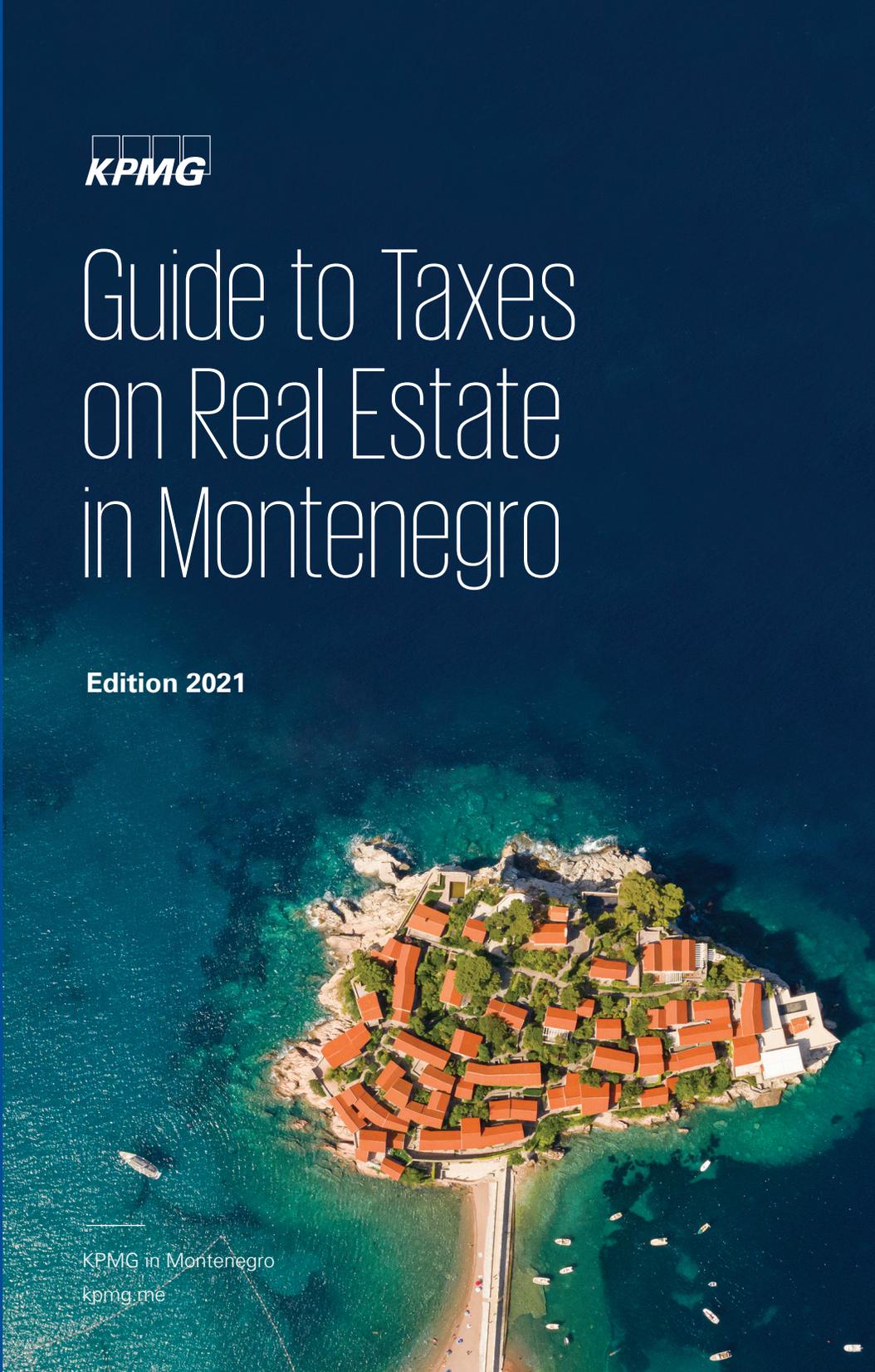




Guide to Taxes on Real Estate in Montenegro

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KPMG in Montenegro
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GENERAL

The general value added tax (VAT) rate is 21% and it is applicable on the first transfer of ownership rights for buildings built after 1 April 2003, while 3% real estate transfer tax (RETT) is applicable on all other real estate transfers.

Gains arising from real estate deals are subject to a 9% corporate income tax (CIT) rate, which is one of the lowest in Europe.

CORPORATE INCOME TAX AND CAPITAL GAINS

In Montenegro CIT is levied at 9% for resident entities and branches of non-resident entities. A resident is a legal entity which is incorporated, or which has a place of effective management and control within the territory of Montenegro. Resident legal entities pay tax on their worldwide income.

Non-resident entities pay tax on the income generated through a permanent establishment within the territory of Montenegro.

The tax period is the financial year which is also the calendar year except in the event of liquidation or for businesses starting their business activity during the year.

A corporate tax return must be submitted within 3 months of the end of the period for which the tax is assessed.

Corporate income tax liability is paid in one installment within 3 months of the end of the tax year.

Taxable income is determined on the basis of accounting profit disclosed in the annual income statement, in accordance with International Financial Reporting Standards and is subject to further adjustments in the tax balance.

Capital gains are disclosed separately from business profits in the tax return and are taxed at 9%. The capital gain is the difference between the sale and purchase price of assets (land, buildings, property rights, capital share and securities). If such a difference is negative, a capital loss is reported.

Tax losses

Tax losses generated from business transactions, financial and non-business transactions, excluding capital gains and losses, may be carried forward for up to five subsequent tax periods and can be offset against future taxable income.

Losses can be carried forward irrespective of mergers, acquisitions, spin-offs or other organizational changes.

Capital losses may be carried forward for 5 years and offset only against capital gains.

Tax depreciation

For CIT purposes, non-current tangible assets are divided into five groups, with depreciation rates prescribed for each group:

Group	Depreciation Rate
I	5%
II	15%
III	20%
IV	25%
V	30%

Buildings and other immovables (excluding land) are classified into tax depreciation Group I, while plant and equipment are classified into groups II-V. Non-current assets classified in Group I are depreciated using the straight-line method at 5%. A declining model is prescribed for non-current assets classified in groups II-V.

In addition, non-tangible assets such as franchises, patents, authorship rights and others are tax depreciated based on their estimated useful life.

Thin capitalization

There are no thin capitalization rules in Montenegro.

WITHHOLDING TAXES

Withholding tax (WHT) at a rate of 9% is levied on dividends, profit sharing, royalties, interest, capital gains, lease payments for immovable and movable property, consulting services, market research services and audit services earned by non-residents. Withholding tax may be reduced via double taxation treaties.

Distribution of inter-company dividends between Montenegrin companies is subject to withholding tax.

DOUBLE TAXATION CONVENTIONS

Montenegro has declared that it will honor all tax conventions that have been concluded by the state union of Serbia and Montenegro (and previously by the Federal Republic of Yugoslavia and the Socialist Federative Republic of Yugoslavia).

However, the application of such agreements with Montenegro has to be confirmed on a case-by-case basis by those entering such agreements.

As at 1 January 2021, Montenegro has 43 effective double taxation conventions on income and capital with the following states: Albania, Austria, Belarus, Belgium, Bosnia & Herzegovina, Bulgaria, China, Croatia, Cyprus, Czech Republic, Denmark, Finland, Germany, Hungary, Italy, Iran, Kuwait, Latvia, Macedonia, Moldova, Netherlands, North Korea, Norway, Poland, Romania, Russia, Slovakia, Slovenia, Sri Lanka, Sweden, Switzerland, Turkey, Ukraine; additionally, agreements with Azerbaijan, Egypt, France, Ireland, Malaysia, Malta, Portugal, Serbia, UAE and United Kingdom cover the avoidance of double taxation of income only.

VALUE ADDED TAX

VAT is levied on the following:

- supplies of goods and services for business purposes by a taxpayer for consideration within the territory of Montenegro; and
- import of goods into Montenegro.

A taxpayer is any entity that independently supplies goods and services in the course of doing business.

The threshold for VAT registration is prescribed at the equivalent of EUR 30,000. Namely, if turnover in the previous 12 months exceeds or is likely to exceed EUR 30,000, then registration for VAT is obligatory.

Only the first transfer of newly built buildings (i.e. buildings built since 1 April 2003) is subject to VAT at the general rate of 21% (there is no reduced rate for residential buildings).

Reduced VAT amounts to 7%.

The supply of land (except the first transfer of the ownership right or the right to make use of or transfer a newly constructed building), the lease of land, as well as services linked to the leasing of residential buildings for longer than 60 days are exempt from VAT without credit.

PROPERTY TAX

Tax on property is paid by the titleholder of the property rights (ownership, right of use, etc.). Property tax is paid on land and buildings. The property tax base is the market value of the property. In general, property tax rates range from 0.25% to 1.0%. For certain types of real estate (e.g. hotels in coastal areas), the rate can be even higher (up to 5%).

Property tax is paid in two installments, on 30 June and 31 October, upon receipt of the tax assessment which is issued by 30 April for the current year.

REAL ESTATE TRANSFER TAX

Acquisition of property rights over real estate (land and buildings) is subject to RETT unless the transaction is subject to VAT.

The RETT tax base is the market value of the real estate at the time of its acquisition.

The tax rate is 3%. The taxpayer will be the acquirer of the real estate. Real estate transfer tax is not paid when a unit of real estate is included as part of an initial stake as a contribution in kind, in connection with a share capital increase, or in the event of the acquisition of real estate in the course of a merger or de-merger.







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