Returning the tax credit for investments in fixed assets

In 2013, the Law on Amendments to the Law on Corporate Tax ("Official Gazette of RS", No. 108/2013) prescribed the deletion of Article 48, i.e. the right to use a tax credit based on the acquisition of fixed assets was abolished. For employers, the cancellation of this tax credit is yet another one in a series of measures that further increases the tax and fiscal pressure on the economy, where the state, instead of stimulating the purchase of new machines, equipment and tools, makes it even more difficult to modernize outdated production and service capacities of the economy.

"We, as employers, potential investors, should advocate for the return of the tax credit. When we already, as local businessmen, have hard time to get subsidies, we should at least not pay tax on investments. Every investment should be exempt from taxes."

Employer from Novi Sad

Requirements of the economy

1. 100% tax credit for all legal entities and entrepreneurs
2. Tax credit without limits in relation to tax liability
3. Tax credit without time limit

"Based on the canceled tax credit, taxpayers who invest in real estate, plants, equipment or biological assets (fixed assets), as well as on the basis of investments in development as intangible assets, are granted the right to reduce their tax liability in the amount of 20% of the investment made, where the tax credit cannot exceed 33% of the calculated tax in the year of investment. A small business is granted the right to a tax credit in the amount of 40% of the investment, where the tax credit cannot exceed 70% of the calculated tax in the year of investment. The same decision stipulates that the unused part of the tax credit can be transferred to the income tax from future accounting periods, up to the specified limits, but not longer than 10 years."

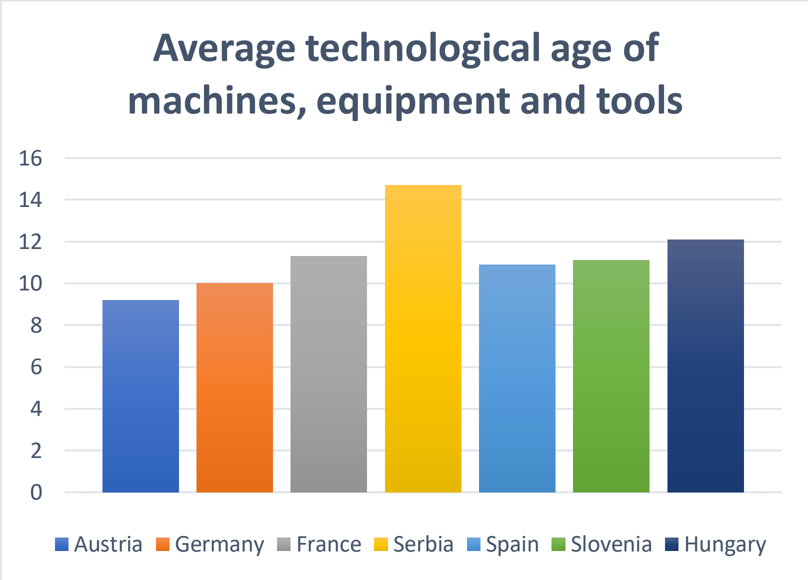
Proposal for amendments of the Law on Corporate Tax

Businessmen gathered around the Serbian Association of Employers continue to insist on changes to the Law on Corporate Tax to enable the reuse of the tax credit based on acquisition of fixed assets. **This proposal was already considered and adopted within the Social and Economic Council in 2018 and forwarded to the Ministry of Finance, but without concrete reactions.** The proposed change would have a positive impact on new investments, mostly in micro, small and medium-sized companies, because they could more **easily modernize equipment and fixed assets in their companies.**

The question of improving the business climate

From a broader point of view, apart from the incentive regulation for investors, these changes improve the business climate in Serbia, and this type of tax credit would be a useful measure to **encourage the growth and development of the economy in Serbia.**

The abolition of tax credit made it difficult for micro, small and medium-sized enterprises and entrepreneurs to purchase and modernize outdated machines, equipment, devices and tools.



Initiative of the Serbian Association of Employers

Through the amendment of Article 48 of the Law on Corporate Tax, it is necessary to return the tax credit for investments in fixed assets for all legal entities in the amount of 100% of the investments made, without limitation in relation to the tax liability as well as without time limitation. It is also proposed to extend the relief to other investments, which would further stimulate taxpayers to make more significant investments in the modernization of technology, machines, tools and work processes.

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УНИЈА ПОСЛОДАВАЦА СРБИЈЕ
SERBIAN ASSOCIATION OF EMPLOYERS

Why abolition of the tax credit is bad?

The abolition of this tax credit will negatively affect the competitiveness and innovativeness of companies, the quality of products and services, productivity, as well as new employment and the increase in the number of taxpayers, and in connection with this, budget revenues.

Outdated technology, machines, means, equipment

The tax credit would enable the renewal of outdated equipment. According to the available data related to the average technological age of machines, equipment, means and tools, the Republic of Serbia is on the list of countries with outdated equipment. The average technological age of machines in Austria is 9.2 years (WIFO 2019), in Germany 10 years. (Destatis 2021) in Spain 10.9 years (INE 2020). *This data varies across industries and sectors.*

In Serbia 25% manufacturing companies

Investments in equipment and the start-up of production companies require huge investments, so majority of businessmen turn to those economic activities that require smaller funds. According to the data of the Statistical Office of the republic of Serbia for 2020, the share of manufacturing companies in the total number of active companies was 24.9%, while the share of service companies was 72.4%. The rest of 2.7% are companies that perform other types of activities. Tax credits would make it easier for businessmen to invest in productive activities.

Abolition of the tax credit contrary to the adopted national development strategies

The most important objective of the Industrial Policy Strategy 2021-2030 is to strengthen competitiveness, facilitate structural changes and encourage the establishment of an environment conducive to the development of entrepreneurship that stimulates small and medium-sized enterprises (SMEs). Without adequate support in the form of subsidies, tax breaks and loans, the development and growth of SMEs is not possible. The new Strategy for the Development of micro, small and medium-sized enterprises for the period 2022 - 2027 with an Action Plan is in the process of adoption. The Serbian Association of Employers pointed out the significance and importance of returning the tax credit for the purchase of fixed assets as an important support for the sustainable doing business of companies in Serbia.