

Croatia

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What's new?

Summary of updates/Changes to R&D and government incentives from 1 January 2019 through 31 October 2020

- A new R&D tax incentives scheme was introduced in 2019 and remains in effect.
- Approximately EUR 150 million has been made available through EU-funded cash grants for R&D activities for small and medium-sized enterprises (SMEs) and large companies in 2019 and 2020.
- Under the EU "Recovery and Resilience Facility," there is a possibility that two major grant schemes may be reopened in response to COVID-19: a grant scheme for SMEs for investments in construction and equipment and an R&D grant scheme for SMEs and large enterprises—if approved, calls for proposals may open before the end of 2020 or early in 2021.
- An EU-funded public call for energy-efficient and renewable energy projects has been announced for the last quarter of 2020. Large enterprises as well as SMEs will be eligible for nonrepayable grants (certain conditions apply).
- EU financial instruments are available for capital expenditure ("Capex") investments of SMEs in the industry, tourism, and agriculture sectors.
- Under the European Green Deal, Croatia is an eligible member state to receive additional funding from the EU Modernisation Fund.
- Various temporary incentives and reliefs have been introduced in response to the COVID-19 pandemic.

Featured government incentives

Incentive name	Description	Maximum percentage	Qualification standards	Key exclusions or issues
Investment Promotion Act incentives	Enterprises may be eligible for a 50%-100% reduction in the corporate income tax rate for a five to 10-year period, depending on the size of the enterprise, the amount of the investment, and the number of new jobs created	100% reduction in the corporate income tax rate	Investments in tangible and intangible fixed assets are qualifying expenditure	There is a lack of clarity regarding eligible industries; the application and evaluation procedure is not electronic
EU R&D cash grants	R&D cash grants supporting a wide range of R&D stages are available for SMEs and large companies, either as sole applicants or in partnership with research institutions and universities	Up to 100% of qualifying expenditure for fundamental research, up to 80% for industrial research, and up to 60% for experimental development	Qualifying expenditure includes personnel costs, depreciation of equipment, contractual research, consumables, overhead costs	Long evaluation period for applications Most recent call closed in June 2020, negotiations are underway with the EU to obtain additional funding
EU financial instruments	Loans for SMEs at low interest rates (up to 1.5%) for investments in the manufacturing industry, tourism, information and communications technology (ICT), health, entertainment, and other sectors	Up to EUR 3 million (EUR 10 million for the tourism sector) of low-interest loans for investments in fixed assets	Investments in tangible and intangible fixed assets are eligible; up to 30% of the total investment amount may be invested in working capital	There is limited demand due to the availability of cash grants, but these loans may become more popular in the future because the European Commission intends to move toward using more financial instruments

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Industries most often affected by government incentives in country

Technology, Media & Telecom	Financial Services
● Telecom, Media & Entertainment	Banking & Capital Markets
● Technology	Insurance
Consumer	Investment Management
● Consumer Products	● Real Estate
● Retail, Wholesale & Distribution	Life Sciences & Health Care
Automotive	● Health Care
● Transportation, Hospitality & Services	● Life Sciences
Energy, Resources & Industrial	Government & Public Services
● Power & Utilities	Health & Social Care
Mining & Metals	● Defense, Security & Justice
Oil, Gas, & Chemicals	● Civil Government
● Industrial Products & Construction	International Donor Organizations
	Transport



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Type	National incentive?	State, provincial, regional or local incentives? ¹	Filing deadlines imposed?	Is the claim made in advance or arrears? ²	Nature of incentive	Maximum benefit available to large enterprises	Maximum benefit available to small and medium-sized enterprises
Innovation							
R&D tax incentive	●	●	● ●	National: Arrears Local: Not applicable	Companies that carry out research activities are eligible for tax relief for qualifying expenditure in the form of a tax super deduction; the additional percentage of expenditure that is deductible depends on the type of research. Qualifying expenditure includes personnel costs, depreciation costs, expenditure for research carried out on a contract basis, additional overhead, and other expenses	Deduction of 125%-200% of total qualifying expenditure, depending on the type of research	Deduction of 145%-200% of total qualifying expenditure, depending on the type of research
R&D grant (EU)	●	●	● ●	National: Varies Local: Not applicable	SMEs and large companies are eligible for cash grants supporting a wide range of R&D stages. Qualifying expenditure includes personnel costs, depreciation of equipment, contractual research, consumables, and overhead costs	Maximum is set out in EU regulation 651/2014	Maximum is set out in EU regulation 651/2014
Investment							
Capex: Investment Promotion Act incentives	●	●	● ●	National: Arrears Local: Not applicable	Enterprises that invest in fixed assets may be eligible for a 50%-100% reduction in the corporate income tax rate for a five to 10-year period, depending on the size of the enterprise, the amount of the investment, and the number of new jobs created	100% reduction in the corporate income tax rate. The maximum aid is limited to 25% of qualifying expenditure	100% reduction in the corporate income tax rate. The maximum aid is limited to 45% of qualifying expenditure for micro/small enterprises and 35% for medium-sized enterprises
Capex: EU grants for investment in infrastructure and equipment	▨	●	● ●	National: Arrears Local: Not applicable	Cash grants may be available, as provided for in the specific call	Large enterprises are not eligible for this grant scheme	Varies depending on the call structure and the basis for granting aid (EU directive or de minimis rule)

Key: ● = PERMANENT INCENTIVE ▨ = TEMPORARY INCENTIVE ▨ = NEGOTIABLE ● = NO ● = LIMITED APPLICABILITY ● = NOT APPLICABLE

- Notes:
- Green means that this incentive is currently in effect. Yellow means that the incentive has limited applicability, i.e., the requirements for this incentive limit its value to most companies. Red means that there is no incentive.
 - If the response is advance, this means that the government must approve the award of the incentive prior to the commencement/completion of the project/activity. If the response is arrears, this means that the award of the incentive is determined at the end of the tax period or after the completion of the qualifying project or activity. Most tax incentives are considered to be claimed in arrears because they are reported on tax returns.

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Type	National incentive?	State, provincial, regional or local incentives? ¹	Filing deadlines imposed?	Is the claim made in advance or arrears? ²	Nature of incentive	Maximum benefit available to large enterprises	Maximum benefit available to small and medium-sized enterprises
Investment (continued)							
Employment: Exemption from contributions for health insurance	●	●	● ●	National: Arrears Local: Arrears	Enterprises that hire certain individuals may be eligible for an exemption from the employer health insurance contribution for a specified period (one year for hiring individuals without prior employment and five years for hiring individuals under the age of 30)	100% exemption from contributions	100% exemption from contributions
Employment incentives under the Investment Promotion Act	●	●	● ●	National: Arrears Local: Arrears	Enterprises that create new jobs may be eligible for cash grants for eligible expenditure relating to job creation	Up to EUR 9,000 per workplace, although bonuses may increase the maximum grant by up to 50% of the base amount for certain types of jobs. The maximum cash grant aid is limited to 25% of qualifying expenditure	Up to EUR 9,000 per workplace, although bonuses may increase the maximum grant by up to 50% of the base amount for certain types of jobs. The maximum cash grant aid is limited to 45% of qualifying expenditure for micro/small enterprises and 35% for medium-sized enterprises
Training incentives under the Investment Promotion Act	●	●	● ●	National: Arrears Local: Not applicable	Enterprises that open new workplaces may be eligible for cash grants for the training and education of individuals. Qualifying expenditure includes personnel costs of trainers and operating costs for trainers and trainees that directly relate to the training project	Up to 50% of qualifying expenditure; a bonus of 10 percentage points applies for training given to employees with disabilities or disadvantaged employees	Up to 60% of qualifying expenditure for medium-sized enterprises and up to 70% of qualifying expenditure for small enterprises; a bonus of 10 percentage points applies for training given to employees with disabilities or disadvantaged employees but cannot increase the maximum aid above 70% of qualifying expenditure

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Country background

The standard corporate income tax rate in Croatia is 18%, although a 12% rate applies to taxpayers with income under HRK 7.5 million (increased from HRK 3 million as from 1 January 2020).

Innovation Incentives

Research & Development (R&D)

The R&D incentive regime relies primarily on EU sources to fund qualifying research projects. The EU-funded public call for proposals published in December 2019 was closed in June 2020, with the full allocation of EUR 100 million distributed (through nonrepayable cash grants). The call, "Increasing the development of new products and services resulting from R&D activities - Phase II" proved to be very popular, with over 400 project applications. The government of Croatia is in negotiations with the EU as regards further increases of the allocation for future calls.

At the beginning of 2019, the Ministry of Economy, Entrepreneurship, and Crafts reintroduced a domestic tax relief incentive for R&D activities. However, the submission of applications for the incentive has been slow due to a general perception that the incentive is low in value, as it is in the form of a tax super deduction versus a potential nonrepayable EU grant for the same purpose.

As part of the relief, the corporate income tax base may be decreased by the following amounts:

- Basic research: 200% of qualifying expenditure;
- Applied research: 150% of qualifying expenditure;
- Development research: 125% of qualifying expenditure; and
- Feasibility studies: 150% of qualifying expenditure.

The applicable percentage of tax relief depends on the type of research and may be increased in certain cases, based on factors such as the size of the taxpayer. Expenses qualifying for these purposes include personnel costs, depreciation costs or costs incurred for the purchase of new equipment (costs of new

equipment may be expensed rather than being depreciated under certain circumstances), expenditure for research carried out on a contract basis, additional overhead costs, and other expenses.

Investment Incentives

Capex: Investment Promotion Act incentives

Investments qualifying for the Investment Promotion Act incentives may be eligible for a 50%-100% reduction in the corporate income tax rate for up to 10 years from the date the project (investment) is launched, depending on the size of the enterprise, the amount of the investment, and the number of new jobs created.

The incentives are available under the act for the following activities/ investment projects:

- Manufacturing and processing activities;
- Development and innovation activities;
- Business support activities; and
- High added value services.

Enterprises registered in Croatia investing in fixed assets may be entitled to incentives if the following requirements are met:

- The investment is at least EUR 50,000 and creates at least three new jobs, for microenterprises;
- The investment is at least EUR 150,000 and creates at least five new jobs, for small, medium-sized, and large enterprises; and
- The investment is at least EUR 50,000 and creates at least 10 new jobs, for ICT system and software development centers.

Enterprises are classified by size based on EU regulation 651/2014. Regional aid rules apply based on the regulation. The maximum amount of the incentive that may be granted (i.e., the aid intensity) is limited based on the size of the enterprise, as follows:

- 45% of qualifying expenditure for microenterprises and small enterprises (although the EU regional aid map permits a limit of 55%, the government has set a lower cap);



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- 35% of qualifying expenditure for medium-sized enterprises); and
- 25% of qualifying expenditure for large enterprises.

Capex: EU grants for investments in infrastructure and equipment

An EU-funded call was closed in December 2018, with the full amount allocated being utilized. Although EU grants for Capex projects of SMEs are popular, it is uncertain whether the next call will be published before 2021.

Capex: EU financial instruments for investments in fixed assets

SMEs are eligible for EU financial instruments in the form of low-interest loans (with rates of up to 1.5%) for amounts of up to EUR 3 million (EUR 10 million for the tourism sector) for investments in fixed assets in sectors including manufacturing, tourism, ICT, health, and entertainment. Up to 30% of the total investment amount may be invested in working capital.

Employment: Exemption from contributions for health insurance

For hiring individuals without prior employment, an enterprise is eligible for a one-year exemption from making contributions for the employee's health insurance (employer contributions generally are required at a rate of 16.5% on the gross salary). A five-year exemption from the contribution for health insurance is available for the employment of individuals under the age of 30.

Employment incentives under the Investment Promotion Act

Under the Investment Promotion Act, enterprises may be entitled to cash grants for qualifying expenditure for the creation of new jobs in relation to an investment project.

The maximum cash grant generally is EUR 9,000 per workplace, but bonuses may increase the maximum grant by up to 50% of the base amount for certain types of jobs, i.e., value-added services, information technology R&D centers, and call centers. The maximum cash grant aid is limited as follows:

- 45% of qualifying expenditure for microenterprises and small enterprises (although the EU regional aid map permits a limit of 55%, the government has set a lower cap);
- 35% of qualifying expenditure for medium-sized enterprises); and
- 25% of qualifying expenditure for large enterprises.

Training incentives under the Investment Promotion Act

Under the Investment Promotion Act, enterprises may be entitled to cash grants for qualifying expenditure in relation to an investment

project for the training and education of individuals employed in newly opened workplaces. Qualifying expenditure includes personnel costs of trainers for the hours a trainer participates in a training; and operating costs for trainers and trainees that directly relate to the training project, such as travel expenses, costs of materials and supplies directly related to the project, and depreciation of tools and equipment used exclusively for the training project.

Training held to ensure compliance with mandatory training requirements prescribed by national standards is not eligible for incentives.

The amount of the incentive generally may not exceed 50% of qualifying expenditure, but it may be increased up to 70% of qualifying expenditure in certain cases, as follows:

- An increase of 10 percentage points if the training is given to employees with disabilities or "disadvantaged" employees;
- An increase of 10 percentage points if the aid is granted to medium-sized enterprises; and
- An increase of 20 percentage points if the aid is granted to micro and small enterprises (however, where the training is given to disabled or disadvantaged employees, the maximum aid still is limited to 70% of qualifying expenditure).

Environmental sustainability incentives

EU grants for investments in energy efficiency and renewable energy

The Ministry of Economy and Sustainable Development announced an EU-funded call in mid-October 2020 to support the implementation of energy efficiency measures and/or measures for the use of renewable energy sources that aim to lead to a reduction in the consumption of "delivered energy" by a minimum of 20% compared to the delivered energy used as a reference, i.e., compared to the consumption of delivered energy before the implementation of the measures.

The call is intended for micro, small, medium-sized, and large private companies (classified in accordance with Regulation (EU) 651/2014) that are registered in the relevant court registrar to perform activities from the following manufacturing industries: iron and steel; non-ferrous metals; chemicals; glass, ceramics, and construction materials; mining; textiles; leather processing and clothing; paper and printing; mechanical engineering; other metal industries; and other industries excluding the food and beverage and tobacco production industries.