Doing Business in Macedonia

This guide has been prepared by Audit Macedonia LLC, an independent member of Geneva Group International. It is designed to provide information on a number of subjects important to those considering investing or doing business in Macedonia.

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Doing Business in Macedonia has been designed for the information of readers. Whilst every effort has been made to ensure accuracy, information contained in this guide may not be comprehensive and recipients should not act upon it without seeking professional advice. Facts and figures as presented are correct at the time of writing.

Up-to-date advice and general assistance on Macedonian matters can be obtained from Audit Macedonia LLC, contact details can be found at the end of this guide.

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Contents

1 Fact Sheet

Facts and figures as presented in sections 1 through 4 are correct as at 31 August 2016.

Geography

Location:	Southeastern Europe
Area:	25,713km²
Land boundaries:	Albania, Bulgaria, Greece, Kosovo, and Serbia
Coastline:	None
Climate:	Warm, dry summers and autumns; relatively cold winters with heavy snowfall
Terrain:	Mountainous with deep basins and valleys; three large lakes, each divided by a Frontier line; country bisected by the Vardar River
Time zone:	GMT +1 (GMT +2 during daylight saving time)

People

Population:	2.069 million (December 2014)
Religion:	Macedonian Orthodox 64.8%, Muslim 33.3%, other Christian 0.4%, other and unspecified 1.5% (2002 estimates)
Language:	Macedonian

Government

Country name:	Republic of Macedonia
Government type:	Parliamentary democracy
Capital:	Skopje
Administrative divisions:	70 municipalities and one city (Skopje)

Political situation

The unicameral Assembly has 123 seats. The Head of State is the President, who is directly elected by absolute majority popular vote for a term of five years. The Head of Government is the Prime Minister, who is usually the leader of the majority party or majority coalition. The Council of Ministers is elected by the Assembly by simple majority vote.

Economy

GDP – per capita:	US$5,455.6 (2014)
GDP – real growth	2.6% (Q2 2015)
rate: Labour force:	956,174 (Q2 2015)
Unemployment:	26.8% (Q2 2015)
Currency (code):	Macedonian denar (MKD)

2 Business Entities and Accounting

Business forms available in Macedonia include limited liability companies, joint stock companies, partnerships, branch offices, and sole proprietorships. Economic interest groupings are also available.

Companies (defined as limited liability companies, joint stock companies, general partnerships, limited partnerships, and limited partnerships by shares) may be formed by domestic and foreign natural and legal persons.

2.1 Companies

2.1.1 Limited liability companies

A limited liability company may be formed by one or more natural and/or legal persons. The maximum number of members is 50. The liability of members is generally limited to the payment of their capital contribution.

The minimum core capital requirement is the MKD equivalent of EUR 5,000.

Limited liability companies are administered by meetings of the members, and are managed by one or more managers. Single member limited liability companies are managed by the member and/or by an elected manager. A manager must be elected if the single member is a legal person. The limited liability company agreement may provide for the establishment of a supervisory board (with at least three members) or the election of a company controller.

2.1.2 Joint stock companies

A joint stock company may be formed by one or more natural and/or legal persons. The liability of shareholders is generally limited to the payment of their capital contribution.

The minimum nominal value of the charter capital is generally the MKD equivalent of EUR 25,000 if the company is formed without a public offering to subscribe to the company’s shares, or the MKD equivalent of EUR 50,000 if the company is formed by way of public offering to subscribe to the company’s shares.

Joint stock companies are administered by general meetings of the shareholders. For single member joint stock companies, the rights and liabilities of the general meetings of the shareholders are exercised by the single shareholder or by a body determined by the founder. Joint stock companies are managed by (i) a board of directors (with at least three but no more than 15 members), or (ii) by a management board (with at least three but no more than 11 members) and a supervisory board (with at least three but no more than 11 members). The management board may be replaced with a manager if the company's charter capital is less than EUR 150,000. Large joint stock companies (as defined) and joint stock companies whose shares are listed on a stock exchange are required to establish an internal audit department.

2.1.3 Company names and registration

The company's business name must be clearly distinguishable from the business names of other companies already registered. The business name must not use words that are misleading or may be confused with the business name of another company or the name of another institution or entity.

Companies are required to be registered in the Commercial Register.

2.2 Partnerships

2.2.1 General partnerships

A general partnership may be formed by two or more natural and/or legal persons. The partners are jointly and severally liable to an unlimited extent for the debts and obligations of the partnership.

General partnerships are required to be registered in the Commercial Register.

2.2.2 Limited partnerships

A limited partnership may be formed by two or more natural and/or legal persons. There must be at least one general partner and at least one limited partner. General partners are jointly and severally liable to an unlimited extent for the debts and obligations of the partnership. The liability of limited partners is generally limited to their capital contribution. General partners are required to contribute at least 20% of the total amount of contributions. Limited partners may not represent the partnership or take part in its management.

Limited partnerships are required to be registered in the Commercial Register.

2.2.3 Limited partnerships by shares

A limited partnership by shares may be formed by one or more general partners with at least three limited partners. General partners are jointly and severally liable to an unlimited extent for the debts and obligations of the partnership. The liability of limited partners is generally limited to their contribution.

A limited partnership by shares is managed by the general partners or by one or more managers. A supervisory board made up of at least three shareholders must be appointed by the general meeting. The general partners may not be supervisory board members and may not take part in the election of the supervisory board members.

The provisions applicable to joint stock companies apply to limited partnerships by shares unless legislation provides otherwise.

Limited partnerships by shares are required to be registered in the Commercial Register.

2.3 Branch Offices and Representative Offices

2.3.1 Branch offices

A foreign company or a foreign sole proprietor may generally conduct business activities in Macedonia (FYR) by establishing a branch office. A foreign sole proprietor may establish only one branch office in Macedonia.

The foreign company or a foreign sole proprietor is required to appoint one or more representatives for the branch office to represent the Macedonian operations of the foreign company or foreign sole proprietor.

The branch office of a foreign company or foreign sole proprietor is required to be registered in the Commercial Register.

2.3.2 Representative offices

A foreign company that is permitted to carry out commercial activities in its jurisdiction may establish a representative office in Macedonia. A representative office may not undertake commercial activities.

2.4 Sole Proprietorships

A natural person with business capacity who has a permanent residence in Macedonia may conduct commercial activities in Macedonia as a sole proprietorship. The owner has unlimited liability for the debts and liabilities of the business.

Sole proprietorships are required to be registered in the Commercial Register.

2.5 Economic Interest Groupings

An economic interest grouping may be established by two or more natural and/or legal persons for a limited or an unlimited period. Economic interest groupings are established in order to facilitate and/or develop the performance of the trading activities of the parties within the scope of their operations and to increase and/or improve their results. The members are generally jointly and severally liable to an unlimited extent for the liabilities of the economic interest grouping.

An economic interest grouping is managed by one or more elected managers.

Economic interest groupings are required to be registered in the Commercial Register.

2.6 Audit and Accounting Requirements

Commercial entities are required to keep trade books which clearly reflect the operations of the business and the position of its assets, liabilities, equity, revenues, and expenses. Foreign companies and foreign sole proprietors with a branch office in Macedonia are also required to maintain trade books relating to the operations of the branch office.

Commercial entities and branch offices of foreign companies are required to prepare annual accounts including a balance sheet and income statement. Certain commercial entities are also required to prepare financial statements, including a balance sheet, income statement, statement of changes in equity, cash flow statement, applied accounting policies, and explanatory notes. Annual accounts and financial statements must generally be prepared within two months following the end of the business year (an extension to three months may be permitted by the competent state body). Companies that have a controlling influence (as defined) over one or more other companies are additionally required to prepare consolidated annual accounts and consolidated financial statements.

Financial statements must generally be prepared in accordance with the International Financial Reporting Standards (IFRS) as published in the Official Gazette of the Republic of Macedonia (mandatory for certain commercial entities) or IFRS for SMEs as published in the Official Gazette of the Republic of Macedonia.

The following commercial entities are required to have their financial statements audited by a certified audit firm:

- Large and medium sized (as defined) limited liability companies and joint stock companies, and
- Companies whose shares are listed on the stock exchange.

Consolidated annual accounts and consolidated financial statements must also be audited by a certified auditor.

Trade books must be kept in Macedonia (FYR) and use Arabic digits and values in the Macedonian denar.

Trade books must be kept for a period of at least 10 years from the end of the financial year to which they relate. Accounting documentation must be kept for a period of at least five years from the end of the financial year in which it was used for compiling trade books. Documentation relating to the calculation of salaries must be kept permanently.

2.7 Filing Requirements

Commercial entities are generally required to submit their annual accounts to the Central Register by the end of February of the following year or by 15 March if submitted electronically (different deadlines apply in certain circumstances). Large and medium sized entities (as defined) are required to submit their annual accounts electronically. Approved financial statements (and an annual report on the operations of the company) must be submitted to the Register of the Annual Accounts at the Central Register within 30 days of approval and by no later than 30 June.

Commercial entities are generally required to submit their consolidated annual accounts (and a report on the current year's business operations) to the Central Register by the 31 March of the following year. Approved consolidated annual accounts and approved consolidated financial statements (and an annual report on the operations of the company) must be submitted to the Register of the Annual Accounts at the Central Register within 30 days of the date of their approval.

Companies that undertake banking operations and other crediting activities, and companies that undertake insurance activities, are required to publish their accounts in the Official Gazette of the Republic of Macedonia within 15 days of the date of the general meeting of the shareholders.

The branch office of a foreign company or a foreign sole proprietor is required to publish the annual financial statements of the foreign company or foreign sole proprietor in at least one daily newspaper. The annual financial statements must also be submitted to the Central Register.

3 Finance and Investment

3.1 Exchange Control

Foreign exchange operations are regulated by the Law on Foreign Exchange Operations. Several forms of investment must be reported to the Central Registry or other bodies, such as the National Bank of the Republic of Macedonia (NBRM) or the Securities and Exchange Commission of the Republic of Macedonia (SEC).

Anti-money laundering legislation requires certain persons, including financial institutions, casinos, providers of services for legal entities, and legal entities and individuals who provide certain services (such as real estate trade and auditing and accounting services), to undertake customer due diligence and to report suspicious transactions and cash transactions exceeding set limits.

3.2 Banking and Sources of Finance

The National Bank of the Republic of Macedonia (NBRM) is responsible for (amongst others) monetary policy, financial stability, payment systems, issuing national currency, and banking supervision and regulation.

Commercial banks operating in Macedonia provide the majority of financial services.

There are generally no restrictions on non-residents opening bank accounts in Macedonia (certain documentation and minimum deposit may be required), or on accounts containing foreign currency.

The Macedonian Stock Exchange (MSE) provides a marketplace for listing and exchanging securities.

Private equity and venture capital investors provide investment in Macedonia.

3.3 Investment Incentives and Restrictions

For business related incentives, see 5.7.

There are generally no restrictions on foreign business investment in Macedonia.

4 Employment Regulations

For employment tax considerations, see 5.3.

4.1 General Employment Matters

4.1.1 National employment standards

Legislation provides minimum rights and conditions of employment in Macedonia, including maximum weekly working hours, rest periods, paid annual leave entitlement, and maternity leave rights.

A contract of employment is required to be concluded in writing and include:

- The parties and their residence/seat
- Date the contract takes effect
- Job title or type of work and brief description
- Provisions regarding the employer's obligation to notify the employee of risks in the job and of special professional qualifications or skills or special medical supervision in accordance with legislation stating the specific risks according to the regulations that may result from work
- Place of work
- Duration of the contract (for fixed term contracts)
- Whether the role is full time or part time
- Regular daily and weekly working hours
- Salary and any other benefits, and
- Annual leave.

A probationary period of employment may not generally exceed six months in duration (which may be extended in cases of justified absences). For seasonal work, a probationary period of employment may not exceed three days.

An employer may terminate a contract of employment if there is a valid reason for the termination based on the conduct of the employee or the operational needs of the business. An employer is required to pay severance pay if the contract of employment is terminated for business reasons. The notice period that an employer is required to provide is generally one month (two months if more than 150 employees or 5% of the workforce are being dismissed). For seasonal employees, the employer is required to provide seven days' notice. An employee may terminate a contract of employment by providing one months' notice. The contract of employment or an applicable collective agreement may provide for a longer notice period not exceeding three months. The employer and employee may agree on compensation in lieu of notice. Either party may terminate a contract of employment without providing notice in circumstances prescribed by legislation.

4.1.2 Pensions and other benefits

Social security contributions (see 5.3.2) generally provide associated benefits.

4.2 Visas

Citizens of certain countries (including European Union (EU) member states and Schengen Area countries) do not generally require a visa to visit Macedonia.

Visas available for entry into Macedonia include:

- Visa A – Airport transit
- Visa B – Transit
- Visa C – Short stay, and
- Visa D – Long stay.

Permits available in Macedonia include temporary residence permits, personal work permits, employment permits, and work permits.

For further information on visa requirements, visit www.mfa.gov.mk.

Foreign natural and legal persons resident in an EU member state or OECD country may own and lease real property in Macedonia. Foreign natural and legal persons resident in other countries may own and lease real property in Macedonia on the basis of reciprocity.

4.3 Trade Unions

Employees may form and join trade unions and employers may form and join associations of employers. Trade unions may negotiate and conclude collective agreements with employers or associations of employers.

5 Taxation

Facts and figures as presented in section 5 are correct as at 14 October 2015.

5.1 Corporate Income Taxes

Resident legal entities are generally subject to tax on their worldwide income. A legal entity is resident in Macedonia if it is established in Macedonia or if its headquarters are in Macedonia.

Non-resident companies are generally subject to tax on their Macedonian source income, subject to the terms of any relevant tax treaty.

The standard corporate income tax rate is 10%. A simplified tax regime is available to resident small and micro legal entities if:

- The entity carries out economic activities, excluding banking, financial activities, insurance activities, games of chance, or entertainment games, and
- The entity's total annual income exceeds MKD3m but does not exceed MKD6m.

Under the simplified regime, qualifying taxpayers are subject to tax at the rate of 1% of total annual revenue. Qualifying resident small and micro legal entities whose total annual income does not exceed MKD3m are not subject to tax.

Taxable income must generally include any taxable capital gains.

Dividend income received by a resident entity from another resident entity is deducted from the receiving entity's tax base if such income was taxed in the hands of the paying company.

Unutilized losses can generally be carried forward for up to three years (restrictions may apply in cases where the status of the taxpayer changes, such as by merger, acquisition, separation, or transformation of ownership). There are no provisions for the carry back of losses.

Group tax consolidation is not available in Macedonia; consequently losses cannot be offset against the profits of another company in the same group.

The tax period is the calendar year.

Tax returns are generally due for filing by no later than the end of February of the following year, or by 15 March if filing electronically. Large and medium sized entities (as defined) are required to file their tax returns electronically.

Taxpayers are generally required to make monthly advance payments of corporate income tax payable within 15 days following the end of each calendar month. Any remaining corporate income tax due is payable by no later than 30 days after the deadline for filing the tax return. If the advance payments exceed the eventual tax liability, the taxpayer may reclaim a refund of the excess. Alternatively, any excess tax paid can be carried forward as an advance payment for the next tax period. Taxpayers under the simplified tax regime are required to pay tax in one installment no later than 30 days after the deadline for filing the tax return.

5.2 Personal Taxes

Resident individuals are generally subject to income tax on their worldwide income.

Non-resident individuals are generally subject to income tax on their Macedonian source income, subject to the terms of any relevant tax treaty.

Individuals are subject to tax on their taxable income at the rate of 10% (subject to exemptions and deductions).

Taxable income must generally include any taxable capital gains. Capital gains in respect of sales of real estate in which the taxpayer has lived for a period of at least one year prior to sale are taxable on 70% of the gain. Capital gains from the sale of real estate are not subject to tax if:

- The taxpayer has owned the real estate for a period of at least three years and has lived in the property for at least one year prior to sale
- The taxpayer has owned the real estate for a period of at least five years
- The real estate sold was acquired by way of an inheritance or gift that is tax exempt, or
- The real estate was sold to a spouse, or was sold in connection with a divorce.

From 1 January 2013 to 31 December 2015, capital gains arising from the sale of securities are not subject to tax.

Inheritance and gift taxes are generally imposed on the market value of property obtained by way of inheritance or gift. The tax rates are determined by municipalities in accordance with legislation from a range of 2% to 5%. Certain inheritances and gifts are tax exempt, including inheritances and gifts received from first degree relatives, and residential real estate received from second degree relatives if the parties lived in the same household for a period of at least one year before death or before the gift was given and the receiving party or their family does not have their own residential real estate.

There is no wealth tax.

5.3 Employment Related Costs and Taxes

5.3.1 Fringe benefits

There is no separate fringe benefits tax. Unless specifically exempt, the taxable value of benefits-in-kind form part of the taxable income of individuals and are subject to personal income tax.

5.3.2 Social security costs

Employers are generally required to make the following social security contributions from the salary of employees (subject to minimum thresholds and salary ceilings):

Contribution Category	Rate
Health insurance	7.3%
Employment injuries and occupational diseases	0.5%
Pensions and disability insurance	18%
Unemployment	1.2%

5.4 Withholding Taxes on Payments Abroad

The rates of withholding tax on the following payments made to foreign legal entities are generally:

	Rate
Dividends	10%
Interest	10% (certain interest payments are exempt)
Royalties	10%
Entertainment and sports activities	10%
Fees for management, consultancy, financial, and research and development services	10%
Insurance premiums for the insurance or re-insurance of risks in Macedonia (FYR)	10%
Telecommunication services between Macedonia (FYR) and abroad	10%
Income from leases of real estate in Macedonia (FYR)	10%
Entertainment and sports activities	10%

For payments made to recipients in countries with which Macedonia has a double tax treaty, the rates of withholding tax may be reduced under the terms of the treaty.

5.5 Value Added Tax (VAT)

VAT is generally levied on the supply of goods and services in Macedonia and on the importation of goods.

The standard VAT rate is 18%. A reduced rate of 5% rate applies to certain supplies, including products for human consumption, certain books and magazines, fertilizers, pharmaceuticals, medical equipment, aids for the disabled, baby products, and accommodation services. Certain supplies are VAT exempt without the right to deduct input VAT, including residential property rentals, postage stamps, postal services, certain banking and financial operations, insurance and reinsurance services, health services, and educational services. Certain supplies are VAT exempt with the right to deduct input VAT, including exports of goods, and supplies of gold and other precious metals to central banks.

The VAT registration threshold is generally annual turnover exceeding or expected to exceed MKD1m. Traders can apply for VAT registration voluntarily if compulsory registration does not apply.

Registered traders can generally recover the VAT with which they themselves are charged on their purchases of goods and services, subject to conditions and possible exceptions.

5.6 Other Taxes

5.6.1 Stamp duty

There is no stamp duty in Macedonia.

5.6.2 Property tax

Property tax is generally levied on the market value of real property in Macedonia, subject to exemptions. The tax rates are determined by municipalities from a range of 0.1% to 0.2%. The tax rate may be increased in respect of agricultural land that is not used for agricultural production. The tax rate is reduced by 50% in respect of residential property in which the taxpayer lives with family members.

5.6.3 Transfer tax

Transfer tax is generally imposed on the market value of transfers of real estate. The tax rates are determined by municipalities from a range of 2% to 4%, subject to exemptions.

5.6.4 Excise duties

Excise duties are imposed on certain goods, including alcohol, alcoholic beverages, tobacco products, petroleum products, and passenger vehicles.

5.7 Tax Incentives for Businesses

5.7.1 Tax exemption for reinvested profits

Taxpayers may reduce from their tax base the amount of completed investments made using the profits from the previous year. To qualify, profits must be invested in tangible assets (property, plant, and equipment) or intangible assets (computer software and patents) that expand the activities of the taxpayer, excluding cars, furniture, carpets, audio visual devices, appliances, art, and investments for administrative purposes. Qualifying assets must be kept for a period of at least five years.

5.7.2 Technological and Industrial Development Zones

Qualifying users of a Technological and Industrial Development Zone (TIDZ) Benefit from incentives, including:

- Corporate income tax exemption for a period of 10 years from the date that business activity in the TIDZ commences (as long as business activity commences no later than two years after the year in which permission for the business activity in the TIDZ was granted)
- Personal income tax exemption for a period of 10 years in respect of salaries paid to employees in a TIDZ commencing from the start date of performing activities in the TIDZ
- VAT exemption in respect of trade in goods and services in the TIDZ (unless the trade is intended for end use)
- VAT exemption in respect of goods imported into the TIDZ (unless the goods are placed in free circulation), and
- Customs duty exemptions (excluding alcohol, alcoholic beverages, tobacco, and tobacco products).

Audit Company
Audit Macedonia LLC
www.auditmacedonia.com.mk

Dimitar Andonovski,
Managing Partner
T: +389 2 2 463 140
F: +389 2 2 462 063
M: +389 75 231 032
audit@btm.com.mk