

ECONOMIC MEASURES FOR PRIVATE SECTOR IN SERBIA

The Government of Serbia adopted on April 10, the set of financial measures aimed at mitigating the negative economic impact of COVID - 19 pandemic and support of the private sector businesses, with an immediate effect. The most important measures include:

- State Subsidies to private sector - which includes all Serbian legal entities and entrepreneurs as well as representative and branch offices of foreign legal entities.
- Financial Program – which is aimed at providing loan facilities to private sector for the purpose of acquiring working capital and preserving their financial liquidity and which operate in the production, service, trade and agriculture sectors.

1. STATE SUBSIDIES

1.1. Qualifications criteria

- Companies which decreased the number of employees for more than 10% in the period from March 15 until April 10 (not counting definite term employments which are concluded before March 15 and expire prior to April 10) are not eligible. Users of economic measures shall lose this right in the event of decreasing the number of employees for more than 10% until October 31, 2020 compared to the number of employees on March 15, 2020 (not counting definite term employments which are concluded before March 15 and expire prior to October 31, 2020).
- Entrepreneurs who temporarily ceased their business activity earliest as of March 15 are eligible subject to fulfilling the above employment level maintenance criteria.
- Private sector businesses established and duly registered after March 15 are not eligible.
- Banks, insurance companies, voluntary pension funds, financial leasing companies, payment institutions and electronic money institutions when classified as large enterprises are barred.
- Opting for the use of economic support measures rules out the possibility to pay dividends until the end of 2020, otherwise the right for subsidies is lost.

Note: It is unclear whether, besides reduction of workforce based on redundancy (preventing redundancy was obviously one of the Government's primary reasons for introducing subsidies), other manners of terminating employment for more than 10% employees in relevant period (e.g. termination due to breach of working duties, failure to achieve appropriate working results or even consensual termination of employment) would also make the employer ineligible for subsidies. As long as there are

no official clarifications in this respect, we would advise the employers to apply extra caution whenever terminating an employee for whatever reason, in period from March 15, 2020 to October 31, 2020, in order to avoid losing rights to subsidies.

1.2. Types of subsidies

Fiscal benefits:

Fiscal policy measures comprise in deferral of maturity and payment dates for specified tax obligations of private sector, which are normally due in the period from April 1 to June 30, 2020, as follows:

(i) suspension of employment tax and social contributions for March, April and May 2020 until January 4, 2021 and repayment in 24 installments, free of interest.

(ii) suspension of corporate income tax advance payments for March, April and May 2020, normally due on April 15, May 15 and June 15 until submission of final corporate income

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tax return for 2020, i.e. until 30 June 2021 (except when the when fiscal year differs from calendar year). Repayment is allowed in 24 installments, free of interest.

(iii) analogue application of above tax deferral to entrepreneurs who keep accounting records.

(iv) suspension of advance payment of taxes and social contributions for March, April and May 2020, until January 4, 2021 for tax flat rate entrepreneurs ("paušalci") and repayment in 24 installments, free of interest.

In the event employment taxes and social contributions for March are already paid, the taxpayer may use tax deferral benefit for April, May and June 2020.

This fiscal benefit is used by the taxpayer, upon its own discretion, and it is performed by filing monthly tax return (PPP-PD) for employment taxes and social contributions by entering January 4, 2021 as payment date for the month when support measure is used. Finance Ministry is expected to provide further instructions clarifying technical aspects linked to use of this benefit.

Direct cash subsidies

Direct cash subsidies are provided exclusively for the pay out of salaries and are payable to specially designated bank account opened with commercial banks. This measure is different for micro, small, medium sized enterprises (“MSMEs”) and large enterprises. Classification of businesses for this purpose is done on the basis of 2018 financial reports while all companies incorporated in 2019 and 2020 are considered as small enterprises.

(i) MSMEs, entrepreneurs, farmers are entitled, per each full time employee, to cash subsidies corresponding to minimum wage in March 2020 (app. EUR 260) payable in May, June and July 2020 while taking account of reported number of full time employees in PPP PD form for March, April and May.

(ii) Large enterprises are entitled to cash subsidies corresponding to 50% of minimum wage in March 2020 (app. EUR 130). Subsidies are payable per full time employee referred to paid leave either based on employer’s decision due to temporary interruption or decline in business or administrative decision brought due to disease (Articles 116 or 117 of Labor Law). As for MSMEs, payment of subsidies is envisaged in May, June and July 2020 based on the same principle.

In respect to part time employees, subsidies are payable in proportion to the time spent at work and reported in the PPP-PD tax return.

VAT exemption for donations

During the state of emergency, all traffic of goods and services free of charge, provided to the Ministry of Health, Republic Health Insurance Fund and other public health institutions is exempted from VAT. The Decree has retroactive application and takes account of transactions effected as of March 15. VAT taxpayers are required to keep special records which include identification data of the party receiving donation and value of goods and services.

Cash incentive for Serbian Citizens

Upon lifting of the state of emergency, one-time cash support in the amount of EUR 100 in Serbian dinar countervalue shall be paid to each adult citizen of the Republic of Serbia.

1.3. Procedure and deadlines

Businesses decide upon their own discretion whether or not to use available measures. Entities which decide to take benefits may opt for a 1 to 3-months period by filing adequate PPP PD return in April, May or June. For instance, entities wishing to use measures for a 3-month period should file PPP PD latest on April 30, 2020.

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The subsidies are to be paid on the employer's special bank accounts opened for this purpose. All employers having bank accounts in more than one bank need to notify the Tax Authority on-line until 25 April at the latest, in which bank the special purpose account shall be opened.

2. FINANCIAL PROGRAM

Financial Program is aimed at providing loan facilities to entrepreneurs, cooperatives and MSMEs for the purpose of acquiring working capital and preserving their financial liquidity and which operate in the production, service, trade and agriculture sectors.

The program is realized through the Development Fund of the Republic of Serbia which is accepting applications latest until December 10, 2020 and subject to availability of funds. Decisions of the Fund ought to be made by December 31, 2020 while the final deadline for realization of approved funds is March 31, 2021.

The following terms and conditions apply for the loans:

- Maintenance of employment level in line with the report of the Central Registry for Social Insurance on number of definite and indefinite term employees as of March 16, 2020. Difference of maximum 10% at the moment of applying for funds and during the loan period is tolerated.

- Loan duration of maximum 36 months including up to 12 months grace period and up to 24 months repayment period.

- 1% interest rate

- Loans are granted and repaid in local currency in monthly installments.

- Minimum amount of loan:

 - o RSD 1,000,000 (app. EUR 8,547) for companies, and o RSD 200,000 (app. EUR 1,709) for entrepreneurs, cooperatives and business entities registered with relevant registries.

- Maximum amount of loan:

 - o RSD 10,000,000 (app. EUR 85,470) for entrepreneurs and micro enterprises, o RSD 40,000,000 (app. EUR 341,880) for small enterprises, and o RSD 120,000,000 (app. EUR 1,025,641) for medium enterprises.

- Collaterals are determined depending on the value of the loan.

- Applicant must not be subject to bankruptcy, liquidation, reorganization or restructuring measures