

Serbia

Contact

Dejan Mrakovic
Partner
dmrakovic@deloittece.com
+062201200

Pavle Kutlesic
Senior Manager
pkutlesic@deloittece.com
+0652443120

Marko Novakovic
Consultant 3
marnovakovic@deloittece.com
+0605678118

What's new?

Summary of updates/Changes to R&D and government incentives from 1 January 2019 through 31 October 2020

- A 200% super deduction applies to expenses directly related to R&D activities
- Qualified income may be exempt from corporate income tax
- A tax credit is available for investments in the share capital of new companies conducting innovative business activities (start-ups)
- A salary tax exemption may apply with respect to:
 - The organization of recreational, sport, and other activities for employees; and
 - An employee's acquisition of free shares from an employer or an employer's related entity

Featured government incentives

Incentive name	Description	Maximum percentage	Qualification standards	Key exclusions or issues
Corporate profit tax holiday	A 10-year corporate profit tax holiday is available for investors who hire more than 100 employees and invest more than EUR 8.5 million (RSD 1 billion). The tax holiday begins once the company starts making a profit	Not applicable	Not applicable	Minimal investment of RSD 1 billion At least 100 new workers must be employed for an indefinite period
Construction land transfer subsidy	The Serbian government can sell construction land that it owns at a price that is lower than the market price in support of an investment project that is of national importance, and a local municipality can do the same with land that it owns in support of an investment project that promotes local economic development	Not applicable	Not applicable	Not applicable
Payroll tax incentives	Employers who hire people who were registered with the National Unemployment Agency for more than six months qualify for a refund of salary tax (and social security contributions) paid until 31 December	Refund of taxes and social security contributions paid by 31 December 2020: <ul style="list-style-type: none"> • 1–9 new jobs: 65% refund • 10–99 new jobs: 70% refund • 100+ new jobs: 75% refund 	Not applicable	Payroll tax incentives cannot be combined with financial incentives



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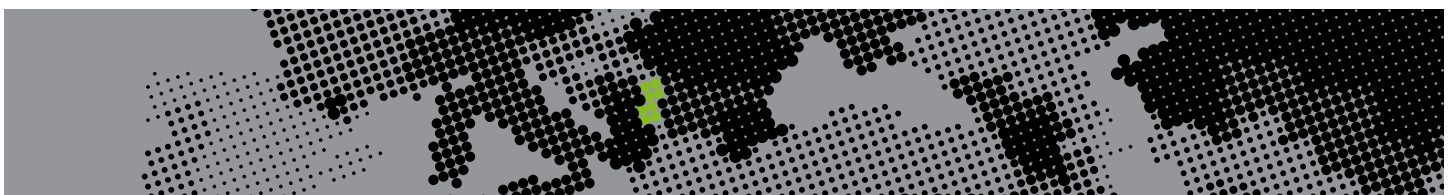
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Industries most often affected by government incentives in country

Technology, Media & Telecom	Financial Services
● Telecom, Media & Entertainment	Banking & Capital Markets
Technology	Insurance
Consumer	Investment Management
● Consumer Products	Real Estate
Retail, Wholesale & Distribution	Life Sciences & Health Care
● Automotive	Health Care
Transportation, Hospitality & Services	Life Sciences
Energy, Resources & Industrial	Government & Public Services
● Power & Utilities	Health & Social Care
● Mining & Metals	Defense, Security & Justice
● Oil, Gas, & Chemicals	Civil Government
● Industrial Products & Construction	International Donor Organizations
	Transport



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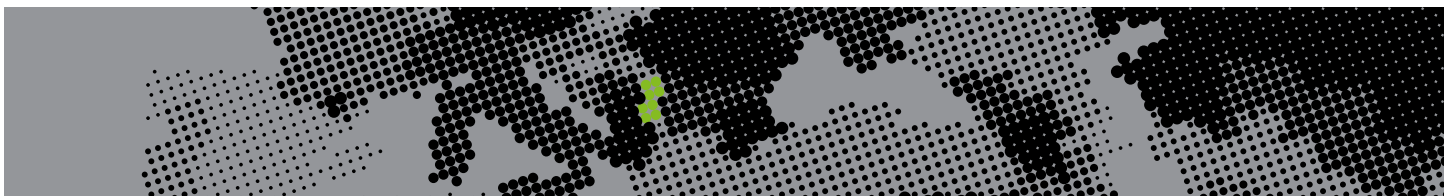
Type	National incentive?	State, provincial, regional or local incentives? ¹	Filing deadlines imposed?	Is the claim made in advance or arrears? ²	Nature of incentive	Maximum benefit available to large enterprises	Maximum benefit available to small and medium-sized enterprises
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Innovation

Research & development (R&D)	●	●	●	National: Arrears	Any taxpayer conducting R&D activities (as defined in the corporate income tax law) is eligible	No prescribed limit	No prescribed limit
			●	Local: Not applicable	Expenses directly incurred related to R&D activities (salaries, materials, production services, etc.) are eligible for the 200% deduction		
Patent box	●	●	●	National: Arrears	Taxpayers deriving income from the licensing of registered intellectual property	No prescribed limit	No prescribed limit
			●	Local: Not applicable	80% of qualified income is exempt from taxation. Qualified income is calculated using a complex formula, as provided in an appendix to the corporate income tax return		

Key: ● = PERMANENT INCENTIVE (||) = TEMPORARY INCENTIVE (|||) = NEGOTIABLE ● = NO ● = LIMITED APPLICABILITY ● = NOT APPLICABLE

- Notes:
- Green means that this incentive is currently in effect. Yellow means that the incentive has limited applicability, i.e., the requirements for this incentive limit its value to most companies. Red means that there is no incentive.
 - If the response is advance, this means that the government must approve the award of the incentive prior to the commencement/completion of the project/activity. If the response is arrears, this means that the award of the incentive is determined at the end of the tax period or after the completion of the qualifying project or activity. Most tax incentives are considered to be claimed in arrears because they are reported on tax returns.











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Type	National incentive?	State, provincial, regional or local incentives? ¹	Filing deadlines imposed?	Is the claim made in advance or arrears? ²	Nature of incentive	Maximum benefit available to large enterprises	Maximum benefit available to small and medium-sized enterprises
Investment							
Capex			 	National: Advance Local: Not applicable	Investments in all sectors are eligible for state funds, except: <ul style="list-style-type: none"> • Transportation/ logistics activities, activities in the energy sector, and software development; • Hospitality and games of chance; • Trade/retail sectors; and • Projects involving the production of synthetic fibers, coal and steel, tobacco and tobacco products, weapons and ammunition, and shipbuilding (construction of certain sea merchant vessels). 	Depending on the size and of the investment, funds covering up to 50% of eligible costs may be granted, but the rate is smaller for investments over EUR 50 million Grants cover 20% to 40% of eligible two-year gross salary costs for new jobs created (with the maximum amount per new job ranging from EUR 3,000 to 7,000)	Depending on the size and type of investment, funds may be granted covering up to 60% of eligible costs for medium-sized enterprises and up to 70% for small corporations Grants cover 20% to 40% of eligible two-year gross salary costs for new jobs created (with the maximum amount per new job ranging from EUR 3,000 to 7,000)
Employment			 	National: Arrears Local: Not applicable	New incentives were introduced as from 1 January 2020 for qualified new employees and for newly established companies conducting innovative business activities (start-ups) Employers are exempted in part from the employer portion of pension and disability insurance contributions	With respect to qualified new employees, the exemptions for employers are as follows: <ul style="list-style-type: none"> • 70% of payroll taxes and 100% of contributions for salaries paid between 1 January and 31 December 2020 • 65% of payroll taxes and 95% of contributions for salaries paid between 1 January and 31 December 2021 • 60% of payroll taxes and 85% of contributions for salaries paid between 1 January and 31 December 2022 	No prescribed limit

Key:  = PERMANENT INCENTIVE  = TEMPORARY INCENTIVE  = NEGOTIABLE  = NO  = LIMITED APPLICABILITY  = NOT APPLICABLE

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Innovation Incentives

R&D deduction

Since 2019, the Corporate Income Tax Law has allowed a 200% super deduction for expenses directly related to R&D activities conducted in Serbia.

Research is defined as original planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding. Development is defined as the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, or services before the start of commercial production.

This incentive does not apply to research expenses incurred with the aim of finding and developing oil, gas, or mineral resources in the extractive industry.

IP Box regime

A special tax incentive is available to taxpayers who derive royalty income from the licensing of registered IP (including related rights and patents). The IP must have been registered in Serbia as from 1 January 2019.

Eighty percent of qualified royalty income realized by the owner of the IP (including patents), but not compensation for the transfer of all rights to the IP, may be excluded from the tax base at the taxpayer's option. The corporate income tax law provides rules for determining qualified income.

Taxpayers must state their royalty income in their tax account balance. They must also prepare and, at the request of the Tax Administration, submit documentation in the manner and form prescribed by the Minister of Finance.

Tax incentive—Tax credit for investments in start-up companies

Existing companies that are not deemed to conduct innovative business activities and that invest as from 1 January 2019 in the

share capital of newly established companies conducting such activities (i.e., start-ups) may receive a corporate tax credit equal to 30% of the amount of their investment.

The tax credit is available under the following conditions:

- Before the investment, independently or with all related entities, the taxpayer did not own more than 25% of the shares, i.e. voting rights, in the start-up in which it invests;
- The credit is only based on the fully paid-in monetary investment that increases the start-up's capital; and
- The taxpayer did not decrease its investment continuously for a period of three years from the date of the investment.

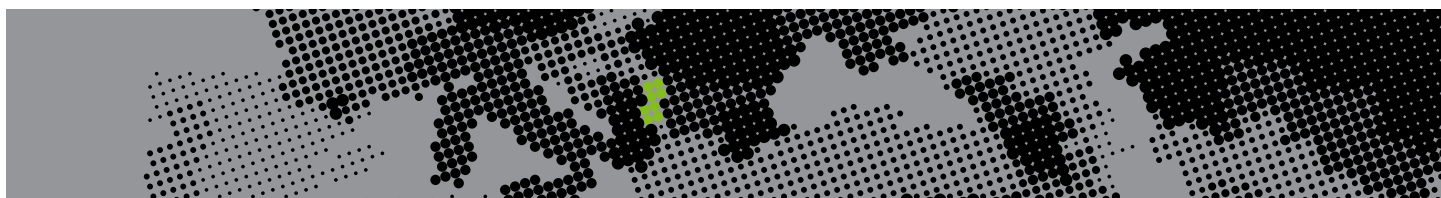
The tax credit can only be used for the first time in the tax period following the period in which the third condition is fulfilled.

The maximum amount of tax credit that can be claimed by an individual taxpayer is RSD 100 million (approximately EUR 850,000). The maximum amount of tax credit, regardless of the number of investments, that can be claimed in a single tax period by the taxpayer is RSD 50 million (approximately EUR 425,000). An exception to the general rules applies in the case of related entities having the right to use this tax credit.

The unused part of a tax credit may be carried forward, but not longer than five years.

In order for a company to be treated as a newly established company conducting innovative business activities (i.e., a start-up), it must meet the following conditions:

- It was established no more than three years prior to the investment;
- Its predominant business activity is innovative (as defined in the law governing innovative activities);
- Its annual income does not exceed RSD 500 million based on information at the time of the investment;



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- It has not distributed dividends since it was established and it will not distribute dividends in the three-year period following the investment;
- The center of its business activities is in Serbia;
- It was not established through mergers/demergers; and
- In every tax period, starting from the period following the period in which the company was established and until the conditions for the tax credit are met:
 - The company's R&D expenses represent at least 15% of total expenses;
 - More than 80% of the company's employees are highly qualified; or
 - The company is the owner or user of the registered IP or patent directly related to the company's innovation activities.

Tax holiday

A corporate tax holiday is available for investors who meet the following conditions:

- Investment of more than RSD 1 billion (approximately EUR 8.5 million) in fixed assets that are used for registered business activities (investments in progress are not considered fixed assets in use until activation); and
- Employment of 100 new employees for an indefinite period of time during the period of investment.

Once these conditions are met, the tax holiday begins when the company starts making a profit and lasts for 10 years.

Contributions in kind made through share capital and/or increases in share capital also are considered investments in fixed assets. Investments are valued at fair market value. It should be noted that the purchase of equipment previously used in Serbia is not considered an investment. Moreover, in order to claim the incentive, the fixed assets have to be put in use and have to be paid. The tax holiday is granted in proportion to the value of the investment, i.e., the tax liability is reduced based on the ratio of new asset value to

total asset value (total assets include the newly acquired assets). This ratio must be separately calculated for each year. For purposes of this incentive, new employees cannot be individuals formerly employed in a company directly or indirectly related to the taxpayer.

Furthermore, if the number of assets or employees is reduced and is not reinstated, the taxpayer no longer will be eligible for the tax holiday and will be liable to repay the amount of the tax holiday used in previous periods, adjusted for local inflation.

Tax losses

Operating losses from business activities may be carried forward for up to five tax years and used to offset taxable income.

Capital gains (earned on the sale of real estate, shares, certain investment units, and intellectual property rights) are subject to corporate income tax. Capital losses may be carried forward for up to five tax years and used to offset capital gains. Operating losses cannot be used to offset capital gains and vice versa.

Investment Incentives

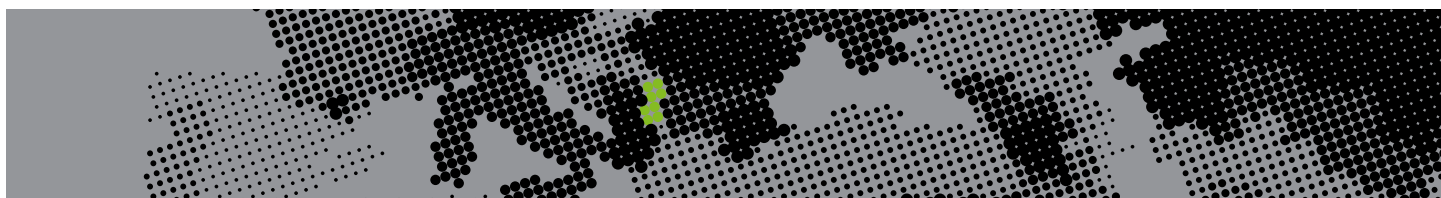
Employment incentives

The employment incentives described below are provided in the Individual Income Tax Law and the Law on Social Security Contributions.

Employers hiring new employees (and whose number of employees has increased since 31 March 2014) qualify for a refund of salary tax and social security contributions paid by 31 December 2020 for new employees. Employers who started their business activities after 31 March 2014 also qualify.

An employee is considered a new employee for purposes of this incentive if the following conditions are met:

- The employer has concluded an employment contract with the employee for an indefinite or a definite period of time, in accordance with the Labor Law;



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- The employer has registered the employee for mandatory social security insurance with the social security central registry; and
- The employee was continuously registered with the National Unemployment Agency for at least six months prior to the employment (three months for an intern).

The amount of salary taxes and social security contributions refunded is determined as follows:

- 1 to 9 new employees: 65% refund;
- 10 to 99 new employees: 70% refund; and
- 100 or more new employees: 75% refund.

In addition, employers who hire disabled persons are exempt from paying salary taxes and social security contributions (on their own behalf) during a three-year period as from the date of employment.

New incentives were introduced as from 1 January 2020 for qualified new employees and newly established companies carrying out innovative business activities.

For qualified new employees, employers are exempt from paying the calculated payroll taxes and they are exempt from the employer portion of pension and disability insurance contributions, as follows:

- 70% of payroll taxes and 100% of contributions for salaries paid between 1 January and 31 December 2020;
- 65% of payroll taxes and 95% of contributions for salaries paid between 1 January and 31 December 2021; and
- 60% of payroll taxes and 85% of contributions for salaries paid between 1 January and 31 December 2022.

For newly established companies, the exemption applies to payroll taxes and social security contributions paid on the founders' salary, up to RSD 150,000 for the employee-founder, for a period of 36 months from the day the company was founded.

Capex

With the goal of attracting foreign investments, a special financial subsidies package was introduced for companies that invest in Serbia. The financial incentives described below are provided in a 2019 decree addressing the conditions and methods for attracting direct investments.

State grants are provided for greenfield and brownfield projects in the following sectors:

- Manufacturing;
- International trade services; and
- Hotel accommodation services.

However, the following sectors/activities are not eligible for the incentives:

- Transportation/logistics activities, activities in the energy sector, and software development;
- Hospitality and games of chance;
- Trade/retail sectors; and
- Projects that involve the production of synthetic fibers, coal and steel, tobacco and tobacco products, weapons and ammunition, and shipbuilding (construction of certain sea merchant vessels).

Non-refundable state funds are granted for each new job created. These new jobs have to be created within three years from the day the grant request is submitted (this period may be extended subsequently to five years).

Investors can choose the basis on which the amount of funds will be determined and granted, as follows:

- Eligible costs for investing in fixed and intangible assets; or
- 20% to 40% of eligible two-year gross salary costs for each new job created (with the maximum amount per new job ranging from EUR 3,000 to 7,000).



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Eligible costs for investing in intangible assets total up to 50% of total eligible costs for large enterprises and 100% of total eligible costs for SMEs.

If investors decide to use the funds to cover eligible salary costs, an additional 10% to 30% of the amount of eligible costs for fixed assets may be granted.

Furthermore, if the incentive is granted for labor intensive projects (i.e., at least 200 new jobs are created), an additional 10% to 20% of eligible two-year gross salary costs for new jobs created may be granted, depending on the number of new vacancies.

The following are the minimum requirements for manufacturing investment projects in different regions (ranked based on their level of economic development):

Devastated regions

At least 10 new employees and eligible investment costs of at least EUR 100,000

Regions from group IV

At least 20 new employees and eligible investment costs at least EUR 200,000;

Regions from group III

At least 30 new employees and eligible investment costs of at least EUR 300,000

Regions from group II

At least 40 new employees and eligible investment costs of at least EUR 400,000

Regions from group I

At least 50 new employees and eligible investment costs of at least EUR 500,000

For international trade services, the minimum requirements are at least 15 new employees and investment of at least EUR 150,000.

For investment projects in the agricultural and fishing sectors, the minimum requirements are at least 25 new employees and investment of at least EUR 2 million.

The maximum amount of funds that may be awarded to investors is as follows:

- Large enterprises (as defined in the state aid regulations): up to 50% of eligible investment costs.
- Medium-sized enterprises: up to 60% of eligible investment costs.
- Small enterprises: up to 70% of eligible investment costs.
- Investments from EUR 50 million to EUR 100 million: up to 25% of eligible investment costs on amounts above EUR 50 million.
- Investments above EUR 100 million: up to 17% of eligible investment costs on amounts above EUR 100 million.

Investments of "special importance" may be awarded up to an additional 30% benefit and include the following:

- Investments that significantly impact the development and competitiveness of the Serbian economy;
- Investments of more than EUR 2 million within three years, or resulting in 100 new jobs within five years, from the time the investment starts, for devastated regions and regions in group III or IV (EUR 5 million and 5,000 new jobs for regions in groups I and II);
- Investments that "foster joint development priorities of one or more municipalities aimed at increasing their competitiveness;" and
- Investments made on the basis of a bilateral treaty or a treaty on cross-border cooperation.

Additionally, imports of equipment that represent a foreign investor's investment stake (except for passenger cars and gaming machines) could be exempt from customs and other import duties.

