

Arm's length interest rates for 2020

Tax Alert

March 2020

Ministry of Finance ("MF") has adopted the Rulebook on arm's length interest rates for 2020 ("the Rulebook"). The Rulebook was published in the Official Gazette of Serbia No. 21 dated 6 March 2020 and is effective as of 14 March 2020.

Impact of the Rulebook to transfer pricing documentation for 2020

According to the provisions of Article 61 of the Corporate Income Tax Law ("the CIT Law"), in determining arm's length interest expense/revenue, taxpayers can:

1. use interest rates as prescribed by the MF Rulebook or
2. apply general OECD based methods for assessment of arm's length interest as prescribed by the CIT Law.

Taxpayers may opt only for one of the above options. Selected option needs to be consistently applied to all intercompany loans.

Prescribed interest rates should be applied to interest income/expense recognized during 2020 regardless of the period from which loan(s) originate.

The Rulebook prescribes separate interest rates for long-term and for short-term borrowings for all non-finance entities and a single interest rate for banks and finance leasing companies (except for RSD denominated loans where interest rate is prescribed separately for short term and long term loans).

Arm's length interest rates for 2020 as prescribed by the MF

Arm's length interest rates for 2020 as prescribed by the Rulebook				
Credit / loan currency (including dinar loans denominated in another currency)	Banks and financial leasing companies		Other companies	
	Short term loans	Long term loans	Short term loans	Long term loans
RSD	1.92%	2.71%	4.71%	5.55%
EUR	3.11%	2.64%	2.87%	
USD	3.87%	4.83%	4.05%	
CHF	2.54%	7.84%	7.52%	
SEK	3.92%	-	-	
GBP	1.88%	-	-	
RUB	3.23%	-	-	

What impact may this have on your business?

In general, decreasing trend of interest rates when compared to 2019 is present, except for financing in SEK and RUB where increase was recorded.

It is necessary to review if new interest rates for 2020 are aligned with interest rates currently applied in your related party financial instruments. In addition, companies exposed to significant / long-term related party financing should consider applying general OECD based methods for assessment of arm's length interest as prescribed by the CIT Law, as such approach may be more beneficial and provide increased level of certainty in relation to future tax treatment.

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

KPMG will continue to monitor all relevant developments in this complex area and inform you about possible impact of these events on business operations.

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KPMG Tax Alerts

KPMG Tax & Legal Department

KPMG d.o.o. Beograd

Kraljice Natalije 11
11000 Belgrade, Serbia

T: +381 11 20 50 500

F: +381 11 20 50 550

tax@kpmg.rs

kpmg.com/rs

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