

Serbia to Abolish Full Blown Withholding

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Tax on Non-Resident Service-Providers and Simplify Conditions for Tax Deductibility of NPL Write-Offs for Serbian Banks

The Serbian Ministry of Finance has published draft amendments to the Corporate Income Tax Act (CITA), which were formally approved by the Government on 1 December 2017 and sent to the Parliament. If approved by the Parliament, as expected, CITA amendments will take effect from 1 January 2018. The most important novelties concerns recognition of NPL write-offs as deductibles, reduction of the scope of services triggering withholding tax on Serbian-sourced income of non-residents, new rules on tax amortization of intangibles and assets containing movable and immovable parts, and relaxation of transfer pricing requirements.

Simplified recognition of NPL write offs as deductible expense for banks

Corporate and retail NPL write offs that a bank is required to carry out in accordance with the [regulations of the National Bank of Serbia](#) will be fully deductible and the banks will be no longer required to document to the tax authority that the conditions for deductibility are met (e.g. that the NPL is overdue for at least two years and that the debtor is unable to repay the loan).

Amendments to the full blown withholding tax on any service rendered by non-residents

Withholding tax on service fees payable to non-resident service providers introduced in March 2016 has been widely criticized ever since as sweeping (it applies to any services). It is now proposed that only the income generated by non-residents from market research, accounting, audit, legal and business advisory services remain subject to 20% withholding tax, unless Serbia has a DTT with the non-resident service provider's country that provides otherwise (Serbia currently has 58 DTTs with other countries). The Minister of Finance is given the authority to define the above types of services in more detail. However, non-residents from 51 tax haven jurisdictions will remain subject to 25%

withholding tax on income generated from Serbian residents on any services whatsoever.

New rules on tax amortization of intangibles and other assets

Currently, intangible assets (except goodwill, which is not subject to tax amortization) amortise for CIT purposes not individually, but on an aggregate basis within a group by using declining balance method at the annual rate of 10%. Under the proposed amendments, each intangible asset (except goodwill) will be amortised individually by using straight-line method. The annual rate of tax amortisation will depend on the estimate of a useful life of each such intangible asset at the time of recognition of such assets in the books, in accordance with IFRS.

Another novelty concerns assets that combine moveable and immoveable parts. The proposed amendments seek to give taxpayers flexibility to treat such composite asset as either movable or immovable for tax depreciation purposes, in accordance with the accounting treatment of such assets.

The Minister of Finance is authorized to issue further guidelines on tax depreciation/amortisation.

Relaxing transfer pricing study requirements

Taxpayers having only one related party transaction in the tax year, the value of which does not exceed RSD 8 million (or a series of similar transactions not exceeding this threshold), will be allowed to prepare annual transfer pricing study in a simplified form, without price benchmarking exercise. Another novelty in this domain is that transactions between related parties giving rise to capital gains tax will no longer have to be included in the annual transfer pricing study.

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