

Manual for investors

Serbia, 2021

Arthur Bergmann
CONSULTING DOO

Welcome to Serbia!

Serbia is a country in Southeast Europe, located in the heart of the Balkan Peninsula, where 7 million inhabitants are mostly Serbs, but also members of the 40 different national communities.

Connecting the West and the East for centuries, Serbia is a country where civilizations, cultures, religions, climates and reliefs meet and intertwine.

The northern part of Serbia belongs to Central Europe, and geographically and climatically, it is also a Mediterranean country. Serbia is a continental country, but as a country on the Danube, it also has a connection with distant seas. International roads and railways form the shortest connection between Western Europe and the Middle East.

From the agricultural areas of the Pannonian Plain in the north, through the fertile river valleys and hills under the orchards in Šumadija, the relief of Serbia further south gradually turns into mountainous, rich in canyons, gorges and caves, as well as preserved forests.

Serbia's cultural and historical heritage begins with prehistoric archaeological sites and ancient heritage. Serbia is the richest of medieval churches and monasteries, some of which are included in the world UNESCO cultural heritage

The Serbian economy follows a modern model of the free market. The largest sector of the Serbian economy is the services sector / tertiary sector, which accounts for a total of 63.8% of GDP. It is followed by the industrial sector (23.5% of GDP) and the agricultural sector (12.7% of GDP). Serbia's primary strategic development goal is the sustainable and dynamic development of the industry, which can be fit into the European Union market and resist the competitive pressure of EU members. The sustainable economic growth and macroeconomic stability of Serbia are unsustainable without stable growth of industry, its dominant influence on exports and balance of payments. Exports and investments of the processing industry are in the center of Serbia's attention, as key generators of GDP growth in the next decade, because without their growth and changed structure, the entire model of economic growth in Serbia is not achievable. In addition to fresh capital, foreign direct investments enable the creation of new jobs, the introduction of modern technology, efficient management and a new corporate culture.¹

¹ Strategy and policy of industrial development of the Republic of Serbia from 2011 to 2020 (Official Gazette of RS, No. 55/2011)

Welcome to Serbia!



7.19 million



88.499 km



Niš

(over 250.000)

Kragujevac
(180.000)



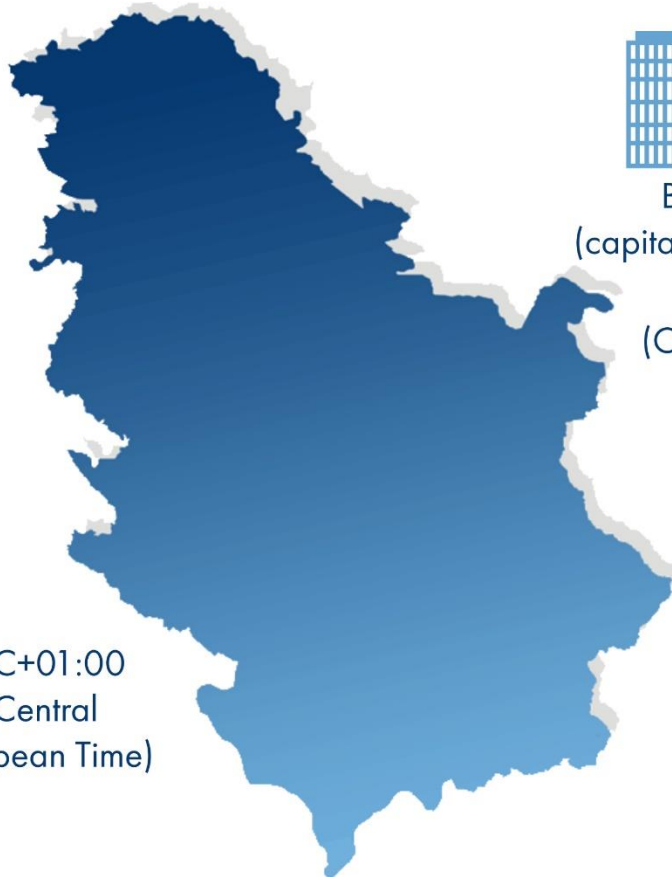
Belgrade

(capital, 1,660,000)

Novi Sad
(Over 341,000)



UTC+01:00
(Central
European Time)



During the process of joining the European Union, Serbia has been working for years to improve investment opportunities and introduced changes to various laws to attract foreign investors. The amendments to the law were made with the aim of harmonizing with the EU legislation, as well as for Serbia to become a competitor when it comes to investments.

This significant change has led to Serbia ranking high on the list of countries that investors around the world take into account when deciding where to invest.

JOIN THE SUCCESSFUL:

KEY INVESTORS



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Source: RAS, May 2021

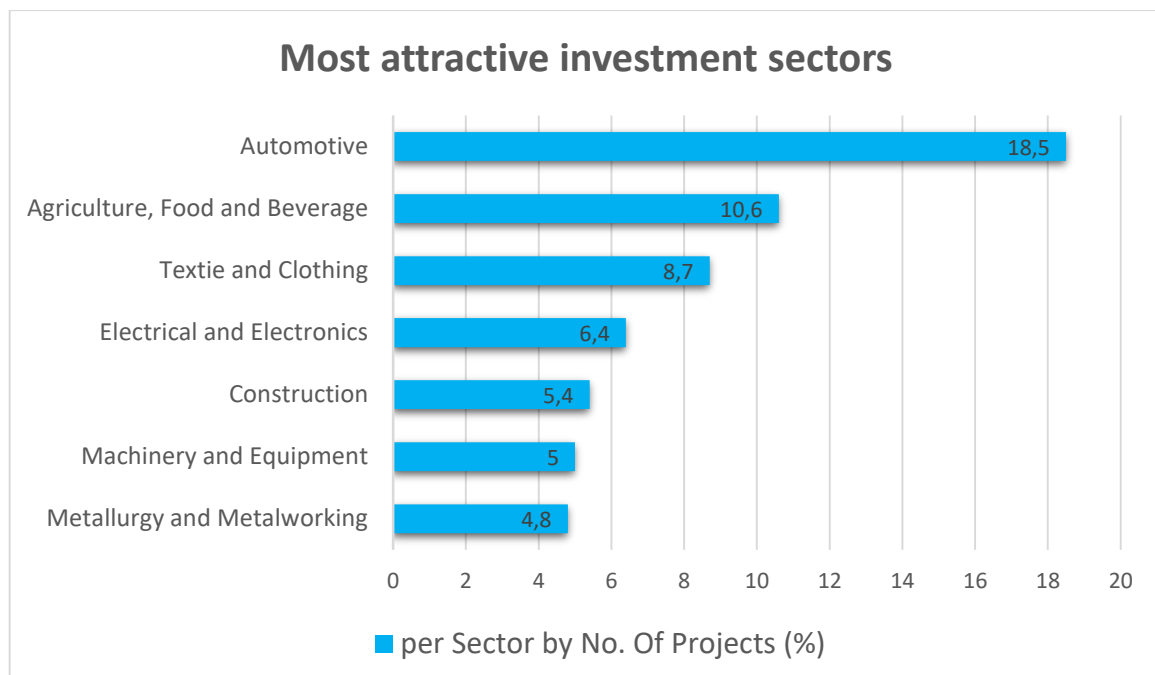
INVESTMENT OVERVIEW BY INVESTORS AND SECTORS:



Source: RAS, May 2021



Source: RAS, May 2021



Source: RAS, May 2021

Since 2007, more than 34 billion euros of foreign direct investments have been invested in Serbia.



INVESTMENT CLIMATE

The modern world of work is exposed to numerous influences related to the shift towards a knowledge economy, in such conditions, there is no economy without highly qualified human capital. Human capital is the most important capital and resource of any initiative and future development.

✓ **Reason number 1: A large number of young graduates and high level of English language skills**

People in Serbia are recognized as ambitious, persistent and hardworking. They stand out with their unique competitive spirit, and that is what makes their performances significant and their contribution to projects outstanding. As an employer, you can easily find young graduates who speak English on a high level.

The unemployment rate is 9,9%²

Serbia has 5 universities with 241,968 active students and 517 high schools with 60,978 graduates per year. In the 2020/2021 school year, 47,823 students were enrolled.³

✓ **Reason number 2: Freedom to invest**

Under Serbian law, foreign investors have the freedom to invest.

Right at the beginning, we want to clarify that a foreign investor is a company or a natural person, who has its registered office or residence abroad and who invests in business activities in Serbia.

It is important to point out that foreign investors are treated in the same way as the citizens of Serbia. This implies that they have the same rights and obligations as Serbian investors unless otherwise provided by the Law on Investments.

After paying all taxes and settling other obligations based on public revenues, foreign investors can transfer their revenues, such as dividends, fees for the use of intellectual property rights, as well as other funds related to investments in Serbia.

✓ **Reason number 3: Competitive operating costs**

Utility prices

Electricity

Elektroprivreda Srbije, which is 100% state-owned, at the moment, is the only electricity supplier.⁴ The price of electricity is 0,067€ /kWh.⁵

Gas

As a supplier of natural gas in Serbia, the state-owned company Srbijagas pursues its pricing policy in line with world prices of petroleum products and the fluctuation of the dollar exchange

² <https://www.stat.gov.rs/sr-latn/vesti/?a=24&s=2400> (26.02.2021)

³ Republic Statistical Office - Press release number 349, year LXX, 25.10.2020.- Education statistics

⁴ <http://www.eps.rs/lat/vesti/Stranice/epsd.aspx> (04.05.2021)

⁵ <http://www.eps.rs/lat/snabdevanje/Stranice/cene.aspx> (04.05.2021)

rate. The price of natural gas is determined every 15 days, and currently amounts to 0.38 – 0,42 €/m³.⁶

Water

Water supply in Serbia is managed at the municipal level, and water prices are determined by local authorities. The average price of water is 0,6-1,3 €/ m³.⁷

Wages

The average gross monthly salary in Serbia is 730,22 euro.⁸

The costs of renting an industrial facility in housing construction are 1-2.5 €/m², while in new construction they range from 3-5 €/m². The average cost of construction ranges from 200-400€/m².⁹

⁶ <https://www.srbijagas.com/wp-content/uploads/2021/03/2019.07.05.-Cena-gasa-10.03.2021..pdf> (04.05.2021)

⁷ <https://ras.gov.rs/podrska-investitorima/zasto-srbija/konkurentni-operativni-troskovi> (27.05.2021.)

⁸ Source: Based on the Release of ZR10 of the Republic Statistical Office (No. 107 of April 26, 2021)

⁹ Source: RAS, February 2021

Taxes

One of the important things you need to be well informed about are tax laws and tax breaks in Serbia. After comparing the taxes prescribed by the laws in Serbia with other European countries, you will surely see the advantage of investing in Serbia.

One of the most important taxes for companies is the corporate income tax. The table below shows some examples of corporate income tax in European countries. Taking into account the quality of life, other business costs, together with other benefits for business owners in Serbia, we firmly believe that Serbia is a suitable place to start your own business.

Income tax on legal persons	
Bosnia and Herzegovina	10%
Serbia	15%
Romania	16%
Croatia	18%
Czech Republic	19%
Slovenia	19%
Estonia	20%
Belgium	29,58%

Favorable corporate tax rates are not the only thing that motivates investors around the world to start their business in Serbia. The fact that the relevant laws contain very favorable provisions, especially in innovative activities, makes Serbia an excellent market for investing in existing companies or starting a new company in Serbia.

Tax rates

The tax system in the country is characterized by low tax rates. Income tax is one of the most favorable in Europe, and value-added tax and payroll tax are lower than in most Central and Eastern European countries.

Tax rates	
Value added tax	General rate - 20% Special rate - 10%
Income tax	15%
Withholding tax on dividends, profit shares, royalties and interest in a legal entity	20%
Personal income taxes	
Earnings and income from self-employment	10 %
Capital income and capital gains	15%
Copyright, real estate, gambling profits and other types of income	20%
Annual income tax	10/15%
Social security contributions	Pension and disability insurance - 14% Health insurance - 5.5% Unemployment insurance - 0.75%

✓ Reason number 4: Strategic position for affairs related to the European Union

As Serbia is located in Southeast Europe, it offers an extremely convenient geographical position. The Danube, which passes through Serbia, connects as many as 10 European countries. Also, roads and railways from northern, western and central Europe pass through Serbia on their way to southeastern Europe and southwestern Asia.

Developed transport infrastructure is important for business development, facilitated market presence, as well as a simplified way to connect with business associates and suppliers from all parts of Europe and the world.

Goods turnover for more than 1.1 billion consumers under free trade agreements:

European Union

Imports from the European Union are duty free for most products. Some export restrictions are imposed only on exports of beef, sugar and wine in the form of annual export quotas.¹⁰

Russian Federation

The agreement stipulates that goods produced in Serbia, i.e. goods that have at least 51% of added value in the country, are considered goods of Serbian origin and are exported to the Russian Federation without paying customs duties. The list of products excluded from the Free Trade Agreement has revised annually.¹¹

CEFTA

In addition to duty-free trade between member states, the agreement provides for the accumulation of origin of products, which means that products exported from Serbia are considered products of Serbian origin if integrated materials originate from any other CEFTA country, the European Union, Iceland, Norway, Switzerland (including Liechtenstein), or Turkey, provided that such products have undergone sufficient processing, i.e. if at least 51% of the value-added of the product originates from Serbia (if the value added is greater than the value of the materials used in Serbia).¹²

United States of America

Trade with the United States is conducted under the Generalized System of Preferences (GSP). U.S. trade facilities provide preferential duty-free entry for approximately 4,650 products, including most finished and semi-finished products and selected agricultural and basic industrial products. The list of qualified goods is revised and adjusted twice a year, with the contribution of US industries.¹³

¹⁰ Delegation of the European Union to the Republic of Serbia - <https://europa.rs/srbija-i-evropska-unija/trgovina/>

¹¹ Development Agency of Serbia - <https://ras.gov.rs/podrska-izvozu/sporazumi-o-slobodnoj-trgovini>

¹² Development Agency of Serbia - <https://ras.gov.rs/podrska-izvozu/sporazumi-o-slobodnoj-trgovini>

¹³ Development Agency of Serbia - <https://ras.gov.rs/podrska-izvozu/sporazumi-o-slobodnoj-trgovini>

Turkey

Serbian companies can export to Turkey without paying customs duties. Imports of industrial products from Turkey are generally duty-free, but customs duties on a large number of products will be phased out over a period of six years. Customs duties remain in force for agricultural products.¹⁴

EFTA

Most industrial products exported from Serbia to the member states of the European Free Trade Association (Switzerland, Norway, Iceland and Liechtenstein) are exempt from customs duties, which provides access to a market of 13 million inhabitants. Trade in agricultural products is regulated by special bilateral agreements between Serbia and each individual EFTA member state, providing mutual concessions for these products.¹⁵

✓ Reason number 5: Simple, fast and financially convenient establishment of a company in Serbia

A new legal entity is established after registration with the Business Registers Agency and after opening a business bank account.

The process of registering a company with the Business Registers Agency is simple. The entire founding process can be completed within 3-5 days. Before that, depending on the complexity of the founder's structure, it takes some time to prepare all the documentation and to compile the most important document of each company - the Founding Act.

Serbia has very competitive prices compared to other European countries when we take into account the fees for founding a company that are paid to the Business Registers Agency, as well as the fact that all kinds of changes are possible (for example, change of address).

The share capital of a company may consist of a monetary or non-monetary contribution. The minimum amount of share capital in a limited liability company is 100 RSD, while for founders who want to apply for a temporary residence permit based on their function in the company, the minimum amount is 250 EUR (corresponding amount in RSD).¹⁶

¹⁴ Development Agency of Serbia - <https://ras.gov.rs/podrska-izvozu/sporazumi-o-slobodnoj-trgovini>

¹⁵ Development Agency of Serbia - <https://ras.gov.rs/podrska-izvozu/sporazumi-o-slobodnoj-trgovini>

¹⁶ Business Register Agency - <https://www.apr.gov.rs/>

✓ **Reason number 5a: Establishment of companies in Serbia without physical presence**

Numerous business obligations and a hectic lifestyle often prevent people from coming to Serbia for bureaucratic formalities. During the establishment of the company, these formalities include the certification of the company's statute, physical presence in the bank during the opening of the account, as well as other actions. All actions related to the establishment of a company can be performed without the physical presence of the founder.

✓ **Reason number 5a: Virtual headquarters**

The company must have a registered business headquarters in Serbia, from where it conducts its business activities. As a good part of business operations within the company are performed remotely (this is especially true for companies engaged in innovative activities in the IT sector), a favorable option for registering a business headquarters in Serbia is to opt for a virtual headquarters service for your company in Serbia.

✓ **Reason number 6: Customs benefits for investments in Serbia¹⁷**

Foreign persons wishing to invest in Serbia in the form of import of equipment (excluding passenger vehicles and equipment for games of chance), may be exempt from customs duties and other duties if the equipment imported is in accordance with environmental regulations in Serbia.

✓ **Reason number 7: Fair market competition**

For years, the Commission for Protection of Competition in Serbia has received a positive evaluation for its work as well as for drastically improving transparency. The Foreign Investors Council recommends the use of more advanced economic analyzes in the processes of analyzing distortions of competition, as well as the use of more advanced software that improves the quality of economic analyzes.

It is clear that Serbia does not lag behind developed European countries when it comes to fair competition in the market ¹⁸.

¹⁷ Decree on the conditions, manner and procedure of exemption from customs and other duties on the import of equipment (Official Gazette of RS, No. 34/2019)

¹⁸ Republic of Serbia – Commission for Protection of Competition, <https://www.kzk.gov.rs/page/4> (04.05.2021)

✓ **Reason number 8: Special tax incentives for investors¹⁹**

In addition to the incentives given to all legal entities in Serbia, there are incentives and non-refundable funds that are specifically intended for foreign investors.

As a form of financial support, the Republic of Serbia provides special grants for greenfield and brownfield investments, as two types of foreign direct investment in Serbia.

To support investments of national importance, as well as investments that promote domestic economic development, the Republic of Serbia may sell construction land to an investor at a lower price than the market value.

For investors who employ more than 100 workers and invest more than 8.5 million euros, the Republic of Serbia offers a tax credit for ten years on corporate income tax.

✓ **Reason number 9: Other relevant financial benefits**

Doing business within some of the 15 free zones in Serbia²⁰ provides a certain preferential tax regime. What is crucial is to exclude VAT on income generated through business activities. Both domestic and foreign legal entities have the right to take advantage of free zones. Free zones are a huge advantage to all types of business activities, including manufacturing, warehousing, trade, banking and insurance.

Profits made in the free zone can be transferred to any country in the world, without any permits and without any taxes and costs.

Investors in the free zone can rent warehouses, business premises and other types of premises with preferential terms.²¹ (for example: VAT on electricity is not paid).

✓ **Reason number 10: Labor law**

Amendments to the Labor Law that came into force in the last few years were aimed at making Serbia a competitive country with other European countries on the labor market.

There are three types of contributions: pension and disability insurance contributions, health insurance contributions and unemployment insurance contributions. Contributors are both the employer and the employee, bearing in mind that one part of the contribution is paid "at the expense" of the employee (contributions payable "from earnings"), and the other part "at the expense" of the employer (contributions representing the employer's costs, i.e contributions pay "on earnings"). However, unlike many other countries, in Serbia, both of these types of

¹⁹ Decree on determining the criteria for awarding incentives to attract direct investments (Official Gazette of RS, No. 1/2019)

²⁰ Law on Free Zones (Official Gazette of RS, No. 62/2006)

²¹ Development Agency of Serbia -- <https://ras.gov.rs/podrska-investitorima/zasto-srbija/slobodne-zone> (27.05.2021)

contributions are calculated and paid exclusively by the employer when paying the salary to the employee.

The applicable contribution and tax rates are as follows:

- a) Contributions for pension and disability insurance at the expense of the employee amount to 14% of gross salary, and at the expense of the employer 11% of gross salary;
- b) Health insurance contributions at the expense of both the employee and the employer amount to 6.15% of gross salary;
- c) Unemployment insurance contributions amount to 0.75% of gross earnings;
- d) Income tax is 10% of gross earnings.

✓ Reason number 11: Employment of foreigners in Serbia²²

The provisions of the Law on Foreigners and the Law on Employment of Foreigners are of great importance for both foreign employers and employees, given that the employment of foreigners in Serbia is regulated by these laws.

All issues related to the residence permit of foreigners in Serbia are regulated by the Law on Foreigners.

When it comes to the provisions of the Law on Employment of Foreigners, there is no difference between foreigners who need a work permit and those who do not need a work permit to perform economic activities in Serbia.

A work permit is not required for special categories of employees in governmental and non-governmental organizations, such as foreigners entitled to benefits and immunities, family members of diplomatic or consular missions, certain representatives of the non-governmental sector, representatives of foreign media and volunteers.

A work permit in Serbia is not mandatory for those foreigners who do not stay in Serbia for more than 90 days in a period of up to 6 months, from the day of first entry into Serbia, in cases when (is) a foreigner:

- owner, founder, representative, or member of the competent body of a Serbian legal entity, in case he/she is not employed by this legal entity;
- makes business contacts or attends business meetings in Serbia and performs other activities without generating income in Serbia in order to prepare a foreign employer to enter the Serbian market;

²² Law on Foreigners (Official Gazette of RS, No. 24/2018 and 31/2019) and Law on Employment of Foreigners (Official Gazette of RS, No. 128/2014, 113/2017, 50-2018 and 31/2019)

- a lecturer or researcher who participates in the organization of professional events or scientific projects, or the presentation of technical progress, as well as staff;
- performs educational, sports, artistic, cultural and other activities or resides in Serbia due to scientific, artistic, cultural or sports events, which are organized by competent organizations, state bodies or provincial and domestic bodies, as well as due to organizational and technical support staff;
- posting for work purposes in Serbia, performing activities related to the supply of goods, supply or rental of machinery or equipment, as well as its delivery, installation, installation, repair or training of personnel for the use of such machinery and equipment;
- performing activities related to the installation and display of equipment at business fairs and exhibitions.

In case you do not fall into any of these categories or you are a foreigner who would like to stay and work in Serbia for more than 90 days for a period of up to 6 months, you are obliged to obtain a work permit in order to work in Serbia.

About us:

Our company deals with the economic assessment of companies in Serbia and the region of the Western Balkans. We are focused on attracting financial resources for company development projects. We provide financial resources from domestic and international financial sources, through projects, joint venture, preparation and placement of feasibility studies and finding adequate business partners.

With our experience and professionalism, we represent a reliable partner to organizations and companies who wants to prosper in the global market with an increasing competition atmosphere. We work with a multidisciplinary team of experts, who are at your disposal in introducing new management systems and improving the performance of your organization.

Our expert team has realized more than 250 projects and provided financial resources to the SME sector from domestic and foreign funds (Development Fund of Serbia, Development Fund of Vojvodina, Innovation Fund of the Republic of Serbia, Prosperitati, EU funds) and through the ARTHUR BERGMANN CONSULTING Ltd is starting a new phase of its existence.

Contact:

Head office: Beograd

Address: Omladniskih brigada 88-90

E-mail: consulting@arthurbergmann.rs