

Serbia 2023: A Guide to Tax Benefits and Incentives



Contents

Cash Grants	3
Construction Land Transfer Subsidy	6
Corporate Income Tax Relief	6
Payroll Tax Incentives	6
Tax Credit for International Dividends and Paid Corporate Income Tax	7
Enhanced Deduction for R&D Expenditure.....	7
Exemption for Royalty Income.....	7
Tax Incentive for Investing in Innovation.....	7
Double Taxation Treaties.....	7
Trade Agreements and General System of Preference	8
Free Zones.....	9

Serbia 2023: A Guide to Tax Benefits and Incentives

An investor who intends to realize an investment project shall submit to Development Agency of Serbia (RAS) an application for funds granting in the prescribed form.

Cash Grants

To offset initial capital investments and ease the start-up of business endeavours, the Government of Serbia offers financial support for Greenfield and Brownfield projects in the manufacturing sector and services, which may be subject to international trade.

WHO IS ELIGIBLE FOR INCENTIVES?

Financial incentives from the State may be awarded for financing Greenfield or Brownfield investment projects in the Manufacturing sector in compliance with Regulation on determining the criteria for granting the incentives.

The application should be submitted by an investor that is domestic or a foreign company, applying for incentive granting through the Beneficiary which is a party related to it and has its seat in the Republic of Serbia.

WHEN AND WHERE TO APPLY FOR INCENTIVES?

An investor who intends to realize an investment project shall submit to [Development Agency of Serbia \(RAS\)](#) an application for funds granting in the prescribed form. The application must be submitted prior to commencing the realization of the investment project. Investments and employment realized before the day of submitting the application to RAS will not be considered a part of the investment project, and for those activities, funds cannot be granted.

The investor who intends to invest may deliver to RAS a Letter of Intent relating to the realization of an investment project. The Letter contains in particular data on the investor, the economic activity, previous investment activities, and planned investment project. Based on the information provided in the Letter of Intent, the RAS shall deliver a notification to the investor on the possible level of incentives, which is legally non-binding. The final Decision on allocation and level of incentive funds shall be issued by the Council for Economic Development after the investor submits an Application form and a business plan.

WHAT TYPES OF INCENTIVES CAN BE GRANTED?

- ▶ Investments in material and non-material assets starting from the submission date of the application for incentive granting until the expiration date of the period for realization of investment project;
- ▶ Gross salaries for the newly employed persons over the period of two years after the achievement of full employment with the beneficiary of incentive funds.

WHICH INVESTMENT PROJECTS ARE ELIGIBLE FOR INCENTIVES?

Minimum amount of investment in the production sector relates to the NUTS region where the investment project takes place:

NUTS 2 Region	Minimum number of new employees	Minimal investment
Belgrade Region	50	€ 500.000
Vojvodina Region	40	€ 400.000
Šumadija and Western Serbia	30	€ 300.000

Minimum investments in the projects relating to services provided by service centres:

Minimum number of new employees	Minimal investment
15	€ 150.000

TYPE AND LEVEL OF INCENTIVES

NUTS 2 Region	Percentage of 2-year gross salaries*	Maximum per new job created**
Belgrade Region	20%	2.000 €
Vojvodina Region	25%	3.000 €
Šumadija and Western Serbia Region, Southern and Eastern Serbia Region and Kosovo and Metohija Region	30%	5.000 €

* Agreed salary represents the basic salary of the newly employed persons which is at least 20% higher than the minimum wage in compliance with the regulations governing employment

** It is exclusive corrective criteria used only in situations when the level of incentives, calculated by the percentage of 2-year gross salaries, surpasses the maximum level of incentives per new job created

Incentives for eligible investment costs in material and non-material assets

The beneficiary of the incentives implementing the investment project can be granted an increase in the amount of funds from the previous table in the amount of up to 30% of the amount of eligible investment costs in material and non-material assets, as follows:

NUTS 2 Region	Percentage of increase of the amount of funds
Belgrade Region	10%
Vojvodina Region	15%
Šumadija and Western Serbia Region, Southern and Eastern Serbia Region, and Kosovo and Metohija Region	30%

Additional incentives for labour-intensive investment projects

Number of newly created jobs	Percentage of increase of 2-year gross salaries
101 - 200	10%
201 - 500	15%
500+	20%

DEADLINE FOR REALISATION OF INVESTMENT PROJECTS

The deadline for realization of investment projects and employment of new employees related to the investment project is up to 3 years from the submission date of the application for incentive funds granting, and for the investments for investments exceeding 5 million euros is up to 10 years from the submission date of the application for incentive funds granting.

After the investment project is being realized a beneficiary of incentive funds is obliged to maintain direct investment in the same location in the local self-government unit and not to reduce the number of employees over 5 years for the large companies or over 3 years for the small and medium-sized companies.



Construction Land Transfer Subsidy

Government or the local municipality can sell construction land at a price that is lower than the market price in support of an investment project that is of national importance (if the land is owned by the government), or an investment project that promotes local economic development (if the land is owned by the local municipality).

Corporate Income Tax Relief

A 10-year Corporate Profit Tax Holiday is available for investors who hire more than 100 employees and invest more than 8.5 million EUR (1 billion RSD). Tax holiday begins once the company starts making a profit.

Payroll Tax Incentives

Employment of people who were registered with the [National Unemployment Agency](#) for more than 6 months entitles employers to a sizable relief of taxes paid on net salary from the moment of employment:

- ▶ 1-9 new jobs: 65% reduction
- ▶ 10-99 new jobs: 70% reduction
- ▶ 100+ new jobs: 75% reduction

(payroll tax incentives can't be combined with Financial Incentives)



Tax Credit for International Dividends and Paid Corporate Income Tax

A company based in Serbia may offset tax on dividends received from abroad and the corporate income tax paid overseas by its foreign subsidiary. This is applicable when the Serbian entity owns a minimum of 10% of the foreign subsidiary's shares for a year prior to tax return submission. For ownership below 10%, the credit is limited to the Serbian tax amount due on the income, calculated as 40% of the total gross income received. This credit may be carried forward for five years if not fully utilized.

For taxes paid on foreign interest and royalty fees, resident companies can similarly reduce their tax obligations, with the same limitations based on 40% of the gross income received. However, carry forward of any remaining credit is not permitted.

Enhanced Deduction for R&D Expenditure

Expenditures for research and development conducted within Serbia are eligible for a double deduction from corporate income tax. This benefit excludes costs associated with extractive sectors such as oil, gas, or mineral exploration.

Exemption for Royalty Income

Holders of copyrights or equivalent rights registered in Serbia can deduct 80% of their eligible royalty income from their taxable income. This is after accounting for any research and development expenses related to the creation of the copyrighted material or similar rights.

Tax Incentive for Investing in Innovation

Contributions to start-up companies engaged in innovative activities are rewarded with a tax credit. Investors can claim a credit worth 30% of their investment amount, capped at RSD 100 million.

Double Taxation Treaties

Serbia boasts more than 60 active agreements to prevent double taxation, encompassing various forms of income, capital, and estates. Its network extends beyond Europe, engaging numerous nations across Asia and Africa. Intriguingly, these agreements not only prevent fiscal duplication but also enhance bilateral economic relationships, positioning Serbia as a favourable destination for international investment. Additionally, Serbia's adherence to the OECD model convention and its participation in the Multilateral Convention exemplify its commitment to global tax standards and economic integration.

Trade Agreements and General System of Preference

Serbia has a variety of trade agreements and benefits from the General System of Preferences (GSP) with several countries and regions:

- ▶ The Republic of Serbia and the People's Republic of China officially signed a Free Trade Agreement (FTA) on 17 October 2023
- ▶ It is part of the Central European Free Trade Agreement (CEFTA) since December 2006, which includes several Eastern European countries.
- ▶ There is a preferential customs regime with the EU, thanks to the Stabilization and Association Agreement, which has facilitated Serbia's legislative reforms.
- ▶ The United States had granted Serbia GSP status, providing duty-free access for various goods, although the GSP program expired in December 2020 and has not been renewed as of mid-2023.
- ▶ Serbia has bilateral free-trade agreements with Russia, Belarus, Kazakhstan, Turkey, and the European Free Trade Association (EFTA) members.
- ▶ Japan has included Serbia in its own GSP, offering preferential duties on imports.
- ▶ A Free Trade Agreement with the Eurasian Economic Union (EAEU) was signed in October 2019 and came into force in July 2021.
- ▶ The Open Balkan initiative, which Serbia is a part of, aims to create a larger economic zone with North Macedonia and Albania, with an agreement to allow unrestricted movement of citizens and goods starting from January 1, 2023.



Free Zones

In Serbia, free zones are designated areas where businesses can benefit from a special tax regime, including exemption from Value Added Tax (VAT) on income derived from commercial activities. These zones provide a conducive environment for operations, offering streamlined procedures for land acquisition, strategic geographic locations, and ready infrastructure. Fifteen industrial zones in Serbia hold licenses as free customs zones:

- | | |
|------------------------|---------------|
| 1. Pirot | 9. Smederevo |
| 2. Subotica | 10. Svilajnac |
| 3. Zrenjanin | 11. Krusevac |
| 4. FAS Kragujevac | 12. Apatin |
| 5. Sumadija Kragujevac | 13. Vranje |
| 6. Sabac | 14. Priboj |
| 7. Novi Sad | 15. Belgrade |
| 8. Uzice | |

Companies operating within these zones enjoy the benefit of unlimited import and export of goods, with imported goods to the domestic market being subject to the standard foreign goods import regime. Additionally, businesses can lease premises, production spaces, and warehouses on favourable terms.



Disclaimer:

The information provided in this e-book is for reference purposes only and should not be considered as legal or professional advice. For accurate and up-to-date information, it is recommended to consult relevant authorities and tax/legal experts.

Thank you for reading this e-book. We hope that the contacts, resources, and glossary provided in the appendices will further support your understanding of doing business in Serbia. Should you require additional assistance or have any further questions, please do not hesitate to reach out to Kreston MDM, your trusted advisor for business endeavors in Serbia. We wish you success and prosperity in your business ventures!

CONTACT US

Starine Novaka 23, Belgrade, Serbia (Business Garden)

office@krestonmdm.com

www.krestonmdm.com

www.transferpricing.rs

www.krestonedu.com

+381 11 323 4377

+381 11 323 8095

+381 11 324 4242

Kreston MDM revizija doo

