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# DOING BUSINESS IN SERBIA

**Country profile**

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# 1. COUNTRY SUMMARY

Serbia, officially the Republic of Serbia, is a country located in south-eastern Europe. Agriculture, food processing, automotive, metals, energy and information technology are among the key sectors of the Serbian economy. Serbia is a member of the Central European Free Trade Agreement (CEFTA), the Council of Europe, the Organisation for Security and Cooperation in Europe (OSCE) and the Organisation of the Black Sea Economic Cooperation (BSEC). Serbia was granted an EU candidate status in March 2012.

## 1.1 Legal structures:

Limited Liability Company is the most widely used form of business representation by foreign investors

## 1.2 Incorporations Procedures:

Business entities must register with the Serbian Business Registers Agency

## 1.3 On-going Obligations:

All 'medium-sized' and 'large' companies and any company with an annual turnover above EUR 4.4 million are required to have their annual financial statements audited by a certified independent auditor

## 1.4 Tax Implications\*:

- ⊗ VAT: 20.0%
- ⊗ Corporate Income Tax: 15.0%
- ⊗ Custom Duty: 0% - 57.6%

\*Refers to general tax rates. Actual rates may vary

## 1.5 Labour Environment:

Employment in Serbia is primarily governed by the Serbian Labour Law of 2005

<b>Country, Capital:</b>	Serbia, Belgrade
<b>Population:</b>	7.06 million (World Bank, 2016)
<b>Language:</b>	Serbian (the official alphabet is Cyrillic; in practice both Cyrillic and Latin alphabets are used)
<b>Currency:</b>	Serbian Dinar (Sign: РСД; Code: RSD)
<b>GDP</b>	USD 37.75 billion (World Bank, Nominal, 2016)
<b>GNI Per Capita:</b>	USD 5,280 (World Bank, Nominal, 2016)

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## 2. LEGAL STRUCTURES

Foreign investors can choose from the following forms of business representation in Serbia:

- ⊙ **Joint Stock Company** - At least one shareholder, an individual or a legal entity, is required at the time of incorporation. The liability of the shareholders is limited to their capital contribution. A minimum capital of RSD 3 million is required, at least 25% of which must be paid-in at the time of incorporation. The capital is divided into shares of a minimum par value of RSD 100. Special rules in terms of capital requirement apply to financial institutions
- ⊙ **Limited Liability Company** - At least one member is required at the time of incorporation. The liability of the members is limited to their capital contribution. A minimum subscribed capital of RSD 100 is required at the time of incorporation
- ⊙ **Partnership** - Two or more individuals or legal entities can enter into a partnership agreement to conduct a business activity. There is no minimum or maximum capital requirement. Partnerships can be general or limited
  - General Partnership: In a general partnership, the partners have unlimited liability towards the obligations of the partnership
  - Limited Partnership: A limited partnership must have at least one general partner who has unlimited liability towards the obligations of the partnership, and one limited partner whose liability is limited to his/her capital contribution

Foreign companies can also establish branches or representative offices in Serbia:

- ⊙ **Branch** - A branch of a foreign company is not considered a separate legal entity. The parent company is liable for the obligations of the branch. Branches must be registered in the Serbian Business Registers Agency
- ⊙ **Representative Office** - A representative office of a foreign company can only carry out preliminary or preparatory activities and cannot engage in commercial activities. The parent company is liable for the obligations of the representative office. Representative offices are required to be registered in the Serbian Business Register Agency

## 3. INCORPORATIONS PROCEDURES

Incorporation procedure for establishing a foreign-owned subsidiary.

S. No	Procedure	Time to complete
1	Translation of the parent company's documentation (for foreign owned companies)	1 day
2	Notarising the memorandum of association at the Basic Court	1 day
3	Opening a temporary bank account and paying the founding deposit* (or a part of it) and all other fees	1 day
4	Obtaining the registration certificate, tax identification number, pension fund and health fund certificates from the Serbian Business Registers Agency (SBRA)	5 days
5	Opening a permanent business account with a commercial bank (stringent KYC compliance procedures are applicable)	1 day
6	Obtaining the company stamp and seal -> only if prescribed by a company incorporation deed	1 day
7	Registering with the local tax authority	2 days
8	Registering the employment contracts with the Employment Organisation/Fund (within 3 days of employment)	1 day

\*Not obligatory step for a limited liability company. Considering small founding capital value (RSD 100), the capital can also be paid after finalization of the incorporation procedure.

### 3.1 Personnel

- ⦿ A limited liability company can also be governed through a one-tier or a two-tier system
  - A one-tier system comprises one or more directors
  - A two-tier system comprises a Supervisory Board, and one or more executive directors
- ⦿ A joint stock company can be governed through a one-tier or two-tier system
  - A one-tier system comprises at least one director. If there are more than two directors, a Board of Directors is formed
  - A two-tier system comprises a Supervisory Board and at least one executive director. If there are more than two executive directors, an Executive Board is formed

## 4. ON-GOING OBLIGATIONS

### 4.1 Frequency of Board/Shareholder Meetings

- ⦿ A limited liability company must convene an annual general meeting of shareholders at least once a year within six months of the end of its financial year
  - Shareholders are required to be given a notice of 8 days at the latest before an annual general meeting, unless otherwise prescribed by memorandum of association
- ⦿ Extraordinary general meetings can be held as and when required by the directors or any person authorised by the bylaws,
  - Shareholders must be given a notice of 21 days at the latest before an extraordinary general meeting
- ⦿ Key issues discussed during a general meeting include approval of the financial statements, election of directors and auditors, distribution of profits, amendments to the bylaws, changes in the legal form of the company and liquidation of the company

### 4.2 Audit Requirements

- ⦿ ‘Medium-sized’ and ‘large’ companies or any company with an annual turnover above EUR 4.4 million are required to have their financial statements audited by a certified auditor, and submit the audit reports to the Serbian Business Registers Agency by 30 June (31 July in the case of consolidated financial statements) of the year subsequent to the financial year
  - A company is classified as a ‘medium-sized’ company if it fulfils two of the following three criteria in the last financial year:
    - Average assets: EUR 4.4 million - EUR 17.5 million
    - Annual total income: EUR 8.8 million - EUR 35 million
    - Average number of employees: 50 - 250
  - A company which exceeds the upper limit of any two out of the three criteria mentioned above is classified as a ‘large’ company
  - Banks, insurance companies, stock exchanges and stock brokers are also considered as ‘large’ companies
- ⦿ Financial statements must be audited in accordance with the International Standards of Auditing (ISA)
- ⦿ Auditors must be certified members of the Chamber of Certified Auditors and employed by an audit company.



### 4.3 Filing Requirements

- ⦿ Financial statements must be prepared annually in accordance with the International Financial Reporting Standards (IFRS). “Micro” companies prepare annual financial statements in accordance with GAAP prescribed by the Ministry of Finance. “Small” and “medium” companies prepare financial statements in accordance with the IFRS for SMEs.
- ⦿ The financial year is the same as the calendar year. Subject to the approval of the Ministry of Finance and the Tax Office, an international company can apply the financial year of the group of its parent company.
- ⦿ All companies, regardless of their financial year, have to submit a statistical report comprised of a balance sheet, an income statement and a statistical annex for the calendar year by the end of February of the following year.
- ⦿ Financial statements for all companies other than “micro” companies include a balance sheet, an income statement, a cash flow statement, a statement of changes in equity, notes to the financial statements and a statistical annex.
  - ‘Micro’ companies are required to prepare only a balance sheet and an income statement. A company is classified as ‘micro’ if it fulfils two of the following three criteria in the last financial year
    - Average assets of less than EUR 350.000
    - Annual total income of less than EUR 750.000
    - Average number of employees is less than 10
- ⦿ All companies are required to submit their annual financial statements to the Serbian Business Registers Agency by 30 June, and consolidated financial statements by 31 July, of the year subsequent to the financial year. For companies with financial year other than the calendar year, the annual financial statements are due within 6 months of the end of the financial year and consolidated financial statements within 7 months of the end of the financial year
  - Companies must also submit their approved and audited (if required) stand-alone and consolidated financial statements as well as the auditor’s report by 30 June / 31 July for consolidated financial statements of the year subsequent to the financial year or within 6, respectively, 7 months after the end of the financial year for companies with financial year other than the calendar year.



## 5. TAX IMPLICATIONS

### 5.1 VAT and Sales Tax

- ⦿ VAT is levied on the provision of goods and services
- ⦿ Foreign companies with VAT taxable turnover at the territory of Serbia are liable to register for VAT by appointing a VAT representative in Serbia
- ⦿ The standard VAT rate of 20%
  - A reduced rate of 10% is levied on certain goods and services such as basic foodstuffs, drinking water, medicines, personal computers, hotels and similar accommodation, and public utility services
  - A 0% VAT is applicable to certain goods and services such as exports, supply of goods in free zones, and transportation services in direct relation to export, transit and temporary import of goods
  - Certain services such as banking and financial services, postal services and education services are exempt from VAT

### 5.2 Withholding Tax

- ⦿ Dividends: Dividends paid to a non-resident are subject to a withholding tax of 20%, unless reduced under a tax treaty
- ⦿ Interest: Interest paid to a non-resident is subject to a withholding tax of 20%, unless reduced under a tax treaty
- ⦿ Royalties: Royalties paid to a non-resident are subject to a withholding tax of 20%, unless reduced under a tax treaty
- ⦿ Services: Market research, accounting, audit and advisory services are subject to a withholding tax of 20%, unless regulated otherwise under a tax treaty
- ⦿ Branch remittance tax: There is no withholding tax on remitted branch profits
- ⦿ Others: Payments made to a non-resident for the lease of movable or immovable properties are subject to a withholding tax of 20%, unless reduced under a tax treaty
- ⦿ Payment of dividends, interest and royalties; income from the lease of properties; and payments made for services provided by individuals residing in a preferential tax jurisdiction are subject to a withholding tax of 25%

### 5.3 Corporate Income Tax

- ⦿ The standard corporate income tax rate is 15%

- ⦿ The corporate income tax return is due within 180 days after the end of the financial year

#### 5.4 List of countries with Free Trade Agreements

- ⦿ Serbia has a number of bilateral and multilateral free trade agreements in place
- ⦿ Under the US' Generalised System of Preferences (GSP) program, more than 4,650 Serbian products are granted preferential access to the US market
- ⦿ Serbia is expected to join the World Trade Organisation (WTO) in 2013

FTAS	ENTERED INTO EFFECT
<u>Serbia – Russia FTA</u>	June 2006
<u>Central European Free Trade Agreement (CEFTA)</u>	May 2007
<u>Serbia – Belarus FTA</u>	March 2009
<u>Serbia – European Union (EU) Interim Trade Agreement</u>	February 2010
<u>Serbia – Turkey FTA</u>	September 2010
<u>Serbia – Kazakhstan FTA</u>	January 2011
<u>Serbia – European Free Trade Association (EFTA) FTA</u>	October 2011
<u>Serbia – Russia FTA</u>	June 2006
<u>Central European Free Trade Agreement (CEFTA)</u>	May 2007

#### 5.5 Customs Policy

- ⦿ Goods imported into Serbia are subject to customs duties
- ⦿ Customs duties on most goods are levied on the value of the imported goods, in accordance with the Law on Customs Tariff
  - Duty rates range between 0% and 57.6%
  - High duty rates are levied on finished products in sectors such as agriculture, leather, furniture, textiles and household electrical appliances, to protect the domestic sectors
  - Low duty rates are levied on raw materials and semi-finished products not produced in Serbia; and inputs for export-oriented companies as well as companies that produce goods which are in high demand in the domestic market
- ⦿ Imported goods are also subject to VAT at the standard rate of 20% (or a reduced rate of 10%)

- ⦿ Certain goods such as oil derivatives, tobacco products, alcoholic beverages and coffee are also subject to excise tax, which can be ad valorem (based on the value of the goods), specific (based on the quantity of the goods), or a combination of both

## 5.6 Import Restrictions

- ⦿ Goods whose import requires a licence/permit from the relevant government authorities include:
  - Certain pharmaceutical substances
  - Precious metals
  - Arms
  - Dual-use goods
  - Alcoholic beverages
  - Meat and poultry products
  - Plants and their parts
  - Animals and animal products
- ⦿ Goods whose import is prohibited include:
  - Firearms and ammunitions
  - Unlawful drugs
  - Pesticides
  - Toxic materials
  - Pornography

## 5.7 Customs Incentives

- ⦿ Goods temporarily imported into Serbia which are re-exported without having undergone any change are liable for total or partial exemption from import duties
- ⦿ Import of equipment, except passenger cars, gambling and amusement machines, which represents contribution in kind by foreign investors to the share capital of Serbian companies, is exempt from import duties
- ⦿ Import of new equipment not manufactured in Serbia, which is intended for improvement of production process or for introduction of new technology, is exempt from import duties
- ⦿ Goods can be temporarily imported into Serbia for processing under the Internal Processing Relief (IPR) regime, either free of import duties (suspension system) or with a refund of the paid import duties at the time of export (drawback system)
- ⦿ Serbia has eight free zones for promotion of exports. Raw materials and equipment imported by export-oriented companies operating in free zones are not subject to import duties

## 6. LABOUR ENVIRONMENT

### 6.1 Social Security System

- ⦿ Serbia has a mandatory social security system that provides pension and disability insurance, health insurance and unemployment insurance
- ⦿ Both the employers and the employees are required to contribute towards social security. Employee contributions are withheld by the employer

SOCIAL INSURANCE	EMPLOYER CONTRIBUTION (% OF SALARY)	EMPLOYEE CONTRIBUTION (% OF SALARY)
Pension and disability insurance	12%	14%
Health insurance	5.15%	5.15%
Unemployment insurance	0.75%	0.75%

- ⦿ Self-employed individuals are required to contribute 26%, 10.3% and 1.5% towards pension and disability insurance, health insurance and unemployment insurance, respectively

### 6.2 Personal Income Tax

- ⦿ A legal entity is responsible to calculate and withhold the personal income taxes and social security contributions on all payments the legal entity makes to natural persons, both employees and non-employees. The personal income taxes and social security contributions are payable simultaneously with the payment of the respective net amounts
- ⦿ Salary tax is calculated at 10% of the employee's gross salary less a monthly non-taxable amount
- ⦿ The taxable gross salary comprises both remuneration payable in cash and various benefits in kind (private usage of a company car, accommodation and recreational facilities).
- ⦿ Certain cost reimbursements (business trips, transport allowance, usage of private cars) might also be subject to additional taxation

### 6.3 Salary and Salary Compensation

- ⦿ An employee's contracted salary should follow a certain structure with the base gross salary, meal and vacation allowances clearly defined.
- ⦿ An employee is entitled to a service allowance which is calculated on the base gross salary (a minimum of 0.4% for each year of service at the current employer). An employee is entitled to a travel allowance which should cover the monthly cost of commuting to and from the employee's work place
- ⦿ An employee's salary can be denominated in RSD or a foreign currency. The actual payment of salary, however, can only be made in RSD
- ⦿ The salary compensation in the cases of an employee's absence (vacations, national holidays, days off) is calculated on the basis of the employee's average salary for the twelve months preceding the month of absence (twelve months' average)
- ⦿ The salary compensation in the case of an employee's sick leaves of up to 30 days is calculated at a minimum of 65% of the employee's twelve months' average
- ⦿ The salary compensations in the cases of sick leaves over 30 days and maternity / paternity / child care leaves are calculated following special rules and are refunded by the respective social security fund following the employer's applications for such refunds. An employee is entitled to a maternity / paternity leave of 3 months and a child care leave of 9 months

### 6.4 Hiring/Retrenchment Issues

- ⦿ An employment contract must be written. Employment contract may be of an indefinite duration or of a fixed duration not exceeding 24 months (max 36 months in case of newly established employers). Employers can also enter into collective bargaining agreements with employees
- ⦿ An employer may require an employee to serve a probation period not exceeding six months, during which both the employer and the employee can terminate the employment contract by giving a minimum of five days' notice
- ⦿ An employment contract can be terminated unilaterally by either the employer or the employee, or by mutual agreement. An employer can terminate the employment contract only for valid reasons related to the ability or conduct of the employee, or the needs of the business
- ⦿ Both an employee and an employer are obliged to give a notice of at least 15 days before employment termination. In case individual employment contract stipulates longer notice, latter applies.
- ⦿ Employees who are dismissed for reasons of redundancy are entitled to a severance payment of at least one-third of a salary for each year of service with that employer

## 6.5 Foreign Personnel

- ⦿ There are no restrictions on the number of foreign employees or the duration of their employment in Serbia
- ⦿ Employees are required to hold a valid residence permit and work permit to live and work in Serbia
- ⦿ Work permits are issued by the National Employment Agency. The employer must apply for the work permit on behalf of the foreign employee

## 6.6 Work Permits

- ⦿ Work permits are issued for a period of at least 3 months and at most 12 months, and have the same validity as the temporary residence permit. Work permits can be renewed
- ⦿ Foreign nationals are required to obtain a temporary residence permit/visa to live in Serbia
  - A temporary residence permit enables a foreigner to stay in Serbia for more than 90 days, up to one year, and can be extended
  - Foreign nationals holding a temporary residence visa (type D visa) are not required to obtain a residence permit. However, foreigners not holding the type D visa who intend to stay in Serbia for more than 90 days must obtain a residence permit
  - The foreign national must submit an application for extension of residence permit at least 30 days before the expiry of the permit
  - A foreigner must register with the police station at his/her place of residence within 24 hours of arrival

## 6.7 Public Holidays

- ⦿ There are 11 public and religious holiday days in Serbia
- ⦿ Employees who have worked for at least one month of continuous work are entitled to a minimum paid annual leave of 20 days

## 6.8 Local Office Working Hours and Time Zone

- ⦿ Standard Working Hours: Serbia has a five-day working week
  - Normal business hours are between 9:00 a.m. and 5:00 p.m.
  - Standard working hours are 40 hours per week
  - Work between 10:00 p.m. and 6:00 a.m. is considered as night work
  - Employees are entitled to a daily rest break of at least 30 minutes (included in working hours), a daily rest period of at least 12 hours between two consecutive working days, and a weekly rest period of at least 24 hours

- Hours worked in excess of the normal working hours count as overtime, which cannot exceed four hours per day and eight hours per week
- ⦿ Standard Time Zone: UTC/GMT +1 hour
  - Daylight Savings Time (UTC/GMT +2 hours) is applicable between the last Sunday of March and the last Sunday of October

## 6.9 Payroll Cycles

- ⦿ Salaries are generally paid at least once a month
- ⦿ The minimum wage is determined by the Social Economic Committee
  - The minimum wage for January-December 2018 is net RSD 143 per hour
- ⦿ Employees are entitled to receive additional remuneration of at least 26% of the normal pay rate for overtime and night work, and at least 110% of the normal pay rate for work on public holidays

## 6.10 HR Legislation

- ⦿ Employment in Serbia is primarily governed by the Serbian Labour Law of 2005
  - The Law regulates the rights, obligations and liabilities of employers and employees
  - The Law applies to all employment relations, except those in state institutions which are regulated by the Law on State Officials
  - The Law is, in general, accordance with the EU standards and the recommendations of the International Employment Organisation
- ⦿ Specific terms and conditions of employment are regulated by collective agreements or internal acts of the employer, which must be in compliance with the Labour Law
  - Collective agreements are concluded after negotiations between labour unions and employers, and can be concluded at different levels (within a company, for a particular sector of economy, for a unit of local government or territorial autonomy, or for the Republic of Serbia)





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