



Guide for investing in Serbia

At your glance



November 2015

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Serbia: Country profile

Serbia is a small and fast-growing country located in the southeastern Europe and surrounded by Hungary, Romania, Bulgaria, Macedonia, Albania, Montenegro, Bosnia and Herzegovina and Croatia.

Thanks to its highways (Corridors 10 and 11) and river network (the total length of navigable rivers and channels is 1,395 km), especially Danube river which passes through the country and its capital city Belgrade, Serbia is connected with other important countries such as Turkey, Greece, Austria, Germany, Slovakia, Italy and many more. Furthermore, Serbia has a very favorable geographical position and mild climate.

Serbia's capital city is Belgrade, located at the confluence of the Sava and Danube rivers. With a very rich history, Belgrade is one of the oldest cities in Europe and is the largest city in the region with a population of over 1,600,000 people. Besides Belgrade, some of the other important cities are: Novi Sad, Nis, Kragujevac, Subotica, Sabac, Cacak, Krusevac, Kraljevo, Uzice.

Autonomous Province of Vojvodina is located north from Sava and Danube rivers, and it is an area well-known for its agricultural production. Central Serbia region is well-known for its production of fruits especially plums, raspberries, apricots etc., as well as for industrial production. Eastern Serbia is a region rich with minerals, gas, coal, iron, copper, gold, silver, magnesium, etc.

Today, Serbia is a democratic European country with a clear course towards the European Union. In March 2012 the European Council granted the status of candidate country to Serbia and decided to open accession negotiations in June 2013 (which were formally launched in January 2014). The Stabilization and Association Agreement between Serbia and the EU entered into force in September 2013 while the negotiation process between EU and Serbia is expected to start by the end of 2015.



Serbia fact book

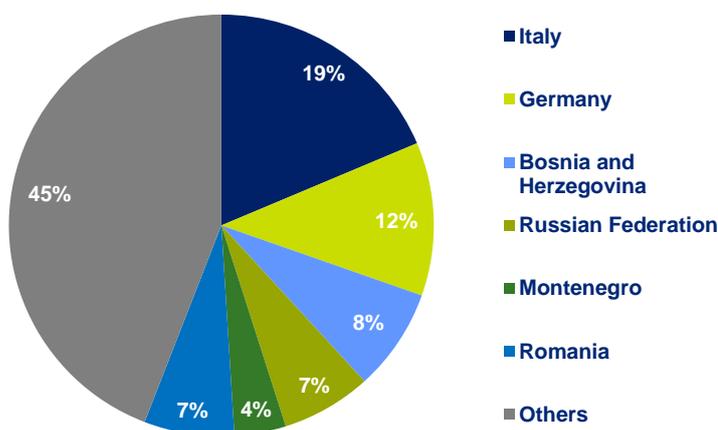
Official name:	Republic of Serbia
Form of state:	Democratic Republic
Political structure:	Presidential
Area:	88,407 m²
Population:	7.12 million (excluding Kosovo and Metohija)
Official language:	Serbian
Main religion:	Christian Orthodox
Other religions:	Roman Catholic, Islamic, Jewish, Protestant
Currency:	Serbian Dinar (middle exchange rate is approx. 120 RSD for 1 EUR)
GDP (2014):	33.1 billion EUR
GDP per capita (2014):	4,626 EUR
Time zone:	Central European Time (GMT + 01:00)
Internet domain:	.rs
Capital City:	Belgrade, with population of more than 1,600,000
Credit ratings (as of March 2015):	BB- (Standard&Poors)/ B+ (Fitch)/B1 (Moody's)



Exports and Imports

The trade balance deficit in 2014 reached historical minimum level of 5.9% of GDP. The significant growth rates in 2014 were recorded in export of tobacco products, paper products, oil derivatives, agricultural production, processed food and clothing.

Serbian exports for period January-April 2015:

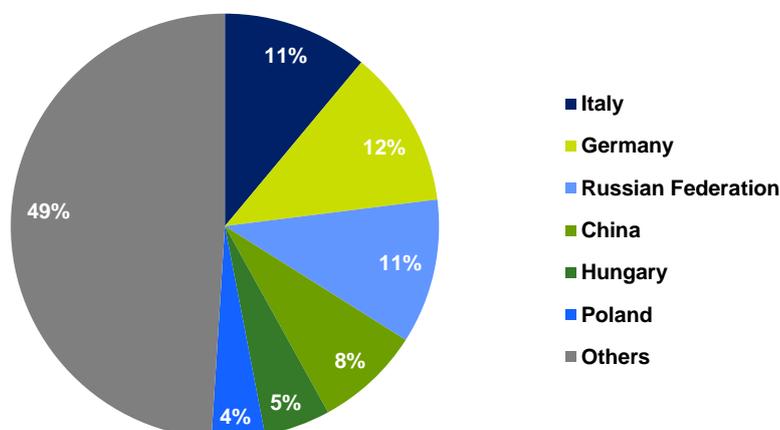


Fiscal policy measures

In September 2014 the Serbian Government announced new fiscal consolidation measures and structural changes which included the reform of tax administration and public revenue system, reform of public enterprises, decrease in subsidies to agriculture, public administration reform and rightsizing, among others.

On February 23, 2015 the IMF Executive Boards approved a three-year new Stand-By Arrangement for Serbia, worth around EUR 1.2 billion. The program was treated as precautionary and it is based on three main pillars: restoring public finances health; increasing the stability and resilience of the financial sector; and implementing comprehensive structural reforms in order to form a solid foundation for job creation and return to sustainable growth.

Serbian imports for period January-April 2015:



Legal System

The civil, continental law system is applicable in Serbia, as well as in other countries in the region.

The Parliament is the supreme legislator and the Government and ministers are competent to pass decrees and other by-laws in specific areas. All legal acts must first be in line with the Constitution of the Republic of Serbia, then with the ratified international agreements, as well as with all other laws. Every legal act (laws and by-laws) comes into force after publication in the Official Gazette of the Republic of Serbia.

Along with state courts of general and special jurisdiction, disputes may be settled through alternative methods of dispute resolution, e.g. arbitration. Legal entities may opt for arbitration, providing an arbitration clause within the contracts. An institutional arbitration court, the Foreign Trade Court of Arbitration at the Serbian Chamber of Commerce operates in Belgrade. Rulings of the tribunal are final and binding. Furthermore, parties are free to opt for procedural rules, as well as for applicable substantive law, which particularly benefits disputes with a foreign element.

Foreign Direct Investments

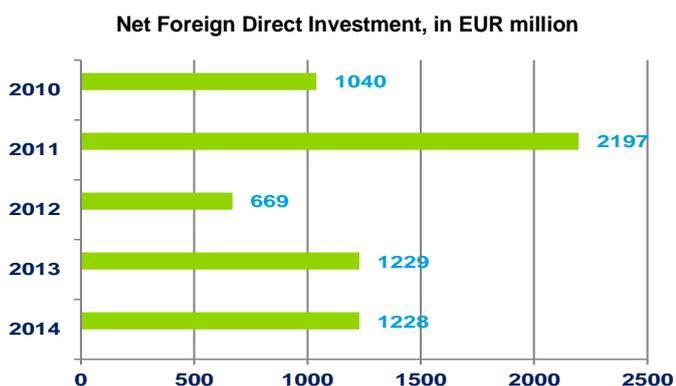
In 2014 FDI level was expected to be at the same level as in 2013 (EUR 1.25 billion), but at the end of the year FDI's reached a slightly higher level of EUR 1.3 billion. EU countries are the main exporters of FDI's given that 80% FDI's came from the EU.

Since the year 2000 Serbia has attracted more than EUR 24 billion of foreign direct investments and grown into one of the premier investment locations in Central and Eastern Europe. A list of leading foreign investors is topped by world-class companies and banks such as FIAT, Telenor, Stada, Microsoft, Coca-Cola, Delhaize, Michelin, Gazprom, Bosch, Siemens and Intesa Sanpaolo, among others.

Besides investments from European Union, the Serbian infrastructure, electric power, food, telecom and automotive sectors are attracting attention from Chinese investors. In 2014, the Serbian government had announced that China National Electric Engineering Co. (CNEEC) had announced plans to invest USD 1.2 billion in Serbia, including developing an industrial park, redeveloping two power plants, and investing in three mechanical engineering firms facing closure.

In addition to that, a USD 334 million section of the Corridor 11 Highway is already under construction by Shandong. In December 2014, a USD 260 million Zemun-Borca Bridge that was built by China Road and Bridge Corporation (CRBC) and Serbian partners was completed.

Serbia's strong FDI track-record is substantiated by internationally recognized awards for local Greenfield investors. Between 2004 and 2006, Greenfield projects in Serbia were awarded by the OECD as the largest investments of this type in South East Europe. The first Award was



presented to Ball Packaging Europe (headquartered in USA), followed by METRO Cash & Carry (Germany), and Israeli Africa-Israel Corporation/Tidhar Group for their Airport City Belgrade real estate project.

A study by the name of "Economic barometer of South Eastern Europe" conducted by the Austrian credit insurance Prisma and GfK Austria has shown that the economic index for Serbia is 79 out of a possible 100 points, which means it has the most positive economic environment in the region.

The mentioned Index involves an assessment of the overall economic situation in the country, import-export and investment activities as well as payment related behavior/culture.

FDI by industries

Over the past ten years, service sectors have proven to be the most attractive to international investors. Banking and insurance recorded the

largest FDI inflow of 5 billion EUR. Manufacturing industries held the 2nd spot with EUR 4.8 billion, followed by wholesale, retail and repair of motor vehicles and real estate activities.

Key industries in Serbia

➤ Automotive industry

The Serbian automotive industry is not only a traditional economic sector but a sector with a bright perspective due to highly-qualified workforce and its geographical location.

Today, the automotive industry is one of the most prominent sectors in Serbia, accounting for almost 10% of the entire FDI stock in Serbia since 2001. Around 60 international investors have invested over EUR 1.7 billion in the sector. The Serbian automotive industry supplies almost all major European and some Asian car manufacturers.

Within the industry the most important activities are: manufacturing of vehicle chassis system parts and electrical system components and production of engine components (valves, brake discs, camshafts, etc.).

Some of the largest investors in the automotive industry are:

- ✓ **FIAT,**
- ✓ **Magneti Marelli,**
- ✓ **Johnson Electric,**
- ✓ **Michelin,**
- ✓ **YURA,**
- ✓ **Bosch,**
- ✓ **Continental.**

Inward FDI by Industries (2004-2013)

Industry	Investment value (EUR million)
Financial Intermediation	4,968
Manufacturing	4,766
Wholesale, retail and repairs	3,167
Real estate activities	2,459
Transport, storage and communication	2,456
Construction	586
Mining and quarrying	544
Agriculture, forestry and fishing	194
Other utility, social and personal services	136
Professional, scientific and technical activities	119
Accommodation and food service activities	97
Public administration and social insurance	83
Electricity, gas and water	73
Administrative and support service activities	26
Education	4

➤ Shared Services sector

Serbia has a great perspective to emerge as a top market for the shared services and business processing outsourcing industry. The workforce is reliable, skilled and multilingual. On the other hand, the country's position in the heart of CEE makes it an excellent choice since it shares the same time zone as most western European countries.

Many global players such as TeleSign, FirstData, NCR Corporation and Iron Mountain have already recognized the potential of the Serbian market.

➤ Electronics industry

The Serbian electronics industry presents over 1,700 innovative companies. This sector also has the lowest total annual labor costs, while being home to highly experienced and skilled workers. Technical education in Serbia is particularly strong with approximately 33% of university graduates coming from technical schools. For the reasons above, Serbia has a highly competitive electronics sector.

From 2001 onwards, this industry has witnessed a steady revival primarily driven by a continual inflow of foreign direct investment, totaling roughly EUR 168 million.

Some key investments already in place are those of the Austrian ATB Gruppe, Slovenian home appliance company Gorenje, Siemens and Panasonic's EUR 13 million facility in central Serbia.

This sector is, along with the ICT, food and automotive industries, being actively supported by the Serbian government as one of the priority sectors. This allowed investors to receive more favorable investment incentive deals in the past, a practice which should continue in the future.

Some of the largest foreign investors in the electronics sector are:

- ✓ **Siemens LoherElectro,**
- ✓ **Gorenje,**
- ✓ **Panasonic,**
- ✓ **EATON,**
- ✓ **Photon Optronics,**
- ✓ **Sagemcom,**
- ✓ **WEG.**

➤ ICT industry

With a particularly strong engineering education background, attractive labor costs, outstanding skills, high fluency in English and a developed telecommunication and ICT infrastructure, Serbia is aiming to become an alternative to more traditional ICT markets, with the ICT sector becoming one of the pillars of Serbian economy.

Serbia is ranked 40th on the list of biggest software exporters. In 2013 Serbia exported around EUR 230 million in software services, which is a 30% increase compared to the previous year.

Some of the key investors in the ICT sector are:

- ✓ **Microsoft,**
- ✓ **IBM,**
- ✓ **Nordeus,**
- ✓ **Siemens,**
- ✓ **Schneider Electric,**
- ✓ **Asseco.**

➤ Food industry

Serbia has ideal natural conditions for agricultural production (one of the cleanest soils in Europe, diverse climate, over 6 million ha of agricultural land, a tradition of quality and healthy food production). As an important indicator of its efforts to produce quality food, Serbian law prohibits the production and import of any genetically modified foods and seeds (GMO).

Serbia is a global leader in the export of frozen raspberries and in 2013 was the largest provider of frozen fruit to the French and German market, and the second largest to the Belgium market.

In 2014 Serbia exported EUR 2.337 million of agricultural products, making it one of the few sectors recording trade surplus. Serbian agricultural products can be found in grocery shops and supermarkets chains around the globe such as: Tesco, Lidl, Spar, Carrefour, Idea, Metro and others.

Some of the largest investors in the food industry are:

- ✓ Salford,
- ✓ Agrokor,
- ✓ Nestle,
- ✓ Rauch,
- ✓ Grand,
- ✓ Meggle,
- ✓ Pepsico.

➤ Textile industry

Textile and apparel production in Serbia have a long history and a long tradition of collaboration with foreign partners. In terms of the number of investment projects and jobs created, the textile industry ranks quite high on the list of sector attractiveness.

Over the last 10 years, the Serbian fashion industry has evolved from a domestic, manufacturing-based industry into a design-led sector operating in the global marketplace. Global manufacturers are extensively using their production facilities as secondary manufacturing sites for the production of high-quality apparel.

Serbia`s textile sector predominantly trades with EU member countries (Italy, Germany, France, Austria, and Slovenia), Russia, Turkey and China.

Some of the largest foreign investors in the textile industry are:

- ✓ United Colors of Benetton,
- ✓ Pompea,
- ✓ Falke,
- ✓ Fulgar,
- ✓ Calzedonia,
- ✓ Golden Lady.



➤ **Wood & furniture industry**

One of the sub-sectors of the industry with the brightest future is the production of large furniture. This area offers comparative advantages such as: high-quality local raw materials, a low-priced labor force, low energy prices compared to other European countries, and a strategic geographic position that allows for fast shipment. In addition to that, the Free Trade Agreements with EU countries and Russia, and the good reputation and quality, has helped this sub-sectors record a trade surplus of over EUR 100 million.

Some of the largest foreign investors in the wood and furniture sector are:

- ✓ **Jysk,**
- ✓ **Tarkett,**
- ✓ **Pontex.**

➤ **Metalwork industry**

This industry represents one of the Serbia's core industries with the longest manufacturing tradition, dating back to 1853.

Companies within the sector vary in size and structure, as the metal processing sector is relatively diverse. Large companies dominate the first part of the value chain, with significant economies of scale (production of primary metals, primary processing of metals), while the companies operating in the processing and manufacture of metal products subsectors are more specialized and customer-oriented SME's. In the secondary processing such as casting, pressing, processing and coating of metals, the share of SME's is 90%.

Most of the companies within the industry are export-oriented with Italy, Germany and Bosnia and Herzegovina being the most important markets.

Some of the largest foreign investors in the metalwork industry are:

- ✓ **Grundfos,**
- ✓ **Alumil,**
- ✓ **AEG,**
- ✓ **SBE,**
- ✓ **Belarus.**



1. Tax legislation

The following is a summary of main tax categories existing in Serbia: CIT (corporate income tax), VAT (value-added tax), and PIT (personal income tax).

1.1 Corporate income tax and withholding taxes

Corporate income tax

Pursuant to the provisions of the Corporate Income Tax Law (CIT Law), Serbian resident companies are subject to 15% corporate income tax (CIT) on their worldwide income.

A resident is a legal entity that is incorporated or has a place of effective management and control on the territory of Serbia.

Taxable income is established on the basis of accounting profit, determined in line with the International Accounting Standards, International Financial Reporting Standards and local audit and accounting legislation, further adjusted for tax purposes.

Costs of material and goods sold are recognized as an expense for the tax balance purposes, in the amount calculated using the average weighted price method or the FIFO method.

Significant tax adjustments

Non-documented costs are not tax deductible, as well as adjustments of individual claims from persons that are also creditors – up to the amount of that other claim, default interest between related entities and expenses that were not incurred for performing business activities.

Marketing costs are tax deductible in the amount of up to 10% of annual revenues, whilst entertainment costs are deductible in the amount of up to 0.5% of the annual revenue.

For CIT purposes, fixed assets are divided into five groups – fixed assets classified into the first group are depreciated using the straight line method and the depreciation rate of 2.5%, applied on the purchase value.

A declining method is prescribed for fixed assets in other groups, and the rates used are: 10%, 15%, 20% and 30%.

The transfer pricing rules in Serbia are based on the OECD Transfer Pricing Guidelines combined with certain domestic specifics and the preparation of transfer pricing documentation is mandatory, as it must be submitted along with the tax return each year.

Filing formalities and deadlines

The tax year is the calendar year. A taxpayer may opt for a tax year different than the calendar year, subject to an approval of the authorities. Such a tax year has to last for 12 calendar months and must be maintained for at least 5 years.

Tax returns, with the amount of tax due enclosed, must be filed within 180 days from the end of the period for which the tax return is submitted.

The taxpayer must calculate the tax liability for the period declared in the tax return. Only if the taxpayer fails to file a tax return or if the return is incorrect, the tax authorities may assess the tax liability. Monthly advance payments of tax are made on the basis of the previous year's tax return.

Withholding taxes

The CIT Law covers the taxation of income of nonresident legal entities paid by Serbian resident companies. Therefore, the law provides for taxation of Serbian permanent establishments of nonresident entities, as well as taxation by withholding of income generated from

dividends, royalties, interest, and income from lease of movable and immovable property. Pursuant to the CIT Law, resident companies are obligated to calculate and pay 20% tax by withholding on every income from dividends, royalties, interest, and lease agreements paid to a nonresident entity. Also, capital gains earned by nonresidents are subject to 20% capital gains tax. Nonresident sellers would have to appoint a fiscal representative and file a capital gains tax return within 30 days from the day of sale. The 20% withholding tax rate can be lowered if Serbia has a Double Taxation Treaty (DTT) concluded with the country of residence of the income recipient.

In order to utilize the favorable tax rates provided by DTT's, foreign entities as recipients of income have to provide a Tax Residency Certificate. Tax Residency Certificates issued on the country of residence's form may also be used for these purposes, provided that the certified translation into Serbian is available.

A withholding tax rate of 25% is levied on income payments made to nonresident legal entities from jurisdictions with preferential tax systems. This tax rate will be levied on income that the mentioned legal entities generate in Serbia from: royalties, interest, income from lease of immovable and movable property, but also from income from services, regardless of the place in which they are used or rendered. The Ministry of Finance has issued a rulebook which encompasses 51 countries deemed as tax haven jurisdictions.

Network of applicable DTT's

As on 1 January 2015, Serbia has 54 effective DTT's with the following countries:

Albania	Norway	Kuwait
Austria	Pakistan	Latvia
Azerbaijan	Poland	Libya
Belarus	Qatar	Lithuania
Belgium	Romania	Malaysia
Bosnia & Herzegovina	Russia	Malta
Bulgaria	Slovakia	Moldova
Canada	Slovenia	Montenegro
China	Spain	Netherlands
Georgia	Croatia	Sri Lanka
Germany	Cyprus	Sweden
Greece	Czech Republic	Switzerland
Hungary	Denmark	Tunisia
India	Egypt	Turkey
Iran	Estonia	Ukraine
Ireland	Finland	United Arab Emirates
Italy	France	United Kingdom
North Korea	FYROM (Macedonia)	Vietnam

In addition, on 28 August 2015 Serbia signed the DTT with Kazakhstan, while on 17 June 2015 the new DTT was signed with Norway that would, once effective, replace the old DTT from 1983.

New DTT's are envisaged to become effective with Portugal, Armenia and Morocco in the upcoming period (most likely in 2016 or afterwards).

During 2015, negotiations aimed at concluding new DTT's were initiated with Zambia and Israel.

1.2 Value added tax

Taxable and exempt transactions

Value added tax (VAT) is levied on the supply of goods and services in Serbia and on the importation of goods at the general rate of 20%. There are also certain supplies taxed using the special rate of 10% due to social reasons (food, medicines, first transfer of property over newly built residential buildings etc.).

The VAT base for the supply of goods and services is the amount of consideration (in money, objects of property or services) that is received or should be received by a VAT payer for the goods delivered or services rendered. The VAT base also includes:

- 1) Excise, customs and other import duties, as well as other public revenues, except VAT;
- 2) All auxiliary costs that the supplier charges to the goods or services recipient.

The VAT base does not include discounts and other price reductions granted at the moment of supplying goods or services.

On the other hand, there are certain transactions that are exempt from VAT, and others that are zero-rated under the Law on Value Added Tax.

The following transactions are zero-rated (with the right to deduct input VAT):

- ✓ Export of goods;
- ✓ Entry of goods into a free trade zone, transportation and other services directly connected to this entry and trade of goods and services within the free trade zone;
- ✓ Trade of goods that are in the customs warehousing procedure;
- ✓ Transportation and other services that are directly connected to exports, transit or temporary imports of goods;

- ✓ Processing of temporarily imported goods and related services, etc.

The following transactions are exempt (without the right to deduct input VAT):

- ✓ Banking, financing and insurance services.
- ✓ Supply of land (agricultural, forest, construction sites – with or without structures), as well as the letting of such land;
- ✓ Supply of buildings, except for the first transfer of the right of disposal of newly built buildings, and in cases where it was agreed between two VAT registered entities that VAT will be calculated for this supply, provided that the acquirer may fully deduct the output VAT as input VAT;
- ✓ Transfer of shares, securities, postal securities;
- ✓ Healthcare and educational services;
- ✓ Supply of goods for which the VAT payer did not have the right to deduct input VAT, etc.

Place of supply and the moment of triggering the VAT liability

Place of supply rules

The general rules for the place of supply of goods could be the place where:

- ✓ The good is located at the moment of shipment;
- ✓ The place of fitting or assembly of goods by the supplier;
- ✓ The place at which goods are situated at the moment of delivery, if the goods are delivered without shipment;

- ✓ The place where the recipient of electricity, natural gas and heating/cooling energy, who will use such goods for further resale, has its seat or permanent establishment, where the goods are delivered, for the goods in question delivered via a transmission, transport and distribution network; and
- ✓ The place of receiving water, electricity, gas and heat, when the goods in question are purchased for final consumption.

With respect to services, the general rule is that the place of supply is the place where the service provider is located. Where the supply of services is performed through a branch, the location of the branch unit will be considered as the place of supply.

Notwithstanding this general rule, the place of supply of a service could also be the place where:

- ✓ Immovable property is situated, for services relating to that property;
- ✓ Transportation was performed; or
- ✓ The service was actually rendered in the event of secondary services regarding transport (such as loading, unloading and reloading operations and similar services), movable property evaluation services and work on movable property.

Furthermore, the place of supply could also be deemed to be the place where the service recipient is located for:

- ✓ Taking over an obligation to refrain, entirely or partially, from engaging in certain activity or exercising a certain right;
- ✓ Advertising services;
- ✓ Transferring the right to use intellectual property;

- ✓ Banking, financial, insurance and reinsurance transactions, except for renting of safes; advisory, engineer's, lawyer's, auditor's services and the like;
- ✓ Data processing services and providing of information;
- ✓ Supply of staff services;
- ✓ Clinical trials of drugs and medical devices;
- ✓ Allowing access to natural gas, electricity and heating/cooling transfer networks, the transport and distribution via such networks as well as other directly related services, including the granting of access to an organized electricity market;
- ✓ Electronically supplied services, including radio and TV services.

Triggering the VAT liability

A VAT liability is triggered on the day the supply took place, or on the date an advance payment was made (even partial) whichever occurs first. The date of issuing the invoice can also trigger the tax liability, however this applies only for licenses. With respect to imports, the VAT liability is triggered at the moment when the customs duty becomes due.

Requirements for claiming input VAT

The right to input VAT may be used if the purchased goods (including equipment or structures for performing a business activity), or the acquired services, are used by the VAT payer for providing VAT-able supplies of goods and services, or for making supplies which are zero-rated. Input VAT paid can also be deducted for a supply that takes place abroad, if such supply would have entailed the right to input VAT deduction if it was rendered in Serbia.

The right to input VAT deduction can be used if the VAT payer has an invoice issued by another VAT payer in which the amount of input VAT is stated or a document on importation of goods and confirmation that the respective import VAT has been paid.

The VAT payer may use input VAT to offset its output VAT liability. This right may be exercised within five years from the end of the year in which the right to use input VAT was acquired.

However, the VAT payer will not be entitled to input VAT deduction for, inter alia:

- ✓ Passenger vehicles, including facilities to accommodate them, spare parts, fuel, as well as renting, maintenance, repair, etc.;
- ✓ VAT payer's entertainment expenses.

VAT representative

A foreign entity performing the supply of goods and services in the Republic of Serbia is obligated to nominate a VAT representative. Exceptionally, a foreign entity does not have this obligation if it only performs the supply of e-services or bus passenger transportation services.

VAT specifics of supplies made in the construction industry and for the trade of electricity and natural gas

The general rule states that the tax debtor is the goods and services supplier.

As an exception from the general rule, in certain cases, the goods and services recipient is the tax debtor. This exception is applicable for, inter alia:

- 1) Supplies of construction objects and economically dividable units within those objects, if the supplier and recipient agreed on calculating VAT on that supply;
- 2) Supplies of goods and services in the construction industry; and
- 3) Supplies of electricity and natural gas delivered via a transmission, transport and distribution network, if the goods in question are purchased for further resale (this applies for the import of these goods as well).

In these cases, the recipient of the goods or services is the VAT payer as a tax debtor, which means that the recipients are obliged to calculate output VAT, and not the VAT payer that made the supply.

It should be noted that the recipient of the goods or services may use the calculated VAT as input, if those goods or services are used for taxable supplies.



Filing formalities and deadlines

An obligation to register for VAT arises if a natural or legal person exceeds the RSD 8 million (approx. EUR 65,000) turnover threshold set for mandatory registration, in a 12 months period. The tax period for which the VAT return should be filed and VAT paid is the calendar month for VAT payers with total turnover exceeding RSD 50,000,000 (about EUR 450,000) within 12 preceding months. Otherwise, the tax period used will be a calendar quarter.

VAT payers that commence for the first time a VAT-able activity in the current calendar year will use a calendar month as the tax period for the current and the next calendar year.

The VAT return has to be filed with the competent tax authority within 15 days from the day the tax period has ended. The VAT payer is obliged to file the VAT return regardless of whether any VAT-able supplies were made within the tax period.

1.3 Personal income tax

Taxation of salaries

Salaries include all kinds of remuneration earned from all types of employment. Salaries and other income from employment are subject to a withholding tax at the flat rate of 10%.

There is a non-taxable monthly salary amount of 11,433 RSD (approx. 100 EUR) applicable until January 31st, 2016, which is adjusted every year. The tax is withheld by the employer on the gross income (including the amount of social security contributions payable by the employer on behalf of the employee).

The social security contributions are levied at a total of 37.8% on gross income, out of which 19.9% is paid by the employer on behalf of the employee, while the remaining 17.9% is paid by the employer on his own behalf. The mentioned contributions consist of the following:

- for pension and disability insurance – 14% on behalf of the employee, 12% on behalf of the employer;
- 5.15% for health insurance – both on behalf of the employee and employer; and
- 0.75% for unemployment insurance - both on behalf of the employee and employer.

The minimum base on which social security contributions are levied is 35% of the average annual salary in Serbia, while the maximum is five times such salary.

Certain payments are exempt from personal income tax up to the limit provided for by the law.

These include reimbursements for commuting costs, daily allowances for business trips and support in the case of illness.

Obligatory pension premiums payable by employers on behalf of employees are part of the social security contributions and are therefore included in the employment income and are subject to withholding, as explained above. However, premiums of voluntary pension insurance paid by the employer are exempt from tax for the employee (subject to a limitation).



A complementary annual income tax is levied on Serbian residents that have an aggregate income exceeding three times the average annual salary (social contributions are not included here). The tax rates are 10% on income exceeding three average annual salaries and 15% on income that exceeds six average annual salaries. The 10% tax is levied only on the amount that exceeds the three average annual salaries limit and the 15% tax is levied only on the amount that exceeds the limit of six average annual salaries. It should be noted that all withholding taxes are final, i.e. they are not creditable against the taxpayer's complementary annual income tax liability.

Taxation of benefits in kind provided to employees

Benefits in kind are taxed as employment income.

Benefits in kind include coupons, money certificates, shares, products or services, loans extended at a discount rate, meals, vacation allowance and private use of a company car. Fringe benefits are valued at their fair market value at the moment of payment. Coupons, money certificates and shares are valued at their nominal value. Use of the company car for private purposes is taxed at the rate of 1% of the car's market value for each month of use.

Tax residents of Serbia

An individual is deemed to be a resident of Serbia if he stays permanently in Serbia or has a place of habitual abode or center of vital interests there. An individual is also deemed to be a resident if he stays in Serbia for at least 183 days within any 12-month period that begins or ends in the relevant tax year.

Taxation of foreigners

Expatriate employees of a resident legal entity or a permanent establishment of a nonresident entity are subject to income tax at the 10% or 15% rate in respect of the complementary annual income tax that exceeds an amount equal to three or six times the average annual salary, as explained above. The withholding tax on salaries is levied in the usual manner.

Nonresident individuals

Nonresidents are subject to personal income tax only on income derived from sources in Serbia. Unless otherwise indicated, nonresident individuals are subject to personal income tax according to the same rules as resident taxpayers. However, if a tax treaty exists and its provisions are more favorable to the taxpayer, those rules may be applied.

Filing formalities and deadlines

Taxes and insurance contributions are withheld by the payer of such income when that payment is made.

The deadline for filing the annual tax return is May 15th of the following year on the prescribed form (PPDG-2R). Resident, as well as nonresident individuals are required to file an annual tax return.

1.4 Tax preferential terms

Tax holiday

The CIT Law prescribes a special tax relief for large investments, subject to fulfillment of the following conditions:

- ✓ Investment of over RSD 1 billion (approx. EUR 8 million) in fixed assets which are used for registered business activities (investments in progress are not considered as fixed assets in use until activation), and
- ✓ Employment of 100 new employees for an indefinite period of time.

The tax relief runs from the year in which the first taxable income is generated, after both of the above conditions are fulfilled, and lasts for 10 years.

Contributions in kind made through share capital and/or increases of share capital are also considered as investments into fixed assets. Valuation of these investments is performed according to their fair market value. It should be noted that the purchase of equipment previously used in Serbia is not considered as an investment. Moreover, in order to claim the incentive, the fixed assets have to be put in use. The tax relief is granted in proportion to the value of investment - the tax liability is reduced based on the ratio between the value of new assets and total assets (total assets include the newly acquired assets). This ratio must be separately calculated for each year. For the purposes of this incentive, new employees are not considered to be individuals formerly employed in a company directly or indirectly related to the taxpayer.

Furthermore, in case of a reduction of assets or employees (which are not replaced), the taxpayer is no longer entitled to use this incentive and is liable to pay the amount equal to utilized tax incentive in previous periods, increased for local inflation rate.

Tax losses

Operating losses generated from business activities may be carried forward for up to five tax years and used to offset taxable income. Capital gain (earned on the sale of real-estate, shares, certain investment units and intellectual property rights) is subject to CIT. Capital loss may be carried forward for up to five tax years and used to offset capital gain. Operating loss cannot be used to offset capital gain and vice versa.

Employment incentives

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

The employer hiring a new employee (and increasing the number of employees as on March 31st, 2014) has a right to a refund of salary tax and social security contributions for the new employee, paid out by June 30th, 2016. This possibility also exists for employers that commence their business activities after March 31st, 2014.

The following conditions need to be fulfilled cumulatively in order for an employee to be deemed as a new employee for incentive purposes:

- ✓ The employer has concluded an employment contract with such a person for indefinite or definite period of time, in accordance with the Labor Law;
- ✓ The employer has registered such a person for mandatory social security insurance with the competent social security authority;
- ✓ Such person was continuously registered with the National Unemployment Agency at least 6 months prior to employment (three months for person deemed as an intern) and that for that period such person did not generate any income from employment.

The amount of tax and social security contributions refund is determined as follows:

- ✓ 65% from taxes and contributions paid if employer has employed from 1 to 9 new employees;
- ✓ 70% from taxes and contributions paid if employer has employed from 10 to 99 new employees;
- ✓ 75% from taxes and contributions paid if employer has employed 100 or more new employees.

Apart from the abovementioned, the employer is also allowed to use an exemption from paying social security contributions (on his own behalf) during a 3 year period for employing disabled persons.

2. State business incentives

The main business incentives available in Serbia are presented below.

2.1 Financial incentives

With a 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 under the Regulation on terms and conditions for attracting direct investments.

The state grants are intended to be used for Greenfield and Brownfield projects in the following sectors:

- Manufacturing and
- Internationally marketable services.

The following are not eligible for funding:

- Projects in primary agriculture, fishing and aquaculture, transportation and energy sector;
- Hospitality and games of chance;
- Trade/retail sectors; and
- Projects which involve the production of synthetic fibers, coal, tobacco and tobacco products, weapons and ammunition, etc.

Non-refundable state funds are granted per new job created – new jobs have to be created within 3 years from the day the contract was signed (this period may be prolonged subsequently up to 5 years).

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

- Eligible costs of expenditures for fixed and intangible assets or
- 20% to 40% of the eligible 2-year gross salary costs for new jobs created (with maximum amount per new job ranging from EUR 3,000 to 7,000).

Eligible costs for investing in intangible assets are determined in the amount of up to 50% of the total eligible costs for large enterprises and 100% of the total eligible costs for SME's.

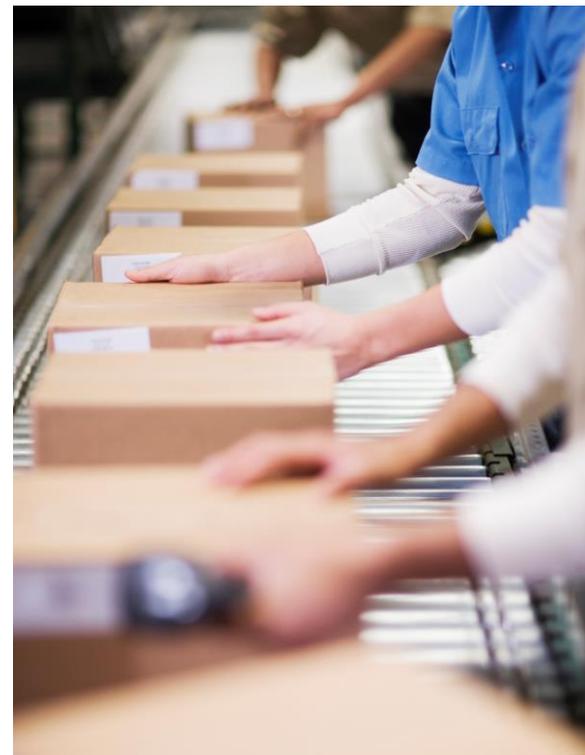
If investors decide to use the granted funds for covering eligible salary costs, an additional 10% to 30% of the amount of eligible costs for fixed assets may be granted.

Furthermore, if the incentive is granted for labor intensive projects (at least 200 new jobs are created), additional 10% to 20% of the eligible 2-year gross salary costs for new jobs created may be granted, depending on the number of new jobs.

The following are the minimum requirements for manufacturing investment projects in:

- ✓ **Regions from group IV or devastated regions:** at least 30 new employees and investment of at least EUR 250,000 into fixed assets;
- ✓ **Regions from group III:** at least 40 new employees and investment of at least EUR 500,000 into fixed assets;
- ✓ **Regions from group II:** at least 50 new employees and investment of at least EUR 1 million into fixed assets;
- ✓ **Regions from group I:** at least 70 new employees and investment of at least EUR 1 million into fixed assets.

For internationally marketable services the minimum requirements are at least 20 new employees and investment of at least EUR 150,000 into fixed assets.



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

- If the project value is less than EUR 50 million, the State may grant up to 50% of eligible investment costs (up to 25 million EUR may be granted);

For SME's this percentage may be increased – up to 70% for small and 60% for medium enterprises;

- If the project value is from EUR 50 to 100 million, the State may grant additional funds up to 25% of eligible investment costs for the amount above EUR 50 million (up to EUR 37.5 million may be granted);
- If the project value exceeds EUR 100 million, the state may grant additional funds up to 17% of eligible investment costs for the amount above EUR 100 million (minimum EUR 37.5 million may be granted).

According to the Law on Investments for investments of special significance state aid funds can be granted without a previous public call announcement. Additionally, imports of equipment, representing a foreign investor's investment stake (except for passenger cars and games of chance machines) could be exempt from customs and other import duties.

2.2 Free zones

Free zones are a fenced and marked part of Serbia's territory where business activities are performed with a preferential customs treatment, tax relief and simplified administrative procedures.

There are currently 14 free zones established in Serbia:

Belgrade, Pirot, Subotica, Zrenjanin, FAS Kragujevac, Sabac, Novi Sad, Uzice, Smederevo, Svilajnac, Krusevac, Apatin, Priboj and Vranje.

The following are the fiscal benefits of a free zone:

- Entry of goods into the free zone, as well as transport and other services which are directly related to the entry of goods are zero-rated for VAT purposes;
- Supply of goods and services within the free zone is zero-rated for VAT purposes;
- The supply of electricity and/or piped gas to free zone users is zero-rated for VAT purposes;
- Exemption from payment of customs and other import duties for goods intended for carrying out activities and construction of facilities in the free zone (raw materials, equipment, construction materials);
- Within free zones, exemption from certain local fees and taxes is also available (local municipality incentives).

2.3 Agricultural Incentives

With the main goal of modernizing and improving the agricultural production in Serbia, as one of the fast-growing industries, agricultural incentives are provided under the Law on Agricultural Incentives and Rural Development.

Only agricultural estates performing agricultural activities (milk and crop production, cattle breeding, etc.) and which are registered with the Register of Agricultural Estates are entitled to apply for these incentives.

The scope of agricultural incentives includes the following:

- **Direct payments,**
- **Rural development incentives,**
- **Special incentives.**

Direct payments are the most extensive type of incentives and include payments to milk producers, incentives for crop production and livestock breeding, reimbursement for gas, fertilizers and other material used by agricultural producers and credit support.

The total incentive amount for which a beneficiary can apply for the first three types of direct payments incentive (credit support is not included) is RSD 10 million (approx. EUR 80,000). For granted incentives between RSD 10 and 20 million (approx. EUR 80,000 and EUR 160,000) the total incentive amount paid to the beneficiary should be reduced by 5% and for incentives greater than RSD 20 million (approx. EUR 160,000) the total amount paid to the beneficiary should be reduced by 10%.

Rural development incentives promote investments aiming the development of agricultural production and rural economy. These incentives are conducted by reimbursing part of the costs incurred by the beneficiary. The amount of costs reimbursed is determined as a percentage of the total amount of each individual incentive.

Special incentives include incentives for agricultural consulting and professional services, conducting cattle breeding projects, R&D projects in agriculture and others.

2.4 Free Trade Agreements

Serbia can serve as a manufacturing hub for duty-free exports to a market of almost 800 million people that includes the European Union, Russia, Belarus, Kazakhstan, Turkey, South East Europe, the European Free Trade Agreement members, and USA.

Furthermore, certain imports from the aforementioned markets may be performed free of customs duties.

European Union

Exports to the EU market are free-of-customs according to the Stabilization and Association Agreement. For several food products export quantities are limited by annual quotas.

Imports from the EU are performed based on the Interim Trade Agreement, as part of the Stabilization and Association Agreement, providing for the abolishment of import customs duties for industrial, and certain agricultural, products from EU countries.

Russia

The Free Trade Agreement with Russia, signed in August 2000, makes Serbia particularly attractive to foreign investors in the manufacturing sector. The Agreement stipulates that goods produced in Serbia, i.e. which have at least 51% value added in the country, are considered of Serbian origin and exported to Russia customs free. For exports to Russia, the FORM CT2 Certificate is required as a proof of goods origin. The only tariff charged is the customs record keeping tariff, amounting to a 1% value.

The list of products, excluded from the Free Trade Agreement, is revised annually.

USA

As of July 29, 2015 Serbian exporters may once again export their goods to the USA customs free, according to the Generalized System of Preferences (GSP), which will be in force until the end of 2017.

Around 5,000 goods and products, mainly industrial and agricultural goods, will benefit from the GSP. The following goods are exempt from the customs-free regime: most of textile products, shoes and clothing (including leather clothing), watches, travel accessories, work gloves, steel and steel products, glass and electronic products.

In order to benefit from the GSP the goods need to be produced in Serbia, with at least 35% value added in the country, and exported directly from Serbia.

CEFTA

The Central European Free Trade Agreement (CEFTA) is the trade agreement between the following countries in South East Europe: Albania, Bosnia and Herzegovina, FYR Macedonia, Moldova, Montenegro, Serbia, and the United Nations Interim Administration Mission in Kosovo (UNMIK). The Agreement has been in effect as of July 2007, providing companies in Serbia with an opportunity to reach the 22 million people market free of customs duties.

Turkey

Trade between Serbia and Turkey is regulated upon the model implemented in trade with the EU. Industrial products originating in Serbia can be exported to Turkey without paying customs duties. Imports of industrial products into Serbia are generally customs-free, but for a large number of goods customs duties are being progressively abolished over a six-year period that ends in 2015.

For trade in agricultural products customs duties remain in effect, with certain Most Favored Nation reductions for a number of products.

EFTA

Industrial products exported from Serbia to European Free Trade Agreement (EFTA) member states (Switzerland, Norway, Iceland, and Liechtenstein) are exempt from customs duties, except for a very limited number of goods, including fish and other marine products. Customs duties for imports of industrial products originating in EFTA states are abolished as of 2014.

Trade in agricultural products is regulated by separate agreements with each of EFTA members, providing for mutual concessions for specified products.

Belarus

The Free Trade Agreement with Belarus envisages the mutual abolishment of customs and non-customs duties in trade between the two countries. There are only a few exceptions to the Agreement, including sugar, alcohol, and cigarettes, as well as used cars, buses, and tires.

Kazakhstan

Free Trade Agreement between the Republic of Serbia and Kazakhstan came into force in January 2011.

The Free Trade Agreement states that the parties will not charge customs duties, fees and charges with equivalent effect for products originating in one country and intended for the market of the other country. Exceptions were made for the products listed in the annexes, which are subject to customs duties, fees and charges with equivalent effect in accordance with the countries' national legislations (at the rates specified by national customs tariffs).

3. Other relevant legislation

3.1 Foreign investments

One of the most important laws governing foreign investments in Serbia is the Law on Investments. This law represents a general framework for direct investments in Serbia, creating a business-friendly legal, political and economic environment for all foreign investors interested in doing business in Serbia.

This law guarantees national treatment for the foreign investor, which means that any legal entity and natural persons who are investing in Serbia enjoy full security and protection, equal to those of local entities.

Investments in specific fields are subject to regulation by other laws, e.g. investments in insurance companies, banks and other financial organizations, games of chance and free zones.

This law divides investments into two categories: investments of "special importance" and investments of "local importance".

Investments made on the basis of bilateral investment agreements, as well as investments spreading over the territory of more than one municipality will automatically qualify as investment of "special importance", and for such investments no public invitation is required for the distribution of state aid.

In other cases qualification depends on six criteria: number of jobs created, the nature and the amount of investment, impact on the overall Serbian trade balance (or alternatively – impact on specific industry or target market), duration of the investment, added value created and investor's credibility.

The law also defines the notion of investments and foreign investments. A foreign investor is defined as every foreign entity (company or natural person) with the registered seat or permanent residency abroad, including the branch of a foreign company.

The repatriation of capital and earnings can be made with no limitation if the prescribed tax requirements and other commitments have been settled in Serbia.

The foreign investor may transfer freely all of its financial and other assets relating to the foreign investment, and especially:

- Profit realized through company's business activities,
- Cash assets related to the sale of shares or stakes,
- Compensation in case of expropriating company's property,
- Liquidation surplus, as the remaining property of the company after its liquidation, etc.

3.2 Company incorporation

Foreign legal and natural persons may establish a company in accordance with the Company Law and the Law Investments. A company is a legal entity engaged in a business activity for the purpose of profit generation.

In Serbia, the following forms may be used:

- General partnership,
- Limited partnership,
- Limited liability company,
- Joint-stock company.

A company may be established for an unlimited or limited time. A company will be deemed to be established for an unlimited duration unless provided otherwise in the Articles of Association.

A company performs its predominant activity, but it may also perform any other business activity, which is not prohibited under the law, regardless of whether these are provided for in the Articles of Association.

Registration or performance of specific activities may be subject to prior approval, consent or other relevant act of a competent authority, as stipulated by a special law.

The Articles of Association are a constitutive act of a company made in the form of a decision on incorporation, if a company is founded by one person, or in the form of memorandum of association, if the company is established by several persons.

Company acquires legal status by registration, i.e. by entering the data of the company in the Business Registers Agency.

Also, a branch of a foreign company may be established, as well as a representative office.

A branch is a separated organizational part of a company through which it performs its business activity. It is not considered as a separate legal entity, i.e. when registering a branch, domestic or foreign head office assumes all obligations that may arise from branch's business activities. A branch of a foreign legal entity is regarded as a separate taxpayer in respect of both VAT and CIT.

A representative office of a foreign legal entity represents a separated organizational part of a foreign company. It may be engaged only in preliminary and preparatory activities for its founder. It is not considered as a separate legal entity. A foreign company is held responsible for liabilities of the representative office towards third parties. A representative office is generally not a separate taxpayer in respect of VAT and CIT.

3.3 Labor legislation

The Serbian Labor Law regulates rights, obligations and liabilities of employer and employees. The labor market has become more competitive with the latest amendments to the Labor Law in 2014 and more in line with the EU legislation.

The employment contract may be concluded for a definite (up to 2 years) or an indefinite period of time. Employers having 20 or more employees are obliged to employ a certain number of persons with disabilities, depending on the total number of employees. An employer may be exempt from this obligation by executing payments towards special funds in the minimum amounts defined by law.

A foreign citizen may take up employment if she or he has a permit for permanent or temporary residence in Serbia, issued by the Ministry of Interior Affairs, and if she or he obtains an approval to conclude an employment contract from the National Employment Office.

The approval to conclude an employment contract is not necessary when the employment contract is concluded for performance of expert work, stipulated in the Agreement on business-technical cooperation, long-term manufacturing cooperation, technology transfer and foreign investments.

An employer may sign a contract on temporary and ad hoc employment with a foreign citizen for a period that does not exceed 120 working days in a calendar year.

3.4 Employment of foreigners

The conditions and procedure for employing and issuing work permits to individuals who are not citizens of the Republic of Serbia are regulated by the Law on Employment of Foreigners that entered into force on 4 December 2014. Moreover, the Law defines the requirements for the exercise of rights from the employment relationship, as well as in the case of unemployment.

The Law recognizes various groups of foreigners that are excluded from the application of the aforementioned requirements, such as: foreigners with immunity, foreigners that reside and perform work without employment contract under contracts with international organizations, contracts between competent Serbian authorities of and other states or international technical cooperation projects, volunteers, representatives of foreign media registered in the official record of the competent Ministry, etc.

The requirements for the employment of the foreigners do not apply to certain categories of individuals under the condition that they do not reside in Serbia more than 90 days in the period of six months since their first entrance in the country, including owner, founder, representative or the member of the body of a domestic legal entity (if he is not employed with that legal entity) as well as an individual that resides in Serbia for the purpose of business networking, attendance of business meetings and conducting business activities for establishment of foreign employer in Serbia.

In the light of Serbian EU integration process, the Law prescribes special treatment for EU, EEA or Swiss Confederacy nationals, as well as individuals assigned to work in Serbia by the foreign employer from these countries. Namely, these individuals are exempt from the compliance with the requirements for the employment of the foreigners provided by the Law.

Yet, the implementation of the Law is postponed until the moment of accession of Serbia to the EU.

There are two basic categories of work permits:

1) Personal work permit – destined to foreign citizens that arrive and enter the work market in Serbia freely – request for issuance of the work permit is submitted by the foreign citizen;

2) Work permit – related to foreign citizens that are assigned to Serbia or are professionally engaged in Serbia to work for an employer, or as an entrepreneur.

The work permit encompasses three different types:

- Work permit for employment – request is submitted by the employer;
- Work permit for specific cases of employment – request is submitted by the employer;
- Work permit for self-employment – request is submitted by the foreign citizen.

In any case, work permits are issued for the period of maximum one year, unless the Law or international agreements do not prescribe otherwise.

In particular cases there is a possibility to limit the number of work permits for foreigners. This limitation does not apply to foreigners and employers that file requests for personal work permit and work permits for assignment within the company.

The Law prescribes significant fines for both employers (ranging from RSD 800,000 to RSD 1,000,000) and foreign nationals (ranging from RSD 15,000 to RSD 150,000) in case of incompliance with the Law. Additionally, there is a possibility of imposition of provisional measures of protection concerning the prohibition of conducting certain activities.

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In case you need additional information, do not hesitate to contact our experts from the TAX department:

Srdjan Petrovic

Partner

Terazije no. 8

Tel: + 381 11 3812 222

spetrovic@deloittece.com

Svetislav V. Kostic

Director

Terazije no. 8

Tel: + 381 11 3812 148

skostic@deloittece.com

Marijana Pavlica

Senior Manager

Terazije no. 8

Tel: + 381 11 3812 149

mpavlica@deloittece.com

Tamara Dmitrovic

Senior Manager

Terazije no. 8

Tel: + 381 11 3812 163

tdmitrovic@deloittece.com

Tatjana Milenkovic

Senior Manager

Terazije no. 8

Tel: + 381 11 3812 168

tmilenkovic@deloittece.com

Jasmina Miletic

Manager

Terazije no. 8

Tel: + 381 11 3812 165

jmiletic@deloittece.com

Dejan Mrakovic

Manager

Terazije no. 8

Tel: + 381 11 3812 172

dmrakovic@deloittece.com

Filip Kovacevic

Manager

Terazije no. 8

Tel: + 381 11 3812 164

fkovacevic@deloittece.com

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