



DOING BUSINESS IN CROATIA 2018



INTRODUCTION

The Moore Europe *Doing Business In* series of guides have been prepared by Moore Global member firms in the relevant country in order to provide general information for persons contemplating doing business with or in the country concerned and/or individuals intending to live and work in that country temporarily or permanently.

Doing Business in Croatia 2018 has been written for Moore Europe Ltd by Moore Audit Zagreb. In addition to background facts about Croatia, it includes relevant information on business operations and taxation matters. This Guide is intended to assist organisations that are considering establishing a business in Croatia either as a separate entity or as a subsidiary of an existing foreign company. It will also be helpful to anyone planning to come to Croatia to work and live there either on secondment or as a permanent life choice.

Unless otherwise noted, the information contained in this Guide is believed to be accurate as of 31 July 2018. However, general publications of this nature cannot be used and are not intended to be used as a substitute for professional guidance specific to the reader's particular circumstances.

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1. CROATIA AT A GLANCE

Geography and population

Croatia is a Central European and Mediterranean country, culturally and historically linked to Central and Eastern Europe. Croatia has an excellent geostrategic position. It is geographically located at the crossroads of Central Europe, Southern Europe and the Mediterranean. Croatia covers 56 594 km² of land and has 31 067 km² of territorial waters. It is bordered by Slovenia to the northwest, Hungary to the northeast, Serbia to the east, Bosnia Herzegovina and Montenegro to the southeast and the Adriatic Sea to the southwest. There are 3 major Pan-European corridors passing through Croatia (Corridor V branches B and C, Corridor X branch A and Corridor VII, the Danube river).

The eastern part of Croatia is a flat plain, forming part of the Pannonian Basin, while the north and middle of the country consists of hills and forests. The Pannonian Basin has the potential to provide for agricultural development.

The Dinaric Alps divide the Adriatic shore from the rest of the country. The central and southern regions near the Adriatic coastline and islands consist of low mountains and forested highlands.

The Adriatic coast comprises about one-third of the total land area and is 5835 km long. It consists of 1185 islands, islets, cliffs, and rocks, and numerous bays, gulfs and peninsulas, the largest being Istra and Pelješac. One of Europe's most beautiful and preserved coasts, it has a great potential for the development of fishing, shipbuilding and especially tourism.

Mountainous Croatia, which rises to 1831 m on the border with Bosnia Herzegovina, has begun to attract winter and agricultural tourism alongside its traditional activities of forestry and cattle breeding.

Croatia's population is 4 125 700 with a density of 70 persons per square kilometre.

The capital and largest city is Zagreb, with 790 000 inhabitants. Other large cities are Split (178 000), Rijeka (128 000) and Osijek (108 000).

Language and religion

The official language is Croatian. Minority languages include Serbian, Italian, Czech, Hungarian and Slovak.

The main religion is Roman Catholicism (over 85%). Other religions include Orthodox Christianity, Islam, and other Christian denominations.

Climate

In the continental part of Croatia, the climate is mild Continental, in the mountains there is a Highland climate, on the coast a Mediterranean type of climate (with dry and hot summers and damp and mild winters), and in the hinterland, a submediterranean type (with slightly colder winters and warmer summers).

History

Modern-day Croatia was part of the Roman Empire, in the form of the provinces of Dalmatia and Pannonia. After the collapse of the Roman Empire in the late 5th century CE, a short period of Ostrogothic rule was followed by incorporation into the Byzantine Empire under Justinian I.

The Croats, a Slavic tribe, settled in what is now Croatia probably in the early 7th century. The Kingdom of Croatia existed from its foundation in 925 until the end of the First World War, initially as an independent kingdom until the 12th century and later as a part of multi-ethnic empires such as the Kingdom of Hungary, the Habsburg monarchy and Austria-Hungary. Large parts of Dalmatia were under Venetian rule for nearly four centuries until the fall of the Venetian Republic in 1797, and much of Croatian territory was for some time part of the Ottoman Empire.

Hapsburg rule over the whole of Croatian territory was achieved only after the Napoleonic Wars. After the First World War and the collapse of the Austro-Hungarian Empire in 1918, Croatia joined the Kingdom of Serbs, Croats and Slovenes (renamed Yugoslavia in 1929).

After the Second World War, Tito's brand of Communism was imposed on Yugoslavia and, now styled as the Socialist Republic of Croatia, Croatia was a constituent part of the Socialist Federal Republic of Yugoslavia.

As Yugoslavia began disintegrating in the early 1990s, Croatia declared independence in June 1991. A four-year war followed against Yugoslav (largely Serbian) forces, before peace was restored. Nevertheless, Croatia was able to develop a democratic, multi-party political system and adopt political and economic reforms to establish parliamentary democracy, protection of private ownership and a free-market economy.

Over the past ten years Croatia has been making efforts to join European economic and political institutions. Croatia became a member of NATO in 2009 and became the 28th Member State of the European Union on 1 July 2013, ten years after having first applied.

Politics and government

Croatia (officially: The Republic of Croatia, *Republika Hrvatska*) is a parliamentary democracy. The core principles of the Croatian Constitution are freedom, equal rights, national equality, peace, social justice, respect for human rights, the inviolability of ownership, the preservation of nature and the human environment, the rule of law and a democratic multiparty system.

Legislative powers are vested with the Croatian Parliament (*Sabor*), elected under a party-list system of proportional representation for a term of four years. The number of parliament members can vary from 100 to 160 (currently 151).

Executive powers are vested with the Government, which is responsible to the Parliament.

The Government proposes laws and other acts to the Croatian Parliament, implements laws and other decisions of the Parliament, directs the external and internal politics, directs and supervises the work of the state administration, creates and implements economic development strategy and performs other activities determined by the Constitution and the Law.

The prime minister is the head of the government. Beside the prime minister, there are four deputy prime ministers heading their own ministries and 16 other ministers in charge of particular sectors of activity. The executive branch is responsible for proposing legislation and a budget, executing the laws, and guiding internal and foreign policies. Following the general election of September 2016, the prime minister is Andrej Plenković, from the centre-right Croatian Democratic Union (HDZ), who governs in coalition with the centrist liberal Croatian People's Party – Liberal Democrats, albeit with a majority of just two in the Sabor.

The judicial authority is autonomous and independent. The highest court is the Supreme Court of the Republic of Croatia. Questions of European law may be referred to the Court of Justice of the European Union.

The President of the Republic is the head of state and is directly elected for a five-year term and may serve a maximum of two terms. In addition to being the commander-in-chief of the armed forces and head of foreign policy, the president has the duty of appointing the Prime Minister with the consent of the parliament. The second round of the latest presidential election was held in 10 January 2015, when Kolinda Grabar-Kitarović, the candidate of the Croatian Democratic Union, was elected.

Croatia is a unitary republic divided into 20 counties (*županije*) and the City of Zagreb, which constitutes a separate county.



Currency, time zone, weights and measures

The official currency of Croatia is the Croatian kuna, ISO code HRK. At the time of going to press (late September 2018), the kuna was quoted at EUR 1 = HRK 7.3842 and at USD 1 = HRK 6.4399. As all other countries acceding to the European Union since 1992, Croatia is committed to adopting the euro in the medium term. Currently, Croatia fulfils nominal convergence criteria except one: participation of two years in the ERM II.

The time zone in Croatia is Central European (GMT+01:00). Daylight saving time: CET +1hr begins on the last Sunday in March and ends on the last Sunday in October.

Croatia uses the metric system of weights and measures and the Celsius scale of temperature.

General Economic Outlook

The Croatian economy is one of the most developed in south-eastern Europe. Croatia's status as a full member of NATO and the European Union ensures future stability, economic growth and offers a number of business and investment opportunities. Thanks to the monetary policy of the Croatian National Bank and the high level of 'euroisation' of the Croatian economy, Croatia has a very stable currency and a low inflation rate.

The structure of the Croatian economy is dominated by the service and public sectors. The service sector is developed primarily because of a well-developed tourism industry. 17.4 million tourists visited Croatia in 2017, of whom 15.6 million were foreign nationals. Tourism-industry incomes amounted to EUR 11 000 million in 2017, ie almost 20% of GDP, which shows the significant dependence of the Croatian economy on tourism. The public sector includes state-owned companies, i.e. large natural monopolies, such as the production and distribution of electrical energy, the exploitation and maintenance of forests and water, railways, roads and highways etc, which significantly contributes to Croatia's GDP.

Other key target sectors include marine and leisure, education, creative industries, the security sector, food and drink, environmental protection and water, energy and ports.

Though Croatia is still one of the wealthiest of the former Yugoslav republics, its economy suffered serious damage as a result of the 1991-95 war. The country's output during that time collapsed and Croatia missed the early waves of investment in Central and Eastern Europe that followed the transition period after the fall of the Berlin Wall. However, Croatia's economic situation began to improve with steady GDP growth between 4% and 6% led by a rebound in tourism and credit-driven consumer spending and big infrastructure projects, such as the construction of a modern highway network. Inflation over the same period remained low and the currency stable. Along with the rest of Europe, Croatia experienced a slowdown in the economy in 2008 and has yet fully to recover; economic growth was stagnant or negative in each year from 2009 to 2014. Although there has been a modest continuous annual GDP growth starting in 2015, which continued in 2016 (growth of 2.9%), and 2017 (growth of 2.8%) difficult problems still remain, including a high but falling unemployment rate (an average of 12.4% in 2017), uneven regional development and low foreign investment.

EU accession has increased pressure on the government to reduce Croatia's relatively high public debt, which in 2013 resulted in the EU's excessive deficit procedure for fiscal consolidation. In March 2016, the European Commission announced that Croatia had been included in the category of Member States with excessive imbalances and which had not introduced corrective measures. The Commission has subsequently concluded that the Convergence Programme and National Reform Programme for Croatia represents quality policy and has good reform potential.

2. DOING BUSINESS

Introduction

In order to accelerate and simplify the procedure of establishing a company, the government of the Republic of Croatia has established the HITRO.HR agency, which, with more than 60 offices, fully covers Croatian territory. HITRO.HR accelerates the incorporation procedure, making the state administration more efficient, flexible and transparent, enabling an investor to establish a company within eight working days. Incorporating a simplified limited-liability company with a share capital in cash is possible from any notary's or HITRO.HR office in the Republic of Croatia or at any commercial court within 24 hours.

A business entity is a legal entity established and organised in accordance with the Companies Act (*Zakon o trgovačkim društvima*). All business entities are registered in a court register under the Commercial Court Register Act and the Rules of Court Register Entry Procedures.

The main forms of business organisation are:

- The joint-stock company (*dioničko društvo*)
- The limited-liability company (*društvo s ograničenom odgovornošću*)
- The simplified limited-liability company (*jednostavno društvo s ograničenom odgovornošću*)
- The general partnership (*javno trgovačko društvo*)
- The limited partnership (*komanditno društvo*)

The joint-stock company

A joint-stock company (abbreviated in Croatian to d.d.) is registered in the Commercial Court Register, and may be established by one or more physical persons or legal entities. Foreign investors may acquire ownership and shares of joint-stock companies. The lowest amount of initial capital for establishing a joint-stock company is HRK 200 000 and the nominal value per share may not be less than HRK 10. There are three mandatory organs in a joint-stock company: the general meeting, the supervisory board and the executive board. The supervisory board, which is elected by the general meeting, must have an uneven number of members and at least one member must be appointed by the work force as their representative. Day-to-day management is carried out by the executive board. However, joint-stock companies may elect to operate under a so-called monistic structure, in which there is no supervisory board. Instead, the executive board appoints one or more executive directors, who carry out day-to-day management.

A joint-stock company may be incorporated by a single owner, i.e. it may have only one shareholder.

The limited-liability company

The limited-liability company (abbreviated in Croatian to d.o.o.) is a very popular entity for small and medium-sized businesses in Croatia. Limited-liability companies are the most common legal form for wholly owned subsidiaries. A limited-liability company may be established by one or more physical persons or legal entities. The minimum initial capital for incorporating a limited-liability company is HRK 20 000, in which each investor must invest at least HRK 200. Company assets are strictly separated from the property of owners. The company is liable for its debts with all its assets. Owners are not liable for the company's debts. A limited-liability company must have an executive board and a general meeting. The company's executive board may have one or more members (directors). A foreign national may also be a member of the executive board. A limited-liability company must have a supervisory board if the average number of employees in a year exceeds 300, or if it is a company that performs a specific activity prescribed by a special law.

The simplified limited-liability company

This is a form of limited-liability company that has no more than three members and one board member and may be incorporated with a share capital of as little as HRK 10, in which each investor must invest at least HRK 1. The minimum initial amount for the establishment of such company is HRK 10, while individual representation per investor cannot be less than HRK 1. For the incorporation of such a company notarised forms annexed to the Companies Act must be used.



General partnership

This form of entity (abbreviated in Croatian to j.t.d.) may be established by two or more legal entities or physical persons. A general partnership is formed by partners with the goal of permanently conducting business under a common name. Partners in general partnerships have unlimited liability for the debts of their partnership jointly, severally and with all their personal assets. Members are required to enter contributions of equal value unless they agree otherwise. Contributions may be in kind, money, rights, work or services. If the contribution is not paid in money, members are free to determine the value of each contribution by consensus. A partner in a general partnership may not transfer his interest in the partnership without the consent of the other members. Cessation of membership by any one partner leads to the termination of the partnership.

Limited partnership

A limited partnership may be established by any two or more legal entities or physical persons, of which at least one must be personally responsible for the obligations of the limited partnership (the general partner) and at least one will not be personally responsible for the obligations of the limited partnership (the limited partner). A limited partnership is managed by the general partner(s). A limited partnership is established by the partnership deed, which regulates the relationship between the members of the limited partnership.

Branch office

Under Croatian legislation, foreign companies and sole traders may conduct business in Croatia by setting up a branch office (*podružnica*). The start-up and operation of branch offices owned by foreign companies are governed by the same regulations that apply to the establishment of branches by domestic companies.

A branch office is not a legal entity.

The liabilities and rights stemming from its operation do not belong to the branch office but to the founder. The branch office operates under its own name. The name should also indicate both the branch's and the founder's registered office.

Opening a representative office

A representative office in the Republic of Croatia may be established by a foreign person performing an economic activity and by national or international economic organisations. A representative office can be set up for market research and for the representation of the founder. A representative office is not a legal entity and is considered to be part of the founder. It may not engage in activities of the founder or conclude contracts on behalf of the founder but performs tasks on behalf of the founder. Exceptionally, representative offices of foreign airlines may sell air tickets in accordance with the international agreements signed by the Republic of Croatia and international conventions. A representative office performs its activities under the founder's name with an indication that it is a representative office.

A representative office is registered in the Foreign Party Representative Registry in the Republic of Croatia kept by the Ministry of the Economy. A representative office may start its activities only after registration.

After Croatia's accession to the European Union, companies incorporated in other EU Member States, with representative offices in Croatia and whose offices were already been registered in the Foreign Party Representative Register of the Ministry of Economy, and who intended to continue to operate in Croatian territory in by engaging employees and having dedicated business premises had to change the legal form of their representative offices into branches or form a subsidiary company. Likewise, following accession, economic entities from other EU Member States or EEA member countries are no longer able to open representative offices in the Republic of Croatia, but may only register a branch office to incorporate a domestic company or craft business.

Labour relations and working conditions

As with most countries in Europe, Croatia has been suffering from the post-2008 economic recession, which significantly influenced the employment market; the current unemployment rate is 8.8% (June 2018) and has a seasonal character, i.e. it is lower during summer, due to the tourist season. The average rate for 2017 was 12.4%. Unfortunately, one of the significant reasons for the fall in the unemployment rate is not only increasing GDP, but also significant emigration of the working-age population (mostly to Ireland and Germany) in the last few years.

The employment contract

Employment in the Republic of Croatia is regulated by the Employment Act (*Zakon o radu*), the newest form of which took effect on 7 August 2014. The Employment Act is broadly in line with Western European models.

Provisions of the Act provide safeguards both for the employer and the employee. Some specific issues, like health insurance and education, are more specifically regulated by special legislative acts and/or international treaties that are in force in the Republic of Croatia.

Employers, employees, workers' councils, trade unions and employers may agree on working conditions that are more favourable for the employee than those set by law. Employers, employers' associations and trade unions may also agree in a collective agreement on less favourable working conditions than those prescribed in the Employment Act, but only if the law expressly provides for this. If any of the rights deriving from the employment are regulated differently in the employment contract, work regulations, agreements between the workers' council and the employer, collective agreement or law, the form of rights that is most beneficial for the employee will be applied, unless the Employment Act or any other Act provides otherwise.

Every employer who employs more than twenty employees is obligated to adopt and publish work regulations governing salaries, organisation of work, procedures and measures to protect the dignity of employees, safeguards against discrimination and other issues important to employees, if those matters are not covered by the collective agreement..

Content of the employment contract

An employment relationship is based on an employment contract of indefinite duration. An employment contract may exceptionally be concluded for a definite time but only for those jobs whose termination is determined by objective reasons justified by deadlines, the performance of a specific task or the occurrence of a specific event.

The Employment Act limits the duration of the employment contract for a definite time to no longer than three years, unless it is needed for replacing a temporarily absent employee or due to some other objective reasons permitted by law or by a collective agreement. Breaks between employments that last less than two months are not regarded as interrupting the three-year limit.



The employment contract should be concluded in writing. The failure of the parties to conclude a contract in writing does not affect the existence and validity of that contract. If the employer fails to conclude the contract in writing with the employee or does not issue a written confirmation of the conclusion of the contract before the beginning of the employment, it will be considered that the employment contract is for an indefinite period of time.

Termination of the employment contract

Both the employer and employee may terminate the employment contract.

There are two basic types of employment contract termination:

- Regular termination
- Exceptional termination

Working hours

There are two basic categories:

- Full-time employment, under which regular working hours may not exceed forty hours a week;
- Part-time employment, which includes all types of employment other than full-time employment.

The standard working week is 40 hours, with five working days (from Monday to Friday). The statutory daily break is a minimum 30 minutes.

In case of *force majeure*, an extraordinary increase in the volume of work and in other similar cases of an emergency, the employee may have to work at the employer's request longer than full-or part-time (overtime). If an employee works overtime, total working time must not be more than 50 hours a week and 180 hours a year, unless there is special provision in the collective agreement, in which case it should not exceed 250 hours per year.

Employees' working time may be spread in equal or unequal length by days, weeks, or months.

If an employee's working hours are unequally distributed, the employee may work a maximum of 50 hours a week, including overtime, unless there is special provision in the collective agreement, in which case the employee may work a maximum of 60 hours a week, including overtime.

Salaries

The Employment Act provides that a gross salary must be cited in the employment contract and which will be paid to the employee for his/her work. Moreover, the Act defines a minimum gross salary to be paid in accordance with the employee's qualifications. For difficult working conditions, overtime, night work and work on Sundays, holidays or any other day that the law provides is a non-working-day, the employee is entitled to additional salary.

In 2017, the minimum gross salary was HRK 3276 per month (annual equivalent HRK 39 312).

Employees are obliged to pay income tax and social security contributions on all their earnings including benefits-in-kind. Payroll calculations are carried out in accordance with the provisions of the Income Tax Act (*Zakon o porezu na dohodak*), Income Tax Regulations, and the Social Security Contributions Act (*Zakon o doprinosima*), while taxpayers who are domiciled or habitually resident in a city or local authority area levying a surtax also have that tax deducted from their earnings.

Holidays and leave

The Employment Act provides that there should be a minimum break of 30 minutes during a six-hour working day, unless otherwise provided by law. Between two consecutive working days, the employee has the right to a break of at least 12 consecutive hours. The Act also provides for a weekly break of at least 24 hours and for annual leave of at least four weeks. It also provides for the right to paid leave for important personal reasons, particularly in relation to occasions such as marriage, childbirth, serious illness or death in the immediate family. Upon the employee's request, the employer may grant unpaid leave during which all the rights and obligations from the employment contract are suspended.

Severance

In the event of a regular termination of the employment contract, the employee has the right to a severance payment, which is determined in accordance with the length of employment with the same employer. The severance amount is determined as one-third of the average salary paid in the last three months and for every year of employment by the same employer. If the law, a collective agreement, work regulations or the employment contract do not specify otherwise, the total amount of severance pay may not exceed six average monthly salaries earned by the employee during the three months prior to the termination of the employment contract.

Work permits, visas etc

Under the Foreign Nationals Act (*Zakon o strancima*) a foreign national may work in Croatia if he or she has a residence and work permit or a work registration certificate.

Foreign nationals may work without a residence and work permit if they are granted:

- Permanent residence
- Asylum, subsidiary or temporary protection
- Temporary residence for the purpose of family reunification with a Croatian citizen, a foreign national with permanent residence, an asylum seeker, or a foreign national who has been granted subsidiary or temporary protection
- Temporary residence on humanitarian grounds
- Autonomous stay
- The status of a regular student or student when performing transactions through authorised agents, without employment,
- Temporary residence for the purpose of scientific research approved by a hosting agreement

Residence and work permit

A residence and work permit is a single permit that allows a foreign national to temporarily stay and work in Croatia. The residence and work permit is issued by the competent police authority/station.

A residence and work permit is issued based on an annual quota. A decision on the annual quota is made by the Government of the Republic of Croatia.

A residence and work permit may be issued to foreign nationals (except for citizens of the EU) who are to perform key activities in a company, branch office or representative office if they meet the criteria referred to above and if:

- The value of the company's share capital or the assets of a limited partnership or a general partnership exceed HRK 100 000
- At least three Croatian nationals are employed in the company, branch office or representative office of a foreign company on jobs other than as members of the management board, supervisory board or other officers of the company
- The foreign national's gross salary is no less than the average gross salary paid in the Republic of Croatia in the previous year, according to the official data published by the competent statistical agency

If there are several foreign nationals from outside the European Union performing key activities for the same employer, a residence and work permit may be issued if they meet the criteria referred to above and the following conditions are met:

- For each foreign national employed, there are at least five Croatian citizens employed in jobs other than the authorised legal representative, member of the management board or member of the supervisory board
- The value of the company's share capital or the assets of a limited partnership or a general partnership exceed HRK 100 000 and
- The foreign employee's gross salary is at least equal to the average gross salary paid in the Republic of Croatia in the previous year, according to the official data published by the competent statistical agency

Foreign nationals, other than EU nationals, who are to be self-employed or employed by a company in which they hold a share of more than 51%, or in their own trade, may be issued a residence and work permit if they meet these criteria and if:

- They have invested at least HRK 200 000 in the establishment of a company or trade
- At least 3 Croatian citizens are employed by them
- The foreign national's gross salary is at least equal to the average gross salary paid in the Republic of Croatia in the previous year
- The company or trade does not operate at a loss and
- They provide proof of having settled their tax obligations and contributions in the Republic of Croatia.

Foreign nationals providing services may be issued a residence and work permit if they meet the criteria referred to above; if the service provider is employed with a foreign employer and has adequate qualifications, and the foreign employer has concluded a contract with a company or trade in the Republic of Croatia, provided that the services concerned involve specific services in the area of high technology and that the provision of such services is in the interest of the Republic of Croatia.

A work permit outside the annual quota may be granted to foreign nationals who meet the prerequisites for a temporary stay and:

- Who perform key activities in a company that is a beneficiary of incentive measures in accordance with the Regulation on investment incentives, or who hold an ownership share in such company of at least 51% and
- Who perform jobs or carry out projects in the Republic of Croatia pursuant to international treaties on professional and technical assistance that the Republic of Croatia has concluded with the European Union, some other state or an international organisation.

Work registration certificate

On the basis of a work registration certificate foreign nationals, among others; may work for up to 90 days a year in the Republic of Croatia in the following occupations:

- Authorised legal representatives of a company, key personnel or members of the supervisory board of a company who are not employees of such a company
- Persons providing services in the tourism industry, tour operators, or animators in accordance with special regulations
- Scientists engaged in scientific and professional training, scientists representing international organisations and scientists taking part in the implementation of scientific projects important for the Republic of Croatia
- Administrative staff, experts, teachers and trainers of foreign cultural, educational and scientific institutions who work in the Republic of Croatia within the framework of cultural and educational cooperation programmes, as well as administrative staff, experts, teachers and lecturers of foreign cultural, educational and scientific institutions in the Republic of Croatia
- Civilian and military officials of other state governments who work in the Republic of Croatia on the basis of a cooperation agreement with the Government of the Republic of Croatia
- Foreign correspondents accredited in the Republic of Croatia or foreign media reporters,
- Persons carrying out supervision and inspection of shipbuilding operations, or foreign nationals carrying out the supervision or inspection of production, assembly of equipment, machinery and other installations on the basis of an export contract or a foreign buyer's order
- Persons on the crew list of boats and other vessels

- Persons performing professional training, training or volunteering within the framework of the Union Programme, Education, Training, Youth and Sports programme Erasmus + and its successors, as well as other international programmes and other programmes and initiatives implemented by the body responsible for education, science or volunteering
- Persons providing vocational education, training or training of employees of legal and natural persons in the Republic of Croatia
- Persons performing tasks related to the delivery, installation or servicing of machines or equipment and whose work is a condition for the exercise of warranty rights or is related to the delivery of machinery or equipment
- Persons who are professionally trained in a legal entity with a head office in the Republic of Croatia that is organisationally linked to a foreign employer
- Persons who come for the purpose of internship on the basis of a training agreement
- Artists, authors, technical and other staff involved in recording a high-budget audiovisual production and
- Representatives of foreign travel agencies contracted to a tour operator in the Republic of Croatia

Work in Croatia of up to 60 days a year is permitted on the same basis to foreign nationals of the following description:

- Providers of audit and consulting services
- Teachers taking part in organised professional conferences and seminars
- Artists and technicians taking part in opera, ballet, theatre, concerts, art and other cultural events; authors and performers in the field of film and television arts
- Workers in circuses or amusement parks



Visas

Croatia's visa policy was fully harmonised with that of the European Union even before accession. This means that from that date onwards the classic visa régime applies to citizens of Russia and Turkey as well as citizens of all those countries who need a visa to enter the territory of the European Union.

A visa concerns approval for transit through the territory of the Republic of Croatia or residence on the territory of the Republic of Croatia for no longer than three months in any six-month period beginning on the date of first arrival in Croatia and transit through the transit area of an international airport.

Visas are of two types:

- An airport transit visa (visa A)
- A short-term visa (visa C)

A visa does not permit the holder to work in Croatia.

Visas are issued by diplomatic missions or consular offices of the Republic of Croatia abroad. They can also be issued by the diplomatic mission or consular office of another country with which the Republic of Croatia has signed a visa-issuing agreement. An application for a visa is submitted on the prescribed form up to three months prior to intended travel.

Nationals of the following countries, in addition to those from the European Union, do not need a visa to enter the Republic of Croatia or to stay in the country for up to three months, or for transit through the territory of the Republic of Croatia:

Table 1

Albania	Brunei Darussalam	Japan	Montenegro	Serbia
Andorra	Canada	Korea	Nicaragua	Singapore
Antigua and Barbuda	Chile	Liechtenstein	New Zealand	Switzerland
Argentina	Costa Rica	Macedonia	Norway	Turkey
Australia	El Salvador	Malaysia	Panama	United States
Bahamas	Guatemala	Mauritius	Paraguay	Uruguay
Barbados	Honduras	Mexico	San Marino	Vatican City (Holy See)
Bosnia Herzegovina	Israel	Monaco	Seychelles	Venezuela
Brazil				

3. FINANCE AND INVESTMENT

Business regulation

EU accession negotiations provided an additional impetus for the Croatian Government to undertake measures in recent years to address corruption and bureaucratic and judicial inefficiency. Successive governments have demonstrated their determination further to strengthen these reforms as well as find new and more effective ways to consolidate public spending, improve the business climate, and foster economic growth. The Working Group for Business Climate and Private Investments, which consists of high-level representatives of 23 ministries and institutions meets regularly to discuss commercial and investment disputes. The government has also established an Agency for Investments and Competitiveness to serve as the operational institution for the Working Group, and to assist investors with their projects.

Under the Companies Act, domestic and foreign companies do business under equal conditions. A foreign investor may establish or participate in establishing a company and may acquire rights and/or commitments in the same way as any domestic investor. Foreign investors, headquartered or with residence in a non-WTO member country need to meet the reciprocity condition.

The Constitution of the Republic of Croatia provides several guarantees for foreign investors. It is especially enacted that all rights acquired through the investment of capital cannot be restricted by law or any other legal act, and that foreign investors are guaranteed free transfer and repatriation of profit and invested capital.

Foreign citizens wishing to acquire immovable property in Croatia may do so only if there is a reciprocal agreement with the country allowing Croatian citizens to do the same. The latter does not apply to citizens and legal entities coming from the European Union. The latter can acquire ownership over immovable property under the same assumptions that apply to Croatian citizens and legal entities headquartered in Croatia, with the exception of specific types of property, i.e. agricultural land protected by a special law and protected nature reserves. A foreign investor may establish a company in Croatia that will be allowed to acquire immovable property without limitations.

Foreign legal entities and persons may:

- Invest capital on a contractual basis
- Invest in a company
- Invest in a bank or insurance company
- Set up as craftspeople or do business as sole traders
- Obtain a concession to exploit natural resources or other assets of interest to Croatia

Intellectual property rights

Croatia is aware of the fact that in today's world the enhancement of products and production processes, intellectual property has become the most valuable item in a company's assets and one of very important components in the business world in general. Having realised this, Croatia enacted a series of measures at the end of 2003 on the protection of intellectual property so that the Croatian legal framework is fully coordinated with EU norms.

Croatia is a member of the World Intellectual Property Organisation (WIPO) and is a signatory of all important international instruments in the field of intellectual property. As a full WTO member, Croatia is a party to the Uruguay Round Agreement on Trade-Related Intellectual Property Rights (TRIPS).

From 1 July 2013 (accession to the European Union), the Community Trademark System (CTM) and Community Design (CD) are also applicable within the territory of the Republic of Croatia. From that date a new intellectual property right was also introduced – an Unregistered Community Design. This right is acquired without a formal registration procedure, through public disclosure within the European Union, and refers to the prohibition of abuse by the reproduction of protected designs.

Also, starting from 1 July 2013 new legal instruments were introduced in the area of patent rights – the Supplementary Protection Certificate for Medicinal Products intended for humans and animals as well as for plant-protection products, which provide the possibility of additional extensions of the basic patent protection for medicines intended for humans and animals as well as plant protection products.

Banking and local finance

The Croatian banking system consists of the Croatian National Bank - CNB (i.e. Central Bank), a number of private commercial banks, and a state-owned commercial bank. The CNB acts as the independent regulator of the banking system. The objective of the Croatian National Bank is to maintain price stability. Also, it has, among others, the following tasks:

- To define and implement the monetary and foreign exchange policies;
- To hold and manage the foreign reserves of the Republic of Croatia;
- To issue banknotes and coins;
- To exercise supervision and oversight in accordance with the laws governing the operation of credit institutions, credit unions, payment institutions and payment transaction settlement systems, etc

Other financial institutions and insurance enterprises are regulated by separate laws and by the acts of the state regulator – The Croatian Financial Services Supervisory Agency – HANFA.

Business activities in Croatia can be financed either through standard loans from commercial banks or institutions offering more favourable interest rates or issuing guarantees for bank credits.

Consisting of 23 licensed commercial banks, one development and export bank (the Croatian Bank for Reconstruction and Development – HBOR), and four housing-savings banks, a traditionally stable and highly developed sector, the Croatian banking system offers high diversification and a good quality of financial products and services.

Commercial banks are mostly foreign-owned and the largest are Zagrebačka banka d.d., Privredna banka Zagreb d.d., (together they hold 45% of the total assets of all banks in Croatia) and Erste & Steiermarkische bank d.d. and Raiffeisenbank Austria d.d. These four banks together own 67% of the total assets of all banks.

An important rôle in helping companies in their further developing and exporting activities is played by the Croatian Bank for Reconstruction and Development (HBOR). Through its specialised programmes, HBOR provides support to start-ups, exporting companies, new production and companies from different sectors of economy such as industry, tourism, environmental protection and energy efficiency, agriculture etc.

Additional support to business activities is provided by the Government Agency for SMEs and Investment (HAMAG Invest). Hamag Invest issues guarantees for bank credits approved by credit institutions and other legal entities approving loans to SMEs and makes direct financial contributions to SMEs in a form of grants.

There is an additional financing option for entrepreneurs and investors in developing their projects in Croatia, and these are EU funds. As the 28th full Member State of the European Union, Croatia has access to the Structural Funds and the Cohesion Fund.

Exchange control

The Foreign Exchange Act (*Zakon o deviznom poslovanju*) regulates domestic and foreign currency transactions in Croatia. Foreign currencies are freely convertible into kunas and vice versa. Import and export of capital is free but is subject to reporting requirements.

Payment transactions are carried out through foreign-currency accounts at commercial banks in the country and abroad, according to the provisions of the Foreign Exchange Act and supervised by the Croatian National Bank.

Business entities, as well as domestic and foreign individuals, may open foreign-currency accounts in commercial banks.

Investment incentives

Incentive measures and actions for enhancement of investment projects in Croatia are regulated by the Act on Investment Promotion (*Zakon o poticanju ulaganja*) and pertain to investment projects in:

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

Investment incentives apply in cases where one or more of the following objectives are fulfilled:

- The purchase of new equipment and modern technologies
- Increased employment and level of employee training
- The development of products and services with higher added value;
- An increase in business competitiveness;
- The balanced regional development of the Republic of Croatia

Incentive measures include:

- Tax incentives for micro-businesses
- Tax incentives for small, medium-sized and large enterprises
- Grants for eligible costs of new employment linked to the investment project
- Incentives for the eligible costs of training linked to an investment project
- Incentives for:
 - development and innovation activities
 - business incentives and
 - the activities of services with high added value
- Incentives towards the capital costs of the investment project
- Incentives for labour-intensive investment projects

Enterprises are classified in accordance with Annex I of Commission Regulation (EU) No 651/2014 of 17 June 2014, as shown in Table 2.

Table 2

Enterprise category*	Number of employees		Annual turnover		Annual balance sheet
Large	≥ 250	and	> EUR 50 million	or	> EUR 43 million
Medium	< 250	and	≤ EUR 50 million	or	≤ EUR 43 million
Small	< 50	and	≤ EUR 10 million	or	≤ EUR 10 million
Micro	< 10	and	≤ EUR 2 million	or	≤ EUR 2 million

*affiliated enterprises must be taken into account

Incentive measures may be used by enterprises registered in Croatia investing in fixed assets in a minimum amount of:

- EUR 50 000 plus at least three new jobs for microenterprises
- EUR 150 000 plus at least five new jobs for small, medium-sized and large enterprises
- EUR 50 000 plus at least 10 new jobs for ICT system and software development centres

The minimum period for maintaining the investment and newly created jobs linked to an investment is five years for large enterprises, and three years for small and medium-sized enterprises, but no less than the period of use of the incentive measures.

Job-creation incentives are shown in Table 3.

Table 3

County Unemployment Rate	Incentive Rate in Relation to Eligible Costs of Opening New Workplaces*	Increase for Technology Innovation and Development Centres	Increase for Business Support Strategic Activities and High Added-Value Investment Activities	Incentives for innovation and development activities
<10%	10% (max. EUR 3000) for employing groups of persons covered by Article 9(3) of the Regulation*	+50% (EUR 1500)	+25% (EUR 750)	20% of the eligible cost of buying the equipment/ machinery (up to EUR 0.5 million) All the equipment/ machinery has to be high-technology
	4% (max. EUR 1200) for employing other groups of persons	+50% (EUR 600)	+25% (EUR 300)	
10-20%	20% (max. EUR 6000) for employing groups of persons covered by Article 9(3) of the Regulation*	+50% (EUR 3000)	+25% (EUR 1500)	
	8% (max. EUR 2400) for employing other groups of persons	+50% (EUR 1200)	+25% EUR (600)	
>20%	30% (max. EUR 9000) for employing groups of persons covered by Article 9(3) of the Regulation*	+50% (EUR 4500)	+25% (EUR 2250)	
	12% (max. EUR 3600) for employing other groups of persons	+50% (EUR 1800)	+25% EUR (900)	

* Article 9(3) of the Regulation on Investment Promotion (*Uredba o poticanju ulaganja*)

Table 4 Incentive measures for labour-intensive investment projects:

Number of newly created jobs	Increase of support for creating new jobs
100 and more	25%
300 and more	50%
500 and more	100%

Incentive measures for the capital costs of an investment project are shown in Table 5:

(Eligibility: over EUR 5 million and more than 50 new jobs)

Table 5

County unemployment rate	Incentives for Capital Expenses
10-20%	<p>Cash grant of 10% of the eligible costs of investment in:</p> <ul style="list-style-type: none"> – Construction of a new factory, production facility or tourist facility – Buying new machinery, i.e. production equipment <p>(max amount up to EUR 0.5 million with the condition that investment in machinery equals at least 40% of the total investment and that at least 50% of that machinery is high-technology)</p>
>20%	<p>Cash grant of 20% of the eligible costs of investment in:</p> <ul style="list-style-type: none"> – Construction of a new factory, production facility or tourist facility – Buying new machinery, i.e. production equipment <p>(max amount up to EUR 1 million with the condition that investment in machinery equals at least 40% of the investment and that at least 50% of that machinery is high-technology)</p>

The amount of aid is calculated as a percentage of investment value, which is determined on the basis of eligible investment cost. Eligible investment costs are:

- Tangible (value of land/buildings and plant/machinery) and intangible assets (patent rights, licences, know-how) or
- Gross wages calculated over a period of two years

The minimum period for maintaining the investment and newly created jobs linked to an investment is five years for large enterprises, and three years for small and medium-sized enterprises, but no less than the period of use of the incentive measures.



Incentive measures for investment projects through economic activation of inactive property owned by the Republic of Croatia are shown in Table 6:

Table 6

Investment amount (EUR million)	Newly employed	Obligatory investment into inactive property granted for lease	Incentive	Procedure for getting the lease
3	15	50% increase in the value of the property within 3 years in relation to the estimated value of the inactive property at the commencement of the lease	Free lease of inactive property for up to 10 years from the start of investment	For investment located in lower developed local self-government units (I-IV) – without any additional preconditions for investment located in higher developed local self-government units (V-VIII) – after three rounds of public tender for sale of inactive property

Free-trade zones

In a free zone, the production of goods, improvement of products, storing of goods, wholesale trade, strategic activities regarding business support, founding of technology and innovation centres, provision of services are all permitted, except for banking and other financial operations and insurance and reinsurance of property and persons. Retail trade is not allowed.

For free-trade zone users who perform an initial investment, incentives under the Act on Investment Promotion apply.

Since, from the date of accession of Croatia to the European Union, free-trade zones are included in Croatian territory in fiscal terms, the supply of goods and services in a free-trade zone is subject to VAT.

4. THE ACCOUNTING AND AUDIT ENVIRONMENT

Accounting regulations

The Accounting Act (*Zakon o računovodstvu*) defines accounting and reporting frameworks applicable in Croatia. As of 1 January 2008 the official accounting frameworks in Croatia are Croatian Financial Reporting Standards (HSFI) and International Financial Reporting Standards (IFRS).

For all companies classified as large, public-interest entities including listed companies or those that are in the process of being listed, the Accounting Act requires that financial statements be prepared for each financial year in accordance with International Financial Reporting Standards published in the National Gazette. Small and medium-sized entities are required to prepare financial statements in accordance with Croatian Financial Reporting Standards.

Enterprises, as defined by this Act, are classified as micro, small, medium-sized and large enterprises on the basis of the indicators determined at the last day of the financial year preceding the financial year in respect of which financial statements are drawn up according to the following criteria:

- Total assets
- Turnover
- Average number of employees in the course of the financial year

Microenterprises are those that do not exceed any two of the following criteria:

- Total assets of HRK 2 600 000
- Turnover of HRK 5 200 000
- Average number of employees in the course of the financial year: 10

Small enterprises are those that do not exceed any two of the following criteria:

- Total assets of HRK 30 000 000
- Turnover of HRK 60 000 000
- Average number of employees in the course of the financial year: 50

Medium-sized enterprises are those that exceed at least two of the above criteria, but do not exceed any two of the following criteria:

- Total assets of HRK 150 000 000
- Turnover of HRK 300 000 000
- Average number of employees in the course of the financial year: 250

Large enterprises are those that exceed at least two of the criteria for medium-sized enterprises.

Audit requirements

The Accounting Act also governs the statutory audit of the financial statements of companies incorporated in Croatia. Companies required to have an annual statutory audit are:

- Public-interest entities and large and medium-sized undertakings other than public-interest entities
- If they are not subject to an audit in accordance with the above paragraph, joint-stock companies and limited-liability companies are nevertheless so subject if their individual or consolidated data in the year preceding the auditable year exceeds the indicators in at least two of the following three cases:
 - Total assets of HRK 15 000 000
 - Total turnover of HRK 30 000 000
 - Average number of employees in the course of the financial year: at least 25
- If they are not subject to an audit in accordance with the above paragraphs, businesses are nevertheless so subject if they participate in business mergers, mergers or divisions as acquirers or newly established companies
- Consolidated financial statements are also subject to an annual statutory audit



Audits of financial statements are based on the Auditing Act (*Zakon o reviziji*) and International Standards of Auditing (ISA) published in the National Gazette, and a statutory audit may only be performed by an eligible and authorised auditing firm (including auditing firms from other EU Member States) registered with the Ministry of Finance.

5. OVERVIEW OF THE TAX SYSTEM

The Croatian tax system is similar to those of most EU Member States and is based around a set of direct and indirect taxes. Foreign nationals enjoy tax privileges to the same extent as Croatian nationals. The tax privileges are not linked to the place of permanent residence.

The main taxes in Croatia are:

- Corporate income tax (*porez na dobit*) including withholding tax (*porez po odbitku*)
- Personal income tax (*porez na dohodak*)
- Value added tax (*porez na dodanu vrijednost*)
- Excise duties (*trošarine*) – (on mineral oil and mineral oil products, tobacco products, alcohol, soft drinks, beer, coffee, passenger cars and other motor vehicles, vessels and aircrafts, luxury goods)
- Immovable-property transfer tax (*porez na promet nekretnina*)
- Inheritance and gift tax (*porez na nasljedstva i darove*)
- The tax on games of chance (*porez na igre na sreću*)
- County and local surtaxes

The Tax Administration is an administrative unit within the Ministry of Finance, whose basic task is to implement tax regulations and regulations concerning the payment of obligatory contributions. The tax system is based on the principles of equality and equity.

Appeals

Appeals have to be filed within 30 days of the date on which the tax assessment is received and are made in the first instance to the Tax Authority itself. Appeals against a decision of the Tax Authority may be filed with the competent court.

Appeals may be filed directly or by registered mail or dictated verbally into the official records of the Tax Authority. It is enough to have the appeal clearly state the identity of the appellant and the tax assessment in dispute.

6. TAXES ON BUSINESS

Corporate income tax (*Porez na dobit*)

Scope and extent

Taxation of the income of business entities is regulated by the Corporate Income Tax Act (*Zakon o porezu na dobit*).

Although partnerships and some natural persons may also be subject to corporate income tax, taxable entities will be referred to as ‘companies’ in the rest of this Chapter for the sake of simplicity, except where it is necessary to distinguish between the different types of taxpayer.

Under the Act, resident companies are taxed on their worldwide income. Foreign-source income derived by residents is subject to the same corporate tax rules as Croatian-source income.

If the company has realised income or profits abroad (directly or through its business units) on which it has paid foreign income tax or its equivalent, the tax paid abroad may be set off as a credit against domestic taxes, up to the amount of income taxes that would have been paid on the same amount of profit or income in Croatia.

Non-resident companies are taxed solely only on their profits and income derived from Croatia.

Company residence

A company is considered to be resident in Croatia if it has its registered office (seat) or place of effective management and control in Croatia.

Taxable entities

The following persons are subject to corporate income tax:

- A company or other legal person or a natural person resident in Croatia who is permanently and independently engaged in an economic activity for the purpose of deriving a profit, an income or a revenue or other assessable economic benefits
- A resident permanent establishment of a non-resident enterprise
- A natural person carrying on a business who opts to be assessed to corporate income tax instead of to personal income tax
- A natural person carrying on a business with a turnover in the preceding tax period of HRK 3 million or more or who satisfied at least two of the following criteria in the preceding tax period:
 - Net income in the preceding tax period of HRK 400 000 or more
 - The value of the person’s depreciable fixed assets exceeds HRK 2 million
 - The person employed more than 15 employees on average
- Certain state-owned or local-authority institutions, associations, clubs, open-ended investment funds or foundations carrying on an economic activity, the exemption from tax of would distort competition
- General and limited partnerships
- Any other resident person carrying on a business who is not subject to personal income tax and whose profit would otherwise not be subject to Croatian tax



Taxable period

The taxable period is normally the calendar year. On application to the tax authority, companies may adopt a different 12-month period as their taxable period.

Taxable income

The taxable base is the pre-tax corporate income (profit) determined according to the appropriate accounting standards, adjusted in accordance with the provisions of the Corporate Income Tax Act.

The main class of exempt income is dividends and other earnings from shares.

Deductions

General principles

In general, all expenditure incurred for the purpose of deriving taxable income is deductible, provided that it is properly documented.

However, certain specific heads of expenditure are either not deductible at all or have restricted deductibility.

Examples of such expenditure and the degree to which deduction is not available include:

- 50% of entertaining costs
- 50% of expenses incurred on employee cars, vessels or aircraft (unless forming part of the employee's salary)
- 100% of fines and penalties
- 100% of expenditure not related to the business
- 100% of most contributions to reserves

Depreciation

Fixed assets of a cost of HRK 3500 or more and with a useful life longer than one year may be depreciated under the straight-line method at rates prescribed in the Corporate Income Tax Act.

Non-depreciable assets include:

- Land and forests
- Goodwill on acquisition
- Monuments and works of art
- Financial assets

Examples of prescribed rates of depreciation are given in Table 7.

Table 7

Type of asset	Maximum straight-line rate (%)
Buildings and ships over 1000 BRT	5
Plant, machinery, intangible assets	25
Computers, software, mobile phones, computer equipment	50
Livestock, cars	20

Interest

Interest expense is in principle deductible under the same conditions as other business-related expenditure. However, there are thin-capitalisation rules and rules against excessive interest (see under 'Thin capitalisation' below).

Capital gains

In general, capital gains, computed as the difference between the acquisition cost and net disposal proceeds, are included in taxable income.

There is no indexation and no rollover or other deferment relief for reinvestment.

However, some capital gains arising on a reorganisation or reconstruction may be deferred.

Dividends, interest and royalties receivable

As has been noted above, dividends are exempt from corporate income tax.

Interest and royalties received and receivable are subject to tax.

For withholding tax on payment of dividends, interest and royalties, see under 'Withholding taxes' below.

Group taxation

Under Croatian legislation, there are no provisions for grouping or consolidation for tax purposes.

Losses

Tax losses may be carried forward for a maximum of five years and are set off on a FIFO basis (i.e. earlier losses are set off before later losses). Losses may not be carried back.

Following a change of ownership of 50% or more, the right to set off losses brought forward is forfeited if the business of the company is significantly changed within two years of the change of ownership.

Capital losses may be set off against revenue (ordinary income).

Withholding taxes

There is generally no withholding tax on any payment of income to resident companies (NB: royalties paid to resident companies are generally subject to the standard rate of VAT, which is 25%).

For withholding tax on payments to resident individuals, see Chapter 7, under 'Withholding taxes'.

Withholding tax is, however, levied on payments to non-resident companies, at the rates shown in Table 8.

Table 8

Type of income payment	Rate of withholding tax
Dividends	0/12 ¹
Interest	0/15 ²
Royalties	0/15 ³
Property rentals	-
Service fees ⁴	0/15/20 ⁵

Notes

- 1 The zero rate applies to EEA-resident companies under the EU Parent Subsidiary Directive, where the participation threshold is 10% and the minimum holding period is 24 months; for Swiss companies, the participation threshold is 25%
- 2 The zero rate applies to loans from foreign credit institutions and corporate and state bonds. The zero rate also applies to payments to other EEA-resident or Swiss-resident companies under the EU Interest and Royalties Directive, subject to a participation threshold of 25%
- 3 The zero rate applies to payments to other EEA-resident or Swiss-resident companies under the EU Interest and Royalties Directive, subject to a participation threshold of 25%
- 4 Such as fees for market research, tax and business advisory and audit services
- 5 The zero rate applies if the recipient company is resident in a treaty jurisdiction; the 15% rate applies where it is not resident in such a jurisdiction, but is 20% if the recipient company is resident or effectively controlled and managed in a blacklisted jurisdiction, for which see under 'Other anti-avoidance provisions'

These rates are subject to contrary provisions (if any) in a double tax treaty.

Thin capitalisation

Interest on a loan granted by a shareholder is non-deductible to the extent that the shareholder holds more than 25% or more of the shares and/or voting rights in the debtor company and the value of the loan exceeds four times the value of the shareholder's interest in the company's equity. Thin-capitalisation rules do not apply to loans granted by banks or other financial institutions.

There is also a rule against excessive interest. To be fully deductible, interest paid to a foreign related party may not exceed a ceiling rate prescribed by the Croatian Ministry of Finance. The prescribed rate for 2016 is 5.14% per annum. The rule also works in reverse, i.e. the interest rate on a loan from a Croatian-resident company to a foreign related party may not be less than the prescribed rate (5.14% in 2016).

Transfer pricing

Transfer pricing rules in Croatia are in accordance with the OECD guidelines.

Transactions between a resident person and a related non-resident person must take place at arm's length prices. Where they do not, the Tax Authority has the right to make the appropriate adjustment.

These rules also apply to transactions with a domestic related party where one of the parties:

- Has a privileged tax status and pays corporate income tax at rates that are lower than the prescribed rate or is exempted from payment of corporate income tax and
- Has tax losses brought forward from previous periods

Controlled foreign company (CFC) rules

Croatia has no CFC provisions.

Other anti-avoidance rules

Croatia takes a substance over form (*fraus legis*) approach. Under this approach, tax authorities are allowed to ignore the legal form of a transaction between taxpayers and to look to the actual substance of the transaction.

Blacklisted jurisdictions

Service fees paid to entities resident or effectively controlled and managed in the jurisdictions listed in Table 9 are subject to the higher withholding rate of 20% (see above, under 'Withholding taxes').

Table 9

Andorra	Fiji	Netherlands Antilles
Anguilla	Gibraltar	Niue
Antigua & Barbuda	Grenada	Palau
Aruba	Guam	Panama
Bahamas	Guernsey	St Kitts and Nevis
Bahrain	Guyana	St Lucia
Barbados	Hong Kong	St Vincent and the Grenadines
Belize	Isle of Man	Samoa
Bermuda	Jersey	Seychelles
British Virgin Islands	Liberia	Sint Maarten
Brunei Darussalam	Liechtenstein	Solomon Islands
Cayman Islands	Macao	Tonga
Cook Islands	Maldives	Trinidad and Tobago
Christmas Island	Marshall Islands	Turks and Caicos Islands
Commonwealth of Dominica	Monaco	Tuvalu
Dominican Republic	Montserrat	US Virgin Islands
Falkland Islands	Nauru	Vanuatu

Tax incentives

There are a variety of tax exemptions, reliefs and incentives.

Accelerated depreciation

Double the normal rate of depreciation may be available in certain circumstances.

Investment incentives

Companies may qualify for reduced or even zero rates of corporate income tax in return for investment of a certain amount which involves creating new jobs to be maintained for a minimum period. The essential details are shown in Table 10.

The investment must be in one of the following types of activity:

- Manufacturing and processing
- Development and innovation
- Strategic business support
- High added-value services

Table 10

Investment amount (EUR million)	Minimum number of new jobs	Minimum period of employment (years)	Profit tax rate reduction	Period (years)
0.15 -1.00 (>0.05 for micro and ICT system and software development centers)	5 (3 for micro, 10 for ICT system and software development centres)	3 (SMEs), 5 (large)	50%	10 (5 for micro)
1.00-3.00	5	3 (SMEs), 5 (large)	75%	10
>3.00	10	3 (SMEs), 5 (large)	100%	10

Research and development incentives

Registered scientific organisations, centres of scientific excellence, individual scientists, and groups of scientists are entitled to apply for state grants and tax incentives for scientific research, basic research and applied research.

Depending on the type of research and the size of the company (i.e. micro, small, medium-sized or large), a super-deduction of up to 100% of the amount of qualifying costs.

Free zones

Companies carrying on business within a free zone may be eligible for a reduced rate (normally 15%) of corporate income tax.

Rate of corporate income tax

The rate of corporate income tax is 12% if the revenues realised by the company in the taxable period are less than HRK 3 million and 18% otherwise.

Returns and payment

Returns

Croatia operates a self-assessment régime. Generally, a tax return must be filed with the Tax Authority within four months of the end of the taxable period.

The return must normally be supported by the following documentation:

- Statement of financial position (balance sheet)
- Income statement
- Statement on use of payments on account of corporate income tax
- Calculation of tax reliefs, exemptions and incentives
- Overview of payments subject to withholding tax
- Report on business transactions with related parties

Companies classified as large or medium-sized must file their return in an electronic format.

Payment

Corporate income tax is payable in advance in 12 equal monthly instalments based on the previous year's tax liability. Each month's payment is due by the end of the following month. Any balance of tax payable is due when filing the tax return.

Companies that have just commenced operations are not required to make payments on account until they have filed their first tax return.

The tax authority has the right to assess additional tax liabilities within three years of the 1 January of the year following the year in which the tax return has to be filled.

Audits and appeals

On occasions when a tax audit of a company's affairs is held, the authority subsequently issues an official record of the tax audit. The audited company may object to the record within a prescribed filing deadline.

If the audit results in an assessment to additional tax, the assessment has to be issued within 60 days of the issue of the record.

The company subsequently has 30 days within which to appeal against the assessment. The tax authority must then reply within two months of the day the appeal is lodged.

If the appeal is refused, the taxpayer may appeal to the courts.

Value added tax (*porez na dodanu vrijednost*)

Value added tax (VAT) as regulated by the European Union is generally charged on the supply of goods or services where the place of supply is in Croatia, no matter whether the customer is a private person or a business. It is thus a multi-stage tax charged at each stage of the product cycle but is ultimately borne by the end-user (final consumer). It is also levied on imports of goods from outside the European Union. The overall framework of the tax is the competence of the European Union, as legislated in the VAT Directive (2006/112/EC) and associated Directives and Regulations. These allow Member States several options in application of the tax, not the least of which is the power to set rates (within certain broad parameters).

As elsewhere in the European Union, supplies may be taxable, exempt (with or without the right to deduct) or outside the scope. Exempt supplies with the right to deduct are sometimes referred to as 'zero-rated'. Businesses making exclusively taxable or zero-rated supplies generally qualify for full deduction of input VAT (the VAT they have incurred making supplies). Businesses making exclusively exempt supplies without the right to deduct do not qualify for deduction of input VAT. Businesses making a mixture of exempt supplies without the right to deduct and taxable or zero-rated supplies may fully deduct only the input VAT directly incurred on making the taxable or zero-rated supplies. Partial deduction will be available for overheads and other indirect costs.

VAT in Croatia is governed by the Value Added Tax Act (*Zakon o porezu na dodanu vrijednost*), which is in conformity with the EU VAT Directive (2006/112/EC) as amended.

Taxable entities

Businesses ('taxable persons') charging VAT to their customers are liable to report and pay this VAT to the Croatian tax authorities. Any VAT incurred in the course of the taxable person's taxable activity (e.g. charged by the taxable person's suppliers), can in principle be deducted or set off against the VAT due. Only the net amount must be paid to the tax authorities. If there is a balance of deductible VAT, the amount is in principle recoverable from the tax authorities (but see below). Consequently, the real burden of VAT falls on the final consumer, with the intervening business effectively acting as a collecting agent for the tax authorities.

Although most taxable persons are businesses and most businesses are taxable persons, a taxable person is any person independently carrying on an economic activity. The definition of 'economic activity' is quite wide, so that on occasion, even persons not carrying on a business in the generally understood sense of the word may have to charge and pay over VAT.

Taxable persons with a permanent establishment or habitual residence in Croatia, the VAT-exclusive value of whose supplies of goods and services in the previous calendar year did not exceed HRK 3 million, may account for and pay VAT on a cash-accounting basis

Taxable persons

All persons making supplies of goods or services or importing goods in the course of independently carrying on a business activity are taxable persons for the purposes of VAT.

Taxable activities

Taxable activities are:

- The supply (delivery) of goods or the supply (provision) of services in Croatia carried out for consideration by a taxable person in the course of carrying out business activities
- The importation of goods into Croatia

A supply of goods takes place when title to the goods passes or any other transfer takes place which enables the recipient to dispose of the goods as their owner. A supply of services is any taxable activity that is not a supply or importation of goods. Furthermore, refraining from an act may also be a supply of services.

A supply is considered to take place where:

- For the supply of goods generally – where the goods are located at the moment when delivery begins
- For water, electricity, gas and thermal energy – the place of delivery
- For goods installed by the deliverer – the place of installation
- For the supply of services generally – the place where the supplier has his business
- For services related to immovable property – the place where the immovable property is located
- For transport services – the actual place of transport
- From 1 January 2015, for broadcasting, telecommunications and electronically delivered services to private consumers, the place where the consumer is located
- Services related to culture, art, science, education etc – the place where the service is provided
- Renting and leasing of movable goods, telecommunication services, transfer of intellectual rights, services of lawyers, auditors, advisors, data processing etc – the place where the service is provided and
- Some other exceptions similar to those listed in the EU VAT Directive

Exempt supplies

Exempt supplies are divided in two categories:

- Supplies that are exempt with the right to deduct input tax and
- Supplies that are exempt without the right to deduct input tax

Supplies that are exempt with the right to deduct input tax include the following:

- Exports of goods and intra-EU supplies
- Transportation of export, import, and transit goods
- Services that are directly related to goods that are imported from third countries and are not released for free circulation within the European Union but placed in a free zone or customs warehouse
- Supplies of goods and services connected with international transport (ships and aircraft)
- International transport services on ships and aircraft
- International passenger traffic
- Supplies of goods and services under diplomatic and consular arrangements

Supplies that are exempt without the right to deduct include:

- Transactions in shares and other securities
- Most banking and financial services
- Insurance and reinsurance transactions
- Services closely linked to welfare and social security work
- Provision of medical care
- Most educational services
- The sale of immovable property excluding the sale of building land or immovable property before first occupation or within two years of first occupation
- The rental of residential property (excluding hotel and holiday accommodation)
- Betting, lotteries, and other forms of gambling
- Certain postal services

Standard, reduced and zero rates

The standard rate of VAT is 25%. Any supply that is not exempt, outside the scope or taxable at a reduced rate is taxable at the standard rate.

There are two reduced rates: 13% and 5%.

Supplies charged at the reduced 13% rate include:

- Hotel and other commercial accommodation services
- Child seats for cars
- Electric power
- Funeral caskets and urns
- Newspapers not subject to the 5% rate and magazines
- Edible oils and fats
- Infant nutrition
- Water (except water marketed in bottles or other containers)
- Concert tickets
- Fertilisers and pesticides
- Fodder for livestock
- Seeds and seedlings



Supplies charged at the 5% rate include:

- Bread and milk
- Books of scholarly, scientific, artistic, cultural and educational character
- Prescribed medicines and medical equipment
- Scientific journals
- Cinema tickets
- Certain daily newspapers printed on paper, except those wholly or mainly containing advertisements or used for advertising purposes

Registration

The registration threshold for taxable persons established in Croatia is a turnover exceeding HRK 300 000 (HRK 230 000 before 1 January 2018). Voluntary registration is possible for taxable persons below the threshold, but such persons may not then deregister until at least five years have lapsed.

Non-established taxable persons who carry out taxable supplies in Croatia must register for VAT whatever their turnover from those supplies.

The threshold for distance sales (sales made to non-taxable persons in Croatia by a taxable person established abroad) is HRK 270 000; the threshold for intra-EU acquisitions by a previously unregistered person is HRK 77 000.

Returns and payment

The normal taxable period is the calendar month, but taxable persons whose annual taxable supplies do not exceed HRK 800 000 may opt to make quarterly returns, unless they make supplies in other EU Member States. There is also a requirement for an annual return, due by the end of the February following the year concerned.

Returns must be filed within 20 days of the end of the taxable period.

Taxable persons established in third countries may apply for a VAT refund, provided reciprocity agreements are in place and a tax representative is used.

Other taxes on business

Consumption tax (*porez na potrošnju*)

Local authorities levy this tax on persons providing catering or hospitality services, on the sale price of beverages sold on the premises, at rates of up to 3%.

7. PERSONAL TAXATION

Income tax (*porez na dohodak*)

Territoriality and residence

Under the Personal Income Tax Act (*Zakon o porezu na dohodak*) personal income tax is paid on the worldwide income of Croatian-resident taxpayers and the Croatian-source income of non-resident taxpayers.

An individual is considered to be resident in Croatia if he has a permanent or temporary place of residence in Croatia. A non-resident taxpayer is a natural person who does not have a permanent or temporary place of residence in Croatia but derives Croatian-source income that is subject to tax in Croatia.

A person is considered to have a permanent place of residence if he has the ownership or use (note: a lease contract applies) of a dwelling for a continuous period of at least 183 days over two consecutive calendar years. It not necessary to stay in the place of abode to meet the 183-day threshold.

Persons liable

All natural persons deriving income are in principle subject to personal income tax, but certain individuals carrying on a business or profession may opt for corporate income tax to apply to the income from their business; certain others (e.g. those with a turnover of HRK 3 million or more) are mandatorily liable to corporate income tax (for more details, see Chapter 6, under 'Taxable entities').

Partnerships

Commercial partnerships (both general and limited) have separate legal personality and are thus liable to corporate income tax at the partnership level.

The family unit

In Croatia, there is no joint taxation of married couples. Each natural person is independently liable to personal income tax, regardless of marital status. This applies equally to minor children. Family responsibilities and the existence of dependants is recognised in the system of personal allowances (see below).

Structure of income tax

The law recognises six separate sources of taxable income:

- Income from employment
- Income from self-employment (independent activities)
- Income from property and property rights
- Income from capital
- Income from insurance
- Other income

Exempt income

Exempt income includes:

- Interest from savings in HRK and foreign-currency accounts not exceeding 0.5% per annum
- Interest from investment bonds
- Proceeds from the sale of financial assets in certain cases (unless this is the business activity of the taxpayer)
- Proceeds of alienation of immovable property in certain cases
- Awards for the care of war invalids and the family members of killed, imprisoned or missing Croatian war veterans



The tax year

The tax year is the calendar year.

Income from employment

Income from employment includes receipts in cash or in kind paid or given by the employer to the employee on the basis of an employment relationship as recognised by law.

Taxable income from employment includes most other forms of remuneration from an employment relationship, including benefits-in-kind, overtime bonuses, holiday pay and severance pay over a certain threshold.

Benefits-in-kind

For taxation purposes, benefits-in-kind are generally valued at market value (inclusive of VAT), grossed up for income tax, city tax (where relevant) and social security contributions. Special valuation methods apply for some benefits, such as the use of company cars and beneficial loans.

Directors' remuneration

Where directors have an employment contract with the company, their remuneration is treated as income from employment.

However, it is usual for members of the supervisory board, for example, not to be employees of the company. In such a case, their remuneration is treated as 'other income' (see below).

Share options

Income from shares in the employer company is regarded as net employment income, taxable at progressive rates when allocated or when an option is exercised.

Shares purchased by directors and employees of a listed Croatian joint-stock company via a stock option scheme are taxed as income from capital at the rate of 24% when the option is exercised or when the shares are awarded in the absence of an option scheme.

Taxation of personal business income

Income from self-employment (personal business income) is classified under three headings:

- Income from small business and other forms of sole tradership
- Income from exercise of a profession
- Income from agriculture and forestry

For self-employed persons realising a large turnover, personal income tax is or may be replaced by corporate income tax (see above under 'Persons liable' and Chapter 6, under 'Taxable entities').

For others (whether trading or carrying on a profession), taxable income is computed either on an accounting basis, under which broadly the same expenditure is deductible as for corporate income tax (but always on a cash basis), or a lump-sum basis.

Under the lump-sum basis, the taxpayer pays one of four amounts of tax:

- Where the taxpayer's income from self-employment does not exceed HRK 85 000, the tax base is HRK 12 750 and the annual tax payable is HRK 1530
- Where the taxpayer's income from self-employment exceeds HRK 85 000 but does not exceed HRK 115 000, the tax base is HRK 17 250 and the annual tax payable is HRK 2070
- Where the taxpayer's income from self-employment exceeds HRK 115 000 but does not exceed HRK 149 000, the tax base is HRK 22 425 and the annual tax payable is HRK 2691
- Where the taxpayer's income from self-employment exceeds HRK 149 000, the tax base is HRK 34 500 and the annual tax payable is HRK 4140

Where the accounting basis applies, taxpayers may claim a deduction of two times their actual expenditure on the following:

- The first year's salary of every new employee (the first three years' salary in the case of disabled employees)
- Qualifying research and development expenditure
- Expenditure on the training and education of employees

Special incentives exist for taxpayers carrying on business in the city of Vukovar or in special development areas.

Losses

Losses from self-employment may only be set off against income from self-employment. As for corporate income tax, losses may be carried forward for a maximum of five years.

Taxation of investment income

Dividends

Dividends (both domestic and foreign) are classified as income from capital and taxed at a fixed rate of 12% plus city tax if applicable (paid by withholding).

Interest

Interest on current accounts and foreign-currency accounts (at a rate of no more than 0.5%) is exempt from income tax, as is interest on certain investment bonds. Other interest is taxable by withholding at 12% (plus any city tax that may be applicable).

Royalties

Income from copyrights and other income from intellectual property is classified as 'other income', subject to tax by withholding at a rate of 24% (plus city tax where applicable) on an amount equal to 70% of gross royalties. This results in an effective rate (ignoring city tax) of 16.8%.

Immovable property rentals

A lump-sum deduction of 30% of gross rents is applied before tax is withheld at the 12% rate (plus any city tax applicable). This results in an effective rate of 8.4%. The tax is payable monthly.

Taxpayers may opt to be assessed instead on their actual accounting profit.



Other income

This category includes:

- Directors' remuneration paid in the absence of an employment contract
- Income from hiring movable property
- Income from intellectual property
- Income of journalists and artists
- Income of agents, sportspeople

All such income is subject to a final withholding tax of 24% (plus any applicable city tax), but a 30% pre-tax lump-sum deduction is allowed in the case of copyright royalties and the income of journalists and artists. In some circumstances, artists may qualify for an exemption of 25% of their gross income.

Income from insurance

This category includes proceeds from life-insurance policies and pensions from private (voluntary) pension schemes. In most cases, contributions paid to private pension schemes are not deductible when made, but the corresponding pension income is then free of tax when received.

Capital gains

The taxation of capital gains depends upon their nature. Gains from the alienation of immovable property are generally taxable, whereas gains arising on the disposal of most forms of movable property are exempt

Immovable property

Gains on the disposal of immovable property (including rights over such property) are taxable. The gain is computed by comparing the proceeds of disposal (adjusted to market value where necessary) with the (indexed) cost of acquisition plus costs of disposal.

Exclusions are the following:

- Property and rights acquired more than three years before the disposal
- The property was the main residence of the taxpayer or his or her dependants
- The disposal is the direct consequence of a divorce or inheritance

However, the exclusions mentioned in the first two bullet points are overridden if there are more than three disposals of properties or property rights of the same type within a five-year period.

Gains are taxable on the issue of an assessment and at a rate of 24% (plus city tax where appropriate).

Other property

Gains from the disposal of movable property are generally exempt if derived in a private, non-business, capacity, but as from 1 January 2016, gains from the disposal of financial assets, such as shares and securities are taxable if the disposal takes place within three years of acquisition (determined on a FIFO basis).

Gains less losses must be declared in a separate return, due by 31 January of the year following the year of the disposal. Tax is paid by withholding.

Withholding taxes

Withholding taxes at various rates are deducted from payments of income to both resident and non-resident individuals. See Table 11 below.

Table 11 Rates of withholding tax

Type of income payment	Rate of withholding tax ¹	
	Resident recipient	Non-resident recipient ⁴
Dividends	12%	12%
Interest	12%	12%
Royalties	24%	24%
Rents of immovable property	12%	12%
Property rights	24%	24%
Income from insurance	12%	12%
Other income ²	24%	24%
Asset withdrawal & private use of services ³	36%	36%

Notes

¹ Plus city tax, wherever appropriate

² Including directors' remuneration (see under 'Income from employment' above) and, where relevant, income of visiting artistes and sportspeople

³ This item refers to tax due when a member of a company withdraws assets for his or her personal use or a self-employed person applies business services for private purposes

⁴ Subject, where applicable, to a lower rate under a tax treaty

Deductions and allowances

Deductions

With the exception of social security contributions, which are deductible from employment income, very few other items of expenditure are deductible for tax purposes.

Donations for charitable, cultural, religious etc purposes may be deducted, up to a limit of 2% of the previous year's taxable income.

Personal allowances

Every taxpayer is entitled to a personal allowance of HRK 3800 per month (equivalent to HRK 45 600 per year). Taxpayers living in Vukovar (which was almost completely destroyed in the War of Independence 1991-95, known as the 'Homeland War') and specially assisted areas qualify for a higher personal allowance.

Other allowances are shown in Table 12.

Table 12 Personal allowances for dependants, children etc

Nature of allowance	Amount (HRK)	
	Monthly	Annual
Child allowance (1st child)	1750	21 000
Child allowance (2nd child)	2500	30 000
Child allowance (3rd child)	3500	42 000
Child allowance (subsequent children)	See note ¹	See note ¹
Dependent relative allowance ²	1750	21 600
Disability allowance	1000	12 000

Notes

- ¹ For the 4th child, the allowance is 136% of the allowance for the 3rd child (i.e. HRK 4750 per month); for the 5th child it is 132% of the allowance for the 4th child (i.e. HRK 6250 per month); for the 6th child, it is 128% of the allowance for the 5th child, and so on.
- ² This may be a spouse or a close relative, other than a child
- ³ The allowance is increased to HRK 3750 per month if the disabled person (the taxpayer or a dependent relative) is 100% disabled or requires a permanent carer

Rates of tax**Income**

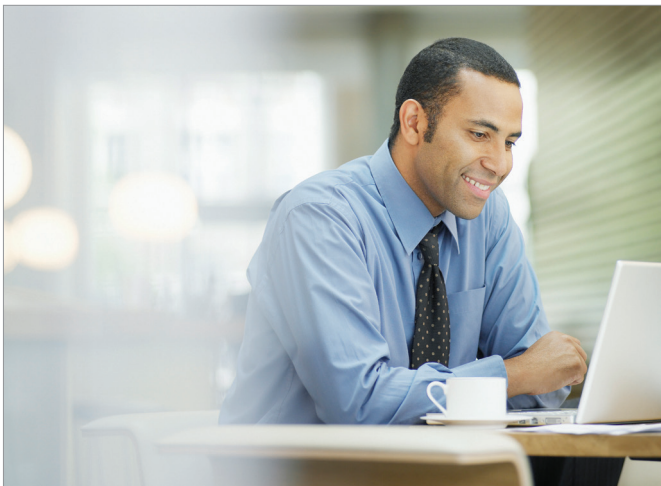
In respect of income not subject to a final withholding tax, the following progressive rates apply to aggregate taxable income:

Table 13 Rates of income tax

Band of taxable income (HRK)	Rate of tax (%) ¹
First 210 000	24
Balance over 210 000	36

Note

- ¹ There may additionally be city tax

**Capital gains**

As mentioned under 'Capital gains' above, capital gains, where taxable at all, are taxed at one of two rates: gains from immovable property are taxed at 24% and gains from financial assets at 12%. In both cases, city tax may also be due.

Returns and payment**Returns**

Taxpayers who are required to file their annual tax returns must do so by the end of February in the year following the tax year. Taxpayers whose only source of taxable income in the tax year is from one employment at any one time do not have to file a return, unless they have unused personal allowances that they wish to set off against other income.

With effect from the income year 2015, most taxpayers no longer have to file their own returns; instead, the tax authorities send the taxpayer a pre-filled tax return no later than 30 June of the following tax year. Taxpayers have until the end of July to remedy any mistakes or omissions.

These pre-filled returns are not applicable in the case of taxpayers deriving self-employment income or those concerning whom the tax authorities lack sufficient information.

Assessment

Taxpayers are expected to self-assess their liability. However, the tax authority must then review the return and issue a final tax assessment, no later than one year from the due date of the return.

Where tax has not been withheld from the relevant item of income (for example, in the case of self-employment income), monthly payments on account must be made, based on one-twelfth of the final liability of the previous year each month. Any balance of tax payable as indicated by the final assessment issued by the tax authority must be paid within 15 days of issue.

Other taxes on income

City tax

This is a surtax on personal income tax levied by local authorities on any taxpayer who is resident or has a habitual abode in Croatia within their territory. The precise rate of the tax is at the discretion of the local authority concerned, within defined ceilings:

Zagreb:	18%
Towns with a population of no more than 30 000	12%
Towns with a population of over 30 000	15%
Other local authorities	10%

Current rates range from 1% to 18% in Zagreb. The highest rate outside Zagreb is 15% (Split) and after that is 12% for several other cities.

The city tax is a surtax on personal income tax, so, for example, a taxpayer with a tax liability of HRK 25 000 will pay HRK 4500 (18% of 25 000) if resident in Zagreb but a maximum of HRK 2500 if resident in a non-urban area.

Example of a personal tax calculation

There follows a typical annual tax calculation for a married employee with one child living in Zagreb, earning a salary of HRK 125 000 per year.

Gross salary	125 000
Social security contributions (20%)	-25 000
Gross taxable income	100 000
Personal allowance	- 45 600
Child allowance	- 21 000
Net taxable income	33 400
Income Tax	
First HRK 33 400 @ 24%	8 016.00
Total income tax	8 016.00
City tax @ 18%	1 442.88
Total tax	9 458.88
Net salary	90 541.12
Effective rate of tax and social security	27.6%

Business tax

See Chapter 6, under 'Other taxes on business'. This is a tax on business premises, rather than on income.

Inheritance and gift tax

Scope and extent

Inheritance and gift tax is payable by the transferee of immovable and movable property situated in Croatia, regardless of the residence status of the transferee or transferor.

Exemptions

There is a broad range of exemptions. Exempt transfers are:

- Transfers between spouses and from or to direct forebears (including adoptive parents) or direct descendants (including adoptive children) of the taxpayer
- Transfers to adoptive parents or adoptive children
- Transfers to siblings or siblings' children if they are resident with the transferor at the date of the transfer
- Transfers to sons-in-law or daughters-in-law if they are resident with the transferor at the date of the transfer
- Transfer of movable property are exempt if the value of the property does not exceed HRK 50 000
- Transfers of immovable property (these are subject to immovable-property transfer tax, for which see Chapter 8)

Rate of tax

The rate of inheritance and gift tax is a flat 4%.

Wealth tax

There is no wealth tax in Croatia.

8. OTHER TAXES

Immovable-property transfer tax

Tax is payable on the transfer of title to immovable property, except where the transaction is subject to VAT. The first sale of a new building (any building or part of a building built after 31 December 1997) is subject to VAT.

Immovable-property transfer tax is paid by the transferee at the rate of 4% on the market value of the property at the moment of the transfer. According to the Companies Act, (*Zakon o trgovačkim društvima*) immovable-property transfer tax is not payable when property is contributed as share capital into a company, or when immovable property is acquired in the process of a merger or division.

Utility taxes

Communal contribution tax

This tax is paid monthly by natural and legal persons resident in a particular local-authority area. It is used for financing of the utilities system, which includes: potable water supply, waste-water disposal and purification, public passenger transport, municipal waste disposal, maintenance of public areas etc. The amount of the tax is set by the local authority according to built infrastructure, location of the object (by zones) and the purpose of the object. The tax is charged per square metre.

Communal contribution fee

This is a one-time charge, which is paid for the construction or reconstruction of buildings. It is calculated for newly developed cubic metres, before a construction permit is issued. It is set by local authorities and varies according to the volume of the building and its location.

Excise duty

Excise duties (*trošarinama*) are charged on alcohol, alcoholic beverages, non-alcoholic beverages, coffee, tobacco and tobacco products, petrol, gas and electric power.

Customs duty

Goods imported into Croatia from outside the European Union are subject to a customs procedure and customs duty at various rates. Goods exported from the European Union must be considered carefully within an export customs procedure. The declarant is a person responsible for the payment of a customs debt, and also for submitting a customs declaration on his own behalf or on the behalf of a person submitting the customs declaration. In addition to import duty payments, other payments payable for the export and import of goods are import VAT, excise duties and charges set by the Common Agricultural Policy.

Motor vehicle taxes

A special tax is payable on the first acquisition or importation into Croatia of a motor vehicle (including motor cycles, mopeds and powered bicycles). The rate of the tax depends partly on the sale price and partly on the vehicle's CO₂ emissions.

Insurance premium tax

This is charged on motor insurance only, at one of two rates: 10% or 15%.

9. SOCIAL SECURITY CONTRIBUTIONS

Employee and employer contributions

The Croatian social security system consists of:

- Old-age pension contributions (borne by the employee and withheld by the employer at a rate of 20% of gross salary – 15% is paid to the so-called Pillar I fund and 5% for the so-called Pillar II. Older people may choose to be insured under Pillar I only, whereas younger employees must be insured under both pillars)
- Health contribution at a rate 15%, borne and paid solely by the employer
- Unemployment contribution at a rate of 1.7%, borne and paid solely by the employer and
- Occupational accident insurance at a rate of 0.5%, borne and paid solely by the employer

All contributions are charged on the employee's gross earnings, inclusive of benefits-in-kind.

Employers who employ persons under 30 on a permanent contract are exempt from health, unemployment and occupational accident contributions for a period of five years.

There is a contribution threshold in 2018 of HRK 3047.60 per month (equivalent to HRK 48 120.00 per annum), below which no contributions are payable and a ceiling of HRK 48 120 per month (equivalent to HRK 577 440 per annum). In the case of bonuses, termination payments or other irregular payments, the cap applies in respect of Pillar I contributions only.

These contribution rates are summarised in Table 14.

Table 14 Employer and employee contributions

Type of contribution	Employee rate (%)	Employer (%)	Total (%)
Old-age pension	15 or 20	-	15 or 20
Health	-	15	15
Unemployment	-	1.7	1.7
Accident	-	0.5	0.5
Total	15 or 20	17.2	32.2 or 37.2

Self-employed contributors

Self-employed persons pay the full range of contributions (i.e. into all four funds, at the above rates). The total percentage payable is therefore 32.2% or 37.2%. However, the amount of earnings on which they pay contributions is arbitrarily determined as the average gross monthly salary (determined for 2018 as HRK 8020.00) multiplied by a coefficient (e.g. 0.65 for traders; 0.55 for farmers and 1.1 for professionals).

10. MOORE IN CROATIA

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APPENDIX 1: DOUBLE TAX TREATIES

Comprehensive double taxation treaties

Croatia has comprehensive double taxation treaties with the following countries:

Albania	India	Poland
Armenia	Indonesia	Portugal
Austria	Iran	Qatar
Azerbaijan	Ireland	Romania
Belarus	Israel	Russia
Belgium	Italy	San Marino
Bosnia Herzegovina	Jordan	Serbia ¹
Bulgaria	Kuwait	Slovakia
Canada	Latvia	Slovenia
Chile	Lithuania	South Africa
China	Luxembourg	South Korea
Czech Republic	Macedonia	Spain
Denmark	Malaysia	Sweden ²
Estonia	Malta	Switzerland
Finland ²	Mauritius	Syria
France	Moldova	Turkey
Georgia	Montenegro ¹	Turkmenistan
Germany	Morocco	Ukraine
Greece	Netherlands	United Kingdom
Hungary	Norway ²	
Iceland	Oman	

Notes

¹ Treaty concluded with the former Federal Republic of Yugoslavia (Serbia and Montenegro)

² Treaty concluded by the former Socialist Federal Republic of Yugoslavia

New treaties have been signed with Kosovo and the United Arab Emirates, but are not yet in force.

Double tax treaties: air transport and shipping

Croatia has double tax treaties with the following jurisdictions covering profits from air transport only

Hong Kong		
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Double tax treaties: estates, gifts and inheritances

Croatia has no double tax treaties covering taxes on inheritances or gifts.

Treaties on administrative assistance

Within the European Union, mutual administrative assistance is governed by the Directives on exchange of information (2011/16/EU) as amended, together with its implementing Regulation (Regulation (EU) No 1156/2012), and the recovery of claims (10/24/EC). As regards VAT, the same function is performed by Council Regulation (EU) No 904/2010. Outside the European Union, Croatia is a party to the Convention on Mutual Administrative Assistance in Tax Matters.

Social security agreements

The interaction of national social security systems within the European Economic Area is governed by EU Regulations (883/04/EC and 987/09/EU, as amended by Regulation 465/12/EU) which also extend, by agreement (and with some differences), to Switzerland. The following non-EEA countries have social security agreements with Croatia, the terms of which differ from case to case.

Australia	Macedonia	Serbia
Bosnia Herzegovina	Montenegro	Turkey
Canada	Québec	

APPENDIX 2: MOORE GLOBAL AROUND THE WORLD

Moore member firms may be found in 105 countries and territories around the world, with correspondent firms in another ten.

Albania	Ecuador	Liechtenstein*	Saudi Arabia
Argentina	Egypt	Lithuania	Serbia
Australia	El Salvador*	Luxembourg	Seychelles
Austria	Finland	Macedonia	Singapore
Azerbaijan	France	Malaysia	Slovakia
Bahamas	Germany	Malta	South Africa
Bahrain	Ghana*	Mauritius	South Korea
Bangladesh	Gibraltar	Mexico	Spain
Belgium	Greece	Moldova	Sri Lanka*
Belize	Guatemala	Monaco	Suriname
Bermuda	Guernsey	Mongolia*	Sweden
Bolivia	Honduras	Morocco	Switzerland
Brazil	Hong Kong	Nepal*	Taiwan
British Virgin Islands	Hungary	Netherlands	Tajikistan*
Bulgaria	India	New Zealand	Thailand
Burundi	Indonesia	Nicaragua	Tunisia
Cambodia*	Iraq	Nigeria	Turkey
Canada	Ireland	Norway	Uganda
Cayman Islands	Isle of Man	Oman	Ukraine
Chile	Israel	Pakistan	United Arab Emirates
China	Italy	Panama*	United Kingdom
Colombia	Japan	Paraguay	United States
DR Congo	Jersey	Peru	Uruguay
Costa Rica	Jordan	Philippines	Venezuela
Croatia	Kazakhstan	Poland	Vietnam
Cyprus	Kenya	Portugal	Yemen
Czech Republic	Kuwait	Qatar	Zambia
Denmark	Latvia	Romania	Zimbabwe*
Dominican Republic	Lebanon	Russia	

*denotes a correspondent firm only

For more detail, see www.moore-global.com under 'Locations'.

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