

OPERATING COSTS IN SERBIA

Overhead Costs

Serbia's favorable business environment features highly competitive tax rates and low operating costs.

Tax Rates	
Value Added Tax (VAT)	Standard rate – 20% Reduced rate – 10%
Social Security Contributions	Pension and disability insurance – 14% Health insurance – 5.5% Unemployment insurance – 0.75%

For Legal Entities	
Corporate Profit Tax	15%
Taxes on dividends, shares in profits, royalties, interest and capital gains	20%
Personal Income taxes	
Salary Tax and Income from self-employment	10%
Capital Incomes and capital gains	15%
Copyright, property, profits from gambling and other types of income	20%
Annual Income Tax	10/15%

1. Corporate Taxes

Serbia's tax regime is highly conducive to doing business. The corporate profit tax is among the lowest in Europe, while the Value Added Tax is among the most competitive in Central and Eastern Europe.

Corporate Income Tax	Uniform rate – 15%
Withholding Tax	20% (for dividends, shares in profits, royalties, interest income, capital gains, lease payments for real estate, and other assets)
Personal Income Tax	Salaries – 10%
Annual Income Tax	10/15% (for annual income above 6 average annual salaries)

Source: National IPAs, 2013

2. Value Added Tax

The VAT rates are as follows:

The standard VAT rate - 20% (for most taxable supplies);

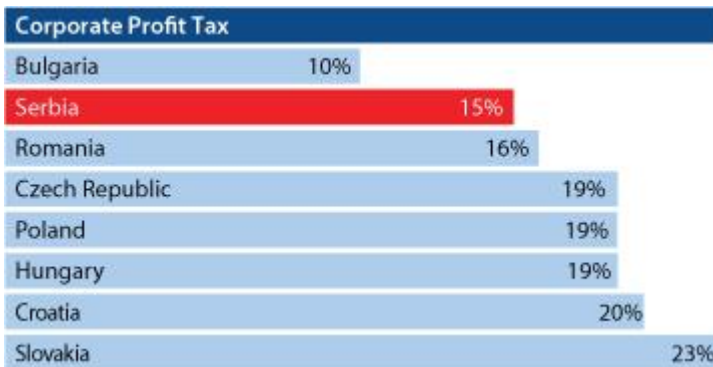
The lower VAT rate - 10% (for basic food stuffs, daily newspapers, utilities, etc.).

Standard VAT Rate	
Serbia	20%
Bulgaria	20%
Slovakia	20%
Czech Republic	21%
Poland	23%
Romania	24%
Croatia	25%
Hungary	27%

Source: National IPAs, 2013

3. Corporate Profit Tax

Corporate profit tax is paid at the uniform rate of 15%. Non-residents are taxed only based on their income generated in Serbia.



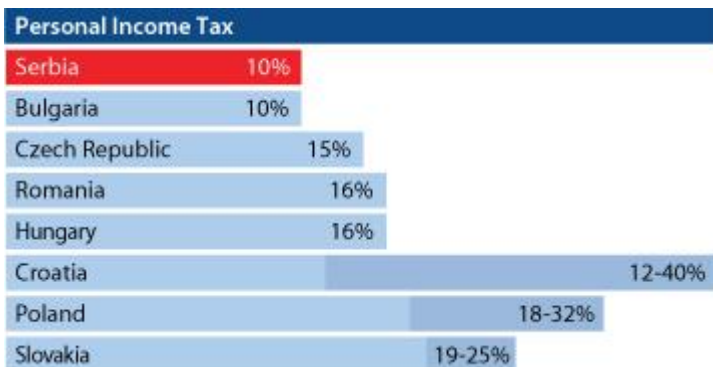
Source: National IPAs, 2013

4. Withholding Tax

The withholding tax is not applied to dividend payments between Serbian entities. For non-residents of Serbia, a 20% withholding tax is calculated and paid on certain payments such as dividends, shares in profit, royalties, interest, capital gains, lease payments for real estate and other assets.

5. Personal Income Tax

The personal income tax rate is 10% for salaries.



Source: National IPAs, 2013

6. Annual Income Tax

The annual income is taxed if exceeding the amount of threefold the average annual salary in Serbia. The tax rate is 10% for the annual income amounting up to 6 times average annual salary in Serbia, and 15% for the part of the annual income exceeding 6 times average annual salary in Serbia.

7. Taxes and Contributions

The rates for mandatory social security contributions are:

- 14% for pension and disability insurance,
- 5.15% for health insurance, and
- 0.75% for unemployment insurance.

The total sum of social security contributions and income taxes that are calculated on the net income, amounts to about 65% of net earnings.

Reduced Salary Load

Starting from July 1st, 2014 new employment entitles employers to a sizable relief of taxes and contributions paid on net salary from the moment of employment until June 30, 2016.

- 1-9 new jobs: 65% reduction;
- 10-99 new jobs: 70% reduction;
- 100+ new jobs: 75% reduction.

This reduces the total salary load to very competitive 20%*.

*an estimate for an average salary in Serbia

8. Labor Costs

Average salaries in Serbia are low enough to ensure cost-effective operating. Total costs for employers stand at merely 50% of the level in EU countries from Eastern Europe. Social insurance charges and Salary Tax amount to roughly 65% of the net salary but the tax burden for employers can be reduced through a variety of financial and tax incentives.



Source: The Vienna Institute for International Economics Studies

9. UTILITY FEES

Electricity

The 100% state-owned Electric Power Industry of Serbia is the sole electricity supplier at the moment. The electricity price varies according to the consumption category and daily tariff rate, ranging between €0.0112 and €0.0487/kWh.

Gas

As a natural gas supplier in Serbia, the state-owned company Srbijagas pursues its pricing policy in accordance with world prices of oil derivatives and the US dollar exchange rate fluctuations. The price of natural gas is set every 15 days, currently standing at €0.3057/m³.

Water

The waterworks in Serbia are operated at the municipality level with water prices set by local authorities.

Major Utility Fees (March 2010)

Item	Amount
High Voltage Electricity for Industrial Consumers (€/KWh)	0.0112-0.0336
Middle Voltage Electricity for Industrial Consumers (€/KWh)	0.0123-0.0369
Low Voltage Electricity for Industrial Consumers (€/KWh)	0.0162-0.0487
Gas for Industrial Consumers (€/m ³)	0.3057
Water for Industrial Consumers (€/m ³)	1.2800

1 Based on a sample of 22 municipalities

Source: Electric Power Industry of Serbia, Srbijagas, Statistical Office of the Republic of Serbia