

**DRAFT LAW
ON CONTRIBUTIONS FOR SOCIAL INSURANCE**

I GENERAL PROVISIONS

Article 1

This Law shall regulate contributions for mandatory social insurance (hereinafter: contributions), specifically: contributors, contribution base, contribution rate, contribution determination and mode of payment, as well as other issues important for calculating and paying contributions.

Article 2

Contributions shall provide funds for financing mandatory social insurance, specifically:

- pension and disability insurance;
- health insurance;
- insurance in case of unemployment.

Article 3

For the purpose of this Law, contributions shall include:

- 1) for the pension and disability insurance:
 - (1) contributions for mandatory pension and disability insurance;
 - (2) additional contributions for the insurance coverage that shall be calculated with the extended duration in accordance with the law;
 - (3) contribution in the incidence of disability and bodily damage based on occupational injury and disease;
- 2) for the health insurance:
 - (1) contributions for mandatory health insurance;
 - (2) contribution in the incidence of occupational injury or disease;
- 3) for the insurance in case of unemployment:
 - (1) contribution for mandatory insurance in case of unemployment.

Article 4

Contribution funds shall be the revenue of the organizations for social insurance, established in accordance with the laws regulating mandatory social insurance, and shall be utilized for the purposes stipulated in accordance with these laws.

Article 5

Provisions of this Law shall be applicable to contributions regulated by this Law.

II DEFINITION OF TERMS

Article 6

The expressions used in this Law shall have the following meaning:

1) **contributor** is a natural person, legal person or other legal entity whose account is levied for the amount of the contribution;

2) **contributor under obligation to calculate and pay contributions** is a natural person, legal person or other legal entity who shall calculate and pay contribution in his own name and on his own behalf, or in his own name and on behalf of the insured person;

3) **insured person** is a natural person subject to mandatory insurance in accordance with the laws regulating mandatory social insurance;

4) **employee** is a natural person who, based on the employment contract, performs business tasks for the employer, in accordance with the law regulating employment;

5) **seconded employee** is an employee performing business tasks in another country for the employer – legal person with the seat in the Republic of Serbia (hereinafter: the Republic), as well as a person working in the diplomatic mission, consular office or international organization abroad;

6) **domestic citizen employed abroad** is a natural person employed by a foreign employer if, for the duration of that employment, he is not insured on a mandatory basis by a foreign insurer, or if the entitlements pertaining to mandatory social insurance, based on that country's regulations, cannot be exercised or utilized beyond its territory;

7) **foreign country's pensioner** is a domestic citizen who receives pension, disability compensation or rent exclusively from foreign insurer.

8) **person performing temporary and occasional assignments** is a natural person performing business tasks on the basis of a temporary and occasional assignments contract, concluded in conformity with the law regulating employment;

9) **volunteer** is a natural person who, in conformity with regulations, on the basis of a contract on voluntary work, attends professional training or interning, without concluding employment contract;

10) **employer** is a legal, or a natural person or other legal entity who is a contributor, contributor under obligation to calculate and pay contributions for the employees, persons performing temporary and occasional assignments and elected,

designated and appointed persons; employer is deemed to be also a cooperative, for the persons performing temporary and occasional assignments through a cooperative.

11) **cooperative** is a youth or student cooperative established in conformity with the law regulating cooperatives;

12) **payer** is an employer, other legal, or natural person or other legal entity who shall, in the name and on behalf of the insured person or in his own name, and on behalf of the insured person calculate and pay withholding contribution;

13) **self-employment** is a business, professional or other activity performed by the: entrepreneur, founder or a member of a company, independent artist, priest or cleric.

14) **entrepreneur** is a natural person performing business, professional or other activity on the basis of self-employment, in conformity with the law, and paying taxes on revenues from self-employment;

15) **founder or a member of a company** is a natural person working for the company where he is a founder or a member, regardless whether he concluded employment contract; working, besides employment, includes representing and acting on behalf of the company based on registration with the competent court, as well as performing executive and managerial activities in conformity with the law regulating status of companies;

16) **independent artist** is a natural person who performs artistic or other culture-related activity on the basis of self-employment, in conformity with the law;

17) **person receiving agreed compensation** is a natural person performing business activities based on a single assignment contract, authorship contract, contract on extra work and other contract, and for performed work receives agreed compensation, or a compensation for work (hereinafter: agreed compensation).

18) **agreed compensation** is a compensation containing tax and contributions levied on the account of the person earning compensation;

19) **disability compensation** is a compensation, based on remaining work ability and a danger from disability incidence, levied as an acquired entitlement in conformity with the law regulating mandatory pension and disability insurance, on the account of the organization for mandatory pension and disability insurance.

20) **pecuniary compensation** is a compensation received for the duration of the unemployment, levied on the account of the organization competent for employment, which contains contributions levied on the account of the person realizing this compensation.

21) **agriculture producer** is natural person performing agricultural activity, member of a agriculture producer's household as well as a member of a mixed household.

22) **a person covered by mandatory social insurance** is a natural person included in mandatory pension and disability insurance upon personal request, in conformity with the law regulating mandatory pension and disability insurance;

23) **contribution from the base** is the amount of contribution calculated, withheld and paid by the employer, or other payer in the name and on behalf of the insured;

24) **contribution on the base** is the amount of contribution calculated and paid by the employer or other payer, in his own name and on behalf of the insured, or by the insured who pays his own contribution;

25) **monthly contribution base** is the amount subject to calculation and paying contributions for one calendar month of insurance coverage;

26) **the lowest monthly contribution base** is the lowest amount subject to calculation and paying contributions for one calendar month of insurance coverage;

27) **the highest monthly contribution base** is the highest amount subject to calculation and paying contribution for one calendar month of insurance coverage;

28) **the highest annual contribution base** is the highest amount subject to calculating and paying contributions on all respective grounds for the calendar year of insurance coverage.

29) **the average monthly earnings in the Republic** is the average amount of monthly earnings paid per employee in the Republic, in the particular period, in accordance with the data of the republic statistics authority.

III CONTRIBUTORS

Article 7

Contributors of the mandatory pension and disability insurance, mandatory health insurance and mandatory insurance in case of unemployment are:

- 1) employees;
- 2) persons performing temporary and occasional assignments on the basis of a contract concluded directly with the employer;
- 3) persons performing temporary and occasional assignments on the basis of a contract concluded through a cooperative, except persons up to 26 years of age if they are full-time students.
- 4) elected, designated and appointed persons realizing difference in earnings, or salary;
- 5) persons receiving earnings compensation in conformity with the law regulating financial support to the families with children;
- 6) persons receiving earnings compensation in conformity with the law regulating mandatory health insurance;
- 7) domestic citizens employed abroad;
- 8) entrepreneurs;
- 9) founders or members of a company.

Contributors of the contribution on the base, for the persons referred to in the paragraph 1, item 1) through 6) of this Article are employers, or payers of the compensation, at the same rate and base as the latter.

Article 8

Contributors for mandatory pension and disability insurance and for mandatory health insurance are:

- 1) agriculture producers;
- 2) persons earning agreed compensation;
- 3) independent artists;
- 4) priests and clerics;
- 5) persons receiving pecuniary compensation in conformity with the law regulating employment and insurance in case of unemployment;
- 6) persons covered by the mandatory insurance, in conformity with the law.

Article 9

Contributors of the contribution for mandatory health insurance are:

- 1) employers for:
 - (1) employees for the duration of abeyance of employment status on the basis of unpaid leave and parenthood leave lasting until the child's third birthday in conformity with the law regulating employment relations;
 - (2) foreign citizens in the territory of the Republic working for the domestic employer based on special contract on exchange of experts or agreement on international technical cooperation;
- 2) payers of pensions and compensations based on disability, in conformity with the law regulating mandatory pension and disability insurance;
- 3) monks and nuns;
- 4) foreign country's pensioners;
- 5) foreign citizens for the duration of studying or professional training in the territory of the Republic.

Article 10

Employer is a contributor of the additional contribution for pension and disability insurance for the insurance coverage calculated with extended duration in conformity with the law.

Article 11

Contributors of contribution for pension and disability insurance in the incidence of disability and bodily damage on the basis of occupational injury and disease and contribution for social insurance in the incidence of occupational injury and disease are:

1) a cooperative – for the persons who, in conformity with the law, perform temporary and occasional assignments through a cooperation – up to 26 years of age, if they are full-time students;

2) an organization for employment – for persons who are sent to additional education and training, in conformity with the law regulating employment and insurance in case of unemployment;

3) a body, organization or institution (school, university etc) – where the pupil or a student is attending mandatory production work, professional practice or practical training;

4) a penitentiary institution – for persons sent to serve a prison sentence, while working in the business unit of that institution (workshop, work field etc.) or some other place of work;

5) a body, organization or institution in which voluntary work is performed, or organization for employment when it assigns persons to voluntary work – for volunteers.

Article 12

When revenues are realized based on many different grounds (employment relations, self-employment, contracts etc.), contributions shall be calculated and paid on all these grounds, up to the amount of the highest annual contribution base, in conformity with this law.

Exceptionally from the provision referred to in the paragraph 1 of this Article, obligation to calculate and pay contribution on the basis of employment or self-employment excludes the obligation of paying contributions on the basis of farming activity.

IV CONTRIBUTION BASE

Article 13

Contribution base for employees and employers is earning, or salary/wage and compensation of the earning, or salary/wage in conformity with the laws regulating employment, general act or work contract, or the decision of the competent authority, as well as other receivings subject to payment of individual income tax in conformity with the law regulating individual income tax (hereinafter: earning).

Base referred to in the paragraph 1 of this Article, for employers is also the base for the additional contribution for the insurance coverage calculated with the extended duration in accordance with the law.

Article 14

Contribution base for seconded employees, if they are not covered by the mandatory insurance in conformity with regulations of the host country, or if it is not prescribed otherwise by international agreement, and for the employers contributors, is the salary earned by these employees for the duration of their work abroad.

Article 15

Contribution base for domestic citizens employed in the territory of the Republic by foreign or international organizations and institutions, foreign diplomatic and consular offices or by foreign legal or natural persons, if not otherwise stipulated by international agreement, or for foreign citizens and persons without citizenship employed in the territory of the Republic by foreign legal or natural persons if not otherwise stipulated by international agreements or international organizations and institutions and foreign diplomatic and consular offices, if not otherwise prescribed by international agreement, and for employers is the earning.

Article 16

Contribution base for the persons performing temporary and occasional assignments and for the employers is the agreed compensation.

Article 17

Contribution base for elected, designated and appointed persons who, besides salary from the employment, realize difference in earnings, or salary for the duration of performing public duty, as well as for the payers, is that difference in salary, or wage, as well as the other receivings subject to individual income tax in conformity with the law regulating individual income tax.

Article 18

Contribution base for persons receiving earnings compensation for the duration of the maternity leave, the leave for taking care of the child and the leave for taking special care of the child, in conformity with the law regulating financial support to the family with children, as for the payers of compensations is that earning s compensation.

Article 19

Contribution base for persons receiving compensation on the basis of temporary work incapability, in conformity with the law regulating mandatory health insurance, levied on the account of the organization for mandatory health insurance, and for the payers of the compensation is that salary compensation.

Article 20

Contribution base for payers of pension and compensation on the basis of disability, in conformity with the law regulation mandatory pension and disability insurance, levied on the account of the organization for mandatory pension and disability insurance is the pension, or that compensation.

Article 21

Contribution base for persons realizing pecuniary compensation, in conformity with the law regulating employment and insurance for incidence of unemployment, levied on the account of the organization competent for employment is that pecuniary compensation.

Article 22

Contribution base for entrepreneurs is the taxable profit, or the revenue determined on a lump sum basis subject to paying taxes in conformity with the law regulating individual income tax.

Pending the final determination of the taxable profit for the current year, entrepreneurs shall pay monthly advance of contribution on the base consisting of the base for monthly tax advance of the individual income tax.

Article 23

Contribution base for founders or members of the company is the taxable profit subject to taxing in conformity with the law regulating enterprise profit tax.

Pending the final determination of the taxable profit for the current year, founders or members of a company shall pay monthly advance of contributions on the base consisting of the base for monthly advance of the enterprise profit tax.

As an exception from the paragraphs 1 and 2 of this Article, contribution base for founders or members of the company who are employed with the company they founded or are members in, is the salary in accordance with the Article 14 of this Law.

Article 24

If the revenue from self-employment, or profit of a company is divided on several entrepreneurs, or founders and members of a company, contribution base for each one of them is their share in the realized revenues or profit.

Article 25

Contribution base for independent artist is agreed compensation realized by performing artistic or other activity.

If the contribution base referred to in the paragraph 1 of this Article is lower than the lowest monthly contribution base, as referred to in the Article 37 of this Law for the calendar year, independent artist shall pay the difference between paid contribution on the agreed compensation and contribution calculated on the sum of the lowest monthly contribution basis for the calendar year.

Article 26

Contribution base for priests and clerics, monks and nuns is the lowest monthly contribution base.

Article 27

Contribution base for agriculture producers is the cadastre income, or the real income in conformity with the law regulating individual income tax.

Article 28

Contribution base for persons earning agreed compensation is the taxable income from agreed compensation in conformity with the law regulating individual income tax.

Article 29

Contribution base for persons covered by mandatory social insurance is the basis prescribed by general act of the organization for mandatory social insurance.

Article 30

Contribution base of domestic citizens employed abroad is realized earning.

Article 31

Contribution base for foreign country's pensioners is the amount of pension, disability compensation or rent received in the month preceding the month for which contributions are to be calculated.

Pension, disability compensation and rent received in foreign currency, for the purpose of determining contribution base, as referred in the paragraph 1 of this Article, shall be converted to dinars in conformity with the law regulating tax procedure and tax administration on the day when contributions are to be calculated.

Article 32

Contribution base for employers on an employee on paid leave or parenthood leave until the child's third birthday is the salary that he would earn if he worked.

Article 33

Contribution base paid by the employer on the account of foreign citizens working in the territory of the Republic for the domestic employer, on the basis of a contract on exchange of experts or the agreement on international technical cooperation, is the agreed compensation paid by the employer.

Article 34

Contribution base for foreign citizens for the duration of studying or professional training in the territory of the Republic is the base prescribed by the general act of the organization for mandatory health insurance.

Article 35

Contribution base for contributors referred to in the Article 11 of this Law, for pension and disability insurance in the incidence of bodily damage on the basis of occupational injury and disease and contributions for health insurance in the incidence of occupational injury and disease is the lowest monthly contribution base, or the agreed compensation, if it is realized, and if it is higher than the lowest monthly contribution base.

V LOWEST AND HIGHEST CONTRIBUTION BASES

1. Lowest Monthly Contribution Base

Article 36

Monthly contribution base may not be lower than the lowest monthly contribution base.

If the prescribed contribution base is lower than the lowest monthly contribution base, contributions will be calculated and paid on the lowest monthly contribution base.

Notwithstanding paragraphs 1 and 2 of this Article, the lowest monthly contribution base will not apply to the contributions calculated and paid on the bases referred to in Articles 17 – 21 and Article 28 of this Law.

Article 37

The lowest monthly contribution base is the amount of 40% of average monthly earnings in the Republic as paid in the preceding quarter.

The lowest monthly contribution base referred to in paragraph 1 of this Article will be quarterly adjusted to the data on fluctuations of earnings per employee in the Republic published by the Republic authority in charge of statistics.

The nominal amount of the adjusted lowest monthly base pursuant to paragraph 2 of this Article will be determined and made publicly known by the Minister of Finance and Economy (hereinafter: the Minister) and will apply from the first day of the month following the publishing of the data on the earnings paid per employee in the preceding quarter.

Article 38

Notwithstanding the provisions of Article 37 of this Law, the lowest monthly contribution base for agriculture producers will be the amount of 40% of average monthly earnings in the Republic paid in the second half of the preceding year.

Article 39

When the period for which the contribution is calculated is shorter than a month and the requirements for application of the lowest monthly contribution base are met, the contribution will be calculated on the proportionate amount of the lowest monthly contribution base.

The proportionate amount of the lowest monthly contribution base will be determined based on the lowest monthly contribution base, proportionate to the number of days in the month for which the contributions are to be calculated.

Article 40

For the employee who works less than full hours with one employer and whose earnings are below the lowest monthly contribution base, the contribution base will be the lowest monthly contribution base.

For the employee who works less than full hours with two or more employers and therefore actually works full hours, and whose earnings with all the employers are below the lowest monthly contribution base, each employer will calculate and pay the contributions on the proportionate amount of the lowest monthly contribution base as determined proportionate to the working hours of the employee with each of the employers.

For the employee who works less than full hours with two or more employers and whose total earnings with all the employers exceed the lowest monthly contribution base, each employer will calculate and pay the contributions on the earnings he is paying, regardless of the lowest monthly contribution base.

2. Highest Monthly Contribution Base

Article 41

The monthly contribution base prescribed by this Law may not exceed the highest monthly contribution base.

If the prescribed contribution base exceeds the highest monthly contribution base, the contributions will be calculated and paid against the highest monthly contribution base.

Notwithstanding paragraphs 1 and 2 of this Article, the highest monthly contribution base will not apply when the contributions are calculated and paid against the bases referred to in Article 28 of this Law.

Article 42

The highest monthly contribution base will be the fivefold amount of average monthly earnings paid per employee in the Republic according to the latest data published by the Republic authority in charge of statistical issues.

3. Highest Annual Contribution Base

Article 43

The annual contribution base against all bases for which contributions are to be paid is the highest annual contribution base.

The highest annual contribution base is a fivefold amount of the annual earnings per employee in the Republic in the year for which the contribution is calculated and paid.

VI CONTRIBUTION RATES

Article 44

The rates according to which the contributions are calculated and paid are the following:

- 1) for mandatory pension and disability insurance – 20.6%;
- 2) for mandatory health insurance – 11.50%;
- 3) for unemployment insurance – 1.50% .

When contributions are paid at the same time from the base and on the base, the contributions will be calculated according to the following rates:

- 1) for mandatory pension and disability insurance – 10.30%;
- 2) for mandatory health insurance – 5.75%;
- 3) for unemployment insurance – 0.75%.

Article 45

The rates of additional contributions for pension and disability insurance when the insurance coverage is calculated to the employee with extended duration in accordance with the law, are the following:

- 1) when effective 12 months of work is calculated as 14 months of the insurance coverage - 3.40%;
- 2) when effective 12 months of work is calculated as 15 months of the insurance coverage - 5.20%;
- 3) when effective 12 months of work is calculated as 16 months of the insurance coverage - 6.90%;
- 4) when effective 12 months of work is calculated as 18 months of the insurance coverage - 10.30%.

Article 46

The rates of the contributions for the incidence of disability or bodily damage based on occupational injury and disease, namely for the incidence of occupational injury and disease, are the following:

- 1) for pension and disability insurance – 4.00%;
- 2) for health insurance – 2.00%.

VII ABEYANCE OF OBLIGATIONS TO PAY CONTRIBUTIONS

Article 47

For the duration of abeyance of employment that is approved to the employee in accordance with the law governing employment relations, the obligation to pay contributions will be in abeyance, unless otherwise provided by this Law.

Article 48

For the agriculture producer whose status of the insured agriculture producer is in abeyance in accordance with the law governing mandatory pension and disability insurance, the obligation to pay contributions for mandatory pension and disability insurance will be in abeyance for the same period.

Article 49

For the entrepreneur who reports temporary suspension of business activity in accordance with the law, the obligation to pay contributions will be in abeyance for that period, unless such entrepreneur submits to the Tax Administration an application to pay contributions in that period.

About the event referred to in paragraph 1 of this Article, the entrepreneur shall notify, and submit suitable evidence to, the competent organizational unit of the Tax Administration within 15 days from the day of registering temporary suspension of business activity.

VIII CALCULATION, DETERMINATION AND PAYMENT OF CONTRIBUTIONS

Article 50

A contributor under obligation to calculate and pay contributions from the base and on the base for the employees, the elected, designated, and appointed persons, and the persons who perform temporary and occasional assignments, will be the employer.

The employer shall calculate and pay the contributions referred to in paragraph 1 of this Article at the same time when paying the earnings, the difference in

the earnings, or the agreed compensation for temporary and occasional assignments, in accordance with the regulations applicable on the day of paying such earnings.

Article 51

If the earnings are paid in installments, and the first installment is below the lowest monthly contribution base, the employer shall, when paying the first installment of the earnings, calculate and pay the contributions on the lowest monthly contribution base.

Article 52

For the founder or member of the company who is employed in the company of which he is founder or member, the contributions will be calculated and paid in the same way they are calculated and paid for other employees in such company, and the contribution for mandatory pension and disability insurance will be paid to the organization which is in charge of such insured persons in accordance with the law governing mandatory pension and disability insurance.

Article 53

For the employee who is on an unpaid leave or parental leave before the child's third birthday, the employer shall calculate and pay contributions at the same time he pays earnings to other employees.

Article 54

For the foreign citizen who works based on a specific agreement on exchange of experts, or agreement on international technical cooperation, the employer shall calculate and pay contributions at the same time he pays earnings to other employees.

Article 55

Based on compensation of the earnings, and the pecuniary compensation paid against the account of the organization for mandatory social insurance, namely in accordance with the law governing financial support to families with children, the contributions will be calculated and paid by the payers at the same time they pay the compensations, in accordance with the regulations in force at the moment of paying the compensations.

Article 56

For the persons who receive the agreed compensation, the contributions will be calculated, withheld, and paid by the payer at the time of paying the agreed compensation.

Article 57

A person who receives the agreed compensation shall calculate and pay the contributions in person, whenever such compensation is received from a person other than a contributor under obligation to calculate and pay the withholding contributions.

A person referred to in paragraph 1 of this Article shall calculate and pay the contributions before the 15th in the month for the preceding month, and within the same term submit to the Tax Administration the tax declaration on the calculated and paid contributions.

Article 58

For the entrepreneurs who pay contributions on the income determined on a lump-sum basis, and for the agriculture producers who pay the contributions on the cadastre income, the contributions liability will be determined by the administrative decision issued by the Tax Administration.

Article 59

Entrepreneurs, agriculture producers, and founders and members of the company, who pay the contributions on the taxable profits, shall submit to the Tax Administration the tax declaration in which they will indicate the profits realized in the preceding year and the profits estimated for the current year.

The profits estimated for the current year will serve as a base for determination and payment of a monthly forestallment of contributions for the current year.

The term for submittal of the tax declaration referred to in paragraph 1 of this Article will be 15 days from expiry of the term for submittal of financial reports, namely 15 days from acquiring the status of a person under obligation to pay contributions.

In case of any significant changes in business operation or other circumstances that are of relevance for the level of monthly forestallment of contributions during the calendar year, the persons referred to in paragraph 1 of this Article shall submit a new tax declaration with the amended data.

The obligation to pay the contributions against the amended base will apply from the first day of the month following the day of submitting the tax declaration.

The contributor shall pay the difference between the contribution that has been paid in the form of monthly forestallments and the contribution that has been calculated on the realized profits, as indicated in the tax statement and tax declaration, at the same time when the tax declaration is submitted.

The tax declaration will be submitted on a form sheet prescribed by the Minister, in accordance with the law governing the tax procedure and tax administration, and this Law.

Article 60

The contributions referred to in Articles 58 and 59 of this Law will be paid within the term that is prescribed by the law governing the individual income tax as the term for payment of the taxes on such bases.

The contributions referred to in Articles 11 of this Law will be paid at the same time the agreed compensation is paid, namely before 15th of the month for the preceding month, if the agreed compensation is not received.

The independent artist shall pay the difference in the contributions referred to in Articles 25 of this Law before 15th January of the following year.

Article 61

Determination and mode of payment of the contributions for the priests and members of clergy, monks and nuns, the persons covered by the mandatory social insurance system, our nationals who are employed abroad, foreign country's pensioners and foreign citizens for the duration of studying or professional training in the territory of the Republic, will be regulated in detail by the competent organization for mandatory social insurance through its legal act.

Article 62

When the status of the insured person is determined in retrospect, in accordance with the law governing the mandatory pension and disability insurance, the competent organization for mandatory pension and disability insurance will determine, at the same time when determining the status of the insured person, the obligation for payment of contributions.

Determination and mode of payment of the contributions referred to in paragraph 1 of this Article will be regulated in detail by the organization for pension and disability insurance through its legal act.

Article 63

With regard to the mode of calculation, determination, and payment of the contributions relating to the issues other than those regulated by this Law, not including the provisions pertaining to tax exemptions, relieves, and writing-off, the provisions will apply of the law governing the individual income tax, namely the law governing the tax procedure and tax administration.

IX REFUND OF THE OVERPAID CONTRIBUTION AND CESSATION OF PAYMENT OF CONTRIBUTIONS DURING THE CURRENT YEAR

Article 64

The contributor who has paid the contributions in person, namely who has been paid in his name and on his behalf the contribution from the base that exceeds the amount of the highest annual base for the calendar year, shall be entitled to a refund of the overpaid amount of the contribution that was paid in this manner.

The entitlement to a refund of the overpaid amount of contributions as for the purpose of paragraph 1 of this Article will be determined by the administrative decision issued by the Tax Administration upon the request of the contributor that is submitted on the prescribed form sheet.

Article 65

The contributor who pays contributions based on the agreed compensation may in the course of the current year submit on the prescribed form sheet a request for cessation of the obligation to pay the contributions based on the forthcoming agreed compensation in that year, when the contribution base based on the agreed compensation together with the contributions bases against other bases add up to the amount of the estimated highest annual contribution base.

The estimated highest annual contribution base referred to in paragraph 1 of this Article will be the fivefold amount of annual earnings per employee in the Republic in the preceding year increased by the estimated growth of earnings in the current year.

The nominal amount of the estimated highest annual contribution base will be determined and made publicly known by the Minister.

Article 66

The Minister will regulate in detail the requirements, procedure, and mode of paying a refund for overpaid contributions, and cessation of the obligation to pay contributions based on the agreed compensation in the course of the current year.

X MONITORING OF CONTRIBUTIONS CALCULATION AND PAYMENT

Article 67

The Tax Administration will be in charge of monitoring the contributions calculation and payment, in accordance with the regulations governing the tax procedure and tax administration.

Article 68

The contributor shall notify, about the paid contributions, the competent organizations of mandatory social insurance in accordance with the regulations governing the mandatory social insurance.

Article 69

The Tax Administration and the organizations for mandatory social insurance shall share the data about the contributors, contributors under obligation to calculate and pay contributions, contribution bases, amounts of charged and paid contributions, and other contribution-related official data.

XI PENAL PROVISIONS

Article 70

For infringement of the provisions of this Law with elements of criminal offence or misdemeanor, penal provisions prescribed by the law governing the individual income tax and the law governing the tax procedure and tax administration will apply.

XII FINAL PROVISIONS

Article 71

On the day this Law commences to apply, the following shall cease to apply:

1) Article 8 paragraph 1; Article 151, items 2) and 3); Article 160, paragraph 1, items 3) and 4); Article 170; Article 172; Articles 174 -182; Articles 184 – 205; Articles 216 – 217. The Law on Pension and Disability Insurance ("Official Gazette of the Republic of Serbia", No. 34/2003).

2) Article 94, items 9) and 10); Article 100, paragraph 1, items 5) and 6); Articles 108 - 108r, Article 108t, Articles 125a - 125b, of the Law on Health Insurance ("Official Gazette of the Republic of Serbia", Nos. 18/92, 26/93, 53/93, 67/93, 48/94, 25/96, 46/98, 54/99, 29/2001, 18/2002, and 80/2002).

3) Article 65, paragraph 1, item 4), Article 106, Articles 127 – 143 of the Law on Employment and Unemployment Insurance ("Official Gazette of the Republic of Serbia", No. 71/2003).

Article 72

This Law will come into effect eight days after it is published in the "Official Gazette of the Republic of Serbia", and will apply beginning with 1st July 2004.

E L A B O R A T I O N OF THE DRAFT LAW ON CONTRIBUTIONS FOR MANDATORY SOCIAL INSURANCE

I Constitutional Legal Grounds

Constitutional legal grounds for enacting this Law is contained in the Article 72, paragraph 1, item 4) of the Constitution of the Republic of Serbia, prescribing that the Republic, *inter alia.*, regulates and secures system of social insurance.

II Reasons for Passing This Law

Contribution system that provides financing for mandatory social insurance (pension and disability insurance, health insurance, insurance in case of unemployment) is an integral part of the fiscal system of the Republic.

The primary reason for enacting this Law is providing conditions for simplification of the contribution system for mandatory social insurance. This goal shall be attained by enacting a law that is fiscal in its nature, regulating all the issues and institutes that constitute the system of contributions for mandatory social insurance, more specifically: types of contributions, contributors, base for calculating and paying contributions, contribution rates, method of calculating and paying contributions.

Fiscal nature of this law originates from economic and financial content of contributions reflected in the fact that contributions are considered to be fiscal revenue. Enacting the law regulating all relevant issues related to financing mandatory social insurance eliminates the need to regulate the system of contributions for mandatory social insurance by several different laws, as was previously the case. In other words, contributions for mandatory social insurance, as a separate type of out-of-budget public revenues and public funds, managed by the organization for mandatory social insurance, ought to be regulated by a single law. Regulating contributions for mandatory social insurance by a single law is in accordance with the best practice of developed market economies and neighboring countries. Regulating this subject matter by a single law, besides simplifying the system regarding law application, facilitates its easier expansion and further development involving amendments and additions to one, instead of many laws.

Basic goals for enactment of this Law are, besides simplifying the system of contributions, increasing revenues from contributions through equalizing different work categories regarding the obligation to pay contributions, reducing informal sector, better monitoring and more efficient collection of contributions and reducing administration and costs of collection.

Along with enacting unified law regulating basic elements of the contribution system, simplification of the contribution system is achieved through equalization of contribution bases for all forms of social insurance, as well as reducing multiple contribution rates in particular forms of mandatory social insurance.

Contribution bases are equalized for the same contributors and for all forms of mandatory social insurance. Beside that, high level of equalization of contribution bases is proposed also between different categories of contributors (employed, self-employed, agriculture producer), to the extent permissible by the difference in their economic standing and capacity.

Equalizing insurance bases means also their leveling, as much as possible, with the tax base for paying tax on work related income. Equalizing insurance bases for all forms of social insurance and their leveling with the tax base on work related income is attained through simplifying contribution system, as well as easier monitoring of records on executed payments and collection of contributions.

However, equalizing contribution bases with the bases of work related income tax is not entirely possible.

Contribution system requires existence of the lowest possible contribution base that would enable actuary balance between paid contributions and legally guaranteed minimal entitlements from social insurance, or balancing revenues and expenditures in the area of social insurance. The existence of lowest possible contribution base classifies the system of contributions into a special part of public finances, since the system of social insurance rests, besides the binding principle, also on principles of solidarity and reciprocity.

Besides that, limitations regarding upper limit of entitlement that might be realized through social insurance (for instance, the highest pension) requires introduction of the institute of the highest base, subject to calculation and payment of contributions. Nonexistence of the institute of highest insurance or contribution base would cause disparity between invested contribution funds and entitlements exercised on that basis. Furthermore, this would cause the abuse of principle of solidarity as a basic principle of social insurance.

In the area of health insurance, multiple contribution rates are abolished. Instead of currently existing 13 rates, it is proposed that only one income-neutral rate for total entitlements realized on the basis of health insurance and one rate for limited entitlements realized on the basis of occupational injury remains in the insurance system. By means of already reduced rates in the area of pension and disability insurance, that shall remain on the same level, and unique insurance rate in case of unemployment, the system of calculating contribution and monitoring payment and collection of contributions is significantly simplified.

Increasing revenues from contributions is provided through widening the contribution base for all forms of work and through simultaneous payment of

Widening the base for paying contributions on all types of individual income realized on the basis work (single assignment contract, authorship contract,

other contracts generating agreed compensation and other bases resulting in work related revenues), constitutes a significant reform task in the sphere of contributions.

By taking into account contributions for mandatory social insurance for all work related bases, equalizing all forms of work regarding costs of labour, eliminates possibility of evasion of contribution payment and increases revenues based on widening contribution base and curbs informal economy regarding possibility of providing incentive and favoring one at the expense of other form of work.

Widening the basis for paying contributions fully respects the principle of paying public revenues in accordance with economic standing of the contributor, as well as the principles of solidarity and reciprocity in social insurance. By paying contributions on income earned on the basis of all forms of work, any individual directly and fully designates the level of his own financial and social security even in the incidence of exposure to risks covered by social insurance, along with the necessary presence of solidarity.

Simplifying the system of contributions provides for better monitoring and more efficient collection of contributions even without additional increase in contribution rate, while widening contribution bases on all forms of work facilitates curbing informal economy in this area

Reducing administration and costs of contribution collection is provided through overall simplification of the contribution system, and especially through introduction of the system of self-assessment– paying contributions based on tax declaration for taxpayers who are either self employed or agricultural producers if they keep business books and pay taxes on taxable profit.

Realization of presented goals and reasons for enacting this Law creates preconditions for financing social insurance from contributions, as an ordinary revenue, which shall reduce the need for budgetary transfers in the form of budgetary grants to the social insurance sector and makes provisions for higher level of consolidation of public revenues.

Enacting this Law, shall provide for harmonization of the contribution system with the contribution systems in the European Union countries.

III Explanation of Specific Articles

I General Provisions

RE: Articles 1 through 5.

General provisions determine the basic elements of the contribution system for mandatory social insurance regulated by this Law and establish the types of mandatory social insurance and contributions generating funds for their financing. It is specified that contribution funds are revenues of the organizations for mandatory social insurance, established in conformity with the laws regulating mandatory social insurance, utilized for the purposes determined in conformity with these laws.

Also, a relationship is established between this Law and the laws regulating entitlements from social insurance (The Law On Pension And Disability

Insurance, The Law On Health Insurance And The Law On Employment And Insurance In Case Of Unemployment), by prescribing that provisions of this Law are applicable to the contributions regulated by these laws.

II Definition of Terms

Re Article 6.

Provisions of the Article 6 define terms used in the further legal text, for the purpose of providing transparency and easier comprehension of the legal text.

III Contributors

Re: Articles 7 through 12.

Categories of contributors are grouped with reference to the types of mandatory social insurance for which the contributions are paid, i.e. depending whether all three, two or only one contribution for social insurance is paid.

Contributors on all three insurance basis, are employers, or payers of compensation for employees, persons performing temporary and occasional assignments (except persons up to 26 years, if full-times), elected, designated and appointed persons, persons realizing compensation in conformity with the law regulating financial support for families with children and the law regulating mandatory health insurance, and contributions are paid on the same base and rate as the latter.

A significant novelty is inclusion of persons earning agreed compensation in the category of contributors paying two contributions for mandatory pension and disability insurance and mandatory health insurance, to the extent regulated by systemic laws in respective areas.

Also specified is the contributor of the additional contribution for pension and disability insurance for employees whose insurance coverage will be calculated with extended duration as well as contributors for pension and disability insurance in the incidence of disability and bodily damage on the basis of occupational injury and disease and contribution for health insurance in the incidence of occupational injury and disease.

For persons realizing income on several different bases (employment, self-employment, contracts etc.), obligation for paying contributions on incomes realized on all these bases is prescribed, up to the amount of the highest annual base of contributions determined by this Law. Exceptionally, the obligation to pay contributions on income from agriculture for contributors paying contributions based on employment contract or self-employment is canceled.

IV Contribution Base

Proposed provisions determine contribution bases for all categories of insured persons defined in this Law.

Re: Articles 13 through 15.

Proposed provisions prescribe that contribution base for employees and their employers, or payers is the earning or salary or the compensation of earning or salary according to the employment contract, or administrative decision of the competent authority as well as other receivings of the employee subject to paying individual income tax.

A significant novelty is in inclusion of other receivings of the employee, taxable in accordance with the law regulating individual income tax, into the contribution base. That means that other receivings of employees, regardless whether they are treated like earnings in accordance with the labour law, are included in the contribution base if they are taxable in accordance with the law regulating individual income tax.

For the employees seconded abroad, it is suggested that contribution base be the earning realized by these employees for the duration of their work abroad, and not, as it was the case previously, earning that would have been realized in the country on the same or similar jobs. Contribution base determined in the amount of earning realized for the duration of work abroad, provides for these persons higher amount of pension in comparison to the actually realized earning. Furthermore, actual earning as a contribution base for this category of contributors is significant also regarding financing health insurance of these persons abroad.

Re: Article 16.

Temporary and occasional assignments are fully fiscally equalized with the employment, by determining obligation for contribution payment for all three forms of mandatory social insurance, for all persons performing temporary and occasional assignments and for their employers, at the same rate and on the same contribution base consisting of agreed compensation.

This is also true for the persons performing temporary and occasional assignments through a cooperative (except for full-times up to 26 years of age). This contributes to eliminating widespread practice of employing persons through a cooperative for longer duration, without providing for insurance coverage and full health insurance

Re: Article 17.

The status of elected, designated and assigned persons realizing the difference in earning, or salary from the payer who is not their employer (e.g. members of parliament) is equalized with the status of employed persons regarding paying contributions, since the difference in earnings, or salary and other taxable income realized by these persons is paid by these persons and payers on the same base, at the same contribution rates. The only difference is that in this case the lowest monthly contribution base is not applied, since it is applied by the employer having employment contract with these persons.

Re: Articles 18 through 21.

For the compensation of earning, or pecuniary earning realized in accordance with laws regulating financial support to the family with children, mandatory social insurance, mandatory pension and disability insurance and insurance for the case of unemployment, the contribution base consists of the amount of realized compensation, regardless whether it is lower than the lowest contribution bases.

It is also proposed to harmonize the method of calculating contributions for compensation charged to the budget of the Republic in conformity with the law on financial support to the families with children and to the Fund for health insurance (maternity leave, sick leave over 30 days), with the method of calculating contribution on earnings. This means that contributions are paid by the payer of the compensation and the person realizing the compensation and they are essentially determined as a gross amount. This is suggested for the purpose of simplifying calculation of contributions, and for the person realizing this compensation it is providing the same amount of net compensation as the amount it was receiving in accordance with the currently enforced regulations.

For pensions and disability compensations paid as acquired entitlements, in conformity with the law regulating pension and disability insurance, it is prescribed that the contribution base is the amount of paid pension, or compensation, and only the payer of the pension or compensation has an obligation to pay contributions.

In conformity with the law regulating employment, pecuniary compensation received by the unemployed person, levied to the account of the organization for mandatory insurance in case of unemployment is the base for paying contributions and contributions are levied to the account of person receiving compensation.

Re: Articles 22 through 24.

Contribution base for the entrepreneur is a tax base subject to individual income tax – taxable profit or revenue determined on a lump-sum basis.

Contribution base for the founders or members of a company is a tax base for enterprise profit tax – taxable profit in conformity with the provisions of the law regulating enterprise profit tax.

In case when the profit is divided into several entrepreneurs, or founders or members of a company, contribution base consists of the share of each one of them in the realized profit.

Exceptionally, in case when a founder or a member of a company signs employment contract with that company, contribution base is the earning in conformity with the Article 13 of this Law.

Re: Article 25.

It is proposed to determine contribution base for independent artists as a realized agreed compensation and not through an administrative decision, as it was the case to date. It is prescribed that independent artist shall, at the end of the calendar year, execute additional payment of contributions, if the amount of contributions paid on realized agreed compensation during the year should be smaller than the amount of contribution he would have paid had he, during the calendar year, calculated contributions and paid the lowest monthly contribution base.

Re: Article 26.

For priests and clerics, monks and nuns the contribution base shall be prescribed as a lowest monthly contribution base.

Re: Article 27.

Contribution base for agricultural producers is the cadastral income, or realized income subject to individual income tax.

Re: Article 28.

For income based on agreed compensation, contribution base is the taxable amount of agreed compensation in accordance with the law regulating individual income tax.

Re: Article 29.

The authorization is given to the organization for mandatory social insurance to regulate, by a legal act, contribution bases for persons who are, on their request, included in the mandatory social insurance. Considering that these persons are submitting their request to the organization for mandatory social insurance, they can apply for the insurance and determine contribution base simultaneously, which significantly reduces administration.

Re: Article 30.

Contribution base for domestic citizens employed abroad is prescribed to be the salary realized abroad.

Re: Article 31.

Contribution base for foreign country's pensioners is prescribed to be the amount of pension, disability compensation or rent realized in the month preceding the month for which contributions are to be calculated.

Re: Article 32.

Contribution base paid by an employer for the employee on an unpaid leave or parenthood leave until the child's third birthday is a salary that he would earn if he worked.

Re: Article 33.

Contribution base for foreign citizens working in the territory of the Republic for domestic employer, on the basis of a contract on exchange of experts or the agreement on international technical cooperation is agreed compensation paid by the employer.

Re: Article 34.

Organization for mandatory social insurance is authorized to determine contribution base for foreign citizens on professional training or studying in the Republic.

Re: Article 35.

In this Article contribution base for pension and disability insurance in the incidence of disability and bodily damage originating from occupational injury and disease, as well as the contribution base for health insurance in case of occupational injury and disease, in the amount of the lowest monthly contribution base is determined. In case of realizing agreed compensation, if it is higher than the lowest monthly contribution base, the contribution base will be that agreed compensation.

VI Lowest and Highest Contribution Bases

1. The Lowest Monthly Contribution Base

Re. Articles 36 through 40

A significant novelty proposed by this Law is with regard to the lowest monthly contribution base. Namely, instead of eight lowest monthly contribution bases determined according to the level of professional competence, as it was previously provided by the law, it is now proposed to have only one amount of the lowest monthly contribution base – at the level of 40% of the average monthly earnings in the Republic paid in the preceding quarter, except for the agriculture producers.

In this way defined amount of the lowest monthly contribution base will be adjusted quarterly in accordance with the fluctuations of earnings in the Republic in the preceding quarter, and the nominal amount of the adjusted base will be made publicly known by the Minister of Finance and Economy.

An exception from in this way determined lowest monthly contribution base is the lowest contribution base for agriculture producers who pay the contributions for cadastre income. For them, the proposed lowest minimum contribution base is in the same percentage (40%), but it relates to the average monthly earnings in the Republic realized in the preceding half year. The reason for this is that these contributors are charged with the contributions by way of an administrative decision, and issuance of these decisions every three months would result in massive administrative work and costs.

Application of the proportionate amount of the lowest monthly contribution base is separately regulated in case when the employee, due to commencing to work in the course of the month or due to similar reasons, does not realize full working hours of the month with the employer.

Application of the lowest monthly contribution base is more precisely regulated for the event when a person works less than full hours with one or more than one employer.

2. The Highest Monthly Contribution Base

Re. Articles 41 through 42

Taking into consideration the limitations of the entitlements which may be obtained based on the mandatory social insurance (maximum level of pension is limited, there is no direct correlation between the scope of entitlements in the area of health protection and the level of paid contributions), and the solidarity principle applicable in the area of mandatory social insurance, the highest monthly contribution base has been herewith prescribed up to which the contributions are calculated and paid.

As it is proposed, the monthly contribution base will be at the level of the fivefold amount of average monthly earnings in the Republic according to the latest published data.

The highest monthly contribution base will be applied when contributions are paid on incomes on any bases whatsoever, except for the incomes from the agreed compensation. It is impossible to apply monthly bases in case of the agreed compensations since they are received as occasional income in the course of a year and it may therefore occur that the agreed compensation received in one month is equal to the level of the highest annual base, but that in other months no such compensation is received.

2. The Highest Annual Contribution Base

Re. Article 43

Payment of contributions on several different bases resulted in a need to determine the highest annual contribution base. For the amount of contributions that is above the amount of contributions calculated on the highest annual contribution base, a person who has paid the contributions, namely a person against whose account the contributions have been paid, will be entitled to a refund of the overpaid contributions.

The highest annual base is defined as a fivefold amount of average annual earnings received in the Republic in the year in which the contributions are paid.

VI Contribution Rates

Re. Articles 44 through 46

It is proposed to determine the unique contribution rate for every form of mandatory social insurance respectively, which will considerably simplify the calculation system, facilitate control of calculation, and reduce costs.

When the contributions are paid on the same base by both the employee and the employer, namely the payer of earnings, the contribution rate for each of them shall be a half of the prescribed full contribution rate.

Contribution rates for pension and disability insurance have been maintained at the same level as to date – 20.6% for full pension and disability insurance, namely 4% for the insurance in case of injury at work or accident at work.

In the health insurance system, 13 contribution rates were prescribed in the range of 0.8% to 17.7%, and as provided by this law proposal, they have been replaced by a single, income-neutral rate at the level of 11.5%. The contribution rate for health insurance against occupational injury or disease has been increased from 1% to 2%.

The contribution rate for unemployment insurance has been increased from 1.1% to 1.5%. Reasons for increasing the rate of this contribution arise from the need to provide funds for financing the pecuniary compensations and other rights of the persons whose employment was terminated in the economy restructuring process.

VII Abeyance of the obligation to pay contributions

Re. Articles 47 through 49

It is provided by the proposed provisions that the obligation to pay contributions will be in abeyance when the employment status is in abeyance, the status of the insured agriculture worker is in abeyance, or when the entrepreneur reports termination of business activities.

VIII Calculation, Determination, and Payment of Contributions

These provisions provide for the determination of the contributor who is under obligation to calculate, determine, and pay the contributions.

Re. Articles 50 through 54

It is herewith provided that the employer, namely other payer, shall calculate and pay the withholding contributions from the base and on the base at the time of paying the earnings, namely compensation of earnings, as well as at the time of paying the agreed compensation based on temporary and occasional assignments.

Also, when no earnings are paid to a person for which the contributions are calculated and paid (unpaid leave, parental leave before the child's third birthday), the employer shall calculate and pay the contributions at the same he is paying earnings to other employees.

It is also proposed that, when the earnings are paid in several installments, the contributions should be calculated and paid on the lowest monthly base when the first installment is paid, and that, when the remaining installments of earnings are paid, they should be calculated on the difference between the lowest monthly contribution base and the paid earnings.

Re. Article 55

Contributions based on the compensation of earnings, namely pecuniary compensation that are paid against the account of the organizations for mandatory social insurance, namely against the account of the Budget of the Republic, in accordance with the law governing financial support to families with children, will be calculated and paid by the payer of compensation at the moment of effecting such payment

Re. Articles 56 through 57

Calculation and payment of contributions based on the agreed compensation will be effected by the payer of such compensation. When the payer of the compensation is a non-resident or a natural person who is not under obligation to pay withholding contributions, it is herewith provided that the person who has received the agreed compensation shall calculate and pay the contributions before the 15th day of the month for the preceding month and submit, within the same term, the notifying tax declaration to the competent tax authority.

Re. Article 58

It is proposed that only in case of entrepreneurs who are paying the contributions on the revenue determined on a lump-sum basis and the agriculture producers who are paying the contributions on the cadastre income will the obligation to pay contributions be determined by an administrative decision issued by the Tax Administration.

Re. Articles 59 through 60

It is proposed that the entrepreneurs, the founders or members of the company, and the agriculture producers who are paying the contributions on taxable profits, shall determine and pay the contributions through self assessment – by submitting the tax declaration with indication of the realized, or the estimated taxable profits, based on which they will determine the level of contribution liability.

This way of determining and paying for the contribution liability is in accordance with the Law on Tax Procedure and Tax Administration, and is consistent with the Law Proposal on Amendments and Additions to the Law on Individual Income Tax which likewise regulates self-taxation, namely payment of individual income taxes based on the tax declaration. This mode of payment provides for reduction of administrative work and the costs related to issuance of administrative decisions on the tax liability, as well as for higher fiscal responsibility and discipline of the contributors with regard to promptness in paying the contributions.

Re. Articles 61 through 62

Organizations for mandatory social insurance will be authorized to regulate through their own general acts the contributions determination and mode of payment, for the contributors for which no other person is under obligation to calculate and pay the contributions.

The above is in respect of the contributor categories who register with a competent organization for mandatory social insurance on individual basis (such as priests and member of clergy, monks and nuns, the person covered by mandatory insurance, persons who have acquired pension in a foreign country, etc).

Article 63

Provisions of this Article provide for due application of the law governing the individual income tax and the law governing the tax procedure and tax administration with regard to the issues of calculating, determining, and paying the contributions other than regulated by this Law.

IX Refund of Overpaid Contributions and Cessation of Contribution Payment during the Current Year

Re. Articles 64 through 66

These provisions regulate the entitlement to a refund of overpaid contributions on the income realized against several different bases of work (employment, self-employment, contracts, etc), exceeding the amount of contributions calculated on the highest annual contribution base.

This entitlement, upon submittal of the request and based on the administrative decision issued by the Tax Administration, may be exercised by a contributor, for the contributions he has paid in person or for the contributions paid in his name and on his behalf.

In addition, the entitlement is herewith provided for the contributor who is paying the contributions based on the agreed compensation to submit in the course of a year a request for cessation of the obligation to pay contributions on the agreed compensation when the contribution base against this basis, in unison with the contribution bases against other basis, adds up to the estimated highest contribution base.

The estimated annual contribution base is determined at the level of fivefold amount of annual earnings realized in the Republic in the preceding year, increased by the estimated growth of earnings in the current year. The Minister of Finance and Economy will be authorized to make public the nominal amount of this base.

The Minister of Finance and Economy will be authorized to regulate in detail the requirements, procedure, and the mode of paying a refund of the overpaid contributions and cessation of the obligation to pay contributions based on the agreed compensation.

X Monitoring the Contribution Calculation and Payment

Re. Articles 67 through 69

It is herewith provided that the Tax Administration will be in charge of monitoring the calculation and payment of contributions in accordance with the law governing the tax procedure and tax administration.

It is herewith provided that the contributors shall notify the organizations for mandatory social insurance about the paid contributions.

It is proposed to include a provision which would impose obligation on the Tax Administration and the organization of social insurance to share the contributions- related official data. .

XI Penal Provisions

Re. Article 70

It is proposed that full implementation of the penal provisions should be imposed as prescribed by the law governing individual income tax and the law governing the tax procedure and tax administration.

XI Final Provisions

Re. Article 71

The provisions of this Article prescribe cessation of the corresponding provisions which regulate financing of the insurance, namely payment of contributions for mandatory social insurance in the Law on Pension and Disability Insurance, the Law on Health Insurance, and the Law on Employment and Unemployment Insurance.

Re. Article 72

It is proposed that this Law should come into effect eight days after being published in the "Official Gazette of the Republic of Serbia" and apply beginning with 1st July 2004.

IV Effects of the Proposed Measures

It is assessed that determination of the contribution rate for health insurance of 11.5% will be income neutral. Namely, decreasing the contribution rates for health insurance for the employed contributors (from 11.9% to 11.5%) and the contributors who are entrepreneurs (from 14.4% to 11.5%) would cause a decrease in income from contributions of approx. 1,460 million dinars. On the other hand, it is assessed that extending the contribution base for health insurance to the contract-based incomes and other incomes on which the individual income tax is calculated would provide an increase of income from contributions in the amount of 1,500 million dinars, which would counterbalance the negative effect of decreasing the rates.

It is assessed that increasing the contribution rates for the incidence of unemployment by 0.4 per centum point, from 1.1% to 1.5%, would have a positive effect of approx. 1,195 million dinars.

Moreover, it is assessed that a positive revenue effect will be ensured by more regular payment and more efficient collection of contributions from the self-employed who are paying the contribution against the tax declaration, higher financial discipline and responsibility of the contributors that will be provided by implementation of self-reporting system in accordance with the proposed amendments to the Law on Individual Income Tax, and the resulting decrease of informal sector.

V Reasons for Emergency Procedure

It is proposed that the Law on Contributions for Mandatory Social Insurance be enacted in an emergency procedure so as to ensure synchronized and consistent implementation of all fiscal laws.

Failure to enact the Law in the emergency procedure would be detrimental since it would cause serious problems in functioning of the overall fiscal system.

VI Financial Resources for Implementation of the Law

There is no need to provide special financial resources for implementation of this Law.