

# Montenegro Country Profile

EU Tax Centre

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## Key tax factors for efficient cross-border business and investment involving Montenegro

**EU Member State** No (EU candidate)

**Double Tax Treaties** With:

|                         |                        |                          |                            |                          |
|-------------------------|------------------------|--------------------------|----------------------------|--------------------------|
| Albania                 | Cyprus <sup>(a)</sup>  | Rep. of Ireland          | Moldova                    | Sri Lanka <sup>(a)</sup> |
| Azerbaijan              | Czech Rep.             | Italy <sup>(a)</sup>     | Netherlands <sup>(a)</sup> | Sweden <sup>(a)</sup>    |
| Belarus <sup>(a)</sup>  | Denmark <sup>(a)</sup> | Rep. of                  | Norway <sup>(a)</sup>      | Switzerland              |
| Belgium <sup>(a)</sup>  | Egypt                  | Korea <sup>(a)</sup>     | Poland <sup>(a)</sup>      | Turkey                   |
| Bosnia & Herzegovina    | Finland <sup>(a)</sup> | Kuwait <sup>(a)</sup>    | Romania <sup>(a)</sup>     | Ukraine <sup>(a)</sup>   |
| Bulgaria <sup>(a)</sup> | France <sup>(a)</sup>  | Latvia                   | Russia <sup>(a)</sup>      | UAE                      |
| China <sup>(a)</sup>    | Germany <sup>(a)</sup> | Macedonia <sup>(a)</sup> | Serbia                     | UK <sup>(a)</sup>        |
| Croatia <sup>(a)</sup>  | Hungary <sup>(a)</sup> | Malaysia <sup>(a)</sup>  | Slovakia <sup>(a)</sup>    |                          |
|                         | India <sup>(a)</sup>   | Malta                    | Slovenia                   |                          |

Notes: (a) Tax treaty concluded by the former Socialist Federal Republic of Yugoslavia or by the Federal Republic of Yugoslavia. The other treaties listed were concluded by the state union of Serbia and Montenegro. Montenegro continues to honor the treaties of all those types. However, the application of treaties with Montenegro must be confirmed by treaty partners.

**Forms of doing business** Civil association, Limited partnership, Limited liability company, Joint-stock company

**Legal entity capital requirements** EUR 1.

**Residence and tax system** A resident is a legal entity that is incorporated or has its place of effective management and control in the territory of Montenegro. Resident taxpayers are taxed on their worldwide income. Non-residents are taxed only on their Montenegrin source income.

**Compliance requirements for CIT purposes** The taxpayer is obliged to file CIT return no later than 3 months after the expiry of the financial (calendar) year for which the tax is calculated (i.e. no later than the end of March for the preceding year). Payment of CIT determined in the tax return is paid by the CIT return submission deadline. Income statement and



balance sheet is submitted to the tax authorities along with CIT return.

## **Tax rate**

The standard corporate income tax rate is 9 percent.

## **Withholding tax rates**

**On dividends paid to non-resident companies**

9 percent.

**On interest paid to non-resident companies**

9 percent.

**On patent royalties and certain copyright royalties paid to non-resident companies**

9 percent.

**On fees for technical services**

Yes, consulting, market research and audit services are subject to WHT.

**On other payments**

No

**Branch withholding taxes**

Yes

## **Holding rules**

**Dividend received from resident/non-resident subsidiaries**

Dividends received from Montenegrin tax residents (domestic dividends) are subject to a final WHT, but excluded from the tax base of the parent company. Dividends received from non-Montenegrin resident companies (inbound dividends) are taxable but entitled to credit WHT paid abroad, subject to the parent company holding directly or indirectly 10 percent or more of the shares of the non-resident company for at least one year preceding the submission of the tax balance.

Non-utilized tax credit can be carried forward for a maximum of five years.

**Capital gains obtained from resident/non-resident subsidiaries**

Capital gains earned in Montenegro by non-resident companies are subject to 9 percent WHT.

Capital gains earned by a resident company (arising from disposal of a resident/non-resident subsidiary) is subject to 9 percent corporate income tax.

## **Tax losses**

Losses (excluding capital losses) generated from business, financial, and non-business transactions may be carried forward over the five subsequent tax periods and offset against future taxable income. Losses that were carried forward are not forfeited due to mergers, acquisitions, spin-offs, and other reorganization changes.



Capital losses may be carried forward for five years and utilized only against capital gains.

Carry-backs are not allowed.

**Tax consolidation rules/Group relief rules**

Yes, Montenegrin resident companies may elect for group consolidation. The parent company and its affiliates can constitute a group of associated companies, if at least 75 percent of the shares of the affiliates are held, either directly or indirectly, by the parent company. Once approved, tax consolidation must be applied for at least 5 years.

**Registration duties**

No

**Transfer duties**

**On the transfer of shares**

No

**On the transfer of land and buildings**

Real estate transfer tax at the rate of 3 percent is due on transfer of land, as well as on the second and subsequent transfer of new buildings. First transfer of new buildings is subject to VAT at the rate of 19 percent.

**Stamp duties**

No

**Real estate taxes**

In general, the tax rate ranges from 0.25 percent to 1 percent applied to the market value of real-estate. The general rate is subject to change, depending on the specific type of real estate and its intended use.

**Controlled Foreign Company rules**

No

**Transfer pricing rules**

**General transfer pricing rules**

Taxpayers are obliged to separately disclose transactions between related parties in their tax balances and the value of such transactions at arm's length price. Difference between price determined in applying arm's length principle and taxpayers transfer price is included in the tax base. Only three methods for determining the arm's length price are authorized by the Montenegrin legislator: comparable uncontrolled price method, cost plus method and resale price method.

**Documentation requirement**

Guidelines regarding the determination of the transfer pricing, as well as documentation required in the case of transfer pricing control by tax authorities, currently do not exist in Montenegro.



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| <b>Thin capitalization rules</b>                                     | No   |
| <b>General Anti-Avoidance rules (GAAR)</b>                           | No   |
| <b>Specific Anti-Avoidance rules/Anti Treaty Shopping Provisions</b> | Apart from transfer pricing rules, there are no other specific anti-avoidance rules applicable in a cross-border context.  |
| <b>Advance Ruling system</b>   | No   |
| <b>IP / R&amp;D incentives</b>                                       | No   |
| <b>Other incentives</b>  | <ul style="list-style-type: none"> <li>■ A tax holiday is provided for newly established entities and newly established organizational units performing business activities in underdeveloped regions of Montenegro during the first 8 years of operation. The tax holiday cannot exceed EUR 200,000 for the entire 8-year period.</li> <li>■ 6% CIT discount if the CIT liability is promptly settled.</li> </ul> |
| <b>VAT</b>   | The standard rate is 19 percent, and the reduced rates are 7 and 0 percent.  |
| <b>Other relevant points of attention</b>                            | No   |

Source: Montenegrin tax law and local tax administration guidelines, updated 2015.



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