

**PROFIT TAX LAW**  
(revised version)<sup>1</sup>

**I. GENERAL PROVISIONS**

Article 1

This Law introduces the profit tax and determines the manner of profit taxation.

Article 2

The profit tax rate shall be proportionate.

Article 3

The computation and payment of the profit tax shall be carried out by the taxpayer.

**II. TAXPAYER**

Article 4

Taxpayer of the profit tax shall be any legal person (entity) - resident of the Republic of Macedonia realizing profit from an activity in the country and abroad.

Resident referred to in paragraph 1 of this Article refers to any entity established or headquartered in the territory of the Republic of Macedonia.

Article 5

Taxpayer of the profit tax shall also be any legal entity - non-resident of the Republic of Macedonia, realizing profit through performing an activity in the territory of the Republic of Macedonia.

Taxpayer referred to in paragraph 1 of this Article may also refer to an organizational unit realizing profit by carrying out an activity in the territory of the Republic of Macedonia.

Article 6

The head office of a legal entity and its branch offices that represent a group of legal entities, may pay profit tax as a single taxpayer (tax consolidation), if they are all residents of the Republic of Macedonia.

The head office of a legal entity and its branch offices shall constitute a group of legal entities in terms of this Law, if there is direct or indirect control among them over at least 90% of the stocks or the share.

The head office of the legal entity shall submit an application for tax consolidation to the Public Revenue Office.

The approved tax consolidation shall be implemented for a minimum of five years.

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<sup>1</sup> The Law is published in the Official Gazette of the Republic of Macedonia No 80/93, while the amendments and modifications are published in the No 33/95, 43/95, 71/96, 5/97, 28/98 and 11/2001

Article 7  
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### **III. TAX BASE**

Article 8

The base for computation of profit tax shall be the profit determined in the tax balance.

Profit shall represent the difference between the total incomes and expenditures of the taxpayer, in amounts determined by accounting regulations and accounting standards, excluding the incomes and expenditures that are differently determined by this Law.

Article 9

The value of the unfinished production reserves, semi-products and finished products shall be estimated at the full cost price, in accordance with the accounting regulations and standards.

The value of the reserves determined under paragraph 1 of this Article can not exceed the sales value on the day of establishing the tax base.

Article 10

Expenditures that are recognized as deductive rates, when determining the profit liable to taxation, shall be solely those expenditures incurred by performing the activity.

Expenditures shall be recognized in the amount determined with the balance of profit and loss in compliance with the accounting regulations, the accounting standards and the provisions of this Law.

Article 11

The computation of the material expenses and the purchase value of the sold merchandise shall be carried out by implementing the method of average prices.

If other methods are implemented in the estimation of the value of the reserves, the material expenses and the purchase value of the sold merchandise, the adjusted amounts that would have resulted from the implementation of the method under paragraph 1 of this Article shall be declared in the tax balance.

If the spending of the materials and the purchase value of the sold merchandise are recorded according to the method of planned and selling prices, it may be considered that the method of average prices is applied as long as the planned value of the spent materials and the selling value of the sold merchandise are adjusted in proportion to the deviation.

The average purchase prices of the spent material are determined for the part of sold products.

Article 12

Business expenditures, resulting from shipment of goods, materials and services among associated legal entities and physical persons, shall be determined according to the prices achieved on the domestic market or on the comparable foreign market in circumstances of unassociated legal entities and physical persons.

An individual associated with the taxpayer shall be any legal entity or physical person capable of controlling or influencing the taxpayer's business decisions.

The possibility of control exists in case of possession of over half or of the single largest portion of shares or stake.

Substantial influence over business decisions shall appear in case of large mutual purchases and sales, technological dependency or if other means of management control are established, or if a single person possesses at least 20% of the company's shares.

#### Article 13

All transactions of the taxpayer with associated persons shall be reported separately in the tax balance, along with the transfer prices, at which the transactions were completed.

The difference between the market price and the transfer price shall be included in the tax base.

#### Article 14

The computed gross salaries of the employees shall be recognized in full as a deductive rate, part of the business expenditures, for the period for which the profit is determined, up to the level of the paid amount.

The salaries of the employees, based on their participation in the taxpayer's profit, shall not be recognized as expenditures in the tax balance.

The personal allowances to the members of the management and supervision board shall be recognized as expenditures in the tax balance up to 50% of the paid amount.

#### Article 15

The depreciation of tangible and non-tangible assets shall be recognized as an expenditure in the tax balance up to the amount determined by applying the depreciation rates established with the Nomenclature of the depreciation funds.

The method of depreciation once determined shall be applied until the final depreciation of the base of the single asset or group of assets.

When determining the tax base, once depreciated assets or group of assets can not be included again in the computation of the depreciation.

The remaining current value of the assets, that are no longer usable, can be depreciated in full, regardless of the prescribed duration. If such depreciation is to be regarded as an expenditure, when determining the tax base, the public revenue authority must give its consent.

The Government of the Republic of Macedonia shall prescribe the Nomenclature of depreciation funds and the annual depreciation rates, as well as the manner of computing the depreciation of the tangible and non-tangible assets.

#### Article 16

When by application of the functional method of depreciation, the total depreciation of the taxpayer increases by more than 10% of the depreciation computed through a proportionate method, the public revenue authority shall approve the computation of the depreciation by the functional method.

#### Article 16-a

The revaluation of tangible and non-tangible assets, including their depreciation, shall be recognized as an expenditure in the tax balance up to the amount determined with the industrial producer price index according to the data of the State Statistics Bureau.

The Minister of Finance shall prescribe the manner and procedure of revaluation from paragraph 1 of this Article.

#### Article 17

Costs related to interests on credits, used exclusively for business purposes of the taxpayer, shall be recognized as part of the expenditures in the tax balance.

Notwithstanding paragraph 1 of this Article, the costs for the interests on credits used for procurement of cars, furniture, carpets, pieces of figurative and applied art and other decorative objects for equipping offices shall not be recognized as expenditures in the tax balance.

In case of credits among associated persons, the costs for the interests shall be recognized up to the amount of the interests at which a respective credit could have been obtained from commercial banks in the accounting period.

#### Article 17-a

Costs for research and development incurred within private research and development centers or through independent scientific and research institutions shall be recognized as expenditures in the tax balance.

#### Article 17-b

Premiums paid as insurance of the taxpayer's business property shall be recognized as expenditures in the tax balance.

#### Article 17-c

Costs incurred for travel, food and annual leave allowances shall be recognized as expenditures in the tax balance.

#### Article 17-d

Contributions for pension and disability insurance, health insurance and employment contribution paid by the employer, property tax, fees and other paid public expenses shall be recognized as expenditures in the tax balance.

#### Article 18

Fines, penalties and penalty interests on a late payment of public duties of the taxpayer shall not be recognized as part of the expenditures in the tax balance.

#### Article 19

Expenses incurred by members of the managing board or shareholders for vehicle usage, food and beverages, gifts, for purchase of movable property and real estate, shall not be recognized as part of the expenditures in the tax balance.

#### Article 19-a

Allowances with respect to daily allowances for business trips in the country or abroad and separate living from family of the employees, shall be recognized as expenditures in the tax balance in the amount determined with the collective contract on the level of a business sector, i.e. with the provisions of the state administration bodies.

Costs for using a private car for business purposes by the employees shall be recognized as expenditures in the tax balance up to 50% of the amount determined according to the criteria in paragraph 1 of this Article.

#### Article 20

All costs incurred for economic propaganda to promote the taxpayer's activity shall be recognized as expenditures in the tax balance in the amount of the actual costs on the basis of the submitted documents.

Expenses with respect to donations and sponsorship for cultural, scientific, humanitarian, educational, religious, sporting and health purposes, except for the expenses for international sport, shall be recognized as expenditures in the tax balance in the amount of up to 3% from the total income, on condition that they are incurred to benefit public institutions financed by the Budget or the Red Cross of the Republic of Macedonia.

Costs for the taxpayer's representation (feasts, gifts, vacations, recreation and entertainment) shall not be recognized as expenditures in the tax balance.

#### Article 20-a

Claims and financial investments that can not be charged and are written off as a correction of the value shall not be recognized as expenditures in the tax balance.

#### Article 21

The calculated long-term reservations of tangible and non-tangible costs shall not be recognized as expenditures in the tax balance, except for those reservations whose obligation is defined by the Law on Forests.

#### Article 22

Payments for scholarships shall not be recognized as expenditures in the tax balance.

#### Article 23

The tax base for the taxpayer - bank or savings house - shall be decreased by the amounts allocated as a special reserve for covering potential losses.

The tax base for a taxpayer - property or persons insurance and re-insurance company, shall be decreased by the amounts allocated as a special reserve for insurance and other risks.

The amount allocated as a reserve, from paragraph 2 of this Article, may be up to 75% of the reserves made for this purpose.

#### Article 23-a

Losses from business, financial and non-business transactions may be computed within the profit of the future accounting periods, but for no more than three years since the year the losses were made.

The right from paragraph 1 of this Article cannot be used in case the taxpayer's status changes on the basis of merger, acquisition, division, ownership transformation, etc.

The taxpayer making losses, shall realize the right from paragraph 1 of this Article upon approval by the Public Revenue Office, at his own written request.

#### **IV. TAX TREATMENT OF CAPITAL REVENUES AND CAPITAL GAINS AND LOSSES**

##### Article 24

Incomes from dividends realized through participation in the capital of another taxpayer - resident of the Republic of Macedonia, as well as incomes from participation in profit of limited liability companies, shall not be included in the tax base, if the tax is paid by the taxpayer, who effects payment according to the general rate under Article 28 of this Law.

##### Article 24-a

Incomes based on the effect from distribution of re-valorized reserve (in compliance with the accounting provisions and standards), made by another entity where the taxpayer has invested assets, shall not be included in the tax base unless the taxpayer has gained money.

##### Article 25

Capital gains acquired from sales of securities, equipment and real estate shall be included in the tax base of the taxpayer.

Capital gains under paragraph 1 of this Article shall refer to the difference between the sales value of the securities, equipment and real estate and their purchase value, revalued on the day of the sale.

Capital loss, recognized as expenditure in the tax balance, shall result if the difference under paragraph 2 of this Article is negative.

The purchase value shall be revalued according to the accounting regulations, standards and this Law.

The Minister of Finance shall regulate more closely the manner of revaluing the purchase value from paragraph 2 of this Article.

##### Article 26

Capital gains realized from the sale of securities, equipment and real estate shall be included in the tax base in the amount of up to 70%.

##### Article 27

A capital loss realized through sale of securities is settled through capital gains acquired in the same year.

If a capital loss appears after the settlement indicated in paragraph 1 of this Article, the surplus shall be transferred to the upcoming capital gains in the following three years.

#### **V. TAX RATE**

Article 28

The profit tax rate shall equal 15%.

Article 29  
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**VI. TAX DEDUCTIONS AND EXEMPTIONS**

Article 30

The taxpayer shall be entitled to accelerated depreciation of fixed assets in cases of technological renovation or if he procures means for environmental protection, up to 25% over the depreciation computed in the manner specified in Article 15 of this Law.

The taxpayer attains the right under paragraph 2 of this Article by submitting a written request to the public revenue authority on the basis of appropriate documentation.

Article 31

The tax base of the taxpayer shall be decreased by the amount of his investment in fixed assets undertaken so as to broaden the scope of his activities, but no such decrease occurs if funds are invested in cars, furniture, carpets, pieces of figurative and applied art and other decorative objects used to equip offices. The decrease must not exceed 25% of the tax base.

Unless the taxpayer at the end of each accounting period shall prove by way of documents that the amount by which his tax base decreased has been invested for the purposes identified in paragraph 1 of this Article, he shall lose the right to tax exemption on this basis. The tax he would have paid if he had not used this exemption is charged in the amount revalued by applying the retail price index according to the data of the State Statistics Bureau.

Article 32

The tax base of the taxpayer who has used his profit to invest in economically underdeveloped regions and in specific regions (mountainous areas, border belts and completely underdeveloped regions) is reduced by the amount of his investments. The decrease must not exceed 50% of the tax base.

Unless the taxpayer, at the end of each accounting period, shall prove by way of documents that the amount by which the tax base decreased has been invested for the purposes identified in paragraph 1 of this Article, he shall lose the right to tax exemption on this basis. The tax he would have paid if he had not used this exemption shall be charged in the amount revalued by applying the retail price increase rate according to the data of the National Statistics Office.

Article 32-a

The taxpayer operating in a free economic zone, shall be exempt from paying profit tax for a period of ten years since the day he began performing his activities in the free economic zone, under conditions and procedure established by the Law on Free Economic Zones.

Article 33

The computed tax of the taxpayer, who has assets invested by foreign persons, shall be decreased in proportion to the participation of the foreign capital, on condition that the foreign capital makes 20% at least of the overall invested joint fixed capital.

Assets invested by foreign persons, referred to in paragraph 1 of this Article, shall also refer to the buyout of shares by the foreign person.

The tax exemption from paragraph 1 and 2 of this Article shall also refer to taxpayers founded by foreign capital alone.

The tax exemption from paragraph 1 and 2 of this Article shall not refer to the taxpayers founded by way of merger or division.

The tax exemption from paragraph 1 of this Article shall refer only to the first three years since the year profit was made, on condition that the taxpayer used the exemption to operate for at least three years after the end of the last year when he was entitled to tax exemption.

In case the taxpayer stops his activity, before the period of six years, determined in paragraph 5 of this Article, expires, he shall lose the right of exemption on this basis and shall be obliged to pay the tax in the amount revalued by applying the retail price index according to the information from the State Statistics Bureau.

The taxpayer may use the right in paragraph 1 of this Article upon approval by the Public Revenue Office following a submitted written request.

#### Article 33-a (DELETED)

#### Article 34

Incomes realized from funds strictly earmarked for performing an activity at the legal entity - taxpayer (budgets, funds) shall not be included in the tax base for computation of the profit tax.

Funds from special accounts, funds obtained from earmarked donations, membership fees and other funds not intended for performing activities and which are only being collected and allocated, may also be considered funds strictly earmarked for performing activities.

#### Article 35

The taxpayer's tax base shall be decreased by the amount of the assets of his profit invested in environmental protection.

Unless the taxpayer, at the end of each accounting period, proves by way of documents that the amount by which the tax base decreased has been invested for the purposes identified in paragraph 1 of this Article, he shall lose the right to tax exemption on this basis. The tax he would have paid if he had not used this exemption shall be charged in the amount revalued by applying the retail price index according to the data of the State Statistics Bureau.

#### Article 36

The taxpayer who undertakes activities for the first time, shall be entitled to a 50% reduction in the computed tax in the first year in which he makes profit.

The taxpayer whose status has undergone changes (merger, acquisition, division, ownership transformation, etc.) shall not be considered a taxpayer who undertakes activities for the first time.

If the taxpayer from paragraph 1 of this Article stops performing his activities before the end of the three years since the day the tax reduction came into force, he shall be obliged to pay the outstanding tax in the amount revalued with the retail price index according to the data from the State Statistics Bureau.

The taxpayer shall use the right from paragraph 1 of this Article upon approval by the Public Revenue Office, following a submitted written request.

#### Article 36-a

The amount of the computed profit tax shall be decreased by 50% in the first three years if the taxpayer is listed on the official markets of the Stock Exchange.

The taxpayer shall effectuate the right from paragraph 1 of this Article by submitting a written request to the Public Revenue Office supported by relevant documentation.

If the Stock Exchange excludes the taxpayer from the listing, the taxpayer will lose his right to tax exemption in the period determined in paragraph 1 of this Article and shall be obliged to pay the tax in the amount revalued by applying the retail price index according to the data from the State Statistics Bureau.

### **VII. AVOIDANCE OF DOUBLE TAXATION ON PROFIT**

#### Article 37

The taxpayer, resident of the Republic of Macedonia, who has paid tax in a foreign country on the profit earned through work abroad, shall be entitled to reduced taxation in the country, by the amount of the profit tax paid abroad, and not exceeding the tax anticipated by implementation of the tax rate under Article 28 of this Law.

#### Article 38

The domestic legal entity - resident of the Republic of Macedonia, shall be entitled to reduction in the computed tax in the country by the tax amount paid by its branch office in another country, for the profit included in the income of the domestic legal entity.

The domestic legal entity, that has, permanently within a period of at least one year, before submission of the balance, held 25% or more of the shares in the non-resident branch office, verified with appropriate documentation, profit and loss balance and tax balance, shall be entitled to tax reduction under paragraph 1 of this Article.

#### Article 38-a

The taxpayer, who has made reserves in the previous accounting period and for the same he paid the profit tax, shall be granted a tax credit in the amount of the paid profit tax.

### **VIII. DETERMINATION AND COLLECTION**

#### Article 39

The taxable period for which profit tax is determined covers one calendar year.

If the taxpayer operated in a period shorter than one calendar year, the period of the year in which he operated shall be considered a taxable period.

#### Article 39-a

The taxpayer shall be obliged to perform determination and payment of the profit tax on the basis of the tax balance form, which together with the annual financial statement shall be submitted to the Public Revenue Office.

The form and the annual financial statement shall be submitted in the period determined for submission of annual financial statements pursuant to the accounting provisions and standards.

#### Article 40

The taxpayers shall pay the profit tax during the year in monthly advance payments.

The advance monthly payment shall be made within 15 days after the end of each calendar month.

The monthly advance payment for each calendar month and for January of the following year shall be determined according to the tax base determined for the previous year, increased by the percentage of the cumulative growth of the retail prices in the country in the previous period of the year, i.e. up to 31 January of the following year in relation to the average retail prices in the previous year.

The percentage of the retail price increase from paragraph 3 of this Article shall be determined according to the data of the State Statistics Bureau.

The Public Revenue Office shall calculate the interest on the amounts of the monthly advance payments that are not settled in the period determined in paragraph 2 of this Article.

The taxpayer having made losses in his operations of the previous year, shall make advance payments on a base determined by himself on the basis of the assessed capacity to make profit.

The taxpayer who undertakes activities for the first time, shall make the advance tax payments by submitting a tax balance form and a financial statement for a shorter period, as of 31 March, 30 June, 30 September, or 31 December on the basis of which he shall determine and make the tax advance payments.

#### Article 41

The taxpayer shall be obliged to pay the difference between the made advance payment and the actual liability of paying the calculated profit tax within 30 days of the deadline for submitting the annual financial statement.

If the taxpayer of the profit tax has made a greater tax payment than the one he was due to make, he may demand a refund of the paid surplus from the Public Revenue Office.

The Public Revenue Office is obliged to refund the paid surplus of the profit tax to the taxpayer at the taxpayer's request, within 30 days of the day the request for a refund was submitted.

If the taxpayer of the profit tax does not demand a refund of the paid tax surplus, the paid tax surplus shall be considered an advance payment for the following period.

#### Article 42

In case of forced collection of tax and interest, in case of outdated liability to pay profit tax, the provisions from the Law on Determination, Control and Collection of Public Revenues shall be applied.

In case of an appeal, the provisions from the Personal Income Tax Law shall be applied.

#### Article 43

The Public Revenue Office shall control the procedure of computation, payment and return of the profit tax.

#### Article 44

The State Statistics Bureau shall announce the percentage of the retail price increase in the country, under article 40 paragraph 2 of this Law, by the 10th day of the month.

## **IX. PENALTY PROVISIONS**

### **Article 45**

The taxpayer of the profit tax, who for the determined tax base and tax reductions, has indicated incorrect figures on the tax computation form, due to which a smaller tax base has been determined, shall be fined for violation with a penalty amounting to ten times the underpaid profit tax sum.

The responsible person with the taxpayer of the profit tax shall also be fined for the violation under paragraph 1 of this Article with 40,000 to 50,000 denars.

### **Article 46**

The legal entity that has failed to submit the computation on the designated form (Articles 39-a and 40) to the Public Revenue Office, shall be fined with 200,000 to 300,000 denars for the violation.

The responsible person with the taxpayer of the profit tax shall also be fined for the violation under paragraph 1 of this Article with 40,000 to 50,000 denars.

### **Article 47**

The legal entity that has failed to make the monthly advance payment of the profit tax in the determined period (Article 40) shall be fined with 200,000 to 300,000 denars for the violation.

The responsible person with the taxpayer of the profit tax shall also be fined for the violation under paragraph 1 of this Article with 40,000 to 50,000 denars.

### **Article 47-a**

The legal entity that has failed to pay the difference between the made advance payment and the actual liability for payment of the computed profit tax (Article 41, paragraph 1) shall be fined with 200,000 to 300,000 denars for the violation.

The responsible person with the taxpayer of the profit tax shall also be fined for the violation under paragraph 1 of this Article with 40,000 to 50,000 denars.

### **Article 48**

For the violation under Article 45, paragraph 1 of this Law, in addition to the fine, a protective measure can also be taken against the legal entity - prohibition of activity from six months to one year, while the responsible person with the legal entity may be prohibited to perform his function from three months to one year.

### **Article 48-a**

The responsible person with the legal person who gives incorrect information about the amount of the tax base or fails to submit tax balance form and annual financial statement for determination and collection of the profit tax with an aim to acquire property or value, shall be sentenced to 3 to 5 years' imprisonment.

## **X. TRANSITIONAL AND FINAL PROVISIONS**

### Article 49

The Minister of Finance shall issue further regulations specifying the manner of computation and payment of the profit tax, as well as regulations concerning the prevention against double exemption or double taxation and will determine the tax balance form, used for computation and payment of the profit tax, within a period of 30 days of the date this Law comes into effect.

### Article 50

Tax exemptions determined up to the day this Law comes into force, based on foreign investments, up to amount of the invested assets in that period, shall valid until the determined term expires.

### Article 51

The provisions in Articles 25 and 26 of this Law referring to the taxation of capital gains realized from a sale of securities shall be applied from 1 January 2006.

### Article 52

The provision in Article 33 of this Law referring to tax exemption on the basis of a foreign investment, shall be applied until 31 December 2006, while the provision in Article 36-a of this Law referring to the reduction in the determined profit tax of a taxpayer listed on the official markets of the Stock Exchange shall be applied until 31 December 2005.

### Article 53

This Law comes into force on the eighth day of its publishing in the Official Gazette of the Republic of Macedonia.