

Deloitte Tax Alert

Amendments to the Personal Income Tax
Law and Law on Mandatory Social
Security Contributions



Amendments to the Personal Income Tax Law

Tax incentives for new employees

On May 30th, 2014, National Assembly of the Republic of Serbia has adopted Law on amendments of the Personal Income Tax Law, published in the Official gazette of RS, no. 57/2014. Provisions of this Law apply as of July 1st, 2014.

Amendments to the Personal Income Tax Law (hereinafter referred to as: PIT Law) replaced the system of tax incentives for several categories of persons with a single provision, applicable regardless of the age limit and work experience of the new employees. Goal of these amendments is to encourage legal employment. Provision regulating incentives for employment of disabled persons were not affected by these amendments.

In accordance with the amendments, employer (legal entity or an entrepreneur) hiring a new employee has a right to a refund of salary tax for the new employee, paid out by June 30th, 2016. Hence, the application of these incentives is limited to a period of two years (01.07.2014. – 30.06.2016.).

Following conditions need to be fulfilled cumulatively in order for an employee to be deemed as a new employee, within the meaning of the PIT Law:

1. That the employer has concluded an employment contract with such a person for indefinite or definite period of time, in accordance with the Labor Law;
2. That the employer has registered such a person for the mandatory social security insurance with the competent social security authority;
3. That 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 acquire any income from employment.

A person will not be considered as a new employee if prior to employment with the current employer, such person was employed with employer which is a related person of current employer, or with employer which would have been related person of the current employer if it did not cease to exist, regardless of whether such employment was terminated.

Employer that increases the number of his employees as on March 31st, 2014 by hiring new employees has the right to use this tax incentive. This possibility also exists for employers that commence with their business activities after March 31st, 2014.

The amount of tax refund is determined as follows:

1. 65% from taxes paid if employer has employed at from one to ten new employees;
2. 70% from taxes paid if employer has employed at from ten to ninety nine new employees;
3. 75% from taxes paid if employer has employed 100 or more new employees.

The tax refund will be made within 15 days from day of filing the refund request to the competent authority, in accordance with the Law on Tax Procedure and Tax Administration.

Employer using any type of employment based incentive for a new employee may not use the incentive from the PIT Law, notwithstanding incentives from Law on Mandatory Social Security Contributions.

This tax incentive does not apply to state institutions, independent agencies, public services and public companies, as well to any other direct or indirect budget users.

Employers which have acquired right to tax incentives until July 1st, 2014 in accordance with the previously applicable Law, use these tax incentives in accordance with that Law.

Amendments to the Law on mandatory social security contributions

On May 30th, 2014, National Assembly of the Republic of Serbia has adopted Law on amendments of the Law on Mandatory Social Security Contributions, published in the Official gazette of RS, no. 57/2014.

1) Mandatory Social Security Contributions rates

As of August 1st, 2014, new social security contributions rates apply:

1. For pension and disability insurance – 26% (14% EE, 12% ER);
2. For health insurance – 10,3% (5,15% EE and ER);
3. For unemployment insurance – 1,5% (0,75% EE and ER);

New social security contributions rates apply to all payments as of August 1st, regardless of the month to which such payments refer.

2) Incentives for new employees

Amendments related to the incentives for new employees apply as of July 1st, 2014. Same as the amendments to the Personal Income Tax Law, the system of incentives for several categories of persons with a single provision, applicable regardless of the age limit and work experience of the new employees. The conditions and amounts of incentives are regulated equally as tax incentives in accordance with the Law on Amendments of Personal Income Tax Law, as specified above.

Please note that the sum of contributions paid for which the employer has a right to refund and the amount of contributions paid for which the employer does not have the right to refund is the amount of total contributions from salary for new employees.

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