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COVID-19 OVERVIEW OF ECONOMIC MEASURES - SERBIA

1 April, 2020



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COVID-19 CONTACT CENTRE

Dear clients, business partners and friends,

We are aware of the fact that your organisation may face business challenges and thus, we will remain at your disposal and provide support in accordance with our principle and slogan: "What matters to you, matter to us". We will monitor daily the activities taken by the governments of the Republic of Serbia, Montenegro and Republic of Srpska against the COVID-19 disease, and put effort into providing you with professional advice on how to do business in a rapidly changing environment.

Milovan Popovic Managing Partner FOR ALL INFORMATION AND EXPLANATIONS REGARDING ECONOMIC MEASURES CONTACT US AT: COVID19BD0@BD0.CO.RS



SUMMARY OF ECONOMIC MEASURES





SUMMARY OF ECONOMIC MEASURES

- Upon the adoption of a number of regulations, in the fields of fiscal policy and financial system, on 31 March, 2020, the Government of the Republic of Serbia announced a Programme of Economic Measures for Diminishing Economic Effects Caused by the COVID-19 Disease Pandemia (hereinafter: the Programme). A total estimated effect of the measures provided for in the Programme is RSD 608.3 billion or EUR 5.1 billion, which represents 11.1% of gross domestic product or ½ of the annual budget of the Republic of Serbia. The aforementioned Programme shall be regulated by legal acts of the Government of the Republic of Serbia which are to be adopted in early April.
- ▶ The Program includes four large groups of economic measures presented in the table.

NUMBER	GROUP OF MEASURES	ESTIMATED EFFECT, IN RSD BILLION	% OF GDP
1	Fiscal policy measures	161.0	2.9
2	Measures of direct aid to private sector	97.3	1.8
3	Measures for liquidity preservation in private sector	264.0	4.8
4	Other measures	86.0	1.6

- It is proposed that the measures do not apply to those companies which have: 1. in the course of national emergency, reduced their number of employees by more than 10% (not including the employees with employment contracts for a definite period of time, whose employment contracts will be terminated during the national emergency); 2. temporarily suspended their operations prior to the national emergency, that is prior to 15 March, 2020.
- In addition to the Programme presented, the Government of the Republic of Serbia and the National Bank of Serbia adopted a number of economy related bylaws in order to provide a more favourable financial position of our economy since national emergency was declared on 15 March, 2020.

PROGRAMME OF ECONOMIC MEASURES



PROGRAMME OF ECONOMIC MEASURES

▶ The following table contains more information on the groups of measures set forth in the Programme.

GROUP OF MEASURES	MEASURE	ESTIMATED EFFECT, IN RSD BILLION	% OF GDP
Tax policy measures	Deferral of payment of payroll taxes and contributions for all private companies during the state of emergency, and for a minimum of three months	140.0	2.5
	Deferral of payment of corporate income tax for the second quarter of 2020	21.0	0.4
	Exemption from VAT for donors	/	/
Measures of direct aid to private sector	Payment of 100% of minimum wages, in the course of national emergency, to entrepreneurs, sole traders, micro, small and medium-sized companies	92.8	1.8
	Payment of 50% of minimum wages, in the course of national emergency, to large companies in private sector and for the employees to whom the interruption of work was determined by the decision (Article 116 and Article 117 of the Labor Law)	4.5	0.1
Measures for liquidity preservation	Financial support programme of the Development Fund of the Republic of Serbia	24.0	0.4
in private sector	Guarantee scheme for support to the ecomomy	240.0	4.4
Other measures	Moratorium for dividend payments by the end of 2020, except for public enterprises, and loss of dividend tax based on the aforementioned	16.0	0.3
	Domestic demand enhancement by payments of EUR 100 in RSD countervalue to all citizens aged 18+	70.0	1.3

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TAX POLICY MEASURES

> On 31 March, 2020, the Government of the Republic of Serbia announced a new set of tax measures.

GROUP OF MEASURES	MEASURE
Payroll tax and social insurance contributions	Deferral of payment of payroll taxes and contributions for all private companies during the state of emergency with repayment of tax liabilities in installments starting no sooner than 2021
Corporate income tax	Deferral of payment of corporate income tax in the second quarter of 2020
Value added tax	Exemption from paying VAT for donors

Legal framework — in order for specific measures to be implemented in the forthcoming period, the Government of the Republic of Serbia have announced the adoption of a relevant legal framework, which is expected in the following days.

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SUMMARY OF TAX POLICY MEASURES (private sector)

> Deferral of payment of payroll taxes and contributions during national emergency.

- > Deferral of payment of corporate income tax in the second quarter of 2020.
- Exemption from VAT for donors.

MEASURES OF DIRECT AID TO PRIVATE SECTOR

- The measures of direct aid to the private sector are related to the payment of a percentage of a minimum wage, in the course od national emergency, or over the estimated period of three months. The payment amount is dependable on the company size:
 - a. Entrepreneurs, sole traders, micro, small and medium-sized companies: 100% of the minimum wage;
 - **b.** Large companies: 50% of the minimum wage for those employees to whom the interruption of work was determined by the decision (Article 116, Article 117 of the Labor Law).

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SUMMARY OF MEASURES OF DIRECT AID TO PRIVATE SECTOR

- Payment of 100% of the minimum wage for entrepreneurs, sole traders, micro, small and medium-sized companies.
- Payment of 50% of the minimum wage for large companies for the employees to whom the interruption of work was determined.



MEASURES FOR LIQUIDITY PRESERVATION FOR PRIVATE SECTOR

The Republic of Serbia shall, through the Development Fund, will secure a programme for awarding loans for preserving liquidity and working capital for entrepreneurs, micro, small and medium-sized companies, farmers, and cooperatives in the production and service sectors registered with the relevant register.

DEVELOPMENT FUND LOANS		
Loan type	Financing liquidity and working capital for entrepreneurs, micro, small and medium-sized companies, farmers, and cooperatives in the production and service sectors registered with the relevant register	
Total loan amount	RSD 24 billion (ca. EUR 200 million)	
Term	Up to 36 months, including 12-month grace period	
Currency	RSD	
Programme duration	End 2020	
Maximum loan amounts	Entrepreneurs and micro companies: up to RSD 5 million Small companies: up to RSD 25 million Medium companies: up to RSD 50 million	
Eligible sectors	All sectors exclusive of games of chance, trade, and trade in oil and oil derivates	

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MEASURES FOR LIQUIDITY PRESERVATION FOR PRIVATE SECTOR (CONT'D)

The Republic of Serbia will provide a guarantee scheme to commercial banks on the territory of the Republic of Serbia for awarding loans for entrepreneurs, micro, small and medium-sized companies, and farmers according to the Law on Accounting.

COMMERCIAL BANKS' LOANS			
Loan type	Financing liquidity and working capital for entrepreneurs, micro, small and medium-sized companies, and farmers, and cooperatives in the production and service sectors registered with the relevant register		
Total loan amount	RSD 240 billion (ca. EUR 2 billion)		
Term	Up to 36 months, including 12-month grace period		
Currency	RSD or EUR		
Programme duration	End 2020		
Maximum loan amounts	25% of revenues in 2019 Up to EUR 3 million		

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SUMMARY OF MEASURES FOR PRESERVING LIQUIDITY

- Liquidity and WC loans of the Development Fund.
- Liquidity and WC loans of commercial banks with the state guarantee programme.



ECONOMY RELATED BYLAWS

1.Tax policy bylaws

Pursuant to Article 200, paragraph 6, of the Constitution of the Republic of Serbia, the Government of the <u>Republic of Serbia passed a Regulation on Tax Measures during the State of Emergency in order to Mitigate Economic Implications and Impact of the COVID-19 Disease caused by Virus SARS-COV-_2.</u>

COVID-19

"BDO Serbia is at your disposal during the entire period of these changed business circumstances".

2. Financial system bylaws

The Executive Board of the National Bank of Serbia passed a Decision on Temporary Measures for Preserving the Financial System Stability.

MEASURES ADOPTED PRIOR TO PROGRAMME

A summary of tax measures undertaken by global tax jurisdictions: www.bdo.global



TAX POLICY MEASURES

A summary of tax measures undertaken by global tax jurisdictions: www.bdo.global



TAX POLICY MEASURES

FIRST SET OF TAX MEASURES

The Government of the Republic of Serbia adopted a Decree on Tax Measures during the State of Emergency in order to mitigate the economic consequences resulting from the COVID-19 outbreak.

- Extension of the period of deferred payment of debt For taxpayers granted deferred payment of tax due under the provisions of Articles 73 to 74b of the Law on Tax Procedure and Tax Administration (hereinafter: the Law), i.e. taxpayers who already have a tax debt deferral agreement, the Tax Administration will not, *ex officio*, cancel the agreement during the state of emergency (beginning with the installment due in March 2020). Namely, in that case, the Tax Administration will not revoke the decision on the postponement of payment of the tax due and will not carry out the procedure of enforced collection, whereby also in the observed period no interest will be charged within the meaning of Articles 75 and 76 of the Law.
- Tax interest during the state of emergency During the state of emergency, on the higher or lower amount of paid tax and secondary tax duties, except interest, interest is calculated and paid at a rate equal to the annual key policy rate of the National Bank of Serbia (tax interest reduced from 11.75% to 1.75%).

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SUMMARY OF MEASURES IN THE FIELD OF TAX POLICY

- Extension of the deferred tax payment grace period.
- Tax interest during the state of emergency (reduced from 11.75% to 1.75%).
- The Government of the Republic of Serbia has announced a special set of tax measures expected in the upcoming period.



TAX POLICY MEASURES OPTIMISATION OPPORTUNITIES AND POTENTIAL TAX RISKS

- The second set of fiscal measures Upon the adoption of the legal framework aimed at the implementation of the second set of fiscal measures, taxpayers will have the opportunity to apply specific measures to optimise their tax liabilities in the course of national emergency in order to minimise negative effects on their operations arising from limited activities during the COVID-19 pandemia.
- Corporate Income Tax Due to a significant reduction in the volume of business activities, taxpayers are left with the possibility of applying the provision defined in Article 68 of the Corporate Income Tax Law. Specifically, by applying the above mentioned provision, taxpayers have the opportunity to file the new tax return in order to determine the corrected smaller amount of the income tax advance.
- Tax benefits for new employees Important note for all legal entities applying the latest benefits for newly employed persons (prescribed by the latest amendments to the Personal Income Tax Law and the Law on Compulsory Social Security Contributions). Specifically, reducing the number of employees may result in the loss of the right to use the above mentioned benefits.
- COVID-19 The first set of tax measures (tax interest during the state of emergency) Regardless of the fact that special, or significantly reduced tax interest will be applied during the state of emergency, tax authorities still have the possibility of collecting their debts in some of the enforcement procedures (for example, tax authorities still have the option of enforced collection, etc.).

FINANCIAL SYSTEM MEASURES



FINANCIAL SYSTEM MEASURES

- All commercial banks and leasing companies are obliged to offer their debtors (companies, entrepreneurs, farmers and individuals) a suspension of debt payments (hereinafter: the Moratorium) by publishing a notification on the offered moratorium on their websites, and it will be considered that all borrowers and lessees have been duly informed about it.
- If the clients do not refuse the offer within ten days after the above mentioned notification, it will be considered that they have accepted the Moratorium. The Moratorium will start to produce legal effect after the expiration of 10 days.
- The Moratorium may not be shorter than 90 days and/or than the duration of the emergency state declared due to the pandemic.
- In addition to the Moratorium, banks can offer other debt relief facilities to debtors. Some banks have provided other reliefs, such as extending the allowed overdraft if it expires during the Moratorium.

- For the duration of the emergency state, banks and leasing companies will not charge any default interest on past due outstanding receivables and will not initiate enforcement or enforced collection procedures, or take other legal actions to collect receivables from their clients.
- Receivables of debtors who have been granted the Moratorium and who have not been in arrears for more than 90 days as of 18 March 2020, will not be considered to be non-performing loans.

SUMMARY OF MEASURES IN THE FIELD OF THE FINANCIAL SYSTEM

- Moratorium on repayment of liabilities of all debtors to banks and leasing companies for at least 90 days.
- Prohibition of charging default interest on past due outstanding receivables and initiation of enforcement or enforced collection procedures during the Moratorium.



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