

### CROATIA:

Changes in the context of the EU Presidency



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## → Summary

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### NEW PERSONAL INCOME TAX ACT AND RULEBOOK

- Amendments to PIT Rulebook
- Reduction of PIT obligation for young people
- Other changes

### NEW VALUE ADDED TAX ACT AND RULEBOOK

- Changes of tax rates and thresholds
- Changes in taxation of cross-border transactions
- Other changes

### NEW CORPORATE INCOME TAX ACT AND RULEBOOK

- Increase of revenue threshold for application of lower rate of 12 per cent
- Changes in tax procedures in the event of liquidation
- Exit taxation and hybrid mismatch provisions
- Other changes

### OTHER TAX CHANGES

- Amendments to the General Tax Act
- Amendments to the Fiscalisation Act
- Amendments to the Act on Administrative Cooperation in the Area of Taxes

## → New Personal Income Tax Act 2020

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### REDUCTION OF INCOME TAX FOR YOUNG PEOPLE

- Reduction of PIT liability by 100 per cent for individuals up to the age of 25, and by 50 per cent for individuals between 26 and 30 years of age;
- Basis for the reduction is the year of birth and not the date;
- The mentioned reduction applies only to the first tax bracket (up to HRK 30.000) which is taxed at a rate of 24 per cent;
- Tax relief for young people will be made through the annual tax return (refunds in mid-2021).

### INCREASE IN PERSONAL ALLOWANCE

Increase of personal allowance from the current HRK 3.800 to HRK 4.000.

### WRITE-OFF OF RECEIVABLES

Equal tax treatment of write-offs of receivables for taxpayers taxed as self-employment and for CIT taxpayers.

It is not considered as taxable receipt in the following cases:

- write-offs from an unrelated person in accordance with special regulation (consumer bankruptcy or extraordinary administration proceedings in companies of systemic importance);

- the taxpayer proves that the costs of initiating certain actions exceed the amount of receivables, or if he proves that he has initiated certain actions for the purpose of collecting the receivables, establishing that he is ultimately unable to collect the amount of the receivables written off;
- write-off of receivables from unrelated persons, which does not exceed HRK 5,000.00 in each tax period in case of receivables from other taxpayers and HRK 200 per individual person in the case of private individuals.

### NON-TAXABLE PREMIUMS OF ADDITIONAL AND SUPPLEMENTARY HEALTH INSURANCE

Allows employers to pay non-taxable additional and supplementary health insurance to employees up to HRK 2.500 annually.

### PERSONAL INCOME TAX CALCULATION FOR STUDENTS

A provision is introduced that implies the obligation to calculate income tax (24 per cent) for payments to students when these exceed the non-taxable amount of receipts (HRK 15,000) and the amount of annual basic personal allowance (HRK 45,600).

## LUMP-SUM TAXATION

- The Tax Authorities may determine, on the basis of tax audit and the data collected, that the taxpayer has received receipts above the threshold prescribed for entering the VAT system;
- In accordance with above mentioned, the taxpayer cannot pay income tax on a lump-sum basis.

In that case, the Tax Authorities would issue a tax ruling stating the obligation to pay PIT in accordance with the regulation prescribed for self-employment activities.

## DONATION

Scope of receipts that are not considered as taxable income is expanding. Donations from legal persons and private individuals collected in humanitarian and public actions are considered non-taxable receipts.

## DATA INSIGHT - EPOREZNA

Access to information relating to non-taxable receipts already paid out to a person/employee. Obligation to collect statements of received non-taxable payments will be terminated.

## FORMER EMPLOYEES' SALARY CALCULATION

Employers are able to use personal allowance when paying salary for the last month of work for former employees if they have access to the tax card.

## → New Personal Income Tax Rulebook

### NEW NON-TAXABLE RECEIPTS AND INCREASED DAILY ALLOWANCE

Domestic daily allowances - HRK 200 instead of HRK 170.

### REMUNERATION FOR COST OF VACATION OF EMPLOYEES

Remuneration for costs of tourism and other services related to employee's vacation is determined in an amount of HRK 2.500,00 per year. The Ministry of Tourism will define how the remuneration for vacation will be used.

### LUMP-SUM REMUNERATION FOR COST OF MEALS FOR EMPLOYEES

Lump-sum payment for cost of meals for employees is determined in amount of HRK 5.000,00 per employee per year. Remuneration can be made at any time and any amount, up to HRK 5.000,00 per year to the employee's account (compensation can also be paid in instalments).

### COST OF MEALS FOR EMPLOYEES

The Up to HRK 12.000,00 per year based on actual costs. The costs must be invoiced to the employer and paid directly by the employer. Provided it is a continuous food service. Allowed

for use in restaurant and catering or at the supermarket.

### EMPLOYEE ACCOMMODATION COSTS

Non-taxable on the basis of authentic documentation to the extent of actual accommodation cost incurred.

The employer can pay the non-taxable accommodation costs directly to the employee's account, with a mandatory retention of a copy of the documentation.

Total amount indicated in the contract or invoice is considered as accommodation costs (costs of telephone and internet, utilities, etc. are generally not included).

### COMPENSATION FOR COSTS OF REGULAR CHILDCARE FOR THE EMPLOYEE'S CHILDREN

Paid to the employee's account based on authentic documentation to the extent of actual cost incurred. Regular childcare for employee's pre-school (kindergarten) children.

Covers only regular programs (does not cover additional programs that are charged separately).

The employee is required to provide a written statement that no one else has already used such compensation and a copy of the invoice. Employee is obliged to inform the employer in case of change in the cost.

## CRITERIA ELEMENTS FOR DETERMINING CHARACTERISTICS OF EMPLOYMENT

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If the Tax Authorities determines that a particular job has the characteristics of employment, the procedure for calculating taxes and contributions prescribed for employment will be carried out.

The employment characteristics are determined based on the fulfilment of criteria elements (not necessarily all of them):

- Criteria for behavioral control includes elements that reveal whether the employer has the right to direct and control what the employee does and how he or she performs the job;
- Criteria for financial control includes elements that reveal whether the employer has the right to direct or control the financial and business aspects of the employee's work;
- Criteria parties' relations includes elements that reveal type of these relationships.

In addition, it is allowed to prove the characteristics of employment by other criteria, which in particular situation may represent a typical feature of employment.

If the characteristics of employment are determined, the Tax Authorities will issue a tax resolution by which they will determine the amount of remuneration paid to the employee for a particular job along with liabilities for taxes and contributions.

## OTHER CHANGES

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- An employer who has an insight into a former employee's tax card is allowed to use personal allowance in determining the PIT advance, when paying a monthly salary to a former employee;
- An exception to the method of payment of income receipts has been introduced – payments of receipts up to HRK 5.000,00 per account to self-employed individuals can be made in cash;
- If the taxpayer in the same period for the same real estate generated property income on the basis of a lease and by leasing apartments, rooms and beds to tourists and organizing campsites, the tax is determined on a lump-sum basis and the taxpayer is obliged to pay the tax on both basis;
- It is specified in more detail which conditions have to be fulfilled in order that the receipts collected in humanitarian actions are not considered taxable. Donations for which a personal allowance of 2 per cent of the taxpayer's self-employed income may be increased can include donations to individuals for health purposes. Change of deadline for submission of JOPPD form for non-taxable payments.

## → New Value Added Tax Act

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### STANDARD RATE OF 25 PER CENT REMAINS, REDUCED RATE OF 13 PER CENT

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Applicable to: Preparation and serving of meals – restaurant and catering services.

### INCREASE OF THRESHOLD FOR VAT CASH ACCOUNTING

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Threshold increased to HRK 7.500.000 (instead of the previous HRK 3.000.000) – approval of the VAT Committee (EK) necessary.

### EXEMPTION FROM VAT FOR CERTAIN ACTIVITIES OF PUBLIC INTEREST

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Harmonization of the VAT exemption application for for certain activities of public interest when these are performed by taxpayers without authorization of public bodies.

Applicable regardless of institutional form = equal treatment of taxation of medical care services and services provided by dental technicians → adjustment of the deduction of input VAT for property that will be used for exempted supplies.

### CORRECTION OF TAX BASE

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When buyers have no establishment or VAT number in Croatia, a statement should be collected from such buyers that they have not claimed a VAT refund.

### OCCASIONAL INTERNATIONAL ROAD TRANSPORT

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The tax payer performing occasional international road passenger transport is obliged to

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file the Application form for international transport before entering the Republic of Croatia and is obliged to have it in writing in vehicle (misdemeanor provisions are introduced as an actions for violation of these obligations).

## IMPLEMENTATION OF COUNCIL DIRECTIVE (EU) 2018/1910

In order to implement the EU VAT legislation in the national VAT legislation and to further simplify and relieve business of taxpayers, the following rules have been implemented:

- Simplification of rules for movement of own goods (which form part of a taxpayer's business assets) to another Member State in a way that such transfer will not be considered as a supply of goods for consideration;
- Chain transaction – Under the new rules, in case where the intermediary also participates in the supply chain, the supply with

the transport (i.e. exempted supply) will be considered to have been made by the first supplier to the intermediary (so called first customer). Exceptionally, if the intermediary has notified supplier on its' VAT ID number issued by the Member State from which the goods are dispatched or transported, he is considered to perform the zero-rated intra-Community supply;

- Obtaining and validating the customer's VAT ID number as well as submitting EU sales list with accurate information will be a condition for the application of the zero VAT rate. Also, if the taxpayer (supplier) omits to submit EC sales list or does not provide accurate information in the submitted EC sales list, the exemption for intra-EU supplies will not apply, unless he can justify his omission in accordance with the requirements of the Tax Authorities.

## → New Value Added Tax Rulebook

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### EU REGULATIONS 2018/1912

Council Implementing Regulation amending Implementing Regulation (EU) no. 282/2011 regarding certain exemptions for intra-community transactions.

### VAT "QUICK FIXES"

Quick fixes rules have come into force. In this section, we emphasize omission of provisions concerning the supporting documents in the case of delivery of goods to another Member State.

### ZP FORM

Provision defining that the supplied services which are VAT exempt in the Member State where the place of taxation is should not be reported in ZP. More detailed definition of certain terms, modification of certain forms (ZP, P-PDV i PDV-P).

### LIQUIDATION MASS

Tax treatment of the liquidation mass is now the same as the treatment of the bankruptcy mass (considered as a universal legal successor).

## → New Corporate Income Tax Act

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### INCREASE OF THE REVENUE THRESHOLD

For revenue up to HRK 7.500.000 tax is payable at the rate of 12 per cent. For revenue above HRK 7.500.000 tax is payable at the rate of 18 per cent.

### THRESHOLD FOR ESTABLISHING CIT BASE ON A CASH PRINCIPLE

The revenue threshold for determining the tax base on a cash basis has increased from HRK 3.000.000 to HRK 7.500.000.

### LUMP-SUM TAX FOR NON-PROFIT ORGANISATIONS

Non-profit organizations may pay CIT on a lump-sum basis if they generate less than 7.500.000 HRK of income from their economic activity in the previous tax period.

### SELF-EMPLOYED INDIVIDUALS AS CIT TAXPAYERS

The revenue threshold is raised from HRK 3.000.000 to HRK 7.500.000 – Self-employed individuals are considered CIT payers and are obliged to keep accounting in accordance with financial reporting standards.

### ANNUAL LUMP-SUM TAX

The annual lump-sum tax, or the amount of the advance payment, is determined on the basis of reports submitted by the taxpayer and the taxpayer is obliged to pay the difference as of the date of submission of the report.

### TAX DEDUCTIBLE COSTS OF CLAIMS WRITE-OFF

The tax deductible costs of write-offs are no longer limited to debtors that are CIT taxpayers.

### DONATION COSTS

The cost of donation, in addition to the expenses paid for the health needs of individuals, also include costs of transportation and accommodation to health institutions.

### DEADLINE FOR SUBMITTING CIT RETURN IN CASE OF INSOLVENCY AND LIQUIDATION

When a insolvency/liquidation procedure is commenced, the CIT return shall be submitted within

30 days after the end of the tax period. A tax return relating to the period from the commencement up until the completion of the liquidation shall be filed within 8 days of the end of the tax period.

### IMPLEMENTATION OF DIRECTIVE 2016/1164 (“ATAD”) AND DIRECTIVE 2017/952

The aim is to make EU taxation more fair and to prevent harmful tax practices.

### EXIT TAXATION

Possibility to tax capital gain at the time of:

- transfer of assets from headquarters to permanent establishment and vice versa;
- transfer of residence; or
- transfer of permanent establishment where in the right to tax those assets in the Republic of Croatia ceases.

Not applicable if:

- The assets are transferred temporarily;
- If the transfer is made for the purpose of meeting prudential capital requirements, for the purpose of liquidity management or in the case of securities financing transactions or collateralized assets.

### HYBRID MISMATCHES

The Hybrid mismatch implies double deduction or deduction without inclusion. Applicable only if it arises between related parties, between a taxpayer and a related company, between company headquarters and permanent establishment, between two or more permanent establishment of the same entity or under a structured arrangement.

In the case of hybrid mismatches, the right to deduct is denied or is required that the taxpayer includes certain revenues in the tax base.

Hybrid entities – entities where there is a difference in legal definition and which are not considered taxpayers in one jurisdiction, while the same entities are considered taxpayers in another jurisdiction.

Hybrid instruments – contain different legal definitions and at the same time have the characteristics of debt and equity leading to double deduction or deduction without inclusion.

## → New Corporate Income Tax Rulebook

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### FLAT-RATE TAX FOR NON-PROFIT TAXATION

Tax brackets have been introduced. Lump-sum CIT base will be determined as a difference between revenues and tax recognized expenses which will be determined based on generated revenues. Rulebook lays down provisions concerning lump-sum taxation bookkeeping records and the content of the PD-PO form.

### EXIT TAXATION

If such situation occurs, it is necessary to submit, with the CIT return, information on acquisition of the property and its purchase value, the market value of the property, the manner in which the depreciation or amortization cost is expressed during the period of use along with the amount included in the taxable base; and information on the country or jurisdiction in which the property, business or residence is transferred.

In certain cases, the taxpayer may be granted a tax deferral (during a period of 5 years) when the property, business or residency is transferred to another country which is part of the EEA and with whom a mutual assistance agreement has been concluded for a tax recovery (given that the taxpayer provides an appropriate bank guarantee for the deferred tax liability when transferring business and residency).

### HYBRID MISMATCHES

In the event of Hybrid mismatch, the taxpayer is obliged to provide the following information along with the CIT return:

- A financial instrument that creates a hybrid mismatch;
- Hybrid transfers of a financial instrument;
- A business unit not taken into account;
- A related hybrid entity;
- A structured arrangement or transaction or series of transactions between related parties;
- Arrangements with a financial instrument created to utilize paid withholding tax;
- Reverse hybrid mismatches;
- Tax residency mismatches and reported income which is double included.

### OTHER CHANGES

- Tonnage tax scheme includes yachts;
- CIT taxpayers that transfer to lump-sum taxation scheme will be obliged to declare hidden reserves;
- Tax taxpayer of withholding tax, in case of payment of fees for performances of foreign performers, in certain conditions may also be a foreign payer;
- Foreign entrepreneurs are obliged to inform the Tax Authorities of their intention to perform business activities (at least 8 days prior to undertaking the activity).

## → Announced Changes of other Tax Regulations

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### MISUSE OF TAX BENEFITS CONTRARY TO THE PURPOSE OF THE TAX ACT

The aim is to strengthen the “content above form” principle. The various artificial structures (organizational forms) that taxpayers use to obtain certain tax benefits (for example, the use of self-employment forms based on lump-sum taxation or the frequent change of organizational forms in business) are specified. For tax purposes, such structures will be taxed as if they do not exist, that is, in accordance with the economic nature of the business activities.

### TAX VIOLATIONS

Not keeping accounting documents and other records within deadlines is one of the most serious tax violations (fines up to HRK 500.000). Serious tax violations (fines up to HRK 300.000) – if the records on daily cash turnover are not kept in places where the cash receipts are received or if they are not made available to Tax Authorities. Unavailability of readable and systematic information in cases when accounting documents and other records are kept in electronic form is also considered as a serious tax violation. Minor tax violations (fines are up to HRK 200.000) – for non-compliance with stipulated annual inventory

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of assets and liabilities as prescribed by the General Tax Act.

## OBLIGATION TO CARRY OUT FOCALISATION OF THE SUPPORTING DOCUMENTATION

The coProposals, pro forma invoices and similar pre-invoice documents showing payment information – effective as of 1 April 2020:

- Obligation to notify customers in business units applies ONLY for those taxpayers who decide so or who's business requires issuing supporting documents;
- Implementation of fiscalisation of supporting documentation – assignment of JIR;
- Obligation to fiscalize supporting documentation does not exclude the obligation to fiscalize invoice.

## EXEMPTIONS OF FISCALISATION

Conditions laid down for the application of the exemption have been supplemented in the case of participation in games of chance and games, retailing of daily newspapers, tobacco and sale of own agricultural products. The exemptions provided by the Act exclude sales through vending machines.

## FISCALISATION OF SELF-SERVICE DEVICES

As of 1 January 2021, stipulated by previous amendment of the Act.

## INTRODUCTION OF QR CODE AS OF 1 JANUARY 2021

Faster and easier verification of invoices paid in cash.

## OTHER

The defining a software solution that is consistent with the implementation of fiscalisation.

Implementation of Council Directive (EU)2018/822 of 25 May 2018 amending Directive 2011/16/EU regarding the mandatory automatic exchange of information in the field of taxation with regard to cross-border reporting arrangements.

Definition – cross-border arrangements:

- Cross-border arrangement means an arrangement concerning either more than one Member State or a Member State and a third country, subject to the conditions laid down by the Act;

- Reportable cross-border arrangement means any cross-border arrangement that contains at least one characteristic that indicates a potential risk of tax evasion. The Minister of Finance will stipulate by Rulebook the characteristics that indicate potential risk (Annex IV of the Directive - basic benefit test).

## PERSONS OBLIGED TO REPORT ON CROSS-BORDER ARRANGEMENTS

The Intermediaries:

- Intermediary means any person who designs, markets or organizes a reportable cross-border arrangement or makes such an arrangement available for the purpose of its implementation or manages its implementation which meets at least one of the stipulated requirements;
- Intermediary is also any person who knows or could reasonably be expected to know that he or she has undertaken to provide, directly or through other persons, support, assistance or advice with regards to designing, marketing, organizing, making available for the purpose of implementing, or managing the implementation of a reportable cross-border arrangement.

Relevant taxpayer – exceptional:

- Relevant taxpayer means any person to whom a reportable cross-border arrangement is made available for implementation, or who is ready to implement a reportable cross-border arrangement, or who has implemented the first step of such an arrangement.

Persons obliged to report are obliged to provide information regarding their portable cross-border arrangements to the Ministry of Finance, Tax Authorities within 30 days. The Act defines the information to be reported.

Where there are more than one competent authority in more than one Member State, such information shall be submitted only to the Ministry of Finance, Tax Authorities in cases prescribed by the Act.

Exemption from reporting obligation by invoking professional privilege. In the case of multiple intermediaries, all intermediaries participating in the same cross-border arrangement have the obligation to submit information on the reportable cross-border arrangement.



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## CONTACT FOR FURTHER INFORMATION

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Radu-Dragos Dobrescu  
Business Graduate, MBA,  
Auditor, Tax Consultant, CPA  
(Romania)  
Partner, Office head Croatia

T +385 1 4920 451  
[radu.dobrescu@roedl.com](mailto:radu.dobrescu@roedl.com)



Alina Dobrescu  
Commercial Manager Adria

T +385 1 4920 481  
[alina.dobrescu@roedl.com](mailto:alina.dobrescu@roedl.com)