Tax advice
for entrepreneurs

CONFIDA

Ideas that pay off.

Monthly Newsletter
December, 2024.

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1.

HOUSING LOAN INTEREST RATES IN SERBIA REMAIN CAPPED AT 5%

Serbia has introduced a measure to keep the interest rates on existing variable-rate housing loans capped at 5% until at least the end of 2025. This step aims to prevent sudden rate hikes and encourage the adoption of fixed-rate agreements.

In addition, the new **Law on the Protection of Financial Service Users** introduces sev-eral measures:

- **Prevent excessively high interest rates**, particularly on credit cards and overdrafts
- **Ensure stability in housing loan rates**
- **Encourage the use of fixed-interest agreements**

After the transitional period, the interest rates on housing loans will be aligned with the weighted average rate, plus 1/5, to maintain market stability.

2.

HOUSING PRICES SOAR ACROSS EUROPE AND SERBIA

Housing costs across Europe have risen sharply, with rent prices increasing by as much as 70% over the last decade. In popular tourist destinations, some attribute the rise to the influx of tourists using private accommodations. However, economists emphasize a broader issue: the European Central Bank's expansive monetary policies.

Between 2015 and 2022, these policies introduced surplus capital into the economy, which was directed toward real estate, leading to significant price hikes.

In Serbia, the trend mirrors the European situation. While post-pandemic tourism growth and increased foreign nationals, including Russians due to geopolitical tensions, have influ-enced housing demand, experts agree these are secondary factors. The primary driver is the influx of surplus capital into the real estate market, compounded by the lack of devel-oped stock markets to absorb this excess liquidity.

3.

NEW LAW: PERSONAL LOANS OVER €10,000 MUST BE NOTARIZED

Amendments to the Law on Public Notaries, passed by the Serbian government, require that all personal loans exceeding €10,000 between individuals be notarized. This change aligns with the Anti-Money Laundering Law, which limits cash transactions to this amount.

The Law mandates that notaries certify (solemnize) loan agreements, making private ar-rangements legally recognized and part of a registry of loans. This registry will provide the Anti-Money Laundering Administration with better oversight of capital and asset flows, par-ticularly concerning individuals.

This control system aims to improve financial discipline and security by enabling detailed monitoring of loans exceeding the €10,000 limit.

4.

SERBIA AND USA SIGN STRATEGIC ENERGY COOPERATION AGREEMENT

Serbian Foreign Minister Marko Đurić and U.S. Under Secretary for Economic Growth, Ener-gy, and Environment, Jose Fernandez signed a Strategic Energy Cooperation Agreement in Washington, D.C. This Is a significant step toward strengthening ties with the U.S. and en-suring long-term energy security for Serbia.

Serbia plans to quadruple its electricity consumption over the next 20 years, requiring col-laboration with global industries and countries with experience in expanding production ca-pacities.

The Agreement will facilitate Serbia's green transition and provide better access to clean energy, aligning with the country's European goals. Additionally, it will contribute to a relia-ble and stable power supply, making Serbia more attractive to foreign investments.

5.

EBRD FORECASTS 3.8% GDP GROWTH FOR SERBIA IN 2024

The European Bank for Reconstruction and Development (EBRD) projects that Serbia's GDP will grow by 3.8% in 2024, driven by robust industrial production, retail, and tourism growth. Analysts expect the economy to grow by 4% in 2025. These projections follow a 4.3% GDP increase in the first half of 2024, boosted by trade, tourism, hospitality, and construction sectors.

The report highlights stable foreign investment inflows and inflation holding at 4.3% in July 2024. Despite an expansionary fiscal policy, including increased wages and pensions, challenges remain, including a tight labour market, geopolitical risks, and weather-related is-sues.

The EBRD emphasizes that future growth drivers include reforms in managing state enterprises and carefully planned public investments. The institution has invested over nine bil-lion euros in Serbia, focusing on strengthening the private sector, transitioning to green en-ergy, and developing sustainable infrastructure.

6.

INTENSIFIED INSPECTIONS DUE TO FISCAL RECEIPT IRREGULARITIES

On October 9, the Serbian Tax Administration announced intensified inspections following detected irregularities in issuing fiscal receipts.

The Tax Administration emphasizes its ability to analyze real-time transaction data by re-gion, sector, and time of issuance. All fiscal receipt data is collected in the Tax Administra-tion's Control Center, enabling detailed monitoring and analysis.

The results of inspections throughout 2024 indicate a high percentage of detected irregularities, meaning that controls target taxpayers who do not comply with legal regulations. Taxpayers found to have violated regulations face sanctions as prescribed by Law.

7.

EU AGENDA UNLOCKS €1.58 BILLION FOR SERBIA'S GROWTH UNDER WESTERN BALKANS PLAN

In a significant step towards economic integration, the European Union Delegation and the Ministry for European Integration have introduced a reform agenda enabling Serbia to ac-cess EU funds under the Western Balkans Growth Plan. The plan allocates €1.58 billion to Serbia, contingent upon successfully implementing 98 measures across four key sectors.

The agenda aims to improve the following areas:

1. **Business environment & private sector development,**
2. **Green & digital transition,**
3. **Human capital,**
4. **Rule of Law.**

The fund disbursement will be phased, with an initial €112 million scheduled for release by the end of the year, provided specific criteria are met, including adopting ODIHR recom-mendations, amending media laws, and aligning visa policies with EU standards.

Half of the total funds will be directed to Serbia's budget, while the remaining will support infrastructure projects. This funding strategy aims to create a stable and sustainable eco-nomic environment.

The EU commitment highlights the importance of governance reforms, combating corrup-tion, and improving judicial efficiency. These reforms are crucial for Serbia's societal stabil-ity and long-term economic growth.

Additionally, the plan supports gradual integration into the EU Single Market. It includes ini-tiatives under the Common Regional Market of the Western Balkans, designed to enhance economic cooperation and regional connectivity.

This reform-driven funding represents a strategic opportunity for Serbia to accelerate its EU membership path, reinforcing economic stability and opening new growth prospects. Focus-ing on the rule of Law, digital transformation, and private sector development are critical steps in preparing Serbia for deeper integration into the EU market.

8.

STRICTER INVESTMENT POLICIES ON ALTERNATIVE FUNDS

Recent announcements about amendments to the Law on Personal Income Tax will tighten investment policies for alternative funds. Many high-income individuals in Serbia have used these funds to reduce their tax liabilities.

Under the new regulations, while citizens can still invest in alternative funds, immediate withdrawals will no longer be permitted. Investments must remain in the fund for at least three years to retain a 50% tax credit on the taxable base.

In 2024, any citizen older than 40 who earns over 4.27 million dinars must file a tax return **by May 15.** Those who invested part of their previous year's income into existing alternative investment funds could halve their taxable base, significantly reducing their tax liabili-ties.

Investors could previously invest in December and withdraw funds shortly after the new year, benefiting from legal tax relief. However, the latest changes require investments to remain in the fund for at least three years before withdrawal.

If taxpayers fail to comply, they will lose their tax credits. They must notify the Tax Administration and pay the total tax amount, including interest, for early fund withdrawal.

These changes aim to create a more stable investment environment and ensure tax compliance among high-income earners in Serbia.

9.

AMENDMENTS TO THE RULEBOOK ON PUBLIC DISCLOSURE OF FINANCIAL STATE-MENTS AND MAINTENANCE OF THE FINANCIAL STATEMENTS REGISTER

The “Official Gazette of the Republic of Serbia,” No. 97/2024, published on December 6, 2024, announced amendments to the Rulebook on the conditions and manner of public dis-closure of financial statements and maintenance of the Financial Statements Register. These amendments will take effect on January 1, 2025, and apply to regular annual fi-nancial statements for the fiscal year 2024.

A key change introduced by these amendments concerns the public disclosure of infor-mation about individuals and entities responsible for preparing financial statements:

- **For individuals** – only the name and surname will be disclosed,
- **For related legal entities and accounting service providers** – the business name and registration number will be published.

In cases where a responsible person is incorrectly listed, the Serbian Business Registers Agency (SBRA) will also publish a statement from that person refuting their responsibility.

Other notable updates include:

- **Replacing data about the responsible person** – allowed even after the state-ment has been publicly disclosed,
- **Publishing the legal representative’s statement** – in cases where business doc-umentation is incomplete, ensuring that third parties have all relevant information,
- **Formalizing the process of updating data** on financial reporting entities,
- **Improving the system** for receiving, processing, and publishing financial state-ments,
- **Expanding notification recipients** within the SBRA’s specialized information sys-tem,
- **Providing creditworthiness services** for companies undergoing bankruptcy or liq-uidation.

These amendments aim to enhance the precision of procedures related to the submission and publication of financial statements while ensuring greater transparency and reliability of the disclosed data.

10.

YEAR-END BONUSES AND "13TH SALARY" IN SERBIA – WHAT EMPLOYERS SHOULD KNOW

In Serbia, the "13th salary" is not a legal requirement but depends on the employer's discretion. Companies often reward employees with year-end bonuses or additional salaries, treating them as regular earnings subject to income tax and social contributions.

KEY HIGHLIGHTS:

- **No Legal Obligation:** The Serbian Labor Law does not mandate the provision of a 13th salary.
- **Tax Treatment:** Bonuses and 13th salaries are classified as earnings, forming the basis for taxes and contributions.
- **Calculation Methods:** The amount can be determined based on average gross salaries over a specific period, a percentage of monthly wages, or internal company policies.
- **Employer Costs:** Employers offering a 13th salary do not receive tax incentives, but the amount can be recognized as a deductible expense in the company's tax bal-ance.

New Year Gifts – Tax Exemptions for Employees' Children

Employers can provide partially tax-exempt New Year gifts. They may give gifts up to 13,497 RSD per child (under 15 years old) without tax liability, using cash, vouchers, or tangible items. The Tax Administration treats any amount exceeding this limit as taxable income.

11.

SERBIA INTRODUCES CENTRALIZED REGISTRY FOR INDIVIDUALS STARTING IN 2026

In 2026, Serbia plans to implement a significant shift in tax policy by introducing a centralized registry of individuals. This initiative, part of the proposed amendments to the Tax Procedure and Administration Law, will create a comprehensive database encompassing Serbian citizens, residents, foreigners with temporary or permanent residence, asylum seekers, and individuals owning property or holding pension rights in Serbia.

The primary goal of this centralized registry is to improve tax compliance and reduce dis-putes. By accessing detailed personal data, such as marital and property status, tax author-ities will be better equipped to define tax residency and obligations. The system will also monitor Serbian citizens working abroad to ensure compliance with tax regulations.

Understanding tax residency rules and preparing for the potential implications of this policy change is crucial for both businesses and individuals. Proactive planning will help ensure compliance with Serbia's evolving tax framework.

12.

CHANGES TO PENSION RULES IN SERBIA STARTING JANUARY 1, 2025

New pension rules in Serbia will come into effect on January 1, 2025, introducing gradual changes to the age requirements and criteria for pension eligibility. Women's minimum re-tirement age will increase to 63 and 10 months, with annual increases leading to 65 years by 2032. Regular pensions will require 65 years of age and at least 15 years of paid contri-butions, while early retirement will be available after 45 years of contributions, regardless of age.

Employers and employees must ensure data accuracy and update the M-4 form to avoid issues with pension calculations, as they will only recognize periods with paid contributions.

Those who worked abroad, including in former Yugoslav republics, must follow the country's regulations where they performed the work to determine their pension eligibility for those periods. The authorities will process the data within two months. They will issue a provi-sional pension decision if they find incomplete contribution data. If they do not receive the missing information within three years, they will finalize the provisional amount.

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