

## **INVESTMENT CLIMATE IN MONTENEGRO**

In the condition of world economic crisis, barrier elimination programs for the development of new investment projects and creation of a more favourable business environment have become imperative. In this regard, the business environment in Montenegro was significantly improved with the adoption of new laws in line with EU regulations and the implementation of institutional reforms in the fiscal system and the financial sector.

### **ELIMINATING BUSINESS BARRIERS**

Areas that are regularly covered by the plan and which cause the greatest controversy when discussing efforts to increase the competitiveness of the business environment are the Doing Business indicators: starting a business, construction permits, registering property, paying taxes, enforcing contracts, closing a business.

In order to significantly simplify administrative procedures, one-stop shop business registration system started to operate in 2011. It was enabled to the new economic entities to register a company in one place, get a VAT number, excise duty and tariff numbers.

Significant results were also achieved in terms of the procedure for issuing building permits. As a result of measures concerning the regulatory framework, as well as subsequent amendments to the Law on Administrative Fees, the costs for issuing a building permit, according to the case study of the Doing Business team, have been reduced by about 10,000 euro.

Moreover, as for the registration of real estate, amendments were introduced to the Law on State Survey and Cadastre, so as to shorten the period for compliance with the request for registration of immovable property from 30-60 days to 15 days. All of the above resulted in the fact that Montenegro has improved the position from 42nd place to 36th out of 189 countries, according to the Doing Business Report for 2014.



## **TREATMENT OF FOREIGN INVESTORS**

Foreign investors can invest into any sectors of industry and freely transfer funds, assets and other property, including profit and dividends.

Foreign investment can be realized through:

- establishment of a new company (independently or with other investors);
- investing into the existing companies;
- establishment of branches of foreign companies;
- purchase of the company.

## **THE BUSINESS ENVIRONMENT AT NATIONAL LEVEL**

During the last decade, Montenegro has been recognized as one of the highest ranked countries, with the largest influx of foreign direct investments per capita in the region of Southeast Europe.

Only in 2014, FDI amounted to 498.1 million €.

The Government of Montenegro has defined a favourable business environment for investors interested in investing in Montenegro.

### **➤ Decree promoting direct investment**

Decree promoting direct investment defines financial incentives for new investments in Montenegro and aims to improve the business environment of the state and increase the competitiveness of the economy. The said act strives at attracting new investors, increasing employment, especially in less developed regions of Montenegro, as well as balancing regional differences. Provision of adequate incentives will directly affect the investment decisions of potential investors who are considering to position themselves in the market of Montenegro.

Funds for investment promotion are allocated on the basis of a public invitation for investment projects whose minimum investment value is 500,000 euro and which ensure opening of at least 20 new jobs within three years from the date of conclusion of the Use of Funds Agreement.

Incentives for new workplace amounts from 3000 to 10000 €. In addition, capital investments in excess of 10 million that create at least 50 new jobs, incentives may be granted up to 17% of the investment value. The Decree also provides the possibility of the construction of infrastructure necessary for the realization of the investment project cost refunding.

According to the Decree on fostering direct investments, foreign investor can be the beneficiary of funds if you set up a business in Montenegro.

### **➤ Incentive programme for business development - business zones**

The Government of Montenegro adopted the 'Promotion Programme of Business Development', which seeks to encourage the development of micro and small enterprises on land connected to utilities, increase employment in less developed municipalities, as well as activate the capital of

domestic and foreign investors who could identify an interest in the implementation and advancement of this project. Investors can use premises within the local self-government, suitable for capacity building, connected to utilities, intended for coordinated and planned use by a number of companies and manufacturers, which enables joint use of premises, utilities, financial, technical and other services, thus attaining business operations with lower cost.

Business zones have been declared by eight local self-governments in Montenegro, and therefore investors have the opportunity to invest under favourable terms in Berane, Bijelo Polje, Cetinje, Kolašin, Mojkovac, Podgorica and Ulcinj. The said local self-governments at the level of established business zones have defined business facilitations related to:

- payment of utility or other charges;
- bargain price of lease/purchase of premises within business zones;
- reduction or exemption from surtax on individual income;
- lowering tax rates on real estate;
- the possibility to define a favourable model of public-private partnership;
- equipping with infrastructure areas which do not have a developed infrastructure.

➤ **Subsidies for employment of certain categories of unemployed persons**

*(Decree on subsidies for employment of certain categories of unemployed persons, Official Gazette of MNE 11/2012)*

Subsidies can be used by the employer who hires:

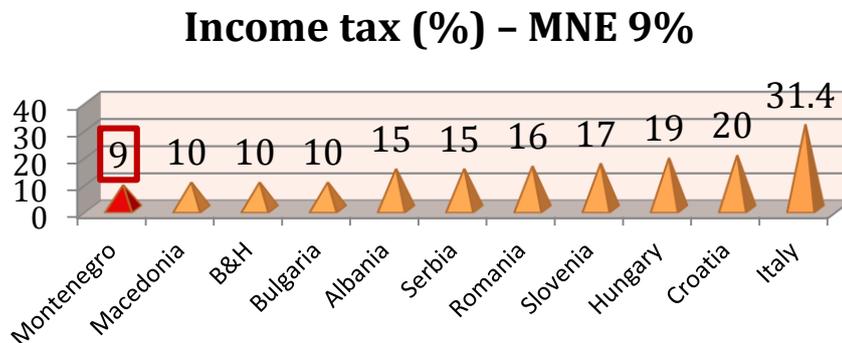
- A person who is at least 40 years of age;
- Unemployed Roma, Ashkali or Egyptian;
- A person registered with the Employment Agency for more than 5 years;
- A person who is employed on public works;
- A person hired for an indefinite period of time after traineeship;
- A person whose services are no longer needed (redundant), and is registered with the Employment Agency;
- A person who is employed to perform seasonal jobs;
- Unemployed person with over 25 years of insurance, who is a beneficiary of unemployment benefit;
- Persons in business zones.

With respect to persons referred to in this Decree, employers shall not pay:

- contributions for compulsory social insurance on wage earnings (contribution for pension and disability insurance, health insurance contribution, contribution for unemployment insurance, contribution for the Labour Fund);
- personal income tax.

➤ **Exemptions from payment of corporate income tax and personal income tax**

The rate of corporate income tax is 9% and it is one of the lowest in Europe, while the personal income tax rate is 9% and 13%.



In economically underdeveloped municipalities in Montenegro, whose development index is below 75, the Law on Corporate Income Tax provides that a newly established legal entity does not pay corporate income tax for the first eight years of operation. Also, the Law on Personal Income Tax stipulates that the tax calculated on the taxpayer's personal income for the first eight years of operation is reduced by 100%. Tax exemption does not apply to taxpayers operating in the sector of primary production of agricultural products, transport or shipyards, fisheries and steel. These laws defined the tax relief for investors, in the form of exemption from taxes if their total amount does not exceed the amount of €200,000 for the first eight years of operation.

➤ **VAT refund**

Where the amount of tax liability (output tax) in the VAT period is less than the amount of input VAT which may be deducted by the taxpayer in the same VAT period, the difference is recognized as a tax credit for the following VAT period, or refunded upon request within 60 days from the date of filing the VAT return.

The VAT difference is refunded to taxpayers who mainly export goods and to taxpayers which indicate a surplus of input VAT in more than three successive VAT returns, within 30 days from the date of filing the VAT return.

If the taxpayer's deadline for the payment of other taxes has expired, the difference by virtue of VAT shall be reduced by the amount of the tax debt.

➤ **Purchase of real estate**

Foreigners in Montenegro have the right to purchase real estate under the conditions fulfilled by domestic entities and by presenting an identification document. However, according to the Law on Property Relations, a foreigner can not own natural resources, public goods, agricultural land, forests and forest land, cultural monuments of great and special importance, real estate in a land-border area up to a depth of one kilometre and islands, real estate located in an area which was declared by law an area in which foreigners can not have right of ownership in view of protecting the interests and security of the country.

Exceptionally, foreigners may also acquire the right of ownership on agricultural land, forests and forest land having a surface area of up to 5,000 m<sup>2</sup>, only if a residential building located on that land is subject to the contract of divestiture (sale, gift, exchange, etc.).

Foreigners may be entitled to a long-term lease, concession, BOT and other arrangements of public-private partnership, over the above mentioned real estate.

Foreign entities have the right to legal business transfer ownership right to domestic person, as well as a foreign person which may acquire property rights.

### ➤ **Tax system**

The tax system in Montenegro consists of:

- corporate income tax;
- personal income tax;
- Value Added Tax (VAT);
- real estate transfer tax;
- social security contributions;
- excise duties;
- fees;
- customs duties.

The tax system for foreign investors is the same as for local business entities.

Corporate income tax amounts to 9%, while the tax rate on personal income is 9% or 13%. Upon payment of the corporate income tax, business entities operating in Montenegro have the possibility to transfer funds to their accounts abroad at the end of the year.

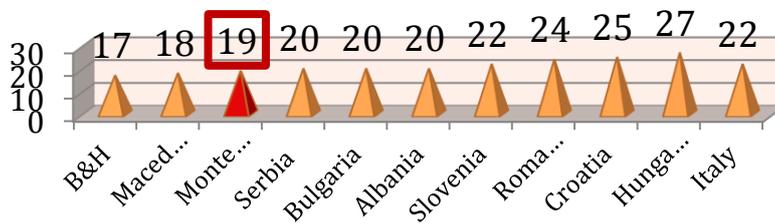
Two positive rates of value added tax (VAT) are applied, standard rate of 19% and the reduced rate of 7% in essential products for human consumption (milk, bread, fat, oil and sugar), drugs and certain medical devices, books, textbooks and teaching resources, drinking water, animal feed, fertilizer and livestock breeding, plant protection products and fruit material, as well as certain types of services: accommodation, public transportation, public hygiene, funeral services, copyrights and services in the fields of education, literature and art, use of sport facilities for non-profit purposes, copyright in the field of science and art objects, collections and antiques and some of the services charged through tickets for certain cultural and sports events.

The zero rate is applied on export transactions and delivery of medicines and medical devices that are funded by the Republic Health Insurance Fund.

Law defining VAT also recognizes the 0% tax rate when: delivering products and services for the construction and equipment of the tourism facility having five or more stars; the energy facility generating electricity (installed capacity exceeding 10 MW); and capacity for the production of food products classified in the sector C (manufacturing )group 10 (manufacture of food

products) Law of the classification ("Official Gazette", No. 18/11), whose investment value exceeds EUR 500,000.

### VAT(%) – MNE 19%



The tax rate on real estate transfer is proportional and amounts to 3% of the tax base.

Compulsory social insurance in Montenegro is paid by the employees, employers, entrepreneurs and farmers who are not contributors to unemployment insurance.

Contributions for compulsory social insurance are:

- contribution for compulsory pension and disability insurance;
- contribution for compulsory health insurance;
- contribution for unemployment insurance.

Contribution rates are different depending on the category of taxpayers, and they are defined by the Law on Compulsory Social Insurance.

Law on Excise Duties governs the system and introduces the obligation to pay excise duties for individual goods and services that are released to free circulation on the territory of Montenegro.

Three types of excise goods in Montenegro:

- alcohol and alcoholic beverages;
- tobacco products;
- mineral oils, derivatives thereof, and substitutes.

Excise taxpayer calculates the excise tax for the calendar month.

Types of fees in Montenegro, that have to be paid by investors, are:

- administrative fees;
- court fees;
- utility fees;
- registration fees;
- sojourn fees.

The basis of the customs system in Montenegro consists of the Law on Customs Tariff and the Customs Law. Customs clearance under this law, includes receipt of import customs declaration,

inspection of goods and classification according to the customs tariff and other tariffs, fixing the customs basis, amount of customs duties and other import duties charged on the goods, collection of fixed customs duty amounts and other import duties.

According to the law, investors may be eligible for exemption from customs duties, in cases when investing in hotels with five or more star, energy facilities and processing facilities.

➤ **International agreements**

Owing to bilateral agreements signed, investors who choose to do business in Montenegro are enabled unimpeded export of products to the market of over 800 million people.

➤ **Free trade agreements**

Implementation of these agreements implies an increase in mutual trade and the creation of a positive environment for foreign investment. Signatories have committed themselves to creating a free trade area up to funds for entering into reciprocal bilateral agreements, in accordance with the provisions of the WTO<sup>1</sup>, including the processes and obligations of each of them on the road to EU membership.

Under the WTO rules, all agreements include two fundamental non-discriminatory principles: according the national treatment and applying the most-favoured-nation customs duty rate. Import customs duties will not be increased, nor will new ones be introduced by the states parties.

Montenegro has signed free trade agreements with CEFTA, EFTA, Russia, Turkey, Ukraine, and negotiations are underway with Belarus and Kazakhstan.

Note: More detailed information on abolishing the payment of customs duties in accordance with the aforementioned agreements, can be obtained based on the CN code under which the products placed on the market have been classified.

➤ **Economic cooperation agreements**

The main objective of economic cooperation agreements is to establish an institutional framework for cooperation by expanding and improving the economic interests.

Since re-gaining its independence, Montenegro signed 12 agreements on economic cooperation (Republic of Bulgaria, People's Republic of China, Republic of Hungary, Republic of Serbia, State of Qatar, Republic of Turkey, Republic of Macedonia, Republic of Slovenia, Republic of Azerbaijan, United Arab Emirates, Czech Republic and the Abruzzo region-Republic of Italy). In addition to the agreements signed by Montenegro as an independent state, the agreements signed by the former state unions in which Montenegro was a member (SFRY, SRY, SMN), which have been consolidated, are also applicable (Republic of Cyprus, Republic of Austria, Republic of Poland).

➤ **Agreements on mutual promotion and protection of investments**

These agreements strive to create a stable framework for investment and better use of economic resources. They define the conditions for investing between countries, allowing free transfer of

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<sup>1</sup> WTO - World Trade Organization

funds, the right of subrogation, compensation in the event of expropriation and settlement of disputes between investors and countries, including the settlement of disputes between the countries themselves.

Since re-gaining its independence, Montenegro has signed 10 agreements on economic cooperation with: the Republic of Serbia, Czech Republic, Republic of Finland, Kingdom of Denmark, State of Qatar, Republic of Macedonia, Malta, Republic of Azerbaijan, United Arab Emirates and the Belgium - Luxembourg Economic Union.