

Serbia's R&D Tax Relief Regime

Overview of the Serbian R&D Incentive Program

Serbia's R&D tax relief program is part of its broader efforts to foster innovation, technological advancement, and economic development. The legal framework supporting R&D in Serbia includes tax credits, grants, and other financial incentives. The most significant of these is the **tax deduction for R&D expenses** outlined in the country's Corporate Income Tax Law.

The Serbian government provides these incentives to encourage businesses to invest in R&D and to strengthen the country's position in international innovation and technological competitiveness.

2. Eligibility Criteria

To qualify for the R&D incentives in Serbia, businesses must engage in activities that fit the definition of **scientific research and technological development**. These activities typically involve:

- **Basic Research:** Activities aimed at gaining new knowledge without a specific application or commercial purpose in mind.
- **Applied Research:** Activities intended to gain new knowledge directed towards a specific practical application.
- **Experimental Development:** The systematic use of knowledge to create new or improved products, processes, or services.

The key eligibility criteria for R&D incentives are:

- The R&D activities must be related to technological advancement or scientific exploration.
- The R&D activities must aim to resolve technical uncertainties and use scientific or technical methods to achieve their goals.
- The business must be legally registered in Serbia and subject to Serbian corporate tax law.

3. R&D Tax Deductions

One of the primary R&D incentives in Serbia is the **tax deduction for R&D expenses**. According to the **Corporate Income Tax Law**, companies can deduct eligible R&D costs from their taxable income. This deduction helps reduce the company's overall tax burden, thus providing a financial incentive to invest in innovation.

Eligible R&D expenses typically include:

- **Labor costs:** Salaries and wages of employees directly engaged in R&D activities, including researchers, scientists, and engineers.
- **Material costs:** The cost of materials used in R&D projects, such as raw materials for prototypes, testing, or experimental processes.
- **Contractor costs:** Payments made to third-party contractors involved in eligible R&D activities.
- **Other direct costs:** Expenses related to the use of equipment, facilities, and technology for R&D purposes.

Companies can claim a full deduction for eligible R&D expenses, which directly reduces their taxable income.

4. R&D Grants and Subsidies

In addition to tax deductions, Serbia also offers R&D grants and subsidies to support businesses that engage in innovation and technology development. These grants are generally provided by:

- **The Ministry of Education, Science, and Technological Development:** This government body provides financial support for R&D projects aimed at scientific research, technological innovation, and commercial applications.
- **The Innovation Fund:** The Serbian Innovation Fund offers financial assistance to startups, small, and medium-sized enterprises (SMEs) that are involved in high-tech R&D and innovation. The Fund provides grants, equity investments, and soft loans to help businesses commercialize their research.

The grants and subsidies typically cover specific types of R&D projects, such as the development of new products, processes, or services that can be scaled up for commercialization. These funds are often available for both domestic and foreign businesses operating in Serbia.

5. Other R&D Incentives

Serbia also offers additional tax incentives for businesses involved in R&D, which include:

- **Investment allowances:** Companies may receive tax incentives for investments in R&D infrastructure, such as laboratories, equipment, and facilities.
- **Exemptions from customs duties and VAT:** Certain R&D-related equipment and materials may be exempt from import duties and value-added tax (VAT), which can help reduce the overall cost of conducting R&D.

These incentives are designed to make Serbia an attractive destination for R&D activities, both for domestic companies and international investors.

6. Claiming R&D Tax Relief

- **Filing for R&D Tax Deductions:** Serbian businesses can claim the R&D tax deduction when filing their **corporate income tax return**. The eligible R&D expenses must be documented and reported in the tax return in accordance with the relevant tax laws and regulations.
- **Supporting Documentation:** Companies must maintain comprehensive records of R&D activities and related expenses. This includes detailed project descriptions, timesheets, payroll records, invoices, and contracts for third-party services. Proper documentation is essential to substantiate claims for tax deductions and to comply with regulatory requirements.
- **Audits and Inspections:** The Serbian tax authorities may review claims for R&D deductions, particularly if the company's tax filing is selected for audit. In these cases, companies should be prepared to provide detailed evidence of their R&D activities and the expenses incurred.

7. Incentives for Startups and Innovation-Driven Enterprises

Serbia has a growing focus on supporting startups and innovation-driven enterprises, particularly in sectors such as technology, software development, biotechnology, and green energy. Several mechanisms are in place to help these businesses, including:

- **Tax Relief for Startups:** New startups in certain high-tech or innovation-driven sectors may be eligible for tax breaks or reduced corporate income tax rates during their early years of operation.
- **Support for Technology and Science Parks:** Companies located within designated science and technology parks in Serbia may be eligible for additional incentives, such as reduced utility costs, tax reductions, and direct financial support for R&D projects.

8. Example Calculation

Consider a Serbian company involved in R&D activities that incurs RSD 10,000,000 (approximately €85,000) in eligible expenses in a given year. These expenses might include wages for R&D staff, costs for materials used in testing, and payments to external contractors.

If the company is eligible for a 100% deduction of R&D expenses, it could deduct the entire RSD 10,000,000 from its taxable income, effectively reducing its corporate tax liability by the same amount.

Assuming a corporate tax rate of 15%, the company would save **RSD 1,500,000** (about €12,750) in taxes due to its R&D spending.

9. Impact of Serbia's R&D Incentives

Serbia's R&D tax relief system plays a key role in encouraging innovation and technological development, particularly for small and medium-sized enterprises (SMEs) and startups. The country's strategic position in Europe, along with its attractive tax incentives, make it an appealing destination for companies involved in high-tech industries, particularly in sectors such as IT, biotechnology, and renewable energy.

While the R&D incentives in Serbia are still developing and may not be as comprehensive as those found in larger economies, they provide a solid foundation for fostering innovation and supporting businesses that are focused on research and technological advancement.

Conclusion

Serbia offers a range of R&D tax incentives, including tax deductions for eligible R&D expenses, grants, and subsidies, to foster technological advancement and economic growth. The country's emphasis on innovation, coupled with tax relief for businesses engaged in R&D activities, creates opportunities for companies to reduce their tax burden and reinvest in further innovation.