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INVESTMENT INCENTIVES

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I STATE INCENTIVES FOR INVESTMENTS

There have been adopted two regulations in January 2019 in accordance to the Law on investments:

- 1- Regulation on criteria for awarding incentives in order to attract direct investments ("Off. Herald of RS", No.1/19)
- 2- Regulation on criteria for awarding incentives in order to attract direct investments in the sector of food Industry ("Off. Herald of RS", No.1/19)

A) Groups of investments

In accordance with Regulation on criteria for awarding incentives in order to attract direct investments ("Off. Herald of RS", No.1/19) there are two types of investments:

- 1- Investment projects for special purpose investments
- 2- Investment projects for no special purpose investments

Investment of special importance is an investment whose realization is significantly important for the further development of the Serbian economy:

- a) in fixed assets more than 5 million euros or more than 500 new jobs created,
- b) in fixed assets more than 2 million euros or more than 100 new jobs created for the third and fourth group of local self- governments according to their level of development, or in a devastated region,
- c) an investment which is based on adopted bilateral agreements.

In accordance with Regulation on criteria for awarding incentives in order to attract direct investments in the sector of the Food Industry ("Off. Herald of RS", No.1/19) there is only one type of investments.

B) Who can apply for incentives

Incentives can be awarded for investment projects in the production sector and for projects of shared services centers. Services of shared services centers and support to business operations are services provided by IC technologies mostly to the users outside The Republic of Serbia. Also funds can be awarded for the investment projects in the sector of food industry.

Funds cannot be used for financing investment projects in the sector of transportation, software development, accommodation and hospitality services, trade, lottery, production of synthetic fibers, coal and steel, mining, tobacco and tobacco products, arms and ammunition, ship production of sea ships of more than 100bt, airport, utility sector, energy sector, broadband networks, fishery and aquaculture.

C) Limitations

Funds can be awarded under the following conditions:

1. the investment must be held at the same location in the local government in which the investment is executed, at least for 5 years after the project is completed in case of large business entities, or at least 3 years for small and medium business entities,
2. the achieved number of employees after the project is completed, cannot be reduced during the period of 5 years for large business entities, or 3 years for small and medium business entities,

3. the user of the incentives is obliged to pay regularly the basic salary to each employee which is at least 120% of the minimum salary,
4. the deadline for completing the investment and creating new jobs related to the investment project is 3 years from the day of concluding the contract for awarding the incentives and which can be extended for the maximum period of 5 years after the contract is concluded,
5. The total amount of the funds which can be awarded according to this regulation and other subsidies is determined in absolute amount, whereby it cannot exceed the upper limit of the total amount of state aid allocated in accordance with the regulations which regulate state aid.

D) Type and amount of the funds that can be awarded for investments

The user of the funds is obliged to participate with at least 25% of justified costs from personal assets or other sources, which do not contain state aid. The maximum funds that can be awarded for investment projects for:

- ◇ LARGE business entities up to 50% of justified costs,
- ◇ MEDIUM business entities up to 60% of justified costs,
- ◇ SMALL business entities up to 70% of justified costs.

THE AMOUNT OF THE FUNDS THAT CAN BE AWARDED FOR INVESTMENTS FOR LARGE COMPANIES		
for justified costs of investments up to 50 mn EUR	for the part of justified costs of investments between 50 and 100 mn EUR	for the part of justified costs of investments above 100 mn EUR
up to 50%	up to 25%	up to 17%
justified costs are investments in a material and immaterial asset or justified costs of labor expenses for two year period following the realization of an investment		

Terms of awarding the funds for investment projects in the sector of production and service centers are as follows:

Level of the local government development	Number of jobs created	Minimal amount of the funds invested (EUR)	Approved incentives	The Council can additionally approve	
			Incentives for justified costs of labor expenses for two year period	Incentives for eligible costs of investment in fixed assets	Additional incentives for labor-intensive investment projects
I	50	500,000	20% but no more than 3,000 EUR for every job created	+10%	* 200–500 jobs created + 10% of the amount of justified costs of labor expenses for two year period * 500 – 1,000 jobs created + 15% of the amount of justified costs of labor expenses for two year period * more than 1,000 jobs created + 20% of the amount of justified costs of labor expenses for two year period
II	40	400,000	25% but no more than 4,000 EUR for every job created	+15%	
III	30	300,000	30% but no more than 5,000 EUR for every job created	+20%	
IV	20	200,000	35%, but no more than 6,000 EUR for every job created	+25%	
Devastated region	10	100,000	40%, but no more than 7,000 EUR for every job created	+30%	
Service centers	15	150.000	-	-	

For the investments of no special purpose additional 10% are awarded for the costs of investment in fixed asset, regardless on the level of development of municipality in which is invested.

For investments in Food Industry funds can be awarded only for investments of minimum 2 million euro and 30 new jobs created. The amount of incentives depends on the level of development of the municipality according to the next scale:

Level of the local government development	Approved incentives	
	Incentives for justified costs of labor expenses for two year period	Incentives for eligible costs of investment in fixed assets
I	20% but no more than 3,000 EUR for every job created	For investing up to 20 mn euro - 20%
II	25% but no more than 4,000 EUR for every job created	For investing from 20-40 mn euro – additional 10%
III	30% but no more than 5,000 EUR for every job created	
IV	35%, but no more than 6,000 EUR for every job created	For investing over 40 mn euro – additional 5%
Devastated region	40%, but no more than 7,000 EUR for every job created	

E) Criteria for expert analyses of investment projects

- 1) References and credibility of the investor
- 2) Number of unemployed people whose qualifications are suitable for the investment
- 3) Number of highly qualified employees
- 4) Type and amount of the investment
- 5) Technology level of the investment
- 6) Participation of domestic suppliers
- 7) Number of new jobs and the effect of investment on the number of employed people in the economy
- 8) Expected turn over on international and domestic market
- 9) Financial evaluation of the project

F) Procedure for application

The Investor can submit to the Agency a Letter of intent on the realization of an investment project containing: activity data, planned investments and number of new jobs created. Agency provides the investor with a notice on the possible level of incentive. This notice is legally non-binding. The investor should notify the Agency about his decision within 30 days. If Agency estimates that it is an investment project of special importance, the Agency shall notify the Ministry of Economy and the Council. The Investor who intends to realize the investment should submit to the Agency application for incentives in the prescribed form in Serbian language for the purpose of determining the fulfillment of the conditions. The Agency conducts a professional analysis of the investment project and informs the investor on the amount of incentives it will propose to the Council. The Agency shall submit a draft contract to the investor. The expert analysis of the investment project contains an analysis of the possible amount of funds.

II CUSTOM BENEFITS

According to the Law on Investments import of equipment which represents investor's stake is considered to be free and exempted from customs and other duties, except for passenger vehicles and machines for amusement and lottery games.

Exemption from customs and other duties is achieved in accordance with regulations on allocation of regional state aid, for companies which are beneficiaries of funds under the contract on allocation of incentive funds. Benefit can be used up to the amount of subscribed non-monetary foreign investment in business entity, if the amount of incentive funds (together with customs benefits) does not exceed the amount of 50% of justified costs for realization of investment for large companies, 60% or 70% for medium and small companies.

For companies which are not beneficiaries of incentive funds according to the agreement on allocation of incentive funds, exemption from customs and other duties is achieved according to the rules on the allocation of de minimis state aid. Particularly, the amount of exemption from customs and other duties cannot exceed the upper limit of de minimis state aid in the amount of 23 ml RSD per one foreign investor at any time during three consecutive fiscal years.

III TAX INCENTIVES

A) Reductions of tax and contributions paid on a net salary

It is possible to get a refund for a part of total costs on worker's salaries implemented on the total amount of tax paid for salaries (10% on gross 1) and contributions for mandatory pension and invalidity insurance (26% on gross 1) in case new jobs were created, in the following manner:

- ◇ 1 - 9 new jobs created: 65% reduction;
- ◇ 10 - 99 new jobs created: 70% reduction;
- ◇ 100+ new jobs created: 75% reduction;
- ◇ 2+ new jobs created for SMEs 75% reduction.

This way the total costs for salaries, which pays the employer, are reduced by half – (around 30%, instead of 64% of net salary, which is calculated on the average salary in Serbia). It is important to say that these deductions **are applicable only for persons registered as unemployed in the National Employment Agency (labor office) for minimum 6 months continuously**. If an employer uses any other incentives, he cannot use this tax reduction for employing unemployed persons.

B) Relief from corporate income tax

Law which regulates corporate income tax provides the tax rate of 15%. However, if the taxpayer invests in fixed assets more than 1 billion RSD (around 8,5 million euros) and in the period of investment additionally creates at least 100 new jobs, he can get corporate tax income holiday for a period of 10 years proportional to his investment, starting from the first year when taxable income has been made.

C) Tax statement losses transfer to tax balance sheet in the next 5 years

Losses which are determined in the tax balance sheet can be transferred to the account of profit determined in the tax balance sheet in future accounting periods, but no more than five years.

IV | BILATERAL AGREEMENTS WITH CERTAIN COUNTRIES WHICH PROMOTE INVESTMENTS

A) Agreements on reciprocal promotion and protection of investments

The Republic of Serbia has signed Agreements on reciprocal promotion and protection of investments with 50 countries.

B) Agreements on avoidance of double taxation

The Republic of Serbia has signed agreements on avoidance of double taxation with 58 countries which refer to the laws that regulate corporate income tax, property tax, and individual income tax.

V | FREE ZONES

There are more than 200 international companies operating with more than 20.000 people employed in free zones (FZ) of Serbia. There are 14 free zones in Serbia FZ Pirot, FZ Subotica, FZ Zrenjanin, FZ Novi Sad, FAS FZ Kragujevac, FZ Sabac, FZ Uzice, FZ Smederevo, FZ Krusevac, FZ Svilajnac, FZ Apatin, FZ Vranje, FZ Priboj and FZ Belgrade).

Fiscal benefits of operating in FZ:

- ☐ VAT exemption on entering goods in FZ, as well as on providing transport and other services related to entering goods in FZ
- ☐ VAT exemption on the trade of goods and services in FZ,
- ☐ VAT exemption on the trade of goods between users of two FZ,
- ☐ VAT exemption on fuels used in production,
- ☐ Exemption from certain tax duties for foreign direct investments.

Customs benefits of operating in FZ:

- ☐ Free of customs duties on import of goods which should be used for operating business and construction of buildings in FZ (equipment, raw materials, and construction material),
- ☐ Simple and fast customs procedure,
- ☐ Customs Administration Office in each FZ,
- ☐ Import and export of goods and services in FZ are free and not subject to any quantitative restrictions,
- ☐ The goods imported or exported from FZ are treated as goods of custom status,
- ☐ The goods released from the FZ to the territory of the Republic of Serbia are subject to customs duties.

Benefits of local self- government:

- ☐ Efficient administration in FZ (One Stop Shop),
- ☐ Employers have the possibility to rent workspace, workshops, warehouses under favorable conditions in FZ,

- ☐ Local self-government can adopt a decision on benefits for construction of facilities and infrastructure in the area of FZ, and on exemptions from paying local fees, taxes or charges (tax for arranging city construction land, for using city construction land, local utility taxes etc.)

VI | TRADE AGREEMENTS AND GENERAL SYSTEM OF PREFERENCES

Serbia has signed several agreements that can simplify your business and provide you with some benefits regarding export and import, so one can accomplish some reductions or even total exemption from paying customs duties. We can group these agreements in agreements based on European rules on the origin of goods (SSP, CEFTA, EFTA, and Turkey) and the other group of agreements with Russia, Belarus, and Kazakhstan. Alongside with these agreements, Serbia also benefits from Generalized System of Preferences of Japan USA and Australia for some goods from Serbia. Therefore, companies from Serbia have preferential status when placing their goods and services to the market of more than 1.3 bn people.



SERBIA

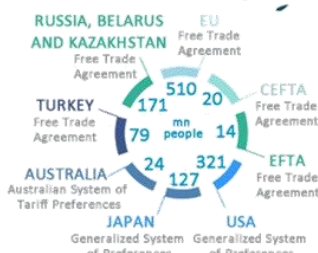
YOUR NEXT INVESTMENT DESTINATION

1 GEOSTRATEGIC POSITION



Goods made in Serbia benefit from several Free Trade Agreements and Generalized System of Preferences which provide simplified placement on markets with more than

1.3bn people



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ENCOURAGING INVESTMENT REGIME

- State level incentives
 - Funds are awarded for investment of special purpose or applied to Public Invitation
 - Funds awarded depend on:
 - level of development of municipality
 - size of the company
 - up to 7,000 EUR per job created
 - additional incentives for investing in fixed assets
 - additional incentives for labour intensive projects
- Local government incentives
 - reduction or exemption of payment of certain local fees or charges
 - benefits for construction or lease of necessary facilities for investment
 - benefits for connecting to local infrastructure
- Tax incentives
 - Available Corporate Income tax holiday for 10 years for certain investments
 - Treaties on avoiding double taxation with 58 states
 - Tax statement losses may be transferred to the account of the profit declared in the tax statement in future accounting periods (for up to 5 years)
 - Partial compensation of taxes and social contributions paid on salaries for employing unemployed persons

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FREE ZONES

- Investors' benefits:
 - No customs and import duties for goods required for business operations
 - VAT exemptions for energy consumption, entry of goods or selling of goods and services within zones
 - Import and export of goods and services without any quantitative restrictions
- 14 free zones with 262 companies
- In 2017 the total value of exchanged goods and services within the zones reached €4.9bn
- FZ Pirot has been ranked twice on the list of the best free zones in the world ("Financial Times" 2014 and 2017)

SERBIA AT A GLANCE 2



- Territory: 88,499 km²
- Capital: Belgrade
- Population (2017): 7mn
- GDP (2017): €39.2 bn
- GDP pc (2017): €5,581
- Currency: Serbian Dinar RSD
- Credit ratings: Fitch ratings: BB/stable
Moody's: Ba3/ stable
S&P: BB/positive
- RSD exchange rate (31-12-2018): EUR/RSD: 118.4727
USD/RSD: 99.1155
- EU integration: - Serbia formally started negotiations to join EU on 21st January 2014
- Opened 16 Chapters out of 35 and 2 closed

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FAVOURABLE BUSINESS ENVIRONMENT

- Doing Business 2019 (World Bank) **48th position**
- New liberalized labour law from 2014
- World leader by the number of new jobs created per capita in 2016 (IBM Global Locations Trend 2017)
- The first out of 94 countries in the world by the greenfield FDI performance Index (Financial Times)

- Functional infrastructure

transport energy telecommunications

- Low operating costs

The lowest cost of electricity and postal services in the region

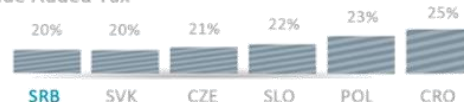
Strongly motivated workforce

Competitive tax policy

- Fastest average Internet speed in the region

(14.2 Mbps)
99.7% of Serbia's population is covered by 3G signal

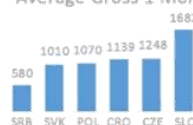
- Value Added Tax



- Corporate Tax



- Average Gross 1 Monthly Salary (EUR), 2017



- Average Net Salary €420
- Total cost for employer (Gross 2) €680

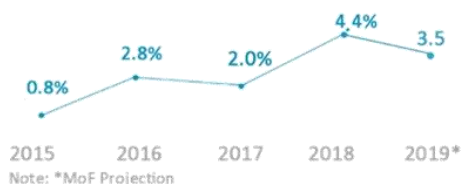
6 HIGHLY QUALIFIED WORKFORCE

- University of Belgrade is ranked as one of Top 400 Universities ("Shanghai" list)
- Highly educated young workforce with around 50,000 university and college graduates, and 75,000 high school graduates every year
- Serbia is the best ranked country in the region and 16th among 72 countries in the world with high proficiency level of English ("Education First" list)



8 MACROECONOMIC BACKGROUND

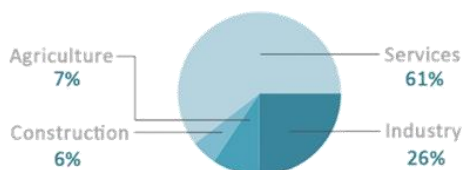
✓ STABLE GDP GROWTH



✓ CONSOLIDATED FISCAL BALANCE



✓ GROSS VALUE ADDED STRUCTURE



9 NUMEROUS SUCCESS STORIES



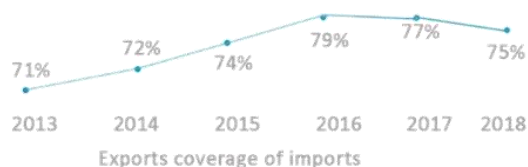
7 CLUSTERS IN SERBIA

- Strong suppliers from Serbia
- More than 500 companies
- Main clusters are from ICT, automotive, textile, metalwork, wood and construction industry



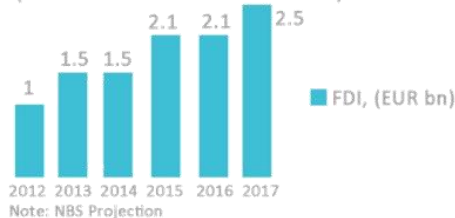
✓ EXPORT-LED ECONOMY

Serbian exports of goods reached record high of €16 bn in 2018

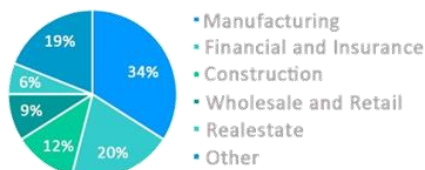


✓ €24bn ALREADY INVESTED

(cumulative Inward FDI since 2007)



✓ WELL-DIVERSIFIED FDI PORTFOLIO



✓ LOW INFLATION AND STABLE FX RATE



10 CONTACT

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