

SERBIA - ADMINISTRATIVE PROCEDURES

CONSTRUCTION PROCESS

Acquiring construction land

According to the New Law, private ownership over construction land and further transfer is now allowed. In practice, private ownership will be introduced in the course of 2010.

At the moment, construction land under state ownership may be leased from a municipality through either:

- public bidding or
- public tender.

The land is leased to the highest bidder but, in exceptional cases, it can be leased at a fee lower than the market value of land or free-of-charge with the prior consent of the Government.

Additionally, a plot of agricultural land may be converted into construction land with an approval of the competent bodies and payment of the land conversion fee.

Obtaining location permit

The Location Permit is required for drafting of technical documentation, including the development of the Main Project. The Permit is issued by the municipal authority within 15 days from the date of submission of the request. It is valid in a period of 2 years, within which an investor has to apply for the Construction Permit.

Getting construction permit

Once the Location Permit is obtained and technical documentation (General Project, Conceptual Project, Main Project, Executive Project, and As Built Project) is elaborated by a licensed consultant, an investor can apply for the Construction Permit. The documents to be submitted include: 1) the Location Permit, 2) the Main Project, with the attached report on technical inspection, 3) evidence on ownership/lease title, 4) evidence on arrangement for payment of the land development fee, 5) evidence on the paid administrative fee.

The Permit is issued within 8 days from the date of submission of the application. It is also valid for 2 years, which is the deadline for the investor to start construction.

Construction

No later than 8 days before the construction starts, the investor provides the municipal body, which issues the Construction Permit, with a construction commencement date and completion

target date. Prior to construction, the investor should as well set out the building site and publish mandatory data on a building site.

Throughout the construction stage, the investor also provides supervision of the construction works.

Obtaining occupancy permit

The Occupancy Permit is issued within 7 days from the date of receiving the findings of the Commission in charge of technical inspection, which have established that the erected object to be suitable for use.

Technical inspection of a structure is done upon the completion of construction, that is the completion of all the works specified in the Construction Permit and the Main Project. Inspection may also be carried out simultaneously with the construction process, if the verification of the actual condition of certain parts of the structure is not possible after its completion.

To ensure the suitability for the use of a structure or if envisaged by technical documentation, an assessment and verification of installations, devices, machinery, stability or safety of structure, devices, and equipment for environmental protection may take place. The Commission may propose to the competent authority to approve the probation occupancy, provided the conditions are met. The probation period cannot last longer than 1 year.

Registration in the cadastre

The final stage in the construction process is the registration of an erected structure in the Real Estate Cadastre or in the Land Book Registry kept by a Municipal Court.

Example: *City of Novi Sad - building permit acquisition*

<http://www.novisad.rs/files/Guidebook%20on%20Building%20Permit%20Acquisition%20City%20Novi%20Sad.pdf>

REGISTRATION OF A COMPANY

The business registration procedure in Serbia typically takes 5 days, down from previous 23. This process in the Business Registers Agency can be completed in only 3 days, with additional several days for other procedures.

The following documents are submitted along with the application for registration:

1. Original application for company registration

2. Proof of identity of the founder (copy of ID or passport for a natural person and/or Certificate of Registration issued by the Register in which the legal entity is registered)
3. Articles of Association (Decision or Agreement), with certified signatures of the founders
4. Bank certificate on deposit of the monetary contribution to a interim account or a certified statement of the founder that he/she has provided the monetary contribution (250€ deposit and additionally 250€ within 2 years of formation)
5. Decision on the appointment of the company representative, unless the representative was designated in the Articles of Association
6. Certified signature of the authorized representative
7. Receipt of Payment
 - Registration fee
 - Tax for the procurement of a registration number through the Agency

Remark for Investors

1. Documentations from the foreign legal entity should be provided with official seal of authentication (Apostille)
2. Certified translation into Serbian by an official court interpreter must be attached

Companies registered with the Serbian Business Registers Agency (SBRA) receive:

- registration number
- Tax identification number (PIB)

Serbian Business Registers Agency (SBRA), after registration, automatically sends required documentation to:

- Pension Fund (PIO)
- Health Fund

After the registration, company should:

- Create a stamp

- Open a permanent bank account

The whole process is expedient and cost-effective, amounting to maximum €350.

Registration forms and instruction are available on-line at the Serbian Registers Agency website www.apr.gov.rs

OVERHEAD COSTS

Extremely competitive environment provides second lowest corporate income tax in Europe, together with other favorable taxes and costs.

VAT

| | |
|-----------------------|---|
| The standard VAT rate | 18% for most taxable supplies |
| The lower VAT rate | 8% for basic food stuffs, daily newspapers, utilities etc. |

There are two types of tax exemption:

- o With entitlement to credit (export of goods, supply intended for needs of diplomatic and consular representative offices and international organizations, supply of goods intended for use by foreign citizens, international air and river transport of passengers).
- o Without entitlement to credit (bank services such as mediation in share trading, credit operations, insurance services, health services - except pharmacies and pharmaceutical institutions, education).

Tax exemptions with entitlement to credit apply to import and supply of associated goods and services. This allows deduction of VAT paid on purchases and import of goods or services related to the export. VAT is also not charged on supplies that are exempt without entitlement to credit. However, in this case the taxpayer that has performed such supply is not entitled to deduction of the previous tax.

VAT is payable at each stage of the turnover of goods and services, as well on the import of goods.

The tax point is the time when one of the following activities takes place:

- Sales of goods and services,
- Payment, if fee or part of the fee has been paid before the sale takes place (down payment),

- Point of customs liability in case of import of goods.

The input VAT is the amount of VAT charged in the previous stage of supply of goods and services, or paid at the import of goods. The output VAT is the VAT a taxpayer charges to customers when making taxable supplies. The taxpayer may deduct input tax from VAT he owes. However, the input VAT paid on certain products and services (such as cars, motorcycles, entertainment costs, home electric appliances) cannot be offset against the VAT calculated on output.

The Tax Administration is responsible for sending out VAT returns at regular intervals to all registered taxpayers and receiving back the completed returns. It keeps evidence of tax payments and makes repayments when they are due.

Corporate profit tax

Serbian corporate profit tax paid at the uniform rate of 10% is one of the key drivers of the increasing attractiveness of this region as an investment location. Moreover, the taxable base is calculated by adjusting the accounting profit as stated in the profit and loss statement and in compliance with the IFRS rules, accounting legislation, and the provisions of the Corporate Profit Tax Law.

In addition, capital gains are reported for the corporate income tax assessment. Capital gains are realized by the sale/transfer of real estate, rights related to industrial property, as well as shares, stocks, securities and certain bonds. In that respect, capital gain represents the positive difference between the asset selling price and the historical cost of that asset, regulated by the provisions of Corporate Profit Tax Law.

Withholding tax

On the income gained by the non-resident taxpayer from the resident taxpayer on the basis of dividends and share in the profit of a legal entity, copyright fees, interests, capital gains and compensations for the lease of real-estate and movables, withholding tax at the rate of 20% is calculated and paid, if not otherwise prescribed by the international agreement on the avoidance of double taxation.

Withholding tax is not assessed and paid if the income is paid to the permanent business unit of the non-resident taxpayer. In case of calculation of withholding tax on income of the non-resident, the payer of the income implements the stipulations of the agreement on the avoidance of double taxation, provided that the non-resident proves the status of the resident of the state with which the State union of Serbia and Montenegro has concluded the agreement on avoidance of double taxation and that the non-resident is the actual owner of the income.

Personal income tax

Compared to other countries in the region, the Republic of Serbia has a highly competitive income tax rate of 12% for salaries, and 20% for other personal income. Personal income tax is payable by individuals on different sources of income generated throughout the calendar year. The taxable income represents the difference between the gross income and the expenses derived from the realization of the associated income that could be generated from salaries, agriculture and forestry, self-employment, royalties and industrial property rights, capital, real estate and other income. A personal income taxpayer is a natural person who has a residence or business premises and personal interests in the Republic of Serbia, or resides within the country at least 183 days during the period of one year. Residents are charged on their income earned both in the country and abroad, whereas non-residents are solely charged on their income generated in the Republic of Serbia. The taxable base is the gross salary, which incorporates the net salary and social security contributions. Although the person charged for the personal income tax on salary is the employee, the employer bears the responsibility for calculating and paying personal income tax on behalf of his employee

Annual income tax

According to the Serbian Income Tax Law, annual income tax is charged on the income earned by the residents in Serbia and the income earned abroad at the rate of 10%.

For Serbian citizens, the annual income tax applies on the income exceeding the amount of 3 times the average annual salary. In case of non-Serbian citizens, the annual income is taxed if exceeding the amount of 5 times average annual salary in Serbia.

Annual income is charged at the rate of 10%, provided that the amount of income does not exceed the 8 times average annual salary. If the income earned exceeds the amount of 8 times average annual salary the applicable tax rate is 15%.

Social insurance contributions

Rates for mandatory social security contributions are:

| | |
|-------|--------------------------------------|
| 11% | for pension and disability insurance |
| 6.5% | for health insurance |
| 0.75% | for unemployment insurance |

The base for determining the social security contributions is the gross salary. The minimum base for contributions is 40% of the average monthly salary earned in Serbia, while the maximum base is 5 times the average monthly salary. Social security contributions are paid by both the employer and the employee.

Double taxation treaties

If a resident taxpayer earns profit by conducting business in the other republic or in another state and tax was paid on that profit in the other republic or another state, it shall be granted a tax credit on its enterprise profit tax account determined in conformity with the provisions of this Corporate Profit Tax Law, amounting to the tax paid in the other republic or another state. The referred tax credit may not be greater than the amount that would be calculated by applying the provisions of the aforementioned Law on the profit accrued in the other republic or abroad.

The same right is enjoyed by a taxpayer who earns revenue and pays personal income tax in another country, provided there is a Double Taxation Treaty with that country. At the moment the following countries have signed the Double Taxation Treaty with Serbia: Albania, Belgium, Belarus, BIH, Bulgaria, China, Cyprus, Croatia, Czech Republic, Denmark, Egypt, Finland, France, Germany, Ghana, Hungary, India, Italy, Korea, Kuwait, Latvia, Macedonia, Malaysia, Moldova, Netherlands, Norway, Poland, Romania, Russia, Slovak Republic, Slovenia, Sri Lanka, Sweden, Switzerland, Turkey, Ukraine, UK

OPERATIONAL COSTS/2010

| Electricity (industrial users) | RSD/Kwh | EUR/Kwh |
|-----------------------------------|-------------|---------------|
| High voltage 110 kV | 1,116-3,348 | 0.0107-0.0323 |
| Middle voltage 1-35 kV | 1,228-3,689 | 0.0118-0.0354 |
| Low voltage 0,4 kV | 0.05507 | 0.0156-0.046 |

* On these prices, there is an additional cost for the calculated power and reactive energy, depending on the consumption category and tariff rates, separately calculated for each industrial consumer.

| Water | |
|-----------------------|-------------|
| <i>Household</i> | |
| RSD/m ³ | 38.16 |
| EUR/m ³ | 0.36 |
| <i>Industrial Use</i> | |
| RSD/m ³ | 89,91 |
| EUR/m ³ | 0.86 |

| Sewage | |
|--------------------|-------------|
| <i>Household</i> | |
| RSD/m ³ | 24.05 |
| EUR/m ³ | 0.23 |

| Industrial Use | |
|--------------------------|-------------|
| RSD/m ³ | 56.56 |
| EUR/m³ | 0.54 |

| Gas | |
|--------------------------|-------------|
| RSD/m ³ | 32,88 |
| EUR/m³ | 0.32 |

| Telephone | | | |
|------------------|----------------------|-----------------------|----------------------------|
| Telephone | Household | Industrial Use | International Calls |
| RSD/min | 0.2022-9.11 | 0.251-11.311 | 14.5-55.26 |
| EUR/min | 0.0019-0.0877 | 0.0024- 0.1089 | 0.1397-0.5324 |

| Internet/monthly fee* | | |
|------------------------------|-------------------------|--------------------------|
| Internet | ADSL | Cabel |
| RSD | 714-4,320 | 1,350-3,450 |
| EUR | 7.61176-46.05436 | 14.39199-36.77952 |

* Monthly fee /depending on the selected bandwidth/

| Mobile* | | |
|----------------|--------------|--------------|
| | from | to |
| RSD | 5,90 | 8,50 |
| EUR/l | 0.057 | 0.082 |

* Average values based on similar postpaid packages for business users.

| Gasoline | | |
|-----------------|-----------------|---------------|
| Currency | Super 95 | Diesel |
| RSD/l | 117.4 | 114 |
| EUR/l | 1.13 | 1.09 |

FINANCIAL INCENTIVES

State grants

Serbian Government awards non-refundable funds for new employment. Eligible companies are those involved in manufacturing activities, internationally marketable services sector, and research and development.

| State grants | | | | | |
|--------------------------------|--|-----------------------------|--|----------------------------------|-----------------------------------|
| Eligible sectors | Large-scale Projects | | Standard-scale Projects | | |
| | Manufacturing or export-related services | | Manufacturing | | Export-related services |
| | Capital and labor intensive projects | Capital intensive projects | Investment in devastated regions & regions of special state interest | Investment in other regions | Investment in any region |
| Grant Amount | 25% of the total investment | 20% of the total investment | €4,000 – 10,000 / per job created | €2,000 – 5,000 / per job created | €2,000 – 10,000 / per job created |
| Minimum investment amount | €200 million | €50 million | €0.5 million | €1 million | €0.5 million |
| Minimum Nr of new jobs created | 1,000 | 300 | 50 | 50 | 10 |

Non-refundable funds are awarded to prospective investors in accordance with the number of points earned. Investment projects are scored and evaluated based on the following criteria:

- investor`s references,
- participation of domestic suppliers and the investment effect on local companies,
- investment`s sustainability and viability,
- the effect related to R&D, • the effect on human resources,
- the environmental impact,
- international turnover of services for investment in this area,
- the effect on development of the local community, and
- municipality support related to deduction of local fees.

Upon evaluation of investment projects, the funds for selected projects are awarded in accordance with the number of points, and paid out in four increments throughout the project`s lifetime:

- 1st increment - after concluding the contract for sale or lease of land;
- 2nd increment - after obtaining the construction approval;

3rd increment - after obtaining the right-to-use permit;

4th increment - after achieving full employment envisaged by the investment project

National Employment Service

is administering grants for employment of up to 50 new workers. Employer can use this incentive once per calendar year.

Depending on the development level of the municipality where the investment is made, the amount awarded ranges from €800 to €1.600:

- 160,000.00 RSD (approx. €1.600) in the most undeveloped municipalities,
- 130,000.00 RSD (approx. €1.300) in undeveloped municipalities,
- 80,000.00 RSD (approx. €800) in other municipalities.

In addition, the National Employment Service is co-financing the retraining programs with 80,000 RSD (approx. €800) in cases when there is no qualified unemployed workforce registered at the National Employment Bureau.

Provincial Secretary for Work and Employment

is awarding subventions for new employment amounting

- 160,000.00 RSD (approx. €1,600) in the most undeveloped municipalities
- 130,000.00 RSD (approx. €1,300) in undeveloped municipalities,
- 80,000.00 RSD (approx. €800) in other municipalities, with the possibility of acquiring additional RSD 50,000.00 (approx. €500) , which totals 130,000.000 RSD (approx. €1,300) - in the following cases:

- Employer's opening position in the companies or entrepreneurial actions that are registered for production, processing activities and activities in the field of social services
- when employing certain population categories (those under age 30 and over 50, people with disabilities, single parents, women from rural territories, Roman ethnicity people, refugees, displaced, and exiles persons, etc.)
- when hiring unemployed person who has benefited from the right to financial compensation with the National Employment Service, and lacks two years or less for the entitlement to retirement according to the Pension and Disability Insurance regulations.
- An employer who employs a long-term unemployed

TAX INCENTIVES

Corporate Income Tax Holiday

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

Corporate Income Tax Credits

The amount of tax payable can be reduced by 20% or 80% of the amount invested in fixed assets for the respective tax period. This reduction cannot exceed 50% of the total tax liability for a single year. If not used entirely in the course of one year, this tax credit can be carried forward for a maximum period of 5 years.

Corporate Income Tax Holiday for Concessions

A 5-year tax holiday is granted for concession-related investments, from the day the concession investment has been completed. No tax is due if income is derived before the completion of the concession investment.

Carrying Forward of Losses

The tax loss stated in the tax return can be carried forward and offset against future profits over a period up to 5 years.

Avoiding Double Taxation

If a taxpayer already paid tax on the profit generated abroad, he is entitled to a Corporate Income Tax credit in Serbia to the already paid amount. The same right is enjoyed by a taxpayer who earns revenue and pays Personal Income Tax in another country, provided there is a Double Taxation Treaty with that country.

Salary Tax Social Insurance Charges Exemptions

The employer who hires certain categories of workers on a permanent basis is exempt from paying Salary Tax over the periods of 3 or 2 years.

The employer is exempt from paying social insurance contributions over the periods of 3 or 2 years, depending on the category of workers hired.

Annual Income Tax Deductions

For non-Serbian citizens, the annual income is taxed if exceeding the amount of threefold the average annual salary in Serbia. The tax rate is 10% for the annual income below the amount of

6 times average annual salary in Serbia, and 15% for the annual income above the amount of 6 times average annual salary in Serbia. The taxable income is further reduced by 40% of an average annual salary for the taxpayer and by 15% of an average annual salary for each dependent member of the family. The total amount of deductions cannot exceed 50% of the taxable income.

OTHER INCENTIVES

Customs-Free Imports of Raw Materials and Semi Finished Goods

Foreign investors in Serbia can enjoy the benefit of customs free import of raw material and semi finished goods for export oriented production. This benefit can either be achieved by operating in one of the free zones in Serbia or by a permit from custom office for outward processing production. In both cases finished products must be 100% designated for export.

Customs-Free Imports of Machinery and Equipment

Foreign investors are exempt from paying customs duty on imported equipment and machinery which represents the share of a foreign investor in a capital of a company in Serbia.

Local Incentives

A wide array of incentives is also available at the local level, varying in scope and size from one city to another. The major ones comprise the following:

- City construction land lease fee exemptions or deductions, including the option of paying in installments, with the prior consent of the Serbian Government;
- City construction land development fee relief such as fee exemptions or discounts for one-off payments;
- Other local fees exemptions or deductions (e.g. the fee for displaying the company's name).

COMPANY TYPES

Foreign investors can found a company in the form of:

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

The most common company type is a Limited Liability Company requiring merely RSD equivalence of €500 to start a business.

Businesses can be also registered as:

- Banks,
- Insurance companies,
- Leasing companies,
- Representative offices,
- Branches.

Joint Stock Company (a.d.)

A Joint Stock Company may be closed or public depending on whether it is listed on the stock exchange or not.

A closed Joint Stock Company may have a maximum of 100 shareholders.

Shareholders—A Joint Stock Company is founded by one or more legal entities and/or natural persons.

Minimum Capital—RSD equivalence of €10,000 for a closed Joint Stock Company and RSD equivalence of €25,000 for a public Joint Stock Company.

Share and Contribution Requirements—The registered value may not be less than RSD equivalence of €5. A shareholder's contribution can be made in money or in kind, but not in labor or services.

Other Features—A public Joint Stock Company must have a Board of Directors, while a closed Joint Stock Company must have a single Director or a Board of Directors.

There are higher minimum capital requirements for companies acting as:

- **Banks**—RSD equivalence of €10 mn
- **Insurance companies:**
 - **Life insurance**—RSD equivalence of €2 mn
 - Voluntary pension insurance—RSD equivalence of €3 mn
 - All types of life insurance—RSD equivalence of €4 mn
 - **Non-life insurance:**
 - Accident and voluntary health insurance—RSD equivalence of €1 mn
 - Motor and railway vehicles total insurance and obligatory insurance—RSD equivalence of €2 mn
 - Other forms of asset insurance, risk insurance, and other types of non-life insurance—RSD equivalence of €2 mn
 - All types of non-life insurance—RSD equivalence of €4 mn
 - Reinsurance—RSD equivalence of €4 mn

- **Leasing companies:** RSD equivalence of €100,000

Limited Liability Company (d.o.o.)

Shareholders–Maximum 50, legal entities and/or natural persons.

Minimum Capital–RSD equivalence of €500.

Share and Contribution Requirements–A member’s contribution to a Limited Liability Company may be made in money or in kind including past, but not future labor or services. The shares are freely transferable between the partners. A share may be transferred to a third party, in which case other members of the company and the company have pre-emptive rights.

Limited Partnership (k.d.)

Partners–Two or more natural persons.

Minimum Capital–No minimum equity requirements.

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

General Partnership (o.d.)

Partners–Two or more.

Minimum Capital–No minimum equity requirement.

Other Features–In a General Partnership, partners may contribute in money or in kind, including past or future labor and services. All partners bear the unlimited liability for the obligations of the general partnership.

For the full version of the Law on Business Entities, [click here](#).

Banks

This type of business must be registered as a Joint Stock. In addition to the regular documentation submitted to the Business Registration Agency, an operating license issued by the National Bank of Serbia is required.

Insurance Companies

This type of business must also be registered as a Joint Stock. In addition to the regular documentation submitted to the Business Registration Agency, an operating license issued by the National Bank of Serbia is required.

Leasing Companies

A Limited Liability or a Joint Stock Company can be used as a legal form for a leasing company. The National Bank of Serbia issues an operating license that is submitted to the Business Registration Agency with other necessary documentation.

Additional information on financial organizations can be obtained by the National Bank of Serbia: www.nbs.rs.

Representative Offices

This business type can be founded in Serbia, with the obligation of a foreign mother company to take over the responsibility for all obligations that may occur as a result of the representative office's performance. The office has to be registered with the Business Registration Agency.

A representative office cannot have the status of a legal entity, and may have one or more branches in Serbia.

The activities that a representative office may engage in are:

- Surveying the market and performing operations preliminary and preparatory to the execution of contracts on the import of foreign and/or export of Serbian goods and services;
- The execution of contracts and imports contributing to the advancement and expansion of Serbian manufacturing;
- The execution of contracts relating to long-term co-production or commercial and technical cooperation;
- Surveying the financial/banking market;
- Establishing business terms with domestic insurance organizations or enterprises;
- Performing air-transport agency operations.

Company Branches

Domestic and foreign companies may establish one or more branches as their organizational parts. A branch does not have a legal personality, but conducts business activities in the name and on the behalf of the company. A branch is a registered entity in accordance with the Law on Registration of Business Entities.

