

Decree on Fiscal Benefits and Direct Aid to Private Sector and Citizens due to COVID-19 adopted

Tax Alert

April 2020

The Government of Serbia has adopted the Decree on Fiscal Benefits and Direct Aid to Companies in the Private Sector and Monetary Aid to Citizens Aimed at Reducing Economic Consequences due to COVID 19 (Decree).

The Decree was published in the Official gazette of Serbia No 54 on 10 April 2020 and comes into force on the same day.

The procedure and manner of deferral of liabilities for taxes and social security contributions, as well as the form that large entities will submit for payment of grants will be prescribed by the special rulebook of the Ministry of Finance.

Classification of entities on micro, small, medium and large is made based on 2018 financial statements for the purposes of application of the Decree. Entities established in 2019 and 2020 are considered small entities.

Entities opting for fiscal benefits and direct aid cannot pay dividends until the end of 2020.

Below is an overview of the measures and issues that need to be addressed:

1. Who is entitled to fiscal benefits and direct aid?

- Legal entities tax residents of Serbia established and registered with the competent authority before 15 March 2020 or if they became VAT payers during this period
- Entrepreneurs tax residents of Serbia established and registered with the competent authority before 15 March 2020 or if they became VAT payers during this period
- Branches and representative offices of foreign legal entities established and registered with the competent authority before 15 March 2020 or if they became VAT payers during this period

2. Who is not entitled to fiscal benefits and direct aid?

Entities downsizing labor force	Users of public funds	Entrepreneurs who quit business	Certain large legal entities
Businesses that reduced the number of employees by more than 10% between 15 March 2020 and 10 April 2020. The calculation of the percentage of reduction in the number of employees does not consider employees hired under a fixed-term employment contract before 15 March 2020, and whose employment period expired by 10 April 2020.	Business entities covered by the List of Beneficiaries of Public Funds established by the Rulebook on the List of Beneficiaries of Public Funds ("Official Gazette of Serbia", No. 93/2019)	Entrepreneurs who registered temporary cessation of business activity before 15 March 2020.	<ul style="list-style-type: none"> — Banks — Insurance Companies — Reinsurance Companies — Voluntary pension fund management companies — Financial leasing providers — Payment institutions and electronic money institutions

3. Fiscal benefits for entities regardless of size, including branches and representative offices

		Deferral of payment of tax and contributions on salaries	Deferral of corporate income tax payments
3.1	Description	<p>Deferral of payment of salary tax and contributions (on behalf of the employee and on behalf of the employer) on salaries for March, April and May 2020</p> <p>Entities that paid their March salary before 10 April 2020, in whole or in full, may opt to defer payment of tax and contributions for April, May and June 2020 Until 4 January 2021</p>	Deferral of the advance on corporate income tax payments for March, April and May 2020, i.e. advance payments due on 15 April, 15 May and 15 June 2020
3.2	Deferral period	Until 4 January 2021	Until the filing of the final tax return for the tax period covered by the deferral, e.g. in the case of a fiscal year equal to the calendar year, until the submission of the final corporate income tax return for 2020
3.3	Repayment	Up to 24 installments without interest	Up to 24 installments without interest for deferred advance payments not exceeding final liability for the tax period (if the tax period is a calendar year, the final payment amount for 2020).
3.4	Special considerations	Although payment of contributions is delayed, employees will be able to exercise their social security rights as if they were paid.	/

4. Fiscal benefits for entrepreneurs

The rules for legal entities are essentially applicable, except in the case of tax and contributions on income from the independent activity of lump sum entrepreneurs. Lump sum entrepreneurs are deferred from paying their tax advance payments and contributions on self-employed income for the months of March, April and May 2020 until 4 January 4, 2021. Payment will be made at 24 equal monthly installments without interest.

5. Direct aid

		All entities except large entities	Large entities
5.1	Amount	<p>RSD 30,367.04 (minimum net salary for March 2020) multiplied by the number of full-time employees.</p> <p>The number of employees is also increased by the number of part-time employees commensurate with their engagement, based on data from the PPP-PD tax return. The number of employees is reduced by the number of employees for whom the payment of salaries or salary compensation that is entirely borne by other payers (e.g. sick leave over 30 days, etc.)</p>	<p>RSD 15,183.52 (50% of the minimum net salary for March) multiplied by the number of employees in the so-called forced leave status. Employees at the so-called forced leave status is a full-time employee for whom a decision on work termination has been issued from 15 March 2020 in accordance with Art. 116 and 117 of the Labor Law.</p> <p>The number of employees is also increased by the number of part-time employees, commensurate with their engagement, based on data from the PPP-PD tax return.</p>
5.2	Payment dynamics	In May, June and July 2020	
5.3	Payment of salary tax and social contributions on grants paid to employees	The grants received must be paid in full to the employee, which means that these funds cover part of the employee's net earnings. There is no prescribed exemption from payment of salary tax and contributions (on behalf of the employee and the employer) on the basis of this payment. Therefore, it follows that for the salary tax and contributions calculated in this way, the payment deferral described in item 3 applies.	
5.4	Submission of additional forms besides PPP-PD Form	No	The list of persons must be submitted to the Tax Authorities and the Treasury Administration in paper form no later than the 20th day of the month for the payment to be made in the then following month, in the form which will be separately prescribed
5.5	Payment	<p>Disbursements will be made to a special purpose account opened by banks for entities that have opted for direct aid</p> <p>If an entity has accounts with more than one bank, information on the name of the bank with which the special purpose account will be opened must be submitted via the Tax Authorities' electronic services by 25 April 2020 at the latest</p>	
5.6	Special considerations	<p>— The effect recorded through the profit and loss statement based on direct aid is included in the tax base computation for corporate income tax</p> <p>— Unused funds in the special purpose account are automatically returned to the Treasury Administration upon expiration of the program</p>	

6. Procedure for fiscal benefits and direct aid

- An entity that chooses to use fiscal benefits and direct aid must file PPP-PD tax return form separately for employment income and separately for non-employment income
- In the PPP-PD tax return for the accounting period for which fiscal benefits and direct aid are used in Box 1.4. - Payment date 4 January 2021 must be disclosed
- Consequently, there is no possibility for a person to apply only fiscal benefits or direct aid only
- In order to use fiscal benefits and direct aid for all three months, the first PPP-PD tax return must be filed by the end of April 2020. If the tax return completed in the manner defined by the Decree is first filed by the end of May or June respectively, the benefits will be used for two months or one month respectively

7. Loss of the right to fiscal benefits and direct aid

- If the number of employees is reduced by more than 10% (excluding temporary employees with whom contract concluded before March 15, 2020) in the period from 15 March 2020 until the expiry of the period of three months from the last payment of direct benefits (no later than 31 October 2020)
- If an entity user of fiscal benefits and direct aid pays dividends until 31 December 2020
- Consequence: payment of deferred taxes and contributions increased for late payment interest and repayment of direct aid received increased for late payment interest

8. VAT exemption

- VAT is not paid when the VAT payer performs without consideration supply goods and services to the Ministry of Healthcare, the Republican Health Insurance Fund, or a publicly owned health institution. The VAT payer who performed the supply has the input VAT deduction right from such supply
- The exemption applies to all supplies with the date of supply in the period from the day of introduction of state of emergency (15 March 2020) until the day of termination of the state of emergency in Serbia
- The VAT taxpayer is obliged to keep separate records for these supplies

9. One-off financial assistance to all citizens over 18 years old

After the end of the state of emergency, all citizens of Serbia over 18 years old will be paid a one-off financial assistance in the amount of EUR 100 in RSD equivalent.
The procedure, manner and conditions for payment of one-off financial assistance will be further regulated by special regulation of the Government.

Considering the scope and type of measures taken, we believe that they are important for all companies doing business in Serbia. Although a separate act of the Ministry of Finance is expected to regulate in more detail the procedure and manner of deferral of taxes and contributions, we believe that each company should first consider its obligations for dividend payments from 10 April 2020 as well as benefits and direct and indirect cost of these measures (e.g. inability for staff reduction).

Moreover, it is necessary to look at internal processes when it comes to the calculation and payment of salaries, which includes the dynamics of salary payment (in one or two installments), the effect of measures of deferral of advance corporate income tax payments in the context of the applicable tax year, etc. For all these questions, as well as many others that may and will come up in the course of your analysis and implementation, the KPMG tax team is at your disposal.

Good health to you, your colleagues and families!

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