Royalties	0%	0%	9%	9%
Fees for technical services	0%	0%	9%	9%

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.

Fees for technical services: 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.

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.

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

Montenegro does not have rules regarding controlled foreign companies, hybrid entities, economic substance, required disclosures, exit taxes, or general anti-avoidance.

Value added tax

Rates	
Standard rate	21%
Reduced rate	0%/7%

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 paid by the 15th day of the month, for the previous month.

Other taxes on corporations and individuals

Unless otherwise stated, the taxes in this section apply both to companies and individuals and are imposed at the federal level.

Social security contributions: The employer is required to make social security contributions at a rate of 8.3% of an employee's salary. The contribution comprises pensions (5.5%), health (2.3%), and unemployment (0.5%). The maximum base for contributions in the calendar year is EUR 53,858.

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

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%).

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%.

Capital duty: No

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

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

Stamp duty: No

Net wealth/worth tax: No

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.

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. Some 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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