



Law on Amendments to the Law on Tax Procedure and Tax Administration and the Rulebook on interest rates that are considered to be in accordance with the “arm’s length” principle

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The National Assembly of the Republic of Serbia at the Sixth Extraordinary Session in 2016, on February 24, 2016 passed the Law on Amendments to the Law on Tax Procedure and Tax Administration (hereinafter referred to as: **the Law**), which was published in the “Official Gazette of the Republic Serbia”, No. 15/2016 and came into force on 4 March 2016.

The main reason for the adoption of the Law is to ensure the normalization of business operations of taxpayers, in order to overcome the difficulties encountered in the previous period, and therefore enabling the timely settlement of their tax liabilities in the coming period, which should be achieved by passing the general act. In this way conditions for the normalization of operations of these taxpayers should be created, with maintaining the level of social protection of the most vulnerable parts of the society and further encouraging economic activity.

The Ministry of Finance of the Republic of Serbia adopted the Rulebook on interest rates that are considered to be in accordance with the “arm’s length” principle for 2015 and 2016 (hereinafter referred to as: **the Rulebook**). The Rulebook was published in the “Official Gazette of the Republic of Serbia”, No. 12/2016 dated February 12, 2016 and came into force on February 20, 2016.

The Rulebook prescribes interest rates that are, in accordance with the “arm’s length” principle, for 2015 and 2016, calculated on loans or credits between related parties.

Law on Amendments to the Law on Tax Procedure

One of the adopted amendments relates to the obligation of the Tax Administration that on its website publishes full name, tax identification number and the amount of the tax debt of tax debtors. It is prescribed that Tax Administration publishes this information twice per year, instead of quarterly, bearing in mind that in the process of determining tax liability and its finality elapsed

longer period of three months (appeal, postponement of execution), and thus it is not achieved initially proposed purpose prescribing this provision in terms of regularity of the taxpayer in fulfilling duties and dealing with negative effects in relation to third parties.

Tax Administration, in addition to the cases prescribed in Article 26, paragraph 2, points 1)-4) of the Law on Tax Procedure and Tax Administration ("Official Gazette of the Republic of Serbia", Nos. 80/2002, 84/2002, 23/2003, 70/2003, 55/2004, 61/2005, 85/2005, 62/2006, 61/2007, 20/2009, 72/2009, 53/2010, 101/2011, 2/2012, 93/2012, 47/2013, 108/2013, 68/2014, 105/2014, 91/2015 and 112/2015, hereinafter referred to as: **the LTPTA**), cannot award tax identification number in situations where of the founders – legal entities and entrepreneurs, legal entities founded by status change separation with founding, as well as of entrepreneurs it was temporarily seized tax identification number in accordance with the LTPTA.

On the other hand, the Law will have a positive impact on all taxpayers because it creates a legal basis for settlement all outstanding liabilities under more favorable conditions. Specifically:

- The deadline for the rescheduling of tax debts for companies and entrepreneurs that do not have more than RSD 2,000,000 of debt has been extended from 24 to 60 months.
- The amount of owed tax for which the taxpayer will not be required to provide collateral is increased as follows: for legal entities and entrepreneurs RSD 1,500,000 and for individuals RSD 200,000.
- Exercising the right to defer payment of owed tax in installments and the right to write off is conditioned by timely settlement of current liabilities and installments of delayed payment of owed tax in the period of payment of owed tax in installments.
- If in accordance with the provisions of Articles 73, 74, 74a and 74b of the LTPTA payment of owed tax was deferred, interest is also calculated during the time of deferment, at a rate equal to the annual reference rate of the National Bank of Serbia (i.e., without increasing for ten percentage points).
- To taxpayer to whom, in accordance with the provisions of Articles 73, 74, 74a and 74b of the LTPTA, payment of tax owed was deferred and which taxpayer regularly pays installments of due liabilities that are deferred, including current liabilities under the LTPTA, 50% of interest relating to the debt paid in that period will be written off after the expiration of every 12 months, until the full settlement of such debt.

- A taxpayer can before the expiration of deadline for payment of owed tax in installments in accordance with the Law pay the owed tax in full, by which the entire interest on that debt will be written off.

Initiatives to amend certain provisions of the LTPTA, given by both taxpayers and numerous state bodies and other organizations, were implemented during preparation of the Law. In order to accomplish the objectives that have to be achieved by the adoption of the Law, Ministry of Finance will render the opinions on its implementation, while the administrative bodies will issue appropriate instructions for its implementation.

Overview of Interest Rates prescribed by the Rulebook

Chapter of the Law on Profit Tax ("Official Gazette of the Republic of Serbia", Nos. 25/2001, 80/2002, 80/2002, 43/2003, 84/2004, 18/2010, 101/2011, 119/2012, 47/2013, 108/2013, 68/2014, 142/2014, 91/2015 and 112/2015) which regulates the area of transfer pricing (Articles 59, 60, 61, 61a and 61b) prescribes that for purposes of determining interest rates in accordance with the "arm's length" principle taxpayers can use the interest rate prescribed by the Ministry of Finance or apply general rules on transfer pricing, provided by that law. Taxpayers can choose only one of the listed two options. The chosen methodology has to be consistently applied to all credits/loans given to or received from related parties.

Prescribed interest rates should be applied to interest income/expense recognized during 2015 and 2016 regardless of the period from which loan(s) originate.

Taxpayers	Interest rates for Credits / Loans in RSD
Banks and Financial Leasing Companies (short term credits / loans)	6,29%
Banks and Financial Leasing Companies (long term credits / loans)	13,46%
Other Companies (short term credits / loans)	10,81%
Other Companies (long term credits / loans)	9,99%

Taxpayers	Interest rates for Credits/Loans in EUR and RSD Credits/Loans denominated in EUR
Banks and Financial Leasing Companies	3,90%
Other Companies (short term credits / loans)	5,34%
Other Companies (long term credits / loans)	5,07%

Taxpayers	Interest rates for Credits/Loans in USD and RSD Credits/Loans denominated in USD
Banks and Financial Leasing Companies	6,78%
Other Companies (short term credits / loans)	3,67%
Other Companies (long term credits / loans)	5,71%

Taxpayers	Interest rates for Credits/Loans in CHF and RSD Credits/Loans denominated in CHF
Banks and Financial Leasing Companies	1,37%
Other Companies (short term credits / loans)	/
Other Companies (long term credits / loans)	6,57%

Taxpayers	Interest rates for Credits/Loans in SEK and RSD Credits/Loans denominated in SEK
Banks and Financial Leasing Companies	3,92%
Other Companies (short term credits / loans)	/
Other Companies (long term credits / loans)	/

Taxpayers	Interest rates for Credits/Loans in RUB and RSD Credits/Loans denominated in RUB
Banks and Financial Leasing Companies	3,76%
Other Companies (short term credits / loans)	/
Other Companies (long term credits / loans)	/

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