



What do the results reported by 2,000 of the largest companies in 2008 – 2012 show us?

During 2008 - 2012, circa 30% of the largest 2,000 Serbian companies (turnover wise¹) incurred net losses at least in one year, and circa 11% of them incurred net losses for three years. If operating losses are taken into account, about 37% of the sample companies saw losses at least in one year, with circa 12% if them sustaining losses during no less than three years.

Table 1: Share of companies that incurred net losses during 2008 – 2012, i.e. for ... years

Indicator	1 year	2 years	3 years	4 years	5 years
Net losses	30%	17%	11.5%	7%	3.4%
Operating losses	37%	20.5%	12%	7%	4%

Above are the results of a research focusing on the scope of the aging losses amongst Serbian companies, carried out as a first by the consulting firm Transfer Pricing Services. Both aggregate data and data broken down as per controlling shareholder (resident or non-resident) are available upon request.

“It is a common sight, *the new normal*, to talk about losses during downturn times. However, analyses revealing the exact extent of the phenomenon are still overdue. For instance, the size of the segment of companies that incur losses for multiple years in a row. It is what we planned to uncover in our study now, five years after the recognised onset of the current global economic crisis” says **Marko Milojevic**, TPS Serbia director.

The fact that circa every third company in the sample reported at least one year of losses, that every sixth company “runs” on a loss-making trend for two years, and circa every ninth company does so for three years is undoubtedly a major exposure primarily for that company, but also for the business mechanism in general. At least in theory, it is not natural (sustainable) that a company continue to operate and incur losses for years on end. There are at play external forces, such as the tax authorities, but mostly internal forces (shareholders’ pressure) that finally cause an enterprise to be restructured on a healthy basis, so it ends up generating revenue rather than losses.

However, figures also carry good news, and maybe we should consider it the key conclusion of the TPS analysis: many of the companies that posted losses for one or two years are straining themselves and making a good recovery, and in doing so bust the myth that losses are used as a covert form of „funding”.

Moreover, we attempted to find any differences between the behaviour of the companies with a resident controlling shareholder (below referred to as „resident” including 1,433 entities in work sample) and of the companies with a non-resident controlling shareholder (below referred to as „non-resident” including 502 entities²).

TPS Analysis

Serbian companies after five years of crises

www.transferpricing.ro

February 2014

Table 2: Share of companies that incurred net losses during 2008 – 2012, i.e. for ... years

Companies with the majority shareholder	1 year	2 years	3 years	4 years	5 years
Resident	20%	10.5%	7%	4%	2%
Non-resident	54%	37%	25%	14%	6.5%

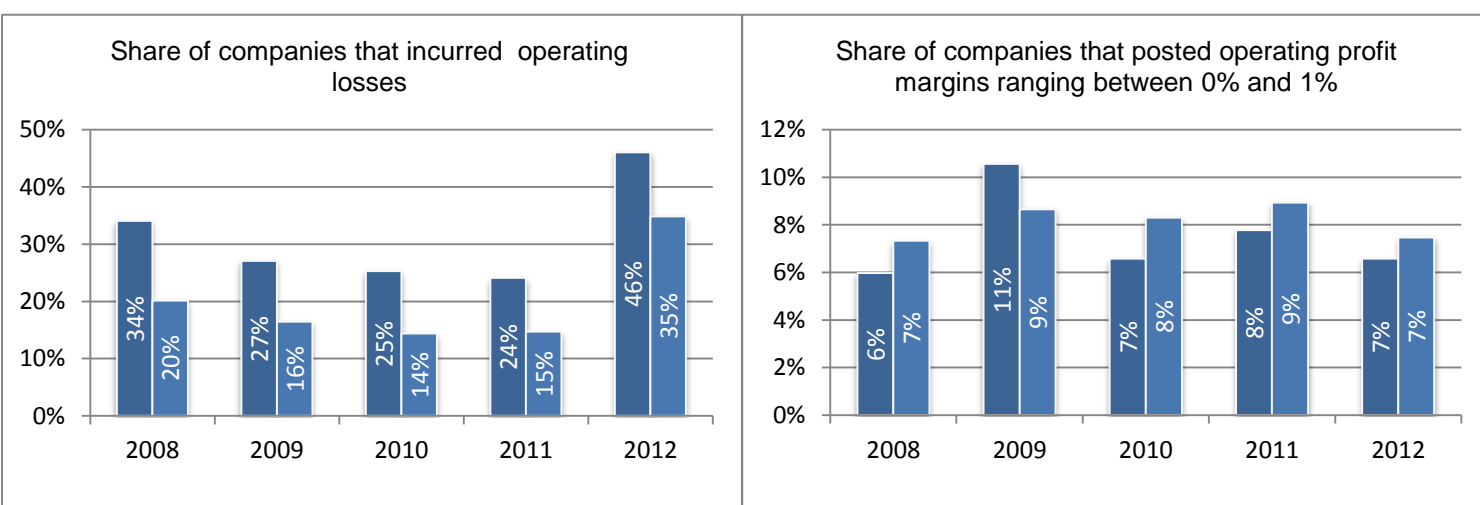
Table 3: Share of companies that incurred operating losses during 2008 – 2012, i.e. for ... years

Companies with the majority shareholder	1 year	2 years	3 years	4 years	5 years
Resident	32%	16%	10%	6%	3%
Non-resident	50%	32%	20%	11%	6%

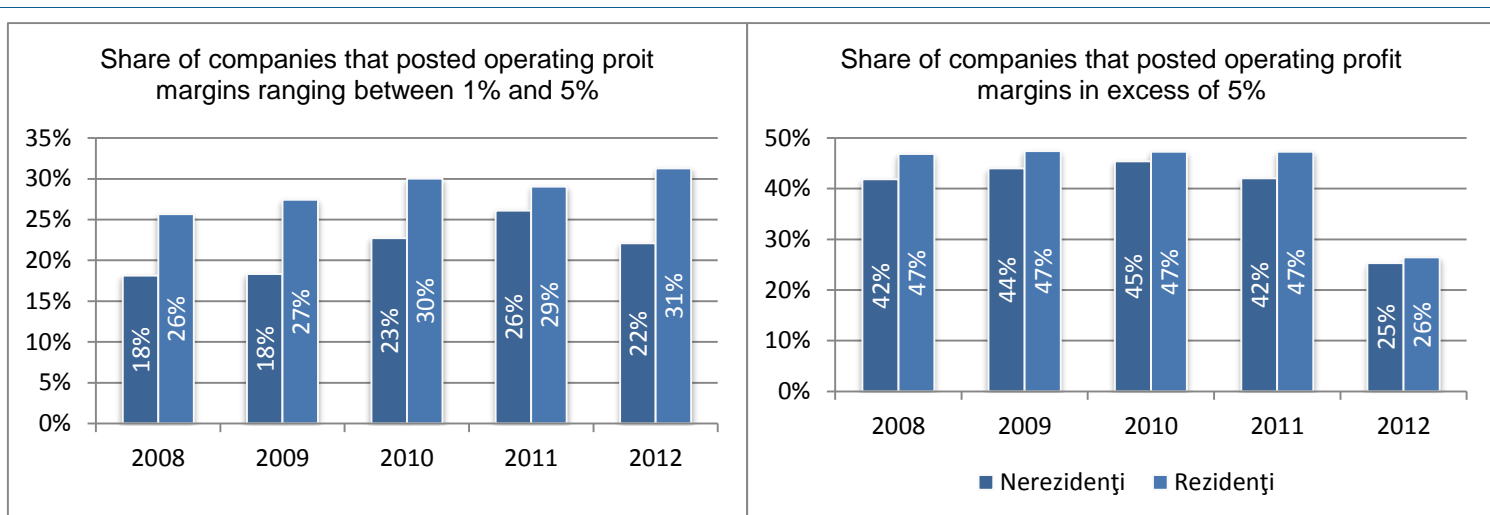
The statistics above should be looked upon as a wake-up call for companies also because tax authorities around the world have focused on the so-called aggressive fiscal structures used by groups of companies, mostly multinationals, to at least in part avoid incurring tax payments⁵, by way of base erosion and profit shifting (BEPS, according to the formula established by the OECD Group).

Of course such fact should not be read as baseless allegations, but rather as a natural drive of companies (and no tax authority can deny that) to seek tax savings, so much more so during a challenging time of lingering ailments.

However, figures reveal that companies are also quick to report large profit margins when they manage a good recovery.



"Figures do not exceed the pattern found by us in our analyses on other markets in the region and, we can once again insist upon the Serbian companies' admirable efforts to achieve growth, amid a challenging business environment that fails to provide the required stability and predictability", concludes **Adrian Luca**, TPS group director.



Notes

- (1) Sample resulted from selection of the first 3,000 companies in terms of 2012 turnovers, and ended up including only such companies for which data for 2008-2012 could be retrieved, i.e. 1,935 companies.
- (2) Only the cases that allowed for a clear identification of the origin of shareholders (resident/non-resident) were considered. Any cases where portfolio investors are shareholders or where an unambiguous distinction could not be made were excluded.
- (3) As a rule, there are to be expected differences between a company's operational result and its net result, with the latter also including its financial revenue/expenses (for instance those related to contracting a loan).
- (4) For the purposes of the British tax authorities (HMRC), *tax avoidance* involves use of any available proper method to derive a reduction in its payables, unlike *evasion*, which means that a taxpayer deliberately fails to pay their dues, which is against the law.