



Independent legal & accounting firms

Doing Business in Serbia

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MSI's guide on Doing Business in Serbia provides current information about the financial, regulatory and legal considerations that could affect business dealings within Serbia. For further assistance please contact our MSI member firms in Serbia.

Country overview

Population

The population of Serbia (not including Kosovo and Metohija) is approximately 7 million.

Government

The national legislature of Serbia is a unicameral assembly of 250 members chosen in direct general elections for a period of four years. The President of the Republic is also elected in direct general elections for a period of five years. National Parliament elects the Government of the Republic of Serbia, which, together with the President of the Republic, represents the country's executive authority. The judiciary is independent.

Languages

Serbian is the only official language while members of ethnic minorities are entitled to use their own language. English is taught as a compulsory foreign language, while in many areas students choose an additional language such as German, French or Russian.

Currency

Serbia's official currency is the Serbian Dinar (RSD).

Economic summary

GDP: GDP for 2018 at USD 50.14bn (USD 7.2 thousand per capita).
Income per capita: USD 7.2
Inflation: 2%

Main sectors of the economy

Over the past 10 years, as a result of extensive political and economic reforms, Serbia has developed into a stable democratic country with a fast growing market economy. As a member

of the International Monetary Fund, Serbia exercises a sound and consistent economic policy resulting in a strong economic growth and rapid export expansion. The country's progress is fully supported by leading international development institutions, such as the World Bank and the European Bank for Reconstruction and Development, while the processes of the European Union and the World Trade Organisation accession are under way.

Serbia's main industry sectors are: Agriculture, Automotive, Food Processing, Metals and Chemicals

EU country/ Non-EU and its impact on businesses and investors

Since January 2001, Serbia has shown a strong commitment to establishing a modern market economy and re-entering European and global markets. Serbia became a candidate country for EU accession in 2012, and it went through legal and economic reforms in all areas, aimed at ensuring legal security and harmonisation with EU legislation and economic policies. The process of legal and economic reformation is ongoing until the full harmonisation with EU *acquis communautaire* is reached.

Setting up a business

The legal status of business entities in Serbia is regulated by the Company Law, which sets out detailed provisions on legal forms of business entities, its corporate governance structure, minimum capital requirements, status changes (mergers, spin-offs), management, liquidation of companies etc.

Legal types of business entities

Foreign investors may establish a company in the form of:

- i. Associations of capital: Joint-Stock Company (a.d.), Limited Liability Company (d.o.o.) and
- ii. Partnerships: General Partnerships (o.d.), Limited Partnerships (k.d.)

In addition to the above, a foreign company may set up a branch or representative office of a foreign company. In practice, foreign investors usually prefer to incorporate a limited liability company due to its simple form and easy incorporation requirements. Its advantages include the capital increase, which may be made without supervision of the regulators, and minimum share capital which is less than EUR 1 (opposed to approx. EUR 27,000 for a joint-stock company).

Process of how to set up a business

A Serbian legal entity is based on the constitutive documents called articles of association which contain all the internal regulations and entity details. The founders of a **Serbian company** must elaborate these documents and must make sure that the chosen name is not already used by another entity. The articles of association or the partnership agreement must contain the address of the head office, the main activities, and objectives of the entity and the initial capital contribution (kept in a temporary bank account). This Memorandum of Association must be notarized at a basic court, at the Municipality or public notary. The registration at the Serbian Trade Register must be made before starting any commercial activity.

Minimum share capital: RSD 100 (approx. EUR 1) are needed for opening a limited liability company in Serbia.

Financial year of taxes and financial accounts

The tax period is the financial year. The financial year shall mean a calendar year, except when the business is dissolved, started up or status-related changes (e.g. a merger) are made in the course of a year. The financial year and calendar year can be different on a taxpayer's request, with the approval of the Minister of Finance (governor of the National Bank of Serbia), but the tax period must cover a 12 month period and once changed it has to be applied for at least five years.

A taxable entity includes a company, an enterprise or other legal entity established for the purposes of acquiring profit, a cooperative generating profit by selling goods or providing services, or other form of legal entity which generates income by sale of goods and services on the market. Serbian tax legislation does not recognise the concept of tax transparent entities.

Accounting and auditing

When is a statutory audit required?

Large and medium-sized entities, public companies and all legal entities and entrepreneurs whose business income total turnover in the preceding business year exceeds 4.4 million euros in dinar equivalent are obliged to audit their financial statements. Approved financial statements together with the auditor's opinion must be submitted by 30 June (31 July for consolidated financial statements). All companies, which are required to have an audit must publish their financial statements together with the auditor's opinion by 30 June. The audit of financial statements is performed in accordance with the International Standards of Auditing (ISA). The audit must be performed by certified auditors, members of the Chamber of Certified Auditors and employed by an audit company

Economic and fiscal incentives

Serbia's tax environment is competitive compared to other Central and Eastern

European countries. Investors seeking room to reduce their overhead costs can take advantage of the numerous benefits, the following being the major ones:

- Favourable corporate income tax regime,
- 15% flat tax rate,
- 10 year tax holiday for qualifying investments,
- Double deduction of R&D expenses for tax purposes (excluding extractive industry),
- 80% of qualifying royalty income excluded from the tax base,
- 30% tax credit for the investments into newly established companies performing innovative activities,
- VAT and personal income tax among the lowest in Central and Eastern Europe,
- State subsidies for new employment (currently available up to the end of 2019).

Incentives foreign investors/ local investors

Both foreign and domestic investments in Serbia are regulated by the Law on Investments (LI). The fundamental aim of the Serbian Government is to create a business-friendly legal, economic and political environment for all individuals and companies interested in doing business in Serbia, by equalising the rights and responsibilities of domestic and foreign investors, providing incentives and other necessary conditions. A long-term goal is also to create a legal system compatible with European Union legislation as a first step towards future integration. The LI regulates both foreign and domestic investment in enterprises and other forms of establishment engaged in profit generating activities in Serbia.

Foreign investors might acquire a package of the investment incentives from funds set out in the Serbian national budget, in accordance with the law. The most important regulations in that regard (apart from the mentioned Law on State Aid Control) are the Law on Investments and the Regulation on Conditions and Manner of Attracting Direct. Process of investment incentives

granting is guided by the body called Republic Development Agency ("RDA"), but the final decision is made by the Ministry of Economy.

The incentives, in accordance with the Regulation on Conditions and Manner of Attracting Direct Investments, may be awarded for greenfield and brownfield projects i.e. for the financing of investment projects in the manufacturing sector and the services sector which may be subject to international trade.

Taxation

Taxation of corporations in Serbia is regulated by the Corporate Income Tax ("CIT") Law (last amended December 2018) and by subordinate by-laws issued by the Ministry of Finance. A taxable entity includes a company, an enterprise or other legal entity established for the purposes of acquiring profit, a cooperative generating profit by selling goods or providing services, or other form of legal entity which generates income by sale of goods and services on the market. Serbian tax legislation does not recognise the concept of tax transparent entities.

Serbian tax resident entities are taxed on their income generated on the territory of the Republic of Serbia, as well as on their worldwide income. An entity is considered a resident of Serbia if it is established or has its place of effective management and control in the territory of the Republic of Serbia. Non-residents are taxed only on their income sourced through a permanent establishment on the Serbian territory.

VAT

The standard VAT rate in Serbia is 20%. There are reduced rates of 10% and 0%. The VAT rate applicable for agricultural products acquired from agricultural producers is 8%.

Income tax

1. Personal income tax (Salaries: 10% Other income: 20%)
2. Annual income tax (10% to 15% (for an annual income above three average annual salaries)

Corporate income tax

Flat rate: 15%

Registration procedures

A legal entity (including branches and representative offices of foreign legal entities etc.) applies for a Tax Identification Number (TIN) at the moment of registration with the Serbian Business Register Agency. The application is forwarded by the Agency to the Tax Administration who is also in charge of issuing a TIN to individuals.

Withholding tax on payments to non-residents

20% (for dividends, shares in profits, royalties, interest income, lease payments for real estate and other assets, income from entertainment, sporting, artistic and similar performances that was not subject to personal income tax, payments for market research services, accounting and audit services and other legal and business consulting services) 25% (for payments to non-residents from preferential jurisdictions (i.e. tax havens) in respect of royalties, interest income, lease payments for real estate and other assets and service fees)

Wage tax

Individuals: 19.9% / Employers: 17.15%
Maximum social security contributions base is capped to five average salaries in Serbia.

Property tax

- Individuals: Progressive rates range from 0.4% to 2%
- Companies: Flat rate up to 0.4%, depending on municipality.

Tax on capital gains of non-residents

20% (tax return is submitted by the non-resident taxpayer via its Serbian tax representative; tax is assessed by the Tax Authorities' decision)

HR/ Labour Law**Employment law**

An employment agreement may be agreed for an indefinite or fixed period of time and must be concluded in writing form. A fixed – term employment agreement may last for a maximum of

24 months with interruptions or without interruption. There is some exception when a fixed – term employment may last more than 24 months. These exceptions are listed in Labour Law.

In both cases employers can set a probation period, which may last for a maximum of 6 months. Before the end of the probation period, the employer or employee may terminate the employment agreement with a notice period that cannot be shorter than five working days. The employer is obliged to explain the cancellation of the employment agreement. The employment relationship shall be terminated with an employee who has failed to demonstrate appropriate working and professional capabilities during the probation period on the date of the expiration of the period specified in the employment agreement.

Social security

Participation in a social security program is obligatory. The contributions provide funding for compulsory social security are as follows: pension and disability insurance; health insurance; unemployment insurance. Workers are insured in case of illness and unemployment. The premium for social security is paid to the Pension and Disability Insurance Fund, Health Insurance Fund and National Employment Service together with the payment of wage.

The tax on wages is paid by the employer to the tax administration along with the payment of wage of the employee.

The base is the same (pension and disability insurance 12%; Health insurance 5.15%; Unemployment insurance 0.75%)

According to Serbian regulations employer is obliged to pay premium for social security for every employee. Apart from that the obligatory social security, the each employee may insure themselves (voluntary) for the costs of health care. But in that case voluntary security is additional security because

the employer still has the obligation to pay the premium.

Pension

Depending on the sector there may be an obligatory and voluntary pension fund. The obligatory pension fund is prescribed by Law on pension and disability insurance. The premium is paid directly to the pension fund together with the payment of wages.

The obligatory pension premium for the employee is only paid if the individual is in employment.

In addition to the obligatory pension premiums, the individual may choose to pay voluntary pension contributions into a pension fund, whether she / he is employed or not, to increase the overall amount of the pension.

The retirement age for men is set at 65, and 62.5 for women (for 2019). However, the retirement age for women will increase every year by six months until it reaches that of men.

Payroll

When starting a business, the company must register with the tax authorities. Wage tax and social security is paid monthly together with payment of wage to the tax authorities and to competent fund for social security.

Visa and work permits

People from the EU and Non- EU citizens must apply for a work permit before taking employment in The Republic of Serbia.

Contact us

The information provided in this guide cannot be exhaustive and we recommend anyone considering doing business in Serbia should seek professional advice from our member firms before making any business or investment decision.

Contact our member firms in Serbia to discuss your requirements:

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