

Amendments of the Corporate Income Tax Law adopted

Tax Alert

December 2019



The Parliament of the Republic of Serbia, at its session held on December 6, 2019, adopted the Law on amendments of the Corporate Income Tax Law. The Law is published in the Official Gazette of the Republic of Serbia No 86/2019 dated 6 December 2019.

Adopted amendments come into force from the tax period beginning in 2020 (unless specifically otherwise indicated).

An overview of the most significant amendments is provided below.

Bank expenses from housing loans denominated in Swiss francs (CHF)

Impairment allowance is tax deductible for the bank in the amount determined in accordance with the Law governing the conversion of housing loans indexed in CHF.

This amendment will be applicable from the tax return for 2019.

Tax credit based on outstanding debt of the borrower from housing loans denominated in CHF

The bank is entitled to a tax credit of 2% of the amount of outstanding debt of the borrower in accordance with article 4 paragraph 2 of the Law governing the conversion of housing loans indexed in CHF (the Law governing the conversion). According to article 4 paragraph 2 of the Law governing the conversion, outstanding debt represents the principal amount on the day of conversion increased by the amount of due unpaid regular interest on the date of conversion.

The bank has the right to use a tax credit for two consecutive tax periods in the amount of 50% of the tax credit. The unused tax credit amount can be carried forward and offset with the future tax liability, but not longer than ten years.

A separate Rulebook shall specify in greater detail utilization of this tax credit.

Exemption for investment funds

Resident taxpayers established under the regulations governing investment funds do not determine capital gain/loss from sale of real estate, shares and long-term securities, intellectual property rights or investment units in terms of article 27 paragraph 1 of the Corporate Income Tax Law.

Income generated by the investment funds from the alienation of above assets is excluded from the tax base.

Proportional tax incentive – 10-year period starts to count from the first year in which profit before tax was made

The provision governing the tax incentive in line with article 50a of the Corporate Income has been précised, according to which the tax incentive is used starting from the first year in which the profit before utilization of tax losses is made.

Furthermore, the existence of capital gains or losses does not impact on the beginning of the tax incentive period.

The right to a tax credit for services revenues from another country

Taxpayers are entitled to a tax credit on revenues from services from another country on which the withholding tax is paid in that country. A tax credit is recognized in the amount of tax paid in another country, but up to the amount that would be obtained by applying a tax rate of 15% to a base equivalent to 40% of the revenue generated from services.

Filing a tax return in the event of termination of tax consolidation

It is specified that if, after the tax consolidation is approved, the related party subsequently opts for individual taxation before the expiry of the 5-year term, all related legal entities are obliged to determine in the tax return submitted for the period in which the conditions for tax consolidation have expired, as well as to pay the proportional difference of the tax privilege they used.

The Annual Report (Country-by-Country Report)

The obligation to compile and submit to the Tax Authorities the Annual Report on controlled transactions within the group is introduced.

The Annual report must be submitted by the Serbian tax resident which is ultimate parent legal entity of an international group of related legal entities, within 12 months of the end of the business year for which the Annual report is being prepared.

An international group of related legal entities is a group of entities that are interconnected by ownership or control in terms of IASs, i.e. IFRSs, and whose total consolidated income is at least € 750 million annually. In addition, it is necessary that at least one party in the group is required to prepare consolidated financial statements in accordance with IAS, i.e. IFRS, i.e. that party would have such obligation if its shares are traded on a regulated market, and if the group members are subject to taxation in at least two tax jurisdictions (including permanent establishment as well).

The ultimate parent legal entity of an international group is a legal entity that is a member of an international group, that has the ownership or control of one or more legal entities, that creates an obligation to prepare consolidated financial statements, or would be required to do so if it traded with shares on a regulated market, as well under the condition that there is no other legal entity within the international group that has ownership or control of that entity and is required to prepare consolidated financial statements.

A separate rulebook will be adopted that will specify in greater detail the conditions and manner of submission of the Annual report.

KPMG Support

KPMG tax professionals are at your disposal for any necessary assistance in relation to application of the new provisions of the Corporate Income Tax Law.

If you have any questions or need the support of our tax professionals, feel free to contact us on tax@kpmg.rs

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We are at your disposal for any additional information.

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