



CE Tax&Legal Highlights

Croatia

COVID-19 economic measures: Deferral of tax liabilities

Amendments to the General Tax Act Implementing Regulations (Amendments) entered into force on 24 March 2020, enabling implementation of COVID-19 tax measures.

Amendments to the General Tax Act Implementing Regulations (Amendments) were published in the Official Gazette of 23 March 2020, and enter into force on 24 March 2020, enabling implementation of COVID-19 tax measures to support the economy. Below we provide overview of relevant stipulations governing deferral of tax liabilities and instalment payment.

Taxes in scope?

- Taxes (Personal Income Tax, Corporate Income Tax, VAT (under certain conditions stated below) and other taxes such as Real Estate Transfer Tax, Tax on Slot Machine Games, etc.)
- Contributions
- Other public charges (fees, concession fees, fines for tax offenses and any charges that are determined and / or collected and / or supervised under special regulations within the jurisdiction of the tax authority)

Exception! Customs duty and excise duty fall out of scope of this measure, i.e. the settlement may not be deferred under the Amendments.

Which tax liability can be deferred?

All previously mentioned public charges (tax liabilities) due within 3 months from 20 March 2020.

Exception! Taxpayers which are entitled to deferral related to VAT can request it for VAT due within 3 months from the VAT liability due date in April 2020.

Who can request tax payment deferral?

All taxpayers who will probably not be able to settle tax liabilities in the future and have no recorded unsettled tax liabilities at the moment of filing the request.

Exception! VAT deferral can be requested by taxpayers which determine its VAT liability per invoiced supplies and which have not recorded more than HRK 7,500,000 (excluding VAT) of supplies in previous year.

Indicators showing potential inability to settle due tax liabilities

- if taxpayer has a decrease of revenues/income of at least 20% in a month preceding the month in which the request is filed compared to the same month of a previous year or
- if the taxpayer makes probable the decrease of at least 20% in revenues/income in a 3-month period following the filing, compared to the same period of a previous year

Additionally! When submitting a deferral request relating to VAT, the taxpayer, in addition to the above, should prove that the due liability is a result of non-collected issued invoices and/or other factors that influence liquidity (there are no further details).

How to file a deferral request?

Electronically, in ePorezna system (the decision on the filed request will be delivered in the same way).

Exception! Tax Administration will provide another way of filing the request for taxpayers that do not use the ePorezna system – details will be published on the Tax Administration web site.

What is deferral period?

3 months from the due date of every single tax liability.

Tax Administration can approve additional deferral period of 3 months for already deferred liabilities and expand the scope of the deferral to the tax liabilities due during the additional 3-month time, for which new request should be filed.

Instalment payment of deferred tax liabilities

Taxpayers who are unable to settle the deferred tax liability at maturity can request instalment payment without any interest.

Instalment payment is approved in monthly instalments – maximum for 24 months. Deadline for filing of the request for instalment payment is five days from the liabilities due date. The request could be filed in one of the following ways:

- Instalment payment only related to due deferred tax liability, whereby the approval of the request excludes the possibility of applying for the

instalment payment of the deferred tax liabilities which will be due in the future or

- Instalment payment for all deferred tax liabilities, both due and not yet due in the moment of filing the request, whereby all not yet due liabilities become due and instalment payment is approved, instead of further deferral.

In case of not complying with payment due dates, instalment payment will be abolished.

Subsequent assessment by the Tax Authorities

Tax Authorities can make subsequent assessment of the facts provided in the request related to the approval of this measure.

If the Tax Authorities subsequently determine that conditions for the approval of the measure were not adequate, abolishment of the measure will be declared, whereby tax liabilities become due in line with the specific regulations.

The Croatian Government job preservation measures

Croatian Employment Service issued measures aiming to preserve jobs in special circumstances of COVID-19 pandemic.

Below we provide information on the measure issued by the Croatian Employment service.

Employers engaged in following industry are considered to be vulnerable for the purposes of being entitled to support arising from these measures

- ❖ accommodation activities and food and beverage,
- ❖ transport and storage,
- ❖ labour-intensive industries within the manufacturing industry - textile, clothing, footwear, leather, wood and furniture
- ❖ employers who cannot perform the activity in accordance with the decisions of the Civil Protection Headquarters of the Republic of Croatia, and
- ❖ other employers who can prove the impact of special circumstances.

The measures do not apply to business entities founded by the Republic of Croatia, countries and local self-government units with the state ownership interest of 25% or more (with exception of employers in Sector C Manufacturing and Sector I Accommodation, food preparation and service activities).

Employees employed by employers in these sectors do not include owners, co-owners, founders, board members, directors, procurators and similar managers.

The period and duration of measures is determined for the period starting from March 1, 2020 and further, up to three months. The planned payment of the respective measures is by the 15th of the respective month for the previous month. The amount of HRK 3,250 will be paid monthly per full-time worker and HRK 1,625 per part-time worker and a proportionate portion of 3,250 HRK or 1,625 HRK per employee for time not worked under the

Decision of the Civil Protection Headquarters of the Republic of Croatia.

Criteria for this measure:

- ❖ loss of turnover bigger than 20%
- ❖ cancellation of reservations, events, congresses, etc.,
- ❖ cancellation of contracts and orders,

- ❖ inability to deliver finished products or contracted and paid raw materials, raw materials, machinery, tools, etc.,
- ❖ impossibility of new orders of raw materials, tools and machines necessary for work,
- ❖ the employer also lists the activities he has undertaken to preserve jobs.

The measures will not be applicable for employers if there was a headcount drop in the period from March 20, 2020 to the date of application resulting with the employment rate drop more than:

- ❖ 40% for employers employing up to 10 workers,
- ❖ 20% for small businesses,
- ❖ 15% for medium-sized enterprises, and
- ❖ 10% for large enterprises.

For justifiably terminated employment contracts, which include the expiration of a fixed-term contract, contractual dismissal at the request of an employee, personal conditional dismissal, retirement of an employee and dismissal due to the employee's misconduct, the employer is entitled to payment according to the days worked by the person in the month of dismissal. Employers who are granted support for job preservation may not import foreign labour or hire new workers during the period of application of this measure. In period of receiving these payments under this measure, the employer should not import foreign labour or hire new workers during the application of this measure.

If the employment contract is terminate on employers' request, the employer will not receive the support from this measure for the last working month or the days due for payment for the employee whose employment contract is terminated.

Employer should provide evidence of paid salaries to employees for whom he claims the support with list of employees for who he claim support. Employee list should contain signatures all employees that confirms receiving of salary.

In the application, the employer should describe the reasons why they are seeking support for job preservation and support it with evidence. The application should be submit online, by e-mail or to the competent Croatian Employment Institution at the employer's headquarters.

Croatian Employment Service will within 10 days after receiving complete documentation, review the received applications, inform the beneficiary on accepted requests and conclude an agreement of using job preservation measures. Before payment issuance conducted, the Croatian Employment Service will check the employers' solvency status and check status of employment for employees for which employer is asking support.

Updates on COVID-19 economic measures in Croatia

During the session of 2 April 2020, the Croatian Government announced new set of economic measures that will be subject to the parliamentary procedure in coming days. We will publish summary of the measures on our COVID-19 website available on the following link:

<https://www2.deloitte.com/hr/en/pages/about-deloitte/topics/combating-covid-19-with-resilience.html>

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