

## **MONTENEGRO: Corporate**

### **Law on Prevention of Illegal Business - Montenegro fights gray economy**

The Law on The Prevention of Illegal Business (*Zakon o sprečavanju nelegalnog poslovanja*, „Official Gazette of Republic of Montenegro“ no.29/13) came into force on 23 June 2013. Its nature is largely declaratory, aimed at showing the declared intent of the state to fight corruption and black market.

"Illegal Business" is defined as conducting business without prior registration required by law, as well as conducting business without a permit or in breach of the terms of the permit. The Law imposes a set of obligations and measures aimed at fighting "illegal business":

- **Trading with non-registered entities**

Companies or entrepreneurs engaged in purchase of final products, raw materials, semi-final products or waste material from non-registered entities are obliged to notify the Tax Authority on each transaction in excess of EUR 100.

- **Transparency of information held by the Tax Authority**

Public is granted access to the data of the taxpayers held by the Tax Authority, in accordance with the special law on public access to information.

- **Obligations on banks regarding information flow towards the Tax Authority**

Banks are obliged to submit data regarding money transactions of their clients to the Tax Authority, upon written request of the Tax Authority.

- **Obligation to transact via bank accounts**

Corporates and entrepreneurs are obliged to hold money on, and conduct payment transactions via, bank accounts and may hold only petty cash up to the amount prescribed by Law (maximum EUR 2,000 for entrepreneurs and EUR 10,000 - EUR 20,000 for corporates, depending on their size), provided their bank accounts are not blocked by creditors. In the latter situation, no petty cash may be held.

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- **Ban on pursuing business**

Entrepreneur, company or natural person holding a quota in excess of 30% of share capital in a company in bankruptcy or liquidation (presumably involuntary liquidation, although the Law does not make a distinction), a company that has outstanding and overdue tax obligation or a company that has its bank accounts blocked by creditors, is prohibited from setting up a new company or registering as entrepreneur. Affected companies may not establish subsidiaries. The restriction applies as long as the company is affected in one of the aforementioned manners.

- **Ban on certain payment transactions**

Company or entrepreneur whose bank accounts are blocked for more than 30 days cannot enter into agreements for assignment of debt, transfer of securities or set-off arrangements or any other transactions that may lead to avoidance of transacting via blocked bank accounts. An exception exists for settlement of tax obligations, if so provided under the law regulating tax procedure.

- **Obligations on media**

Media are required to take and keep ID data on parties commissioning advertisements and to report those data to the Tax Authority on a quarterly basis as well as upon request.

- **Organization of cultural, sport and entertainment events**

Organizers of cultural, sport or entertainment events must inform the Tax Authority of income earned by non-residents in relation to those events and pay withholding tax. This provision does nothing more than reiterate the existing obligations of Montenegrin organizers of such events under the tax regulations.

- **Obligations of employers**

Employer is obliged to enter into employment agreement with foreign citizen who has obtained a work permit on the date of the issuance of temporary residence permit to such foreign citizen. If employer fails to obtain temporary residence permit for foreign worker, fails to enter into an employment agreement with such person or fails to register him/her with the Tax Authority within 35 days following the issuance of work permit, it is obliged to return the work permit to the authority and such work permit shall be revoked.

Supervision of implementation of enumerated measures is in the hands of competent inspectorate, which may, inter alia, temporarily confiscate products, prohibit conduct of business, initiate misdemeanor proceedings or file criminal charges.

The Law prescribes fines for breaching entities, in the amount ranging from EUR 10,000 to EUR 20,000 (EUR 4,000 to EUR 10,000 for entrepreneurs), while responsible person within the breaching entity may be fined in the range from EUR 2,000 up to EUR 3,000.

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