

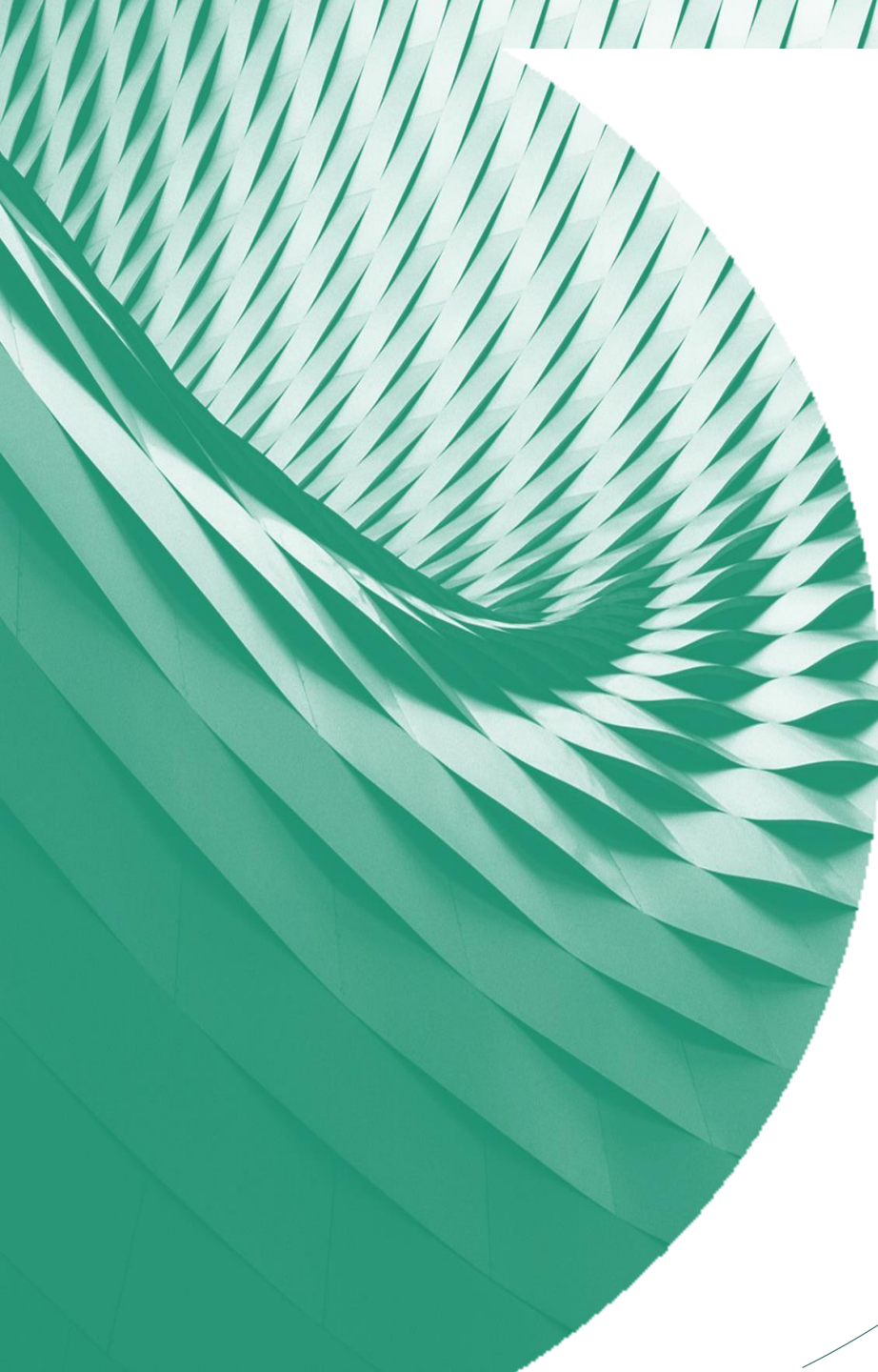
Montenegro Investment Incentive Inventory

2022

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Ministry of economic
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Common Regional Market - CRM (2021-2024)

- The economies of the Western Balkans have bound to co-operate in improving economic co-operation and regional integration through the adoption of the Common Regional Market (hereinafter “CRM 2021-2024”) at the Western Balkans Summit held on November 10, 2020, in Sofia, in order to turn the priority goals of regional cooperation into effective reforms.
- The Common Regional Market WB6 CRM (2021-2024) builds on the results of the Multi-annual Action Plan for a Regional Economic Area (MAP REA 2017-2020) and aims to connect the economies of the Western Balkans through the free movement of people, goods, services and capital and thus encourage creating regional digital, industrial, investment and innovation links.
- The goal is to create a regional market based on EU rules and procedures and bring the Western Balkans closer to the European single market.

REGIONAL INVESTMENT AREA – OBJECTIVES

- **Introducing a dynamic regional investment space in the Western Balkans, in terms of growth of foreign direct investment (FDI), renewal and construction of new value chains, while at the same time strengthening their participation in European and global value chains and job creation.**
- **Removing barriers to regional investment supply**, enabling economies of scale, geographically diversified operations and an overall more efficient allocation of resources within the regional market, thus encouraging the integration of companies from the region into international value chains.
- **Access to larger and more sophisticated regional markets** is desirable for investors, because it allows them to benefit from economies of scale and organize their production processes in the region in a much more efficient way. In the case of an efficiency-oriented investment, investors will choose to locate in a particular economy only if that economy is well integrated with neighboring markets (e.g., functional cross-border infrastructure, simplified export procedures, licensing requirements, standards, etc.).
- **Increased coherence of investment policies and integrated markets** enables companies to fragment their production processes across the region, which reduces time and costs of investments and can encourage the development of regional value chains.

ECONOMIC BENEFITS OF REGIONAL ECONOMIC INTEGRATION

FOR CITIZENS

- Enabling the smooth flow of goods, services, capital and highly skilled labor,
- Accelerating economic prosperity and stability,
- Creating new jobs and improving living standards.

FOR ENTREPRENEURS

- Easier access to investments and simplification of business establishment procedures,
- Access to the market of over 20 million consumers,
- Better integration into the EU and world trade chains,
- Application of innovation and digitalization in business.

FOR THE GOVERNMENT

- Increasing inflows of foreign and intra-regional investments,
- Accelerating economic growth, entrepreneurial activity and trade,
- Favorable investment conditions make the investment environment more attractive for foreign investment,
- Goods and services from the region are becoming more competitive in the global market,
- Better preparedness for EU accession.

COMMON REGIONAL MARKET - CRM (2021-2024)



Main goals

Aims to enable the smooth flow of goods, services, capital and highly skilled labor



Primary Differentiation

It makes the region more attractive for investment and trade



Target region

Western Balkans
Europe



The key benefit

It brings prosperity to the citizens of the Western Balkans

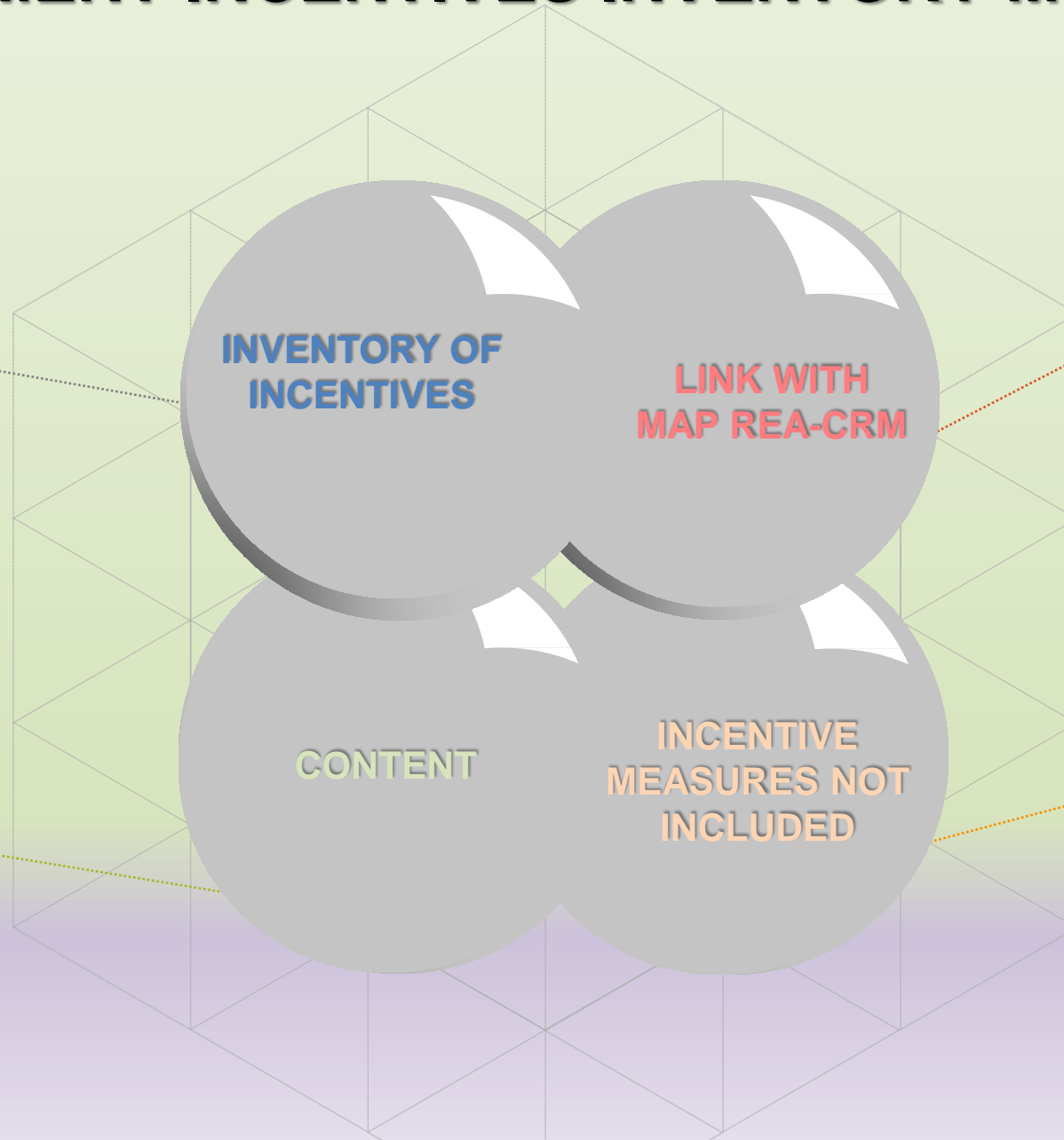


Competitive Alternative

Accelerates convergence with the EU

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, excise taxes and financial incentives (fees, grants, subsidies), etc.
 - Legal basis: primary legislation.
 - Sectors: All sectors.
 - Geographical coverage: Mostly state (national) level, partly local.



- 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.
 - Common Regional Market - CRM 2021-2024
-
- Other non-fiscal incentives: regulatory incentives, free trade agreements.
 - Non-government-funded/donor-funded incentives: EIB / EBRD / UNDP / WBG / EU soft loans, grants, etc.
 - Incentives at the local level: special incentives provided by local self-government units, etc.

WHY IS THE INVESTMENT INCENTIVES INVENTORY IMPORTANT?

FOR INVESTORS

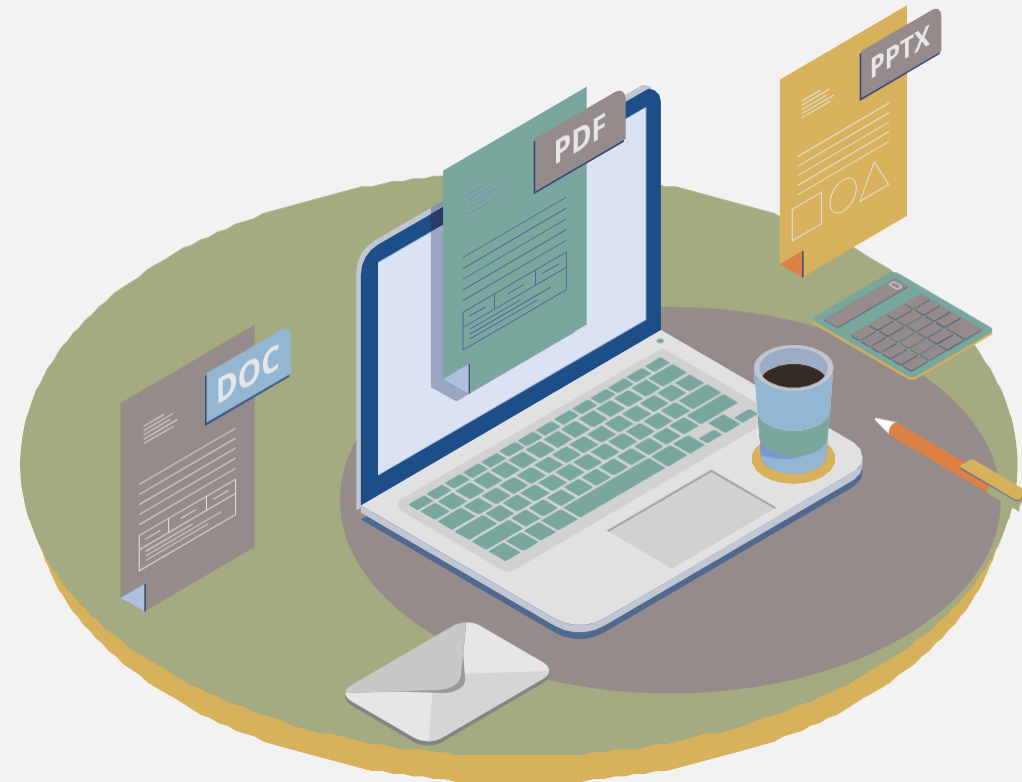
- **Reduction of time and costs** related to research, identification and application for incentives.
- **Raising awareness of available incentives** that can help attract more beneficiaries.

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 costs more efficiently and provide investment incentives while respecting the principles of ethics and fairness



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 (MIF)

1

(1) Exemption from paying part of the personal income tax is allowed for the employee's salary which is not higher than the average monthly salary in Montenegro, according to the data of the administrative body responsible for statistics, in the amount of: 1) 90% tax in 2021; 2) 60% tax in 2022; 3) 30% tax in 2023.

Exemption from part of the pension and disability insurance contributions (MIF)

2

(1) 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.

Income tax exemption of newly established production companies (MIF)

3

This is a tax exemption for newly established production companies 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.

Tax exemption of personal income tax (MIF)

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 hospitality facilities with the rating of five or more stars (MIF)

5

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

VAT exemption - energy facilities (MIF)

6

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.

MONTENEGRO INVESTMENT INCENTIVES INVENTORY

VAT exemption - manufacturing capacities (MIF)

7

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 with investment value exceeding EUR 500,000.

VAT exemption - free zone (MIF)

9

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.

Introduction of international standards (MEDT)

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).

Income VAT refund (MIF)

8

If the amount of tax liability (output tax) for the taxable period is lower than the input VAT, which the taxpayer can deduct in the same tax period, 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.

Procurement of high value equipment (MEDT)

10

The Ministry of Economic Development approves the refund of part of the costs in the amount of up to 40% of the amount of eligible costs excluding VAT, i.e., in the amount of not less than € 8,000.00 and not more than € 80,000.00 (the value of equipment ranges from € 20,000 to € 200,000, net invoiced value), and 50% of the amount of eligible costs without VAT, in the amount of € 10,000.00 to € 100,000.00 for companies owned by women, youth, and companies from less developed municipalities.

Development of the manufacturing industry (MEDT)

12

The subject of the Program is support for investments in equipment necessary for the improvement or expansion of existing capacities, increasing the volume and expanding production to new products and production processes. The program includes the implementation of the planned investment - procurement of equipment (new and used), in part or in full through a credit arrangement concluded in the period January 1 - November 30, 2022 with the Investment and Development Fund (IRF) and commercial banks.

MONTENEGRO INVESTMENT INCENTIVES INVENTORY

Craft development and promotion (MEDT)

13

Procurement of equipment - Procurement of new and / or used equipment (not older than five years) and specialized tools, which are in the function of creating and promoting products and / or services for performing craft activities. Promotion of crafts - Organization and participation in domestic and international fairs and events, as well as design and production of promotional material.

Support for digitalization (MEDT)

15

Through the Digitalization Support Program Line, support is intended to co-finance the costs of the following activities: Component 1: Integration of business software and web solutions; Component 2: Implementation of specialized (personalized) software solutions of greater complexity; Component 3: Improving employees' digital skills.

Support for small investments (MEDT)

17

The program line for support of small investments implies the award of grants for the purchase of fixed assets - equipment that are directly involved in the process of production and service: 1. new production equipment and / or machinery, which is directly in the function of creating products and / or services; 2. used production equipment and / or machinery, not older than three years, which is directly in the function of creating products and / or services; 3. new computer equipment, laptops, printers, scanners and other office equipment, as well as equipment for the development of creative industries; 4. new parts, specialized tools for machines;

Decree on business zones (LGU and MEDT)

14

For persons employed in the business zone, the business zone user shall not pay: 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 Personal income tax, for a period of 5 years from the date of positioning the capacity in the business zone.

Stimulating the circular economy (MEDT)

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; Component III - Waste Management and Recycling.

Support for internationalization (MEDT)

18

Program line for support of the internationalization of MSMEs. Support is intended to co-finance the costs of the following activities: Component 1. Appearance at international fairs; Component 2. Company visits to fairs in order to connect with foreign partners / participation in B2B meetings; Component 3. Development of promotional material.

MONTENEGRO INVESTMENT INCENTIVES INVENTORY

Customs relief – free zones (MEDT)

19

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. Exemption from VAT on deliveries of products to the free zone, free customs warehouses and deliveries of products within the free zone and free customs warehouses.

Real estate tax relief for hospitality facilities (MIF)

21

For a hospitality facility, the tax rate may be reduced for a hospitality facility which is category 3 * up to 15%; category 4 * up to 30%; category over 4 * to 70%.

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

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 incentive measure applies to plants that have acquired the status of "privileged producer" by the date of entry into force of the Decree on the termination of the Decree on tariff system for determining the incentive prices for electricity produced from renewable energy sources and high efficient cogeneration (Official Gazette of Montenegro, no. 82/21), i.e., until July 29, 2021.

Value Added Tax (VAT) relief - free zones (MEDT)

20

The goods entered into the free zone and the free customs warehouse and deliveries of products within the free zone and customs warehouses, which are used or consumed in accordance with Law on Free Zones shall not be subject to customs duties and customs charges. Goods from the zone and warehouses that are sent to the rest of the territory of Montenegro for placing on the market are subject to the value added tax, as well as the application of restrictive or protective measures prescribed by the law governing foreign trade. The value of the listed domestic raw materials or domestic components in the goods above is not included in the customs value.

Real estate tax relief for agricultural producers (MIF)

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.

Agrarian policy measures (MAFWM)

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 (MAFWM)

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.

Tax incentives for scientific research (MISTD)

27

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 based on the opinion of the Ministry.

Co-financing of scientific research and innovation activities (MISTD)

29

One of the key mechanisms for supporting the scientific research community, in the segments where it is estimated that it is most needed by scientists and researchers from Montenegro. 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.

Agriculture Development Program IPARD II (MAFWM)

26

Measure 1 - Investments in physical capital of agricultural holdings; Measure 3 - Investments in physical capital for processing and marketing of agricultural and fishery products; Measure 7 - Diversification of the farm and business development. Through the mentioned measures, grants are provided to beneficiaries who meet the conditions defined by the Public Calls and the Decree on the implementation and procedure of using funds from the instrument of European Union pre-accession assistance (IPARD II program). 75% of the support is from EU funds, and 25% from national funds.

Incentives for the development of research and innovation (MISTD)

28

The total amount of all reductions, exemptions or reliefs, obtained through the use of incentive measures referred to in paragraph 1 of this Article, for one legal or natural person, may not exceed EUR 300,000 on a three-year basis. Entities of innovation activity may use several incentive measures at the same time, provided that the total amount of incentive measures does not exceed the permitted limit, in accordance with the law governing state aid.

Exemption from contributions for compulsory social insurance (MISTD)

30

Exemption from contributions for startups and spinoffs (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% of the contributions for compulsory social insurance.

MONTENEGRO INVESTMENT INCENTIVES INVENTORY

Exemption from corporate income tax (MISTD)

31

1) legal entities that are registered in the Register of Innovation Activity and reinvest funds from the generated profit in their scientific research / innovative projects; 2) legal entities that invest in other entities of innovation activity, namely in shares or stocks of startups, spinoffs and venture capital funds for investment in entities that perform innovation activity or donate funds to scientific research institutions and entities of innovation infrastructure; 3) legal entities that provide innovation infrastructure; and 4) Fund.

Reduction of the fee for utility equipping of land (MISTD)

32

The right to reduce the fee for utility equipping of construction 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 (MISTD)

33

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 (MISTD)

34

The right to reduce 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 implementation 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. The calculated amount of tax is reduced by 50%, during the status of the beneficiary of incentive measures.

Exemption from customs duties (MIF)

35

Goods for which an international agreement that binds Montenegro provides for exemption from customs duties; agricultural products, fruits of farming, animal husbandry, forestry, fish farming and beekeeping obtained on farms owned by agricultural producers from Montenegro and other products.

Exemption from customs duties when placing goods in free circulation (MIF)

36

The procedure for exercising the right to exemption from customs duties is initiated by submitting a written or oral request. The customs authority, upon the submitted requests for exemption from customs duties, shall decide by a decision, unless otherwise prescribed by this Decree. If an oral customs declaration is approved, the customs authority may decide on the exemption from customs duties in the form of a note on another document, which is submitted to the customs authority in connection with the exemption from customs duties or orally.

MONTENEGRO INVESTMENT INCENTIVES INVENTORY

Co-financing in tourism - Law on Tourism and Hospitality Industry (MEDT)

37

The program includes 4 support measures: Organizing events / festivals, improving the quality of services and offers in camps, improving the offer and raising the quality of services in rural tourism, development of innovative tourist products and services that enrich the tourist offer in rural, cultural, health, sports and other forms of tourism.

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

39

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.

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

41

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

Tourist development zones and state incentives (MEDT)

38

The zone is determined by the Government, at the proposal of the Ministry in charge. 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.

Exemption from payment of a special fee for the reconstruction of a hotel on the Montenegrin coast (MESPU)

40

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 (streets and other public roads with accompanying facilities, public parking spaces, bicycle paths, underground and above-ground passages on public roads, bridges, city promenades, city squares and other public areas in settlements).

Exemption from personal income tax (MIF)

42

It is defined that the subject of taxation of a non-resident natural person is the income earned by a non-resident in Montenegro, unless he earned: income from performing activities electronically with an employer who does not perform activities in Montenegro; and earnings higher than the three average gross earnings generated in the previous year in Montenegro, according to the data of the body responsible for statistics.

MONTENEGRO INVESTMENT INCENTIVES INVENTORY

Reduced VAT rate (MIF)

43

This legal provision stipulates that VAT is calculated and paid at a reduced rate of 7% of turnover of products, services and imports of products, for, inter alia: 6b) services of preparation and serving of food, drinks and beverages, except alcoholic beverages, carbonated beverages with added sugar and coffee in hospitality establishments;

Refund of part of the excise tax when purchasing gas oils as motor fuel for industrial and commercial purposes(MIF)

45

Refund of part of the paid excise duty during the procurement of gas oils used as motor fuel for industrial and commercial purposes (based on Article 30 of the Law on Excise Duties) can be obtained by legal entities and entrepreneurs who are registered and perform activities according to the Law on Classification of Activities ("Official Gazette of Montenegro", No. 18/11) classified within sector C.

Reprogramming of tax (MIF)

47

Taxpayers are allowed to reprogram tax claims. This law regulates the conditions for the reprogramming of tax and non-tax receivables of the tax debtor, write-off of interest and costs of proceedings related to tax receivables and other issues of importance for the reprogramming of tax receivables.

Refund of paid excise duty on excise products (MIF)

44

Refund of paid excise duty on excise products used for the purposes referred to in Articles 44 and 54 of the Law on Excise Duties (based on Article 30 of the Law on Excise Duties).

Granting a license to a user exempt from excise products (MIF)

46

An exempt user of excise products may procure excise products without paying excise duty only if he obtains a license from the customs authority.

Subsidies for the purchase of electric and hybrid vehicles (EcoFund)

48

Award of subsidies for the purchase of new passenger vehicles of M1 category that have: exclusively electric drive, use two energy sources - electric motor and SUS motor ("plug-in hybrid"), as well as vehicles that use SUS motor and electric motor ("full hybrid").

MONTENEGRO INVESTMENT INCENTIVES INVENTORY

Subsidies for procurement and installation of photovoltaic systems (EcoFund)

49

Allocation of subsidies for the implementation of RES projects - for the production of electricity for own needs in network or independent work “On-grid and Off-grid photovoltaic system”.

Subsidies for textbooks and teaching aids (MIE)

50

The Law on Value Added Tax stipulates, in Article 24 a, paragraph 1, item 4, that VAT is calculated and paid at a reduced rate of 7% of the turnover of products, services and imports of products for textbooks and teaching aids. Lower tax rate for the purchase of textbooks and teaching aids when equipping educational institutions.

Exemption from VAT for services of public interest (MIE)

51

Exemption from VAT services of public interest: services of preschool education, schooling and training of children, youth and adults, including turnover of income and services directly related to these activities, if these activities are performed in accordance with regulations governing the field; services and deliveries of products of preschool, primary, secondary and higher education institutions, and institutions of pupil and student standard.



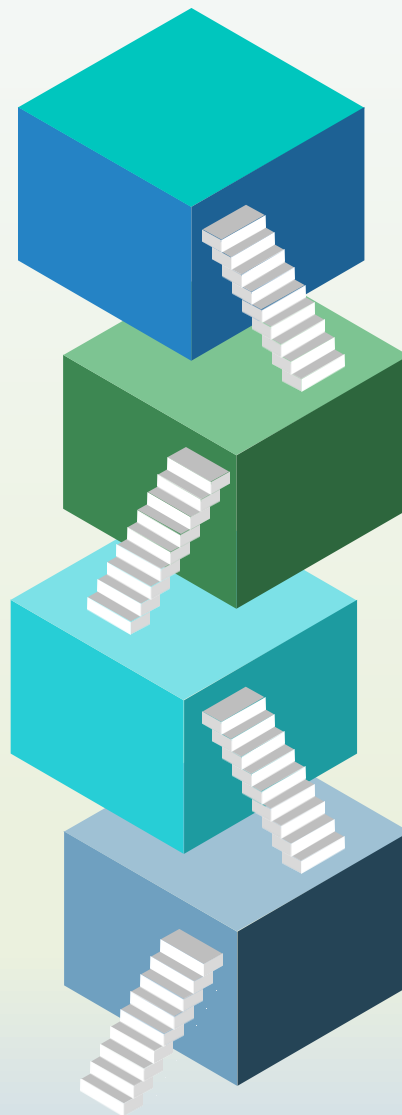
MONTENEGRO INVESTMENT INCENTIVES INVENTORY OVERVIEW

51 investment and fiscal incentives

List of incentive measures by types:

- 9 value added taxes
- 2 income taxes
- 9 custom duties, excise
- 3 personal income taxes
- 20 financial incentives
- 4 real estate taxes
- 1 contribution for compulsory
social insurance
- 3 local fees

20 incentive measures in the field of economic development;
3 incentive measures at the local level -LGUs;
2 incentive measures for the procurement of electric, hybrid
vehicles and installation of photovoltaic systems;
26 tax, customs and excise incentive measures;
Additional incentive measures from the local level are
prescribed and implemented by local self-government
units.



15 sector-oriented incentive measures:

- Production, services, MSMEs, NGOs
- Agribusiness, agriculture and fisheries
- Tourism, Energy and renewable energy sources,
- Information technologies, education, ICT, innovations, crafts, etc.
- Industry, construction, science and culture
- Food production

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

<https://gov.me/mek>

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

