

Law on Tax on Income of Physical Persons

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In accordance with Article 88 Item 2 of the Constitution of the Republic of

ENACTMENT on
PROCLAIMING THE LAW ON TAX ON INCOME OF PHYSICAL PERSONS
(Personal Income Tax)
(“Official Gazette of RoM”, no. 65/01, 12/02, 37/04, 29/05)

This is a proclamation of the Law on Tax on Income of Physical Persons (Personal Income Tax), adopted by the Parliament of the Republic of Montenegro at the second meeting of the second regular session in the year 2001, on the 27th of

THE LAW ON PERSONAL INCOME TAX
I BASIC PROVISIONS

1. General provisions

Article 1

- (1) This law introduces the obligation of physical persons to pay tax on income
- (2) The revenues resulting from income tax belong to the Budget of the Republic Montenegro and budgets of units of local self-government in proportion set up by special law.

2. Taxpayer

Article 2

- (1) A taxpayer of the income tax is a resident or non-resident physical person who generates income from sources set out by this Law.
- (2) Where two or more physical persons jointly generate income, each of these persons is a taxpayer proportionally to his/her share in generated income.

Resident

Article 3

- (1) A resident physical person (hereinafter: resident), under this Law, is a physical person who:
 - 1) Has his habitual residence or center of business and vital interests in the territory of the Republic of Montenegro (hereinafter: Montenegro)
 - 2) Resides in the territory of Montenegro for more than 183 days in the tax year;
- (2) Resident of Montenegro is also a physical person who has been assigned outside of Montenegro to conduct business for physical person or legal entity who is a resident of Montenegro, or for an international organization.

3. Object of Taxation

Article 4

(1) Object of taxation of a resident is the income he generates in Montenegro and outside Montenegro.

(2) Object of taxation of a non-resident physical person (hereinafter: non-resident) is the income that a non-resident generates on the basis of activities performed through the permanent place of business in Montenegro.

(3) Permanent place of business referred to in the paragraph 2 of this Article is considered to be a place through which a non-resident carries out his activities wholly or partly in Montenegro, himself or through authorized representative. In the case of need, in determining the permanent place of business, the provisions of the law regulating tax on profit of legal entities apply accordingly.

(4) Object of taxation of a non-resident who does not have a permanent place of business in Montenegro is also the income generated on the basis of royalties, interests, capital gains and rentals of immovable property located in Montenegro.

4. Revenues Exempt From Income

Article 5

Income does not include revenues generated on the following basis:

- 1) the regulations on rights of disabled persons;
- 2) allowances for children and special aid for new-born babies;
- 3) allowances for additional help and care and allowances for bodily injuries;
- 4) assistance in the event of destruction or damage of property as a result of natural disasters or other extraordinary events;
- 5) compensations paid from health insurance, except for salary compensation;
- 6) inheritances and gifts;
- 7) financial support in accordance with the law;
- 8) state awards and awards of units of local self-government;
- 9) pensions and disability allowances;
- 10) games of chance and lotteries;
- 11) goods, life and property insurance.

4a Earnings not Subject to Income Tax

Article 5a

Income tax is not paid on earnings realized on the basis of:

- 1) organized social and humanitarian assistance;
- 2) scholarships and loans for pupils and students;
- 3) food allowances paid to amateur sport persons by sport clubs up to 300 euros per month;
- 4) fees for the work of persons performed in bodies for conducting elections and population censuses;
- 5) fee for academic allowance and fees for members of State commissions;
- 6) allowances paid out of extra-budgetary funds during the unemployed period;

7) severance payments paid in the case of retirement, i.e. termination of the need for the work of an employee up to the amount determined by the Labour Law.

5. Persons Exempt From Tax

Article 6

The following persons are exempt from payment of income tax:

- 1) members of foreign diplomatic missions in Montenegro, as well as members of their households, if they are not citizens of Montenegro;
- 2) members of consular missions, as well as members of their households, if they are not citizens of Montenegro;
- 3) officials and experts of technical assistance programs of the United Nations Organization and its specialized agencies;
- 4) honorary consuls of foreign countries, but only for earnings received by a country, which has appointed them honorary consuls;
- 5) officials, experts and administrative staff of international organizations if they are not citizens of Montenegro or do not have habitual residence in Montenegro.

6. Tax Period

Article 7

The period for which income tax is assessed and paid is a calendar year (hereinafter: tax period).

7. Tax Base

Article 8

Tax base of the income tax for a resident represents the taxable income of the taxpayer generated during the tax period, reduced by the amount of loss carried over and personal deduction for dependents (hereinafter: personal deduction). Tax base of the income tax for a non-resident represents the taxable income of the taxpayer generated during the tax period.

8. Personal Deductions

Article 9

- (1) Resident is entitled to a personal deduction for each dependent member of the family in the amount of 120 Euros per year (10 Euros per month).
- (2) Dependent members of the family, under this Law, are considered to be persons supported by the taxpayer, as follows:
 - 1) Minor children or adoptees;
 - 2) Children or adoptees getting regular education or during the time of unemployment if they live in the household of taxpayer;
 - 3) Spouse;
 - 4) Grandchildren, if their parents are not supporting them and if they live in the household with taxpayer;
 - 5) Parents or adopters.

(3) Household, for the purpose of this Law, is considered to be the community that lives, works and spends revenues jointly.

(4) The persons referred to in paragraph 2 of this Article whose revenues, including also revenues referred to in Article 5 of this Law, exceed the amount of income taxed at zero rate during the tax year, are not considered to be dependents.

(5) In the case when several taxpayers support one or more members of their family, the deduction right referred to in paragraph 1 of this Article is used by a taxpayer who generated the highest income.

9. Tax Rates

Article 10

Income tax is calculated depending on the amount of taxable income by applying the following tax scale:

Amount of taxable income	Amount of tax (in euros)
Up to 785.00	0%
From 785.00 to 2,615.00	0 Euro + 15% on the amount above 785.00 euros
From 2,615 to 4,577.00	274.00 Euros + 19% on the amount above 2,615.00 euros
Above 4,577.00	647.00 Euros + 23% on the amount above 4,577.00 euros

Article 11

(1) The amount of personal deduction referred to in paragraph 1 of Article 9 and the amount of taxable income referred to in Article 10 of this Law are adjusted annually (at the expiration of the year) by the growth rate of retail prices exceeding 5%, in accordance with the data of the body competent for statistics.

(2) The revalued amounts referred to in paragraph 1 of this Article are determined by the minister in charge of finance, and they are published in the Official Gazette of the Republic of Montenegro.

II INCOME

1. Sources Of Income

Article 12

(1) Income tax is paid on revenues from all sources except those that are exempt under this Law.

(2) Sources of revenues referred to in paragraph 1 of this Article include revenues generated on the basis of:

1) personal earnings;

2) self-employment;

3) property and property rights;

4) capital;

5) capital gains.

(3) Income represents the sum of taxable revenues referred to in paragraph 2 of this Article generated in the tax period.

2. Taxable Income

Article 13

(1) Taxable income represents the difference between the income referred to in Article 12 of this Law and recognized expenditures (expenses) incurred by the taxpayer in generating and maintaining the income.

(2) The expenditures referred to in paragraph 1 of this Article must be documented.

III TYPES OF REVENUES

1. Revenues On The Basis Of Personal Earnings

Article 14

(1) Personal earnings are considered to be revenues that a taxpayer generates from employment.

(2) Personal earnings are also considered to be revenues generated on other basis that, in accordance with this Law, correspond to labour relation.

(3) Personal earnings are considered to be, including but not limited to:

1) salaries or salary compensations generated in accordance with regulations governing labour relations;

2) deleted;

3) earnings on the basis of fees and other earnings that are paid by the employer to the employee in addition to salary, above the amount set by the regulation of the Government;

4) reimbursement of costs for business travels, meals, and accommodation in connection to these trips, moving expenses and reimbursement for the use of own vehicle for business purposes above the amount set by the regulation of the Government;

5) earnings of members of representative and executive bodies of the state, or the local government;

6) earnings of members of assemblies, managing boards, supervisory boards and other similar bodies of legal persons, members of trustees and committees that such bodies have, bankruptcy administrators and lay judges who are not in the capacity of court officials;

7) all other earnings arising from labour relation and earnings corresponding to labour relation (temporary or occasional work, etc.)

(4) Personal earnings are also considered to be earnings generated in the form of coupons, money certificates, shares or goods, by making or providing benefits, debt forgiveness, as well as by covering the taxpayer's expenditures by monetary compensation or through direct payment

(5) The amount of the personal earnings referred to in paragraph 4 of this Article represents:

1) nominal value of coupons, money certificates and shares;

2) price which would be achieved through the sale of the goods in the market;

3) consideration which would be achieved in the market for services or benefits made to the taxpayer;

4) monetary amount of expenditures covered.

Article 15

Taxable income from personal earnings represents gross earnings referred to in Article 14 of this Law.

2. Revenue From Self-Employment Activity

Article 16

(1) Revenue from self-employment activity is considered to be the revenue generated by economic activity, freelance professions, professional and intellectual services, as well as revenue from other self-employed activities that are not the basic activity of the taxpayer, but are performed occasionally in order to generate revenue, unless they are taxed otherwise in accordance with this Law.

(2) Revenue from self-employment activity is also considered to be revenue from agriculture and forestry, if a person generating this revenue is a taxpayer of the value added tax.

(3) The provisions of the law regulating accounting shall apply to the manner of keeping business books and preparation of financial statements, unless otherwise prescribed by this Law.

Taxable Revenue

Article 17

(1) Taxable revenue from a self-employment activity represents the taxable gain of the taxpayer.

(2) Taxable gain referred to in paragraph 1 of this Article is determined by adjustment of gains of the taxpayer shown in the income statement in the manner envisaged by this Law.

Adjustment of Revenues

Article 18

In order to determine taxable gain, revenues in the amount set in the income statement are recognized, in accordance with the law regulating accounting, except revenues for which a different manner of determination is prescribed by this Law.

Article 19

Taxpayer's revenues from dividends and share in gain of other legal entities are not included in the tax base.

Adjustment of Expenditures

Article 20

(1) In order to determine taxable gain, expenditures in the amount set by income statement are recognized, in accordance with the law regulating accounting, except expenditures for which a different manner of determination is prescribed by this Law.

(2) Notwithstanding paragraph 1 of this Article, standard expenditures are recognized to a taxpayer who generates revenue from other self-employment activities that are not his basic activity, in the amount of 35% of the realized revenue.

Article 21

The following expenditures are not recognized:

- 1) expenses not incurred for the purpose of performing a business activity;
- 2) expenses that cannot be documented;
- 3) interest for defaulted payment of taxes and contributions;
- 4) interest paid to non-residents, if they are paid at the rate higher than the usual commercial rate;
- 5) expenses for payments to a non - resident head-office;
- 6) earnings of employees or other persons based on distribution of the profit;
- 7) pecuniary fines and penalties;
- 8) contributions paid to political organizations.

Article 22

Expenses incurred for materials and the purchase price of goods sold are recognized in the amounts calculated by application of the average price method or FIFO method in accordance with the law regulating accounting.

Article 23

- 1) Amortization of permanent fixed assets is recognized as expenditure in the amount set in the manner envisaged by this Law.
- 2) Permanent fixed assets referred to in paragraph 1 of this Article include tangible and intangible assets, with an expected life longer than one year and the value exceeding 200 Euros.
- 3) Fixed assets referred to in paragraph 2 of this Article are classified into five groups with the following amortization rates:
 - I group 5%
 - II group 15%
 - III group 20%
 - IV group 25%
 - V group 30%
- 4) Amortization for permanent fixed assets classified in the first group is determined by applying the straight-line rate for each asset separately.
- 5) Amortization for fixed assets classified in other groups (from the second to the fifth) is determined by application of declining rate to the value of assets classified by groups.
- 6) More detailed regulation on classification of permanent fixed assets in groups and methods for determining amortization is adopted by the minister in charge of finance.

Article 24

Costs for health, education, scientific, religious, cultural, sports and humanitarian purposes, as well as for the environmental protection are recognized as expenditures to a maximum of 3% of the total revenue.

Article 25

Entertaining costs are recognized as expenditure in the amount up to 1% of total revenue, provided that they are incurred for the improvement of operations, that they are documented and that their receiver is not a related party.

Article 26

Membership fees for chambers, unions and associations are recognized as expenditure to the maximum of 0.1% of the total revenue, except for the membership fee the amount of which is prescribed by law, and which is recognized in the amount prescribed by law.

Article 27

(1) Correction of doubtful claims (written off value) that was made is recognized as an expenditure, provided that:

- 1.) it is proven beyond the doubt that those claims were previously part of the revenues of the taxpayer;
- 2.) that claim is written off from the taxpayer's books as non-collectable ;
- 3.) the taxpayer presents adequate evidence of failed collection of those claims.

(2) Doubtful claims, which are recognized as expenditure, and then collected, are included in revenues of the taxpayer at the moment they are collected.

Article 28

Reserve funds of the taxpayer are not recognized as expenditures.

Article 29

Contributions for mandatory social insurance are recognized as expenditure in the amount of 50%.

Article 30

Interests and related costs to a creditor with the status of a related party are recognized as expenditure in the amount not exceeding interest expenses on the open market, if those expenses do not exceed the amount actually paid.

Article 31

The difference between interest calculated on the arm's length basis principle and the interest actually received is included in the tax base of the recipient of that interest.

Tax Relieves

Article 32

(1) Calculated tax is reduced in the amount of 50% of the investments made for the taxpayer who invests in fixed assets for his own activity, provided that that reduction cannot be higher than 70% of the total tax liability for the same tax period.

(2) Fixed assets referred to in paragraph 1 of this Article are considered to be fixed assets referred to in paragraph 2, Article 23 of this Law, except for the fixed assets classified in the first amortization group and the passenger vehicles, except for the special passenger vehicles used for training of the drivers and passenger vehicles used for taxi and rent-a-car services.

(3) If a taxpayer sells or divests of the fixed asset referred to in paragraph 2 of this Article prior to the expiration of the deadline of three years after the year in which the tax relief has been used, he is obliged to increase the tax base for the amount of used tax relief for the year of sale or divestiture of the fixed asset.

Article 32a

(1) A tax base is reduced to a taxpayer that in a business year employs new workers for an unlimited period and not less than for two years, for the amount of paid gross salaries to those employees increased for the related contributions for mandatory social insurance paid by the employer.

(2) A taxpayer may use the right to tax relief referred to in paragraph 1 of this Article one year after the employment of the new worker.

(3) If a taxpayer cancels the labour contract with a person referred to in paragraph 1 of this Article (unless it is at the request of that person) prior to the expiration of two years from the day of employment, he is obliged to increase the tax base for the amount of used tax relief for a year of the cancellation of the labour contract.

(4) The tax relief referred to in paragraph 1 of this Article is recognized as the total not higher than the level of the tax base.

Tax Losses

Article 33

Losses resulting from business transactions excluding those resulting in capital gains and losses may be transferred forward to offset profit generated in the future period but not longer than for five years.

3. Revenue From Property And Property Rights

Revenues

Article 34

Revenues from property and property rights are considered to be:

- 1) revenue generated by rental of immovable and movable property;
- 2) revenue from time limited assignment of copyrights, industrial property rights and other property rights.

Expenditures

Article 35

(1) Expenditures on the basis of property and property rights are considered to be actual expenses incurred by generation of that revenue, provided that they are documented.

(2) If expenditures referred to in paragraph 1 of this Article are not documented, standard expenditures are recognized in the amount of 35% of generated revenue from the property and property rights.

(3) Notwithstanding paragraph 2 of this Article, in cases of revenues generated from rental of rooms, apartments and holiday houses to travelers and tourists for which resident fee has been paid, standard expenditures amount to 50% of the generated revenue from that basis.

Taxable Revenue

Article 36

Taxable revenue from property and property rights represents a difference between the revenue referred to in Article 34 and expenditures referred to in Article 35 of this Law, incurred during the same tax period.

4. Revenues From Capital

Article 37

(1) Revenue from capital is considered to be:

- 1) Revenue from interests;
- 2) Share in profits realized by the members of management and employees in money or in shares;
- 3) Revenue from the use of property and services by the owners and coowners of the capital for their private needs.

(2) Revenue from capital is also considered to be revenues on the basis of shares and share in capital, members of management and employees of the corporations received or bought under preferential conditions.

(3) In determining income from capital, expenditures are not recognized.

5. Capital Gains And Losses

Article 38

(1) Capital gain is considered to be revenue generated through sale of immovables, shares in the property of legal entities and securities (hereinafter: property), if the sale has been performed within two years from the day of the acquisition of the property.

(2) Taxable revenue on the basis of capital gain represents a difference between the sales price and the purchase price of the property referred to in paragraph 1 of this Article, adjusted to the retail price growth from the day of the acquisition to the day of the sale of the property based on the data from the competent body of statistics.

(3) Negative difference referred to in paragraph 2 of this Article represents a capital loss.

(4) Taxable revenue on the basis of capital gain is included in the tax base in the amount of 50%.

(5) Capital gain generated by the sale of securities that is reinvested, within the 12- month period, in the purchase of new securities, is not included in the tax base.

(6) If the capital gain is not reinvested within the deadline referred to in paragraph 5 of this Article, that amount is included in the tax base in the year following the year of capital gain occurrence.

Article 39

(1) For the purpose of determining a capital gain, the sales price of the property is considered to be the contracted price or the market price, if a competent tax authority determines the contracted price to be lower than the market price, reduced by cost of sales of this property.

(2) In the case of exchange of properties, the sales price is considered to be the market price of the property being exchanged.

Article 40

(1) For the purpose of determining a capital gain, a purchase price is considered to be the price at which a taxpayer has acquired the property referred to in paragraph 1 of Article 38 of this Law.

(2) Purchase price of the immovable, which is built by the taxpayer himself, consists of the amount of construction cost incurred for that immovable.

(3) Purchase price for listed securities is considered to be a documented price actually paid by the taxpayer.

(4) Purchase price of securities not listed on the Stock Exchange is considered to be a documented price the taxpayer actually paid, and if the taxpayer fails to do that, the purchase price is considered to be the face value.

(5) If the taxpayer acquired the property on the basis of gift or inheritance, the purchase price is considered to be the price at which the donor or testator acquired that property.

Article 41

(1) Capital gain from the divesture of the immovable is not taxable, if the immovable served to the taxpayer as a primary place of residence (habitual residence) three years prior to its divesture.

(2) Capital gain from the divesture of the property is not taxable, if the divesture occurred between the spouses, or if the divesture is directly connected with marriage, divorce and inheritance of the immovable.

(3) Capital losses arising from the divesture of the immovable may be deducted solely from the capital gain from the divesture of the immovable, which has occurred in the same calendar year.

IV CALCULATION AND PAYMENT OF INCOME TAX

1. Calculation And Payment Of Income Tax In The Tax Return

Article 42

(1) Income tax is calculated annually.

(2) The taxpayer himself calculates income tax in his tax return.

(3) Income tax is calculated at the rates referred to in Article 10 of this Law.

(4) Income tax is determined in accordance with the tax base referred to in Article 8 of this Law, provided that the amount of the tax paid in the form of advance installments for all sources of revenue is deducted from the total calculated tax.

(5) Income tax is paid at the same time with the tax return filing.

(6) If the taxpayer has paid during the year, in the form of advance installments, higher amount of taxes than he is obliged to based on the tax return, the exceeding paid amount of tax is returned at his request or is included in the advance installments for the next tax period.

Tax Return

Article 43

(1) Taxpayer of the income tax is obliged, upon the expiration of the tax period, to submit a tax return to a competent tax authority.

(2) A tax return is submitted at the end of April of the current year for the previous year.

(3) The form and contents of the tax return is regulated by the competent tax authority.

(4) Taxpayer who generates income:

1) from personal earnings on the basis of salaries or wages of employees, if they are generated with one employer during the same calculation period;

2) from revenues based on other self-employment activities referred to in Article 16, paragraph 1 of this Law;

3) from capital revenue;

4) from revenue of self-employment activity subject to the lump sum taxation, shall not submit a tax return for such income and paid advance installments of tax are considered to be the final tax assessment on that basis.

(5) Taxpayer, who during the year generates only revenue referred to in paragraph 4 of this Article, may file the tax return for using personal deductions, as well as other rights determined by this Law, provided that he has not used those rights during the year.

2. Avoidance Of Double Taxation

Article 44

(1) A resident taxpayer, who generated income outside Montenegro and who pays income tax in the other state, is allowed a tax credit in the amount of the tax paid to that state.

(2) The tax credit referred to in paragraph 1 of this Article cannot be higher than the amount that would have been obtained by applying provisions of this Law to the income generated in the other state.

Article 45

Agreement on avoiding double taxation has supremacy over the provisions of this Law.

3. Payment Of Tax On Personal Earnings

Article 46

(1) Tax on personal earnings is calculated, withheld and paid by the employer, or payer of these earnings.

(2) Tax on personal earnings is calculated, withheld and paid at the time of each payment of such earnings, according to the regulations applicable on the day of payment.

(3) Tax on personal earnings is calculated from the tax base made up of the amount of earnings during a month, reduced by the amount of monthly personal deduction.

(4) Advance installments for tax on personal earnings is calculated by applying the following tax scale:

Amount of monthly taxable income

Amount of tax (in euros)

Up to 65.00 0%

From 65.00 to 218.00 0 Euro + 15% on the amount above 65.00 euros

From 218.00 to 381.00 22.90 Euros + 19% on the amount above 218.00 euros

Above 381.00 54.00 Euros + 23% on the amount above 381.00 euros

(5) A non-resident organization that does not have diplomatic immunity and that has a main office or permanent establishment in Montenegro is obliged to calculate a tax on personal earnings paid to its employees in accordance with the provisions of paragraphs 1 to 3 of this Article and pay it at the same time with the payment of personal earnings.

(6) A resident taxpayer employed in a diplomatic or consular mission of a foreign country, in an international organization, or in an office or organization that has diplomatic immunity on the territory of Montenegro is obliged to calculate himself the tax on those earnings in the manner set forth in paragraphs 1 to 3 of this Article and pay it within 5 days from the day of receiving them.

(7) Resident taxpayer, who generates earnings from another country calculates himself the tax on such an income in the manner set forth in paragraphs 1 to 3 of this Article and pays it within 5 days from the day of receiving them.

Article 47

(1) The employer sends to the tax authority and to the employee data on the paid personal earnings of the employee and withheld and paid income tax for such personal earnings, by the 31st of January of the current year for the previous year.

(2) Employer is obliged to submit to competent tax authority a report and other records relevant for calculation of the tax on personal earnings, the content and submission deadlines of which are prescribed by the minister in charge of finance.

(3) The obligation referred to in paragraph 2 of this Article relates also to the persons referred to in Article 46, paragraphs 6 and 7 of this Law.

4. Advance Installments Payment Of The Tax On Revenues From Self-Employment Activity

Article 48

(1) During the year, a taxpayer pays the tax on revenue from a self-employment activity in the form of monthly advance installments, the amount of which is determined based on the amount of income tax from the self-employment activity as set in the tax return for the previous year.

(2) Advance installment referred to in paragraph 1 of this Article is paid until the end of the current month for the previous month, in the amount of 1/12 of the tax liability for the previous year.

(3) Advance installment of paid tax referred to in paragraph 2 of this Article is considered to be a credit with respect to the tax liability as set in the tax return.

(4) A taxpayer, who starts to carry out the activity during the year, determines the advance installment for the tax on revenue from self-employment activity on the basis of the estimation of generation of revenues for that year.

(5) Notwithstanding paragraph 1 of this Article, tax on revenues generated from other self-employment activities referred to in Article 16, paragraph 1 of this Law is calculated, withheld and paid by the payer of revenue at the time of each payment at the rate of 20% on the tax base that represents a difference between the generated revenues and standard expenditures.

Lump Sum Taxation of the Revenue From Self-Employment Activity

Article 49

(1) Obligor of taxes on revenues from self-employment activities whose total turnover for the year that precedes the year for which the tax is assessed or whose planned turnover in cases of commencement of the activity is less than 18,000 euros may be allowed, at his request, to pay tax in annual lump sum amount.

(2) The minister in charge of finance prescribes more detailed criteria for determining the amount of tax referred to in paragraph 1 of this Article and the tax scale for payment of taxes.

(3) The tax referred to in paragraph 1 of this Article is paid monthly until the end of the current month for the previous month in the amount of 1/12 of tax liability set by the tax scale referred to in paragraph 2 of this Article.

(4) The request referred to in paragraph 1 of this Article is submitted until the end of the preceding year for the following year, and in the case of commencement of the activity during the year, the request is submitted within 5 days from the day of registration to perform the activity.

(5) The obligors referred in the paragraph 1 of this Article are obliged to keep business books on the generated turnover.

(6) If a tax authority estimates that the request referred to in paragraph 1 of this Article is grounded, it will adopt the tax decision within 15 days from the day of request submission.

(7) Notwithstanding paragraph 3 of this Article, taxpayers who perform seasonal selfemployment activity, for no longer than six months, are paying taxes until the 5th of the month for the current month.

4a. Advance Installment Payment of Taxes on Revenues from Property and Property Rights

Article 49a

Advance installment of tax on revenues from property and property rights, during the year, is calculated, withheld and paid by the payer of revenue (legal entity or entrepreneur), or taxpayer (in the case of direct generation of revenue) at the time of each collection of revenue, and at the same time with collection, by applying a rate of 20% to the taxable revenue referred to in Article 36 of this Law.

5. Payment Of Tax On Revenues From Capital

Article 50

- (1) The payer of revenues from capital is obliged to calculate, withhold and pay the tax on revenues from capital at the same time with the payment of revenue.
- (2) Tax on revenues from capital is calculated at the rate of 15%, while the personal deductions referred to in Article 8 of this Law are not taken into account.
- (3) Notwithstanding paragraph 2 of this Article, tax rate on revenues from interest paid to non-residents is 5%.

6. Payment Of Tax On Capital Gain

Article 51

- (1) Tax on capital gain generated by resident is paid at the same time with submission of the annual tax return at tax rates referred to in Article 10 of this Law.
- (2) Tax on capital gain generated by non-resident is paid by withholding at the rate of 15%.
- (3) Minister in charge of finance will adopt more detailed regulation on the manner of payment of the tax referred to in paragraph 2 of this Article.

7. Regulations For Implementation Of This Law

Article 52

Minister in charge of finance will adopt more detailed regulations for implementation of this Law.

8. Application Of Other Regulations

Article 53

The law regulating tax procedure applies accordingly to relations not specially regulated by this Law (appeal procedure, procedure of enforced collection, interests, etc.).

IVa PUNITIVE PROVISIONS

Article 53a

- (1) A pecuniary fine in the amount of 10 fold to 200 fold of the minimum wage in the Republic is imposed for an offence on a legal entity, entrepreneur, if:
 - 1) until the end of April of the current year for the previous year, he does not file a tax return with a competent tax authority, fails to calculate correctly or pay a tax at the same time with submission of the tax return (Article 42 and Article 43, paragraphs 1 and 2);
 - 2) as a payer of revenues subject to income tax, fails to calculate, fails to calculate correctly, fails to withhold or pay the tax on revenues, together with every payment of revenues (Articles 46, 49a and 50);
 - 3) as the employer or payer of personal earnings, does not submit to a tax authority and the employee, within the prescribed deadline, data on paid personal earnings of employees, withheld

and paid tax for those personal earnings or reports and other records relevant for calculation of taxes on personal earnings (Article 47);

4) does not pay within the prescribed deadline, advance installment of tax on revenues from self-employment activity (Article 48);

5) does not pay within the prescribed deadline the tax liability assessed as a lump sum amount (Article 49, paragraphs 3 and 7);

6) does not keep business books on realized turnover (Article 48, paragraph 5);

(2) A pecuniary fine in the amount of 2 fold to 10 fold of the amount of minimum wage in the Republic is also imposed on a responsible person within the legal entity for the offence referred to in paragraph 1, items 2 and 3 of this Article.

(3) In addition to the pecuniary fine, a protective measure of prohibiting the performance of the activity, for the period from one to three months, may also be imposed for the offence referred to in paragraph 1 of this Article to an entrepreneur.

Article 53b

On-the-spot pecuniary fine in the amount of three-fold of the amount of the minimum wage in the Republic may be imposed on a taxpayer for the offence referred to in Article 53a, paragraph 1, item 6 of this Law.

Article 53v

A pecuniary fine in the amount of 2 fold to 20 fold of the amount of the minimum wage in the Republic will be imposed for an offence on a taxpayer, physical person, if:

1) fails to submit to competent tax authority, until the end of April of the current year for the previous year, a tax return for income tax, incorrectly calculates or fails to pay the tax at the same time with the submission of tax return (Article 42 and Article 43, paragraphs 1 and 2);

2) fails to calculate and fails to pay the tax within the prescribed deadline as a resident taxpayer employed with the diplomatic or consular mission of foreign state, international organization, office or organization that holds diplomatic immunity on the territory of the Republic and resident taxpayer who generates earnings from other state (Article 46, paragraphs 6 and 7);

3) fails to calculate, incorrectly calculates, fails to withhold or does not pay tax on revenues at the time of each collection or at the same time with collection of revenues (Article 49a).

V FINAL AND TRANSITIONAL PROVISIONS

Article 54

Taxpayers that acquired the right to use tax relieves and exemptions in accordance with the provisions of the Law on Citizens' Income Tax (Official Gazette of the Republic of Montenegro, numbers 30/93, 3/94, 13/94, 42/94, 13/96 and 45/98) will continue to use the right until their expiration.

Article 55

Earnings based on unemployment compensation, compensation for retirement severance or redundancy severance up to the minimum amount set forth by the General Collective Agreement or regulation by the Government, are not taxable until the 1st January 2005.

Article 56

Relief for dependents referred to in Article 9 of this Law will be applied from the 1st January 2007.

Article 57

Notwithstanding paragraph 1 of Article 40 of this Law, purchase price of immovables acquired by the taxpayer before the 1st January 2003 consists of the value of that immovable, which is used as tax base for payment of taxes on immovables set forth on the 1st January 2003.

Article 58

Tax on capital gains from securities is not paid until the 1st January 2005.

Article 59

Taxation of revenues from agriculture and forestry and revenues from selfemployment activity based on the established lump-sum net revenue (lump sum payers) for the year of 2002 will be carried out in accordance with the Law on Citizens' Income Tax (Official Gazette of the Republic of Montenegro, numbers. 30/93, 3/94, 13/94, 42/94, 13/96 and 45/98).

Article 60

Notwithstanding Article 14 of this Law, personal earnings generated based on allowance for food during work, allowance for winter supply and holiday allowance, paid to employees whose salaries are provided from the budget of the Republic are not taxed until 2003.

Article 61

By coming into force, this Law shall supersede the Law on Citizens' Income Tax (Official Gazette of the Republic of Montenegro, numbers 30/93, 3/94, 13/94, 42/94, 13/96 and 45/98).

Article 62

This Law enters into force on the eighth day upon its publication in the "Official Gazette of the Republic of Montenegro", and it shall be applied from the 1st July 2002. Publisher's note:
The clean version of this Law does not include provisions of Articles 22, 23 and 24 of the Law on Amendments to this Law from the Official Gazette of the Republic of Montenegro, No 37/04, reading as follows: Article 22 Notwithstanding Article 13 of this Law, until the 1st of December 2004, the advance installment of the tax on personal earnings is calculated by application of the

following tax scale: Amount of the monthly taxable income Tax amount (in euros)

Up to 65.00 0%

From 65.00 to 218.00 0 euro + 16% on the amount above 65.00 euros

From 218.00 to 381.00 24.40 euros + 20% on the amount above 218.00 euros

Above 381.00 57.00 euros + 24% on the amount above 381.00 euros Article 23

By coming into force, this Law supersedes the Rulebook on Adjusting the Amount of Taxable Income of Physical Persons with the Retail Price Growth for 2003 (Official Gazette of the Republic of Montenegro, No 4/04). Article 24 This Law comes into force on the day following the day of its publication in the Official Gazette of the Republic of Montenegro, and it will be applied from the 1st of July 2004.