

# ***Amendments to the Law on Corporate Income Tax in Republika Srpska***

*July 2019*



The Law on Amendments to the Law on Corporate Income Tax in the Republika Srpska has been published in the "Official Gazette of Republika Srpska", no. 58/19, on 9 July 2019.

The most significant amendments to the Law on Corporate Income Tax (hereinafter referred to as "the Law") refer to the following:

- provision of Article 4, item 4) which refers to taxpayers who are exempt from payment of corporate income tax (hereinafter referred to as "CIT") is amended and now stipulates that CIT is not paid by legal entities registered for non-profit activities and which generate income from: the budget or public funds, from sponsorships or donations in cash or in kind, membership fees, as well as income from sale or transfer of goods, other than the goods used to carry out a market activity.
- amendments prescribe that taxable income does not include revenue from collected written-off receivables that were included in the tax base in previous tax periods and were not recognized as tax deductible expense. In this way, double taxation of revenue arising from collected written-off receivables is avoided.
- It is prescribed that the impairment of inventory based on value adjustments is recognized in the tax period in which these inventories are sold or written-off under the terms set forth in Article 11.
- new paragraph is added to Article 12a which prescribes that depreciation of investments in fixed assets not owned by the taxpayer is permitted, provided that such investments increase the purchase value of the asset and do not diminish the lease fee stipulated by the lease agreement. In this way, taxpayers are allowed to recognize depreciation expense in the tax balance for investments made in leased assets under the prescribed conditions, since such investments represent a burden for the taxpayer and undoubtedly result in the outflow of funds.
- provisions of Article 14. have been supplemented with the words "and credits" in order to overcome the confusion which was created in practice by narrow interpretation of the term "loan". The aforementioned wording was added in order to clarify the previous vagueness of this provision and to clearly stipulate that the accrued interest and the related expenses related to loans and credits occurred for performance of business activity are recognized as tax expenditures under the condition that the amount of interest and related costs represent the tax liability for the tax year in which the deduction is made.
- Article 26 of the Law has been completely amended and now stipulates that a taxpayer who invests in equipment and plants used for performance of registered production activity on the territory of Republika Srpska, has the right to decrease the tax base for the value of realized investment. Other provisions related to this article have been left unchanged, which implies that this tax incentive is related to production activities which are determined by the decision of the Minister of Finance, that the equipment and facilities are directly used in the process of production or processing and that the tax base is decreased in the tax period in which the equipment and facilities have been put into use for the total value of the investment.
- Article 37 has been supplemented by a new paragraph 2 which stipulates that the tax year can differ from the calendar year upon approval of the Ministry of Finance.

- section of Article 13 paragraph 2 has been deleted in the aim of clearer regulation that provisions are recognized in the period when they are utilized, provided that they were previously recognized in the income statement.

The Law on Amendments to the Law on Corporate Income Tax shall come into force on the eighth day following its publication in the "Official Gazette of Republika Srpska", apart for Article 8, which shall enter into force on 1 January 2019.

**If you have any further questions regarding this publication, please feel free to contact us.**

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