

Guide to Doing Business and Investing in Macedonia

2016 Edition


Papazoski and Mishev Law Firm
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Guide to Doing Business and Investing in Macedonia



This guide is intended to assist PwC's clients and other parties interested in doing business in Macedonia. It does not exhaustively cover the subject, but is intended as a synopsis of some of the important initial issues of concern to those planning to do business in Macedonia.

The information in this book is based on taxation law, legislative proposals and current practice, up to and including measures passed into law as of 31 October 2015. It is intended to provide a general guide only on the subject matter and is necessarily in a condensed form. It should not be regarded as a basis for determining the tax liability in specific circumstances. Professional advice should always be taken before acting on any information in the booklet.



Please note that, for simplification purpose, the terms “Macedonia” is used in this document to refer to the Republic of Macedonia.

Content

1	Macedonia - A Profile	10
1.1	Introduction	10
1.2	Government structure	12
1.3	Legal system	12
1.4	People	12
1.5	Economy	12
1.6	Foreign trade	15
2	Business environment	16
2.1	Business climate	16
2.2	Technology and Industrial Zones	17
2.3	Regulatory environment	17
3	Foreign investment	20
3.1	Investment policy	20
3.2	Investment incentives	21
4	Banking and finance	22
5	Importing and exporting	26
6	Business entities	28
6.1	Local representation	28
6.2	Forms of Companies	29
6.3	Joint - Stock Company - (AD)	29
6.4	Limited Liability Company - (DOO or DOOEL)	30
6.5	Branch Office	31
6.6	Representative Office	31

7	Labour relations	34
7.1	Labour market	34
7.2	Labour relations	34
7.3	Wages and salaries	35
7.4	Social insurance / Pensions	35
7.5	Work permits / Visas	37
7.6	Holidays	37
8	Audit and accounting requirements and practices	38
9	Taxation	40
9.1	Corporate Income Tax	40
9.2	Excise Duty	43
9.3	Property Tax	44
9.4	Inheritance and Gift Tax	44
9.5	Tax on Sales of Real Estate	45
9.6	Personal Taxation	45
9.7	Value Added Tax	47
10	PwC	50
10.1	General Information	50
10.2	Our services include:	51
	<i>Assurance Services</i>	51
	<i>Advisory Services</i>	51
	<i>Tax Services</i>	51
	<i>Legal Services</i>	51
	<i>Human Resources Services</i>	52
	<i>PwC Academy</i>	53

Partner's letter

**Welcome to the eleventh publication in the series
“Guide to Doing Business and Investing in Macedonia”**



Paul Tobin
Country Managing Partner

In recent years Macedonia has successfully developed as an attractive destination for foreign direct investment in the region in a strong competition with a number of countries. This has led to steady growth of the GDP and decrease of the level of unemployment, a trend that has been maintained in 2015 despite the on-going political instability. Nevertheless, Macedonia has a number of areas that can be additionally improved. Accordingly the next few years will be critical and Macedonia will have to face a number of challenges to build further upon its developing reputation as a new and growing investment destination.

The continuing name dispute with Greece, that has an impact on Macedonia's international relations and ability to join international organisations, is one of these challenges.

But the country has a number of strong points it can capitalise on. Macedonia's international communication campaigns have boosted its visibility. The priority given by the current Government to its economic development has materialised into a range of generous tax incentives and a generally improved business climate. In recent years Macedonia has frequently been ranked within the world top reforming countries according to the World Bank's Doing Business Survey. It was also ranked at 7th place in the recent global survey "Paying Taxes 2016" carried out by PwC.

In this changing environment, this Guide to doing business and investing in Macedonia 2016 publication is aimed at providing comprehensive and up-to-date information on conducting business in Macedonia. This includes commentary on the latest legal developments, audit and accounting changes, major tax and investment incentives and general economic and business conditions.

The Guide will be of valuable assistance to domestic and foreign investors or potential investors alike, regardless of the type, size and character of your investment.

The publication highlights many of the principal features of the accounting, tax, legal and general business regulatory environment that interfaces local issues with those of the global business world.

Finally, this publication incorporates and promotes the principles adhered to in the policies of ongoing governments towards the development of the economy of the Republic of Macedonia.

Transparency

The principle of Transparency is recognized by ongoing governments as a vital feature in promoting a clearer understanding for locals and foreigners alike of government procedures. This applies across all areas of decision-making including taxation, customs and other areas of policy-making.

Trust

The principle of Trust underscores the desire of governments and regulatory authorities to establish long-standing and supportive relationships with the domestic and foreign investment community. The country's EU candidate status is a powerful endorsement of Trust between Macedonia and the international community.

Diligence and Professionalism

In a small open economy the principles of Diligence and Professionalism are paramount in achieving high standards of work performance and essential in achieving high economic growth and prosperity.

PwC in Macedonia

The largest provider of professional services with more than 50 highly-qualified and experienced staff, and having been supporting our clients in the market for more than 23 years, PwC Macedonia along with its connected law firm Papazoski and Mishev, can assist in your business plans from commencement of operations to expansion of business to multi-sector trading and investment enterprises. We hope to be of service to you during this exciting period of new opportunities in Macedonia.

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Investing in Macedonia - Highlights



In spite of its small size and modest domestic market, Macedonia presents a number of truly remarkable advantages for potential investors:

- Macedonia benefits from a strategic geographical position at the crossroads of 2 main European transport corridors;
- Macedonia has developed a highly-liberalised foreign trade policy and has signed various bilateral agreements that give local producers free access to the European Union and other markets, making Macedonia a highly-competitive production and export platform;
- Macedonia offers a stable monetary environment with one of the lowest inflation rates in the region and a stable currency;
- Investors in Macedonia benefit from a very favourable tax environment with one of the lowest corporate income tax rates in Europe; in addition, Macedonia has several Investment Zones with up to 10 years tax holidays for corporate profits, employment income, VAT, customs duties and others;
- Macedonia has a highly-qualified workforce and one of the most competitive labour costs in Europe;
- Macedonia applies the highest standards in its corporate reporting and corporate governance and it already applies a significant number of the European Union standards on public procurement, competition, state aid, OECD Corporate Governance principles, product standards and many other areas.



Macedonia - A Profile



1.1 Introduction

Geography and climate

Macedonia is located in the central Balkans and shares common borders with the following countries: Albania to the West, Bulgaria to the East, Greece to the South and Serbia and Kosovo to the North.

Macedonia falls within the Central European Time zone (GMT + 1).

The country covers an area of 25,713 sq. km (slightly smaller than Belgium). Its terrain is mostly mountainous and traversed by the Vardar River.

Number of inhabitants in Macedonia's main cities:

- Skopje – 532,174
- Kumanovo – 107,745
- Bitola – 93,236
- Tetovo – 90,329
- Gostivar – 82,813
- Prilep – 76,125
- Strumica – 56,348
- Veles – 55,036
- Ohrid – 53,929

The climate is a Mediterranean–Continental mix. Along the Vardar and Strumica river valleys, the climate is temperate Mediterranean. Inland, the climate is generally Continental with hot-dry summers and cold-wet winters.

History

Due to its location, at the crossroads of various empires, Macedonia's history can be characterized as 'tumultuous'. The name, history and territory of what is now

the Republic of Macedonia have been throughout history the object of claims from neighbouring countries, some still unsolved.

Ancient Macedonia is marked by the rule of Alexander the Great (356-323 BC), whose empire extended from Europe to Egypt and India. In the second century BC Macedonia became a province of the Roman Empire. Following the East - West split of the Roman Empire in 395 AD, Macedonia became a territory within the Eastern Roman Empire.

At the end of the seventh century, Macedonia was mainly settled by Slavonic peoples and fell under the control of the Byzantine and Bulgarian Empires. Subsequently, it fell under Ottoman rule which lasted until the early-20th century.

Following the collapse of the Ottoman Empire and two Balkan Wars (1912-1913), the political geography of the Balkans was radically altered. Under the terms of the 1913 Treaty of Bucharest, Macedonia was partitioned between Greece, Bulgaria and Serbia. Under the Treaty of Versailles, at the end of World War I, Macedonia constituted a part of the Kingdom of Serbs, Croats and Slovenes that later became the state of Yugoslavia.

During the Second World War Yugoslavia was partitioned by the Axis powers. This resulted in the occupation of Macedonia by Bulgarian and Italian forces. Macedonian partisans joined the All-Yugoslav Partisan Army, led by Josip Broz Tito, and in 1944 they took part in the liberation of the country from foreign occupying forces.

The first session of the Anti-Fascist Assembly of the National Liberation of Macedonia was held in August 1944 as a constitutional foundation for an independent Macedonian state. At the end of the war, Macedonia became a republic within the Socialist Federal Republic of Yugoslavia.

Yugoslavia's unique political and economic system, along with its geo-political position, enabled it to achieve a standard of living and degree of political and cultural freedom not experienced by other Eastern European countries during the Communist period. As a result, Macedonia underwent large-scale economic development and transformation post-WWII.

In the 80's and early 90's, increased political freedom and growing tensions between the different ethnical components in Yugoslavia hastened the end of the multi-republic state. Each of the former Yugoslav republics looked to form independent states.

Macedonia is one of the few former republics to have gained independence from the state of Yugoslavia without giving rise to any conflict. Under a referendum on its sovereignty, Macedonia declared independence on September 8th, 1991. In November 1991, Macedonia's Parliament issued a new constitution, and in 1993, the country became a member state of the United Nations assuming the temporary title of "the Former Yugoslav Republic of Macedonia" (FYROM).

The turbulent period, in the wake of the break-up of the former Yugoslavia, was marked by war and economic turmoil throughout the region which inevitably impacted the Macedonian economy. The conflict in Kosovo, in 1999, contributed to an influx of an estimated 300,000 ethnic Albanian refugees into Macedonia. In turn, this situation contributed to civil unrest, in 2001, by the ethnic-Albanian communities in the north and north-western parts of the country.

On August 13th, 2001, Macedonian and Albanian representatives jointly signed a peace agreement known as the Ohrid Framework Agreement (OFA). In November 2001, the Macedonian Parliament approved a series of

constitutional amendments strengthening minority rights in the country.

International relations

In addition to its membership of the United Nations, since 1993, the country was admitted to the Council of Europe in September 1995. In November 1995, Macedonia joined NATO's Partnership of Peace programme.

In January 1996, full diplomatic relations were established with the European Union and, in 2001, it concluded the Stabilisation and Association Agreement with the EU.

Macedonia became a member of the World Trade Organisation in 2003 and has been a member of the World Bank and the International Development Association since 1993.

The country is also a member of: CEI, EBRD, FAO, IAEA, IBRD, IFC, IMF, Interpol, IOC, IOM (observer), ISO, OSCE, UNCTAD, UNESCO, WHO, and many other international organisations.

The most significant recent political event was the seventh recommendation of the European Commission to the European Council to decide on starting negotiations on EU accession with Macedonia.

Macedonia is expected to join NATO but the event so far has been postponed mostly due to the on-going name row with Greece. There are good hopes that Macedonia will soon become a full NATO member.

Towards EU integration

Macedonia has been eligible for the EU's Phare programs since 1996.

From 1997, Macedonia and the European Union were signatories to various cooperation agreements. In April 2001, the Stabilisation and Association Agreement, between Macedonia and the EU was signed in Luxembourg. This

agreement entered into force on 1 April 2004, thereby, taking the country another step forward on the road to European integration.

Macedonia applied to become an official EU candidate state on March 22, 2004. On November 9, 2005 the European Commission recommended that Macedonia become a candidate state.

On December 17th 2005, the European Council rewarded the country's achievements in implementing various reforms and agreements (e.g. the implementation of the "Copenhagen criteria", the Stabilisation and Association process, the Stabilisation and Association Agreement, and the Ohrid Agreement) by its official recognition as an EU candidate state.

On 14 October 2009 the European Commission recommended to the European Council to adopt a decision to start negotiations with Macedonia on the terms of its accession. However, the European Council has not taken a positive decision on this issue yet.

Macedonia is awaiting the decision of the European Council to start official negotiations on accession - the final step before full EU accession.

1.2 Government structure

In accordance with the constitution, adopted on November 17, 1991, the state of Macedonia was established as a sovereign republic. The head of state is the President of the Republic who is directly-elected, by secret ballot, for a maximum of two five-year terms.

The legislative body is the Parliament of Macedonia which consists of a single-chamber National Assembly of 123

Deputies. All Deputies serve a four-year term. After the most recent elections in 2014, 16 parties and coalitions of parties were represented in the National Assembly.

Executive authority rests with the government, which is headed by the Prime Minister. The Prime Minister and the ministers are elected by the National Assembly.

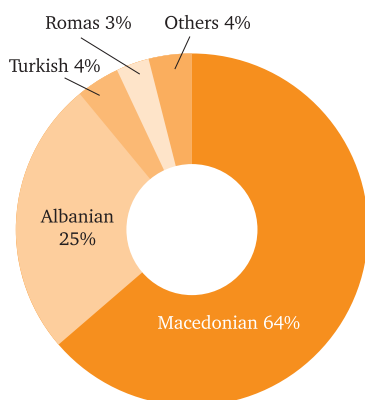
1.3 Legal system

The Macedonian legal system is based on a civil law system. The judiciary is constituted of the Supreme Court, the Constitutional Court and the Judicial Council. The Parliament appoints judges in the Constitutional Court while the Judicial Council appoints judges to serve in the regular courts. In 2007 the Administrative Court was introduced to decide upon appeals on the decisions or acts of the state administration.

1.4 People

Population: 2.06 million

Ethnic groups:



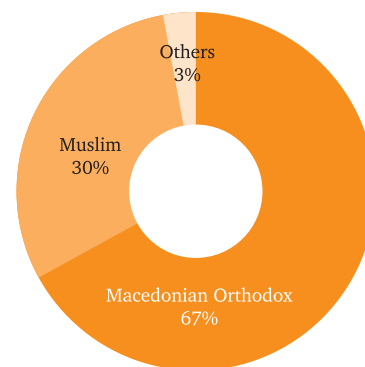
Languages:

The constitutional and most widely

spoken language is Macedonian, a language of the south-Slavic language group (more precisely of the eastern sub-group, together with Bulgarian). Albanian is also an official language in some parts of the country.

There is a range of other languages spoken in Macedonia, reflecting the country's ethnic diversity, of which Vlach (Aromanian), Turkish, Romani, Serbian/Bosnian, Greek and other.

Religions:



GDP (nominal) per capita:

2010 – EUR 3,434
2011 – EUR 3,630
2012 – EUR 3,616
2013 – EUR 3,930

1.5 Economy

General description

In the first few years after independence, the Macedonian economy suffered the loss of a large and protected market resulting in steep falls in GDP. This led to a period of economic decline with high inflation, large fiscal deficits, and almost no foreign investment.

At the end of 1994, the Government initiated and successfully implemented a stabilization program, with the assistance

of international donors including the World Bank and the International Monetary Fund. As a result, by the end of 2000 macroeconomic stability was established, the fiscal balance registered a substantial surplus for the first time, and inflation remained modest.

Positive economic trends at the close of 2000 came to an abrupt end with the conflict of 2001. GDP declined by more than 4 percent, the fiscal balance and the balance of payments deteriorated severely, and reforms were stalled.

Industrial production restarted its growth in 2002 and, after 4 years of consistent growth, it regained its pre-conflict levels in 2006. Growth levels of over 5% were achieved for 2007 and 2008. This trend however could not be maintained due to the impact of the global crisis. As the result of the global trends the Macedonian industrial production also suffered, leading to 5% to 8% decrease in the 2009 to 2010 period. In 2011 a new trend for a rise of the industrial production started - 3% for 2011, 4% for 2012, 3.2% for 2013 and in 4.8% for 2014.

Despite the growth and substantial foreign trade deficits, the inflation rate has

constantly remained below 3% per year until 2007, while the EUR / Denar exchange rate has been almost unchanged over the last 13 years. 2008, however witnessed for the first time in the decade a sharp inflation of over 8% according to official figures, followed by a deflation rate of 0.8% reported in 2009. As a result of the global crisis loosening its grip and the effects of the Government's monetary policy, the inflation rate returned to its pre-crisis trends, stabilising at 1.6 % in 2010. The worsening economic climate and events in Europe, especially the neighbourhood significantly affected Macedonia. During 2011 the inflation rate was 3.9%, in 2012 it has decreased to 3.3% and in 2013 it was 2.8%. In 2014 the inflation rate was -0.3%.

Two issues remain however increasingly worrying:

- The official unemployment rate that was historically high, has slightly decreased to 26,8% in 2015. In 2013 it was 29% and in 2014 28% (although it is widely thought that the actual proportion of unemployed is lower due to the importance of the informal economy);
- Trade balance deficit has been consistently growing up to 2014. In 2012 it was EUR 1,047 million, in 2013

EUR 1,757 million and in 2014 it was 1,762 million.

The current government's policy is thus focused on the improvement of the above issues through:

- The creation of new jobs, and;
- The promotion of investment, especially in export-oriented industries.

Foreign Investment

Foreign Direct Investment (FDI) was negligible pre-1998 (e.g. registering less than EUR 10 million in 1995). Since then, FDI has been steadily growing. It reached a peak of about EUR 400 million in 2001. This was largely attributable to acquisitions, by foreign investors, of major companies and banks during the privatisation process. The largest acquisition was that of the national telecom operator by Magyar Telekom (Deutsche Telekom group).

A sharp fall in FDI occurred as a result of the crisis in 2001. Since that period, foreign investment registered less than EUR 100 million in both 2002 and 2003. However, following various efforts towards achieving economic and political stabilization, FDI has been on an upwards trend since 2004. The years 2006, 2007 and 2008 saw a significant new wave of investment mainly arising from privatisations in the energy sector, and certain

<i>Summary of macro-economic figures</i>	2010	2011	2012	2013	2014
GDP growth (yearly real growth rate %)	2.9	2.8	(0,4)	2.9	3.5
GDP per capita (in EUR)	3,434	3,630	3,616	3,948	4,126
Unemployment rate (end-year)	32	31.4	31	29	28
Consumer prices (yearly change %)	1.6	3.9	3.3	1.2	(0.5)
General government balance (% of GDP)*	(2.1)	(2.5)	(3.1)	(4)	(4.2)
Trade balance (million EUR)	(1,447.8)	(1,648.3)	(1,756.4)	(1,757)	(1,762)
Merchandise exports	2,530.1	3,210.9	3,106.9	3,235.2	3,723
Merchandise imports	3,977.9	4,859.2	4,863.5	4,938.3	5,485
Gross external debt/GDP (in per cent)	58.2	64.9	69.4	64.3	70.2
Interbank interest rate (% per annum)	3.7	2.2	2.1	1.86	1.79

*Source: National Bank and State Statistical Office of Macedonia

green-field investments in Macedonia's free economic zones. The worldwide economic crisis has resulted in a significant decrease in investment flow in 2009. During 2010 there were signs of restoration of the previous investor interest. However, the actual FDI level experienced just slight increase compared to the previous year. In 2011, the FDI level has increased significantly, compared to the previous two years. The FDI levels in 2010 and 2011 were EUR 160 million and EUR 337 million respectively. Several new greenfield investments, mainly in the free economic zones are being agreed, who started being realised in 2012. In 2012, the level of FDI has decreased to EUR 105 million. In 2013 the level of FDI was EUR 264 million, while in 2014 it was EUR 278 million.

Privatisation

Privatisations of State owned enterprises were performed quickly and almost completely in the 90's, mostly through sales to the management and employees of the companies. Out of about 2000 State owned enterprises, less than 50 are still currently not privatised.

The Macedonian government has now engaged upon a final process of privatisation / concession of the public sector. After the successful privatisation of the telecommunications industry and partial privatisation of the energy sector (the national electricity distributor having been sold to EVN from Austria), the Government now has ambitious plans to restructure and privatise the remaining publicly-held energy, transport and health sectors.

Transport

Although a landlocked country, Macedonia benefits from a strategic geographical position at the crossroads of two major pan-European transportations corridors (corridors VIII and X) linking Central Europe to the Adriatic, Aegean and Black Sea.

Macedonia's immediate neighbourhood provides an actual and potential consumer market of about 30 million people. As a whole, South Eastern Europe is a market of over 80 million persons. Macedonia has an extensive network of

paved highways and secondary roads. A major highway parallels the railroad along the North-South corridor. Several undergoing projects, both in Macedonia and in the neighbouring countries, are aimed at upgrading and completing the North-South and East-West connections. New projects for construction of motorways from Miladinovci to Stip, Kichevo to Ohrid, and the highway section from Demir Kapija to Smokvica are carried out, enhancing the Macedonian motorway network for new 132 km.

The Government obtained financing for some extensive construction and re-construction works on the Corridor X road network (the North – South connection). It is expected that with the completion of these construction works, a full highway network will be in place from Serbian to Greek borders. The railway network extends over 900 km. The principal North-South rail connection from Belgrade to the port of Thessalonica (Aegean Sea) passes through Skopje. Both network and rolling stock are in need of investment. The rail system is still State owned but in 2007 the railways company was split into two separate entities (infrastructure and rolling stock) as a preparatory step for privatisation. In 2014 a contract has been signed for construction and modernisation of the tolling process of Corridor X and installation of an electronic system for collection of tolling fees.

The railway network extends over 900 km. At the end of 2012 the Government has announced a public tender for construction of the railway Corridor VIII. Which will allow access on the railway traffic to the ports in Drac and Valona.

In 2014, a contract has been signed for purchase of 6 new passengers' trains and the first freight wagons have arrived in 2014 from the total 150 ordered. The railway towards Bulgaria is in a construction phase and a consortium has been selected for planning of the railway track from Kicevo to Lin, Albania. Macedonia has two international airports, in Skopje and Ohrid. In March 2010 the Turkish airport operator TAV took both airports under a concession for a 20-year period with objectives to upgrade the existing facilities. In 2011 the upgrade was completed with new landing strips and airport building. Under the operation of TAV the number of passengers has increased from 800,000 during 2011 to 1,278,343 in 2014.

Telecommunications

The country has a well-developed fixed communications network with a tele-density of over 20 lines per 100 inhabitants, within the region average. The former state monopoly – Makedonski Telekomunikacii was privatised in 2001: Magyar Telekom (Deutsche Telekom Group) now holds a



majority stake in the company, while the State remains a minority shareholder. Three mobile operators are active on the market: T-Mobile Macedonia, (a subsidiary of Makedonski Telekomunikacii), One (owned by Telekom Slovenia) and VIP (a subsidiary of Mobikom Austria). In 2014, One and Vip announced a decision to merge into one company, which is expected to be realised by the end of 2015. The mobile networks cover up to 99% of the population. The mobile market penetration rate is about 100% of the population. The mobile networks cover up to 99% of the population. The mobile market penetration rate is about 100% of the population.

The full liberalisation of the telecommunications sector is on-going and international fixed line operators, competing with the incumbent operator, have entered the market since 2006. In total there are 42 fixed line operators in Macedonia.

Macedonia recognizes the importance of the “digital economy” and several steps have been taken in this direction. Legislation, in the shape of the Law on Data in Electronic Form and Electronic Signature and Bylaws has been in place since 2001, whereby all necessary laws have been modified to enable and validate the use of an electronic signature. At the same time, steps have been taken for establishing the first Certification Authority (CA) for the purposes of the Government, private persons and companies.

Energy

Macedonia is striving to become self-sufficient in electrical energy. The total annual generation of electricity in 2013 amounts to slightly above 5,500GWh, mostly from thermal and hydroelectric sources, covering about 65% of domestic energy needs.

In line with European policies, the State Electricity Utility has been restructured into 4 independent units: two for generation, one for transmission and one for distribution of electricity. The distribution company has subsequently been privatised in 2006 and 90% of the shares were sold to EVN (Austria).

The generation capacities are still mostly State-owned. They include four coal-fired power plants with an installed capacity of about 800MW and over 20 small and medium hydro-power plants with an installed capacity of above 537MW. The 210MW oil-powered Negotino plant is used only during peak periods and cold reserve. Attempts to privatise it and subsequently convert it to gas have not been completed.

As private investment, a combined cycle gas power and heating plant with average annual capacity of the power plant of 220 MW for electricity generation and up to 160 MW for heat production was constructed in the suburb of Skopje.

There are a number of new generation projects on-going, most of them aimed at tackling the country's vast hydro-energetic potential. They include, among other:

- the two large (over 500MW altogether) hydro-power plants at Cebren & Galiste
- large number of small and medium hydro facilities.

In 2014 a liberalisation of the electricity market took place for companies which have more than 50 employees and turnover higher than 10 million Euros. The country imports all its oil and gas needs. A pipeline brings oil from Thessaloniki to the country's only refinery, OKTA, which is owned by Hellenic Petroleum. A natural gas pipeline brings Russian gas from the Bulgarian border to Skopje and the gas distribution network is in development.

1.6 Foreign trade

In recent years, Macedonia has strived to achieve a high level of foreign trade liberalisation.

In part, this has been achieved as a result of the following:

- Membership of the World Trade Organization since 2003;
- Member of CEFTA – Free Trade Agreements with Albania, Bosnia and Herzegovina, Serbia, Montenegro;
- Free Trade Agreement with Turkey and

Ukraine and with the European Free Trade Association countries;

- Stabilization and Association Agreement with EU since April 2001, giving Macedonia duty-free access to European markets for the majority of the goods (for some goods, full liberalization will be implemented gradually over a period of ten years).

As a WTO member, Macedonia has committed itself to the three basic rules of trade conduct: transparency in laws, equal rights and privileges for foreign and domestic firms and citizens, and most-favoured nation treatment. The Law on Customs Tariff is fully-harmonized with customs systems introduced by the World Customs Organization and the Combined Nomenclature of the European Union.

Nonetheless, restrictions still exist in relation to:

- export licenses for environment protection, protection of human health, protection of animals and plants, protection of historical heritage, trade in military hardware; and
- measures for the protection of domestic production from significant increases in imported goods, anti-dumping measures, and measures against subsidized import prices.

After several years of stagnation, foreign trade re-started growing in 2004. However, in 2009 the total trade (import + export) dropped to USD 7.5 billion compared to over USD 10 billion in 2008. This also led to a decrease of the trade balance deficit - USD 2.2 billion in 2009. The foreign trade has started to grow again in 2010. Estimated total trade level was raised to USD 8.1 billion. Additionally, due to more favourable import to export structure, the trade balance deficit decreased to USD 1.9 billion. The total trade has increased to USD 11 billion in 2011. This affected however the trade deficit that increased to USD 2.3 billion. The trade deficit in 2012, 2013 and 2014 has not changed drastically by 2011; namely it was at level of about USD 2.3 billion.

Business Environment



2.1 Business climate

Over the past years, the various governments have successfully reduced the fiscal deficits and they have focused on maintaining a low inflation rate, a stable Denar-Euro exchange rate and low interest rates.

Although the above has enabled the development of a stable macro-economic environment, the country has not been as successful in re-starting its economic growth. Although positive, the growth rates recorded during the last years are still behind expectations and lower than those of the region's most dynamic countries.

The government's future stated objectives will be to support the growth of domestic consumption, industrial output and create a favourable environment for foreign and domestic investment. To achieve this, the government has already implemented and is still developing, a number of measures, including:

- Further public sector reform including the introduction of private sector investment in the public services and infrastructure sectors;
- Continuation of trade liberalisation policies;
- Measures aimed at enabling easier access to financing;
- Implementation of tax incentives through the creation of tax-free zones and a general reduction of the overall tax burden.

2.2 Technology and Industrial Zones

Investors in technology and industrial zones can benefit from tax holidays for up to 10 years for corporate income tax and personal income tax for the employees, VAT and customs duties exemptions and other incentives. Under the Law on Technological Industrial Development Zones, the zones are used to facilitate economic activities to be performed under special conditions, including tax and other incentives for zone users.

The aim of the TIDZ is to support the development of high modern technologies through an application of the highest environmental standards. The establishment, development and monitoring of the zones is carried out by the Directorate for Technological Industrial Development Zones. There are currently eight operational TIDZs in Macedonia – two in Skopje, one in Tetovo, Stip, Struga, Prilep, Kichevo and Rankovce respectively. In addition, there are three planned zones in the following cities: Gevgelija, Strumica, and Radovish.

The first TIDZ - “Skopje 1” - covers an area of about 140 ha and is located 10 km east of Skopje, on the Skopje-Kumanovo highway (E75), and 3 km from Skopje international airport. Currently, there are several investors in this TIDZ. Most of these investors have already started operating and exporting goods abroad and some of them are still constructing their operational facilities.

The tax exemptions and incentives available in the TIDZ include:

- i) Corporate income tax and personal income tax exemption for a period of up to ten years;
- ii) VAT exemption on the sales of goods and services within the TIDZ,

- excluding the sales of goods and services considered as final consumption under the VAT law;
- iii) VAT exemption on the import of goods into the TIDZ intended for export, excluding the goods intended for final consumption as per the provisions in the VAT Law;
- iv) Exemption from taxes and other duties related to the utilization of construction land, connections to water, sewerage, heating, gas and the power supply networks.

The TIDZ users are also entitled to customs duties exemptions and reliefs in accordance with the domestic customs legislation.

The land in TIDZ may be leased to foreign investors for a period of up to 99 years.

2.3 Regulatory environment

Investor considerations

Macedonia's national currency, the Denar (MKD), while fully convertible within the domestic market, is not convertible on foreign exchange markets. Conversion of most foreign currencies is possible on the official foreign exchange market. In addition to banks and savings institutions, numerous authorized exchange offices also provide exchange services.

The official exchange rate is freely determined by the market. The National Bank of Macedonia operates in the foreign exchange market, but participates on an equal basis with other entities.

In accordance with the regulations, all banks have limits regarding their open foreign exchange position, and they are also required to maintain a foreign currency reserve requirement on their forex deposits. There are no restrictions on the purchase of foreign currency.

Parallel foreign exchange markets do not exist in Macedonia. The long-term stability of the domestic currency has eliminated such practice. The strategy of the National Bank is to maintain a stable exchange rate by pegging the Denar to the Euro, thereby maintaining low inflation.

The Constitution of Macedonia guarantees the free transfer and repatriation of investment capital and profits. By law, foreign investors are entitled to transfer profits and income, subject to having registered their direct investments and paid all legal obligations relating to taxes and social insurance contributions.

Regulation of business The Company Law

The current Company Law is effective since 2004. In 2006 the Central Register was established as the body authorised to perform all company registrations and the institution to maintain the all companies Trade Register. This is the primary law regulating business activity in Macedonia. It defines the types of companies, procedures and regulations for their establishment and operations. As all foreign investors are granted the same rights and privileges as Macedonian nationals, they are entitled to establish and operate all types of self-owned private companies or joint-stock companies. Foreign investors are not required to obtain special permission from state-authorized institutions, other than what is customarily required by law. Under the Company Law, companies are formed as separate legal entities that operate independently and are distinct from their founders, shareholders and managers. Depending on the type, companies have their own rights, liabilities, names and registered offices. The law defines five forms of companies: General Partnership, Limited Partnership, Limited Liability Company, Joint-Stock Company and Limited Partnership by Shares.

The Central Register operates under the principle of “One Stop Shop system” which basically means that the investor is served in one place for most of the procedures required to register its business in Macedonia.

According to the Law on the One Stop Shop system all types of companies can be registered after 4 hours of submitting an application (in practice, it might take 1-2 business days). The Central Registry, an institution authorised to register companies within the Trade Register, provides a unique company ID number, tax number from the Public Revenue Office and a bank account at the same time of registration. Following the second phase of the One Stop Shop system, all legal entities will own a personal electronic certificate which will allow them to communicate with all the governmental institutions, providing for home or office use without actually going to the counters.

Law on Investment Funds

This law governs the conditions for the incorporation of investment funds and investment fund management companies. It also regulates the manner in which a company operates and exercises supervisory control of these operations and the process of the selection of a depository bank. The law does not discriminate against foreign investors in the establishment of open-ended or closed investment funds.

Right to Private Ownership and Establishment

In accordance with the Constitution of Macedonia, the investor's right to property is guaranteed.

According to the Law on Ownership and Other Property Rights and to the Law on Foreigners, residents of the EU and OECD member countries can acquire ownership of apartments, buildings and business premises under the same conditions as Macedonian citizens, in which case they

will be granted with one-year resident permit which could be further extended under the law. Non-EU and non-OECD residents can acquire ownership of buildings, apartments and office premises under the terms of reciprocity. However, the application of reciprocity rights is determined by the Minister of Justice.

Pursuant to the Law on Ownership and Other Real Rights, residents of EU and OECD member countries can directly acquire the right of ownership or long term lease of construction land under the same conditions as Macedonian citizens. Non-EU and non-OECD residents will be entitled to the same right under the terms of reciprocity.

Foreign residents can not directly acquire ownership of agricultural land. However, they can conclude a long term lease contract under the terms of reciprocity, if the consent of the Minister of Justice and prior opinion of the Minister of Agriculture and the Minister of Finance is obtained. The bylaws that should provide further details are not adopted yet, which may to some extent inhibit the direct acquisition of land by foreigners.

Indirect ownership (including lease) of construction and agricultural land, as well as residential and business premises, through a locally-registered business, is commonly used by foreigners as a safeguard against legal problems.

Ownership of real estate can be obtained through a purchase or gift contract; on the basis of a non-monetary in kind contribution to a company; or on another basis stipulated by law, such as inheritance.

Ownership of property requires the preservation of specific rights that serve both the individual and the community. For example, no person may be deprived of his/her property or the rights deriving from it, unless the use of that property affects the general welfare of the public. If

the property is expropriated or restricted, rightful compensation of its market value is guaranteed.

Competition, Monopolies and Antitrust

The Law against Unfair Competition (LAUC) was enacted in 1999 by the Parliament of Macedonia. On April 1st, 2000, the Commission for Protection of Competition (CPC) was established and now functions as an independent institution. The German Act against Restraints on Competition (ARC) was used as a base model for drafting the LAUC.

A new law on the enhancement of competition came into effect in 2010 – Law on Competition Protection. The competition legislation guarantees the protection of free market competition, in cases where competition is distorted by one of the following restrictive practices:

- through collusive agreements;
- through the abuse of a dominant position in the market;
- through business combination among companies that lead to the creation of a dominant position or the strengthening of existing dominant positions.

In practice, certain publicly-held enterprises still enjoy special privileges vis-à-vis their private counterparts. It remains an ongoing area of concern for the country's judicial system which will be required to comply with competition rules under the European Union's *Acquis Communautaire*.

Price controls

The Commission of the European Communities reported in 2000 that “Price liberalization has been essentially completed. Price controls exist for only very few products”. Since March 2005, price controls are only in a form of regulated prices and approved prices (any form of direct control has not been implemented since).

Price control has remained active mainly in the energy sector and communal utilities sector. Prices in the energy sector (oil derivatives, electricity, heating) as well as prices of telecommunication services, are controlled by independent regulatory bodies.

Securities markets

Macedonia's securities markets are limited in turnover and capitalization. The establishment of the Macedonian Stock Exchange in 1995 made it possible for portfolio investments to be regulated. On March 28, 1996, the commencement of trading operations created a central market place for securities trading. This was also the first organized stock exchange in the history of the country.

While activity on the stock market is limited, it does offer a vehicle through which foreign investors can move into the area.

The Securities and Exchange Commission adopted legislation that regulates Macedonia's securities market.

The Macedonian Stock Exchange is made up of the First Market (the Official Market which consists of two sub-segments: the Super Listing and Exchange Listing segments), with various listed companies, and the Unofficial Market. The latter also consists of two sub segments a Market for Publicly-Owned Companies (Large Non-Listed Companies) and the Free Market.

According to the changes in the Macedonian Securities Law in 2013, all issuers of securities (joint-stock companies and limited partnerships by stock) who were not listed on the Macedonian Stock Exchange were statutory required to list their securities on the Exchange if they meet the special criteria for mandatory listing as defined in the Listing rules of the Exchange. The mandatory listing is with limited duration until 30 April 2018.

The Central Securities Depository (CSD) was established on 31st December, 2001. The CSD records the existence of an ownership of securities and associated transactions. The CSD has greatly improved the efficiency of the capital markets and the rights of minority shareholders in companies. All joint-stock companies have transferred their shareholding books to the CSD.

In addition to the government-issued bonds for frozen foreign currency deposits and denationalisation, the Ministry of Finance, on behalf of the Government, issues treasury securities (treasury bills and treasury bonds) on a continuous basis. Issuance of treasury bills began in January 2004 and treasury bills, and treasury bonds range from three months to three years.

Protection of industrial property rights

The current Industrial Property Law was enacted in early 2009. This law governs the acquisition of most of the intellectual property rights. The State Office of Industrial Property governs registration of patents, industrial designs, trademarks, geographic indications and designations of origin.

A separate law regulates copyrights, the Law on Copyrights and Related Rights. The protection of author's rights, software, CD and other intellectual property is administered by the Inspection Service within the Ministry of Culture, established in 1999.

Since 1993, Macedonia has been a member of the World Intellectual Property Organization (WIPO), and in 1994, it became a member of the Permanent Committee of Industrial Property Protection Information of WIPO. As a successor to the former

Socialist Federal Republic of Yugoslavia, Macedonia has adhered to international conventions and agreements that govern these rights. Macedonia's accession to the WTO in April 2003 underscored the urgent need for the country to prevent copyright infringement. The first step in this direction was taken in 2002 when the Government of Macedonia reached an agreement with Microsoft to legalize all the Government's software.

Joint action taken by the Inspectors from the Ministry of Culture and Ministry of Interior Affairs has shown some visible results in combating piracy in the production and sale of items, such as CDs, DVD movies and software.

In October 2008 the Macedonian Parliament ratified the Convention for Recognition of the European Patents.

Law on Financial Discipline

In December 2013 a Law on Financial Discipline was adopted, with the purpose of regulating the timely fulfilment of the monetary obligations between business players and discouraging payment defaults.

Under the Law on Financial Discipline, the term for fulfilment of the monetary obligations is 60 days, however the legal entities can agree to a term no longer than 120 days. It is envisaged the Law to become also applicable in

respect of government and municipal bodies, public enterprises and companies held by the state and the municipalities on 1 January 2016.

The Law on Financial Discipline provides fines up to EUR 10,000 for the legal entities for nonfulfillment of its obligations under the Law, and fines up to EUR 1,500 for the authorized person of the legal entity.

Extensive amendments on Law are expected to be adopted until the end of 2015.

Foreign investment



3.1 Investment policy

As a small, albeit open economy, Macedonia continues to take steps to attract foreign direct investment (FDI). The country has enacted legislation that not only ensures an equal footing for foreign investors vis-à-vis their domestic counterparts, but also provides numerous incentives to attract such investment. The country currently has six Ministers and an agency dedicated to attracting and assisting foreign investors. The country has also concluded a number of bilateral investment protection treaties and other multilateral conventions that impose stricter protection standards for foreign investors.

The Constitution stipulates that a foreign person in Macedonia may acquire property rights under conditions set by law. Furthermore, the Constitution guarantees a foreign investor the right to the free transfer of invested capital and profits. A foreign person may establish the same types of companies as a national of Macedonia. A foreign investor may also be an individual business person – sole proprietor.

There is no single law regulating foreign investment. Rather, the legal framework applicable to foreign investors is made up of various laws, including: the Companies Law, Securities Law, Corporate Income Tax Law, Personal Income Tax Law, Law on Value Added Tax, Foreign Trade Law, Law on Takeovers, Law on Foreign

Exchange, Law on Investment Funds, Banking Law, Law on Supervision of Insurance, Audit Law etc.

In general, there are no restrictions governing the participation of foreign capital in the banking sector. Under the Law on Banks, acquisitions of more than 5% of a bank's shares are subject to the consent of the National Bank of Macedonia.

The Law on the Supervision of Insurance requires that foreign and domestic investors should obtain an approval by the Agency for Insurance Supervision in respect of any purchase of shares which provides qualified participation in an insurance company (10%). Supplemental investments in the shares of the insurance company may be subject to additional approvals as well.

The Constitution of Macedonia guarantees equal treatment for all market participants and the right for foreign investors to freely transfer and repatriate investment capital and profits.

3.2 Investment incentives

Tax incentives

The range of incentives in Macedonia includes exemption from customs duties, various tax holidays and specific tax relief measures.

The low corporate income tax rate of 10% should also be a favourable incentive for the establishment of operations by foreign investors, especially under the current regime, applicable since 2014, where corporate income tax is not payable on reinvested profits, if ownership over the assets purchased with the reinvested profit is maintained for a period of five years as of the day of their purchase.

The taxpayer, registered within a technological development zone is eligible for reliefs from payment of corporate income tax and personal income tax for a period up to ten years. In addition, import of goods in the zones as well as supply of goods from local suppliers exceeding EUR 1,000 which are not intended for final consumption are exempted from value added tax.

Investment Protection and Trade Agreements

Up to 30 bilateral Investment Protection Agreements have been signed, 13 of which are with members of the Organization for Economic Cooperation and Development (OECD). Among those who have signed such agreements are: Austria; Albania; Belgium; Belarus; Bosnia and Herzegovina; Bulgaria; China; Croatia; the Czech Republic; Egypt; Finland; France; Germany; Hungary; Iran; Italy; India; Korea; Malaysia; The Netherlands; Poland; Romania; The Russian Federation; Serbia; Montenegro; Spain; Sweden; Switzerland; Taiwan; Slovakia; Slovenia; Turkey; Ukraine.

Free trade agreements have been signed with Turkey and Ukraine, the countries from EFTA and there is the Stabilization and Association Agreement with the EU, giving Macedonia duty-free access to markets of 650 million consumers. In 2006 Macedonia became a member state of the Central European Free Trade Agreement.



Banking and finance



Banking system

The financial system in Macedonia consists of the National Bank of Macedonia (Central Bank), commercial banks, savings houses, exchange offices, the Deposit Insurance Fund, in addition to insurance companies, investment funds, pension funds, funds management companies, lease companies, brokerage houses and a stock exchange.

The banking system itself consists of 15 universal banks and 3 saving houses, regulated by the Banking Law.

The banking system is still small and has a relatively low level of financial intermediation. After independence, at the beginning of the 1990s, the banking sector developed rapidly but without sufficient control. This aggravated by external factors, led to serious problems including a liquidity crisis in the mid-1990s. Since then, the regulatory authorities have strengthened supervisory monitoring moving toward well-developed risk based supervision, and depositors' confidence has been restored. The situation is now fully stabilised; banks have high levels of liquidity, a satisfactory level of capitalization, and higher efficiency and profitability, albeit with a relatively low level of intermediation.

As a result, the mortgage and loan market has long remained under-developed. The situation has however started to improve in the recent years but there is still a potential for future development. For instance, total private sector lending has increased year-on-year by almost 30% in 2006 and about 40% in 2007, but in the recent years the increase was

significantly slowed to 7.1% in 2010, 8.5% in 2011, 6.9% in 2012, 6.4% in 2013 and 10% in 2014.

In parallel, interest rates have been steadily decreasing, but still remain high. Average rates on commercial loans in Denar have decreased from 9.5% in 2010, 8.9% in 2011, 8.5% in 2012, 8% in 2013, 7.5% in 2014, and 7.1% in the 2nd quarter of 2015.

Central Bank

The Central Bank is an independent institution, the sole money-issuer, whose main objective is to maintain price stability. The National Bank supports the economic policy and the financial stability of the country without jeopardizing the realization of the main objective, and adhering to the principles of the market economy. The National Bank is responsible for the stability of the national currency (Macedonian Denar), general liquidity of the banking system, liquidity in the payments abroad, holding and managing the foreign exchange reserves; regulating the payment system as well as the implementation of monetary policy. The Central Bank serves also as the main regulatory body responsible for the supervision of all banking institutions.

Banking market

The banking system in Macedonia currently consists of 15 private banks, 3 savings houses and the State-owned Macedonian Bank for Development Promotion. According to the Banking Law, a bank must be established as a joint-stock company with a head office in Macedonia. Banks are obliged to follow the prescribed supervisory standards regarding solvency and capital adequacy, risk management, exposure limits, investments, liquidity.

Savings houses are limited in their banking activities and services (savings and loans) for individuals, some of them now offer as well micro-credit type financing.

According to the Banking Law, a foreign bank can enter the Macedonian banking market through a representative office (with the Governor's approval) and subsidiary or a branch (with the Governor's licence).

The three largest banks – Komercijalna Banka AD Skopje, Stopanska Banka AD Skopje (National Bank of Greece main shareholder) and NLB Tutunska Banka AD Skopje (NLB Ljubljana main shareholder) dominate the banking system, holding together around 60% of the net assets of the banking system.

Still highly fragmented outside the 3 largest banks, the banking sector has undergone a significant change over the past two years with investors like Société

Générale, Türkiye Halk Bankasi A.S., Alfa Finance Holding, Steiermärkische Bank taking over most of the remaining privately owned banks.

Insurance market

An Insurance undertaking is a joint-stock company with a head office in Macedonia. Under the Law on Supervision of Insurance, the Agency for Insurance Supervision supervises the insurance activities.

The Law on Supervision of Insurance governs the conditions for performing the activities of life and non-life insurance and reinsurance. Currently, insurance services can be provided only by licensed companies registered in Macedonia.



The insurance market consists of 15 insurance companies, 31 insurance broker companies and 11 insurance representation companies.

Leasing companies

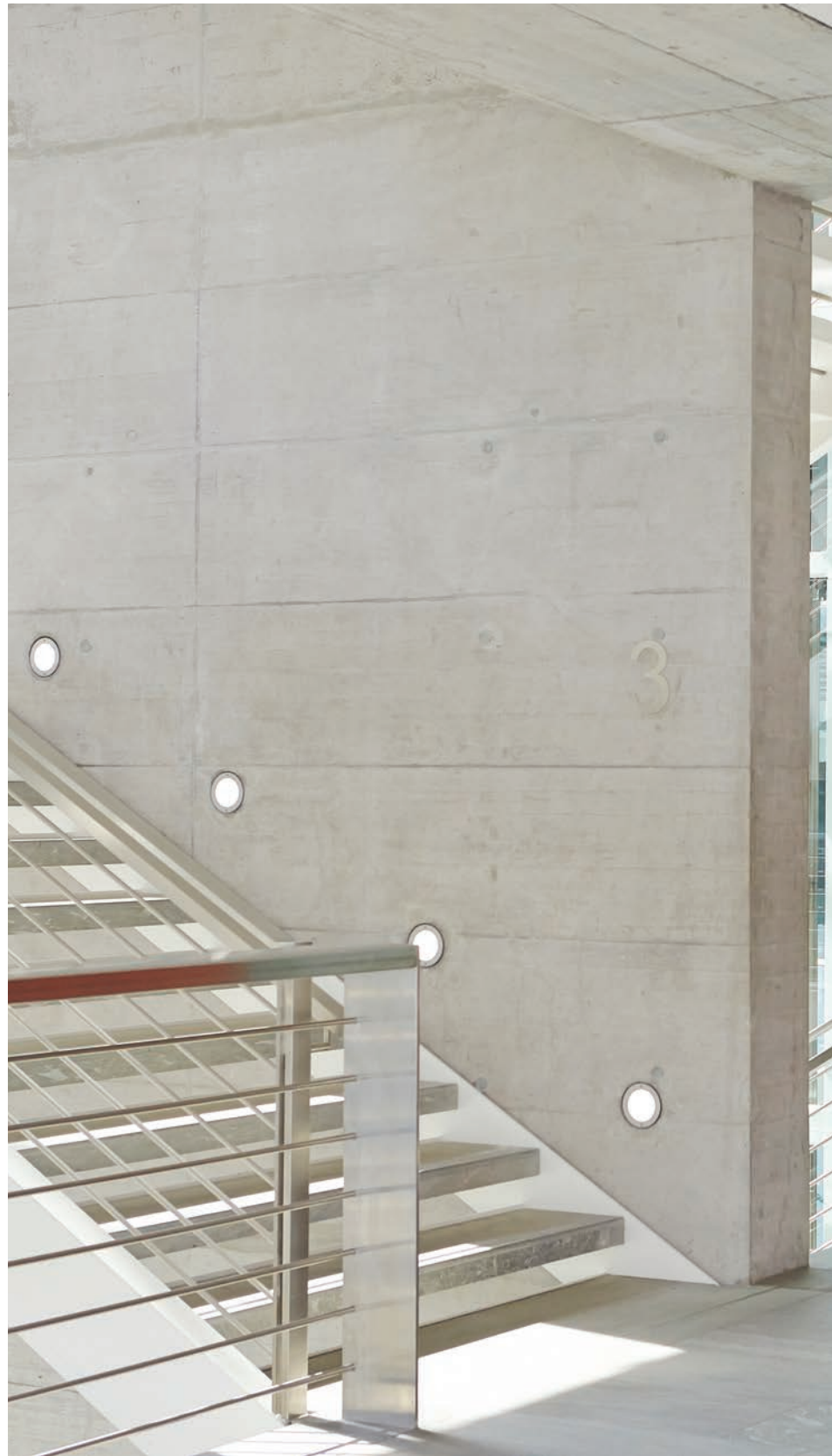
The Law on Leasing was enacted in 2002. The Law on Leasing recognises two types of leasing, operational and financial leasing. The leasing companies are controlled and supervised by the Ministry of Finance. However, Macedonia still had not ratified the UNIDROIT Convention for international financial leasing and it is not a member state of the UNIDROIT organisation. Currently, there are 8 actively operating companies in Macedonia.

The leasing market is still under-developed compared to most other countries in CEE but it is now anticipated that conditions are set to further improve. As a future perspective, steady growth at a slower rate is expected.

Financial companies

The Law on Financial Companies was enacted in 2010. Under the law, a financial company is a non-banking institution, which provides financial services such as provision of loans, administrating credit cards, factoring and issuance of guarantees. A financial company can operate in Macedonia upon obtained licence from the Ministry of Finance and the activities of the financial companies are controlled by the Ministry of Finance. Currently there are 10 financial companies operating in Macedonia from which one company is member of an international group.

The financial market, as well as the leasing market is still under-developed, however it is noted that there is need between the consumers for such fast loans which are obtained in a much simpler procedure than from a bank. With the recent entering on the Macedonian market of one international financial





company it is expected that in near future other similar companies will follow.

International financial market

The Macedonian Stock Exchange is a member of the Federation of Euro-Asian Stock Exchanges (FEAS) since 1996 and an affiliated member of the Federation of European Stock Exchange (FESE) since 2005.

Memorandums of Understanding between the Macedonian Stock Exchange and the Stock Exchange in Sofia, Ljubljana, Athens, Belgrade, Zagreb and Vienna were signed. The Memorandum regulates the degree of cooperation between the two Stock Exchanges and the exchange of information as a first phase in building bilateral and regional relations.

The Law on Foreign Exchange Operations regulates that residents, other than authorized banks, may not purchase securities abroad. The authorized banks may purchase and sell securities abroad on their behalf and for their account (only securities issued or guaranteed by Governments of member states of the OECD and by international financial institutions or securities with investment rating assessed by at least one top international investment-rating agency). The Deposit Insurance Fund, the insurance companies, the pension funds and the investment funds may purchase securities abroad in accordance with the laws regulating their operations.

Source of funds

Banks are the main source of financing, since the capital market is generally under-developed and with a relatively low level of market capitalization.

While companies from Macedonia are free to borrow from foreign banks without restrictions, the inflow of foreign funds for this purpose has been minimal.

Importing and exporting



Customs regulations

The Customs Act from 2006 brought Macedonia's customs regulations further in line with EU standards.

The law includes provisions for the governance and operation of free zones. Also, new simplified procedures are introduced for inward processing such as easier-to-use declarations. Furthermore, new rules provide for the guarantee of customs debt, the issuance of binding statements for tariff classification of certain goods, and binding origin statements for specific goods in determining the predictability of preferential and non-preferential tariff treatment. The amendments of the Customs Law in December 2010 introduced licences for customs agents.

Customs duties generally apply to most products imported into Macedonia. A number of products are subject to quality control by market inspection officials at customs offices. These officials are employed by the Ministry of Economy to ensure that imported goods are in compliance with domestic standards.

The products subject to quality control include most agricultural products, cars and electrical appliances or products in which failure to meet set standards may pose a health risk to consumers. Where applicable, products also must pass sanitary, phyto-pathologic or veterinary control. According to the Stabilization and Association Agreement 2001 between Macedonia and EU, generally, products

with Macedonian origin can be exported into EU countries free of customs duties.

Foreign exchange regulations

The foreign exchange regime is governed by the Law on Foreign Exchange Operations and accompanying regulations. According to this Law, payments to or from foreign countries are performed by banks authorised for foreign transactions by the National Bank of Macedonia (the Central Bank). Payments on behalf and for the account of Macedonia are carried out by the Central Bank. There are no restrictions on current

account payments. Profits and dividends from inward investments can be freely transferred abroad, after corporate income tax and withholding tax (if any) is paid.

There are, however, reporting requirements applicable on investments by Macedonian residents abroad. Such investments should normally be reported to the Central Registry and in some cases to the Central Bank on prescribed forms. Transfers of funds and investments abroad, by Macedonian residents, are possible, but subject to specific reporting requirements and authorisations from the Central Bank.

There are no regulatory restrictions on foreign direct investments by non-residents in Macedonia. Credit transactions between residents and non-residents can be freely arranged. The only requirement is that such loans must be registered with the Central Bank. Certain legal entities conducting business activities abroad can hold deposits in foreign banks but only with permission from the Central Bank. Non-residents can freely open non-resident accounts in Macedonian banks. The foreign exchange law introduces a much more liberal regime for capital transactions.



Business entities



6.1 Local representation

Finding a Partner

Although there are no legal restrictions on fully foreign owned and managed companies, finding a local partner is usually highly advisable for foreign investors in order to maximise business efficiency and to access the local markets.

Finding an Attorney

Foreign attorneys are not permitted to practice in Macedonia. A domestic attorney must conduct all legal work. Foreign firms should consult with local attorneys on the legal aspects of their potential activities, including registration, licences, taxes, import / export procedures, and contracts. Additionally, a local accountant can assist with the structuring of a local company and its operations.

Franchising

Franchising is a relatively new concept for the business community in Macedonia. The legal system in Macedonia accommodates franchise agreements, although Macedonian law does not explicitly cover franchising. The Macedonian Franchise Association was established in 2003 specifically to help domestic and foreign companies with these issues.

The laws on labour relations are well established, leases can be freely negotiated, and laws exist to protect trademarks, patents and copyrights.

A large number of international franchises have successfully entered the Macedonian market since the end of the 1990s in the retail, hotel, rental and restaurant sectors.

Joint Ventures / Licensing

Existing legislation permits joint ventures, including a combination of foreign and domestic investment. With many large firms undergoing privatisation, joint ventures are becoming more common. A local company often joins forces with a foreign company that provides equipment and merchandise, while the local company provides buildings, warehouses, office space and personnel.

6.2 Forms of Companies

In accordance with the Company Law, both Macedonian and foreign individuals or companies can establish the following types of business entities:

General Partnership – this is an association of two or more legal entities or individuals who are personally and jointly liable without limit to the creditors. This liability includes their entire property.

Limited Partnership – this is a partnership of two or more entities or individuals in which at least one of the partners will be jointly liable without limit and with his entire property for the obligations of the company (“general partner”) and at least one partner (“limited partner”) who is liable for the obligations of the company up to its recorded contribution in the company.

Limited Liability Company (DOO or DOOEL) – this is a company in which the shareholders participate with one share each (basic contribution) in the company’s pre-determined basic capital. The basic contribution may differ in value, but the contribution cannot be in the form of labour or services. A minimum of 1 and a maximum of 50 shareholders can establish a limited liability company.

Joint-Stock Company (AD) – this is a company that has, by its Charter, a defined capital (basic capital) divided in equal parts (shares). Shareholders participate with one or more shares and their liabilities are secured with the entire capital of the company. A joint-stock company may be founded by one or more legal entities or individuals.

Limited Partnership by Stock – this is a company in which one or more general partners, are liable jointly without limit for the company’s obligations. Limited partners have the status of stockholders and are not liable for the obligations of the company.

Sole Proprietors – individuals that conduct business operations are required to register as sole proprietors. The individual is fully and unlimitedly liable with all his assets to the creditors.

Details for the procedures for registering different kinds of business is presented in the following four points:

6.3 Joint Stock Company-(AD)

The lowest nominal value of basic capital assets required for founding a joint-stock company are as follows:

- EUR 50,000.00 in MKD counter value - by a public invitation
- EUR 25,000.00 in MKD counter value - without a public invitation
- The minimum nominal value of the share cannot be lower than EUR 1 in MKD counter value

The deposit may not be contributed in the form of personal labour or services. For the purposes of the evaluation of non-monetary deposits, an evaluation report by an appraiser, chosen by the founders, from the list of appraisers determined by the court, should be enclosed in the statute.

The money deposits can be paid for, up to the moment of the entry of the company

into trade register, amounting to at least one-quarter of their nominal value (values exceeding the nominal should be wholly paid in). The payment of the remainder can be effected in one or more instalments, in accordance with the share issuance decision, within a term that cannot exceed three years.

If the contribution is partially paid as monetary contribution, and partially as non-monetary contribution, the portion paid as monetary contribution must be fully paid in prior to the registration.

The Company Law provides two procedures with respect to establishing a joint-stock company:

- Simultaneous founding - when the founders themselves or jointly with other persons, undertake to acquire all the shares without a public invitation (simplified procedure similar to the procedure for the founding of a limited liability company).
- Successive founding - the joint-stock company may be founded through subscription to all or to a certain number of shares on the basis of an announcement (this procedure is more complicated and is much longer (min. 3 months) and is, in practice, little used).

Entry of the company into the trade register

The managing entity of the joint-stock company should immediately submit the application for the entry of founding of a joint-stock company into the trade register. The following documents should be also attached to the application:

- the statute, which is the founding deed of the company;
- relevant documentation for identification of the company’s founders;
- the enactment on undertaking of shares and one copy of the prospectus on the basis of which the whole sum or part of the basic capital assets had been subscribed;
- the minutes of the founding assembly, the invitation to it and the list of participants;

- the incorporation report prepared by the company's founders;
- the resolution for appointment of the members of the board of directors, i.e. of the managing board and of the supervisory board, if such members are not appointed in the statute of the company;
- the licence, if required in accordance with the law, and the appraiser's report;
- statements by the company's founders that they are not prohibited by law to incorporate the company and that the incorporation of the company is conducted in accordance with the law.

The joint-stock company is considered founded once it has been registered in the trade register.

The company registration procedure is as follows:

Since January 1, 2006, the Central Registry has become the only body authorised to carry out the registration of a new local company or a branch office of a foreign company. At the same time it has implemented a One-Stop-Shop system through which the registration of a company can normally be completed within four hours (1-2 business days in practice). The One-Stop-Shop system undertakes all registration procedures with various state bodies (including the provision of a tax ID no.). Following registration, the company must perform the following:

- Activate the Bank Account;
- Registration with the Public Revenue Office to obtain a VAT number; and
- Only in case of foreign investment, registration of the foreign investment within the Central Registry.

Systems of management of a joint stock company

The management of a joint-stock company may be organized in accordance

with a one-tier system (board of directors) or a two-tier system (separate management and supervisory boards).

- One-tier system

Board of directors: The board of directors is composed of non-executive and executive members (directors), numbering at least 3 (three) but not more than 15 (fifteen) members.

- Two-tier system

Management Board: The Management Board should consist of at least 3 (three) and not more than 11 (eleven) members. The Supervisory Board should nominate the members of the Managing Board. No single person may be a member of the Managing Board and a member of the Supervisory Board at the same time.

The Chairmen of the Management Board should act as an agent and representative of the joint-stock company in relations with third parties. The statute of the company may authorise the Supervisory Board to allow one or more members of the Management Board bearing the title of General Manager(s), to act as agents of the company.

Supervisory Board: The Supervisory Board should consist of at least 3 (three) and no more than 11 (eleven) members. The assembly of the company should nominate the members of the Supervisory Board.

General Meeting (GM) of the Joint-Stock Company (AD)

The shareholders can exercise their rights in the joint-stock company, especially in relation to the adoption of annual balance sheets, the appointments and recalls of members of the company's board of directors or the supervisory board, etc. The members of the Board of Directors i.e. of the Supervisory Board and the Management Board may participate in the GM without voting rights, unless they are shareholders.

The law defines more complex rules and requirements for convocation and realisation of the GM of the publicly-owned joint-stock companies (large non-listed companies) and the listed joint-stock companies.

6.4 Limited Liability Company - (DOO or DOOEL)

The Limited Liability Company is, in practice, the most common form of business entity. A single founder (i.e. one person) may establish a limited liability company. The company may have a maximum of 50 founders. The company's capital assets are deposited by the founders. The founders cannot be liable for the obligations of the limited liability company. The basic capital assets should be at least EUR 5,000 in MKD counter value, in either cash or assets. If the capital is invested in assets, a qualified appraiser must perform the appraisal. The amount of each separate deposit may not be less than EUR 100 in MKD counter value.

Type of management

The company must have one or more managers, with limited or unlimited authority, according to the statutory deeds of the company. If the founder is a single person, the company is established with a Statement. If there are two or more investors, the company is established with an Agreement.

Documentation

When the founder is an individual foreign citizen, a photocopy of the founder's passport should be submitted. The photocopy has to be translated by an authorized translator. When the founder is a foreign firm, an excerpt from the Trade Registry where the Founder is

entered, duly notarized and translated by an authorized translator, should be submitted.

The company must have a location based on the ownership title or contract for rental of the estate or business premises.

Name of the company

While foreign words can be included in the company's name, they must nevertheless be written in the Cyrillic script for the purposes of submission in the Trade Registry within the Central Registry.

6.5 Branch Office

A foreign company can establish a branch office in Macedonia if it is registered in the Trade Register of its domicile country. The branch can perform the same activities as the foreign-domiciled company. The branch may perform activities in the name, and on behalf of, the foreign-domiciled company, including use of its name and address. Consequently, the foreign-domiciled company would incur full liability over the branch operations.

If a foreign-domiciled company establishes several branches in Macedonia, it must designate a main branch (central branch office) in the Trade Registry. The trade name of the other branches must include the trade name of the Macedonian central branch, as well as the reference numbers of the other branch offices, according to their order of entry in the register.

A foreign sole proprietor has the right to establish only one branch. The foreign company or sole proprietor must apply to the Trade Register within the Central Register for registration.

The following documents must be included with the registration in the Trade register:

- An excerpt from the Registry in which the founder is entered, showing the content and date of entry;

- A copy of the Company Agreement or Charter certified by an authorized administrative body of the company's country of origin, as well as a certificate issued by the foreign authorities proving that the submitted Agreement or Charter is still in effect. If the laws of the company's country of origin do not require a written Agreement or Charter, a certificate proving the existence of the company, its interest holders and their liabilities, issued by the relevant diplomatic or consular office of Macedonia, must be submitted. This must include a list of persons to whom representation of the company in Macedonia has been entrusted, including their names, occupations, residential addresses and citizenship. Proof that these persons have been legally designated according to the Company Agreement or Charter, and the laws of the company's country of origin, must be attached to the list;
- A decision issued by the authorized body of the company establishing the branch;
- A list of the nominated authorised representatives of the founder in Macedonia;
- A certified copy of the company's credit rating issued by a relevant authority or chartered audit enterprise under the laws of its country of origin;
- A description of activities to be performed by the branch.

Liability in legal transactions

A foreign-domiciled company or sole proprietor will be liable, with its entire assets, for the liabilities arising out of a branch's operations.

Where the person establishing the branch is registered in the country, in which it has maintained a main office, for less than two years preceding the date on which the application for establishment of a branch was filed, the founders of the foreign company, or the foreign sole proprietor, should be held jointly and severally liable for a period of two years, following the date of establishment, for any liabilities which arise in respect of the activities.

Representatives

A foreign company can appoint one or more representatives, for each branch office undertaking activities for the company in Macedonia.

The representatives appointed with the Macedonian Central Branch Office should act as representatives of the other branches.

6.6 Representative office

A representative office of a foreign company is not a legal entity. It is only permitted to undertake activities of a research or information-gathering nature. The registration of the representation offices is performed in the Register of representative offices of the foreign companies in Macedonia. The register is maintained within the Central Register.

Documents needed:

- Application containing the firm, the registered seat and the activities to be performed (from a list of limited activities that can be performed);
- Authorized copy from the registration of the foreign company;
- Decision of the foreign company for opening/establishment of a representative office and decision for appointment of a manager or representative of the representative office;
- Passport photocopy of the Manager of the representative office;
- A working program of the representative office;
- Notarised statement of the foreign company that assumes all the liabilities arising from the operations of the representative office as well as proof of paid registration fees.

The Central Register decides within 5 days from the day of submission of the registration application.





Labour relations



7.1 Labour market

Ever since the 1980s, Macedonia has suffered from high rates of unemployment. At the time of Independence, the unemployment rate was close to 24%. The restructuring of the economy has led to an overall decline in labour demand, and the overall low growth and lack of major investments have failed to create a sufficient number of job opportunities.

Additionally, the labour law has not permitted sufficient flexibility in the labour market. Recent labour market reforms, including a new Labour Relations Law, in 2005, and its subsequent amendments have injected some labour market reform of benefit to employers.

In the second quarter of 2015, the rate of unemployment is 26,8 %. Unemployment is particularly acute among women and some of the ethnic minorities.

It should be noted that the official figures do not reflect the large “informal” economy, as a result of which, the actual numbers of jobless may be significantly lower.

7.2 Labour relations

The employment relation is regulated by an individual employment contract pursuant to the Labour Relations Law. The employment contract, which must be in writing, and kept at the employer's premises should govern the following:

- information concerning the contracting parties (employer & employee);
- the commencement date;
- the duties of the employee and the place of work;
- the term of employment (part-time or full-time);
- working hours;
- vacations and other leave;
- the compensation and pay period;
- list of the general acts determining the working conditions.

Labour Unions

The two principal Labour unions are the Council of Trade Unions of Macedonia and the Union of Independent and Autonomous Syndicates of Macedonia.

About 75% of the employed labour force, are members of a union. Membership is voluntary and activities are financed entirely by membership fees.

Collective bargaining agreements are negotiated between the representative labour unions and the Government for the general collective agreement for the public sector and between the representative labour unions and representative employers association for the general collective agreement for the commercial sector. These two collective agreements represent the two pillars under which industry branch and employer level collective agreements can be negotiated and signed. The general collective agreement for the commercial sector applies directly and is obligatory for all employers and employees in the private commercial sector.

7.3 Wages and salaries

As of September 2015, the average monthly net salary was MKD 21,861 (c. EUR 356).

The minimum salary in Republic of Macedonia on annual level is determined by the Ministry of Finance upon prior opinion obtained from the established Economic and Social Council in which the representative labour unions and employers associations participate. The minimal net salary in 2015 is MKD 9,590.

Salaries are computed and paid at least once monthly. Social security contributions and personal taxes are withheld by the employer along with the payment of salaries to employees.

Employees are entitled to salary compensation during leave from work, under conditions, and in the amount, determined by the Labour Relations Law and respective collective labour agreements.

This applies to:

- annual leave;
- sick leave;
- maternity leave;
- vocational training arranged by the employer;
- other cases stipulated by the law and collective agreements.

7.4 Social insurance / Pensions

Calculation and payment of all the employees' social security contributions is regulated by the Law on Contributions for Mandatory Social Insurance. The amendments to this law, effective since January 2009, introduced the unified system of gross salaries.

Employers are obliged to calculate, withhold from employees' gross salary and pay into the accounts of respective funds the compulsory social security contributions. The current level of the

compulsory social security contributions is as follows:

- 18% - pension and disability insurance
- 7.3% - health insurance
- 1.2% - unemployment insurance
- 0.5% - additional health insurance.

As of January 2015, the Mandatory Social Security Contributions Law was subject to several changes which by August 2015 were abolished. However one change concerning the maximum base for calculating the social security contributions remained. Namely, the maximum base for calculating and paying social security contributions was increased from six to twelve average gross salaries (i.e. increase from approximately EUR 3,000 to approximately EUR 6,175 as at the moment). The Public Revenue Office (PRO) is the authorised body to control the calculation and the payment of the compulsory social security contributions. All employers send their calculations to the PRO which controls them and, if correct, issues a declaration of acceptance that is used by the banks to perform the payment of the social security contributions and net salaries.

The rights arising from contributions of pension and disability insurance include:

- retirement and disability pension;
- vocational training;
- family pension;
- monetary allowance for work related injury and diseases.

The rights arising from contributions of health insurance include:

- health protection in case of illness and injury not related to work;
- health protection for work related injury and diseases;

- salary compensation in case of absence from work due to illness, injury or pregnancy and motherhood;
- compensation of some travel expenses.

The rights arising from contribution for unemployment insurance in case unemployed include:

- Monetary compensation;
- Employment related trainings;
- Health protection;
- Pension and health insurance for some unemployed categories;
- Beneficial employment conditions for disabled.

In addition, the Law on Pension and Disability Insurance established a multi-tier pension system, which comprises three tiers:

- First tier - a compulsory state pension fund,
- Second tier - a compulsory private pension fund

- Third tier - a private pension fund made up of voluntary contributions.

In the second tier, 6 % of the calculated compulsory pension and disability contribution is paid, while the rest is paid in the first tier.

For the second tier, employees can contribute to either one of two private pension funds: Nov Penziski Fond or KB Prv Penziski Otvoren Fond. Voluntary pension contributions can be made in the voluntary pension funds such as NLB Penzija Plus and the KB Prv Otvoren Dobrovolen Penziski Fond. There is a personal income tax exemption available for the voluntary invested funds of up to four average monthly gross salaries (i.e. EUR 2,040 as at the moment).

Rest and leave periods

Employees are entitled to the following rest and leave periods:

- A 30-minute paid break during daily working hours;
- Rest of at least 12 hours between two consecutive working days;
- Rest of at least 24 consecutive hours per week. Should employees be required to work during this period, the leave hours should be carried forward into the following working week;
- Annual leave, during the course of one calendar year, between 20 and 26 working days;
- Up to seven days paid leave, in cases of marriage, death of close family members, professional examinations and other employer requirements, in accordance with the terms and conditions of respective collective agreements.

Should employees be assigned to professional training, the leave may exceed seven working days.



Sick leave

Employees are required to notify employers, within 24 hours, of having taken sick leave, and afterwards provide a health certificate issued by an appropriate doctor to the employer. Approved sick leave will not be considered as justifiable grounds for termination of employment.

According to the Health Insurance Law, which requires mandatory health insurance, insured persons have a right to basic health services and health protection arising from illness, work-related injuries and occupational diseases.

Insured persons are also entitled to salary compensation due to illness-related work absences.

The employer is obliged to make salary payments during the first 30 days of sick leave. After that period, any payments should be made by the Health Insurance Fund.

Maternity leave and benefits

In accordance with the Labour Relations Law, women are given special protection. Female employees are entitled to nine months continual leave from work during pregnancy, birth and maternity, and one year's leave in case of a multiple birth.

Based on the findings of authorized medical institutions, female employees may begin maternity leave 45 days before delivery and compulsorily 28 days before delivery.

During maternity leave, female employees are entitled to pay in compliance with the health care regulations.

A female employee entitled to maternity leave, may return to work, prior to the end of the maternity leave period.

Compensation during maternity leave is equal to the employee's actual

remuneration, but no more than four average net salaries paid in Macedonia, in the last year. The compensation is paid by the Health Insurance Fund.

Termination of Employment

According to the Labour Relations Law, employment can be terminated in the following instances:

- By agreement between the employer and employee;
- Upon the expiry of a fixed-term of employment;
- Upon death of the employee or the employer (individual), respectively bankruptcy or liquidation of the employer (legal entity);
- By a court verdict;
- By termination notice, supplied by the employee or by the employer only on explicitly enumerated legal grounds.

A foreign individual can legally work in Macedonia only upon obtaining a work permit first. Three types of work permits are available: personal work permit, employment work permit and work permit for exercising work without employment in the country. The choice of any particular work permit is dependent upon the nature and duration of the work to be undertaken in Macedonia. The permit is issued by the Employment Agency of Macedonia and the procedure is conducted through the Macedonian Embassy in the resident/domicile country of the foreign applicant. Although under the latest regulatory changes the procedure for issuance of work permits could be conducted through the Macedonian Employment Agency as well, such option is still not available in practice until relevant by-laws which would further regulate that procedure are adopted.

In addition, the relevant immigration Law provides a possibility for a foreign national to provide short-term services to a Macedonian entity for duration up to 60 days in one calendar year, based on a simple registration of work before the Employment Agency.

7.5 Work permits / visas

While working in Macedonia, foreign employees are guaranteed the same labour rights as Macedonian citizens.

7.6 Holidays

January 1	New Year's Day
January 7	Orthodox Christmas
Variable date	Orthodox Easter (2 days)
May 1	Labour Day
May 24	St Cyril and Methodius Day
August 2	Ilinden Uprising Day

September 8	Independence Day
October 11	Uprising Day
October 23	Revolution Day
December 8	St Clement Ohridski Day
Variable date	Ramadan Bajram
Depending on the religion or nationality, Macedonian residents are entitled to various respective holidays	

Audit and accounting requirements and practices



Accounting and financial statements

Annual financial statements

According to the Company Law, the business entities are generally obliged to prepare annual financial statements at the end of each calendar year. As of 2012 there is a possibility entities, which have not carried out business activities during the year, to decide not to prepare annual financial statements.

All large- and medium-size business entities as well as, financial institutions, legal entities that are listed on Macedonian Stock Exchange and entities whose financial statements are subject to consolidation, have obligation to prepare the annual financial statements in accordance with International Financial Reporting Standards as published in Official Gazette.

In addition, all other entities have an obligation to prepare the annual financial statements in accordance with International Financial Reporting Standards for Small- and Medium-Size Entities.

The practical application of the law is not without challenge. There are areas of practical difficulty surrounding:

- The lack of trained accountants in the industry who are familiar with IFRS;
- Harmonisation of the IFRSs (as published by IASB), with the ones published in Official Gazette;
- Inconsistent interpretation of the IFRS related accounting laws;
- Benefits of applying IFRS not always understood by local companies.

In addition, the Ministry of Finance has issued a Rulebook for the Preparation of the Annual Financial Statements that is predefined form of reporting. These statements have to be submitted to the Government Authorities. A mandatory Chart of Accounts for the companies was also introduced. There are separate Chart of Accounts and Annual Financial Statements forms for financial institutions and insurance companies.

New Accounting Law was adopted in 2012. Pursuant to it only licensed accountants and accounting firms can perform accounting activities for business entities established in Macedonia. An Institute for Certified Accountants was established that will regulate the activities of the accounting professionals.

Audit

In 2014 new Audit Law was enacted replacing the former Audit Law that was in operation since December 2010. This way the requirements regarding audit were further improved and clarified.

The legal regulation, has created an audit environment similar to that of most Western-developed countries:

- The VIII EU Directive, which refers to the conditions required of certified auditors in relation to competence and independence, was incorporated into this law;
- The Audit Law stipulates that audit activities are to be performed pursuant to International Standards on Auditing.

The Company Law specifies the entities which are obliged to submit financial and accounting statements for a statutory audit:

- Large- and medium-size joint-stock companies;
- Listed entities;
- Large and medium limited liability companies.

The Audit Law also enables businesses to undergo voluntary audits.

The Audit Law requires audit to be performed by an audit company registered with the Central Register or by a certified auditor that operates as a sole proprietor in accordance with the Companies Law. In both cases the auditor should be licensed by the Council for Advancement and Oversight of the Audit.

The Council for Advancement and Oversight of the Audit issues the license for operating as an Audit company or certified auditor. The Audit Law contains the terms and conditions for acquiring the title – “Certified Auditor”.

As per the Audit Law, public interest entities are required to form Audit Committee consisting of at least five members.

Internal Audit Function

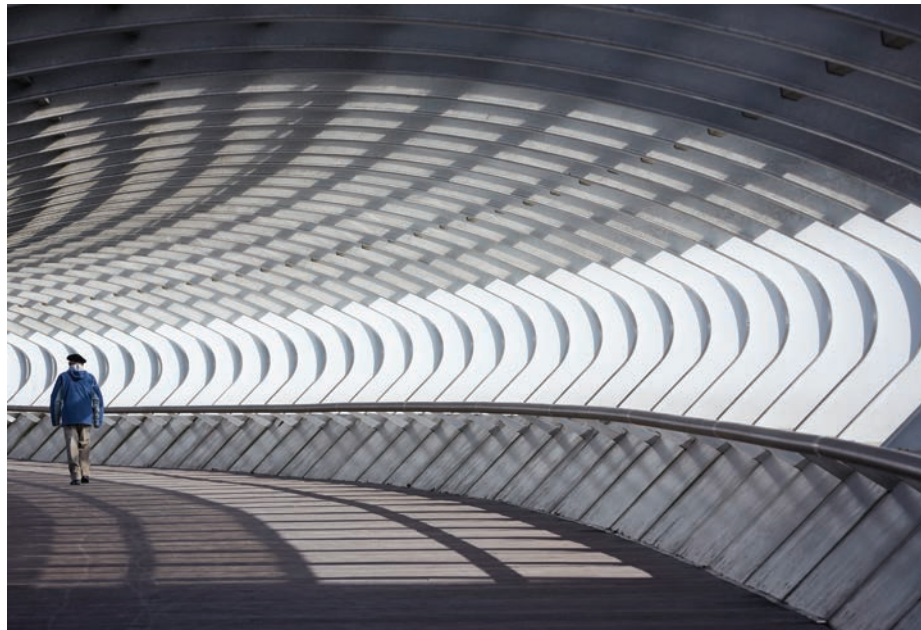
The Companies Law stipulates the obligation for establishment of an Internal Audit Department for all large-size joint-stock companies and entities listed on the stock exchange as of January 2011. The Internal Audit Department should prepare semi-annual and annual reports,

which should be submitted to the Supervisory Board / Board of Directors, and among others, they should contain the following:

- description of the audits carried out during the year;
- assessment of the company’s internal control environment;
- findings, recommendations and assessment on the implementation of recommendations proposed by the Internal Audit Department;
- assessment of the implementation of the Annual Plan of the Internal Audit Department;
- assessment of the budgeted audit time and possible deviations from the budget; and
- information about other activities.

The Supervisory Board / the Board of Directors is obliged to submit the annual report of the Internal Audit Department to the Shareholders’ Assembly.

There is an Association of Internal Auditors of Macedonia that is a member of Global Institute of Internal Auditors from 2013.



Taxation



9.1 Corporate Income Tax

Basis of taxation

In June 2014, the Government of Republic of Macedonia has introduced a new Corporate Income Tax Law which is effective as of 1st January 2015, but also applicable for the taxation of profit for FY2014.

Corporate income tax is paid by resident legal entities both on the profit arising from the activities performed on the territory of Macedonia and from incomes generated abroad.

A permanent establishment of a foreign entity in Macedonia is also liable for corporate income tax for the profits realised on the territory of Macedonia.

A legal entity is considered resident if registered in accordance with the Company Law, or if it has a head office on the territory of Macedonia.

Residents are taxed on the profit they generate both in the country and abroad, while non-residents are taxed only on the profit they generate from business activity on the territory of Macedonia.

According to the new Corporate Income Tax Law, the tax base for calculating the corporate income tax is the profit realised for the current year, as determined according to the accounting standards, adjusted for the amount of taxable expenses incurred during the fiscal year.

The Law provides list of non-deductible expenses which are subject to annual corporate income tax:

- 90% of the entertainment costs;
- travel and other allowances to employees above the prescribed limits;
- any excess of the monthly remuneration to members of the management bodies of the companies, including travel expenses, over 50% of the average salary for the country;
- expenses for shortage and scrapping of materials above the normative standards;
- receivables written off without obtained court decision;
- impairment of receivables;
- costs which are not business related;
- any difference between applied transfer prices and market ones, etc.

Further, hidden profit distributions are also included in the scope of the annual corporate income taxation.

The following cases are considered as hidden profit distributions:

- provision of services or goods to shareholders or to their related parties at terms below the market ones;
- application of lower interest rate than the market rate upon the provision of loans to the above persons;
- purchases from the above persons at terms which exceed market ones.

Companies can apply depreciation methods and rates as well as generally perform impairment of their fixed assets and inventories under the applicable accounting standards without any consequences for tax purposes.

Further, no restrictions are imposed with respect to methods of inventory valuation. The impairment of receivables is generally treated as a taxable expense except for impairments made by banks, savings houses and insurance companies where required by law.

The interest on loans received for the purposes of conducting the Company's

business activity is fully tax deductible, provided it does not fall under the thin capitalization rules. Under these rules, if the total amount of the loans received from a non-resident shareholder (which is not a bank or a financial organization) that owns at least 25% of the capital in the company during a tax period exceeds the amount of three times its share in the equity of that company, the part of the interest referring to these loans is not tax deductible.

According to the Corporate Income Tax Law, outstanding receivables from money transfers in substance loans are considered to be non-deductible expenses, provided that they are not paid back in the same year when the money transfer is made. This does not apply to loans provided by associations and foundations whose main activity is placement of loans determined in accordance with their statute and program.

Tax rate

The corporate income tax rate is 10%.

Tax Relief

The Corporate Income Tax Law introduces the possibility for decreasing the tax base for the year for the amount of profit reinvested for development purposes of the business of the local taxpayer. In order to be able to utilise the above tax relief, the taxpayers must maintain ownership over the assets purchased with the reinvested profit for a period of five years as of the day of their purchase.

The tax base can also be decreased for the amount of the collected receivables which have been treated as non-deductible expenses in the previous tax periods due to being written off or impaired.

Dividend taxation

Dividends received from Macedonian companies are excluded from the taxable base of the recipient subject to corporate income tax, the tax base should be decreased by the amount of the dividend income generated from the participation in the capital of another taxpayer – resident of the Republic of Macedonia, provided that

they are taxed with the taxpayer which distributed the dividend.

As for the accumulated profit realised for the period FY2009 to FY2013, the legislation stipulates that such accumulated profits would be subject to taxation at the moment of their distribution.

Investment and Tax Incentives

- A taxpayer which is a registered user within a technological industrial development zone is exempt from corporate income tax for a period of up to 10 years from the commencement of the performance of the activity in the zone under terms and conditions and according to a procedure determined by the Law on Technological and Industrial Development Zones;
- A taxpayer that is obliged, in accordance with the Law on Registration of Cash Payments, to introduce and use approved equipment for registering cash payments, will be granted a reduction in the calculated corporate tax for the procurement of up to ten fiscal machines, in the amount of their value.

Simplified tax regime for small companies

Companies that perform economic activity other than banking, financial, insurance activities and games of chance and entertainment provided that their overall revenues earned in the last year from any source do not exceed MKD 3,000,000, are exempt from payment of corporate income tax. In addition, provided that companies whose overall revenues earned in the last year is between MKD 3,000,001 and MKD 6,000,000 can register under the simplified tax regime and calculate and pay corporate income tax in the form of 1% of the total revenues for the previous calendar year.

Permanent establishment

A permanent establishment under the Corporate Income Tax Law is a fixed place of business through which the business of an enterprise is wholly or partly carried on either directly or through a dependent agent.

More specifically, the domestic law provides that a permanent establishment could include a place of management, a branch office, a factory, a workshop, mining activities or any other place of extraction of natural resources.

A building site or construction or installation project may constitute a permanent establishment if it lasts more than six months.

Furthermore, the provision of services, including consulting services, shall be deemed to give rise to a permanent establishment if such activities last longer than 90 days within any 12-month period.

Transfer pricing rules

The difference between the market price and the transfer price applied on transactions between related entities is subject to corporate income tax. The transfer pricing rules apply also with respect to loans received/granted to related parties. Upon a request by the tax authorities, the companies should present sufficient documentation and analysis for confirmation that the conditions under the related-parties transactions, are in line with arm's length principle.

Capital gains

Capital gains are treated as ordinary taxable income.

Loss carry-forward

The Law stipulates that the loss realised in the income statement for the year, adjusted for the amount of non-deductible expenses could be carried forward against future profits for a period of maximum three years as of the year when the profit has been realised.

Tax payment

Monthly advanced tax payments for the year are calculated from the amount of tax computed as per the tax return on the Corporate Income Tax for the previous year. The tax amount is divided by 12 and

increased by the index of retail prices growth in the country.

Withholding tax on income paid to foreign legal entities

Domestic legal entities, domestic individuals - registered for carrying out an activity - as well as a foreign legal entity or individual having a permanent establishment in Macedonia are obliged, when paying certain types of income to a foreign legal entity, to withhold tax and to pay the tax withheld to the revenue authorities simultaneously with the payment of the income.

Withholding tax is applied on the following incomes payable abroad:

- 1) dividends;
- 2) interest;
- 3) royalties;
- 4) income from entertainment or sporting activities in Macedonia;
- 5) income from management, consulting, financial services, services related to research and development;
- 6) income from insurance or reinsurance premiums;
- 7) income from telecommunication services between Macedonia and a foreign country;
- 8) income from lease of immovable property in Macedonia.

Tax shall not withheld on the following revenues:

- 1) transfer of the profit of the permanent establishment of a foreign legal entity in Macedonia, for which corporate income tax has been previously paid;
- 2) revenue from interest on debt instruments issued and/or guaranteed by the Macedonian Government, the National Bank of Macedonia and banks or other financial institutions acting as a

representative of the Macedonian Government;

- 3) income from interest on deposits in a bank located in Macedonia; and
- 4) income from intermediation or consulting regarding government securities on the international financial market.

The withholding tax rate is 10% and is levied on the gross income.

If a Double Taxation Treaty is in place, withholding tax shall be payable in accordance with the treaty provisions subject to obtaining a tax clearance by the Macedonian tax authorities.

Double taxation avoidance

A corporate taxpayer, resident of Macedonia, who has paid tax in a foreign country on the profit earned through work abroad, is entitled to a tax credit for the corporate income tax paid abroad, but only up to the amount that would have been incurred under the provisions of the Macedonian Corporate Income Tax Law.

Macedonia has signed Double Taxation Treaties with 47 countries: Netherlands, France, Italy, Sweden, Denmark, Kosovo, Norway, Finland, Switzerland, Hungary, Croatia, Turkey, Yugoslavia (applicable for Serbia and Montenegro), Poland, People's Republic of China, Taiwan, Russia, Ukraine, Slovenia, Bulgaria, Egypt, Albania, Iran, Romania, Belarus, Spain, Czech Republic, Slovakia, Moldova, United Kingdom of Great Britain and Northern Ireland, Ireland, Qatar, Austria, Latvia, Lithuania, Estonia, Belgium, Morocco, Germany, Kuwait, Luxembourg, Kazakhstan, Bosnia and Herzegovina, India, Azerbaijan, Saudi Arabia and Vietnam. Four treaties have not entered into force yet (the treaties signed with Egypt, Saudi Arabia, Vietnam and Belgium). As for Belgium, corporate tax payers can benefit from the treaty concluded by Former Yugoslavia.

The applicability of the above benefits from the Double Taxation Treaties is preconditioned by a clearance procedure in front of the local tax authorities.

9.2 Excise Duty

Pursuant to the Law on Excise, which is based on the EU Directive on Excises no. 92/12/EEC (including other directives implemented for approximating the excise rates separately for each category of excise goods) only the consumption of excise goods as stipulated in applicable EU directives are subject to excise duty. These are as follows:

- Mineral oils;
- Tobacco commodities;
- Alcohol and alcoholic beverages; and
- Passenger vehicles.

Excise goods are subject to excise duty upon:

- Production within the territory of Macedonia;
- Import into the country.

Charge to excise duty

The excise duty is chargeable upon the release of excise goods for consumption in an excise warehouse or upon their exit from the warehouse. An exception applies in cases where the use of goods in the excise warehouse is exempt from excise duty or the goods are subject to a new procedure that suspends excise duty. Goods subject to excise duty located in an excise warehouse at the moment the excise license expires are treated as released in free circulation unless transported to another excise warehouse within 10 days.

In case the excise goods are produced out of excise duty suspension procedure, excise duty is payable upon production.

The excise duty is chargeable upon import of excise goods in accordance with the customs regulations.

Excise payer

The excise payer is an individual or legal entity who holds an excise license.

In case the excise goods are produced out of excise duty suspension procedure, the excise payer is the producer. In case of transport out of excise duty suspension procedure, the excise payer is the sender of excise goods or the guarantor (in case a guarantee for excise duty is given by the transporter, the person who declares customs or the owner of the excise goods).

The excise payer is the recipient of the excise goods in case the excise duty arises at the moment the excise goods are in the receiver's possession.

The excise period for which excise duty is calculated and paid is one calendar month.

Exemptions from excise

Exemption from excise duties applies to all excise goods when intended for the following:

- Diplomatic and consular missions;
- International organizations;
- Military forces of contractual parties - members of NATO;
- Used as samples for analysis of the necessary production tests or scientific and research purposes;
- Destroyed under customs supervision;
- Personal baggage carried from abroad by a traveller when not of commercial nature;
- Mineral oils and gas kept in reservoirs of motor vehicles or airplanes coming from abroad, not intended for further sale.

Exemption from excise duties applies in case the mineral oils are:

- Not used as engine fuel or for heating;
- Used in air traffic except when used in a plane for private purposes;
- Used in furnaces as an additive to the main fuel;
- Used for special vehicles for the purpose of defence and security.



Excise duties exemptions are applicable in case alcohol and alcoholic beverages are:

- Used for production of vinegar;
- Subject to complete denaturation according to the relevant regulations, when released in free circulation;
- Used for the production of a product from denaturated alcohol not suitable for human consumption;
- Used for the production of medications;
- Used for medical purposes in hospitals, clinics and pharmacies;
- Used directly or as an integral part of semi-finished products for the production of food;
- Used for the production of aromas for food products and soft drinks.

Exemption on the basis of donations

The import of goods for the realization of projects shall be exempt from excise duties where financed by foreign donors, based on a contract between the Government of Macedonia and the foreign donor containing a clause that such funds shall not be used for payment of taxes.

The exemption procedure is initiated by the entity authorized to realize the project - the implementing agency - by submitting a request to the Ministry of Finance.

In case of any procured excise goods utilised for the purposes of the project in Macedonia (i.e. fuel, vehicles, etc.), the excise duty is paid by the excise payer on a special tax account. The entity authorized to realize the project is obliged to submit a request for refund to the Ministry of Finance. Following the processing of the request, the excise duty is refunded to the excise payer.

Excise amount

The excise amount is determined in accordance with either a percentage rate - proportional excise, or in an absolute

amount per measurement units (e.g. kilogram, litre, piece) - specific excise.

9.3 Property Tax

Property tax shall be paid on the ownership of real estate, i.e. land and buildings as well as installations constructed on them or below them and permanently attached to them.

Property taxpayer is the owner of the property. In case when the owner is not known or cannot be reached, the property taxpayer is the user of the property. Property taxpayer can also be the taxpayer who usufructs the property, and if the property is owned by several persons, each of them is a property taxpayer proportionately to the part owned. Property taxpayer is also the user of the real estate owned by the state and the municipality.

Property tax base is the market value of the real estate which can be determined by an evaluator employed in the municipalities. Additionally, upon a request by the municipality the determination of the market value may be done by an official evaluator. Market value is determined according to the Methodology for determining the market value of real estate.

Property tax rates are proportional and range from 0.10% to 0.20%. They can be determined on the basis of the type of property. Thus, tax rates for property tax on agricultural land not used for agricultural production can be increased from three to five times in relation to the basic rates.

The amount of the rates is determined by a decision of the Municipal Council, the Municipal Council of the City of Skopje

and the Council of the City of Skopje pursuant to the Law on the City of Skopje.

A taxpayer paying property tax for a residential building or a flat, in which he/she lives with family members, is entitled to a reduction of the calculated tax by 50%.

9.4 Inheritance and Gift Tax

Inheritance and gift tax is paid on real estate and entitlements to usage of real estate, which the heirs or the receivers of gifts respectively, inherit / receive on the basis of the Law on Inheritance / a gift agreement. Tax is also paid for cash, money claims, securities and other movable property provided the value of the inheritance/gift is higher than the average annual salary in Macedonia as determined by the State Statistical Bureau for the previous year. The value of all gifts of the same type, received in the course of one calendar year, is included in one tax base. The Municipal administration, the administration of the municipality of the City of Skopje and the administration of the City of Skopje keep records on the value of the gifts, on the basis of which, at the end of the year, the tax can be determined for the person receiving the gift, should he/she receives more gifts of the same type, which cumulatively exceed the non-taxable amount in the course of the year.

Inheritance and gift taxpayer is an individual or a legal entity - resident of Macedonia, who inherits taxable property. Gift taxpayer is an individual or a legal entity that receives property as a gift in the country or abroad. Inheritance and gift taxpayer is also a foreign individual and a non-resident legal entity for the real estate and movable property he/she inherits or receives as a gift on the territory of Macedonia.

Inheritance and gift tax base is the market value of the property inherited or received as a gift as at the moment the tax liability arises, decreased by the debts and expenses burdening such property.

Inheritance and gift tax rates are proportional and differ on the basis of the order of succession.

The heir or recipient of the gift in first order of succession is exempt from paying Inheritance and gift tax. The taxpayer in the second order of succession is subject to 2% to 3% tax rate, as for the taxpayer in third order of succession or a taxpayer who is not related to the testator, 4% to 5% tax rate is levied.

9.5 Tax on Sales of Real Estate

The tax on sales of real estate is payable on the transfer of the ownership right over a real estate for compensation, on the exchange of one real estate with another, as well as on other means of acquiring real estate for compensation between legal entities and individuals.

Taxpayer is the seller of the real estate. The taxpayer can be the buyer of the real estate only if explicitly agreed in the sales agreement.

When exchanging real estates, the taxpayer is the one who exchanges the real estate of a higher value. If the right to ownership of the real estate is transferred on the basis of a lifelong support agreement, the taxpayer is the recipient of the real estate.

When selling the real estate within a bankruptcy and executive procedure, as well as when realizing agreements on mortgage, the taxpayer can be the buyer of the real estate.

Tax base is the market value of the real estate and rights at the moment the tax liability arises.

When exchanging the real estate, the tax base is the difference between the market values of the real estate being exchanged. When selling the real estate within a bankruptcy and executive procedure, the tax base is the attained selling price.

Tax rates are proportional and amount from 2% to 4%.

The amount of the rates is determined by a decision by the municipality and the Municipal Council of the City of Skopje and the Council of the City of Skopje pursuant to the Law on the City of Skopje.

Tax liability arises on the day of concluding the agreement for transfer of ownership right over the real estate, the agreement on exchange of real estate respectively.

If the transfer of the ownership right is carried out on the basis of a decision by a court or other government body, the tax liability occurs on the day that decision becomes effective.

If the right to ownership over construction facilities under construction is transferred, the tax liability occurs on the day of handing over the facility to the buyer.

If the transfer of ownership over the real estate is carried out on the basis of a life support agreement, the tax liability arises at the moment of death of the person receiving the support.

9.6 Personal Taxation

Personal income tax is a tax paid by individuals on the overall net income they earn from various sources in the

country and abroad during a calendar year, excluding the tax exempt income.

The tax exempt income, such as certain employment related expenses, awards, scholarships, damages, alimony, certain types of interest etc. is exhaustively listed in the Personal Income Tax Law.

The taxable income comprises of the following types of revenues:

- **Personal earnings** - refers to all revenues earned by the taxpayer on the basis of employment and contractual services. Personal income comprises wages and salaries and other allowances on the basis of employment, pensions, income of the members of company management and supervision boards; salaries of officials, MPs and advisors; salaries of professional athletes; allowances for jurors, forensic experts, trustees; allowance for the members of the Macedonian Academy of Sciences and Arts; salary earned abroad on the basis of employment in the country; and every individual income on the basis of contract for occasional or temporary rendering of services to legal entities and individuals.
- **Income from self-employed activity** - refers to income realized by individuals from business activities, agriculture or from rendering professional and other intellectual services, such as doctors, lawyers, notaries public, tax consultants, engineers, architects, accountants etc. If several individuals realize income from a joint activity, each shall be liable for the share of the income belonging to him/her, according to the agreement for joint activity.
- **Income from property and property rights** - refers to income earned by individuals from lease and sub-lease immovable property, equipment, vehicles and other property. The taxpayer is entitled to a statutory deduction of 25% from the annual gross revenue for the

maintenance and management expenses related to the leased property, whereas in case of lease of equipped residential and business premises, the statutory deduction is 30% of the annual gross income. If the taxpayer provides evidence that he incurred costs higher than the stipulated ones, the real costs would be recognized for tax purposes.

- **Income from copyrights and industrial property rights** - refers to fees from copyrights and industrial property rights. Depending on the type of artwork (paintings, scientific and professional work, literature translation, artistic work in music, film etc.), the taxpayer is entitled to a statutory deduction in the range from 25% to 60% of the gross income. If the taxpayer provides evidence that he incurred costs higher than the stipulated ones, the real costs would be recognized for tax purposes.
- **Capital revenues** - refer to revenues realized from the following:
 - Dividends and other income realized from participation in the profit of legal entities and individuals;
 - Interest on loans given to individuals and legal entities;
 - Interest on bonds or other securities; and
 - Interest on time savings and other deposits.

Dividends are subject to 10% advance tax on the gross income amount, while the interest is subject to 10% tax on the amount of the calculated interest. Interest on bonds issued by the state and LGUs, interest on public loans and call deposits is not subject to taxation, whereas interest on time savings and other types of deposits is not taxable until Macedonia becomes an EU member state.

- **Capital gains** - refer to the gains from sales of securities, share of capital and real estate i.e. the difference between their sales price

and purchase price. The tax base is 70% of the earned capital gains. Capital gains are subject to 10% tax payable in advance. Effective from 1 January 2013 until 31 December 2015 capital gains from sale of securities would be exempt from personal income tax. Capital losses from sale of securities could be offset against capital gains in the next three years. Capital gains from sales of immovable property sold after three years as of the acquiring date are not subject to taxation.

- **Gains from games of chance** - refer to income from games of chance and other prize games. The tax is not paid in case the single realized gain is under MKD 5,000; otherwise the tax is payable on the total gain at 10% tax rate.
- **Other income** - refer to all other income realized by individuals, which is not included in the above categories; which is not explicitly exempt from personal income tax and is not taxed otherwise. The tax base is 65% of the gross income.

Income received in kind is subject to taxation under the general rules.

Taxpayers

Tax payer is every individual - resident of Macedonia taxed on his/her worldwide income. Tax payer is also a non-resident individual on the Macedonian sourced income.

A person is considered a Macedonian tax resident if he/she stays continuously or intermittently on the territory of Macedonia for 183 days or more within any 12-month period.

Tax base

The tax base for determining the personal income tax is the sum of all the income gained in money, securities, in kind or in any other form, in the country and abroad, during the tax period, reduced by:

- 1) contributions for mandatory social insurance;
- 2) personal exemption in the amount of MKD 84.000 during the annual personal income tax calculation; and
- 3) standard or actual costs foreseen by this Law.

Personal income tax is not payable on income generated from:

- 1) awards granted by the United Nations and international organizations;
- 2) business trip allowance, fieldwork allowance (accommodation, meals) or allowance for living separately from the family granted to employees in the lowest amount determined by the general collective agreement of the private sector in the field of economy, that is, to employees in the non-economy field in the amount determined by the regulations relative to state administrative bodies;
- 3) compensation for suffered damages from catastrophes, up to the lowest amount determined by the general collective agreement of the private sector in the field of economy, that is, with regard to employees in the field of non-economy, in the amount determined by the regulations relative to the state administrative bodies;
- 4) salaries of employees at the taxpayer which is a user of a technological development zone, for a period of ten years as from the beginning of carrying out the activity in the zone, that is, as from the first month when the user pays salary regardless of the number of employees at the user, under the conditions and procedure determined by the Law on Technological Industrial Development Zones.
- 5) compensation for damages on the basis of life and non-life insurance;
- 6) interests from public loans
- 7) interests on bonds issued by the Republic of Macedonia and the local self-government units
- 8) interests on saving deposits, transaction accounts and sight deposits

Tax rate

The personal income tax rate is 10%.

Tax year

The tax year is the calendar year.

Tax incentives

A taxpayer which is a registered user within a technological industrial development zone is exempt from payment of personal income tax for the employees' salaries for a period of up to 10 years from the commencement of the performance of the activity in the zone under terms and conditions and according to a procedure determined by the Law on Technological and Industrial Development Zones.

9.7 Value Added Tax

VAT-Able Sales

The following sales are subject to Macedonian VAT:

- Sales of goods and services for compensation in the country within the business activities of the taxpayer and
- Import of goods.

Reverse-Charge VAT

In case of VAT-able supplies of goods and services from abroad where the supplier does not have taxable presence in Macedonia, the recipient of the goods/services is obliged to calculate and pay the Macedonian VAT due. If registered for VAT purposes, the receiver of the goods/services is entitled to a VAT refund in the same VAT period under conditions prescribed by law.

In addition, supplies subject to VAT also are:

- construction, including maintenance, reconstruction and removal of constructions or parts thereof, in the

case where the recipient of the supply is the investor and the supplier is the contractor, and in the case where the recipient of the supply is the contractor and the supplier is the subcontractor, in accordance with the law that regulates the construction and

- supply with used material and used material that cannot be used in the same condition again, waste, industrial and non-industrial waste materials, waste material that can be recycled, partially processed waste.

Taxpayer

Taxpayer is a legal entity or an individual conducting business activities on the territory of Macedonia. Tax payers are obliged to register for VAT purposes in case:

- The total taxable sales during the calendar year exceed MKD 1,000,000; or
- The projected taxable sales at the beginning of the business activity exceed MKD 1,000,000.

Small business entities have an opportunity to choose whether to register as VAT taxpayers at the beginning of each calendar year. If they decide to stay out of the VAT system, they are taxed as final consumers and do not have the right to VAT refund.

VAT Base

1. VAT base for sales in the country

VAT base is the total amount of the compensation (money, goods, services and other benefits) received or to be received for the sales, including:

- Taxes (except VAT), excise duties, fees, contributions and other charges;
- Relating expenses for packing, transporting and insurance, as well as commissions and other expenses payable by the receiver of the goods or user of the services; and
- Subsidies directly related to the price of goods or services sold / rendered.

2. VAT base for import of goods

VAT base for import of goods is the value of the imported goods as determined under the customs regulations increased by the amount of:

- Customs duties, taxes (except VAT), excise duties, fees and other import duties; and
- Related expenses, including commissions, packaging expenses, transport and insurance expenses up to the first delivery destination of the goods in the country.

3. Special types of VAT base

The following are special types of tax base:

- for the supply of goods from a consignment warehouse, the purchase price or, if it does not exist, the cost price at the moment of supply;
- for transfer and assignment of copyrights, patents, licenses, trademarks and similar rights, the costs for the service provided;
- in the case where the consideration for the supply of the good or the service is fully or partially comprised in the supply of another good or another service, the market price of the received good or received service;
- in the case of supply provided by means of auction, the final price obtained;
- in the case of supply of used goods, including used motor vehicles, art and collection items and antiques, the difference between the purchase and sales price, if tax for the delivery to the taxpayer is not due; and
- the consideration (commission) for the service for borrowing a temporary agency employee to an employer-user, in accordance with the law.

VAT Rates

VAT is calculated by applying proportional VAT rates on the VAT base of the taxable supplies of goods and services and imports. The general VAT rate of 18% is applied to all taxable supplies and

imports, except to supplies and imports subject to preferential rate.

5% preferential VAT rate is applied to the following:

- Food for human consumption;
- Water from public systems for water-supply, drainage of urban wastewater and melioration of agricultural land;
- Accommodation services with food supplies included;
- First sale of apartments performed within the first five years from the construction (until end of 2015).
- Publications, except for publications mainly used for advertisement purposes, as well as publications with pornographic contents;
- Seeds and planting materials for production of agricultural crops;
- Fertilizers;
- Materials for plant protection;
- Foils made of plastic for agricultural use;
- Agricultural machines;
- Pharmaceuticals and medical devices;
- Computers and computer software (until the accession of Macedonia to the EU)
- Thermal solar systems and components;
- Transportation of persons and their accompanying luggage;
- Public cleaning services and waste management services.
- Livestock feed, livestock feed additives, and livestock;
- Baby products, that is: baby bed, pram, transporter, bouncer, car seat, bath tub, feeding bottle, pacifier, bottle and diapers;
- School supplies, that is: school bag (backpack), notebook, pencil, pen, block, student's book, coloured pencils, ruler, compass, play-doh, sharpener, rubber and correction fluid.

VAT Exemptions

1. VAT exemptions in respect of supplies performed

Certain sales are VAT exempt with a right to VAT refund for the VAT paid by the supplier such as:

- Export of goods abroad;
- Supply of goods to be transported or dispatched from the country to free zones, customs zones or warehouses provided they are not meant for final consumption and the value of the goods exceeds EUR 1,000;
- Services related to import, export and transit;
- Work on movable goods temporarily imported in Macedonia for the purpose of their improvement;
- International air transport of passengers;
- Sale, maintenance and renting of aircrafts used in international air traffic;
- Services to aircrafts used in international air traffic;
- Sale of gold to the National Bank of Macedonia;
- Intermediate services concerning the above listed sales.

Other sales are VAT exempt without the right to VAT credit for VAT paid by the supplier, including:

- Sale of residential buildings and apartments, excluding the first sale that will be executed within 5 years from the construction;
- Rent of apartments if they are used for residential purposes;
- Postal services of Macedonian Post;
- Banking and financial transactions;
- Insurance and reinsurance services;
- Games of chance and entertainment games;
- Services rendered by institutions in the area of culture;
- Services rendered by institutions for social care and protection;
- Services rendered by children and youth institutions;
- Educational services;
- Services by radio and television broadcasting stations;
- International transport of passengers (except for air transport);
- Healthcare services;
- Transport of patients and sales of human organs, blood and maternal milk;

- Services of funeral institutions.

2. VAT exemptions on import

The VAT Law also establishes VAT exemption in respect of specific cases of import of goods into Macedonia, including:

- Goods which are moved from one place to another under the transit customs procedure within the customs area of the Republic of Macedonia;
- Goods to be entered in a free zone or free warehouse;
- Goods to be placed in a procedure of customs clearance or customs import procedure for improvement according to the system of deferred payment under the customs regulations;
- Goods re-imported in an unchanged condition compared to their first import;
- Goods imported by foreign diplomatic or consular representative offices for official needs, as well as by diplomatic personnel, for personal needs;
- Goods imported by international organizations;
- Goods to be exhibited at fairs, trade exhibitions or similar events;
- Goods imported for examination, research, analysis or testing;
- Goods temporarily imported and fully exempt from paying tariff duties in accordance with the terms and the conditions set out in the customs regulations;
- Goods necessary for implementation of projects financed with funds from foreign donors on the basis of agreements between the Government of Macedonia and a foreign party.

Time of Occurrence of VAT Liability

The VAT liability occurs at the moment the sales of goods took place. In case the sales include shipment of goods, the VAT liability occurs at the moment the shipment begins. If the sales include installing, VAT liability is due at the moment the instalment of the good is finished. As per services, VAT is due at the

moment the service is fully rendered. If the payment is made prior to the above moment, VAT is due at the moment the payment is received.

When importing goods, VAT is due on the day when the liability for paying customs duty and other import levies is due or on the day of importing the goods into Macedonia, in case of goods exempted from customs duty.

VAT Credit

VAT credit is the amount to be reduced from the VAT that should be paid on the supplies made in a certain VAT period. The VAT credit refers to the VAT on supplies made by other taxpayers to the taxpayer and to VAT paid upon the import of goods.

The right to VAT credit is available in case the following conditions are cumulatively met:

- The taxpayer uses supplied goods or rendered services for the purpose of its business activity; and
- The taxpayer owns an invoice from the supplier issued in accordance with the VAT law or a customs declaration which are appropriately booked in its accounting records.

No right to VAT credit exists in respect of the following purchases:

- Procurement or import of goods and services for VAT exempted sales;
- Procurement, production, and import of bicycles, motor vehicles with less than 4 wheels, passenger cars and services related to their utilization;

- Representation expenses;
- Transportation of passengers;
- Procurement or import of refrigerators, audio and video appliances, carpets and art works used for equipping office space;
- Hotel or other type of accommodation and food expenses.

VAT period, VAT calculation, submission of the VAT return, VAT payment and refund

Taxpayers calculate and pay VAT on a monthly basis if their total VAT-able supplies per calendar year exceed MKD 25 million or on a quarterly basis if their total VAT-able supplies per calendar year are below this limit. The VAT period for voluntarily registered taxpayers is the calendar quarter.

Taxpayers submit their VAT returns and pay the VAT due no later than 25 days after the expiry of the relevant VAT period.

In cases of reporting inaccurate or incomplete supplies, taxes or input taxes in a particular tax return for the corresponding tax period, there is an obligation for submitting a new, corrected tax return for the referred tax period. The deadline for submission of such correction would be 28th February in the year following the year when the correction is performed, at the latest. If the mistake is less than 1% of the reported tax, this correction can be made in the last tax return. VAT on imports is paid simultaneously with the payment of customs duties. If in a VAT refundable

position, the taxpayer may request for a VAT refund or offset the VAT claims against future VAT liabilities. The law provides that the Public Revenue Office should refund the VAT within 30 days from the date of submission of the VAT Return. However, in practice the tax authorities tend to make the refund within 2-3 months. A penalty interest of daily 0,03% is calculated for the benefit of the taxpayer by the tax authorities for every day of delayed payment.

VAT Refund to Special Entities

Taxpayers without headquarters or fixed establishments in Macedonia that do not perform any VAT-able sales in the country may be refunded the VAT paid for their procurements in Macedonia upon their request.

Non-profit organizations are entitled to a VAT refund for sales and import of goods transferred abroad to be used for humanitarian, charitable or educational purposes.

In case a foreign diplomatic or consular representative office procures goods or uses services for official purposes in the country, the paid VAT will be refunded in respect of invoices exceeding the amount of up to MKD 5,000 (including VAT).

International organizations and their members are entitled to a VAT refund for sales of goods or services provided to them pursuant to the conditions and limitations stipulated in international agreements.





10.1 General Information

PwC (www.pwc.com) is one of the world's leading providers of professional services. Our aim is to assist clients build value, manage risk and improve performance.

PwC draws on the expertise of more than 208,000 people in over 157 countries and territories.

We provide a full range of business services to leading global, national and local companies and public institutions worldwide.

PwC Skopje

PwC Skopje is an integral part of our commitment to the Central and Eastern Europe region and was established in August 1992, one of the first PwC offices in South East Europe.

PwC is the leading professional services firm on the Macedonian market with 50 employees providing services to the most successful large and medium size companies in the country.

With PwC, Skopje as your professional services provider you can be assured of the following:

- A respected international name and reputation;
- A highly professional and experienced team of audit and assurance advisors, local and international tax experts and consulting specialists;
- The largest professional services firm in Macedonia;

- Several industry specialisms;
- Long term client relationships;
- A diverse and well-founded network of clients and contacts

10.2 Our services include:

Assurance Services

The Assurance practice comprises internationally trained local and foreign auditors and accountants. All PwC staff are familiar with local and international accounting practices. As a part of our long-term development strategy, PwC Macedonia requires its local employees to gain internationally recognized professional qualifications in accounting (UK ACCA), and to specialize in IFRS.

Due to Macedonia's transition to a market economy, the country's accounting and auditing legislation are changing rapidly. We are well placed to understand the practical implications of the new laws and practices on your company's activities, and we can help you develop appropriate strategies to obtain the maximum benefit from each new situation.

Our services:

- Financial, operational and organisational audit under international and statutory regulations;
- Financial and accounting review, investigation and due diligence;
- Restatement of accounting records in accordance with standards of Macedonia in compliance with IAS/IFRS, UK GAAP, US GAAP;
- Accounting and consulting services in financial audit, general and management accounting, organisational restructuring;

- IAS/IFRS accounting training;
- Assistance in setting up an internal audit department.

Advisory Services

Our broad knowledge and experience enables us to advise you on immediate business related issues and also to put them into local context. We are experienced working with clients during times of economic and financial change and can anticipate the impact of Macedonia's reform efforts on your business.

PwC Macedonia has strong relationships with key local organisations and ministries. These relationships enable us to resolve many issues quickly and to identify reliable sources of information.

Our services:

Transactions

PwC is well-known in the marketplace for our skill in assisting with and executing all types of financial transactions. We help our clients in mergers and acquisitions, including financial and operational due diligence, accessing the capital markets and valuing, negotiating and structuring deals. We also assist with divestments and developing exit strategies.

Performance Improvement

We help clients improve their performance. We use our deep understanding of finance, risk management/compliance, IT systems, operations and human resources to help our clients identify and implement cost savings initiatives, improve management and control, identify and manage risk and improve quality. We also use our proven experience and expertise to provide hands-on assistance to improve financial under-performance and cash-flow management.

Crisis Management

PwC offers an array of services to help clients deal with critical events as they occur. We provide comprehensive services covering business recovery and restructuring, dispute analysis and forensic investigations.

Tax Services

We provide tax and business advice on all aspects of inward investment into Macedonia with a focus on structuring investments and trading activities for maximum tax advantage. Our team is composed of local and expatriate tax professionals with experience in the strategic industries of the country and who can provide detailed insight into the Macedonian tax framework. Effective tax planning is vital for the growth and development of any business.

Few major decisions can be taken without considering their tax implications. At PwC we have the skills and experience in all areas of taxation – corporate and personal; direct and indirect - to help you maximise your tax advantages and minimise your exposures. Our services include:

- International Tax Planning;
- Personal Taxation and Executive Remuneration;
- Customs and Trade Consultancy;
- Estate Planning and Taxation;
- Pensions Planning;
- Value Added Tax;
- Intellectual Property and Technology Transfer.

Legal Services

Our connected law firm Papazoski and Mishev is dedicated to the highest level of training and professional qualifications. We have built a strong legal team with a large market share in Macedonia comprised of a reliable expert legal consultants with diversified and comprehensive competencies, experience and broad practice who are dedicated to

providing high quality services in accordance with international standards and best local practices. We provide advice and assistance on various type of issues within the area of business law:

- Corporate Secretarial;
- Corporate Structuring;
- Labour Law and Immigration;
- Financial Services Regulation;
- Anti-Trust Law;
- Mergers & Acquisitions;
- Intellectual Property;

- International Private Law.

Human Resources Services

Our HR specialists has been working with both multinational and locally headquartered companies assisting them with finding effective solutions to their HR issues and apply best HR practices.

PayWell Salary & Benefits Survey Report

It is fifth year how we represent the PayWell Salary & Benefits Survey

report. It is a tool created to assist the HR professionals and companies' decision makers to develop competitive HR policies that attract, motivate and retain talents that support the business strategy. PayWell report is structured in three different sections:

- Introduction, consisting of information on the survey methodology and data confidentiality;
- Compensation and benefits



analysis report, providing information on the compensation and benefits systems and trends on the Macedonian market;

- Salary data report, providing salary statistics for each analysed job.

PwC Academy

Our PwC Academy can provide you and your Company with continuous professional education, in combination with local and

international experience. Our proposed services are designed to provide you with a tailorable answer to your specific needs and demands. The education is conducted by high-skilled tutors with long-term experience gained in the areas that are part of our programme.

Our Training programme:

- Tax legislative;
- Internal audit;

- International Financial Reporting Standards (IFRS);
- International Financial Reporting Standards for Small and Medium Entities (IFRS for SME);
- Finance for non – finance;
- Trainings for HR specialists;
- Soft skills training;
- IT.

Our aim is to assist clients build value, manage risk and improve performance.



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