Contents

1. Montenegro: Country Profile ................................................................. 1
   1.1 Introduction .................................................................................. 1
   1.2 Government Structure ............................................................... 1
   1.3 Legal System .............................................................................. 2
   1.4 People ......................................................................................... 2
   1.5 Economy .................................................................................... 3

2. Business Environment ........................................................................ 4
   2.1 Business climate ......................................................................... 4
   2.2 Foreign investments .................................................................... 4
   2.3 Foreign investors’ rights and protection ..................................... 5
   2.4 Law on Foreign Current and Capital Transactions .................. 5

3. Privatisation ....................................................................................... 6
   3.1 Privatisation Law ........................................................................ 6
   3.2 Concessions ................................................................................ 6

4. Banking, Finance, Leasing and Insurance ............................................ 7

5. Exporting/Importing .......................................................................... 9

6. Business Entities ................................................................................ 10
   6.1 Forms of business entities .......................................................... 10

7. Regulatory Environment ..................................................................... 11

8. Labour Relations and Social Security ............................................... 14
   8.1 Labour ........................................................................................ 14
   8.2 Employment of foreigners .......................................................... 15
12. Value Added Tax...........................................................................................................31
12.1 Introduction ...............................................................................................................31
12.2 Scope of VAT .............................................................................................................31
12.3 Exempt supplies .........................................................................................................32
12.4 Tax base ....................................................................................................................33
12.5 Non-recoverable input VAT .....................................................................................33
12.6 VAT compliance .........................................................................................................33

13. Other Taxes ..................................................................................................................36
1. Montenegro: Country Profile

1.1 Introduction

History

Montenegro became an independent state after the referendum held on 21 May 2006. Independence was confirmed by adopting the Declaration of Independence in the Parliament on 3 June 2006. The international legal status of the independent state was recognised immediately after that occasion by admission to membership in the United Nations.

After adopting a new Constitution in October 2007, Montenegro has taken the first step toward the EU membership by signing the Stabilisation and Association Agreement with the European Union. Montenegro formally applied for EU membership in December 2008. Montenegro was awarded EU candidate status in December 2010, while in June 2012 the General Affairs Council of the European Union decided to recommend the opening accession negotiations with Montenegro.

Geography and climate

Montenegro is located in the southern part of the Balkan Peninsula. It is a maritime country with 200 km of coast along the Adriatic Sea. It borders Croatia to the west, Bosnia and Herzegovina to the northwest, Serbia to the northeast and Albania to the southeast. Administratively, Montenegro is divided into 21 municipalities. Its capital and largest city is Podgorica.

Montenegro's territory measures 13,812 square km.

Most of the country is covered by high and extensive mountain massifs intersected by river gorges and deep valleys. Lowland areas are to be found in the south, near the coastline.

The climate features in Montenegro are extremely diverse. There are three climate zones in Montenegro: coastal, continental and mountain. Montenegro's coastal areas enjoy the Mediterranean climate, with dry summers and mild, rainy winters. Montenegro's mountainous regions receive some of the highest amounts of rainfall in Europe, and cold snowy winters.

1.2 Government Structure

The national legislature is the unicameral Parliament with 81 members elected for a four-year term. The Parliament appoints the Prime Minister nominated by the President, as well as the ministers chosen by the Prime Minister. The Parliament passes laws, ratifies international treaties, adopts the budget and performs other duties as established by the Constitution. The judiciary is independent.
1.3 Legal System

Legislative framework

Montenegro has a civil law system, meaning that the courts interpret legislation rather than being bound by preceding rulings on the issue. The Parliament is the supreme legislator. Certain bodies with executive powers, such as the Government and ministries, are competent to pass decrees and by-laws in specific areas. Decrees and by-laws must be in compliance with laws. Legislative acts, decrees and by-laws come into force after their publication in the Official Gazette.

Courts

The organization of the court system and jurisdiction of courts is regulated by the Law on Courts. The court system consists of 15 Municipal Courts (established for one or more municipalities), two High Courts, two Commercial Courts, Appellate Court, Supreme Court and Administrative Court.

First instance procedures are mainly conducted by municipal courts. The High Court is mainly in charge of rendering decisions on appellate proceedings initiated against decisions of municipal courts. In certain cases the High Court also decides on first instance procedures. The Appellate Court decides on appeals against High Court’s decisions and Commercial Court’s decisions, and acts as a second instance appellate body against Municipal Court’s decisions.

The Administrative Court decides on administrative matters, whilst the Supreme Court decides on extraordinary legal remedies filed against decisions passed by all courts.

The length of court proceedings before a final judgment is rendered has been recognised as one of the main problems of Montenegrin judiciary.

Montenegrin legislation recognises three modes of alternative dispute resolution: court settlement, mediation and arbitration. Mediation is regulated by the Law on Mediation. The Law on Civil Procedure contains rules on arbitration which are in accordance with UNCITRAL rules. In addition, a permanent judicial body is established with jurisdiction in arbitration in disputes that may arise between companies.

1.4 People

Population

According to recent statistics, the population of Montenegro is 625,266.

Official statistics from 2011 with respect to ethnic composition show that 44% of population are Montenegrins, 28% Serbs, 8% Bosnians, 5% Albanians and 15% other (Muslims, Croats, Roma).

Language

The new Constitution replaced the official language of the state from Serbian to Montenegrin, but also recognises Serbian, Bosnian, Albanian and Croatian as official languages. It also declares Cyrillic and Latin scripts to be of equal standing in law.
Religion

The Constitution guarantees that religion is separated from the State. Orthodox Christians make up most of the population (72.07%). Apart from the Serbian Orthodox Church, there is also the Montenegrin Orthodox Church. Other prominent religions are Muslims (19.1%) and Roman Catholic (3.44%). Most of the Roman Catholics reside in the coastal area, whilst Muslims are predominant in the city of Ulcinj and several northern municipalities.

Education

Primary and secondary education in Montenegro are provided free of charge, with eight years of elementary school being compulsory. Apart from the State University, there are a number of private universities offering a wide range of specialisation areas. The Bologna Declaration is implemented in higher education.

Living standards

The most vulnerable groups are Roma, Ashkalie and Egyptians with 52.3% of their population living below the poverty line. These categories are followed by refugees and internally displaced persons.

Average gross monthly salary in October 2012 was EUR 717 (net 480)\(^1\).

1.5 Economy

General description

Montenegrin GDP per capita is USD 7,317 (2011, Source: IMF). According to the 2012 IMF estimates, GDP will grow by 0.2% this calendar year and 0.13% in 2013. The national debt amounts to approx. EUR 413.3 million or 12.7% GDP, whereas external debt amounts to approx. EUR 1.109 million or 32.6% GDP.

Currency

In 2002, Montenegro adopted the Euro (EUR) as its official currency.

Transportation

The total length of roads is 7,763 km, whilst the total length of the railway is 250 km.

Montenegro has two international airports: Podgorica and Tivat.

Montenegro has a total of six merchant marines, one of which also serves for passenger transportation.

\(^{1}\) Source: Monstat - official Montenegrin statistic agency for statistic
2. **Business Environment**

2.1 Business climate

In the past few years Montenegro has shown strong commitment to establishing a modern market economy and entering European markets. Substantial reforms have been initiated, particularly in terms of creating a business-friendly environment. These include legal and economic reforms in all areas, aimed at ensuring legal security and harmonisation with EU legislation and economic policies.

Montenegro became a WTO member in April 2012. The obligations arising from the WTO membership will favourably impact not only the trade system in Montenegro, but also the overall investment environment.

The tax regime for foreign investors is an additional stimulus. The existing tax regime is appraised as very favourable and one of the most competitive in Europe, with proportional corporate profit tax set at 9% with various tax exemptions. Therefore, companies operating in Montenegro enjoy not only a business friendly environment, but also a low tax burden.

2.2 Foreign investments

Montenegro guarantees national treatment for foreign-owned companies, meaning that foreign companies and local companies receive equal legal treatment. Foreign investors may operate either as legal entities or as individuals.

Foreign investors are allowed to invest in any industry and freely transfer all financial and other assets, including profits and dividends.

Foreign investments may take the following forms:

- Establishing a new company (either single-handedly or with other investors)
- Investing in existing companies
- Establishing a branch of a foreign company
- Buying a company

Foreign investment may also be conducted through financial leasing, franchising, concessions, buying a property and other legal arrangements in compliance with relevant laws.

Restrictions

In general, there are two restrictions imposed on foreign investors.

The first restriction relates to the production of firearms. A foreign investor may not establish a company in the field of production and trade of firearms. However, a foreign investor may invest, as a minority shareholder, in production of firearms together with a Montenegrin company, and only with the approval/endorsement of the Ministry of Foreign Trade prior to obtaining a consent/opinion of Montenegrin Ministry of Defence.
The second restriction relates to obtaining ownership rights over land. Relevant legislation stipulates that a foreign investor cannot acquire ownership over natural resources, real estate in public interest, culture heritage and real estate within the state border.

2.3 Foreign investors’ rights and protection

Legal status

The Law guarantees legal security to foreign investors, meaning that a property cannot be subject to expropriation, except when required so by public interest as established and determined by the law.

Foreign investor who suffers loss/damage as a result of war or state of emergency is entitled to compensation that cannot be less than the compensation granted to local legal and natural persons, in accordance with the law.

In addition, a foreign investor is entitled to compensation based on the damage caused by illegal or improper actions of officials or a state body/agency, in accordance with the law.

Transfer of assets

If the prescribed tax requirements and other outstanding commitments have been settled in Montenegro, foreign investor may transfer abroad financial assets relating to the foreign investment, namely the profit generated through business activities, as well as the repatriation of share in the company’s net assets after the dissolution of company / termination of company’s operation.

Promotion of foreign investments

Professional activities in respect of promotion of foreign investments are performed by the Montenegrin Investment Promotion Agency (MIPA).

2.4 Law on Foreign Current and Capital Transactions

Payments based on current transactions are free and without limitations.

Capital transactions have also been liberalised. Payments and transfers of capital with regard to direct investments, investments in real estate and transactions with securities are executed freely, in accordance with regulations.

Currency exchange

Currency Exchange may be carried out by registered legal entities and individuals, based on the contract concluded with the Central Bank of Montenegro.
3. **Privatisation**

The privatisation process is described as one of the most successful of all transition countries. The main body in charge of the privatisation process is the Ministry of Economy through its Privatisation Council.

3.1 **Privatisation Law**

Privatisation Law recognises the following methods of privatisation:

- Sale of shares
- Sale of business assets of the company
- Issue of shares to employees
- Exchange of shares for privatisation vouchers
- Subscription of new shares by capital increase
- Debt-equity swap
- Joint venture in which the company under privatisation invests its business assets
- Combination of these methods

By applying the above-mentioned methods, privatisation is performed through public auction, public tender or public offer.

3.2 **Concessions**

Foreign investor may be granted a concession for:

- The use of natural resources
- Public utilities
- Performing activities in common interest
- Undertaking infrastructure projects.

Concession may be awarded for up to 60 years (with Parliamentary support) or up to 30 years (when approved by Government and municipality), depending on the subject, estimated profit, level of assumed business risk, demand for construction at an early phase and demand for market development in the field of concession.

The concessionary must establish a company in Montenegro within 60 days from the date of entering into the Concession Agreement.

The Concession Commission is in charge of monitoring the concession award process, dealing with bidders and keeping official records of all granted concessions.
4. **Banking, Finance, Leasing and Insurance**

**Banking system**

The banking system consists of the Central Bank of Montenegro (CBCG), commercial banks and other financial organisations.

**Central Bank of Montenegro (CBCG)**

CBCG is an autonomous institution in charge of governing monetary policy, managing foreign currency reserves, controlling the payment operations, supervising banks and other financial institutions.

**Law on Banks**

The establishment, organisation, business operations and management of banks are regulated by the Law on Banks.

There are currently eleven banks and five microcredit financial institutions operating.

**Capital market**

Montenegro has a stock exchange and money market. Market trade in securities is conducted in two exchange markets: NEX and Montenegroberza.

**Law on Securities**

The process of trading in shares is initiated by publishing an announcement and prospectus stating the issuance of new shares, followed by a series of actions required for subscribing and paying for the shares and obtaining authorisation on the issue of shares from the Securities and Exchange Commission. It ends with the transfer of shares to the securities account of the new owner.

Securities trading on the stock exchange may be performed only through intermediaries e.g. broker-dealer companies or authorised banks.

**Securities and Exchange Commission (SEC)**

The SEC is responsible for adopting the rules relating to the application of the Law, issuing licenses and supervising the operations of authorised participants in the market, setting standards for registration of stock exchange trade operations, monitoring the securities market and undertaking corrective actions.
Insurance market

Montenegrin insurance market is similar to other transitional countries: compulsory insurance represents the majority of insurance, non-life insurance accounts for 86.19% and life insurance 13.81%. There are currently 10 insurance companies operating at the market.

Insurance Law

The Insurance Law prescribes that an insurance company must be established as a joint stock company. Both individuals and legal entities may be the founders of insurance companies.

Under the Insurance Law, the insurance business is divided into life insurance and non-life insurance, in line with EU Directives. Insurance companies are restricted from performing both life and non-life insurance business within one legal entity.

Supervision

The Insurance Supervision Agency of Montenegro is in charge of issuing licenses to insurance companies and supervising their business activities.

Leasing

Although financial leasing is one of the newest financial services offered in the financial market, there are four leasing companies and three banks providing leasing services.

Law on Financial Leasing

Leasing companies are not obliged to obtain licenses for their business. Accordingly, leasing companies are not subject to supervision by any state body. Moreover, there are no limitations as to the content of the leasing contract, other than general requirements of the contract law.

Although the Law regulates only financial leasing, in practice operational leasing is taking place as well, but less frequently. Both immovable and movable property may be the object of a leasing contract, but in practice leasing of movables is more represented.
5. **Exporting/Importing**

**Law on Foreign Trade Transactions**

The Law intends to create a clear basis for liberal foreign trade. The basic principles and restrictions set by the Law meet EU and WTO standards.

Generally, the Law states that foreign trade is liberal and without limitations. Once registered for performing business activities, a legal entity/entrepreneur may perform foreign (as well as domestic) operations.

Foreign legal entities/persons and imported goods enjoy the same treatment and the same status as domestic entities/persons and goods, respectively, i.e. the national treatment, in regard to their import or export operations.

The Law stipulates five types of export/import transactions that are subject to the Ministry’s preapproval, due to health protection requirements, protection of intellectual property rights, protection of state security, public moral issues and environmental protection.

The Customs Law regulates the customs and import-export procedures. The set of documents necessary for the completion of custom procedure is identical to the one used in the EU.

Export is stimulated through various incentives available to exporting entities.
6. **Business Entities**

6.1 **Forms of business entities**

The Company Law regulates the setting up and operation of businesses in a market oriented manner.

The Company Law regulates the conditions for operations of entrepreneurs, branches of foreign companies, as well as of four types of companies: Limited Liability Company, Joint Stock Company, General Partnership, Limited Partnership. There are no restrictions on setting up joint ventures and strategic partnerships.

**Limited Liability Company**

**Shareholders:** 1 - 30 shareholders, local or foreign individuals/legal entities;

**Investment:** Minimum EUR 1;

**Characteristics:** Shareholders liability is limited to the amount they have invested. The mandatory body of the limited liability company is the Executive Director. Limited liability company may, but is not obliged to, establish a Board of Directors and other bodies prescribed for the joint stock company. Where there is only one shareholder, that shareholder is entitled to perform the duties of the Executive Director and Shareholders’ Assembly.

**Joint Stock Company**

**Shareholders:** One or more local/foreign individuals/legal entities. There are no requirements as to the maximum number of shareholders.

**Investment:** Minimum EUR 25,000.

**Characteristics:** Shareholders liability is limited to the amount they have invested. The mandatory bodies of the Joint Stock Company are the Shareholders’ Assembly, Board of Directors, Executive Director and Secretary.

**Branch of a foreign company**

Foreign companies may carry out activities in Montenegro through branch offices. Branch is considered to be an integral part of a foreign company and not a separate legal entity. Branch performs business activities on behalf and for the account of the founding company.

**Registration of a company**

Registration of companies is administered by the Central Registry of Business Entities in Podgorica.
7. **Regulatory Environment**

**Competition Law**

The Competition Law is the item of legislation regulating fair competition on the Montenegrin market. The Law contains provisions relating to abuse of a dominant position, restrictive agreements and concentration of market participants.

The Law covers all instruments of restricting competition, e.g. agreements, contracts, certain contractual provisions, explicit or tacit agreements, concerted practice and decisions of associations of market participants. Any such instrument designed to have or having the effect of preventing, restricting or distorting competition on the market is considered as null and void.

A participant has a dominant position in the relevant market if it may behave independently of other market participants, thus being in a position to make business decisions without taking into account the effect of such decisions on competitors, purchasers, suppliers and/or final users.

The Law defines a threshold for concentrations of market participants and sets an obligation to obtain an approval from the Competition Directorate in the event that:

- Combined total annual turnover of all concerned market participants on Montenegrin market exceeds EUR 3 million
- Combined total worldwide annual turnover of all concerned market participants exceeds EUR 50 million.

**Acquisitions**

There are no special legal requirements as to the acquisition of stakes in a limited liability company. Stakes are transferred through signing and certifying Share Purchase Agreement.

Shares of a joint-stock company are acquired on stock-exchange. Takeover of joint-stock companies is regulated in details by the Law on Takeover of Joint-Stock Companies.

A person acquiring more than 30% of voting shares is obliged to launch a takeover bid for the remaining shares and to inform a joint-stock company and SEC on its obligation. Takeover bid must also be published in two daily newspapers. In addition to this mandatory takeover bid, there is also a possibility of launching a voluntary takeover bid.

The acquirer is not obliged to carry out the takeover procedure when it:

- Acquires shares in the process of increasing the share capital through a public offer
- Acquires shares in the process of increasing the share capital by issuing shares if the Shareholders’ Assembly, which passes a decision to increase the share capital and to issue new shares, endorses that the acquirer may acquire the voting shares of the issuer without the obligation to publish a public takeover bid
- Acquires shares of the issuer on a pre-emptive basis
- Acquires more than 30% of the issuer’s voting shares through privatisation
- Intends to sell shares within 45 days from the date the shares were registered on its account
• Acquires shares in the process of restructuring of a joint-stock company
• Acquires shares in the bankruptcy procedure as a bankruptcy creditor
• Inherits shares
• When the shareholders’ assembly of the issuer makes a decision to grant exemption from the public takeover bid because the issuer is in financial difficulties
• Acquires shares temporarily in accordance with the Securities Law
• Acquires shares of the issuer from another entity whose members or shareholders are directly or indirectly the same persons
• Acquires shares of the issuer on the basis of collaterals (fiduciary transfer), provided that the acquirer does not exercise the right to vote on the basis of the acquired shares
• Acquires shares of the issuer through division of marital or non-marital assets in the event of divorce or annulment of marriage
• Acquires shares of the issuer after the execution of a takeover by a related party/person which is bound by contract to execute the takeover process for and on behalf of the acquirer
• Exceeds a threshold of 30% of the voting shares of the issuer due to decrease in issuer’s capital
• Acquires shares in excess of 30% of the voting shares of the issuer after converting preferred shares into common shares or after replacing bonds and other securities with special rights
• Acquires shares during the enforcement procedure for claim settlement purposes
• Acquires shares of the issuer by virtue of a court settlement
• Obtains the statements of all shareholders with the voting rights, certified in accordance with the law, that they shall not accept the public takeover bid.

In a takeover procedure, the bidder is obliged to:

• Offer purchase of all shares
• Provide a 15-60 day deadline for accepting the takeover bid
• Purchase all shares offered by shareholders
• Pay the same price for all shares.

The bidder that acquired more than 75% of shares in a takeover procedure is obliged to purchase the remaining shares, provided that other shareholders decide to exercise this forced purchase right.

Environment

The Law on Strategic Environmental Impact Assessment stipulates that strategic estimation must be undertaken for plans/programs which, if realised, may cause consequences for i.e. have an effect on the environment.

Strategic Estimation document is mandatory for plans/programs relating to agriculture, forestry, fishery, hunting, energy, industry, mining, traffic, tourism, regional development, telecommunications, waste management, inland waters and sea zone, urban and spatial planning or land use, etc.

The Environmental Protection Agency has been established with the aim of institutionalising and improving the environmental protection and serves as a catalyst for focusing investments in this sector.
Real Estate

Acquisition of the Title to Immovable Property

In order to have a valid and undisturbed property right on the real estate, there has to be a valid legal grounds for acquiring ownership rights – *iustus titulus* (contract, court decision, construction permit etc.) and inscription in the public register, as the final transfer – *modus acquirendi*.

Real estate and holders of ownership rights over real estate are registered with the Real Estate Cadastre held by the Real Estate Directorate.

Construction

A building is lawfully constructed if a construction permit has been issued. The construction permit is issued by municipalities or relevant Ministry (for certain types of objects of greater importance) on the basis of technical documentation submitted by the applicant.

Prior to use of a building, the owner of the building has to obtain the relevant utilisation permit.
8. **Labour Relations and Social Security**

8.1 Labour

**Availability of labour**

In the first quarter of 2012, the registered number of unemployed individuals was 31,500, or 13.59% of the total labour force. Since Montenegro is a tourist destination, there are a significant number of individuals who are employed only during the tourist season.

**Legislation in force**

Employment matters in Montenegro are governed by the Labour Law, Collective Agreements, general acts of the employer and employment agreements concluded with individual employees. The latter shall be in compliance with the former in the sense that it cannot provide for less favourable, but may provide for more favourable working conditions.

The Labour Law is applicable to all employees and employers in Montenegro, except for employees of state institutions where a specific regime established by the Law on the State Officials is introduced.

General work ability assumes that an employee is over 15 years of age. Special workplace requirements may be determined at the employer’s discretion, depending on the type of job. Any special requirement must be anti-discriminatory.

The employment is established by entering into employment agreement. The employment agreement may be concluded for either indefinite or definite period of time.

**Collective agreements**

The Labour Law does not regulate labour issues in detail, but leaves them to be regulated by Collective Agreements. Collective Agreements are negotiated and signed between the employer and trade union representatives.

There are three types of Collective Agreements:
- General Collective Agreement - applicable to all employers and employees
- Branch Collective Agreement - applicable for a specific industry branch
- Employer’s Collective Agreement – applicable within a specific company.

**Termination of employment**

Employment may be terminated in the following manner:
- Compulsory termination, in cases prescribed by the Law
- Consensual termination
- Unilateral termination, by either employer or employee.
Redundancy

An employee may be declared redundant in the course of technical, economic or restructuring changes, in which case he/she is entitled to a severance payment amounting to at least one third of the employee’s salary for every year of such employment, which cannot be less than three average salaries in Montenegro.

8.2 Employment of foreigners

Employment of foreign citizens is regulated by the Law on Employment of Foreign Citizens. A foreign citizen may be employed only upon obtaining work permit, permanent or temporary residence permit and concluding employment or services agreement.

The Government determines annually the maximum number of foreign citizens to be employed.

Foreign employees are entitled to equal treatment as local employees.
9. **Tax System and Administration**

9.1 **Tax System**

Since 2001, when Montenegro was a part of the Federal Republic of Yugoslavia (and later the State Union of Serbia and Montenegro), the Montenegrin tax system has encountered substantive reforms in order to create a business friendly environment and attract foreign investors. In the reform process, the main objective of the Montenegrin Government has been focused on:

- Making the tax system in Montenegro more efficient and easier to implement;
- Increasing the attractiveness of the tax system to foreign investors; and
- Harmonisation of the tax system with the EU Directives and international standards.

In recent years, the Government of Montenegro significantly decreased tax rates, classifying the Montenegrin tax system as a highly competitive in the region. Currently, corporate income tax rate and personal income tax rate of 9% and general VAT rate of 19% are among the lowest in Europe.

9.2 **Direct and Indirect Tax Burden**

As in other countries in the region, indirect taxes and social security contributions are the most gainful public revenues. According to the official statistics for 2011 the share of taxes in total public revenues is as follows:

- Social Security contributions 30%
- Personal Income Tax 9%
- Corporate Tax 3%

**Indirect taxes:**

- Value Added Tax 34%
- Excise duty 12%
- Customs 4%

9.3 **Principal Taxes**

The rates of the most prominent taxes in Montenegro are outlined below:

<table>
<thead>
<tr>
<th>Tax Type</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal Income tax</td>
<td>9%</td>
</tr>
<tr>
<td>Corporate Income Tax</td>
<td>9%</td>
</tr>
<tr>
<td>Value Added Tax</td>
<td>19%, 7% and 0%</td>
</tr>
<tr>
<td>Withholding tax</td>
<td>9% on dividends/profit distribution, capital gain, royalties, intellectual property rights, rental income, consulting, marketing and audit services.</td>
</tr>
<tr>
<td>Social Security</td>
<td>Total 33.8% (9.8% is payable on behalf of employer, 24% is payable on behalf of employee)</td>
</tr>
<tr>
<td>Contributions</td>
<td></td>
</tr>
</tbody>
</table>
9.4 Legal Framework

Legal framework belongs to the principles of continental law which entails laws and by-laws enacted as a further guidance to the law application. Apart from this, Ministry of Finance issues, at the taxpayer’s request, opinions which are helpful in interpreting of the legislation but have no legally binding effect. Advance tax rulings are not envisaged by the Montenegrin tax legislation.

The administration of the majority of taxes is centralised and rests with the Montenegrin Government, while the property taxes are administered by the local authorities.

9.5 Income Tax

Taxation of income is processed at both corporate and individual level. The overall trend in the last couple of years was a gradual decrease in tax rates. Progressive tax rates were replaced with single flat tax rate which subsequently gradually decreased from 15% to 9% and are fully applicable as of 1 January 2010.

Note that personal income tax may be in addition subject to mandatory social security contributions (please refer for further details to social security section under paragraph 11.4).

9.6 Tax Treaties

Although Serbia is regarded as a legal successor of the Serbia and Montenegro State Union which ceased to exist in June 2006, the Republic of Montenegro, subsequent to its Declaration of Independence (3 June 2006), continues to honour international treaties which were applicable to the State Union including those executed by the State Union’s legal predecessors (Federal Republic of Yugoslavia and Socialist Federal Republic of Yugoslavia i.e. former Yugoslavia).

There is a solid double tax treaty network formed in the past, although there is still room for improvement of bilateral cooperation especially with the EU member states. We expect further initiatives with respect to signing new tax treaties (Greece, Spain, Austria, Luxemburg, US), as well as renewing the existing ones.

The list of the existing Double Tax Treaties honoured by Montenegro is outlined below:

<table>
<thead>
<tr>
<th>Country</th>
<th>Dividends</th>
<th>Interest</th>
<th>Royalties</th>
<th>Applicable from</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania</td>
<td>15/5</td>
<td>10</td>
<td>10</td>
<td>2006</td>
</tr>
<tr>
<td>Belgium</td>
<td>15/10</td>
<td>15</td>
<td>10</td>
<td>1982</td>
</tr>
<tr>
<td>Belorussia</td>
<td>15/5</td>
<td>8</td>
<td>10</td>
<td>1999</td>
</tr>
<tr>
<td>Bosnia &amp; Herzegovin</td>
<td>10/5</td>
<td>10</td>
<td>10</td>
<td>2006</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>15/5</td>
<td>10</td>
<td>10</td>
<td>2001</td>
</tr>
<tr>
<td>China</td>
<td>5</td>
<td>10</td>
<td>10</td>
<td>1998</td>
</tr>
<tr>
<td>Croatia</td>
<td>10/5</td>
<td>10</td>
<td>10</td>
<td>2005</td>
</tr>
<tr>
<td>Cyprus</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>1987</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>10</td>
<td>10</td>
<td>10/5</td>
<td>2006</td>
</tr>
<tr>
<td>Country</td>
<td>Dividends</td>
<td>Interest</td>
<td>Royalties</td>
<td>Applicable from</td>
</tr>
<tr>
<td>---------------</td>
<td>-----------</td>
<td>----------</td>
<td>-----------</td>
<td>-----------------</td>
</tr>
<tr>
<td>Korea</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>2002</td>
</tr>
<tr>
<td>Denmark</td>
<td>15/5</td>
<td>0</td>
<td>10</td>
<td>1983</td>
</tr>
<tr>
<td>Egypt²</td>
<td>15/5</td>
<td>15</td>
<td>15</td>
<td>1989</td>
</tr>
<tr>
<td>Finland</td>
<td>15/5</td>
<td>0</td>
<td>10</td>
<td>1988</td>
</tr>
<tr>
<td>France</td>
<td>15/5</td>
<td>0</td>
<td>0</td>
<td>1976</td>
</tr>
<tr>
<td>Ghana³</td>
<td>15/5</td>
<td>10</td>
<td>10</td>
<td>N/A</td>
</tr>
<tr>
<td>Germany</td>
<td>15</td>
<td>0</td>
<td>10</td>
<td>1989</td>
</tr>
<tr>
<td>Hungary</td>
<td>15/5</td>
<td>10</td>
<td>10</td>
<td>2003</td>
</tr>
<tr>
<td>India³</td>
<td>15/5</td>
<td>10</td>
<td>10</td>
<td>N/A</td>
</tr>
<tr>
<td>Italy</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>1986</td>
</tr>
<tr>
<td>Iran³</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>N/A</td>
</tr>
<tr>
<td>Ireland</td>
<td>10/5</td>
<td>10</td>
<td>10/5</td>
<td>2012</td>
</tr>
<tr>
<td>Kuwait</td>
<td>10/5</td>
<td>10</td>
<td>10</td>
<td>2004</td>
</tr>
<tr>
<td>Latvia</td>
<td>10/5</td>
<td>10</td>
<td>10/5</td>
<td>2006</td>
</tr>
<tr>
<td>Macedonia</td>
<td>15/5</td>
<td>10</td>
<td>10</td>
<td>1998</td>
</tr>
<tr>
<td>Malaysia</td>
<td>0⁶</td>
<td>10</td>
<td>10</td>
<td>1991</td>
</tr>
<tr>
<td>Malta</td>
<td>10/5</td>
<td>10</td>
<td>10/5</td>
<td>N/A</td>
</tr>
<tr>
<td>Moldova⁴</td>
<td>15/5</td>
<td>10</td>
<td>10</td>
<td>N/A</td>
</tr>
<tr>
<td>Netherlands</td>
<td>15/5</td>
<td>0</td>
<td>10</td>
<td>1983</td>
</tr>
<tr>
<td>Norway</td>
<td>15</td>
<td>0</td>
<td>10</td>
<td>1986</td>
</tr>
<tr>
<td>Poland</td>
<td>15/5</td>
<td>10</td>
<td>10</td>
<td>1999</td>
</tr>
<tr>
<td>Romania</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>1998</td>
</tr>
<tr>
<td>Russia</td>
<td>15/5</td>
<td>10</td>
<td>10</td>
<td>1998</td>
</tr>
<tr>
<td>Slovak Republic</td>
<td>15/5</td>
<td>10</td>
<td>10</td>
<td>2002</td>
</tr>
<tr>
<td>Serbia</td>
<td>10</td>
<td>10</td>
<td>10/5</td>
<td>2012</td>
</tr>
<tr>
<td>Slovenia</td>
<td>10/5</td>
<td>10</td>
<td>10/5³</td>
<td>2004</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>12.5</td>
<td>10</td>
<td>10</td>
<td>1987</td>
</tr>
<tr>
<td>Sweden</td>
<td>15/5</td>
<td>0</td>
<td>0</td>
<td>1982</td>
</tr>
<tr>
<td>Switzerland</td>
<td>15/5</td>
<td>10</td>
<td>10</td>
<td>2006</td>
</tr>
<tr>
<td>Turkey</td>
<td>15/5</td>
<td>10</td>
<td>10</td>
<td>2002</td>
</tr>
<tr>
<td>Ukraine</td>
<td>10/5</td>
<td>10/0⁶</td>
<td>10</td>
<td>2002</td>
</tr>
<tr>
<td>United Arab Emirates¹</td>
<td>5/10</td>
<td>10/0⁶</td>
<td>5/10⁵</td>
<td>N/A</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>15/5</td>
<td>10</td>
<td>10</td>
<td>1983</td>
</tr>
<tr>
<td>Zimbabwe⁵</td>
<td>15/5</td>
<td>10</td>
<td>10</td>
<td>N/A</td>
</tr>
</tbody>
</table>
1 If the recipient company owns/controls at least 25% of the equity of the paying company, the lower of the two rates applies. For Unater Arab Emirates the threshold is 5% of the equity.

2 A new double taxation treaty was signed with Egypt in 2005, but it is still not applicable. In the meantime, the old treaty is still applicable.

3 Instruments of ratification have not been changed between two countries.

4 The contract was signed, ratified, and should become applicable after the exchange of ratification instruments by the signatories.

5 A 5% tax rate will be applicable to literary, scientific and artistic works, including films and works created like films or other sources of sound and picture reproduction. A tax rate of 10% will be applicable to: patents, petty patents, brands, models and samples, technical innovations, secret formulas or technical procedures.

6 Only in cases where dividends are to be paid to Montenegrin residents. If paid to Malaysian residents, they are taxable at 9% rate in Montenegro.

7 A 5% rate is applicable to intellectual property and 10% rate to industrial property.

8 A 0% rate is applicable when the recipient of income is the Government or government-owned banks.

9.7 Tax Returns and Payments

In principle, tax returns are prescribed in the official form which can be submitted to the Tax Authorities in both electronic and hard copy formats. Filing date can be extended for 90 days from the regular date if there are justified reasons for the extension.

Tax legislation provides the possibility of submitting an amended tax return. However, only the amended tax return submitted within 10 days from the regular submission date is regarded as a prompt submission.

Tax payment can be voluntary or enforced. Voluntary payment is performed by transferring the appropriate amount of money to the public revenue account. Where voluntary payment does not occur, the tax authorities are entitled to initiate the enforced collection procedure.

9.8 Assessment of Tax

The assessment of tax is performed by applying one of the following methods:

- Self-assessment, or
- Assessment by the tax authority decision.

In principle, the majority of Montenegrin taxes are self-assessed. The assessment by the tax authority decision is prescribed by a small number of tax laws e.g. it can be applied in the event of an inappropriate self-assessment performed by the taxpayer. The tax authorities will perform the tax liability assessment based on publically available information and compared to taxpayers of similar tax capacity.

9.9 Appeals

Generally, a taxpayer has the right to file an appeal against the tax authority’s decisions. However, this legal remedy is not applicable to all decisions issued by the tax authorities (e.g. in case of business premises being temporary closed). The deadline to file an appeal is 15 days from the receipt of the decision; this deadline, however, can be shorter.
The appeal is submitted to the second degree body within the tax authority, and in most cases, it does not delay an execution of the appealed decision.

In the event that the right to appeal is exhausted, or does not exist, the taxpayer can seek legal protection at the court.

### 9.10 Withholding Taxes

Montenegrin Corporate Income Tax Law imposes withholding tax on the following Montenegrin-sourced income paid by Montenegrin tax residents:

- Dividends and shares in profit distributed to residents and non-residents (both legal entities or individuals);
- Capital gains, interest, royalties and other fees for the use of intellectual property rights, rental income, as well as fees for consulting, market research and audit services distributed to non-resident legal entities.

The statutory WHT rate is 9% applicable on gross payment.

Withholding tax return needs to be filed at the income distribution/payment date.

The application of a double tax treaty can reduce or eliminate Montenegrin withholding tax. In order to qualify for the beneficial rates prescribed by the treaty, non-residents need to prove tax residency with the treaty country and beneficial ownership over the income.

### 9.11 Tax Authority Audits

Tax audits can be carried out as an office control or field control. In both cases tax audits are performed by the tax authority inspectors.

The goal of the tax audit can be the inspection of one or several tax facts within one or several tax periods. Tax audit can consist of investigation of the relationship between related parties and personal facts of an entrepreneur.

Office control represents verification of the submitted tax returns and financial reports of a taxpayer, with tax documentation kept by the tax authorities. Office control is performed at the tax authorities’ premises and does not necessarily imply the taxpayer’s presence.

Field control is performed at the taxpayer’s premises, and generally lasts no more than 90 working days. There is a possibility of an extension of the time frame for performing the field audit by the head of the tax authority.

If the tax audit reveals tax offences, tax inspector is given the right to impose ban over the documentation, assets and business activity of a taxpayer. Moreover, due to the irregularities, tax inspector can pass out mandatory fines, or initiate criminal/offensive procedure.
9.12 Tax Penalties

In general, each tax law introduces the penalties within the law domain.

The list of major tax penalties is provided in a table below:

<table>
<thead>
<tr>
<th>Penalty</th>
<th>Violation</th>
</tr>
</thead>
<tbody>
<tr>
<td>EUR 3,000 – EUR 20,000</td>
<td>Value Added Tax:&lt;br&gt;– Failure to register for VAT&lt;br&gt;– Failure to provide a VAT invoice to a customer&lt;br&gt;– Failure to submit VAT return&lt;br&gt;– Late submission of VAT return&lt;br&gt;– etc.</td>
</tr>
<tr>
<td>EUR 2,000 – EUR 10,000</td>
<td>Personal Income Tax Law:&lt;br&gt;– Failure to submit annual personal tax return in due time or incorrect/late payment of annual personal income tax&lt;br&gt;– For employers failing to perform personal income tax withholding&lt;br&gt;– etc.</td>
</tr>
<tr>
<td>EUR 550 – EUR 16,500</td>
<td>Corporate Income Tax Law:&lt;br&gt;– For failure to assess/incorrect assessment or failure to pay withholding tax, or for late payment&lt;br&gt;– For late submission of withholding tax return&lt;br&gt;– For late submission of corporate income tax return etc.</td>
</tr>
</tbody>
</table>

Additional fines could be imposed against responsible person in a legal entity. Daily penalty interest for late payment of tax of 0.03% is applicable to overdue taxes.

9.13 Statute of Limitations

Tax liability is generally considered status barred (i.e. the right to assessment of tax will be prescribed) after five years from the end of the calendar year in which tax liability should have been assessed.

Tax authority’s right to collect tax will be prescribed within three years from the end of the calendar year in which tax liability is assessed. The three year prescription period for collection of taxes is interpreted by any action undertaken by the tax authorities in respect of the collection of tax due.
The right to a refund of overpaid tax will be prescribed within three calendar years from the end of the year in which overpayment was made.

The right to collection of tax/refund of overpaid tax will ultimately become status barred after ten years from the calendar year in which tax was due/overpayment was made (i.e. absolute prescription period).
10. **Taxation of Corporations**

10.1 **General**

**Taxpayers**

A corporate taxpayer includes a company registered as a joint stock company, limited liability company, general partnership, limited partnership, socially owned company, public enterprise as well as co-operative or any other legal entity generating income from the sale of goods or rendering services on the market.

**Residency**

The Montenegrin Corporate Income Tax Law prescribes that taxpayers are:

- **Resident taxpayers** - entities established in Montenegro, or effectively managed and controlled in Montenegro, and
- **Non-resident taxpayers** - entities established and effectively managed outside Montenegro which carry out business activity through permanent establishment in Montenegro.

Resident taxpayers are taxed on their worldwide profits, while non-resident taxpayers are taxed on their Montenegrin sourced income or profits attributed to their Montenegrin permanent establishment.

**Permanent establishment (PE)**

Montenegrin tax legislation contains very basic PE rules which, in their main features, follow the guidelines set out in the Commentary on the OECD Model Tax Treaty. PE is defined as a fixed place of business through which a non-resident carries out business activity in Montenegro. PE exists if a non-resident has any of the following in Montenegro: place of management, branch office, office, factory, workshop, mine, gas or oil site, stone pit or any other place of natural resources exploitation. Construction site is a PE only if the construction activity lasts longer than six months.

PE does not exist if a non-resident has storage of inventory in Montenegro only for the purpose of delivering goods or performing the activity of preparatory or auxiliary nature in Montenegro.

10.2 **Tax Incentives**

**Tax exemption/tax credit for newly established businesses in non-developed municipalities**

Newly established production companies located in non-developed municipalities are entitled to eight year tax exemption.
Tax incentive is applicable also to companies the business units of which are established in underdeveloped regions. In that case, tax holiday is proportional to the amount of profit generated by such unit in the total profit for the period of eight years from the establishment date of the unit.

Tax incentive is not applicable to taxpayers operating in the fields of primary production of agricultural products, transport, shipbuilding, fishery, and steel production.

**10.3 Taxable Income**

Corporate income tax base is assessed as accounting profits calculated in accordance with IFRS and adjusted under the provisions of the Corporate Income Tax Law. The tax year corresponds to the calendar year with the exception of start-up companies/companies whose operations are terminated. There is no legal possibility to arrange tax year differently.

**10.4 Deductibility of Expenses**

In general, documented expenses incurred for business purposes are deductible for CIT. However, the following items are not considered corporate tax deductible:

- Penalty interest for late payment of tax
- Non-documented expenses and expenses incurred for non-business purposes
- Payments relating to employees’ participation in profit
- Fines and penalties
- Interest paid to non-residents if the applied interest rate is higher than the market interest rate
- Administrative expenses of a PE paid to non-resident head-office
- Bad debt provisions for entities who are at the same time creditors, and
- Donations to political parties.

The following expenses are considered partially deductible:

- Expenses incurred for health, education, scientific, religious, cultural, sports and humanitarian purposes, as well as for environmental protection shall be recognized as expenses up to 3.5% of total revenues;
- Membership fees paid to professional associations (except political parties) are deductible up to 0.1% of total revenues;
- Entertainment expenses are deductible up to 1% of total revenues;
- Provisions for redundancy payments and jubilee awards recognised as expenditure up to the amount prescribed by the Labour Law;
- Provision made by banks and insurance companies are deductible as expenditure for CPT purposes in the amount not exceeding the amount prescribed by the legislation which regulates operation of these entities;
- Provision for special risks of brokers and dealers are recognised up to the amount prescribed by the Securities Law;
- Provisions for renewable natural resources, warranties for the sale of goods and services (guarantee period) and expected loss from court proceedings (“delicate agreements”) if accounted in accordance with the accounting legislation.
Valuation of inventory

Cost of materials and cost of goods sold are tax deductible up to the amount calculated by applying the average weighted cost method or FIFO method.

Tax depreciation

Under the Corporate Income Tax Law, depreciable assets are tangible and intangible non-current assets with the useful life over a year and the acquisition value of at least EUR 300.

Depreciable assets are divided into five tax depreciation groups, with depreciation rates prescribed as follows:

1. Group I: 5%;
2. Group II: 15%;
3. Group III: 20%;
4. Group IV: 25%;
5. Group V: 30%.

A straight-line depreciation method is prescribed for group I (e.g. buildings, constructions), whereas assets classified into groups II-V are depreciated by the reducing balances method.

10.5 Related Party Transactions

Transfer prices are defined as prices assessed in related party transactions. A taxpayer is obliged to disclose transactions between related parties in compliance with the arm’s length principle. Any difference between transfer prices and arm’s length prices is included in the corporate tax base. Legislation prefers comparable uncontrolled prices as a method for the assessment of arm’s length prices, whilst resale minus and cost plus method can be used if no sufficient market information is available for the application of comparable uncontrolled prices method.

A related party is considered to be any entity with a special relationship with taxpayer that may have direct control and economic impact on their mutual transactions. The legislation assumes that the parties are related if an entity:

- Holds at least 10% share/stake in the company;
- Holds at least 10% of direct or indirect share/stake in entity representing the another company;
- Has direct/indirect control over the company or having significant influence over its business decisions;
- Holding of direct/indirect control by two companies over third if voting rights of each of these two companies in controlled company amounts at least 10% voting rights

Montenegrin legislation does not contain any transfer pricing documentation requirements.
10.6 Tax Assessment

General aspects

Profit earned during a tax year is subject to flat CIT rate of 9%.

Although the same rate is applicable to capital gains (i.e. gains from the sale of land and buildings, shares and securities), they are taxed separately from operating profits.

Tax consolidation

Tax consolidation is allowed to a group of companies where all members are Montenegrin residents and one company directly or indirectly controls at least 75% shares of another company. Each company files stand alone tax return, while the parent company files consolidated return for the whole group. In a consolidated return losses of one or more companies are offset against profits of other companies under the consolidation. Each company is liable to tax proportional to its share in the taxable profit of the whole group. Tax consolidation must continue for at least five years. Otherwise each company will pay all the taxes it would pay had there been no consolidation.

10.7 Branch versus Subsidiary

The concept of a branch office has very basic rules in this respect. The Corporate Tax Law restricts deductibility of administrative costs charged by the head office to a branch. However, presented restriction provided by the local legislation can be overcome by applicable double taxation treaties.

Profits attributable to branch would be subject to flat corporate tax rate of 9%, the same as subsidiary. However, profit repatriation by branch office is more advantageous as it should not be subject to withholding tax and no branch remittance tax exists. On the other hand, profit repatriation distributed by a subsidiary to a non-resident would trigger additional tax cost as it would attract 9% of Montenegrin WHT.

In addition, it is important to mention that administrating a branch office in Montenegro has many practical uncertainties. It seems that the tax authorities are not always aware of the core of the branch business, which results in adverse tax opinions.

10.8 Holding Companies

Montenegrin companies are entitled to the tax credit equal to foreign tax paid by their non-resident subsidiary.

The total tax credit cannot exceed the amount of tax that would have been paid in Montenegro. Unused tax credit can be carried forward for five years. To qualify for the application of tax credit, Montenegrin taxpayer needs to hold at least 10% of direct or indirect ownership over a non-resident subsidiary for a period of at least one year.
11. **Taxation of Individuals**

11.1 **General**

Individuals, i.e. both Montenegrin residents and non-residents, are subject to personal income taxes. Residents are taxable on their worldwide income, whereas non-residents are only liable to tax on their Montenegrin sourced income.

**Tax residents**

Montenegrin residents are considered to be the individuals who are:

- Domiciled in Montenegro, or have a centre of their business or vital interest in Montenegro; or
- Staying in Montenegro for at least 183 days within a fiscal year; or
- Seconded abroad and carrying on business for the Montenegrin individual or legal entity or an international organisation.

**Registration**

A foreigner earning income paid by a Montenegrin company or entrepreneur needs to register with the tax authorities within five days from the date he/she started to generate taxable income in Montenegro. Registration of an employee is fully driven by the employer.

11.2 **Taxable Income**

**Income from employment**

Employment income includes all receipts paid to an individual based on employment (salaries, pensions, benefits in kind, insurance premiums, benefits and awards above the non-taxable thresholds).

Income generated through other types of personal engagements similar to employment (temporary/part time employment and similar) is also considered employment income.

Employees are regarded as taxpayers. The employer is responsible for calculating and withholding personal income tax on behalf of its employees.

The tax base is the gross salary plus fringe benefits.

Employment income is subject to 9% salary tax rate.

In January 2013 Montenegrin Government increased personal income tax rate from 9% to 15% for gross salaries exceeding EUR 720 (whereas the higher rate applies only on part of the salary exceeding EUR 720). Increase of tax rate is a temporary measure applicable only in 2013.

**Income from independent activities**

Income from independent activities is generated by individuals from performing business activity and/or providing professional and intellectual services and other activities.
The tax base equals the profits realised by an individual taxpayer. Taxable profits are assessed as either:

- Accounting profits adjusted in accordance with the Law on Corporate Income Tax for taxpayers who keep the accounting records; or
- Total revenues decreased for 30% standard costs for taxpayers who do not keep the accounting records.

The tax rate is 9%.

**Income from property and property rights**

Income from the following property rights is subject to personal income taxation:

- Income from lease of movable and immovable property; and
- Income from transfer of copyrights, industrial property and other property rights for a limited time period.

The taxable base is the difference between gross income and actual expenses incurred by taxpayer in generating such income. Taxpayer is entitled to 30% standard costs (50% for income from registered real estate lease for touristic purposes) if taxpayer cannot verify the actual costs incurred.

The company or a registered entrepreneur is obliged to withhold the tax from income paid to individual taxpayers. Alternatively, tax is paid directly by the individual taxpayer upon submission of annual tax return.

The tax rate is 9%.

**Income from capital**

Income from capital is defined as interest income and profit participation earned by management and employees (both in cash and shares). In addition, any income earned by individual shareholders/founders of the company and relating to coverage of their personal expenses by the company is also regarded income from capital.

The taxable base is the gross amount of the income earned.

The tax rate is 9%.

Montenegrin Personal Income Tax Law does not consider regular dividends and/or profit shares received by the individual shareholders/owners as income from capital.

However, dividends and shares in profit distributed from Montenegrin corporate taxpayer to individuals (both residents and non-residents) are subject to 9% corporate withholding tax rate.
Capital gains

Amendments to the Personal Income Tax Law from January 2010 reintroduce taxation of capital gains realised from the sale of real estate, shares and share interests. Amendments are applicable as of 1 January 2011.

Capital gain is a positive difference between acquisition and sales price adjusted in accordance with the Personal Income Tax Law. Capital gain tax is not calculated on the sale of real-estate which was used as a taxpayer’s place of residence and transfer of the property between spouses. Also transfer of the property between parents and children is tax exempted.

Applicable tax rate on capital gain is 9%.

11.3 Non-taxable income

State pensions, certain statutory allowances, compensation payments, alimony, certain types of gifts and material aid are exempt from Montenegrin personal income tax.

11.4 Deductions

Personal allowances

Before 1 January 2010, resident taxpayers were entitled to annual personal allowance of EUR 840 (i.e. EUR 70 per month). However, this allowance was abolished by the recent amendments to the Personal Income Tax Law.

Social security contributions

Social security contributions are assessed and withheld by the employer from the salary paid to an employee. Starting from 2012 social security contributions are subject to a specific annual cap (EUR 50,000 for 2012). Prior 2012 only pension and disability contributions were subject to cap. These contributions are payable both by employer and employee. Social security contributions rates are as follows:

Social security contributions paid by employee:

- Pension and disability insurance 15%
- Health insurance 8.5%
- Unemployment insurance 0.5%

Social security contributions paid by employer:

- Pension and disability insurance 5.5%
- Health insurance 3.8%
- Unemployment insurance 0.5%

The minimum social security contributions base is the amount of monthly gross salary for relevant level of qualification prescribed by the General Collective Agreement.
11.5 Taxation of Non-residents

Non-residents are taxed on their Montenegrin sourced income generated through their fixed place of business in Montenegro (i.e. permanent establishment). Non-residents having no permanent establishment in Montenegro are taxed with respect to interests, royalties, real estate leasing fees that are sourced in Montenegro.

11.6 Tax Compliance

Withholding agents

Income tax and social security contributions should be withheld at source by the employer (a “withholding agent”) on all remuneration paid to individuals. Under the current rules, the responsibility to act as a withholding agent lies with Montenegrin legal entities, individual entrepreneurs and foreign legal entities with branch office in Montenegro. In addition to withholding obligations, employers must provide information on income paid and tax withheld, and notify the tax authorities on income received by individuals from which tax could not be withheld at source to the tax authorities.

Individual taxpayers

An individual is required to file an annual tax return with the tax authorities if he/she is generating income from different sources, different employers or from abroad. Annual tax return, if required, has to be filed with the authorities by 30 April in the current year for the income realised in the previous year.
12. Value Added Tax

12.1 Introduction

Value added tax (VAT) replaced sales tax system in April 2003. The main principles of the Montenegrin VAT are in line with the EU Directive guidelines. Taxable supplies are subject to general 19% rate, while reduced 7% and 0% VAT is applied on several specifically listed supplies.

12.2 Scope of VAT

Place of supply

Goods

The following rules for the place of supply are applicable on the sale of goods:

- The place where goods are located at the moment of dispatch if the sale of goods is followed by dispatch.
- The place where goods are installed, if goods have been installed by the supplier or another person on supplier's behalf;
- The place where goods are located at the time of supply, if the sale of goods is carried out without dispatch;
- The place of receipt of electric power, gas and energy used for heating, refrigeration and air conditioning systems.

Services

The basic ‘place of supply’ rule states that the place of supply of services is deemed to be the place where service provider conducts its business, or has a permanent establishment through which services are rendered.

The following are the illustration of some exceptions from the general ‘place of supply’ rule:

- Services relating to immovable property are deemed to be rendered in the territory in which immovable property is located;
- Cultural, artistic, scientific, educational, sports and entertainment events, including organisers of such services, ancillary transport services, valuation of movable property are deemed rendered in the territory in which service is physically rendered;

Consulting, data processing, economic propaganda, legal, accounting, transfer and use of intellectual property rights, engineering services; refraining from carrying out a business activity, banking, insurance and reinsurance, lease of movables (excluding vehicles) are deemed to be supplied in the territory in which service recipient conducts its business.

Import of goods

The place of import is the point of entry to Montenegrin territory.
Supplies taxed at 0% VAT

The most significant zero rated (0%) supplies include:

- Export of goods from Montenegro;
- Supply of services relating directly to export/import of goods;
- Services performed on temporary imported goods;
- Medicines/medical devices issued to patients and financed by the Montenegrin Health Insurance Fund;
- Supply of goods and services relating to international air and sea transport;
- Goods and services used by diplomatic representatives and international organisations

Taxpayers are entitled to recovery of input VAT attributed to zero rated supplies.

12.3 Exempt supplies

The Law provides for several types of exemptions from VAT and they are related to the services of public interest, import of products, as well as some specific exemptions.

The most significant exemptions are provided below:

Services of public interest

Health services, postal services, social security services, cultural and educational services, sports, public radio broadcasting services, religion services and services of non-governmental organisations.

VAT exempt import of goods

The following import of goods is considered VAT exempt:

- Import of products exempted from payment of customs duties, which are intended for diplomatic, consular missions and international organisations and their members
- Temporary importation of customs exempted goods;
- Products entered to Montenegro through the transit customs procedure;
- Products intended for temporary storage In Montenegro, goods brought into duty free zone or customs warehouse;
- Gold and other precious metals, bank notes and coins imported by the Central Bank of Montenegro;
- Import of goods for education;
- Import of goods used for transport of disabled persons.
Other exemptions

Insurance and reinsurance services, sale of immovable property (with the exception of newly constructed buildings), financial services, transfer of shares, rent of residential real-estate for the period longer than 60 days, games of chance and entertainment games, administration and court duties are VAT exempted.

Taxpayers are generally not entitled to recovery of input VAT attributed to VAT exempted supplies.

12.4 Tax base

VAT base is principally considered to be a consideration (in cash/goods/services) received by a taxpayer for goods sold/services rendered, including non-refundable taxes (e.g. customs, excise duties) and direct costs (commissions, cost of packing, transport) in case of import.

If the consideration is not paid in cash, the VAT base is considered to be the market value of the goods/services received.

12.5 Non-recoverable input VAT

Taxpayers are generally entitled to input VAT recovery provided it is directly attributed to VATable and zero rated supplies.

Under the general rules, taxpayers do not have the right to deduct input VAT on the following supplies:

- Goods and services used for performing VAT exempted supplies;
- Goods and services used for performing supplies outside Montenegro, in case these supplies would be considered VAT exempt if provided in Montenegro;
- Input VAT from the acquisition of: vessels intended for sports and recreation, passenger vehicles, motorcycles, including input VAT from acquisition of fuel, oil and spare parts for these goods and related services;
- Input VAT from business entertainment.

12.6 VAT compliance

Registration

Registration for VAT in Montenegro can be either voluntary or mandatory. Voluntary VAT registration is possible for the so-called small taxpayers (i.e. entities generating turnover below EUR 18 thousand in the last 12 months). Once registered, a company cannot apply for deregistration for at least three years.

VAT registration is mandatory for an entity generating turnover over the VAT registration threshold of EUR 18 thousand within a 12 month period.
Accounting requirements

Taxpayers need to provide sufficient information for the assessment of VAT in their accounting records. Namely, accounting records need to present at least the following information: total VATable supplies, assessed output VAT and input VAT charged, VAT refund etc. VAT payer needs to keep records on received and issued invoices as well as records on imported goods.

Invoicing requirements

Taxpayer is obliged to issue an invoice, or another document serving as an invoice, with the following mandatory elements:

- Name, address and VAT number of the taxpayer/invoice issuer;
- Location, date of issue and invoice number;
- Name and address of the taxpayer/invoice recipient;
- Type and quantity of goods delivered, or type and volume of services;
- Date of sale of goods or services and the amount of advance payments;
- Taxable base amount;
- Applicable tax rate;
- VAT amount calculated;
- Stamp and signature
- An appropriate note on tax exemption (if applicable).

VAT period and settlement of VAT liability

VAT period is one calendar month.

Monthly VAT liability needs to be settled by the deadline for submission of monthly VAT return (i.e. within 15 days from the end of the calendar month).

Reverse charge

Montenegrin VAT payers receiving services with deemed place of supply in Montenegro from foreign service providers, need to assess output VAT (i.e. assess both output and input VAT) in relation to service fees invoiced. Service recipients are entitled to recovery of related input VAT provided these can be directly attributed to VATable and/or zero rated supplies.

Refund of overpaid VAT

Taxpayer can opt to apply for a refund of excess input VAT over output VAT or to offset VAT credit assessed against future VAT liabilities. The VAT refund period is 60 days from the submission date of VAT refund request.
Foreign taxpayers without permanent establishment in Montenegro have the right to refund Montenegrin VAT charged by local suppliers only if the following conditions are cumulatively met:

- If goods are purchased by a foreign taxpayer for the purpose of performing business activity which will be considered taxable from the Montenegrin VAT point of view;
- Foreign taxpayer cannot perform VATable supplies for the period the refund is requested except for the following supplies:
  - services relating to export and import of goods free of VAT;
  - services for which VAT must be paid by the recipient.
13. **Other Taxes**

**Excise duties**

Import and/or production of the following goods are subject to Montenegrin excise duties:

- Alcohol and alcohol beverages
- Tobacco products
- Mineral oils, their derivatives and substitutes
- Coffee (including extracts, concentrates and other coffee products)
- Mineralized water with sugar or aromatizers

Taxpayers are considered to be importers and/or producers of excisable goods. Excise duties are prescribed in the absolute amount and/or relative amount as a percentage of the sales price (*ad valorem)*.

Excise duties are assessed on a monthly basis. Monthly excise duties return is submitted to the tax authorities within 15 days from the month end. Excise duties liability needs to be paid by the excise duties return submission date.

Excise duties on cigarettes are paid within 60 days from the day of takeover of excise duties stamps issued by the tax authorities (this refers to domestic and imported cigarettes).

The excise on import of excisable goods are payable at the moment of payment of import duties in case no deferral of payment of excise duties is available through the use of customs warehouse procedure.

**Property tax**

Property tax is payable by legal entities and individuals who own real-estate in Montenegro or have the right of use over Montenegrin real-estate. The tax is levied at proportional rates ranging between 0.1% and 1 on the market value of real-estate.

Tax liability is determined by the Tax Authorities by 31 May of current year. Tax is payable in two instalments due on 30 June and 30 November.

**Property transfer tax**

Transfer tax is payable on the acquisition of ownership rights over immovable property. The transfer tax rate is 3%. Taxpayer is considered to be the acquirer of real-estate.

Tax exemption is available for in-kind contributing of real-estate to company’s inscribed share capital.

Tax base is the market value of the immovable property at the moment of acquisition. The taxpayer (i.e. the acquirer of immovable property) is obliged to submit a tax return within 15 days from the contract date. The liability is payable within 15 days from the receipt of the Decision on the Assessment of Tax issued by the tax authorities.
Office contact details

Emmanuel Koenig
Country Managing Partner

Assurance Services

Stefan Weiblen
Partner

Jock Nunan
Partner

Biljana Bogovac
Director

Maja Andjelic
Director

Advisory Services

Bojidar Neytchev
Partner

Tanja Gligorevic
Director

Tax and Legal Services

Branka Rajicic
Partner

Iva Asanovic
Senior Consultant

PricewaterhouseCoopers d.o.o. Podgorica

Poslovni centar Krusevac
Rimski Trg 50
20000 Podgorica
Montenegro

Telephone: +382 20 234 352
Facsimile +382 20 234 324

www.pwc.rs

This Doing Business Guide is produced by PwC Montenegro’s Tax and Legal Department.

Legal Disclaimer: The material contained in this alert is provided for general information purposes only and does not contain a comprehensive analysis of each item described. Before taking (or not taking) any action, readers should seek professional advice specific to their situation. No liability is accepted for acts or omissions taken in reliance upon the contents of this alert.

© 2013 PricewaterhouseCoopers d.o.o. All rights reserved. “PwC” refers to the Montenegrin firm of PricewaterhouseCoopers d.o.o. or, as the context requires, the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.