

Progressive taxation of profits, transfer pricing and reduced VAT rate from 2022

Tax Alert

January 2022

The Montenegrin Parliament enacted set of amendments to the tax (program "Europe Now") on 31 December 2021. Amendments were published in the Official Gazette of Montenegro no. 146/2021 dated 31 December 2021.

An overview of the most significant amendments is provided below.

The Corporate Income Tax Law

I Progressive taxation

Progressive taxation of corporate profits is introduced in the following way:

- Profits up to EUR 100,000 are subject to 9% tax;
- Profits ranging from EUR 100,000 to EUR 1,500,000 are subject to 12% tax;
- Profits over EUR 1,500,000 are subject to 15% tax.

The withholding tax rate is increased to 15%.

II Transfer pricing

A new set of transfer pricing (TP) rules are introduced. These new rules encompass new definition of related parties, extension of list of methods used for assessment of prices in line with the arm's length principle, and TP compliance.

Rules on interest deduction and taxation of interest income are aligned with the arm's length principle.

TP compliance is dependent on taxpayer size and volume of related party transactions. New TP rules envisage the following compliance:

- **Large taxpayers** classified in accordance with tax classification rules will be required to file transfer pricing documentation along with the corporate income tax (CIT) return.

— **Other taxpayers** (not having the status of a large taxpayer) are obliged to prepare TP documentation when preparing annual CIT return. TP documentation is retained by the taxpayer and provided to the Tax Authority based on their request within a 45 day deadline.

— A taxpayers who do not have the status of a large taxpayers may prepare **TP documentation in abbreviated form** if the transactions with related parties do not exceed the value of EUR 75,000 in the year for which the CIT return is filed.

Taxpayers are obliged to prepare and (to the extent applicable) submit transfer pricing documentation up to 30 June of the current year for then previous year.

Bylaws for application of new transfer pricing rules are expected within one year from start of application of new rules.

III Other amendments

- The new set of rules on taxation of payment of interest and royalties and distribution of dividends/shares in profits to related parties from EU member states. These new set of rules will be applicable from the date of accession of Montenegro to EU.
- Decrease of the corporate income tax liability by 6% is abolished.

Presented amendments apply as of 1 January 2022 (except for rules on taxation of payment of interest and royalties and distribution of dividends/shares in profits to related parties from EU member states).



The VAT Law

Scope of application of reduced VAT rate of 7% is extended to include supply of services related to preparation and serving of food and beverages, except alcoholic beverages, carbonated beverages with added sugar and coffee, in facilities for the provision of catering and accommodation services.

Above amendment enters into force on 8 January 2022.

If you have any questions or you need assistance of our professionals, please contact us at tax@kpmg.rs.

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