

ANNEX 2

COMPARATIVE MATRIX OF INCENTIVES FOR INVESTMENTS IN THE COUNTRIES OF THE WESTERN BALKANS

Common aspects:

1. *Free Trade Agreements such as CEFTA and EFTA*
2. *Double Taxation Avoidance Agreements for with many states*
3. *Legal Framework on Investments and Protection of Foreign Investments*

INCENTIVES	ALBANIA	MACEDONIA	SERBIA	MONTENEGRO	KOSOVO	BOSNIA AND HERZEGOVINA
FISCAL BURDEN						
<i>Corporate profit tax</i>	15%	10%	15% Exempted from profit tax for big investors who invest more than 1 billion RSD in assets and employ more than 100 persons.	9%	10 %	10%
<i>Income tax on interest and dividends</i>	15%	10% for non residents, except for when the agreement for the eliminations of double taxation foresees a lower norm	Interests paid to non residents are subject to 20% tax except when otherwise foreseen in the double taxation treaties.	9% for non resident companies and 5% for non resident individuals except for cases when otherwise foreseen in the DTT	10 %	10 %
<i>Personal income tax</i>	0%/13%/23%	10%	Income from employment and income from business 10%; income from	9% Taxation at 11% for income of more than 720 Euro net/month	Progressive 0%/4%, 8%, /10%	10%

			copyright and income from rent 20%; income from capital 15% by exempting from taxation the sale of assets that were property of the seller for more than 10 years.	from employment Start up employment salaries (except for the agriculture sector, fisheries, transport, shipbuilding sector) are exempt from taxation for 8 years, up to a total sum of EUR 200,000.		
<i>Social contribution of the employer</i>	16.7%	0%	17.9%	10% The maximum contribution base is EUR 50,000 in a calendar year	5% + 10% voluntary	10.5%
<i>Social contribution of the employee</i>	11.2%	27%	19.9%	24%	5% + 10% voluntary	31%
<i>Value Added Tax (VAT)</i>	20%	18% standard rate 5% reduced rate (food, computers, software, solar thermal systems, first sale of residential buildings)	20% 10% for basic food items and public services.	19% Taxpayers with more than EUR 18000 income are subject to VAT. 7% for basic food items, medicine,	VAT standard rate is 18% for entities with more than EUR 30,000 income. Reduced rate of	17%

				books, public services and transport. 0% VAT for international transport	8% is applied for supplies of basic food items within the country and imported.	
<i>Carrying Forward Losses</i>	Carried forward for 3 consecutive years	The tax loss can be carried forward for three years	Carried forward for 5 years	Tax loss including capital loss may be carried forward for 5 years.	Carried forward for up to 7 consecutive years	Loss may be carried forward for 5 consecutive years
<i>VAT reimbursement</i>	Immediate or from 30 – 60 days.	VAT reimbursement is done immediately within 30 days from the filing of the tax declaration.		The foreign investor does not have to pay every order for exported goods but is obliged to pay 0% VAT, pursuant to the Law on VAT. This means that the foreign investor who has paid VAT for raw materials and at the moment he exports finished goods he will pay VAT and will have the right to VAT reimbursement for raw materials.	Every three months for domestic supplies if the VAT crediting is carried forward for 3 months and at the end of the third month the VAT crediting value exceeds EUR 3,000 euro. Every months for exports if the VAT crediting is more than EUR 3,000	

CONCRETE INCENTIVES						
<p>I. Fiscal</p>	<p>VAT exempt when imported:</p> <p>1. Agricultural machinery and equipment, for inward processing regime and agribusiness;</p> <p>2. machinery dedicated for investment \geq EUR 360 000</p> <p>Exempt from customs duty for the import of raw materials and semi-finished materials intended for export.</p>		<p>Exempt from on-profit tax for investors for a 10 year period, if:</p> <ul style="list-style-type: none"> • <i>they invest in fixed assets with a sum that exceeds about EUR 9 million, and</i> • <i>they have employed at least 100 staff legally</i> <p>Exempt from customs duty for the import of raw materials and semi-finished materials intended for export, and for the import of machinery and equipment for foreign investors.</p>	<p>Exemption from profit tax for the first 3 years is provided for companies engaged in production activities in an undeveloped area. <i>(This incentive is not applicable in the agriculture, transport, shipbuilding, steel and fishery sectors.)</i></p>	<p>VAT exempt when imported:</p> <p>Goods that are processed for purposes of export;</p> <p>IT equipment;</p> <p>Production machineries;</p> <p>Raw materials entering a production process;</p> <p>Exempt from customs duty for raw materials and production machinery.</p> <p>Return of excise on fuel consumed in the production process</p> <p>Deductible expenses from Corporate Profit</p>	<p>Reduction by 30% of the profit tax when they invest more than 50% of current profit in production equipment.</p> <p>Reduction by 50% of the profit tax when they invest EUR 10 million from their funds constantly in 5 years, no less than EUO 2 million in the 1st year.</p> <p>Twice the amount of gross salary of new employees is considered as deductible expense for taxation purposes on the condition that the duration of the work contract has to be at least 12 months full time and that the new employee must not have worked previously with the same taxpayer during</p>

					<p>Tax: Representation expenses up to 10% of the pre-tax profit, plus another 10% for sponsorships.</p> <p>Deductable expense from 10% beyond the depreciation expense for new production machineries during the first year of their use.</p>	the last 5 years.
II. Economic zones	3 zones in process	15 Economic Zones, 3 fully functional (Skopje 1 , Skopje 2 and Stip) 1 is undergoing PPP procedures (Tetovo) 11 others in different development stages	14 approved zones, 12 operational zones		N/A	
<i>Fiscal incentives within Economic Zones</i>	<p>1. 50% reduction of profit tax for the first 5 years.</p> <p>2. Entry and</p>	Exemption from profit/income tax for a period of up to ten years from the day of starting the activity in the TIDZ. In order to fully use this	1. 0 % VAT on goods and services within free zones and for those who enter the area		N/A	<p>Exempt from VAT on imports of goods.</p> <p>Exemption from customs duties on</p>

	<p>exit of goods pursuant to the provisions of the Customs Code.</p> <p>3. Deductable expenses 20% of the annual capital for the first three years.</p> <p>4. Supply of Albanian goods in the zone is considered as export supply at zero VAT rate.</p> <p>5. The developer is exempted from the tax on infrastructure effect</p> <p>6. Buildings are exempted from immovable property tax</p>	<p>exemption from taxes, the investor must have started the business activity no later than two years following the official decision to start work in the TIDZ.</p> <p>2-Exempted from personal income tax on salaries of employees, regardless of the number of employees, for the first 10 years of activity in the TIDZ;</p> <p>3- VAT exemption of goods' and services' supplies, besides sales to the end consumer that is done within the economic zone.</p> <p>4- VAT exemption for the import of goods that will be sent in an economic zone on the condition that they are not sold for end consumption</p> <p>3- <i>Deductions from annual income tax</i> An annual personal compensation in the</p>	<p>2. The supply of electricity and gas with 0 % VAT</p> <p>3. Entry and exit of goods that are exempted from customs duty</p> <p>4. Exemption from local taxes</p>			<p>import of equipment for production</p>
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	<p>for 5 years.</p> <p>7. The developer and user are exempted from the property transfer tax</p>	<p>amount of 87.228 dinars or 7269 dinars (approx. € 117) per month may be deducted from the salary. The compensation is subject to annual indexing.</p>				
<p><i>Non-fiscal incentives within Economic Zones</i></p>	<p>1. Expenses for salaries and social contributions of the employer are recognised at 150% of their value during the first fiscal year. Additional expenses for salaries in the following years are recognised as expenses at 150% of their value.</p> <p>2. Training costs are</p>		-			

	<p>considered as deductible expenses at twice their value for 10 years.</p> <p>3. Research development costs are considered deductible expenses at twice their value for 10 years.</p>					
<p>III. Non-fiscal incentives</p>	<p>Assisted procedure by AIDA as per sectors and value of investment:</p> <p>1. Energy and mining, transport, infrastructure, electronic communications, urban waste, for investments \geq EUR 30 million;</p>		<p>Employer's contribution reduction for new hires for the period 1 July 2014 – 31 December 2017:</p> <p>- 1 – 9 new hires, 65 % reduction</p> <p>- 10 – 99 new hires, 70 % reduction</p> <p>Over 10 new hires, 75% reduction. It is assessed that this reduces the employer's expenses for salaries to 20%</p>			

	<p>2. Tourism at least 80 new jobs, TEDA \geq EUR 5 million;</p> <p>3. Agriculture and fisheries \geq EUR 3 million and at least 50 new jobs;</p> <p>4. Priority Development Areas \geq EUR 1 million at least 150 jobs.</p>					
	<p>Special approval procedure by the Government and expropriation for:</p> <p>1. investments \geq EUR 50 million for the above sectors;</p> <p>2. for investments \geq EUR 10 million and 600 jobs in the PDAs.</p>		<p>State grants for investments by foreign investors, too, Greenfield projects and brown field projects in the manufacturing sector and international trade varying from EUR 150 000 to EUR 600 000 of the investment cost or covering costs for new staff hired for purposes of the investment for a 2-year period.</p> <p>Allocation of funds in line with the criteria:</p>			

	3. For every investment \geq EUR 100 million		1. Degree of regional economic development; 2. New jobs from a minimum of 20 – 50, as per regions. For <i>labor intensive</i> sectors grants may be progressively increased (by 10%, 15%, 20%) for new jobs (more than 200, 500 and 1000).			
IV. Sectoral incentives						
<i>Agriculture</i>		66 available sites in 6 communes <ul style="list-style-type: none"> • Offer price Starting from € 1 / m² • Offer price Starting from € 0.1 / m² for 99 years of lease • Average size of the site: 3000m² - 4000m² • State aid in the form of co-funding made available <p>Income tax: For persons who are engaged in agricultural</p>	a) Direct payment from EUR 80 000– EUR 160 000. b) Incentives dedicated to rural development. c) Specific incentives for technical and professional assistance.			

		<p>activity, as first profession, the following tax exemptions are allowed:</p> <ul style="list-style-type: none"> • Up to 300.000 dinars (income), they are allowed 100% of standard expenses and • From 300,001 to 1.300.000 dinars (income), they are allowed 80% of standard expenses. <p>For persons engaged in agricultural activity, as a secondary profession, standard expenses are set at the amount of 80% from derived income.</p>			
<i>Tourism</i>		<p>Vat reduction for tourism from 18% to 5%</p> <ul style="list-style-type: none"> • Attracting foreign investors for the construction of hotels and touristic objects • Subsidies for Tour and Air Operator. The scheme was prepared as below: <p>Depending on the</p>		<p>VAT exemption for the import of goods and services for the construction of 5-star hotels.</p> <p>Reduction of the property tax by 30% for 4-star hotels and 70% for 5-star hotels.</p> <p>Grant support for</p>	

		<p>countries tourists were coming from, the tourist operator would make from EUR 10-25 for every tourist;</p> <p>For the transport of tourists by train, the operator makes EUR 15 per tourist;</p> <p>For combined transport (tour guides) from EUR 10-15 per tourist.</p>		<p>the northern part of Montenegro for investment in tourism – minimum EUR 500,000 and minimum 20 jobs within 3 years (construction of hotels of more than 3 stars)</p>		
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