

Amendments to the Corporate Income Tax Law in Serbia

Tax Alert

December 2018



The parliament of Serbia adopted the Law on Amendments to the Corporate Income Tax Law (**the Law**) at its session held on 7 December 2018. The adopted Law is published in the Official Gazette of RS number 95/2018 dated 8 December 2018. The Law comes into force on 9 December 2018.

The adopted amendments apply to the tax period starting in 2019, with certain exceptions that are applicable to 2018 which are specifically marked.

An overview of significant changes is provided below.

New rules on tax depreciation / amortization

The Law introduces new rules for calculating tax depreciation for fixed assets acquired as of the first day of a tax period starting in 2019.

Tax depreciation of fixed assets is calculated **for each asset separately** using the proportional method and a base consisting of the cost of the asset, applying the following rates:

- Group I – 2.5%;
- Group II – 10%;
- Group III – 15%;
- Group IV – 20%;
- Group V – 30%.

If the amount of depreciation calculated according to tax rules is higher than depreciation for financial reporting purposes, depreciation for financial reporting purposes is deducted as depreciation expense for tax purposes.

Exceptionally, investment properties measured at fair value (which are not depreciated for financial reporting purposes) are depreciated for tax purposes at the rate of 2.5%.

In particular, tax amortization of intangible assets is tax deductible in the amount of amortization for financial reporting purposes.

A separate manual shall specify in greater detail how these provisions shall be applied.

For fixed assets purchased by the last day of a tax period starting in 2018 tax depreciation is calculated based on the then effective rules up to the last day of the tax period starting in 2028.

If at that moment (on the last day of the tax period starting in 2028), the final balance for the group of assets is:

- less than 10% for Group II
 - less than 15% for Group III
 - less than 20% for Group IV
 - less than 30% for Group V,
- compared to the balance on the last day of the tax period beginning in 2018, the entire balance for the group shall be tax deductible.

Abolition of limit for advertising and promotional expenses

Abolition of the 10% limit is prescribed for deductibility of advertising and promotional expenses which are recognized as expenses in the tax balance.

Double deduction for qualifying research and development costs

The Law allows double deduction of costs that are directly associated with research and development in Serbia.

Exceptionally, this incentive cannot be applied to research costs incurred as a part of exploration and exploitation of oil, gas or mineral resources in the extraction industry.

A separate manual shall specify in greater detail how these provisions shall be applied.

Exclusion of certain income of concession grantor from tax base

The tax base of a concession grantor excludes income received as a part of transfer of non-monetary assets without compensation, carried out as a part of concession agreement realization procedure, if the estimated value of the concession is at least EUR 50 million.

This provision applies as of 9 December 2018.

Release of debt included in a pre-packed restructuring plan

Income resulting from release of debt of taxpayer toward state institutions, banks under bankruptcy and chambers of commerce is excluded from the tax base. This applies if the debt is included in a pre-packed restructuring plan which is confirmed by a decision in bankruptcy proceedings.

This provision applies as of 9 December 2018.

Tax treatment of effects of change in accounting policies

Effects of change in accounting policies due to first time application of IAS, or IFRS and IFRS for SMEs, based on which appropriate adjustments are made in the balance sheet, are recognized as income or expense in the corporate income tax balance, starting as of the tax period in which such adjustment is made.

Such income and expenses are recognized (taxed and deducted) on a pro rata basis over five tax periods.

What remains unclear is if this provision applies also if there is a change of accounting framework by the taxpayer. It is expected that this question will be clarified in the coming period.

These provisions apply as of 9 December 2018.

Exemption for income from royalty fees for exploitation of intellectual property and similar rights

The Law specifies an 80% exemption from the tax base for income earned by the holder of intellectual property or similar rights and of rights linked to discoveries, who earns royalty fees from the exploitation of such rights.

A separate manual shall specify in greater detail how these provisions shall be applied.

Capital gains on sale of intellectual property rights and rights linked to discoveries

The term industrial property has been replaced with the term intellectual property in the part defining what, inter alia, constitutes capital gain.

The Law specifies that capital gains shall be paid for intellectual property, and that taxable income includes only 20% of capital gains earned through transfer of:

- intellectual property or similar rights over deposited authorship works, or subject of similar rights;
- rights linked to invention.

Capital gains for transfer of real-estate to concession grantor

The Law specifies that capital gains for transfer of real-estate to concession grantor are not included in the tax base, if the value of the concession is at least EUR 50 million.

Tax credits for investments in companies involved in innovation activities

A taxpayer who makes cash investments in equity of a newly founded company involved in innovation activities is entitled to a tax credit in the amount of 30% of made investment. This tax credit cannot be used before the expiry of 3 years from when the investment is made.

The Law specifies in greater detail requirements that must be met for entitlement to a tax credit, including the manner of its use.

Right to tax credit for capital gains realized in another country

The Law specifies that resident taxpayers who pay capital gain tax in another country are entitled to a tax credit in the amount of paid tax, up to the amount which would be paid in accordance with regulations effective in Serbia.

KPMG Support

KPMG tax professionals are at your disposal for any necessary assistance in relation to application of the new provisions of the Corporate Income Tax Law.

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