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GES NewsFlash

Croatia – Tax Legislation Changes

November 19, 2009

The Croatian Parliament has recently introduced a number of tax legislation changes. The changes are all in force from 1 August 2009 and include the introduction of the new special personal income tax, changes to the VAT rate and the new mobile communications excise duties. The new laws were published in the Official Gazette 94/09.

Special tax on salaries, pensions and other personal income

The Special Tax On Salaries, Pensions and Other Personal Income Act introduces a tax on net personal income as follows:

1. 2% on net monthly income between HRK 3,000 and HRK 6,000,
2. 4% on net monthly income above HRK 6,001.

The tax applies to all net income realized at one source (i.e., employer, pension fund, and so on) once the income qualifies for taxation. For example, if an individual earns gross income of HRK 5,000 in a single month, the income will fall in the 2% band and the tax will amount to 2% of the entire income, i.e. 2% of HRK 5,000.

The special tax applies to:

1. Employment income,
 2. Other income,
 3. Pensions,
 4. Dividend income.
- The tax base is all the remuneration received by an individual from a single source in a single month and is assessed as follows:

Employment income or pension decreased for social security contributions, insurance premiums, personal income tax and local surtax;

Other income decreased for pension insurance, personal income tax and local surtax;

Total dividend income.

- Date of the application of the special tax

The special tax applies to all payouts made from 1 August 2009 regardless of when the income actually accrued.

- Obligation to calculate and pay the special tax

The tax must be calculated and paid by the payer and not the individual, at the time of the payout.

- Account into which the special tax should be paid

1001005-1863000160

Reference number: 1902 + the payer's company number.

VAT Amendment Act

- The Amendment Act changes the VAT rate to 23% from 1 August 2009.

Excise Duty on Mobile Communications Act

This Act introduces excise duties on mobile communications. The excise duty is payable by the service provider and applies to the following:

- SMS and MMS services; and
- Voice services (i.e. telephone calls).

The duty amounts to 6% of the income realized from these services by the service provider.

Retainer of Employment Support Act

This Act provides for support to employers that introduce shorter working weeks to preserve employment. Such employers are partly subsidised to offset the lower salaries resulting from the reduced working hours.

Employers will qualify for the state subsidies if they reduce their working week to 32 hours with the intent of preserving employment for all employees. The employer must not have realised a loss in 2007 and must have realised a loss in the second half of 2008 or the first half of 2009. The employer has to prepare a programme of

jobkeeping approved by the workers' council or the Croatian Employment Office.

Subsidies can be used for up to three months, following which a new subsidy application has to be submitted.

Deloitte's View

Due to the immediate implementation of the changes to the law, a number of issues with the practical effect of the new statute remain unresolved. Examples of such issues are: how to calculate the special tax on benefits in kind, what is the treatment of non-residents, should the special tax be calculated on dividends earned by a legal entity and so on. We can provide you with support on these issues.

In respect to the subsidies provided by the government for preservation of jobs, please note that there are a significant number of prerequisites to be met.

People to Contact

If you have any questions concerning the issues in this GES NewsFlash, please contact one of the tax professionals as follows:

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