



NEWSLETTER 03/2018

Topics covered in this newsletter are the following:

1.	Amendments to the Corporate Income Tax Law	1
2.	Amendments to the Personal Income Tax Law	2
3.	Amendments to the Law on Social Security Contributions	3
4.	Amendments to the Property Tax Law	3

1. Amendments to the Corporate Income Tax Law

Amendments to the Corporate Income Tax (CIT) Law are published in the Official Gazette of the Republic of Serbia No. 95/2018 dated 8 December 2018. The most important changes are presented below.

- It is prescribed that tax depreciation of fixed assets classified in tax depreciation groups II-V, except intangible assets, will be calculated by using straight-line method, whereby depreciation rate would be calculated on the base that represents purchase value of every fixed asset separately, instead of the currently valid degressive method. In case where fixed assets are acquired during the tax period, tax depreciation will be determined on pro rata basis, from time it is acquired until the end of tax period;
- If the depreciation costs of fixed assets calculated in accordance with the accounting rules, are lower than the amount of depreciation costs calculated by using tax depreciation rates, accounting depreciation will be recognized as a tax-deductible cost in the tax period. However, depreciation of intangible assets will be always recognized in the amount of accounting depreciation costs. These changes will be applied as of 1 January 2019, i.e. the first day of tax period that starts in 2019;
- Fixed assets classified into groups II-V, which were acquired until the beginning of the application of the new rules, will continue to be amortized according to current rules by applying the degressive method, ending in 2028;
- Advertising expenses will be recognized without restriction in amounts recorded in the income statement, and not only in the amount of 10% of total revenue. Abolition of this limit will encourage demand for taxpayer's goods and services;
- Costs directly related to research and development (R&D) carried out by the taxpayer in Serbia may be deducted for CIT purposes in a doubled amount. These amendments will encourage R&D activities, which will have direct effect on competitiveness of domestic goods;
- The effects of change in accounting policy arising from the first implementation of IAS, i.e. IFRS and IFRS for SME, which may cause the correction of the respective positions in the balance sheet, will be recognized as income, or expense in tax balance;
- The qualified royalty income generated by the taxpayer, holder of a copyright or related right on the basis of compensation for the exploitation of the rights, may be excluded from tax base in the amount of 80%, under certain conditions;
- The subject of capital gain tax has been extended to the intellectual property rights;



NEWSLETTER 03/2018

- Only 20% of capital gains arising from the sale of the entire copyright and related rights, or rights related to the invention will be included in the taxable base;
- Taxpayer who makes equity investment into newly established business entity, which performs innovative activities, will be granted tax credit in the amount of 30% of the investment made, under certain conditions;
- If resident taxpayer realizes capital gains from a sale of assets in another country then it has a right to use a tax credit in the amount of tax paid in that country, but this amount cannot exceed the amount of tax that would be calculated by applying local rules;
- The above amendments would apply for the purpose of calculating the CIT for the year 2019.

2. Amendments to the Personal Income Tax Law

Amendments to the Personal Income Tax (PIT) Law are published in the Official Gazette of the Republic of Serbia No. 95/2018 dated 8 December 2018. The most important changes are presented below.

- The new tax exemption is introduced for benefits that employee receives from employer or employer's related parties, without compensation or at the beneficial price, based on the own shares, share options or stakes in the employer's related parties, with certain restriction related to the disposal and repurchase of own shares and termination of the employment relation;
- Tax exemption is introduced for the help in the case of child's birth, up to the amount of the average salary paid in Serbia, per new-born child;
- Tax exemption is prescribed for expenses for the purpose of creating and maintaining recreation of employees at their workplace, compensation for the costs of collective recreation of employees, including organizing sports and other activities for employees in order to improve their health and / or to build better interpersonal relationships among them (team-building), only if recreational activities are carried out in accordance with the employer's internal policies and if all employees have the right to participate in recreation of the same type, quality and volume;
- Tax and SSC exemptions in the first business year of the newly established company or entrepreneur have been expanded to the newly established entrepreneur - agriculturist while this tax exemption is revoked for newly employed persons. The condition for the use of the exemption is that monthly net salary of the founder, entrepreneur and entrepreneur - agriculturist does not exceed amount of RSD 37,000 (approx. EUR 315);
- Natural person is obliged to pay tax on income generated from the services of renting of apartments and rooms for a period longer than 30 days, which are not considered hospitality services. The tax base is calculated as a gross income reduced for 25% of standardized costs;
- It is prescribed that hospitality income assumes the income that natural person generates from providing hospitality services in a hospitality domestic facility (house, apartment and room) and in countryside tourist facility. The tax is paid in accordance with the Decision of the Tax Authority, and the taxpayer is a natural person who generates income, while taxable income for the respective calendar year amounts to 5% of the average monthly salary per employee in Serbia in the year preceding the year for which the tax is determined, multiplied by the number of individual beds, or camping plots and with corresponding



NEWSLETTER 03/2018

coefficient of tourist place category. The above income is subject to the annual income tax;

- Above mentioned amendments will be effective from 1 January 2019, except changes related to the taxation of income generated from renting of apartments and rooms for a period exceeding 30 days and income from hospitality services, that will be effective from 1 July 2019, and exemption for the help in the case of child's birth which will be effective from 16 December 2018.

3. Amendments to the Law on Social Security Contributions

Amendments to the Law on Social Security Contributions (SSC Law) are published in the Official Gazette of the Republic of Serbia No. 95/2018 dated 8 December 2018. The most important changes are presented below.

- Obligation of the payment of SSC for unemployment insurance on behalf of employer is abolished;
- The new amendments of the SSC Law narrow the framework of work for founders and members of the legal entity, where, besides the employment, the representation of the company on the basis of registration is also considered as work, while the provision that defines work as performance of management activities is deleted;
- The method of determination and period of application of minimal and maximal monthly SSC base has been changed, whereas the SSC base is determined on the basis of paid salaries in the period for the previous 12 months starting from October (not from November as it was before) in the current year, and will apply from the first day of the month following the publication of this amount by the Ministry of Finance;
- The SSC Law prescribes new SSC exemption on salaries paid to founders, entrepreneurs and newly established entrepreneur – agriculturists in the first business year, if net salary does not exceed amount of RSD 37,000 (approx. EUR 315);
- The category of the estimated maximal annual SSC base is abolished, and the amount of the maximal annual SSC base is determined as the sum of the 12 maximal monthly SSC bases;
- It is specified that if the period for which the SSC is calculated is shorter than a month or when the employee is working part-time, and the conditions for the application of the maximal monthly SSC base are met, SSC should be calculated on the maximal monthly SSC base.

4. Amendments to the Property Tax Law

Amendments to the Property Tax Law are published in the Official Gazette of the Republic of Serbia No. 95/2018 dated 8 December 2018. The most important changes are presented below.

- It is defined that component part of the land for purposes of taxation with property tax will be, inter alia, trails and other open spaces covered with slag, asphalt, concrete, etc., along with open parking spaces, fences, retaining walls, playgrounds, etc;
- It is defined that for the purpose of taxation with property tax, the component part of the object would also be networks - lines incorporated in the object, as well as those that connect the object and place of connection to the network;



NEWSLETTER 03/2018

- Branch office of non-resident legal entity carries out self-assessment of tax liability and submits a tax return for non-resident's immovable property in the Republic of Serbia that branch office use (determines, declares, submits tax returns and pays tax);
- For the purpose of determining taxable base, the term "Other land" has been introduced;
- By decision of a local municipality, undeveloped construction land can be classified as agricultural / forest land for taxation purpose if it is exclusively used for cultivating plants or forests;
- The group of taxpayers who have the right to use purchase value as the tax base for acquired or newly built real estate, is narrowed;
- Taxable event for immovable property and parts of the immovable property for surface higher than 500m². which are in construction process, is specially regulated;
- Possibility of tax return submitting over the notary public office, for person who acquires or disposes the right over immovable property on the basis of the document drafted, certified and notarized by the notary public;
- The above amendments would apply for the purpose of calculating property tax for year 2019.

NEWSLETTER 03/2018



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