Invest in Serbia

NDP
AUDIT & CONSULTING

IC
SECURITIES BROKER-DEALER
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INTERNATIONAL CENTER FOR
FINANCIAL MARKET DEVELOPMENT

Why Serbia?

- Low Overhead Costs
- Competitive Tax Regime
- Customs Free Access to the 15% of the World Market
- Attractive Investment Incentives
- Strategic Geographic Location
- Multilingual and Highly Skilled Workforce
- Internationally Recognized Leader in Business Reforms
- Home of Largest Greenfield Investments in Southeast Europe

*"Serbia is forecast to make **the largest improvement in the business environment in the region of Eastern Europe between 2009 and 2013**. Out of 16 countries included in the research, Serbia will be leading the region in terms of business reforms by a wide margin".*

Economic Intelligence Unit

Table of Contents

Serbia Key Info 1

Re-emergence of CEE Region 2

FDI in Serbia 3

Booming Market Potential 6

Competitive Tax Regime 7

- Corporate Taxation 7
- Value Added Tax 8
- Individual Taxation 9

Educated and Skilled Labour 10

Investment Incentives 11

- Financial Incentives 12
- Tax Incentives 13
- Other Incentives 14

Investment Basics 14

Legal Framework 15

EU Integration 16

Contact 17

Serbia Key Info

Official Name	Republic of Serbia	
Form of State	Democratic Republic	
Political Structure	President Unicameral assembly with 250 seats	
Area	88.407 km2	
Population	7.2 million	
Geographic Position	South East Europe, central part of the Balkan Peninsula, at the intersection of Pan European Corridors No. 10 *(road and railway corridor connecting North and Southeastern Europe)* and No. 7 *(inland waterway of the Danube River reaching the Black Sea area)*	
Borders	E–Bulgaria, NE–Romania, N–Hungary, W–Croatia and Bosnia-Herzegovina, SW–Montenegro, S–Albania and FYR Macedonia	
Time Zone	Central European Time (GMT + 01:00)	
Official Language	Serbian	
Religion	Christian Orthodox (main), Roman Catholic, Islamic, Jewish, Protestant	
Major Cities (Inhabitants)	Belgrade (1,639,121), Novi Sad (335,701), Nis (257,867), Kragujevac (177,468)	
Internet Domain	.rs	
Dial Code	+381	
Currency	Dinar (RSD)	
Institutions/ Integration Status	*Full Member* IMF (2001), World Bank (2001), EBRD (2001), EIB (2001), Council of Europe (2003), Partnership for Peace (2006); *Membership Negotiations* WTO – Final Stage; EU – Candidacy OECD – Observer	
Market-Based Indicators	Credit Rating	S&P – BB–/negative Fitch – BB–/negative
	Country Risk Premium – EMBI (in bp)	400 (Dec 2013)

	2005	2006	2007	2008	2009	2010	2011	2012
GDP growth rate (%)	5.4	3.6	5.4	3.8	-3.5	1.0	1.6	-1.7
GDP per capita	2,729	3,144	3,857	4,445	3,955	3,841	4,336	4,134
Unemployment rate ILO (%)	20.8	20.9	18.1	14.0	16.6	19.2	23.7	23.9
FDI (EUR mil)	1,303	4,234	2,848	2,434	1,810	1,139	2,236	1,967
CPI (%)	17.7	6.6	11.0	8.6	6.6	10.3	7.0	12.2
Export (EUR mil)	3,608	5,102	6,432	7,429	5,961	7,393	8,441	11,913
Import (EUR mil)	8,439	10,463	13,951	16,478	11,504	12,622	14,250	17,211

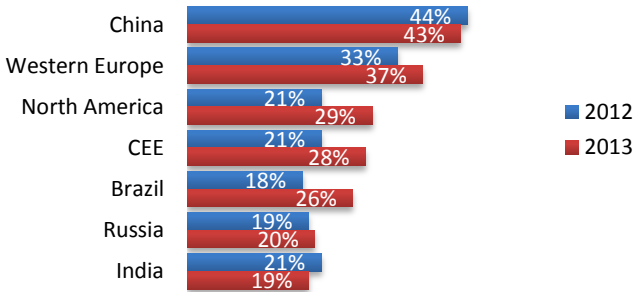
Source: Statistical Office of the Republic of Serbia, Ministry of Finance of the Republic of Serbia, National Bank of Serbia

Re-emergence of CEE Region

In 2012, investments in developing economies contracted by modest 3% and **for the first time transition economies overtook the leading position as recipients of foreign investment** (*Global Investment Trends Monitor, UNCTAD, Jan 2013*)**.**

Europe improved its attractiveness in the eyes of investors and remains the **world's most attractive FDI destination** with 22.4% of global FDI value. Despite economic contraction, widespread unemployment and rising public debt, investors find opportunities in the ongoing restructuring – available cheap assets and declining labor costs (*Ernst & Young's 2013 European Attractiveness Survey*).

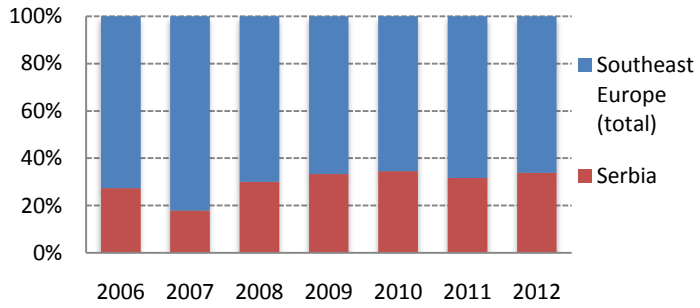
World's most attractive regions to establish operations (2013/2012)



Source: Ernst & Young's 2013 European Attractiveness Survey

CEE regained attraction as an FDI destination in 2012, offering improving infrastructure, investment climate and skills. The region has reemerged as a **leading location for manufacturing-oriented investment**, capturing more than 50% of the jobs created. Though the number of investment decisions slipped 4.8% on the year, the region secured a remarkable 26.1% more jobs. That meant that **CEE overtook Western Europe to become the leading recipient of FDI jobs in Europe**. Companies from both Europe and beyond are increasingly expanding their manufacturing capacity in CEE or moving their factories there.

Greenfield FDI Projects by Destination



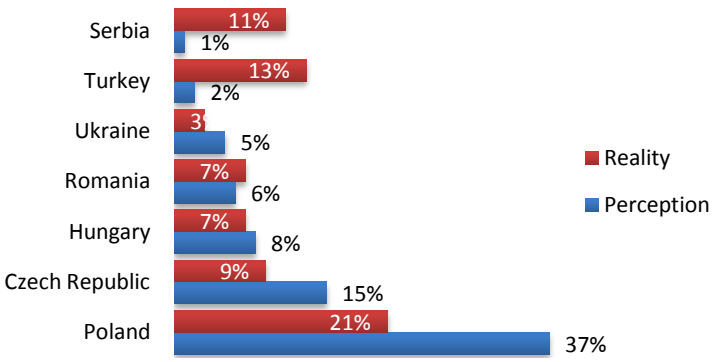
Source: World Investment Report 2013, UNCTAD

According to the UNCTAD's World Investment Report, Serbia led in the Southeast Europe (SEE) with USD 2.7 billion in FDI inflows in 2011, ahead of Albania with USD 1 billion, EU members Slovenia (USD 999 million) and Bulgaria (USD 1.9 billion), and newest member of the EU Croatia with USD 1.5 billion.

In 2012, Serbia was the destination for 29% of total Greenfield FDI projects (based on its value) in the SEE region.

Based on responses of top executive interviewed for the Ernst & Young's 2013 European Attractiveness Survey it is noticeable that investor's perception differs the reality of FDI inflows for several countries in the Central and Eastern Europe (CEE) region. Respondents saw Poland as by far the most attractive country followed by Czech Republic while Serbia and Turkey obviously face perception problems and lack adequate opportunities promotion among foreign investors given that the mismatch between the actual FDI inflow and perceived attractiveness is substantial.

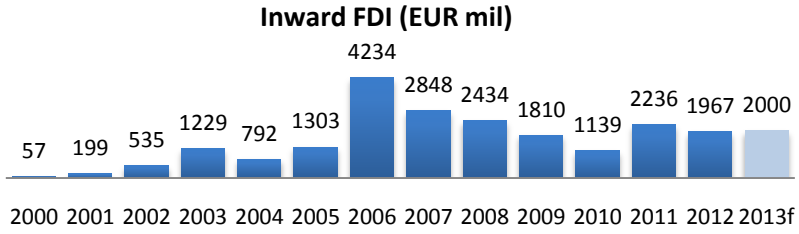
Perceived Attractiveness vs. Actual Number of FDI Projects in the CEE Region



Source: Ernst & Young's 2013 European Attractiveness Survey

FDI in Serbia

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, Gazpromneft, Delhaize Group, Coca-Cola, Microsoft, Intesa Sanpaolo, Stada, Michelin, Siemens, etc. resulting in around EUR 21 billion of inward FDI since 2000.



Source: National Bank of Serbia, (f) SIEPA

Serbia attracted some USD 2.71bn of foreign direct investments in 2011, becoming the best performer in Southeast Europe, the United Nations Conference on Trade and Development (UNCTAD) said in its 2012 World Investment Report. The Report also showed that in 2011 Serbia was destination country for 50% of **Greenfield FDI in the SEE region**.

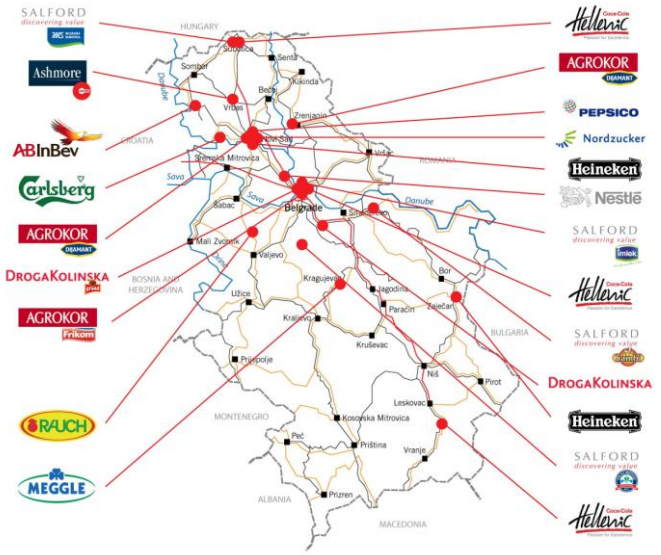
As one of the **favored destinations in Europe for large manufacturing projects**, Serbia performed well in terms of FDI in 2012, attracting 78 projects (11% of total FDI in CEE), up 16.4% year on. FDI created 10,302 jobs in the country, which ranked 6th in Europe for FDI job creation. Serbian projects are **among the most labor intensive in Europe**, creating 132 jobs each on average. Nearly 90% of projects in Serbia came from European companies (*Ernst & Young, European attractiveness survey 2013*).

Top Foreign Investors in Serbia (*in EUR mil*)

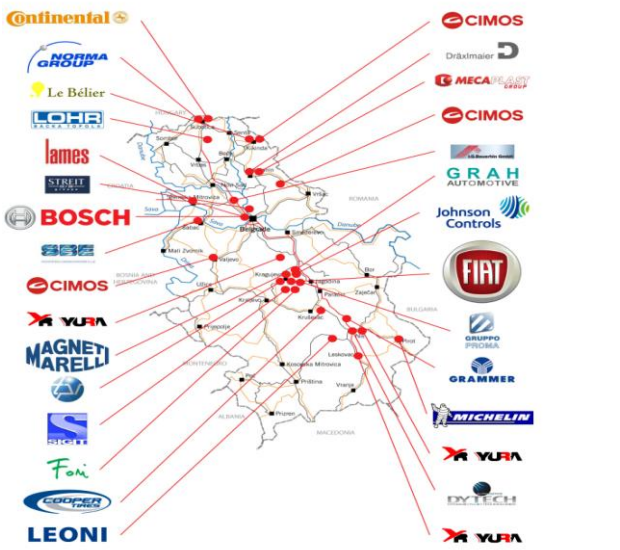
Telenor *Norway*	Banca Intesa *Italy*	Gazpromneft *Russia*	FIAT *Italy*	Delhaize Group *Belgium*	Agrokor *Croatia*	Philip Morris *USA*
1,602	963	947	940	933	614	611
Mobilkom *Austria*	Eurobanka EFG *Greece*	Mercator *Slovenia*	Raiffeisen Bank *Austria*	Salford Investment *Great Britain*	Stada Arzneimittel *Germany*	Anheuser-Busch InBev *Belgium*
570	500	500	500	500	475	430
NBG bank *Greece*	Michelin *France*	Credit Agricole *France*	SAI Fondiaria *Italy*	Lukoil *Russia*	British American Tobacco *Great Britain*	Kronospan *Austria*
425	370	264	264	210	200	200
PepsiCo *USA*	Holcim *Switzerland*	Carlsberg *Denmark*	Metro Cash & Carry *Germany*	Alpha bank *Greece*	U.S. Steel *USA*	Coca-Cola Hellenic *Greece*
200	185	179	165	152	150	142
Lafarge *France*	OMV *Austria*	Messer *Germany*	Africa Israel (Tidhar Group) *Israel*	Plaza Centers *Israel*	Volksbank *Austria*	Erste Group *Austria*
140	140	132	120	120	120	108
KBC bank *Belgium*	Ball Packaging Europe *Germany, USA*	Grundfos Management *Denmark*	Japan Tobacco *Japan*	MOL *Hungary*	Bosch *Germany*	Tarkett *Germany, France, USA*
97	80	80	80	72	71	65
Tondach Gleinstätten *Austria*	Altach Inc. *USA*	Henkel *Germany, Austria*	Strauss *Israel*	Uniqa *Austria*	Wiener Städtische *Austria*	Société Générale *France*
60	50	50	50	50	50	47
Benetton *Italy*	Gorenje Group *Slovenia*	Metalfer Group *Italy*	Cinkarna Celje *Slovenia*	Nestlé *Switzerland*	BIG CEE *Israel*	PFI Studios *USA*
46	45	45	44	44	40	40

Brownfield investments amounted to around EUR 1.9 bn in 2012 and were dominant component of overall FDI in 2013. In 2014, the largest part of expected FDI inflow will be directed to the energy sector (48%), followed by manufacturing (20%) and trade (7%) as reported by the National Bank of Serbia.

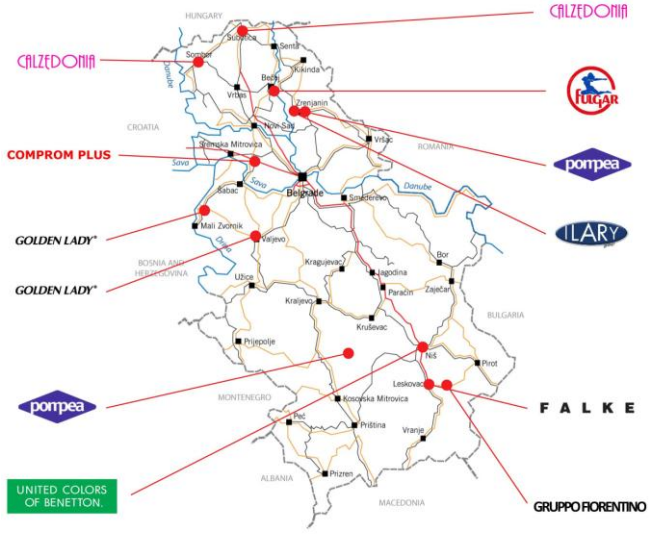
Selected Investors in Food Industry



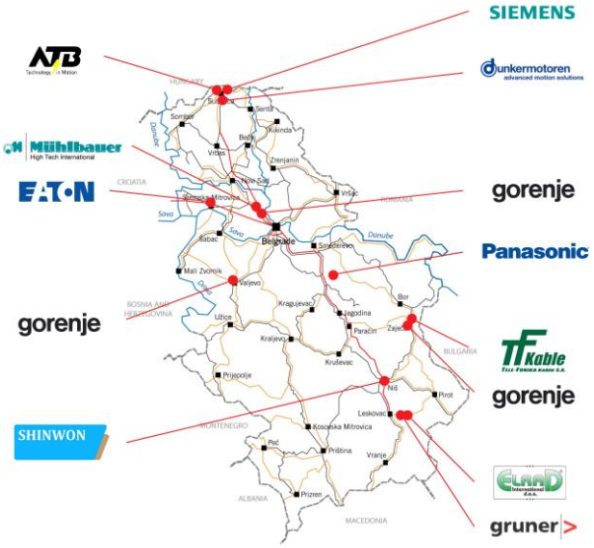
Selected Investors in Automotive Industry



Selected Investors in Textile & Clothing Industry

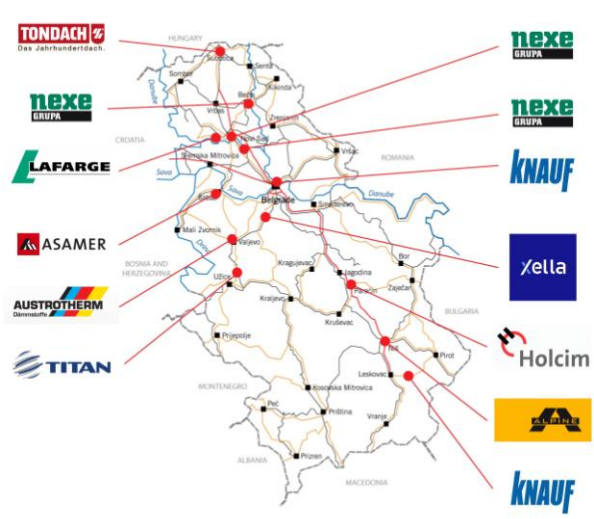


Selected Investors in Electronic Industry



Selected Investors in Wood and Furniture Industry

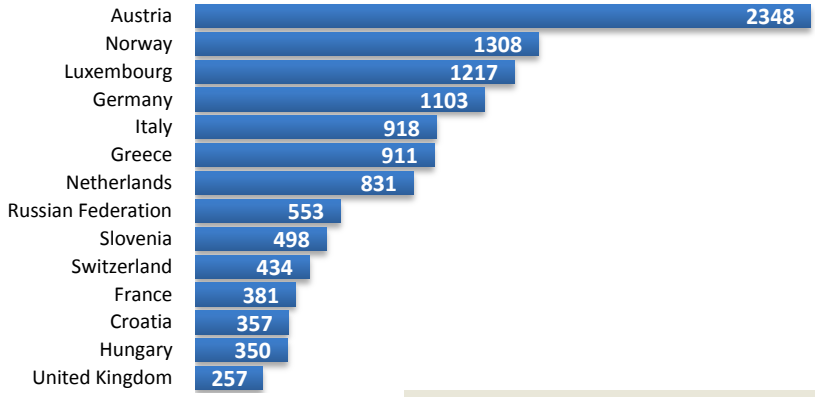
Selected Investors in Construction Industry



Source: SIEPA

According to the latest **UNCTAD's World Investment Report 2012**, Serbia led in the Southeast Europe (SEE) with USD 2.7 billion in FDI inflows in 2011, ahead of Albania with USD 1 billion, EU members Slovenia (USD 999 million) and Bulgaria (USD 1.9 billion), and is also ahead of newest member of the EU Croatia with USD 1.5 billion. The Report also showed that in 2011 Serbia was *destination country for 50% of Greenfield FDI in the SEE region* (USD 150 mil of total USD 307 mil).

FDI by Country of Origin 2005-2012 (net cash in EUR mil)



Source: National Bank of Serbia

In terms of the investors' structure by country of origin, investors from the Europe are leading with more than 70% of total FDI influx. The actual amount of investments from some countries, especially USA is considerably higher than the listed figures due to the fact that the companies are investing primarily through European affiliates.

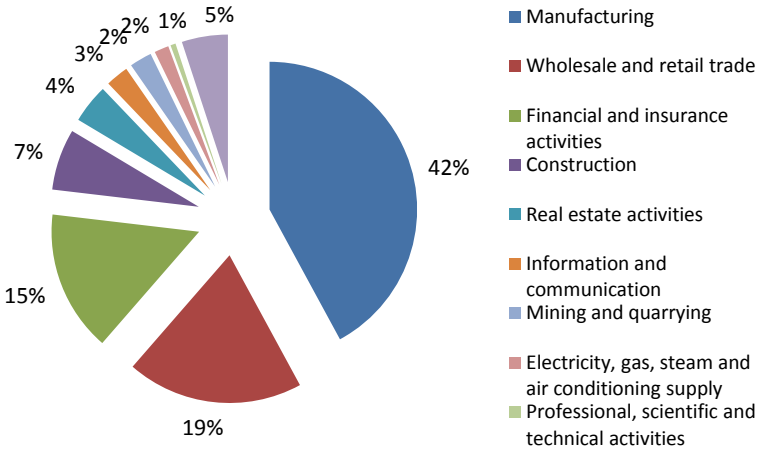
"Today my message to any new possible investors to Serbia will be that they should take the jump. Serbia is a fantastic country to live in for expatriates and the Serbian people among the friendliest in the world. The skills and education is high and cooperation with the local administration is efficient and quick."
Mr. Kjeld Schmidt Christensen, Technical Manager, Grundfos Serbia

According to the preliminary data issued by the National Bank of Serbia inward FDI for the Q1 2013 amounted to EUR 210.46 mil and mainly targeted Manufacturing (42.08%) of which 87.4% was invested in the Manufacturing of food and 17.84% in Manufacturing of beverages industry. Wholesale and retail trade captured 19.31% and Financial service activities 15.47% of total FDI in Serbia in Q1 2013.

Inward FDI by Industries (2004-2012)	EUR mil
Financial intermediation	4,820
Manufacturing	4,450
Wholesale & retail trade, Repairs	2,983
Real estate activities	2,384
Transport, storage & communications	2,360
Mining & quarrying	533
Construction	494
Other utility, social and personal services	134
Agriculture, forestry & fishing	133
Professional, scientific & technical activities	105
Accommodation & food service activities	94
Public administration & social insurance	83
Electricity, gas & water	56
Administrative & support service activities	22
Education	3

Source: National Bank of Serbia

Inward FDI Q1 2013



Booming Market Potential

Internally, with 7.5 million people, the Serbian market is the **2nd largest market in South East Europe**.

Externally, Serbia can serve as a manufacturing hub for **duty-free exports to a market of over 1 billion people**. It includes the European Union, the United States of America, Russia, South East Europe, Belarus, Kazakhstan, Turkey and EFTA members (Norway, Switzerland, Iceland, and Liechtenstein). Export growth rates are one of the highest within the transition countries.

As a **logistics base**, Serbia is a perfect place for a company to locate its operations if wanting to closely and most efficiently serve its EU, SEE or Middle Eastern customers. It borders the EU, at the Hungarian, Romanian and Bulgarian state line. At the same time, businesses can enjoy all the benefits of working outside the EU, while being able to provide services and transport goods in projected and flexible time frames. In defiance of the global financial crisis Serbia is pressing ahead with its efforts to maintain its central position in South-eastern Europe.

> *"One of the main reasons to invest in Serbia was the market potential and the opportunity to export our products from Serbia to the whole region of CEE. "*
> **Nenad Vukovic, President, Henkel Serbia**

Markets with Duty-Free Access for Serbia		
Market	**Inhabitants *(in mil)***	**Trade Regime**
European Union	494	Preferential Trade Regime
United States	*303*	*Generalized System of Preferences***
Russia, Belorussia & Kazakhstan	169	Free Trade Agreement
South East Europe	29	Central European Free Trade Agreement (CEFTA)
Turkey	75	Free Trade Agreement
EFTA	13	Free Trade Agreement
Total	**1,083**	

** Upon the completion of negotiations with Egypt, the territory with duty-free access for Serbia will be increased by additional 77 million consumer;**Ongoing regular renewal procedure (authorization expired in August 2013)*

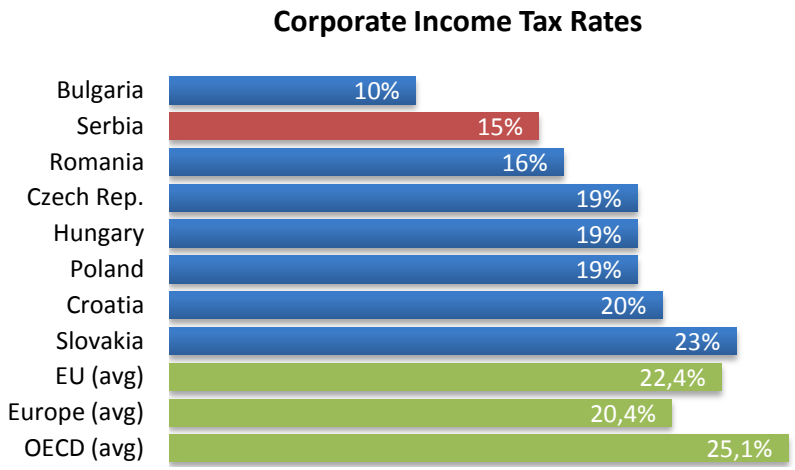
Transportation Infrastructure	
Length of road network	40,485 km
Length of railway network	3,809 km
Length of navigable routes	959 km
Number of river ports	7
Number of intern. airports	2

Average Utilities Cost	
Electricity	0.05 EUR/kWh
Gas	0.42 EUR/m3
Water	0.2 EUR/m3
Average Production Hall Cost	
Building	400 EUR/m2
Renting	5 EUR/m2

Source: SIEPA

Competitive Tax Regime

One of the key attractions of Serbian market is certainly favorable and business-friendly tax regime. Corporate profit tax is still among the lowest in Europe, while Value Added Tax is among the most competitive in Central and Eastern Europe.



Source: Deloitte; (avg) KPMG

Corporate Taxation

Basis

Tax year is the calendar year but may be shorter than 12 months where activities start or terminate during a calendar year or there is a change in the status of the entity.

Tax	Rate	Recurrence	Possible Incentive
Corporate Income Tax	15%	yearly	10 year tax holiday (investments in fixed assets over EUR 8.6 million and minimum 100 new jobs) **&** tax credit for investment in own fixed assets

A legal entity is considered resident if it is incorporated in Serbia or managed or controlled from Serbia. Resident entities are taxed on their worldwide income; non-residents are taxed only on income generated in Serbia. The taxable base is calculated in the tax balance sheet, based on the profit and loss account adjusted for tax purposes. Taxable income includes both business income and capital gains.

Tax filling in Serbia is based on self-assessment. Advance corporate tax is payable in monthly installments. Recently established companies pay monthly advance payments on the basis of profit estimation for the current year. A tax return and tax balance must be filled within 180 days after the end of the tax period for which the tax return is filled or 15 days from the deadline for submission of financial statements in case of a change of status, bankruptcy or liquidation.

Tax	Rate	Recurrence	Possible Incentive
Withholding Tax *(for dividends, royalties, interest income, lease payments for movable or immovable property)*	20%	yearly	lower rate according to Double Taxation Agreement

Payments of dividends, interests, royalties, income from the lease of property and payments made for services provided by entities resident in preferential tax jurisdictions are subject to 25% withholding tax. The Ministry of Finance publishes the list of jurisdictions with a preferential tax system. Technical services fees and branch remittance tax are not subject to withholding tax.

Capital gains

Capital gains are subject to a 15% tax for residents (included in the annual income tax return) and 20% for non-residents (based on the tax assessment) unless the rate is reduced under a tax treaty.

Taxation of Dividends

Dividends paid by a Serbian resident company to another Serbian company are exempt from corporate income tax. Dividends received by a Serbian resident company holding at least 10% of the shares in a non-resident representative office are eligible for a credit for foreign tax paid on the dividends. Payment of intercompany dividends between Serbian resident companies is tax exempt.

Anti-Avoidance Rules

Transfer pricing – transactions between associated entities must be on arm's length terms.

Under the thin capitalization rules, interest and related expenses are deductible on loans that do not exceed taxpayer's equity 4 times for companies and 10 times for banks. In addition, under the transfer pricing rules a taxpayer must demonstrate that interest that is deductible under the thin capitalization rules is at an arm's length level. Otherwise, an adjustment of taxable income may be required.

Companies are considered related if one company has the ability to control or influence the business decisions of the other company or if a company holds at least 25% of the shares or votes in the governing body of the other company.

Additional Information

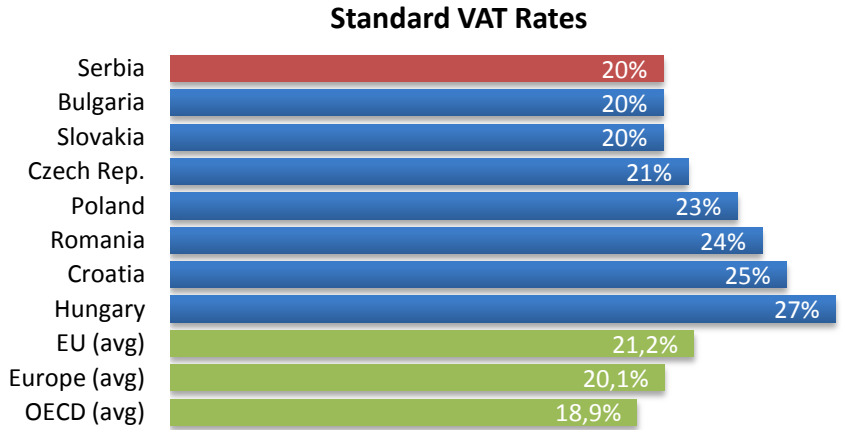
Resident company may elect for group status and file a consolidated return. Companies are considered a group where parent company owns at least 75% of the shares or stocks of another company. The parent company file a consolidated tax return in which gains and losses of group companies are offset and each company pays its share of the tax. Once initiated, tax consolidation must be applied for 5 years.

Deductibility of marketing expenses is capped at 10% of gross revenue. Entertainment expenses are treated separately and are deductible up to the limit of 0.5% of gross revenues.

Stamp duty is payable according to a tariff based on the value of the document. If there is no value, a flat rate applies.

Real property tax is levied on immovable property located in Serbia at 0.4% rate of book value.

For transfer of property (e.g. real property, intellectual property, etc.) a 2.5% tax rate applies.



Source: Deloitte; (avg) KPMG

Value Added Tax

VAT is imposed on the provisions of goods and services.

Tax	Rate	Recurrence	Possible incentive
VAT	20% - standard 10% - lower	monthly	import VAT return for export of finished goods import VAT exempt in free trade zones

The lower rate of 10% is for basic food, daily newspapers, utilities, etc. **Zero rate** is applied for export of goods, transportation and other services in direct relation to export, transit or temporary import of goods, entry of goods in free zones and transportation of and other services in relation to the entry of goods into the free zones, supplies within the free zone, services performed on movables obtained by a foreign user of the service in Serbia or imported for the purpose of inward processing, repairing or incorporating and then exporting, etc.

The registration threshold for VAT purposes is an annual turnover of RSD 8 million (app. EUR 69,000).

VAT taxpayers with taxable income above RSD 50 mil, taxpayers who apply tax accounting scheme as well as start-ups are required to file monthly VAT returns within 15 days after the end of the tax period and pay the difference between the amount specified in the tax return and the input VAT incurred. VAT taxpayers with taxable income below RSD 50 mil must file quarterly VAT returns within 20 days after the end of the tax period. Refund period is 45 days (for major exporters 15 days).

Non-residents are not allowed to deduct input VAT through fiscal representatives. It is not possible for group of companies to register as a single VAT entity (tax grouping).

Individual Taxation

Basis

Serbian residents are taxed on their worldwide income; non-residents are taxed only on income generated in Serbia. For income tax purposes, an individual is considered resident if he/she has a residence or center of business or stays in Serbia for at least 183 days in the total during the tax year.

Tax	Rate	Recurrence	Possible Incentive
Salary Tax	10%	monthly	3 - year holiday for hiring apprentices 2 - year holiday for hiring unemployed workers
Annual Income Tax	10% - 3x-6x average salary 15% - over 6x average salary	yearly	

The principal taxable forms of income are employment income (10%), business income (10%), royalties and rent, (20%) and capital gains (15%). Residents receiving income of 3 or more times the annual average earnings in the tax year are subject to annual income tax under the worldwide system.

Salary tax is paid under the PAYE system, whereby tax is deducted at source by the employer and salary tax rate is applied on gross salary (net salary + SSC). Non-taxable income threshold is RSD 11,000 (app. EUR 96).

Mandatory Social Security Contributions *(Recurrence - Monthly)*	On Behalf of Employer	On Behalf of Employee
Pension and disability insurance	11%	13%
Health insurance	6.15%	6.15%
Unemployment insurance	0.75%	0.75%

Total costs for employers stand at merely 50% of the level in EU countries from Eastern Europe. Social insurance charges and Salary Tax amount to roughly 65% of the net salary but the tax burden for employers can be reduced through a variety of financial and tax incentives available.
Other income is self-assessed. Individuals must file a tax return or pay withholding tax depending on the type of income. Spouses are taxed separately.

The rates dues by the self-employed are 22% for Pension and disability insurance, 12.3% for Health insurance and 1.5% for Unemployment insurance. Pension and disability insurance SSC rate related to other types of personal income (eg. Service Agreement) is 24%.

Other Taxes

Transfer tax of 2.5% applies on transfer of immovable property (i.e. intellectual property, real property, etc).

Property tax is levied on the occupation of real estate at rates determined by local municipalities (maximum is 0.4%).

Signboard tax is also levied by local municipality and depends on city zone and size of a company. Entrepreneurs and small companies with annual revenues under RSD 50 mil are exempt from payment.

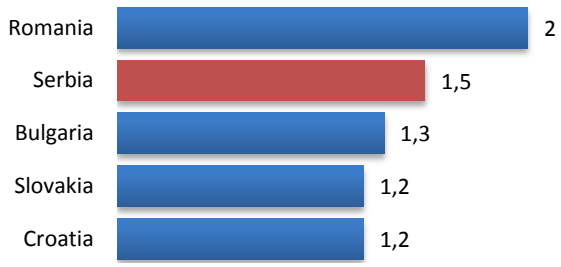
Educated and Skilled Labour

A wide availability with a unique combination of **high quality and low costs** makes Serbian workforce one of the key factors in reaching a strong business performance.

Educational centers in Serbia boast a **well educated, fast learning, multilingual** and **IT-literate labor force**. The labor supply in Serbia annually increases by approximately 35,000 universities and colleges' graduates, 1,000 Masters of Science, 400 PhDs and 75,000 high school graduates which are sufficient to meet the growing demand of international companies. Of the total number of graduates, technical universities account for approximately 30%.

The **percentage of English speakers** in Serbia is the **highest in Eastern Europe**.

Number of Foreign Languages Learned

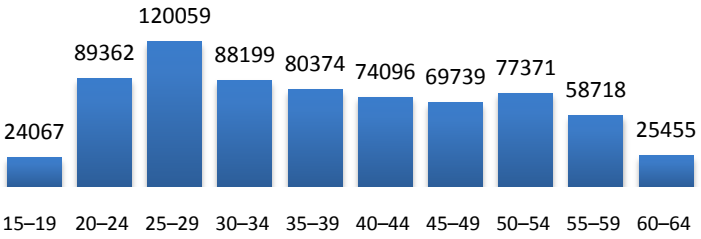


Source: Manpower Serbia, Sep 2012

Management education has also been improved by the introduction of joint graduate and post-graduate courses organized by local universities and renowned Western business schools. In addition, there is also a significant number of Serbian experts, returning to the country after gaining top-quality expertise in international companies around the globe.

The labor market in Serbia has become truly vibrant as a rising number of international investors have opened their businesses in the country. Nevertheless, the percentage of employees actively seeking a job change is 28%, which is lower than the most regional peers surveyed by GfK. Combined with a high unemployment rate (25% in Apr 2013) this leads to low attrition rate and higher professional loyalty.

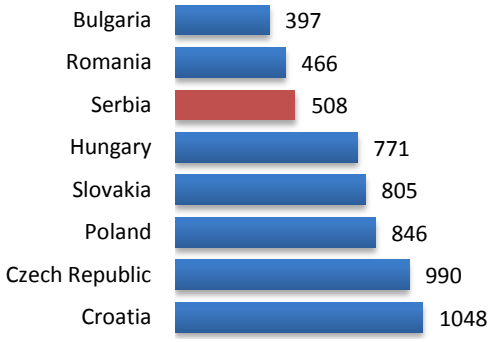
Unemployed by Age in Serbia (Apr 2013)



Source: National Statistics Office of Serbia

Average Salaries and Wages in Serbia *(Aug 2013)*	Gross (EUR)
REPUBLIC OF SERBIA - TOTAL	**540**
Agriculture, forestry and fishing	467
Mining and quarrying	866
Manufacturing	467
Electricity, gas, steam and air conditioning supply	935
Water supply, sewerage, waste management and remediation activities	481
Construction	444
Wholesale and retail trade and repair of motor vehicles and motorcycles	398
Transportation and storage	557
Accommodation and food service activities	300
Information and communication	806
Financial and insurance activities	960
Real estate activities	580
Professional, scientific and technical activities	759
Administrative and support service activities	376
Public administration and defense; compulsory social security	681
Education	522
Human health and social work activities	535
Arts, entertainment and recreation	523
Other service activities	386

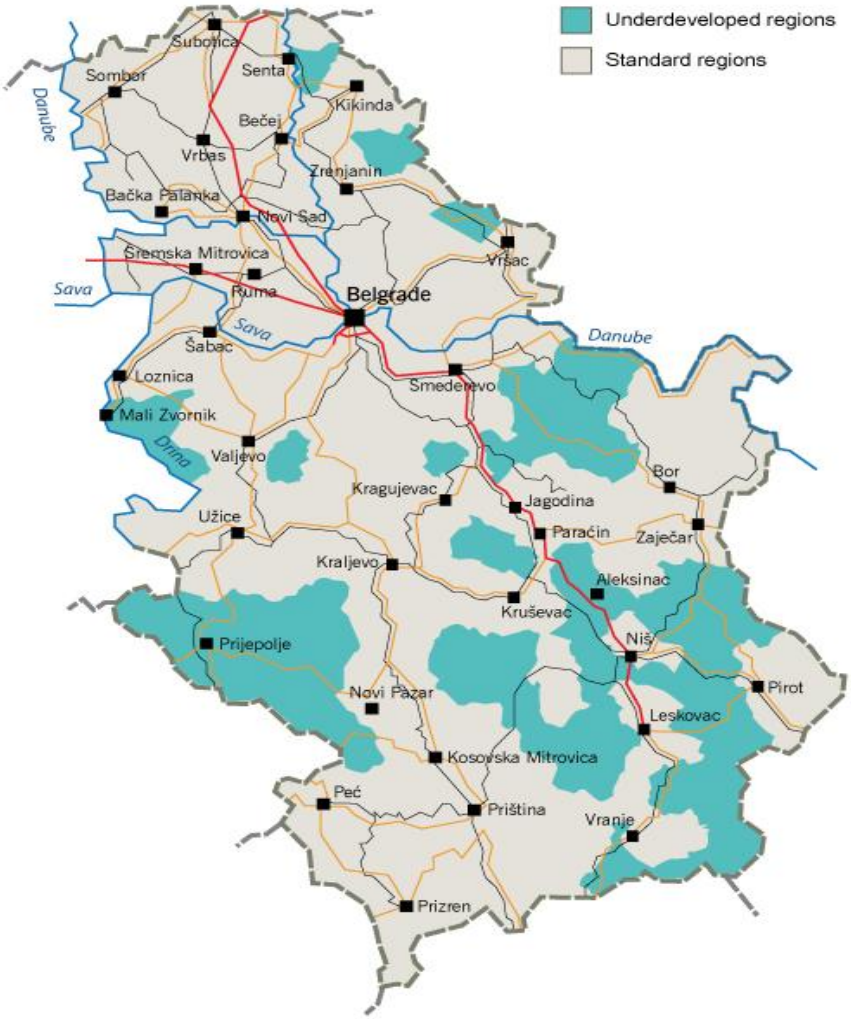
Average Gross Monthly Salary (EUR)



Investment Incentives Outline

Financial Incentives	Tax Incentives	Other Incentives
•State Grants for Greenfield and Brownfield Projects •The National Employment Service Grants	•Corporate Income Tax Holiday •Corporate Income Tax Credits •Carrying Forward of Losses •Avoiding Double Taxation •Salary Tax Social Insurance Charges Exemptions •Annual Income Tax Deductions •Value Added Tax Exemptions in Free Zones	•Customs-Free Imports of Raw Materials and Semi Finished Goods •Customs-Free Imports of Machinery and Equipment •Local Incentives

Investment Incentives by Regions



Source: SIEPA

Financial Incentives

State Grants for Greenfield and Brownfield Projects

Costs of investment projects in Serbia can be reduced as a result of highly competitive and diverse investment incentives. Based on the Serbian Government Decree and provided by the budget of the Republic of Serbia state grants are offered for Greenfield and Brownfield projects in all industries except primary agriculture, hospitality industry, retail and the production of synthetic fibers and coal.

Up till now, foreign and local companies have been approved EUR 252 millions of nonrefundable funds for the projects exceeding EUR 1.3 billion providing for 44,046 new jobs in Serbia. This incentive scheme has already benefited a large number of world-class companies, namely Michelin, Yura Corporation, Golden Lady, Gorenje, Henkel, Kronospan, Leoni, Pompea and many more.

"The leading factor was the availability of technical talent in Serbia, the cost of doing business. The other factor was the reputation that Serbian engineers have created in Microsoft."

Bodin Dresevic, Director of Development Microsoft

STANDARD-SCALE PROJECTS				
	Manufacturing		**Internationally Marketable Services**	**Tourism**
Eligible Investments	Investments in underdeveloped regions (4th group) and devastated regions	Investments in 1st, 2nd and 3rd group of local administrations	Investments in all regions of the Republic of Serbia	Investments in strategic projects in all regions of the Republic of Serbia
Grant Amount (EUR)	EUR 4,000 –10,000/ per job created			
Investment Amount	EUR 0.5 mil	EUR 1 mil	EUR 0.5 mil	EUR 5 mil
Minimum Number of New Jobs Created	50	50	10	50

LARGE-SCALE PROJECTS				
Eligible Investments	**Investment of Special Importance**	**Large Investment Projects**		**Mid-Sized Investment Projects**
Grant Amount (EUR)	Up to 17% of the total investment	Up to 17% of the total investment	Up to 20% of the total investment	Up to 10% of the total investment
The Minimum Investment Amount	EUR 200 mil	EUR 100 mil or greater	between EUR 50 mil and EUR 100 mil	EUR 50 mil
The Minimum Number of New Jobs Created	1,000	300	300	150

The National Employment Service Grants

In addition to funds aimed at attracting Greenfield and Brownfield foreign investments, the National Employment Service is also providing several programs regarding endowments for employers.

Program	Grant Amount per Employee
Employment Subsidies Program	EUR 850-1,700
Apprentice Program	EUR 170-210
Re-Training Program	EUR 850

Source: National Employment Service

Tax Incentives

Highly competitive tax regime accompanied with a number of related incentives makes Serbia highly conducive to doing business.

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 EUR 9 million, and throughout the investment period they employ at least 200 additional employees.

Corporate Income Tax Credits

The amount of tax payable can be reduced by 20% of the amount invested in fixed assets for the respective tax period. This reduction cannot exceed 33% 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 10 years. For small companies, tax credit of 40% is granted for fixed assets investments in the current year and may not exceed 70% of the tax due.

Carrying Forward of Losses

Net operating losses stated in the tax return can be carried forward for 5 years. Capital losses may be carried forward and offset against future capital gains over a period up to 5 years. The carryback of losses is not permitted.

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

A company who hires new personnel from certain categories of workers on a permanent basis is exempt from paying salary tax over the period of 3 or 2 years.

The employer is exempt of paying SIC for a period of **3 years** for apprentices aged fewer than 30 registered as unemployed by the National Employment Service and for disabled persons.

In case of employees under 30 registered as unemployed for no less than 3 months, those aged 50 or older registered as unemployed for no less than 6 months and received unemployment compensations as well as all employees aged between 45-50 the release period would last **2 years**.

Serbian National Employment Service revises the programs annually.

Double Taxation Agreements Concluded by Serbia	
Albania	Kuwait
Austria	Latvia
Azerbaijan	Libya
Belgium	Lithuania
Belorussia	Macedonia
Bosnia & Herzegovina	Malaysia
Bulgaria	Malta
Canada*	Moldova
China	Montenegro
Croatia	Netherlands
Cyprus	Norway
Czech Republic	Pakistan
DPR Korea	Philippines*
Denmark	Poland
Egypt	Qatar
Estonia	Romania
Finland	Russia
France	Slovakia
Ghana*	Slovenia
Georgia*	Spain
Germany	Sri Lanka
Greece	Sweden
Guinea*	Switzerland
Hungary	Tunisia*
India	Turkey
Indonesia*	Ukraine
Italy	UAE*
Iran	UK
Ireland	Zimbabwe*
**Signed, to be confirmed by Parliament*	
DTA's with Botswana, Vietnam, Zambia, Armenia, Jordan, South Africa and Morocco are initialled , while negotiations are under way with Luxembourg, North Korea, Myanmar Union, Nigeria and Syria.	

Source: Ministry of Finance and Economy

Annual Income Tax Deductions

The annual income tax due by Serbian residents on net worldwide income in excess of a prescribed threshold (3 average annual salaries) is levied at progressive rates ranging from 10% to 15%. 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 amounted in the range between 3 and 6 times average annual salary in Serbia, and 15% for the part of the annual income exceeding 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.

Value Added Tax Exemptions in Free Zones

Income generated through commercial activities in the Free Zones in Serbia is exempted from Value Added Tax. At present, there are 11 Free Zones operating in the following cities: Subotica, Novi Sad, Zrenjanin, Sabac, Kragujevac, Uzice, Nis, Smederevo, Krusevac, Svilajnac and Pirot. Foreign companies can establish a privately-owned Free Zone based on the project approved by the government. Earnings and revenues created within a Zone can be transferred to any country, including Serbia, freely without any prior approval, and are not subject to foreign trade regime.

Among more than 600 zones from more than 100 countries participating in the assessment by FDI Magazine Financial Times, two Serbian Free Zones, Pirot and Zrenjanin, entered the final ranking of top global zones for FDI in 2012/2013.

"There are huge potentialities in Serbia as it is located on major European transportation corridors, it represents one of the largest fast growing markets in South East Europe, while regulatory and business conditions are improving every day. Foreign investors have huge support from all relevant Ministries, on equal basis as Serbian entities."
Kamil Beffa, Director Lafarge BFC

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.

In the Serbian **Province of Vojvodina**, investors are awarded financial grants for new employment, amounting to RSD130,000 (approx. EUR 1,122) with the possibility of receiving additional RSD 20,000 (approx. EUR 173) for employing person older than 50 years old, this totals RSD 150,000 (approx. EUR 1,295).

Investment Basics

Foreign investors may conduct their business activities on the territory of Serbia under the same conditions as domestic investors (national treatment). The rights of foreign investors applicable at the moment of registration of foreign investment into the Companies Registry may not be restricted by subsequent amendments of laws and other regulations.

The Law on Foreign Investments enables import of equipment (except for motor vehicles, casinos and entertainment machines) to be exempted from paying customs duties. According to this Law, the contribution of a foreign investor and assets of an enterprise with foreign ownership interest cannot be subject to expropriation or another measure with equal effect, except in the case when public interest is specified in the law or on the basis of the law and with compensation.

Foreign investments are protected by the Constitution, the Law on Foreign Investments, the Foreign Exchange Operations Law and the Law on Free Zones. The Law on Foreign Investments guarantees the following rights to the foreign investors:

- the restitution of investment, or the remainder of investment in case of premature termination, expiry or termination of the investment agreement, or dissolution of company;
- a share in equity and its restitution in case of dissolution of company;
- unrestricted transfer of profits abroad, restitution of investment and share in equity (also provided by the Foreign Exchange Operations Law) after all obligations towards the State are settled.

Foreign Exchange Operations Law stipulates that payments must be documented for funds to be transferred abroad and foreign loans must be registered within the National Bank of Serbia.

Financial statements must be prepared annually and in accordance with IAS/IFRS accounting principles.

Legal Framework

Serbia's law equalizes the rights and responsibilities of domestic and foreign investors, with full legal security and protection of rights acquired by virtue of investment. A foreign investor (foreign legal entity whose seat is abroad, foreign natural person, or national of Serbia having domicile or residence abroad for a period exceeding one year) has the right to:

- Control or take part in the management of the company he has founded or in which he has invested his capital;
- Transfer the rights and obligations (set out in the investment contract or the founding act) to other foreign or domestic persons;
- Share and freely dispose of the income accruing from his investment;
- Inspect the books and business operations of the company in which he has invested;
- Audit the interim and annual financial statements, either personally or through an authorized representative;
- Freely and without delay transfer financial and other assets related to the foreign investment (incomes, dividends, additional payments, property upon dissolution of the enterprise etc.) abroad in a convertible currency.

A foreign investor is also allowed to buy real estate – business premises and apartments, provided the reciprocity condition is met.

Law on Urban Planning and Construction has been fully harmonized with the EU legislation and accompanied with the reforms to the land registry system. A foreign investor (as well as a domestic investor) may acquire the construction land from its legal owner. Moreover, based on the Government Decree, local self-governments in cities and municipalities will be able to sell or lease the urban construction land in its ownership below the market price or even give it for free to an investor that will increase the number of employees within the industry/municipality.

Investment may be made by founding a new company, or by expanding the capital of an existing domestic company. The acquisition of shares in the initial capital of a company, or any other property right through which a business interest in Serbia is realized, is considered foreign investment, as well.

Business start-up

The entire business registration process is simplified and tailored to meet the requirements of the type of a company one wishes to establish.

The business registration procedure in Serbia currently takes a **maximum of 5 days**, down from previous 23. Company types in Serbia are similar to those in developed economies. One can incorporate a business as a Joint Stock Company, Limited Liability Company, General Partnership or Limited Partnership.

Doing Business in Serbia in 2013, World Bank Annual Report

Doing Business 2013 is the 10th in a series of annual reports investigating the regulations that enhance business activity and those that constrain it across 185 economies and over time. Regulations affecting 11 areas of the life of a business are covered: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts, resolving insolvency and employing workers. The indicators are used to analyze economic outcomes and identify what reforms of business regulation have worked, where and why.

Serbia made it to the list of ten economies improving the most, up by 9 places from last year's 95th position.

THE 10 ECONOMIES IMPROVING THE MOST ACROSS 3 OR MORE AREAS MEASURED BY *DOING BUSINESS* IN 2011/12

			Reforms making it easier to do business									
	Economy	Ease of doing Business rank	Starting a business	Dealing with construc-tion permits	Getting electicity	Registering property	Getting credit	Protecting investitors	Paying taxes	Trading across borders	Enforcing contracts	Resolving insolvency
1	Poland	55				✓			✓		✓	✓
2	Sri Lanka	81	✓			✓	✓			✓		
3	Ukraine	137	✓			✓			✓			
4	Uzbekistan	154	✓				✓			✓		✓
5	Burundi	159	✓	✓		✓				✓		
6	Costa Rica	110	✓	✓			✓		✓			
7	Mongolia	76	✓				✓	✓				
8	Greece	78		✓				✓				✓
9	Serbia	86	✓								✓	✓
10	Kazakhstan	49	✓				✓					✓

- Starting a business: Serbia made starting a business easier by **eliminating the paid-in minimum capital requirement**.
- Enforcing contracts: Serbia made enforcing contracts easier by **introducing a private bailiff system**, providing competitive options for enforcing a binding decision. The winning party in a commercial case may now choose between private and court bailiff s to carry out enforcement proceedings.
- Resolving insolvency: Serbia strengthened its insolvency process by introducing private bailiff s, reducing the starting prices for the sale of assets, prohibiting appeals, expediting service of process and adopting an electronic registry for injunctions to make public all prohibitions on the disposal or pledge of movable or immovable property

EU Integration

April 2005: Serbia and Montenegro received a positive Feasibility Study Report on its capacity to implement European standards required for EU accession.

October 2005: Serbia and Montenegro commenced official negotiations with the EU on the Stabilization and Association Agreement (SAA), which was the first step toward full membership in the EU.

December 2006: Serbia signed the agreement on membership in the NATO program Partnership for Peace.

May 2008: Serbia concluded the Stabilization and Association Agreement with the European Union ratified by the EU Parliament in *January 2011.*

End of 2009: the Government of Serbia submitted a request for membership in the EU, forwarded to the European Commission in *October 2010*.

January/April 2011: Serbia submitted the answers to the EC questionnaire which is an important milestone on the country's path towards the EU.

March 2012: The European Council has granted Serbia membership candidate status.

January 2014: Beginning of accession negotiations.

Contact

Our business group supports foreign companies seeking to relocate facilities or expand in Serbia by providing true one-stop-shop service in pre-investment analysis, during the transaction as well as project aftercare.

If you need any further information and experienced and trustworthy local partner, do not hesitate to contact us.

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