

EXPLANATION TO THE REVIEW OF THE TAX RATES

I. Change of the tax rate amount, along with the Law on Changes and Amendments of the Law on Corporate Income Tax (Official Gazette of RM, No.139/06)

Along with the Law on Changes and Amendments of the Law on Corporate Income Tax (Official Gazette of RM No.139/06) according to the Article 17, the Article 29-c Paragraph 1 is changed as follows: The withhold tax in accordance with the provisions of the Article 29-b of this Law is calculated on the gross income at the rate of 10%.

According to the Article 37 of this Law, with exception of provision from this Article, the Corporate Income Tax rate for the revenues of the Article 29-b, items 1, 4, 5, 6, 7, 9, 10 and 11 of this Law i.e. the withholding tax for 2007 is 12%.

If the foreign legal entity, income recipient, is a resident of the country by which the Republic of Macedonia has concluded International Agreement for avoiding double taxation in relation to the income taxes and capital, then the tax rate for that income assessed in the Law should not exceed the tax rate which is applied for the income determined in the Agreement.

It means, according to the provisions of the International Agreements the tax rate, by which it should be calculated and withhold the tax on specific kinds of revenues, is not fixed determined, but it is given formulation...the inlaid tax cannot exceed more than _ percentage..., then **by calculating and withholding tax of this kind of income it should be applied lower rate between the tax rate determined in the Law on Corporate Income Tax and the rate determined in the International Agreement for avoiding double taxation.**

II. Tax rate of 10% applies only in case of use or right to use cinematographic films and films or tapes for radio and television transmission. Tax rate of 5% applies in all other cases.

III. Defining the category of other income

As other income is meant the parts of the income of a resident of the contracting country, wherever they are made, which are not covered by specific provisions of the concrete contract.

IV. Agreement with Belgium (marked with *) is an international treaty for avoidance of double taxation concluded by the Socialist Federal Republic of Yugoslavia, taken in the application by the Republic of Macedonia. It will apply until the beginning of the application of the international agreement for avoidance of double taxation that the Republic of Macedonia has concluded with Belgium.

V. Agreements which the Republic of Macedonia has concluded with Belgium, Morocco, Arab Republic of Egypt, Islamic Republic of Iran, Kosovo (marked with **) still are not in use.