

DOING BUSINESS

IN SERBIA



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for doing
business

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1 – INTRODUCTION

UHY is an international organisation providing accountancy, business management and consultancy services through financial business centres in around 90 countries throughout the world.

Business partners work together through the network to conduct transnational operations for clients as well as offering specialist knowledge and experience within their own national borders. Global specialists in various industry and market sectors are also available for consultation.

This detailed report providing key issues and information for investors considering business operations in Serbia has been provided by the office of UHY representatives:

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A detailed firm profile for UHY's representation in Serbia can be found in section 8.

Information in the following pages has been updated so that they are effective at the date shown, but inevitably they are both general and subject to change and should be used for guidance only. For specific matters, investors are strongly advised to obtain further information and take professional advice before making any decisions. This publication is current at April 2014.

We look forward to helping you do business in Serbia.

2 – BUSINESS ENVIRONMENT

BACKGROUND

GEOGRAPHY AND POPULATION

The Republic of Serbia (*Република Србија / Republika Srbija*) is located at the crossroads of central and south-east Europe, and covers the southern part of the Pannonian Plain and the central Balkans. A landlocked country, Serbia borders Hungary to the north, Romania and Bulgaria to the east, Macedonia and Albania to the south, and Croatia, Bosnia, and Montenegro to the west. The capital of Serbia, Belgrade, is among Europe's oldest cities and one of the largest in south-east Europe.

Serbia's total area is 88,361km² (including Kosovo) and it is the third largest country in the Balkan Peninsula, after Greece and Bulgaria. The Serbian climate varies between a continental climate in the north with cold winters and hot humid summers with well distributed rainfall patterns, and a more Adriatic climate in the south with hot dry summers and autumns and relatively cold winters. The country has a well-balanced temperature range; over the course of a year, the temperature typically varies from -3°C to 28°C and is rarely below -10°C or above 34°C.

Serbia has a total population of approximately 7,120,000 (or around 9,000,000 with Kosovo and Metohija) and the overall population density is moderate at around 82 inhabitants per square kilometre. The official language is Serbian, but English is widely spoken and regularly used in business. The capital city of Belgrade has a population of around 1,640,000 and is situated in the northern part of the country. Other larger cities are Novi Sad, Nis, Kragujevac and Subotica.

GOVERNMENT AND LEGAL SYSTEM

After the change of government in 2000, the structure of government has become more similar to other western democracies where human rights, political pluralism and private property are safeguarded. Serbia is moving in the right direction and each year progresses to its long-term goal of becoming a member of the European Union (EU).

The Republic's constitution is largely modelled on European constitutions. The constitution of the Republic of Serbia was adopted by the National Assembly of the Republic of Serbia at a special session on 30 September 2006 and was endorsed by a referendum on 28 and 29 October 2006.

POLITICAL STABILITY

Serbia was granted candidate status by a European Council's decision on 1 March 2012. In September 2013, a Stabilisation and Association Agreement between the EU and Serbia entered into force and finally, on 21 January 2014, the 1st Intergovernmental Conference took place, signalling the formal start of Serbia's EU accession negotiations.

Serbia has also signed several trade agreements such as the European Free Trade Agreement (EFTA) and Central European Free Trade Agreement (CEFTA), as well as having agreements with the EU, Turkey, Belorussia and Russia. After all the turmoil in the 1990s, Serbia is now firmly on the road to joining the EU and becoming an attractive destination for foreign investors. This direction has been confirmed by the results of the April elections where all political parties in the new parliament take a firmly pro-EU stance.

EDUCATION AND HUMAN RESOURCES

Primary and secondary education, as well as colleges, are mostly free and owned by the state. Education is of a high standard and approved worldwide. Serbia also provides the opportunity for education in several foreign languages such as: English, French, Russian and German. Private education has been growing rapidly in the last decade which has increased the share of highly-educated population. A significant number of young people decide to continue education abroad and with their return, overall knowledge is much higher and more diversified. Serbian experts are highly appreciated in Europe and especially in Arab countries.

ECONOMY

The economy of Serbia is based on free enterprise, with most economic activity taking place in the private sector.

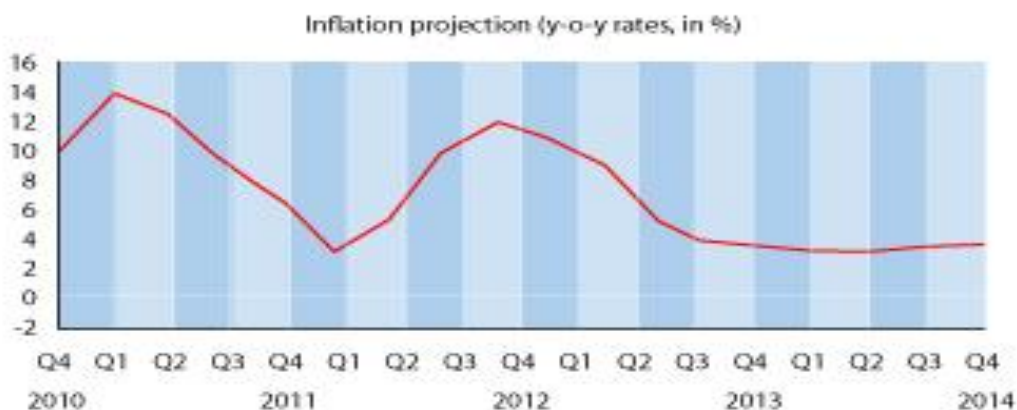
As a post-communist country, Serbia had a legacy of state ownership for many years. After a process of transition to private ownership during the 1990s, by the 21st century Serbia had become a regular part of Europe with majority private ownership. Through a process of economic liberalisation, the country has experienced fast economic growth. GDP per capita (nominal) went from USD 1,160 in 2000 to USD 6,485 in 2008.

Serbia's economy is based mostly on services (63.8% of GDP), while industry accounts for 23.5% of GDP and agriculture for 12.7% of GDP. Serbian GDP in 2013 was USD 42.8 billion, which is USD 5,667 per capita. The expectation for 2014 is for GDP growth of 1.5%.

The inflation rate in Serbia was 2.2% in 2013 (as reported by the Statistical Office of the Republic of Serbia). Serbia has recorded a significant decline in the inflation rate in the last two years and it is expected that this trend will continue.

CHART 1

Inflation rate in Serbia



The rate of unemployment is very high at around 24%. This figure is expected to significantly decrease due to new supportive policies in government and new international agreements.

CHART 2

Unemployment rate in Serbia



CURRENCY

The official currency is the Serbian dinar (RSD). The average exchange rate is around 114 RSD for 1 euro.

INTERNATIONAL BUSINESS

Serbia has not yet utilised all its resources, either geographically or in terms of its natural resources. There are significant untapped opportunities and it is only a matter of time before Serbia becomes a preferred destination for foreign investors.

Serbia has several treaties with countries worldwide:

- EU – interim trade agreement
- USA – generalised system of preferences
- Russia, Belorussia and Kazakhstan – free trade agreement
- CEFTA, EFTA, Turkey – free trade agreement.

The interim agreement between Serbia and the EU allows free export of all products originating from Serbia, meaning those that are fully manufactured in Serbia or which use materials that originate from EU countries, Turkey, or countries that are in the process of joining the EU.

A free trade agreement between Serbia and the EFTA countries (Norway, Liechtenstein, Iceland and Switzerland) allows Serbian exporters to export goods into these countries free of custom duties or other taxes.

The free trade agreement with the Russian Federation makes Serbia particularly attractive for foreign investors and manufacturers since Serbia is the only country outside the Commonwealth of Independent States which enjoys the benefits of duty-free trade with Russia. Goods produced in Serbia or those whose dominant value is added in Serbia (at least 50% more than the initial price) are considered to be of Serbian origin and are subject to 1% import tax on entering the Russian market.

Some of the key attractions for foreign investors in Serbia include:

- Access to a market of over seven million citizens (around nine million including Kosovo and Metohija)
- A location which borders the core of the EU and is within a growing eastern European market
- Investment incentives
- A skilled and competitive workforce
- Multilateral and bilateral conventions, significantly reducing or eliminating export/import costs.

TAXATION

Serbia has become a very attractive destination for doing business due to operating costs which are lower in Belgrade than in other large cities in central and eastern Europe.

Serbia's tax regime is highly conducive to doing business. Corporate profit tax is one of the lowest in Europe (at 15%), while VAT (varying from 0–20%, depending on the type of goods), salary tax, and social insurance (17.9%) are among the most competitive in central and eastern Europe.

3 – FOREIGN INVESTMENT

FOREIGN DIRECT INVESTMENT (FDI) - POLICY

One of the most important goals of Serbia's development policy today is attracting foreign capital.

Administrative procedures have been reduced every year to allow Serbia to become more competitive in the marketplace. Foreign investors have a privileged position, with various supports from government and other development organisations.

Since 2000, Serbia has attracted nearly EUR 21 billion of inward foreign direct investment. Since the onset of economic reforms, Serbia has grown into one of the premier investment locations in central and eastern Europe. A list of leading foreign investors is topped by world-class companies and banks such as FIAT, Telenor, Stada, Microsoft, Coca-Cola, Delhaize, Michelin, Gazprom, Bosch, Siemens, Intesa Sanpaolo, Mobilkom Austria and many others.

TABLE 1

Foreign direct investment (FDI), source National Bank of Serbia

| YEAR | INWARD FDI (EUR MILLION) |
|------|--------------------------|
| 2012 | 1,967 |
| 2011 | 2,236 |
| 2010 | 1,139 |
| 2009 | 1,810 |
| 2008 | 2,434 |
| 2007 | 2,848 |
| 2006 | 4,234 |
| 2005 | 1,303 |
| 2004 | 792 |
| 2003 | 1,229 |
| 2002 | 535 |
| 2001 | 199 |
| 2000 | 57 |

Serbia's strong FDI track record is substantiated by internationally recognised awards for local green field investors. During 2004–2006, green field projects in Serbia were awarded by the OECD as the largest investments of this type in south-east Europe. The first award was presented to Ball Packaging Europe (headquartered in USA), followed by METRO Cash & Carry (Germany) and Israeli Africa-Israel Corporation/Tidhar Group for their Airport City Belgrade real estate project.

FDI BY COUNTRIES

As of 2005, investors from the EU are at the top of the list. In investment terms, the leading place is held by Germany, followed by Italy, Austria, Norway and Luxembourg, while major investor countries also include Greece, the Netherlands, the Russian Federation, Slovenia, Switzerland and France.

The actual amount of US investment is significantly higher than the official figure due to companies investing primarily through their European affiliates. This also holds for Belgium, Denmark, Israel and a number of other countries.

INVESTMENT REGULATIONS

Foreign investors are able to:

- Establish a new company (up to 100 % ownership)
- Purchase the shares of the existing company
- Obtain a permit (concession) for the use of natural resources, goods in general use or perform activities of common interest, in accordance with the law
- Obtain approval to build , operate and transfer (BOT) a facility or plant , as well as infrastructure and communication facilities
- Acquire any other property rights of foreign investors by which business interests can be realised.

Investment by foreign investors can be in foreign convertible currency, goods, intellectual property, securities and other property rights, RSD that can be transferred abroad (including reinvested earnings), or conversion into share or shares of the borrower. Non-monetary contributions must be measured in cash.

The guaranteed rights of foreign investors are the freedom of foreign investment, national treatment, legal certainty, the conversion and freedom of payments, the right to keep books in accordance with internationally accepted accounting and auditing standards, and the right to transfer profits and property.

Serbia's Investment and Export Promotion Agency (SIEPA) is created as a one-stop-shop organisation for information and support. SIEPA acts as a reliable partner for international companies throughout their investment project to ensure the best results. Foreign buyers committed to the highest quality may rely on SIEPA's knowledge and expertise when looking for the right supplier.

EXCHANGE CONTROL

The rights of securities may freely be acquired and disposed of by domestic and foreign individuals and legal entities, unless a special law states otherwise.

Serbia has certain restrictions in terms of the flow of Serbian or foreign currency out of the country. When entering the country, residents and non-residents can freely bring in unlimited amounts of foreign and domestic currency, but amounts over EUR 10,000 must be reported to the Customs Authority. Foreigners may freely transfer funds abroad if all taxes have been duly paid in Serbia. Amounts exceeding EUR 10,000 can be returned abroad if they were reported when entering the country. Anti-money laundering regulations require that all financial transactions exceeding EUR 15,000 must be reported, as well as all currency exchanges above EUR 5,000.

INCENTIVES

For green field and brown field projects in the manufacturing sector and in the service sector, which may be the subject of international trade and strategic projects in the field of tourism, grants are awarded to the amount of EUR 4,000–10,000 for each worker employed for an indefinite period of three years from the date of a grant contract.

For projects of special interest – investments whose value is at least EUR 200 million and which create at least 1,000 new jobs – for a maximum of ten years from the date of contracts being awarded, grants are awarded up to 17% of the total investment.

As an additional benefit for companies to streamline their operations, many municipalities offer the possibility of operating within designated industrial zones. Such zones offer advantages such as a streamlined process for obtaining land, favourable geographic locations and ready-to-use infrastructure. Currently, 11 of these industrial zones are also licensed as free customs zones: Pirot, Subotica, Zrenjanin, Kragujevac, Sabac, Novi Sad, Uzice, Nis, Smederevo, Krusevac and Svilajnac. Import into and export from these zones is free of VAT, customs and clearance, while income generated from production within a zone is exempt from taxation.

TABLE 2

Financial incentives

| ELIGIBLE PROJECTS | AMOUNT OF FUNDING | MINIMUM INVESTMENT | MINIMUM NO. OF NEW FULL-TIME JOBS CREATED |
|-----------------------------------|--|----------------------------|---|
| Investments of special importance | Up to 17% of the total investment amount | EUR 200 million | 1,000 |
| Large investment project | Up to 17% of the total investment amount | EUR 100 million or greater | 300 |
| Large investment project | Up to 20% of the total investment amount | Between EUR 50–100 million | 300 |
| Mid-sized investment project | Up to 17% of the total investment amount | EUR 30 million | 150 |

TABLE 3
Financial incentives – direct investments

| ELIGIBLE INVESTMENT PROJECTS | INVESTMENT AREA | AMOUNT OF FUNDING | MINIMUM INVESTMENT | MINIMUM NO. OF NEW FULL-TIME JOBS CREATED |
|--|---|---|--------------------|---|
| Manufacturing sector | Investments in the 4 th group of local administration and devastated regions | EUR 4,000–10,000 for each new job created | EUR 500,000 | 50 |
| Manufacturing sector | Investments in the 1 st , 2 nd and 3 rd groups of local administration | EUR 4,000–10,000 for each new job created | EUR 1 million | 50 |
| Internationally marketable services | The entire territory of the Republic of Serbia | EUR 4,000–10,000 for each new job created | EUR 500,000 | 10 |
| Strategic projects in the field of tourism | The entire territory of the Republic of Serbia | EUR 4,000–10,000 for each new job created | EUR 5 million | 50 |

REAL ESTATE

Non-Serbian foreign nationals are able to acquire real estate (a ‘building’ and/or land) in Serbia on the conditions of this being reciprocal, ie if a Serbian citizen is able to own real estate in the other respective country, then a foreign individual has an equal right to the same in Serbia. In Serbia, foreign and local individuals, as well as legal entities are treated equally.

The following countries have this right: Algeria, Argentina, Austria, Australia, Bangladesh, Belgium, Bolivia, BiH, Brazil, Bulgaria, Great Britain, Gambia, Guinea, Greece, Denmark, the Virgin Islands, Egypt, Ecuador, India, Indonesia, Iran, Ireland, Israel, Japan, Jordan, South Africa, Canada, Kenya, Cyprus, Monaco, Lebanon, Liberia, Lithuania, Lichtenstein, Luxemburg, Mali, Hungary, Malta, Mexico, Namibia, Germany, Nigeria, Nicaragua, New Zealand, Norway, Panama, Peru, Poland, Portugal, Romania, Russia, USA, Senegal, Singapore, Syria, Slovakia, Sudan, Thailand, Tanzania, Turkey, Ukraine, Uruguay, Finland, France, Holland, Hong Kong, the Czech Republic, Chile, Switzerland, Sweden and Spain.

4 – SETTING UP A BUSINESS

TYPES OF BUSINESS ENTITIES IN SERBIA

Foreign investors can conduct business as an entrepreneur or found a company as a:

- 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, which requires only RSD 100 for incorporation.

Businesses can be also registered as:

- Entrepreneurs
- Representative offices
- Branches
- Business associations.

REGISTRATION PROCEDURES OF A LIMITED LIABILITY COMPANY

For ease of starting a new business, Serbia was ranked 42 out of 185 participating countries by the World Bank. Serbia has made significant improvements in this regard, moving up 49 places in the World Bank's rankings. Serbia's advantages are the short period of time and low costs related to starting up a new business.

The registration of a company is relatively simple. In general, there are several stages in the process of establishing and registering a business in Serbia. The registration procedure is as follows:

- 1) Notarise the memorandum of association at the basic court or at the municipality:
 - The time to complete this is one day
 - The associated cost depends on the incorporation contract value but cannot exceed RSD 39,000
- 2) Pay registration fees:
 - The time to complete this is one day
 - The associated cost is RSD 7,640
- 3) Apply and obtain the registration certificate, tax identification number, pension fund (PIO fund) and health fund certificates, and certify the signatures (three copies) for opening a bank account:
 - The time to complete this is three days
 - There is no charge
- 4) Stamp and seal:
 - The time to complete this is one day
 - The associated cost is RSD 2,500
- 5) Register with the local tax authority:
 - The time to complete this is five days
 - There is no charge
- 6) Register the employment contracts with the Employment Organisation/Fund
 - The time to complete this is one day
 - There is no charge.

5 – LABOUR

EMPLOYMENT

Serbia has a highly educated workforce, which is very cheap compared with other European countries.

Serbian labour in the 21st century has been following the modern trends, and many young people now study abroad. This raises the level of their knowledge on their return, especially for foreign languages.

Around 11% of Serbia's population has a tertiary education qualification, which puts Serbia in the middle ranks of Europe.

Serbia is still facing the same kind of problems encountered by other post-communist era countries. Its transition period has also been made more difficult by the civil war, which had a negative impact on the labour market. Economic activity is low and the unemployment rate is very high, running at a rate above 20% in the last three years. Despite serious government efforts to increase employment through various incentives, the level of unemployment is still a hurdle that needs to be overcome.

EMPLOYMENT CONTRACTS

Relationships between employers and employees in Serbia are mostly regulated by the Labour Law. There are also several other institutions which are responsible for protecting workers' rights.

An employment contract may be concluded for an indefinite or fixed term. The employment contract shall be concluded before the employee starts work and in writing. The contract must include type and level of qualification of the employee, the type and description of jobs to be performed, the location of the employment, the amount of base salary and elements for determining fringe benefits.

EMPLOYERS' CONTRIBUTIONS

RETIREMENT AND DISABILITY INSURANCE

The Law on Retirement and Disability Insurance regulates the compulsory retirement and disability insurance. Retirement and disability insurance assures rights to certain benefits in cases of certain risks stipulated by law.

HEALTH INSURANCE

The area of health insurance is regulated by the Law on Health Insurance, the Law on Health Care and other by-laws. The Law on Health insurance defines the circle of contributors, as well as the scope and contents of the rights within the framework of the system of compulsory health insurance, all in the aim of providing social security for the citizens of Serbia.

UNEMPLOYMENT INSURANCE

The Law on Employment and Unemployment Insurance and other by-laws regulate the area of unemployment insurance. Compulsory unemployment insurance assures the right to pecuniary benefit, the right to health insurance and the right to retirement and disability insurance, as well as other rights in accordance with the law.

TABLE 4
Contributions

| | EMPLOYER | EMPLOYEE |
|----------------------------|--------------|--------------|
| Pension contributions | 11% | 13% |
| Health insurance | 6.15% | 6.15% |
| Unemployment contributions | 0.75% | 0.75% |
| Total contributions | 17.9% | 19.9% |

The nominal value of salary is used as a base from which the fixed amount of RSD 11,000 is deducted. This reduced base is used for the income tax of 10% and it falls on employees.

EMPLOYMENT OF FOREIGNERS

Work permits are required for foreigners employed in Serbia and are issued with a validity of three to 12 months. An application for a work permit is submitted in person or by mail to the Labour Market office in Belgrade. The average time for obtaining a work permit is two days. Work permits can be renewed without obstacles and the procedure is identical with the first application.

Steps for obtaining a work permit are:

- Getting a residence permit issued by the Ministry of Interior affairs
- Application by the company
- Application by the individual
- A work permit issued by the Labour Market office.

A foreigner can sign the work contract without a work permit (but with a temporary residence permit), on the grounds of performing expert work, defined by existing agreements on business cooperation, long-term manufacturing cooperation, technology transfer and/or foreign investments.

6 – TAXATION

Serbia's tax administration is carried out by an administration organisation within the Ministry of Finance.

Tax residents in Serbia are liable to pay Serbian tax on their worldwide income. Non-tax residents in Serbia are liable to pay tax on their Serbian-source income only.

Individuals will be regarded as tax residents:

- If they stay permanently in Serbia
- If they have their habitual place of abode in Serbia ie if they stay in the country for at least 183 days in a 12-month period that begins or ends in the relevant tax year, or
- If their centre of vital interests is located in Serbia.

CORPORATION TAX

The corporate tax rate in Serbia is among the lowest in Europe and is currently set at 15%.

The Serbian tax system distinguishes between a domestic company, organised and established in Serbia, and a foreign company, organised and established abroad. A domestic company is taxed on its worldwide taxable income. A foreign company is generally taxed only on its Serbian sourced income, either generated by its permanent establishment, or from passive investment (dividends, interest, royalties, income from real estate etc.).

A foreign corporate investor may operate in Serbia in one or more of the following ways, each of which carries different tax implications:

- The acquisition of Serbian property without actively engaging in a Serbian-based trade or business
- The establishment of a Serbian branch office, which will conduct an active business
- The establishment of a subsidiary, meeting the laws of Serbia.

FOREIGN COMPANY NOT ENGAGED IN A TRADE OR BUSINESS IN SERBIA

A foreign company not actively engaged in a trade or business in Serbia is subject to tax on its passive investment income derived from Serbian sources. This income is subject to a withholding tax at a rate of 20%, or a lower rate if a double taxation agreement applies.

The payer of the income withholds the tax before payment is made to the foreign company, and this tax is remitted to the Serbian government. No income deductions are allowed and the entire amount is taxed at the applicable rate.

Income subject to the 20% withholding tax includes interest, dividends, rents, royalties and capital gains.

FOREIGN COMPANY ENGAGED IN A TRADE OR BUSINESS IN SERBIA

A foreign company is taxed at the same rates as domestic companies on all taxable income which can be attributed to a Serbian branch of the foreign company.

Profits attributed to the branch, for example a permanent establishment in Serbia, will be subject to 15% corporate income tax. No remittance tax is imposed on the withdrawal of income for the permanent establishment to the parent company abroad.

DOMESTIC CORPORATION

Corporate gross income is determined as gross profits from sales or services, dividends, interest, rents and royalties and capital gains and losses. Taxable income is determined as gross income less all allowable deductions.

TAX EXEMPTION FOR CONCESSIONS

A five-year corporate profit tax holiday is granted for concession-related investments starting from the day the concession investments have been completed. No tax is due if income is derived before the completion of the concession investment.

TAX HOLIDAYS

Tax breaks are available for 'Large Investor Companies', which are then exempt from corporate profit tax for a period of ten years starting from the first year in which they report a taxable profit if:

- They invest in fixed assets to an amount exceeding RSD 1 billion (approximately EUR 9 million), and
- They hire at least 200 additional full-time employees during the investment period.

Tax exemptions for 'Underdeveloped Regions Investors' in undeveloped regions of Serbia are exempt from corporate profit tax over a five-year period on the following conditions:

- Investment in fixed assets exceeds RSD 8 million, or roughly EUR 70,000
- A minimum of 80% of fixed assets are used in the main activity
- At least five new employees are hired on an indefinite contract throughout the investment period, and
- 80% or more employees have a residence in the underdeveloped region.

CARRYING FORWARD OF LOSSES

A tax loss stated in the tax return can be carried forward and offset against future profits over a period of ten years.

WITHHOLDING TAXES

Withholding tax at a rate of 20% is deducted from dividends, the share of profits, liquidation surplus, royalties, interest, capital gains and lease payments for real estate and other assets derived by non-residents within the territory of Serbia. Withholding tax may be reduced by double taxation treaties. If a non-resident tax payer receives capital gains from a Serbian resident, from another resident or non-resident individual or open investment fund within the territory of Serbia, then 20% withholding tax has to be paid if this is not otherwise provided for by a respective double taxation treaty.

A non-resident taxpayer has to submit a special tax return within 15 days of generating the capital gains via proxy, based on which the tax authorities assess the tax liability.

Withholding tax at a rate of 25% is deducted from royalties, interest and lease payments for real estate and other assets, including service fees (irrespective of the place where they are provided or used) earned by a non-resident from a jurisdiction with a preferential tax system.

TAX CREDITS

The amount of tax due can be reduced by 20% of the amount invested in fixed assets for the respective tax period. This reduction cannot exceed 50–70% of the total tax liability and can be carried forward for a maximum period up to ten years.

A large number of sectors (agriculture, fishing, production of textile yarn and fabrics, garments, leather, base metals, standard metal products, machines, office machines, electrical machines, radio, TV and communication equipment, medical instruments, motor vehicles, recycling, and video production) are entitled to receive a tax credit of 80% of investment in fixed assets. The unused part can be carried forward for ten years.

OTHER TAXES ON CORPORATIONS

There is no capital duty or payroll tax.

Real property tax is levied on immovable property located in Serbia at the rate of 0.4% of the book value of the property as of 31 December of the previous year. Stamp duty is payable according to a tariff based on the value of the document. If there is no value, a flat rate applies.

PERSONAL INCOME TAX

Apart from salaries, other personal income is predominantly taxed at the rate of 20%.

Personal income tax is payable by individuals on different sources of income generated throughout the calendar year. Taxable income includes salaries, income from agriculture and forestry, from self-employment, royalties and industrial property rights, from capital, real estate and other income.

A taxpayer is a resident of Serbia with a residence or business premises or who spends at least 183 days over a period of 12 months in Serbia. Non-residents are taxed with respect to their income generated in Serbia only.

ANNUAL INCOME TAX

The taxable base is calculated by deducting taxes and social contributions paid during the year from the gross annual income. In addition, a taxpayer has the right to claim the following deductions:

- Personal deduction – 40% of the average annual salary paid in Serbia
- Deduction for supported family members – 15% of the average annual salary paid in Serbia

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 amounting up to six times the average annual salary in Serbia, and 15% for the part of the annual income exceeding six times the average annual salary in Serbia.

OTHER TAXES

PROPERTY TAX

The rate of the property tax depends whether the taxpayer maintains business accounts. For taxpayers maintaining business accounts, the rate is 0.4%. For taxpayers who do not maintain business accounts, the rate is progressive and depends on the tax base.

Legally, the property tax applies to immovable property where an individual has rights of ownership, usufruct, residence, utilisation, a long term lease holding (for a period longer than one year) or utilisation of city building land with an area of more than ten acres. In this case, immovable properties are considered to be residential or commercial buildings, office spaces, garages, buildings and recreational space.

TABLE 5

Tax rates

| TAX BASE | TAX RATE |
|---------------------------|---|
| Up to RSD 6,000,000 | 0.4% |
| RSD 6,000,001–15,000,000 | RSD 24,000 + 0.8% for amount above RSD 6,000,000 |
| RSD 15,000,001–30,000,000 | RSD 96,000 + 1.5% for amount above RSD 15,000,000 |
| Above 30,000,000 | RSD 321,000 + 3% for amount above RSD 30,000,000 |

VALUE ADDED TAX (VAT)

According to the Law on VAT, a taxpayer is an entity that independently trades in goods and services as a producer, or as a trader or provider of services for the purpose of profit. The VAT rules also apply to the following:

- 1) Agents assigned by foreign entities doing business in Serbia but without a permanent business unit in Serbia
- 2) Foreign recipients of goods and services from a Serbian enterprise
- 3) Entities that account for VAT in their invoices but are not obliged to pay the tax according to the Law on VAT
- 4) Entities that import goods.

Taxpayers whose total turnover did not exceed RSD 8 million in the preceding calendar year are exempt from VAT. Taxpayers whose total turnover was between RSD 2 million and RSD 8 million in the preceding year may choose to register. The taxable amount for domestic goods and services is the sales price, including excise and duty costs and all secondary expenses charged to the recipient of the goods and services.

The standard rate is 20%. A reduced rate of 8% applies to certain hospitality-related and other goods and services. A 0% rate applies to certain transportation, medical and educational services, and technical, medical and other goods.

VAT at the rate of 8% is payable on the following:

- Bread, milk, flour, sugar, edible sunflower oil, maize, rape, soybean and olive oil, edible animal and vegetable fats; fresh and frozen fruits and vegetables, meat, fish, and eggs

- Medicines included in the list of medicines to be sold on prescription and made out from the funds for health insurance, in accordance with the health insurance regulations; orthotic and prosthetic means, as well as medical products that are surgically implanted; dialysis materials
- Fertilizers, pesticides, seed stock, nursery stock and complete fodder mixtures for animal feeding
- Textbooks and teaching aids; daily newspapers; monographs and serial publications
- Firewood
- Accommodation in hotels, motels, resorts, recreation centres and camps
- Utility services
- Natural gas delivered to individual producers through the gas distribution network.

The following are exempt from VAT:

- Educational services
- Medical services
- Cultural services
- Gifts and charity donations
- Rent (when used for housing purposes only)
- Financial services provided by banks and insurance companies
- Land
- Services of organising lotteries and gambling
- Transportation.

VALUE ADDED TAX EXEMPTION IN FREE ZONES

Income generated through commercial activities in free zones in Serbia is exempted from value added tax. There are six free zones currently operating in the country: Subotica, Novi Sad, Zrenjanin, Sabac, Kragujevac, Uzice and Pirot. Foreign companies can establish a privately owned company in a free zone, subject to project approval by the government.

DOUBLE TAXATION TREATIES

AVOIDING DOUBLE TAXATION

If a taxpayer has already paid tax on profits generated abroad, they are entitled to a corporate profit 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.

TABLE 6

Double taxation treaties

| COUNTRY | IN EFFECT FROM | COUNTRY | IN EFFECT FROM | COUNTRY | IN EFFECT FROM |
|-----------------|----------------|---------|----------------|----------|----------------|
| Albania | 2005 | Germany | 1988 | Norway | 1985 |
| Austria | 2010 | Greece | 1998 | Pakistan | 2010 |
| Azerbaijan | 2010 | Hungary | 2001 | Poland | 1998 |
| Belarus | 1998 | India | 2007 | Qatar | 2010 |
| Belgium | 1981 | Iran | 2005 | Romania | 1996 |
| Bosnia and Her. | 2004 | Ireland | 2010 | Russia | 1995 |
| Bulgaria | 2000 | Italy | 1983 | Slovakia | 2001 |

| | | | | | |
|-------------|------|-------------|------|----------------|------|
| China | 1997 | Kuwait | 2003 | Slovenia | 2003 |
| Croatia | 2004 | Latvia | 2001 | Spain | 2009 |
| Cyprus | 1986 | Libya | 2010 | Sri Lanka | 1986 |
| Czech R. | 2005 | Lithuania | 2009 | Sweden | 1981 |
| Denmark | 2009 | Macedonia | 1996 | Switzerland | 2005 |
| North Korea | 2001 | Malaysia | 1990 | Turkey | 2006 |
| Egypt | 2005 | Malta | 2010 | Ukraine | 2001 |
| Estonia | 2010 | Moldavia | 2006 | United Kingdom | 1982 |
| Finland | 1987 | Montenegro | 2011 | | |
| France | 1975 | Netherlands | 1982 | | |

EXCISE DUTIES

Special excise duties apply to the following:

- Mineral oils
- Alcohol
- Tobacco products
- Coffee
- Imported refreshing (non-alcoholic) beverages.

7 – ACCOUNTING & REPORTING

Accounting in Serbia is governed by the Accounting Law.

Regulation of accounting in Serbia includes the following areas in the Law:

- The mode of keeping the books of account
- Recognition and valuation of assets and liabilities, income and expenditures
- The compilation and displaying of submissions, and the disclosure and processing of annual financial statements
- Conditions for and mode of auditing financial statements and internal auditing.

ACCOUNTING IN SERBIA

Business entities in Serbia can independently perform accounting and bookkeeping tasks.

Accounting can be carried out by employees delegated to perform accounting tasks and must follow rules which regulate the general degree, work experience and other requirements for these employees.

Alternatively, business entities in Serbia can contract out their accounting services under provisions of the law to other business entities in Serbia which are registered for the provision of accounting services. The employees of these companies are then entrusted with maintaining accounting records and preparing financial statements and meeting the requirements of by-laws (accounting agency, bookkeeping agency, company for accounting services, etc.).

However, this option does not apply to banks and other financial institutions, insurance companies, financial leasing providers, pension funds, companies for the management of voluntary pension funds, investment funds, companies for the management of investment funds, stock exchanges and broker-dealers companies.

CLASSIFICATION OF LEGAL ENTITIES IN SERBIA

Legal entities in Serbia are classified as micro, small, medium and large-sized companies, depending on the average number of their employees, annual income and the value of assets as of the date of compilation of financial statements in a financial year.

Micro-entities are new in accounting law. Micro-entities are those entities that do not exceed two of the following criteria:

- 1) Average number of employees is ten
- 2) Business revenue is up to EUR 700,000 in equivalent RSD
- 3) Average value of business assets (calculated as the arithmetic mean of the value at the beginning and at the end of the fiscal year) is up to EUR 350,000 in equivalent RSD.

Small entities are those entities that exceed two of the criteria for micro entities, but do not exceed two of the following criteria:

- 1) Average number of employees is 50
- 2) Business revenue is up to EUR 8,800,000 in equivalent RSD
- 3) Average value of business assets (calculated as the arithmetic mean of the value at the beginning and at the end of the fiscal year) is up to EUR 4,400,000 in equivalent RSD.

Medium-sized entities are those entities that exceed two of the criteria for small entities, but do not exceed two of the following criteria:

- 1) Average number of employees is 250
- 2) Business revenue is up to EUR 35,000,000 in equivalent RSD
- 3) Average value of business assets (calculated as the arithmetic mean of the value at the beginning and at the end of the fiscal year) is up to EUR 17,500,000 in equivalent RSD.

Large entities are those entities that exceed two of the criteria for medium-sized entities.

TABLE 7

Size of company – legal definitions

| CRITERIA | MICRO | SMALL | MEDIUM | LARGE |
|-------------------------------|-------------------|-----------------------|--------------------------|---------------------|
| Average no. of employees | Up to 10 | 10–50 | 50–250 | Over 250 |
| Operating income | Up to EUR 700,000 | EUR 700,000–8,800,000 | EUR 8,800,000–35,000,000 | Over EUR 35,000,000 |
| Average value of total assets | Up to EUR 350,000 | EUR 350,000–4,400,000 | EUR 4,400,000–17,500,000 | Over EUR 17,500,000 |

Most Serbian taxpayers are required to submit VAT returns on a monthly basis if their turnover in the previous 12 months or forecasted turnover for the following 12 months exceeds RSD 50 million. If turnover is less than RSD 50 million, a tax return should be filed quarterly.

AUDIT

The objective of auditing financial statements is to enable the auditor to express an opinion on whether the financial statements have been prepared as required by the International Accounting Standards in respect of all essential aspects.

Auditing of financial statements is compulsory for large and medium-sized legal entities, as well as issuers selling their long-term securities by public offering. Audits shall be conducted every year on the basis of information in respect of the classification of legal entities for the previous year. Issuers of securities are required to obtain an auditing report for the year preceding the year in which the securities are issued.

Audits shall be conducted in accordance with the Auditing Law, the International Standards of Auditing (ISA) and the Code of Ethics for Professional Accountants. Financial statements shall be audited by certified auditors employed by auditing firms. A competent body of the legal entity shall make the decision on the choice of auditing firm.

Financial statements for medium and large-sized legal entities may be audited by the same auditing firm for a period of five and three consecutive years respectively.

Audits shall be conducted on the basis of a written agreement made no later than three months before the expiry of the financial year. Audits shall be conducted against the payment of an agreed fee where such a fee in two consecutive years shall not exceed 15% of the annual income reported by the auditing firm.

Supervision of legal entities in terms of the control of accounting records and keeping a general ledger will be conducted by the Tax Authorities in accordance with the Law on Tax Procedure and Administration.

A new requirement is that companies which did not have any business activities during the year, and do not have any assets or liability within its financial statements, are obliged to submit a statement of inactivity by the end of February of the following year.

The deadline for the recording of accounting documents is extended in a way that the document shall be submitted for bookkeeping within three working days (instead of three days) of the day of transaction, and bookkeeping shall be conducted within five work days (instead of five days) of the day of submission.

Financial records, financial statements, annual reports, the decision for the adopting of financial statements, the auditor's report, the decision on profit distribution and other financial information shall be prepared in the Serbian language.

Financial statements should include:

- Balance sheet
- Income statement
- Cash flow statement
- Statement on changes in equity
- Notes to the financial statements.

Micro and small legal entities should prepare a balance sheet and income statement. Legal entities and entrepreneurs need to submit their financial statements for the previous year to the authority by the last day of the first two calendar months of the current year at the latest.

8 – UHY REPRESENTATION IN SERBIA



CONTACT DETAILS

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Liaison contact: Jovan Papic
Position: Equity Partner
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Year established: 2000
Number of partners: 2
Total staff: 18

BRIEF DESCRIPTION OF FIRM

Established in 1995, the firm has maintained a goal of becoming one of the largest local auditing firms in Serbia, providing services of superior value and quality to both domestic and foreign companies. After 17 years of operations, our financial results, market position and brand are the best evidence of our overall success.

Our service portfolio rests on two pillars: audit and audited-related services. However, we also offer a broad variety of business advisory offerings, which we have been passionately developing in the last several years. We are also proud of the fact that we competently deliver services to a number of industries and are well accepted by public sector institutions.

We continue to strive to further diversify our service portfolio, increase our market share, and upgrade the quality of our offerings.

SERVICE AREAS

Audit & Assurance
Corporate Finance
Business Advisory
Tax Consultancy
Mergers & Acquisitions

SPECIALIST SERVICE AREAS

Due diligence
Advice on starting a business in Serbia

PRINCIPAL OPERATING SECTORS

Manufacturing
Trading
Pharmaceuticals
Public sector
Agriculture
Food processing
Construction



The network
for doing
business



Hotels
Sports

LANGUAGES

Languages of the former Yugoslav Republic and English.

CURRENT PRINCIPAL CLIENTS

MPP Jedinstvo a.d., Sevojno
Lesaffre RS d.o.o., Beograd
Pharmacy d.o.o., Beograd
Kontiki travel d.o.o., Beograd
Galenika fitofarmacija d.o.o., Beograd
Privredna komora Srbije
Deloitte d.o.o., Beograd
Victoria Group d.o.o., Beograd
Veterinarski zavod a.d., Subotica
Institut za kukuruz Zemun Polje, Zemun
Olimpijski komitet Srbije
Drzavna lutrija Srbije

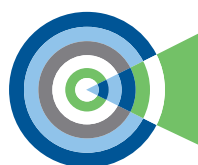
OTHER COUNTRIES IN UHY CURRENTLY WORKING WITH, OR HAVE WORKED WITH IN THE PAST

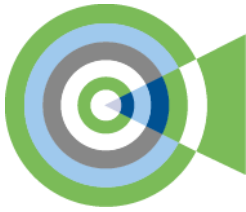
Our firm's recent admittance to UHY membership has not yet provided an opportunity for international work.

BRIEF HISTORY OF FIRM

EKI REVIZIJA was founded by the Economics Institute in Belgrade; it operates as an independent legal entity. EKI REVIZIJA utilizes the extended knowledge and experience of its managers and staff relying on the experience and human resources of Economics Institute in Belgrade, where the EKI REVIZIJA staff gained their initial experience in auditing. In addition, our managing director and two senior partners used to work at Deloitte, Belgrade, for a number of years, where they worked on a significant number of complex engagements.

In recent years, the company has steadily increased its audit client base and diversified its portfolio of services through a number of financial due diligence projects for both domestic and foreign investors, as well as accounting and consulting services.





LET US HELP YOU ACHIEVE FURTHER BUSINESS SUCCESS

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