

Montenegrin tax amendments

VAT, Corporate Income Tax, Personal Income Tax,
write-off of interest for late payment of tax

Tax Alert

October 2024

The Montenegrin Parliament enacted set of amendments to the tax laws on 6 September 2024 and 26 September 2024, respectively. Amendments were published in the Official Gazette of Montenegro no. 88/2024 dated 13 September 2024 and no. 94/2024 dated 30 September 2024.

An overview of the most significant amendments and is provided below.

Law on Value Added Tax (VAT)

I. Amendments of the reduced VAT rate

A new reduced VAT rate of 15% is introduced, while the scope of the existing reduced VAT rate of 7% is modified.

Products and services that directly affect the citizens' cost of living will continue to be taxed at the reduced rate of 7%. However, certain products and services that were previously taxed at the 7% rate will now be taxed at the new 15% reduced rate.

The new 15% reduced rate will also apply as a single VAT rate for accommodation services in hotels, motels, tourist resorts, guesthouses, camps, tourist apartments, and villas, as well as for food and beverage services (excluding alcoholic beverages, carbonated and non-carbonated drinks with added sugar, and coffee) in hospitality service facilities.

The scope of products and services for reduced VAT rates is provided below:

7% Rate: basic food products, medicines, orthotic and prosthetic devices, as well as medical devices surgically implanted into the body, textbooks and educational materials, drinking water (excluding bottled water), daily and periodic newspapers, public hygiene services, public passenger and their personal luggage transport services, funeral services, animal food, fertilizers and plant protection products, seeds, planting materials and live animals, menstrual products and baby diapers.

15% Rate: books, monographic and serial publications, accommodation services in hotels, motels, tourist resorts, guesthouses, camps, tourist apartments, and villas, food and beverage services (excluding alcoholic beverages, carbonated and non-carbonated drinks with added sugar, and coffee) in hospitality service facilities, copyright services in education, literature, and art, scientific and artistic copyright, services charged via entry tickets (except those exempt from VAT), non-profit use of sports facilities, marina services, solar panels, and hairdressing services.

II Changes to the zero VAT rate

Abolished zero VAT rate for supply of goods and services related to the construction and equipping of hospitality facilities with a category of five or more stars, energy facilities producing electricity with a capacity greater than 10 MW, and food production facilities with an investment value exceeding 500,000 euros.

III Other amendments

- The scope of products exempt from import VAT is expanded in order to align with Directive 2009/132/EU;
- The exemption from VAT on low-value shipments of up to 75 euros is abolished;
- The amount of lump-sum compensation that a farmers receive based on the supply of agricultural and forestry products or services is increased from 5% to 8%.

Amendments will be effective from January 1, 2025.

Law on Corporate Income Tax

Legal entities that reinvest profits into agricultural projects, or invest funds from profits in other agricultural businesses, will be exempt from paying corporate income tax. The calculated tax will be reduced by the amount reinvested or invested. Tax exemption can be obtained by submitting a request to the tax authority, subject to decision by the tax authority. The total amount of tax exemptions for a period of three years cannot exceed 300,000 euros.

The detailed manner of using tax exemption, as well as the form and content of the request, shall be prescribed by the Ministry through a bylaw.

A more precise definition is provided for expenses related to, among other, health, social, educational, scientific, religious, cultural, sports, humanitarian purposes, and environmental protection, which are recognized as deductible expenses up to a maximum of 3.5% of total revenues. Exceptionally, expenses for national sports associations are recognized as deductible up to a maximum of 5% of total revenues.

Amendments will be effective from January 1, 2025.

Law on Personal Income Tax

I New Income Sources

Two new income sources are introduced:

- Income earned through the internet and video games (i.e. gaming)
- Income from games of chance (were exempt from taxation before adoption of these changes)
- Tax on income earned through the internet and video games will be assessed at a 15% rate and paid when submitting the annual tax return. The tax on income from games of chance will be assessed and withheld by the game organizers upon each income payout, also at a 15% rate.

II Other amendments

- Scope of other income is extended to include additional income, as well as categories previously taxed as personal income (e.g., earnings of board members if they are not employed by the employer, severance payments upon mutual termination of employment, etc.)
- If a taxpayer earns personal income from two or more employers, the tax authority will determine the tax liability by Decision based on the data from tax return and tax authorities' official records within 30 days of the tax return submission.
- The threshold for lump-sum taxation of income from self-employment is increased from EUR 18,000 to EUR 30,000.

Amendments will be effective from January 1, 2025.

Law on write-off of interest on due tax liabilities

Law on write-off of interest on due tax liabilities has been adopted. The Law allows write-off of calculated but unpaid interest on tax liabilities due for payment by December 31, 2024. This applies if the taxpayer submits all due tax returns by December 31, 2024, and pays the principal tax debt within 60 days from the start of the law's implementation.

The right to write-off of interest is granted upon submission of a request to the tax authority within 60 days from the start of the law's implementation. The tax authority decides on the request for interest write-off by issuing a decision.

The Law will be effective from January 1, 2025.

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

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