

Review of investment incentives and subsidies at national and local level

According to Montenegrin Law, following persons or entities can obtain status of foreign investor: foreign legal or natural person, companies with at least 10% of foreign capital in its equity structure, company that was established by a foreign person on the territory of Montenegro and Montenegrin citizen residing abroad. Foreign person is also considered to be a person who obtained Montenegrin citizenship, on the basis of effected investments and in accordance with the Law.

National level:

- National treatment: Foreign Investment Law stipulates that foreign investor who is operating on the territory of Montenegro can set up a new company or invest in an existing company's assets, under the same terms and conditions that domestic persons have to obey in order to set up a company or invest in existing company.

- Subsidies for employment of certain categories of unemployed persons (*Decree on subsidies for the employment of certain categories of unemployed persons, Official Gazette of the Republic of Montenegro, n.11/2012*). Subsidies are also at disposal of employers who establish employments in business zones. In this two cases, employers are exempt from paying:

- Contributions for compulsory social insurance based on income (contributions for pension and disability insurance, contributions for health insurance, contributions for unemployment insurance, contributions for the Labour Welfare Fund);

- Personal Income Tax

- Taxes

- Tax credits – Tax amount can be reduced by 25% in relation to the amount invested in fix assets for the relevant tax period. This reduction cannot exceed 30% of the total tax liability.

- Incentives for investments in underdeveloped areas (northern part of the country) – newly established companies in underdeveloped areas whose operational field is production are exempt from paying corporate tax during the first three years of activity.

- Loss transfer – Losses resulting from business operations, with the exception of losses resulting from capital gains and losses, can be transferred forward to offset profit generated in future calculation periods, but no longer than for a period of five years.
- Investments in securities: If the profit from capital investment is used to purchase new securities, then this profit is not subject to taxes, under the condition of being reinvested within twelve months from its inception. Profit from the sale of securities owned by a taxpayer who has more than two years in its portfolio is exempt from taxation.

Review of taxes that are relevant for investors:

VAT	19%
Corporate Tax Rate	9%
Income Tax Rate	9%

• Customs Exemptions

- Import of raw materials – Investor is not obliged to clear raw materials, in case the company in question made a commitment to export finished products made of the same imported raw materials.
- Import of equipment defined as foreign investor's capital – Investor is not obliged to pay customs duty on imported equipment, but he has to pay VAT. It is necessary for the user of this exemption to have in his possession a certificate from customs authority competent to make a decision on customs duties exemption.
- Exemption from payment of export customs duties – Investor is not obliged to pay export customs duties, but he has to pay VAT at a rate of 0%, on the basis of Law on Value Added Tax. This means that VAT on raw materials has to be paid, while VAT on export of finished products does not have to be paid. There is also a possibility of refund of VAT on raw materials.

Local level:

Municipality of Berane

On the basis of Article 9 and Article 45 Paragraph 1 Item 9 of Law on Local Self-Government (*Official Gazette of Montenegro* n. 42/03... 13/06 and *Official Gazette of Montenegro* n. 88/09 and 3/10) and Article 33 Paragraph 1 Item 9 of Statute of the Municipality of Berane (*Official Gazette of Montenegro* n. 21/04 and 34/06, municipal regulations n. 6/11), Assembly of the Municipality of Berane has decided to transfer of land-use rights under specific conditions within industrial zone Rudeš.

This decision regulates the transfer of land-use rights under specific conditions within industrial zone Rudeš, cadastral parcel n. 988/1 on land area of 12.635,3m² and part of cadastral parcel n. 988/3 on land area of 156.753,47m², property of the municipality of Berane registered in Immovable Property List n. 304 KO Budimlja, in accordance with Conclusions of the Government and Business Development Program adopted by the Government of Montenegro.

Following positions were defined:

- Land-use rights will be transferred for a period of up to ten years without charge;
- Potential investors are obliged to employ a certain number of workers on behalf of the use of land:
 - for land area of up to 2.500m², investor has to employ 3-5 workers;
 - for land area of up to 5.000m², investor has to employ 6-10 workers;
 - for land area of up to 10.000m², investor has to employ 11-20 workers;
- Launch of Call for Proposals will specify conditions for the transfer of property-use rights.
- Investor is obliged to implement the investment in accordance with the terms defined by Law on Spatial Planning and Facility Construction.

The municipality has defined, in accordance with Strategic Development Plan of the Municipality of Berane for the period 2009-2014, development projects whose implementation promotes regional development. In the above mentioned Development Plan strategic priorities for development of the municipality were also defined.

Strategic Priority 3: Strengthening of administrative capacities and creation of stimulating business environment for the establishment of small and medium-sized enterprises, particularly for those operating in the field of industry, tourism and agriculture.

Strategic Objective: By the end of 2013, the municipality of Berane will create, through removal of administrative barriers and strengthening of institutional and financial support for development of small and medium-sized enterprises and through promotion of entrepreneurship, favorable environment for the establishment, growth and development of entrepreneurship and small and medium-sized enterprises. By the end of 2013, there will be registered a significant improvement of conditions for doing business in this municipality, particularly when it comes to development of industry, transport, tourism and agriculture.

Objective 4: Financial and non-financial support for business development:

This objective includes a creation of subsidies and tax reliefs, as well as the creation of interest rates subsidies for certain industries (agriculture) through specific development programmes, favored office rentals, establishment of business incubators where newly established companies could freely develop for a certain period of time, previous to their market breakthrough. The objective also includes development of traditional activities (cottage industry, etc.) through development assistance programs.

Objective 5: To encourage agricultural development

This objective will be achieved through rural development programs, improvement of animal husbandry, horticulture, fruits and vegetables growing activities, as well as through creation of fertile land.

Objective 6: To encourage tourism development

This objective will be achieved through development programs related to the development of mountain, rural and sports&recreation tourism, including all supporting elements.

Objective 7: To encourage industrial development

This objective includes a implementation of development projects related to the development of production capacities up to higher processing levels in the field of wood processing; energy sector development projects related to the construction of mini hydro power plants on tributaries of the river Lim, construction of biomass power plant and heating facilities; development projects related to the development of food industry through production of final agricultural products.

In order to provide non-financial business support, Assembly of the Municipality of Berane made several Decisions related to the transfer of office space-use rights and contribution of office space under favorable terms for specific investors.

Municipality of Kotor

Potential investors in processing facilities from light industry sector are exempt from payment of utility charges for construction land, in accordance with Article 25 of Decision on Utility Charges for Construction Land (*Official Gazette of Montenegro* – Municipal regulations 04/11). There have also been detected willingness and commitment of local authorities to cede land to investors on a long-term lease in order for them to initiate capacity building in areas that have been identified as adequate for realization of development opportunities. Within business zones one-stop-shop entity will be established, that will enable reduction of time necessary for obtaining permits and licenses, and investors will have the possibility of accessing all relevant information in one place.

On the bases of Article 45, Paragraph 1, Item 23 of Law on Local Self-Government (*Official Gazette of Montenegro*, n. 42/03, 28/04, 75/05 and 13/06 and *Official Gazette of Montenegro* n. 88/09 and 3/10) and on the basis of Article 31, Paragraph 1, Item 52 of Statute of the Municipality of Kolašin – Revised text (*Official Gazette of Montenegro* n. 31/11), Assembly of the Municipality of Kolašin, at session held on 30/03/2012, made a decision to declare a site "Bakovići " business zone and open for investments. Assembly also adopted Decision on

Attribution of Subsidies which regulates property tax exemptions and personal income tax surtax exemptions for the first 8 years of doing business in business zone.

Municipality of Podgorica

There has been expressed a possibility of creating a set of incentives in order to attract investments:

- Exemption or significant reduction (over 50%) of utility fees for construction of facilities;
- Possibility of obtaining building permits in most accurate time framework;
- Lease of land at a cost of €1 for 1m² for one year period for a maximum period of 30 years;
- Property tax exemption;

Municipality of Cetinje

When it comes to Old Royal Capital of Montenegro, a set of incentives was prepared and it is to be adopted in the period that follows. This program will contribute to the promotion of business zones and it will activate domestic and foreign capital on the territory of the municipality of Cetinje. Incentives are regarding greenfield and brownfield investments in business zones.

For investors who decide to purchase land in business zone, it was planned that for every tenth employee Old Royal Capital of Cetinje, in cooperation with Employment Agency of Montenegro, covers cost of one trainee. For investors who decide to lease land in business zone, incentive in the form of reduced prices of land lease for the first 5-10 years of doing business, depending on the number of new jobs. In the first years of doing business, the price will not surpass 2 cents per m², while in the next years of doing business the price shall not exceed 5 cents per m².

In addition to the above mentioned subsidies, investors will also have access to following subsidies, regardless of whether he purchase land or lease it. It is important to mention that access to subsidies depends on number of new jobs established in investment process.

- Reduction of utility fees by 60-100%;
- Reduction of property tax in the amount of 50-100% for 1-4 first years of doing business;

- Free assistance in preparing a business plan;
- Free assistance in preparing a documentation;

Old Royal Capital of Cetinje is owner of the land in business zone, a fact that opens additional possibilities for incentives in form of affordable land prices.

Municipality of Bijelo Polje

The municipality of Bijelo Polje is working intensively in order to establish a set of incentives that will enable creation of favorable business environment. In addition to this, the business zone City Park will contain one-stop-shop entity where investors will have access to all relevant information and will be able to complete in one place all necessary documentation for business start-up.

Incentives that will be discussed at local level are:

- Partial exemption related to payment of utility charges and other types of charges;
- Low space rental price;
- Reduction of property tax and personal income tax surtax;

Municipality of Nikšić

The Municipality made a Decision to establish a set of incentives for doing business in the business zone. Incentives take the following forms:

1. Reduction of utility fees for construction land by 50% of the amount determined by decision that regulates this area;
2. Reduction of property tax by 70% in relation to the amount determined by the decision that regulates this area;
3. Exemption from personal income tax surtax;

The adopted set of incentives cannot be applicable to steel plant under the authority of Toščelik Company, in accordance with state aid regulations.

Municipality of Rožaje

The Municipality of Rožaje has already made a decision on reduction of utility fees for all production activities on the territory of the municipality of Rožaje, with a reduction by 70% when it comes to activities related to agriculture and tourism. The Decision related to total exemption from payment of utility fees for the above mentioned activities has entered the procedure, including also final wood processing activities.

The Municipality of Rožaje in its rural areas is willing to 100% participate in communal infrastructure all the way up to locations in which construction of processing facilities was planned related to activities indicated in Spatial Plan – agriculture and wood processing.

Municipality of Ulcinj

Local authorities expressed their willingness and commitment to cede land to investors on a long-term lease or to sell it, in order to enable the construction of capacities related to activities that had been recognised as good opportunities to initiate development of this area.

The Municipality expressed willingness to provide potential investors with more affordable investment conditions. Decision related to the reduction of property tax rate has entered the procedure, while the reduction of income tax surtax has also been considered.

The land will be leased on favorable terms for a longer period of time, as well as through public-private partnership model. Municipal decisions will be made for every investment separately and they will depend of the nature of investment, investors preferences, number of newly employed workers, land area etc.

In addition, the Municipality will, on the basis of the above mentioned information, made a decision related to partial exemption from communal fees for construction land. The Municipality also made plans to provide potential investor with a person that will constantly be

at his disposal in order to assist him in the process of obtaining permits and licenses and contacts at local and state level.