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**CROATIA TAX CARD**

**2017**

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# TAX CARD 2017 – CROATIA

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# I. Individuals

## 1.1 Personal Income Tax

From January 1, 2017, personal income is divided in two categories and taxed accordingly:

**Annual Income:** income from employment, independent profession and any other income that is considered as annual.

**Final income:** income from property and property rights, capital and insurance and other income considered as final.

### 1.1.1 Residency

An individual is resident when having a permanent residence in Croatia or when having a place of abode for more than 183 days in one or two tax years. Residents pay tax on their worldwide income. Non-residents pay tax only on Croatia source income.

### 1.1.2 Tax Rates

The rates of income tax depend on the source of the income and are taxed with rates of 24% and 36%.

#### A) Tax rate from employment income and second income (Annual basic non-taxable deduction: 45,600 HRK)

Chargeable Income HRK (monthly)	Tax Rate
0 – 17,500	24%
over 17,500	36%

Annual Personal Income Tax rate is 24% for tax base up to 210,000.00 HRK and 36% for a tax base over 210,000.00 HRK.

#### B) Tax rate from income from property rights depends on income type:

Property related income	Tax Rates
Income from rent and lease	12 %, with 30% non-taxable deductions
Income from property rights	24%
Income from alienation of real estate and property rights	24%
Income from alienation of special property types	12%

### C) Capital Income Tax depends on the type of the income source:

Capital Income Source	Tax Rates
Interests	12%
Property exclusion and use of service	36%
Capital Gain (Financial Assets)	12%
Assigned or optional purchase of own shares	24%
Shares and dividends	12%

### D) Insurance tax rate is 12%.

### E) Income Tax from other income considered as final income:

Final Income Tax from Other Income	Tax Rate
Contributions return	36%
Difference between purchase price and market value of property	36%, increased by 50%

Foreign pensions received by residents constitute taxable employment income for the recipient.

#### 1.1.3 Exempt Income

Type of expenditure	Amount
Basic deduction per year	45,600 HRK
Deductions for dependents	up to 184,080 HRK
Deductions for pension plans, insurance and cost of purchase of the first residence	up to a limit
Donations	2%
Income from alienation of real estate (up to three within certain period)	100%
Income from sale of movables (cars etc.) – up to a certain period	100%

#### 1.2 Social Security Contributions

Croatian Social Security contributions consist of pension contribution calculated and deducted from the gross salary and a health and employment contribution calculated and paid on top of the gross salary.

Contribution type	Employee	Employer
Pension fund	20%	-
Health insurance	-	15%
Health insurance at work place	-	0.5%
Unemployment contribution	-	1.7%

### **1.3 Inheritance & Gift Taxes**

A legal entity or natural person that receives or inherits the individual movable property as a gift with value of less than HRK 50,000.00 is tax exempted.

Individual movable property above the said amount, money, claims, securities and real estate regardless of its market value are taxed with 5% tax rate.

Spouse and descendants are tax exempted both for received gifts and inheritance regardless of type and value of the property received.

Tax base constitutes the amount of the cash or the market value of financial and other assets on the day when the tax liability is determined, after the deduction of debts and costs related to the assets on which the tax is being paid.

### **1.4 Tax of savings income**

Personal income from interests on savings is taxed with 12 % tax rate regardless of the savings amount.

The tax base is the amount received from interest rates on principal amount in one year.

## **II. Corporate Taxation**

### **2.1 Corporate Income Tax**

Taxable persons are legal entities or natural persons engaged in a business activity. Permanent establishments of non-resident enterprises are also taxable persons.

#### *2.1.1 Residency*

Resident legal entities, i.e. those which are duly registered and whose management and control is being exercised in Croatia, are generally subject to corporate tax on their worldwide income while non-residents are taxed on their incomes derived from sources in Croatia.

### 2.1.2 Tax Rate

CIT is assessed in the year, in which the income is earned on a current year basis. Tax rates are as follows:

- 12% for realized income up to 3 million HRK;
- 18% for realized income equal or higher than 3 million HRK.

The taxable base is determined by increasing the accounting profits or losses for non-deductible expenses and reducing the accounting profits or losses for allowable items.

### 2.1.3 Tax Deductions

Benefits include:
Losses are carried forward for 5 years. There is no carry back of losses.
Depreciation is deducted using the straight line method for tangible and intangible assets. The depreciation rate for buildings is 5%, for machinery 25% and for computers 50%.
There is no company consolidation for tax purpose; each company has to file separately.
Thin capitalization rules relate to interest expenses. Interest paid to a shareholder having 25% or more of the voting rights and his loan to equity ratio exceeds 4:1 is not deductible.

### 2.1.4 Deductible Expenses

Expenses incurred in the course of ordinary business are generally deductible.

## 2.2 Withholding Taxes (in the absence of a more favorable DTT)

Taxable payments	Tax rate
Dividends	12%
Interests	15-20%*
Royalties	15-20%*
Payment for auditing, legal, market research, tax services paid to foreign legal entities	15-20%

\* 20% when paid to non-resident legal entities that are based outside the EU, have lower corporate income tax rate (lower than 12.5%) and do not have a double tax treaty signed with Croatia.

## 2.3 Capital gains

Capital gains in Croatia are included in the aggregate taxable income of legal entities and are taxed at the 20% standard rate. If the company has sold its own shares, the gains are not taxed.

## III. Indirect Taxation

### 3.1. Value Added Tax (VAT)

The VAT is levied at the state level and is applicable to the imports of goods into the territory of Croatia as well as goods and services supply in the territory of Croatia.

The tax period for a taxable person is determined on the basis of its turnover in the preceding calendar year. Hence, taxable persons with turnover:

- Up to HRK 800,000 submit **quarterly** tax returns,
- Greater than HRK 800,000 submit **monthly** tax returns.

Foreign entities registered in Croatia are required to submit VAT returns on a monthly basis.

#### 3.1.1 VAT Registration Threshold

Cases of compulsory registration	Registration threshold
Turnover for the last 12 months	over 230,000 HRK
A company may register voluntarily if the threshold is not met	regardless of turnover

#### 3.1.2 Rates

Standard VAT Rate	25%
Reduced VAT rates	5%: Daily newspapers and magazines containing more than 25,000 words; bread and milk; books and scientific journals; medicines.
	13%: Hotel & accommodation services; newspapers & magazines unless they are published solely for advertisement; baby food and white sugar, supply of services by libraries, theaters and other cultural services.
VAT exemption	Hospital and health care services, financial services, insurance transactions, educational services, universal postal services, etc.

## 3.2 Custom Duties

As of July 1<sup>st</sup> 2013 Croatia as EU member state has adopted EU trade policy, therefore the tariff and trade system is unified within the EU (TARIC system).

Import duty and taxes are due for importing goods in Croatia from non-EU countries whether by a private individual or a legal entity. The import duty and taxes payable are calculated on the cost, insurance and freight value.

Duty rates example	Commodity example
0%	Books
12%	Clothing
17%	Boats
Exempted	laptops, mobile phones, digital cameras and video game consoles

## 3.3 Excise Duties

Excises are a special type of sales tax paid on some commodities like tobacco products, alcohol drinks, beer, wine, energy products and electricity. Excise duty is also unified within EU system.

Additional customs fees can be charged to cover the expense of performing any required examinations, verification and/or testing of the imported goods.

# IV. Local and Other Taxes, Fees

## 4.1 Real Estate Transfer Tax

Real estate transfer tax applies on transfer of land and buildings at 4%. It occurs when a resale property is sold, gifted or inherited. The taxpayer is the buyer.

VAT is charged on the selling price of a constructed real estate (housing) by a taxpayer who is VAT registered to a final customer, or within 2 years from the first usage of the real estate. In such a case, the 5% transfer tax does not apply.



## V. Tax Calendar

Submission deadlines	
30 Apr 2017	Submission of corporate tax returns for 2016
Last day of the month for the previous month	Corporate income tax advance payment for monthly instalments
15 <sup>th</sup> of the current month for previous month	Payment of social security contributions for employees
20 <sup>th</sup> of the current month for previous month	VAT declaration
End of the current month for previous month	VAT payments

## VI. Major Tax Penalties

Event	Penalties
Default interest rate for arrears (any payment towards tax authority)	10.14% annually for legal entities
Late or no submission of VAT declaration, wrong VAT calculation	2,000 – 500,000 HRK
Invoice content is not in compliance with VAT Act	1,000 – 200,000 HRK
Late payment or non-payment of registered VAT obligation	2,000 – 500,000 HRK
Omission to store invoices in proper manner within mandatory deadline	2,000 – 500,000 HRK
Omission to pay tax per annual personal income tax submission	2,000 – 500,000 HRK
Omission to report monthly personal income tax obligation for employees by taxpayer	2,000 – 500,000 HRK



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**info@eurofast.eu | www.eurofast.eu**

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