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International tax

Croatia Highlights 2015

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 – Sole trader, joint stock company, limited liability company, economic interest grouping, general and limited partnership and 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 Croatia-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 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.

Taxation of dividends – Dividends are subject to tax in Croatia, 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 rate of 20%.

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

Rate – 20%

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 tax that would have been paid on such profits in Croatia if the taxpayer can provide proof that the foreign tax was paid.

Participation exemption – See under "Withholding tax"

Holding company regime – No

Incentives – Investment incentives can 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 employment or professionally train or re-qualify employees. Additionally, a percentage of the training costs not associated with a new investment may be used to reduce the income tax base.

Withholding tax:

Dividends – Dividends paid to a nonresident, other than private individual, are subject to a 12% withholding tax, unless the rate is reduced or exempt 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 exempt under a tax treaty or the EU interest and royalties directive.

Royalties – A 15% withholding tax is levied on royalties paid to a nonresident, who is not a private individual, unless the rate is reduced or exempt under a tax treaty or the EU interest and royalties directive.

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

Branch remittance tax – No

Other – A mandatory 20% withholding tax applies to services other than the ones listed above that are paid to entities located in countries which are considered to be tax havens or financial centres, excluding the 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 under "Transfer tax"

Social security – See under "Personal taxation"

Transfer tax – Supplies of real properties made by taxable persons are subject to VAT if made before the first occupation or within 2 years from the day of the first occupation. Supplies of construction property is always subject to VAT. Under certain conditions, previously occupied reconstructed buildings can be regarded as unoccupied, and thus fall under VAT. All other transfers of buildings and land, exempt from VAT, are subject to 5% real estate transfer tax. The tax base in terms of real estate transfer tax 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.

Thin capitalization – Interest on a loans granted by a shareholder, shareholder's related party, or third party and guaranteed for by 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 in taxpayer's equity. If the loans to which thin capitalisation rules are applicable at any point exceed the 4:1 ratio, the amount of interest on the portion of the loans exceeding the mentioned ratio is not deductible. The thin capitalization rules do not apply to loans granted by banks or other financial institutions, even if the shareholder is the guarantor of a loan.

Controlled foreign companies – No

Other – No

Disclosure requirements – No

Administration and compliance:

Tax year – The tax year is a 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 charges apply at a rate of 12% (8,14% from 1 August 2015) per year and penalties range from HRK 2,000 to HRK 200,000.

Rulings – No

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. An individual is nonresident if he/she does not have a permanent residence or habitual residence in Croatia, but receives taxable income in Croatia.

Filing status – No joint taxation occurs; 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).

Deductions and allowances – Each individual is entitled to a personal allowance of HRK 2,600 per month. The deduction may be further increased for each dependent family member.

Rates – Rates are progressive: 12%, 25%, 40%, depending on gross income.

Income from the sale of property (real estate) – Income from sale of real estate is taxable at 25% if real estate is alienated within three years of ownership. Alienation costs may be deducted as expenses.

Capital income:

Interest – Interest on savings, loans and securities (exept bonds) paid to individuals are taxable at a rate of 12%, unless the rate is reduced or exempt under a tax treaty.

Dividends – Dividends paid to individuals are taxable at a rate of 12%, unless the rate is reduced or exempt under a tax treaty.

Capital gains realised from financial assets, including capital gains from sale of shares (stocks), will be taxable at a rate of 12% as of 1 January 2016.

Other taxes on individuals:

Real property tax – Purchase of real property from a private individual is subject to 5% real estate transfer tax. For this purpose, the tax base is market value of the building.

Inheritance/estate tax – Transfers of cash, securities or movables where their individual market value exceeds HRK 50,000, regardless of the nature of supplier, are subject to 5% inheritance and gift tax. This tax does not apply to movable property inherited or received as a gift if the transfer is subject to VAT. 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 inheritance 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.

Administration and compliance:

Tax year – Calendar year

Filing and payment – Individuals must submit an annual tax return by the end of February of the year 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 12% per year (applicable until 31 July 2015) and as of 1 August 2015 at annual rate of 8,14%. Penalties range from HRK 2,000 to HRK 50,000.

Value added tax:

Taxable transactions – VAT is imposed on the sale of goods, provision of services, intra-Community acquisition of goods and import.

Rates – The standard rate is 25%, with reduced rates of 13% and 5%.

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. Once entering into the VAT system voluntarily, a taxpayer cannot opt out for next five years. Nonresidents carrying out taxable activities in Croatia typically have to register for VAT purposes. A VAT ID 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 of the current month for the prior VAT period. Payments have to be made by the end of the month following the VAT period. VAT-related penalties include interest at a rate of 12% (8,14% from 1 August 2015) per year and fees from HRK 1,000 to HRK 500,000.

Source of tax law: Corporate Income Tax Act and Regulations, Personal IncomeTax 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 57 tax treaties.

Tax authorities: Croatian Tax Administration, Croatian Customs Administration

International organizations: EU, WTO, CEFTA, OSCE, COE, CEI, WB, NATO

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