

Amendments of Serbian Tax Laws adopted by the Serbian Parliament

In the session held on 14 December 2017 the Serbian Parliament adopted amendments to the VAT Law, Corporate Income Tax (CIT) Law, the Law on Mandatory Social Contributions Law and Personal Income Tax (PIT) Law. Adopted provisions of the laws are published in the Official Gazette of the Republic of Serbia no.113/2017 published on 17 December 2017.

An overview of the most significant changes is provided below.

VAT Law

The adopted changes will be in force from 1 January 2018, unless otherwise indicated.

Postponement of the obligation to fill a VAT calculation review form

The obligation for submission of VAT calculation review form is postponed until 1 July 2018.

Deduction of input VAT calculated in the capacity of a tax debtor

The VAT payer has the right to deduct output VAT if the Tax Authorities during the process of a tax audit deny the tax payer's right to deduct input VAT calculated in his capacity of tax debtor.

Supply of services and goods in accordance with contracts on public-private partnerships with elements of concession

Transactions between grantor of concessions and grantee of concession related to execution of contracts on public-private partnerships with elements of concession, will not be deemed to be supplies of services and goods within the meaning given in the VAT Law, if the following conditions are met:

- 1) both grantor of concessions and grantee of concession are VAT payers, and
- 2) both grantor of concessions and grantee of concession would be eligible for a full VAT deduction if the transaction is considered a supply for purposes of VAT.

By adopting this amendment, VAT financing costs related to executions of contracts on public-private partnerships with elements of concessions are considerably decreased.

Deduction of input VAT on supply of food and drinks to employees

It is specified that the VAT payer is entitled to recover input VAT related to supply of foods and drinks to its employees in its own facilities if a contribution for such supplies is charged to the employees.

Taxation of production and trade of investment gold

In order to promote production and trade of investment gold (gold bars, plates and coins with certain characteristics) a separate VAT treatment of investment gold is introduced.

In accordance with the amendments, the following is not subject to VAT:

- 1) supply and import of investment gold, and
- 2) intermediary services related to supply of investment gold.

With respect to the above named supplies the right to deduct input VAT is limited to specifically listed procurements.

As exception, a VAT payer who produces or within its business activity trades with investment gold for industrial purposes to another VAT payer can opt to calculate VAT for such supplies.

The VAT payer that chooses to calculate VAT for such supplies, has the right to deduct input VAT.

The adopted amendments will be in force as of 1 April 2018.

Exemption for supply of goods that the passenger carries abroad in its personal luggage

The rules for VAT exemption for supply of goods that the passenger carries abroad in its personal luggage are redefined.

It is prescribed that the exemption will be available solely for procurements of goods for non-commercial purposes and only for the goods that are not subject to excise duties.

In addition, there are additional preconditions for application of the exemption:

- 1) the passenger does not have residence or permanent residence in Serbia,
- 2) the VAT payer (supplier of goods) has proof that the passenger carried the good abroad.

The seller is obliged to charge VAT in the moment of supply. The charged VAT can be decreased when the seller has the relevant evidence that the goods were transferred abroad.

The charged VAT will be returned to the passenger if within six months from the issuance of a receipt the passenger delivers

the relevant proof that the goods were transferred abroad.

Adopted amendments will be in force from 1 January 2019.

Deletion of provisions for VAT refunds to a foreign citizen

The provisions regulating the refund of VAT to a foreign citizen are deleted, since there are provisions that prescribe VAT exemption for supply of goods that the passenger carries in their personal luggage abroad.

Adopted amendments will be in force from 1 January 2019.

The place of supply of travel services

The place of supply of travel services is deemed to be the place where the supplier has headquarters or a permanent establishment, if the services are provided from the permanent establishment.

Refund of VAT to a first apartment buyer

The right to VAT refund to a first apartment buyer is broadened to include apartments under mortgage purchased in enforcement procedure.

Corporate Income Tax Law

Adopted amendments will be applied as of 1 January 2018, unless otherwise indicated.

Tax depreciation of intangible assets and fixed assets which consist of immovable and movable parts

It is stipulated that, as exemption from general rules, the tax depreciation of fixed assets which consists of immovable and movable parts, should be carried out by

categorization of the assets into adequate depreciation groups in the same way as in the taxpayer's financial statement (for example, partly as real estate, and partly as equipment).

Further, the tax depreciation of intangible assets (that are until now classified into II depreciation group) is carried out on a straight line basis over the asset's useful life defined at the moment of recognition in the business books.

The details of abovementioned amendments will be closely defined by the relevant rulebook.

Write off of bank's receivables

The adopted amendments specify that write-offs of individual loan receivables for loans that are classified as non-performing loans, according to National Bank of Serbia's regulations, represent tax deductible expenses for the banks.

Adopted amendments will be applied for declaration of CIT for 2017.

Withholding tax for services of non-resident entities

The scope of taxation of services paid by residents to non-residents (except payments made to persons in jurisdictions with a preferential tax system) is reduced. It is stipulated that solely remunerations payable to non-resident legal entities, for market research services, accounting and auditing services, as well as other services in the field of legal and business consulting (regardless of the place where the service is provided or used) are subject to withholding tax.

Specific types of services will be closely regulated by the relevant rulebook.

Adopted amendments will be applied as of 1 April 2018.

Submission of tax return for withholding tax

The due date for submitting tax returns for withholding tax is changed. It is prescribed that the taxpayer is obliged to submit the tax return within 3 days from the day of payment, instead of on the payment date.

Adopted amendments will be applied as of 1 April 2018.

Simplifications related to transfer pricing rules

The seller is not obliged to determine the price in line with the "arm's length" principle in the case of sale of assets to related parties if for such sale capital gain tax rules apply.

It is prescribed that the taxpayer is not obliged to determine the value of a transaction in line with the "arm's length" principle for transactions with related parties whose total value is not higher than the value for which VAT registration is mandatory (RSD 8 million).

Investment incentives

In order to qualify for the application of proportional tax exemption under Article 50a of the Corporate Income Tax Law, the increase in the number of new employees must be at least 100 new employees hired for an indefinite period of time when compared to the number of employees at the beginning of the period in which the investment starts. In addition, it is required that these persons are directly engaged by the incentives beneficiary.

The abovementioned amendments are in line with previously issued rulings of the Ministry of Finance.

Personal Income Tax Law

The adopted amendments will be applied from 1 January 2018, unless otherwise indicated.

Extension of the validity of existing tax reliefs for newly employed persons

The extension of existing tax relief for the employer in the form of the right to a refund of paid salary tax in the percentage from 65% to 75% is extended up to 31 December 2019.

Reliefs for persons starting with business activities

The relief for newly established companies/registered entrepreneurs on the basis of employment of newly employed persons is introduced.

It is envisaged that the right to exemption from paying personal income tax on salary can be achieved for up to nine newly employed persons, in the tax period in which the employer is established/registered and in the following tax period.

The envisaged tax relief will be applied as of 1 October 2018.

Increasing of the non-taxable amount of salaries

As of January 2018, the non-taxable monthly amount of salary increases from the current RSD 11,790 to RSD 15,000.

Tax treatment of the write-off of receivables from an individual based on a loan

It is specified that personal income tax is not paid if a bank writes-off receivables from a client – an individual under the conditions that such write-off is recognized as an expense for CIT purposes.

The obligation to keep business books for entrepreneurs

The obligation is specified for keeping business books under the dual bookkeeping system in accordance with the Accounting Law for all entrepreneurs who perform a registered activity.

Exceptionally:

- Entrepreneurs who pay taxes on lump sum basis keep a book on turnover;
- Individual VAT taxpayers, individuals holding family farm holdings and other taxpayers performing activities regardless of whether they are registered - keep books under the system of simple bookkeeping.

This amendment will apply from 2019.

Introduction of new tax exemptions

A tax exemption for financial assistance granted to an individual in the amount of up to RSD 12,375 is introduced, which does not represent the consideration for work, a counter-service or an exchange for some activity of that individual in relation to the provider. More detailed conditions for the application of this tax exemption will be prescribed by a separate rulebook.

In addition, the law specifies that no salary tax is payable on a medical cash benefit received by an employee from an employer for treatment at home or abroad up to the amount of actual costs of treatment, transportation and accommodation during the treatment.

The moment of earning income from share based payment

The Amendments of the Personal Income Tax Law specify that the moment of earning income on the basis of acquiring the right to dispose of securities of a related party of the employer is considered to be only the moment of acquiring the right of disposal.

Treatment of specific collective insurance premium for employees

Insurance premium for collective life insurance in the event of an employee's death due to a disease that the employer pays for all employees is not considered income.

Refund of paid tax to banks

Banks will be entitled to a refund of personal income tax paid for write-off of individual receivables for non-performing loans, according to the regulations of the National Bank of Serbia and the CIT Law. Income of an individual on this basis is not considered for annual personal income tax purposes.

The refund shall be executed in accordance with the provisions of the Law on Tax Procedure and Tax Administration.

Mandatory Social Security Contributions Law

The adopted amendments shall apply from 1 January 2018, unless otherwise indicated.

Determination of the monthly and annual amount of the contribution base

According to the adopted amendments, the determination of the highest and lowest monthly contribution base, the highest annual contribution base and the highest

assessed annual contribution base will be made once a year. In this manner determined amounts will apply for the entire calendar year.

Extension of the validity of existing tax exemptions for new employees

The extension of existing relief in the form of the right to return paid contributions in the percentage from 65% to 75% is extended up to 31 December 2019.

Tax exemptions for persons starting with business activities

The relief for newly established companies/registered entrepreneurs on the basis of employment of newly employed persons is introduced.

It is specified that the right to exemption from paying contributions on behalf of employer and employee can be achieved for up to nine newly employed persons, in the tax period in which the employer is established/registered and the following tax period.

The envisaged tax relief will be applied as of 1 October 2018.

Employee benefits earned from the employer

It is specified that the contributions base on behalf of employer and employee should not include earnings from employer which are not subject to salary tax in line with the Law on Personal Income Tax.

Contact details

Igor Lončarević

Partner

T: +381 60 20 55 570

iloncarevic@kpmg.com

Biljana Bujić

Partner
T: +381 60 20 55 551
bbujic@kpmg.com

Nenad Nešovanović
Director
T: +381 60 20 55 543
nnesovanovic@kpmg.com

Jelena Miljković
Departmental Senior Manager
T: +381 60 20 55 516
jmiljkovic@kpmg.com

Igor Soldatović
Manager
T: +381 60 20 55 548
isoldatovic@kpmg.com

Aleksandar Ilić
Manager
T: +381 60 20 55 572
ailic@kpmg.com

Miloš Košutić
Manager
T: +381 60 20 55 566
mkosutic@kpmg.com

Mirjana Sibinović Bisić
Manager
T: +381 60 20 55 642
msibinovic@kpmg.com

KPMG d.o.o. Beograd
Kraljice Natalije 11
11 000 Beograd, Srbija
T: +381 11 20 50 500
F: +381 11 20 50 500
tax@kpmg.rs

kpmg.com/rs