

## ***Amended Rulebook on Tax Balance Sheet Form***

The Ministry of Finance issued in December 2010 new bylaws regulating methods of determining and declaring corporate income tax (CIT), following the changes in the CIT Law in March of the same year. Some of the new rules introduced by the bylaws created controversy in the business community and among tax professionals. As a result of public feedback and dialogue with the business community the Ministry has amended one of the bylaws, the Rulebook on Tax Balance Sheet Form.

### ***Arm's length interest on related party loans***

The most significant amendment relates to transfer pricing rules for determining arm's length (i.e. market) interest for the purpose of comparison and adjustment of interest expenses on loans from related parties. Any interest exceeding arm's length interest rate is not tax deductible. Arm's length interest rate is deemed to be:

- Weighted average key policy rate for the tax period, for loans denominated in Dinars (RSD);
- Weighted average interest rate at which domestic banks borrowed from foreign lenders, for foreign currency loans.

The above interest rates are determined by the National bank of Serbia and published by the Ministry of Finance.

The amendments also addressed the error in formula for calculation of tax deductible interest expenses from related party loans resulting from application of a coefficient from thin capitalization calculation when it is equal or higher than 1 (i.e. when the company is not thinly capitalized). The formula is now amended so that the coefficient is not applied if it is equal or higher than 1.



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