

The background is a vibrant blue with several overlapping, semi-transparent circles of varying shades. On the right side, there is a dark blue rectangular area that serves as a backdrop for the text.

Investment Incentives in Serbia

Contents

| | | |
|--|--|----|
| | Investment Incentives..... | 2 |
| FINANCIAL INCENTIVES | Grant Yourself a Bonus..... | 3 |
| | Combine Your Additional Value..... | 6 |
| | The Employment Subsidies Program..... | 7 |
| | The Apprentice Program..... | 8 |
| | The Retraining Program..... | 9 |
| TAX INCENTIVES | Exceptional Corporate Income Tax Rate..... | 10 |
| | Diverse Tax Incentives Created To Serve Your Best Interest. Which Ones Will You Choose?..... | 11 |
| | Tax Holidays..... | 12 |
| | Tax Exemption for Concessions..... | 12 |
| | Tax Credits..... | 13 |
| | Carrying Forward of Losses..... | 13 |
| | Avoiding Double Taxation..... | 14 |
| | Salary Tax Exemptions..... | 15 |
| | Social Insurance Contributions Exemptions..... | 16 |
| | Annual Income Tax Deductions..... | 16 |
| Value Added Tax Exemption in Free Zones..... | 17 | |
| OTHER INCENTIVES | Customs-Free Import..... | 18 |
| | Regional and Local Incentives..... | 19 |
| | Where Experts Come Together – SIEPA..... | 20 |



Mladjan Dinkic
Deputy Prime Minister and
Minister of Economy and
Regional Development

“We have been dedicating our efforts for nine years to improve the business environment and enhance the overall investment climate in Serbia. We have recognized the need for an appropriate set of laws and an efficient and stimulating tax environment not only to support existing businesses, but also to attract new ones. Since 2000, dozens of new laws have been adopted, making Serbia a proud leader in business reforms, as reported by the World Bank’s Doing Business 2006.

This publication aims at presenting the set of incentives created to suit your business needs in the best possible manner.”

| | |
|----------------------|---|
| Financial Incentives | For large-scale projects, grants up to 25% of the investment amount |
| | For standard-scale projects, grants from €2,000 up to €10,000 per new job created |
| | Support schemes offered by the National Employment Service |
| Tax Incentives | 10-year Corporate Income Tax holiday for large investments |
| | 5-Year Corporate Income Tax holiday for investments in underdeveloped regions |
| | Corporate Income Tax credits up to 80% of the investments in fixed assets |
| | 5-year Corporate Income Tax holiday for concessions |
| | Carrying forward of losses over a period up to 5 years |
| | Avoiding double taxation |
| | Salary Tax and social insurance charges exemptions |
| | Annual Income Tax deductions up to 50% of the taxable income |
| | Value Added Tax exemption in Free Zones |
| Other Incentives | Customs-free import |
| | Regional and local Incentives |

Grant Yourself a Bonus

Eligible Projects For large investors, a special financial package is available. If a project's value exceeds €200 million and creates at least 1,000 new jobs, the state may cover 25% of the investment. Investments of over €50 million that create at least 50 new jobs can be subsidized for 20% of the project's value.

For standard-scale Greenfield and Brownfield projects in the manufacturing and export-related services sectors, non-refundable state funds are offered in the range between €2,000 and €10,000 per new job created.

| Financial Grants | | | | | | |
|--------------------------------|---|-----------------------------|---|--|------------------------------------|-----------------------------------|
| Eligible Projects | Large-Scale Projects | | Standard-Scale Projects | | | |
| | Manufacturing and Export-Related Services | | Manufacturing | | | Export-Related Services |
| | Capital and Labor-Intensive Projects | Capital-Intensive Projects | Projects Realized in Devastated Regions and Regions of Special State Interest | Projects in Automotive, Electronics, IT Industries Realized in Regions of Special State Interest | Projects Realized in Other Regions | Projects Realized in Any Region |
| Grant Amount | 25% of the total investment | 20% of the total investment | €4,000-10,000 per new job created | €5,000-10,000 per new job created | €2,000-5,000 per new job created | €2,000-10,000 per new job created |
| Minimum Investment Amount | €200 mn | €50 mn | €0.5 mn | €0.5 mn | €1 mn | €0.5 mn |
| Minimum N° of New Jobs Created | 1,000 | 300 | 50 | 50 | 50 | 10 |

Program Criteria State funds are awarded upon the scoring based on the following criteria:

- investor's references,
- participation of domestic suppliers in the final product and the investment effect on local companies,
- investment sustainability,
- effects related to R&D,
- effects on human resources,
- environmental impact,
- the value of international turnover for investments in the services sector,
- imports substitution,
- effects on the development of the local community, and
- municipal support related to deduction of local fees.



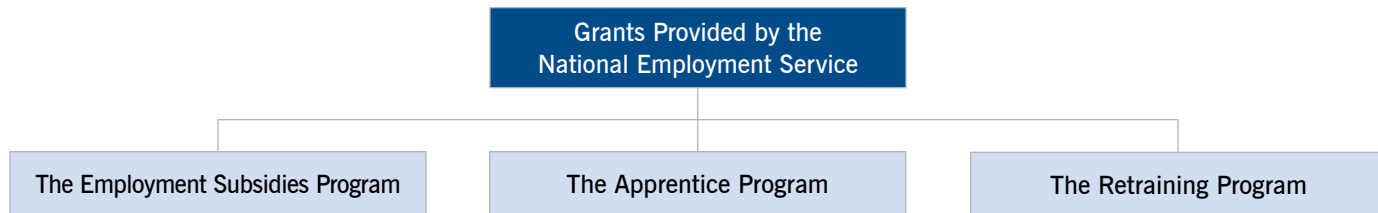


Pay-Out Plan Applications for other projects are to be submitted to the Serbia Investment and Export Promotion Agency (SIEPA). All necessary documentation is available at the Agency's web site: www.siepa.gov.rs.

Upon the assessment of investment projects, the funds for selected projects are paid out in four increments throughout the project's lifetime:

- 1st increment – after concluding the contract for sale or lease of land;
- 2nd increment – after obtaining the construction approval;
- 3rd increment – after obtaining the right-to-use permit;
- 4th increment – after achieving full employment envisaged by the investment project.

Combine Your Additional Value



The Employment Subsidies Program

Fifty-Employee Limit The Employment Subsidies Program includes state grants for the employment of a maximum of 50 unemployed persons registered as unemployed with the National Employment Service or declared as redundant workers. In the cases of Greenfield and Brownfield projects, the number of new job posts may be higher than 50.

The grant amount depends on the employment level of the municipality where the project is implemented as displayed in the table.

| Municipalities/Employees | Grant Amount* |
|-------------------------------------|---------------------------|
| The most undeveloped municipalities | RSD 160,000 (app. €1,700) |
| Undeveloped municipalities | RSD 130,000 (app. €1,380) |
| Other municipalities | RSD 80,000 (app. €850) |

*Grant amount per new job created, based on the average exchange rate in 2009: 1 EUR = 94.12 RSD

The Apprenticeship Program

Program Categories The apprenticeship incentives include state grants for the professional training of novices. This program will be applied in the course of 2010, providing monthly salary grants, as well as social insurance charges reimbursements for a total of 16,000 first-time employees.

| Education | Maximum Program Duration | Salary Reimbursement* |
|-----------------------|--------------------------|------------------------|
| High School Degree | 6 months | RSD 16,000 (app. €170) |
| 2-Year College Degree | 9 months | RSD 18,000 (app. €190) |
| University Degree | 12 months | RSD 20,000 (app. €210) |

*Grant amount per new job created, based on the average exchange rate in 2009: 1 EUR = 94.12 RSD



The Retraining Program

Program Requirements The Retraining Program is organized by the National Employment Service at the company's request provided there are no unemployed workers from the specific field registered with the Service or they lack professional skills required by the company. The candidate selection is carried out jointly by the Service and the company, while the

retraining can take place either in the company itself or at the selected educational institution. More importantly, the retraining expenses can be covered in the amount up to RSD 80,000 or roughly €850 per employee. Additionally, the National Employment Service bears the costs of transportation and insurance for the trainees throughout the retraining program.

Exceptional Corporate Income Tax Rate

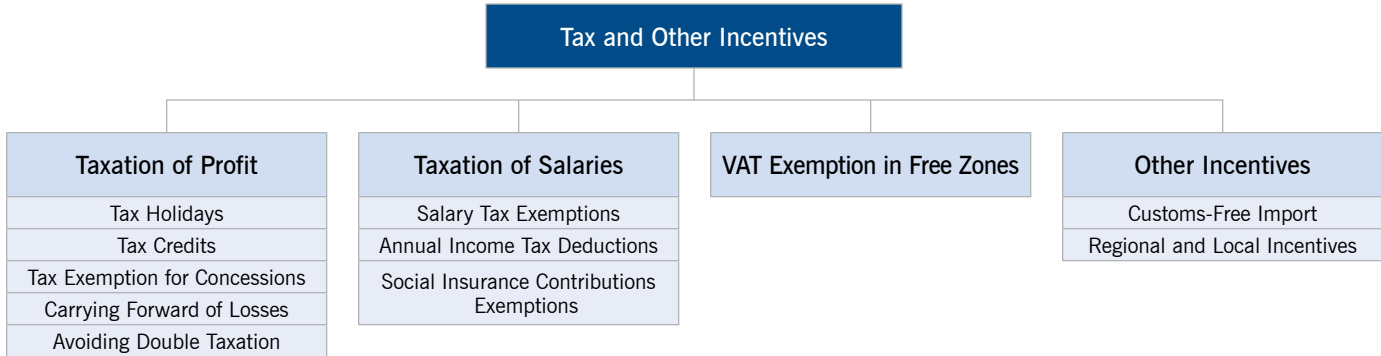
10% Tax Rate Join other successful companies whose profits enjoy this special offer.

| Corporate Income Tax Rate | |
|---------------------------|-----|
| Serbia | 10% |
| Bulgaria | 10% |
| Romania | 16% |
| Poland | 19% |
| Slovakia | 19% |
| Hungary | 19% |
| Czech Republic | 19% |
| Croatia | 20% |

Source: PricewaterhouseCoopers



Diverse Tax Incentives Created To Serve Your Best Interest.
Which Ones Will You Choose?



Tax Holidays

Tax Break for Large Investors Companies are exempt from Corporate Income Tax for a period of 10 years starting from the first year in which they report taxable profit if:

- they invest in fixed assets an amount exceeding RSD 800 million (approximately €8 million), and
- they hire at least 100 additional full-time employees during the investment period.

Tax Exemption for Underdeveloped Regions Investors in undeveloped regions are exempt from Corporate Income Tax over a 5-year period on the following conditions:

- investment in fixed assets exceeds RSD 8 million, or roughly €80,000,
- the minimum of 80% of fixed assets are used in the main activity,
- at least 5 new employees are hired on an indefinite contract throughout the investment period, and
- 80% or more employees have a residence in the underdeveloped region.



Tax Exemption for Concessions

5-Year Tax Break A 5-year Corporate Income Tax holiday is granted for concession-related investments starting from the day the concession investments have been completed. No tax is due if income is derived before the completion of the concession investment.

Tax Credits

20% Tax Credit The amount of tax due can be reduced by 20% of the amount invested in fixed assets for the respective tax period. This reduction cannot exceed 50-70% of the total tax liability and can be carried forward for a maximum period up to 10 years.

80% Tax Credit A large number of sectors (agriculture, fishing, production of textile yarn and fabrics, garments, leather, base

metals, standard metal products, machines, office machines, electrical machines, radio, TV and communication equipment, medical instruments, motor vehicles, recycling, and video production) are entitled to receive a tax credit in the amount of 80% of the investment in fixed assets. The unused part can be carried forward for 10 years.



Carrying Forward of Losses

5-year Transfer The tax loss stated in the tax return can be carried forward and offset against future profits over a period of 5 years.

Avoiding Double Taxation

Mutual Incentives If a taxpayer already paid tax on the profit generated abroad, he is entitled to a Corporate Income Tax credit in Serbia to the already paid amount.

The same right is enjoyed by a taxpayer who earns revenue and pays Personal Income Tax in another country, provided there is a Double Taxation Treaty with that country.

| Double Taxation Treaties | | | |
|--------------------------|-----------------|---------------|-----------------|
| Country | In Effect as of | Country | In Effect as of |
| Bulgaria | 2000 | Great Britain | 1982 |
| Belgium | 1981 | Italy | 1983 |
| China | 1997 | Netherlands | 1982 |
| Croatia | 2004 | Norway | 1985 |
| Cyprus | 1986 | Russia | 1995 |
| Czech Republic | 2005 | Slovakia | 2001 |
| Finland | 1987 | Slovenia | 2003 |
| France | 1975 | Sweden | 1981 |
| Germany | 1988 | Switzerland | 2007 |

Source: Official Gazette of the Republic of Serbia

Salary Tax Exemptions

Favorable Salary Tax Personal Income Tax is payable by individuals on different sources of income. The rate is 12% for salaries, while other personal income (e.g., income from interests, dividends, shares in profits, etc.) is taxed at the rate of 10%. Non-residents are taxed with respect to income generated in Serbia.

Tax Base Deduction The Salary Tax base in Serbia is deducted by RSD 6,554 (app. €70) a month for all employees working full time.

Salary Tax Exemptions The employer who hires new workers on a permanent basis is exempt from paying Salary Tax over the following period:

| | |
|---------|---|
| 3 years | For apprentices aged under 30 and registered as unemployed with the National Employment Service. |
| | For disabled persons. |
| 2 years | For persons aged under 30 who have been registered as unemployed with the National Employment Service for more than 3 months. |
| | For persons aged 45 or older who have been registered as unemployed with the National Employment Service for more than 6 months and receive salary compensations. |

Social Insurance Contributions Exemptions

Insurance Exemptions The employer may enjoy an exemption from paying social insurance contributions over the following period:

| | |
|---------|---|
| 3 years | For apprentices aged under 30 and registered as unemployed with the National Employment Service. |
| | For disabled persons. |
| 2 years | For persons aged under 30 who have been registered as unemployed with the National Employment Service for more than 3 months. |
| | For persons aged 50 or older who have been registered as unemployed with the National Employment Service for more than 6 months and receive salary compensations. |
| | For persons aged between 45 and 50 (an 80% exemption). |

Annual Income Tax Deductions

10-15% Annual Tax For non-Serbian citizens, the annual income is taxed if exceeding the amount of threefold the average annual salary in Serbia. The tax rate is 10% for the annual income below the amount of 6 times average annual salary in Serbia, and 15% for the annual income above the

amount of 6 times average annual salary. The taxable income is further reduced by 40% of an average annual salary for the taxpayer and by 15% of an average annual salary for each dependent member of the family. The total amount of deductions cannot exceed 50% of the taxable income.



Value Added Tax Exemption in Free Zones

Tax-Free Zones Income generated through commercial activities in the Free Zones in Serbia is exempted from Value Added Tax. There are six Free Zones, currently operating in

the country: Subotica, Novi Sad, Zrenjanin, Sabac, Kragujevac, and Pirot. Foreign companies can establish a privately-owned Free Zone based on the project approved by the government.

Customs-Free Import

Customs Duties Exemptions Foreign investors are exempt from paying customs duties or are allowed to pay the duties at a lower rate for the following products:

| | |
|------------------------|---|
| Equipment | Duty-free import of new or used equipment and freight motor vehicles, up to the value equivalent to the share of a foreign investor in a company in Serbia. |
| | Duty-free import of new and used equipment into the Free Zones. |
| | Import of new and used equipment into the Free Zones. |
| Raw Materials | Import of certain raw materials at the rate of 1% or 5%, provided: 1) they serve for production only, and 2) they are not produced in Serbia or are not produced in a sufficient quantity and product range or are of inadequate quality. |
| | Import of raw materials into the Free Zones. |
| Construction Materials | Import of construction materials. |
| Processed Tobacco | Duty-free import of processed tobacco, provided: 1) it is used in production only and 2) it is not produced in Serbia or is not produced in a sufficient quantity or is of inadequate quality. |

Regional and Local Incentives

Subsidies in Vojvodina In the Serbian Province of Vojvodina, investors are awarded financial grants for new employment, amounting to RSD 100,000 (app. €1,050), with the possibility of receiving additional RSD 30,000 or roughly €300 on the following conditions:

- 10 or more jobs are created for certain employee categories and
- jobs are created in underdeveloped municipalities on the territory of Vojvodina.

Additionally, employers in Vojvodina are provided with salary-related subsidies for hiring trainees for 12 months. Throughout that period, employers receive RSD 37,500 (app. €400) for university-educated trainees and RSD 27,800 (nearly €300) for trainees with 2-year college and high-school education. These

amounts also cover Salary Tax and social insurance contributions, and are payable to employers three months in advance.

Local Tax Relief A wide array of incentives is also available at the local level, varying in scope and size from one city to another.

The major ones comprise the following:

- City building land lease fee exemptions or deductions, including the option of paying in installments, with the prior consent of the government;
- City building land development fee relief such as fee exemptions or discounts for one-off payments;
- Other local fees exemptions or deductions (e.g., the fee for displaying the company's name).

Where Experts Come Together – SIEPA

The Serbia Investment and Export Promotion Agency (SIEPA) was created in 2001 by the Government of the Republic of Serbia. Our mission is to support foreign companies seeking to set up or expand their presence in Serbia and Serbian companies doing business abroad. A staff of around 40 multilingual employees works out of the company's headquarters in Belgrade and handles projects from and to all over the world.

We provide professional consulting services to firms interested in setting up business operations in Serbia, focusing on all relevant issues in their decision making process. Our network of contacts can link investors to all levels of government as well as private service providers. We have created products such as suppliers database and

locations database that enable us to provide quick and up-to-date information to our clients.

SIEPA is also administers the most significant financial incentives program offered by the Government of Serbia. Between 2006 and the first half of 2010, we have granted € 47 million to 114 projects which have created 17,000 new jobs and investments of over € 600 million.

We would like to invite you to contact our expert staff which is ready to assist you and your business. SIEPA is ready to offer information on the general investment environment as well as targeted legal and industry-specific advisory services. Our services are tailor-made to best match your company's needs and requests. Working with us is simple, easy, and costs nothing.

SIEPA • 3, Vojkoviće St. • 11000 Belgrade, Serbia • phone: +381 11 3398 550 • fax: +381 11 3398 814 • office@siepa.gov.rs • www.siepa.gov.rs

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Serbia Investment and
Export Promotion Agency
3, Vojkovića St. 5th floor
11000 Belgrade, Serbia
phone: +381 11 3398 550
fax: +381 11 3398 814
e-mail: office@siepa.gov.rs
www.siepa.gov.rs

