# Tax Card 2016

**KPMG in Macedonia**

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## TAXATION OF CORPORATE PROFITS

Corporate income tax (CIT) is due from profits realized by resident legal entities as well as by non-residents with a permanent establishment in the country. The tax rate is flat and set at 10% from the tax base, which is defined as the accounting profit for the fiscal period (usually the calendar year), as adjusted for tax purposes with items such as non-deductible expenses and non-taxable income.

### Non-deductible expenses

Most of the expenses which are incurred for accounting purposes but are not recognized for tax purposes are permanently unrecognized for CIT purposes (i.e. permanent differences), such as expenses not related to a taxpayer's business activity, entertainment expenses, unjustified shortages, wastages above the normative standards, and other items specifically identified by the law. Employee related expenditures and directors' remuneration are tax deductible up to the amount prescribed by the law.

### Temporary tax differences and tax credits

The only items which are recognized only under certain conditions and can lead to potential tax credits in future periods (i.e. temporary differences) relate to impairment loss for bad and doubtful debts (except for banks, insurance companies and saving houses) and loan receivable which are not collected by year-end.

The collection of any bad and doubtful debt and/or loan receivables which were added back to the tax base and taxed in a previous period, will lead to the right to a tax credit, by reducing the tax base for the period in which they were collected.

### Non-taxable income

Dividends received from resident taxpayers are exempt from the tax base provided that CIT was paid on the profit from which those dividends are derived.

### Depreciation/amortization expenses

Depreciation/amortization of assets as well as provisions are recognized for tax purposes as per the applicable accounting standards.

### Tax losses

Accounting losses reduced for the amount of non-deductible expenses can be carried forward and offset against future tax bases in the following three years.

The right to utilize the losses is subject to (i) a prior approval from the tax authorities as well as (ii) the requirement that the accounting losses are officially offset with retained earnings or other sources available for covering losses.

### Capital gains

No specific tax treatment. Capital gains form part of the accounting profit for the year, and thus are part of the tax base as well.

### Transfer pricing

Transactions between related parties (including interest charges) are recognized for tax purposes at arm's length, i.e. should transactions deviate from the market level, the differences could lead to additional income being assessed and/or an expense being unrecognized for tax purposes.

For the purpose of determining the market level, the CIT Law provides for the comparative uncontrolled price method or the cost plus method.

Taxpayers are obliged to present sufficient information and analysis evidencing that prices between related parties are set at arm's length, if requested by the tax authorities.

### Thin capitalization

Interest on loans extended by: (i) direct shareholders holding at least 25% of company's share capital ("qualifying shareholder"); (ii) third party, while the loan is guaranteed by a qualifying shareholder, or (iii) bank in relation with a deposit provided by the qualifying shareholder, is considered non-deductible for tax purposes should the loan amount exceed threefold the amount of the equity attributable to the respective shareholder.

The interest not recognized for tax purposes is determined as the amount of interest on the portion of the loan exceeding threefold the amount of the equity attributable to the qualifying shareholder.

Thin capitalization rules do not apply to:

- Newly established entities in the course of the first three years of their establishment; and
- Loan facilities whereby qualifying shareholders are banks or other financial institutions.

### Tax incentives

- Reinvested profit: The tax base for a current year can be reduced for the amount of last year's profit which has been re-invested during the current year by purchasing qualifying fixed assets.
- Technological Industrial Development Zones: Operators in such zones are entitled to a 10-year tax holiday.

## WITHHOLDING TAX

Income accrued and paid by Macedonian entities to foreign resident legal entities is subject to WHT at the rate of 10%, provided that the income is not generated through a permanent establishment of the foreign entity in Macedonia.

Withholding tax is applied on the following types of income:

- Dividends
- Interest
- Royalties
- Entertainment or sporting activities
- Management, consulting and financial services
- Research and development services
- Telecommunication services
- Insurance and re-insurance premiums
- Rental of real estate located in Macedonia.

If there is a Double Tax Treaty (DTT) in force between Macedonia and the country where the recipient of the income is considered a tax resident, its provisions are applied with priority over the Macedonian legislation. The application of the DTT provisions is subject to a separate procedure. For a listing of the existing treaties, see overleaf.

## EXCISE DUTIES

Excise duties are levied on certain domestic or imported goods such as alcohol and alcoholic beverages, tobacco commodities, mineral oils and passenger vehicles.

Tax liable persons for excise duties are licensed producers and importers of the goods listed above. The tax can be determined in a percentage (proportional excise), in an absolute amount per measurement unit (specific excise) or as a combination of both (combined excise duty).

Certain exemptions of excise duties are provided for by the law.

## PROPERTY, GIFT AND INHERITANCE TAXES

Annual property tax in the range of 0.10% to 0.20% is due on the market value of the property held by individuals and by companies.

Transfer tax in the range of 2% to 4% on the market value of the immovable property is due upon transfer of the immovable property. Transfer tax is due by the seller of the property unless otherwise agreed between the parties.

Gift and inheritance tax rates range between 2% and 5% of the market value of the property depending on the relationship between the beneficiary and the donor/testator. No gift/inheritance tax is levied when the beneficiaries are spouses or immediate family members.

Property, transfer, gift and inheritance tax rates are determined by the municipality where the respective immovable property is located.

## PAYROLL RELATED TAXES AND CHARGES

Macedonian resident individuals are subject to personal income tax (PIT) on their worldwide income, whereas non-resident taxpayers are subject to tax only on income derived from Macedonian sources. The provisions of an effective DTT have supremacy over the local legislation.

Individuals are considered to be residents for tax purposes in Macedonia if they (i) have permanent dwelling in Macedonia or (ii) reside in Macedonia for more than 183 days in a 12-month period.

The personal income tax rate is 10%.

### PIT exemptions

The types of income exempt from PIT include among others:

- Compensation for periods of unemployment
- Per diem allowances and expenses for business trips within the approved limits
- Salaries paid by employers carrying out business activities in Technological Industrial Development Zones for a period of ten years from the commencement of the activities in such a zone
- Certain types of compensation provided under the Labor Relationships Law
- Children allowances
- Interest on demand deposits, term deposits and current accounts, as well as interest under securities issued by the Republic of Macedonia
- Compensation under non-life and life insurance contracts.

## PIT allowances

Allowances, among others, include:

- The personal allowance for 2016 is MKD 88,284 (approximately EUR 1,435) on an annual basis
- Donations made to certain qualified legal entities – up to 20% of the annual tax liability but not more than MKD 24,000 (approximately EUR 390)
- Statutory deductions for particular types of income (such as income from immovable property, royalties, etc.) determined either as a fixed percentage of the gross income or at the level of the actual expenses incurred, if these are properly evidenced with documents. The statutory deductions vary in the range of 25% to 60% depending on the type of realized income.

## Relief from tax

A tax credit may be used for foreign taxes paid provided that the relevant conditions are met. Relief from tax may also be sought under the provisions of an existing DTT depending on the specific method provided for therein.

## Social security and health insurance

Mandatory contributions for pension and disability insurance, health insurance, unemployment insurance and additional health insurance in case of accidents at work and work-related injuries are due.

The rates for 2016, calculated as a percentage of the gross salaries, are as follows:

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| • Pension and disability contributions | 18% |
| • Health insurance contributions | 7.3% |
| • Contributions for unemployment insurance | 1.2% |
| • Additional health insurance contributions in case of accidents at work and work-related injuries | 0.5% |

Social contributions are fully borne by the employees while the employer is obliged to deduct and remit the contributions on behalf of the employees.

The maximum amount of the insurable income for persons included in the system of mandatory pension insurance is limited to 12 average monthly salaries in Macedonia, based on the average salary published for 2016 by the State Statistical Office. This threshold for 2016 amounts to MKD 387,216 (approximately EUR 6,296). The minimum amount of insurable income as a base for payment of social security contribution is 50% of the average monthly salary, i.e. MKD 16,134 (approximately EUR 262).

The mandatory contributions made on the account of the individual are fully deductible from the taxable income.

## Capital gains/losses

PIT is due on capital gains realized by the sale of securities, shares in companies and immovable property (the taxation of capital gains realized from the sale of securities will not apply until 31 December 2018).

Certain exemptions or reliefs apply in regards to the taxation of capital gains from the sale of immovable property depending of certain conditions such as holding period.

## VALUE ADDED TAX

Value added tax (VAT) is levied on (i) supplies of goods or services with a place of supply in Macedonia, (ii) import of goods into Macedonia.

### VAT rates

The standard VAT rate that applies to most VAT taxable supplies is 18%.

A reduced VAT rate of 5% applies mainly to the supply of the following goods and services:

- Food products
- Drinking water provided from public systems
- Publications
- Seeds and planting materials
- Agricultural machines and plastic foils for use in agriculture
- Pharmaceutical and medical devices
- Computers
- Transportation of persons
- Software
- Solar heating systems and their components
- Medical equipment and other devices for the purpose to facilitate or treatment of a disability which are for personal use by disabled persons
- First supply of residential buildings and apartments when used for housing purposes (until 31 December 2018)
- Crude oil for production of food for human consumption
- Communal and waste disposal services
- Accommodation services (overnight accommodation) or bed and breakfast, half board or full board accommodation
- Livestock feed, livestock feed additives, and livestock
- Baby products
- School supplies

### VAT exemptions

VAT exempt supplies with right to input VAT credit for the related purchases, among others, include the following:

- Export of goods
- Services related to export, import or transit of goods
- Goods supplied in free trade zones, except for supplies to end users
- Supply of services with place of supply outside Macedonia if considered VAT taxable when supplied within the territory of the country

Exempt supplies with no right to input VAT credit for related the purchases, among others, include the following:

- Banking and financial services
- Insurance and re-insurance services

- Healthcare
- Education
- Supplies and renting of buildings and apartments used for dwelling purposes, except for their first sale if performed within five years from their completion

Refunds of input VAT incurred by foreign persons are available for purchases made in Macedonia, based on the reciprocity principle. Specific conditions are to be met by the foreign person. The refund of input VAT is requested following a statutory procedure.

### VAT registration

All taxable persons carrying out independent business activity are required to apply for a mandatory VAT registration if their annual VAT taxable turnover exceeds (or is expected to exceed) MKD 1,000,000 (approximately EUR 16,260). Voluntary registration is allowed as well.

### *Macedonia's Double Tax Treaties*

Albania
Austria
Azerbaijan
Belarus
Belgium
Bosnia and Herzegovina
Bulgaria
China, People's Republic
Croatia
Czech Republic
Denmark
Estonia
Finland
France
Germany
Hungary
India
Iran
Ireland
Italy
Kazakhstan
Kosovo
Kuwait
Latvia
Lithuania
Luxembourg
Moldova
Montenegro
Morocco
Netherlands
Norway
Poland
Qatar
Romania
Russian Federation
Saudi Arabia
Serbia
Slovakia
Slovenia
Spain
Sweden
Switzerland
Taiwan
Turkey
Ukraine
United Kingdom

### *Macedonia's Social Security Agreements*

Albania
Australia
Austria
Belgium
Bosnia
Bulgaria
Canada
Croatia
Czech Republic
Denmark
France
Germany
Hungary
Italy
Kosovo
Luxembourg
Montenegro
Netherlands
Norway
Poland
Romania
Serbia
Slovakia
Slovenia
Sweden
Switzerland
Turkey
United Kingdom

## FILING DEADLINES

- Annual corporate income tax returns – 28 (29) February of the following year. If the annual account is submitted electronically via e-tax system, then the CIT return could be submitted until 15 March
- Annual personal income tax returns – 15 March of the following tax year
- Salary calculations are submitted to the Public Revenue Office electronically on a monthly basis by the 10th and the payment is due by the 15th in the current month for the previous month
- VAT returns – by the 25th of the month following the period to which the VAT return relates
- Monthly excise returns – by the 15th of the month following the month to which the excise return relates

## For more information, please contact:


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