

IMPLEMENTATION OF ECONOMIC MEASURES FOR MITIGATING NEGATIVE EFFECTS OF COVID-19 -Open Questions and Recommendations-

1. General conditions and procedure for obtaining assistance

- a) Define that the classification of business entities into micro, small, medium and large legal entities in accordance with accounting regulations is made at the balance sheet date of the last regular annual financial report.
- b) Plan that the measures relate to the period of the state of emergency starting on 03/15/2020.
- c) When defining qualifications for the proposed set of measures, employers who operate in Serbia as a branch or representative office of a foreign legal entity, as well as the non-governmental sector should also be enabled to apply for these measures.
- d) It is necessary to specify in what way the number of persons who have been terminated from employment is determined and which, in order to qualify for the application of assistance measures, must not exceed 10% of employees - a proposal for this to apply only to permanent employees whose employment has been terminated unilaterally by their employer as a technological redundancy.
- e) Establish automatic enforcement of measures where applicable - the tax authority shall, through the eTaxes portal, provide all taxpayers who meet the requirement with a Notification of Automatic Application for Measures, giving the taxpayer a period within which they may choose not to use the assistance. The criterion for fulfilling the conditions of not reducing the number of employees is automatically received by the Tax Administration from the Central Register of Compulsory Social Security.

2. Deferred income tax and contributions measure:

- a) Define what the scope of the measure is - specify whether the measure also applies to contributions that are borne by the employee and employer.
- b) Start of application of measures - It is necessary to specify when the measures of deferral of income tax and contributions will take effect. Also, given that these measures are not yet in effect at a time when a large number of employers are paying their March wages, it is necessary to specify how the paid taxes and contributions will be refunded to those who wish to use this measure and have paid their full wages (e.g. such employers should be entitled to deferred payment of taxes and contributions for one additional month after the end of the state of emergency).
- c) We propose that business entities are automatically considered registered for the use of this measure, that the state set the same grace period and repayment period (24 installments) for all, with provision for the possibility for the company to deregister from the use of this measure
- d) If the state nevertheless opts for the more administratively demanding option of applying for the right to a measure, we suggest that the Request for Deferral be submitted at the same time as the filing of the first due obligation, whereby it should be possible to submit the request electronically.
- e) It is necessary to specify how the use of deferred tax will be monitored (the TA already has records of late payments, and the system should also be adjusted not to calculate interest on new debt and to calculate it for the old one in accordance with the Regulation on Emergency Tax Measures to Mitigate the Economic Consequences of COVID-19 Disease of 20 March 2020)
- f) Plan that the recorded liability in the Tax Administration as a result of deferred payment is not taken into account as a debt when issuing a tax certificate on paid liabilities and exercising health insurance rights.

3. Deferral of income tax advance payment

- a) It is necessary to specify whether the deferral of payment relates to advance payments payable in Q2 or to Q2 advance payments that mature between May 15 and July 15;
- b) Envision that the tax debt for the second quarter is paid in proportion within the deadline for filing the tax return for fiscal 2020, that is by June 30, 2021, without accruing interest;
- c) It is necessary to define the registration method for the economic entities that decide to defer advance payments, while technically enabling the separation of deferred debt from ordinary debt on the taxpayer's analytical card.

4. VAT exemption for donations

- a) Based on the formulation, it seems that the VAT exemption measure relates exclusively on donors that engage in the production and/or trade of goods, while excluding the donors with a good intention to buy the needed resources and then donate them. We think it is important to establish an equal treatment for all legal entities that donate resources with the aim of preventing the spread and treating citizens suffering from Covid-19, and mitigating the negative effects of the Covid-19 pandemics.
- b) Bearing in mind that socially responsible entities have already initiated or realized donations for this purpose (there have been donations of medical equipment, fuel etc.), we propose that this measure should be deemed valid from the beginning of emergency state, and during a period of at least 90 days after the emergency state is abolished (in case there is a need for procurements to mitigate any damage or help the vulnerable social groups etc.).
- c) Along with the VAT exemption, it should be specified that legal entities are entitled to VAT deduction for the previous procurement of donated products.
- d) In order to prevent misuse, we propose that the exemption should be applied only on donations made to humanitarian organizations, state institutions, local governments, social and public institutions etc. Additionally, there is a need to keep official records of donations made by legal entities in goods and money through a Treasury system (e.g. a special section within the Central Registry of Invoices CRF), for the purpose of control, estimation of effects and efficient implementation of this measure.
- e) The cost of these donations should be fully acknowledged in the Tax balance for 2020

5. Direct assistance to the private sector

- a) It should be specified that the assistance allocated for salaries represents **support to employees in financing the payment of contractual salaries**, and that the support funds paid to employees should be taken into account when estimating the fulfilment of the Labor Law requirements referring to minimum salary reimbursement (60% and no less than minimum wage). It must be clearly indicated that the employer should reduce the amount of salary reimbursement by the amount paid to employees directly by the state.
- b) It should be specified that the employers that already paid the salaries, which are to be fully or partially reimbursed by the support funds, can use the received funds for other purposes (e.g. to finance salaries after the emergency state, or for some other purposes). The assistance payment period should also be defined. Since this measure aims to help employers remain solvent during the emergency state, it is very important that this assistance should be provided before the employers pay salaries, or shortly after these payments.

- c) It should be clearly defined that the employers are entitled to reimbursement of minimum wages for those employees who are not working, but receive a salary reimbursement (e.g. due to temporary inability to work, paid leave etc.).
 - d) **It should be clearly defined that the assistance refers to gross salaries (including the relevant taxes and contributions). This is particularly important as it ensures minimum revenues for local governments during the “deferred payment” period.**
 - e) If, on the other hand, it should be interpreted that the assistance refers to the amount of net minimum salary, it should be specified that the employer is not obliged to pay (now or later) the accompanying taxes and contributions), **whereas the social insurance rights are still guaranteed to employees.**
 - f) The assistance received by an entrepreneur/company is deemed as non-taxable income so that the support funds are not subject to income taxation. The realization method should also be specified – the proposal is that the funds should not be paid to a specifically designated account (as opening new accounts for all legal entities would generate additional administration).
 - g) Optionally, in case of large legal entities, employers should be obliged to report taxes and contributions for employees’ salaries that are being partially or fully financed from state aid in separate tax returns (and in case there is no liability of paying taxes and contributions – the calculations should be reported using the code 1 01 199 00 0, which does not require accurate calculation). This would generate eRecords about the persons who received funds based on this measure, which is good for them (in terms of contributions) as well as for the employers that can easily prove that the funds are spent in line with the intended purpose.
6. **Moratorium on dividend payments by the end of 2020, excluding public enterprises and the absence of dividend tax on this basis**
- a) It should be specified that the ban of dividend payments refers to companies using any of the support measures provided by the state (deferral of tax payments, direct subsidies or guarantee schemes).
 - b) It should be specified that the moratorium on dividend payments shall be limited only in terms of money (and not in terms of company shares).