

## International Tax Croatia Highlights 2017



### 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 medium-sized companies. Financial statements must be prepared annually.

**Principal business entities** – These are the sole trader, joint stock company, limited liability company, economic interest grouping, general and limited partnership, 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 expenses assessed in the profit and loss statement under the accounting rules, which is then adjusted for tax-specific items under the corporate tax provisions.

**Taxation of dividends** – Dividend income is not subject to corporate income tax in Croatia. Dividends are, however, subject to withholding tax, except for dividends paid to a resident entity (see below under “Withholding tax”).

**Capital gains** – Capital gains are included in taxable income and taxed at the standard corporate income tax rate.

**Losses** – Tax losses may be carried forward for up to five consecutive years. The carryback of losses is not permitted.

**Rate** – As from 1 January 2017, the standard corporate income tax rate is reduced from 20% to 18%, and taxpayers with annual income under HRK 3 million will be taxed at a rate of 12%.

**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 Croatian tax that would have been payable on the income, provided the taxpayer can provide evidence of the amount of foreign tax paid.

**Participation exemption** – No

**Holding company regime** – No

**Incentives** – An enhanced deduction is available for the following activities: investment (development and innovation) activities; business support activities (via customer/user centers, logistics and distribution centers, information and communications technology development centers and centers for outsourced business activities); and activities with higher added value (creative services, services in tourism, consulting services, industrial engineering services and educational services). For these

activities, the taxpayer may reduce its tax base by 50% to 100% of the qualifying investment.

Investment incentives may 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 job positions or professionally train or retrain employees. Additionally, a cash incentive for new employees is awarded as a percentage of the total two-year gross wage.

#### **Withholding tax:**

**Dividends** – Dividends paid to a nonresident (other than a private individual) are subject to a 12% withholding tax, unless the rate is reduced or an exemption applies under a tax treaty, or the dividends qualify for an exemption under the EU parent-subsidiary directive.

**Interest** – A 15% withholding tax is levied on interest paid to a nonresident (other than a private individual), unless the rate is reduced or an exemption applies under a tax treaty or the EU interest and royalties directive.

**Royalties** – A 15% withholding tax is levied on royalties paid to a nonresident (other than a private individual), unless the rate is reduced or an exemption applies under a tax treaty or the EU interest and royalties directive.

**Technical service fees** – A 15% withholding tax is levied on technical service fees (for market research, audit, tax consulting or business consulting) paid to a nonresident, unless the rate is reduced or an exemption applies under a tax treaty.

**Branch remittance tax** – No

**Other** – A mandatory 20% withholding tax applies to fees for services, other than those listed above under "Technical service fees," paid to entities located in countries that are considered to be tax havens or financial centers, excluding EU countries and countries that have concluded a tax treaty with Croatia (the tax authorities have issued a list of such jurisdictions).

#### **Other taxes on corporations:**

**Capital duty** – No

**Payroll tax** – No

**Real property tax** – See below under "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% of gross salary.

**Stamp duty** – No

**Transfer tax** – Supplies of real property made by taxable persons are subject to VAT at 25% if made prior to the first occupation, or within two years of the date of first occupation. Supplies of construction property always are subject to VAT. Under certain conditions, previously occupied reconstructed buildings may be regarded as unoccupied, and therefore may fall within the scope of VAT. Other transfers of buildings and all transfers of land (which are exempt from VAT) are subject to a 4% real estate transfer tax. The tax base for real estate transfer tax purposes is the market value of the real property.

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

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

**Transfer pricing** – Transfer pricing rules apply to domestic and cross-border transactions between related parties, as well as to domestic transactions if one of the parties is operating at a loss, has tax losses carried forward, pays tax at lower rate 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.

Advance pricing agreements are available.

**Thin capitalization** – A portion of the interest paid on loans granted by a shareholder or a related party, or granted by a third party and guaranteed 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 four times the value of the shareholder's share of the taxpayer's equity. If the loans subject to thin capitalization rules exceed the 4:1 ratio at any time, the amount of interest attributable to the excess is not deductible. The thin capitalization rules do not apply to loans granted by banks or other financial institutions, although the application of the exemption is unclear if the bank loan is guaranteed by the shareholder or another related party.

**Controlled foreign companies** – No

**Disclosure requirements** – No

#### **Compliance for corporations:**

**Tax year** – The tax year is the 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 four months of the financial year end.

**Penalties** – Penalty interest is charged at 7.88% per year, and penalties range from HRK 2,000 to HRK 200,000. Repeat offenses of the same type result in penalties from HRK 3,000 to HRK 300,000.

**Rulings** – Rulings are available. The scope is limited to the following: (1) the determination of taxable deliveries for the purposes of input VAT division; (2) the application of tax rules to investment projects in Croatia exceeding HRK 20 million in value; (3) the corporate income tax on mergers and acquisitions that are not exempt under EU directives; and (4) the application of double tax treaty provisions.

#### Personal taxation:

**Basis** – Residents are taxed on worldwide income; nonresidents are taxed only on Croatia-source income.

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

**Filing status** – There is no joint taxation; spouses are treated as 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 12% to 36%, depending on the nature of the transaction. Gains from the sale of property (tangible/intangible) are taxable at 24% if the property was owned for less than three years. Costs of disposal/alienation may be deducted as expenses. Gains derived from the sale of shares are taxable at a 12% rate; however, gains from the sale of shares acquired before 1 January 2016 and/or owned for more than three years are exempt.

**Deductions and allowances** – Each individual is entitled to a personal allowance of HRK 3,800 per month. The deduction may be further increased for each dependent family member.

**Rates** – Rates are progressive at 24% and 36%, depending on gross income. Interest on savings accounts is taxable at a flat 12% rate.

#### Other taxes on individuals:

**Capital duty** – No

**Stamp duty** – No

**Capital acquisitions tax** – No

**Real property tax** – Supplies of real property made by private individuals are subject to a 4% real estate

transfer tax. For this purpose, the tax base is the market value of the building.

**Inheritance/estate tax** – Transfers of cash, securities or movable assets with an individual market value in excess of HRK 50,000 are subject to a 5% inheritance and gift tax, regardless of the transferor. The tax does not apply to movable property inherited or received as a gift if the transfer is subject to VAT. The taxation of inherited or donated real property is governed by the Real Estate Transfer Tax Act. Transfers between immediate relatives (spouses, siblings and children) regarded as inheritances or gifts are not subject to taxation.

**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% of gross salary.

#### Compliance for individuals:

**Tax year** – Calendar year

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

**Penalties** – Penalty interest is charged at a rate of 7.88% 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, the provision of services, the intra-community acquisition of goods and on imports.

**Rates** – The standard rate is 25%, with reduced rates of 13% and 5%. As from 1 January 2017, certain amendments to the VAT law affect the classification of the goods and services that are subject to each VAT rate.

**Registration** – Registration is compulsory where the annual value of transactions exceeds HRK 230,000. A company may register voluntarily if the threshold is not met, but voluntary registration is for a minimum period of five years. Nonresidents carrying out taxable activities in Croatia typically must register for VAT purposes. A VAT identification number must be obtained by residents carrying out transactions within the EU.

**Filing and payment** – VAT returns, "EC sales lists" and "EC purchases lists" are due by the 20th day of the current month for the prior VAT period. Payments must be made by the end of the month following the VAT

period. VAT-related penalty interest is charged at a rate of 7.88% per year, and penalties range 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, Real Estate Transfer Tax Act, Act on Local and Regional Financing

**Tax treaties:** Croatia has concluded 61 tax treaties. A treaty with Egypt and a revised treaty with the UK have been signed but are not yet in force.

**Tax authorities:** Croatian Tax Administration, Croatian Customs Administration

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