



# Guide to Taxes On Real Estate in Serbia

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KPMG in Serbia

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## GENERAL

The general value added tax (VAT) rate stands at 20%. The reduced VAT rate is 10%.

Value added tax is applicable on the first transfer of ownership rights for newly built buildings constructed after 1 January 2005. Residential buildings are subject to a reduced VAT rate, while all other buildings are subject to the general VAT rate.

In addition, a VAT reverse charge scheme is in place to govern the sale of real estate and the provision of construction services. Under certain conditions buyers of buildings and construction services can apply the reverse charge mechanism. Such measures are intended to reduce the costs of VAT financing in real estate and construction deals.

The transfer of ownership for real estate not subject to VAT is subject to transfer tax at a rate of 2.5%.

The corporate income tax (CIT) rate is 15%.

## CORPORATE INCOME TAX AND CAPITAL GAINS

Corporate income tax is levied at 15% on resident entities and branches of non- resident entities. A resident entity is a legal entity which is incorporated or has a place of effective management and control within the territory of Serbia. Resident legal entities pay tax on their worldwide income in the country. Non-resident entities pay tax on the income generated through a permanent establishment within the territory of Serbia.

The tax period is the calendar year, which may be altered by consecutive calendar 12-months period in accordance with multinational company's financial year (changes of the financial and tax year is subject to special administrative procedure).

A CIT return for each year must be filed within 180 days from the end of the tax year. Corporate income tax liability is payable in monthly advanced payments (by the 15th day of the following month).

Corporate income tax payable is settled by the CIT return filing date. Upon request, a taxpayer may change its tax year to a period of any 12 consecutive months, but only if the foreign parent entity has a financial year which differs from the calendar year.

Taxable income is determined on the basis of accounting profit disclosed in the annual income statement, in accordance with International Financial Reporting Standards, and is subject to further adjustments in the tax balance.

Capital gains are disclosed separately in the tax balance and are subject to 15% tax. The capital gain is the difference between the sale and purchase price of assets (real estate, shares/securities, intellectual property rights, investment units, digital assets). If this difference is negative, a capital loss is reported.

Capital gains realized by non-resident entities which do not have a permanent establishment in Serbia, are subject to 20% tax unless otherwise prescribed by a respective double tax treaty.

## Losses

Tax losses generated from business transactions, financial and non-business transactions, excluding capital gains and losses, may be carried forward for up to five subsequent tax periods and can be offset against future taxable income. There are no change of ownership rules (i.e. losses carried forward are not lost in the case of a change of ownership, or of mergers, acquisitions, spin-offs or other organizational changes).

Capital losses may be carried forward for 5 years and offset only against capital gains.

## Tax depreciation

For CIT purposes, non-current assets are divided into five groups, with depreciation rates prescribed for each group:

Group	Depreciation Rate
I	2.5%
II	10%
III	15%
IV	20%
V	30%

Non-current assets classified under Group I are depreciated using the straight- line method at 2.5%. Non-current assets classified under Groups II-V acquired before 1 January 2019 are depreciated using declining balance method while straight-line method is used for assets acquired after 1 January 2019. Buildings and other immovables (excluding land) are placed into tax depreciation Group I, while plant and equipment are in groups II-V.

If a non-current asset is acquired from a related party, the tax depreciation base will be the lower of:

- the transfer price of the non-current asset;
- the amount/value determined in line with the arm's length principle.

### Thin capitalization

Interest and related expenses arising from business with related entities are deductible to a value of up to four times the taxpayer's equity (the limit for banks and finance lease entities is 10 times the entity's equity).

### Related-party interest

Interest expenses arising from business with related entities, which are allowable according to thin capitalization rules, are subject to transfer pricing rules. Taxpayers have an option either to apply a safe harbor interest rate prescribed by the Ministry of Finance or to assess a market interest rate by applying general transfer pricing rules.

### Transfer pricing

Transactions with related parties need to be separately disclosed in the tax return. Penalties are prescribed for non-compliance. Transfer pricing documentation must be submitted along with the CIT return.

Acceptable methods for assessing the "arm's length" principle of transactions with related parties have been harmonized with OECD methods and include:

- comparable uncontrolled prices method;
- cost plus method;
- resale price method;
- transaction net margin method;
- profit split method;
- any other method, provided the above-mentioned methods are not applicable or if the other method is more appropriate.



## WITHHOLDING TAXES

Withholding tax (WHT) at 20% is withheld from dividends, the share in profits, liquidation surplus, royalties, interest, some service fees (market research, accounting and auditing, other services in the field of legal and business consulting regardless of the place where the service is provided or used and lease payments for movable and immovable assets located in Serbia and which is derived by non-residents.

Withholding tax may be reduced in line with double taxation treaties.

If a non-resident taxpayer receives capital gains on, among other, sale of Serbian based real-estate or shares/ownership stakes in Serbian companies, from a Serbian resident, from a non-Serbian resident based in Serbia, from a non-resident individual, or from an open investment fund within the territory of Serbia, then 20% tax has to be paid unless otherwise prescribed in line with a double taxation treaty. A non-resident taxpayer has to submit a special tax return within 30 days of generating the capital gains via proxy, based on which the tax authorities assess the tax liability.

Withholding tax at 25% is applied on royalties, interest, lease payments for movable and immovable assets and service fees (irrespective of the place where they are provided or used) paid by a resident entity to a non-resident registered in a jurisdiction with a preferential tax system (i.e. tax havens). There is a list of 49 preferential tax jurisdictions to which this special regime applies.

## DOUBLE TAXATION CONVENTIONS

As at 1 January 2021, Serbia has 61 effective double taxation conventions on income and capital with the following countries: Albania, Armenia, Austria, Azerbaijan, Belarus, Belgium, Bosnia & Herzegovina, Bulgaria, Canada, China, Croatia, Cyprus, Czech Republic, Denmark, Finland, Georgia, Germany, Greece, Hungary, Hong Kong, India, Iran, Italy, Kazakhstan, Kuwait, Latvia, Lithuania, Luxembourg, Moldova, Netherlands, North Korea, North Macedonia, Norway, Poland, Romania, Russia, Slovakia, Slovenia, South Korea, Spain, Sri Lanka, Sweden, Switzerland, Tunisia, Turkey and Ukraine. Agreements with Egypt, Estonia, France, Indonesia, Ireland, Israel, Libya, Malta, Montenegro, Pakistan, Qatar, San Marino, UAE, United Kingdom and Vietnam cover the avoidance of double taxation of income only.







## VALUE ADDED TAX

Value added tax is levied on the following:

- supplies of goods and services for business purposes by a taxpayer within the territory of Serbia; and
- the import of goods into Serbia.

A taxpayer is any entity that independently supplies goods and services in the course of doing business.

Each entity whose turnover in the previous 12 months (sales of goods and services excluding sales of real estate and equipment used in performing business activities) exceeds RSD 8 million (approx. EUR 68,050) is obliged to register for VAT.

The first transfer of newly built residential buildings (for buildings constructed since 1 January 2005) is subject to 10% VAT, while first transfer of other newly built buildings is subject to 20% VAT.

Supplies of land, as well as the renting of land and real estate for residential purposes, are exempt from VAT without input VAT recovery. There is a possibility to apply VAT on any transfer of buildings (option to tax) through a reverse charge mechanism if both the purchaser and the seller are VAT registered and purchaser is entitled to deduction of input VAT.

In addition, a VAT reverse charge scheme is in place for construction related supplies. VAT reverse charge scheme is applicable to supplies exceeding RSD 500 thousand (approximately EUR 4,255) excluding VAT under certain conditions. Such measures are intended to reduce the costs of VAT financing.

## PROPERTY TAX

In Serbia, tax on property is paid by the titleholder of the property rights (ownership, right of use, tenure, etc.).

The property tax base is the market value for most entities instead of its book value.

Each municipality issues detailed rules on how to calculate property tax liability. Entities applying fair value accounting use the book value as the tax base.

Property tax rate may not exceed 0.4%.

Property tax returns are submitted by 31 March of the current year.

## REAL ESTATE TRANSFER TAX

The transfer of ownership for real estate which is not subject to VAT is subject to transfer tax at a rate of 2.5%. The taxpayer is the seller (i.e. transferor of the ownership right, intellectual property right, or the person who leases or gets use of the construction land).

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