



Amendments of tax legislation with effect from 1 January 2025

Tax Alert, January 2025

With effect from 1 January 2025, Croatia enacted amendments to laws governing specific taxation areas. The summary of relevant amendments is set out below.

In addition to the amendments to the tax legislation, we also provide summary of amendments to the Investment Promotion Act that entered into force on 28 November 2024.

For details, please contact Deloitte experts.

Act on amendments to the General Tax Act

- The provisions on the liability of the members of the company in the event of failure to submit the prescribed monthly and annual tax returns are specified.
- The provision on electronic delivery of tax acts has been amended. According to the amended provision, the delivery of tax acts deciding on individual rights and obligations arising from the tax-legal relationship and other documents other than tax acts, issued by the tax authority, may be carried out electronically to users of the tax authority's electronic system, whereby the participant is deemed to have given explicit consent to such delivery by registering or logging in to the tax authority's electronic system.
- The list of taxpayers who are required to submit tax returns and other data necessary for taxation to the tax authorities electronically is expanding. Thus, in addition to taxpayers who are classified as medium or large entrepreneurs within the meaning of the provisions of the regulation governing accounting and value added tax payers, the said obligation will also include natural and legal persons who are corporate income taxpayers, taxpayers who earn income from self-employment, taxpayers of income tax from the rental of houses, apartments, rooms, beds, facilities for Robinson tourism and campsites to travellers and tourists, and members of the crew of ships in international navigation. In practice, these taxpayers have submitted tax

returns electronically, and from 1 January 2025 they are also formally obliged to use this method of filing.

- The suspension of the statute of limitations on the right to collect tax liability, interest and enforcement costs is extended to cases in which the tax authority is unable to initiate the collection procedure.
- The exception that a tax audit may be carried out within a period of six years from the beginning of the statute of limitations for the right to determine the tax liability has been extended to proceedings involving or relating to the taxpayer's business with foreign countries, as well as in the case of suspicion of committing certain criminal offences. More specifically, the extension applies to checks on operations abroad, related persons and companies, and transactions in cross-border operations, as well as checks on transfer pricing, tax arrangements and similar cross-border transactions and transactions involving several jurisdictions or countries, and in relation to criminal offenses, the criminal offenses of receiving and giving bribes, giving bribes for the purpose of trading in influence and bribery of representatives as defined by the Criminal Act.

Act on amendments to the Act on Local Taxes

- Local self-government units are obliged to introduce a real estate tax. The payer of real estate tax will be domestic and foreign, legal and natural persons who are owners of real estate on March 31 of the year for which the tax is determined. Real estate tax will not be paid for, inter alia, real estate that is used for permanent residence or is permanently leased, real estate for public purposes and intended for institutional accommodation of persons, commercial real estate of companies, real estate for which residential use is impossible and real estate owned by local self-government units if they are located on the territory of that local self-government unit. Real estate tax will be paid annually from 0.60 to 8 euro/m² of usable area of the property. The amount of tax within the above-mentioned limits will be prescribed by local self-government units, and it may depend on the place, street, settlement or zone where the property is located. If the local self-government unit does not prescribe the amount of real estate tax, the tax will be determined in the amount of 0.60 euro/m² of usable area of real estate.

Act on amendments to the Personal Income Tax Act and Act on amendments to the Social Security Contributions Act

- The basic personal allowance increases from 560 euro to 600 euro, which also increases the amounts of deductions for dependent family members. This change also allows for higher non-taxable amounts for jubilee awards, performance-based awards, and supports.
- Tax bases are changing so that the lower tax rate will apply to a monthly tax base up to 5,000 euro (previously 4,200 euro), and the annual limit for the lower rate increases to 60,000 euro (previously 50,400 euro).
- Changes in income tax rates: Municipalities, cities, and counties will be able to set income tax rates within prescribed limits, depending on their size (lower tax rate between 15 % and 22 %, higher tax rate between 25 % and 32 %). Specifically, for the City of Zagreb (a separate category), the lower rate may be set at a maximum of 23 %, while the upper rate will be capped at 33 %.
- The minimum gross wage is increasing and for the period from 1 January 2025 to 31 December 2025, amounts to 970,00-euro gross.

- The health insurance contribution (16.5 %) exemption for employers hiring people under 30 years of age for the period up to 5 years is abolished, so the exemption will no longer apply unless already used under the current law. However, employers can now use the exemption from paying health insurance contributions for any employee who signs a permanent employment contract for the first time, regardless of previous pension insurance years, and the measure can be used for up to one year.
- Special exemptions for returning citizens and their descendants are introduced: Croatian citizens returning from abroad may be exempt from income tax on employment income for five years, provided they have lived abroad for at least two years, have permanently deregistered their residence in Croatia or reported temporary departure, or if the returnees never had registered residence in Croatia (including family members of Croatian emigrants, descendants of Croatian emigrants and family members of descendants of Croatian emigrants who have been granted temporary or permanent residence in Croatia). This exemption will not be determined by the employer, but by the Tax Authorities. It is expected that the amendments to the Personal Income Tax Regulation will prescribe the offshore and European countries to which the exemption will apply.

Act on amendments to the Value-Added Act

- The threshold for VAT registration will be increased from 40,000 euro to 60,000 euro.
- The list of supplies of goods and services that are taken into account when calculating the threshold for VAT registration of 60 000 euro has been extended. The yearly threshold will include the following supplies (excluding VAT): the value of supplies of goods and services that would be taxable if they were supplied by a taxpayer who is not entitled to exemption, supplies that are exempt from VAT under Articles 45 to 49 of the VAT Act (export supplies and supplies equated with exports, provision of services on movable property acquired / imported into Croatia for the purpose of performing these services, international transport services, intermediary services), the value of real estate transactions and transactions referred to in Article 40 (1) (a) to (g) of the VAT Act (financial services), unless these transactions are ancillary, the value of supplies and installation of solar panels referred to in Article 38 (6) of the VAT Act, as well as the intra-Community supply of goods . The above calculation will not take into account the supply of tangible or intangible economic goods of the taxpayer.
- Once a taxpayer voluntarily registers for VAT, instead of the next three calendar years, they will have to remain a VAT payer in the current year (in the year in which they became VAT registered) and the following year.
- Taxpayers whose value of supplies of goods or services rendered in 2024 exceeds 60,000 euro are obliged to enrol in the VAT register from 1 January 2025. Taxpayers whose value of supplies rendered in 2024 does not exceed 60,000 euro can submit a request for deletion from the VAT register to the Tax Administration until 15 January 2025, unless they were registered in the register of VAT payers at their own request during 2024.
- Taxpayers with their registered office, permanent residence or habitual residence in another EU Member State are entitled to apply VAT exemption in Croatia (i.e. to acquire the status of a small taxpayer in Croatia), provided that their annual turnover in the European Union does not exceed 100,000 euro and the value of supplies of goods and services in Croatia does not exceed 60,000 euro. A taxpayer from the European Union who decides to

apply this taxation procedure in Croatia does not have the right to charge VAT on issued invoices or the right to deduct input VAT.

- New provisions on the place of supply rules concerning access to cultural, artistic, sports, scientific, educational and similar events in the case of a virtual access are introduced. If the respective services are provided to another taxable person, the general place of supply rule for services rendered between two taxable persons will apply. If these services are provided to a non-taxable person, the place of supply will be where registered office, domicile or habitual residence of the recipient of the service is.
- The provision on the application of a reduced VAT rate of 13 % to the public service of municipal waste collection is amended in a way to align the terminology with the Waste Management Act, whereby the scope of application of the reduced VAT rate does not change. The reduced VAT rate applies exclusively to the municipal waste collection service provided by the public service provider in accordance with a special regulation governing waste management.
- A new provision is introduced according to which if the amount of VAT due on supplies is increased based on the decision of the tax authorities, the taxpayer may issue a corrected invoice, and the recipient of the supply is entitled to deduct input VAT for the difference in the period in which the invoice is received. The content of such invoice will be prescribed by the Value Added Tax Regulations. In the event of a change in the amount of VAT calculated on the import of goods that the taxpayer has deducted as input VAT, the taxpayer may correct the deducted input VAT for the resulting difference based on the document issued by the customs authorities.
- The condition of reciprocity is abolished as one of the conditions that foreign taxpayers from third countries must meet in order to exercise the right to a refund of VAT paid in Croatia.

Act on amendments to the Accounting Act

The law establishes a rule to be applied when there is a change in the indicators that impact the application of financial reporting standards during a business year. Specifically, the new changes in Accounting Act, which entered into force on the 13 December 2024. The new rule specifies that for the business year that begins on the date of entry into force of these changes or earlier, financial reporting standards shall be applied based on the classification indicators in effect immediately prior to the first day of that business year. Specifically, for entrepreneurs whose financial year begins on the 1 January 2024, the indicators in effect on 31 December 2023 shall apply.

Act on amendments to the Investment Promotion Act

Below we also provide a summary of amendments to the Investment Promotion Act that entered into force on 28 November 2024.

- The application thresholds for regional aid and for aid for upskilling and training are increased retraining:
 - training aid from 2,000,000 euro to 3,000,000 euro and
 - regional aid from 100,000,000 euro to 110,000,000 euro.
- The threshold of the registered unemployment rate is lowered as a prerequisite for the use of non-refundable financial support for the creation of new jobs and an increase in the maximum nominal amount of support:

- the registered unemployment rate for the use of the maximum amount of support in the amount of up to 30% of eligible costs (maximum 15,000 euro per newly created job) is reduced from 15 % to 10 %,
 - the registered unemployment rate for the use of the maximum amount of support for the creation of new jobs in the amount of up to 20% of eligible costs (maximum 10,000 euro per newly created job) is reduced from 10 % to 15 % to 5 % to 10 %,
 - the registered unemployment rate for the use of the maximum amount of support for the creation of new jobs in the amount of up to 10 % of eligible costs (maximum 5,000 euro per newly created job) is reduced from 10 % to 5 %.
- The threshold of the registered unemployment rate is lowered as a prerequisite for the use of support for capital costs of the investment project and an increase in the maximum nominal amount of support:
 - the existing threshold of 15 % of the registered unemployment rate for the use of maximum support in the amount of 20 % of eligible costs of investment in fixed assets (maximum 2,000,000 euro) is lowered to 10 % of the registered unemployment rate.
 - lowers the existing threshold of 10 % to 15 % of the registered unemployment rate for the use of the maximum amount of support in the amount of 10 % of eligible costs of investment in fixed assets (maximum 1,000,000 euro) to the threshold of 5 % to 10 % of the registered unemployment rate.
 - The calculation of the tax base for the application of the corporate income tax rate reduction in the calculation of tax support for investment in accordance with the assessment of tax benefits in the Investment Promotion Act – Croatia Notification 2020 Standstill exercise (HR019 of 26 July 2022 and HR020 of 21 September 2023) by the Code of Conduct Group for Business Taxation is hereby adjusted:
 - the calculation of the tax base for the application of the reduction of the corporate income tax rate in the manner prescribed by a special regulation on profit taxation is defined only on income generated from business activities carried out as part of an investment project, excluding income from capital, rent, interest and intellectual property,
 - in order to ensure the collection of receivables in the event of non-compliance with the legal conditions for the use of tax benefits, it is defined that the act of the competent ministry on the obligation to return tax support constitutes an enforceable document.
 - New support measures are introduced for activities of strategic importance for the transition to a climate-neutral economy under aid for high value-added activities in the form of a 50 % increase in non-repayable financial support for job creation related to the investment project.
 - Regional State aid for investment and training aid cannot be granted for the tourism, accommodation and food preparation and service sectors.

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