



Corporate Income Tax (CIT)

Croatia

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Basic CIT information

Taxpayer

- Companies and other enterprises engaged in an economic activity for the purpose of making profits
- The resident business branch of a non-resident enterprise

Taxable base

CIT 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.

Tax rate

CIT is levied at a rate of 20%.

Basic CIT information

Tax losses

Tax loss can be carried forward for up to five consecutive years. The first-in-first out method should be observed when offsetting tax losses. The oldest incurred loss must be used first. The tax losses cannot be carried back.

Tax year

The CIT is assessed for the financial year which generally corresponds with the calendar year. Tax period which differs from the calendar year can also be agreed.

CIT return filing

CIT return must be submitted to the Tax Authorities within four months from the end of the tax period for which CIT is being assessed. CIT prepayments are paid each month based on the previous period CIT assessment.

CIT base increases and decreases

Significant increases

- Depreciation above prescribed rates
- 70% of entertainment expenses
- 30% of expenses related to personal vehicles
- Shortages above prescribed amount
- Statutory fines and penalties
- Interest between related parties
- Impairment of long term tangible assets
- Value adjustment and write-off of receivables
- Impairment of inventories
- Provision expenses
- Increase for all other expenses

Significant decreases

- Reinvested profit
- Reversal of written-off receivables
- Unrealised gains and other expenses from previous periods
- Decrease for other revenues
- Governmental subvention for education and training

Thin capitalization

- If at any time in the relevant tax period, loans made or guaranteed by a shareholder (holding at least 25% of the registered capital or voting rights in the company) exceed four times the shareholder's share of the capital, the interest paid thereon will not be tax deductible. The related parties are also treated as shareholders.
- If the loan exceeds a 4:1 ratio at any time in a tax year (equal to the company's financial year), the interest related to the ratio exceeding principal will become tax non-deductible.
- Thin capitalization rule does not apply to interest on loans from financial institutions.

Regardless of 4:1 ratio, "7% interest rate" rule applies.

Transfer pricing

- Transfer pricing rules apply to the following type of transactions:
 - Transactions between domestic and foreign related parties.
 - Transactions between domestic parties in case one of the entities is in tax loss position or pays CIT at preferential rates.
- The Croatian CIT Act and the corresponding CIT Regulations provide detailed rules on transfer pricing, and prescribe five methods that may be used to determine transfer prices between related parties (residents and non-residents), such methods being based on the OECD guidelines.
- Taxpayers must prepare transfer pricing documentation describing the transactions, the methods applied and the relevant benchmarks.
- Where transactions between related parties are not carried out on an arm's length basis, an adjustment will be made to the taxable base.

Reliefs, exemptions and incentives

**Reliefs
Exemptions
Incentives**

- CIT basis can be reduced for:
 - Reinvested profits under prescribed conditions (increase of share capital, investment in long term assets, number of employees)
 - R&D expenses (100% to 150% of qualifying expenses)
 - Education and training expenses (percentage depending on the company's size)
- CIT rate can be reduced based on:
 - Investment incentives, depending on the amount invested and the number of employees connected to the investment
 - State support areas

Reliefs, exemptions and incentives

- Tax incentives under the Investment Incentives Act

Investment amount (EUR)	Number of new employees	Max. period (years)	CIT rate reduced for (%)
< 1 mil.	5	10	50 %
1 – 3 mil.	10	10	75 %
> 3 mil.	15	10	100 %

- Tax incentives for state support areas (defined under specific legislation)

CIT rate can be reduced for:

- 100% for taxpayers located in Vukovar and 1. group of state support areas
- 50% for taxpayers located in 2. group of state support areas

Statutory conditions:

- More than 5 employees (for indefinite period)
- More than 50% of employees are residents of state support area (for at least 9 months in tax period)

Withholding Tax ("WHT")

Payments to:	Interest	Dividends	Royalties	Service fees*
Resident companies	none	none	none	none
Non-resident companies	15%	12%	15%	15%

* A mandatory 20% WHT rate applies to payments (except statutory prescribed) to entities located in non EU countries which have not concluded a treaty on the avoidance of double taxation ("the Treaty") with Croatia and which are considered to be tax heavens or financial centers (the Tax Authorities have issued a list of such jurisdictions).

- WHT rate can be reduced under the Treaty provisions, i.e. if the relief form or the certificate of residency of the payment recipient (verified by the foreign tax authorities) is obtained.
- WHT exemption for dividend, interest and royalty payments can be applied under provisions of the EU Directives if such payments are made to EU based related party, provided all statutory requirements are met.

Personal Income Tax (PIT)

Croatia



Basic PIT information

Taxpayer

- Resident – taxable on worldwide income
- Nonresident – taxable only on income sourced from Croatia
- Local condition for determination of tax residency – available residential real estate for more than accumulative 183 days in a period of up to two calendar years

Taxable base

PIT base represents gross income deducted for mandatory pension insurance contributions and personal deductions

Tax rates and brackets

<i>Tax brackets (on a monthly basis)</i>	<i>Tax rates</i>	<i>Taxable income</i>	<i>Tax amount</i>
<i>0 HRK – 2,200 HRK</i>	12%	2,200	264
<i>2,000 HRK – 13,200 HRK</i>	25%	11,000	2,750
<i>13,200 HRK ></i>	40%	> 13,200	>

Basic PIT information

Tax year

- PIT year corresponds to the calendar year

PIT return filing

- PIT annual tax return is due by the end of February of the current year for the previous year
- In cases when Croatian Tax Authorities has available data on individual`s income a tax assessment will be issued by 30th June of the current year for the previous year by the Tax Authorities i.e. no annual tax return filing obligation for individual

Basic PIT information

Surtax

- City/local tax calculated on top of personal income tax; Rate varies, Zagreb has the highest rate of 18%

Tax deductions

- Basic personal allowance: 2,600 HRK (342 EUR) per month
- Increased allowance for supported family members possible

Social security

- Social security contributions rates in Croatia

Employee part

- Pension insurance 1 pillar – 15%
- Pension insurance 2 pillar – 5%

Employer part

- Health insurance – 15%
- Insurance for professional injury and illness – 0.50%
- Unemployment – 1.70%

- EU regulation on the coordination of social security systems - relevant for determination in which EU member state the social contributions is payable

Sample Croatian salary calculation

- Employee resides in Zagreb (18% surtax)
- Basic personal allowance
- 1st sample: Net salary 500 EUR
- 2nd sample: Net salary 2,000 EUR

		sample 1	sample 2
Gross II - total employer cost		771	4.125
Contribution for health insurance	15%	99	528
Contribution for unemployment	1,7%	11	60
Contribution for injury at work	0,5%	3	18
Total contribution on top of salary	17,2%	113	605
Gross I		658	3.520
Contributions for pension insurance	15%	99	528
Contributions for pension insurance	5%	33	176
Gross I decreased for contributions		526	2.816
Personal deduction		342	342
Taxable base		184	2.474
Income from HRK 0 up to HRK 2,200	12%	22	35
Income from HRK 2,200 up to HRK 13,200	25%	0	362
Income from HRK 13,200 and above	40%	0	295
Total Income Tax		22	691
City Tax	18%	4	124
Total Tax Liability		26	816
Net Salary		500	2.000

PIT on capital income

Dividend income

- Tax rate 12% (increased for surtax)

Interest income

- Tax rate 12% (increased for surtax)
- Exemptions from taxation: interest on bonds, receipts from life insurance contracts with a savings component, current account interest if it does not exceed the lowest interest rate on savings deposits and does not exceed 0,5% per annum

Capital gains

- Will become taxable in Croatia from 1 January 2016
- Tax rate 12% (increased for surtax)
- Sale after 3 years from acquisition date is not taxable

- Note: if double tax treaty in place – reduced tax rates on capital income possible

Value Added Tax (VAT)
Croatia



Basic VAT information

Taxable person

Any person who independently carries out, in any place, any economic activity, whatever the purpose or result of that activity

Taxable base

Generally, everything that constitutes the consideration to be paid to the supplier from the buyer or some other person for the respective supply, including the subventions which are directly connected with the price of delivered goods or services

Taxable event

Moment when the VAT becomes chargeable i.e. when VAT liability occurs

Basic VAT information



Tax rates

Standard rate - 25%;

Reduced Rates

- 5% (bread, milk, books, medicines and medicine products, daily newspapers, scientific journals, the services of the public showing of films)
- 13% (holiday accommodation (nautical tourism objects included), services of preparing food and restaurant services, newspapers and magazines released by publisher who has a statute of media issued periodically, oils and fats for human consumption, baby food and processed grain food for infants and small children, supply of water, white sugar produced from sugar cane or sugar beet, the services of the public showing of concerts, culture and art magazines)

VAT – optimization opportunities

Local reverse charge rule

- a) Provision of goods and services between two resident VAT registered taxpayers in particular:
- the supply of construction services;
 - supply of used material, scrap, industrial waste, recyclable waste and similar goods (prescribed by VAT Regulations);
 - supply of immovable property sold by the debtor in a compulsory sale procedure;
 - transfer of allowances to emit greenhouse gases in accordance with regulations stipulating system for greenhouse gas emission allowances trading.

Domestic reverse charge mechanism obligates the customer to account for the output VAT in the same VAT return in which it may deduct input VAT.

VAT – optimization opportunities

Local reverse charge rule – cont.

b) Application of the Article 194 of the EU VAT Directive.

- When non-resident taxable person supplies goods and services whose place of supply is Croatia to a person who is VAT registered in Croatia
- Local reverse charge applies even when non-resident is registered for VAT in Croatia (non-resident will not charge local VAT on the supply, the liability is transferred to the VAT registered customer).
- It also applies to local transactions between two non residents, i.e. when non-resident supplier (who may or may not be VAT registered in Croatia) makes local supply to a non-resident customer who is VAT registered in Croatia. Domestic reverse charge mechanism obligates the customer to account for the output VAT in the same VAT return in which it may deduct input VAT.

VAT – optimization opportunities

Call of stock / Consignment stock

- Call-of stock simplification – customer is known prior to the dispatch of the goods
- The foreign supplier is not required to register for VAT for transfer of goods under the call-off simplification
- Intra-Community acquisition is reported by the consignee when it takes the goods out of the stock
- The preceding physical transfer of stock by the consignor to the premises of the consignee entails no VAT reporting obligations in Croatia
- When the goods are eventually not sold and returned to the consignor, there are no VAT reporting obligations
- Transaction is reported for Intrastat in the reporting period in which goods have been actually transferred.

Consignment stock

- Customer is not known prior to the dispatch of the goods
- Legal basis – the official opinion of the Croatian Tax Authority
- Applicable to pharmaceutical wholesalers

VAT – optimization opportunities

Tax warehouse

- VAT exemption for import and intra-Community acquisition of goods that would be placed in a tax warehouse:
 - specified commodities (potatoes, olives, coconuts, brazil nuts and cashew nuts, tea, cereals, husked rice, chemicals in bulk, copper etc.)
 - excise duty products
 - products subject to special tax on coffee and soft beverages
- Licence for the tax warehouse and the tax warehouse keeper – excise warehouse regarded as tax warehouse :
- Supplies of goods to and within tax warehouse is also VAT exempt.
- VAT liability incurred once goods are released from the tax warehouse - cash flow optimization opportunity.

VAT – optimization opportunities

Free Zones

- Supplies of goods that would be placed in the free zones/free warehouse in accordance with the customs regulations are VAT exempt
- Supplies of goods that are placed in a free zone, but are not released in free circulation are not subject to VAT – out of scope transaction
- Procurement of goods that will be placed in a free zone for the purpose of subsequent exportation is not regarded as a taxable supply - out of scope of the Croatian VAT transaction

VAT – optimization opportunities

Exemptions on exportation

- Transaction of supply of goods dispatched or transported from the Republic of Croatia to a destination outside the European Union by or on behalf of the supplier is regarded as exempt from VAT legislation perspective.

Application of the exemption - Example – local taxpayer 2 buys goods from local taxpayer 1 (goods are loaded in the vehicle, cleared for export and the transportation will occur immediately after the export clearance).



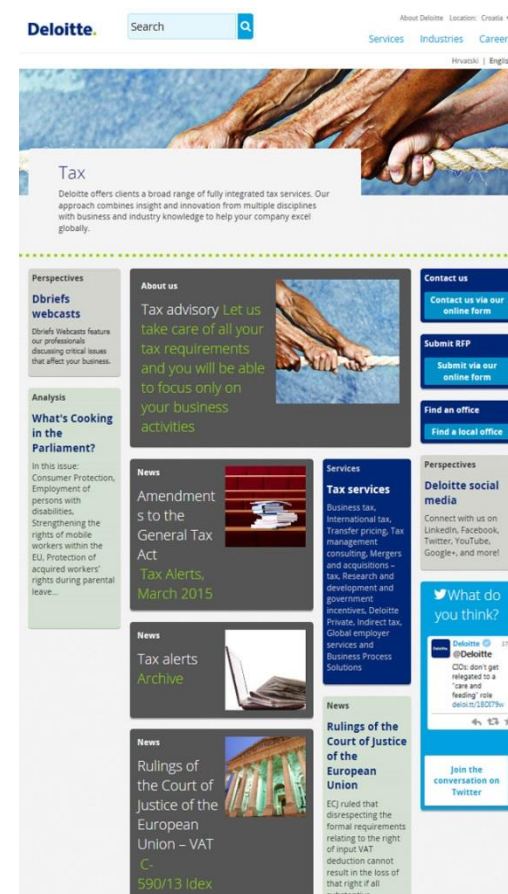
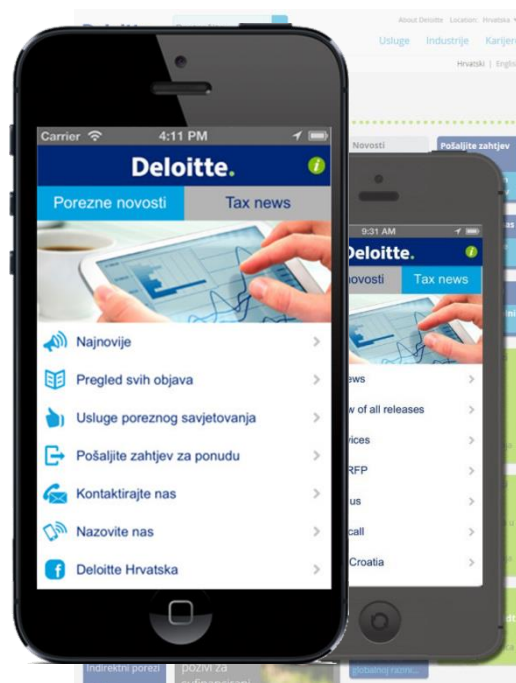
- Delivery between a domestic taxpayers supplier and a purchaser (which is listed in the single customs declaration as the exporter) may be treated as exempt provided that goods are intended for export and valid documentation proving the delivery exists (i.e. contract with third country buyer, valid, invoice flow and etc.)

VAT – optimization opportunities

Procedure 42 and 64

- Import customs clearance – customs procedure 42 – VAT exemption for importation of goods to Croatia intended for supply to other EU Member State
- Procedure 63 – VAT exemption applied to re-importation of goods in Croatia which are intended for other EU Member State.
- Foreign taxpayers who preforms this procedures only and have appointed VAT representative – are not obliged to register for VAT (to obtain VAT ID number).

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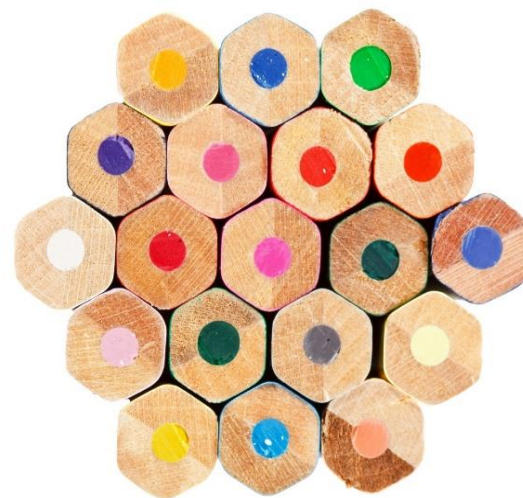


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Fast forward to your Croatian business

September, 2015



Entrance to Croatian Market

Your business presence

- Freedom of Services

Provision of cross border services in Croatia, without having to register headquarters. Services should be provided on a temporary or occasional basis.

Exemptions: gas supply, electricity market services etc.

- Branch Office

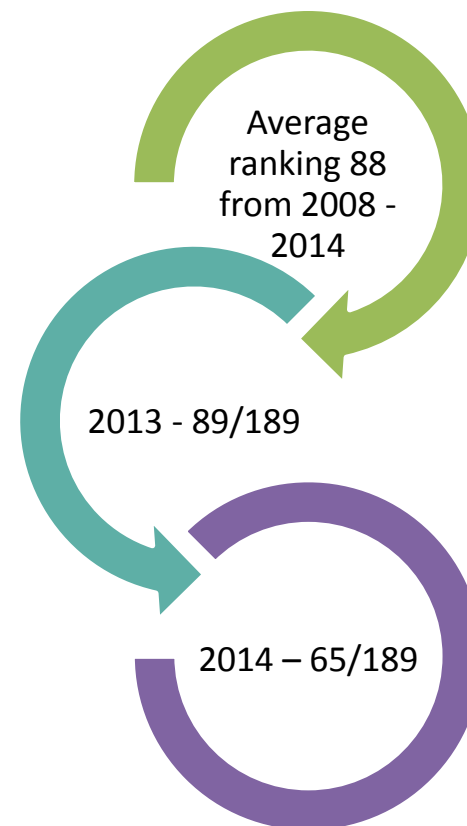
No separate legal identity

- Subsidiary

Limited liability company, public limited company, other types of companies where there is personal liability of its shareholders

- No representation offices after EU accession

Keeping up the pace?
World Bank data



Branch office vs. subsidiary


	Limited liability company	BO Office (BO)
SETTING UP	<p>Registration procedure</p> <p>Registration procedure is initiated by submitting an application form to the Commercial Registry at the competent Commercial Court.</p> <p>The application has to be supported with incorporation documents: articles of association for the new company, articles of association of the founding entity, signature forms and statements of acceptance for the appointed representatives, bank statement for the payment of share capital, incorporation fees etc.</p>	<p>Registration procedure is initiated by submitting an application form to the Commercial Registry at the competent Commercial Court.</p> <p>The application has to be supported with incorporation documents: decision on establishing a BO, proof on registration of the founding entity, copy of the articles of incorporation of the founding entity and copy of the annual financial statements for the preceding year for the founding entity.</p>
	<p>Duration of registration</p> <p>2 – 3 weeks</p>	<p>Ca. 2 weeks</p>
	<p>Costs of registration (notary and court)</p> <p>EUR 500 – 800</p> <p>The exact costs depend on the amount of share capital, number of directors etc.</p>	<p>EUR 200 – 300</p>
	<p>Minimum share capital</p> <p>App. EUR 2,600</p> <p>The paid share capital can be freely used for payments immediately after the incorporation of the company.</p>	<p>No share capital necessary</p>
	<p>Name</p> <p>The company can use any name that isn't already used by another company, while it can use the name or part of the name of the founding entity</p>	<p>The BO has to use the founding entity's name with the designation of the BO</p>

Branch office vs. subsidiary - continued


	Limited liability company	BO Office (BO)	
BUSINESS OPERATION AND DISSOLUTION	Legal and procedural capacity	<p>Company is a legal person and has full procedural capacity for the proceedings before courts and national authorities.</p>	<p>No legal capacity. It can execute contracts in the name and on behalf of the founding entity.</p> <p>BO cannot be a party in the proceedings before a court on its own. Only the founding entity can be a party.</p>
	Management	<p>One or more directors (Croatian or foreign national)</p> <p>Director(s) can represent the company without limitations.</p>	<p>Appointed representative (Croatian or foreign national)</p> <p>Procedure of appointing a representative in BO is much less formal than appointing a director (there is no need for notarised statements of acceptance of appointment and no legal requirements as those set in the Companies Act for the directors)</p> <p>Appointed representative's function is to represent the founding entity during the business operation of the BO. The representative cannot automatically represent the founding entity before the courts in case of proceedings.</p>
	Accounting		BO is subject to same regulations regarding accounting as the companies incorporated in Croatia.
	Tax regulation		BO is subject to same regulations regarding taxes as the companies incorporated in Croatia.
	Duration of closing	Ca. 14 months	Ca. 2 weeks
	Costs	EUR 500 – 800	Ca. EUR 100

Setting up your management structure

Management Board

- Employment agreement is not obligatory – provisions on labour act on termination and limitations related to fixed term contracts do not apply
- Management agreement needs to be drafted carefully in order not to represent an employment agreement – e.g. avoid mention of salary, working hours
- In case MB member is not socially secured on other grounds, he should be in his capacity as MB member – cost app. EUR 300 

Key Personnel

- Definition – employee in charge of employer's business affairs who independently executes agreements on employer's behalf and independently organizes its working hours
- No payment for overtime work 

Work permits

- Still required for Austria, Malta, Netherlands, Slovenia, UK and Northern Ireland

Something to think about

Collection of receivables

- Extended payment terms
- Time consuming collection procedure in front of the court

Mandatory settlement procedure

- Applying haircuts to receivables
- No influence of minority creditors

Bankruptcy

- Bankruptcy for companies whose bank account is blocked for over 120 days consecutively or failed to pay 3 salaries

Regulatory framework

- Often changes in relevant regulatory framework

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