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# Screening report

## Serbia

### Chapter 33 – Financial and budgetary provisions

**Date of screening meetings:**

Explanatory meeting: 27 January 2015

Bilateral meeting: 24 March 2015

## **I. CHAPTER CONTENT**

This chapter covers the rules concerning the financial resources necessary for the funding of the EU budget ('own resources'). These resources are made up from so-called traditional own resources from customs duties and sugar levies, which are levied by the Member States on behalf of the EU; a resource based on value-added tax; and finally, a resource based on each Member State's gross national income. Member States must have appropriate administrative capacity to adequately coordinate and ensure the correct calculation, collection, payment and control of their own resources' contributions. The *acquis* in this area is directly binding and does not require transposition into national law.

## **II. COUNTRY ALIGNMENT AND IMPLEMENTATION CAPACITY**

This part summarises the information provided by Serbia and the discussion at the screening meetings.

Serbia indicated that it can accept the *acquis* regarding chapter 33, financial and budgetary provisions and that it does not expect any difficulties with implementing the *acquis* by the date of accession.

### **II.a. Traditional Own Resources**

Serbia informed about its alignment with EU customs legislation, including the operational set-up of the customs administration and its implementing capacity; existing Information Technology infrastructure as well as current customs rules and procedures in place. (Customs issues are essentially covered by *chapter 29 - Customs Union*.)

Serbia stated that the Customs Law, the regulation on the customs-approved treatment of goods, the Rulebook on the form, content, methods of lodging and filing the customs declaration and other forms used in the customs procedure and the Rulebook on terms and manner of keeping revenue accounts form the main legal basis for the procedures concerning the collection of customs duties. Within the Customs Administration, which is an executive body of the Ministry of Finance, it is the Revenue Collection Department which is responsible for the collection of customs duties and the daily transfer thereof to the state budget.

The Serbian customs tariff has been updated in line with the 2014 version of the EU Combined Nomenclature, including up to the level of the eight digit tariff code and there are no tariff headings that are different from the EU Combined Nomenclature. Duties are paid or guaranteed before the release of goods except that the customs authority does not need to request the provision of a security where the amount of customs debt is below EUR 500. Where customs debts are not paid within the prescribed period, interest is charged and the customs administration initiates, via the National Bank of Serbia, a forced collection of payment through the Debt Enforcement Department. The Department blocks all accounts of the debtor and transfers all funds in the debtor's account to the account of Customs Administration. Other assets belonging to the debtor can be confiscated and subsequently sold in order to service the payment of the customs debt.

Serbia notified that nearly all customs declarations are submitted electronically, including transit declarations and there is a 100% match between the amounts of duties in the Information System of Customs Service (ISCS) and bookkeeping system.

Serbia furthermore notified that it will update its IT systems to ensure inter-operability with those of the EU.

As regards the administrative conditions necessary for compliance with the traditional own resources rules as laid down in Council Regulation (EC, Euratom) No 1150/2000 of 22 May 2000 implementing Decision 94/728/EC, Euratom on the system of the Communities' own resources<sup>1</sup>, Serbia indicated that the existing accounting systems will have to be upgraded with the Traditional Own Resources IT application for keeping A&B accounts and producing the related A&B account statements.

There are six sugar and one isoglucose producer in Serbia and Serbia levies duties on sugar imports.

## **II.b. VAT resource**

Serbia informed on its alignment with EU VAT legislation, including the organisational aspects of the VAT administration and its implementing capacity.

Serbia stated that the legislative framework which forms the legal basis for the collection of VAT is based on the domestic laws on tax administration and on VAT, which in turn are based on Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax<sup>2</sup>. The various requirements of the VAT law are administered through the Tax Administration.

VAT and interest payments are booked under the same revenue codes. However, penalties for non-compliance with VAT rules are booked separately. Serbia operates a flat-rate VAT scheme for farmers and allows economic operators with an annual turnover equal to or less than EUR 65 000 to be tax exempt with the possibility to opt for taxation. Serbia indicated that it was aware that compensations will have to be calculated for own resources purposes to neutralise the budgetary impact concerning this provision.

Serbia is aware of the necessity to calculate the Weighted Average Rate, given that there are currently two rates in operation: A standard rate at 20% and a reduced rate at 10%.

Serbia indicated that at this stage, it had not been able to present or calculate the VAT base or to estimate its proportion to GNI. Serbia informed that these are calculations which it is looking to undertake.

## **II.c. GNI resource**

Serbia informed on its compliance with the administrative criteria related to the GNI own resource. The Statistical Office of the Republic of Serbia (SORS) uses the ESA 2010 methodology for Gross National Income (GNI) and Serbia is working towards bringing its legislation in line with that of the *acquis* in this area.

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<sup>1</sup> Council Regulation (EC, Euratom) No 1150/2000 of 22 May 2000 implementing Decision 94/728/EC, Euratom on the system of the Communities' own resources hereafter referred to as "Regulation (EC) No 1150/2000" <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:32000R1150>

<sup>2</sup> Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax hereafter referred to as "Directive 2006/112/EC" <http://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=URISERV:131057&from=EN>

## **II.d. Administrative infrastructure**

Serbia stated that it intends to establish a coordinating body to streamline and steer pre-accession preparations. The establishment of a coordination unit is the first step to building an efficient own resources system as various services belonging to different ministries or departments are involved. Serbia informed that it intends to formally set-up, by the end of 2015 a co-ordination unit within the Ministry of Finance to undertake this task.

## **III. ASSESSMENT OF THE DEGREE OF ALIGNMENT AND IMPLEMENTING CAPACITY**

Overall, Serbia has reached a good level of alignment with and capacity to implement the *acquis*. There are no significant divergences between the Serbian and the EU system concerning the basic principles and institutions in the underlying policy areas linked to the application of the own resources system. In order to prepare for the full application of the *acquis*, Serbia will need to continue to align with the relevant *acquis* chapters, in particular *chapter 16- taxation, chapter 18- statistics, chapter 29-customs union, and chapter 32- financial control*. Although the *acquis* in this area does not require transposition, Serbia will need to establish coordination structures and implementing rules so as to ensure the correct calculation, collection, forecast, payment and control of own resources and reporting to the EU for implementation of the own resources rules. Also, effective instruments to combat customs duty and VAT fraud will need to be set up so that the financial interests of the EU can be protected.

The Commission will assess the budgetary impact of Serbia's accession at a later stage of the negotiations. The results of the impact assessment will be presented together with the financial framework for concluding the negotiations.

### **III.a. Traditional Own Resources**

Serbia has a good level of alignment with the *acquis* in the field of customs (dealt with under *chapter 29-customs union*). Appropriate procedures and systems for accounting and making available of traditional own resources will have to be put in place. In particular, either existing accounting systems will have to be brought in line with the EU requirements or new systems will have to be developed in order to ensure that separate accounts are kept to distinguish between recovered/guaranteed and outstanding debts as required by Regulation (EC) No 1150/2000<sup>3</sup> (the so-called 'A' and 'B' accounts).

The Serbian write-off system for irrecoverable debts needs to be amended in order to align it with Article 17(2) of Regulation (EC) No 1150/2000, in particular for established customs duties which are deemed irrecoverable after specific time limits.

Post-clearance auditing at traders' premises will need further developing. Moreover, it remains to be established what types of independent internal and external control/audit will be performed on the collection, accounting and making available of Traditional Own Resources (e.g. management controls, controls by the internal audit service of the customs administration, etc.; dealt with under *chapter 32 – Financial control*). OWNRES<sup>4</sup> working procedures will have to be set up to report cases of fraud and irregularities.

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<sup>3</sup> <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:32000R1150>

<sup>4</sup> Web based application for notifying the Commission of cases of fraud and irregularities

In the EU, a production charge is levied on sugar producers. Serbia will need to set up the necessary administrative and legal framework to align with EU rules.

### **III.b. VAT resource**

Serbia's VAT system follows the main structure of EU legislation and the Serbian law on VAT is based on Directive 2006/112/EC<sup>5</sup> (dealt with under *chapter 16 - Taxation*). Moreover, there are still some exemptions and reduced rates that will need to be aligned with the *acquis*. Increased co-ordination within the Tax Administration will be required to ensure a structured and integrated approach to all own resources matters.

Serbia will need to develop the capacity to accurately calculate the Weighted Average Rate, including the calculation of any compensations and corrections to offset the impact of possible derogations on the VAT resource base. It is too early at this stage to present an estimate of the VAT base or to estimate its proportion to GNI. At this stage, calculations concerning the country's future possible capping status derived from the calculation of the ratio of VAT to GNI are still outstanding. Serbia will be required to provide accurate calculations and assessments of this figure.

### **III.c. GNI resource**

Serbia is partially compliant with the ESA 2010 standards for calculating GNI figures (dealt with under *chapter 18- Statistics*). Further efforts will be required to improve the methodological compliance with the European standards and to create a full GNI inventory of sources and methods used for the completion of national accounts.

Serbia will need to clarify where EU assistance is required to ensure further alignment and compliance with the *acquis*.

### **III.d. Administrative infrastructure**

In addition to further strengthening administrative capacity in the underlying policy areas (customs, taxation, statistics & financial control), a fully operational coordination structure will be required so as to ensure the correct calculation, forecast, collection, payment and control of own resources and reporting to the EU for implementation of the own resources rules. Currently, preparations in the pre-accession period are managed and coordinated by the Ministry of Finance. This coordination structure will need to be strengthened and formally established. Besides steering and coordinating pre-accession preparations, the coordinating structure will have to establish the organisational and procedural links between the various institutions involved in own resources. Capacity building in view of the increased tasks post-accession will also need to be ensured.

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<sup>5</sup> <http://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=URISERV:l31057&from=EN>