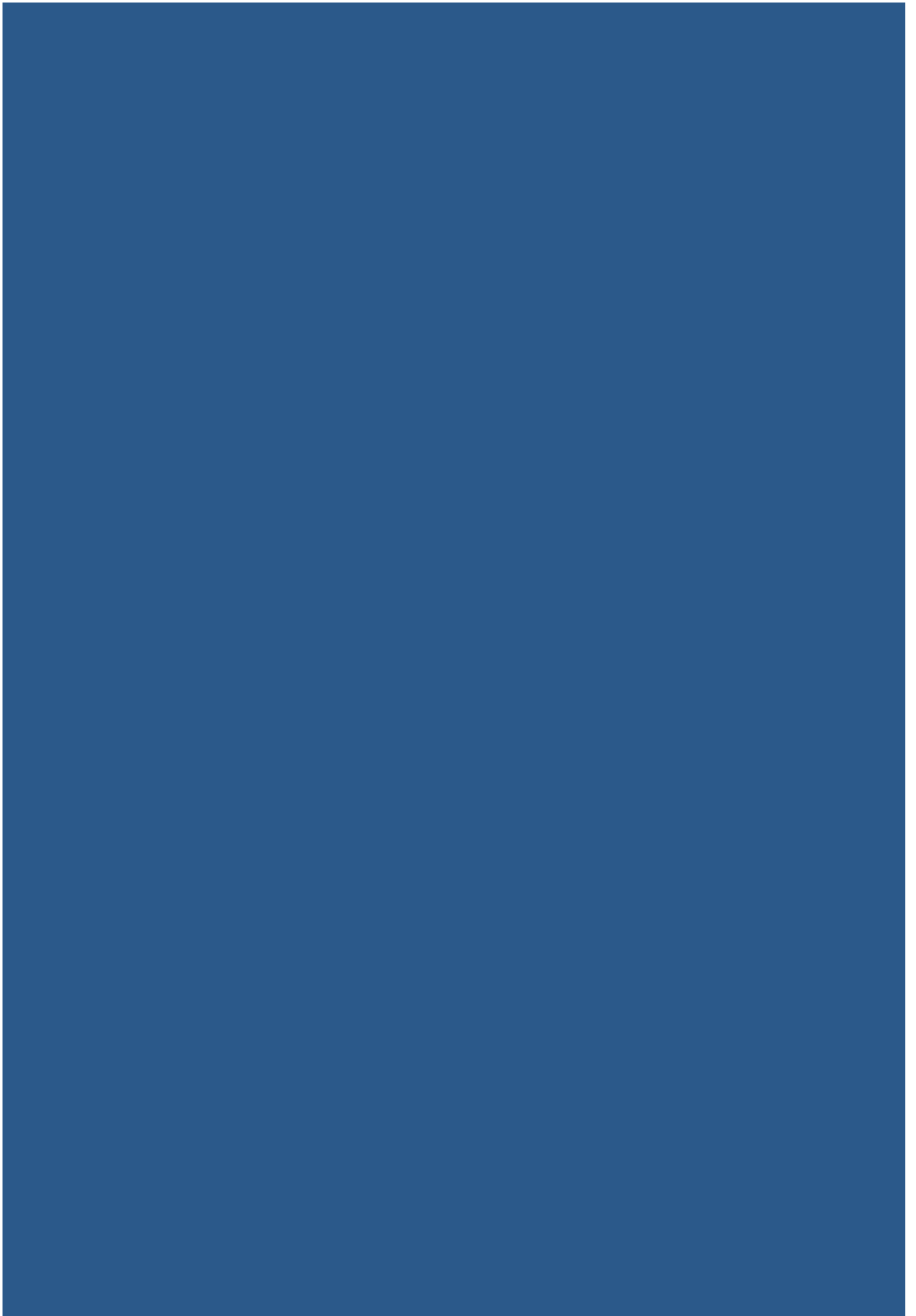


# Guide to doing business and investing in Serbia

2009 Edition





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2009 Edition

The information in this book is based on taxation law, legislative proposals and current practice, up to and including measures passed into law as of 1 May 2009. It is intended to provide a general guide only on the subject matter and is necessarily in a condensed form. It should not be regarded as a basis for ascertaining the tax liability in specific circumstances. Professional advice should always be taken before acting on any information in the booklet.

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# Partner letter

It is my pleasure to present you the new edition of *Guide to doing business and investing in Serbia*.

In this changing environment, *the Guide to doing business and investing in Serbia 2009* publication aims at providing comprehensive and up-to-date information on conducting business in Serbia. This includes commentary on the latest legal developments, audit and accounting changes, major tax and investment incentives and general economic and business conditions.

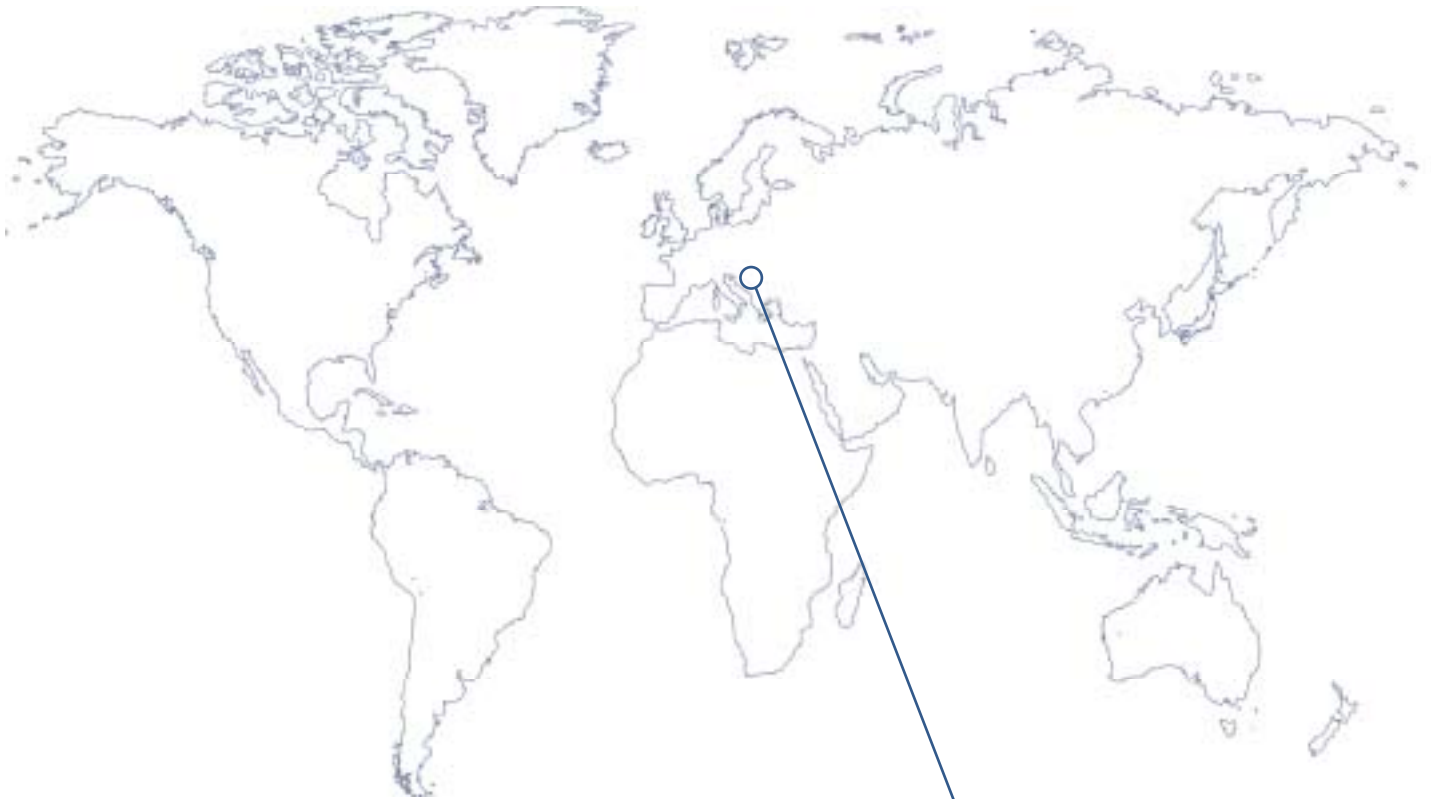
*The Guide to doing business and investing in Serbia 2009* publication will be of valuable assistance to domestic and foreign investors or potential investors alike, regardless of the type, size and character of the investment.

The publication highlights many of the principal features of the accounting, tax, legal and general business regulatory environment that interfaces local issues with those of the global business world.



**Emmanuel Koenig**  
Country Managing Partner

# Office location in Serbia

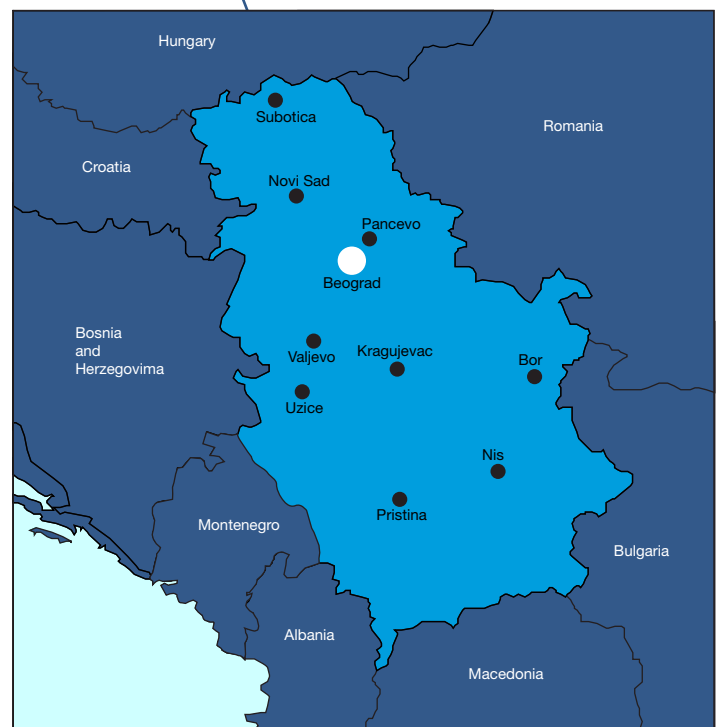


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# Chapter 1

## Serbia: Country Profile

### 1.1 Introduction

#### History

Serbia has a long and turbulent history wrought with conflict and struggle for independence. The most recent example was the war-torn 1990's which saw the collapse of communist Yugoslavia and the emergence of its former republics as independent states. The conflicts ended in 1999 with NATO led air strikes which resulted in Serbia agreeing to the introduction of UN administration in Kosovo and Metohija province in accordance with the UN Security Council Resolution 1244.

October 2000 saw Serbia defeat Slobodan Milosevic's regime and establishment of a democratic government led by Prime Minister Zoran Djindjic that set a firm reformist course geared towards privatization and free market economy.

Following a referendum held in Montenegro in 2006 (which signalled the dissolving of the State Union of Serbia and Montenegro) and the adoption of a new constitution in the same year, Serbia has re-established its status as an independent state. In 2008 Boris Tadic was re-elected President and his Democratic Party leads a coalition that formed the new government headed by Mirko Cvetkovic.

In February 2008 Kosovo unilaterally declared independence from Serbia, which Serbia vehemently opposes. The issue has been brought before the International Court of Justice in an effort to determine the legality of such an action.

The current government follows the path of economic and social reform centred on transition to free market economy and privatisation of the public sector. Ascension to the European Union remains a top priority for Serbian administration. Efforts towards realising this goal are made through adopting new legislation as well as through unilateral application of the Stabilisation and Association Agreement (as of January 2009) signed with the EU.

#### Geography and climate

The Republic of Serbia is located in South East Europe, central part of the Balkan Peninsula and covers 77,474 km<sup>2</sup> (excluding Kosovo and Metohija). It is situated at the intersection of Pan European Corridors Nr. 10 and Nr. 7 linking Europe and Asia. River Danube runs through Serbia (588 km).

The climate is temperate continental, with gradual transition between the four seasons of the year, warm summers and snowy winters. The average annual temperature is around 12 oC. The temperatures in January and June average 0 oC and 22-23 oC respectively. The average annual precipitation ranges from 660 mm to 800 mm in the plains to between 800 mm and 1,200 mm in the mountains.

Major cities are, the capital Belgrade (population around 1.6 million), Novi Sad (popn. 300,000), Nis (popn. 250,000), Kragujevac (popn. 175,000).

### 1.2 Government structure

The national legislature of Serbia is a unicameral assembly of 250 deputies chosen in direct general elections for a period of four years. The deputies in the National Parliament elect 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.

### 1.3 Legal system

#### Legislative framework

Serbia has a civil law system, meaning the courts interpret legislation rather than being bound by preceding rulings on the issue.

The Parliament is the supreme legislator. Certain bodies with executive powers, such as the government and ministries, are competent to pass decrees and by-laws in specific areas. Decrees and by-laws must be in compliance with parliamentary legislation. Legislative acts, decrees and by-laws come into force after publication in the Official Gazette of Serbia.

#### Courts

The organisation of the court system in Serbia and jurisdiction of courts is regulated currently by the Law on Organisation of Courts and the Law on Courts. However, as of 1 January 2010, the newly adopted Law on Organisation of Courts shall come into force.

The court system consists of the Constitutional Court, courts of general jurisdiction and courts of special jurisdiction.

According to the currently applied system the courts of general jurisdiction are the following: municipal courts, district courts and the Supreme Court. The courts of specific jurisdiction are the following: commercial courts and Higher Commercial Court. Although envisaged by the Law on Organisation of Courts, appellate courts (which are in general to be second instance courts to district courts and in most cases to municipal courts), Misdemeanour courts, Higher Misdemeanour Court, and the Administrative Court (for adjudicating in administrative disputes), have still not been formed. In the meantime, in the absence of appellate courts, second instance court for district courts is the Supreme Court.

As introduced by the new Law on Organisation of Courts, it is expected that as of 1 January 2010, municipal courts shall be replaced by basic courts with similar competencies, as well as higher courts shall replace district courts.

Since in certain cases it may take several years to receive a final judgement, many business entities opt for arbitration, providing for it in their contracts. There is a Foreign Trade Court of Arbitration at the Serbian Chamber of Commerce in Belgrade. It is international, general (all conflicts arising from international business relations are considered), open (domestic and foreign citizens are on its list), independent and autonomous. Its judgments are final. Specific rules of procedure can be agreed between the parties and specialist arbitrators can be chosen. The United Nations Commission on International Trade Law (UNCITRAL) book of rules may be applied.

## 1.4 People

### Population

According to the recent data the population of Serbia (not including Kosovo and Metohija) is approximately 7.4 million, around 64% of which is of working age. Statistics show that Serbia has, on average, an old population (the average year of age being cca. 40.2 according to recent information) which has been identified as a leading concern and is attributed mainly to emigration.

The country's population is mostly Serbian (82.86%) with the most significant ethnic minorities being Hungarian (3.9%), Bosnian (1.8%) and Roma (1.4%).

### Language

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 from German, French or Russian.

## Religion

Religion is practiced freely and Orthodox Christianity is the dominant confession (84.1%). Other prominent religions are Roman Catholic 6.24%, Islam 4.82% and Protestant 1.44%. Most Catholics reside in Vojvodina, Serbia's northern province, while Muslims are predominant in the region of Raska to the south of the country.

## Education

Elementary and high school education in Serbia is free with eight years elementary schooling being compulsory. Around 78% of the population completes elementary schooling while 11% achieves higher education.

## Living standards

The total percentage of the population living below the poverty line is 6.6%. The distribution of poverty is uneven with 4.3% living in urban zones and 9.8% in rural areas. Gross average income is also significantly higher in cities (Belgrade in particular) than in rural areas.

According to the recent data average monthly gross salary in Serbia amounts to RSD 42 thousand, while in Belgrade amounts to RSD 54 thousand.

## 1.5 Economy

### General description

Serbia is considered an upper-middle income economy by the World Bank, with a GDP for 2008 estimated at \$80.717 billion (\$10,985 per capita PPP). Since the political reforms of 2000, the country has experienced fast economic growth and has been preparing for membership in the European Union.

### Currency

Serbian official currency is Dinar (RSD). On 31 March 2009 the exchange rates were 1 EUR = 94.78 RSD and 1 USD = 71.59 RSD, according to the National Bank of Serbia (NBS).

### Transport

In Serbia all means of transportation are present. The total length of roads is 42,692 km (asphalt) and 24,860 km (concrete). Railway network enables cost effective transportation thanks to good communication with all major European destinations through the Pan European Corridor X.

There are 3 major airports in Serbia: Belgrade Nikola Tesla Airport, Nis Airport and the Vrsac international airport. Serbian rivers belong to the basins of the Black, Adriatic and Aegean Seas. Three of them, the Danube, Sava and Tisa, are navigable. The longest river is the Danube, which flows for 588 of its 2,857 kilometer course through Serbia. Serbia does not have access to sea.

# Chapter 2

## Business Environment

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### Investor considerations

- Amendments to the Law on Foreign Exchange Transactions aiming to further liberalize FOREX operations are expected to be enacted until the end of 2009.
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## 2.1. Business climate

### Aims of government policy

- Key goals and instruments of the economic policy are:
- Maintaining exchange rate stability and curbing domestic aggregate demand through restrictive monetary policy,
- Further reduction of public spending, freezing public sector wages through tight fiscal policy,
- Price stability,
- Stimulative subventions for the economy – approval of credits for investments in total of RSD 162 billion

Government of the Republic of Serbia approved in January 2009 a package of measures aimed at mitigating the effects of the global economic crisis on Serbia, maintaining the competitiveness of the economy, preserving jobs and stimulating domestic demand. The proposed measures include directly subsidizing interest rates on loans for liquidity, co-financing loans for investments with the guarantees from the Guarantee Fund and direct subsidies for interest rates on consumer loans for certain consumer goods from international sources.

The Government has also adopted a strategy for the development of Serbian trade, strengthening competition of commercial companies in the local market with the aim to create modern market and trade system and accelerate Serbia's EU accession.

### Economic development

Over the past five years of extensive political and economic reforms, Serbia has developed into a stable democratic country with a fast growing market economy. Western-oriented, democratic political parties have a strong majority among citizens and the Government is shaping an attractive environment for business activities, while legislative activities are intensely bringing the legal framework in line with the EU regulations. As a member of the International Monetary Fund, Serbia exercises a sound and consistent economic policy resulting in a strong economic growth, state budget surplus, 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 Organization accession are under way.

## 2.2. International agreements

Current status:

- Serbia's application for the WTO accession accepted; accession expected in mid 2009,
- The Stabilization and Association Agreement and Interim Trade Agreement with the EU signed in April 2008; membership candidacy planned for 2009; accession preparations to be over by 2012,
- Regional free trade agreement (CEFTA), ratified by Serbia in 2007, integrates the countries of the South East Europe, thus creating a possibility for companies to place their goods customs free to a market of close to 30 million people,
- Serbia is the only European country with free trade agreements with the EU, Russia and Belarus. Apart from its favorable economic agreements with both the East and West, such steps could be soon undertaken with Turkey and Iran,
- The trade with US is pursued under Generalized System of Preferences (GSP). The GSP program provides preferential duty-free entry for more than 4,650 products,
- Serbia is member of Black Sea Economic Cooperation (BSEC).

## 2.3. Regulations for businesses

### Competition Law

Law on Competition was adopted in September 2005, replacing the existing 1996 Anti-Monopoly Law.

The Law applies to antitrust provisions, including restrictive agreements and abuses of dominant positions. The new Law now makes a differentiation between horizontal (agreement operating on the same production/supply level) and vertical agreements restricting competition, mergers and concentration among market participants.

The Law, which is generally in compliance with EU requirements, covers any instrument, e.g. agreements, contracts, explicit or tacit agreements etc. Any such instrument designed to have or having the effect of preventing, restricting or distorting competition on the relevant market is null and void.

A participant has a dominant position in the relevant market if it has the power to behave independently of other undertakings, thus being in a position to make business decisions without taking into account the effect on competitors, purchasers or suppliers and/or final users of its goods and/or services.

A participant having a market share exceeding 40 percent may or may not be considered dominant, depending on the market share of competitors, barriers to entry and the economic strength of potential competitor(s), as well as the eventual dominant position of the buyer. A participant having a market share below 40 percent may also be considered to be dominant.

The Law creates an independent competition body: the Commission for the Protection of Competition (the Commission). The Commission is organized as an independent body. The Commission is responsible to the Serbian Parliament.

## Consumer protection

The Law on Consumer Protection was adopted in September 2005.

Under the Law, the competent Authorities dealing with this area are the Serbian Ministry of Trade and Services (the Ministry) and the Council for Consumer Protection (the Council). The Council is created as an advisory body.

The Law prescribes the fundamental rights and protection of the Consumer's economic interests. It regulates, inter alia, provisions on water and air quality, issuing of invoices, warranty clauses in commerce, consumer credits, packaging issues and time sharing. Protection of the Consumer is possible both in and out-of-courts. The Law also regulates operations of a consumer protection organization.

## Intellectual Property (IP) Rights Protection- Patents, Trademarks, Copyrights

All existing IP laws were enacted during the last decade and are generally in compliance with international standards. The main issues remain the implementation of the IP laws and a better trained and organised judicial system.

The laws dedicated to the protection of IP rights are as follows:

- The Law on Copyright and related rights 2004
- The Law on Protection of Topographies of Integrated Circuits 2004
- The Law on Patents, adopted on 2 July 2004
- The Law on Trademarks, adopted on 22 December 2004
- The Law on legal protection of design 2004
- The Law on Geographical Indications 2006
- The Decree on keeping the records of work of authorship and subject of related rights 2005
- The Law on Special Powers for Efficient Intellectual Property Rights Protections 2006
- The most important IP conventions relating to IP protection are ratified by the Serbia i.e. Berne Conventions, Paris Conventions, European Patent Convention, Madrid and Nice Arrangements and others.
- The authority dealing with IP protection is the Intellectual Property Office of Serbia.



## Acquisitions

Acquisitions of limited liability and joint stock companies are treated differently.

Stakes in limited liability companies are subject to direct transfer. This means that stakes can be transferred between contracting parties by signing Share Purchase Agreements or otherwise. The specific legal requirements relate to the right of first refusal of other stake owners in the company.

Acquisitions of shares in joint stock companies are subject to the Company Law and the Law on Takeover of Joint Stock Companies (Takeover Law).

Acquisitions can be effected either through the purchase of shares in a capital increase procedure (new release of shares), a takeover bid, or the purchase of shares on the Stock Exchange.

The Takeover Law directly defines the notion of “concerted action”.

The first definition states that the persons (legal or physical) are considered to be acting jointly if they agree, by an agreement (oral or in writing), explicitly or implicitly, to combine the activities in order to acquire the shares of specific company. The mere agreement for concerted activity is made equal with acquisition of voting shares in the company. The situation where one person holds the shares in the name of the other person is also considered to be concerted activity.

The Takeover Law introduces the obligatory takeover bid (acquisition of 25 percent or more of shares), voluntary takeover bid (acquisition of less than 25 percent of shares), conditional takeover bid (acquisition of minimum number or percentage of shares), unconditional takeover bid, and counter bid (an offer made by any legal or natural person [the competitor] after the publication of the first takeover bid and within its validity period).

A major change introduced by the Takeover Law is the rule that minority shareholders have the same treatment as majority shareowners (in terms of voting rights) as well as the new position of the Board of Directors in the process of the takeover.

Moreover, when the business entity or natural person acquires at least 95 percent of the target company’s share it is entitled to purchase shares of those shareholders who have not accepted the sale of shares in accordance with the takeover bid (forced sale) or to purchase 5 percent of the shares from other shareholders at their request, under the conditions set out in the takeover bid (forced purchase).

The minimum share price determined in a takeover bid cannot be lower than the average price of shares within three months prior to publication of the takeover intention, determined on the basis of reports on trade on an organized market.

Shareholders have to be notified in advance about the intention to takeover the company, before submitting the application to the Security Exchange Commission (the SEC). A takeover bid is valid from 21 days to 45 days from the day of publishing the offer in daily newspapers.



The Takeover Law does not apply:

- When a joint stock company has to be sold by public auction,
- To shares that are acquired in the status changing of the Company,
- To shares that are owned by the Share Fund of the Republic of Serbia,
- To shares issued by a bank and owned by the Republic of Serbia (all in accordance with a Decision of the Serbian Government) or Bank Rehabilitation Agency
- To transfer of shares within the Central Register of Securities
- In other cases prescribed by the Law.

The competent Authority in charge or body responsible for implementation of this Law is the SEC.

## Land ownership

### Law on Planning and Construction

A Law on Planning and Construction (the Law) was adopted in May 2003 and amended during 2006.

The Law defines construction land as land designated for construction or for services supplied for construction.

Construction land is divided into two categories:

- Public Construction Land
- Other Construction Land.

All construction land is owned exclusively by the state, whereas constructions on the land may be the property of a natural or a legal person. The reason for exclusive state ownership of construction land appears to be to enable state control of construction and urbanization plans in urban areas.

Consequently, for instance, if a user of state-owned construction land fails to construct a building within a prescribed period of time, his right of use may cease.

Public Construction Land is the land on which a building of general/public interest is built or planned to be built. Construction land may be used either as built or non-built.

Other Construction Land is land that is either built upon or planned for the construction of a building. Other Construction Land is divided into two categories: undeveloped (non-built) and developed (built) may be in all forms of ownership. The right of use of other construction land is transferable. If owned by the state, Other Construction Land may be leased on the basis of public auction or tender, but only for construction purposes. Municipalities define procedures, requirements and leasing programmes. A lawful owner of the construction built on Other Construction Land has right of use of the land on which the building stands. Transfer of property rights on the construction (building) implies the transfer of the right of use/lease of the land on which it stands.

## Right to build

A building is lawfully constructed if a permit to build has been issued. The permit is issued on the basis of technical documentation submitted by the applicant.

The documentation consists of the following: general design, preliminary design, main design, working design and the project of constructed building.

Municipalities are authorised to issue permits to build. The Ministry of Capital Investments, in charge of construction matters, is authorised to decide on the permit application in cases prescribed by the Law, such as nuclear plants, oil and gas production/processing industry, hydroelectric power stations, airports, traffic infrastructure etc.

Prior to use, the owner of the construction shall apply for and obtain the relevant permit.

### ***New legislation on denationalisation should be enacted***

The Law on Denationalization is planned to be adopted until the end of 2009.

# Chapter 3

## Foreign Investment

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### Investor considerations

New Law on Foreign Trade Transactions enacted in 2009

Amendments to the Law on Foreign Exchange Transactions aiming to further liberalize FOREX operations are expected to be enacted until the end of 2009.

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## 3.1 Foreign investment

### Investment climate

Since January 2001, Serbia has shown a strong commitment to establishing a modern market economy and re-entering European and global markets. Substantial reforms have been initiated to that end, particularly in creating a business-friendly environment. These include legal and economic reforms in all areas, aimed at ensuring legal security and harmonisation with EU legislation and economic policies.

Within this process, foreign investments have been encouraged and restrictions are negligible.

The institutions responsible for foreign investment regulations are the following:

- The Ministry of Economy and Regional Development
- The Ministry of Finance
- The Serbian Investment and Export Promotion Agency
- The Serbian Chamber of Commerce
- The Ministry of Foreign Affairs

The geographical position and the low cost of labour make Serbia a competitive environment for investment. With the development of a Balkan Free Trade Zone, this regional market will exceed 65 million people. In addition to intensifying trade, this integration may also contribute to political stabilisation in the region. As a result of both political and economical, regional and international integration of the region into Europe continued dynamic growth is expected over the medium term, which will accelerate the economic catching-up process of South Eastern Europe with the EU member countries. Recording average growth rates of 5 percent and above, the region is the most promising market on the European continent, provided that political stability is maintained, political problems are resolved, economic reforms proceed rapidly, the legal framework improves further, and legal security increases.

Foreign and multinational companies have begun to appear on the Serbian market as of 2002. According to the official data of National Bank of Serbia, the institution authorised to report on foreign direct investment (FDI), FDI in 2007 amounted to USD 2,195 million.

## 3.2 Regulatory legislation

The legal framework relevant for foreign investment encompasses the following acts:

- Law on Foreign Investment (enacted in January 2002, amended in January 2003)
- Law on Free Zones (enacted in 1994, amended in 1996 and 2005)
- Law on Foreign Exchange Transactions (enacted in July 2006)
- Law on Foreign Trade Transactions (new law enacted in 2009)
- Customs Law (enacted in 2003, amended in 2005)
- Set of privatisation laws:
- Privatisation Law, (enacted in 2001, amended in 2003 and 2005)
- Law on the Agency for Privatisation (enacted in 2001, amended in 2004)
- Share Fund Law (enacted in 2001, amended in 2005)
- Company Law (enacted in 2004)
- Law on Securities and other Financial Instruments Market (enacted in June 2006)
- Law on Takeover of Joint Stock Companies (enacted in June 2006)
- Law on Registration of Commercial Entities (enacted in 2004, amended in 2005)
- Law on Concessions (enacted in 2003)
- Insurance Law (enacted in 2004, amended in 2005)
- Law on Value Added Tax (enacted in 2004, amended in 2005)
- Bankruptcy Law (enacted in 2004, amended in 2005)
- Law on Games of Chance (enacted in 2004, amended in 2005)
- Energy Law (enacted in 2004)

## 3.3 Foreign Investment Law

Foreign investments in Serbia are regulated by the Law on Foreign Investment (LFI) passed in 2002. The fundamental aim of the Serbian Government is to create a business-friendly legal, economic and political environment for all foreign individuals and companies interested in doing business in Serbia, by equalising the rights and responsibilities of domestic and foreign investors, and providing 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 current LFI regulates foreign investment in enterprises and other forms of establishment engaged in profit generating activities in Serbia.

According to the LFI, a foreign investment may be made either by founding a new company or by expending the capital of existing domestic companies through the acquisition of stocks or shares in the initial capital of that company and/or acquiring any other property rights in a company.

### Definitions

A foreign investor is:

- A foreign entity whose headquarters are located abroad,
- A foreign natural person,
- A national of Serbia who is resident abroad for a period exceeding one year.

A foreign investment is:

- Investment in a domestic company, granting a foreign investor a stake or shares in the initial capital of that company,
- Acquisition of any other property rights in the sense of a realisation of a business interest in Serbia.

### Legal status

A foreign investor is guaranteed national treatment, which means that any legal entity and natural persons who are investing in Serbia enjoy full legal security and protection, equal to those of domestic companies.

The Law guarantees legal security to the foreign investor. Consequently, if a change is made to the law under which an agreement was concluded after the investment agreement is registered, the provisions of the agreement, articles of association and the law in force on the date of the registration of that agreement shall apply to the relations regulated by it. It is important to emphasise that a stake held by a foreign investor or a company with a foreign investment cannot be the subject of expropriation, except when so required by the public interest as established and determined by the law. Moreover, in case of expropriation, the foreign investor or the company with

foreign investment is entitled to compensation not lower than its market price. The provisions relating to expropriation are new to the Serbian legal system and bring together issues related to foreign investment, with provisions of bilateral contracts on the encouragement and protection of foreign investment.

### Parameters of foreign investment

Within the scope of Company Law and the Foreign Investment Law, a foreign investor is authorised to:

- Manage or take a part in managing the company he has founded or in which he has invested his capital, proportionally to his capital contribution and in accordance with the Company Law,
- Transfer the rights and obligations, which are incorporated in the investment contract or founding act, to the other foreign or domestic legal entities or persons,
- Inspect the company books and supervise the business activities of the company in which he has invested,
- Found and invest funds in an insurance joint stock company,
- Audit the interim and annual financial statements either personally or by engagement of an authorised representative.

The contribution of a foreign investor may be in the form of foreign currency, contribution in kind, intellectual property rights and securities. The contribution can also be in local currency but only if these funds, in accordance with the foreign exchange operations regulations, may be transferred abroad, including remittance of any profit. Although not explicitly regulated by the LFI, the services of foreign investors can also be invested due to an explicit provision of the Company Law allowing that to all entities. A foreign investor may also convert confirmed receivables into capital i.e. shares in a company.

### Repatriation of capital and earnings

If the prescribed tax requirements and other outstanding commitments have been settled in Serbia, the foreign investor may, without any further limitation or delay, transfer financial assets relating to the foreign investment such as:

- Profit that was realised through the business activities of the company,
- Remaining property of the company, after dissolution of the company,
- Money assets relating to purchase of stocks and shares,
- Money assets after decreasing the initial capital of the company with foreign investments,
- Compensation in the case of expropriation of the company property, as well as any indemnity.



Equipment representing the foreign investor's stake is unrestricted, subject only to environmental protection regulations. Imported equipment is exempt from customs duties and other import charges, except for motor vehicles and gambling machines.

### Procedural obligations

Companies are obligation to keep books and financial statements in accordance with Serbian legislation which has been brought in line with International Accounting Standards (IAS) as well as with International Financial Reporting Standards (IFRS).

All investments must be registered at the Register of Companies, using the procedure for the establishment of a new company or amendment of the Foundation Act of an existing company, and the Agency for Registration of Business Entities (the BRA) will then inform the competent ministry.

Any dispute related to foreign investment may be settled either before the Serbian court or in domestic or international arbitration as agreed between the parties.

### Foreign investors' rights and protection

The legal security of investments is guaranteed. No entity can be deprived of property nor can the property be limited, except in the case of invocation of a vital and indisputable public interest, in full respect of the procedure in which the existence of such interest is determined, and followed by the immediate payment of compensation, in the amount of the market value of the property before expropriation. In the event of any change in the law under which the founding or investment contract is approved and registered, the investor has the right to maintain the relations

regulated in the contract according to the statute and law which were in force when the investment was made, if he considers these more favourable.

A foreign investor has the right to make payments under international business arrangements and to maintain accounts in accordance with international accounting standards. If a bilateral or international treaty provides for conditions more beneficial for a foreign investor, its implementation has primacy over the provisions of relevant domestic legislation. The equipment which represents an investment may be imported free of customs and other import duties.

### Restrictions

Foreign entities are not permitted to own a majority interest in companies or enterprises engaged in the production or sale of armaments or located in special geographical zones (e.g. border zones, national parks). These kinds of foreign investments are subject to approval from the competent ministry. Meeting environmental protection standards and regulations is compulsory.

Investments regulated separately by specific laws include:

Banks

- Insurance companies
- Stock exchanges
- Stock broking companies
- Free trade zone managing companies
- Broadcasting companies

## 3.4. The Law on Foreign Trade Transactions

In May 2009, the new Law on Foreign Trade Transactions (the Law) was adopted.

The Law intends to create a clear basis for liberal foreign trade. The basic principles and restrictions set by the Law should meet EU and WTO (World Trade Organization) criterion.

Generally, the Law states that foreign trade is liberal and without limitations. Once registered for performing business activities, a legal entity/entrepreneur may perform foreign (as well as domestic) trade operations. The Law introduces establishment of an Agency for Foreign Investments and Promotion of Export (the Agency).

The Law deals with the export/import of goods, national treatment, quantitative limitations and permits, special conditions for performing foreign trade operations, safeguard issues and related measures.

### Significant changes

- Instead of territorial principle, embodied in the definition of foreign trade as cross-border trade in goods and services, new subjective principle is introduced, establishing residency of trading parties as relevant for determining whether certain transaction is to be treated as foreign trade. Consequently, transactions between Serbian and foreign residents on Serbian territory should be considered as foreign trade.
- Foreign persons are defined as legal entities and individuals with residency in “another country or customs territory”.
- Export of the goods is similarly defined as dispatch/delivery from Serbian territory to another country or customs territory. The same applies for definition of import.
- Certain implementing provisions, especially those concerning procedures for issuing the import, export and transit licenses as well as procedures for introducing various protective measures are excluded from the Law, and will be prescribed with respective bylaws.
- The Law introduces the possibility for “automatic” issuing of the import, export and transit licenses, if specific request is submitted with all required documents. In all other cases, issuing of the license is defined as “non-automatic”.

### Authorities in charge

The Government is responsible for prescribing restrictions and their implementation. The Ministry of Economy and Regional Development is responsible for implementation of provisions of this Law. Agency as a special governmental body is responsible for the promotion of direct foreign investments in Serbia and stimulation of export. BRA maintains the registry for representative offices.

## 3.5 Foreign exchange

The Law on Foreign Exchange Operations (the Law) provides rules for current transactions, capital transactions, and payment transactions, the foreign exchange market and supervision.

### Current transactions

Payments based on current transactions are free and without limitations. The Law specifies which transactions should be regarded as current.

A new deadline has been introduced for residents to bring into Serbia means of payment with regard to the export of goods or services. According to the Law, the deadline is 180 days from the day of export customs of goods. The same deadline applies when a resident imports paid-in-advance goods or services.

It is not possible to perform payments or transfers towards a non-resident on the basis of an agreement that does not contain the real price or is concluded on the basis of a false document.

Banks and resident legal entities may purchase or sell claims and payables arising from residents' foreign trade activities. This legal solution is new and should enable companies to have cheaper and easier access to additional financing.

Under the terms and conditions prescribed by the Government, a resident legal entity may compensate the realized export of goods and services with the realized import of goods and services.

Profit made abroad from the performance of construction works, as well as foreign exchange kept by the ordering party as a guarantee of the correctness of performed works, has to be brought into the country by the resident upon the completion of construction works, and/or expiry of the guarantee deadline.

### Capital transactions

Payments and transfers of capital with regard to direct investments, investments in real estate and transactions with securities are executed freely, in accordance with regulations. Therefore, residents can freely purchase shares available on foreign exchange markets but can only acquire a minority stake (up to 10 percent).

Residents can freely transfer the money for the purchase of real estate abroad and non-residents for the purchase of real estate in Serbia.

Payments for the purpose of purchasing financial derivatives abroad may be effected by the NBS and banks. Residents and non-residents may effect such payments only under the terms and conditions prescribed by the NBS.

Furthermore, the Law now regulates international credit operations. For resident legal persons and entrepreneurs, banks may approve credit in foreign currency for the payment of import of goods and services. For resident natural persons, banks may approve credits in foreign currency for the purchase of real estate in Serbia.

Banks can keep foreign exchange on the accounts of banks abroad without any restrictions. Residents may keep foreign exchange in the accounts of banks abroad in the manner and under conditions prescribed by the NBS, however this provisions are undergoing continuous liberalization.

Non-resident and resident branches of a foreign legal entity, which transact business through a non-residential account, may conduct transfers from such an account abroad, provided that its tax liabilities towards the Republic, arising from its business activities, have been settled.

## Payment transactions

Contracting in foreign exchange in the country is allowed, but payment and collection has to be effected in dinars. By way of exception, the Law enumerates cases when payment and collection can also be effected in foreign exchange. These cases include transfer in respect of life insurance and sale and lease of real estate.

## 3.6 Concessions

A foreign investor may be granted a concession for use of natural resources or providing goods in general use or performing activities of general interest. Permission may be granted to build, operate and transfer certain projects, production plants or capacity as well as infrastructure or communication facilities (BOT). The Law on Concession of Republic Serbia covers the relevant subjects.

Foreign investors are not allowed to obtain concessions in certain restricted fields of business activities and in areas that are designated restricted zones.

The Law on Concessions states that the duration of a concession may be up to 30 years; depending on the subject, the estimated profit, level of assumed business risk, demand for construction at an early phase and demand for market development in the field of the concession.

The concessionary must establish a company registered in the Republic of Serbia within 60 days from the date of the Concession Agreement.

For arbitration of disputes, a foreign concessionaire may choose international arbitration, as long as the subject matter of the dispute is not real estate.



# Chapter 4

## Banking, Finance and Insurance

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### Investor considerations

First Draft of the new Law on Credit Institutions is to be completed by the National Bank of Serbia and Ministry of Finance until 2009

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## 4.1. Banking System

### Banking system

The banking system of Serbia consists of the central bank i.e. the NBS, commercial banks and other financial organisations. The founding, organisation, business activities and governing of banks are regulated by the Banking Law and the corresponding bylaws of NBS.

Domestic and foreign legal entities and natural persons may be founders of a bank in Serbia, which must be established in the form of a joint stock company. The NBS is authorised to supervise the activities of commercial banks and to issue or revoke operating licences for commercial banks in Serbia. The operating licence is issued within 30 days by the NBS following the issue of the preliminary approval (90 days) and filing of the request for issuing of this licence. The initial capital of the bank can be contribution in both money and in kind, which must be evaluated by an authorised person. The monetary portion of the share capital of the bank must be a minimum of EUR 10,000,000 in RSD counter value.

In order to further accelerate the accession of Serbia to EU a new Law on Credit Institutions which will replace the existing Banking Law is to be enacted. The Draft Law shall reintroduce other forms of credit and financial institutions beside commercial banks such as savings banks, housing savings bank and electronic money institution.

### Banking regulations

- Significant characteristics of the Banking Law are:
- Prescribed foundation procedures
- Strong role (ultimate) of the NBS as a regulatory and supervising authority
- Low shareholding threshold approval requirement
- Corporate Governance
- Supervision on Consolidated basis
- Merger Control
- Definitions and Management of Risks
- Definition of credit

Minimum capital requirements prescribed by the Banking Law are similar to Basel regulations and NBS is currently in the process of drafting bylaws that will be adjusted to Basel II regulations. Most significant requirements are listed below:

- The monetary portion of the share capital in RSD equivalent should always amount to at least EUR 10 million, calculated at the daily average exchange rate.
- A minimum capital adequacy ratio of 12 percent has to be retained, calculated as the ratio of the bank's capital to its risk-weighted assets.
- Large exposure of a bank means exposure of the bank to a single person or a group of related persons amounting to at least 10 percent of the bank's capital.
- The largest exposure of a single borrower is restricted to 25 percent of capital
- The largest exposure of an affiliated borrower is restricted to 5 percent of capital.
- Aggregate exposure of the bank to persons related to the bank may not exceed 20 percent of the Bank's capital
- Total of all large exposures of a bank, which may not be less than 400 percent or more than 800 percent of the bank's capital.
- Total foreign exchange risk position is restricted to 30 percent of capital.
- Investment of a bank in a single non-financial sector person must not exceed 10 percent of the bank's capital.
- Permanent investments in (in the capital of legal entities and fixed assets) are restricted to below 60 percent of capital.
- Banks to have the stock of gross household dinar lending at the end of each calendar month lower than or equal to 200 percent of the value of their share capital.

Compliance with these ratios is supervised by the NBS on a quarterly basis.

The NBS may determine a higher capital adequacy ratio than that prescribed for a bank (12 percent). Banks that do not meet capital adequacy criteria are divided into three groups:

- Undercapitalized bank
- Significantly undercapitalized bank
- Critically undercapitalized bank

Special measures for undercapitalized banks and significantly undercapitalized banks are imposed by NBS.

## Banking market

As at December 2008 34 registered banking institutions, with total assets amounting to EUR 20.05 billion, operate on the Serbian market. Additionally, a number of banks under liquidation or rehabilitation still exist.

The Serbian banking market is still characterized by large number of commercial banks. A large number of private banks have been successful in finding foreign partners such as Delta (Banca Intesa – Italy), Meridian (Credit Agricole- France), Atlas (Piraeus Bank- Greece), Nova Banka (Findomestic Banca - Italy), Centrobanka (Laiki group –Cyprus), Kulska, Niska and Zepter banka (OTP – Hungary), Nacionalna stedionica (EFG Eurobank – Greece), A banka (KBC Group-Belgium) Vojvodjanska (National Bank of Greece). In 2008, NBS granted its first green field license to Moskovska banka AD Beograd which is in the 100% of Bank of Moscow-Russia. Other banks are in the process of finding foreign partners or merging with other local banks. There are 10 banks in state ownership, whilst the merger and sale of Postanska stedionica Banka, Privredna banka Pancevo, JUBMES and Srpska banka has been planned for 2008/2009 but was postponed due to the economic crisis.

## Banking products

Serbian banking system has yet to reach western standards in the scope and quality of its services and capital market operations. The following types of operation are currently available:

- Deposit operations (acceptance of all kinds of deposits),
- Credit operations,
- Foreign exchange and foreign currency transactions,
- Issuing operations (issue of securities and credit cards),
- Treasury operations (money market foreign exchange),
- Custody operations (safekeeping and handling securities),
- Stock exchange related operations (purchase and sale of securities),
- Guarantee operations (extending warranties, guarantees, endorsements)
- Documentary operations
- Cash management

- Intermediation i.e. assuming the role of a broker in trading in securities,
- Purchasing and collection of claims,
- Other financial services,
- External payment operations and external loan operations, both of which are subject to special licences, issued in line with the federal law on foreign exchange operations.
- E-banking

The availability of banking services is not consistent throughout the country, with the highest concentration of banking facilities and services being in Belgrade.

The financial instruments market is currently undeveloped. It is expected to expand in the near future.

## National Bank of Serbia

The role of the NBS is regulated by the Constitution and the Law on the NBS (enacted in 2003 and amended in 2004). NBS is an autonomous institution.

In accordance with the Law, the NBS is authorised to perform the following functions:

- Determine and implement monetary policy;
- Autonomously pursue the dinar exchange rate policy and determine the dinar exchange regime with the consent of the Government;
- Hold and manage foreign currency reserves;
- Issue banknotes and coins;
- Regulate, control and promote unhindered functioning of internal and external payment operations;
- Issue and revoke operating licenses, carry out supervision of banks, insurance and leasing companies and enacts regulations in this field;
- Issue and revoke licenses i.e. authorization for carrying out the insurance operations, perform control i.e. supervision over such operations and also carry out other duties in line with legal regulation governing the field of insurance
- Perform statutory tasks for the Republic of Serbia
- Provides for the minimum scope of auditing and the minimum audit report content for banks, insurance and leasing companies
- Perform other tasks provided for by this and other laws in accordance with the principles of central banking

The NBS co-operates with the Serbian Government and other state institutions in order to execute its functions. The Republic of Serbia guarantees all NBS's liabilities.

In December 2008, NBS passed additional bylaws in order to prevent or moderate the effects of disruptions in the banking system and/or financial market caused by the international economic crisis which erupted in 2008. The measures are aiming to create conditions to improve foreign liquidity of banks and enable access to cheaper sources of funding from abroad.

The primary monetary policy objective of NBS in 2009 shall be to achieve the set inflation target (be to lower the beginning-of-year inflation (which will be in the range of 8-12%, with a midpoint at 10%) down to 6-10% (midpoint of 8%) until the end of this year. During 2009 NBS shall continue to implement a managed floating exchange rate regime. Interventions in the foreign exchange market with interventions in case of excessive daily oscillations.

## 4.2. Insurance

The Insurance law was introduced in May 2004 and amended in 2007 and entrusted the NBS with supervision of insurance companies.

Within its function, the NBS carries out surveillance of insurance activity; issue licenses for performing insurance, reinsurance, intermediation and agency operations as well as those directly associated with insurance activity; gives approval for legally required enactments and actions; adopts regulations prescribed by law; processes statistical and other data, and considers complaints filed by the insured and other insurance beneficiaries.

The Insurance Law divides the insurance business into life and non-life insurances, in line with EU directives. Insurance companies will not be able to perform both life and non-life insurance business within one legal entity.

Minimum capital requirements were also increased, depending on the activity performed by the company: EUR 1 million – accident and voluntary health insurance, EUR 2 million – life insurance and other property insurance, accident and voluntary health insurance, EUR 2.5 million – motor vehicles insurance – full coverage, railway vehicles and obligatory traffic liability insurance; EUR 3 million – voluntary superannuation insurance and EUR 4.5 million – re-insurance operations.

The local insurance market remains relatively under-developed and needs more structural changes. Insurance products such as life, health, real estate, remain highly underdeveloped. The total premium in the Serbian insurance market has reached EUR 524 million in Q3 2008, which represents an increase of 16.6% compared to Q3 2007. The predominant share i.e. 89.1% of total premium is held by non life insurance. Premiums from life insurance have increased from 10.4% in 2007 to 10.9% in Q3 2008 reaching EUR 57.116 million.

## 4.3. Leasing

In May 2003, the Law on Financial Leasing was introduced, which defines financial leasing and basic rights and liabilities of participants in financial lease operations. It also entrusts NBS with supervision of financial lessors' operations as well as issuing of financial leasing licenses, approvals of appointment of financial lessors' managing bodies and enforcing corrective measures in respect of lessors if supervision reveals illegalities and irregularities in their operations. The NBS also enacts secondary legislation as provided in the Financial Leasing Law, whereby it regulates more closely the operations of financial lessors.

The principal objectives of the supervision of financial lessors are:

- Strengthening public confidence in the financial sector and leasing,
- Ensuring financial market transparency,
- Financial market development based on fair competition,
- Consumer protection and education,
- Efficient implementation of consolidated supervision of financial sector participants.

The following requirements are imposed to companies which are to be engaged in financial leasing:

- A company incorporated in conformity with the law governing the legal status of companies,
- A company whose paid-in share capital is at least EUR 100,000 in the dinar equivalent value at the median rate of exchange of the NBS on the date of payment, and
- A company that has been issued a license to engage in financial leasing by the NBS.

During 2006 NBS imposed new Decision with regulates regular monthly and quarterly reporting to NBS by leasing companies.

As at September 2008, 17 registered leasing companies with total assets amounting to EUR 1,385 billion operate on the Serbian market. The 11 leasing companies are in direct or indirect ownership of foreign investors, 5 companies are in total or majority domestic ownership and 1 company is in 50% domestic and 50% foreign ownership. Four major leasing companies comprise 63.7 percent of the total market as of Q3 2008 (2007: 67 percent).

Corporate customers participate with 85.3% percent of the total leasing portfolio. Also, the structure shows that 64 percent of leasing contacts were from motor vehicle while equipment leasing makes up 36 percent as of 2008.

## 4.4. Capital market

Belgrade has a stock exchange and a money market, but these institutions are still small and underdeveloped. Market trade in securities is conducted on the Belgrade Stock Exchange Market (Belex) through authorised stock market intermediaries (brokers) who are members of the Central Registry and Depository of Securities.

### Distribution of and trading in securities

The Law on Securities and Other Financial Instruments Market was adopted in June 2006 and regulates three main fields: the process of distribution of and trading in securities, the activities of authorised participants on the market and the role of the Securities Exchange Commission.

### Issuing of new shares through public offering

The process is initiated by publishing a public announcement and prospectus on issue of new shares, followed by a series of actions required for subscribing and paying for the shares and obtaining authorisation on the issue of shares from the SEC. It ends with the transfer of shares to the securities account of the new owner.

### Trade in securities through the stock exchange

Trade in securities on the stock exchange can be performed only through broker-dealer companies or authorised banks.

### Authorised participants on the organized market

Authorized participants on the organized market are the broker-dealer companies, authorised banks and Custody Banks. The Law provides the general framework for their foundation and operations, and rights and obligations. These issues are more closely regulated through the by-laws and rulebooks of the SEC.

### Security exchange commission

The SEC has a crucial role and significant power. It is responsible for, among other things, the rules relating to the application of the Law, issuing licences and supervising the operations of authorised participants in the market, setting standards for registration of stock exchange trade operations, establishing the contents of mandatory information that is to be submitted to it and published, monitoring the state of and trends in the securities market and undertaking corrective action.



# Chapter 5

## Importing and Exporting

### 5.1 Trends in customs policy

#### Foreign trade in Serbia

The main principles of the foreign trade in Serbia are regulated by the Foreign Trade Law (the Law). This Law regulates foreign trade in the rather liberal way especially in comparison with the previous version of the same Law.

Import is the entrance of goods i.e. delivery of goods on the territory of Serbia from the territory of another state and should be made in accordance with Serbian customs regulations. This means, for example, that received goods should be declared for free circulation. However, this general rule has exceptions in cases when goods, although paid and delivered into Serbia, do not have to be imported if declared for one of the special customs procedures (e.g. customs warehousing, inward processing relief, transit etc.). The flow of goods designated for import is supervised by the Serbian Customs authorities. Customs supervision generally ends when goods are customs cleared and import duties paid.

Customs rules must also be adhered when carrying out export operations. Export (including re-export operations) is stimulated by the various incentives e.g. exemption from import duties on raw material that is processed in and re-exported from Serbia, more efficient VAT refund procedure for predominant exporters etc.

#### Trends in customs policy

Serbian Customs Law is modeled after Community Customs Code of the EU, and incorporates customs standards, regulations and practice of the European Union (EU).

In the areas of the customs valuation, origin of goods, tariff classification and customs procedures Serbia also tend to apply recommendations and views of the World Trade Organisation (WTO), World Customs Organisation (WCO), and to implement global trading rules set by the General Agreement on Tariffs and Trade (GATT). Continuing trend is to bring customs regulations and practice fully in line with those of the EU and also with guidelines set by international organizations, as much as possible in the forthcoming periods.

For example, Customs Tariff Law provides that Decisions on the classification of goods enacted by the Harmonized System (HS) Committee, as a body of the WCO, as well as those enacted in EU and published in the Official Journal of EU, are enforceable in Serbia. These decisions are published in the Serbian Official Journal. Also, Serbian Government is annually reconciling national Customs Tariff with the Combined Nomenclature (CN) of the EU.

Serbian Customs authorities are still focusing their control on goods during importation procedures. This is generally due to the relative under-development of risk management procedures as well as the lack of the methodology and expertise to perform post-importation audits. However, they are inclined to shift the focus of the control to the post-importation period (five years following import) in order to speed up the importation process and to set controls on the basis of an on-going risk analysis.

In addition, one of the main customs issues in Serbia was the fact that simplified customs procedures (e.g. simplified declaration, authorised exporter etc.) were not implemented although provided by the regulations. However, we expect the situation to improve because from March 2009 simplified procedures and authorized exporter status should start to be approved under the instructions issued by the Serbian Customs Administration.

With regard to regional integrations, Serbia ratified CEFTA in September 2007. In April 2008 Serbia signed Stabilization and Association Agreement (SAA) and Interim Agreement on Trade and Trade Related Matters (Interim Agreement) with the EU. Serbia is also in the process of accession to the World Trade Organisation (WTO), and should become a member until the end of 2009.

### 5.2 Import restrictions

Serbian regulations do not impose significant restrictions to foreign trade. However, there are restrictions related to import of certain goods, i.e. import licenses are necessary for import of certain pharmaceutical substances, precious metals, arms and dual-use goods.

Also, restrictions are imposed to execution and collection of payment in relation to import and export, defined by the Law on Foreign Currency Transactions. Generally, payment terms longer than 180 days are regarded as loans provided abroad and have to be registered with National Bank of Serbia.

### 5.3 Customs duties

#### Classification of goods

Serbia is a member of WCO and also a signatory party of the Convention on Harmonized Commodity Description and Coding Systems (HS Convention). Further, as mentioned, Serbian Customs Tariff Law requires Government annually to reconcile the national Customs Tariff with the Combined Nomenclature

(CN) of the EU. Current version of Serbian Customs Tariff is in line with the CN 2009 up to the level of eight digits of the tariff codes.

One of the tools available to importers in Serbia to ensure proper tariff classification is Binding Tariff Information (BTI). Customs Administration's Head Office is in charge for issuing BTIs.

## Valuation rules

Customs duties are charged on the customs value of imported goods. With respect to that, Serbia is applying globally accepted customs valuation rules i.e. those defined in the Agreement on Implementation of Article VII of the GATT. These rules are transposed in the Serbian Customs Law.

## Tariff rates

Goods imported in Serbia are subject to customs duty rates provided in the Law on Customs Tariff. These rates are *ad valorem* (with certain exceptions) and apply on goods originating in countries which have a Most Favored Nation (MFN) status in trading with Serbia. Goods originating in other countries are subject to MFN rates increased for 70%.

At the moment, only Taiwan is out of MFN clause in trading with Serbia.

*Specific* duties at minimum and maximum amounts are introduced as an alternative to *ad valorem* duties. Whenever *specific* minimum duty is higher than *ad valorem* duty, *specific* minimum duty will apply. If *ad valorem* duty is higher than *specific* maximum duty, the latter will apply. At the moment, this dual regime is provided only for *other cigarettes containing tobacco* (tariff code 2402 20 90 00).

Customs duty rates in Serbia are in the range between 0% and 57.6% and are as follows: 0%, 1%, 3%, 5%, 7%, 8%, 10%, 12%, 12.5%, 15%, 18%, 20%, 22%, 25%, 30% and 57.6% (last rate applies at the moment only on *other cigarettes containing tobacco* - tariff code 2402 20 90 00).

Customs policy aims to protect the following sectors with high duty rates, but mainly on finished products:

1. Agriculture
2. Leather industry
3. Furniture industry
4. Textile industry
5. Electrical household machines industry

On the other side, customs rates are fairly low for raw materials and semi-finished goods not produced in Serbia, inputs for export-orientated organisations and those producing for the domestic market where there is high demand, especially in the following sectors:

1. Black metallurgy
2. Colored metals
3. Aluminum
4. Wood industry
5. Textile industry
6. Graphics industry

## Free trade agreements

Although Serbia has signed SAA and Interim Agreement with the EU in April 2008, their entering into force is delayed due to political reasons. As of January 2009, Serbia decided to unilaterally abolish or gradually reduce import duties for goods with EU preferential origin as envisaged by the Interim Agreement. This means that, for the moment, Serbia grants autonomous trade measures to the EU.

On the other side, from 2001 Serbia is benefiting from the Autonomous Trade Measures (ATM) granted by the EU, making it possible for nearly all Serbian exports to enter EU exempt from customs duties. Such treatment is applicable for products with preferential Serbian origin, determined in accordance with the Pan-European rules of preferential origin. Hopefully, EU will soon start to apply the Interim Agreement, thus enabling preferential trading between Serbia and EU to become two-way instead of two autonomous regimes as it is at the moment.

As mentioned, Serbia also ratified CEFTA in September 2007. This FTA should be the first step for all the parties concerned in their accession to the Pan-Euro-Med system of origin and a step forward in the EU accession process (Albania, Bosnia and Herzegovina, Croatia, Macedonia, Moldova, Montenegro, Serbia and UNMIK/Kosovo). Rules of origin defined in CEFTA are based on Pan-European preferential rules of origin.

The main purpose of CEFTA is that its parties establish a free trade area in accordance with its provisions and in conformity with the relevant rules and procedures of the WTO. This free trade area will be established in a transitional period ending at the latest on 31 December 2010.

Serbia has in force FTA with Russian Federation, which is not the case with other Balkan countries and this is also one of Serbia's advantages for attracting foreign investors. However, this FTA is not modeled by FTA template based on pan-European preferential rules of origin, and therefore it has certain specificities that have to be considered.

As of 31 March 2009, FTA signed with Belarus started to temporarily apply, with similar rules as envisaged in the FTA between Serbia and Russian Federation.

## Excise tax

Serbian Customs authorities are also in charge for assessing excise duties payable on import of excisable goods – oil derivatives, tobacco products, alcoholic beverages and coffee (green, roasted, grinded and coffee extracts).

## Import VAT

VAT is payable on import, assessed together with customs duty.

## Customs processing fees

There are few specific types of administrative fees related to Customs processing, charged when customs declarations or requests for certain customs procedures are submitted. However, these fees are relatively low, i.e. generally in the range approx. from 10-20 EUR per declaration or request.

## Payment of customs duties

Import duties are payable after customs declaration is accepted and customs bill with calculated amount of duties is issued by the relevant customs office. Assessed duty amount should be paid in the period of eight days to the special budget account for import duty payments. Import goods can be released after payment is being evidenced in the Customs IT system, or appropriate instrument for securing payment of duty amount is submitted (bank guarantee or cash deposit).

## 5.4 Temporary importation relief

Temporary importation, with total or partial relief from import duties, is possible for foreign goods intended for re-export without having undergone any change except normal depreciation due to the use made of them.

The amount of import duties payable in respect of goods placed under the temporary importation procedure with partial relief from import duties is set at 3% monthly of the amount of duties which would have been payable on the said goods had they been released for free circulation on the day on which they were placed under the temporary importation. The amount of import duties to be charged should not exceed that which would have been charged if the goods concerned had been released for free circulation on the date on which they were placed under temporary importation procedure, leaving out of any account any interest which may be applicable.

Temporary importation with partial relief from payment of import duties is subject to VAT. When this procedure is approved for leased goods with no option for purchase, VAT is payable monthly together with customs duties, set at 3% of the VAT amount which would have been payable on the said goods had they been permanently imported on the day on which they were placed under the temporary importation. For goods temporarily imported under leasing with envisaged option for purchase, total VAT is charged when request for temporary importation is accepted by relevant customs office.

Temporary importation with total relief from import duties is available, amongst others, for containers, various forms of packaging (e.g. pallets etc.) moulds, sketches, special tools, means of transportation by road, railway, air and river, if registered or owned by the foreign legal entity and used for single commercial transportation which starts and ends outside of Serbia etc.

However, temporary importation with total relief from import duties is not possible for the equipment used in the production, construction or in some other way for conducting business operations on the territory of Serbia.

## 5.5 Customs duties incentives

Serbian customs regulations mainly incentivise foreign investors to invest in the capital of Serbian companies and also local producers to export.

### Contributions to capital

Importation of equipment which represents contribution in kind of the foreign investor to the share capital of the Serbian company is exempted from customs duties, with the exception of passenger cars and gambling and amusement machines. This equipment can not be sold, given for use, or used otherwise than to achieve purpose of exemption from customs duties within three years from import unless customs duties are paid. Also, this equipment can not be pledged.

In case of customs duty free import of equipment contributed by the foreign investor, VAT will be nevertheless due, but generally recoverable.

### Toll manufacturing

Internal processing relief (IPR) procedure is a special customs regime enabling foreign goods designated for re-export to enter Serbia for processing purposes, either free of import duties (suspension system) or with a possibility of remission of the paid import duties (drawback system).

Processing of goods within IPR is possible within toll or contract manufacturing scheme. Within toll manufacturing scheme title over goods does not pass to the processing entity while in the contract manufacturing scheme goods are sold to the processing entity. Further sale of compensating products (either back to the seller or to the third party) should be agreed in advance i.e. before the approval for IPR is required.

IPR is limited in time i.e. approval for certain quantity of goods can be granted for the period up to 12 months.

### Representative offices

Representative offices do exist in Serbia, but foreign companies more often establish subsidiaries in the form of limited liability companies rather than representative offices. Rep offices in Serbia have rather limited capacity, i.e. they can perform only

preparatory and auxiliary activities – it is not allowed they perform commercial or trading activities.

Regarding customs incentives available to rep offices, one of most important was total relief from import duties within temporary importation of equipment (including passenger cars, personal computers etc.) for the purpose of operating representative office. However, this possibility was revoked by the Serbian Government in April 2009.

## 5.6 Documentation and procedures

### Registration of importers and exporters

Serbian regulations do not require importers and exporters to be registered for customs purposes within a special register.

### Documentation

There is no prescribed list of mandatory documents that has to be filed with the customs declaration and declaration of customs value. There is only a general provision saying that Customs authorities could ask from importer/exporter any documents they consider necessary to confirm information stated in the customs declaration. Customs are also allowed to take samples of goods on import/export.

In practice, one of the main documents within the customs procedure is the invoice. Therefore, it is advisable to present proper invoice to Customs containing all relevant elements (buyer, seller, description of goods, value, terms for payment and delivery). It is also quite common and usually required to enclose transport document i.e. CMR. Often, Customs authorities require declarants to provide them with a contract which would represent legal basis for certain transaction.

### Declaration of customs value

This declaration is mandatory in the customs procedure and its form is based on EU form for declaration of customs value.

As explained, WTO valuation rules are followed by Serbian regulations, but quite often not properly implemented in practice. In case Customs house challenges transaction value, it will issue protocol containing arguments for such reasoning and also new customs value. Importer can file objection within three days on which Customs office will decide. Whole process falls under I instance proceedings.

In case importer is not satisfied with the decision of Customs office, it is entitled to file an appeal to Commission for Appeals within Customs Head Office, which is II instance body. II instance decision is final and only available legal remedy is to file an appeal to Supreme Court. Proceedings before Supreme Court could last quite long (between one and two years).

## 5.7 Warehousing and storage

Serbian regulations provide for public and private bonded warehouses (BW). Public BW means a customs warehouse available for use by any person for warehousing of goods, including the warehouse keeper. Private BW means a customs warehouse reserved for the warehousing of goods by the warehouse keeper who is the same person as depositor, but not necessarily the owner of the goods. Goods placed in a private BW are designated for the warehouse keeper.

Under the Customs Law the warehouse keeper is the person authorised to operate the customs warehouse i.e. he is the titleholder of the authorisation granted by the Customs Authorities. In Serbia authorisation to operate the customs warehouse may be granted only to persons with a seat or residence in Serbia. Therefore, it is not possible for a foreign entity to obtain an authorisation to operate a customs warehouse in Serbia.

The depositor is the person bound by the declaration placing the goods under customs warehousing procedure or to whom the rights and obligations of such a person have been transferred. The depositor in the case of a public BW can be both domestic and foreign entity on the basis of the contract concluded with the warehouse keeper. In the case of a private BW the warehouse keeper is the depositor.

Where a foreign entity is the depositor it is required that rights and obligations are transferred to e.g. warehouse keeper or forwarding agent due to Serbian restrictions for foreign entities to participate in the customs procedure. As this is only procedural requirement it will not affect in any way ownership over goods i.e. it will remain with the foreign entity.

## 5.8 Re-exports

Import goods which haven't been released for free circulation but have been placed under one of the customs procedures with suspensive effect (customs warehousing, temporary importation with total relief from import duties, inward processing relief with suspension system, processing under customs control) may be re-exported from Serbian customs territory without payment of import duties.

# Chapter 6

## Business Entities

### 6.1 Legal framework

#### Company and commercial law

The current Company Law (the Law) was enacted and came into force in November 2004. This Law regulates the setting up and operation of businesses in a much more market orientated manner than the previous Law on Enterprises did.

Commercial relations between companies are regulated by the Law on Contracts and Torts.

### 6.2 Choice of entity

Foreign investors may establish a company in the form of:

- Associations of capital: Joint-Stock Company (a.d), Limited Liability Company (d.o.o)
- 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 in Serbia.

In practice, foreign investors usually prefer to incorporate a d.o.o., because of its simple form and fast incorporation.

Its advantages include the following:

- Increase in capital may be made without supervision by the Securities Exchange Commission
- Minimum share capital is EUR 500 as opposed to EUR 10,000 for a closed a.d.

### 6.3 Joint Stock Company (a.d.)

A Joint Stock Company can be founded by one or more natural persons and / or legal entities in the capacity of shareholders. The maximum number of shareholders in a closed a.d. is 100. A closed a.d. having more than 100 shareholders, maintained for the period of over one year, is transformed into an open a.d.

The initial capital is divided into shares of specific value.

The minimum initial capital of a closed a.d. is the RSD equivalent of EUR 10,000, and RSD equivalent of EUR 25,000 for an open a.d. The minimum par value of a share cannot be lower than the amount obtained by rounding up EUR 5 to the highest number

divisible by ten in RSD counter value, according to the middle exchange rate on the day of applying for inscription of the company, i.e. on the day of applying for change of an incorporated company capital. A minimum of 50 percent of the founding capital of each shareholder must be paid before incorporation and the remaining 50 percent has to be paid in within two years of incorporation. The contribution of founders may be money, property or rights. Contributions can be made in labour or services only if envisaged by the foundation act of the a.d.

The mandatory bodies of a closed a.d. are: general meeting of shareholders, and a managing director or a board of directors. A closed a.d. may also have an executive board, and /or an internal auditor/board of auditors. The mandatory bodies of an open a.d. are: general meeting of shareholders, board of directors, executive board, and a secretary of a.d. In addition, an a.d. listed at stock market must have a supervisory board, an internal auditor, or a board of auditors, while an a.d. performing certain business activities prescribed by separate laws must have a supervisory board.

### 6.4 Limited Liability Company (d.o.o.)

A d.o.o. may have 1 to 50 members (natural persons and/or legal entities).

Minimum pecuniary part of the initial capital is RSD equivalent of EUR 500. A minimum of 50 percent of the initial capital must be paid before incorporation and the remaining 50 percent must be paid in within two years of incorporation. Equity may not be expressed in shares. The contributions in a limited liability company may be not only money, property or rights, but also labour and services. This only includes the services performed and not those to be performed in the future.

The liability of members is up to the value of their investment. The bodies of the d.o.o. are: general meeting of shareholders (composed of founders) and a managing director or a board of directors. An d.o.o. may, but is not obliged to, have an internal auditor, a board of auditors, or a supervisory board. The sole stakeholder of an d.o.o. may perform the duties of the managing director and general meeting in a one-man limited liability company.

## 6.5 Partnerships and Joint Ventures

### General Partnership (o.d.)

Membership of a general partnership consists of two or more legal or natural persons. There are no requirements for minimum/maximum contribution. Contribution can be not only money, property and rights, but labour or services as well.

All partners bear unlimited liability for the obligations of the partnership.

### Limited Partnership (k.d.)

A Limited Partnership may be founded by two or more legal and /or natural persons.

There are no requirements for minimum/maximum contribution. Contribution of the limited partner may not only be money, property or rights, but labour or services too.

At least one member (the general partner) bears unlimited liability for the obligations of the partnership and the liability of at least one member (the limited partner) is restricted to the value of his equity. Both the general partner and limited partner may be either a natural person or a legal entity.

### Joint ventures, strategic partnerships

There are no restrictions on joint ventures and strategic partnerships. The choice depends on the terms established by the contractual parties. The amount of the investment and the percentage of share ownership are set out in a Memorandum of Association.

Generally, local partners will seek a partner who can:

- Preserve or extend their market position,
- Provide financing (e.g. resolve liquidity and local financing problems),
- Leverage international brand power,
- Provide know how.

A strategic alliance can be negotiated under normal contract rules.

## 6.6 Branches

A branch is considered to be a legally dependent part of a business entity (company), and does not represent a separate legal entity. It operates as a detached organizational part of a foreign legal entity dealing only with those business activities that the founder company is registered for in the country of its

registered seat. A branch office performs business activities in the name and for the account of the founder company. It is incorporated upon the decision of the founder company and must be inscribed in the Registry of Companies.

## 6.7 Representative office

A foreign entity may establish a representative office in Serbia. The basic provisions regulating Representative Offices in Serbia are contained in the Law on Foreign Trade Operations.

A representative office is usually established to survey the commercial, financial, banking, and insurance segments of the market, as well as to perform the preliminary and preparatory operations to the execution of contracts, and to represent the foreign entity engaged in such transactions. A representative office is deemed an integral part of the concerned foreign entity and, therefore, does not have the status of a legal entity. It does not have the capacity to conclude any agreements other than those arising from and concerning the representative office's own needs.

To register the representative office, the founder should apply with the official request and the necessary documents for the registration. The application is to be made to the Registry of Companies.



# Chapter 7

## Labour Relations and Social Security

### 7.1 Labour Market

The Serbian labour force is skilled and well trained, particularly those under 45 years of age. It is also still relatively inexpensive, although this is likely to change as salary expectations rise, especially with employers who are foreign investors.

At the moment, as a consequence of the crises during the past decade, the unemployment rate is high. According to the data from June 2009, the unemployment rate is cca. 15.6 percent. Accurate statistics on unemployment are difficult to obtain, as a significant proportion of the population works in the grey economy.

### 7.2 Labour Relations

#### Employer/employee relations

Employment is established by concluding employment contract. General work ability assumes that an employee is over 15 years of age. Special requirements may be determined at the discretion of the employer, depending on the type of job.

#### Unions

Representative labour unions (on the level of state, territorial unit, branch, and at the employer) have the capacity to bargain and conclude collective agreements on respective levels. Union activity including the criteria for representativeness of unions is regulated by the Labour Law.

#### Labour Code

Serbian Labour Law, enacted in 2005, regulates rights, obligations and liabilities of employers and employees. The Law applies on all employment relations except those in state and governmental bodies, where there is a specific regime established by special legislation.

The Labour Law complies with EU standards and recommendations of the International Employment Organisation.

The Labour Law does not regulate many issues in detail, but leaves them to be regulated by collective agreements (CA's) or an internal act of employer, that must be in compliance with the Law. CA's are concluded as a result of bargaining between the labour union and employer/union of employers, and can be concluded at different levels (within a company/employer, for a particular sector of economy, for a unit of local government or territorial autonomy, or for the territory of the Republic).

The General Collective Agreement was signed in 2008, and as of 11 February 2009 it is binding for all employers in Serbia. In general it stipulates more favourable conditions for employees by imposing additional financial obligations for the employer. However, implementation of certain provisions of the General Collective Agreement imposing additional financial obligation for the employer is postponed for six months period, due to economic crisis.

### 7.3. Working Conditions

#### Salaries and Wages

Salary is to be paid at least once a month. The minimum salary is determined by the Social Economic Committee following the criteria prescribed by the Law. Minimum net salary for the period January-June 2009 is RSD 87 (cca. 0.92 EUR) per working hour. According to the Law, base salary has to be defined in the employment contract. An employee is entitled to increase salary on the basis of overtime, work at night, work during holidays, work in shifts and to an increase of 0.4 percent for each year of employment.

#### Employment contracts

Employment contracts set the rights and obligations of the employee and must be concluded in writing, before commencement of work. The required minimum of contents of an employment contract is prescribed by Labour Law. An employment contract may be concluded either for indefinite period of time, or for definite period of time (up to 12 months, and only in the cases prescribed by the Labour Law).

#### Working Hours

Full time employment may range between 36 and 40 hours a week, upon the decision of the employer. Overtime cannot exceed four hours a day and the total of eight hours a week.

#### Paid holidays

The minimum annual vacation is 20 days. Employees are entitled to annual leave after 6 months of continuous employment. The grounds and duration of paid leave in other cases is specified in the Labour Law and the General Collective Agreement.



## Equal opportunities

Employees are to be paid the same for equivalent work, or for the same value of work, with the same employer. The Labour Law prohibits discrimination on any grounds towards employees as well as candidates for employment.

## Termination of employment

Employment may be terminated unilaterally by either employer or employee, or by mutual agreement of employer and employee. An employer may terminate employment with an employee in case there are justified reasons related to employee's working ability, behaviour or the employer's needs, i.e. in the following cases:

- Underperformance or lack of required knowledge and skills;
- Violation of working duties;
- Violation of working discipline;
- An employee commits a crime at or in connection with the work;
- Failure of an employee to return to work within 15 days from expiry of paid leave or dormancy of employment;
- Misuse of sick leave by the employee;

- Refusal of an employee to sign the annex to the employment agreement offered in accordance with the Labour Law, i.e. on specific legal grounds;
- Cessation of the need for performance of a job or decrease of the volume of work due to technological, economic or organisational changes at the employer. The employer is obliged to pay redundancy compensation to the employee. Also, if employment is terminated on these grounds, the employer is prohibited to employ another person at the same position in the period of 6 months following termination. If the demand for work on the same position arises before expiry of the 6 month period, preference shall be given to the employee whose employment on the same position was terminated. Adoption of a Redundancy Programme is the obligation of the employers if a certain number of employees are to be declared redundant in a certain period of time, as prescribed by the Labour Law.

## 7.4. Social security system

### Compulsory social security insurance

Compulsory social insurance in Serbia covers pension and disability insurance, health insurance, and insurance for case of unemployment. Social security contributions are levied on both the employer and employee.

## 7.5. Foreign personnel

### Restrictions on employment

There are no general restrictions as to the number of foreign employees or duration of their employment in Serbia. There is no nationality that will encounter unusual difficulties entering the country for business purposes, nor will any enjoy favourable treatment.

### Fiscal registration number

There are no requirements to obtain fiscal registration number for foreign employee.

Upon issuing of residence permit, an evidence ID number is given to the foreigner.

### Residence permit

The new Law on Foreigners became effective as of 1 April 2009, regulating inter alia visa regime and residence of foreigners

Temporary residence enables a person to stay in Serbia for more than 90 days, up to one year, with the possibility of extension. If a foreigner holds a temporary residence visa (type D visa), there is no additional need to obtain residence permit upon arrival in Serbia. However, foreigners not holding such visa, who intend to

stay in Serbia for more than 90 days, must apply for a residence permit with the Police Office for Expatriates.

The conditions for issuing of visa for temporary residence and temporary residence permit are the same. Grounds for temporary residence are: work, employment, executing of commercial or professional activity, education and training purposes, family reunion, and other justified reasons. In order to be issued a temporary residence certificate, the foreigner must demonstrate proof of: health insurance, sufficient means for support, and grounds for temporary residence.

Extension of residence permit may be submitted 30 days before expiry of such permit, at latest.

A foreigner is required to register with the Police Station in such place where he / she intends to reside for more than 24 hours, within 24 hours as of coming to that place. When staying in a hotel, or staying with someone, the hotel / host shall register the foreigner within 24 hours.

### Work permit

The general preconditions for foreigners getting employed in Serbia are:

- Temporary residence permit /permanent residence permit; and
- Work permit.

However, work permit is not required for holders of temporary / permanent residence permit, entering into employment in Serbia for the purpose of executing work determined in agreement on business cooperation, long-term production cooperation, technology transfer, and foreign investment.

Work permit is issued by the Agency for Employment. For holders of temporary residence permit, request for work permit is submitted by the employer.



# Chapter 8

## Accounting and audit requirements

### 8.1 Accounting

#### Introduction of IFRS

In 2006, the Serbian government adopted the Law on Accounting and Auditing by which legal entities are to apply IFRS in preparing their financial statements. Application of these standards and accounting framework are prescribed by Decrees of the Minister of Finance for companies, entrepreneurs, and brokers/ dealers and Governor of the National Bank of Serbia for Banks. The Decrees and the Law differ in some aspects from IFRS, resulting in some deviations of local accounting standards actually applied from IFRS.

This Law is applicable to all legal entities, entrepreneurs which keep accounting records, to subsidiaries of Serbian companies abroad if the host country does not require them to keep accounting records, to branches and representative offices of foreign legal entities in Serbia (unless other regulation stipulates otherwise), banks and other financial institutions.

#### Preparing financial statements

For the purpose of determining the legal requirements in terms of accounting and auditing all entities are classified as Small, Medium and Large as follows:

Company Size	Criteria for Classification
Medium	1) Average number of employees: 50 - 250; 2) Annual total income: EUR 2.5 – 10 million in RSD equivalent; 3) Average assets value: EUR 1 – 5 millions in RSD equivalent.
Small	If the value of at least two criteria is lower than those for Medium size entities, the entity is classified as Small.
Large	If the value of at least two criteria is higher than those for Medium size entities, an entity is classified as Large. Banks, insurance companies, stock exchanges and stock brokers are considered as large legal entities.

An entity determines its size in accordance with the above criteria at the date of preparing financial statements and uses it in the following accounting period. Newly established entities are classified based on the information from the current accounting period and number of months of operation and the classification is used for the current and the following accounting period. Entities are obliged to submit the information on their classification together with the financial statements for the previous accounting period to the National Bank of Serbia who verifies the classification.

Small legal entities may and Medium and Large legal entities are obliged to prepare financial statements in accordance with IFRS. Minister of Finance prescribes recognition, measurement and valuation rules for Small legal entities which do not apply IFRS.

Annual financial statements must be submitted to National Bank of Serbia by 28 February and consolidated financial statements by 30 April. Approved financial statements together with the auditor's opinion must be submitted by 30 September (30 October 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 September.

#### Statutory requirements

Entities are obliged to perform inventory of assets and liabilities at the end of each financial year and to send list of open invoices to its customers and reconcile balances with them. Any unreconciled balances should be disclosed in the notes to financial statements. All entities have year end at 31 December. Serbian subsidiaries of foreign entities with a different financial year end may, with the permission of the Minister of Finance or Governor of National Bank of Serbia, have a financial year end conterminous with the one of the parent.

Financial statements consist of:

- Balance sheet
- Income statement
- Cash flow statement
- Statement of changes in equity
- Notes to financial statements, and
- Statistical annex

Entities are obliged to file the prescribed forms for balance sheet, income statement, statement of changes in equity and statistical annex. The classification and presentation of certain balance sheet and income statement items as required by these forms is not in accordance with IFRS. Cash flow statement form is based on the direct method. Statistical annex contains some general entity information (number of months of operation, size, foreign shareholders, average number of employees) and analysis of a number of balance sheet and income statement positions. There are no restrictions on the structure and content of the notes to financial statements.

Entities with one or more subsidiaries are obliged to prepare consolidated financial statements unless their consolidated assets and revenues (excluding intercompany transactions and balances) show that the consolidated entity would be classified as Small.

Small companies submit only balance sheet, income statements and statistical annex.

## Significant accounting differences between Serbian standards and IFRS

Although the Law on Accounting and Auditing requires full scope IFRS to be applied due to additional regulation issued by the Ministry of Finance the following Serbian accounting differs from IFRS:

- Off-balance sheet assets and liabilities are recorded on the face of the balance sheet. According to accounting framework off-balance sheet assets should include: leased assets, consignment stock, other third party's inventory held at the company's premises and guarantees. Counter entries of these items are off-balance sheet liabilities. Such items do not meet the definition of either an asset or a liability under IFRS.
- When total shareholders' equity is less than zero, an asset is recorded in the balance sheet under the caption *Loss exceeding equity* such that total shareholders' equity then equals zero. This asset does not meet the definition of an asset under IFRS.
- Exchange rate gains or losses on unpaid subscribed capital are credited /debited to equity in the balance sheet. Such treatment is not consistent with IFRS.
- The prescribed format of financial statements does not comply with the requirements of IAS 1 – Presentation of Financial Statements.
- Entities are obliged to prepare financial statements using Serbian Dinar (RSD) as a functional currency even where IAS 21 –The Effects of Changes in Foreign Exchange Rates would require them to use different functional currency.

- Consolidated financial statements for the current year are required to be filed up to the end of the April the following year, while separate financial statements are required to be filed by the end of February the following year. Under IFRS, separate financial statements of an entity which has subsidiaries are only allowed if consolidated financial statements are also prepared and issued at the same time.
- In 2009, Ministry of Finance issued a rule by which in preparing 2008 financial statements entities are allowed to defer foreign exchange differences in the balance sheet. The rule is optional and if applied net foreign exchange differences are recorded within accruals and prepayments in the balance sheet and released to the income statement when related asset or liability is realised. If the rule is applied entity should disclose this fact in the notes to financial statements.

## Profile of accounting profession

Chamber of Certified Accountants issues certificates to Certified Accountants. In order to obtain certificate a person must have university degree, three years of experience in external or internal audit or five years of experience in accounting and must take certification exam. Chamber of Certified Accountants publishes the list of members on their website.

## 8.2 Chart of accounts

Chart of accounts for companies are prescribed by Ministry of Finance, and chart of accounts for banks and other financial institutions are prescribed by National Bank of Serbia. Separate chart of accounts are issued for:

- Companies
- Banks
- Stock exchanges and brokerage firms
- Voluntary pension funds
- Companies for management of voluntary pension funds
- Insurance companies
- National Bank of Serbia
- State budget
- Investment funds

Current chart of accounts was published in 2006 and updated in 2008. It is used, firstly, for working out typical accounting entries, and secondly, for preparing financial statements. Main categories in the chart of accounts are presented below.

Main categories of balance sheet accounts:

Description	Number
Subscribed capital unpaid	00
Intangible assets	01
Property, plant and equipment and biological assets	02
Long-term financial investments	03
Inventories and advances paid to suppliers	10 -13, 15
Non-current assets held for sale and discontinued operations	14
Receivables, prepayments and short-term financial investments	20 -28
Deferred tax assets	288
Off-balance sheet assets	88
Shareholders' equity	30 -35
Long-term liabilities and provisions	40 -41
Short-term liabilities and provisions	42 -49
Deferred tax liability	498
Off-balance sheet liabilities	89

Main categories of income statement accounts:

Description	Number
Revenues	60 -62
Operating expenses	50 -55
Finance income	66
Finance expenses	56
Other income	67 -68
Other expenses	57 -57
Net profit /loss attributable to discontinued operations	69/59
Current corporate profit tax	721
Deferred tax	722

The prescribed chart of accounts is based on three digit accounts but companies may have more detailed accounts within these categories if they find it necessary.

## 8.3 Audit requirements

Large and Medium size entities are obliged to audit their financial statements. Audit reports must be submitted to the National Bank of Serbia by 30 September (31 October for consolidated financial statements). If financial statements filed by 28 February have been corrected based on auditor's recommendation, companies should submit corrected financial statements together with the audit report. If no corrections have been made to originally filed financial statements, only audit report is submitted.

Audit of financial statements is performed in accordance with the International Standards of Auditing (ISA). Audit must be performed by certified auditors, members of the Chamber of Certified Auditors and employed by an audit company. Audit companies must have at least three licensed auditors to be allowed to perform an audit of a Large entity or at least one licensed auditor for audit of a Medium size entity. Audit may be performed by the same audit company for a maximum of five years or exceptionally if licensed auditor is rotated after that period for another five years. Audit companies are obliged to submit to the Ministry of Finance list of concluded audit contracts by the end of the current financial year.



# Chapter 9

## Tax System and Administration

### 9.1 Tax system

Serbia's tax environment has become highly competitive compared to other Central and Eastern Europe countries in recent years.

Investors seeking room to reduce their overhead costs could take advantage of the numerous benefits, with the following being the major ones:

- One of the Europe's lowest corporate profit tax rate set at 10%
- VAT and the personal income tax among the lowest in Central and Eastern Europe,
- Tax credits for investing in fixed assets of up to 80% of the invested amount,
- State subsidies for new employment.

### Administration of the tax system

In principle, taxes are administered by the central government, with a few exceptions such as property taxes.

### Registration requirements

A legal entity applies for a Tax Identification Number (PIB) at the moment of registration with the Business Registry Agency. The application is forwarded by the Agency to the Tax Administration who is also in charge of issuing a PIB to natural persons.

### 9.2 Direct and indirect tax burden

According to the information presented by the official Government statistics, the largest percentage of public revenues is collected from VAT and social security contributions, followed by personal income tax and excise duties. The trend of Serbian fiscal policy is to disburden payers of direct taxes through lower rates of personal income tax and corporate income tax.

	2008	Jan-Feb 2009	Percentage 2008	Percentage 2009
<b>Tax Income</b>	<b>1,000.30<sup>1</sup></b>	<b>143.10</b>	<b>100.00%</b>	<b>100.00%</b>
Personal Income Tax	136.50	19.80	13.65%	13.84%
Corporate Income Tax	39.00	4.70	3.90%	3.28%
Value Added Tax	301.60	44.40	30.15%	31.03%
Excise Duty	110.10	15.60	11.01%	10.90%
Customs	64.80	6.80	6.48%	4.75%
Other Tax Income	35.70	4.70	3.57%	3.28%
Social Security Contributions	312.60	47.10	31.25%	32.91%

<sup>1</sup> Amounts shown in RSD billions

## 9.3 Principal taxes

Below is a brief overview of major tax rates in Serbia.

Tax	Tax Rate
Value Added Tax	Standard rate – 18% Lower rate – 8% and 0%
Corporate Income Tax	Uniform rate – 10%
Withholding Tax	20% (for dividends, shares in profits, royalties, interest income, capital gains, lease payments for real estate and other assets)
Personal Income Tax	Salaries – 12% Other income – 20%
Annual Income Tax	10% to 15% (for annual income above three average annual salaries)
Property Tax	Individuals – Progressive rates ranging between 0.4% to 3% Companies – Flat rate up to 0.4% depending on municipality
Social Security Contributions	Individuals – 17.9% Employers – 17.9%



## 9.4 Legislative framework

Serbia legislation is based on continental law, and therefore basic legal framework for taxation in Serbia encompasses the following acts:

- Personal Income Tax Law (enacted in 2001, amended in 2002, 2004, 2006, 2009)
- Corporate Income Tax Law (enacted in 2001, amended in 2002, 2003, 2004)
- Value Added Tax Law (enacted in 2005 amended 2007)
- Law on Tax Procedure and Tax Administration (enacted in 2003, amended in 2005, 2006, 2007, 2009)
- Property Tax Law (enacted in 2001, amended in 2002, 2004, 2007, 2009)
- Excise duty Law (enacted in 2001, amended in 2002, 2003, 2004, 2005, and 2007, 2009)
- Customs Law (enacted 2004, amended in 2005, 2006, 2007)
- Local self-government financing Law (enacted in 2006)
- Law on taxation of non-life insurance premiums (enacted in 2004)

Beside the acts and accompanying by-laws, legal framework includes opinions of the Ministry of Finance which are not legally binding, but they can help in clarification of tax regulations.

The Laws are enacted by the Parliament, and they apply to the future i.e. in principle retroactive appliance is not permitted by the Constitution. However, a few amendments to the tax legislation were enacted retrospectively during the past few years.

## 9.5 Tax treaties

Serbia continues to honour the double taxation treaties concluded by the former Yugoslavia (The Socialist Federal Republic of Yugoslavia, Federal Republic of Yugoslavia and the State Union of Serbia and Montenegro). The chart on the next page shows the tax rates on dividends, interest and royalties.

Country□	Dividends[1]	Interest□	Royalties	Applicable from
Albania	15/5	10	10	2006
Belgium	15/10	15	10	1982
Belorussia	15/5	8	10	1999
Bosnia and Herzegovina	10/5	10	10	2006
Bulgaria	15/5	10	10	2001
China	5	10	10	1998
Croatia	10/5	10	10	2005
Cyprus	10	10	10	1987
Czech Republic	10	10	10/5	2006
Korea	10	10	10	2002
Denmark	15/5	0	10	1983
Egypt	15/5	15	15	2007
Finland	15/5	0	10	1988
France	15/5	0	0	1976
Ghana[2]	15/5	10	10	N/A
Germany	15	0	10	1989
Greece[2]	15/5	10	10	N/A
Hungary	15/5	10	10	2003
Italy	10	10	10	1986
Iran[2]	10	10	10	N/A
India	15/5	10	10	2009
Kuwait	10/5	10	10	2004
Latvia	10/5	10	10/5[3]	2007
Macedonia	15/5	10	10	1998
Malaysia	0[4]	10	10	1991
Moldova	15/5	10	10	2007
Netherlands	15/5	0	10	1983
Norway	15	0	10	1986
Poland	15/5	10	10	1999
Romania	10	10	10	1998
Russia	15/5	10	10	1998
Slovak Republic	15/5	10	10	2002
Slovenia	10/5	10	10/5[5]	2004
Sri Lanka	12.5	10	10	1987
Sweden	15/5	0	0	1982
Switzerland	15/5	10	10	2007
Turkey	15/5	10	10	2008
Ukraine	10/5	10/0[6]	10	2002
United Kingdom	15/5	10	10	1983
Zimbabwe[7]	15/5	10	10	N/A

[1] If the recipient company owns / controls at least 25 percent of the equity of the paying company, the lower of the two rates applies.

[2] The other treaty country did not send official notification on the ratification of the treaty.

[3] A tax rate of 5 percent will be applicable to literary, scientific and work of art, films and works created like films or, other sources of reproduction tone or picture.

A tax rate of 10 percent will be applicable to: patents, petty patents, brands, models and samples, technical innovations, secret formulas or technical procedure.

[4] Only in cases when dividends are to be paid to Serbian residents. If paid to Malaysian residents, they are taxable at 20 percent in Serbia.

[5] A 5 percent rate is applicable for intellectual property and 10 percent rate for industrial property.

[6] A 0 percent rate is applicable in cases when the income recipient is the Government or government owned banks.

[7] The other treaty country did not send official notification on the ratification of the treaty.

## 9.6 Tax returns and payments

Tax year in Serbia is calendar year. Tax returns must be signed and submitted on a prescribed form, alongside with other necessary documentation. Tax return can be submitted electronically or in a hard copy. For “large taxpayers” legislation prescribes shorter time limits and different procedure.

Tax procedure allows filing of amended tax return within 12 month period from the submission of the first tax return. Amended tax return can be submitted only once, and must be submitted in a hard copy. Under these conditions, the error in original tax return will not be considered as a tax offence.

Tax collection can be performed as regular or enforced. The regular tax enforcement is performed when tax liability become due i.e. otherwise enforced collection rules are applied.

Tax collection is performed by depositing due amount of taxes at the prescribed accounts of public revenues within prescribed payment date.

## 9.7 Assessments

Assessment of the most taxes is determined either as self assessment or assessment by tax decision issued by the tax authorities. Tax authorities are entitled to issue tax decision when self assessment is not prescribed by the law, or during tax control when a taxpayer did not follow the law.

Tax authorities are entitled to use parification or indirect assessment as methods for determination of tax base. Parification method encompasses investigation of relevant taxpayer documentation upon which tax authorities determine tax base. Apart from this, tax base can be determined as difference between net value of the property at the end and at the beginning of calendar year respecting corrections prescribed by the legislation-indirect method.

In relation to PIT base, tax authorities are entitled to apply indicary method, to which certain indices are applied to factors which appoint to luxury style of life.

## 9.8 Appeals

Taxpayer is entitled to file an appeal against decisions and conclusions as written decisions regarding individual rights and liabilities. General deadline for filing an appeal is 15 days, starting from the day of receiving act. However in some situations legislation constitutes different deadline.

Upon conducted second-level procedure, the second level tax authority may:

- Reject appeal;
- Annul administrative act entirely or in part;
- Amend the act.

The appeal generally does not delay execution of the appealed act.

## 9.9 Withholding Taxes

Serbian Corporate Income Tax Law imposes 20% withholding tax on a passive income of a non-resident realized from a Serbian resident. The following types of passive income are taxable: dividends, interest, royalties, capital gains, leasing and rental fees. The withholding tax rate may be reduced or even eliminated by a bilateral Double Taxation Treaty between Serbia and the country of residence of the recipient of such income.

Pursuant to the Serbian legislation, corporations paying income to an individual are obliged to assess and withhold tax at the moment of payment of such income. For example, an employer needs to withhold both salary tax and SSC at the moment of payment of salaries.

## 9.10 Tax audits

Tax Audit can be performed as:

- Office control;
- Field control;
- Activities in order to reveal tax crimes.

Office control encompasses verification of the data presented in tax returns and other relevant documentation by the tax inspector. In order to verify presented information, tax inspector compares data declared in tax return with information of a taxpayer kept in Tax Administration official records.

The goal of field control is to verify legality of business activity, and accomplishment of tax liabilities. Field control is performed by tax inspector in the business premises of taxpayer or personal premises presenting court warrant. Taxpayer is obliged to present to tax inspector all necessary documentation as per his request.

Tax police has authorities similar to interior affairs. It is in charge to reveal tax crimes, performing various activities prescribed by the criminal law (interrogation, inquest of premises etc). Upon collected evidences tax police is entitled to initiate criminal procedure by informing public attorney about committed crime.

## 9.11 Penalties

Various penalties are prescribed if a taxpayer fails to submit tax return, calculate and pay tax within prescribed period. Tax returns range from 5% to 20% of tax due. Penalty interest of 23.5% p.a. also applies for late payment of tax.

# Chapter 10

## Taxation of Corporations

### 10.1 Corporate tax system

Taxation of corporations in Serbia is regulated by the Corporate Income Tax (CIT) Law (last amended in 2004) and by subordinated bylaws issued by the Ministry of Finance.

#### Taxable Entities

A taxable entity includes a company registered as a joint stock company, a limited liability company, a general partnership, a limited partnership, a socially owned company, or a public enterprise, as well as a co-operative or any other legal entity generating income from the sale of goods or rendering its services on the market. Serbian tax law does not recognize concept of tax transparent entities.

#### Dividends

Dividends paid to a non-resident entity are subject to 20% withholding tax, unless an applicable Double Tax Treaty stipulates otherwise. Dividends paid to a Serbian tax resident company are not subject to withholding tax.

#### Territoriality

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

#### Permanent establishment/branches

A permanent establishment is any permanent place of business through which a non-resident conducts its business.

A branch constitutes a permanent establishment of a non-resident taxpayer per default. Consequently, CIT is payable on profit attributable to the operations of a branch. However, since branches were introduced fairly recently in Serbian legislation (in November 2004), there is little practice in relation to the operation and taxation of branches in Serbia.

### 10.2 Incentives

In addition to a low 10 percent CIT rate, the following tax incentives are provided in the Serbian taxation regime:

#### Tax Incentives

- Up to ten-year tax holidays for companies investing RSD 600 million (approximately 6,500 thousand EUR) and employing at least 100 workers, in proportion to investment. As per the latest published proposed amendments to the CIT Law provide for increase of amount of investment required for use of tax holiday to the level of RSD 900 million (approximately 9,500 thousand EUR).
- Up to five-year tax holidays for companies investing RSD 6 million (approximately 65 thousand EUR) and employing a minimum of five workers in underdeveloped regions, in proportion to investment. However, mentioned proposed amendments to the CIT Law provides for enhancement of the required investment to the amount of RSD 9 million (approximately 95 thousand EUR).
- Accelerated depreciation is allowed for fixed assets (including computers) used for environmental protection, scientific research, education and training of staff. Accelerated depreciation is calculated by using rates that are up to 25 percent higher than prescribed rates.

#### Tax Credits

- Tax credit of 100 percent of gross salary increased by the social security contributions on behalf of employer for newly employed workers. This tax credit cannot be carried forward and is applicable only if such employment contributes to an increase of the total number of employees in the tax period.
- Tax credit of 20 percent (small enterprises 40 percent) for investment in fixed assets, up to 50 percent (small enterprises up to 70 percent) of CIT liability. Any unused tax credit can be carried forward for ten years. This tax credit can be carried forward for up to ten years.

- A taxpayer, classified in accordance with relevant legislation and registered for conducting business in one of the industries listed below, is granted a tax credit for 80 percent of its investment in its own fixed assets in the current year. There are no limitations related to taxable profit made by the taxpayer. This tax credit can be carried forward for up to ten years.

- The industries to which this paragraph refers are:

01 - agriculture;

05 – fishing;

17 – manufacture of textile yarn and fabrics;

18 – manufacture of clothing,  
reprocessing and dyeing of leather

19 – processing and manufacture of leather

27 – production of basic metals;

28 – production of standard metal products;

29 – production of machines and devices;

30 – production of office machines and calculators;

31 – production of electric machines and devices;

32 – production of radio, TV and communication equipment;

33 – production of medical, optical and other  
precise instruments;

34 – production of motor vehicles and trailers;

35 – production of other traffic means;

37 – recycling;

92 – group 9211 – cinematographic and video production.

- A company generating profit in a newly established business unit of a Serbian company in an underdeveloped area has the right to decrease its tax liability, proportionally to the share of total profit attributable to the business unit over a period of two years. The newly established business unit must keep separate accounting records.

## Carry forward of operational losses

- Operational losses can be carried forward for ten years. This incentive should not be terminated in the case of statutory changes (e.g. mergers, de-mergers and spin offs) of the company.

## Exemptions

- Special rules for tax exemption apply to non-profit organisations. Any surplus of income should not exceed the amount prescribed by law. This surplus is not allowed to be spent on wages or given to the founders. In addition, employee wages should not exceed double the average wage paid in the branch to which that non-profit organisation belongs;
- The tax liability for companies employing disabled persons is decreased in proportion to the percentage of such persons to the total number of employees;
- Profit earned on the basis of a concession is tax exempt for a period of five years.

## 10.3 Taxable income

### Accounting period

Accounting period which is to be used for tax purposes is financial year. Financial year shall mean a calendar year, except when the business is dissolved or started up or status-related changes are made in the course of a year.

Proposed amendments to the CIT Law stipulates that 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.

### Accounting methods

Serbian tax regime provides for accrual based accounting.

### Business profits

Business profits for tax purposes are determined by adjusting the accounting profit, as stated in the profit and loss statement and determined in accordance with IFRS and accounting legislation, in accordance with the provisions of the CIT Law.

### Capital gains

Capital gains are taxed separately from operational profits. Tax rate is 10 percent. Capital losses can be carried forward for 10 years.

### Accounting for income

Revenue recognition generally follows IFRS.

### Inventory valuation

Cost of materials and the purchase value of merchandise are tax deductible up to the amount calculated by applying the average weighted cost method or FIFO method. If other methods are used, an adjustment for tax purposes should be made.

## Passive income

Total amount of interest earned is considered part of taxable income and taxed with 10% CIT. Interest income is recognized on accrual basis as per IFRS.

Dividend income distribute by a non-resident subsidiary is part of taxable income. Respective tax liability can be decreased for tax credits equal to profit tax paid abroad. Tax credit cannot exceed the amount of (corporate) tax that would have been paid in Serbia. Tax credit can be carried forward and utilized over a ten year period. In order to application of dividend tax credit, taxpayer needs to hold at least 25% interest in non-resident subsidiary.

Dividends and share in profits received from a Serbian tax resident subsidiary are exempt from taxation.

## Exempt income

Following types of income are exempt:

- Profit earned on the basis of a concession over a five year period, and.
- Income received from shares in profit of resident subsidiaries.

# 10.4 Deductibility of expenses

## Business expenses

Generally, business expenditures declared in the income statement in conformity with the IFRS and the regulations dealing with accounting are recognized in the determination of taxable income. However, the CIT Law stipulates that certain expenses should not be recognized for income tax purposes or should be recognized up to the certain amount. Partially deductible expenses are presented in the separate sub point.

## Accounting for expenses

Expenses should be recognized in the period in which related revenue is recognized.

Companies are not obliged to keep separate accounting for tax purposes.

## Depreciation

According to the CIT Law, fixed assets are both tangible and intangible assets with useful life longer than one year and the individual acquisition price higher than average gross wage at the moment of acquisition according to the latest data published by the Republic of Serbia Statistical Bureau.

Fixed assets are divided into five groups, with the following depreciation rates:

1. Group I: 2.5 percent;
2. Group II: 10 percent;

3. Group III: 15 percent;

4. Group IV: 20 percent;

5. Group V: 30 percent.

A straight-line depreciation method is prescribed for the assets (mainly property) classified in the first group. A declining balance method is prescribed for assets classified in other groups. Further guidelines on assessment of tax depreciation are provided in the by-laws issued by the Ministry of Finance.

## Interest

The total calculated interest, other than interest charged for untimely payment of taxes, contributions and other public charges, is recognized as expenditure for income tax purposes. However, in order to be tax deductible, interest should be borne for business purposes, i.e. meet general conditions for expenditure recognition.

Interest expense is recognized on accrual basis.

Deductibility of interest expense incurred from related party loans is subject to thin cap rules as described below.

The interest paid to a related entity cannot exceed the multiple of four times the value of the taxpayer's average share capital increased by reserves and:

- In the case of a loan in RSD: 110 percent of the interest rate charged by the NBS on the loans granted to commercial banks as at 31 December of the previous year, or
- In the case of foreign currency loans: 110 percent of the interest rate charged by the central bank of the country in whose currency the loan is denominated in as at 31 December of the previous year.

Interest expense exceeding this amount will not be recognised as an expense for tax purposes. Such interest can be carried forward and recognized as an expense in the tax balance sheet in the following year.

Thin cap rules are not applicable in the case when interest is capitalized.

## Dividends

As derived from profit after tax dividends are not deductible for income tax purposes.

## Bad and doubtful debts

Provisions (indirect write-off) for bad and doubtful debts are tax deductible if at least 60 days have expired from the due date. Provision has to be made individually for each receivable.

Write-off of individual debts, except for those from debtors which are at the same time creditors, is recognised as expenses under the following conditions:

- that related revenue has already been accrued,
- that they were written off as uncollectible and
- that evidence of the failure to collect debts through court orders is provided.

Royalties and service fees should be fully deductible in case they meet general tax deductibility requirements, i.e. incurred for business purposes.

## Leasing

Leasing fees should be fully deductible in case they meet general deductibility requirements for business expenditures recognition.

## Employee remuneration

Total salary costs, as disclosed in company's books, are fully deductible for income tax purposes. Salary expenditures should be recognized on the accrual basis, i.e. regardless when/whether effective payment have been made.

Accrued and unpaid remuneration to employees is not tax deductible..

However, proposed amendments to the CIT Law stipulate that an expense will be recognized for tax purposes in the year when the actual payment is made ("cash principle").

## Insurance premiums

Insurance premiums should be fully deductible in case they meet general deductibility requirements for business expenditures recognition.

## Other deductions

Long-term provisions are recognised for tax purposes if they are made for the renewal of natural resources, warranty period costs and retained caution money and deposits.

## Losses

Operational losses can be carried forward for ten years. Such facility should not be terminated in the case of statutory changes of the company.

## Non-deductible expenses

1. Following expenses are not recognized for CIT purposes:

- Expenses which cannot be documented;
- Bad debt provisions for individual receivables from persons that are creditors at the same time;

- Gifts and contributions to political organisations;
- Gifts and other advertising expenditures that are not documented, or if the recipient is an associated entity;
- Interest payable for the late payment of taxes, contributions and other public charges;
- Fines and penalties;
- Share in the profit paid to employees or other individuals;
- Non-business related expenses;
- Expenses incurred on the basis of impairment of assets, except in the case of damage resulting from *force majeure*;
- Calculated and unpaid redundancy remuneration due to employees on the basis of retirement or termination of employment on other grounds.

2. Following expenditures are partially deductible for CIT purposes (up to prescribed threshold):

- Depreciation computed in accordance with tax depreciation rules;
- Expenses for health care, scientific, educational, humanitarian, religious, ecological and sport-related purposes are tax-deductible up to 3.5 percent of total revenue;
- Expenses for cultural purposes are tax-deductible up to 1.5 percent of total revenue;
- Membership fees paid to chambers of commerce and other associations (except political parties) are deductible up to 0.1 percent of gross receipts;
- Advertising, promotional and business entertainment expenses are tax deductible up to 3 percent of total revenue.

## 10.5 Related party transactions

The price of transactions between related parties is taken to be the transfer price. According to the CIT Law, related parties exist if there is a possibility of control or influence on business decisions between them. Ownership of a majority of shares is considered as potential control. Influence on business decisions exists when an associated party holds more than 50 percent or individually greatest portion of votes in the taxpayer's management bodies. If the same persons participate in management or control of both companies, a connection between the companies will be deemed to exist.

A company must separate transactions with associated companies in the tax balance sheet and compare them with arm's length transactions. Any difference is included in taxable profit.

Comparable market prices are considered as arm's length prices. If use of comparable prices is not possible, cost plus usual margin or re-sale price method is used.

## 10.6 Foreign exchange

Foreign exchange gains and losses have the same tax treatment as any other financial gain or loss. That means that foreign exchange gains or losses should be taken into account when computing income tax liability.

Foreign exchange gains and losses are recognized on accrual basis.

In the case of a loan received from the related party, foreign exchange gains/losses should be taken into account when thin cap is calculated.

## 10.7 Tax computations

### General aspects

Amount of tax payable should be computed in the tax return and tax balance sheet by adjusting accounting profit in accordance with CIT Law rules. Tax liability is computed by applying 10% CIT rate on the taxable income calculated on the described way.

Capital gains are taxed separately from operational profits. Tax rate is 10 percent.

Tax returns and tax balance sheets with all necessary documents (e.g. tax depreciation and tax credit forms) must be filed with the tax authorities by 10 March of the following year. A newly established company needs to register with the tax authorities within fifteen days of registration with the court.

Corporate income tax is payable in monthly advance instalments (based on previous year's tax return) by the 15<sup>th</sup> of the following month. The difference between the monthly advance instalments paid during the year and final tax liability as determined in the tax return is payable on submission of the tax return.

### Consolidation

Tax consolidation is allowed for a group of companies where all members are Serbian residents and one company directly or indirectly controls at least 75 percent of the shares in another company. Each company files its own tax balance sheet and the parent company files a consolidated tax balance sheet for the whole group. In a consolidated tax balance sheet, losses of one or more companies are offset by the profits of other related companies. Each company is liable to tax proportional to its share in the taxable profit of the whole group. Tax consolidation must continue for at least five years; otherwise each company

will have to pay all taxes that it would have paid if there had not been any consolidation.

## 10.8 Other taxes

### Excise tax

Excise taxes are levied on import and production of goods with the price inelastic demand (measured by responsiveness of the demand to the change of price). Excise duties are levied on the following goods:

- Oil derivatives
- Tobacco products
- Alcoholic beverages
- Coffee

Excise duties on oil derivatives range from RSD 13 per kilo of liquid oil gas up to RSD 42 per kilo of gasoline. Tobacco products are taxed using specific (ranging from RSD 8.92 per pack of cigarettes to RSD 14.5 per piece on cigars) and proportional (from 35% to 38% of retail price) excise duties. Duties on alcoholic beverages start from RSD 9 on low-alcoholic beverages and rise to RSD 136.55 on brandies made from grains and other agricultural products. Excise duty on coffee is determined as 30% of the import value.

An excise tax liability arises at the moment when the excisable product is put on the market. Deferral of excise duty liability is possible by exercising right to hold a registered excise duty and/or customs warehouse.

### Property tax and transfer tax

Property tax is levied on the following rights relating to real estate: ownership, right of occupancy, lease of property lasting longer than a year as well as on the right to use urban and/or public building land. For taxpayers that keep books, the tax base is generally market value of the property. The tax rate is determined by local authorities but cannot exceed 0.40%.

Transfer tax is levied on the transfer (with consideration) of real rights over real estate, intellectual property rights, ownership over used vehicles, vessels and aircrafts (unless owned by the state), right to use urban and/or public building land as well as rights relating to expropriated real estate. The contracted price is used as tax base unless it is determined to be lower than the market price (in which case the market price is used). Once the tax base is determined a 2.5% tax rate is applied.

### Owners of motor vehicles

According to the Law on Taxes on using, holding and carrying of goods entity or individual who is owner of passenger car is obliged to pay tax on use of motor vehicle. This tax is payable upon registration, renewal of registration or replacement of registration plates. Amount of tax payable is prescribed by the

Law as fixed amount and depends on owner of the vehicle (legal entity or individual) and vehicle's engine capacity. This amount is annually adjusted for consumer price index.

#### Tax on use of cars and vans

Engine capacity in cm <sup>3</sup>	Tax (RSD)	
	Individuals	Companies
up to 1150	850	850
over 1150 to 1300	1.650	1.650
over 1300 to 1600	3.650	3.650
over 1600 to 2000	7.500	7.500
over 2000 to 2500	37.000	37.000
over 2500 to 3000	75.000	75.000
over 3000	155.000	155.000

## 10.9 Branch versus subsidiary

The following table summarises the main tax features of a subsidiary compared to the main tax features of a branch.

Item	Subsidiary	Branch
<b>Accounting and administration</b>	Generally straightforward. □	Practice is almost non-existent, while the legislation is vague and non-comprehensive.
<b>CIT rate</b>	10%	10%
<b>Determination of taxable profits</b>	Rules and practice generally clear and defined. Overall, favorable for a taxpayer. Services charged by the parent entity are, in principle, deductible if at arms length and documented.	Tax return is ambiguous and not consistent with the Law. Allocation of management and administration costs incurred by the head office for the branch may be disputable in practice.
<b>Tax incentive</b>	Various tax incentives for investments in tangible assets and employment of new staff.	Unclear if applicable.
<b>Withholding tax on distribution of profit</b>	20%, unless otherwise stipulated by the applicable DTT. However, a tax residency certificate needs to be obtained before the payment is made in order to apply DTT.	Repatriation of branch profit is not considered as a dividend payment, implying that there is no withholding tax
<b>Deduction of interest paid to parent/head office</b>	Deductible up to thin cap and transfer pricing rules.	Non-deductible (clearly stated by the Law).
<b>Deduction of royalty payable to parent/head office</b>	Fully deductible, subject to transfer pricing.	Non-deductible (clearly stated by the Law).

## 10.10 Holding companies

There is no special holding regime in Serbia. Holding companies operate under same rules as any other company.



# Chapter 11

## Taxation of individuals

### 11.1 Territoriality and residence

#### Tax residence

According to Serbian Personal Income Tax (PIT) Law, individuals are regarded as Serbian tax residents if they:

- Have a domicile in Serbia, or
- Have their habitual abode in Serbia (i.e. if they stay in Serbia at least 183 days, whether or not consecutively, within a period of 12 months beginning or ending in the respective taxation year), or
- Have the centre of their business and vital interests in Serbia, or
- Are seconded abroad to carry on business there for a Serbian resident legal entity, a Serbian natural person, or an international organization.

Residents are taxable on their worldwide income, whereas non-residents are only liable to tax on Serbian sourced income.

#### Registration

Individuals do not have to register as taxpayers. Individual entrepreneurs do have to register themselves.

### 11.2. Taxable income

Types of taxable income and applicable PIT rates are as follows:

- Income from employment (12%);
- Income from agriculture and forestry (14%);
- Income from independent activity (10%);
- Income from copyright, rights related to copyright and industrial rights (20% with actual/standard costs deduction);
- Income from capital – interest, dividends, capital gains (20% rate; with 50% tax base decrease for dividends received by Serbian tax residents);
- Income from immovable property (20% with actual/standard costs deduction);

- Capital gains (20%);
- Other income – sportsmen, games of chance, leasing of moveable property etc (20% with actual/standard costs deduction).

Exceptionally, no PIT is applicable on interest income, capital gains and income from agriculture and forestry in 2009<sup>1</sup>.

#### Income from employment

##### Personal income tax

The taxable person is the employee, but the employer is responsible for calculating and withholding personal income tax on behalf of its employees. The taxable base is the gross salary including fringe benefits.

The PIT Law provides a non-taxable monthly threshold of RSD 5,960 per month. It is adjusted annually in accordance with Consumer Price Index changes.

##### Social security contributions

Social security contributions are calculated and withheld by an employer from the salary paid to an employee up to specified cap. These contributions are payable by the employer and employee at equal rates. The amount borne by the employer is treated as an operating cost, while the portion payable by the employee is taken from the gross salary. The rates are as follows:

- Pension and disability insurance 11 percent
- Health insurance 6.15 percent
- Unemployment insurance 0.75 percent

The minimum social security contributions base is 35 percent of the average monthly salary in the Republic of Serbia, regardless of the qualifications of individual employees.

The maximum tax base for social security contributions remains at five times the average monthly salary in the Republic of Serbia. The new maximum base for social security contributions is applied, starting from the first day of the month following the month in which the data is published.

#### Supplementary annual taxation

<sup>1</sup> Recently proposed amendments to the PIT prescribe for income from agriculture and forestry a lower rate of 10% and further exemption in 2010.

Annual tax is the additional tax in Serbia. If the individual is a Serbian tax resident he is subject to Serbian annual tax on his net worldwide income exceeding a prescribed threshold. The progressive rates apply depending on the income levels presented in the following table:

The applicable rates are as follows:

Taxpayer	Taxable income exceeding prescribed threshold	Tax rate
Foreign citizen	Between three and six times the average annual salary <sup>1</sup>	10%
	For income exceeding six times the average annual salary <sup>1</sup>	15%
Serbian citizen	Between five and eight times the average annual salary <sup>1</sup>	10%
	For income exceeding eight times the average annual salary <sup>1</sup>	15%

The threshold for income earned in 2008 was RSD 1,644,264 (approximately EUR 17,000) for Serbian citizen and RSD 2,740,440 (approximately EUR 29,000) for foreign citizen.

Taxable income may be reduced by personal deduction and allowances for supporting dependent family members. Personal deduction is 40 percent of the average Serbian annual salary in the year concerned and the allowance for each dependent family member is 15 percent of the average Serbian annual salary in the year concerned. Total deductions cannot exceed 50 percent of the taxable income.

Applicable deductions for 2008 were RSD 219,235.20 (approximately EUR 2,300) per taxpayer and RSD 82,213.20 (approximately EUR 850) per dependent.

Tax and social security contributions incentives Provided that certain conditions are met, tax exemptions are available for employers which hire:

- New employees younger than 30 years,
- Disabled persons,
- Persons older than 45 registered with National Employment Service,

## Tax credits

Serbian residents are taxed on their worldwide income. When income generated in another country is taxed there, the taxpayer has the right to decrease the tax liability by claiming a tax credit to tax authorities in Serbia.

This tax credit is equal to the tax paid in another country, but it cannot exceed the amount of the tax that would have been paid in Serbia.

## 11.3. Non-taxable Income

Certain statutory allowances (disability, unemployment, parenthood, health insurance etc), state pensions, redundancy payments (within certain limits) and similar are exempt from PIT.

## 11.4. Taxation of non-residents

Non-residents are only liable to tax on Serbian sourced income.

Double Tax Treaties between Serbia and expatriates' residence countries can limit the Serbian right to tax or offer relief for the double taxation of certain types of income. Double Tax Treaties provide for resolving tax residency disputes, i.e. situations in which, according to the local rules of the respective countries, a person is deemed to be a tax resident of both countries.

In certain cases, remuneration of non-residents working for diplomatic and consular missions or international organizations in Serbia is not taxable.

## 11.5. Tax compliance

### Obligations of withholding agents

For employment income the taxable person is the employee, but the employer is responsible for calculating and withholding personal income tax on behalf of its employees.

Other types of income are generally payable by method of withholding at the moment when the income is paid.

### Tax returns for individuals

Exceptionally, capital gains, income from independent activity and income from agriculture and forestry are payable on the basis of a Decision issued by the tax authorities. The taxpayer is obliged to file the tax return.

Supplementary annual PIT is also payable on the basis of Decision issued by the tax authorities. The deadline for filing the tax return is 15 March of the following year.

<sup>1</sup> As per official data published by the Statistical Office of the Republic of Serbia

# Chapter 12

## Value Added Tax

### 12.1 Introduction

Serbian VAT Law has been adopted in 2004 and the latest amendments were made in 2007. It is in general based on the rules set out in EU's Sixth Directive.

The standard VAT rate is 18% and it is applied on all supplies of goods and services that are not zero-rated or do not qualify for a reduced rate or exemption. The reduced rate is 8% and it is applied to certain goods and services that include but are not limited to the following: basic foods, supply of drinking water, natural gas, first transfer of residential property, personal computers, teaching aids, tickets to cultural and entertainment venues.

### 12.2 Scope of VAT

For VAT purposes, a taxable transaction is considered to be the supply of goods and services within Serbian territory, as well as importation of goods into Serbia.

A taxpayer is considered to be a person who independently, and in the course of their business activities, undertakes the supply of goods or services, or imports goods. Business activity is defined as the permanent activity of a manufacturer, salesman or service provider for the purpose of realizing income.

A branch or other operating unit can also be a taxpayer. A non-resident without a head office or permanent establishment in Serbia cannot register for VAT purposes and can only appoint a tax representative. In case a non-resident appoints a tax representative, it is considered to be the tax debtor, if there is no tax representative appointed the debtor is the recipient of goods and services.

#### Place of supply

Goods are considered to be supplied within Serbian territory, provided the following conditions are met:

- Goods are located in Serbia when the transport begins or is arranged;
- Goods are located in Serbia when they are supplied without transport;
- Goods are installed in Serbia by or in the name of the supplier;
- If the recipient of supply of water, electricity, gas and heating is located in Serbia.

The general rule for the supply of services states that the services are supplied where the provider has established its place of business activity. Exceptions to the general rule are constituted concerning:

- Services related to immovable property, where the place of supply is where the property is located;
- Services of transport or relating to culture, entertainment, movable property are deemed to be supplied where actually carried out;
- Intellectual services, services provided electronically, data processing, transfer of copyright, licences, banking and insurance services, supply of personnel and other similar services are considered to be provided where the recipient is located.

#### Reverse charge services

In case when a non-resident, who has no presence or did not appoint a tax representative in Serbia, supplies goods or provides services to a Serbian entity, the Serbian entity has to self assess Serbian VAT on goods acquired and/or services received from non-resident ("reverse charge mechanism").

If the recipient has the right to deduct input VAT (provided the expense is business related and relates to a taxable activity), no additional VAT liability arises from prompt application of reverse charge mechanism.

#### Import of goods

The place of import is the point of entry into Serbian territory. The rate of VAT applicable on import is the rate that applies to a domestic supply.

### 12.3 Zero-rating supplies (exemptions with credit)

Supplies which are exempt with credit include the following:

- the export (including to Montenegro) of goods and transport and other services in direct relation to the export, transit or temporary import of goods (not being exempted without recovery right) as well as transportation and other services related to the import of goods if the value of such services is included in the customs base;

- international air or river (by boat) transport of passengers, where the non-resident air/shipping company is exempted under the reciprocity rule;
- delivery of aircraft and ships and servicing, repairs, maintenance, charter and renting of aircraft/vessels used mainly for international air/river traffic; delivery, renting, repair and maintenance of goods used for equipping such aircraft/vessels;
- sale of goods and services for the direct needs of the above aircraft/vessel;
- goods carried in personal luggage up to the value of EUR 150 and dispatched abroad prior to the expiration of three calendar months from the delivery of such goods;
- entry of goods into a free zone, but only for which the taxpayer would have the recovery right if the supply has been carried out outside the free zone;
- dispatch of goods to duty-free shops;
- work performed on movable property obtained by a foreign user of the service in Serbia or imported for the purpose of refinement, repair or installation, and which is to be transported or dispatched abroad upon completion of the work;
- supplies of goods and services carried out in conformity with donation and credit agreements that state that tax is not to be paid from the funds received, as well as supplies of goods and services in relation to other International agreements that provides tax exemption;
- mediation services for the above.
- shares, securities, postal orders, administrative fees and stamps by their value in Serbia;
- supply of medical equipment and services;
- public interest activities performed by non-profit organisations (e.g. education, welfare, culture, scientific research, sports, religion);
- service of renting flats and buildings, if used for residential purposes;
- postal services rendered by a public company, as well as delivery of the related goods;
- public broadcasting, except services of a commercial nature; and
- services of organizing games of chance.

## 12.4 Exempt supplies (exemptions without credit)

The following supplies are exempt without credit:

- most banking transactions;
- the business of companies for investment and pension fund management in accordance with the relevant regulations;
- services of insurance and reinsurance, including the accompanying services of an insurance mediator and agent (representative);
- land (agricultural, forest, construction, built or not built) and buildings (except first transfer of the right to use new buildings);

## 12.5 Supplies to Kosovo and Metohija

In accordance with the relevant VAT Decree and during the period to which applies UN Security Council Resolution 1244, supplies carried out by taxpayers from territory of Serbia (apart for Kosovo and Metohija territory) to Kosovo and Metohija, are VAT exempted with credit. The exemption applies only if certain requirements are met (e.g. confirmation on supply to Kosovo and Metohija issued by Tax Authorities, proof that the supply has been paid by the recipient).

## 12.6 Taxable amount (base)

Generally, the value of supply (i.e. the taxable base) is the total fee, including incidental expenses that have been received or are to be received by the taxpayer for the goods delivered or services provided. The fee is assumed to be VAT exclusive, but includes excise, customs duty and other import charges, as well as other public revenues (VAT exclusive) and secondary expenses for which the taxpayer charges a recipient of goods.

In cases of an exchange of goods or services, the taxable base is the actual market value of the goods or services on the day of their supply. The same rule is envisaged in the case of the free of charge supply of goods or services.

The VAT regulations provide the possibility to change VAT base in certain cases (e.g. return of the goods, cancellation of the contract etc.).

## 12.7 Non-deductible input VAT

Generally, input VAT incurred by a VAT registered person upon the purchase of goods and services and imports for the purpose of its own business activity can be recovered either by way of a credit against output VAT or as a refund.

Input VAT is non-deductible for exempted supplies without credit as listed above.

VAT cannot be recovered on supplies linked with motor vehicles (cars, motorcycles, vessels, and aircraft), entertainment and decorative furniture and small value appliances.

### Direct attribution and proportional recovery

Serbian VAT Law has a system of direct attribution according to the EU model. Input VAT must first be attributed on the basis of economic affiliation of costs. It is only apportioned if it cannot be attributed to either to the sale of goods and services to which input tax recovery applies, or the sale of goods and services to which recovery of input tax is not allowed. The apportionment calculation takes the form of the percentage of the sales with recovery right in the total sales (VAT exclusive). The percentage is then applied to the amount of input VAT that could not be attributed decreased for the input VAT without recovery right.

An annual adjustment of the total annual recovery is required at the year end.

### Adjustment to VAT recovery

If, within a period of five /ten years from first use, in the case of acquisition of equipment / structures, changes occur in the conditions that were crucial for the deduction of input VAT, a correction of the previously recovered input VAT must be made for the period following the change. This requirement is not applicable in the case of the sale of equipment.

The adjustment is done in period when the conditions on the basis of which input VAT was recovered are changed, i.e. the entity ceases to use the office building for rendering taxable services. The correction is proportional to the difference between the ten / five year period and total time of use of building/equipment.

## 12.8 VAT compliance

### Registration

#### Compulsory registration

As of 1 January 2008, taxpayers whose annual turnover exceeds, or it is estimated that it will exceed RSD 4 million (approximately EUR 42,000) are obliged to register for VAT.

#### Voluntary registration

Taxpayers whose turnover/estimation is between RSD 2 million (approximately EUR 21,000) and RSD 4 million are eligible to opt for VAT registration (request for registration must be submitted by 15 January), while taxpayers whose turnover/estimation is below RSD 2 million cannot register for VAT.

#### Deregistration

If a taxpayer ceases to perform its business activity, it must file an application to deregister. The request for deregistration has to be submitted not later than 15 days prior to removal from the public register.

A taxable person whose total turnover during the calendar year does not exceed RSD 2 million is allowed to apply for deregistration, but not until two years after VAT registration commences.

### Information in VAT invoice

The taxpayer is obliged to issue an invoice, or another document serving as an invoice, with all required data for every supply made to other taxpayers. The following data must be included from VAT perspective:

- name, address and tax identification number (TIN) of the taxpayer/invoice issuer;
- location, date of issue and invoice number;
- name, address and TIN of the taxpayer/invoice recipient;
- type and quantity of goods delivered, or type and volume of services;
- date of sale of goods or services and the amount of advance payments;
  - taxable base amount;
  - applicable tax rate;
  - VAT amount calculated;
  - an appropriate note on tax exemption (if applicable).

Two copies of the invoice are obligatory.

Self billing by the recipient of goods and services is considered as an invoice provided that certain conditions are met.



## Records

The taxpayer must keep VAT records in a manner that enables a tax audit/control to be conducted. VAT records must be preserved for a period of ten years after the year of issue.

## Returns and payments

The VAT Law requires taxpayers to file VAT returns and pay VAT within ten days of the end of each taxable period. The usual taxable period is a calendar month, but if a taxpayer's total annual turnover is less than RSD 20 million (approximately EUR 209,000), or is estimated (for the next 12 months) to be so, the taxable period is three calendar months.

Any import VAT must be paid along with any customs duty. The customs authorities are in charge of collection of VAT on the import of goods.

## Refunds

If the input tax amount is higher than the tax liability amount, the taxpayer is entitled to a refund of the difference. The taxpayer can choose to either receive the refund in cash or to have it offset against future liability.

The tax authorities must pay the refund no later than 45 days (15 days for those who have the status of predominant exporter) after the expiry of the time limit for filing tax returns.

## Reimbursements to a foreign taxpayer

Reimbursement for VAT is limited only to a foreign taxpayer who participates in trade fairs on all supplies of goods and services related to fair participation provided that there is reciprocity, the taxpayer did not make any supplies of goods and services and the related invoice is paid.

# Chapter 13

## Introduction to PricewaterhouseCoopers

### PricewaterhouseCoopers worldwide organization

PricewaterhouseCoopers ([www.pwcglobal.com](http://www.pwcglobal.com)), the world's largest professional services organization, helps its clients build value, manage risk and improve their performance.

Drawing on the talents of more than 155,000 people in 153 countries, PricewaterhouseCoopers provides a full range of business advisory services to leading global, national and local companies as well as to public institutions. These services include audit, accounting and tax advice; management, information technology and human resource consulting; financial advisory services including mergers and acquisitions, business recovery, project finance, and litigation support; business process outsourcing services; and legal services provided through a global network of affiliated law firms.

### PwC in Serbia

PwC in Serbia provides a full range of assurance, tax and business advisory services. Our clients are drawn from the full spectrum of the business community in Serbia and include local state owned and private enterprises, central government bodies, and leading international corporations present in Serbia. PricewaterhouseCoopers in Serbia is fully incorporated into PwC Southeast Europe (SEE) cluster and Central and Eastern Europe (CEE) region. We combine our knowledge and experience with colleagues from other countries in order to develop fresh perspectives and practical advice to our clients.

The key element of our success is the quality of our people. Our office is staffed with over a 130 local specialists with knowledge of local conditions and regulations and with eight international consultants with expertise in tackling issues faced by global enterprises. Our staff of local and expatriate assurance, tax and business advisors combines PwC worldwide experience with in-depth local knowledge to provide unparalleled solutions for the local business environment.

The global PwC network enables our specialists to solve problems, supported by experience from different parts of the world.

### Our Services

#### Assurance Services

The Assurance practice comprises internationally trained local and foreign auditors and accountants. All PwC staff are familiar with local and international accounting practices. As a part of our long-term development strategy, PwC Serbia requires its local employees to gain internationally recognized professional qualifications in accounting (UK ACCA), and to specialize in IAS/IFRS.

Due to Serbia's transition to a market economy, the country's accounting and auditing legislation is changing rapidly. We are well placed to understand the practical implications of the new laws and practices on your company's activities, and we can help you develop appropriate strategies to obtain maximum benefit from each new situation.

Our services:

- Financial, operational and organisational audit under international and statutory regulation;
- Financial and accounting review, investigation and due diligence;
- Restatement of accounting records in accordance with standards of Serbia and in compliance with IAS/IFRS, UK GAAP, US GAAP;
- Accounting and consulting services in financial audit, general and management accounting, organisational restructuring;
- IAS/IFRS accounting training;
- Maintenance for setting up an efficient internal audit department.

## Advisory Services

PricewaterhouseCoopers Advisory Services are provided by trusted professionals with ample knowledge of business processes and technology, financial and accounting expertise, industry insight, and customer relationship skills. Through the use of these capabilities and the experience and resources offered by a global organisation, we assist clients in addressing many of the important business issues involved in enterprise management. Particular emphasis is placed on the priorities of performance improvement, transactions and forensic services. Due to the close regional cooperation of PwC Advisory Team we can provide assistance to all those companies that are thinking of entering South East Europe as a region and not only individual countries. This differs us from other competitors in the region. PwC Serbia has excellent knowledge of local market and has strong relationships with the most significant companies and state bodies in Serbia. These relationships enable us to resolve many issues quickly and to identify reliable sources of information.

We serve different type of clients.

- Foreign investors coming to Serbia
- Foreign companies operating in the Serbian market
- Local prospective companies

Our services:

### Transactions

PwC is well-known in the marketplace for our skill in assisting with and executing all types of financial transactions. We help our clients in mergers and acquisitions, including financial and operational due diligence, accessing the capital markets and valuing, negotiating and structuring deals. We also assist with divestments and developing exit strategies.

### Performance Improvement

We help clients improve their performance. We use our deep understanding of finance, risk management/compliance, IT systems, operations and human resources to help our clients identify and implement cost savings initiatives, improve management and control, identify and manage risk and improve quality. We also use our proven experience and expertise to provide hands-on assistance to improve financial under-performance and cash-flow management.

### Crisis Management

PwC offers an array of services to help clients deal with critical events as they occur. We provide comprehensive services covering business recovery and restructuring, dispute analysis and forensic investigations.

## Tax Services

We provide tax and business advice on all aspects of inward investment into Serbia with a focus on structuring investments

and trading activities for maximum tax advantage. Our team is composed of local and expatriate tax professionals with experience in the strategic industries of the country and who can provide detailed insight into the Serbian tax framework.

### Indirect Taxation

- Indirect Tax Compliance Services
- Indirect Tax Planning and Structuring
- Assistance in Dealing with the Tax Authorities
- Staff training
- Due diligence

### Corporate Tax Services

- Corporate Tax Compliance Services
- Corporate Tax Planning & Structuring
- Transfer Pricing
- Investment Incentives
- Mergers and Acquisitions
- Finance and Treasury Services

### Expatriate Tax – International Assignment Solutions

- Personal Tax and Social Security
- Immigration Services

### Global Compliance Services

Global Compliance Services in Serbia can offer you professional accounting, payroll and tax compliance services to meet your governance and regulatory obligations. This is a crucial field, in which failure represents not only a financial risk including financial and tax penalties and other sanctions, but also a serious business risk, as it can damage a group's reputation with the authorities and the public.

Our services:

- Accounting compliance including bookkeeping and preparing local statutory financial statements
- Payroll services – including gross to net calculations, employer registrations and joiners' and leavers' administration
- Indirect tax compliance – preparing VAT returns and registers
- Corporate income tax compliance – preparing annual and periodic payment on account returns, tax provisioning and tax accounting

### Human Resource Services

Our Human Resource Services practice in Serbia is a part of the PwC network of more than 6,000 professionals in over 100 countries: one of the world's largest HR advisory organisations. Our multi-disciplinary approach allows us to advise on all aspects of people management, helping our clients to create value for their businesses through people. We help organizations actively manage employee costs, risks and opportunities. Our consultants work with clients to find tailored solutions to challenges encountered with international assignments to and from Serbia, employee performance, development and reward. We combine human resource best practices with detailed tax, legal and regulatory knowledge.

### International Assignments

- Strategic consulting
- Planning and compliance
- Programme administration
- Employment solutions

### HR Management

- Maximising your return on human capital
  - HR strategy
  - HR audit
  - HR function effectiveness review
  - HR function set-up
- Saratoga HR metrics and benchmarking
- HR transactions advice
  - Due diligence
  - Post deal integration
- Employee engagement surveys
- Assessments
  - 360 degree assessment
  - Management development centres
- Development
  - Development and training needs analysis
  - Competency development programmes
  - Training for human resource management skills
  - Competency framework design
- Outplacement

### Reward

- Job evaluation, grading and salary structures
- Executive pay
- Incentive compensation
- Compensation data

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## Training Academy

Following the market needs and our clients' wishes for continuing vocational training, PricewaterhouseCoopers Serbia has developed a **Training Academy**, specialising in training and development.

Our ambitions as a training organisation are:

- To support personal and professional development within the context and strategy of your organisation
- To help increase the value of human capital in your organisation

Our approach to client relationships is based on the idea of a long-term partnership, emphasising dialogue and teamwork in the setting up of customised training solutions.

Our training philosophy is simple: we aim to bridge the gap, in terms of technical or behavioural competencies, between what is required and what actually exists.

PricewaterhouseCoopers' Training Academy offers learning solutions tailored to your needs.

Our approach is to feed cutting-edge content using practical exercises and case studies.

Our portfolio consists of both technical and behavioural competency learning solutions.

Our learning solutions are offered either as open to the public or as corporate courses.

### Open to the public solutions

These solutions are open to any interested individual. The dates, contents and organisational details are to be communicated through our web site and other public media.

The subjects covered are chosen by virtue of their pertinence to the given business field or professional area.

These workshops are usually held in our own training facilities at the **Training Academy**.

### Corporate solutions

These solutions are specifically addressed to a group of employees from the same company. They may be tailor-made in response to a specific request, or based on one of our existing solutions.

Corporate solutions are either offered on your company's premises or in the training facilities of PricewaterhouseCoopers' **Training Academy**. Any open solution course can be modified and given as a corporate workshop specifically adapted to the needs of the target group.

For an organisation, corporate in-house workshops have a number of advantages compared to inter-company training solutions:

- Adaptation to specific work environments and audience needs
- Related to your industry or sector
- Confidentiality of sensitive information
- Possibility to structure specific groups
- Consideration of your specific requirements and timetable
- Fine tuning of the learning methodology
- Flexible scheduling and location options (can be delivered in our training centre or at the location of your choice)
- Involvement of your in-house specialists
- Custom-built evaluation and follow-up mechanisms
- Language of your choice (Serbian/local or English)



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## Legal Services - Milovanovic & Associates

Milovanovic & Associates is a correspondent legal practice of PwC in Serbia.

Attorneys and legal consultants of Milovanovic & Associates are listed members of the Bar Chambers of Belgrade and Serbia.

They specialise in providing a full range of corporate legal services, serving both the largest local and international companies, especially in the area of privatization, corporate restructuring, and mergers and acquisitions.

Attorneys and legal consultants at Milovanovic & Associates possess international education, practical experience and excellent understanding of the local laws and business environment, which enable them to offer a wide variety of services and solutions for your business.

The legal consultants at Milovanovic & Associates are able to offer a wide variety of services and solutions for your business and combine their work with the work of PwC auditors, accountants, and tax professionals. This creates a powerful partnership that allows us to deliver integrated business solutions.

## Services offered

### Corporate/Commercial Law and Foreign investments

- Full legal services on complex business transactions
- All corporate and commercial contractual matters
- Registration of companies, representative offices and branches, liquidations
- Investment Fund advisory

### Privatisation, M&A and Corporate Restructuring

- Due diligence reports
- Assist preparation for participation in tenders and auctions, negotiating sale purchase contracts
- Changes of structure, ownership of Company
- Mergers, absorptions, divisions and changes of legal form
- Bankruptcy, reorganizations and restructuring

### Real Estate

- Due diligence reports
- Advice on investment in and management of real estate projects
- Legal services regarding purchase of real estate, leasing of property and rental

### Banking and Finance

- Due diligence reports
- Advice on legal aspects of mortgages, loans and other financial transactions
- Advice on bank guarantees, promissory notes and other manners of securing transactions

### Energy and Mining

- Due diligence reports
- Advice on investments and concession agreements

### **Litigation and Arbitration**

- Conduct of negotiations and mediation for the client; settlement of disputes
- Draft of arbitration agreements
- Advice on litigation strategy, conduct of litigation
- Representation of clients in administrative proceedings and disputes

### **Labour Law and Employment**

- Advise on, negotiate and draft all types of individual and collective employment agreements, and redundancy issues
- Other employment related services

### **Securities Law**

- Advice on securities transactions
- Advice on the increase of capital for joint stock companies
- Advice on takeover bid

### **Competition Law**

- Unfair market practices: abuse of dominant position, anti-competitive agreements

### **IT, Telecommunications, Media and Postal Services**

- Due diligence reports
- Legal Advisory

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# 14 Appendices

## Appendix A Macroeconomic indicators of Serbia

previous year = 100

	2001	2002	2003	2004	2005	2006	2007	2008	2009
Gross domestic product, current prices, in billion dinars	762.2	972.9	1,133.0	1,384.3	1,687.8	1,980.2	2,362.8	-	-
Gross domestic product, in millions EUR	12,820.9	16,033.7	17,416.4	19,075.0	20,358.0	23,520.6	29,542.7	-	-
Gross domestic product, per capita, EUR	1,708.7	2,137.8	2,328.2	2,555.9	2,736.0	3,173.5	4,002.2	-	-
Gross domestic product, real growth, in %	5.6	3.9	2.4	8.3	5.6	5.2	6.9	5.4 <sup>1</sup>	-
Prices, growth rates									I-III
Consumer prices by COICOP, period average	-	-	-	-	-	-	6.5	11.7	3.8
Consumer prices, period average	93.3	16.6	9.9	11.4	16.2	11.7	7.0	13.5	9.7
Foreign trade, in million EUR <sup>2</sup>									I-III
Export of goods	1,922.2	2,870.4	2,441.0	2,831.6	3,608.3	5,102.5	6,432.2	7,428.3	1,276.3
European Union	892.4	960.7	1,202.3	1,456.5	2,117.6	2,942.9	3,602.7	4,028.4	701.3
Import of goods	4,759.2	5,956.6	6,585.5	8,623.3	8,439.2	10,462.6	13,506.8	15,580.5	2,682.9
Capital goods <sup>3</sup>	-	-	-	2,495.3	1,971.6	2,429.8	3,495.9	3,829.8	612.1
Intermediate goods <sup>3</sup>	-	-	-	2,830.6	3,027.6	3,781.4	4,892.1	5,331.0	830.9
Foreign trade deficit	-2,837.0	-3,754.7	-4,144.3	-5,791.7	-4,831.0	-5,360.1	-7,074.5	-8,152.1	-1,406.6
Current account deficit (excluding donations) <sup>4</sup>	977.0	-1,842.7	-1,674.8	-2,688.4	-2,050.0	-3,091.8	4,780.9 <sup>5</sup>	-6,086.2	-467.1
Current account deficit (excluding donations), as % of GDP	-7.6	-11.5	-9.6	-14.1	-10.1	-13.1	-16.2	-	-
Balance of payments, total <sup>4</sup>	559.9	981.1	813.5	360.2	1,627.6	4,316.1	742.1	-1,714.6	-199.4
Foreign direct investments, net, in million EUR	184.0	502.2	1,205.7	776.6	1,244.6	3,492.2	1,820.8	1,812.1	514.5

	2001	2002	2003	2004	2005	2006	2007	2008	2009
Monetary and Foreign Exchange Indicators, end of period									III
Dinar reserve money, in million dinars	41,643	69,543	72,267	82,383	100,341	143,409	169,020	319,781	275,350
Money supply M3, in million dinars	125,414	191,492	244,731	322,876	458,870	634,470	903,871	992,743	1,015,607
Dinar loans disbursed to:	75,187	97,589	141,498	231,866	394,118	521,189	759,261	1,036,175	1,118,938
Economic organizations	68,377	77,845	109,047	161,776	255,965	308,197	440,049	631,605	669,562
Households	5,277	16,139	29,333	66,354	131,845	203,285	305,665	381,496	395,500
Foreign currency reserves of NBS, in million EUR	1,325	2,186	2,840	3,117	4,935	9,025	9,641	8,160	8,113
Value of USD against dinar	67.67	58.98	54.64	57.94	72.22	59.98	53.73	62.90	71.59
Value of EUR against dinar	59.71	61.52	68.31	78.89	85.50	79.00	79.24	88.60	94.78
Citizen savings, million EUR, end of period	329.8	812.9	1,099.6	1,464.6	2,274.7	3,414.1	5,028.5	4,881.0	4,963
Employment, wages and pension benefits									I-III
Employment level, average (thousands)	2,102	2,067	2,040	2,051	2,069	2,026	2,002	1,999	1,981
Unemployment level, end of period (thousands)	-	-	-	-	896	916	785	728	758
Unemployment rate, ILO definition	-	-	-	19.5	21.8	21.6	18.8	14.7	-
Net wages, period average, in dinars <sup>6</sup>	6,078	9,208	11,500	14,108	17,443	21,707	27,759	32,746	30,117
- real growth rates	16.5	29.9	13.6	10.1	6.4	11.4	19.5	3.9	2.4
Pension benefits, period average, in dinars	4,505	6,134	7,393	8,725	10,568	12,151	13,612	17,660	19,780
- real growth rates	17.9	16.8	9.7	5.9	4.2	2.9	4.7	14.3	11.6

Source: RSO, NBS, NEA and EPF

1 RSO estimation. 2 Data for foreign trade with Montenegro included in 2006. 3 New classification in order from 2004. 4 For precalculations from USD to EUR for 2001-2006, was used average relation of USD to EUR for those years. Data for 2007, 2008, and 2009, are from NBS. 5 New methodology. 6 While computing the indices, data on 2008 are calculated according to methodology applied from January 2009.

## Appendix B

### Tips for business visitors

<b>Visas</b>	<p>According to the Serbian Ministry of Foreign Affairs visas for the entry and stay in Serbia up to 90 days have been abolished for all types of travel documents for citizens of the following countries: Federal Republic of Germany, France, Italy, the Netherlands, Belgium, Luxembourg, Great Britain, Ireland, Spain, Portugal, Greece, Denmark, Sweden, Finland, Austria, Switzerland, Norway, Iceland, Monaco, Montenegro, Liechtenstein, Vatican, Andorra, San Marino, Israel, Cyprus, Malta, the Czech Republic, Slovakia, Poland, Slovenia, Lithuania, Latvia, Estonia, Croatia, the United States of America, Canada, Singapore, the Republic of Korea, Australia and New Zealand (for any changes in this list please visit Ministry of Foreign Affairs' web site <a href="http://www.mfa.gov.yu">www.mfa.gov.yu</a>).</p> <p>Business visitors coming from the countries which are not on the list shown above are required to have following documents in order obtain Serbian visa:</p> <p>Valid Passport; Letter of invitation (verified by the competent Serbian authority) or an invitation by a company for a business visit or a receipt or authorized tourist company certifying that the travel arrangement has been paid for (letter of credit or other payment receipt);</p> <p>Return ticket; Proof of sufficient funds in hard currency and certificate that a health fund shall cover the medical costs in Serbia, if any.</p>
<b>Currency</b>	<p>Dinar (RSD), divided into 100 paras. On 1 May 2009 the exchange rates were 1 EUR = 95.24 RSD and 1 USD = 71.64 RSD, according to the National Bank of Serbia (NBS).</p>
<b>Time Zone</b>	<p>Central European Time Zone (GMT + 01:00)</p>
<b>Business Hours</b>	<p>Commercial offices, industrial workers, banks, government offices                      08:00/09:00 – 16:00/17:00 Stores    08:00 – 20:00/21:00/22:00</p>

<b>Statutory Holidays</b>	<p>1-2 Jan New Year's Day.  7 Jan Orthodox Christmas Day.  15 Feb National Day.  15 April Orthodox Good Friday (date is different each year – this one is for 2008)  1-2 May Labour Days.  9 May* Victory Day.  28 Jun* St Vid's Day.</p> <p><i>Note</i>  * <i>Working holidays</i></p> <p>In addition to this members of different religions are entitled to celebrate their own holidays such as Catholic/Protestant Christmas Day, Ramadan and other religious holidays.  Orthodox Serbs in waste majority also celebrate their families' saint patron's day (in Serbian <i>Slava</i>).</p>
<b>Weights and Measures</b>	<p>International metric system is fully used in Serbia.</p> <p>In northern part of Serbia (mainly in Vojvodina Autonomous Province) there is also another measure for area which is called jutro (or cadastral jutro) which is equal to 5754.64 sqm.</p>
<b>Dates and Numbers</b>	<p>Dates in Serbian are usually written in this way – dd.mm.yy (months could be shown by digits or by their names).  When written in Serbian numbers are denoted by periods or by space.</p>
<b>Local Custom</b>	<p>Serbian society is mixture of different cultures. Serbia was for centuries on the border of two civilisations: one western, European and the other one, Oriental. Variety of local customs is large and makes Serbia a very interesting country to visit and do business.</p>

## Appendix C

### Tax rates Principal taxes overview

<b>Tax</b>	<b>Tax Rate</b>
Value Added Tax	Standard rate – 18%
	Lower rate – 8% and 0%
Corporate Income Tax	Uniform rate – 10%
Withholding Tax	20% (for dividends, shares in profits, royalties, interest income, capital gains, lease payments for real estate and other assets)
Personal Income Tax	Salaries – 12%
	Other income – 20%
Annual Income Tax	10% to 15% (for annual income above three average annual salaries)
Property Tax	Individuals – Progressive rates ranging between 0.4% to 3%
	Companies – Flat rate up to 0.4% depending on municipality
Social Security Contributions	Individuals – 17.9%
	Employers – 17.9%

Wealth and Capital taxes are not applied in Serbia

<b>Taxpayer</b>	<b>Taxable income exceeding prescribed threshold</b>	<b>Tax rate</b>
Serbian citizen	Between three and six times the average annual salary <sup>[1]</sup>	10%
	For income exceeding six times the average annual salary <sup>1</sup>	15%
Foreign citizen	Between five and eight times the average annual salary <sup>1</sup>	10%
	For income exceeding eight times the average annual salary <sup>1</sup>	15%

<sup>1]</sup> As per official data published by the Statistical Office of the Republic of Serbia

## Appendix D – Withholding taxes

General withholding taxes rate is 20% unless a double taxation treaty is applicable

Country	Dividends[1]	Interest	Royalties	Applicable from
Albania	15/5	10	10	2006
Belgium	15/10	15	10	1982
Belorussia	15/5	8	10	1999
Bosnia and Herzegovina	5-Oct	10	10	2006
Bulgaria	15/5	10	10	2001
China	5	10	10	1998
Croatia	10/5	10	10	2005
Cyprus	10	10	10	1987
Czech Republic	10	10	10/5	2006
Korea	10	10	10	2002
Denmark	15/5	0	10	1983
Egypt	15/5	15	15	2007
Finland	15/5	0	10	1988
France	15/5	0	0	1976
Ghana[2]	15/5	10	10	N/A
Germany	15	0	10	1989
Greece[2]	15/5	10	10	N/A
Hungary	15/5	10	10	2003
Italy	10	10	10	1986
Iran[2]	10	10	10	N/A
India	15/5	10	10	2009
Kuwait	10/5	10	10	2004
Latvia	10/5	10	10/5[3]	2007
Macedonia	15/5	10	10	1998
Malaysia	0[4]	10	10	1991
Moldova	15/5	10	10	2007
Netherlands	15/5	0	10	1983
Norway	15	0	10	1986
Poland	15/5	10	10	1999
Romania	10	10	10	1998
Russia	15/5	10	10	1998
Slovak Republic	15/5	10	10	2002
Slovenia	10/5	10	10/5[5]	2004
Sri Lanka	12.5	10	10	1987
Sweden	15/5	0	0	1982
Switzerland	15/5	10	10	2007
Turkey	15/5	10	10	2008
Ukraine	10/5	10/0[6]	10	2002
United Kingdom	15/5	10	10	1983
Zimbabwe[7]	15/5	10	10	N/A

[1] If the recipient company owns / controls at least 25 percent of the equity of the paying company, the lower of the two rates applies.

[2] The other treaty country did not send official notification on the ratification of the treaty.

[3] A tax rate of 5 percent will be applicable to literary, scientific and work of art, films and works created like films or, other sources of reproduction tone or picture.

A tax rate of 10 percent will be applicable to: patents, petty patents, brands, models and samples, technical innovations, secret formulas or technical procedure.

[4] Only in cases when dividends are to be paid to Serbian residents. If paid to Malaysian residents, they are taxable at 20 percent in Serbia.

[5] A 5 percent rate is applicable for intellectual property and 10 percent rate for industrial property.

[6] A 0 percent rate is applicable in cases when the income recipient is the Government or government owned banks.

[7] The other treaty country did not send official notification on the ratification of the treaty.

## Appendix E

### Free trade agreements

Serbia is party to Central European Free Trade Agreement (CEFTA) which includes

- Albania
- Bosnia and Herzegovina
- Croatia
- Macedonia
- Moldova
- Montenegro
- UNMIK (Kosovo and Metohija)

Serbia also has signed free trade agreements with Russia and Belarus.

## Appendix F

### Useful Sources of Information

Government web sites	
Government of Republic of Serbia	<a href="http://www.srbija.gov.rs">www.srbija.gov.rs</a>
President of Republic of Serbia	<a href="http://www.predsednik.rs">www.predsednik.rs</a>
Ministry of Finance	<a href="http://www.mfin.gov.rs">www.mfin.gov.rs</a>
Ministry of Economy and Regional Development	<a href="http://www.merr.gov.rs">www.merr.gov.rs</a>
Ministry of Foreign Affairs	<a href="http://www.mfa.gov.rs">www.mfa.gov.rs</a>
Ministry of Justice	<a href="http://www.mpravde.gov.rs">www.mpravde.gov.rs</a>
Ministry of Agriculture	<a href="http://www.minpolj.gov.rs">www.minpolj.gov.rs</a>
Ministry of Energy and Mining	<a href="http://www.mem.gov.rs">www.mem.gov.rs</a>
Ministry for Infrastructure	<a href="http://www.mi.gov.rs">www.mi.gov.rs</a>
Ministry of Trade and Services	<a href="http://www.mtu.gov.rs">www.mtu.gov.rs</a>
Ministry of Telecommunications and IT	<a href="http://www.mtid.gov.rs">www.mtid.gov.rs</a>
Ministry of Environment and Spatial Planning	<a href="http://www.ekoplan.gov.rs">www.ekoplan.gov.rs</a>
Serbian Parliament	<a href="http://www.parlament.gov.rs">www.parlament.gov.rs</a>
National Bank of Serbia	<a href="http://www.nbs.rs">www.nbs.rs</a>
Serbian Investment and Export Promotion Agency	<a href="http://www.siepa.gov.rs">www.siepa.gov.rs</a>
Vojvodina Investment and Promotion Agency	<a href="http://www.vip.org.yu">www.vip.org.yu</a>
Business groups	
Serbian Chamber of Commerce	<a href="http://www.pks.rs">www.pks.rs</a>
Foreign Investors Council	<a href="http://www.fic.org.rs">www.fic.org.rs</a>
American Chamber of Commerce	<a href="http://www.amcham.rs">www.amcham.rs</a>
Other useful web sites	
Serbian Business Registry Agency	<a href="http://www.apr.gov.rs">www.apr.gov.rs</a>
Central Securities Depository and Clearance House	<a href="http://www.crhov.co.yu">www.crhov.co.yu</a>
Belgrade Stock Exchange	<a href="http://www.belex.rs">www.belex.rs</a>
Statistical Office of Republic of Serbia	<a href="http://www.stat.gov.rs">www.stat.gov.rs</a>



[www.pwc.rs](http://www.pwc.rs)