SOUTH-EASTERN EUROPE

TAX GUIDELINES 2018

CONFIDA

TAX AUDIT CONSULTING

Foreword

A key factor for any business which is considering moving into new markets is the country's tax regime. Questions regarding corporate tax rates, incentives for overseas businesses, the taxation of income of a foreign source and the existence of double tax treaties are questions which are most likely to be of interest to business owners and CEOs.

Confida's network of independent member firms, created the Confida SEE Guidelines with the aim of providing international businesses with answers to key questions regarding tax regulations.

The key to our success in SEE lies in the high level of services and the exceptional technical skills and knowledge of our team; which perceives the specific needs of each of our clients. Our vast international experience is reflected in our flexibility in cross-border communication and cooperation with all our offices.

Our guidelines for each country address the major tax regulations applicable to businesses such as; corporate and personal income tax, social security contributions, transfer pricing, value added tax and other related tax regulations. We have also included information regarding double tax treaties and tax withholding rates which relate to the payment of interest, dividends and royalties.

<u>The services Confida SEE offers include:</u>

- Accounting
- Business Advisory & Audit
- Tax Consulting
- Financial Consulting
- Payroll Outsourcing Services
- Startup Consulting

If you have any questions or need more detailed advice on any aspect of tax please get in touch with us.

The Confida SEE network has offices in all countries in the SEE region. ■

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1.0 Introduction

Currency: **Albania Leke (ALL)**

1 EUR = ALL133.61

1.1 Legal forms

For legal and natural persons who intent to start a company in Albania, following legal forms are available:

Legal form	In Albanian
Sole proprietorship	Person Fizik (P.F)
Unlimited Partnerships	Shoqeri Kolektive
Limited Partnership	Shoqeri Komandite
Company with limited liability (LLC)	Shoqëri me përgjegjësi të kufizuar (sh.p.k)
Joint-stock company	Shoqëri aksionare (sh.a)

Other legal forms are: state-owned company and non-for profit organizations.

Minimum initial capital for establishing a Limited Liability Company is ALL100. The minimum initial capital required is ALL 3,500,000 for a Joint-Stock Company with no public offerings and ALL 10,000,000 for companies making public offerings.

Domestic and foreign companies may establish one or more branches. The branches must be registered.

1.2 Summary of tax rates applicable in Albania

The legal and Natural persons in the Republic of Albania are subject to the following taxes:

Type of Tax	Tax Rate		
Profit tax	Turnover ALL 5mln-8mln		Turnover ALL >8mln
	5%		15%
Personal Income	ALL 0-30,000	ALL 30,001-130,000	ALL >130,001
	0%	13% on amount above ALL 30,000	ALL 13,000 + 23% on amount above ALL 130,000
Withholding Tax	15%		
Value Added Tax	0%	0%	0%

2.0 Corporate income tax

Legal persons with an obligation of payment the corporate income tax are: Limited Liability Company (sh.p.k), Joint-stock company (sh.a), Sole Proprietorship (P.F) and all other legal persons gaining profits from deliveries and services, as well as branches and non-for profit organizations in cases when they make profitable transactions. The tax rate for profit tax is 15% for companies with a turnover above ALL 8,000,000. For the micro entities with a turnover from ALL 5,000,000 to ALL 8,000,000 the tax on profit is 5%. Whereas micro entities with a turnover below ALL 5,000,000 are exempted from the tax on profit.

Tax returns have to be submitted within 10th of February for entities with a turnover less than ALL 8 mln and within 31st of March for entities with more than ALL 8 mln turnover. Newly founded companies are automatically registered with tax authorities immediately after entering into register of business entities (National Business Centre). Companies must make monthly advance payments of corporate income tax by the15th day of the month for the actual month obligation. Companies determine advance payments based on their tax return for the previous year.

2.1 Recognition of expenses

The Albanian Tax Law recognizes non-deductible expenses as well as restrictions on deductibility of expenses. Following expenses are non-deductible:

Depreciation and amortization above the following approved rates and methods are considered as non-deductible for tax purposes:

Assets	Method	Depreciation rate in (%)
Buildings and machinery and other fixed structures installed in the building	On residual Value (Reducing balance)	5
Intangible assets (goodwill and start-up expenses)	On residual Value (Reducing balance)	15
Other assets (including Leasehold Improvement)	On residual Value (Reducing balance)	20
Computers, software and information systems	On residual Value (Reducing balance)	25

Land is not depreciated for tax purposes.

2.1.1 Interest expenses

Interest paid during the year for which the average interest rate for 12 months is above the rate of the official market published by the bank of Albania. In addition, when the loan is more than 4 times the value of the capital, the interest of the loan above the 4 times, should be considered as non-deductible. New law provisions foresee that starting from January 1st 2018, the non-deductible interest expenses are considered the residual value of the net interest which is greater than 30% of the profit before interest and taxes (EBIT).

2.1.2 Bad Debts

Bad debts are deductible if the following conditions are met:

- Amount of the bad debt was included earlier in income
- Bad debt is written-off from taxpayer's financial accounts
- All possible legal action to recover the debt was initiated

Only entities operating in the financial sector are not bonded by these rules.

2.1.4 Taxes

Income taxes, VAT and excise duties are considered non deductible expenses for tax purposes.

2.1.5 Other Items

The following costs are considered non deductible for tax purposes:

1. Expenses not supported with proper invoice

2. Expenses paid in cash exceeding ALL 150,000

3. Cost of purchase and repair of assets and land which are subject to depreciation. For purposes of this point, are considered as expenses for maintenance, in cases when these expenses are less than 15% of the residual value of the assets.

4. Benefits in kind and gifts given to employees. Wages, bonuses and any other form of income deriving from an employment relationship and paid to the employees in kind and not in cash incorporated in monthly payroll.

5. Provisions and reserves (with some exemptions applicable for the financial sector)

6. Losses, damages, wastage incurred during production, transiting, or warehousing, exceeding the norms defined by law and related instructions.

7. Impairment losses on fixed assets

8. Representation and reception expenses exceeding 0.3% of annual turnover

9. Sponsorship expenses exceeding 3% of the profit before tax and sponsorship of press and publications exceeding 5% of profit before tax

10. Expenses for diets of the employees which are above ALL 3,000 for a full day of work within Albania and Euro 60 for full day of work outside of Albania.

11. Expenses for gifts

12. Expenses for amendments of accounting postings of the previous year

2.1.6 Tax losses

Tax losses can be carried forward up to three consecutive years. However, losses may not be carried forward if more than 25% of direct or indirect ownership of the share capital or voting rights of the company is transferred during the tax year.

Carry back of losses is not allowed.

Payments to foreign affiliates are subject to WHT unless tax relief is requested according to the local legislation or Double Tax Treaty (DTT) in place.

2.2 Tax exemptions

a) Are exempted from the payment of tax on profit:
b) Local and central government bodies
c) Bank of Albania
d) Entities conducting religious, humanitarian, charitable, scientific or educational activities.
e) Trade unions or chambers of commerce, industry or agriculture
f) International organizations, agencies for technical cooperation and their representatives, where tax exemption envisaged by the specific agreements;
g) Foundations or non-banking financial institutions established to support development policies of the government through credit activities;
h) Film studios and cinematographic productions that are licensed and funded by 'National Cinematography Centre."

2.3 Tax incentives - upcoming provision

Starting from financial 2018, are expected changes in the field of tourism and software production in order to promote tourism development and start up companies in the field of software production. Accommodation structures '4 & 5 star hotels, special status', status given based on the provisions of law on tourism, are exempted from payment of the tax on profit for a period of 10 years. The effects of the exemption shall commence at the time when the economic activity of the accommodation establishment commences but not later than 3 years from receiving the special status.

For physical and legal persons who exerts activity in the software production, the tax on profit is 5%.

2.4 Transfer pricing

In Albania, transactions between associated companies must be carried out at arm's length prices, in order for respective expenses and revenues not to be adjusted for tax purposes. The recognized methods of calculation of such prices are:

- Comparable Uncontrolled Price (CUP) method
- Cost plus method (method of cost plus gross margin)
- Resale price method (RPM)
- Transactional Net Margin Method (TNMM)
- Profit split method (PSM)
- Any other method by which is possible to determine the transaction price, based on the "arm's length".

No above method is preferred over another. This implies that taxpayers are allowed to choose methods to be used in determination of "arm's length" prices and preparation of transfer pricing study. The method is chosen on the level of each type of transaction. Combining two or more methods is also allowed. However, the one that has been chosen must be practically applicable and should result eventually in reasonable estimate of effects in accordance with the "arm's length" principle.

2.4.1 Transfer Pricing Study

The following steps should be taken into consideration when evaluatin comparability. (adapted from OECD TPG 2010).Anyhow, these steps are not obligatory as important is to have the right result not to follow the whole process:

- Determination of the period of the study
- Business activity analysis
- Functional analysis – Understanding of the controlled transactions nature.
- Checking of internal non-controlled transactions (if any) for comparability reason.
- Determining available information recourses on comparable external transactions.
- Selection of transfer pricing method used in determination of transfer prices
- Identification of comparable potential transactions, the determination of the main characteristics to be met by any uncontrolled transaction in order to be considered potentially comparable
- Conclusion – is it required to amend taxable base for related party transactions
- Appendices – review of data used by the taxpayer in determination of "arm's length" prices.

Albanian Law 'On Income Tax' requires from the taxpayers who have transactions with related parties above a limit of ALL 50,000,000 to prepare transfer pricing documentation. The purpose of this documentation is to prove whether the transactions with related parties are carried at the arm's length (i.e. market) prices and wheth-

er any adjustment of revenues/expenses realized in these transactions have to be made in the corporate income tax return. The deadline for submission of transfer pricing study to the Tax Authorities is 30 days after the formal request from the Tax Authorities. Anyhow, the above mentioned taxpayers are obliged to submit an 'Annual controlled transactions notice' not later than date 31st March of the following closed fiscal year.

2.5 Permanent establishments

Permanent establishment is defined per Albanian Tax on Profit Law as a fixed place of business through which business activities of non-resident are performed, especially the following:

- Branch
- Representative office
- Construction, maintenance, installment and site company
- Factory
- Mine or other place of natural resources exploitation.

Branch and representative office are subject to registration with the National Business Center.

3.0 Value added tax

The value added tax is applied to deliveries, other services as well as importation of goods. The standard tax rate is 20% and the reduced rate is 6%. Certain services related to transportation, health and education, as well as certain medical and technical goods are not subject to taxation.

Not the business activity of the company, but the amount of realized income determines the compulsive obligation to enter VAT system. The tax payer who has realized total revenues in the amount of more than ALL 2,000,000 for the last 12 months, or the tax payer who wants to start a company and estimates that it will realize more than ALL 2,000,000 revenues in the next 12 months, must be registered by the Albanian VAT system. (Actually the threshold is ALL 5,000,000 but with the new approved law entering in force on 1s of April 2018 the threshold is set to ALL 2,000,000)

Exception to the above make the economic activities as per the following professions like attorney, dentist, specialized dentist, pharmacist, nurse, veterinarian, architect, engineer, physician, projector, economist, agronomist, chartered accountant, certified public accountant and asset valuator, for which the registration to the VAT system starts from the 0 level of income.

Companies achieving income not higher than ALL 2,000,000 in the last year are exempted from the value added tax. A tax payer has the option to voluntary register in the VAT system. But in cases that the companies will make import of goods they are obliged to be registered in the VAT system despite of the revenue. (i.e even if the revenue is below the threshold of ALL 2,000,000).

The Albanian VAT system recognizes the reverse charge procedure, whereby the tax liability for services of foreign companies provided to Albanian companies is transferred to the receiver of services.
On request, the VAT exemption is possible within projects financed by international organizations.

Services subject to reduced tax rate of 6% are:

- Hotel accommodation (entered in force in May 2017)

Tax payers are entitled to deduct the input VAT for received acquired goods and services, provided that they are used for generating taxable income. If the income is achieved abroad, the deduction is possible in case the pre-tax is deductible also in the country, for such incomes.

There are several services which are exempted from the VAT charging system:
a) Courier service
b) supply of medicines, implantable active medical devices and implantable medical devices
c) supply of medical services, supply of organs, blood and women milk
d) supply of school services in colleges and universities
e) supply of some defined services related to sport exercise
f) supply of defined cultural services
g) supply of transportation of injured people with vehicles adequate for this reason
h) activities performed by Albanian public radio and television, except for activities of a commercial nature
i) insurance and reinsurance services
j) Loan-Related Transactions, Their Management, Exchange Actions, Management and Custody of Shares and Management of Investment Funds
k) Supply of postal stamps
supply of bets, lotteries and gambling

m) supply of land an buildings
n) the supply of newspapers, magazines and books of any kind, as well as the supply of advertising services by print media and electronic media
o) the supply of services intended solely for the purpose of carrying out the screening phase of hydrocarbon operations.

The deduction of input VAT is not allowed for the expenses listed below:

- Purchase of passenger vehicles, motorcycles, boats and aircrafts, spare parts and fuels, their rent, parking facilities, repair and other services for these means of transportation
- Entertainment expenses
- Expenses for food and transportation of employees.
- Fuel except the cases when i) the purpose of economic activity is to buy fuel in order to sell it; ii) purchased fuel is used for technological needs in function of achievement of the primary purpose of the business. In this case, provided that the purchased fuel is used only for the purposes of taxable economic activity and for no other needs, VAT is credited up to the norms set out by activity in the instruction of Ministry of Finance.
- Expenses for travels and diets, hotel accommodations.

Tax period/submission deadline: for VAT-payers whose turnover is more than ALL 5 million the tax period is calendar month and the return must be filed within 14 days after the expiry of the tax period. VAT-payers with less than 5 million turnovers have a tax period of 3 months.

3.1 Taxation of Non-Residents - Vat Representative

In cases when a resident Albanian company enters into service activities with foreign companies (without a branch office formed in Albania) the VAT is paid from the receiver of the service through the reverse-charge scheme application.

Definition of the business activity conducted in Albania = VAT place of delivery of service/goods (with an exemption of international transportation services), so activities where reverse-charge applies also deemed as conducted in Albania for the purpose of the VAT registration for non-residents

Non-resident that wants to become an Albanian VAT payer has to undertake the following steps:

- To obtain tax identification number (TIN)
- To appoint a VAT representative
- To submit registration form through the VAT representative.
- Tax representative of non-resident, in the name and on behalf of that non-resident, performs all tasks related to fulfilling the obligations and exercising rights of a non-resident as an Albanian VAT payer in accordance with the VAT:
  - filing of a registration form
  - calculation of VAT
  - invoicing on behalf of a non-resident
  - filing VAT returns
  - payment of VAT
  - any other action needed.

4.0 Annual Personal Income Tax Return

Individuals who are required to submit annual income tax returns are individuals whose net income is higher than three ALL 2,000,000.

Individuals required to pay Albanian annual tax liability are:

- Albanian Residents on their worldwide income
- Albanian non-residents on their Albanian sourced income.

4.1 Deductions and allowances

The same personal deductions and allowances apply to both Albanian and foreign nationals:

- Expenses of the loan interest taken for the tuition of the children
- Medical Expenses not covered from the compulsory health insurance.

The deadline for submission of the annual income tax return for previous years is 30 April of the next year.

5.0 Withholding tax

The withholding tax at the rate of 15% is charged on certain payments to non-resident legal entities. These payments include dividends; share in profits, interests, capital gains, rent and lease payments, royalties and services fees. The withholding tax can be reduced according to Agreements to avoid the double taxation. For the Albanian tax payer the compensation method applies for already taxed foreign incomes.

6.0 Payroll Tax Rates

Threshold (monthly taxable income in ALL) for Income Tax

From-To	Tax Rate
0-30,000	Non-taxable
30,001-130,000	+13% of the value above 30,000 leke
130,001	13,000 leke + 23% of the value above the 130,000 Leke

7.0 Social security contributions

The contribution base for employees and employers are wage and wage compensation, more exactly, wages in accordance with the Employment Act, the General Act and the employment contract or the decision of the Competent Authority.

The monthly contribution base cannot be lower than the minimum salary approved with a decision of the Council of Ministers which is ALL 24,000 (starting from May 2017) and not greater than ALL 105,850 (only for calculation of social contributions because the health contributions are calculated on the gross salary even if it may be higher than the maximum salary)

Contributions rates are as follows:

1) Contributions on behalf of employee:
- Pension and disability insurance – 14.55%
- Health insurance – 1.7%
- Unemployment insurance – 0.45%

2) Contributions on behalf of employer:
- Pension and disability insurance – 9.05%
- Health insurance – 1.7%
- Unemployment insurance – 0.45%

8.0. Customs duties

Customs duties are levied according to the classification of imported goods in a six-digit harmonized system. Minimum customs values are applied to many imported items. Major exemptions are applicable for:

- Goods imported under agreements and where the customs duties exemption is explicitly stated in agreement;
- Certain imports for contractors in oil exploration;

Humanitarian aid;

- Goods imported for charitable, philanthropic or assistance purposed by not-for-profit organizations, religious institutions and public entities;
- Goods imported for trade promotion purposes and advertising.

Customs tariffs are applied upon all the goods specified in the nomenclature based on the Harmonized System (HS) as well as any other nomenclature which is wholly or partly based on the HS. Tariffs level applied by the Albanian Customs vary according to the type of goods and are 0%, 2%, 5%, 8%, 10% and 15%.

Customs tariffs in the Republic of Albania are object of frequent amendments aiming at the reduction of the tariff levels according to the requirements of WTO.

8.1 Excise duty/excises

Following products are subject to excise duty:

- Fuels
- Coffee
- Alcohol
- Tobacco products
- Liquids for filling electronic cigarette
- Electricity for final consumption.
- Fireworks
- Pneumatic rubbers
- Incandescent lambs

9.0 Accounting Principles/ Financial Reporting

According to Albanian Law on Accounting, all companies must keep their books according to NAS (National Accounting Standards). Based on the law 'On Accounting and Financial Reporting' there are some exceptions to reporting with IFRS instead of NAS. This law foresees:

a) Companies listed on an official stock exchange and their subsidiaries, subject to consolidation of accounts;

b) Second-tier banks, financial institutions similar to banks, insurance and reinsurance companies, securities funds, and all companies licensed to carry out investment activities in securities, even when they are not listed on an official stock exchange;

c) other large entities not listed on an official stock exchange when they exceed the limits established by the Council of Ministers on annual income and the number of employees;(Annual income ALL 1,250,000,000, Employees 100);
should prepare financial statements based on the International Financial Reporting Standards.

The statutory financial statements for the previous year should be submitted to Tax Office not later than 31st of March of the current year and near the National Business Center along with the auditor's report not later than 31st of July of the current year. The set of financial statements of companies are categorized in three groups:

1) Statutory annual financial statements for micro entities with turnover 0 – 2 mln ALL include only Income statement.

2) Statutory annual financial statements for micro entities with turnover 2 mln – 8 mln ALL include – Balance Sheet, Income Statement and Notes to Financial Statement.

3) For entities with turnover over 8 mln ALL, Financial Statements are prepared with IFRS, if applicable as per law provision, and statutory financial statements which include Balance Sheet, Income Statement, Cash Flow Statement, Statement of Equity and Notes to Financial Statements.

9.1 Obligation to carry out audit

According to Albania Law on Audit the year-end financial statements have to be reviewed by an independent Albanian auditor, if the company/legal person that prepares financial statement is:

- All commercial companies, regardless of their form, which prepare the FS based on IFRS
- All joint stock companies, which prepare the FS based on NAS
- Limited liability companies which by the end of the year meet two of the three following criteria:
  - Total of assets in the Financial statements is equal to or exceeded the amount of ALL 50,000,000
  - operating income realized during the calendar year exceeded the amount of ALL 100,000,000 (appx. EUR 752,000).
  - Has nearly 30 employees during the year.

The companies in the first and second group are obliged to appoint for the statutory audit of their financial statements, at least one audit company that has a register of not less than two legal auditors; or two legal auditors, natural persons; a statutory auditor, a natural person and an audit firm, having at least one legal auditor registered; or two audit firms, which have only one legal auditor registered.

It is prescribed that the entities that are obliged to have their financial statements audited must change the licensed auditor after seven years of consecutive audits. The audit of financial statements can be conducted by independent certifies auditors-entrepreneurs.

10.0 Property tax

The provisions of the property tax are in discussion to be changed during 2018.
Actual law provisions:
The property tax is calculated and paid for:

- buildings
- agricultural land
- land

The tax base is given in the Annexes of the Law for different locations. The tax is calculated per m2 depending on the location of the property.

Expected to be approved changes:
A draft project law is published waiting to be approved on some changes on the law including Property Tax. The amendment foresees the change of the way of calculating tax on property. Starting from 2018, the tax on property will be calculated as a multiplication of the tax base with the % tax rate. The foreseen tax base is the value of the building, which should be calculated in accordance with the methodology and procedures defined by a decision of the Council of Ministers.

The tax rate is divided based on the use of the building:

- For buildings used for living the tax rate will be 0.05%
- For buildings used for economic activities (business) the tax rate will be 0.15%

The deadline for payment of the property tax is 20 April of the year for which the payment is made.

11.0 Agreements to avoid double taxation

As of 1st January 2017, Albania has 41 effective DTT's with the following countries:

Austria	Greece	Malaysia	Slovenia
Belgium	Hungary	Malta	Spain
Bosnia & Herzegovina	India	Moldova	Singapor
Bulgaria	Ireland	Montenegro, Serbia	Sweden
China	Italy	North Korea	Switzerland
Croatia	Iceland	Netherlands	Turkey
Czech Republic	Kosovo	Norway	United Arab Emirates
Egypt	Kuwait	Poland	United Kingdom
Estonia	Latvia	Qatar	& Northern Ireland
France	Luxembourg	Romania	
Germany	FYROM (Macedonia)	Russia	

Currency: **Convertible mark KM (BAM)**

1 EUR = 1.95583 BAM

(linked to the euro)

1.0 Introduction

Bosnia and Herzegovina (BiH) is unique in the world for its state organization. Its organization is republic in character, despite BiH neither functioning nor defining itself as a republic due to the complexity of the units into which it is divided (entities, Brčko district and cantons). Bosnia and Herzegovina has several levels of political structuring after the state government. The most important of these divisions is the organization of the state into entities: Republic of Srpska (RS) and the Federation of Bosnia and Herzegovina (FBiH). Besides this, there is also the separate administrative unit of Brčko District (BD). FBiH is divided into 10 cantons and 74 municipalities, while RS is divided into 63 municipalities.

Legal form	Bosnian/Croatian/Serbian	English translation
Aktiengesellschaft	Dioničko društvo – d.d. or Akcionarsko društvo – a.d.)	Joint-stock company, corporation, shareholding company
Gesellschaft mit beschränkter Haftung	Društvo s ograničenom odgovornošću – d.o.o.	Limited liability company, private limited company
Kommanditgesellschaft	Komanditno društvo – k.d.	Limited partnership
Offene Handelsgesellschaft	Društvo s neograničenom solidarnom odgovornošću – d.n.o. or ortačko društvo o.d.	Company with unlimited joint liability or general partnership

In FBiH and RS, there are both open and closed joint-stock companies. In principle, the shares of an open joint-stock company are traded on the stock exchange. The shares of a closed joint-stock company are not issued publically.

The minimum amount of capital needed to found an open joint-stock company in FBiH and RS is 50,000 BAM.

Capital of at least 20,000 BAM is needed to found a closed joint-stock company in RS, whereas the minimum amount is 50,000 BAM for the same type of joint-stock company in FBiH.

The minimum amount of capital for a limited liability company in RS is 1 BAM, in F BIH 1,000 BAM and in Brčko District is 2,000 BAM.

Brčko District does not recognise open and closed joint-stock companies, just joint-stock company. The minimum capital needed to found a joint-stock company in BD is 15,000 BAM. While the amount needed to found a limited liability company with one founder is 2,000 BAM,..

1.1 Financial Reporting

The entity-level Ministries of Finance are responsible for the legal and framework terms of financial reporting.
The fiscal year, as a rule, is identical to the calendar year. However, with the consent of the Ministry of Finance of the corresponding entity, a fiscal year which deviates from the calendar year can be defined.

Applicable accounting standards:

- International Accounting Standards and International Financial Reporting Standards (IFRS), translated and published by the entity-level accountant and auditor associations
- International Accounting Standards for Small and Medium Enterprises (IFRS for SMEs), translated and published by the entity-level accountant and auditor associations
- International accounting standards for public sector (hereinafter referred to IPSASs), translated and published by the entity-level accountant and auditor associations
- Directions, explanations and guidelines issued by the International Accounting Standards Board (IASB), translated and published by the entity-level accountant and auditor associations

Small and medium-sized enterprises can opt to apply full IFRS or IFRS for SMEs.

Classification according to size	Criteria
Medium	**1)** 50-250 employees in FBIH, RS nad Brcko **2)** Revenue: 2 – 8 million BAM in FBIH and RS (in Brcko 2.8 – 11 BAM million) **3)** Value of assets: 1 – 4 million BAM in FBIH and RS (in Brcko 1.4 – 5.5 BAM million) **4)** Companies which meet two “small” criteria and one “large” criteria are classified as medium
Small	If two medium company criteria are not met
Large	If two medium company criteria are exceeded
Micro (only in RS)	**1)** less than 5 employees **2)** Revenue: less than 0.5 million BAM **3)** Value of assets: less than 0.25 million

All companies which perform a financial services sector activity (banks, insurance companies, micro-credit organisations, etc.) are considered large.

1.2 Auditing in FBiH

The following companies must carry out an annual audit:

- All joint-stock companies and other companies listed on the stock exchange
- All medium and large companies
- Companies which compile consolidated annual financial statements (concern)
- Banks and other companies which perform a financial services sector activity

1.2 Auditing in FBiH

The following companies in RS are obliged to carry out annual audit of their financial statements: Large companies and Companies of public interests.

Companies of public interest:

- legal entities whose securities are traded or are being prepared for trading on an organised securities exchange,
- banks, microcredit companies, insurance companies, leasing companies, exchanges, broker-dealer companies and other financial organisations,
- public companies, defined in line with regulations governing the operation and management of public companies and
- all legal entities of special importance for RS, regardless of their legal form and organisational form.

Audits are performed by auditing companies whose work is approved by the entity-level Ministry of Finance. Auditing standards applicable in Bosnia and Herzegovina (entire territory) are the International Standards on Auditing (ISA).

1.3 Taxation in BiH

The complexity of the state organisation in BiH also applies to the tax system in BiH. Part of the harmonisation process was the introduction of value added tax throughout the entire country in 2006. Direct taxes are still paid at entity level, but laws in the entities have been harmonised to some extent over the last few years.

The most important taxes and levies at entity level (FBiH and RS) and BD level are:

- Profit tax (corporate income tax)
- Income tax, social insurance contributions

The following taxes are paid in FBiH at canton level and in RS at entity level:

- Inheritance and gifts taxes
- Real property transfer tax
- Property tax

2.0 Corporate Income Tax

Companies and other legal persons, who perform their business activity independently and long-term, by selling products and offering services on the market, for the purpose of earning profit, are obliged to pay profit tax (hereinafter: taxpayers).

A tax resident of the Federation pays tax on profit earned in the territory and outside the territory of the Federation (world income principle). Foreign taxpayers pay tax only on profit earned in the territory of the Federation.

A domestic taxpayer / resident, for the purpose of this law, is a legal person with registered office and management in the Federation. A foreign taxpayer / non-resident, for the purpose of this law, is a legal person with registered office or management outside the Federation but who performs activity in the Federation via a business unit.

The following are deemed a business unit of a foreign taxpayer in FBiH:

- The seat of the managing board
- Affiliate
- Branch office
- Factory
- Workshop
- Place of research into natural resources
- Building site (construction or installation facility) if works last longer than six months
- Provision of advisory or business services which last for three months uninterrupted within a period of 12 months.
- Representatives who independently perform activity for a foreign taxpayer, relating to the concluding of contacts for and on behalf of a foreign taxpayer, who also holds product inventories which he delivers for and on behalf of a non-resident.

The following are deemed a business unit of a foreign taxpayer in RS and BD:

- Place of execution of construction, installation work regardless of their duration
- Representatives who independently perform activity for a foreign taxpayer, relating to the concluding of contracts for and on behalf of a foreign taxpayer.

The following are not deemed a business unit of a foreign taxpayer in FBiH, RS and DB:

- business premises which a non-resident uses only for storing or delivering products, where inventories, goods for storage, display or delivery, or for processing performed by another person, are kept.
- a place of business which serves only for the procurement of products, goods, the preparation or provision of support or data processing.

Framework legal person taxation terms are specified in the laws on profit tax in each of the entities and in the law in Brčko District.

Legal persons who are subject to profit tax:

- Companies
- Banks and other financial organisations
- Companies which insure and reinsure property and people
- Cooperatives or all other legal persons, including humanitarian and religious organisations, sports federations, political parties and all others which earn profit by selling products and/or providing services.
- Foreign taxpayers, for revenue earned in the territory of Bosnia and Herzegovina.

The "world income" of companies with registered office (seat) in Bosnia and Herzegovina (i.e. in the territory of one of the entities or in BD) is taxed. Permanent business units of foreign companies are only taxed on profit earned in Bosnia and Herzegovina.

Entities collect profit tax payments. It is important to determine in which entity is the company's seat because the taxation of world income is performed in that entity.

The tax rate in both entities and in BD is the same - 10%.

Tax at source (withholding tax) in FBiH is 10% on payments for interests and copyright royalties and services rendered in the territory of FBiH and 5% for dividends paid abroad. In Republic of Srpska withholding tax is also 10% for services, 10% for interests and dividends paid to non-residents and for copyright royalties' payments abroad..

There are no local surtaxes in Bosnia and Herzegovina, but there are other taxes in the form of payments of fees to tourist organisations, forest protection fees, fire-prevention fees, water contribution fees, fees for the professional rehabilitation and employment of disabled persons, etc.

2.1 Determining taxable profit

Determining taxable profit in all tax jurisdictions in Bosnia and Herzegovina is based on annual financial statements, which are compiled according to IFRS/IAS. This profit is adjusted, in line with the profit tax law in the Federation of Bosnia and Herzegovina, for unrecognised expenditure and non-taxable revenue

The following business transactions, amongst others, increases taxable profit:

- the part of amortisation which exceeds permitted amortisations
- 70% of outgoings on entertainment relating to business activity, or 100% of outgoings on entertainment
- monetary fines and interest on arrears in the public sector
- transaction losses between related companies
- donations, which exceed 3% of revenue in the corresponding tax year donations to political parties
- sponsorships exceeding 3% of revenue in the corresponding tax year I in RS and BD 2%)
- scholarship to pupils and students which exceed 75% of the average monthly net salary in F BIH, RS and BD respectively
- value adjustment of receivables, which do not meet the conditions for this (overdue more than 12 months and lawsuits filed)
- value adjustment of inventory and other assets
- Provisions for the Banks and financial institutions exceeding
- transfer prices which were not determined according to the “arm’s length” principle
- Withholding tax paid on its expense
- Thin capitalization rules 4:1 (share capital – loan debt from related parties) is applicable only for Federation of Bosnia and Herzegovina for interests deductions

The following business transactions, amongst others, decreases taxable profit:

- dividends and other shares in profit received from a taxpayer from respective tax jurisdiction (for a company seated in one of tax jurisdictions in Bosnia and Herzegovina non-taxable is dividend income received only from another company from the same tax jurisdiction: FBIH from FBIH, RS from RS)
- revenue from written-off receivables which were included in the tax base in previous years and were not deducted as expenditure.

Tax losses can be carried forward for the next five years and deducted from future profits using the FIFO method.

2.1 Determining taxable profit

The base for determining tax in both entities is the taxable profit which is determined in the tax balance. The starting base is the profit and loss account (income statement) compiled in line with IFRS, which is corrected by taking revenues which are not taxed and expenditure which were not taken into account.

Revenues which are not taxed are:

- Dividends
- Unpaid, written-off receivables which were subject to taxation in previous periods

The base for determining tax is the difference between taxable revenue and taxable expenditure on the basis of the income and expense statement.

Federation	Republic of Srpska	Brčko District
Fines and penalties, as well as interest on arrears on public revenue (taxes and contributions)	Fines and all kinds of penalty interests	Fines and all kinds of penalty interests
Write-offs of questionable or contested receivables if the receivable is older than 12 months or legal action has been initiated	Write-offs of questionable or contested receivables if the receivable has been due for more than 12 months and if legal action has been initiated	Write-offs of questionable or contested receivables if the receivable has been due for more than 12 months and if legal action has been initiated
Fines and penalties, as well as interest on arrears on public revenue (taxes and contributions)	Fines and all kinds of penalty interests	Fines and all kinds of penalty interests
Outgoings on entertainment – only up to 30% is taken into consideration	Outgoings on entertainment – only up to 30% is taken into consideration	Outgoings on entertainment – only up to 30% is taken into consideration
Outgoing on chambers of commerce membership fees (except membership fee the payment of which is stipulated by law)	Insurance premiums paid by the employer	Insurance premiums paid by the employer
Donations for humanitarian, cultural, educational and sporting purposes, larger than 3% of total revenue in the tax period	Donations for humanitarian, cultural, educational and sporting purposes, larger than 3% of total revenue in the tax period	Donations for humanitarian, cultural, educational and sporting purposes, larger than 3% of total revenue in the tax period

Federation	Republic of Srpska	Brčko District
Donation and other payment to political parties	-	-
Transactions losses with related companies	Transactions losses with related companies	Transactions losses with related companies
Expenditure from related companies, larger than market values	Expenditure from related companies, larger than market values	Expenditure from related companies, larger than market values
Expenditure from sponsorship, greater than 3% of total revenue	Expenditure from sponsorship, greater than 2% of total revenue	Expenditure from sponsorship, greater than 2% of total revenue
Expenditure without the relevant documentation	Expenditure without the relevant documentation	Expenditure without the relevant documentation
All provisions for expenses apart provisions for expenses for protection of environment up to 30% of the annual profit and provisions for expenses in warranty period up to 4% of annual turnover	Expenses for provisions in RS are deductible in a period when expenses are paid	No restriction for other provisions in Brcko District.
Provision for banks and financial institutions are deductible apart provisions for incurred but not reported (IBNR) losses (assessment on group level)	Provision for banks and financial institutions are deductible apart provisions for loans classified as A category in accordance with local banking agency provisions in RS	Provision for banks and financial institutions which exceeding 20% of the annual tax profit are not deductible
Provisions for insurance companies for mathematical provisions are deductible fully but provision for technical provisions are deductible only if not increased in balance sheet more than 20% comparing previous year	Provisions for insurance companies for mathematical provisions are deductible fully but provision for technical provisions are deductible only up 20% of technical provision in balance sheet in previous year	Provisions for mathematical and technical provisions are deductible fully for insurance companies. Provisions for contracts for reinsurance are deductible up to 20% of annual tax profit.
Interests paid to related parties beyond thin capitalisation rule 4:1		

1. Comparable uncontrolled price method
2. Cost plus (C+) method
3. Resale price method
4. Profit split method
5. Net profit method

Companies which having transactions with related parties are obliged to prepare transfer pricing documentations in accordance with local law, which is mostly in accordance with OECD Guidelines.

2.7 Double-taxation treaties

Bosnia and Herzegovina has double-taxation treaties with the following countries:
Albania, Alger, Austria, Azerbaijan, Belgium, China, Croatia, Cyprus, Czech, Egypt, Finland, France, Germany, Greece, Hungary, Iran, Ireland, Italy, Jordan, Kuwait, Macedonia, Malaysia, Moldavia, Montenegro, Netherlands, Norway, Pakistan, Poland, Qatar, Romania, Slovakia, Slovenia, Serbia, Spain, Sri Lanka, Sweden, Turkey, United Arab Emirates and United Kingdom.

	Interests	Royalties	Dividends (up to 25% shares/25% or more shares)
Austria	5%	5%	*10%/**5%
Germany	0%	10%	15%
Italy	10%	10%	10%
France	0%	0%	*15%/**5%
Netherlands	0%	10%	*15%/**5%
Croatia	10%	10%	*10%/**5%
Serbia	10%	10%	*10%/**5%
Montenegro	10%	10%	*10%/**5%
Slovenia	7%	5%	*10%/**5%
United Kingdom	10%	10%	*15%/**5%

* If the dividend receiver is a resident of the other signatory state to the agreement, the actual owner of a company which possess less than 25 percent of the assets of the company paying the dividends.

** If the dividend receiver is a resident of the other signatory state to the agreement, the actual owner of a company which holds directly at least 25 percent of the assets of the company paying the dividends.

3.0 Inheritance and gift tax

Taxation of gifts in FBiH is regulated at canton level. In Sarajevo Canton, inheritance and gifts tax stands at 5% for real property and 10% for personal property.

In Republic of Srpska, the gifting and inheriting of real and personal property has not been taxed since 1 January 2012, because with the entering into effect of the real estate tax law, the property tax law, which regulated inheritance and gits taxation, was declared null and void.

However, with the RS property tax law being declared null and void, a real estate tax was introduced which real estate owners and users pay annually in rates at an amount of at least 0.05% of the estimated market value on 31 December of the previous year for the next year, or a maximum of 0.5%.

BD has regulated the taxation of real estate in the same way as RS.

4.0 Value Added Tax

All legal and natural persons, who perform taxable transactions in line with the law on VAT, are obliged to pay value added tax. Those whose annual turnover does not surpass 50,000 BAM are exempt from having to register with the value added tax system. Supplied goods and rendered services, which are performed in Bosnia and Herzegovina, as well as the goods imported into the country, are taxed.

Exemptions from value added tax:
(amongst others) exemptions from value added tax which allow the deduction of input tax and a VAT rate of 0:

- exports and export-related services
- international transport and similar services
- supplies to free trade zones
- certain mediation services relating to import and export
- certain services which are taxed outside BiH

(amongst others) exemptions from value added tax which do not allow the deduction of input tax:

- charitable activities
- health services and maintenance of health institutions
- supplies and other services of doctors, dentists and medical personnel in private practices
- insurance and reinsurance transactions, as well as insurance agent services
- banking and financial institution services

5.0 Customs duties in BiH

Customs tariffs in Bosnia and Herzegovina have been harmonised with the Combined Nomenclature of the European Union.

5.1 Importing goods originating in the EU

In line with the provisions of the Interim Agreement on Trade and Trade-related Matters signed with the European Union (in effect until the Stabilisation and Association Agreement enters into force), customs rates will gradually decrease, depending on product type, by 90%, 75% or 50% of the previous rate, while customs rates for some products will be eliminated entirely.

The lowering of import customs duties applies only to goods originating in the EU, not all goods which are imported from the EU, i.e. via the EU.

5.2 Importing goods originating in CEFTA countries

CEFTA 2006 – Agreement on the Amendment of an, Accession to the Central European Free Trade Agreement

On the basis of the signed regional agreement on free trade CEFTA 2006, the CEFTA agreement has been in effect in BiH since 1.1.2007. It envisages no customs duties for goods from the signatories to this agreement: Albania, Macedonia, Moldova, Serbia, Montenegro and UNMIK/Kosovo.

5.4 Goods originating from other countries

Customs duties in line with the current customs tariffs of BiH are paid on imports of goods originating from other countries (non-EU and non-CEFTA countries).

5.5 Benefits - Exemptions

Equipment which is placed in free circulation and which is the contribution of a foreign entity, except passenger vehicles, entertainment machines and games of chance machines, is exempt from the payment of import duties.

6.0 Foreign Investment in BiH

Foreign legal and natural persons can found new companies in Bosnia and Herzegovina, or acquire a stake in already existing companies. Foreign investors are equal to local investors and can perform all kinds of activities.

Subsidiaries may only be founded by companies with a seat (registered office) in Bosnia and Herzegovina. Subsidiaries in the other entity must bear in mind that the entities could have different regulations concerning taxes and the compiling of annual financial statements.

Foreign companies are entitled to establish their branch offices in Bosnia and Herzegovina. A branch office is not a separate legal entity but extension of a parent company. Foreign branch offices do business on behalf and for account of the parent company. They are obliged to prepare financial statements in accordance with local accounting law and to file annual tax return and pay CIT in Bosnia and Herzegovina.

Companies with a seat abroad can found a representative office in Bosnia and Herzegovina with a view to research the market, to advertise or to acquire business information. But they are not allowed to earn revenue.

6.1 Taxation of groups

The taxation of groups, for companies with a seat in Bosnia and Herzegovina, which are more than 50% (FBiH)/ 80% (BD) directly or indirectly related, is permitted. CIT law in RS does not regulate taxation of groups.

7.0. Income Tax

Income tax is regulated by entity laws as well as the BD law on income tax. Although income tax is regulated by different laws, the same tax principles specified below are used by all three tax jurisdictions in BiH.

An income tax payer is a resident of FBiH, RS and BD and a non-resident who earns income in the specified jurisdictions, as follows:

1) a resident who earns income in the territory of FBiH, RS or BD and outside these territories,
2) a non-resident who performs an independent activity through a permanent place of business in the territory of FBiH, RS or BD,
3) a non-resident who performs an employed activity in the territory of FBiH, RS or BD,
4) a non-resident who earns revenue in the territory of FBiH, RS or BD from personal or real property, copyright royalties, patents, licenses, capital investment, or any other kind of activity which results in the creation of revenue which is taxable according to the tax laws in BiH.

7.1 Subject of taxation

Incomes earned by the taxpayer from the following activities are subject to income tax:
1) employment,
2) independent activities,
3) assets and ownership rights,
4) capital investment,
5) participation in competitions and games of chance.
6) Income tax rate

Income tax is paid at a rate of 10%.

However, although the tax principles and the tax rates are identical in all three tax jurisdictions in BiH, the tax base differs. Below we have provided an overview of the differences in income taxation in FBiH, RS and BD.

Income	FBiH	RS	BD
Income from participating in the distribution of profits of businesses (dividends or shares)	Non-taxable	Non-taxable	Non-taxable
Monetary assistance or other earnings based on special entity regulations	Non-taxable	Non-taxable	Non-taxable
Earnings from social welfare assistance in line with the law	-	-	Non-taxable
Recompense for damages in the event of natural disaster	Non-taxable	Non-taxable	Non-taxable
Won prizes in cash, in kind and/or rights for demonstrated knowledge in quizzes and other similar competitions	Non-taxable	Non-taxable	Taxable
Employee income from commission, assistance and/or awards paid by the employer for one tax period up to the maximum amount defined by special regulation (law, decree, collective agreement, etc.)	Non-taxable	Non-taxable	Taxable
Prize for outstanding achievements in education, culture, science, etc. awarded by a state body to mark significant dates	Non-taxable	Non-taxable	Taxable
Economic development incentives awarded in line with special regulations	Taxable	Non-taxable	Taxable

Income	FBiH	RS	BD
Income of disabled persons who are employed in companies, institutions or workshops for the vocational and professional training and rehabilitation of disabled persons	Non-taxable	Non-taxable	Taxable
Income from recompense of damages to employees as a result of an accident at work	Non-taxable	Non-taxable	Taxable
Income arising from prizes to members of the Academy of Sciences and Arts of Bosnia and Herzegovina and prizes for technical and technological innovation	Non-taxable	Non-taxable	Taxable
Fees to prisoners during when serving their sentences in correctional or penal institutions	Non-taxable	Non-taxable	Non-taxable
Income earned by pupils and students through pupil or student cooperatives	Non-taxable up to the amount of 4 average wages in FBiH (cca 3,500 KM)	Non-taxable up to the personal allowance amount (3,600 KM)	Taxable
Prizes to pupils and students won in competitions within the educational system and organised school and higher-education competitions	Non-taxable up to the amount of 2 average wage in FBiH (cca 1,750 KM)	Non-taxable	Taxable
Gains earned by participating in prize competitions organised by companies for promotional purposes, and which exclusively concern a product or package of products from its own product range, if the market value of the win is not larger than 1,000 KM	Non-taxable	Non-taxable	Taxable
Wage benefits paid to persons during cessation in work for which the employee is not at fault	Non-taxable	Non-taxable	Taxable

7.3 Minimum wage as a base for calculating income tax

• **Regulations in FBiH** have not regulated the minimum wage as a base for calculating income tax, but they have regulated the minimum base for calculating contributions – General Collective Agreement for the territory of FBiH (net wage before taxation 2.31 KM/hour – cca 400 KM monthly salary after taxation).
• The actual paid wage, which in certain cases can be lower than the minimum wage, is the base for income tax
• **In RS** the stipulated minimum wage for 2017 is 395.00 KM.
• **BD regulations** (for now) do not contain a regulation which governs minimum wage

7.4 Hot meal allowance

(non-taxable) is regulated differently by three regulations:

• In FBiH, an employee may receive cca 180 KM (cca 8.30 KM x 22 working days), in cash or in organised catering,
• in RS BD cca 100 KM (4.5 KM x 22 working days) in organised catering and
• in BD cca 100 KM (4.5 KM x 22 working days) in organised catering.

7.5 Reimbursement for transportation costs to/from work

(non-taxable) is regulated in the same amount;

7.6 Per diem a nd travel expenses

(non-taxable) is regulated differently:

• 25 KM in FBiH
• 20 KM in RS
• 50 KM in BD

7.7 Vacation allowance

(non-taxable) is regulated differently:

• In FBiH, an employee can receive 50% of the average 3 monthly net salary in FBiH (cca 415 Km annually)
• Vacation allowance in RS is taxable in its entirety;
• Vacation allowance in BD is taxable in its entirety;
Funeral costs allowance (non-taxable) is regulated differently:

• In FBiH, the actual costs of the funeral, and max. 4 average net wages in FBiH in the last four months;
• In RS, the actual costs of the funeral, and max. 3 average wages of the employee in the previous 3 months
• In BD, the actual costs of the funeral, and max. 3 average wages of the employee in the previous 3 months.

7.9 Personal allowances:

• In FBiH, the personal allowance is 3,600 KM / year, i.e. 300 KM / month + 0.5 of the personal allowance for a dependent spouse and the first child, 0.7 for the second child, 0.9 for the third and every next child, 0.3 of the personal allowance for every other dependent member of the immediate family, 0.3 of the personal allowance for personal disability and disability of an immediate family member.

• In RS, the personal allowance is 2,400 KM / year, i.e. 200 KM / month, + right to an allowance for a dependent member of the immediate family in the amount of 900 KM / year (75 KM month).
• In BD, the personal allowance is 3,600 KM / year, i.e. 300 KM / month + 0.5 of the personal allowance for dependent children, spouse or other dependent family member, as well as on the basis of a life-long maintenance contract, 0.1 for established personal disability and that of a dependent member of the immediate family.

Although all three regulations set the income tax rate at 10%; the effective rate, due to differences in the tax base, differs substantially.

8.0. Social Security Contributions

8.1 Contribution rates

8.1.1 Federation of BiH

Contribution rates borne by the employee are:

Pension and disability insurance 17% on gross	17.0%
Health insurance 12.5%	12.5%
Unemployment insurance 1.5%	1.5%
Total borne by the employee on the gross wage	31.0%

Contribution rates borne by the employee are:

Pension and disability insurance 6% on gross	6.0%
Health insurance 4%	4.0%
Unemployment insurance 0.5%	0.5%
Total borne by the employer on the gross wage	10.5%

Total contributions on gross wage in FBiH	**41.5%**

8.1.2 Republic of Srpska

Pension and disability insurance on gross	18.5%
Health insurance on gross wage	12.5%
Unemployment insurance on gross wage	1.0%
Contribution for child protection on gross wage	1.5%
Total contributions on gross wage in RS	33.0%

8.1.3 Brčko District

Pension and disability insurance % if registered with RS PDI (PIO) Fund	18.0%
Pension and disability insurance % if registered with FBiH PDI (PIO) Fund	23.0%
Health insurance on gross wage	12.0%
Contribution for employment on gross wage	1.5%
Total contributions on gross wage if employee is registered with PDI RS	31.5%
Total contributions on gross wage if employee is registered with PDI FBiH	36.5%

Since BD does not have its own pension insurance fund, employees who earn a wage in BD choose between PDI RS or PDI FBIH and, accordingly, pay their contributions for pension insurance in line with regulations of RS or FBIH. Because of this, total contributions for social insurance vary depending on the pension fund with which BD employees are registered.

1.0 Introduction

Currency: **Kuna (HRK)**

1 EUR = 7,513648

(middle exchange rate on 31.12.2017)

1.1 Legal forms

For legal and natural persons who intent to start a company in Serbia, following legal forms are available:

Legal form
Craft
Limited liablity company (d.o.o.)
Simply Limited Liability Company (j.d.o.o.)
Joint-stock company (d.d.)
Public company (j.t.d.)
Limited company (k.d.)
Economic Interest Association (GIU)
Representative office

The lowest amount of initial capital for establishing a joint stock company is HRK 200,000 and the nominal value per share cannot be less than HRK 10 HRK. Foreign investors can acquire ownership and shares of joint stock companies.

Minimum initial capital for establishing a limited liability company is HRK 20,000, while individual representation per investor cannot be less than HRK 200. Company that has no more than three members and one Board member may be established through a simplified procedure as a simple limited liability company. Minimum initial amount for the establishment of such company is HRK 10, while individual representation per investor cannot be less than HRK 1.

1.2 Financial Reporting

Financial reporting by IFRS (International Financial Reporting Standards) is regulated by the Regulation of the European Parliament (1606/2002). The application of IFR in the Republic of Croatia is regulated by the Accounting Act.

The taxpayers are large entrepreneurs and entrepreneurs whose shares or debt securities are listed, or are preparing for their inclusion in the organized securities are listed, or are preparing for their inclusion in the organized securities market.
Small and medium-sized entrepreneurs may, if they so wish, apply IFRS in their entirety or apply standards issued by the Financial Reporting Standards Board.

The financial statements, individually and consolidated are: balance sheet, profit and loss account, statement of

changes in equity, cash flow statement and notes to financial statements.

By 30 April of the current year, companies and other entrepreneurs are required to compile and submit their annual financial statements for the previous year to their competent authorities. The financial statements are also used for statistical purposes and are submitted to the Financial Agency who collects and processes them within the scope of the statistical research program. Deadline for submission of financial reports for public announcement is June 30.

Micro and small entrepreneurs compile a statement of financial position (balance sheet), profit and loss account and notes to financial statements, while medium and large entrepreneurs, together with the above-mentioned reports, have to compile and submit for public disclosure and cash flow statement, statement of changes in equity and annual report.

Business entities subject to audit are also obliged to submit to the financial statements for public disclosure the auditor's report, and all entrepreneurs, irrespective of size, are obliged to submit to the public, the decisions of their competent authorities on the determination of annual financial statements and decisions on the distribution of profits or losses.

Affiliated entrepreneurs also prepare consolidated financial statements in which the business group information is presented as a whole. Consolidated reports are compiled for the entire group.

1.3 Obligation to carry out audit

According to the Accounting Act, which entered into force on 1 January 2017, the following legal persons are obliged to audit the annual financial statements and / or annual consolidated financial statements:

1. Entities of public interest, and large and medium-sized entrepreneurs that are not subjects of public interest
2. Entities that are parent companies of large and medium-sized companies, if they are not required to audit (parent companies of small groups that are not required to compile annual consolidated financial statements are not subject to revision)
3. Joint stock companies, limited companies and limited liability companies whose individual or consolidated data in the year preceding the audit exceed the indica-

tors in at least two of the following three conditions:
- amount of total assets HRK 15,000,000.00
- the amount of income HRK 30.000.000,00
- the average number of employees during the business year is at least 25

4. Entrepreneurs who have applied for the incorporation of their securities into a regulated market

5. Entrepreneurs who are engaged in business acquisitions, mergers or divisions as a takeover or newly established companies.

Auditing services in the Republic of Croatia are carried out by an audit firm that has a work permit issued by the Ministry of Finance and must have at least one authorized auditor. A statutory audit in the Republic of Croatia may also be performed by an audit firm from another Member State that is registered by the Ministry of Finance.

Obligations of statutory auditors appoint a statutory audit firm no later than three months before the end of the reporting period to which the statutory audit relates in accordance with the law regulating the companies.

1.4 Classification of legal forms by size:

According to the Accounting Act, entrepreneurs are classified into micro, small, medium and large depending on the indicators established on the last business day preceding the business year for which the financial statements are prepared. Indicators based on which entrepreneurs are classified are the amount of total assets, the amount of income and the average number of employees during the business year.

Classification according to size	Criteria
Micro (if they do not exceed 2 out of 3 criteria)	1) Assets 2.600.000,00 HRK 2) Revenue 5.200.000,00 HRK 3) Number of employees – 10 employees
Small (if they do not exceed 2 out of 3 criteria)	1) Assets 30.000.000,00 HRK 2) Revenue 60.000.000,00 HRK 3) Number of employees – 50 employees
Medium sized (if they do not exceed 2 out of 3 criteria)	1) Assets 150.000.000,00 HRK 2) Revenue 300.000.000,00 HRK 3) Number of employees – 250 employees
Large sized (if they do not exceed 2 out of 3 criteria)	

2.0 Profit tax

Profit taxpayers are the following categories of legal entities:

1. A taxpayer is a company or another legal or natural person that is a resident of the Republic of Croatia and performs its economic activity independently, permanently, and in order to achieve profit, income, or revenue, or other business relevant benefits.

2. A taxpayer is also a domestic business unit of a foreign entrepreneur (non-resident).

3. A taxpayer is also a natural person who generates income pursuant to the regulations on income taxation if they declare that they will pay profit tax instead of income tax.

4. A taxpayer is also natural person who generates income from crafts or activities equal to crafts pursuant to the regulations on income tax:

a) if in the previous taxation period they generated a total receipt of above HRK 3,000,000.00, or

b) if they fulfil two of the following three conditions:

– in the previous taxation period, they generated income above 400.000,00 HRK

– have fixed assets in the value of above 2,000,000.00 HRK

– in the previous taxation period, they employed more than 15 employees on average

5. State institutions, institutions of units of regional self-government, institutions of units of local self-government, state institutes, religious communities, political parties, trade unions, chambers, associations, artistic associations, voluntary firemen associations, technical culture associations, tourist boards, sport clubs, sport societies and associations, trust funds and foundations are not profit tax payers.

6. A taxpayer is any entrepreneur, and who is not an income tax payer pursuant to the regulations on income taxation and whose profit is not taxed elsewhere.

The tax base is the profit that is assessed pursuant to accounting regulations as the difference between revenue and expenditures before the profit tax calculation, increased and reduced pursuant to the provisions of this Act.

2.1 Determination of the tax base

The tax base is the profit that is assessed pursuant to accounting regulations as the difference between revenue and expenditures before the profit tax calculation, increased and reduced pursuant to the provisions of this Act. The tax base of a resident taxpayer consists of profit generated domestically and abroad, while the tax base of a non-resident consists only of profit generated domestically.

The tax base includes profit from liquidation, sales, change of legal form and division of the taxpayer, and the tax base is determined according to the market value of assets.

Expenditures shall also mean expenditures on the basis of paid premiums of occupational retirement provision paid by the employer for the benefit of the employee, with their consent, to a domestic occupational retirement provision fund, Expenditures in the taxation period shall not mean expenditures not related to performance of the taxpayer's activity nor a consequence of the performance of the activity.

The profit tax is paid based on the determined tax base at the rate of:

1. 12% if, during the taxation period, revenue has been generated up to HRK 3,000,000.00, or
2. 18% if, during the taxation period, revenue has been generated equal or higher than HRK 3,000,000.01.

The taxpayer shall submit a profit tax return for the taxation period and pay profit tax by the deadline in which it submits the tax return. The profit tax return is submitted to the Tax Administration no later than four months after the expiration of the period for which profit tax is determined. The liability to pay the tax calculated in the tax return for individual taxation periods is reduced by the paid profit tax advance. Paid tax advances larger than the liability based on the tax return are returned to the taxpayer on its demand, or set-off for the next period.

The taxpayer that in the previous taxation period has not generated revenue of more than HRK 3,000,000.00 may determine the tax base according to the cash method of accounting. Then the tax base before the prescribed additional increases or reductions, is increased or reduced by certain non-monetary transactions and non-realised gains/losses, and certain monetary transactions and realised gains/losses.

The tax base of the taxation period is additionally reduced:

1. Revenues from value adjustments of financial assets
2. Revenues from provisions
3. Revenues from non-realised exchange rate differences
4. Increased short-term claims on the basis of interests deducted as revenue
5. Other corrections decreasing profit

The tax base of the taxation period is additionally increased:

1. By expenditures from value adjustment of stocks and shares (non-realised losses) if they were expressed in expenditures.
2. By the amount of amortisation above the amounts provided in this Act.
3. By 50% of representation costs, to the amount of costs created in the business relation with the business partner.
4. By 30% of the costs, except insurance and interest costs, due to own or rented motor vehicles and other personal transportation methods of managing and other employed personnel.
5. By deficits on assets above the amount determined by decision of the Croatian Chamber of Economy or the Croatian Chamber of Trades and Crafts, within the meaning of value-added tax regulations, on the basis of which income tax is not paid.
6. By costs of compulsory recovery of tax or other duties.
7. By the fines pronounced by a competent authority.
8. By default interests between associated parties.
9. By benefits and other forms of proceeds given to natural or legal persons for a certain event to take place, that is, not to take place, i.e. for performance of a certain action, for example, better or faster than usual, or for its non-performance.
10. By gifts.
11. By interests that are not a tax deductible expenditure as per the provisions of this Act.
12. By expenditures determined in the process of supervision with the associated value-added tax, income tax, income tax surtax, and obligatory contributions created in relation to hidden profit payments, and exemption of shareholders, company members and natural persons performing a self-employment activity from which profit tax is paid, and parties related to them.
13. By all other expenditures not directly related to profit generation and other amounts increasing the tax base that were not included in the tax base.

2.1.1 Interest for shareholders and company members non-residents loans

Tax base is increasing for interests that are not a tax deductible and that include interest for loans accepted from shareholders or company members holding at least 25% of the stocks or capital shares or voting rights in the taxpayer, if at any time during the taxation period these loans exceed four times the amount of the share of that shareholder or company member in capital or voting right, determined in relation to the amount and loan period during the taxation period, except interest for loans by financial organisations. Loans of shareholders or company members shall also mean loans by third parties vouched for by the shareholder or company member, and loans from associated parties. The amount of the shareholder's or company member's share in the loan user's capital is determined for the taxation period as the average capital paid, profit kept and reserves on the last day of every month of the taxation period.

2.1.2 Amortization of long term assets

Amortization of fixed tangible and intangible assets is recognised as expenditure to the amount calculated for procurement costs using the linear method and applying annual amortization rates. Amortization is calculated individually. Long-term tangible and intangible assets are considered items and rights whose individual cost of purchase is higher than HRK 3,500.00 and has a duration of more than one year.

Amortization is not subject of land, forests and similar renewable natural resources, financial assets, cultural monuments and works of art. The annual amortization rates are determined according to the amortisation period for taxation purposes, for individual groups of fixed assets:

1. For real estate and ships larger than 1000 GRT (20 years), 5%

2. For the basic herd, personal automobiles (5 years), 20%

3. For intangible assets,equipment, vehicles, except for personal automobiles, and for machinery (4 years), 25%

4. For computers, computer equipment and programmes, mobile telephones and computer network equipment (2 years), 50%

5. For other unmentioned assets (10 years), 10%.

Annual amortisation rates may be doubled If the taxpayer calculates amortization in the amount that is lower than the one permissible by tax, amortization calculated in this manner shall be considered a tax deductible expenditure.

Amortization cost for a fixed asset object is recognized as tax expenditure from the first day of the month after the month in which fixed assets were put to use. Amortisation cost for sold, gifted, otherwise alienated or destroyed fixed assets is recognised as tax expenditure until the end of the month in which fixed assets were put to use. Unamortised acquisition cost for fixed assets is recognized as tax expenditure in the taxation period in which fixed assets were sold, gifted, otherwise alienated or destroyed.

2.2 Tax incentives and investment allowances

2.2.1 Tax subsidies

Tax subsidies for micro-entrepreneurs are a reduction of the profit tax rate by 50% of the prescribed rate over a period of up to five years, subject to a minimum investment of EUR 50,000 in long-term assets and the opening of at least 3 new jobs linked to the investment project, within a period of one year from the opening.

Tax subsidies for small and medium-sized and large entrepreneurs are included in the reduction of the tax rate of 50-100% of the prescribed rate over a period of 10 years, with the requirement of investment in long-term assets and the creation of new jobs related to the investment project in a three-year realization period project. Reducing the tax rate depends on the amount of investment and the number of new jobs.

Ammount of investment	Min. number of new jobs	Reduction of profit tax rate	Max. period of use
≥ 50.000 EUR	3	50%	5 years
150.000 – 1 mil. EUR	5	50%	10 years
1 – 3 mil. EUR	10	75%	10 years
Over 3 mil. EUR	15	100%	10 years

2.2.2 Subsidies for jobs

Non-refundable aid for eligible costs of new jobs related to the investment project are in the amount of 10 to 30% of the total cost of two-year salary (gross 2), ie max. from 3.000 to 9.000 euros per new job, depending on the unemployment rate in the county where the investment project is realized.

2.2.3 State Aid for Education and Training

The intensity of state aid for justified training costs for new workplaces associated with the investment project does not exceed 50% of the eligible training costs and can be increased by up to 70% as follows:
- for 10% in case of both general and specific education and training of a disadvantaged worker.
- for 10% if aid is awarded for medium sized entrepreneur
- for 20% if aid is awarded for small and micro entrepreneur

The amount of non-refundable aid for training may amount to up to 50% of non-refundable aid for the creation of new jobs linked to the investment.

2.2.4 Incentive measures for large investment projects - investment projects of significant economic interest.

For investment in development and innovation activities, additional incentive measure for new job creation costs (up to 50%) is approved for investment in activities that impact on the development of new and significant improvements in existing products, production batches, processes and technologies.

For the large investment projects, the carrying-out of which implies the construction of new or extension or enlargement of the existing infrastructural facilities and installations linked to the investment, a non-repayable grant not exceeding 5 % of the actual costs of the construction of new or extension or enlargement of the existing infrastructural facilities and installations shall be awarded, subject to a maximum amount of EUR 500,000 expressed in legally equivalent HRK value.

For investments in high-value-added services activities, additional aid is granted for job creation costs (25% increase) for investment in projects eg in the tourism sector (such as projects to be made on accommodation facilities: hotel, aparthotel, tourist village or camping category 4 or more, health, congress, nautical or cultural tourism, as well as entertainments and recreational centers).

In addition to tourism projects, there are activities of creative services (activities in the field of architecture, design, promotion and other other activities in the field of art), as well as activities of management, advisory, educational services and activities of industrial engineering services.

2.2.1 Tax s2.2.5 Incentive measures for the capital costs of the project investment

Incentive measures for capital investment costs of the investment project are approved for production-related manufacturing activities, for investment in fixed assets of at least 5 million EUR, with the requirement of opening at least 50 new jobs.

It is a requirement that the share of investment in machinery / equipment amounts to at least 40% of the total value of the investment project, and at least 50% of the purchased machinery / equipment must be technologicaly equipment to the highest standard.

These non-refundable grants in max. of 0.5 or 1 million euros, depend on the unemployment rate in the county where the investment project is realized.

Amount of investment	New jobs	County unemployment rate	Amount of measure (percentage of capital costs)
≥ 5 mil. EUR	≥ 50	10-20%	10%, max 0,5 mil. EUR
		Over 20%	20%, max 1 mil. EUR

2.2.6 Incentive measures for labor-intensive investment project

Incentive measures for labor-intensive investment projects are additional aids for job opening costs for entrepreneurs who employ a minimum of 100 or more persons in a investment project, within a period of 3 years after the start of the investment.

Amount of new workplaces		
≥ 100	≥ 300	≥ 500
Increase of aid for job creation for:		
+ 25%	+ 50%	+ 100%

2.3 Taxation of associated companies

Within the meaning of this Act, associated companies are companies that may be in a mutual relationship as:

1. A company that
2. Controlling and controlled undertaking.
3. Companies belonging to a consortium.
4. Companies with mutual shares and connected in such a way that each company has more than a fourth of shares in another company.
5. Companies connected by entrepreneurial contracts as follows: contracts on the management of the company business, contracts on the transfer of profit and other entrepreneurial contracts entered in the court register.

Consolidated annual financial statements are financial statements of a group of entrepreneurs in which a certain entrepreneur (parent company) has a right to manage financial and business policies of one or more entrepreneurs (subsidiary company) and thus exercises dominant influence (control), and are presented as integral financial statements.

Consolidated annual financial statements shall be drawn up by the entrepreneur who represents the parent company in the group of entrepreneurs.

2.3.1 Transfer pricing

In the case of transactions between related parties, if the agreed price or conditions differ from the price or conditions that would have been agreed between non-related parties, the whole amount of the profit that would have been realised between non-associated parties will be included in the associated parties' tax base.

When determining and assessing whether business relationships between related parties are contracted at market prices, the following methods are used:
1. Comparable Uncontrolled Price (CUP) method
2. Cost plus method (method of cost plus gross margin)
3. Resale price method (RPM)
4. Profit split method
5. Method of net gains

When selecting and applying a method for determining whether a transaction has been carried out at normal market prices, the following should be done:

1. Identify the chosen method and state the reasons why this method was chosen.
2. Describe the analyzed data, methods and analyzes

carried out to determine the transfer prices and explain why this method was chosen.

3. Compile documents on assumptions and estimates made and made during the determination of the results according to the principle of an impartial transaction (refer to comparability, functional analysis and risk analysis).

4. Compile documents on all the calculations made when applied selected method related to the taxpayer and the taxpayer with whom it is compared.

5. Appropriately update the documents from the previous years that it relied on during the current year, in order to show adjustments due to material changes in relevant facts and circumstances.

6. Compile documents which state the underlying (basis), or on the other way support or are mentioned during the work on the analysis of transfer prices.

2.3.1.1 Transfer pricing study

Business relations between related persons will be recognized only if the taxpayer possess and at the request of the Tax Administration provides dat and information about related persons and business relations with these persons, the methods used to determine comparable market prices and the reasons for choosing specific methods. Therefore, with the Law on Profit Tax in Croatia, OECD guidelines on transfer pricing, and internal manual of the control of transfer pricing formal document has been prescribed - Transfer pricing study.

Transfer pricing documentation is a material that covers the whole process of determining transfer pricing and the conditions and circumstances under which they are determined. The basic purpose of transfer pricing documentation is to show clearly that transfer prices are formed in accordance with the regulations, ie in accordance with the principle of an impartial transaction.

The Croatian legislation does not provide detailed elaboration and specific instructions for transfer pricing documentation, but the OECD Guidelines provide guidance that facilitates tax supervision and helps taxpayers to determine the type and scope of documentation required to prove the application of the principle of an impartial transaction when determining transfer prices. In addition, the European Commission formed a Transfer Pricing Forum that provided the scope and content of transfer pricing documentation to provide data essential for assessing the application of the principle of independence. The EU-TPD Code recommends that transfer pricing documentation be divided into two parts:

1. General part (Master file) - documentation on the presentation of a group of related persons.
2. Special part (Country–specific file) – documentation of each particular related company.

The documentation must be clear and accurate, updated and available when conducting transactions with related persons and no later than the submitting of the tax return. The transfer pricing documentation must be kept and the taxpayer must be prepared to present it in case of tax audit.

2.4 Permanent establishment

Permanent establishment is defined as fixed place of business through which a business activities of non-resident are performed, especially the following:
1.Headquarters of the administration
2. Branch
3. Office
4. Factory
5. Workshop
6. Mines, an oil or gas source, a quarry or any other place of exploitation of natural resources.
7. A construction site, or a construction or assembly project that constitutes a permanent establishment unit only if it lasts longer than six months.

A business establishment is not considered to be the place of business of a foreign entrepreneur, a non-resident, who is involved in the following:
1. Uses spaces only for storing, disassembling or delivering products or goods.
2. Uses stock of goods or merchandise only for storage, disassembly or delivery of goods or products.
3. Uses stock of products or goods only for processing by side of another person.

4. Uses the place of business only for the purpose of purchasing goods or products respectively collecting information for themselves.
5. Uses a business place only for its preparation or auxiliary activities.
6. Uses a business place for any combination of these activities.

The tax base of non-resident business units is determinded profit that can be ascribed to a business unit in the Republic of Croatia in accordance with the Law on Profit Tax.

When determining the tax base, the profit of the business unit must correspond to the profit that a business unit would have realized if it were a separate and independent company that is doing the same or similar business under the same or similar circumstances.

3.0 Value added tax

Taxpayers of value added tax are:
1. Any person who independently performs any economic activity regardless of the purpose or result of that activity performance.
2. Any person who occasionally supplies new means of transport.
3. The taxable person (acquirer) has no headquarters or permanent residence and is not registered for VAT purposes on the home territory, but is registered for VAT purposes on the territory of the European Union in some other Member State.
4. The term taxable persons shall not refer to state government bodies, state administration bodies, the bodies and units of local and regional self-government, chambers and other bodies governed by public law or when they collect charges, fees or other payments related to the performance of activities or transactions within their scope or authority. If the performance of those activities as if they are not taxable persons would cause considerable detriment to the market competition principle in the performance of such activities or transactions, those bodies shall be deemed to be taxable persons in relation to those activities or transactions.

Taxation subject	Tax base
The supply of goods on the home territory for consideration, performed by the taxable person acting as such	Fee for supplied goods
The supply of goods on the home territory for consideration	Includes all that the acquirer has given or needs to give to the supplier (determined on the basis of the same elements as the tax base for the delivery of the goods)
Delivery of new means of transport	Fee for delivery of new means of transport
Supply of services on the home territory for consideration performed by a taxable person acting as such.	Fee for performed services
The supply of goods for consideration shall refer to the use of goods which form part of the taxable person's business assets for his private purposes or for the private purposes of his employees, if they dispose of the assets without consideration or if they generally use them for purposes other than for the performance of the taxable person's activities, and if input tax has been entirely or partially deducted for those goods or their parts.	The purchase price of those and similar goods, and if that price is unknown, the amount of costs determined at the moment of supply.
The use of goods which form part of the taxable person's business assets for his private purposes or the private purposes of his employees or generally for purposes other to perform his activity, for which input tax was entirely or partially deducted.	Total cost of supplying services.
The supply of services without consideration by a taxable person for his private purposes or the private purposes of his employees or generally for purposes other than to perform his activity	Total cost of supplying services.
Import of goods.	Customs value determined in accordance with customs regulations.

Value Added Tax (VAT) is calculated and paid at a rate of 25%.

VAT is calculated and paid at a reduced rate of 5% on deliveries of the following goods and services:

1. All types of bread
2. All types of milk
3. Books of professional, scientific, artistic, cultural or educational content, textbooks for education, for primary, secondary and tertiary education, in all physical forms,
4. Medicines on prescription which have the approval of the competent authority for medicines and medical products.
5. Medical equipment, aids and other devices used for relief in disability treatment.
6. Cinema tickets.
7. Newspaper of the newspaper publisher which has the status of a medium, printed or paper and published daily, other than those that, in whole or in part, contain advertisements or serve for advertising.
8. Scientific journals.

VAT shall be calculated and paid at a reduced rate of 13% on supply of the following goods and services:

1. Accommodation services or accommodation with breakfast, half board or full board in hotels and similar facilities, including holiday accommodation, rental of premises in recreation camps or in places designated for camping and accommodation in nautical tourism facilities on water.
2. Newspapers and periodicals of a newspaper publisher with the status of a medium, as well as newspapers and periodicals of a newspaper publisher for which there is no obligation to issue the medium status under special regulation.
3. Edible oils and fats of plant and animal origin.
4. Child car seats, baby food and processed cereal-based food for infants and young children.
5. Supply of water, other than water marketed in bottles or other packaging, in terms of public water supply and public drainage under special regulation.
6. Concert tickets.
7. Supply of electricity to another supplier or end user, including fees related to that supply.
8. Public service of collection of mixed municipal waste, biodegradable municipal waste and separate collection of waste under special regulation.
9. Urns and coffins.
10. Bedding plants and seeds.
11. Fertilizers, pesticides and other agrochemicals.
12. Feed, other than pet food.

Taxpayers who achieve the value of goods supply or performed services greater than HRK 300,000.00 (without VAT) in 2017 shall be obliged enter into the registry of VAT taxable persons as of 1 January 2018.

3.1 Threshold of acquisition

The threshold for the acquisition of goods is not determined for taxpayers who perform taxable deliveries. The threshold is determined for the acquirers - legal persons who:
a) Are not tax payers.
b) People who are not in the VAT system.
c) An acquirer who does not have the right to deduct VAT.

Treshold of acquistion are received services over 10.000,00 € (77.000,00 HRK) without VAT, and supplies below the threshold - deliveries from another Member State are taxable in the country of origin.Acquirers must have VAT identification number, they are paying VAT on acquisition, but they do not have right to deduct VAT. For over treshold acquisition - deliveries to member states are exempted and the acquisition is taxable in a Member State of destination. In case of new means of transport, a taxable person or a non-taxable legal person whose other acquisitions are not subject to VAT taxation.

3.2 Supply treshold

Supply threshold is prescribed by each member in the amount between 35,000.00 and 100,000.00 €. In Croatia, the threshold is 270.000,00 HRK. If the supplier from some Member States exceeds the delivery of the goods prescribed by the member from which the natural person obtains, the place of suply shall be deemed to be the place where the shipment or means of transport are completed.

When crossing the threshold, VAT needs to be registered in the country where the threshold has been crossed. Supply treshold refers to the total value of supply delivered by the supplier to the natural persons in the other Member State in the previous year, or if that threshold is crossed in the current year. If the supplier has not crossed that threshold, goods are taxed according to his residence.
Taxpayers and legal persons participating in deliveries of goods and services on the EU market have a VAT number that consists personal identification number with added HR before it. The VAT number must be displayed on the invoice, and verification of the number is possible via the VAT information exchange system (VIES).

3.3 The supply of goods on the home territory

The supply of goods for consideration shall not refer to the free awarding of samples in reasonable amount to buyer or future buyers and awarding gifts of little value carried out by the taxable person as part of his economic activity, under the condition that those gifts are given occasionally and not to the same persons. Gifts of little value refers to gifts with value under HRK 160.00.

3.4 Supply of goods inside EU

Acquisition of goods within the EU is considered to be a supply of goods in the EU Member State, provided that the shipment is not shipped to a customer in the same Member State.

Acquirer taxpayer of a Member State other supplier does not calculate VAT - the acquirer in the tax return reports the obligation, without cash flow, or payment obligation, since in the same VAT application is entitled to tax deduction, on the basis of acquisition of that same goods.

To the acquirer taxpayer of a member state who is not entitled to input tax deduction, the supplier of the other member does not calculate the VAT, the acquirer in the tax return reports the obligation, but is not entitled to a deduction, and the obligation to pay VAT will be determined.

An acquirer of a member state who is not a taxpayer, and purchases goods in an EU Member State, the supplier will calculate VAT, and the acquirer has the right to claim the VAT refund that he paid upon acquiring ("import") if he proves that VAT is charged for the acquisition of goods in another EU Member State.

Acquisition of new means of transport acquired by taxpayers or legal entities other than taxpayers, small taxpayers and taxpayers who are not entitled to deduct VAT are always taxable in the Member State of destination.

Acquisition of excise products by taxpayers or non-taxpayers is always taxable in the Member State of destination.

Moving the business assets of a taxpayer who, for the purposes of his business, is dispatched to another Member State, is considered to be a supply of goods with fee.
An application for the acquisition of goods and the receipt of services shall be submitted by the 20th of the month following the expiration of the accounting period. The payment obligation is due on the last day of that month.

3.5 Import of goods

A chargeable event and the obligation to calculate VAT on import of goods shall arise at the moment the goods are imported. If imported goodsare subject to customs duties, agricultural duties or charges having equivalent effect as established in accordance with the common policy of the European Union, the chargeable event and obligation to calculate VAT shall arise when the requirements for the calculation and collection of those charges are met.

3.6 Free zone

The free zones are, in the fiscal sense, included in the territory of the Republic of Croatia. According to the current law on VAT, free zones, and customs warehouses are foreign territories and deliveries are exempt from VAT payments.

3.7 Supply of services on the home territory for consideration

A service is considered to be any transaction that is not considered as delivery of goods. Taxation of services between domestic taxpayers is prescribed by the provisions of the VAT Act. In taxing the so-called "foreign" services so far, the following principles are applied:
1. The recipient country, when it comes to trade between two taxpayers.
2. The country of the service provider, when it comes to a recipient of a service who is not a taxpayer.

<u>Exceptions are also prescribed:</u>
1. Intermediary services performed to persons who are not taxpayers: taxation on the location where the transaction is completed .
2. Real estate services are taxed according to the location where the real estate is located.
3. Passenger transport services are taxed at the location where the transport is carried out in proportion to the distance traveled.

3.8 Place of supply of the goods

The place of supply determines place where the supply of goods is taxed according to the principle:
1. Country of origin – as a rule for supply for final consumption.
2. Country of destination – for deliveries between two taxpayers.
3. Place of goods supply without transport – the place of supply of goods not dispatched or transported shall be the place where the goods are located at the moment of supply.
4. Place of goods supply with transport – The place of supply of goods dispatched or transported by the supplier, buyer or a third person shall refer to the place where the goods are located at the start of the dispatch or transport to the buyer. When goods supplied are dispatched or transported from a third territory or a third country and if the supplier imports them into a Member State which is not the Member State in which the dispatch or transport ends, it shall be deemed that the goods were dispatched or transported from the importing Member State.
5. Place of goods supplied on vessels, in aircraft or on trains – the place of supply of goods supplied on vessels, in aircraft or on trains during a section of passenger transport performed in the European Union shall be the starting place of passenger transport.

3.9 Place of supply of services

1. The principle of country of origin - for the supply of goods for final consumption (except for new cars and distance selling)
2. The Principle of Destination Country - for goods supply between entrepreneurs
3. The principle of the recipient - for B2B services (business to business)
4. Provider country principle – for B2C services (business to consumer)
5. Exemptions from the general principles of taxation of services (B2C intermediary services, real estate services, asset evaluation services and works on these assets, culture services, food preparation services - In each transaction, it is necessary to determine which service it is doing)

3.10 VAT report

The VAT report shall be submitted by the 20th day of the month following the end of the taxation period. The taxable person shall submit the final VAT calculated for 2017 by the end of February 2018 to the competent Tax Administration office on the basis of his headquarters or permanent or habitual residence. Report for the acquisition of goods and received services from other European Union Member States shall be submitted by the 20th day of the month following the end of the taxation period.

A taxable person who acquires new means of transport within the European Union shall submit a report for the acquisition of new means of transport within 10 days of the date of new means of transport acquisition. The report shall not be submitted by the taxable person who uses new means of transport for further sale.

A taxable person registered for VAT purposes shall submit a Recapitulative Statement on the following:
Acquirers registered for Vat purposes to whom he supplied goods, and for the transfer of goods, persons registered for VAT purposes to whom he supplied goods that were supplied to him as part of acquisitions within the European Union, taxpayers and legal persons who are not taxable persons, and who are registered for VAT purposes, to whom he supplied services, other than services that are VAT exempt in the Member State where the transaction is taxable and for which the recipient is liable to pay VAT.

The Recapitulative Statement shall be submitted no later than on the 20th day of the month following the end of the taxation period.

3.11 VAT refund

VAT refund upon VAT return - If the taxable person requests the refund of overpaid VAT, the Tax Administration shall return the difference within 30 days of the day of VAT return submission, and no later than 90 days from the day the tax audit was initiated.

VAT refunds to taxpayers who do not have a head office within the EU - a taxpayer has the right to VAT refund charged by other taxpayers in the Republic of Croatia for deliveries of movable goods and services or when importing goods into the EU. The application is submitted to the Tax Administration no later than the 30th of June of the calendar year following the year in which the right to a refund is realized.

VAT refund to taxable persons established in another Member State - A taxable person who does not have headquarters in the Republic of Croatia but in another Member State shall have the right to return of VAT

charged for goods and services supplied or performed for them by other taxable persons on the home territory or for goods imported on the home territory Within the meaning of this VAT refund procedure, certain terms shall have the following meanings:

- During the return period, the taxable person did not have headquarters or permanent establishment from which business transactions were made nor did he have a permanent or habitual residence if such headquarters or permanent establishment did not exist.
- During the period to be refunded, the taxable person did not supply goods or services which are deemed to be supplied on the home territory, other than transport and transport-related services that are VAT exempt.
- Services and goods supply to a recipient who is not required to pay VAT.

4.0 Income tax and other taxes

Tax payers of income tax are:
1. A natural person who generates an income,
2. The taxpayer shall also be an heir of all tax liabilities arising from income which the deceased generated before his or her death. The heir shall at the same time be the payer of income tax for the income from inherited income sources.

Sources of income:
1. Income from employment.
2. Income from self-employment.
3. Income from property and property rights.
4. Income from capital.
5. Income from insurance.
6. Other income.

The resident shall be a natural person with permanent residence or habitual residence in the Republic of Croatia. The resident shall also be a natural person without permanent residence or habitual residence in the Republic of Croatia, employed in the civil service of the Republic of Croatia and receiving a salary on these grounds.

The non-resident shall be a natural person who has neither permanent residence nor habitual residence in the Republic of Croatia but has generated income in the Republic of Croatia which is taxed according to the provisions of this Act.

Tax base	Subject of taxation
Resident	The total amount of income from employment, income from self-employment, income from property and property rights, income from capital, income from insurance and other income that a resident earns in the country and abroad (the principle of world income) and reduced for personal allowance for the resident.
Non-resident	The total amount of income from employment, income from self-employment, income from property and property rights, income from capital, income from insurance and other income that the non-resident earns in the country (the principle of domestic income), reduced by a personal allowance for non-residents.

Income from self-employment, that resident realizes in the country and abroad and non-resident in the country, is reduced:

1. For the amount of salary of newly-employed persons.
2. For state aid for education and training and for apprenticeship for craft professions under special regulations.
3. For the amount of research and development expenditures.
4. For the deferred loss, after the deduction referred to in points 1. , 2. and 3. , which the resident achieved on the basis of self-employment in the country and abroad and which the non-resident achieved in the country.

Tax base	Subject of taxation
24%	up to 210.000,00 HRK annualy (do 17.500,00 HRK monthly)
36%	over 210.000,00 HRK annualy (over 17.500,00 HRK monthly)

The basic personal allowance amounts to HRK 3,800.00, and deductions for other allowances are counted as a multiplication factor of a personal allowance and a base of HRK 2,500.00. Supported members of immediate family and children may be persons whose taxable income and other receipts for which the tax is not paid does not exceed the annual amount of HRK 15,000.00.

Supported members of the immediate family are: a spouse, parents of the taxpayer, children after their first employment and adult persons for whom the taxpayer has been appointed as a guardian according to a separate act.

The generated income of a non-resident from Article 13 of this Act shall be decreased by the basic personal allowance from Article 14 paragraph 3 of this Act for the months in which income in the country has been generated.

4.1 Contributes from and on salary

Contributions are grants that go to the state and opposed to the tax, are used for accurately defined state expenditures.

Contributions are divided into two groups:

Contributions from salaries
It refers to contributions paid by workers from earned wage. We distinguish:
1. Contribution to pension insurance on the basis of generational solidarity (15%) – I. pillar
2. Contribution to pension insurance based on individual capitalized savings (5%) - II. pillar

These are calculated according to the formula:
Amount of contribution = Gross salary x percentage of wage contribution

Contributions on salary
It refers to the contributions that the employer pays for each employee. We distinguish:
1. Contribution for health insurance (15%)
2. Contribution to health protection at work (0.5%)
3. Employment Contribution (1.7%)
4. Contribution to pension insurance based on generational solidarity (for beneficiaries only)
5. Contribution to pension insurance based on individual capitalized savings (for beneficiaries only)

4.2 Tax reliefs on income tax

The following special reliefs, exemptions and incentives under the Income Tax Act are in effect:
1. Natural persons who have status of disabled Croatian Homeland War veterans, recognised by a ruling pursuant to a special regulation, shall not pay income tax on employment income and pensions, in proportion to their established disability degree.
2. Income taxpayers who carry out self-employment activitiesin the area of the City of Vukovar and permanently employ more than two employees, with more than 50% of the employees having their domicile and habitual

residence in an area of special national concern and/or hill and mountain area.
3. Income taxpayers who are engaged in self-employment activities may have their income from the self-employment activities additionally reduced by the amount of state grants for apprenticeship for crafts and the grants for education and training pursuant to special regulations.
4. Income taxpayers who carry out self-employment activities may have their income from the self-employment activities in the tax period additionally reduced by the expenses for research and development, to the amount of 100% of the expenses incurred and declared in business books.

4.3 The annual tax return

Taxpayers Obliged to Submit the Annual Tax Return:
1. A taxpayer shall be obliged to submit the annual tax return if he/she, during the tax period, acquired an income from employment with two or more employers concurrently, during the same month of the taxation period and/or, a self-employment activity which the income is determined and taxed as income from self-employment activities.

2. The annual tax return shall be submitted by a resident who has received the income directly from abroad.
The annual tax return shall be submitted by the end of February of the current year for the previous year.

4.3 The annual tax return

The Excise Duties Act regulates the system of excise duties levied on alcohol, alcoholic beverages, tobacco products, energy products and electricity (''excise goods") produced in Croatia, supplied into Croatia from another Member State or imported into EU.

Excise duties and special taxes are payable on the following product categories:
1. alcohol and alcoholic beverages
2. tobacco and tobacco products
3. energy products and electricity
4. coffee and non-alcoholic drinks
5. luxury products
6. motor vehicles
7. comprehensive road vehicle insurance premius

4.5 Inheritance and gifts tax

Taxpayers are natural and legal persons in the territory of the Republic of Croatia who receive a gift or acquire on another basis without charge for the property on which inheritance and gift tax is paid.

The base for the tax on inheritances and gifts consists of the amount of cash, and the market value of financial and other property on the day the tax liability is determined after the deduction of debts and costs that relate to the property for which the tax is paid.

The tax on inheritances and gifts is paid on real estate, in line with the law, on cash, pecuniary claims and securities and on movable property if the individual market value is greater than 50,000 HRK on the day the tax liability is assessed.

The tax is paid at a rate of 4%.

4.6 Tax on road motor vehicles

Taxpayers are legal entities and natural persons who, on the date of registration or confirmation of the extension of the validity of the traffic permit, are the owners or users registered in the traffic permit of motor vehicles, motorcycles and quadricycles.

The tax on road motor vehicles is paid annually according to the power of the motor expressed in kW and the years of age of the vehicle.

Tax on road motor vehicles for passenger cars is paid in amount from 200,00 HRK to 1.500,00 HRK, for motorcycles from 50,00 HRK to 1.200,00 HRK, for light quadricycles and quadricycles from 30,00 HRK to 120,00 HRK

4.7 Tax on vessels

Tax on vessels is paid by legal entities and individuals. The tax on vessels is paid annually according to the length of the vessel expressed in metres, years of age of the vessel, whether it has a cabin or not, and the power of the motor expressed in kW.

For vessels without a cabin the tax is from 100,00 HRK to 600,00 HRK, for vessels with a cabin and powered by an engine the tax is from 200,00 HRK to 5.000,00 HRK, and for vessels with a cabin and powered by sails the tax is from 200,00 HRK to 4.000,00 HRK.

4.8 Tax on coin operated machines for amusement

A taxpayer is a legal and natural person who puts automates for entertainment games in use at entertaining clubs, catering facilities, public facilities and other public spaces.

The object of the taxation are coin operated machines.

The tax on coin operated machines for amusement is paid monthly [at the rate of] 100 kuna.

4.9 Consumption tax

The taxpayer of the consumption tax is the legal entity or individual that provides the catering services.

The base for the consumption tax is the retail price of the beverage that is sold in the catering facilities. Consumption tax is paid on the consumption of alcoholic beverages (brandy, plum brandy or grappa or other spirits), natural wines, special wines, beer and non-alcoholic beverages in catering facilities.

The rate of consumption tax is prescribed by the city or municipality, but cannot be more than 3% of the base on which the consumption tax is paid.

5.0 Property Tax

5.1 Second home tax

The second [holiday] home tax is paid by legal entities and individuals that are the owners of holiday homes. The subject of taxation is a square meter of useful surface. The tax on a holiday house is from 5 HRK to 15 HRK per square metre of usable area of the second home.

5.2 Tax on the use of public land

Tax on the use of public land is paid by legal entities or individuals who use public land. The tax is paid in the amount, in the manner and under the conditions as prescribed by the municipality or city.

5.3 Real estate transfer tax

A taxpayer of Real estate transfer tax shall be the recipient of real estate.

The tax base for real estate transfer tax shall be the market value of the real estate at the moment when the tax liability incurs. The market value of real estate shall mean the price of the real estate that is obtained or can be obtained on the market at the moment when the tax liability incurs. The object of taxation shall be commerce in real estate. Commerce in real estate shall be understood i to mean each acquisition of the ownership of real estate, to which value added tax is payable.

Real estate transfer tax shall be paid at a rate of 4%.

6.0 Withholding tax

Withholding tax shall be paid on interests, dividends, shares of profit, royalties and other intellectual property rights (copyrights, patents, licenses, trademarks, design or model, production processes, formulas, blueprints, plans, industrial or scientific experience and other similar rights) payable to foreign entities other than natural persons. The withholding tax shall also be paid in respect of market research services, tax and business counselling and auditor services paid to non-residents.

The withholding tax base shall be the gross amount of a consideration paid by a resident payer to a non-resident recipient.

6.1 Tax rates

The withholding tax shall be paid at a rate of 15% except for dividends and shares of profit subject to withholding tax at a rate of 12%.

The withholding tax shall be paid at a rate of 20% for all services paid to persons having their permanent establishment or headquarters in the countries, except for the European Union Member States, in which a general or average nominal profit taxation rate is lower that 12.5% and the country is published in the list of countries issued by the finance minister and published on the web pages of the Ministry of Finance and the Tax Administration of the Republic of Croatia.

6.2 Agreements on Avoiding Double Taxation

From the Double Taxation Agreement concluded and taken over by the Republic of Croatia, the following apply:

Albania	Georgia	Lithuania	Rumunia
Armenia	India	Latvia	Russia
Austria	Indonesia	Luxembourg	San Marino
Azerbaijan	Iran	Hungary	Syria
Belgium	Ireland	Macedonia	Slovakia
Belarus	Iceland	Malesia	Slovenia
Bosnia and Herzegovina	Italia	Malta	Serbia
Bulgaria	Israel	Morocco	Spain
Montenegro	Jordan	Mauritius	Sweden
Czech Republic	SAR	Moldova	Switzerland
Chile	Canada	Netherlands	Turkmenistan
Denmark	Qatar	Germany	Turkey
Estonia	China	Norway	Ukraine
Finland	Korea	Oman	United Kingdom
France	Kosovo	Poland	
Greece	Kuwait	Portugal	

Currency: **Makedonski denar (MKD)**

1 EUR = MKD 61.35

1.0 Introduction

1.1 Legal forms

For legal and natural persons who intent to start a company in the Republic of Macedonia, following legal forms can be registered in the trade register:

1. General partnerships.
2. Limited partnerships.
3. Limited liability companies.
4. Joint stock companies.
5. Limited partnerships by shares.
6. Foreign business entities may register a branch office or a representative office in Macedonia.

Minimum initial capital for establishing a Limited Liability Company may not be less than 5,000 EUR in MKD counter value, according to the average exchange rate of that currency that is announced by the National Bank of the Republic of Macedonia on the day of payment, unless the founders have agreed to be the day of signing the contract for the company. According to the Companies Law, the initial capital for a Joint-Stock Company must be at least EUR 25,000 in MKD counter value according to the middle exchange rate of the National Bank of the Republic of Macedonia, announced on the day before the adoption of the statute. Domestic and foreign companies may establish one or more branches. The branches must be registered.

Auditing and Accounting Requirements

1.2 Financial reporting

According to the Macedonian Law on Accounting, IFRS (as issued by IASB) as translated in 2009, and IFRS for SMEs represent the set of accounting standards to be applied by all entities preparing general purpose financial information. The latest translation of IFRS was conducted in December 2009 for application by all medium and large size entities, banks, non-bank financial institutions and insurance companies. IFRS for SMEs were published in August 2011 for mandatory use by all small and micro entities from 2012 onwards. The translations were published without any changes or amendments.

All entities are required to prepare annual statements as at 31st December of each year. The annual statements consist of a balance sheet, profit and loss account and accompanying notes. Annual statements must be prepared and submitted to the Central Register of the Republic of Macedonia not later than the end of February/15th March the following year.

All large and medium-sized entities, entities required by law, banks, insurance companies, entities quoted on the stock exchange as well as entities whose financial statements are included in a consolidated financial statement must issue financial statements following the end of each financial year. Financial statements are the responsibility of management. The financial statements consist of statements of financial position, comprehensive income, changes in equity and cash flows as well as notes, comprising summary of significant accounting policies and other explanatory information. Entities whose financial statements are subject to independent audit must submit their audited financial statements to the Central Register of the Republic of Macedonia within 30 days after their approval by the General Meeting of Shareholders of the legal entities, but not later than 30th June of the following year. Companies having a majority holding in subsidiaries must prepare consolidated financial statements. Consolidated financial statements should comprise consolidated statements of financial position, comprehensive income, changes in equity and cash flows as well as notes, comprising a summary of significant accounting policies and other explanatory information. Management is responsible for the timely preparation of the consolidated financial statements and their content. The consolidated annual statements must be submitted to the Central Register not later than 31st March of the following year.

1.3 Obligation to carry out audit

The Company Law specifies the entities which are obliged to submit financial and accounting statements for a statutory audit:

- large and medium shareholder entities
- listed entities
- large and medium entities with limited liabilities.

The Audit Law also enables businesses to undergo voluntary audits.

1.4 Classification by size:

Classification according to size	Criteria
Small	**1)** Average number of employees: 0 – 50 employees **2)** The annual income is less than 8,000 average monthly gross salaries per employee in the economy of Macedonia **3)** The average value of the asset is less than 6,000 average monthly gross salaries per employee in the economy of Macedonia
Medium	**1)** Average number of employees: 50 – 250 employees **2)** The annual income is less than 40,000 average monthly gross salaries per employee in the economy of Macedonia **3)** The average value of the asset is less than 30,000 average monthly gross salaries per employee in the economy of Macedonia
Large	**1)** The entities that are not classified into small or medium-sized Entities shall acquire the status of large-sized Entities

2.0 Corporate income tax

According to the Macedonian Corporate Income Tax Law, the resident legal entity and non-resident legal entity operating in Macedonia are subject to corporate income tax.
For resident legal entities the profit realized both in Macedonia and abroad is liable for taxation. For non-resident entities only profit related to their permanent establishment in Macedonia is liable for taxation.

2.1 Determining taxable income

According to the Macedonian Corporate Income Tax Law, taxable profit is defined as taxpayer's profit determined in the tax balance. Capital gains, as well as income from dividends, interest, rent, and royalties are treated as ordinary income of the taxpayer and are included in its general taxable base in accordance with accounting rules and standards. Dividend income received from domestic taxpayers is excluded from the tax base under

included in its general taxable base in accordance with accounting rules and standards. Dividend income received from domestic taxpayers is excluded from the tax base under condition that such income was taxed at the level of the payer.

The following expenses are non-deductible for tax purposes:
- expenses not related to business activity
- hidden profit distribution
- depreciation
- goodwill
- start-up expenses
- interest expenses
- uncollected receivables from loans
- impairment and write-off of receivables
- insurance expenses
- scrapping
- fines, penalties, and taxes
- payments to foreign affiliates
- employees' related expenditures.

Donation costs are recognized as expense up to 5% of total revenues.
Membership fees are recognized as an expense for tax purposes up to 3% of total revenues.

Entertainment expenses (expenses for gifts, business dinners, recreation, and entertainment) are taxable, up to 90% of the annual amount borne by the taxpayer.
Voluntary pension insurance contributions are taxable if their annual amount per employee exceeds four average monthly gross salaries paid out in the previous calendar year.

The monthly allowances and expenses to the managing board members are tax-deductible, up to 50% of the average gross monthly salary paid out in the country in the previous year.

Expenses made for accommodation and transport of non-payroll employees engaged at the taxpayer for the purposes of its business activities are CIT deductible, provided that they are properly documented.

2.2 Tax rate

Corporate profit tax rate in Macedonia is 10%.

2.3 Operating losses

Losses resulting from business relations may be carried forward and offset against taxable profits generated in future periods, but no longer than three years. Status changes do not impose restrictions in this respect.

2.4 Tax incentives and investment allowances

2.4.1 Tax credit

The taxpayer is allowed a tax credit for the tax paid on foreign income abroad, up to the amount of tax payable for that income in Macedonia.
The taxpayer that is a registered user within a technological industrial development zone is exempt from CIT payment for a period of ten years from the commencement of the performance of the activity in the zone under terms and conditions and according to the Macedonian Law on Technological Industrial Development Zones.
The Macedonian CIT Law determines a possibility for decreasing the tax base for the amount of profit reinvested for development purposes of the taxpayer. The amounts from the reinvested profit that would be recognised for the purposes of the above tax relief cover investments both in tangible and intangible assets, except for some explicitly listed types of assets intended for administrative purposes.

In order to use this tax relief, the taxpayers must maintain ownership over the assets purchased with the reinvested profit for a period of five years as of the day of their purchase.

2.5 Taxation of associated companies - Group taxation and transfer pricing

2.5.1 Tax consolidation

There are no tax consolidation provisions in Macedonia.

2.5.2 Transfer Pricing

If the taxpayer incurs expenses/realises revenues from transactions with related parties that are higher/lower than the market level, the difference between the market price and the transfer price shall be considered as a taxable expense or understated revenue. Consequently, this difference would be subject to CIT.
The cost plus method and the comparable uncontrolled price method are applicable in Macedonia.
Transfer pricing rules do not apply on expenses for interest under credits and penalty interest paid to related parties that are banks or financial institutions.

2.5.3 Thin Capitalization Rules

A proportional part of the interest related to a loan received from a non-resident shareholder, who directly holds at least 25% of the capital in the company, that exceeds three times its share in the equity in the company will be taxable during a tax period. Thin capitalisation rules do not apply to loans received from banks or other financial organisations. Also, thin capitalisation rules do not apply for newly established companies within the first three years of operation.

Permanent establishment (PE)

Generally, a PE is a fixed place of business through which the business of an enterprise is wholly or partly carried on, either directly or through a dependent agent. More specifically, the Macedonian Corporate Income Tax Law provides that a PE may include a place of management, a branch office, an office, a factory, a workshop, mining activities, or any other place of extraction of natural resources.
A building site or construction or installation project, as well as related supervision activities, may constitute a PE if it lasts longer than six months.

Furthermore, the provision of services, including consulting services with regard to one or several related projects, is deemed to give rise to a PE if such activities last longer than 90 continuous days within any 12-month period. If one or several persons establish a PE as per above, any other non-related project on which they are working on becomes part of the PE, irrespective of its duration.
The PE should be registered as a corporate taxpayer at the beginning of its activity in the country for the purposes of obtaining a tax number.

3.0 Value added tax

According to the Macedonian VAT Law, VAT is calculated and paid on the delivery of goods and services and on imported goods.
The standard VAT rate is 18% for the taxable supply of goods and services or imports.

The reduced rate is 5% and it is applicable on:
- basic food and drinking water
- medicines, orthotic and prosthetic devices
- specialized literature and teaching aid
- accommodation services in hotels, motels, tourist settlements, camps and villas, drinking water
- daily newspapers
- public transportation
- pellet, etc.

The tax base for VAT is the total amount of received compensation including taxes, excise duties, fees, contributions (excluding VAT), dependent costs for packaging, transport, insurance, etc. as well as commissions and other costs levied by the taxpayer to the recipient of the goods/service and subsidies directly related to the cost of delivering goods or services.

Tax period/submission deadline: The tax period for VAT payers whose turnover is higher than MKD 25 million is calendar month. The tax period for taxpayers whose turnover is less than MKD 25 million is 3 months. The VAT return must be filled within 25 days after the expiry of the tax period.

If the amount of tax liability in one tax period is lower than the amount of input VAT, the difference is recognized as a tax credit for the next tax period, or at the request, the difference can be returned within 30 days from the date of submitting VAT return.

The taxpayer who realized total revenues in the amount of more than MKD 1,000,000 in the last calendar year, or the taxpayer who wants to start a company and estimates that it will realize more than MKD 1,000,000 revenues in the next year, must be registered in the Macedonian VAT system.

The deduction of input VAT is not allowed for the expenses listed below:
- purchase, production and import bicycles, passenger vehicles with less than four wheels, motorcycles, vehicles for passenger transport which, beside the driver's seat, have up to eight seats and whose maximum

mass not exceeding 3,500 kg excluding combined transport vehicles, aircraft, vessels and spare parts, fuel and supplies for their use, maintenance and repair and other services related to their use. This does not apply to cases when the taxpayer uses vehicles in the calendar year only for the following activities: supply of such vehicles, rental of such vehicles,
- purchase of refrigerators, audio and video equipment, carpets, art objects
- entertainment expenses
- expenses for passenger transportation
- accommodation costs in hotels or similar facilities and food costs excluding costs for catering for people hired by the film producer.

4.0 Personal income tax

The resident of Macedonia is considered as a natural person who:
- has permanent residence in the territory of the Republic of Macedonia
- has been present in the Republic of Macedonia for more than 183 days within any 12-month period.

Incomes which are subjected to personal income tax are:
- personal income
- income from independent activities
- capital gains
- capital revenues
- income from property and property rights
- income from copyrights and rights to industrial property
- gains from games of chance and other prize games
- other types of individual's revenues.

As of 1 January 2008 Macedonia introduced a 10% tax rate applicable for all income levels.

The tax period for which the personal income tax is determined is the calendar year. The tax base for determining the personal income tax is the sum of all revenues achieved in the country and abroad reduced by:
1. contributions from compulsory social insurance
2. personal exemption in the amount of MKD 88.284 for annual tax calculation on income
3. the standardized or actual costs stipulated by the Law on Personal Income Tax.

Personal exemptions for the following year shall be determined on the basis of the amount of the personal exemption from the current year announced with a 50% rate of salary increase for employees in the Republic in the previous year, according to the data from the Central Bureau of Statistics.

4.1 Social security contributions

The basis for the mandatory social security contributions calculation is the salary and the additional remuneration from employment (including bonuses) as determined in the labour legislation.

Contributions rates are as follows:

- Pension and disability insurance – 18%
- Health insurance – 7.3%
- Additional health insurance – 0.5%
- Employment insurance – 1.2%

Salary calculations are submitted to the Public Revenue Office electronically on a monthly basis by the 10th and the payment is due by the 15th in the current month for the previous month.

The taxpayer is granted a credit for the tax paid abroad, up to the Macedonian tax payable on the same income.

The salary of employees at employers that are users of Technological Industrial Development Zones are exempt from tax for a period of ten years as of the first month in which the employer starts paying out salaries.

5.0 Withholding tax

The taxpayer is obliged to calculate, withhold and pay withholding tax on the following income, whether it is paid in Macedonia or abroad:

- dividends
- interest
- royalties
- income from entertainment or sporting activities in Macedonia
- income from management, consulting, financial services, or services related to research and development
- income from insurance or reinsurance premiums
- income from telecommunications services between Macedonia and a foreign country
- income from the lease of immovable property in Macedonia.

As an exception, WHT is not applicable to the following forms of income:

- the after-tax profit of a PE transferred to its foreign headquarters
- interest from bonds issued or guaranteed by the government
- interest on deposits in banks located in Macedonia
- income from transactions in state securities on the international financial markets.

The tax rate for withholding tax is 10%.

If a favourable tax rate agreement exists, the above mentioned rates shall be reduced.

5.1 Agreements to avoid double taxation

All agreements on avoidance double taxation that Macedonia has concluded are shown on the following table.

Country	Dividends	Interest	Royalties	Other income
Austria[1]	0/15	0	0	0
Albania	10	10	10	0
Azerbaijan	8	8	8	0
Belarus[2]	5/15	10	10	0
Belgium[2,8]	10/15	15	10	0
Belgium[1,4]	5/15	10	10	0
Bosnia and Herzegovina[2]	5/15	10	10	0
Bulgaria[2]	5/15	10	10	0
China	5	10	10	0
Croatia[2]	5/15	10	10	0
Czech Republic[2]	5/15	0	10	0
Denmark[2,3]	0/5/15	0	10	0
Egypt[4]	10	10	10	0
Estonia[2]	0/5	5	5	0
Federal Republic of Yugoslavia[2,5]	5/15	10	10	0
Finland[1]	0/15	10	0	0
France[1]	0/15	0/15	0	0
Germany[1]	5/15	5/15	5	0
Hungary[2]	5/15	5/15	0	0
India[11,12,13]	10	10	10	0
Ireland[6]	0/5/10	0/5/10	0	0
Iran	10	10	10	0
Italy[2]	5/15	5/15	0	0
Kazakhstan[2]	5/15	5/15	10	0

Country	Dividends	Interest	Royalties	Other income
Kosovo[2]	0/5	10	10	0
Kuwait	0	0	15	0
Latvia[1,7]	5/10	5	5/10	0
Lithuania[1]	0/10	10	10	0
Luxembourg[2]	5/15	0	5	0
Moldova[2]	5/10	5	10	0
Morocco	10	10	10	0
Netherlands[1]	0/15	0	0	0
Norway[2]	10/15	5	5	0
Poland[2]	5/15	10	10	0
Qatar	0	0	5	0
Romania	5	10	10	0
Russia	10	10	10	0
Saudi Arabia[16]	5	0/5	10	0
Slovakia	5	10	10	0
Slovenia[2]	5/15	10	10	0
Spain[1]	5/15	5	5	0
Sweden[2]	0/15	10	0	0
Switzerland[2]	5/15	10	0	0
Taiwan	10	10	10	0
Turkey[2]	5/10	10	10	0
Ukraine[2]	5/15	10	10	0
United Arab Emirates[4,15]	0/5	0/5	0/5	0
United Kingdom[9,10]	0/5/15	0/10	0	0
Vietnam4[,14]	5/10/15	10	10	0

[1] The reduced tax rate applies to dividends paid out to a foreign company that controls at least 10% of the share capital of the payer of the dividends.

[2] The reduced tax rate applies to dividends paid out to a foreign company that controls at least 25% of the share capital of the payer of the dividends.

[3] The zero tax rate applies to dividends paid out to pension funds.

[4] The DTTs are still not in force.

[5] The DTT with Federal Republic of Yugoslavia now applies both to Serbia and Montenegro.

[6] The zero tax rate applies to dividends paid out to recognised pension funds and to foreign companies that continuously control at least 25% of the share capital of the payer of the dividends for 12 months before the dividend payment. The 5% rate applies to dividends paid out to foreign company that controls at least 10% of the share capital of the payer of the dividends. The 10% rate applies to dividends paid out in all other cases.

[7] The tax rate of 10% for royalties payments applies only for utilisation or right to utilise cinematographic films and films or tapes for radio and television transmission. The 5% rate applies on all other cases.

[8] The DTT concluded between the Socialist Federal Republic of Yugoslavia (SFRY) and Belgium is still applicable for Macedonia.

[9] The zero tax rate applies to dividends paid out to pension schemes and to foreign companies that continuously control at least 25% of the share capital of the payer of the dividends for 12 months before the dividend payment. The 5% rate applies to dividends paid out to foreign company that controls at least 10% of the share capital of the payer of the dividends. The 15% rate applies to dividends paid out in all other cases.

[10] The zero tax rate applies on interest paid on loans or prolonged credit paid from one enterprise to another enterprise and, on interest paid to the other contracting state, to one of its political divisions or municipalities or public entities of that state.

[11] The zero tax rate applies in case the beneficial owner of the interest is the government, political or municipality subdivision; the Indian Reserve Bank, the Indian Export-Import Bank, and National Housing Bank; or any other institution based on additional agreement via exchange of letters by the authorised institutions.

[12] The 10% rate applies on gross income from royalty or income from technical services (compensation for managerial, technical, and consulting services, income from services of technical and consulting personnel that is different from the income derived under article 14 and article 15 of the DTT).

[13] The zero rate does not apply to income from lottery, races and horse races, card games, and other games of chance.

[14] The 5% of the gross amount of dividends applies if the beneficial owner directly holds at least 70% of the share capital of the company paying the dividend. 10% applies if the beneficial owner directly holds at least 25% but less than 70% of the share capital of the company paying the dividend. 15% applies in all other cases.

[15] Interest, royalties, and dividends paid to a resident of the other contracting state shall be taxable only in the other contracting state if the beneficial owner of the income is that other state itself, local government, local authority or the Central Bank thereof, Abu Dhabi Investment Authority, Abu Dhabi Office, International Petroleum Investment Company, Abu Dhabi Investment Council, Dubai Investment Company, Mubadala Development Company, United Arab Emirates (UAE) Investment Authority, Al Dafra Holding Company, or any other institution created by the government, a local authority, or a local government of that other state.

[16] The interest tax rate under the DTT would be 0% in case the payer or the beneficial owner of the income is the government, an administrative subdivision, a local authority, the Central Bank, or any other financial institution wholly owned by the government.

1.0 Introduction

Currency: **: Euro (€)**

1.1 Legal forms

The main legal forms through which business activities is conducted in Montenegro are as follows:

Legal form	In Serbian
Joint-stock company	Akcionarsko društvo (a.d.)
Company with limited liability (LLC)	Društvo s ograničenom odgovornošću (d.o.o.)
Limited Partnerships	Komanditno društvo (k.d.)
Open Society	Ortačko društvo (o.d.)
Individual entrepreneurs	Preduzetnik
Branch	Deo stranog društva (d.s.d.)

Auditing and Accounting Requirements

1.2 Financial reporting

According to Accounting Law (Official Gazette of Montenegro No. 052/16) and Audit Law (Official Gazette of Montenegro No. 001/17), all legal entities are required to maintain business and accounting books, prepare, present and published financial statements in accordance with the local legislation and professional and internal regulations.

1.3 Obligation to carry out audit

According to the article 29 of the Audit Law, the audit of financial statements is obligatory for:

- entities of public interest
- medium-sized legal entities
- parent companies, which, together with dependent legal entities, meet the requirements for classification in the group of medium-sized legal entities
- parent legal entities, which, together with dependent legal entities, meet the requirements for classification in the group of large legal entities
- investment companies
- investment funds
- management companies of investment funds
- voluntary pension funds
- management companies for volun-

tary investment fund
- other collective investment schemes.

The audit is performed by an authorized auditor and auditing company.

The large legal entity is required to have an internal auditor. Legal entities are obliged to submit audit report with relevant opinion in hard copy or electronic form to Central Register of Commercial Court till 30th of June current year for the previous financial year.

1.4 Classification by size

Depending on the number of employees, total revenues and total assets Montenegrin Accounting Law recognize micro, small, medium and large companies.

Classification according to size	Criteria
Profit tax	**1)** Average number of employees: Up to 10 employees **2)** Operating income: Up to EUR 700,000 **3)** Average value of total assets: Up to EUR 350,000
Small	**1)** Average number of employees: 10 – 50 employees **2)** Operating income: EUR 700,000 – 8,000,000 **3)** Average value of total assets: EUR 350,000 – 4,400,000
Medium	**1)** Average number of employees: 50 – 250 employees **2)** Operating income: EUR 8,000,000 – 40,000,000 **3)** Average value of total assets: EUR 4,000,000 – 20,000,000
Large	**1)** Average number of employees: Over 250 employees **2)** Operating income: Over EUR 40,000,000 **3)** Average value of total assets: Over EUR 20,000,000

The newly established legal entities are classified on the basis of financial statements data of the current financial year and the number of months in business and a fortified data is used for the current and subsequent financial year.

Legal entities are obliged to financial statement and management report in hard copy or electronic form to the Tax Administration no later than 31st March current year for the previous financial year.

2.0 Corporate income tax

Resident and non-resident legal entities operating in Montenegro are subject to corporate income tax.
For resident legal entities the profit realized both in Montenegro and abroad is liable for taxation. For non-resident entities only profit related to their permanent establishment in Montenegro is liable for taxation.

1.4 Determining taxable income

Taxable profit is defined as taxpayer's profit reported in the income statement according to the accounting regulations and adjusted it the manner required by the tax law.

The following expenses are non-deductible for tax purposes:

- expenses not related to business activity
- undocumented booking
- interest for late payment of taxes
- interest paid to non-residents, if they are paid at a rate higher than usual commercial rate
- administrative costs paid by a permanent establishment to a non-resident headquarter
- earnings of employees or other persons arising from profit sharing
- fines and penalties
- provisions for individual receivables against persons which are also creditors up
- presents to political organizations.

Donations to medical, cultural, educational, scientific, humanitarian, religious, environmental and sporting purposes are recognized as expense up to 3,5% of total revenues. Donations have to be given to entities recognized and registered for the above mentioned purposes.
Membership fees for chambers alliances and business associations are recognized as an expense for tax purposes up to 0.1% of total revenues.
Entertainment expenses are recognized for tax purposes up to 1% of total revenues, provided, that they were incurred in order to improve business operations, that they are documented and that their recipient is not a related party.

2.1.1 Tax rate

Corporate profit tax rate is 9%.

2.1.2 Depreciation of capital assets

Capital assets	Depreciation rate
Group I	5%
Group II	15%
Group III	20%
Group IV	25%
Group V	30%

The straight-line method must be used for the first group, while the declining-balance method must be used for the assets in the other groups.

2.1.3 Capital gains

Capital gain is income that a taxpayer realizes through sale or other transfer with compensation of land, building constructions, property rights, equity interest and securities. Capital losses may be offset against capital gains realized in the same year. The carry forward of capital losses is allowed within the next 5 years. Capital gains and rental income from movable and immovable property paid to non-residents are subject to withholding tax of 9%. Capital gains will be taxed in total by the end of the financial year.

2.1.4 Operating losses

Losses resulting from business relations, excluding those resulting in capital gains and losses may be carried forward and offset against taxable profits generated in future periods, but no longer than five years. Status changes do not impose restrictions in this respect.

2.2 Tax incentives and investment allowances

2.1.4 Operating losses

Tax credit is allowed to a holding (a parent) company - Montenegro resident taxpayer by the deduction of the tax calculated on profit for the amount which corresponding to the tax paid by its non-resident subsidiary in another country, on the dividends included in income of the parent company.

The right to use the tax credit is enabled to a holding company that owned 10% or more shares of non-resident subsidiary constantly in a period of at least one year prior to filing the tax return.

The legal entity who pays income tax within the timeframe established by Corporate Income Tax Law may be entitled to a reduction of the tax liability. In this case, the tax liability is reduced to 6% of the calculated and paid income tax.

Eligibility based on the application of the legal entity within 15 days from the date of payment of the tax liability. The competent tax authority shall issue a decision not later than 15 days from the date of submitting the application.

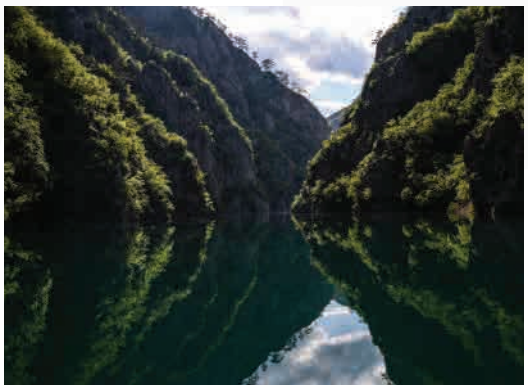
2.2.2 Tax exemptions

Corporate income tax shall not be paid by state authorities, state administration authorities, local self-government authorities, public funds, public institutions, tourism organizations, sports clubs, sports associations and federations, religious communities, arts associations, political parties, chambers, trade unions and non-governmental organizations, if they are, in accordance with a special law, established for the performance of non-profitable activities.

The following taxpayers are exempt from payment of corporate profit tax:

- Newly established legal entities conducting an activity in an underdeveloped municipality, for the period of the first eight years from the date of commencement of the activity
- Newly established legal entities conducting an activity in an underdeveloped municipality for the period of the first eight years, proportionally to the profit's share of the new business unit in the total amount of the taxpayer's profit.

The total amount of the tax exemption for a period of eight years cannot be higher than 200,000 EUR. The right to tax exemption is exercised based on the request that the taxpayer has to submit to the competent tax authority within 30 days from the date of registration.



2.3 Taxation of associated companies – Group taxation and transfer pricing

2.3.1 Tax consolidation

The right to apply for tax consolidation is given to a group of resident companies where a parent company directly or indirectly controls no less than 75% of the shares or participation in the subsidiary company.
Each member of the related companies' group is obliged to submit its tax return to the competent tax authority, while the parent company submits the consolidated tax return for the group of related companies.
The parent company shall submit a request for tax consolidation to the competent tax authority at the latest by 31st December of the current tax period. The approved tax consolidation is applied for at least five years.

2.3.2 Transfer Pricing

A transfer price is considered as a price incurred in connection with the transaction of assets or the creation of liabilities between related parties.
A company or a person will be deemed as a related party if:

- holds 25% of shares or more in a taxpayer company
- has 25% of voting rights or more in a taxpayer company
- the same individuals or legal entities take part in managing, controlling and basic capital in both parties by holding 25% or more of shares or have 25% or more voting rights.

The difference between the transfer price and "arm length" price shall be included in a tax basis, so such a difference will be taxable as well.

2.3.3 Thin Capitalization Rules

There are no thin capitalization rules.

3.0 Value added tax

According to the Montenegrin VAT Law, VAT is calculated and paid on the delivery of goods and services and on imported goods.
The standard VAT rate is 21% for the taxable supply of goods and services or imports.

The reduced rate (7%) is applicable on:
- staple - foods (milk, bread, fat, oil and sugar)
- medicines, orthotic and prosthetic devices
- textbooks, teaching aids, books, monographers and serial publications, accommodation services in hotels, motels, tourist settlements, camps and villas, drinking water,
- daily newspapers,
- public transportation, etc.

Taxation of products and services is made pursuant to the place of consumption. Export of goods is exempt from VAT payment, while import of goods is taxed with same treatment as domestic product.
Calendar month is the period for which VAT is calculated and paid. Taxpayer is obligated to present the tax liability on the monthly return for VAT calculation. The taxpayer shall submit VAT return to the competent tax authority by the 15th of the following month for the previous month. Import VAT is paid when custom duty is paid.

If the amount of tax liability in one tax period is lower than the amount of input VAT, the difference is recognized as a tax credit for the next tax period, or at the request, the difference can be returned within 60 days from the date of submitting VAT return.

Taxable persons with an annual turnover of less than EUR 18,000 are exempt from paying VAT and not obliged to register for VAT.

4.0 Personal income tax

Subject of taxation are resident and non-resident individuals that realized taxable income in the Republic of Montenegro.

The income realized by the resident individual in Montenegro and outside of Montenegro is subjected to taxation.

The income that a non-resident individual realizes from activities performed through a business unit in Montenegro is subjected to taxation.

A non-resident individual, who does not operate a business unit in Montenegro, are also taxed on the income from royalties, interest, capital gains and the rental of immovable property located in Montenegro.

Incomes which are subjected to personal income tax are:

- personal earnings
- private sector activities
- property and property rights
- capital
- capital gains.

The tax rate for personal income tax is 9%. The income higher than the amount of an average monthly gross salary in Montenegro is taxed at the personal income tax rate of 11%. The tax return shall be submitted by the end of April of the current year for the previous year.

4.1 Social security contributions

An employer and an employee are obliged to pay Mandatory Social Insurance as follows:

Type of Contribution	Payer		Total
	Employee	Employee	
Pension and Disability Insurance	15%	5,5%	**20,5%**
Health Insurance	8,5%	4,3%	**12,5%**
Unemployment Insurance	0,5%	0,5%	**1%**
Total:	**24%**	**10,3%**	**34,3%**

4.3 Tax exemptions and incentives related to income tax

Personal income tax is not paid by the:

- foreign diplomatic mission members in Montenegro and the members of their households if they are not citizens of Montenegro
- consular offices members and the members of their households if they are not citizens of Montenegro
- officials and experts working on the programs of the United Nations and its specialized agencies
- honorary consuls of foreign countries but only for income received from the country which has appointed them to perform honorary consul functions
- officials, experts and administrative staff of international organizations if they are not citizens of Montenegro or if they have no residence in Montenegro.

Income tax is not paid on income earned in fees paid to members of the Army of Montenegro and other persons who are sent on peacekeeping missions.

Tax exemptions

The taxpayer who starts performing business in underdeveloped municipalities, the tax for the first eight years, are reduced in the amount of 100%. The total amount of the tax exemption for a period of eight years cannot be more than 200,000 EUR. The first year starts from the day of registration. Exemption does not apply to farmers, transportation, shipbuilding, fisheries, steel, trade and catering, except to restaurants. The right to tax exemption is granted on the basis of the taxpayer's request to be submitted to the competent tax authority within 30 days from the date of registration.

The taxpayer who hires a person for an indefinite period or for a five-years period at least is exempted from the obligation of paying tax earnings for the employee, for a period of four years from the date of commencement of employment. The employee is considered to be a person who is registered with the Employment Bureau of Montenegro for more than three months, with which the employer has concluded an employment contract and which has a permanent residence in an underdeveloped municipality.

4.4 Expenses

For renting rooms, apartments, houses and apartments for holiday travellers and tourists, standard expenses are recognized in the amount of:

- 50% of earned income if residential tax is paid
- 70% of revenue if the lease agreement is concluded with the travel agency or the local tourism organization and on this basis has been achieved an average capacity of at least 60 days on an annual level.

4.5 Tax return

According to the Personal Income Tax Law, the annual tax return is required to submit an individual who has a personal income earned in two or more employers or payer of income, and whose total monthly gross amount above 720 EUR.

4.6 Annual lump sum taxation

The taxpayer who realized a total turnover in the year preceding the year for which the tax is determined, or whose planned turnover (in case of starting the business activity) is less than EUR 18,000, may, at his request, has the right to pay the tax in annual lump sum.
The lawyers, notaries, auditor, accounting firms, health care, consultant, designer, geometry, a public officer, other professional and intellectual pursuits, hairdresser, billiards club, amusement games for retail and wholesale, catering, hotel, in financial inter-mediation and activities real estate, except for trade and commercial activities carried out in the stands, in the temporary facility, similar to mounting or moving objects, does not have the right on the annual lump sum taxation.

4.7 Excise duty/excises

Following products are subject to excise duty:
- fuels
- coffee
- alcohol
- tobacco products.

5.0 Withholding tax

The taxpayer is obliged to calculate, withhold and pay withholding tax on income paid on the basis of:
1. dividends and profit shares paid to resident and non-resident legal entities and individuals
2. interest, royalties and other intellectual property rights, capital gains, fees for the lease of movable and immovable property, fees for consulting services, market research services and audit services paid to non-resident legal entity.

The tax rate for withholding tax is 9%.

Dividends are not treated as taxable income when paid between residents, whereas incoming dividends, received from abroad, are treated as such. A tax credit system is available allowing the resident taxpayers to obtain a tax credit for taxes paid abroad.
If a favourable tax rate agreement exists, the above mentioned rates shall be reduced.

5.1 Agreements to avoid double taxation

All agreements on avoidance double taxation that Montenegro has concluded are shown on the following table.

Country	Dividends		Interest	Royalties
	Individuals Companies	Qualifying Companies[1]		
Austria	10	5[10]	10	5/10
Albania	15	5	10	10
Azerbaijan	10	10	10	10
Belarus[2]	15	5	8	10
Belgium[2]	15	10	15	10
Bosnia and Herzegovina	10	5	10	10
Bulgaria[2]	15	5	10	10
China (people's Rep)[2]	5	5	10	10
Croatia[2]	10	5	10	10
Cyprus[2]	10	10	10	10
Czech Republic	10	10	10	5/10[3]
Denmark[2]	15	5	0	10
Egypt	15	5	15	15
Germany	15	0	(9)	10
Finland[2]	15	5	0	10
France[2]	15	5	0	0
FYR Macedonia[2]	15	5	10	10
India	15	5	10	10
Ireland	10	5	10	5/10[3]
Hungary[2]	15	5	10	10
Italy	10	10	10	10
Korea (Dem.Rep.)[2]	10	10	10	10

Country	Dividends		Interest	Royalties
	Individuals Companies	Qualifying Companies[1]		
Kuwait[2]	10	5	10	10
Latvia	10	5	10	5/10[5]
Moldova	15	5	10	10
Malesia	9	0	10	10
Netherlands[2]	15	5	0	10
Norway[2]	15	15	0	10
Poland[2]	15	5	10	10
Romania	10	10	10	10
Russia	15	5[4]	10	10
Slovak Republic	15	5	10	10
Slovenia	10	5	10	5/10[5]
Sri Lanka[2]	12,5	12,5	10	10
Serbia	10	10	10	5/10[5]
Sweden[2]	15	5	0	0
Switzerland	15	5[6]	10	0/10[7]
Turkey	15	5	10	10
Ukraine[2]	10	5	10	10
United Kingdom[2]	15	5	10	10
Malta	10	5	10	5/10[3]
UAE	10	5	10	5/10[3]

[1] The reduced tax rates apply if the holding is at least 25% of the capital or of the voting power.
[2] Tax agreements concluded between the former Yugoslavia and state union of Serbia and Montenegro. Montenegro continues to honour the treaties of all those types. However, the application of treaties with Montenegro has to be confirmed by treaty partners.
[3] The lower tax rate applies to copyright royalties, excluding computer software, but including films, etc.
[4] The reduced rate applies if the beneficial owner is a company which holds directly at least 25% of the capital of the dividend-paying company and has invested at least USD 100.000.
[5] The lower rate applies to copyright royalties, including films, etc.
[6] This rate applies if the Swiss company owns at least 20% of the capital in the dividend-paying company.
[7] The zero rates apply as long as Switzerland does not, according to its domestic law, levy a withholding tax on royalties paid to non-residents.
[8] Tax rate at 5% is applied if beneficial owner is holding company that holds 10% of the Montenegrin Company's capital. In case this condition is not met, a 10 % tax rate is applied.
[9] Interest arising in one country and paid to a resident of another state, are taxed in the other State if such resident is the beneficial owner of such interest
[10] This rate applies if the Austrian company owns at least 5% of the capital in the dividend-paying company.

Currency: **Dinar (RSD)**

1 EUR = RSD 118.23

1.0 Introduction

1.1 Legal forms

For legal and natural persons who intent to setup a company in Serbia, following legal forms are available:

Legal form	In Serbian
Joint-stock company	Akcionarsko društvo (a.d.)
Company with limited liability (LLC)	Društvo s ograničenom odgovornošću (d.o.o.)
Limited Partnership	Komanditno društvo (k.d.)
Open Society	Ortačko društvo (o.d.)

Other legal forms are: state-owned company and cooperative organizations.
Minimum initial capital for establishing a Limited Liability Company is RSD 100. According to the Companies Law, the initial capital for a Joint-Stock Company must be at least RSD 3,000,000. Domestic and foreign companies may establish one or more branches. The branches must be registered.

1.2 Financial Reporting

According to Serbian Law on Accounting, large companies must keep their books according to IFRS (International Financial Reporting Standards). Small and medium sized entities enforce the International Financial Reporting Standards for small and medium sized entities (IFRS for SMEs). New law prescribes a choice for medium-sized entities whether they will implement the IFRS or IFRS for SMEs, while micro-sized entities can chose whether to implement IFRS for SMEs. The business year generally matches the calendar year. Upon request and with the consent of the Serbian Ministry of Finance, the entity is entitled to use the business year that deviates from calendar year. As of the year 2013, the deviating business year is allowed also from taxation aspects. The statutory financial statements for the previous year should be submitted to the Agency for Business Registers along with the auditor's report no later than 30th of June of the current year. The deadline for consolidated financial statements is the 31th of July. For statistical and other purposes it is obligatory to submit a balance sheet, an income statement and a statistical annex for the previous financial year until the end of February of the current year.

The set of financial statements of companies are categorized in three groups:

1. Statutory annual financial statements for the companies that apply IFRS or IFRS for SMEs, now includes Statement of Other Comprehensive Income (Income and Expenses that are not recognized within the Income Statement). Statistical annex is not required any more, while other elements of financial statements remained the same.
2. Statutory annual financial statements for other entities, except for micro entities, where obligatory statements are – Balance Sheet, Income Statement and Notes to Financial Statement.
3. Statutory annual financial statements for micro entities and sole proprietorships, which includes Balance Sheet and Income Statement.

1.3 Obligation to carry out audit

According to Serbian Law on Audit the year-end financial statements have to be reviewed by an independent Serbian auditor, if the company/legal person that prepares financial statement is:

- Large or medium sized company
- Public entities
- The National Bank of Serbia, bank or other financial institutions (leasing, insurance, broker etc.)
- If the company has obligation to prepare consolidated financial statements
- A legal entity or entrepreneur whose operating income realized in 2016 exceeded the amount of EUR 4,400,000 in counter-value in RSD.

For the entities that are obliged to have their financial statements audited, an auditor shell be appointed no later than 30th of September of the year that the audit refers to (can be longer in case of audit of consolidated financial statements).
It is prescribed that the entities that are obliged to have their financial statements audited must change the licensed auditor after seven years of consecutive audits.
The audit of financial statements can be conducted by independent certifies auditors-entrepreneurs.

Classification by size:

Classification according to size	Criteria
Micro	1) Average number of employees: Up to 10 employees 2) Operating income: Up to EUR 700,000, i.e. counter-value in RSD 3) Average value of total assets: Up to EUR 350,000, i.e. counter-value in RSD
Small	1) Average number of employees: 10 – 50 employees 2) Operating income: EUR 700,000 – 8,800,000, i.e. counter-value in RSD 3) Average value of total assets: EUR 350,000 – 4,400,000, i.e. counter-value in RSD
Medium	1) Average number of employees: 50 – 250 employees 2) Operating income: EUR 8,800,000 – 35,000,000, i.e. counter-value in RSD 3) Average value of total assets: EUR 4,400,000 – 17,500,000, i.e. counter-value in RSD
Large	1) Average number of employees: Over 250 employees 2) Operating income: Over EUR 35,000,000, i.e. counter-value in RSD 3) Average value of total assets: Over EUR 17,500,000, i.e. counter-value in RSD

2.0 Corporate income tax

Legal persons with an obligation of payment the corporate income tax are: Limited Liability Company, State-owned Company, Open Society (o.d.), Joint-stock company (a.d.), Limited Partnership (k.d.) and all other legal persons gaining profits from deliveries and services, as well as branches.

Legal entities resident in Serbia are obliged to pay corporate income tax on its worldwide income. Legal persons incorporated or having place of effective management in Serbia, are considered tax residents in Serbia. Permanent establishments of foreign companies have a limited obligation of paying corporate income tax; therefore they are obliged to pay tax only on profit gained in Serbia.

The tax rate is 15% - one of the lowest in Europe. The same tax rate applies for taxes on capital gains, but this kind of tax is determined based on the separate estimation in compare to operating income.

2.1 Determining taxable income

New Rulebook on content and form of the tax balance sheet is issued in 2014. Some of the changes in tax balance sheet are:

- corrections of income and expenses realized in related party transactions are now reported in total effect which is determined in the transfer pricing documentation
- provisions for receivables against the persons who are debtors at the same time are non-deductible up to the amount of the debt towards these persons (which is in line with the new Law provisions)
- tax balance sheet now contains separate field related to the penalty interest to related parties
- field related to expenses for health, humanitarian, sports, scientific, religious and environmental purposes now also comprises expenses related to donations to institutions for social protection which is in line with the Law provisions
- separate field is envisaged for expenses which non-resident's branch incurs in accordance with the Article 20 of the Law (in previous version of tax balance sheet these expenses were reported together with non-business related expenditures)
- new position is added for correction of revenues which were previously reported as non-deductible in accordance with the Article 7a of the Law
- other documents which are submitted with the tax balance sheet were also amended to some extent. For instance, PK form (which serves for calculation of tax credit for investment in non-current assets) now contains investments in development which are in accordance with the IAS and IFRS recognized as intangible assets in taxpayer's financial accounts.
- also, Annex 1 to the tax balance sheet which serves for calculation of the tax credit for the withholding tax paid in the foreign country is now more detailed and contains information about the tax credit for different types of income (interest, royalties, rental fees and dividends).

The determining of the taxable income is based on annual financial statements, which has to be prepared in accordance to IFRS as well as other local accounting regulations.

The Serbian Tax Law recognizes non-deductible expenses as well as restrictions on deductibility of expenses. Following expenses are non-deductible:

1) undocumented booking
2) provisions for individual receivables against persons which are also creditors up to the value of the claim
3) donations and presents to political parties
4) gifts and other non-documented contributions to related persons
5) interest for late payment of taxes
6) the costs of enforced collection of taxes and other debts and other judicial proceedings conducted before the competent authority
7) cash penalty imposed by authorities
8) interest on default between related persons
9) expenses not related to business activities.

Donations to medical, cultural, educational, scientific, humanitarian, religious, environmental and sporting purposes are recognized as expense up to a maximum of 5% of income. Donations have to be given to entities recognized and registered for the above mentioned purposes.

Membership fees for chambers alliances and business associations are recognized as an expense for tax purposes up to 0.1% of total revenues.

Advertising and entertainment expenses are recognized for tax purposes up to 10% and 0.5% of total revenues, respectively.

Write-off of individual receivables is recognized during taxation, if following conditions are met:
1) written-off receivable was included in taxable income
2) receivable was written-off
3) are generally recognized as expenses during taxation, except for interests on taxes not paid timely, contributions as well as other taxes.

2.1.1 Financing of shareholders by foreign companies

The regulations on so called “thin capitalization” apply when a foreign related party companies grant a loan to a Serbian subsidiary company.
The related party companies are those having 25% share capital or more, i.e. having de facto control or influence on decision making of the Serbian company. Related persons is also considered to be every non-resident entity from a jurisdiction with a preferential tax system.

Every amount of interest attributable to loan to related party companies greater than 4-fold amount of average equity of the Serbian subsidiary cannot be deducted for tax purposes. The non-deductible interests cannot be considered in subsequent periods.

Additionally, the rules on transfer pricing must be taken into account. It is necessary to apply such arm’s length interest rate to the loan principal in order to calculate arm’s length interest. Any interest expense above arm’s length interest is considered non-deductible. Arm’s length interest rates are determined by the National Bank of Serbia and published by the Ministry of Finance.

In accordance with the Serbian Law on Income Tax, it is possible to arrange for interest-bearing loans, with interest rates above the specified value, but they still cannot be deducted in the full amount for tax purposes.

2.1.2 Amortization of capital assets

The capital assets consist of corporeal and incorporeal assets with a useful life greater than one year.

The capital assets are divided into five groups. The following table shows the maximum depreciation rates for corresponding groups of goods.

CAPITAL ASSETS	DEPRECIATION RATE
Group I (e.g. buildings)	2.5%
Group II (e.g. machines, motor vehicles)	10%
Group III (e.g. office furniture)	15%
Group IV (e.g. telephone systems)	20%
Group V (e.g. computers)	30%

The straight-line method must be used for the first group, while the declining-balance method must be used for the assets in the other groups. The classification in groups is carried out according to regulations of the Serbian Ministry of Finance.

2.1.3 Capital gains

Assessment of capital gains has to be carried out separately from the assessment of corporate profits and losses. Losses from the sale of buildings, rights or licences can only be offset against gains arising from sale of buildings, rights or licences. The carry forward of those losses is allowed within the next 5 years. The flat tax rate of 15% is applied. The profits and losses have to be included in the annual tax return.

2.2 Tax incentives and investment allowances

2.2.1 Tax credit

Starting from financial 2014, tax credit for investing in fixed assets is to be abolished. However, unused tax credit as at 31 December 2013, if any, can be carried forward and utilized in subsequent years in accordance with the previously applicable law. If the company invests in certain capital assets in 2013, within its registered business activities, it is entitled to a tax credit in the amount of 20% form investments, but no more than 33% of the determines tax for the corresponding year. Small sized companies are entitled to a tax credit in the amount of 40% from investments, but no more than 70% of the determined tax burden. The part of the tax credit, which, according to these restrictions, cannot be used, can be carried forward in the period of the next 5 years. The capital assets, for which the tax credit is provided, are real estate, technical devices, equipment and biological means.

2.2.2 Tax exemptions

If a company, or any other person, has invested RSD 1 billion (approximately EUR 8.9 million) in capital assets and employs at least 100 new employees, it is exempted from income tax for the next ten years in proportion to that investment.
The tax exemption does not apply on the purchased equipment which is been already using or located in Serbia. The company must use its capital assets for conducting business activities determined in the Articles of Association or the business activities registered by the Serbian Registry of Business Entities. The employees must be employed for an undefined period of time.
The total assets include land, buildings, machinery and equipment, as well as biological means.

The total asset does not include:
- Aircrafts and ships not used for business purposes
- Passenger cars, except for taxi cars, cars for rental, cars for driver schools or cars for the transport of patients
- Furniture, except furniture for hotels, motels, restaurants, hostels for children, workers and young people
- Works of art and decorative items
- Carpets
- Tools and supplies not fully written off at the time of purchase
- Mobile phones
- Air conditioners
- Advertising material
- Video security accessories.

Intangible assets (e.g. licences) are also not included in total assets.

2.3 Taxation of associated companies

Taxation of the tax group: The Serbian-resident companies may have benefits from group taxation. In order for tax group to be recognized as such, a minimum of 75% participation of the group leader is needed. Once the application for group taxation has been submitted, it must be applied at least 5 years.

The group members must submit their tax returns and the group leader a consolidated tax return. The profits and losses of the group are compensated within the consolidated tax return.

Transfer pricing: In Serbia, transactions between associated companies must be carried out at arm's length prices, in order for respective expenses and revenues not to be adjusted for tax purposes. The recognized methods of calculation of such prices are:

- Comparable Uncontrolled Price (CUP) method
- Cost plus method (method of cost plus gross margin)
- Resale price method (RPM)
- Transactional Net Margin Method (TNMM)
- Profit split method (PSM)
- Any other method by which is possible to determine the transaction price, based on the "arm's length".

No above method is preferred over another. This implies that taxpayers are allowed to choose methods to be used in determination of "arm's length" prices and preparation of transfer pricing study. The method is chosen on the level of each type of transaction. Combining two or more methods is also allowed. However, the one that has been chosen must be practically applicable and should result eventually in reasonable estimate of effects in accordance with the "arm's length" principle. Tax Authorities use Amadeus database in determining market prices i.e. in analysis of transfer prices used in transactions between related parties. Although not required by legislation, it is recommended that taxpayers use the same database for preparation of their benchmark analysis.

3.2.1 Transfer Pricing Study

The following mandatory elements of each transfer pricing study are prescribed by the Rulebook:
- Analysis of the group of related entities whose member is the taxpayer
- Business activity analysis
- Functional analysis
- Selection of transfer pricing method used in determination of transfer prices
- Conclusion – is it required to amend taxable base for related party transactions
- Appendices – review of data used by the taxpayer in determination of "arm's length" prices.

3.2.2 Simplified Transfer Pricing Report

The amendments abolished the obligation to prepare a detailed analysis of compliance with the "arm's length" principle for certain transactions. The transactions may be excluded from the detailed analysis, if at least one of the two following conditions is met:

- one-off transactions which value does not exceed the amount of turnover which is prescribed as a limit for registration for VAT purposes (RSD 8 million)
- total transactions with one related party which value does not exceed above stated amount of RSD 8 million.

Simplified transfer pricing report has to contain the following elements:
- description of transaction
- value of transaction
- name of related party.

Serbian Corporate Income Tax Law requires from all taxpayers who have transactions with related parties to prepare transfer pricing documentation. The purpose of this documentation is to prove whether the transactions with related parties are carried at the arm's length (i.e. market) prices and whether any adjustment of revenues/expenses realized in these transactions have to be made in the corporate income tax return. The deadline for submission of transfer pricing study to the Tax

2.4 Permanent establishments

Permanent establishment is defined per Serbian CPT Law as a fixed place of business through which a business activities of non-resident are performed, especially the following:

- Branch
- Representative office
- Drive company
- Factory
- Mine or other place of natural resources exploitation.

The non resident is obliged to keep records in a PE, in order to obtain data regarding profit generating in that PE. ***PE is a tax payer for the result allocated to the PE = non-resident entity can have several PEs through different projects and non-resident is a tax payer for all the activity performed directly by the non-resident and not allocated to PE.***

Branch and representative office are subject to registration with the Business Register Agency.

General application of DTT rules: Where the company is conducting its activities (installation and maintenance of the equipment, for example) through subcontractors, where the subcontractor cannot directly influence the relation with the third party (i.e. main project partner) and where the company remains liable towards the third party, the existence of a PE would depend strictly on the fact if other requirements have been met:

- Activity is performed on a continuous and regular basis during an extended period of time;
- Activity is performed at a location that is at disposal to the company performing the activity or that belongs/is used to/by another company;
- In particular, installation works (if only activity performed) should last more than 12 months (in total) over the whole period of mining site project (or 6 months, depending on the DTT applicable);
- If the activity is of a more complex nature, then the 12 months period is of a secondary relevance – the prevailing factor is the continuous and regular performance of services on the location of Serbia;
- The activities of maintenance of equipment would not lead to creation of a PE even if rendered over a long period of time if they refer purely to the guarantee period coverage.

3.0 Value added tax

The value added tax is applied to deliveries, other services as well as importation of goods. The standard tax rate is 20% and the reduced rate is 10%. Certain services related to transportation, health and education, as well as certain medical and technical goods are not subject to taxation.

Not the business activity of the company, but the amount of realized income determines the compulsive obligation to enter VAT system. The tax payer who has realized total revenues in the amount of more than RSD 8,000,000 for the last 12 months, or the tax payer who wants to start a company and estimates that it will realize more than RSD 8,000,000 revenues in the next 12 months, must be registered by the Serbian VAT system.

Companies achieving income not higher than RSD 8,000,000 in the last year are exempted from the value added tax. A tax payer has the option to voluntary register in the VAT system.

The Serbian VAT system recognizes the reverse charge procedure, whereby the tax liability for services of foreign companies provided to Serbian companies is transferred to the receiver of services.

The eighth EU-directive on VAT is partly implemented in Serbia. That leads to differences in the legal position of the EU and Serbia, which can result in double taxation or tax exemption (e.g. for transportation services).
On request, the VAT exemption is possible within projects financed by international organizations.

Some of deliveries and other services subject to reduced tax rate of 10% are:

- Basic food and drinking water
- Drugs and medical aids, including medicines for veterinary use
- Orthotic and prosthetic appliances as well as medical appliances
- Hotel accommodation
- Transfer of rights of use and ownership shares in residential properties
- Natural gas
- Daily newspapers
- Specialized literature and teaching aid
- Cinema, theatre, fairs, circus, opera, concerts etc.
- Managing cemeteries and funeral services
- Passenger transport and transport of accompanying passenger baggage
- Fuel wood, including briquettes, pellet and other similar goods made of wood biomass
- Services that precede the supply of drinking water through water supply network, as well as drinking water other than bottled water
- Treatment and disposal of storm water and wastewater
- Management of municipal waste
- Rubbish cleaning in the areas for public use
- Rubbish cleaning in green spaces and coastal areas,…

Tax payers are entitled to deduct the input VAT for received acquired goods and services, provided that they are used for generating taxable income. If the income is achieved abroad, the deduction is possible in case the pre-tax is deductible also in the country, for such incomes.

The deduction of input VAT is not allowed for the expenses listed below:
- Purchase of passenger vehicles, motorcycles, boats and aircrafts, spare parts and fuels, their rent, parking facilities, repair and other services for these means of transportation
- Entertainment expenses
- Expenses for food and transportation of employees.

Collection system: The collection system can be applied by entities that realized supplies below RSD 50 million with prior 12 months. Additional conditions are that the taxpayer filed the VAT return the last 12 months in time and that he was not exclude from collection system upon his own request.

Refund of overpaid VAT: The refund is allowed if VAT charged by the suppliers (input VAT) is higher than VAT charged to the customers (output VAT). There is also a compensation option, against future burdens. The tax refund has to be made within 45 days after the deadline for the submission of VAT returns.

For Taxpayers who have tax-exempted export the refund has to be made within 15 days after der deadline for the submission of the return. The refund requests often lead to tax inspections, which are carried out quickly and do not lead to significant delays in repayment.

Tax period/submission deadline: for VAT-payers whose turnover is more than RSD 50 million and for VAT-payers who apply collection system the tax period is calendar month and the return must be filed within 15 days after the expiry of the tax period. VAT-payers with less than RSD 50 million turnovers have a tax period of 3 months.

3.1 Taxation of Non-Residents - Vat Representative

Foreign companies conducting business activities in Serbia (with or without a branch office formed in Serbia) can be registered into VAT system, with the status equal to Serbian residents.

Definition of the business activity conducted in Serbia = VAT place of delivery of service/goods (with an exemption of international transportation services), so activities where reverse-charge applies also deemed as conducted in Serbia for the purpose of the VAT registration for non-residents.

Non-resident that wants to become a Serbian VAT payer has to undertake the following steps:

- To obtain tax identification number (TIN)
- To appoint a VAT representative
- To submit registration form through the VAT representative.

Tax representative of non-resident, in the name and on behalf of that non-resident, performs all tasks related to fulfilling the obligations and exercising rights of a non-resident as a Serbian VAT payer in accordance with the VAT:

- filing of a registration form
- calculation of VAT
- invoicing on behalf of a non-resident
- filing VAT returns
- payment of VAT
- any other action needed.

Rights of the non-residents?

- Deduction of input
- VAT refund

Registration into VAT system means that all activities of the non-resident performed in Serbia shall be subject to VAT = effects not limited per project/delivery

3.2 Taxation of Non-Residents – Vat Refund Per Reciprocity Principle

Foreign companies not conducting business activity in Serbia, but incurring expenses

The following conditions have to be met:
1) The purchases refer only to movable assets/goods or services
2) The amount of VAT claimed back is EUR 200 or above
3) The invoices have been paid
4) The invoices are formally correct from the aspects of Serbian VAT Law
5) The VAT would be deductible for such deliveries also for any resident VAT payer in Serbia.

The refund can be claimed only under the principle of reciprocity (i.e. if there is a bilateral agreement in place or another country is in practice applying the refund procedure for Serbian residents without a formal agreement in place). However, Tax office is insisting on the list of countries published on their website as the only valid source of information, which is limiting practical implementation of the legislation in place.

List of countries with reciprocity principle, as published by the Tax office:

- Netherlands
- Slovakia
- Croatia (from 8 October 2015)
- Denmark
- Austria
- Bosnia and Herzegovina
- Belgium
- Montenegro
- Macedonia
- Slovenia
- Germany
- United Kingdom.

Per current practice of the Tax office, obtaining a tax identification number is mandatory for the purpose of VAT refund claim procedure, which is not in accordance with the current legislation.

4.0 Income tax and other taxes

Resident of Serbia is considered a natural person who:

- in Serbia has a residence or center of business and personal interests
- is in Serbia for 183 days or more over a period of 12 months.

The total income is calculated and it is taxable by flat tax rate at the end of the year. Flat rate applies to citizens of Serbia and foreigners if their income is more than three times higher than the average annual salary in Serbia. The tax rate of 10% is applied on total income to six-fold compared to the average income. For tax payers whose total income exceeds this amount to the part to six-fold the applicable tax rate is 10% for the residual amount the tax rate is 15%. Tax returns are submitted only electronically, and the deadline is 15 May. In determining the base for measurement, the income tax payer is entitled to personal deductions in amount to 40% of the average annual income in Serbia. The additional 15% of the average annual income may be deducted for each dependent family member. The total sum of deducted amount for this should not exceed 50% of the income for taxation.

Dependent members of family are:
1) Minor children
2) The children in full-time education or during their unemployment if they live in a household with the taxpayer
3) Grandchildren, who live in a household with the taxpayer and do not supported by their parents
4) The spouse
5) Parents.

The particular types of income are taxed separately during the year, using following tax rates:

TYPE OF INCOME	TAX RATE
Income from employment (non-taxable part of RSD 11,790)	10%
Income from self-employment	10%
Income from copyrights, related rights and industrial property rights	20%
Income from fixed assets	15%
Income from leasing	20%
Capital gains	15%

The total income is calculated and it is taxable by flat tax rate at the end of the year. Flat rate applies to citizens of Serbia and foreigners if their income is more than three times higher than the average annual salary in Serbia. The tax rate of 10% is applied on total income to six-fold compared to the average income. For tax payers whose total income exceeds this amount to the part to six-fold the applicable tax rate is 10% for the residual amount the tax rate is 15%. Tax returns are submitted only electronically, and the deadline is 15 May. In determining the base for measurement, the income tax payer is entitled to personal deductions in amount to 40% of the average annual income in Serbia. The additional 15% of the average annual income may be deducted for each dependent family member. The total sum of deducted amount for this should not exceed 50% of the income for taxation.

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4) The spouse
5) Parents.

4.1 Social security contributions

The contribution base for employees and employers are wage and wage compensation, more exactly, wages in accordance with the Employment Act, the General Act and the employment contract or the decision of the Competent Authority.

The monthly contribution base cannot be lower than the lowest monthly contribution base. If the contributions base defined by Law, lower than the lowest monthly contribution base, calculation and payment of contributions shall be based to the lowest monthly contribution base. The lowest monthly contribution base is the amount of 35% of the average monthly salary paid in the previous quarter for which data are published by the republic authority in charge of statistics.

The amount of the lowest monthly base is determined and published by the Minister of Finance and it can be applicable from the first day of the following month after the publication of this amount.

Contributions rates are as follows:
1) Contributions on behalf of employee:
- Pension and disability insurance – 14%
- Health insurance – 5.15%
- Unemployment insurance – 0.75%

2) Contributions on behalf of employer:
- Pension and disability insurance – 12%
- Health insurance – 5.15%
- Unemployment insurance – 0.75%

4.2 Tax incentives related to income tax

If an employer hires persons with disabilities on undefined period of time, the employer is exempted from payment of tax on wages and social security contributions for the period of three years.

An employer - a legal entity that classifies in micro and small legal entities according to the Law on accounting, as well as an entrepreneur who establishes a working relationship with at least two new persons, has the right to a refund of 75% of the paid tax on the salary for a newly employed person, paid until 31 December 2017. An employer who hires a new employee from 1 January 2016 and in the following period hires another new employee can use the tax discount for first new employee, but only when he hires another new employee.

4.3 Excise duty/excises

Following products are subject to excise duty:

- Fuels
- Coffee
- Alcohol
- Tobacco products
- Liquids for filling electronic cigarette
- Electricity for final consumption.

Annual Personal Income Tax Return

Individuals who are required to submit annual income tax returns are individuals whose net income is hihger than

three times average annual salary.

Individuals required to pay Serbian annual tax liability are:

- Serbian Residents on their world-wide income
- Serbian non-residents on their Serbian sourced income.

Deductions and allowances

The same personal deductions and allowances apply to both Serbian and foreign nationals:

- In the case of the taxpayer: 40% of the average annual salary
- In the case of dependent family members: 15% of the average annual salary per dependent.

The deadline for submission of the annual income tax return for previous year is 15 May of the next year.

5.0 Property tax

The provisions of the property tax were applied from 01 January 2014.

Tax base
The Amendment to the Law is provided different tax base for tax payers who keep books according to Serbian Law:

- For tax payers who keeps book, and value real estate per fair value, as tax base should used fair value of real estate on last day of the year (31 December)
- For tax payers who keeps book, and who doesnt value real estate per fair value, as tax base should used value caculated using useful surface and price per square meter (According to Desision on prices per square meter by Zones publised by Local Authority)
- For some specific types of real estate (such as production facility, power station, warehouses and etc) as tax base can be used book value of real estate on last day of the year (31 December).

Tax liability occurs earliest of the following days: day of acquiring property, day of start using real estate, day of issuance of occupancy permit, day of facilitating the use of property.

Tax rate for property tax is 0.4%.

The deadline for submission of the annual income tax return is 31 March.
The amendments are related to the forms for determining property tax on the real property of a taxpayer who keeps books and who determines property tax by self-taxation. The following forms are altered under these amendments: Form PPI-1, Form Prilog-1 and Form Pod-prilog 1 with Prilog-1 and Form PPI-2 with Prilog 2.

6.0 Withholding tax

The withholding tax at the rate of 20% is charged on certain payments to non-resident legal entities. These payments include dividends, share in profits, interests, capital gains, rent and lease payments, royalties and services fees. The withholding tax can be reduced according to Agreements to avoid the double taxation. For the Serbian tax payer the compensation method applies for already taxed foreign incomes. The withholding tax increase to 25% if the beneficiary of the payments has his seat in a jurisdiction with preferential tax system.

6.1 Agreements to avoid double taxation

As of 1st January 2017, Serbia has 58 effective DTT's with the following countries:

Albania	Estonia	Lithuania	Russia
Armenia	Finland	Luxembourg	Slovakia
Austria	France	FYROM (Macedonia)	Slovenia
Azerbaijan	Georgia	Malaysia	Spain
Belarus	Germany	Malta	Sri Lanka
Belgium	Greece	Moldova	Sweden
Bosnia & Herzegovina	Hungary	Montenegro	Switzerland
Bulgaria	India	Netherlands	Tunisia
Canada	Iran	North Korea	Turkey
China	Ireland	Norway	Ukraine
Croatia	Italy	Pakistan	United Arab Emirates
Cyprus	Kazakhstan	Poland	United Kingdom
Czech Republic	Kuwait	Qatar	Vietnam
Denmark	Latvia	Republic of Korea	Romania
Egypt	Libya		

The agreement to avoid double taxation between Serbia and Austria/ Germany/ Switzerland

		Austria		Germany*	Switzerland	
Interests		10%		0%	10%	
Royalties and licences		5% or 10%		10%	0% or 10%	
Distributions	Amount of share	Up to 25%	25% or more		Up to 20%	20% or more
	Tax rate	15%	5%	5%	15%	5%

* based on the continued application of the Agreement on avoiding the double taxation with SFRJ

[1] For using copy rights for literature, works of art or scientific works, including movies or tapes for radio and TV.

1.0 Introduction

1.1 Legal forms

Business activities in Slovenia are carried on by sole entrepreneurs or by companies. A sole entrepreneur means an individual carrying on business activities. The term »company« refers to legal entities. Moreover, a distinction can be made between entities with legal personality (legal entities) and entities without legal personality (non-legal entities). Legal entities form the majority of entities, while non-legal entities are, in general, silent partnerships, civil law companies and pension funds.

The major Slovenian companies are organized either as »personal companies« (Unlimited liability company (d.n.o.), Limited partnership (k.d.) and Silent partnership (which has no legal personality)) or as »company with share capital« (Limited liability company (d.o.o.), Public limited company (d.d.), a limited partnership with share capital (k.d.d.), SE).

Companies with share capital provide for limited liability of their shareholders, whereas partnerships, generally, require unlimited liability of the partners. Furthermore, companies with share capital are required to have a certain minimum share capital due to their limited liability. This is not necessary for partnerships since the creditors can be satisfied with the property of the partner who has unlimited liability.

All companies other than silent partnerships are legal entities. Having legal personality, a company may own movable and immovable property, acquire rights, assume obligations and may prosecute and be prosecuted.

1.2 Income tax aspects

Sole entrepreneurs and partnerships

If a sole entrepreneur is a resident of Slovenia he will be subject to unlimited personal income tax liability on his worldwide income in accordance with the Personal Income Tax Act. Thus, income from business activities is subject to tax at the level of the individual. An individual is a resident in Slovenia for personal income tax purposes in general if he has a formal residential tie or has an actual residential tie with Slovenia (i.e. habitual abode, centre of personal and economic interests or presence of more than 183 days in a taxable year in Slovenia).

Partnerships are non-transparent entities for tax purposes in Slovenia. Partnerships are, consequently, treated as separate taxable persons, subject to corporate income tax. The profits made by the partnership are, firstly, taxable at the level of the partnership under the

Corporate Income Tax Act and afterwards at the level of the partners as well when/if the distribution of the profits is made:
- under the Personal Income Tax Act, if the partners are individuals*; or
- under corporate income tax if the partners are companies.

In general, resident individuals are subject to income tax on their worldwide income derived from the following categories:

- income from employment;
- income from trade or business;
- income from agriculture and forestry;
- income from renting movable and immovable property and from intellectual property;
- income from capital; and
- other income (e.g. rewards, contest prizes).

All income, profits and gains are taxable, unless specifically exempted by law.

Dividends, interest and capital gains, rental of property (passive income) are taxed separately at flat rates (scheduler taxation).

1.3 Principles of determining business income tax base

Income from business includes income from any entrepreneurial, agricultural, forestry, occupational or any other independent activity. It also encompasses income from the exploitation of immovable and movable property, as well as intellectual property rights.

1.3.1. Methods

Income from business includes income from any entrepreneurial, agricultural, forestry, occupational or any other independent activity. It also encompasses income from the exploitation of immovable and movable property, as well as intellectual property rights.

1.3.2. Net equity comparison method

For taxpayers obliged to keep books or who keep them voluntarily, the net equity comparison method must be applied. Under this method, profit is defined as the difference between the net equity of the business at the end of the business year and the net equity at the beginning of the business year. Profit may not be reduced by withdrawals or increased by contributions. Gains and losses from the disposal of land are not taxable.

1.3.3 Lump sum deduction

Small entrepreneurs fulfilling certain conditions (the main condition is that the annual turnover in the last 12 months has not exceeded EUR 50,000 or accrual EUR 50,000 or 100.000 EUR, if one or more employees are employed) may opt for a 80% lump-sum deduction of the turnover instead of claiming actual costs. In addition, taxable income of such entrepreneurs is calculated on cash basis (not on the normal accrual basis).

2.0 Corporations

Companies are subject to corporate income tax (DDPO). In Slovenia the corporate income tax is regulated by the Corporate Income Tax Law (Zakon o davku od dohodkov pravnih oseb, ZDDPO-2), which is effective from 1 January 2007. ZDDPO-2 regulates the substantive corporate tax issues, while tax procedure and administration is governed by the Tax Procedure Law (Zakon o davčnem postopku, ZDavP-1) , also effective from 1 January 2007.

A taxpayer is any domestic or foreign legal entity, including:

- partnerships and other corporate forms;
- banks;
- insurance companies;
- cooperative enterprises; non-profit organizations and
- other legal persons.

Partnerships established under Slovenian law (general partnerships and limited partnerships) are considered legal entities under Commercial Companies Law, taxable like commercial companies according to ZDDPO-2. Non-profit organizations are taxable persons, but are not subject to DDPO except for the income earned from commercial activities.

Certain categories of income and companies enjoy a special tax regime. For example, investment funds and pension funds are entitled to apply a zero tax rate subject to certain conditions.

Taxpayer having statutory seat or place of effective management in Slovenia is liable to pay Slovenian corporate income tax on its worldwide income (subject to applicable tax treaties). Taxpayers without statutory seat or place of effective management in Slovenia are liable to pay tax only on income realized by their permanent establishment in Slovenia or from another Slovenian source.

2.1 Principles of determination of the tax base

In general, taxable income is calculated as the difference between the gross income and all expenses of the company, disclosed in the profit and loss account or in the financial statement corresponding to the profit and loss account, based on the accounting standards for business purpose, unless otherwise provided by the ZDDPO. Both Slovenian accounting standards (SRS 2016) and International Financial Reporting Standards (IFRS) may be applied and are equally acceptable.

Income and expenses are taken into account on the accrual basis. Cash payments are irrelevant for tax purposes.

Taxable income is closely linked to operating profit and business accounts. However, some temporary and permanent divergences exist. Temporary divergences result from provisions, impairment of receivables, financial instruments and good-will, depreciation and valuation rules related to transfers of assets, exchange of shares, mergers and divisions. Permanent divergences result from non-taxable dividends, capital gains and non-deductible expenses.

Income includes revenues (active income) and gains (passive income). The main categories of income are operating income and expenses, financial income and expenses (including dividends and capital gains) and other (extraordinary) income and expenses. Taxable income derives from all types of business activity and from all disposals of company property.

Deductible business expenses or expenditures caused by a trade or business. In particular, no deduction is allowed for expenses and expenditures relating to the taxpayer's household or lifestyle, personal taxes such as income tax payments, penalties, bribes and interest on unpaid tax.

2.1.1 Depreciation

The depreciation of tangible and intangible fixed assets is a deductible business expense in the calculated amount, insofar as the amount is not exceeded if the straight-line depreciation method and maximum depreciation rate are applied. The maximum annual depreciation rate is:

- 3% for buildings, including investment properties;
- 6% for parts of building, including parts of investment properties;
- 20% for equipment, vehicles and machinery;
- 33% for parts of equipment and equipment for research activities; and
- 50% for computer software and hardware.

2.1.2 Provisions

For anticipated claims that are not yet certain in respect of the reason or the amount, a provision has to be entered in the books under general accounting principles. For tax purposes provisions are in the general tax effective at 100% of their value. However, the following types of provisions are only tax effective at 50% of their value, when they are made:

- provisions for given warranties on sold products or services;
- provisions for reorganizations;
- provisions for potential losses from pending business transactions;
- provisions for pensions;
- provisions for jubilee benefits; and
- provisions for severance benefits paid upon retirement.

The difference of 50% is subject to deferred taxation as it is only a temporary difference.

Incentives

Incentives include a deduction of expenses, up to the amount of the tax base:

- 100% of the purchase of R&D services and investment in domestic R&D activities,
- 40% deduction of the investment in certain equipment and intangible assets,
- relief for donations up to 0,3% taxable income and additional 0,2% relief for special purposes
- relief for voluntary supplementary pension insurance (24% of obligatory contributions for pension and disability insurance),
- relief for employment of the disabled up to 50% of salary of such individuals (70% of the salary for fully physically disabled and deaf individuals),
- relief for employment of unemployed individuals, younger than 26 and older than 55 that were registered as unemployed for at least 6 months.

2.2 Tax rates and tax payments

The standard tax rate is 19%. Special tax rate of 0% applies to:

- pension funds established under the law regulating pension and disability insurance; and
- insurance companies authorized to manage pension schemes under the law regulating pensions and disability insurance, within the qualified activities.

Tax is calculated on self-assessment basis. Forms of tax returns and tax procedures are prescribed by the tax Procedure Law. Tax return must be submitted to the Tax Authorities by 31 March of the following year. If the tax period is different from calendar year, tax return must be submitted three months after the end of tax period. In the case of corporate restructuring and liquidation, special deadlines for submission of tax returns are prescribed.

If the taxpayer finds an error in tax return that results in higher tax liability he may submit amended tax return and pay additional tax liability. He also has to pay the interest but no penalty, provided the tax administration has not yet commenced a tax audit. If the taxable person finds an error in his tax return that result in a lower tax liability, he may submit a corrected tax return within one year from the submission of the original tax return, upon which the tax administration refunds the excess amount of tax paid.

2.2.1 Carry - Forward of Losses

Remaining tax losses derived from business income may be carried forward only up to 50% of tax base.

2.2.2 Reorganizations

Under general income tax principles, reorganization of companies normally constitutes taxable event and triggers realizations of hidden reserves of assets transferred in the course of reorganization.

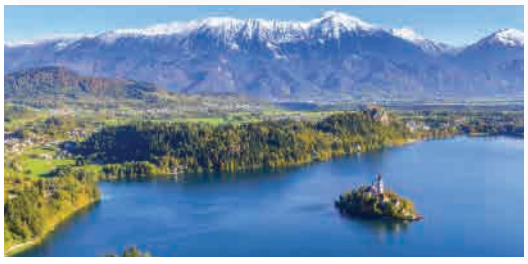
However, the ZDDPO-2 – which is based on the EC Merger Directive (90/434/EEC) – prescribes special tax regime applicable to the following types of reorganizations:

- mergers
- divisions
- contributions of assets; and
- exchanges of shares.

The ZDDPO-2 basically provides for the following tax treatment, subject to certain conditions:

- no liquidation taxation in the course of a reorganization (either on the level of the company/partnership or on the level of the shareholder/partner);
- a tax-neutral transfer of assets;
- transfer of loss carry-forward to the receiving entity;
- beneficial rules as to the tax base for real estate transfer tax purposes;
- exemption from capital tax; and
- exemption from value added tax.

The ZDDPO-2 allows reorganizations with retroactive effect (basically within a nine month period) as well as multiple reorganizations on the same effective date.



2.3 International Business

2.3.1 Tax treaties

Slovenia has concluded 61 tax treaties in the area of personal and corporate income tax. In most of the treaties the exemption method applies, except for dividends, interest and royalties.

2.3.2 Transfer pricing

Taxpayers have to prepare a master file and a country-specific file. The master file should include at least (i) a description of the taxpayer, (ii) a description of the organizational structure and types of relations between the subject, (iii) the system chosen for determining transfer prices, (iv) a description of the business activity and business strategy, (v) a description of the competition. In the country-specific file the taxpayer has to include (i) information regarding transactions between related persons, (ii) information on comparability analyses of transactions regarding features of assets and services, functional analysis conducted, contractual terms, economic conditions that influence transactions, business strategies, other conditions influencing transactions, information regarding the method applied for determining the transfer prices and other documentation about the comparability of transfer prices with comparable market prices.

The Slovenian tax law does not have a CFC regime.

3.0 Value Added Tax (VAT)

3.1 Taxable persons

In general, taxable persons carrying out taxable transactions in Slovenia are subject to VAT liability. A taxable person for VAT purposes is a person who independently carries on any economic activity in any place, whatever the purpose or results of that activity are. Non-residents may also qualify as taxable persons subject to Slovenian VAT if they carry out taxable transactions in Slovenia (see I.D.9.).

A taxable person must register for VAT purposes if the value of its supplies within the last 12 months exceeds 50.000 EUR and 7.500 EUR for agricultural activities. Small businesses may apply for voluntary registration, valid for a minimum period of five years. A taxable person, established abroad that carries out taxable economic activities in Slovenia must register.

3.2 Taxable transactions

Under the rules of the Slovenian Value Added Tax Act (VATA), the following transactions are taxable:

- the supply of goods and services within Slovenia for a consideration by taxable persons within the scope of their business;
- the withdrawal of goods and rendering of services for the taxable person himself (self-supply);
- the import of goods from a country outside the European Community; and
- intra-Community acquisitions.

Tax rate

The following tax rates are provided for by the VATA:

22%	**standard VAT rate**
9.5%	reduced VAT rate, which applies especially to foods and beverages, preparation of meals, agricultural products, books, plants, artists, transportation of persons, hospitals, acquisition of residential housing if part of the social policy, renovation and maintenance work for residential housing, when charged directly to the investor

3.3 Exemptions

The numerous exemptions from VAT can be classified in two categories depending on whether or not they preclude the deduction of input VAT. The following supplies do not affect the right to deduct input VAT:

- export of goods (goods are transported outside the Community);
- intra-Community supply;
- cross-border transport of export goods;
- cross-border transport of persons by vessels and aircraft; and
- work on and the processing of goods to be exported outside the Community.

VAT exemptions which preclude the deduction of input VAT, include:

- banking and financial transactions as well as insurance transactions;
- transfer of immovable property (including buildings, excluding new buildings within two years, and excluding building land) but the entrepreneur may opt for regular VAT treatment;
- leasing or letting of immovable property for residential or business purposes: The taxable person may, for business purposes, opt for regular VAT treatment if the lessee is entitled to input VAT deduction;
- services supplied by dentists, doctors or psychotherapists and services of hospitals and medical institutions; and
- small businesses: The exemption for small business applies if the annual turnover of the taxable person does not exceed EUR 50,000 but the taxable person may opt for regular VAT treatment.

3.4 Input VAT deduction

Taxable person is entitled to deduct VAT (invoiced by other taxable persons) paid on goods and services, imports and intra-Community acquisitions if the following conditions are fulfilled:

- supply of goods or services is to be effected by another taxable person in Slovenia for the enterprise of recipient;
- invoice is to be received; and
- recipient of goods or services has used or intends to use the goods or services for the purpose of performing activities that are subject to VAT.

3.5 VAT liability

In general, taxable person carrying out taxable transaction is liable to pay VAT. He is obliged to pay the invoiced VAT to the tax office. However, as regards supplies of services subject to reverse charge as well as intra-Community acquisitions, the recipient is liable for VAT. The reverse-charge mechanism applies in the following cases:

- supply of services if they are taxed according to general rule for place of supply of services and if they are supplied to a Slovenian taxable person and carried out by a foreign taxable person;
- supply of construction services, supply of staff engaged in construction activities, supply of rights to greenhouse gases (until 31 December 2018), supply of immovable property where the supplier opted for taxation, as well as supply of recyclable waste, scrap and used material from iron and coloured metal if the supplier and the recipient are Slovenian taxable persons (domestic reverse charge); a foreign taxable supplier must therefore register for VAT in order for the reverse charge to apply; and
- if foreign taxable person carrying out taxable transactions in Slovenia (e.g. educational services) did not register for VAT purposes in Slovenia, foreign taxable person has no right to a VAT refund (see I.D.9.2.).

4.0 Tax assessment

4.1 Resident taxable persons

Any person who starts business activities in Slovenia must register with the tax office. For VAT purposes, a taxable person who carries out taxable transactions has to file monthly or quarterly VAT returns electronically and make appropriate payments during the tax year. The monthly declaration is final and no annual return is required. Taxable persons carrying out intra-Community supplies of goods as well as supplies of services to taxable persons in other EU Member States that are subject to the reverse-charge mechanism, have to file statements that show the VAT identification numbers of the recipients and total value of supplies made to them in a month. When supply of goods or services is subject to domestic reverse-charge mechanism, a special report on that has to be submitted as well.

4.2 Foreign taxable persons

Foreign taxable persons carrying out taxable transactions in Slovenia have to register for VAT purposes at the competent tax office and electronically submit monthly VAT returns just like resident taxable persons. If foreign EU taxable persons do not have their seat in Slovenia, they may choose a fiscal representative in case they affect supplies subject to Slovenian VAT. In the case of a foreign non-EU taxable person, the appointment of a fiscal representative is obligatory. Foreign taxable persons who act as importers in Slovenia according to the simplified Procedure 42 must register for VAT and appoint a representative, whereas taxable persons from the EU can either register or appoint a representative.

Procedure 42 takes place when the goods are dispatched or transported from a third country into Slovenia, but the transportation ends in another EU Member State and the intra-Community rules for supply of goods according to Article 138 VAT Directive apply. Foreign taxable persons from the EU who do not carry out taxable transactions in Slovenia may claim a refund of input VAT by filing an electronic application at their home tax office.

4.3 Other business-related

4.3.1. Stamp duties

Stamp duty tax is not applicable in Slovenia.

4.3.2 Custom duties

Slovenia applies the common Community customs legislation. The Community is a Customs Union and therefore an area without internal customs duties and it levies uniform duties on importation from third countries. Goods from third countries are cleared through customs and import duties are levied at the place of importation into the Community.

4.3.3 Other excise duties

Goods subject to excise duties are tobacco products, alcohol and alcoholic beverages and energy products. Normally, a producer, importer or trader has to pay excise duty but if the goods are not bound for final consumption in Slovenia, the suspension regime may be applied. In this case, the excisable goods remain under the supervision of the competent customs office and the excise duty is only due when the goods leave the suspension regime.

4.3.4 Environmental taxes

Slovenian law provides for various environmental taxes. The Slovenian legislation precisely defines different types of environmental taxes, the taxpayers and the tax rates.

4.3.5 Advertising duty

Advertising duty on advertising on billboards and banners is governed by the legislation of the communes.

5.0 Special areas of Taxation on business-related activities

5.1 Holding Structures

5.1.1 Outbound dividends

Dividends paid to resident corporate shareholders

In general, dividends and other profit distributions are subject to 15% withholding tax. However, there is no tax burden in case of payment of dividends to a resident taxpayer who has notified his tax number to the dividend payer.

5.1.2 Dividends paid to non-resident corporate shareholders

Domestic law

Relief from withholding tax on outbound dividends may be provided by domestic law if the recipient is a resident of an EU country and has no right to get a tax credit for the withholding tax paid in Slovenia.

EC Parent-Subsidiary Directive
As the EC Parent-Subsidiary Directive has been implemented into Slovenian law, the Corporate Income Tax Act provides that tax is not withheld from payments of dividends and income similar to dividends, provided that (i) they are distributed to companies with a legal form listed in Annex to the EC Parent-Subsidiary Directive and

laid down by the Minister of Finance, (ii) the recipient holds at least 10% of the value, number of shares, holdings in equity capital, share capital or voting rights of the person distributing profits and (iii) the duration of the participation is at least 24 months. Furthermore, the recipient must:

- be resident in a Member State for tax purposes according to the tax law of that Member State; and
- Not have the possibility of an option for exemption and must be subject to one of the taxes to which the EC Parent-Subsidiary Directive refers and which is laid down by the Minister of Finance.

5.1.3 Tax treaties

Beyond the scope of the EC Parent-Subsidiary Directive, relief from withholding tax on outbound dividends may be provided by the applicable tax treaties.

Interest deduction and thin capitalization

Interest on the debt-financing of the acquisition of a participation in a (resident or non-resident) corporation is in general tax deductible regardless of the fact that the participation exemption provides for a tax exemption on income from the acquired participation.

Thin capitalization rules – Interest on loans are not deductible if

- they are received from as shareholder who, at any time during the tax period directly or indirectly owns at least 25% of the shares in the equity capital or voting rights (or receives a loan from related person) and
- the loan exceeds at any time during the tax period the prescribed debt-to-equity ratio (4:1), unless the taxpayer can demonstrate that the loan would have been granted by an unrelated third party. The excess interest generally is recharacterized as a dividend.

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5.2 Non-resident shareholders

5.2.1 Dividends, interest, royalty and other payments to non-residents

The general withholding tax rate for legal entities is 15%. It applies on interest, dividends and patents, license fees and royalties.

Withholding tax rate of 15% also applies to interest but there are exceptions for interest on inter-bank loans, loans raised by Slovenia and securities issued by Slovenia whereby, these loans are raised and these debt instruments are issued by authorized institutions in accordance with Act regulating the insurance and financing of international commercial transactions for which surety is provided by Slovenia under the above-mentioned act.

A withholding tax rate of 15% applies to royalties.

The Directive on the common system of taxation applicable to interest and royalty payments made between associated companies of different Member States has been implemented. No withholding tax is due on interest payments and royalty payments if at the time of payment:

- The interest and royalties are paid to the beneficial owner that is a company situated in another EU Member State or a PE of a company situated in a different EU Member State.

- the payer and the eligible owner are associated in such a way that:
the payer directly holds a share of at least 25% in the beneficial owner's equity capital;
the beneficial owner directly holds a

share of at least 25% in the payer's equity capital;
the same company directly holds a share of at least 25% in the equity capital of both the payer and the beneficial owner;
the above-mentioned payer and beneficial owner are participating companies of an EU Member State;
the minimum share is held for at least 24 months;

- the payer or beneficial owner:

is a company having a legal form listed in the Annex to the Interest and Royalty Directive;
is a resident of an EU Member State for tax purposes in accordance with the law of that country;
is a taxpayer subject to one of the taxes to which the Interest and Royalty Directive refers.
Technical service fee payments are also subject of 15% withholding tax if are provided to persons with a head office out of EU and the country is on the list, published by the Ministry of Finance

The general withholding tax rate for individuals is 25% and applies on dividends and interest. Dividends and other profit distributions paid to non-resident individuals are subject to a 25% withholding tax unless the rate is reduced under a tax treaty.

5.3 Employees

Income received by a taxpayer from any activity performed in a dependent relationship (defined by law) is considered to be employment income. Employment income includes any payment or benefit related to the employment.

Employment income is further divided into two types of income:

- income from a work relationship; and
- income from another contractual relationship.

Compensation for work-related expenses is tax-exempt but the exemption is limited by law. However, benefits in kind are generally included in the taxable salary income. Benefits in kind include any advantage provided by an employer or any other person (e.g. a related party) to an employee or his family members. Minor privileges (not exceeding EUR 15 per month) are not considered benefits in kind unless provided regularly.

The following items are, particularly, considered as benefits in kind:

- the use of a company car for private purposes;
- housing facilities;
- insurance premiums and similar payments;
- educational expenses not related to the employment;
- benefits from a loan at an interest rate lower than the market rate;

5.3.1 Tax rate, assessment and social security contributions

As regards the computation of the income tax rate, see I.B.1.4. (16% - 50% income tax rate). Employers are obliged to withhold wage tax from gross salaries paid to their employees and to transfer the wage tax to the competent tax office.

Moreover, the employer is obliged to withhold social security contributions from the gross salaries paid to the employees. Social security contributions are imposed to cover pension, health and unemployment insurance and maternity leave. For 2017 the social security contribution rates for employed persons are:

Contribution rate	Rate
employee's part of social security contributions	22.10%
employer's part of social security contributions	16.10%

The employee's part of social security contribution of 22.10% is the sum of contribution amounts to pension insurance, health insurance, unemployment insurance and maternity leave.

5.3.2 Non-resident employees

Employment income earned by non-residents is taxed in Slovenia if employment is exercised in Slovenia or if the employment costs are tax deductible for the employer for Slovenian corporate income tax purposes.

Pensions paid to a non-resident are subject to tax as well. The tax base is the gross payment after the deduction of the relevant contributions. In general, the tax on employment income earned by non-residents is levied by way of withholding or assessment at a progressive rate.

TAXABLE INCOME (EUR)	TAX (EUR)	RATE ON EXCESS (EUR)
up to 8,021.34	0	16%
8,021.34 – 20,400.00	1,283.41	+ 27% over 8,021.34
20,400.00– 48,000.00	4,625.65	+ 34 over 20,400.00
48,000.00 – 70,907.20	14,009.65	+ 39% over 48,000.00
70,907.20 and over	22,943.46	+ 50 % over 70,907.20

6.0 Tax aspects for private investors

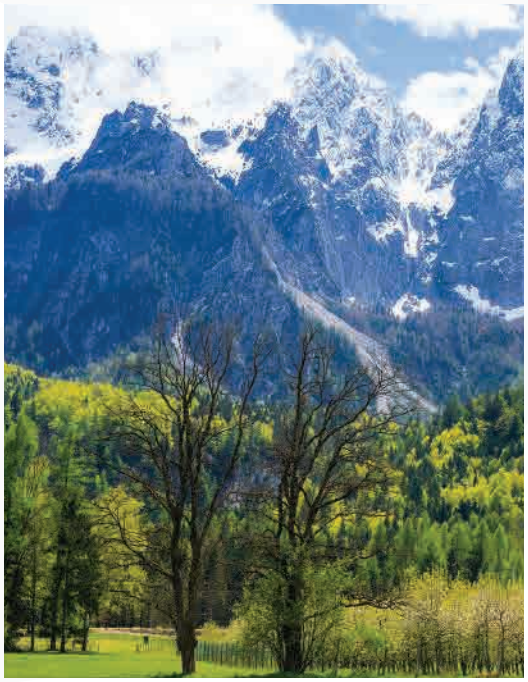
6.1 Capital Investments

1 Resident capital investors

6.2 Investment Income

Investment income includes:
- interest;
- dividends; and
- Income from the alienation of capital.

The concept of interest is very broad and includes discounts, bonuses and premiums, which are paid in the case of a debt arrangement. Expenses related to interest income and dividends are not deductible.



Dividends and other income or payments based on company shares that do not diminish the share in a company are considered to be dividends under the Personal Income Tax Act. The following are regarded as dividends, as well:
- hidden distributions of profit;
- profit from loan shares; and
- profit from mutual funds.

Income from alienation of capital includes income from:
- the alienation of real estate if sold within the holding period; and
- the alienation of shares within the holding period.

7.0 Principles for determination of tax base

The tax base for the taxation of interest income (i.e. interest on loans, debt securities, bank deposits and other similar financial claims, financial leasing, life insurance and interest income derived from mutual funds) is, in general, equal to the interest derived.

Regarding dividends, the tax base (i.e. any income derived on the basis of shares owned in a company, cooperative or other organizational form, including income of silent partners and income from other ownership investments in any type of organization with a predominantly equity nature) is the income received.

The taxable amount of the capital gains is determined as the difference between the sales price and the purchase price reduced by certain costs incurred.

Non-resident capital investors
An individual capital investor is non-resident in Slovenia if he does not have a domicile or habitual place of abode in Slovenia. A corporate investor is non-resident in Slovenia if the place of management or legal seat is not situated in Slovenia.

7.1 Limited liability

An individual non-resident capital investor is taxed in Slovenia only on income from Interest, dividends and income from the alienation of capital.

7.2 Capital gains

Non-resident investors, entities and individuals are not subject to a capital gains tax. Capital gains tax only applies to non-resident entities with a permanent establishment in Slovenia.

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