

**December 2021**

***In focus: Amendments to the Law on Mandatory Social Insurance and Law on Personal Income Tax***

The National Assembly of the Republic of Serbia adopted the **Law on Amendments to the Law on Contributions for Mandatory Social Insurance**, which will be applied from 1 January 2022, except for the provision from Article 7 which will be applied from 1 March 2022, and the **Law on Amendments to the Law on Personal Income Tax**, which will be applied from 1 January 2022, except for the provision from Article 7 which will be applied from 1 March 2022.

The new amendments to these two laws are aimed at encouraging employment by reducing the contribution rate and increasing the non-taxable amount of wages, as well as by extending the validity of existing benefits and introducing new ones.

By amending Article 44 of the Law on Personal Income Tax, **the contribution rate for pension and disability insurance has been reduced from 25.5% to 25%**, which means that the employer is exempt from paying part of the contribution that is calculated and paid by the employer in the amount of 0.5%. The same function of tax relief is accomplished by an increase of the non-taxable amount of salary from **18,300 dinars to 19,300 dinars per month**, which practically means that the base of salary tax is reduced and thus the amount of tax is reduced.

Furthermore, **the period of validity of the existing incentives** for employment of new persons has been extended, in the form of the right to a refund of part of paid taxes and contributions for mandatory social insurance based on the salary of a newly employed person, **from 31 December 2021 to 31 December 2022**.

Also, **the period of validity of relief for employers who establish an employment relationship with a qualified new employee has been extended** and consists of exemption from the obligation to pay taxes and contributions for mandatory pension and disability insurance based on the salary of a qualified new employee **until 31 December 2025**.

The Law on Amendments to the Law on Contributions for Compulsory Social Insurance and the Law on Amendments to the Law on Personal Income Tax added **new provisions which introduce new reliefs** all with the aim of encouraging employment of unemployed persons.

Namely, new Article 45ž of the Law on Contributions for Compulsory Social Insurance for Employers introduces new benefits for employers who hire new employees, by **exempting the obligation to pay 100% of contributions** for mandatory pension and disability insurance on the basis of the salary of

the newly employed person, while Article 21z of the Law on Personal Income Tax provides relief for employers in the form of **exemption from payment of 70% of calculated and suspended tax on the salary of the newly employed person** for the salary paid conclusive with **31 December 2024**.

As a reminder, a new employee is an employee with whom the employer has concluded an employment agreement in accordance with the law governing labor relations, including having a mandatory registered social insurance in the Central Register of Mandatory Social Insurance and who was priorly registered with the National Service for Employment as unemployed without interruption for at least six months, and a person who is considered a trainee for at least three months.

By adding new Article 45z of the Law on Contributions for Compulsory Social Insurance, a relief was introduced for employers - legal persons who, within their activities on the territory of the Republic of Serbia, **perform research and development in a way that exempts them from paying 100% of contributions**, while Article 21i of the Law on Personal Income Tax stipulates **the right to exemption from payment of 70% of calculated and suspended tax from the salary of a newly employed person who is directly engaged in research and development in proportion to the time that such persons spend on research and development in relation to full working time**. This relief is valid for an unlimited period.

Also, in connection with the relief for employers - **newly established companies that**

**perform innovative activities** in the form of tax exemption and the right to exemption from paying contributions for compulsory social insurance based on the salaries of founders employed in that company, an amendment was adopted stipulating conditions for being entitled to relief.

In particular, the Law on Amendments to the Law on Personal Income Tax prescribes **exemption from capital gains tax** for taxpayers who transfer copyright and related rights and industrial property rights in their entirety as a non-monetary contribution to the capital of a resident company of the Republic of Serbia, under the condition they do not sell the contributed right within two years.

The **reduction of annual taxable income for taxpayers under the age of 40** was also adopted, so that taxable income is further reduced by the amount of three average annual salaries per employee paid in the Republic of Serbia in the year for which the tax is determined.

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