

Doing business in Serbia



Content

	Page
Country profile	4
Regulatory environment	8
Finance	10
Trade	12
Business entities	15
Labour	18
Financial reporting and audit	21
Tax	22

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professionalism of our
staff is what ensures the
consistent high quality
of the services we
provide”.**

Nikica Kolundžija,
Managing Partner
Grant Thornton Serbia

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This guide has been prepared for the assistance of those interested in doing business in Serbia. It does not cover the subject exhaustively but is intended to answer some of the important, broad questions that may arise. When specific problems occur in practice, it will often be necessary to refer to the laws and regulations of Serbia and to obtain appropriate accounting and legal advice. This guide contains only brief notes and includes legislation in force as of April 2014.

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Country profile

Summary

Description	Latest published data
Population	7.120.666 (excluding Kosovo)
Area	88.407 square kilometres
GDP	EUR 33,5 billion (2015)
GDP – per capita	EUR 4.702 (2015)
Exports	EUR 15,6 billion (2015)
Main export products	Road vehicles, electrical equipment and appliances, cereals, fruit and vegetables, apparels, metal products;
Imports	EUR 18,9 billion (2015)
Main import products	Road vehicles, oil, gas and oil products, electrical equipment and appliances, medical and pharmaceutical products, industrial equipment
Unemployment	17,7 %
Inflation	1,5 %
Monthly average wage (net)	EUR 372
Time zone	GMT + 1
Local currency	RSD (Serbian Dinar), 1 EUR = 124 RSD

Geography and population

Serbia is located in the central part of the Balkan Peninsula, on the most important route linking Europe and Asia, occupying an area of 88,407 square kilometres. Its climate is temperate continental, with a gradual transition between the four seasons of the year.

The latest 2011 census puts the population of Serbia (excluding Kosovo-Metohija) at 7,120,666.

Political and legal system

The Republic of Serbia is the state of the Serbian people and all its citizens who live in it and is founded on the rule of law and social justice, the principles of civil democracy, human and minority rights and freedoms, and commitment to European principles and values.

The political system in Serbia is based on multi-party parliamentary democracy. Serbia has a National Assembly, a President of the Republic and a government. The National Assembly is the supreme representative body and the holder of constitutional and legislative powers in the Republic of Serbia and comprises 250 deputies elected in direct elections. The President of the Republic represents the unity of the Republic of Serbia and represents the country at home and abroad. The president is elected in direct elections, for a term of five years. The government is the holder of executive power in the Republic of Serbia.

Local government is organised on the principle of local self-government through municipal or town assemblies, councils and administrative bodies.

Besides dozens of political parties there are also hundreds of non-governmental organisations (NGOs) and a large number of trade unions.

The legal system of Serbia is based on the principles of Roman law and continental civil law.

Law on Organization of Courts served to establish courts of general jurisdiction: the Basic, High and Appellate Courts (in Belgrade, Novi Sad, Niš, Kragujevac) and the Supreme Court of Cassation, as the highest judicial institution in the country.

The Law also established courts of specialized jurisdiction: the Commercial Courts, the Commercial Appellate Court, Misdemeanour Courts, the High Misdemeanour Court and the Administrative Court.

Language

The official language in Serbia is Serbian and the script in official use is Cyrillic, while the Latin script is also used. In the areas inhabited by ethnic minorities, the languages and scripts of the minorities are in official use, as provided by law. Serbia boasts the highest English speaking proficiency in Eastern Europe.

Business hours/time zone

Throughout the year, apart from Holydays, offices and banks are open Mondays to Fridays 09:00 - 19:00 and Saturdays 08:00 - 15:00. In Belgrade and the large cities, some branches of the post office are open also on Sundays.

Serbia is in the Central European Time zone (one hour ahead of Greenwich Mean Time).

Public holidays

- 1st and 2nd January - New Year's Day (Nova Godina)
- 7th January* - Orthodox Christmas Day (Božić)
- 15th, 16th February - Constitution Day (Dan državnosti Srbije)
- 1st and 2nd May - Labour Days (Praznik rada)
- Orthodox Easter*- from Good Friday to the second day after Easter Sunday (Vaskrs)
- 11th November - Armistice Day (Dan primirja u Prvom svetskom ratu)

** The Serbian Orthodox Church uses the Julian calendar (Gregorian calendar plus 14 days)*

Economy

Serbia has a transitional economy largely dominated by market forces, but the state sector remains significant in certain areas and many institutional reforms are needed. Serbia has made progress in trade liberalization and enterprise restructuring and privatization, but many large enterprises remain in state hands.

High unemployment and stagnant household incomes are ongoing political and economic problems. Structural economic reforms needed to ensure the country's long-term prosperity have largely stalled since the onset of the global financial crisis.

One of the strategic goals is accession to the European Union, which requires further economic growth as well as harmonization of the whole economic and legal system with EU standards. In January 2014, Serbia officially started the EU negotiation process. In addition to that, Serbia's negotiations with the World Trade Organization are advanced.

Economic growth

The main drivers of economic growth are manufacturing and exports driven largely by direct foreign investments, which are the result of a favourable strategic location, cheap and skilled workforce and low operating costs. On the other hand, global financial crisis has limited the positive trend of Serbian's economic growth and negatively affected the overall production, export and investments.

Serbia achieved economic growth of 2.6% in 2016 and 0.8% in 2015, while in 2014 recorded negative percentage of 1.8%. According to estimates of International Monetary Fond, expected growth rate of GDP for 2017 is positive at rate of 2.8%.

By 2013 inflation was significantly decreased as a result of tightened fiscal and monetary policy as well as stagnant wages.

The table below summarizes key macroeconomic indicators during the last five years:

	2011	2012	2013	2014	2015
GDP (mil EUR)	33,424	31,683	34,263	33,075	33,491
Real GDP growth rate	1.4 %	-1.0 %	2.6 %	-1.8 %	0.8 %
Inflation rate	7.0 %	12.2 %	2.2 %	1.7 %	1.5 %
Export growth rate	17.1 %	2.9 %	21.5 %	3.7 %	8.2 %
Import growth rate	15.7 %	3.1 %	4.7 %	1.8 %	4.4 %
Unemployment rate	23.0 %	23.9 %	22.1 %	18.9 %	17.7 %
Net wages (average for the period, in EUR)	372.5	364.5	388.6	379.3	368.0

Employment level

Unemployment rate in Serbia is reported by the Statistical Office of the Republic of Serbia. Average Serbia unemployment rate for the period 2010-15 amounts to 20.85%, with downward trend.

High employment and stagnant household income remain a big problem and challenge for creators of economic policy in the further period.

Living standards

- ✓ Apartment purchase price per square meters in City centre – EUR 1,720
- ✓ Rent per month 3-bedroom apartment in City centre – EUR 520
- ✓ Luxury Hotel (Room/Night) – EUR 100

✓ Fuel (Per Litre) – EUR 1.2

✓ Taxi (Initial Fare) – EUR 2.2

Cost of living

According to Eurostat, the costs of operating in Serbia are among the lowest in Europe. The prices of electricity, gas, and other fuels, postal services, landline telephony, fax service and maintenance of motor vehicles are the lowest among 37 European countries.

The costs of telecom services, namely postal services, telecom equipment and phone charges are at the very bottom of the list, by far lower than in almost all European countries, or only 39% of the European average.



Regulatory environment

Summary

Serbian government has been working on introducing a more attractive legislative business environment, with a goal of bringing the legal framework in line with the EU regulations. The Government is also preparing a number of measures, soon to be legally formulated, which should untangle the present difficult liquidity situation that numerous market players are encountering.

Restrictions on foreign ownership

International companies in Serbia are guaranteed equal legal treatment as local ones. They are allowed to invest in any industry and freely transfer all financial and other assets, including profits and dividends.

The current Law on Foreign Investments establishes the framework for investment in Serbia. The law eliminates previous investment restrictions, extends national treatment to foreign investors, allows the transfer/repatriation of profits and dividends provides guarantees against expropriation, and allows customs duty waivers for equipment imported as capital-in-kind.

Foreign investors and entities may not, however, establish enterprises in the defence sector or areas legally designated as restricted zones although they may acquire minority rights to such investments, subject to Ministry of Defence approval.

Government approvals and registration

The business registration procedure in Serbia typically takes 5 days. This process at the Business Registers Agency can be completed in just 3 days, with a few additional days for other procedures. The expedient and cost-effective procedure of registration and incorporation at the Business Registers Agency will cost EUR 350 in fees.

Competition rules/consumer protection

The main legislation concerning antitrust matters in Serbia is the Competition Law (2013). The law is modelled after EU competition law and practice, encompassing standard competition law institutes – restrictive agreements and practices, abuse of dominant position and merger control. It also sets out the mandate of the Commission for the Protection of Competition, and regulates certain specific procedural rules.

In Serbia, Consumer Protection Law (CPL) came into force in June 2014. The principal problem of consumer protection in Serbia today lies in the inadequacy of implementation mechanisms foreseen by the Law to the level of development of the Serbian institutions.

Import and export controls

The Customs Administration performs state administration affairs and professional works relating to: customs clearance of goods, customs surveillance and other controlling activities for passengers' traffic and foreign trade of goods and services, as well as other affairs stipulated by the law.

Authorities in Serbia control the exports and imports of foreign and local currencies, securities, and gold taken out of or brought into Serbia.

Serbia can serve as a manufacturing hub for duty-free exports to a market of 1 billion people that includes the European Union, the United States of America, the Russian Federation, Kazakhstan, Turkey, South East Europe, the European Free Trade Agreement members, and Belarus.

This customs-free regime covers most key industrial products, with only a few exceptions and annual quotas for a limited number of goods.

Price controls

Serbia has relatively small level of price control, except in agriculture partly.

Serbia applies flexible exchange rate with selective interventions of central bank in foreign currency market. The inflation rate in Serbia was below 2% in last two years.

Use of land

According to Serbian land use statistics, the Republic of Serbia has 5,109,000 ha of agricultural land, out of which 3.302.000 ha relates to arable land, 829.000 to grassland and 40.000 ha to marshes and ponds.

Agricultural land represents 65,85% of total land in Serbia, while the rest relates to forest and other land. The majority of Serbian agricultural land was used (89%).

Exchange control

Foreign cash may be taken out from Serbia in the amount of up to €10,000 or its equivalent value in other foreign currency. The amount higher than the above specified may be taken out provided:

- a) it has been reported upon entering the country, based on a certificate of bringing foreign cash into Serbia issued and certified by the customs authority;
- b) it has been withdrawn from a foreign currency account or foreign currency passbook in a bank in Serbia, based on a certificate issued by the bank; or
- c) it has been acquired by selling dinars, obtained through the previous use of a payment card in Serbia, based on a certificate issued by an exchange office.

Anti-money laundering regulations require that all financial transactions in amounts exceeding €15,000 must be reported, as well as all currency exchanges above €5,000

Government incentives

During last years, Serbia developed a range of incentives designed to attract FDI, including cash grants to investors that create specified numbers of new jobs, tax incentives in the form of credits, cuts in payroll contributions and exemptions from corporate tax.

A number of Serbian governmental organizations provide direct assistance to investors.

Finance

Summary

Serbia's economic recovery should not be expected before 2018, since the Serbian Government undertaken a major reform in recent years.

Banking system

Banking system of the Republic of Serbia consists of the central bank (National Bank of Serbia) and commercial banks. Banks in Serbia are independent in their pursuit of profit-oriented business activities based on the principles of solvency, profitability and liquidity.

The National Bank of Serbia is the central bank of Serbia and as such its main responsibilities are the protection of price stability, the dinar exchange rate policy, management of the foreign currency reserves and maintenance of efficient payment and financial systems.

As of November 2016, in Serbia operates 30 banks which are mainly in foreign ownership (76%). Banking is one major sector, employing 23,969 people, which has been on a continuous growth curve since the revival of the Serbian economy.

Every-day payment transactions are, with a few exceptions, made in Serbian dinars, and one can use various types of credit cards (Visa, MasterCard, Diners, and American Express). All major foreign currencies can be freely purchased and sold in exchange offices throughout the country.

Banking sector in Serbia contributes to the achievement of GDP with a 2.4% share. Banks are the crucial and almost only source of capital for the economy. In Serbia 13% of government loans are provided by the banks, 4.6% out of which represent the loans of banks operating in Serbia.

The main role of the banking sector is to mobilize savings, provide financing with controlled risks, and provide payments and other financial services in an efficient and safe manner.

Capital markets¹

The Belgrade Stock Exchange (BSE) is only organized capital market in Serbia. Serbian capital market, as under developed market, faces many problems: small capitalization, small number of shares on the liquid segments of the market, appearance of some unsynchronized trading, irregular frequency of transactions, lack of transparency in the reports, lack of government regulations and so-called the invisible signs of risk. The capital market of the Republic of Serbia lacks depth; it is small illiquid market in transition.

The Serbian market is corporate market and one-way market, considering the supply and demand. This means that the major share sellers are individual share owners who got the shares,

¹ Source: Minović Jelena, Vuković Vlastimir - Analysis of the Serbian Capital Market, Economic Analysis, Institute of economic sciences

usually free, in the process of mass privatization. Major share buyers come from the corporate sector.

Bond market was entirely consisted of government debt securities. State borrowing on the capital market explosively rose – the turnover of government bonds from 2008 was rapidly increased. Thanks to this, the capital market not only recovered, but also significantly rose.

Equity market, on the other hand, sharply reduced from 2008. The primary cause of market fall was not the global financial crisis, but the nature of the shares issued with the purpose of privatization.

Other sources of finance

There are other sources of financing in Serbia: Project Development, Project Finance, Corporate Finance, Trade Finance, Venture Capital etc.



Trade

Summary

In terms of imports and exports, Serbia represents the basis of duty free market of about one billion people.

Custom duties

European Union

Exports to the European Union market are free-of-customs according to the Stabilization and Association Agreement. For several food products (baby beef, sugar, and wine) export quantities are limited by annual quotas.

Imports from the E.U. are pursued based on the Interim Trade Agreement, as part of the Stabilization and Association Agreement, providing for progressive abolishment of import customs duties for industrial and certain agricultural products from E.U. countries by 2014.

United States

Trade with the United States is pursued under the Generalized System of Preferences (GSP), which will apply until December 2017.

U.S. trade benefits provide for preferential duty-free entry for app. 4,650 products, including most finished and semi-finished goods and selected agricultural and primary industrial products. Certain sensitive goods (e.g. most textile products, leather goods, and footwear) are not eligible for duty-free exports. The list of eligible goods is reviewed and adjusted twice per year, with input from U.S. industries.

Russian Federation

The Free Trade Agreement with Russian Federation, signed in August 2000, makes Serbia particularly attractive to foreign investors in the manufacturing sector. The Agreement stipulates that goods produced in Serbia, i.e. which have at least 51% value added in the country, are considered of Serbian origin and exported to Russian Federation customs free. For exports to Russian Federation, the FORM CT2 Certificate is required as a proof of goods origin. The only tariff charged is the customs record keeping tariff, amounting to a 1% value.

The list of products, excluded from the Free Trade Agreement, is revised annually. In 2011, the list of excluded products was extended to the following goods: poultry and edible waste, some sorts of cheese, white sugar, sparkling wine, ethyl-alcohol, cigars and cigarettes, cotton yarn and fabric, special woven fabrics, some types of compressors, tractors and new and used passenger cars.

CEFTA

The Central European Free Trade Agreement (CEFTA) is the trade agreement between the following countries in South East Europe: Albania, Bosnia and Herzegovina, FYR Macedonia, Moldova, Montenegro, Serbia, and the United Nations Interim Administration Mission (UNMIK) in Kosovo. The Agreement has been in effect as of July 2007, providing companies in Serbia with an opportunity to reach the 22 million people market free-of-customs.

CEFTA envisages the abolishment of customs restrictions for industrial and agricultural products in the CEE countries by 2010. In addition, the Agreement stipulates accumulation of products origin, meaning that products exported from Serbia are considered of the Serbian origin if integrated materials originate from any other CEFTA country, the European Union, Iceland, Norway, Switzerland (including Liechtenstein) or Turkey, provided that such products have undergone sufficient processing (if the value added there is greater than the value of the materials used in Serbia). For exports to the member countries of CEFTA, the EUR 1 Certificate is required as a proof of goods origin.

Turkey

Trade between Serbia and Turkey is regulated upon the model implemented in trade with the European Union. Industrial products originating in Serbia can be exported to Turkey without paying customs duties. Imports of industrial products into Serbia are generally customs-free, but for a large number of goods customs duties will be progressively abolished over the years.

For trade in agricultural products customs duties remain in effect, with certain Most Favored Nation reductions for a number of products.

EFTA

Industrial products exported from Serbia to EFTA member states (Switzerland, Norway, Iceland, and Liechtenstein) are exempted from paying customs duties, except for a very limited number of goods, including fish and other marine products. Customs duties for imports of industrial products originating in EFTA states will be gradually abolished.

Trade in agricultural products is regulated by separate agreements with each of EFTA members, providing for mutual concessions for specified products. These agreements will enable the export of Serbian products customs free to a market of 13 million people.

Belarus

The Free Trade Agreement with Belarus envisages the mutual abolishment of customs and non-customs duties in trade between the two countries. There are only a few exceptions to the Agreement, including sugar, alcohol, and cigarettes, as well as used cars, buses, and tires.

Local Market

Internally, with 7.5 million people, the Serbian market is the 2nd largest in South East Europe. The average net monthly salary is almost EUR 400.

In response to expanding local demand, international retail chains have opened up dozens of new stores across the country.

Kazakhstan

A Free Trade Agreement between the Republic of Serbia and Kazakhstan was signed on the 7th of October 2010 and came into force in January 2011.

The FTA states that the parties will not charge customs duties, fees and charges with equivalent effect for products originating in one party and intended for the market of the other party. Exceptions were made for the products listed in the annexes, which are an integral part of the agreements. The products listed in annexes are subject to customs duties, fees and charges with

equivalent effect in accordance with the parties' national legislations (at the rates specified by national customs tariffs).

For the rules of FTA to be applied, it is necessary to submit the original certificate determining the country of origin of the product (Form CT-2) to the Customs of the importing country.

This Free Trade Agreement was concluded in order to improve and deepen mutual trade and economic ties between the two countries. Due to its positive effects, Serbian goods attract more buyers not only from Kazakhstan, but also from the Russian Federation and Belarus, as well as potential investors who are interested in opening their production in Serbia.

Foreign trade

The total external trade in goods of the Republic of Serbia in the period January – December 2015 amounted to EUR 34,530 million, which presents a growth of 6% comparing to the same period of 2014. Exports of goods amounted to EUR 15,631 million, which is an increase by 8.2% in relation to the same period of 2014, while imports amounted to EUR 18,899 million, which makes an increase by 4.4% comparing to 2014.

The major trade partners in imports in 2015 were: Germany (€ 2.03 billion), Italy (€ 1.73 billion), the Russian Federation (€ 1.57 billion), China (€ 1.39 billion), Hungary (€781 million), Poland (€685 million), Turkey (€521 million), Slovenia (€ 494 million), France (€480 million) and Austria (€478 million).

The major trade partners in exports in 2015 were: Italy (€1.94 billion), Germany (€1.50 billion), Bosnia and Herzegovina (€1.05 billion), Romania (€670 million), the Russian Federation (€653 million), Montenegro (€612 million), Macedonia (€471 million), Croatia (€400 million), Slovenia (€375 million) and France (€368 million).

Business entities

Summary

The establishment, organization and registration of business entities is governed by the Company Law and Law on foreign investments. Business regulation in force is in accordance with the European Union's directives and the latest trends in harmonization with the EU legislation.

Foreign investors enjoy equal status, rights and obligations as domestic natural and legal persons.

Establishing business organisations

All business entities must be registered with the Serbian Business Registers Agency. Capital contributions may be in the form of cash, kind or rights.

The business registration procedure in Serbia typically takes 5 days. This process at the Business Registers Agency can be completed in just 3 days, with a few additional days for other procedures, as shown in the table below:

Start-up procedure for LTD	Time to complete
Authentication of incorporation Act and Signature form by the Representative Court and opening of a temporary bank account for share capital deposit	1 day
Registration of incorporation Act and share capital deposit by business registry	3 days
Make Stamp and seal	Less than half a day
Open permanent business account with the commercial bank and transfer of share capital from temporary account	1 day
Register with local tax authority and VAT registration	1 day

Business entities

Foreign investors can conduct business as an entrepreneur or found a company under the following legal forms:

- ✓ Joint Stock Company (a.d.),
- ✓ Limited Liability Company (d.o.o.),
- ✓ Limited Partnership (k.d.),
- ✓ General Partnership (o.d.).

In addition to that, foreign investors can conduct the business through different forms of permanent establishments, such as a branch or representative office.

The most common company type for operation in Serbia is a Limited Liability Company, which requires merely RSD 100 (less than €1) for incorporation.

Limited liability companies

This type of company may be found by one or more individuals and/or legal entities. The minimum initial capital is RSD 100, while a member's contribution may be made in cash, in kind or past, but not future labour or services.

The shares are freely transferable between the partners. A share may be transferred to a third party, in which case other members of the company and the company have pre-emptive rights, except if specifically excluded by the law or memorandum of association. The shares may not be a subject of public offering or publicly traded.

Management of a limited liability company can be organized as one-tier or two-tier system.

In one-tier system corporate body consists of:

- Shareholders and
- One or more Directors.

In two-tier system corporate body consists of:

- Shareholders,
- Supervisory Board and
- One or more Directors.

Joint stock companies

A Joint Stock Company is founded by one or more legal entities and/or natural persons. Minimum initial share capital is RSD 3.000.000, except for companies acting as: banks, insurance companies, leasing companies. At least 25% of initial capital must be paid as a commencement.

Nominal value per share shall not be less than RSD 100. A shareholder's contribution can be made in money or in kind, but not in labour or services.

Management of a Joint Stock Company can be arranged as a one-tier or two-tier system, with the same structure of corporate bodies as with the Limited Liability Company.

The Articles of association determine the type of Joint Stock Company, which can be a public or non-public. Only the shares of public Joint Stock Company may be publicly traded.

General partnerships

General Partnership can be established by two or more partners, while there are no minimum equity requirements.

Partners may contribute in money or in kind, including past or future labour and services. All partners bear the unlimited liability for the obligations of the General Partnership.

Limited partnerships

Limited Partnership is very rare legal form of business entity. It is founded by partners, two or more natural persons. There are no minimum equity requirements.

A Limited Partnership is a company established for performing business activities within the framework of a mutual firm. In this form of a company, a general partner is jointly and severally liable for the obligations of a partnership, while a limited partner bears the risks and obligations only to the extent of his or her investment.

General partners manage the business and represent the company. Limited partners are not allowed to manage business and to represent the company.

Representative Offices

Representative office does not have the capacity of a legal entity. It is treated as the separate organizational part of the foreign mother company.

A representative office could not perform commercial activities, but only preliminary and preparatory activities aimed at concluding legal transaction of the company. It can conclude only the legal transactions relating to its current business operations.

A foreign mother company is liable for obligations arising from the business of his representative office toward third parties.

The Representative office has to be registered with the Serbian Business Registers Agency, like legal entities.

Company Branches

Domestic and foreign companies may establish one or more branches as their separate organizational units, through which they conduct its business activity.

A branch does not have a status of a legal entity and in legal transactions acts on behalf and for the account of the company. Mother company has the unlimited liability for its obligations to third parties that may occur during the business operations of its branch office.

A branch is a registered entity in accordance with the Law on Registration of Business Entities.



Labour

Summary

Highly qualified staff in Serbia is widely available. The number of engineers, managers and other specialists is sufficient to meet the growing demand of international companies.

Wages

The average gross salary in Serbia in 2015 amounted to EUR 520. Total costs for employers stand at merely 50% of the level in EU countries from Eastern Europe.

Social insurance

Social insurance charges and Salary Tax amount to roughly 65% of the net salary, however the tax burden for employers can be reduced through a variety of financial and tax incentives.

Pensions

There are three types of pension in Serbia:

- The obligatory state pension insurance
- Supplementary compulsory pension insurance on the basis of individual capitalized savings
- Voluntary pension insurance

The following employees are entitled to pension in 2016:

- For Men:
 - Aged 65 and above with at least 15 years of pension insurance, or
 - Having at least 40 years of pension insurance and aged at least 55 years and eight months
- For Women:
 - Aged 61 and above with at least 15 years of pension insurance, or
 - Having at least 37 years of pension insurance and aged at least 55 years and eight months

Fringe benefits

Recess

A recess is at least 30 or 15 minutes depending on whether an employee works full time or 4-6 hours a day. An employee has the right to a recess between two consecutive working days of at least 12 hours, while a weekly recess is no less than 24 hours.

Holiday pay

For each calendar year, an employee has the right to at least 20 working days of annual leave. An annual leave may be used in two parts.

Salary compensations include the compensations during the annual leave, public holidays, and paid leave (100% of the salary).

Workers' compensation

The minimum salary has to be at the statutory minimum wage determined by mutual consent of the Serbian government, labour unions, and the association of employers currently standing at approx. €1.00 per hour. In addition, the employee has the right to receive additional percentage of the salary based on the overtime work, work on public holidays, night work, and work in shifts.

Healthcare

Majority of citizens and some categories of foreign citizens working in Serbia are covered by healthcare insurance that is obligatory state insurance.

Maternity leave lasts up to 3 months starting from the date of delivery. Upon the expiry of the maternity leave, the mother or father of the child may use a paid leave for infant care for a total of 365 days, which includes maternity leave.

Sick pay

Salary compensations include the compensations during sick leave due to occupational disease or injury at work (65% of the salary).

Employment protection legislation

Labour relations in Serbia are regulated by laws, collective and individual contracts, and regulations adopted by employers. Labour contracts may be signed for an indefinite or a definite period of time.

Layoffs can be individual and collective.

An individual can be dismissed for just cause related to the employee's work ability, qualifications, behaviour, and/or employer's requirements.

A collective layoff is at effect if the employer is dismissing at least 10% of a minimum of 50 employees within one calendar year. The employer is obliged to present a "preservation plan" to the labour authorities and labour union representatives.

Unions

Freedom to organize in trade unions and pursue trade union activity is granted to employees, with pertinent entry into the register. Trade union must be registered with trade union register.

Trade union density is high in the public sector and is low in the private corporate sector. It is estimated at over 60% in the public sector and below 20% in the private sector, with an overall density rate at around 35%.

Personnel limitations - foreigners/nationals

Any foreign person who intend to stay in Serbia for more than 90 days or to take up employment during any period, must apply for a residence and work permit prior to entering Serbia.

Procedure of applying for residence/work permit:

- Request for approval of temporary residence, submitted by an individual to Ministry of Internal Affairs
- Temporary residence permit is issued for a period of up to 1 year, with possibility of extension
- Request for issuance of a work permit, submitted by an individual and the company to the National Employment Service
- Work permit is issued for a certain planned period of employment (or secondment), but no longer than duration of temporary residence permit

Financial reporting and audit

Summary

Financial reporting in Serbia is governed by local Law on Accounting as well as adopted IAS, IFRS and IFRS for SMEs. Financial reporting and audit requirements depends mainly on size and type of subject entity.

Classification

In terms of the applicable Law on Accounting, all companies are classified into four groups - micro, small, medium and large, depending on some criteria, as shown in the table below:

Entity size	Average number of employees	Annual turnover	Average value of assets
Micro	< 10	< th EUR 700	< th EUR 350
Small	10 - 50	th EUR 700 – 8,800	th EUR 350 – 4,400
Medium	50 – 250	th EUR 8,800–35.000	th EUR 4,400 – 17,500
Large	>250	> th EUR 350,000	> th EUR 17,500

In order to be classified into the appropriate group, the company have to meet at least two of the three prescribed criteria.

Filing/publication requirements

Applicable Serbian Law on accounting prescribes:

1. mandatory application of full IFRS for large companies as well as public and companies which consolidate its financial statements,
2. a choice for medium-sized companies whether will implement full IFRS or IFRS for for SMEs (small and medium enterprises),
3. mandatory application of IFRS for SMEs for small companies and
4. a choice for micro companies between IFRS for SMEs or special accounting principles prescribed by the Ministry of Finance.

The financial year is a calendar year. However, a subsidiary of foreign companies which financial year differs from the calendar year as well as a branch office, may have a different financial year, with the prior consent of the Ministry of Finance or the Governor of the National Bank of Serbia.

The set of financial statements for companies applying IAS/IFRS include:

- 1 Balance sheet;
- 2 Income statement;
- 3 Cash flow statement;
- 4 Statement of changes in equity;
- 5 Statement of other comprehensive income;
- 6 Notes to the financial statements;
- 7 Statistical annex.

Financial statements for micro companies include only Balance sheet, Income statement and Statistical Annex.

The statutory financial statements for the previous year must be submitted to the Serbian Business Registers Agency by 30 June of the current year, while the deadline for the submission of consolidated financial statements is 31 July of the current year.

However, for statistical purposes, companies are obliged to submit a Balance sheet, Income statement and Statistical Annex for the previous year by the end of February of current year.

Audit requirements

Audit of financial statements is obligatory for all large and medium-sized companies, for public companies, for parent companies obliged to prepare consolidated financial statements and for all other companies and entrepreneurs that generated operating income above 4.4 million EUR, in RSD counter value, in the previous year.

Audit must be performed in accordance with the Law on accounting, International standards on auditing (ISA) and Code of ethics for professional accountants.

Deadline for the submission of Audit report is 30 April of current year for public companies and 30 June for all other companies.

It is prescribed that entities that are obliged to have their financial statements audited must change the licensed auditor after seven years of consecutive audits. However, it has not prescribed by the Law maximal number of years that the audit company can be assigned as an auditor of the same company, except bank.

Tax

Summary

Serbia's business environment features highly competitive tax rates, which makes it more attractive place for investments.

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, which is in charge of assigning a PIB to both legal entities and individuals.

Corporate Income Tax

Resident entities are subject to corporate income tax on their worldwide taxable income, while non-resident entities and permanent establishments are subject to corporation tax only on their Serbian-source income. A legal entity that is incorporated in Serbia or has a place of effective management and control on the territory of Serbia is considered resident.

Tax base

The tax base is taxable profit, determined on the basis of the accounting profit as stated in the Income statement prepared in accordance with IFRS and accounting legislation, which is further adjusted in the tax balance in accordance with the provisions of the Corporate Income Tax Law.

Tax rates

The corporate income tax rate amounts to 15 percent.

Capital gains tax

Capital gains are generated by the sale or transfer of real estate, rights related to industrial property, shares and other securities. Capital gains realized by non-residents from the sale of Serbian property are taxed at a 20 % rate, while 15 % rate is applicable for residents.

Use of losses

Tax losses stated in the tax return can be carried forward for five years and offset only against future tax profits.

Capital losses, on the other hand, can be offset only against future capital gains, over a period of 5 years.

Corporate Profit Tax Holiday

Companies are exempt from Corporate Profit Tax for a period of 10 years (in the proportion to the investment) starting from the first year in which they report taxable profit, if they invest in a fixed asset an amount exceeding approximately €8 million and employ at least 100 additional employees throughout the investment period.

Assessment and payment

The tax year is the calendar year, with the exception of getting of special approval from the Ministry of Finance.

Tax return and the tax balance have to be submitted to the Tax Authority within the 180 days from the end of the tax year.

During the year, taxpayers should pay corporate profit tax in advance, on monthly basis, based on the tax liability assessed for the previous year, while the basis for advance payments for the new companies is estimated profit for current year.

Dividends

Dividends between Serbian resident companies are exempted from the corporate income tax. The corporate income tax and withholding tax paid on dividends of an affiliate are recognized as tax credit.

Transfer pricing

Any transaction between a Serbian company and related parties (included companies from a jurisdiction with the preferential tax regime) are subject to transfer pricing rules.

Withholding taxes

The withholding tax is calculated and paid at the rate of 20% on the following payments made by the resident to a non-resident entity: dividends, shares in profits, royalties, interest income, capital gains, lease payments for real estate and other movable assets and payments for service which are considered to be provided or used on the territory of Republic of Serbia.

In addition to that, withholding tax rate of 25% is applied on royalties, interests, lease payments for real estate and movable assets and service fees paid by a resident entity to a non-resident entity from the jurisdiction with the preferential tax system.

Withholding tax rates could be lower in the case there is double tax treaty agreement with the respective country and providing all conditions prescribed by the agreement are met.

Serbia has ratified 58 double taxation treaty agreements so far. The list of countries with DDT agreements follows:

Double taxation treaties agreements				
Albania	Egypt	Italy	Malaysia	Sri Lanka
Austria	Estonia	Canada	Malta	Spain
Azerbaijan	Finland	Qatar	Moldova	Sweeden
Belgium	France	China	Germany	Switzerland
Belarus	Georgia	Cyprus	Norway	Tunisia
Bosnia&Herzegovina	Greece	Kuwait	Pakistan	Turkey
Bulgaria	Netherland	Libya	Poland	UAE
Montenegro	Croatia	Latvia	Romania	Ukraine
Czech Republic	India	Lithuania	Russia	Vietnam
Denmark	Iran	Hungary	Slovenia	United Kingdom
North Korea	Ireland	Macedonia	Slovak Republic	South Korea
Armenia	Kazakhstan	Luxemburg		

Value Added Tax

The taxpayer is any person who performs supply of goods and services within its own business activity. Therefore, the subjects of VAT taxation are:

- Supply of goods and services in the territory of the Republic of Serbia, for a charge, carried out by a taxpayer within its business activity, and
- Import of goods into Serbia.

VAT registration

Domestic taxpayer is obliged to register for VAT when operating income for the previous 12 months exceeds threshold amount of RSD 8 million (app. EUR 64.5 thousands). All other taxpayers are considered as small taxpayers and have the option to choose whether to register.

Foreign entities conducting business in Serbia and performing taxable supply of goods and services in Serbia are required to register for VAT, irrespective of realized turnover in last 12 months. Foreign entities are not obliged to register for VAT only when perform taxable supply exclusively to: VAT payers, entities performing public administration services or entities performing passenger transportation services by busses.

If foreign entity is not registered for VAT in Serbia, the reverse charge mechanism is applied, i.e. the recipient of goods and services shall be VAT debtor.

Rates

	VAT rates	Applies to
Standard VAT rate	20 %	For most taxable supplies
Reduced VAT rate	10 %	Basic food stuffs, daily newspapers, utilities, hotel service, tickets, medicines and medical aids etc.

Tax exemptions

There are a number of supplies which are exempted from the calculation and payment of VAT. Exemptions are divided into two categories:

1. Supplies that are exempt with the right to deduct input VAT and
2. Supplies that are exempt without the right to deduct input VAT.

Assessment and payment

Taxpayers are required to submit VAT returns on a monthly basis if their turnover in the previous year exceeds RSD 50 million or in the case of newly established entities. They must submit VAT return and pay VAT within the 15 days by the end of the tax period.

For entities that have turnover less than RSD 50 million, VAT return is filed quarterly, while VAT have to be paid within the 20 days of the end of the tax period (calendar quarter).

The period for the refund if input tax exceeds output tax is 45 days by the deadline for submission of tax return, i.e. 15 days for exporting companies.

Personal Income Tax

There are two levels of taxation of individuals in Serbia:

1. Monthly taxation (at the moment of generating of income) and
2. Annual taxation (in the case annual net taxable income exceeds prescribed threshold).

Taxpayers and residence criteria

Personal income tax is payable by individuals. Serbian residents are subject to personal income tax on their worldwide income, while non-residents are taxed on their Serbian-source income only (under the same conditions as residents).

Serbian resident is an individual who has residence or centre of vital and business interest in Serbia or resides in Serbia more than 183 days during the 12-month period.

Subject of taxation

Personal income tax is calculated and paid on the following types of income generated by individuals:

- ✓ Employment income,
- ✓ Self-employment income,
- ✓ Royalties,
- ✓ Investment income (dividends, interests etc.),
- ✓ Rent income,
- ✓ Capital gains,
- ✓ Other income.

Tax base

Tax base is taxable income, which have to be calculated separately for every type of income, according to provisions of Serbian Law on personal income taxes.

Tax rates

Summary of tax rates for the different types of income follows:

Personal Income Taxes	Rate	Applies to
Salary Tax	10%	Salaries and all types of remuneration resulting from the employment which are considered as salaries (fringe benefits, payment in kind, bonuses...)
Income from self-employment	10%	Income from trading or professional business, agriculture and forestry
Royalties	20%	All income resulting from intellectual property
Investment income	15%	Interests, dividends and income from investment fund units
Rental income	20%	Income from the lease of real estate
Capital gain	15%	Resulting from the sale of real estate, intellectual and industry property rights and shares and other securities
Other income	20%	Income from the lease of movable properties, director's remunerations, profit-share income of employees and any other bases prescribed by Law

Annual taxation

Annual income tax is payable by individuals which annual taxable income in the calendar year exceeds three times the annual average salary in Serbia. Tax rates are progressive and amounts to:

1. 10% on income above the mentioned threshold, but up to six time annual average salary,
2. 15% on income above six time annual average salary.

Tax returns and payments

For majority type of income, tax is calculated and paid after deduction of withholding tax by the payer. The due date is the moment of payment of income.

Tax returns are required in cases of assessment of tax on self-employment income, capital gains, rental income, foreign income and annual personal income.

Income from the abroad

Individuals who generate income from abroad are liable for personal income taxes within the 30 days by the moment of receiving income, whereby Serbian regulations applies tax credit method for avoidance of double taxation of residents.

Social Security Contributions

There are three types of mandatory social security contributions payable by the employer and the employees on the income generated by the insured individuals (employment and self-employment income, royalties, income from agriculture).

Type of contributions	On behalf of employee	On behalf of employer
Pension and disability insurance	14 %	12 %
Health insurance	5.15 %	5.15 %
Unemployment insurance	0.75 %	0.75 %

The mandatory social security contributions are not paid on the income which is below 35% of the average salary in Serbia for the previous quarter or is higher than five times the average monthly salary for the previous month.

Property tax

Property tax is payable by the legal and natural persons which have ownership or other rights established over the immovable property located in Serbia.

With regard to applicable tax base, there is a detailed regulation about the manner of calculation of tax base and property tax liability. Generally, if the taxpayer applies fair value method for valuing property in its books, the taxable base is book value of underlying property. On the other hand, for the property is being recorded at cost method, the taxable amount is market instead of a book value.

Applicable property tax rates are:

- ✓ For individuals – Progressive rates, ranging between 0.3 % and 3 %
- ✓ For companies – Flat rate up to 0.4 percent, determined by each municipality

Property tax assessment is performed on the basis of self-taxation.

Property transfer tax

The property transfer tax is paid on the transfer of ownership rights on real estate, intellectual property and used motor vehicles, vessels and aircrafts.

Taxpayer is the seller of ownership rights. Property transfer tax is calculated and paid on the contractual value at the rate of 2.5%. In the case contractual value is lower than market value tax base shall be the market value of respective property determined by the relevant tax authority.

Contact details

Grant Thornton Serbia

Kneginje Zorke 2/4

11000 Belgrade

Serbia

T +381 (0) 11 404 95 60

F +381 (0) 11 404 95 61

W www.rs.gt.com



Nikica Kolundžija

Managing Partner

T +381 (0) 11 404 95 62

M +381 (0) 63 240 486

E nikica.kolundzija@rs.gt.com



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