

# The Serbian Parliament adopted the Law on Amendments and Additions to the CIT Law

## TAX ALERT

January 2016

The Law on Amendments and additions of the Corporate Income Tax (CIT) Law (hereinafter: Law on CIT Amendments) was adopted at the Parliament session held on 29 December 2015. The Law on CIT Amendments was published in the Official Gazette of the Republic of Serbia No. 112/2015 as of 30 December 2015.

The Law on CIT Amendments came into force on 1 January 2016 and will be applied starting from this date (except of the certain provisions which will be applied starting from 1 March 2016).

### Withholding tax and tax assessed by the TA

Withholding tax of 20% is introduced on fees for services rendered by non-residents suppliers which are rendered or used or which will be rendered or used on the territory of Serbia.

Non-residents collecting interest or royalty income, income from lease and sublease of immovables/movables in the territory of Serbia and income from services rendered/used in Serbia in course of enforced collection or any other collection procedure, in accordance with law, are subject to 20% tax assessed by the Tax Authorities (TA) decision.

Provisions related to withholding tax on services and tax on income from collection of receivables are applicable as of 1 March 2016.

### Recognition of salary expenses

New provision has been introduced based on which income (in Serbian "primanja") treated as salary in line with Personal Income Tax Law (including non-taxable amounts and benefits in kind) are tax allowable in the period in which they were paid.

This new provision is contradictory to the general rule according to which salary expenses are tax deductible when accrued.

### Receivables write off

New provision has been introduced based on which write offs of individual receivables are tax deductible provided they are included in the adopted prepackaged reorganization plan (in Serbian "unapred pripremljen plan reorganizacije"), confirmed by a final decision in the manner prescribed by the law governing bankruptcy.

New conditions have been prescribed for write off of loan receivables by the banks. Conditions are: 1) at least two years have passed from the moment receivables fell due for payment and 2) to provide evidence of the debtor's insolvency. These new conditions apply to receivables owed by non-related parties.

Write off of banks receivables remaining after the sale of the mortgaged real estate is deductible.

Deduction is provided for write off of receivables for which nondeductible cost of provisioning was incurred in previous periods. Deduction is available only in case conditions prescribed by article 16 para 1 and para 2 of the CIT Law, are met.

### Donations

Donations to all service providers involved in area of social protection, established in line with the legislation on social protection, are allowable up to the limit of 5% of revenues, along with donations made to social protection institutions.

### Long term provisions

Long term provisions in line with IAS, IFRS and IFRS for SME are tax deductible up to the amount of utilized provisions or up to the amount of outflow of economic resources related to these provisions.

## Capital gains

Scope of capital gains tax is extended to include gains/losses from sale of real estate under construction.

## Liquidation, bankruptcy and reorganization

Entities undergoing liquidation, bankruptcy or reorganization are again obliged to file CIT return as at 31 December in case liquidation, bankruptcy or reorganization is not completed by this date.

The CIT Law is now harmonized with the Law on accounting in terms of the cut-off date for preparation of the CIT return in case of liquidation, bankruptcy or reorganization.

## Pro-rata tax holiday

The average number of employees at the end of the tax period must not fall below the level of employees in the tax period when the conditions for the tax holiday were met. The average number of employees is calculated as the sum of the number of employees at the end of each month during the tax period divided by the number of months in the tax period.

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