



## International tax

# Montenegro Highlights 2013

### Investment basics:

**Currency** – Euro (EUR), even though Montenegro is not part of the EU.

**Foreign exchange control** – No

**Accounting principles/financial statements** – International Accounting Standards are applied. Financial statements must be filed annually.

**Principal business entities** – These are the joint stock company, limited liability company, partnership and branch of a foreign corporation.

### Corporate taxation:

**Residence** – A company that is registered in Montenegro, or that has its management and control there, is deemed to be resident for tax purposes.

**Basis** – Resident companies are taxed on worldwide income; nonresidents are taxed only on Montenegro-source income.

**Taxable income** – Taxable income is based on accounting profit, further adjusted for tax purposes, by nondeductible expenses, nontaxable income, tax depreciation, etc.

**Taxation of dividends** – Dividends paid between residents are subject to withholding tax, but are not included in taxable income. Dividends received from abroad are included in taxable income, but a resident taxpayer can claim a tax credit for foreign tax paid.

**Capital gains** – Capital gains are included in taxable income and are subject to the normal corporate tax rate of 9%. Capital gains are calculated in accordance with the tax rules and may be offset only against capital losses.

**Losses** – Tax losses (including capital losses) may be carried forward for five years. The carryback of losses is not permitted.

**Rate** – The main rate of 9% applies to both domestic and foreign companies.

**Surtax** – No

**Alternative minimum tax** – No

**Foreign tax credit** – An ordinary tax credit is available for foreign income tax paid. The credit is limited to the amount of Montenegro tax attributable to the foreign-source profits.

**Participation exemption** – See under “Taxation of dividends.”

**Holding company regime** – No

**Incentives** – A three-year tax holiday is granted to companies registered in underdeveloped areas and that are involved in production activities.

### Withholding tax:

**Dividends** – A 9% withholding is levied on dividends paid to a nonresident, unless the rate is reduced under a tax treaty.

**Interest** – A 9% withholding tax is levied on interest paid to a nonresident entity, unless the rate is reduced under a tax treaty.

**Royalties** – Royalties paid to a nonresident are subject to withholding tax of 9%, unless the rate is reduced under a tax treaty.

**Technical service fees** – Service fees paid to a nonresident for market research, advisory and audit services are subject to a 9% withholding tax.

**Branch remittance tax** – No

### Other taxes on corporations:

**Capital duty** – No

**Payroll tax** – The municipal authorities levy a surtax of up to 15% on an employee's salary.

**Real property tax** – Property tax is levied on the ownership/use of property at rates ranging from 0.1% to 1%.

**Social security** – Employers are required to make social security contributions at a rate of 9.8% of the employee's salary. The contribution comprises pensions (5.5%), health (3.8%) and unemployment (0.5%). The maximum base for contributions in the calendar year is EUR 50,000.

**Stamp duty** – No

**Transfer tax** – A transfer tax of 3% is levied on the transfer of immovable property.

### Anti-avoidance rules:

**Transfer pricing** – Transactions between related parties (as defined) must be at arm's length. The comparable uncontrolled price method may be used, but in the absence of any direct comparables, the taxpayer may use the cost-plus or the resale price method.

**Thin capitalization** – There are no specific thin capitalization rules, but interest paid to a nonresident (whether or not related) must be on arm's length terms.

**Controlled foreign companies** – No

**Disclosure requirements** – No

### Administration and compliance:

**Tax year** – Calendar year

**Consolidated returns** – Consolidated returns are not permitted; each company must file a separate return.

**Filing requirements** – Tax returns must be filed within three months after the year end.

**Penalties** – A penalty of 0.03% per day is imposed for late payment.

**Rulings** – No

### Personal taxation:

**Basis** – Resident individuals are taxed on worldwide income; nonresidents are taxed only on Montenegro-source income.

**Residence** – An individual is resident if he/she is in Montenegro for 183 days or more in a calendar year or if his/her center of vital interests is in Montenegro.

**Filing status** – Joint returns are not permitted.

**Taxable income** – Taxable income comprises income from employment, business and professional income, investment income (dividends, interest and royalties); and income from immovable property.

**Capital gains** – Capital gains are taxable at a rate of 9%.

**Deductions and allowances** – There are no deductions or allowances.

**Rates** – A personal income tax of 9% is levied on salaries and other types of personal income, including income from dividends, interest and capital gains. As from February 2013, salary up to EUR 720 (EUR 480 net) remains subject to 9% tax; salary in excess of this amount is taxed at a rate of 15%. The increased tax rate will apply until the end of 2013.

Certain income, such as income from personal services, is subject to tax at a rate of 9% on the tax base that is equivalent to 70% of income. Interest income paid to a nonresident individual is subject to a 5% withholding tax.

#### Other taxes on individuals:

**Capital duty** – No

**Stamp duty** – No

**Capital acquisitions tax** – No

**Real property tax** – Property tax is levied on the owner/user of property at rates ranging from 0.1% to 1%. Deductions are available.

**Inheritance/estate tax** – A 3% tax is levied on the inheritance of real estate. An exemption is available for the transfer of property as a gift or inheritance to children, parents or a spouse.

**Net wealth/net worth tax** – No

**Social security** – Social security contributions due by an employee are levied

at a rate of 24%. These include contributions for pensions (15%), health (8.5%) and unemployment (0.5%). The employer also must make a contribution. The maximum base for contributions in the calendar year is EUR 50,000.

#### Administration and compliance:

**Tax year** – Calendar year

**Filing and payment** – Employment income is taxed via withholding by the employer.

An annual income tax return is due for other income by 30 April following the tax year-end.

Individuals that receive only employment income need not file an annual return.

Individuals that receive income from several sources must file a return, with tax paid during the year deducted from the final tax due.

**Penalties** – A penalty of 0.03% per day is imposed for late payment.

#### Value added tax:

**Taxable transactions** – VAT is levied on the supply of goods, the provision of services and on imports.

**Rates** – The standard rate is 17%. A reduced rate of 7% is levied on the supply of certain goods and services. Exports are zero-rated and exemptions exist for financial services, the sale of land, etc.

**Registration** – Taxpayers with revenue in excess of EUR 18,000 must register for VAT purposes.

**Filing and payment** – A VAT return must be filed monthly and tax paid by the 15th of the month for the previous month.

**Source of tax law:** Corporate Income Tax Law, Personal Income Law, VAT Law

**Tax treaties:** Montenegro continues to apply the tax treaties signed by the former Yugoslavia and Union of Serbia and Montenegro until Montenegro signs new treaties. Certain new treaties have been signed and others are being negotiated.

**Tax authorities:** The tax authorities are organized within the Ministry of Finance and at the municipal level.

**International organizations:** The European Bank for Reconstruction and Development has a presence in Montenegro.

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