



## International tax

# Croatia Highlights 2012

### Investment basics:

**Currency** – Croatian Kuna (HRK)

**Foreign exchange control** – The Foreign Exchange Act regulates domestic and foreign currency transactions. Legal entities, as well as domestic and foreign individuals, may open foreign currency accounts in local banks. There are no restrictions on Croatian residents opening foreign currency accounts abroad.

**Accounting principles/financial statements** – IAS/IFRS applies for large and publicly listed companies. Croatian Financial Reporting Standards (CFRS) govern the preparation and presentation of financial reports for unlisted small and mid-sized companies. Financial statements must be prepared annually.

**Principal business entities** – These are the joint stock company, limited liability company, branch of a foreign corporation and representative office.

### Corporate taxation:

**Residence** – An entity is resident if it is incorporated and registered in Croatia or if it is controlled and managed in Croatia. An entity also may become resident by carrying out business activities in Croatia that meet the criteria for a permanent establishment.

**Basis** – Residents are taxed on their worldwide income; nonresidents are taxed only on Croatian-source income. Foreign-source income derived by residents is subject to the same corporate tax rules as Croatian-source income.

**Taxable income** – The corporate tax base is the difference between revenue and expenditure assessed in the profit and loss statement under the accounting rules, which is then increased and reduced for tax-specific items under the corporate tax provisions.

**Taxation of dividends** – Dividends are not subject to tax in Croatia (except for dividends paid to a nonresident entity; see below under “Withholding tax”).

**Capital gains** – Capital gains are taxable income and are taxed at the standard rate of 20%.

**Losses** – Tax losses may be carried forward for up to 5 consecutive years. Tax losses may not be carried back.

**Rate** – 20%

**Surtax** – No

**Alternative minimum tax** – No

**Foreign tax credit** – Foreign tax paid may be credited against the domestic tax liability up to the amount of tax that would have been paid on such profits in Croatia, by providing proof of the foreign tax payment.

**Participation exemption** – No

**Holding company regime** – No

**Incentives** – Corporate income tax base deductions are available for R&D (scientific and developmental) expenditure, i.e. the taxpayer can decrease its taxable base by 100% up to 150% of qualifying expenditure.

Investment incentives can reduce the corporate tax rate, depending on the amount invested and the number of employees connected to the investment. Grants are provided to taxpayers that, in connection with a new investment, create new employment or professionally train or re-qualify employees. Additionally, a percentage of the general and specialized training costs not associated with a new investment may be used to reduce the income tax base.

### Withholding tax:

**Dividends** – Dividends paid to a nonresident entity are subject to a 12% withholding tax unless the rate is reduced or exempt under a tax treaty.

**Interest** – A 15% withholding tax is levied on interest paid to a nonresident unless the rate is reduced or exempt under a tax treaty. A mandatory 20% withholding tax applies to interest paid to entities located in (non-EU) countries that have an average corporate tax rate of less than 12.5% and have not concluded a tax treaty with Croatia (the tax

authorities have issued a list of such jurisdictions).

**Royalties** – A 15% withholding tax is levied on royalties paid to a nonresident unless the rate is reduced or exempt under a tax treaty. A mandatory 20% withholding tax applies to royalties paid to entities located in (non-EU) countries that have an average corporate tax rate of less than 12.5% and have not concluded a tax treaty with Croatia (the tax authorities have issued a list of such jurisdictions).

**Technical service fees** – A 15% withholding tax is levied on technical service fees (market research, audit, tax consulting, business consulting) paid to a nonresident unless the rate is reduced or exempt under a tax treaty. A mandatory 20% withholding tax applies to interest paid to entities located in (non-EU) countries that have an average corporate tax rate of less than 12.5% and have not concluded a tax treaty with Croatia (the tax authorities have issued a list of such jurisdictions).

**Branch remittance tax** – No

**Other** – No

### Other taxes on corporations:

**Capital duty** – No

**Payroll tax** – No

**Real property tax** – If real property is not subject to VAT (i.e. buildings completed before VAT was introduced on 1 January 1998), the acquisition of a building is subject to a real estate sales tax at a rate of 5%. The tax base is the purchase value of the building. Any subsequent transfer of a building that exited the VAT system is subject to the real estate transfer tax rather than VAT. Land is always subject to the real estate transfer tax.

**Social security** – Social security contributions consist of pension contributions (borne by the employee but withheld by the employer) at a rate of 20% of gross salary, and a health and employment contribution (borne and paid by the employer) at a rate of

17.2% (15.2% as from 1 May 2012) of gross salary.

**Stamp duty** – No

**Transfer tax** – See under "Real property tax."

**Other** – Forest contributions, tourism contributions and cultural monument contributions may apply.

#### **Anti-avoidance rules:**

**Transfer pricing** – Transfer pricing rules apply to cross-border transactions between related parties as well as to domestic transactions (from 1 July 2010) if one of the parties is operating at a loss or qualifies for tax relief. Transfer pricing methodologies are prescribed in accordance with the OECD transfer pricing guidelines. Transfer pricing studies and benchmark analyses are required.

**Thin capitalization** – Interest on a loan granted by a shareholder is not deductible if the shareholder holds 25% or more of the shares/voting rights of the taxpayer and the value of the loan exceeds 4 times the value of the taxpayer's equity. The thin capitalization rules do not apply to loans granted by banks or other financial institutions.

**Controlled foreign companies** – No

**Other** – No

**Disclosure requirements** – No

#### **Administration and compliance:**

**Tax year** – The tax year is a calendar year or any 12-month period approved by the tax authorities.

**Consolidated returns** – Consolidated returns are not permitted; each company must file a separate return.

**Filing requirements** – Croatia operates a self-assessment regime. Corporate tax is payable in 12 equal monthly installments. The tax return must be filed within 4 months of the financial year end.

**Penalties** – Late interest charges apply at a rate of 12% per year and penalties range from HRK 2,000 to HRK 200,000.

**Rulings** – No

#### **Personal taxation:**

**Basis** – Residents are taxed on worldwide income, while nonresidents are taxed only on Croatian-source income.

**Residence** – An individual is resident if he/she has a permanent residence or habitual abode in Croatia. An individual is

nonresident if he/she does not have a permanent residence or habitual residence in Croatia, but receives taxable income in Croatia.

**Filing status** – Spouses are separate persons for tax purposes.

**Taxable income** – The tax base is total income from employment, self-employment, property and proprietary rights, capital, insurance and other income less personal allowances. Gross income is reduced by the employee's pension contribution payments (20% of gross income).

**Capital gains** – Capital gains are subject to tax at rates ranging from 25%-40%, depending on the nature of the transaction. Income from the sale of property (tangible/intangible) is taxable (at 25%) if property is alienated within three years of procurement. Income is the difference between the receipts determined at market value of the real estate or property right alienated, and the procurement value increased by a rise in producer prices of industrial products. The alienation costs may be deducted as expenses. Income derived from the sale of shares is not taxable.

**Deductions and allowances** – Each individual is entitled to a personal allowance of HRK 2,200 per month. The deduction may be further increased for each dependent family member.

**Rates** – Rates are 12%-40%, depending on gross income.

#### **Other taxes on individuals:**

**Capital duty** – No

**Stamp duty** – No

**Capital acquisitions tax** – No

**Real property tax** – If real property is not subject to VAT (i.e. buildings completed before VAT was introduced on 1 January 1998), the acquisition of a building is subject to a real estate sales tax at a rate of 5%. The tax base is the purchase value of the building. Any subsequent transfer of a building that exited the VAT system is subject to the real estate transfer tax rather than VAT. Land is always subject to the real estate transfer tax.

**Inheritance/estate tax** – Inherited or donated property is taxed at a rate of 5%. However, inherited or donated immovable property is governed by the Real Estate Sales Tax Act.

**Net wealth/net worth tax** – No

**Social security** – Social security contributions consist of pension contributions (borne by the employee but withheld by the employer) at a rate of 20% of gross salary, and a health and employment contribution (borne and paid by the employer) at a rate of 17.2% (15.2% as from 1 May 2012) of gross salary.

#### **Administration and compliance:**

**Tax year** – Calendar year

**Filing and payment** – Individuals must submit an annual tax return by 28 February for the previous year. Any outstanding tax liability should be paid within 15 days of receipt of the annual tax assessment.

**Penalties** – Late interest is charged at a rate of 12% per year and penalties range from HRK 2,000 to HRK 50,000.

#### **Value added tax:**

**Taxable transactions** – VAT is imposed on the sale of goods and the provision of services.

**Rates** – The standard rate is 25%, with reduced rates of 10% and 0%.

**Registration** – Registration is compulsory where the annual value of transactions exceeds HRK 85,000 (HRK 230,000 as from 1 January 2013). A company may register voluntarily if the threshold is not met. Once entering into the VAT system voluntarily, a taxpayer cannot opt out for 5 years.

**Filing and payment** – VAT returns and payments are due by the end of the current month for the prior VAT period. A taxable entity must also file an annual VAT return by the end of April of the year following the tax year. VAT-related penalties include interest at a rate of 12% per year and fees from HRK 1,000 to HRK 500,000.

**Source of tax law:** Corporate Income Tax Act and Regulations, Personal Income Tax Act and Regulations, Value Added Tax Act and Regulations

**Tax treaties:** Croatia has concluded 52 tax treaties.

**Tax authorities:** Croatian Tax Authorities  
**International organizations:** WTO, CEFTA, OSCE, COE, CEI, WB

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