

Macedonia

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An attractive tax regime

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The Republic of Macedonia has been making rapid changes to legal regulation in the last year. This has been driven by the requirements of investors, with special attention to attracting foreign direct investment.

The most important changes in the regulation have been made in tax legislation. Macedonia has recently become a tax heaven in Europe. The new government introduced a flat tax rate for corporate and personal income tax. In 2007 the corporate tax rate is 12%, reducing to 10% thereafter. The previous corporate tax rate was 15%.

The personal income tax rate is also 12% in 2007 and 10% afterwards. The previous personal income tax rates were 15%, 18% and 24% according to income. To stimulate additional foreign and domestic investment, corporate tax is not levied on reinvested profits.

Tax-based incentives

With the new flat tax rate of 10%, Macedonia has one of the most attractive packages of taxes in Europe. The flat tax rate introduces a simple tax system which stimulates successful companies to improve operations and profitability. With this attractive tax package, additional funds are provided which companies may use to improve their competitiveness.

In addition, there are special tax incentives in the technological-industrial development zones (TIDZs). The most important are a 10-year corporate tax exemption and a reduction of a personal income tax by 50% for a period of five years. After the expiry of the 10-year corporate tax exemption, companies in these zones will be able to take advantage of the tax exemption by which reinvested profits are taxed at the zero rate.

The effective personal income tax amounts to 5%. In order to avoid double taxation of foreign companies located in the Republic of Macedonia, 34 double taxation agreements have been concluded on a bilateral basis, of which 25 are in force. It is expected that the remaining nine will be ratified soon. The tax system enables transparent and efficient administrative procedures. A tax system with a single flat tax allows simple calculation and easy filling out of tax returns.

According to the World Bank's 2007 report *Doing Business*, which ranks 175 countries according to the ease of doing business, Macedonia is ranked 92nd, compared with a starting rank of 76th.

With the implementation of the one-stop-shop system for registration of companies and the start of operations of the Central Registry, registrants must wait three days from the day of submission of the complete documentation until a decision for registration is issued. The government is working intensively on decreasing the large number of unnecessary administrative procedures.

There are significant reforms in the Real Estate Cadastre for completing and updating of real estate databases, which at the moment covers 62% of existing real estate, an increase of 20% compared to last year.

Development zones

Users of TIDZs can be any domestic or foreign natural or legal person who is registered to perform such activity and has signed a contract with the founder of the zone for its use.

A TIDZ is a part of the territory of the Republic of Macedonia comprising a detached section of a customs zone which is specifically fenced and marked. It constitutes a functional totality in which commercial activities are performed in compliance with the conditions prescribed by law, and to which customs and other tax incentives are applicable.

Imported goods entering the TIDZ are exempt from VAT, including those entering the zone from within Macedonia or trans-

ferred from another TIDZ in Macedonia. If the founder has paid the land rent (in total or in part) in advance, and the land value according to which the land rent is calculated changes after that, the amount of land rent paid in advance shall not be changed.

The most investments are expected in the energy sector. On September 10 1997, the Law on Energy was promulgated by the Parliament of Macedonia. The Law regulates activities in the energy sector and defines the protection of the environment. According to the Law, the energy sector is composed of generation of electricity; transmission and distribution; coal production and processing; oil production and transportation; gas production, transportation and distribution; thermal, geothermal, and other types of energy generation, transportation and distribution; the transit of energy and energy supplies; and the trading of energy. The aim of the law is to implement the legal basis of the reforms in the energy sector and to comply with EU directives.

Financial and corporate

Recommended firms

Tier 1

Law Offices Knezovic & Associates
Lawyers Antevski
Mens Legis Cakmakova Advocates
Mens Legis Law Firm
Polenak Law Office

Tier 2

Debarliev Dameski & Kelesoska
IKRP Rokas & Partners
Monevski Law Firm
Pepeljugoski Law Firm

The Macedonian legal market is not as mature as some of the other countries in southeast Europe such as Greece and Turkey, yet with the progress it has made in the last two to

three years, lawyers feel that the market can only get bigger. "The transactions we are working on are getting more interesting. The number of deals we are working on has also increased," said one partner.

The country's economy began to stabilize in 2002 after internal conflict the previous year, and has been growing at a conservative speed. The government is still committed to privatization, especially in the energy sector. Two projects that have dominated the market are the privatization of the thermal plant TEC Negotino and ESM, an electricity distributor.

Austrian and Greek companies are beginning to invest in the country, and market observers believe other neighbouring countries will soon follow suit. The banking sector is expected to grow, and with some legislative changes in the pipeline for 2008 the industry is bound to see some activity.

In the last two years, the biggest development in the legal market has been the departure of Ljubica Ruben from Mens Legis Cakmakova Advocates in 2005. Ruben went on to form Mens Legis Law Firm, taking some of her previous clients with her. Now the dust has started to settle, it seems the two firms are competing on a relatively even footing in the first tier.

Lawyers Antevski

Lawyers Antevski is an "enterprising firm" with an impressive list of international clients according to its peers. Privatization is one of its strengths and it has been working on two of the biggest such deals in Macedonia in the last year.

Antevski is acting for Elektrabel in the €38 million privatization of the Macedonia government's thermal power plant TEC Negotino through the purchase of the company's shares. It also advised Cez in the tender process regarding the privatization of ESM, a distribution company, for €250 million.

The practice is also one of the preferred Macedonian firms used by UK and European firms for referral purposes. The firm made headlines when it participated in the Magyar Telekom/Macedonian Telecommunications project. Along with White & Case's French operation, it worked on the Macedonian legal aspects of the logistics, processing and transferring of data. Another standout deal was its role acting for Bickhardt Bau in the sale of property of the Sun City project, a big transaction in Macedonia's real estate sector. In 2007 it also assisted Costa International in the establishment of franchises in Macedonia.

Leading lawyers

Zlatko Antevski
Aleksandra Donevska

Law Offices Knezovic & Associates

Law Office Knezovic & Associates is active in privatization and in the banking sector. It is well respected in the market, and one of its rivals called it "one of the best firms in Macedonia". "We see it very often on the other side on the table, the competitor added. "Its lawyers are young and ambitious and partner Dejan Knezovic is a talented lawyer."

The firm has been advising an international company in connection with the sale of a Macedonian bank and has also been involved in the ESM privatization.

Leading lawyers

Dejan Knezovic

Mens Legis Cakmakova Advocates

Biljana Cakmakova heads the practice of Mens Legis Cakmakova Advocates after Ljubica Ruben went on to form Mens Legis Law Firm. The four-partner firm has been advising EVN Austria in the tender process for the privatization of ESM.

Another significant transaction it has been involved in is the proposed capital takeover of On.Net Information Systems by the firm's client, Telekom Slovenije. Its client list makes for impressive reading, boasting the likes of Pfizer, Messer, Louis Berger, Alcatel Services International and ICN Pharmaceuticals.

Mens Legis Law Firm

Mens Legis Cakmakova Advocates split into two firms in 2005 and Ljubica Ruben adopted the name Mens Legis Law Firm. The firm has since had a busy year and enters the top tier after some good references from peers and clients. One lawyer observed that the firm is "constantly present on the big-ticket transactions" and singled out Ljubica Ruben as a "brilliant leader". Siemens, McDonald's, IBM and Procter & Gamble Eastern Europe are some of the big corporate names that use its services.

In the last 12 months, Mens Legis has advised Bombardier Capital in an aircraft leasing arrangement. It is also guiding Zavarovalnica Triglav with regards to the purchase of shares of Vardar, a Macedonian insurance company, and has been consulted by Sencap, a Greek company, in its privatization bid for TEC Negotino. Lastly, it has been acting for Cable Tel Bulgaria in the sale of 13 cable television channels.

Leading lawyers

Ljubica Ruben

Polenak Law Office

Polenak Law Office, established in 1945, is one of the leading firms in Macedonia for corporate work. Managing partner Kristijan Polenak was praised by the market for his negotiation skills and has been part of the country's biggest deals since the late nineties.

On the deals front, it advised Pozavarovalnica Sava, a Slovenian insurance company in its acquisition of Tabak in December 2006. The European Bank for Reconstruction and Development has been pretty active in Macedonia; the bank used the firm's services in relation to a €55 million loan to Tutunska Banka. It also assisted Standard Bank in a \$35 million credit facility to a domestic metal producer. Finally, Polenak helped Makedonski Telekomunikacii in the purchase of treasury shares in June 2006 and guided Depfa Bank in the provision of a €41 million loan to a Macedonian power production company.

Leading lawyers

Kristijan Polenak

Monevski Law Firm

Monevski Law Firm participated in some key deals in the market this year. It advised RWE Germany in drafting a report and share purchase agreement in the privatization of ESM. It also acted as the local legal counsel in the prequalification bid for the Skopje Airport investment along with Linklaters in Prague.

Elsewhere, it represented Hatch Acres and Finance Engineering in the privatization bid for TEC Negotino, a thermal power plant. Merrill Lynch is one of Monevski's regular clients and the firm recently advised it on derivative transactions. Some of the other clients it has worked for in the last couple of years include the European Bank for Reconstruction and Development, KPMG, Qantas Airlines, Verbund Austria and the Maple Financial Group.

Leading lawyers

Valerjan Monevski