



Guide for investing in Serbia

At your glance

February 2017

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Serbia: Country profile

Serbia is a small and fast-growing country located in 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 the 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 started in 2015.



Serbia fact book

Official name:	Republic of Serbia
Form of state:	Democratic Republic
Political structure:	Parliamentary democracy
Area:	88,499 m ²
Population:	7.19 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. 124 RSD for 1 EUR)
GDP (2015):	33.5 billion EUR
GDP per capita (2015):	4,732.3 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:	BB- / positive (Standard&Poors , December 2016) BB- / stable (Fitch , December 2016) B1- / positive (Moody`s , March 2016)



Exports and Imports

Serbia is the 76th largest export economy in the world. In 2015, the Republic of Serbia marked 0.7% GDP growth, while estimated growth for 2016 is revised to 2.3%. In Q1 2016, GDP grew by 3.5% primarily on the basis of better construction and industrial performance, as well as higher export growth.

The top exports of Serbia are cars, insulated wire, corn, rubber tires, frozen fruits and nuts. Its top imports are vehicle parts, crude petroleum, petroleum gas, refined petroleum and packaged medicaments.

Foreign trade showed improvement as the value of exports in the first eight months of 2016 was EUR 8.7 billion, which is 9.3% higher than in the same period of 2015. Imports were at EUR 9.3 billion, an increase of 5.8% year-on-year. Consequently, the export coverage of imports now stands at 77.2% which is higher than in any of the last six years.

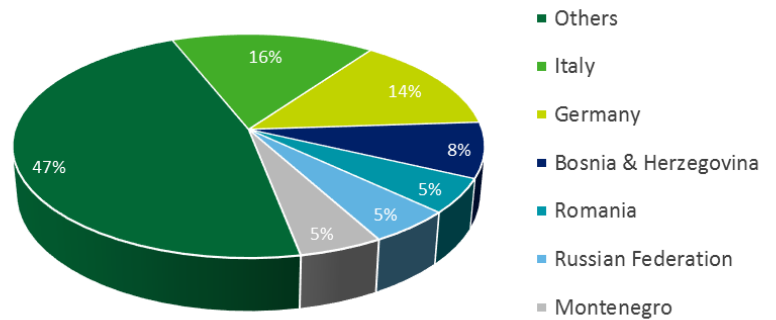
Fiscal policy measures

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, public administration reform and rightsizing, among others.

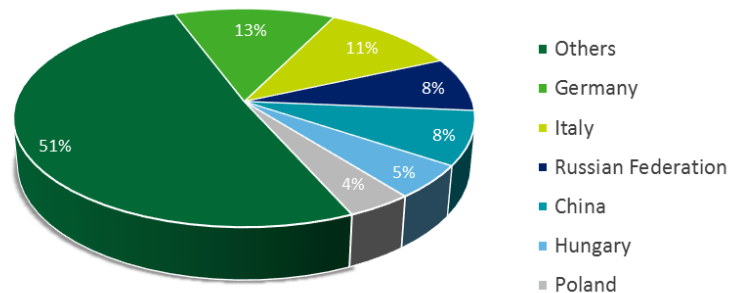
During 2014 and 2015, successful reforms have been conducted regarding restoring macroeconomic stability (fiscal consolidation). Furthermore, regulatory improvements were carried out through changes of the Labor Law, the Law on Bankruptcy, the Law on Privatization, the Law on Inspection Oversight, etc.

Nevertheless, significant changes are implemented in the real estate and construction field by introducing the use of e-permits as well as on-going EU accession negotiations in order to contribute to making the business environment clear and suitable for growth acceleration.

Serbian exports for period January - April 2016



Serbian imports for period January - April 2016



On February 23, 2015, the IMF Executive Boards approved a new three-year 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 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.

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 Investment (FDIs)

Serbia is a country whose economy is in full expansion and in 2015 FDI level reached EUR 1.8 billion. EU countries are the main exporters of FDI's given that 80% FDI's came from the EU. FDI mainly targeted the following sectors: manufacturing, trade, real estate and logistics, financial mediation.

Since the year 2000, Serbia has attracted more than EUR 27 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 the European Union, the Serbian infrastructure, electric power, food, telecom and automotive sectors are attracting attention from Chinese investors as well. In 2014, the Serbian government had announced that China National Electric Engineering Co. (CNEEC) publicized plans to invest in Serbia. During 2016, consortium consisting of CNEEC and Scarborough group signed a contract worth EUR 230 million on building a power plant in Serbia. In addition to that, a EUR 302 million section of the Corridor 11 Highway is already under construction by Shandong.



The most significant capital investment in Belgrade that was initiated in 2014 and started in 2016 represents project between Serbian government and Eagle Hills, a private investment and development company from United Arab Emirates. Investment includes building of office space and luxury real estates, five-star hotels and shopping mall and its estimated worth amounts to EUR 3.5 billion.

According to World Investment Reports of United Nations Conference on Trade and Development (UNCTAD), Serbia attracted some EUR 1.8 billion of foreign direct investments inflows in 2015, becoming the top 5 host transition economy in 2014 and 2015, and the best performer in the Southeast Europe in 2015 and 2016. The Reports also showed that in 2015 Serbia was the only destination country in the SEE region with announced greenfield FDI projects and country with above average share of mixed (domestic-foreign) joint ventures.

According to the World Bank Group report, ease of doing business index per Serbia changed from 68 for year 2014 to 47 for year 2016, and shows improving of business conditions especially with respect to increasing of business-friendly regulations.

Accounting for 10% of the Serbian export, around 14% of value of foreign investments and employing more than 40,000 workers, automotive industry is certainly the most important industrial sector in Serbia today.

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FDI Ranking per Sector by No. of Projects

Automotive industry	17.4%
Food, Beverage & Agriculture	10.8%
Construction	6.9%
Textile & Clothing	6.7%
Electrical & Electronics	5.6%
Machinery & Equipment	5.6%
Financial	4.4%

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 EUR 5 billion. 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 the sector with a bright perspective due to highly-qualified workforce and its geographical location. 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
- Lear.



Shared Services sector - Serbia has a great perspective to emerge as a top market for the shared services and business processes 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 includes 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, which is a practice that 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 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. In the same year, software development sub-sector earned EUR 45.9 million.

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).

In 2015. Serbia had high surplus that amounted 1.1 billion EUR, which was 19% higher compared to 2014. Serbia is the biggest exporter of foodstuff among CEFTA countries and the only net exporter. Serbian agricultural products can be found in grocery shops and global supermarkets chains such as: Tesco, Lidl, Spar, Carrefour, Idea, Metro and others.

In 2015 export of Serbian fruits achieved EUR 526 million. In the same year Serbia accounted for more than 21% of entire world raspberry production. With around 79,000 tons produced and export revenues amounting to EUR 244 million, Serbia was the largest exporter of raspberries in 2015 globally. Around 80-85% of raspberry production is intended for export, mainly frozen in bulk. This constitutes a huge potential for investors who are thinking to start a production of final products with all kinds of different berries such as: spreads, jams, toppings, ingredients for ice-cream industry, fruit cubes for yoghurt production, etc.

In 2015, Serbia was, measured by value of apples, the first exporter to the Russian Federation with the apple export worth more than EUR 90 million annually.

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. In 2014 for the first time in the last couple of decades, total export of textile industry exceeded EUR 1 billion.

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

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

Wood and 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%.

The most significant investment in this production sector is an investment of the Chinese steel producer Hesteel, which has officially taken over the management and ownership of Serbia's steel mill in Smederevo. The investment of EUR 46 million will enhance production capabilities in steel sub-sectors in Serbia.

1. Tax legislation

The following is a summary of the 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 legal entity is an entity that is incorporated or has a place of effective management and control in the territory of Serbia.

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

Costs of material and goods sold are recognized as an expense for 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.

Corporate Income Tax (CIT): 15%

Value Added Tax (VAT): 10% - 20%

Personal Income Tax (PIT): 10%



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. As of March 1, 2016, service fees paid to nonresident entities for services that are rendered or used, i.e. that will be rendered or used on the territory of Serbia are subject to withholding tax. Pursuant to the CIT Law, resident companies are obliged to calculate and pay 20% tax by withholding on every income from dividends, royalties, interest, and lease agreements paid to a nonresident entity, including service fees paid as of March 1, 2016. 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 of January 1, 2017, Serbia has 58 effective DTT's with the following countries:

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

DTT between Serbia and Portugal is still under negotiation and DTT between Serbia and Morocco is ratified. Furthermore, the final text of DTT's with Zambia and Israel has been confirmed.

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, wood briquettes and pellets), transfer of the right of disposal over residential property (residential buildings as well as estates within them), 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 supply of 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;
- ✓ Goods which are, under the customs procedure, temporarily imported and then again exported, as well as goods placed under the customs procedure of inward processing with the application of deferral system.

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, 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 and services for which the VAT payer did not have the right to deduct input VAT, etc.

Place of supply of goods and services, VAT representative and the moment of triggering VAT liability

Place of supply of goods

The place of supply of goods may be determined according to:

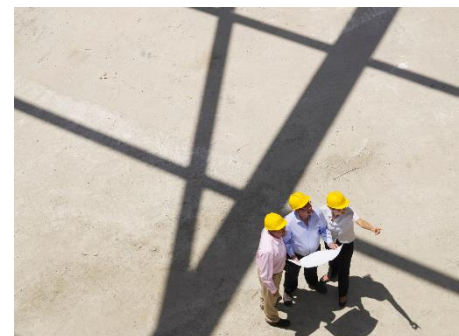
- ✓ The place where the good is located at the moment of dispatch;
- ✓ The place of installation or assembly of goods by the supplier;
- ✓ The place at which goods are situated at the moment of delivery, if the goods are delivered without transport;
- ✓ The place where the recipient of electricity, natural gas and heating or cooling energy for heating and cooling, who will use such goods for further resale, has its seat or permanent establishment to whom the goods are
- ✓ The place where water, electricity, gas and heat, when purchased for the final consumption, are received.



Place of supply of services

With respect to services, and for the purpose of aligning with the legislation of the European Union, as of April 1, 2017, the general rule for the place of supply of services will depend on whether the service is provided to a business or a consumer.

That is, in B2B transactions the place of supply will be the place of the recipient's head office or a permanent establishment. In B2C transactions, the place of supply is the place where the service provider has its head office or a permanent establishment.



The VAT Law also prescribes the following exemptions to this general rule:

- ✓ Supply of services related to real estate, including also intermediation services in real estate transactions - the place of supply of services is deemed to be the place where the property is located;
- ✓ Transport of people - the place of supply is deemed to be the place where transport is carried out;
- ✓ Transport of goods which is supplied to a consumer – the place of supply is deemed to be the place where transport is carried out;
- ✓ Supply of certain services regarding which the place of supply is deemed to be the place where services are actually rendered (such as ancillary services related to transportation, services regarding valuation of movable property, etc.);
- ✓ Hiring of means of transport for a shorter time period – the place of supply is the place where a transport vehicle is put at the recipient's disposal;
- ✓ Hiring of means of transport to a consumer – the place of supply is the place of the recipient's head office or permanent address;
- ✓ Other exceptions – supply of certain types of services to a consumer – the place of supply will be the recipient's head office or permanent address.

Triggering VAT liability

VAT liability is triggered on the day the supply took place, or on the date an advance payment was made/received (even partial), whichever occurs first. The date of issuing an invoice can also trigger the VAT liability, however this applies only for copyrights, patents, licenses, etc. 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 deduct input VAT may be used if the purchased goods (including equipment or buildings 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. Exemptions to the rule are:

- ✓ Supplies of waste materials or services provided in connection with them;
- ✓ Supply of real estate - buildings, economically divisible units or other divisible parts in these buildings, if it is contracted that VAT will be computed on these supplies;
- ✓ Supply of goods and services in the field of construction, and
- ✓ Supply of electricity, natural gas and heating or cooling energy for heating and cooling that are acquired for the purpose of resale.

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 expenses for food and transportation of its employees to and from work.

VAT representative

A foreign entity who performs taxable supplies in Serbia is obliged to designate a fiscal representative and register for VAT, regardless of the value of taxable supplies made in Republic of Serbia. Exceptions are prescribed for foreign entities that make taxable supplies to:

- ✓ VAT payers – because the VAT Law envisages application of reverse charge mechanism in this situation,
- ✓ Legal entities and authorities established by the Republic of Serbia – considering that reverse charge mechanism will also be applicable in this case,

- ✓ In case of supply of passenger transport services by buses, for which VAT base will be computed as the average fee for an individual transport.

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 (i.e. reverse charge applies). This exception is applicable for, inter alia:

- 1) Supplies of construction objects and economically divisible 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 VAT, 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 the last 12-month period. The tax period for which the VAT return should be filed and VAT paid is the calendar month for VAT payers with a 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 employment income

Employment income 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 11,790 RSD (approx. 100 EUR) applicable until January 31, 2018, 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 monthly 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 tax, as explained above. However, premiums of voluntary pension insurance paid by the employer are exempt from tax for the employee under certain conditions.

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. 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 and money certificates are

valued at their nominal value, whereas shares and other securities are valued at their market value. Tax base for a use of the company car for private purposes is determined 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 s/he has a registered domicile (Serbian ID) 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 that has an employment contract with a resident legal entity/branch/representative office are taxed as local employees (see taxation of employment income and complementary annual income tax).

A different mechanism of income reporting and payment of tax is applied for expatriates that receive income from abroad.

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 social security contributions are withheld by the payer of such income when that payment is made (applicable to locally paid out income).

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

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 and after both of the above conditions are cumulatively met, 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 and have to be paid. 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 31, 2014) has a right to a refund of salary tax and social security contributions for the new employee, paid out by December 31, 2017. This possibility also exists for employers that commence their business activities after March 31, 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 mandatory social security Central registry;
- ✓ 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).

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 salary tax and 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 Decree on conditions and method 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 sectors/activities are not are eligible for incentives:

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

Non-refundable state funds are granted per new job created – new jobs have to be created within 3 years from the day the request for the incentive is submitted (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 vacancies.

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

Devastated regions	at least 10 new employees and eligible costs of investment in the amount of at least EUR 100,000;
Regions from group IV	at least 20 new employees and eligible costs of investment in the amount of at least EUR 200,000;
Regions from group III	at least 30 new employees and eligible costs of investment in the amount of at least EUR 300,000;
Regions from group II	at least 40 new employees and eligible costs of investments of at least EUR 400,000;
Regions from group I	at least 50 new employees and eligible costs of investments of at least EUR 500,000.

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

For investment projects in agricultural and fishing sector, the minimum requirements are at least 25 new employees and investment of at least EUR 2,000,000.

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

- If in accordance with the state aid regulations the beneficiary can be classified as a large company, the State may grant up to 50% of eligible investment costs;
- For SME's this percentage may be increased – up to 70% for small and 60% for medium enterprises;
- For investments that amount from EUR 50 million up to EUR 100 million, the State may grant funds up to 25% of eligible investment costs for the amount above EUR 50 million;
- For investments that amount more than EUR 100 million, the State may grant additional funds up to 17% of eligible investment costs for the amount above EUR 100 million.

Investments of "strategic significance" include the following:

- Investment that significantly impacts development and competitiveness of the Serbian economy;
- Investment of more than EUR 2 million within three years, or resulting in 100 new jobs within five years, from the investment commencement;
- Investment that “fosters joint development priorities of one or more municipalities in the function of increase of their competitiveness” and
- Investment made on the basis of a bilateral treaty or a treaty on cross-border cooperation.

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 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 ended in 2015.

For trade in agricultural, textile and some metallurgy 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 more attractive and competitive, 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 or individual investing in Serbia enjoy full legal security and protection, equal to those of local entities.

This law recognizes two categories of foreign investments: investments of "special importance" and investments of "local importance".

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

All the other investments, which do not represent the investments of special importance, but contribute to the economic development on a local level, represent the investments of local importance.

Qualification of an investment 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 foreign investments and the foreign investor. A foreign investor is every foreign entity with the registered seat or permanent residency abroad that invested capital in some kind of business activity in Serbia. It can be either a company or an individual.

As the aforementioned regulations, this Law also prescribes different kind of incentives that investors can be entitled - state aids, tax incentives and tax reliefs or exemptions, custom exemption for equipment that is an investment of foreign investor, benefits regarding compulsory social insurance, in accordance to relevant laws, etc.

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.

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.

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 Accounting and Auditing

The Law on Accounting is applicable to all legal entities, entrepreneurs who keep accounting records, subsidiaries of Serbian companies abroad branches and representative offices of foreign legal entities in Serbia (unless stipulated otherwise in other regulation) and financial institutions.

For the purpose of determining the legal requirements of accounting and auditing, all entities are classified as Micro, Small, Medium and Large, based on prescribed criteria.

Micro entities (average number of employees up to 10, operating income per year up to EUR 700,000, average value of operating assets for year EUR 350,000 – at least two if the criteria have to be fulfilled) are permitted to comply either with IFRS for SME or the relevant rulebook.

Small entities are obliged to comply with IFRS for SME. Medium entities (average number of employees 250, operating income per year EUR 35,000,000, average value of operating assets for year EUR 17,500,000) have a right to choose to comply either with IFRS either with IFRS for SME.



Large entities (two of criteria for Medium entities are higher than the limits prescribed and all the financial institutions) are obliged to comply with IFRS.

Complete financial report consists of balance sheet, income statement, statement on other comprehensive income, statement on changes to equity, cash flow statement and notes to financial statements.

For statistical purposes, legal entities are obliged to submit balance sheet, income statement and statistical report by the end of February for the previous year. Complete Financial report as well as Decision on adoption of financial statements and Decision on allocation of profit / loss coverage) have to be submitted to Business Registers Agency until June 30 for previous year and consolidated financial statements should be submitted until July 31.

Large and medium-sized entities are obliged by the Law on Audit to audit their financial statements, as well as public companies (regardless of size) in accordance with capital market regulations and any legal entity or entrepreneur whose operating income for a year exceeded EUR 4.4 million in RSD equivalent. These entities are obliged to submit Audit report together with financial statements to Business Registers Agency.

3.4 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.

3.5 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 December 4, 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), etc.

The requirements for the employment of the foreigners do not apply to certain categories of individuals who reside in Serbia not more than 90 days in six-month period as of their first entrance in the country. This refers to owners, founders, representatives or members of the body of a domestic legal entity (if the foreign person 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 once Serbia become a member state of the EU, as well as individuals assigned to work in Serbia by the foreign employer from these countries. Namely, these individuals will be exempt from the compliance with the requirements for the employment of the foreigners provided by the Law.

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 validity of the appropriate residence permit, up to a 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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