Amendments to the Corporate Income Tax Law

13 November 2018

In brief

On November 6, 2018, Ministry of Finance has published the draft Law on the Amendments to the Corporate Income Tax Law ("the Draft CIT Law"). It is expected that the proposed CIT Law amendments will be adopted by the National Assembly of the Republic of Serbia by the end of 2018. The most significant amendments are presented in the text below. Proposed amendments will be applicable in the tax periods starting from January 1, 2019.

Marketing expenses

Proposed amendments to the CIT Law envisage abolition of the limit for recognition of marketing expenses. Consequently, marketing expenses will in future be recognized in the amounts recorded in the Income Statement.

Tax Depreciation

The Draft CIT Law prescribes new rules for calculation of tax depreciation of fixed assets, which will be applicable starting from January 1, 2019 (i.e. from the first day of the tax period starting in 2019, for the taxpayers whose tax year differs from the calendar year).

New rules envisage that the tax depreciation of fixed assets classified in tax depreciation groups II-V, will be calculated by using straight line depreciation method, instead of currently applicable declining balance method. If amortization costs calculated in accordance with the accounting rules would be determined in the lower amount comparing to the amount of depreciation costs assessed by using tax depreciation rates, accounting depreciation will be recognized as a tax deductible cost.

Assets classified into groups II-V, which were acquired prior to application of the new rules, will be depreciated according to the current tax depreciation rules by applying the declining balance method, until December 31, 2028 (i.e. until the last day of the tax period beginning in 2028, for the taxpayers whose tax year differs from the calendar year).

Tax Incentives

1) Research and Development expenses

Proposed amendments envisage possibility that R&D costs related to R&D performed in the Republic may be double deducted for CIT purposes, with the exemption of research costs incurred in relation to finding of oil, gas or mineral resources in the extractive industry.

2) Royalty income arising from copyrights and similar rights

According to the Draft CIT Law, 80% of qualified royalty income generated by the copyright or similar rights holders should be excluded from the tax base, upon decreasing this income for the amount of tax deductible R&D costs.

3) Investments in newly established companies performing innovative activities
In accordance with the Draft CIT Law, taxpayers making monetary equity investments into a newly established companies performing innovative activities, will be entitled to a tax credit in the amount of 30% of the investments made. The maximum amount of tax credit cannot exceed 100,000,000 Serbian dinars.

Conditions that need to be fulfilled for obtaining a right to tax credit, as well as the time period within which tax credit may be used, are further prescribed by the Draft CIT Law.

Capital Gains

The Draft CIT Law envisage broadening of the subject to taxation, in a manner that capital gains tax will be levied on all intellectual property rights.

Additionally, the proposed amendments envisage that 20% of the capital gains arising from sale of copyrights, other similar rights, or patent rights, will be included in taxable profits, while 80% of such generated capital gains will be exempt from taxation.

In addition, the proposed amendments to the CIT Law envisage a right to a tax credit to tax residents in the amount of tax paid in another country, in relation to capital gains realised from sale of real estate located in that country.

The Minister of Finance will further regulate the manner of implementation of the proposed amendments to the CIT Law.

Let's Talk !

For a deeper discussion of how this issue might affect your business, please contact:

PricewaterhouseCoopers Consulting d.o.o.
Omladinskih brigada 88a
11070 Belgrade
Tel: +381 11 33 02 100
www.pwc.rs

Branka Rajičić
Partner
branka.rajicic@rs.pwc.com

Dragan Drača
Director
dragan.draca@rs.pwc.com

Bojana Bjeličić
Senior Manager
bojana.bjelicic@rs.pwc.com

Aleksandar Arsić
Senior Consultant
aleksandar.arsic@rs.pwc.com

Dušan Popović
Senior Consultant
dusan.popovic@rs.pwc.com