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Making work pay in Western Balkan countries: the case of Serbia and Macedonia

Country report: Serbia

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Introduction

Individual taxes (personal income tax and social security contributions) and benefits are the main welfare policy instruments, since they directly change the disposable income of individual/family. Empirical evaluation of implications of tax-benefit policies on equity and efficiency are frequently performed by means of microsimulation models. SRMOD is tax-benefit microsimulation model for Serbia, based on EUROMOD platform, which enables analysis of the effects of tax-benefit policies on equity and efficiency, by taking into account interdependence of all individual tax and benefit policies. SRMOD is based on Living Standard Measurement, conducted by the Statistical Office of Serbia in 2007. Since the dataset relates to the year 2007, the tax-benefit policies simulated in the model are also those which were in force at that time.

The purpose of this country report is to provide the detailed overview of the main components of tax-benefit policies in Serbia and the parameters of these policies. Therefore, this report provides insight into parameters of all major benefit policies in Serbia (social assistance, child allowance, care benefits, unemployment benefits), as well of the personal income tax and social security contributions. The report also provides short description of the dataset used by SRMOD and the results of validation, depicting the quality of output of microsimulation modelling based on SRMOD.

1. Social Assistance Programs in Serbia

The *Law on Social Protection and Provision of Social Safety to Citizens* was amended in 2004.¹ The outcome of those changes was the abolishment of regional and municipal differences in eligibility criteria and benefits levels. Thus, national criteria and nation-wide benefit levels were introduced.

There are several types of social assistance programs. Some of them are the responsibility of national government while others are administrated by municipality governments. Material Support for Low Income Households (MOP), Caregiver allowance, Foster Care Benefits, Right to professional rehabilitation, Placement in Social Welfare Institutions and Foster families and Social work services are the responsibility of national government. Thus, eligibility criteria and levels of all these benefits are equal across the country.

Home assistance programs, Day care, Temporary shelter placements and One-off cash assistance are financed through municipality budgets. Benefit amounts differ depending on assessment of beneficiary's needs and local government budgets.

a) Material Support for Low Income Households (MOP)

Payment rates, duration and aspects of means testing do not depend on the ages of the claimant or his/her family members.

b) Foster Care Benefits

Eligibility criteria and levels of foster care benefits are equal across the country.

These benefits provide cash aid for caregivers (monthly remuneration for their work) and persons placed in foster care (children, elderly).

Caregivers - relatives, obliged by the Family Law to support a child (grandmother and grandfather, brother and sister) are not entitled to monthly remuneration.

1.1 Conditions for receipt

a) Material Support for Low Income Households (MOP)

The individual (living alone) or a family with no income or whose income is below the minimum income level is eligible for MOP.

According to the Law, minimum income level for September 2004 was determined as a percentage of the reference income. The reference income shall mean to be the average gross salary in Serbia, in the second quarter of 2004. Following percentages are applied in computation of minimum income:

¹ New Law on Social Protection was adopted in 2010. However, data and policies simulated in SRMOD relate to 2007 as the baseline year, which is why the properties of tax-benefit policies applicable in 2007 are described.

- 16% - for individual;
- 22% - for family with two members;
- 28% - for family with three members;
- 30% - for family with four members;
- 32% - for family with 5 or more members.

Since September 2004, minimum income level is being adjusted each month for the changes in the cost of living index.

In August 2009 minimum income levels were the following:

- RSD 5,369 - for one-person household;
- RSD 7,376 - for two-member household;
- RSD 9,393 - for three-member household;
- RSD 10,058 - for four-member household;
- RSD 10,746 - for household with five or more members.

Beside income test condition, MOP beneficiaries (individual or a family member) must meet following conditions as well:

- To own no more than a suitable living space (one room per family member) and land not larger than 0.5 hectares (or not to own any immovable property);
- Individual or a family member, has not sold immovable property or alienated a right to an inherited immovable property. Or, the period, within which he/she could have (from the market value of a sold property) provide himself with the income equal to MOP amount, has not elapsed. This period, measured in months, is calculated as the ratio of the market value of the asset and the amount of MOP to which the recipient would be entitled to, at the time of submitting an application;
- Individual or a family member, capable of work and unemployed is a full time student, registered at the NES and has not refused a job offer and participation at temporary, occasional and seasonal jobs, primary education, training and additional education;
- His/her last employment hasn't been terminated by his/her will or guilt. Exception to this rule applies to cases where last employment was terminated two years before the application is made and to individuals who became incapable of work after the termination of employment. Not capable of work are considered to be: women older than 60 and men older than 65; children below 15; and individuals incapable of work according to the rules for pension and disability insurance.
- Not to own movable property that could be sold or used and provide the owner with income equal to six times MOP amount to which he/she would be entitled to.

Individuals or family members who do not meet the first of the above listed conditions, are entitled to the social assistance if they are incapable of work and if, as owners of a property, empower Social Welfare Center to sell or to rent the property. Social assistance is to be paid from these income streams.

MOP is a means tested benefit. When MOP amount is calculated all cash incomes are taken into account such as:

- Incomes obtained on a monthly basis. For benefit calculation, average monthly income net of taxes and contributions for the last three months preceding the month in which application is made, is taken into account;
- Income from land and livestock (farm activity) - in the amount of cadastral income obtained by the owner or user of the real estate in the current year;
- Rental income from movable and immovable property. Rental income shall mean to be the base for calculation of taxes and social security contributions;
- Income from other property rights if they are subject to taxes. Income shall mean to be the base for calculation of taxes and social security contributions;
- Income from guardian's payment:
- Incomes from unregistered activity. If social security worker suspects that applicant acquires income from informal work, he/she has an authority to impute income from unregistered activity in the lump-sum amount. For benefit calculation, average monthly income for the last three months preceding the month in which application is made, is taken into account:
- For individuals undertaking economic activity for the first time incomes taken into account are the amounts used as the base for calculation of taxes and social security contributions.

For working individuals income from employment is considered in the amount not below the minimum wage.

Documents necessary to apply for MOP are: ID card, birth certificate for minor family members, property certificate, certificate issued by the NES for unemployed family members, certificate of the amount of incomes for all family members, certificate of divorce ruling (in case of divorcees), certificate of alimony ruling (in case of children born out of marriage), certificate of employment termination.

Social workers may request additional documents if deemed necessary.

Social workers can ask for additional documents in order to verify if an applicant possesses savings, cash, securities or has alienated a piece of property. These earnings are also included in the income of the applicant. In case of alienated property, its market value at the time of application is to be treated as income.

Home visits by social workers are made before final benefit decision and each time when eligibility is being re-assessed.

Eligibility for the benefit is based on the resources of the individual or the household (marital and non-marital partners, children (biological, adopted, in guardian's care) and relatives - up to the second degree if they live in the same household).

b) Foster Care Benefits

Eligibility criteria for becoming a foster caregiver are defined by the *Family Law*. Maximum number of children placed in foster care is 3 (or 2 - when special needs child is placed in foster care).

1.2 Calculation of Benefit Amount

1.2.1 Calculation of gross benefit

a) Material Support for Low Income Households (MOP)

For families with income, monthly amount of MOP is determined as the difference between their average monthly income (for the last 3 months preceding the month in which application is made) and the minimum income level.

For families with no income, monthly MOP amount is equivalent to minimum income level.

Each month MOP amount is adjusted for the change of costs of living index.

Irregular additional payments to MOP recipients (such as heating, seasonal supplements, etc.) are financed through municipality budgets. Thus, amounts and timing differ across municipalities.

Payment of MOP is conditional on job-search efforts, work-availability and participation in active labor market programs. These conditions extend also to the spouse of benefit claimant and other family members. If one of them does not comply with these conditions, the benefit right is lost.

b) Foster Care Benefits

Monthly foster care allowance amounts to 35% of average net salary in the Republic of Serbia for the previous month. If there is more than one child in foster care, allowance equals 20% of average net salary in Serbia in the previous month per child. Total monthly foster care allowance (for all persons placed in one foster family) cannot exceed average net salary in the Republic of Serbia. In August 2009, average net salary amounted to RSD 31,338.

Beside monthly remuneration for their work, foster care-givers receive monthly support benefits per each child. Benefit is determined once a year in the amount of 52% of average net salary in June. Each month benefit is being adjusted for the changes in the cost of living index.

Additionally, a child can receive monthly caregiver's allowance.

For a child whose school is far from the place of his/her residence, transportation costs are covered each month. For a distance up to 20 km, costs are covered in the amount of 7.5% of average net salary in Serbia in June of the current year and 11% of the same base for a longer distance.

Monthly benefit for a child is increased once a year for:

- Purchasing of textbooks and school supplies: 20% of average gross salary in the Serbia in June of the current year for elementary school; 25% of the same base - for high school, and 30% of the same base - for higher education;
- Prom/graduation party: 30% of average gross salary in the Serbia in April of the current year;
- Excursions: according to school invoice.

If a foster family has up to 4 children (including biological children), it is entitled to an increased child allowance for a child placed in foster care.

If a child placed in foster care receives child allowance, it has a right to attend preschool institution free of charge.

If an adult or elderly person is placed in foster care, monthly foster caregiver's allowance amounts to 20% of average net salary in the Serbia for the previous month.

Allowance for an adult or elderly person in foster care is determined once a year in the amount of 40% of average net salary in Serbia in June of the current year. Benefit is adjusted for the change in the costs of living index each month.

An adult or elderly person in foster care can also receive monthly Caregivers allowance.

1.2.2 *Income and earnings disregards*

a) Material Support for Low Income Households (MOP)

Various benefits and allowances such as: Child allowance, Parental allowance, Disability allowances, Caregivers allowances, Bodily Injury Benefits, Prize income and Pension related redundancy payments, and student income do not count as income.

Benefit recipients are allowed to work but income from work is included in income test.

b) Foster Care Benefits

If foster parent is entitled to a family pension, the pension ceases to be payable (must be suspended) while he/she participates in foster care system.

1.3 Tax Treatment of Social Assistance

a) Material Support for Low Income Households (MOP)

MOP is exempted from tax.

b) Foster Care Benefits

Foster care benefit is exempted from tax.

1.4 Benefit duration

a) Material Support for Low Income Households (MOP)

It usually takes one or two months for social workers to make decision about benefit right and one additional month before payments starts.

Working age, able-bodied persons are entitled to MOP for 9 months period in one calendar year. The same applies for families in which the number of able-bodied persons is equal or larger than the number of persons incapable of work.

For individuals incapable of work and families in which majority of members are incapable of work benefit duration is not limited, but eligibility is re-assessed on a yearly basis.

For household with members capable of work, fulfillment of conditions for receipt is re-assessed every 6 months.

Benefits are not reduced over time. They are reduced only in case when income of applicant has increased.

A person may reapply for benefits once they have expired. This practice is quite often. Official data do not exist, but rough estimation is that more than 90% of benefit recipients reapply and receive MOP for number of years.

b) Foster Care Benefits

Benefits are received as long as person is in foster care. It is paid while children are in a boarding-school under the condition that foster parents pay school fees regularly.

1.5 Treatment of particular groups

a) Material Support for Low Income Households (MOP)

None.

b) Foster Care Benefits

The benefit amount for a child placed in foster care is increased by 50% in the case of a child with slight mental disorder or for a child with multiple developments problems.

1.6 Conditionality and Discontinuation of Benefits

Payment of MOP is conditional on job-search efforts. Unemployed MOP recipients are obliged to prove that they are registered as unemployed at the NES. Documents proving unemployment status, issued by NES, include notification that a person has refused a job offer or participation in active labor market programs.

Beneficiaries have to visit Social Welfare Centre in order to declare each change in their status/income that may influence benefit eligibility.

1.7 Linkages with other Programs

a) Material Support for Low Income Households (MOP)

There are no social programs that require that beneficiaries receive MOP.

Even though, according to Law, MOP recipients can work while receiving benefit, *de facto* in most cases MOP beneficiaries are unemployed persons. If registered as unemployed at the NES, they (and their family members) are entitled to free health care.

Payment for health expenditures of MOP recipients and their dependents can be financed through one-off cash assistance. Amounts and eligibility criteria differ across local self-governments.

b) Foster Care Benefits

Foster care-givers and their family members are entitled to pension and disability and health insurance. The base for contributions is the gross allowance. Pension and disability and health insurance contributions rates are the same as for salary.

2. Family benefits

The *Law on Financial Support for Families with Children* was amended in 2005. The outcome of those changes was the abolishment of regional and municipal differences in eligibility criteria and benefits levels. Thus, national criteria and nation-wide benefit levels were introduced for the following benefits: Parental Allowance, Salary Compensation during maternity leave and Child allowance.

The Ministry of Labor and Social Policy determines conditions for benefit receipt. Local Centers for Child Protection receive the applications and make decisions with respect to eligibility.

2.1 Conditions for receipt

a) Salary compensation during maternity leave, child care leave and special-needs-child care leave

Salary compensation during maternity leave, child care leave and special-needs-child care leave is standard financial support instrument aimed at facilitation of combining work and parenting. Eligibility criteria and benefits level do not vary regionally.

Besides mother, also father, one of adoptees, foster parent or child guardian may be entitled to this benefit, provided he/she is absent from job due to above mentioned reasons (e.g. child care leave or special-needs-child care leave).

This benefit is paid-out by employer. However, municipality/city administration is obliged to refund the respective amount to the employer. If recipient of this benefit is self-employed, this benefit is paid directly by municipality/city administration.

This salary compensation is administered by local self-government (municipalities and cities), but funded from the budget of the Republic of Serbia.

Mother or other individual who is applying for this benefit has to be employed or self-employed.

Eligibility criteria do not include means, asset or income test (i.e. right to receive this benefit is not related to recipient's economic situation).

b) Parental allowance

Parental allowance refers to one-off payment to the mother, for giving birth to the first, the second, the third and fourth child. Exceptionally, father may also be entitled to receive parental allowance, provided child's mother is not live, or has abandoned child or may not take care of child due to objective reasons.

In order to qualify for parental allowance mother (or a father) has to meet following conditions:

- He/she is citizen of Serbia;
- He/she has permanent residence in Serbia;

- He/she is directly involved in raising child for which the benefit is requested; and
- He/she is entitled to use the rights to health protection provided by the Republic Health Insurance Fund.

Parent is not entitled to receive parental allowance if:

- Mother (or any other family member, who is living with the mother) is paying property tax, on tax base exceeding RSD 12 million; or
- Parents are working and living abroad; or
- Mother is deprived of parental rights (for any of her children).

Request for parental allowance may be submitted only until child's third month of life.

c) Child allowance

Child allowance is payable to parents, foster parents or guardians who provide a daily care for a child.

Benefit is limited to the first four children in the family, aged 0-19. Exceptionally, a child can receive a benefit after age of 19 years if he/she is under prolonged parental right (until age 26) and participates in further education and training. Allowance is also conditional to school enrollment for those older than the age of 7.

An individual is entitled to child allowance if he/she, as an applicant, and his/her family members, do not own:

- Immovable property, except suitable living space (one room per family member);
- Money or other liquid assets (obtained after selling immovable property, securities, etc.) in the amount exceeding 30 child allowances (per family member) at the time of submitting an application. If an applicant, or his/her family members, own assets in the amount exceeding this threshold, they will not be eligible for child allowance for a certain time period. This period, measured in months, is calculated by dividing the total amount of their qualified assets with the average salary in Serbia (net of taxes and contributions) in the month when application is made.

Child allowance is means-tested benefit. Eligibility is limited to families in which:

- 1) Total monthly income per family member (net of taxes and social security contributions), earned in the last 3 months preceding the month in which application is made, do not exceed a certain threshold. In September 2009 the threshold amounts to RSD 5,838. Each month the ceiling amount is adjusted for the change in the costs of living index.

For families with farm income: total monthly cadastral income per family member in the year before application is made: a) do not exceed 3% of average cadastral income per hectare of fertile land (data obtained from geodetic authority of the Republic of

Serbia), or, b) is generated from land up to 500m². Ceiling amount for families who generate farm and other incomes is RSD 2.35 per family member.

Following types of income are included in the income test:

- All incomes subject to income tax;
- Income from pension and disability insurance;
- Income arising from veteran' rights;
- Income from relatives who are legal guardians;
- Redundancy pay received in the year preceding the year in which application is filed;
- Compensations received from social programs (due to firm bankruptcy or privatization) paid in the year preceding the year in which application is made;
- Amount of unemployment benefit;
- Cash and other liquid assets earned in the *year preceding the year* in which an *application is filed*;
- *Income from unregistered business activity. In case of unemployed applicant (who proves his status with certificate from NES) who generates no income, Secretariat for child protection accepts declaration of parents about their monthly incomes.*

When income is determined in lump-sum amount, the base for calculation of pension and disability insurance contribution is treated as income.

2) For families with farm income only: total monthly cadastral income per family member in the year before application is filed, do not exceed 7% of average cadastral income per hectare of fertile land. This applies to families with no other income than cadastral income. Ceiling amount for families with farm incomes only is 5.49 RSD per family member.

2.2 Calculation of benefit amount

2.2.1 Calculation of gross benefit

a) Salary compensation during maternity leave, child care leave and special-needs-child care leave

This benefit (gross salary compensation) equals 100% of employee's basic salary (for month preceding the month in which the leave started), increased by the respective amount related to the total number of her/his year of service (years of employment). The maximum amount of this benefit (for all described purposes) per recipient equals five times average gross salary paid out in the Republic of Serbia (in September 2009 – RSD 226,535). Full amount of gross salary compensation may not be lower than the official minimum salary in

Serbia, in month in which salary compensation is paid-out. Minimum monthly net salary for period July – December 2009 amounts to RSD 87 per working hour.

The amount of this benefit depends on the recipient's period of employment before the leave has started. Full amount of this benefit is to be received by individuals who were employed or self-employed immediately before the moment of exercise of this right, for more than six months. Alternatively, if benefit recipient was employed/self-employed between three and six months (before the moment of exercise of this right), he/she is entitled to 60% of full benefit. Otherwise, if he/she was employed/self-employed for less than three months (before the moment of exercise of this right), he/she is entitled to 30% of full amount of benefit.

Average gross salary compensation during maternity leave in period January-September 2009 amounts to RSD 49,954 (RSD 36,794 net).

Salary compensation for self-employed benefit recipients equals his/her average monthly base for calculation of compulsory pension and disability insurance contributions, in the last three months. Salary compensation to self-employed individuals is adjusted by the rate of increase/decrease in average monthly salary of employees.

b) Parental allowance

The amount of parental allowance is stipulated by the *Law on Financial Protection of Families with Children*, as lump-sum amount and depends on the number of children.

In 2009, parental allowance amounts to:

- RSD 26,663.95 – for the first child;
- RSD 104,266.10 (paid out in 24 equal monthly installments) – for the second child;
- RSD 187,670.39 (paid out in 24 equal monthly installments) – for the third child;
- RSD 250,224.56 (paid out in 24 equal monthly installments) – for fourth child.

Parental allowance is adjusted twice a year (on 1 April and 1 October) by the changes in the costs of living index.

Certain municipalities/cities provide additional one-off birth grants from their own funds.

c) Child allowance

The amount of child allowance is adjusted for the change in the costs of living index in the last 6 months. Adjustment is performed twice a year (on 1 April and 1 October).

In August 2009 child allowance was RSD 1,863.59 per child.

2.2.2 *Income and earnings disregards*

See section 2.1.

2.3 **Tax treatment of family benefits**

a) Salary compensation during maternity leave, child care leave and special-needs-child care leave

This salary compensation is subject to salary tax and social security contributions. Base for calculation of tax is gross salary compensation (net salary compensation + salary tax + social security contributions on behalf of employee) reduced by non-taxable limit of RSD 5,938 per month. Salary tax rate is 12%.

Base for calculation of social security contributions is gross amount of salary compensation. Total social security contributions rate is 35.8% (17.9% on behalf of employee and 17.9% on behalf of employer).

b) Parental allowance

Parental allowance is exempted from personal income tax and social security contributions.

c) Child allowance

Child allowance is exempted from tax and social security contributions.

2.4 **Benefit duration**

a) Salary compensation during maternity leave, child care leave and special-needs-child care leave

This salary compensation is paid for one year in the case of the first and second child, and two years for the third and other children. This period starts when women stops working due to pregnancy (28 to 45 days before expected day of birth). There is no waiting period before payment of this benefit starts. The amount of this benefit is not being reduced over time.

b) Parental allowance

Parental allowance is one-off benefit. There is no waiting period before payment of this benefit starts.

c) Child allowance

It usually takes 10 to 15 days for Secretariat for Child Protection (in Belgrade) to make decision on the benefit right. Payment starts in the following month.

Benefit is paid for one year period and it is not reduced over time.

A person may re-apply, at least 30 days before expiry of exiting right entitlement.

2.5 Treatment of particular groups

a) Salary compensation during maternity leave, child care leave and special-needs-child care leave

None.

b) Parental allowance

None.

c) Child allowance

For lone parents, guardians and foster parents and parents of a child with mental disabilities not placed in residential institution, the ceiling amount is increased by 20% (the so called *increased ceiling*). Those categories of recipients are entitled to *increased child allowance* (30% higher than regular child allowance).

In September 2009 the increased ceiling is RSD 7,006.

For families who generate farm income only, the ceiling amount is RSD 6.58 per family member. For families with farm and other incomes ceiling amount is RSD 2.82 per family member.

In August 2009 increased child allowance was RSD 2,422.67 per child.

For children whose education or rehabilitation is completely or more than 50% funded from the state budget, the amount of child allowance is reduced by 50%.

2.6 Conditionality and discontinuation of benefits

See 2.1, 2.2 and 2.4.

2.7 Linkages with other Programs

a) Salary compensation during maternity leave, child care leave and special-needs-child care leave

None.

b) Parental allowance

In order to be eligible for this allowance, beneficiary has to be entitled to health protection provided by the Republic Health Insurance Fund.

c) Child allowance

Reimbursement of costs of pre-school institution for children without parental guardianship and reimbursement of costs of pre-school institution for mentally disabled children requires that a person receives child allowance.

Child allowance program do not pay any kind of contributions on behalf of their recipients.

3.Unemployment Benefit

In 2009 the new *Law on Employment and Insurance Against Unemployment* was enacted.

Payment rates and duration of benefit does not depend on ages of the claimant nor his family members.

3.1 Conditions for receipt

Unemployment benefit can be paid to a registered unemployed person. Unemployed person shall mean to be a person aged 15-65, capable and ready to start working immediately, who is not employed and has not exercised his/her right to work in other way, and who is registered in the unemployment register as active job seeker. Pupils, full time students under the age of 26, person entitled to old-age or disability pensions and farmers insured on the basis of their cadastral revenues shall not be considered unemployed persons.

A person is entitled to unemployment benefit if she/he did not leave his previous job voluntarily. Exception to this rule refers to individuals who, on a voluntary basis, decided to accept unemployment benefit instead of redundancy pay for leaving the firm due to enterprise restructuring and privatization (since unemployed benefit was higher than redundancy pay offered to them).

To maintain payment of unemployment benefit, beneficiaries have to commit themselves to search actively for a job and to accept a suitable job offer. They are obliged to visit the National Employment Service every 30 days in order to be informed about new employment possibilities according to their personal employment plan.

3.1.1 Employment conditions

None.

3.1.2 Contribution conditions

The entitlement to unemployment benefits is based on a period of payment of contributions.

Unemployed persons who were paying contributions for at least 12 consecutive months prior to termination of employment (or for 18 non-consecutive months) are eligible for unemployment benefits.

3.2 Calculation of benefit amount

3.2.1 Calculation of gross benefit

Unemployment benefit amounts to 50% of the reference earnings. The reference earnings correspond to the average gross salary of the employee, over the last 6 months preceding the month in which his employment is terminated.

Unemployment benefit cannot exceed 160% of minimum gross salary nor can be lower than 80% of minimum gross salary prevailing in the month when the unemployment benefit is being paid.

In addition, beneficiaries are eligible for pensions and disability and health insurance. The payments social security contributions to the Health Insurance Fund and to the Pension and Disability Insurance Fund are made by the National Employment Service (NES). Contributions are included in the unemployment benefit (i.e. beneficiary receives net unemployment benefit equal to unemployment benefit decreased by the pension and disability insurance contributions and health insurance contributions).

Family members of beneficiary are eligible to health insurance as well.

3.2.2 Income and earnings disregards

Individuals claiming unemployment benefit may not pursue any gainful activity. Exception to this rule applies in case of short term and occasional employment and in the situation when unemployed or his/her spouse has been sent abroad to work in diplomatic and consular missions.

If benefit recipient generates income from free-lance contract, craftsmanship or any other source, the amount of his/her net income is to be subtracted from the amount of benefit (net of taxes and contributions).

If benefit recipient is working part time, the salary he/she earns from part-time employment is to be subtracted from the amount of benefit (net of taxes and contributions). If salary level exceeds the benefit level, the later won't be payable in that month.

3.3 Tax treatment of benefit

Unemployment benefit is tax exempted.

The pension and disability, and health insurance contributions are paid on the actual benefit levels (see 3.2.1.) and included in the amount of the benefit. The beneficiary receives the amount of benefit net of contributions.

The rates of pension and disability insurance contributions, and health insurance contributions are 22% and 12.3%, respectively.

3.4 Benefit duration

Individual is entitled to unemployment benefit starting from the day of applying to the registry of unemployed persons at the NES.

The benefit duration depends on a period of contributions. The scale of benefit duration is as follows:

- 3 months – if contributions were paid from 1 to 5 years;
- 6 months - if contributions were paid from 5 to 15 years;

- 9 months - if contributions were paid from 15 to 25 years; and
- 12 months - if contributions were paid for more than 25 years.

Exceptionally, unemployed person may be entitled to receive benefits for 24 months if within the two-year period he/she will meet the first condition for retirement.

The benefit continues to be payable during:

- Maternity leave, absence from work due to child care and special child care;
- Temporary disability (ceases to be payable 30 days after disability starts);
- The period of additional education and training in accordance with individual employment plan issued by NES.

Unemployed person can reapply for benefit if he/she again meets conditions for receipt.

3.5 Treatment of particular groups

None.

3.6 Conditionality and Discontinuation of Benefits

Registered unemployed person has to visit NES once in every three months, in order to remain registered as unemployed.

To maintain right to unemployment benefit, beneficiaries are obliged to visit the NES every 30 days.

Payment of unemployment benefits is conditional on job search efforts and participation in active labor market programs. It is regarded that a person is actively seeking employment if he/she:

- Participates in group and individual counseling;
- Together with the NES participates in creation and realization of individual employment plan;
- Regularly visits the NES;
- Makes application for suitable job offers;
- Contacts employers about vacancies;
- Accepts jobs offered by the NES.

Payment of unemployment benefits can be extended beyond the usual if beneficiaries participate in active labor market programs, particularly during the period of additional education and training in accordance with individual employment plan issued by the NES.

3.7 Linkages with other Programs

Entitlement to Material Support for Low Income Families (MOP) for unemployed person is conditional upon being registered at the NES.

NES pays pension and disability insurance, and health insurance contributions on behalf of unemployment benefit recipients. For unemployed persons included in additional education and training NES is paying pension and disability insurance contributions at the rate of 4% and health insurance contributions at the rate of 2%.

4. Unemployment assistance

National Employment Service provides number of measures aimed at helping unemployed persons to get back to work as quickly as possible. These measures can be classified into two groups:

- Employment subsidies; Incentives for unemployment benefit recipients; Cost reimbursement during job-search;
- Professional orientation and career counseling; Additional education and training.

4.1 Conditions for receipt

a) Subsidy for self-employment

Conditions are as follows:

- being registered at the NES as unemployed;
- completion of self-employment training course;

When unemployed becomes eligible for the Subsidy for self-employment, he/she can also apply for Employers' Subsidy. The later is approved under the condition that it will be used for employment of up to 4 unemployed persons.

b) Incentives for unemployment benefit recipients

Unemployment benefit can be paid on a one-time basis for self-employment upon the request of unemployed person. Unemployed person who receives unemployment benefit for at least 3 months since the recognition of his rights, and has become employed for indefinite period of time, is entitled to one-off incentive for employment.

c) Cost reimbursement during job-search

Unemployed persons - recipients of Material Support for Low Income Households (MOP), are entitled to reimbursement of costs of sending a job application and costs of the public transport when invited for a job interview.

Unemployed person, taking part in active labor market policy programs, is entitled to reimbursement of costs of the public transport while participating in the program.

When unemployed person becomes employed for indefinite period of time (with the NES's assistance), out of his/her place of residence, he/she is entitled to reimbursement of costs of the public transport and home moving.

4.2 Benefit amount

a) Subsidy for self-employment

In year 2009 this benefit amounts to RSD 130,000.

Individuals who became unemployed due to firm's bankruptcy or received redundancy pay due to enterprise restructuring and privatization are also eligible for the Self-employment subsidy. The same conditions apply for the receipt. In addition, they are obliged to invest the whole amount of the redundancy pay or at least RSD 80,000 in self-employment.

b) Incentives for unemployment benefit recipients

Incentive equals 30% of total unemployment benefit amount (net of taxes and contributions), that would have been paid to him/her until expiry of his/her right to unemployment benefit.

4.3 Treatment of particular groups

a) Subsidy for self-employment

Persons with disabilities are entitled to:

- Subsidy for self-employment with reimbursement of social security contributions for 12 months period, or
- Subsidy for self-employment with reimbursement of salary in the amount of 50% of average gross salary in the Republic of Serbia in the month preceding the month in which application is made. Subsidy lasts for 12 months.

b) Incentives for unemployment benefit recipients

None.

5. Care Benefits

Care benefit programs comprise: childcare for pre-school children, Long-term care for children, elderly family members and disabled and Caregivers allowances.

There are also many care benefits for veterans, disabled veterans and their family members. Major ones are: Cash compensations for military disabled, Personal compensation for disability acquired at war paid by post offices, Personal compensation for disability acquired at war paid through the municipalities, Wage subsidies for working veterans, Cash payments to military veterans living abroad, Annual compensations, Benefits for civilians who have acquired disability at war, etc. (in total - 21 types of benefits). Currently, there are approximately 45,000 beneficiaries of these benefits (27,000 military individuals disabled during war or peace time, 3,000 civilian victims and 15,000 family members). According to the *Law on Budget of the Republic of Serbia* total spending on these benefits in 2009 will amount to RSD 16,200 million.

Parent fees for pre-school institutions are legislated at municipal level. Hence, conditions for receipt and fees levels vary considerably across the cities (municipalities).

The fraction of children in childcare in Serbia (by age and type of childcare) is presented in the table below (2008/2009 school year).

	Total	<i>Up to 18 months</i>	<i>18m-2 years</i>	<i>2-3 years</i>	<i>3-4 years</i>	<i>4-5years</i>	<i>5-7 years</i>	<i>3-7 years</i>
Full time stay	130,445	5,356	9,549	16,909	23,861	26,674	37,839	10,257
Part time stay	51,576	-	-	-	-	3,250	41,897	6,429
Three-hours stay	1,630	-	-	-	-	-	1,630	-

5.1 Out-of-pocket childcare fees paid by parents

a) Long-term care for children, elderly family members and disabled

Out-of-pocket care fees are stipulated by the *Decree on Fees for Services of Social Protection*, issued by the Ministry of Labor and Social Policy. Fees are calculated based on the actual material costs incurred by relevant institution, depreciation and maintenance costs, immaterial costs, salary costs for institution's employees and statutory liabilities. Out-of-pocket fees are stipulated separately for each institution.

Monthly out-of-pocket childcare fee for preschool children ranges from RSD 14,492 to RSD 20,181, whereas fees for school children ranges from RSD 18,324 to RSD 26,730.

Out-of-pocket fee for care of elderly also varies among institutions and ranges from RSD 17,324 to RSD 32,162 per month (depending on the institution and the medical conditions of care receiver).

Fees for full-time formal long-term care for disabled family members, stipulated by the same Decree, range from RSD 15,990 to RSD 35,955 per month (depending on the institution and the type of disability).

These amounts represent full (ceiling) prices for the respective services. However, the amount to be effectively paid by care-giver depends on her/his net income. Namely, it is calculated in the following manner:

- Calculate care-giver's average net income in the last three months;
- Decrease that amount by the amount of minimum income level per person multiplied by the number of dependant persons;
- Divide that amount by two.

If the amount, calculated in the above described manner, is below the full price for respective service, care-giver would pay only this (calculated/lower) amount. Otherwise, if calculated amount exceeds the full price for respective service, care-giver would pay that full price.

Out-of-pocket care fees paid by parents are not tax deductible and may not be deducted from income when determining entitlement to means-tested benefits.

b) Parent fees for full time care in pre-school institutions

Parent fees for full time care in pre-school institutions vary across cities (municipalities). In the capital, Belgrade, price for full time child care is RSD 7,490, whereas in the second largest city, Novi Sad, the fee for the same service is RSD 2,362. The average salaries in those two cities are quite similar. The reason behind such a discrepancy in prices is the extent to which daycare is subsidized by the local government

In what follows, policy rules for the capital, Belgrade, will be described.

The fraction of children in childcare in Belgrade (by age and type of childcare) is presented in the table below (2008/2009 school year).

	<i>Total</i>	<i>up to 18 months</i>	<i>18m-2 years</i>	<i>2-3 years</i>	<i>3-4 years</i>	<i>4-5years</i>	<i>5-7 years</i>	<i>3-7 years</i>
Full time stay	43,945	2,138	3,016	5,124	7,475	8,292	14,155	3,745
Part time stay	6,236	-	-	-	-	118	4,870	1,248

Parents are eligible to a subsidized parent fee if they pass an income test. Following types of income are included in income test:

- All types of incomes subject to income tax;
- Income from pension and disability insurance;
- Incomes arising from veteran' rights;
- Incomes from relatives who are legal guardians;
- Redundancy pay received in the year preceding the year in which application is made;
- Compensations from social programs (due to firm bankruptcy, privatization) paid in the year preceding the year in which application is made;

- Unemployment benefit;
- Cash and other liquid assets earned in the *year preceding the year* in which an *application is made*.

Parent fee amount depends on the:

- Average income generated over the last six months preceding the month in which application is made (1 April and 1 October).
- Number of children in the household.

Monthly parent fee is calculated as a percentage of the “economic price” determined by the local government (currently - RSD 11,523). The percentages are presented in Appendix 1.

The fee will also be reduced if parents have more than two children in day care. The fee for the first two children is reduced by 20% per child, and for the third and fourth (triplets, quadruplets, and double twins) by 50% per child.

For children of MOP recipients and children of military disabled persons pre-school service is free of charge.

For lone-parents average monthly income, relevant for the calculation of parent fee, is reduced by 25%. For parents who finance purchase of their first house/apartment by means of bank credit and for parents living in a rented house/apartment, average income is reduced by 10%. If a family has a child with mental and physical disabilities, their average income is reduced by 20%.

Pre-school service fees paid by parents are not tax deductible and may not be deducted from income when determining entitlement to means-tested benefits.

5.2 Caregiver allowance

Caregiver allowance

Caregiver allowance refers to monthly payments to individuals who require care and assistance with regards to her/his basic (vital) needs, due to nature and the level of injury or illness.

Individuals who are insured with the mandatory pension and disability insurance (insured individuals), as well as retirees, who meet conditions for caregiver allowance, receive the allowance from the Republic Pension and Disability Insurance Fund (“the Pension Fund”). All other individuals (not insured with the Pension Fund), who meet criteria for receiving caregiver allowance, receive that allowance from the Ministry of Labor and Social Policy. Eligibility criteria do not vary regionally.

5.2.1 *Conditions for receipt*

Caregiver allowance

Conditions for receipt of caregiver allowance are the same regardless of payer of allowance (the Pension Fund or the Ministry of Labor and Social Policy). Individual who applies for the allowance has to be checked by the medical committee of the Pension Fund. Medical committee than issues assessment on the level of disability. If according to the findings of the medical committee individual is not able to take care of his basic needs, due to her/his medical condition, that individual becomes entitled to the caregiver allowance.

There are no income/means/asset test or any other additional eligibility criteria.

5.2.2 *Calculation of benefit amount*

5.2.2.1 Calculation of gross benefit

Caregiver allowance

The *Law on Social Protection and Provision of Social Safety to Citizens* stipulates that the monthly caregiver's allowance (financed by the Ministry of Labor and Social Policy) for September 2004 amounts to RSD 4,000. This amount is adjusted each month by change of the costs of living index. In September 2009, monthly caregiver allowance paid amounted to RSD 6,706.

As of October 2008 caregiver allowance for beneficiaries who receive it from the Pension Fund amounts to RSD 13,434.7 per month. This amount is adjusted by the index of increase/decrease of pensions. Pensions are adjusted twice a year (on 1 April and 1 October) by the costs of living index. However, due to economic crisis no adjustment of the amount of pensions is performed in 2009.

5.2.2.2 Income and earnings disregards

Caregiver allowance

None.

5.2.3 *Tax treatment of benefits*

Caregiver allowance

Caregiver allowance is exempted from personal income tax and social security contributions.

5.2.4 *Benefit duration*

Caregiver allowance

Caregiver allowance is to be received by care-receiver as long as his medical condition is not improved. In case of permanent disability, caregiver allowance is granted for indefinite period of time (permanently). However, if medical committee has assessed that there is a

possibility for reduction of the level of disability, it stipulates that medical check should be repeated after certain period of time. In that case, caregiver allowance is granted only for the period until the repeated medical check. If on repeated check the medical committee assesses that recipient's medical condition has not improved enough, the right to caregiver allowance is extended.

This benefit is not reduced over time.

5.2.5 Treatment of particular groups

Caregiver allowance

Individuals who are 100% disabled (due to one reason), are entitled to increased caregiver allowance. According to the Law, increased caregiver allowance equals 70% of average monthly salary (net of tax and social contributions) in Serbia, paid in period January-May 2006. This amount is adjusted each 1 January and 1 July, by official costs of living index. Increased caregiver allowance for period July-December 2009 amounts to RSD 17,970 per month.

Individuals who receive regular caregiver allowance (regardless of the source of allowance – the Ministry of Labor and Social Policy or the Pension Fund), but also meet criteria for increased allowance, would receive only the difference between the amount of the increased allowance and the regular allowance.

5.2.6 Conditionality and Discontinuation of Benefits

Caregiver allowance

See above.

5.2.7 Linkages with other Programs

Caregiver allowance

This benefit provides health insurance to individuals who receive caregiver allowance, if they are not covered with health insurance on some other basis.

There are no additional linkages with other programs.

6. Tax System

6.1 Income tax rate schedule

In Serbia combined personal income tax system applies. Namely, according to *the Personal Income Tax Law*, there are two stages of taxation of personal income: taxation of income at the moment it has been generated and annual income taxation (after expiry of calendar year). Residents in Serbia are subject to personal income tax on their worldwide income, whereas non-residents are subject to tax on their income from Serbian sources only. Tax unit is individual, i.e. spouses are taxed separately.

Following types of income generated by an individual are subject to taxation: employment income (salary), income from agriculture and forestry, income from self-employment, income from royalties and authorship rights and related rights, income from capital, real estate income, capital gains and other income.

6.2 Tax allowances and credits

a) Standard allowances

For annual income tax purposes only.

b) Standard tax credits

Besides the tax credit related to tax paid abroad, on income from foreign sources (this tax credit may not exceed the amount of tax that would be paid on that income in Serbia), there are no other standard tax credits.

6.3 The definition of taxable income

Taxable income is gross income. Therefore, in case of income from employment (salary), taxable income is gross salary (net salary + salary tax + social security contributions on behalf of employee).

6.4 The tax schedule

a) Taxation at the moment income is generated

For the purpose of calculation of personal income tax (at the moment income is generated), each type of income is taxed separately, at following tax rates:

<i>Type of income</i>	<i>Statutory tax rate</i>	<i>Allowances and deductions from the tax base</i>
		non-taxable amount RSD 5,938 (per month)
Salary (employment income)	12%	
Income from self-employment	10%	-
Income from agriculture and forestry	14%	-
Income from royalties and authorship rights and related rights	20%	34%, 43%, 50% of gross income
Income from capital	20%	
Income from immovable property	20%	20% of gross income
Capital gains	20%	-
Other income	20%	20% of gross income

1) Income from interest on saving deposits (denominated in dinars) are tax exempted, whereas interest from foreign currency saving deposits are tax exempted until 31 December 2009. Taxable income from dividends, generated by tax residents equals 80% of gross dividend.

2) Capital gains generated from sale of securities is tax exempted until 31 December 2009.

3) 80% of gross income from dividend generated by tax resident is included in the tax base, i.e. effective tax rate on income from dividend is 16%.

Salary tax (at the rate of 12%) is calculated, withheld and paid by the employer (on behalf of employee).

b) Annual Income Tax

In addition to this, tax residents whose total annual income exceeds stipulated threshold are obliged to pay annual income tax as well.

Following types of (worldwide) income are included in the base for calculation of annual income tax: salary, income from self-employment, income from royalties and authorship rights and related rights, real estate income, income from renting movable property, income from insurance of individuals, income of sportsmen and other income.

If an individual is a citizen of Serbia, non-taxable threshold for annual income tax purposes is three times average annual salary in Serbia in the respective year (RSD 1,644,244 in 2008). If individual is foreign citizen, non-taxable threshold is five times average annual salary in Serbia in the respective year (RSD 2,740,440 in 2008).

Individual's total annual net income, exceeding this limit, may be decreased by standard deductions:

- Personal deduction (40% of the average annual gross salary in Serbia – RSD 219,235 in 2008); and
- For dependent family members (15% of average annual gross salary in Serbia – RSD 82,213 in 2008 per dependent family member).

The total amount of standard deductions cannot exceed 50% of taxable income. If two or more family members are obliged to pay annual income tax deductions for dependants may be used only by one family member. If one family member is using part of these deductions remaining (unused amount) may not be transferred to the other family member.

Individual's total net annual income, exceeding stipulated (non-taxable) threshold and decreased by the above mentioned deductions, is subject to annual income tax at following schedule:

- For resident Serbian citizens the tax rates are: 10% (on taxable income between 3 and 6 average annual salaries in Serbia) and 15% (on income above 6 average annual salaries in Serbia). In 2008 taxable income (determined in the above described manner) up to RSD 3,288,528 was subject to tax at the rate of 10%, whereas the excess amount was taxed at 15%.
- For resident foreign citizens and Serbian citizens assigned abroad, the tax rates are: 10% (on income between 5 and 8 average annual salaries in Serbia) and 15% (on income above 8 average annual salaries in Serbia). In 2008 taxable income (determined in the above described manner) up to RSD 4,083,256 was subject to tax at the rate of 10%, whereas the excess amount was taxed at 15%.

Annual income tax is to be paid by individual (i.e. individual's employer does not have any duties related employee's annual income tax). Annual income tax return is to be submitted with the Tax Authorities by 15 March of the year following the year in which income is generated (e.g. annual income tax return for 2008 should have been submitted by 15 March 2009).

6.5 State and local income taxes

Personal income tax in Serbia is levied on the central level. However, tax revenues collected based on personal income tax is split between various levels of government.

There is no supplementary local income tax in Serbia.

6.6 Treatment of family income

The tax unit is the individual. Spouses are taxed separately. The only family-related allowance refers to standard deduction (for dependent family members) from the annual income tax base.

7. Social security contribution schedule

Social security contributions in Serbia comprise of: a) pension and disability insurance contributions, b) health insurance contributions and c) unemployment insurance contributions. Social security contributions rates are stipulated by *the Law on Contributions for Mandatory Social Insurance*. Apart from salary tax and mandatory social security contributions, no other taxes (e.g. payroll tax) are payable on individual's income.

Although social security contributions liability is equally split between employer and employee, total amount of social security contributions is to be calculated, withhold and paid by employer at the moment of payment of salary to its employee.

There is no compulsory private pension or health insurance in Serbia (there is only voluntary private pension and health insurance).

7.1 Pensions

The pension system in Serbia is based on two pillars: a) PAYG mandatory pension and disability insurance scheme, and b) supplementary, voluntary private scheme.

All employees, self-employees and farmers are obliged to participate in mandatory pension and disability insurance scheme.

Pension and disability insurance contributions are paid at the total rate at 22% (11% - on behalf of employer and 11% - on behalf of employee). The base for calculation is employee's gross salary (net salary + salary tax + social security contributions on behalf of employee). Serbian Law on Contributions for Mandatory Social Insurance stipulates minimum and maximum base for calculations of social security contributions.

Minimum base for calculation of social security contributions equals 35% of average salary in the Republic of Serbia, paid out in previous quarter (published by the Statistical Bureau of the Republic of Serbia). According to the official information, minimum base for calculation of (monthly) social security contributions in Serbia, in period 1 August – 31 October 2009 is RSD 15,482. Therefore, if employee's monthly gross salary is below this threshold, social security contributions are calculated on this threshold.

Maximum base for calculation of social security contributions equals five times average gross salary in Serbia, according to the latest information of the Statistical Bureau of the Republic of Serbia. Further to the official information, maximum (monthly) base for calculation of social security contributions in August 2009 amounts to RSD 221,230. Therefore, if employee's monthly gross salary exceeds this amount, social security contributions are paid only on this amount (gross salary exceeding this limit is subject to salary tax only).

There is also the maximum annual base for calculation of social security contributions, equal to five times average annual gross salary in Serbia, in year in which contributions are paid. Official - estimated maximum annual base for calculation of social security

contributions in Serbia in 2009 amounts to RSD 3,230,705. Therefore, if individual's annual gross salary and other types of income, which are subject to social contributions (e.g. from free lance contract) in total exceed this annual threshold, that individual may claim refund of social security contributions paid on income exceeding the annual threshold.

7.2 Sickness

Health insurance contributions are payable at the total rate of 12.3% (6.15% on behalf of employer and 6.15% on behalf of employee). The base for calculation of health insurance contributions is the same as for pension and disability insurance contributions.

Employees, self-employed individuals and farmers are included in health insurance scheme based on their working status. Health insurance contributions for employees are paid by their employers based on their gross salary (one half on behalf on employees plus one half on behalf of employer). Self-employed individuals pay health insurance contributions by themselves, on their taxable profit or lump sum taxable income (used as base for calculation of income tax). In the same manner, farmers pay health insurance contributions by themselves on their base for calculation of income tax.

Retired people participate in health insurance scheme based on their retirement status. The Pension Fund is obliged to pay health insurance contributions (for health insurance of retirees) to the Health Insurance Fund. Contributions are to be calculated on the amount of pensions

Unemployed individuals (registered with the NES) are covered with health insurance, based on their unemployment status (registered with NES). The NES is obliged to pay health insurance contributions on the amount of unemployment benefit, paid to registered unemployed individuals.

Besides above mentioned, following categories of individuals are entitled to free health insurance:

- Children - until the age of 15, pupils and students until the end of formal education (maximum - until the age of 26);
- Pregnant women and all women who gave birth (covered within 12-month period as of the date of birth of a child);
- Individuals older than age of 65;
- Disabled and mentally underdeveloped individuals, people suffering from HIV, cancer, hemophilia, diabetes and other diseases, specified by the Law on Health Insurance;
- Monks and nuns;
- Poor people entitled to support in accordance with the laws related to social protection and welfare of veterans, people disabled in war (military people and

civilians);

- Unemployed individuals and other socially vulnerable persons whose monthly net income does not exceed RSD 18,000 (for single person). If that person has family, this limit equals RSD 15,000 multiplied by the number of family members;
- Individuals who are entitled to support, due to the fact that the foster is doing military service;
- Roma people.

7.3 Unemployment

Unemployment insurance contributions are payable at the total rate of 1.5% (0.75% on behalf of employer and 0.75% on behalf of employee). The base for calculation of unemployment insurance contributions is the same as for pension and disability insurance contributions.

7.4 Treatment of particular group

7.4.1 Young persons

Salary paid to newly employed trainee (employed for indefinite period of time), who is less than 30 years old and registered as unemployed person with the NES at the date of signing the employment contract, is exempted from salary tax and social security contributions for 3 years period (starting from the moment he/she is employed).

Salary paid to new employee (employed for indefinite period of time), who is less than 30 years old and registered as unemployed person with the NES at the date of signing the employment contract (for at least 3 months), is exempted from salary tax and social security contributions for 2 years period (starting from the moment he/she is employed).

7.4.2 Older workers

Salary paid to newly employed individual who is more than 45 years old and registered as unemployed person with the NES at the date of signing the employment contract (for at least 6 months), is exempted from salary tax and 4/5 of social security contributions liability, for 2 years period (starting from the moment he/she is employed). If that individual is more than 50 years old, her/his salary is fully exempted from social security contributions, for 2 years period.

7.4.3 Others if applicable

Salary paid to newly employed - disabled individual (employed for indefinite period of time), is exempted from salary tax and social security contributions, for 3 years period (starting from the moment he/she is employed).

7.5 Part-time work

7.5.1 Special benefit rules for part-time work

The possibility of part-time work is stipulated by the Labor Law. However, there are no special benefit rules for part time work.

7.5.2 Special tax and social security contribution rules for part-time work

Part-time workers pay the same salary tax and social security contributions as full-time workers. The only difference refers to non-taxable limit for calculation of salary tax. In calculation of salary tax base for full-time workers, employee's gross salary is decreased by monthly non-taxable amount (RSD 5,938 in 2009), whereas for part-time workers appropriate time-apportion of this non-taxable amount should be made (e.g. if employee is working 50% of full time, he is entitled to monthly non-taxable limit of RSD 2,969 (RSD 5,938 x 50%)) in calculation of salary tax.

8. Data

As other tax-benefit models, SRMOD operates on a micro-data for a representative sample of households, within a population to be observed. The Living Standards Measurement Survey (LSMS) from 2007 is currently used as the SRMOD dataset. LSMS is conducted by the Statistical Office of Serbia, on representative sample of 5,553 households (17,335 individuals). This dataset was chosen since it contains detailed information on various sources of income as well on paid taxes and claimed benefits at the individual level. This allows conducting validation of the model (comparison of simulated and real values of taxes and benefits) with greater accuracy, and thus provides a more reliable estimates of the model's conformity with the actual tax and benefit system.

9. Validation

The quality of microsimulation model is tested by means of micro and macro validation. Microvalidation comprises of the detail check of accuracy of calculated amounts of taxes and benefits, for randomly selected households and individuals, while macrovalidation consists of comparing the simulated amounts of taxes and benefits, with the actual (administrative) data. Variance of simulated to actual amounts of up to 20% is regarded as acceptable.

Type of tax and benefit	SRMOD/Admin. data ratio
Average wage	0.92
Taxes and social contributions	
Personal Income Tax	0.80
- Wage Tax	0.82
- Social Security Contributions – on full time employment income and unemployment benefits	0.95
Benefits	
Social Assistance (MOP) – no. of recipients	1.05
Social Assistance (MOP) – expenditures in RSD	1.08
Child Allowance – no. of recipients	0.86
Child Allowance – expenditures in RSD	0.86

The results of macrovalidation show that simulated amounts of income tax and social contributions (on full-time employment income) are lower than the amounts from administrative datasets, by 20% and 5% respectively. The part of the difference (8 pp) is explained by divergence of the average wage in the sample from the official average wage data. At the same time, simulated amounts of MOP are higher by 5% compared to the administrative data, while the child allowance amounts are lower by 14%.

The small magnitude of the differences between simulated and administrative amounts suggest that SRMOD provides sufficiently accurate simulation of taxes and benefits.