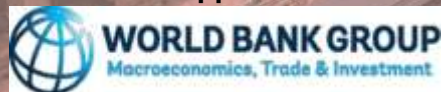


MAP REA

Montenegro Investment Incentives Inventory

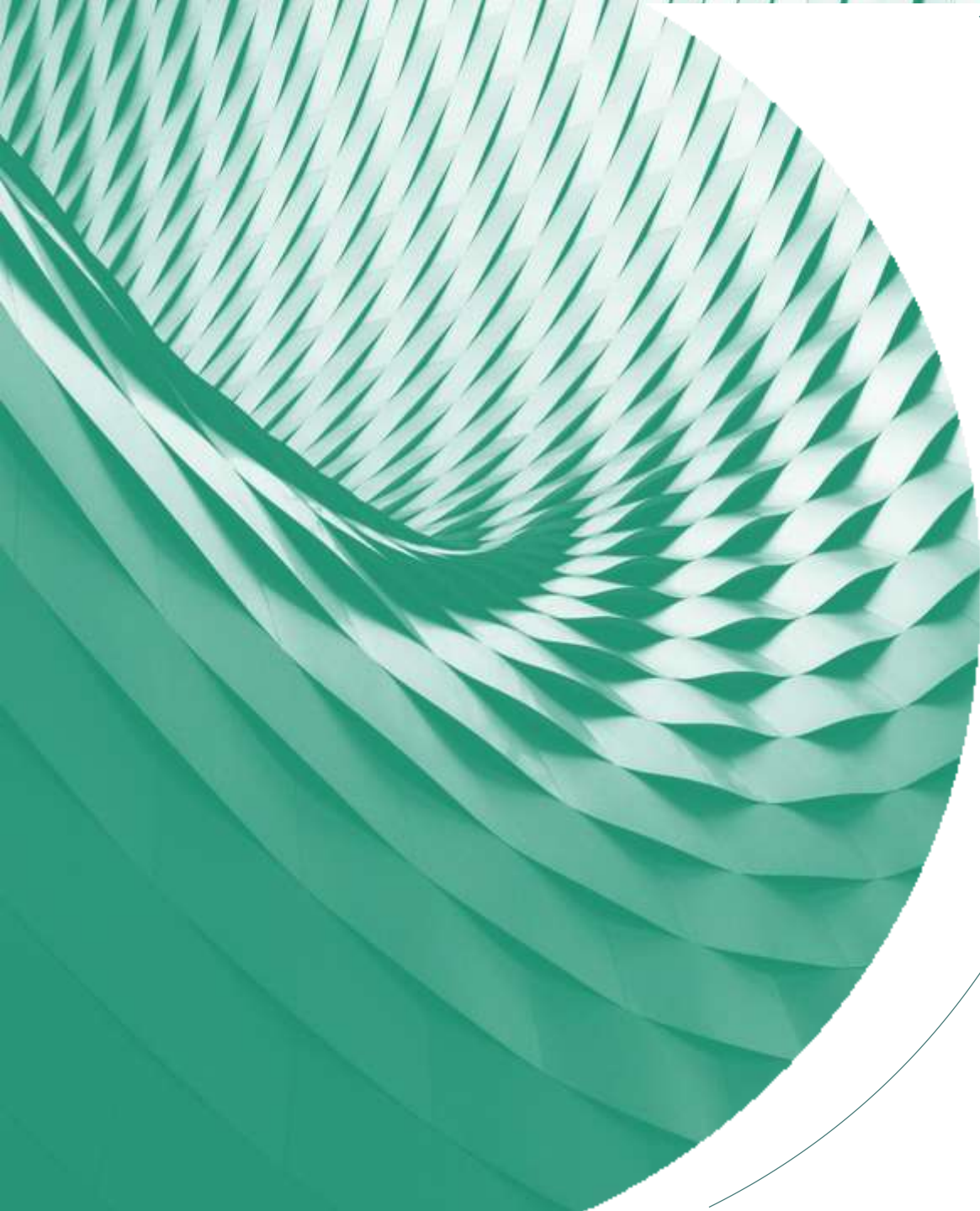
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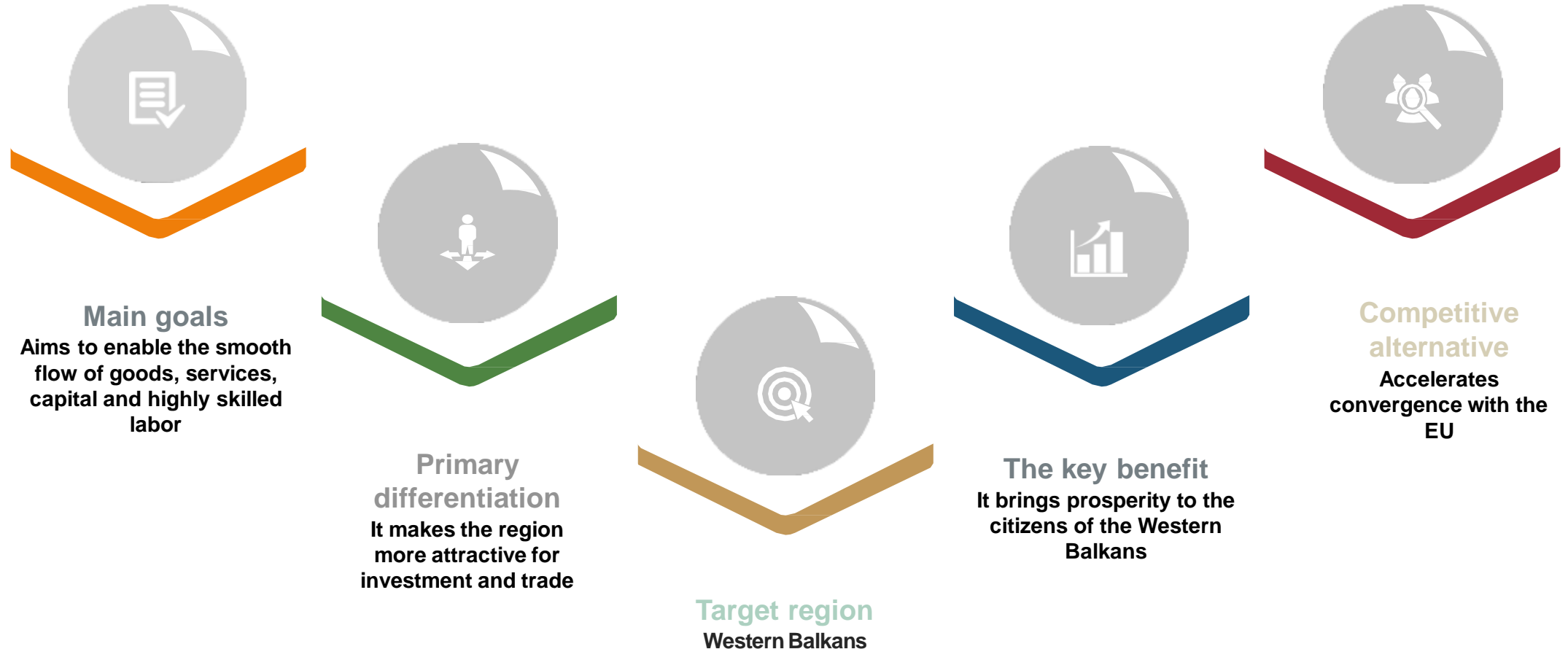


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Multi-annual Action Plan for a Regional Economic Area

MAP REA



RIRA – context and goal

The Regional Investment Reform Agenda (RIRA) was endorsed by representatives of the six economies of the Western Balkans (WB6) at the Ministerial Meeting of the South East Europe Investment Committee (SEEIC) held in Tivat, Montenegro, on May 11, 2018.

Starting point



Intention

To make the region an attractive destination for investment, but also gives individual economies the opportunity to take advantage of the comparative advantages of this process.

Goal

The goal of RIRA is greater harmonization of WB investment policies with European Union (EU) standards and best international practices, within the SEE 2020 Strategy, the Central European Free Trade Agreement (CEFTA) and EU pre-accession and accession processes.

INVESTMENT REFORM ACTION PLAN

IRAP 2019 - 2020

Area 1

Investment Entry
&
Establishment



Area 3
Investment Attraction & Promotion

Area 2

Investment Protection & Retention

- The State-level Investment Reform Action Plan (IRAP), adopted on May 9, 2019, sets out the implementation period, the lead agency and the expected concrete and transparent results as an integral part of the RIRA implementation.
- Strengthens individual investment reform efforts.
- Reform activities are structured in these three different areas listed in the RIRA.
- The achievements represent the concrete results of certain activities of the Government.

MAP REA

PILLAR 2 - INVESTMENT POLICY

2017

- Implementation and supervision of investment reforms in WB6 in accordance with the established regional investment reform agenda

2018

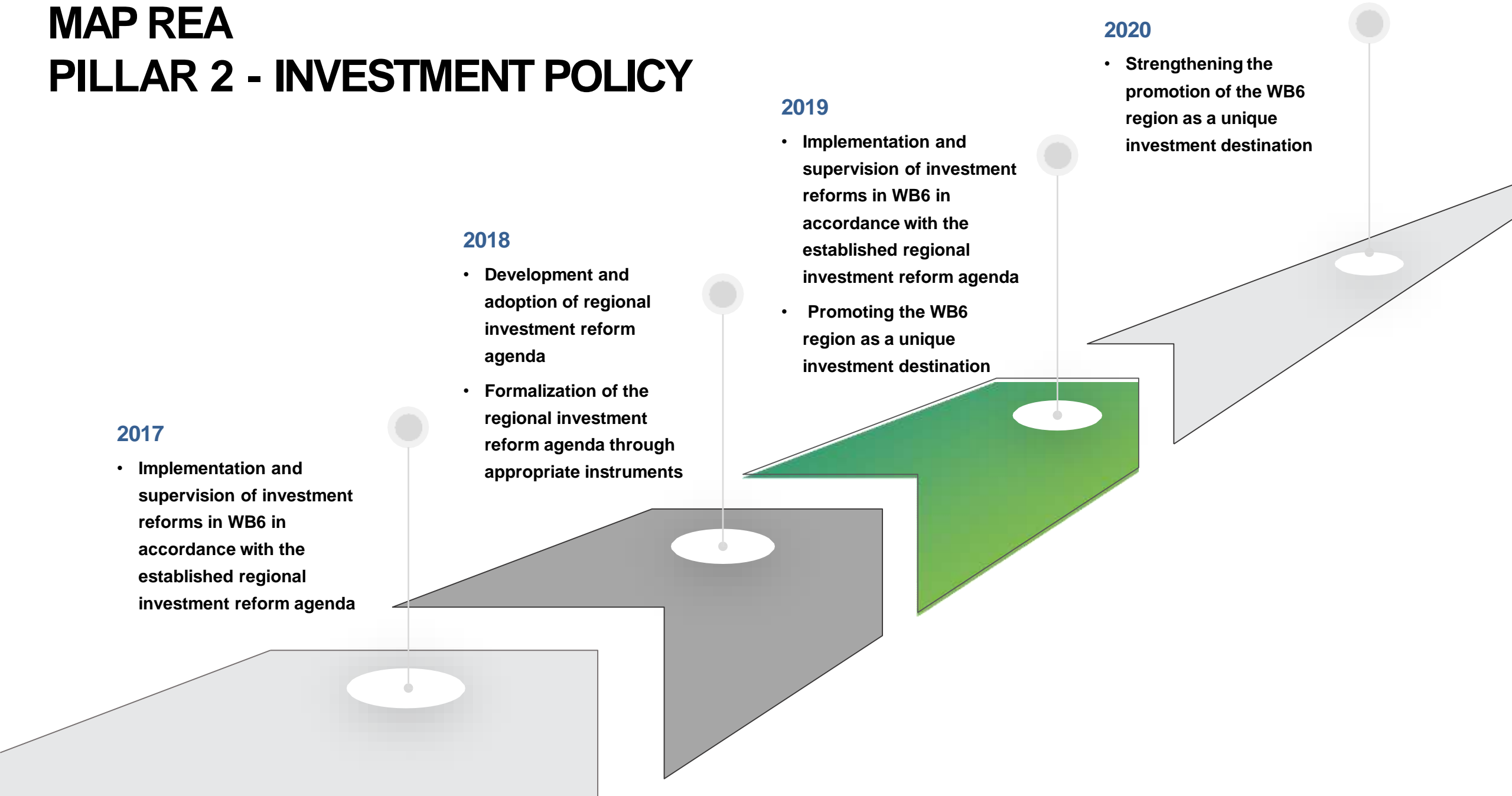
- Development and adoption of regional investment reform agenda
- Formalization of the regional investment reform agenda through appropriate instruments

2019

- Implementation and supervision of investment reforms in WB6 in accordance with the established regional investment reform agenda
- Promoting the WB6 region as a unique investment destination

2020

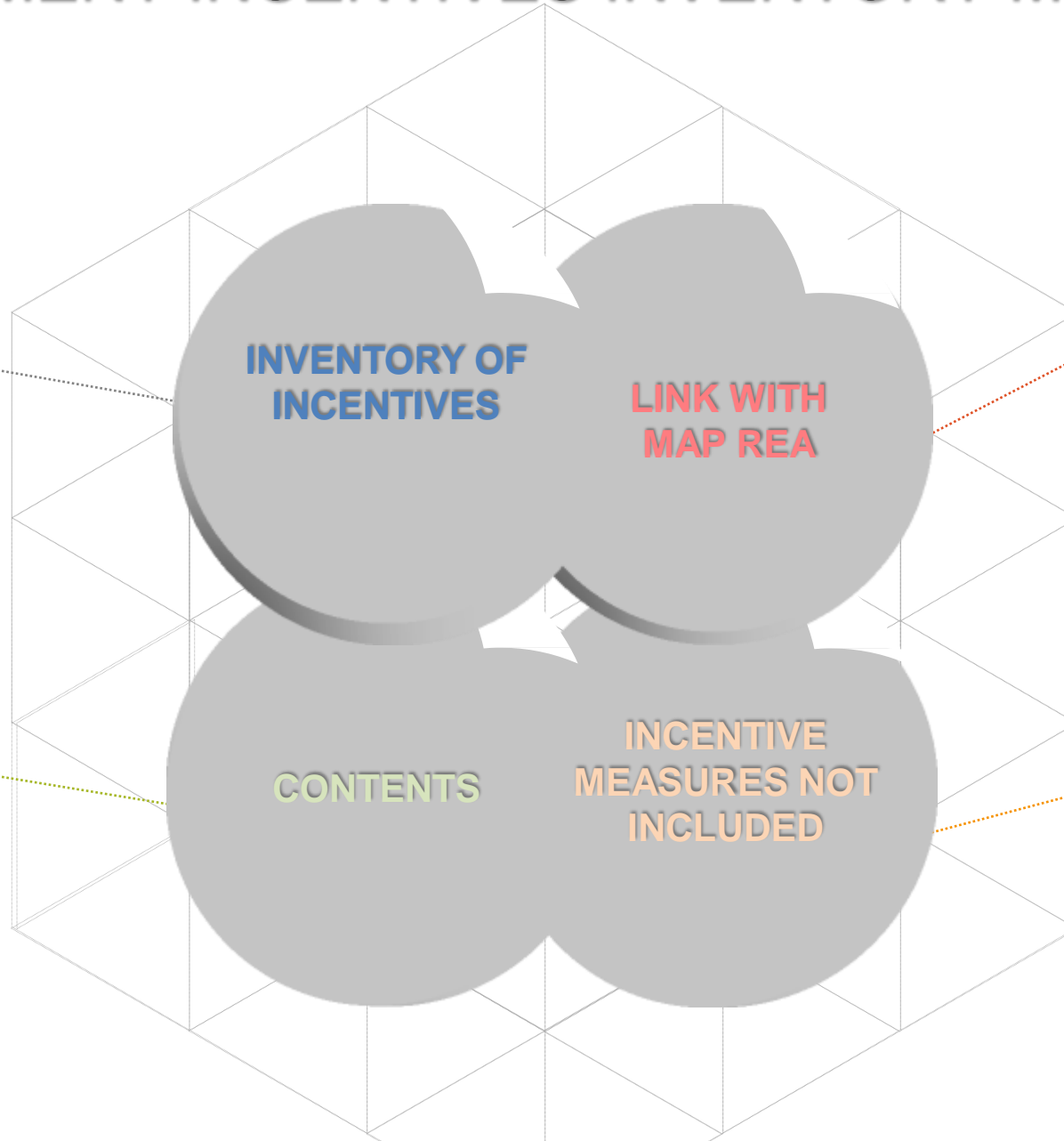
- Strengthening the promotion of the WB6 region as a unique investment destination



INVESTMENT INCENTIVES INVENTORY MEASURES

- Publicly available database of incentives provided by different government agencies to investors in different sectors and geographical locations.

- Types of incentives: taxation, customs and financial incentives (feed-in tariffs, grants, subsidies), etc.
- Legal basis: primary legislation.
- Sectors: All sectors.
- Geographical coverage: Mostly state (national) level.



- IRAP activity 6.2.1: Carry out a detailed mapping of incentives available at all levels of government and compile a comprehensive and up-to-date list of incentives in Montenegro.

- Other non-fiscal incentives: regulatory incentives, free trade agreements.
- Non-government-funded / donor-funded incentives: EIB / EBRD / UNDP / WBG / EU soft loans, grants, etc.

WHY IS THE INVESTMENT INCENTIVES INVENTORY IMPORTANT

FOR INVESTORS

- Reduction of time and costs related to research, identification and application for incentives.
- Raising awareness of available incentives that can help attract more beneficiaries.

FOR THE GOVERNMENT

- Identify tax expenditures for private investment and estimate the costs and benefits of incentives.
- Promote investment opportunities by using information on incentives as part of investment promotion material
- Improve policy coordination between government bodies involved in economic policy-making, making relevant information available to all stakeholders.

FOR OTHER STAKEHOLDERS

- Increase transparency and access to information on incentives provided to firms.
- Help conduct research and evaluation of investment policy, fiscal expenditures, etc.



WHY GOVERNMENTS NEED TO EVALUATE THE INVENTORY OF INVESTMENT INCENTIVES



01

Financial Analysis

- This helps to assess the profitability of the various investment incentives via a cost benefit analysis (CBA) of programs implemented by the Ministry of Economic Development and other ministries.



02

Moralists Rationale


- This helps to allocate cost values that might address ethical concerns raised by proposed investment incentives.



03

Socio-economic Benefits

- This helps to compare various investment incentives and estimate their impact on social policies.



04

Risk Analysis

- This helps to measure the effectiveness and efficiency of various investment incentives as relates to risk management.

MONTENEGRO INVESTMENT INCENTIVES INVENTORY

Personal income tax exemption

1

Newly established manufacturing companies that operate in economically underdeveloped municipalities, which employ a person for an indefinite period of time or for at least five years, are exempted from paying income tax for such employee, for a period of four years from the date of employment.

Income tax exemption

3

Tax exemption for newly established legal entities that perform activities in economically underdeveloped municipalities. The calculated income tax for the first eight years of operation of such companies is reduced by 100%, provided that the total amount of tax exemption for a period of eight years may not exceed 200,000.00 euros.

Reduction of income tax liability

5

A legal entity that pays the calculated income tax within the period determined by law may exercise the right to reduce the tax liability by 6% of the calculated and paid income tax.

Exemption from part of the pension and disability insurance contributions

2

Exemption from part of the contributions for pension and disability insurance, which are borne by the employee and the employer, is allowed for employee's salary not exceeding the average monthly salary in Montenegro, according to the administrative body responsible for statistics, in the amount of:

- 1) 90% of contributions in 2021;
- 2) 60% of contributions in 2022;
- 3) 30% contribution in 2023.

Tax exemption of personal income tax

4

Newly established production companies operating in economically underdeveloped municipalities that employ a person for an indefinite period of time or for at least five years, are exempt from the obligation to pay calculated and withheld income tax for that employee for a period of four years of the day of employment.

Tax exemption VAT - zero rate for catering facilities with the rating of five or more stars

6

The Law on VAT prescribes exemption from VAT for the supply of products and services for the construction and equipping of a catering facility with the rating of five or more stars.

MONTENEGRO INVESTMENT INCENTIVES INVENTORY

VAT exemption - energy facilities

7

The Law on VAT prescribes the exemption from payment of VAT on the supply of products and services for the construction and equipping of an energy facility for the production of electricity with an installed capacity of more than 10 MW.

Income VAT refund

9

If the tax liability for the taxable period is lower than the input VAT, the difference is either recorded as tax credit for the coming period or refunded, following the taxpayer's request, within 60 days from the date of submission of the VAT return. To taxpayers who are predominantly involved in export and those who have shown excess input VAT in three consecutive VAT assessments this difference is refunded within 30 days from the date of submission of VAT return.

Introduction of international standards

11

Entrepreneurs, micro, small and medium enterprises are eligible to participate in the Program Line. The support is intended to co-finance the costs of the following activities: Accreditation of conformity assessment bodies; Regulation of operations in accordance with international business standards (implementation / certification / recertification).

VAT exemption - manufacturing capacities

8

The Law on VAT prescribes the exemption from payment of VAT on the supply of products and services for the construction and equipping of capacities for the production of food products classified within sector C group 10 of the Law on Classification of Activities ("Official Gazette of Montenegro", No. 18/11), with investment value exceeding EUR 500,000.

VAT exemption - free zone

10

The Law on VAT prescribes the exemption from VAT payment for the delivery of products to a free zone, free and customs warehouses and the delivery of products within a free zone, free and customs warehouses.

Modernization of production processes

12

The right to participate in the Program Line have registered micro, small and medium companies and entrepreneurs who have been operating for at least 2 years and whose predominant activity is registered in the fields of manufacturing. Funds may be intended for the purchase of: new production machines and / or specialized equipment commissioning of purchased machinery, and used production machinery and / or equipment (not older than five years) and / or specialized equipment for commissioning of purchased machinery.

MONTENEGRO INVESTMENT INCENTIVES INVENTORY

Entrepreneurship development

13

Eligible applicants: registered micro, small and medium companies and entrepreneurs who have been operating for at least 2 years and whose predominant activity is registered in the fields of manufacturing. Funds may be intended for the purchase of: new production machines and / or specialized equipment commissioning of purchased machinery, and used production machinery and / or equipment (not older than five years) and / or specialized equipment for commissioning of purchased machinery.

Support for digitalization

15

The support is intended to co-finance the costs of developing a personalized solution for digitization of organizational and business processes of enterprises and the following activities: development and / or implementation of solutions for digitalization of human resources management; and / or implementation of solutions for digitalization of sales and / or communication with customers / suppliers.

Support for small investments of entrepreneurs (women, youth and craftsmen in business)

17

Support to entrepreneurs and MSMEs 100% owned by women, or persons up to 35 years of age and craftsmen intended to co-finance the costs of procurement of craft equipment, fixed assets - equipment and part of intangible assets - software directly involved in the process, or service provision.

Decree on business zones at the state and local level - tax relief for personal income tax, contributions for compulsory social insurance on salaries and local taxes and fees

14

For persons employed in the business zone, the business zone user shall not pay: 1) Contributions on wages for mandatory social insurance (contribution for pension and disability insurance, contributions for health insurance, contributions for unemployment insurance) and contributions to the Labor Fund, and 2) Personal income tax, for a period of 5 years from the date of positioning the capacity in the business zone.

Stimulating the circular economy

16

Support intended for co-financing the costs of the following activities: Component I - wastewater treatment in the agro-food industry intended for entrepreneurs and micro enterprises; Component II - industrial wastewater treatment for small and medium enterprises and hotels.

Providing mentoring services

18

Mentoring process takes place according to the established mentoring scheme, developed in cooperation with the Japan International Cooperation Agency (JICA), according to which the mentor with the founder and / or responsible person of the entity spends a certain number of hours, 25 for newly established companies and 50 for existing ones, at the user's premises (not less than 70% of the total number of planned hours).

MONTENEGRO INVESTMENT INCENTIVES INVENTORY

Customs exemptions - free zones

19

Customs and customs duties shall not be paid for goods brought into a free zone and warehouse used or consumed in accordance with the Law on Free Zones.

The above goods may remain in the zone or warehouse indefinitely.

Value Added Tax (VAT) relief - free zones

20

The goods entered into the free zone and the free warehouse and used or consumed in accordance with Law on Free Zones shall not be subject to customs duties and customs charges.

The goods referred to above may remain in the zone or warehouse indefinitely

Real estate tax relief for catering facilities

21

For a catering facility, the tax rate may be reduced in relation to the tax rate determined in accordance with Article 9 of this Law, for a catering facility: category 3 **** up to 15%; category 4 **** up to 30%; category over 4 **** to 70%.

Tax breaks in real estate tax for agricultural producers

22

For real estate whose owner or user is a person entered in the register of agricultural producers, a legal entity and an entrepreneur engaged in the production, processing, packaging or manufacturing of agricultural products produced in Montenegro, and which are used to perform this activity, the tax rate may be reduce in relation to the tax rate determined by law by up to 90% of the tax liability.

Incentives for the use of renewable energy sources and highly efficient cogeneration-feed in-tariff

23

The use of renewable energy sources and highly efficient cogeneration is encouraged by promotional and incentive measures in accordance with the law. Operators of plants that produce electricity from renewable energy sources can obtain the status of "privileged producer" and then acquire the right to an incentive price for the produced electricity in accordance with legal requirements. This financial incentive for NEW projects in the renewable energy sector was abolished in 2018.

Agrarian policy measures

24

The agri-budget contains: planned funds for individual agricultural policy measures; conditions and criteria for the use of incentive measures determined by this Law; manner of control in the implementation of agricultural policy measures; the manner of monitoring and evaluating the effects of agricultural policy measures; the manner and procedure of allocating incentive funds; measures to eliminate identified irregularities in the use of incentives.

MONTENEGRO INVESTMENT INCENTIVES INVENTORY

Subsidies for the development of agriculture and rural areas

25

Agri-budget measures through which Montenegrin farmers can gain support through various measures and programs defined by the Agri-budget in the form of direct payments and through support to investments in crop and livestock production. The support is provided to producers which comply with the requirements and conditions laid down in the Agri-budget. The amount of the Agri-budget changes on an annual basis.

Incentives for the development of research and innovation

27

Incentives for the development of research and innovation, in terms of this law are reduction, exemption or relief in relation to: 1) personal income tax and surtax on tax; 2) contributions for compulsory social insurance; 3) corporate income tax; 4) fees for communal equipment of building land; 5) use of real estate and / or land owned by the state; and 6) real estate tax.

Exemption from contributions for compulsory social insurance

29

Exemption from contributions for startups and spin-offs (for a period of three years), persons employed in scientific research institutions and entities performing scientific research, or innovation activity (for the duration of the project), persons performing innovative activity for the needs of foreign legal entities (freelancers) whose contributions are reduced by 80%.

Tax relief - customs duties and value added tax

26

Equipment used for scientific research, which is received as a donation from abroad or is purchased abroad, may be exempt from customs duties and value added tax.

Co-financing of scientific research and innovation activities

28

Support to the scientific research community, where more detailed conditions and procedure for approval and manner of using funds for innovation activities referred to in paragraph 1 of this Article, shall be prescribed by the public administration body, or local self-government unit implementing the support program or fund encouraging innovation activities, in accordance with the regulations governing state aid.

Exemption from corporate income tax

30

The right to exemption can be exercised by: legal entities that are registered in the Register of Innovation Activity and reinvest funds from the realized profit in their scientific research/innovative projects; legal entities that invest in other entities of innovation activity, namely in shares or stocks of startups, spin-offs and venture capital funds for investment in entities that perform innovation activity or donate funds to scientific research institutions and entities of innovation infrastructure; legal entities that provide innovation infrastructure.

MONTENEGRO INVESTMENT INCENTIVES INVENTORY

Reduction of the fee for utility equipping of building land

31

The right to reduce the fee for utility equipping of building land can be exercised by legal entities as subjects of innovation activity for one commercial building, which is not of public interest, if at least 75% of its total net area is used for the implementation of innovative programs or projects.

The right to use real estate and/or land owned by the state

32

The right to use real estate and/or land owned by the state, free of charge or under more favorable market conditions, in accordance with the law, may be exercised by legal and natural persons who have received the status of beneficiaries of incentives, in accordance with the law governing state property.

Real estate tax reduction

33

The right to deduct real estate tax on real estate registered as business premises may be exercised by legal entities carrying innovation activity if the real estate is used for realization of scientific research, or innovative program or project, innovative program of innovation infrastructure subjects, or work program of the Fund, on the basis of which the status of beneficiary of incentive measures has been obtained.

Exemption from customs duties

34

Exemptions from customs duties in accordance with the Customs Law. Goods for which an international agreement that binds Montenegro provides for exemption from customs duties.

Exemption from customs duties when placing goods in free circulation

35

Exemptions from customs duties in accordance with the Regulation on the conditions and procedure for exercising the right to exemption from customs duties.

Financial support - co-financing in tourism in accordance with the Law on Tourism and Hospitality Industry

36

Support for marketing activities in emitting markets through the following measures: development of innovative tourist products that enrich the tourist offer; organizing associations of private accommodation providers; organizing events.

MONTENEGRO INVESTMENT INCENTIVES INVENTORY

Tourist development zones and state incentives – in accordance with the Law on Tourism and Hospitality Industry

37

The zone is determined on state-owned land as a functional unit with tourist infrastructure managed by a company or other legal entity on the basis of a feasibility study for investment projects worth a minimum of EUR 3,000,000 and at least 50 accommodation units, with minimum rating of four stars. The criteria for determining the zones, the content of the feasibility study and the initiative for the investment project are prescribed by the Ministry.

Economic development in accordance with the Law on Spatial Planning and Construction of Structures

38

In accordance with Article 239 of the Law on Spatial Planning and Construction of Structures, investors for certain types of structures are exempted from fee for utility equipping of building land. The measure is of a temporal character and lasts until the adoption of the general regulation plan.

Exemption from payment of a special fee for the construction or reconstruction of a hotel on the Montenegrin coast

39

The Law on Regional Water Supply provides for a special fee for the construction or reconstruction of facilities on the Montenegrin coast or region. A special fee is not paid for investments related to the construction or reconstruction of facilities that serve the public interest in areas of communal, as well as railway and airport infrastructure facilities, facilities for production and electricity distribution and facilities for education, science, health, culture and social protection.

Special fee for the construction or reconstruction of the following primary catering facilities is paid at the rate of:

- 0% for 5-star hotels, except for small hotels, boutique hotels and condo hotels;
- 0.5% for 4-star hotels, as well as for small hotels, boutique hotels and 5-star condo hotels.

Co-financing of projects and programs of non-governmental organizations supported by EU funds

40

Non-governmental organizations implementing EU projects on the territory of Montenegro can apply for funds from the state budget (0.1% of the current state budget), which are allocated for this purpose on the basis of a public call published by the Ministry of Public Administration, Digital Society and Media, all in accordance with the Law on Non-Governmental Organizations (Official Gazette of Montenegro, No. 39/11 and 37/17) and the accompanying Regulation on the procedure and manner of co-financing projects and programs of non-governmental organizations supported by European Union funds.



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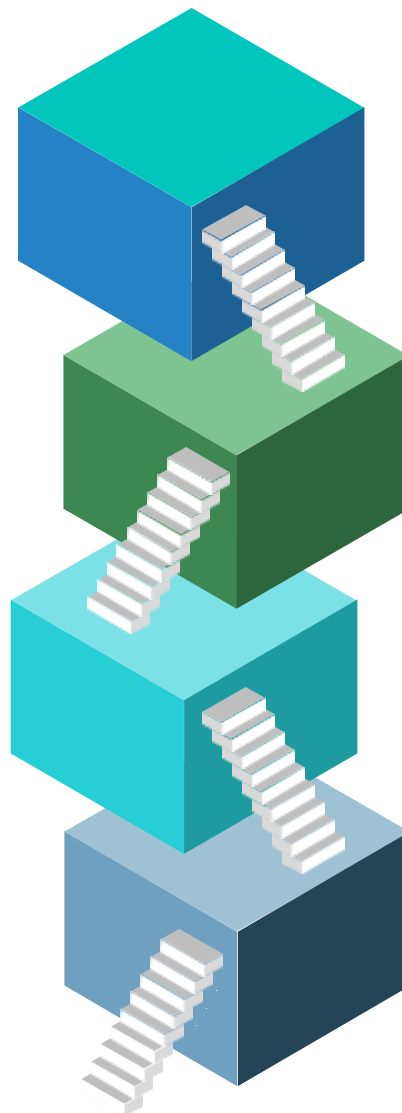
MONTENEGRO INVESTMENT INCENTIVES INVENTORY

40 investment incentives

List of incentive measures by types:

- 7 value added taxes
- 3 income taxes
- 4 custom duties
- 3 personal income taxes
- 14 financial incentives
- 4 real estate taxes
- 1 contribution for compulsory social insurance
- 1 surtax on personal income tax
- 3 local fees

18 incentive measures in the field of economic development;
3 incentive measures at the local level - LGUs;
Additional incentive measures from the local level are prescribed and implemented by local self-government units.



11 sector-oriented incentive measures:

- Production, services, MSMEs, NGOs, Agro-business, agriculture and fisheries, Tourism, renewable energy sources, Information technologies, scientific research and technology, innovations, crafts, etc. Industry, construction
Food production

Montenegro Inventory of Investment Incentives is available on the official website of the Ministry of Economic Development and the Investment Agency of Montenegro

<https://gov.me/mek>
<https://mia.gov.me/me/registar-podsticajnih-mjera-za-investicije/>



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