

TAX SYSTEM

The tax system in Montenegro consists of:

- corporate income tax;
- personal income tax;
- Value Added Tax (VAT);
- real estate transfer tax;
- social security contributions;
- excise duties;
- fees;
- customs duties.

The tax system for foreign investors is the same as for local business entities.

Corporate income tax amounts to 9%, while the tax rate on personal income is 9% or 11%. Upon payment of the corporate income tax, business entities operating in Montenegro have the possibility to transfer funds to their accounts abroad at the end of the year.

Two positive rates of **value added tax (VAT)** are applied, standard rate of 19% and the reduced rate of 7%, while the zero rate applies to: export transactions and delivery of medicines and medical devices that are funded by the Health Insurance Fund.

TAX RELIEFS

1. The relief referred from payment of tax on corporate profit tax and personal income

The rate of tax on profits of legal entities in Montenegro amounted to 9%, is the lowest in the region and one of the lowest in Europe, while the tax rate on personal income is 9% and 11%.

In economically underdeveloped municipalities whose development index is below 75% national average, the Law on Profit Tax provides that a newly established legal person does not pay profit tax for the first eight years of operation. Also, the Law on Tax on personal income taxpayer, the tax calculated on income for the first eight years of operation is reduced by 100%. Tax exemption does not apply to a taxpayer who operates in the sector of primary production of agricultural products, transport, shipbuilding, fishing, steel, trade and catering in addition to primary hospitality facilities. These laws are defined by tax incentives for investors, whereby in both cases the total amount of tax exemption for the first eight years of operation can not be greater than € 200.000.

2. Returns the value added tax (VAT)

If the amount of tax liability (output tax) in tax period is less than the amount of input value added tax, which the taxpayer may deduct the same tax period, the difference is recognized as a tax credit to the next tax period, or at the request returns within 60 days from the date of filing the application for the calculation of value added tax.

The taxpayer, who mainly exports goods and taxpayer who in more than three successive VAT calculation the surplus of input VAT, the difference of VAT returns within 30 days from the date of filing the application for the calculation of VAT.

If the taxpayer deadline for the payment of other taxes, the difference on the basis of value added tax shall be reduced by the amount of the tax debt..

Value added tax is calculated and paid for:

- delivery of products and services done for a fee by the taxpayer within the performance of its business activities;
- imports of products;
- imports of motor vehicles (new and pre-owned) is liable to VAT at the rate of 19%;
- trade in pre-owned passenger vehicles, motorcycles and vessels for which the taxpayer was not entitled to input VAT deduction upon acquisition is not subject to VAT; In this case, a special tax is paid at the rate of 5% by the buyer;
- trade in land (agricultural, construction, developed and undeveloped), is not subject to VAT.

The tax rate on real estatetransfer is proportional and amounts to 3% of the tax base. Trade in real estate is considered to be all acquisitions of ownership over real estate in Montenegro and this area is thoroughly regulated by the Law on Real Estate Transfer Tax.

Compulsory social insurancein Montenegro is paid by the employees, employers, entrepreneurs and farmers who are not contributors to unemployment insurance.

Contributions for compulsory social insurance are:

- contribution for compulsory pension and disability insurance;
- contribution for compulsory health insurance;
- contribution for unemployment insurance.

Contribution rates are different depending on the category of taxpayers, and they are defined by the Law on Compulsory Social Insurance.

Law on Excise Duties governs the system and introduces the obligation to payexciseduties for individual goods and services that are released to free circulation on the territory of Montenegro.

Excise products are:

- alcohol and spirituous beverages;
- tobacco products;
- mineral oils, their derivatives and substitutes.

Excise duty payers calculate the excise duty for the calendar month themselves.

Types of feesin Montenegro, that have to be paid by investors, are:

- administrative fees;
- court fees;
- utility fees;
- registration fees;
- sojourn fees.

The basis of the customs system in Montenegro consists of the Law on Customs Tariff and the Customs Law. Customs clearance under this law, includes receipt of import customs declaration, inspection of goods and classification according to the customs tariff and other tariffs, fixing the customs basis, amount of customs duties and other import duties charged on the goods, collection of fixed customs duty amounts and other import duties.

According to the law, investors may be eligible for exemption from customs duties.

Subsidies for employment of certain categories of unemployed persons

(Decree on subsidies for the employment of certain categories of unemployed persons)

Grants can be used by the employer who hires:

- A person with at least 40 years of age;
- Unemployed person Roma, Ashkali and Egyptians;
- A person registered with the Employment Service for more than 5 years;
- A person who is employed on public works;
- A person after the traineeship and for an indefinite period;
- A person whose services are no longer needed (techno-economic surpluses), and is registered with the Employment Service;
- A person who is employed to perform seasonal jobs;
- Unemployed person with over 25 years of insurance, which the user monetary compensation;
- Persons in the business zones of activities special act by the Government of Montenegro.

If it hire any of the foregoing persons, the employer does not pay:

- Contributions for compulsory social insurance on earnings (contributions for pension and disability insurance,
- Contribution for health insurance, contributions for unemployment insurance, contributions to the Labour Fund);
- Tax on personal income.

The subsidy amounts to:

- 75 % of the gross salary paid for the entire period of employment, the employer who employs a person with at least 50 % disability,
- For an employer who employs a person with a disability less than 50% of the subsidy amount in the first year 75 % , 60 % in the second , the third and each subsequent year 50 % of the gross salary paid.