

Serbian Tax Guidelines for 2021

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PREFACE

This publication is designed to provide potential investors with accurate information about the Serbian tax system.

The three main elements of this brochure are:

- ✓ Value added tax
- ✓ Corporate income tax;
- ✓ Personal income tax.

The statements contained herein are for informational purposes only and do not reference any single entity or individual. The purpose of this document is to present accurate information regarding the laws and regulations currently in place. We only vouch for the veracity of our data as of the date of its publication, and we are not obliged to update any of our information if a law or regulation is subsequently amended. You should not rely upon or follow the advice and opinions made available in this document for decision making without obtaining the advice of a legal or tax professional.

VALUE ADDED TAX

1. At a first glance

Date introduced:	01/01/2005
VAT rates:	20% (standard rate); 10% (reduced rate) 0% (exemption)
VAT number format:	9 digits (e.g. 123456789)
Tax filing period (for VAT returns):	Monthly or quarterly
Registration threshold:	8 million RSD (approx. EUR 68,000)

2. Scope of VAT

Value added tax is chargeable on the following transactions:

- ✓ Supply of goods and services deemed to take place in Serbia and performed by Serbian taxpayers;
- ✓ Importation of goods into Serbia, regardless of the status of the import;
- ✓ Services purchased by resident taxpayers from suppliers established outside of Serbia, Serbia being the place of supply (reverse-charge procedure).

3. Registration

An entity becomes liable to register for VAT and charge VAT on its invoices if its total turnover, exclusive of the supply of VAT-exempt goods and services, exceeds 8 million RSD in the previous 12 months. To register, a person must submit an application form to the tax authorities before the first VAT filing period expires.

Even if their annual turnover is below 8 million RSD, an individual or legal entity may get registered for VAT of its own accord. In order to cancel their VAT registration, at least two years must have passed.

A foreign supplier of goods and services operating in the territory of Serbia must hire a local tax agent and register as a taxable person in Serbia. A non-resident entity making taxable supplies of goods and services to Serbian VAT payers, Serbian government, government departments, and similar bodies is not required to appoint a tax representative and register for VAT purposes, because in their case the reverse charge applies. A foreign entity registered for VAT is entitled to claim a VAT refund upon satisfying certain criteria.

In the Republic of Serbia a group cannot be registered for VAT.

4. Exemptions

A. *Tax exemptions for the supply of goods and services with the right to deduct input VAT*

✓ transportation and other services relating to the import of goods, where the value of these services is included in the base specified in Article 19(2) of the VAT Act;

✓ supply of the goods shipped or dispatched abroad by the taxpayer or a third party acting on its instructions;

- ✓ supply of the goods shipped or dispatched abroad by the foreign recipient or a third party acting on its instructions;
- ✓ supply of the goods shipped abroad by a traveller in his/her personal luggage for non-commercial purposes;
- ✓ entry of goods into a free-trade zone, transportation and other services to users of free-trade zones that are directly linked to this entry and supply of goods and services in the free-trade zone;
- ✓ supply of the goods held in a customs warehouse;
- ✓ dispatch of goods to duty-free shops at international airports with customs and immigration checkpoints in order to be sold to passengers according to customs regulations; as well as delivery of goods from duty-free shops;
- ✓ work performed on movable assets acquired by a foreign recipient of services in the Republic of Serbia, or imported for the purposes of refinement, repair or installation, which are then shipped or dispatched abroad by the service provider, foreign recipient of services or a third party acting on their order;
- ✓ transportation and other services related to the export, transit or temporary import of goods;
- ✓ international carriage of passengers by air, which applies to non-resident airlines only in the case of reciprocity;
- ✓ deliveries of aircrafts, service, repair, maintenance, chartering and renting of aircrafts mainly used for international air travel in exchange for a consideration;

- ✓ supply of goods and services catering to the direct needs of the aircrafts as described above;
- ✓ international transport of people by ships which sail on rivers, with a stipulation that non-resident suppliers of such services must prove reciprocity;
- ✓ deliveries of ships, service, repair, maintenance and renting of ships whose primary use is for international river transport in return for payment;
- ✓ supply of goods and services directly linked to the ships mentioned above;
- ✓ supplies of gold to the National Bank of Serbia;
- ✓ goods and services that satisfy the official needs of diplomatic and consular missions and international organisations, as well as the personal needs of the foreign staff of diplomatic and consular missions and international organisations, including their family members;
- ✓ supply of goods and services arising from donation agreements with the Republic of Serbia, provided any such agreement precludes the usage of the money thus received for the payment of taxes;
- ✓ supply of goods and services pursuant to loan agreements between the Republic of Serbia and an international financial organization and/or another state;
- ✓ supply of goods and services provided under international treaties;
- ✓ supply of goods and services required to complete infrastructure projects to build highways of general interest according to special law;
- ✓ mediation services related to supplies of goods or services.

B. Tax exemptions for the supply of goods and services with no right to deduct input VAT

- ✓ Transactions and mediation in transactions involving legal means of payment, except for paper money and coins that are not legal means of payment or have numismatic value;
- ✓ Transactions and mediation in transactions involving shares, stakes in companies and associations, bonds and other securities, except for transactions relating to the safekeeping and management of securities;
- ✓ loan transactions, including mediation, and money lending;
- ✓ assumption of obligations, guarantees and other collaterals, including mediation;
- ✓ Transactions and mediation in transactions involving deposits, current and other personal accounts, payment orders, as well as payment operations and remittances;
- ✓ transactions, and mediation in transactions involving monetary claims, cheques, bills of exchange and other similar securities, except for the collection of claims on behalf of third parties;

- ✓ renting of apartments, if used for residential purposes;
- ✓ shares, securities, postal stationary, court fees stamps and other printed products with their value impressed on them in the Republic of Serbia, except for equity stakes;
- ✓ postal services provided by a public enterprise and the supply of goods connected with them;
- ✓ services provided by health care institutions in line with the regulations governing health care, including accommodation, nursing and feeding of patients in those institutions, except for pharmacies and apothecaries;
- ✓ services provided by physicians, dentists or other persons in compliance with the health care policy;
- ✓ service of administering dental prosthesis by a dental technician and/or dentist;
- ✓ Trade in human organs, tissues, bodily liquids and cells, blood and mother's milk;
- ✓ services of social protection and welfare, protection of children and young people, services rendered by social service agencies, as well as the supply

of directly related goods and services by persons licenced for this type of activity;

- ✓ organising games of chance;
- ✓ business activities of companies managing investment funds in accordance with investment fund regulations;
- ✓ business activities of companies managing voluntary pension funds in line with the regulations dealing with voluntary pension funds and retirement plans;
- ✓ insurance and reinsurance, including subsidiary services of insurance brokers and agents (representatives);
- ✓ land (agricultural, forest, construction sites - with or without structures), as well as the lease of such land;
- ✓ buildings, except for the first transfer of the right to use and dispose of newly erected facilities or their economically divisible units;
- ✓ supply of the goods and services for which the taxpayer was not entitled to claim input VAT at the time of purchase;
- ✓ supply of the goods for which tax had to be paid in the previous phase of the supply in accordance with the law on property taxes;

✓ accommodation and meals provided to pupils and students living in dormitories and similar institutions, as well as directly related supply of goods and services;

✓ educational services (pre-school, elementary, secondary, high, and university education) and services of professional retraining, as well as the supply of goods and services directly related to them, provided by persons specifically registered for this type of activity, where regulatory compliance is ensured;

✓ cultural services and the supply of goods and services directly linked with them, provided by licenced persons whose activity is not meant to attract profit;

✓ science-related services and the supply of goods and services directly connected with them, furnished by persons who are registered to carry out such activities without trying to make a profit;

✓ services of a religious nature provided by registered churches and religious communities, and the directly related supply of goods and services;

✓ services of a public radio broadcasting service, except for services that are commercial in nature;

✓ services related to sports and physical education provided to persons doing sports and providing physical education.

CORPORATE INCOME TAX

1. At a first glance

Corporate income tax	15%
Capital gains tax	15%
Withholding tax	20% (standard) 25% (for transactions with entities from preferential tax regimes)
Net operating loss (years)	Carryback - not allowed Carryforward – 5 years
Tax year	01/01 - 31/12 (standard) A tax year may span any 12-month period (subject to special approval)
Tax filing deadline	180 days from the expiration date of a tax period

2. Who is liable to corporate income tax

Resident entities are subject to income tax on their income made anywhere in the world. Nonresident entities are required to pay tax only on the portion of their income generated in the Republic of Serbia. Nonresident entities are foreign businesses (established elsewhere) with a fixed establishment in the Republic of Serbia.

3. Tax incentives

An entity qualifies for a 10-year tax exemption if it invests 1 billion RSD (approximately EUR 8 million) in its own fixed assets and if it hires at least 100 new workers in the investment period.

Provided certain conditions are met, an entity may be granted a tax credit for investing in a newly formed entity which conducts innovative business activities in the amount of 30% of the investment.

Twice the amount of research and development expenses is deductible in the Republic of Serbia for the activities conducted locally.

Up to 80% of income accrued from intellectual property rights can be excluded from taxable income if certain conditions are met. Also, 80% of the capital gain derived from the transfer of intellectual property is excluded from taxable income.

4. Determining taxable income

Taxable income is the positive difference between income and expenses. Once determined, taxable income may be subject to change in accordance with the general rules laid down by law.

The following expenses are not recognized in the Tax-Basis Balance Sheet:

- ✓ Undocumented expenses;

- ✓ Bad debt provisions for the receivables from entities to which the taxpayer owes money, up to the amount payable;
- ✓ Donations to political parties;
- ✓ Promotional gifts to related parties;
- ✓ Interest charged on late payments of tax, contributions and other public dues;
- ✓ Costs incurred in collecting delinquent tax debt or other liabilities in a court of law, court fees associated with tax offence or other proceedings initiated by relevant government agencies;
- ✓ Penalties and fines;
- ✓ Default rate of interest charged by one related party to another;
- ✓ Expenses unrelated to the business activities of the taxpayer.

Disbursed salaries are recognized in the Tax-Basis Balance Sheet in the calculated amount and recorded as a business expense of the taxpayer.

Severance pay and other compensations paid to a terminated employee are recognized in the Tax-Basis Balance Sheet as they are paid.

Membership fees for unions and associations are recognized in the Tax-Basis Balance Sheet up to the amount of 0.1% of the total revenues.

Entertainment costs are recognized in the Tax-Basis Balance Sheet up to the amount of 0.5% of the total amount of income.

The following costs are recognised in the Tax-Basis Balance Sheet provided their total value does not exceed 5% of the total revenues:

- ✓ Expenses incurred for health, educational, religious, humanitarian and sports purposes, for environmental protection, as well as contributions paid to institutions and/or providers of social security services;
- ✓ Humanitarian aid paid to the Republic of Serbia or an autonomous province in the case of an emergency situation;
- ✓ Expenditures made on culture.

Long-term provisions for the renewal of natural resources, expenses incurred during warranty period, retained caution money and deposits, as well as other mandatory long-term provisions are all recognized for tax purposes.

As of 1st January, 2019 entities are obliged to apply new rules when calculating depreciation for tax purposes. With this change, the declining-balance method was dropped and the straight-line method adopted. Previously held assets at the time of introduction of the new rules will continue to be depreciated using the old rules until the year 2028. The Republic of Serbia has adopted a new rulebook for calculating depreciation.

5. Capital gain

The capital gain derived from the following assets is included in taxable income:

- ✓ Real property used by the taxpayer as a fixed asset in conducting business activities, including property under construction;
- ✓ Intellectual property rights;
- ✓ Capital contributions and shares, as well as other securities that represent long-term financial investments according to IFRS and IAS (except for certain bonds issued by the government or the national bank);
- ✓ Investment units purchased by investment funds, in accordance with the law regulating investment funds.

6. Transfer pricing documentation

Transfer pricing documentation which analyses related-party transactions must be submitted along with the Tax-Basis Balance Sheet 180 days after the expiration of the tax year.

7. Withholding tax and double taxation agreements

Withholding tax is calculated and paid at the rate of 20% for the income made by a nonresident entity from a resident company from:

- ✓ dividends;
- ✓ royalties;
- ✓ interest;
- ✓ rental payments for the lease and sublease of movable and immovable property;
- ✓ services regulated by a special bylaw.

For a non-resident legal entity subject to a preferential tax regime the tax rate of 25% is applied.

The Republic of Serbia has signed more than 60 bilateral tax treaties. Not all of them are in effect. Where a resident company has been provided with a certificate of residence by the international supplier in advance, a reduced tax rate may be applied on the date of paying the fee to the non-resident entity. Here is an extensive list of the reduced tax rates:

	Dividend	Interest	Royalty
Albania	5/15	10	10
Armenia	8	8	8
Austria	5/15	10	5/10
Azerbaijan	10	10	10
Belarus	5/15	8	10
Belgium	10/15	15	10
Bosnia and Herzegovina	5/10	10	10
Bulgaria	5/15	10	10
Canada	5/15	10	10

China Mainland	5	10	10
Croatia	5/10	10	10
Cyprus	10	10	10
Czech Republic	10	10	5/10
Denmark	5/15	10	10
Egypt	5/15	15	15
Estonia	5/10	10	5/10
Finland	5/15	0	10
France	5/15	0	0
Georgia	5/10	10	10
Germany	15	0	10
Greece	5/15	10	10
Hungary	5/15	10	10
India	5/15	10	10
Indonesia	15	10	15
Iran	10	10	10
Ireland	5/10	10	5/10
Israel	5/15	10	5/10
Italy	10	10	10
Kazakhstan	10/15	10	10
Korea (North)	10	10	10
Korea (South)	5/10	10	5/10
Kuwait	5/10	10	10
Latvia	5/10	10	5/10
Libya	5/10	10	10
Lithuania	5/10	10	10
Luxembourg	5/10	10	5/10
Malta	5/10	10	5/10
Moldova	5/15	10	10
Montenegro	10	10	5/10
Netherlands	5/15	0	10
North Macedonia	5/15	10	10

Norway	5/15	10	5/15
Pakistan	10	10	10
Poland	5/15	10	10
Qatar	5/10	10	10
Romania	10	10	10
Russian Federation	5/15	10	10
San Marino	5/15	10	10
Slovak Republic	5/15	10	10
Slovenia	5/10	10	5/10
Spain	5/10	10	5/10
Sri Lanka	12.5	10	10
Sweden	5/15	0	0
Switzerland	5/15	10	0/10
Tunisia	10	10	10
Turkey	5/15	10	10
Ukraine	5/10	10	10
United Arab Emirates	0/5/10	10	10
United Kingdom	5/15	10	10
Vietnam	10/15	10	10

PERSONAL INCOME TAX

1. At a first glance

Personal income tax	10%
Capital gains tax	15%
Self-employment tax	10%
Tax on copyright, related rights and intellectual property rights	20%
Tax on yield on capital	15%
Tax on real estate income	20%
Tax on other income	20% (standard) 15% (as applied to income from insurance of individuals)

2. Income subject of taxation

Personal income tax applies to:

- ✓ wages and salaries;
- ✓ income derived from self-employment;
- ✓ income from copyright and related rights and industrial property rights;
- ✓ revenue from yield on capital;
- ✓ real estate income;
- ✓ capital gain;
- ✓ other income.

Residents are subject to tax the totality of their income, regardless of where it is made. Non-residents, however, are only liable to pay tax on their local income that was generated in Serbia.

A resident for tax purposes is a person who has a permanent or habitual place of residence or center of vital interests in Serbia, or who spends more than 183 days over a 12-month period in Serbia, beginning or ending in the tax year.

3. Exclusion from taxable income and tax exemptions

A. Exclusion from taxable income

- ✓ Income stemming from the statutory rights of disabled veterans;
- ✓ Income, with the exception of wages (salary), earned in accordance with the law governing financial support to families with children;
- ✓ Benefits received for assisting and nursing another person, and disability allowance;
- ✓ Unemployment benefits and other types of compensation disbursed by the National Employment Agency as part of its policy and measures to actively promote employment, in accordance with the law governing employment and unemployment insurance;
- ✓ Social protection services and financial support in accordance with the law regulating social security;
- ✓ Health insurance benefits, with the exception of sick and/or parental pay;
- ✓ Property insurance compensation, other than indemnity for lost profit, as well as personal insurance payment for the damage suffered, unless it was made good by the perpetrator;

- ✓ Indemnity for material and non-material damage, with the exception of indemnity for any lost profit or compensation due to an employee while on paid leave (sick or parental) or lost wages (salary);
- ✓ Death benefit, adjustable every year, in case an active or retired employee or his/her family member dies;
- ✓ Relief given to alleviate the circumstances of destroyed or damaged property amid a natural disaster or other unforeseeable event;
- ✓ Organized welfare and humanitarian aid;
- ✓ Grants and loans extended to pupils and students in the amount that changes every year;
- ✓ Meal allowance paid to amateur athletes by amateur sports clubs, the amount of which is updated annually;
- ✓ Remuneration and rewards paid to convicts and juvenile delinquents kept in penitentiaries and reform schools for the work done;
- ✓ Remuneration and rewards paid to inmates of psychiatric institutions for the work done;
- ✓ Contributions for mandatory social insurance paid by a company on behalf of its founder and/or member, in accordance with the law governing contributions for social insurance;
- ✓ Old-age, survivors and disability pension earned on the basis of paid contributions for old-age, survivors and disability insurance;
- ✓ Severance pay/gratuity paid by an employer to a redundant employee, in conformity with the law on labor relations, due to the redundancy of the employee's job or the necessity to reduce the number of employees as dictated by law restricting the number of public-sector workers – up to the amount set by the relevant law;
- ✓ Severance pay for the employees dismissed as part of the coordinated effort to resolve the issue of redundancy in the face of privatization and in compliance with the government act determining the program for resolving redundancy issues during privatization - the amount is fixed by the program;
- ✓ Remuneration paid to a foster parent and compensation for the expenses of providing for a child in a foster home;
- ✓ Remuneration paid under the regulations concerning the Army of Serbia to those serving in the military, students and cadets in military educational institutions and persons attending other professional

B. Tax exemptions

- ✓ Transportation allowance paid to an employee to compensate for his/her commuting expenses (travel to and from the place of work) provided proper bills are presented – up to the price of the monthly public transport ticket or the amount of actual costs, but not above a fixed annual amount;

- training courses for officers and non-commissioned officers;
- ✓ Remuneration which, in conformity with the regulations governing internal affairs, is paid to students of a higher educational institution offering study courses for the police;
- ✓ Premiums, subsidies, bonuses and other funds aimed at stimulating agricultural development and disbursed from the budget of the Republic of Serbia, an autonomous province or local government unit, by crediting a special-purpose bank account of a family farm holder registered in the relevant farms registry;
- ✓ VAT refunds, in conformity with the law governing value added tax;
- ✓ Prizes awarded to pupils and students for the results achieved while attending a school or a training program, as well as medals won at international competitions and contests organized by formal institutions for educational purposes;
- ✓ Reimbursement of the expenses incurred by volunteers, according to the law governing volunteer work;
- ✓ Financial assistance to individuals not employed with the assistance provider to help them pay for medical treatment in the country or abroad, in the amount of actual treatment costs, documented by receipts of a healthcare institution administering the treatment, as well as documented transportation and accommodation expenses incurred while undergoing the treatment;
- ✓ Compensation paid to members of electoral commissions, except for the Republic Electoral Commission, polling and voting committees responsible for the implementation of direct elections and other forms of direct expression of citizens' will, as well as individuals conducting a census – the amount is adjusted annually;
- ✓ Financial assistance to persons not employed with the assistance provider, which does not amount to remuneration for any work done and/or consideration for an activity performed by the person which involves the assistance provider;
- ✓ Reimbursement of the living expenses incurred by individuals participating in the programs run by the European Union and other international organizations in the area of education, training, sports, youth work, science, research and innovation, paid in accordance with these programs.

- ✓ Per diem paid to an employee traveling locally (within Serbia), in the amount that is occasionally revised, but not annually;
- ✓ Per diem paid to an employee traveling internationally, which can be updated from time to time, but not each year;

- ✓ Reimbursed accommodation expenses while on business travel, based on presented receipts and bills;
- ✓ Reimbursed transportation costs incurred during a business trip, according to the bills provided, if the use of a person's own motor vehicle for business travel and other business purposes is allowed under local legislation;
- ✓ Daily allowance for the members of the Serbian armed forces as a compensation for their performance of duty, in accordance with the regulations governing the armed forces;
- ✓ Solidarity aid in the event of sickness, medical rehabilitation or disability of an employee or member of his/her family, in the amount which is updated annually;
- ✓ New Year and Christmas gifts to the children of employees under 15 in the amount adjusted on a yearly basis;

- ✓ Jubilee awards to employees provided under labor law, the amount of which is adjusted each year;
- ✓ Financial support aimed at paying for the medical treatment which an employee undergoes in Serbia or elsewhere, which equals the actual costs of the treatment, as documented by the receipts issued by the health care institution administering the treatment, as well as documented transportation and accommodation costs associated with the treatment process;
- ✓ Equity shares, options on equity shares or equity shares of the employer or shares, options on shares or stakes of the person related to the employer which the employee acquires free of charge or at a privileged price from the employer under specific conditions;
- ✓ Baby bonus for a newborn up to the amount of the average salary paid in the Republic of Serbia, as reported by the government agency for statistics, per baby.

4. Social security contributions

	Paid by employer	Paid by employee
Old-age and disability	11.5%	14%
Health care	5.15%	5.15%
Unemployment	-	0.75%

5. Totalization Agreements

The Republic of Serbia has entered into totalization agreements with the following nations:

Austria	Belgium	Bosnia and Herzegovina
Bulgaria	Canada	Croatia
Cyprus	France	Germany
Hungary	Italy	Libya
Luxemburg	North Macedonia	Montenegro
Panama	Poland	Romania
Russian Federation	Slovak Republic	Slovenia
Sweden	Switzerland	Czech Republic
Denmark	Norway	Netherlands
Turkey	United Kingdom	

6. Double taxation conventions

Agreements for the Avoidance of Double Taxation exist with the following countries:

Albania	Armenia	Austria
Azerbaijan	Hungary	Pakistan
Belarus	Belgium	Bosnia and Herzegovina
Bulgaria	Canada	China
Croatia	Cyprus	Czech Republic
Denmark	Egypt	Estonia
Finland	France	Georgia
Germany	Greece	Kazakhstan

India	Iran	Indonesia
Ireland	Italy	Korea (north)
Korea (south)	Kuwait	Latvia
Libya	Lithuania	Luxemburg
Turkey	North Macedonia	Malaysia
Malta	Moldova	Montenegro
Norway	Ukraine	Poland
Qatar	Romania	Russian Federation
San Marino	Slovak Republic	Slovenia
Spain	Shi Lanka	Sweden
Switzerland	Tunisia	United Arab Emirates
United Kingdom	Vietnam	

7. Employment of foreigners

A work permit for a foreign national is issued upon the request of an employer, having first established the important facts about the labor market, and on the condition that the employer:

- ✓ did not terminate, prior to applying for a work permit, and due to technological, economic or organizational changes within the company, any employees filling the role for which the foreign national has applied, in accordance with the applicable labor law;
- ✓ did not find, ten days prior to applying for a work permit (or less, if the deadline is shortened by the Minister for Employment), any Serbian resident, person with open access to the labor market or a foreign national who already has a work permit with proper qualifications for the advertised post and registered with the Serbian Employment Agency;
- ✓ is able to show a draft employment agreement or another type of agreement which guarantees the exercise of the labor rights of the employee, as laid down by law.

A work permit will only be issued to a nonresident alien who has already been granted a temporary residence permit and has the necessary qualifications (knowledge, skills, prior experience, etc.) that the employer is looking for.

A work permit has a maximum validity period of 45 days.

A work permit is issued for the duration of the employment but is always limited by the length of the temporary stay for which a required residence permit has been obtained.

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