

SETTING UP BUSINESS IN MONTENEGRO



General Aspects

The Republic of Montenegro is situated in South Eastern Europe, on the Balkan Peninsula with total 13.812 km². Its capital and largest city is Podgorica, while Cetinje is designated as the "Prijestonica", meaning the former Royal Capital City. As per latest census results from July 2011, Montenegro has 625,266 inhabitants.

Montenegro declared its independence from the state Serbia and Montenegro on June 3rd 2006 based on the results of the referendum held on May 21st 2006. Montenegro is the 192nd member state of the United Nations. On May 11th 2007, Montenegro became the 47th and last member state of the Council of Europe.

On January 18th 2007, Montenegro joined the World Bank and the International Monetary Fund. Montenegro has applied separately for membership to the World Trade Organization. The Stabilization and Association Agreement with the European Union was signed on October 15th 2007. During the past several years, tourism has become a major strength in the Montenegrin economy. In the meantime, Montenegro became an official EU candidate as of 17th Dec. 2010 and has received an invitation to join NATO on December 2nd 2015.

Legal Forms of Business Entities

Legal form	Feature	Remarks
Entrepreneur	An entrepreneur is a natural person who is registered with the Central Register of Legal Entities and who pursues an independent profession including art, old trades and domestic work.	An entrepreneur shall be registered in accordance with the law that regulates business entities, i.e. Companies Law. The registration application is submitted in the Central Register of Legal Entities ("CRLE"). A permit issued by the respective municipality in addition to specific equipment and business premises are required in order to commence entrepreneurial activities.
General partnership (O.D -Ortacko društvo)	A general partnership is a company organized by two or more legal entities or natural persons, as general partners, who conduct business activities under a common registered name. The contribution of a partner to a general partnership can be in money, including past and future work or services. A general partnership must be recorded in CRLE in accordance with the Companies law.	Partners of general partnership are jointly liable for all company's obligations with all of their assets, unless otherwise agreed with the creditor. A property that has been entered into general partnership is called a partnership assets and is used in accordance with the respective partnership agreement.

Limited partnership (K.D-Komanditno društvo)

A limited partnership is a partnership organized by two or more legal entities or natural persons who conduct business activities under a common registered name, and which at least one partner's liability is unlimited - general partner ("Komplementar") and at least one partner's liability is limited to the loss of his agreed contribution - limited partner ("Komanditor").

A limited partnership is responsible for all of its liabilities with its entire property.

Contributions of partners can be in cash, rights or goods.

Joint Stock Company ("A.D. - Akcionarsko društvo")

Joint Stock Company ("JSC") is a company organized by one or more legal entities or natural persons, as shareholders of the company, to conduct business operation under a common registered name, and whose initial capital is divided into shares. The founders can be domestic and foreign physical and legal persons. By concluding a contract of incorporation of JSC and issuance of the shares that are to be subscribed and paid-in in whole and registered in Central Depository Agency and Securities Commission, the founders become shareholders of the Montenegrin company. JSC is responsible for its liabilities with its entire assets. The minimum initial capital for incorporation of the JSC is 25.000€. The corporate bodies of the JSC are General Assembly, Board of Directors, Executive Director and Secretary. General Assembly is the highest body of the company and all shareholders have right to attend the general meeting, irrespective of the number and class of shares.

Board of Directors is a collective body whose activities are directed to manage affairs of the company. A Board of Directors shall not have less than three members and the number of members has to be odd. The Board of Directors appoints an Executive Director and a Secretary. JSC is required to elect an independent auditor of the company to carry out auditing of the financial statements of the company.

The following documents must be submitted to CRLE for incorporation of JSC:

1. Memorandum of Association.
2. Articles of Association.
3. Place of residence, citizenship and occupation of members of the Board of Directors and statements on the acceptance of the position.
4. Name of Executive Director, Secretary and Auditor.
5. Decision of the Securities Commission on successful emission of shares.
6. Decision of the Central Depository Agency.
7. Evidence on payment of the incorporation fees.

Limited Liability Company (D.O.O-Društvo sa organičenom odgovornošću)

Limited liability company ("LLC") is a company established by natural or legal persons for the purpose of conducting business activities for a profit who shall make a monetary or non-monetary contribution and who will not be liable for the debts or obligation of the company beyond that amount.

Documents needed for incorporation of LLC:

If a founder is a company:

Extract from the Commercial Register for the founder (containing the official data of the founder: business name, registration number, registered seat, authorized representatives, shareholders) - notarized and provided with Apostil stamp if required;

If a founder is a physical person:

1. Copy of passport and
2. The Memorandum of Association
3. Articles of Association
4. The bank certificate of deposited founding capital; Signature specimen - for the Executive Director and certified copy of its passport or ID
5. Power of Attorney, notarized and provided with Apostil stamp if required in case that LLC is established on the basis of PoA.

All documents that are made in a foreign language must be translated by sworn court translator.

Minimum capital for LLC is 1 EUR and is to be paid on the interim bank account prior to the registration of company and after the signing of the Memorandum of Association (instructions for the money transfer will be provided by the local bank in Montenegro). The proof that the capital is paid is one of the required documents for the registration. Usually in practice if the founding capital amounts to 1 EUR, this certificate is not required.

Once the bank account of a company is opened, those funds shall be transfer from the interim account to the current company account.

It is advisable to check in the CRLE if the desired name is available. There is a possibility to reserve a name.

Lease Agreement for corporate seat should be signed and proof of ownership relating to business premises where the company will have its registered seat attached (a lease agreement would be needed for the Montenegro tax authorities, upon obtaining of a tax number of the company).

Foreign Company Branch

A "foreign company branch" is a branch of a company established and registered outside the Montenegro that conducts a business operation within Montenegro.

Foreign companies are obligated to submit to the CRLE within 30 days from the day of incorporation of its branch in Montenegro the following:

1. Address of the branch.
2. Activities of the branch.
3. The name and legal form of the company.
4. Verified copy of their Articles of Associates and notarized.
5. Certificate of incorporation of foreign company.
6. Names of authorized persons with residence in Montenegro.
7. Financial statements or similar financial document from the previous year.

Organizational Questions

Topic	Feature	Remarks
Commercial Register	<p>Registration of a company in Montenegro is carried out at the Central Registry of Legal Entities of Tax Administration of Montenegro.</p> <p>Registration with the Customs Office is optional, depending on the company's activities (i.e. an import/ export Company would be required to register).</p>	The registration procedure at the CRLE takes up to 5 days as of the day of submitting required documentation.
Bank Account	<p>Documents required for obtaining bank account:</p> <ol style="list-style-type: none"> 1. Certificate of the company from CRLE 2. Certificate of Tax authorities on tax identification number 3. Copy of passport of Executive Director and authorized persons of the company 4. Signature specimen for Executive Director 	
Transfer of Capital	Free flow of capital is basic principle of open economy existing in Montenegro.	
Visa and Residence permit	<p>Documentation needed for residence permit:</p> <ol style="list-style-type: none"> 1. Request (application form). 2. Certificates from the CRLE of the Montenegrin company that hires a foreign employee. 3. Passport-verified copies with Certificate of Clear Criminal Record 4. Certificate of Montenegrin Ministry of Education about professional qualification of employee (verified diploma) and Medical Certificate 5. Proof of residency address (lease agreement) and proof of one month travel insurance <p>The procedure for obtaining a residence permit lasts 3 weeks. A residency/working permit is issued for a one-year period. A request for renewal is submitted 30 days prior to the day of expiration of the initial residency/ working permit.</p>	<p>According to a Tariff Law amendments, from 22 July 2010, residence permit tariffs (charges) are significantly reduced in order to expedite the whole procedure.</p> <p>The same applies for residence permit renewal.</p>

Employment

Topic	Feature	Remarks
Work permit	<p>A procedure for obtaining a working permit is the same for EU and non-EU citizens.</p> <p>An authorized institution for issuance is Ministry of Internal Affairs. A temporary residence permit based on employment includes work permit.</p> <p>Also, the Employer as a legal entity, must be registered in Montenegro. Requested documents:</p> <ol style="list-style-type: none"> 1. Request (application form). 2. Certificates from the Central Registry of Legal Entities of the Montenegrin company that hires a foreign employee. 3. Passport-verified copies, translated in Montenegrin language with Certificate of Clear Criminal Record 4. Certificate of Montenegrin Ministry of Education about professional qualification of employee (verified diploma) and Medical Certificate 5. Proof of residency address (lease agreement) and proof of one month travel insurance 6. Fees. <p>For renewal of residency/working permit:</p> <ol style="list-style-type: none"> 1. Request form /application. 2. Statement fro Tax Office that all salary tax & contributions are covered 3. Fees. 4. Passport/verified copies. 	<p>According to a Tariff Law amandments from 22 July 2010, work permit tariffs (charges) are significantly reduced in order to quic-ken the whole procedure.</p>
Labour law	Law of Foreigners in force published in Official Gazette of Montenegro No 056/14, 028/15 and 016/16	

Social system	<p>Mandatory Social Insurance Law (Official Gazette of Montenegro no.13/07, 79/08 and 86/09) regulated the following insurance forms:</p> <p>Pension and disability insurance, health insurance and insurance of unemployment.</p> <p>The base for social insurance calculation represents gross personal income (salary).</p> <p>Contribution rates for pension and disability insurance: Employer: 5.5 %</p> <p>Employee: 15.0 %</p> <p>Contribution rates for health insurance: Employer: 4.2%</p> <p>Employee: 8.5 %</p> <p>Unemployment contributions rates: Employer: 0.5 %</p> <p>Employee: 0.5 %</p>	<p>Employer is obligated to calculate and pay to employee the following social insurance contributions: pension and disability, health, unemployment insurance and surtax at rate to 15% (prescribed from municipality) to the personal income tax. Employer's payment liability and submission of application form last until 15th of the month for previous month of which contributions are paid.</p> <p>Legal person, entrepreneur who didn't pay or calculate social insurance contributions shall be penalized from ten to two hundred times of minimum salary. At the same time if physical person didn't pay mandatory social contributions he/she shall be penalize from double to twenty times the amount of minimum salary in Montenegro for the relevant period</p>
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Taxation

Tax	Feature	Remarks
Corporate Income Tax	<p>Resident legal entities are taxed on worldwide income</p> <p>Non-resident legal entities are taxed only on income gained in Montenegro.</p> <p>Companies are taxed on profit at the flat rate of 9% of the tax base (of taxable profit).</p>	<p>Taxable profit is based on accounting profit, adjusted for tax purposes by nondeductible Expenses, non taxable income, tax depreciation etc.</p> <p>According to the Government Decree of deferred payment of corporate tax of the legal entities from 15 April 2010, payment of corporate tax is allowed in six equal monthly installments.</p>

<p>Personal Income Tax</p>	<p>Resident individuals are taxed on worldwide income</p> <p>Non-resident individuals are taxed only on worldwide income</p> <p>Incomes that are subjected to personal income tax are:</p> <ul style="list-style-type: none"> • Personal earnings. • Private sector activities. • Property and property rights • Capital. • Capital Gains. <p>The tax rate for Personal income tax is 9% for monthly gross salary up to 751€ gross.</p> <p>Personal income tax rate of 11% applies for gross salary above 751€,</p> <p>Capital gains are taxed at a rate of 9%.</p> <p>The subject of a taxation of non-residents individuals is the income realised on activities performed through their permanent place of business in the country.</p> <p>But, non-residents without permanent place of business in Montenegro are paying Personal income tax on royalties, interests, real-estate leasing income.</p> <p>NOTE: SEE HOW RESIDENTS ARE TAXED</p>	<p>Personal income tax is not paid by the following:</p> <p>Foreign diplomatic mission members in Montenegro and the members of their households if they are not citizens of Montenegro;</p> <p>Consular offices members and the members of their households if they are not citizens of Montenegro;</p> <p>Officials and experts working on the programs of the United Nations and its specialized agencies;</p> <p>Honorary consuls of foreign countries but only for income received from the country which has appointed them to perform honorary consul functions;</p> <p>Officials, experts and administrative staff of international organizations if they are not citizens of Montenegro or if they have no residence in Montenegro.</p>
<p>Value Added Tax (VAT)</p>	<p>Every legal and physical person, who supplies goods or provides services, which are subject to VAT, must be registered for VAT purposes, if turnover exceeds €18,000 per year. VAT is calculated and paid on the delivery of goods and services and on imports of goods.</p> <p>The general VAT rate for the taxable supply of goods and services or imports is 21%.</p>	<p>Subjects of reduced rate (7%) are staplefoods (milk, bread, fat, oil and sugar), medicines, orthotic and prosthetic devices, textbooks, teaching aids, books, monographs and serial publications, accommodation services in hotels, motels, tourist settlements, camps and villas, drinking water, daily newspapers, public transportation, etc.</p> <p>Taxation of products and services is calculated according to the place of consumption.</p> <p>Export of goods is exempt from VAT payment, while import of goods is taxed with same treatment as domestic product.</p>

Real Estate Transfer Tax	<p>According to Montenegro tax regulation, the transfer of property is taxed at the rate of 3%. The tax base for property transfer tax is the value stated in the Purchase Agreement. Only in cases when the value from the Purchase Agreement is not realistic (is not close to market value) the municipal market value calculation will be applied.</p> <p>The Property Transfer Tax shall not be paid in a case when the real estate is included in the company's capital as contribution in kind.</p> <p>The taxpayer is the buyer i.e. acquirer of the real estate. The transfer of the property must be reported to the Tax authorities by submitting the tax return within 10 days as from the date the Sale and Purchase agreement is signed.</p>
Real Property Tax	<p>A property tax is levied on a real estate property in Montenegro. The owner (titleholder) of the property (including foreign person or Company) is liable to pay this tax, which is set by municipal tax authorities. This tax is levied on market value of the property with rates ranging from 0,25% to 1, 00%. For certain types of real estate, the rate can be higher (up to 5.5%)</p>
Non-resident Taxation	<p>For non-resident entities, only the profit related to the business unit in Montenegro is liable for taxation.</p> <p>The income that a non-resident physical person generates from activities performed through a business unit in Montenegro is subject to taxation.</p> <p>A non-resident physical person, who does not operate a business unit in Montenegro, is also taxed on the income generated from royalties, interest, and the rental of immovable property located in Montenegro.</p> <p>Tax rate is 9% for monthly income up to 720€ gross. Tax rate of 11% applies for gross monthly income above 751€</p>





*This guide has been prepared
by EUROFAST, an independent
member of Antea*

EUROFAST

Bul Sv Petra Cetinjskog 112
81000 Podgorica, Montenegro
Tel.: + 382 20 228 490
podgorica@eurofast.eu
www.eurofast.eu



Alliance of
independent firms

Mallorca, 260 àtic
08008 – Barcelona
Tel.: + 34 93 215 59 89
Fax: + 34 93 487 28 76
Email: info@antea-int.com
www.antea-int.com

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