

# A citizen's guide to taxation

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# A citizen's guide to taxation





# A CITIZEN'S GUIDE TO TAXATION

Second, revised edition

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## FOREWORD

*A Citizen's Guide to Taxation* is aimed at providing a simple and readable account of the complex and extensive material that is the Croatian tax system. The Guide is intended primarily for citizens who are daily faced with taxes, as they buy goods in a shop, receive their salaries, order a cup of coffee in a restaurant, inherit a house, etc. The Guide is meant to provide them with the basic information about the taxes they pay: what the tax rate is, on what base the tax is paid, when the tax payment deadline is, etc. The Guide also contains the basic information required for entrepreneurs, craftsmen, authors earning royalties, people receiving dividends, and many others. We hope that the Guide will also be useful to students who study for their examinations, and all those coming into contact with the Croatian tax system for the first time.

The Guide is printed in the Croatian and English languages, and the electronic edition of it can be found on the website of the Institute of Public Finance: [www.ijf.hr](http://www.ijf.hr).

We are grateful to Zdravka Barac who proofread and reviewed the texts very attentively and provided us with valuable and useful comments.

We wish to express our warmest thanks to the Friedrich Ebert Foundation, Zagreb Office, which financially supported the publishing of this Guide and organised its presentation.

Finally, it should be noted that this Guide provides only a general and brief description of the Croatian tax system, so that the publishers cannot be held accountable for any damage that might arise from any interpretation of this text.

*Authors*





# TAXES

## Taxes in general

### What are taxes?

Taxes are compulsory payments that the state takes from persons and businesses, without providing any direct and immediate services in return, with a view to financing public expenditure. In other words, we all have to give a portion of our income to the state, so that it can, in return, provide to us public services, such as education, health care, public security, care for elderly and lower-income members of the society, etc. In this definition two things are relevant: **taxes are compulsory payments**, and there is **no immediate and direct service in return** for the tax paid.

- ◆ The definition of taxes as **compulsory payments** means that, once they become due, they ought to be paid to the state. Otherwise, the state can claim its rights through coercion, i.e. via the courts or police. That is why taxation is sometimes referred to as forcible extortion.
- ◆ It is also important that an individual **receives no direct service** in return for the tax paid; in other words, if you pay tax in the amount of 1,000 kuna in May, it does not mean that you will be able to use the services of hospitals, schools, the police, etc. in the amount of 1,000 kuna in this same month – and that such services will be denied to you after that. Similarly, if you use services to the value of 700 kuna in the said month, the state is not going to pay you back the unused 300 kuna of tax. The purposes of taxes are not determined in advance, nor is the amount of services that you get in return.

If you want to catch birds, you have to sing nicely, not crack the whip.

Czech proverb

### Why do we have to pay taxes?

Taxation is currently the only known practical way of collecting funds for financing public expenditures on goods and services we all use. It seems that taxmen beset us from everywhere: personal income tax and contributions are taken directly from our salaries, value added tax raises the prices of the articles we buy, real property transaction tax is paid when we buy a flat, and excise tax is charged whenever we fill up at a petrol station or have a beer in a coffee shop. Almost every one of our activities related to goods or services is accompanied by some kind of tax. As Benjamin Franklin said, "In this world, nothing is certain but death and taxes". Despite our disapproval, it seems that this is simply the way it has to be. **Taxes are the price of public goods** we use almost every day, often without asking about how much they cost. Public goods are, for example, health care, public education for our children, law and order on the streets,

orderly running of traffic, museums, parks, clean air, etc. In order to enjoy all these things we have to pay taxes.

On the ancient clay tablets of the Sumerian civilisation was written: "You may have a God, you may have a King, but the man to fear is the tax collector".

Charles Adams

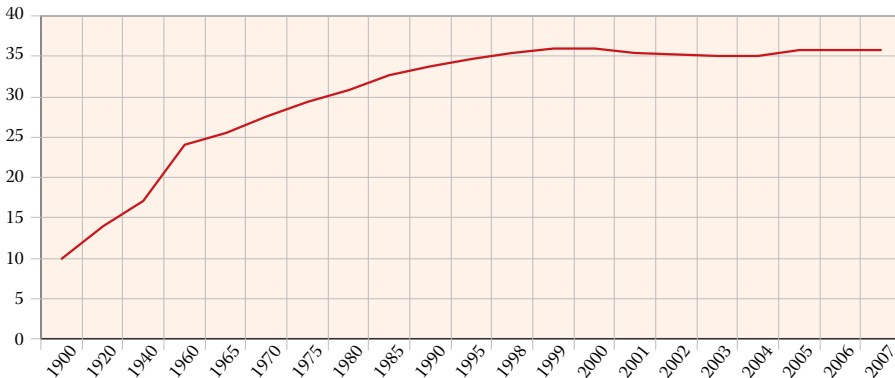
## When did taxes first appear?

**Taxes are as old as civilisation.** There has never been a civilisation that has abstained from collecting taxes. The first civilisation that we know something of started six thousand years ago in Sumer, the fertile lowland area between the Tigris and the Euphrates, in the territory of today's Iraq. The awakening of civilisation and of taxes too, is recorded on clay tablets that have been excavated in Sumer. The inhabitants of the area accepted to pay taxes during a great war. However, when the war was over, the taxmen refused to give up their privilege of collecting taxes. Since that time, taxes have never been abolished. On the contrary, in the course of history they even gained in importance. During major wars they have usually increased with head-spinning speed, and after the end of the war, they have commonly not returned to their pre-war level, but have continued growing. But also in peacetime periods, the level of taxation tends to go up. In developed countries population aging results in higher pension and health care system costs and consequently requires higher taxes.

## The growth of taxes over time

In OECD countries, the share of total taxes rose from 10% of GDP<sup>1</sup> in 1900 to 36% of GDP in 2007, i.e. in the period of one century, **the share of taxes almost quadrupled.** The idea of the welfare state that prevailed during the 1960s, with a relatively large social demand for public goods and aging population led to a considerable rise in the tax burden in developed countries of the world during that period.

Total taxes in GDP in OECD countries (%)



Source: Ken Messere, 20<sup>th</sup> Century Taxes and Their Future, Bulletin, IBFD, Vol. 54, No. 1, January 2000; OECD Revenue Statistics 1965-2008, Paris, 2009

<sup>1</sup> GDP (gross domestic product) is the market value of all final goods and services produced in a country during one calendar year.

## How can taxes be divided?

Taxes can be divided in several ways:

- ◆ according to the tax base (e.g. personal income tax or consumption tax);
- ◆ according to the level of government to which the tax revenue belongs (state taxes, county taxes, etc.);
- ◆ according to which section of the population they hit most (e.g. progressive, regressive taxes, etc.).

Nevertheless, the most commonly mentioned division is into **direct and indirect taxes**.

**Direct taxes** are those that we pay personally, or that our employer pays for our account into the Treasury. These taxes are charged as a certain percentage of our income or assets, and as a rule cannot be shifted to someone else. This means that the one that pays the tax does actually bear it. Examples of direct taxes are the personal income tax that we pay from our salaries, or on royalties or income from craft business, as well as corporate income tax paid by enterprises.

**Indirect taxes** are not borne by the person that pays them into the Treasury, but they are most often shifted onto other people. Taxpayers of indirect taxes most commonly shift the burden of these taxes through the prices of their goods and services, onto the final consumer, that is, the population at large. The best-known indirect tax is the value added tax (VAT).

### Tax shifting

At first sight, this idea appears to be superfluous, because everyone thinks that if they pay a tax, they ultimately bear it as well. But this does not always have to be the case. It is the characteristic of some taxes that they can be shifted to another person. Here is an example: when a tax on fur coats is introduced, it is mainly the rich who pay it, since they are the main buyers of such garments. But if the tax on fur coats is raised, the rich will perhaps decide not to buy them, because the tax has made the coats too expensive. Then the sales of fur coats will drop and the furriers will have to reduce their costs, including, very likely, the wages of their employees. Thus the higher fur coat tax has ultimately not been paid by the wealthy, but by workers, as the furrier has passed it on to his employees in the form of reduced earnings.

Fight and think up whatever you will, assess taxes the way you like, but the merchants will not reduce their income, rather they will transfer their taxes to their customers.

John Locke

## What are the characteristics of taxes?

A good tax system is based on the following principles of taxation:

- ◆ *Efficiency.* Taxes must have as little as possible impact on relative prices so that scarce economic resources can be used as efficiently as possible.
- ◆ *Equity.* Taxes must be justly distributed among the members of a community.
- ◆ *Effectiveness.* Taxes must ensure a sufficient amount of public revenue to cover reasonable amounts of public expenditure.
- ◆ *Simplicity.* Taxes must be as simple, clear and intelligible as possible, so that the costs of tax collection can be as low as possible for both the tax administration and taxpayer.
- ◆ *Stability.* The tax system must not change very often, because enterprises and households need stability in order to be able to make proper economic decisions.

Just to list the principles of taxation shows how complicated it can be to make a good tax system. In practice, these principles are frequently at odds with each other, and there is no tax system that equally follows all the principles. The more equitable a tax, the less efficient it is, or more complex in application. Some taxes are more equitable than others, some are more efficient, and some are simpler to apply.

## Equity in taxation

According to this criterion, the rich should pay more tax, since they are more capable of paying it. But just how much more should they be paying? A great many tax debates have been held about this question. We shall attempt to illustrate the problem with the following table.

Income (kuna)	Proportional tax		Regressive tax		Progressive tax	
	Tax amount (kuna)	Tax rate (%)	Tax amount (kuna)	Tax rate (%)	Tax amount (kuna)	Tax rate (%)
50,000	12,500	25	15,000	30	10,000	20
100,000	25,000	25	25,000	25	25,000	25
200,000	50,000	25	40,000	20	60,000	30

Source: Mankiw, H. G., *Principles of Economics, Philadelphia (etc.), The Dryden Press, 1998*

In all the examples from the above table taxpayers with larger incomes pay larger amounts of tax. But the percentages of their incomes set aside for taxes differ a great deal. Thus in the first case the tax is **proportional**, because all the taxpayers pay the same percentage of their income. In the second case, the tax system is **regressive**, because the rich pay smaller percentages of their income. In the third case, the tax is **progressive**, since the rich pay greater percentages of their income in the form of tax. Now, which of these cases is most equitable? The tax profession has no clear answer to this question. Justice, like beauty, is in the eye of the beholder.

### Which tax is efficient?

The objective of a good tax system is to distort or alter as little as possible the economic decisions of persons and enterprises as compared with the decisions they would make if the taxes were not collected at all (a hypothetical condition). The less a tax affects the decisions of enterprises about production, or the decisions of consumers about purchasing, the more we say it is efficient. But how can a high degree of tax efficiency be achieved in practice? This is achieved in practice by:

- ◆ expanding the tax base by abolishing tax exemptions and tax benefits for individual taxpayers,
- ◆ reducing the number of tax rates,
- ◆ lowering the tax rate levels.

# Taxes in Croatia

## Which taxes is the Croatian tax system composed of?

The Croatian tax system is based on a set of direct and indirect taxes, as shown in the following table.

Basic direct taxes	Basic indirect taxes
Corporate income tax	Value added tax
Personal income tax	Excise taxes
Surtax on personal income tax	Real property transaction tax

A whole group of local (county, city and municipal) taxes, customs duties and social security contributions are considered as other taxes.

The tax revenues of various levels of government

State taxes	County taxes	Municipal or city taxes
Corporate income tax	Inheritance and gift tax	Surtax on personal income tax
Value added tax	Road motor vehicle tax	Consumption tax
Excise taxes	Boat tax	Second home tax
	Slot machine tax	Trading name or corporate name tax
		Public land use tax

**The taxes that are shared** between the state and the units of local government are as follows:

- ◆ personal income tax (shared among the state, municipality, city and county);
- ◆ real property transactions tax (shared among the state, municipality and city).

Municipalities and cities can introduce **surtax on personal income tax**.

## How much do taxes contribute to the Treasury?

Taxes are the most abundant budget revenues. Of the 134 billion kuna that constituted the total revenue of the consolidated general government budget in 2008, about 120 billion kuna came from taxes and social security contributions. They accounted for **90% of overall budgetary resources**. Other revenues accounted for »only« 10% of the budget.

The largest contributions to the budget revenue come from VAT (34.3%) and social security contributions (33.8%). Next come excise taxes (9.9%), personal income tax (9.0%), corporate income tax (8.7%) and customs duties (1.6%). Revenues from property tax and other taxes are insignificant.

Total taxes and contribution at all the levels of government (general government) in 2008	billion kuna	%
<b>Total taxes and social security contributions</b>	120.3	100.0
Personal income tax	10.8	9.0
Corporate income tax	10.5	8.7
Property tax	1.2	1.0
Value added tax	41.3	34.3
Other consumption taxes	1.7	1.4
Excise taxes	11.9	9.9
Customs duties	1.9	1.6
Other taxes	0.3	0.2
Social security contributions	40.7	33.8

*Source: www.mfin.hr*

Taxation can lead to the downfall of a nation in two ways. First, if the amount of the tax exceeds the strength of the nation and is not proportionate to the general wealth. Secondly, if the amount of the tax, although proportional to the overall power of the nation, is not well distributed.

Pietro Verri



## How has the level of taxation changed over time?

In the fiscal year 2008, a total of 120 billion kuna was collected from all kinds of taxes and contributions at all levels of government in Croatia. But how has the level of taxation changed over time? From 1995 to 1997 the level of taxation in Croatia moved in the range of from 37 to 38% of GDP. A sharp upsurge occurred in 1998, when VAT started being implemented, and the tax collected suddenly grew to almost 40% of GDP. After 1998, however, the overall tax burden started to decrease, and came to 35.2% of GDP in 2008.



### »Our taxes« and »theirs«

What is the difference between the burden with which given taxes squeeze Croatian taxpayers and the burdens of the taxes squeezing people abroad? The total tax burden in Croatia has been approaching that in the OECD and EU countries. In 2008, 35.2% of everything produced in Croatia during the year went in the form of taxes and contributions into the Treasury, from which public services were funded. In 2007, taxes accounted for 36% of GDP on average in the OECD countries, and for as much as 40% of GDP in the EU15<sup>2</sup>.

<sup>2</sup> Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and United Kingdom.

Statutory tax rates in selected countries, 2009

Country	Corporate income tax	Personal income tax		Value added tax
	Basic rate (%)	Rate range (%)	Number of rates	Basic rate (%)
Austria	25	0-50	4	20
Germany	15	0-45	5	19
Italy	27.5	23-43	5	20
Czech Republic	20	15	1	19
Hungary	16	18 and 36	2	25
Poland	19	0-32	3	22
Slovenia	21	16-41	3	20
Croatia	20	15-45	4	23

Source: IBFD, Amsterdam, European Tax Surveys; available at: <http://online2.ibfd.org/eth/>

Compared with countries in the region, the corporate income tax rate in Croatia remains at the average level for the observed countries. Heavily taxed are the highest incomes (the rate is the same as in Germany), and the VAT rate is among the highest (a higher VAT rate is only applied in Hungary).



# THE GENERAL TAX ACT

On 1 January 2009, a new General Tax Act (GTA) came into force. The reason for introducing the new act was to provide more precise definitions of certain legal concepts in order to improve the application of taxation procedures and thus ensure better protection of taxpayers' rights. Moreover, thanks to the new act, the Croatian tax legislation complies with the European one, particularly as concerns the administrative cooperation and exchange of information among the EU Member States.

The General Tax Act regulates systematically, integrally and uniformly the tax-related legal issues that are **common to all taxes**. The parties involved in tax-related legal relationships are taxpayers on the one hand, and tax authorities on the other. However, the positions are not equal. The state adopts the regulations, and the tax authorities carry out the taxation procedure and control its implementation. Taxpayers are in a subordinate position with respect to the state, although they do have formal and material rights and obligations. For this reason it is very important to define in detail their mutual relationships.

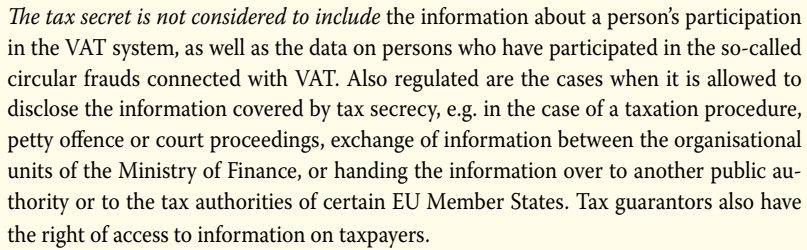
Unless otherwise provided in the GTA, the procedures followed by the tax authorities are also subject to the General Administrative Procedure Act.

In this part we try to give a short overview of the contents of the GTA, with emphasis placed only on the parts that are considered to be essential for taxpayers in the taxation procedure.

## The principles underlying the Act

- ◆ *The application of tax provisions:* the taxation procedure will be governed by the tax rules that were in force at the time of the occurrence of the facts on which the taxation is based.
- ◆ *Lawfulness:* one of the basic principles of a law-based state: all participants in a tax-related legal relationship are obliged to respect all the legal rules, irrespective of the name and kind of the legal instrument.
- ◆ *Objectivity:* during the taxation process, the tax authority establishes the facts objectively and conscientiously, irrespective of whether they are to the benefit or the detriment of the taxpayer.
- ◆ *The right to response:* taxpayers are given the possibility to express their opinion before a tax decision is made.
- ◆ *Two-instance proceedings:* this enables taxpayers to file complaints against tax decisions.

- ◆ *The obligation of tax secrecy:* the tax secret includes all data submitted by taxpayers and placed at the disposal of the tax authority in the taxation procedure.



*The tax secret is not considered to include* the information about a person's participation in the VAT system, as well as the data on persons who have participated in the so-called circular frauds connected with VAT. Also regulated are the cases when it is allowed to disclose the information covered by tax secrecy, e.g. in the case of a taxation procedure, petty offence or court proceedings, exchange of information between the organisational units of the Ministry of Finance, or handing the information over to another public authority or to the tax authorities of certain EU Member States. Tax guarantors also have the right of access to information on taxpayers.


- ◆ *Acting in good faith (bona fide):* all participants in the tax procedure are obliged to act conscientiously and fairly.
- ◆ *The keeping of books and records:* this binds the taxpayer to keep records in accordance with current bookkeeping regulations.
- ◆ *Tax inspection:* this is carried out with respect to both small and large taxpayers.
- ◆ *The provision of evidence:* both the taxpayer and tax authority have to prove the facts in the taxation procedure.
- ◆ *The use of the official language and writing:* If a taxpayer submits documents in a foreign language, he/she is bound to submit, within a specified period, certified translations of the documents written in Latin script.
- ◆ *Economic approach:* taxation facts are established according to their economic importance, which means that every acquisition of income is taxed, irrespective of whether the transaction is legal or illegal.

The Act also provides for the protection of human rights, such as:

- ◆ *The right to response* – taxpayers are given the opportunity and the right to express their opinion about all the essential facts related to the adoption of any decision (ruling or judgment) before such a decision is taken.
- ◆ *Protection of data confidentiality and privacy* – the taxpayer is bound to give to the tax authorities truthful information that is relevant to the taxation procedure, and the tax authorities are bound to preserve tax secrecy in the taxpayer's interest. This provides for the protection of the taxpayer's privacy. If the taxpayer renounces in writing his/her right to protection of privacy, these data can be publicly disclosed.

- ◆ *Protection of human dignity* – during the tax procedure, the tax authorities may not threaten the reputation, dignity or honour of the taxpayer.
- ◆ *The right to be informed* – the tax authority may not, by forcible measures, e.g. by seizure, take away the radio or television sets used by the taxpayer as his/her source of information.

### Public levies



The GTA provides detailed definitions of public levies.

**Taxes** – cash payments which constitute the budget revenue and which are used for the covering of public expenditures specified in the budget.

**Other public levies** – customs duties, fees, contributions, concession fees, fines for tax offences and any other levies the assessment and/or collection and/or supervision of which lies within the competence of a tax authority pursuant to special regulations.

- ◆ *Customs duties* – cash payments made for imported or exported goods and services.
- ◆ *Fees* – Cash payments made for a certain performance or for the use of a public good.
- ◆ *Contributions* – cash payments made for the use of certain services or the materialisation of certain rights.
- ◆ *Concession fees* – cash payments made for the right to economical exploitation of natural resources and other goods which are determined as being in the national interest pursuant to law, for the right to carry out activities in the national interest and for the construction and use of buildings and facilities necessary for carrying out these activities.

## Tax-related legal relationship and tax debt relationship

The Act defines the relationship or the connection between taxpayers and tax authorities.

A *tax-related legal relationship* is a relationship between tax authorities and taxpayers (tax debtor and tax guarantor) which includes their rights and obligations in the taxation procedure.

A *tax debt relationship* is a part of the tax-related legal relationship in which the participants realize their rights and discharge their obligations.

A *tax authority* in a tax debt relationship has the right to collect:

- ◆ taxes;
- ◆ interest and fines;
- ◆ pecuniary obligations arising from responsibilities for tax guarantees.

A *taxpayer* has a right to:

- ◆ a refund of tax paid without legal grounds;
- ◆ interest on tax paid without legal grounds.

### Joint debtor

Tax can also be collected from a third person or from a joint debtor. This means that, if there are several joint debtors in the tax debt relationship, the Tax Administration (TA), can either collect the entire amount of tax from a single debtor, or distribute the debt out among all of them. If at least one of the joint debtors settles the debt, the tax obligation terminates, and the relationship between the tax debtor and the joint debtor ceases to be the subject of the tax relationship.

### Legal successor

Heirs, as legal successors, are obliged to settle all the tax liabilities of the person whose assets they inherited.

*The rights and obligations* in a tax debt relationship cease upon:

- ◆ *payment*, or the meeting of the tax liability, irrespective of who has paid the debt. The debt is considered to have been paid when the bank in which the payment account is kept receives the payment;
- ◆ *refund of the tax with interest*, if the taxpayer has paid tax that he should not have paid, or has paid an amount exceeding his/her tax liability, the tax authority will make a refund together with interest up to the date of payment;

- ◆ *set off*, through which a debt arising from the tax debt relationship is offset; this means that, in agreement with the tax authority, the taxpayer can use tax refund to pay off certain debts (only public levies);
- ◆ *write-off*, if the tax debt could not be collected even through forced collection;
- ◆ the expiry of the *statute of limitations*, with different periods for the participants in a tax debt relationship.

### Personal identification number (in Croatian: osobni identifikacijski broj, OIB)

The GTA defines the concept of the tax number which is represented by the personal identification number (OIB), prescribed by the Personal Identification Number Act. The tax number is determined as a link between various official registers providing data for the carrying out of taxation procedures.

## Statute of limitations

The statute of limitations is a period of time after which the debtor who is a taxpayer can refrain from meeting his/her tax liabilities due to circumstances caused by the creditor (in this case the tax authority).

The **relative period** of the statute of limitations is **three years**. After this period, only the right to request the meeting of the liability becomes statute-barred, not the liability itself. The **absolute period** of the statute of limitations on the assessment of the tax liability and interest, on the initiation of minor offence proceedings, on the collection of taxes, interest, execution costs and fines is **six years**, counting from the date when the limitation period began to run. Generally, the limitation period begins to run on the expiry of the year in which the tax event occurred.

## Interest

In accordance with a special regulation, interest is charged or paid on the amount of underpaid or overpaid tax. The due dates for particular kinds of taxes are regulated by a special act which also governs the tax liability concerned. Interest is payable from the tax liability due date.

He who pays late  
pays twice.

Portuguese proverb



## The tax base determination

Ever since the imposition of the first taxes, and even now when taxation is governed in detail by numerous laws, the most common uncertainties have arisen during the determination of the tax base on which the tax rate is applied in order to assess the tax liability. The tax base is not always shown realistically, which can be the consequence of ignorance or carelessness on the part of the taxpayer, but also the effect of the deliberately inaccurate presentation of business events aimed at reducing or evading tax obligations.

When a tax authority is unable to determine the tax base from business books or records, it has to make an estimate, which will be done if the taxpayer:

- ◆ cannot supply books or records that must be kept according to the tax laws;
- ◆ has failed to issue proper invoices and to keep business books accurately, regularly and in a timely manner;
- ◆ cannot prove the data regarding taxation with credible documentation, refuses to take part in or obstructs the taxation procedure;
- ◆ refuses to cooperate in the taxation procedure or hampers its implementation.

The base for the tax on income or profit of natural persons can also be determined by estimation, i.e. as the difference between the taxpayer's private expenditures and/or private assets acquired, and the reported income or profit, if it cannot be proved that this difference has been taxed.

## Tax inspection

The tax authority establishes the facts relevant for taxation by employing **tax inspection** which can be carried out for all taxpayers and other persons who are in the possession of the tax-relevant documentation. The taxpayer is obliged to cooperate in the inspection procedure by supplying all the necessary documentation and giving any required information and explanations about his/her business operation, etc. The tax inspection is conducted by tax auditors and inspectors, but it can also be carried out by other authorised civil servants. A tax inspection procedure can last several days to several months, depending on the size of the taxpayer, the types and the number of taxes that are being inspected, the taxpayer's cooperation, etc. A report is compiled on the completed tax inspection.

## Execution

If the tax cannot be collected in the regular procedure it can be collected forcibly from the assets of the defaulting taxpayer, or from the assets of the tax guarantor on the basis of execution documents (an execution ruling) and trustworthy papers (bookkeeping printouts of the tax debt balance).

The execution is carried out by the seizure of movables (cash, securities, semi-products, raw materials, patents, technical advances, and other rights), the claims of the execution debtor (against cash amounts owed to the execution debtor from an earlier business relationship), property rights and real estate.

The collection of tax debt by execution can be secured by encumbering movables or real estate with a pledge or mortgage.

In the execution procedure, the following cannot be seized: salaries or income up to the amount of minimum salary and tax-exempt income (scholarships, cash awards, welfare benefits, etc.).

### The terms relating to execution


*execution* – forcible collection of a debt

*execution debtor* – a tax debtor or his/her guarantor from whom the tax debt is collected

*execution creditor* – a tax authority that carries out the execution procedure.

## Appeal

Against a first-degree tax ruling an appeal may be filed within 30 days from its receipt. The appeal postpones the enforceability of the contested ruling until a ruling on the appeal is pronounced.

A special title of the Act is concerned with **administrative cooperation** among the tax authorities of the EU Member States, which is important for the detection and, consequently, reducing instances of tax fraud. The EU legal framework is constantly being amended in order to make the cooperation as efficient as possible. Common rules are established, tax forms are standardised and the methods and styles of the transfer and exchange of information are harmonised. 

## Tax offence

Laws without a penalty are like a bell without a clapper.

German proverb

A violation of tax regulations is called tax offence. It can be regulated by the GTA or by special tax legislation.

The General Tax Act prescribes in detail the fines for particular tax offences that range from 5,000 kuna to 500,000 kuna.

## Regulations

- ◆ General Tax Act, OG 147/08;
- ◆ General Administrative Procedure Act, OG 47/09;
- ◆ Regulation on the Principles of Acting in Good Faith for Participants in a Tax-related Legal Relationship, on the Business Unit, as well as the Forms for Reporting Tax Relevant Facts and Stating the Sources of Acquisition of Assets, OG 59/09;
- ◆ Regulation on the Assessment of Remuneration and Reimbursement of Costs Incurred by Ex Officio Representatives, OG 59/09;
- ◆ Regulation on the Form, Content, Deadlines and Manner of Submitting Business Books, Records and Reports Maintained on Electronic Media, OG 59/09;
- ◆ The Personal Identification Number Act, OG 60/08; and
- ◆ Regulation on the Personal Identification Number, OG 1/09.

# PERSONAL INCOME TAX

## About the personal income tax

The personal income tax belongs to the group of direct taxes that are charged on the income earned by citizens during a year. The tax is not assessed on total income, but is reduced by the prescribed expenses, relief, and exemptions. On the income assessed in the described way progressive tax rates are applied. In February, citizens file tax returns on the basis of which they pay a tax difference or receive a tax refund. However, the personal income tax is also paid during the year, on income from salaries, rentals, craft business, etc. This will be further discussed below.

The current model of individual income taxation was introduced in the Croatian tax system by virtue of the Personal Income Tax late in 1993. This Act remained in force for seven years, and was replaced by two new personal income tax acts (one in 2000 and the other in 2004), which introduced major changes in the initial taxation of income. Here we discuss the situation based on the current regulations.

## Who pays personal income tax?

An income taxpayer is a **natural person** who acquires an income. That is, the taxpayer is an individual, not an enterprise. This is a person who receives a salary, a pension or a royalty payment, derives income from the sale of a house, or from property rental, or owns an income-generating craft business, etc. Income taxpayers can be both Croatian citizens and foreigners. A Croatian citizen or **resident** is any natural person with a domicile or habitual abode in Croatia. A foreigner or a **non-resident** is a natural person who has neither a domicile nor a habitual abode in Croatia, but earns an income in Croatia.

## What is considered as income?

The Egyptians imposed a tax on everything: sales, slaves, foreigners, import, export, business. Agricultural products were taxed with a high twenty per cent. This was not just a tax on the harvest, but included income from the garden, from a craft and any possible source, just the same as our income tax.

Charles Adams

Taxpayers pay tax on income coming from the following six sources:

- ◆ employment;
- ◆ self-employment;
- ◆ property and property rights;
- ◆ capital;
- ◆ insurance; and
- ◆ other.

### Income from employment

Income from employment is the difference between **receipts** and **expenses**.

The receipts include salaries, pensions and benefits in kind received by an employee during a calendar year. Benefits in kind received by an employee can include the use of buildings or vehicles, reimbursement of the rent paid for housing, privileged loan interest rates, etc.

However, the receipts acquired in this way are not taxed in their entirety, but are reduced by prescribed expenses in order to obtain the taxable income. The allowable expenses largely consist of:

- ◆ compulsory insurance contributions paid from salary<sup>3</sup>; and
- ◆ premiums for life insurance, additional health insurance and voluntary pension insurance, that are also deductible form receipts.<sup>4</sup>

The income determined in this way is reduced by personal allowances. On the base thus obtained four tax rates are applied: 15%, 25%, 35% and 45%, as well as surtax on personal income tax, in order to calculate the amount of the monthly tax on personal income from employment. This amount is paid in the account of the Tax Administration (TA) by the employer for the employee or by the pension insurance agency for pensioners. Taxpayers who only received salaries or pensions during a year are not required to file annual tax returns with the TA, because the taxes paid for them by the relevant payers are considered as the final taxes paid.

<sup>3</sup> Contributions on salaries are paid by employers (see the chapter on social security contributions).

<sup>4</sup> These premiums are considered as expenses for the purpose of assessing all forms of income, not just the employment income (see the chapter on income from insurance).

### An example of the calculation of personal income tax from salary

The example considers a gross salary of 8,743.50 kuna earned in Zagreb (with a surtax rate of 18%).

**Compulsory contributions** for a person participating in the second-pillar pension insurance scheme amount to 1,748.71 kuna or 15% of the gross salary for the 1<sup>st</sup> pillar, and 437.18 kuna or 5% for the 2<sup>nd</sup> pillar.

**Personal allowance** for a person with two dependent children who has a total personal allowance according to a factor of 2.2 of the basic personal allowance (i.e., a factor of 1 for the taxpayer + 0.5 for a first child + 0.7 for a second child, which makes 2.2 in total). The basic personal allowance of 1,800 kuna is multiplied by this factor in order to obtain the total personal allowance of 3,960.00 kuna.

1. Gross salary			8,743.50
2. Compulsory contributions			1,748.71
3. Income (1 – 2)			6,994.79
4. Personal allowances			3,960.00
5. Tax base (3 – 4)			3,034.79
Tax at	15%	$3,034.79 \times 15\%$	455.22
Tax at	25%	$0.00 \times 25\%$	0.00
Tax at	35%	$0.00 \times 35\%$	0.00
Tax at	45%	$0.00 \times 45\%$	0.00
Total tax			455.22
Surtax		$455.22 \times 18\%$	81.94
6. Total tax and surtax			537.16
7. Net salary (3 – 6)			6,457.63
8. »Crisis tax«*		$6,457.63 \times 4\%$	258.30
9. Net salary 1 (7 – 8)			6,199.33

\* The tax base is the net salary and the rate is 4%, because it relates to a net wage above 6,000 kuna.

### What is surtax on personal income tax?

Surtax is a tax that is paid on top of the personal income tax, and is used for the financing of units of local self-government. The surtax base is the personal income tax paid, and, according to the Act on the Financing of Units of Local and Regional Self-government, the surtax is determined by the local government. Municipalities and cities can introduce surtax as follows:

- ◆ municipalities – at a rate of up to 10%,
- ◆ cities with a population below 30,000 – at a rate of up to 12%,
- ◆ cities with a population above 30,000 – at a rate of up to 15%,
- ◆ the City of Zagreb - at a rate of up to 30%.

Surtax on personal income tax is the revenue of the unit of local self-government in which the taxpayer has his/her or her domicile or habitual abode.

Currently, surtax rates range from 1% to a maximum of 18% (for the City of Zagreb).

### Withholding tax

Withholding tax, also called tax at source or final tax is the tax that the payer of an income (salary, pension, etc.) pays for the taxpayer to the TA. For example, an employer pays personal income tax and surtax to the TA directly from the salaries of its employees. The employees then receive net salaries, as the personal income tax and surtax on their salaries have already been paid by the employer. Therefore, an employee who has only received the salary during the year is not required to file an annual tax return to the TA, because the tax and surtax paid for him/her by the employer during the year is considered to be the tax finally assessed and paid.

## Income from self-employment

### What is considered as self-employment?

All activities having the **features of independence** (the activity is carried out for one's own account and on one's own responsibility), the purpose of which is the continuing acquisition of income are considered as self-employment.

Income from self-employment comprises:

- ◆ income from a craft business;
- ◆ income from freelance occupations;
- ◆ income from agriculture and forestry.

A **craft business** includes various production, commercial, service and similar activities as defined in the Crafts Act. The sale of more than three items of real estate or property rights of the same kind in a period of five years is also considered as a craft business.

**Freelance occupations** are those carried out by, e.g. physicians, veterinary surgeons, writers, artists, architects, translators, scientists, athletes, etc., as their principal activities on the basis of which they are compulsorily insured and enrolled in the register of personal income taxpayers.

The tax on income from **agriculture and forestry** is paid if the person who is engaged in such activities is VAT registered and receives subsidies.

## Income assessment

In general, income from self-employment equals the difference between **business receipts and expenses** related to the carrying out of the business within a given taxable period.

**Business receipts** include money, goods, material rights, services, etc. assessed at their market value.

**Business expenses** are all outgoings resulting from the carrying out of an activity. These include: expenses for materials, goods, energy, staff salaries (together with taxes and contributions), the depreciation of fixed assets, etc.

Accordingly, after having assessed their tax bases as the difference between all the receipts and all the expenses, the taxpayers pay monthly advance income tax on this base at rates of **15%, 25%, 35% and 45%** (plus surtax). This does not mean, however, that their tax liabilities in respect of the TA are settled. It is only on the basis of annual tax returns that their final tax liabilities are assessed.

### Who must keep business books?

Taxpayers, who carry out a craft business activity, pursue a freelance occupation or engage in agriculture and forestry must enrol themselves in a register of taxpayers and assess their income on the basis of business books.

They run the following business books:

- ◆ **A book of receipts and expenses**, in which records are kept of expenditures and receipts in a given tax period.
- ◆ **The records of claims and obligations**, i.e. the records of all invoices issued or received.
- ◆ **A book of turnover**, which comprises the data on receipts collected in cash and in cheques.
- ◆ **A fixed assets list**, which includes items and rights the purchase prices of which exceed 2,000 kuna, or the life of which is longer than one year. This list is used for calculating the depreciation of fixed assets which is recognised as expenditure.



### Changing the taxation method



If persons, who carry out a craft business activity, pursue a freelance occupation or engage in agriculture and forestry meet the statutory requirements for corporate income taxation they may, at their own request, opt for the payment of corporate income tax instead of personal income tax. Based on a written request from such a taxpayer, the TA will issue a ruling which the taxpayer must follow in the next five years.

## Income from property and property rights

Income from property and property rights is derived from the renting of immovable property (flats, rooms or beds) and movable property, from copyrights, and other property rights, as well as from the sale of real estate. The taxable income is considered to be the difference between the receipts acquired and the expenses incurred in connection with them.

In the case of **immovable** and movable property renting, income tax is paid on the amount of the rent reduced by 30% on account of costs incurred as a result of the renting. The income tax is paid in the form of an advance tax at a rate of **15%** (plus surtax) without the right to personal allowance. The tax thus assessed is considered as the final tax and the taxpayer is not required to file any tax return in respect of this income.

Tax on income from **property rights** is paid as a withholding tax at a rate of **25%** (plus surtax), without a personal allowance. Property rights include copyrights on literary, music, scientific and similar works, rights on the exploitation of natural resources, on technological processes, business directories, etc.

Income from **the sale of real estate** is not taxed if the real estate is sold after the expiry of three years from the date of its acquisition, or if the taxpayer has used it for dwelling purposes. If the real estate is sold before the expiry of three years from the date of its acquisition, the tax on income from the sale of real estate is payable. A tax advance on the income earned is paid as a one-off sum, at a rate of **25%** (plus surtax) and the taxpayer is not required to file any tax return in respect of it. The tax is considered to be the final tax paid. The income earned is the difference between the market value and the purchase price of the real estate adjusted for inflation. The costs of sale are deductible as expenses.

## Income from capital

Income from capital is considered to include:

- ◆ **withdrawals of assets and the use of services** by company owners and co-owners for their personal needs, on which the payer pays a withholding tax at a rate of **35%** (plus surtax) at the time when the receipts are paid out;

- ◆ receipts arising from **shares in profits** of members of the management boards or employees realised through the allocation of own shares or **allocation of call options for own shares**, on which the payer pays a withholding tax at a rate of **15%** (plus surtax) at the time of paying out the receipts; and
- ◆ **interest**, on which a withholding tax at a rate of **35%** (plus surtax) is paid. Interest received by natural persons from other natural and legal persons with respect to the loans and credits granted to them is taxable, whereas interest on savings is exempt from taxation.

As from 1 January 2005, receipts representing dividends and profit sharing based on the shares in capital are not considered as income from capital.

The base for the taxation of income from capital is the total income derived from all the mentioned sources, without the right to personal allowance. The tax on income from capital is paid in the form of a withholding tax, i.e. whenever an income from capital is paid out the payer has to pay the TA an advance tax on the income thus earned. The advance tax paid is considered as the final tax paid, and taxpayers are not required to file any annual returns with respect to such income.

## Income from insurance

**Life insurance premiums** having the features of savings, as well as additional and private health insurance and voluntary retirement insurance premiums paid to domestic insurers up to 1,000 kuna per month are recognised as expenses for the purpose of income assessment. Irrespective of the kind of income you receive (salary, royalties, income from craft business or flat rentals), these expenses reduce your annual income tax base. However, they may not exceed a total of 12,000 kuna per annum, including the amounts of allowances for medical services and housing costs.

Now, what is income from insurance and how is it taxed? Income from insurance is considered to include the receipts in the amount of insurance premiums previously paid and recognised for tax purposes. The insurer calculates and pays withholding tax on this amount at a rate of **15%** (plus surtax), without the right to personal allowance. This tax is considered to be the final tax, and the taxpayer is not required to file an annual income tax return in respect of this income.

## Other income

Other income is derived from the work of members of the meetings and management and supervisory boards of companies, or is comprised of the receipts of travel agents, scientists, experts, athletes, artists, journalists, etc. All the amounts received are subject to withholding tax in the way that the payer calculates, withholds and pays income tax at a rate of **25%** (plus surtax), without recognising expenses. Exceptionally, the expenses in

the amount of 30% are allowable for royalties, the receipts of journalists, artists and athletes insured on that basis and receipts of non-residents for artistic and similar activities.

### Lump-sum taxation

The possibility of lump-sum taxation exists for those craftsmen, free lancers, persons engaged in agriculture and forestry, persons who derive income from the renting of flats, rooms and beds to travellers and tourists or from organising camps, but who are not VAT payers. Their tax liabilities can be assessed by virtue of TA rulings as lump-sum amounts, rather than on the basis of the business results presented in their business books.

## What is not considered as income?

Receipts that are not considered as income and do not have to be declared in the tax return are the following:

- ◆ interest on domestic and foreign currency savings, and on giro and current accounts;
- ◆ receipts from dividends and profit sharing on the basis of equity participation;<sup>5</sup>
- ◆ interest on securities issued pursuant to a special law;
- ◆ receipts from the alienation of financial assets, if this is not the business activity of the taxpayer;
- ◆ direct payments of insurance premiums for the purchase of supplementary lifetime pensions;
- ◆ pensions from abroad;
- ◆ family pensions; and
- ◆ state awards.

Also not considered as income are certain receipts for which natural persons do not provide market services (welfare benefits, inheritances and gifts, etc.), as well as receipts deriving from the insurance of goods, life and property. However, receipts deriving from life insurance and voluntary pension insurance may be considered as income from insurance provided that the premiums for these insurance policies were exempt from taxation.

Moreover, some receipts are considered as income, but are not subject to tax. These include scholarships and rewards to pupils and students, certain benefits for welfare purposes, etc.

<sup>5</sup> From 1 August 2009 to 31 December 2010, they are subject to the »crisis tax«.

## Tax rates

Income tax is paid at four rates: of 15%, 25%, 35% and 45%. The rate is related to the amount of the basic personal allowance. Given the monthly basic personal allowance of 1,800 kuna, the tax brackets are set as follows:

- ◆ 15% on the amounts up to 3,600 kuna per month (i.e. double the amount of the monthly personal allowance);
- ◆ 25% on the difference between 3,600 kuna and 9,000 kuna per month (i.e. between two times and five times the amount of the monthly personal allowance);
- ◆ 35% on the difference between 9,000 kuna and 25,200 kuna per month (i.e. between five times and fourteen times the amount of the monthly personal allowance); and
- ◆ 45% on amounts over 25,200 kuna per month (i.e. over fourteen times the amount of the monthly personal allowance).

The income tax calculated by applying these rates is also subject to surtax on income tax, in those cities and municipalities that have imposed the obligation to pay surtax.

In addition to the above mentioned tax rates used for the calculation of income tax in annual tax returns, there are a number of additional rates at which the withholding tax is paid for various kinds of income and for which no annual tax returns are required.

## Personal allowances

Personal allowances are the amounts of income that are not taxable, i.e. which reduce the tax base, because it is considered, from the standpoint of economic equity, that the income serving to cover the taxpayer's basic necessities of life, the so-called existential minimum, should not be taxed. The personal allowance granted to a taxpayer is called the basic personal allowance, and the allowances for his/her spouse, children and other dependent persons are called personal allowances for dependent family members.

### The basic personal allowance

- ◆ for all taxpayers: 1,800 kuna per month;
- ◆ for pensioners: up to the amount of the pension, but no more than 3,200 kuna per month.

### Personal allowances for dependent family members

A taxpayer who supports a spouse, children and other members of the family can, in addition to the basic personal allowance, deduct from his/or her taxable income the personal allowances for dependent family members. The personal allowances for dependent family members are expressed as basic personal allowance factors, as shown in the following table:

Basic personal allowance (1,800 kuna) factor	Dependent family member	Monthly amount of personal allowance (in kuna)	Annual amount of personal allowance (in kuna)
0.5	for a dependent family member	900	10,800
0.5	for a first child	900	10,800
0.7	for a second child	1,260	15,120
1.0	for a third child	1,800	21,600
1.4	for a fourth child	2,520	30,240
...	...	...	...
0.3	for a supported disabled family member and for a disabled taxpayer	540	6,480

## Personal allowances for medical services, housing and donations

The costs of **medical services provided for the taxpayer's personal use** are also recognised as personal allowance, provided that these expenses have not been covered from the basic, additional or private health insurance or financed from received donations.

Taxpayers can also have their personal allowances increased by expenses for the meeting of their **housing needs**, i.e. for the purchase or construction of first dwellings, investment maintenance of the existing housing premises and for the rent paid for housing. The allowance is recognised if the expenses have been financed from own sources (on the basis of authentic documents) or by loans (in which case the interest paid is recognised).

The total amount of the personal allowances for medical services and housing, including recognised expenses for paid insurance premiums may not exceed 12,000 kuna annually.

Taxpayers can also have their personal allowance increased by **gifts in kind and in cash** given for cultural, educational, scientific, health care, humanitarian, sport-related and religious purposes, up to 2% of the taxpayer's income for which the annual tax return for the previous year was filed.

The right on these allowances can only be claimed in an annual tax return.

### Some important notes on allowances for medical services and housing

The medical service and housing allowances are only recognised to residents and not to foreigners.

#### Medical services

- ◆ Recognised expenses include expenses for medical examinations and rehabilitation, prescription medicines, orthopaedic aids, medical co-payments, etc.
- ◆ Medical services must be provided in a public medical institution or by a private medical practitioner.
- ◆ Invoices for medical services can only be made out to a taxpayer and not to his/her children or dependents.
- ◆ Expenses for rehabilitation in medical spas, including food and accommodation costs are recognised. However, if food and accommodation is provided outside the medical institution, these expenses are not recognised.
- ◆ Expenses for aesthetic surgery, as well as for non-prescribed medicines and medical supplies are not recognised.

#### Housing

- ◆ Expenses for the purchase of the construction material are recognised only on the basis of authentic invoices, and expenses for the construction only on the basis of invoices issued by registered constructors.
- ◆ Expenses for the maintenance of roofs, floors, facilities, facades, etc. are recognised.
- ◆ Expenses for house equipment, i.e. invoices for furniture, household appliances, air-condition devices, etc. are not recognised, (but expenses for air-condition device installation are recognised).
- ◆ Rentals are recognised only on the basis of a free rental contract and proof that the rental has been paid.

## When does a person cease to be a dependent?

When a dependent person's income or other receipts exceed the amount of 10,800 kuna per annum, that natural person ceases to be a dependent family member or a dependent child.

## Tax return

A tax return is filed with a TA local office according to the taxpayer's domicile or habitual abode no later than the **end of February** for the previous calendar year. The taxpayer is not required to file any tax return for income which is subject to withholding tax, and the previously paid income tax is considered to be the finally paid tax. The tax

return can be sent by post or submitted personally at the competent TA local office. The tax return form and instructions for its completion are published each year on the Tax Administration's website at: <http://www.porezna-uprava.hr>

## Who is not obliged to file a tax return?

Provided that tax and surtax have been paid, the following taxpayers **are not obliged** to file tax returns:

- ◆ employees working for only one employer;
- ◆ pensioners;
- ◆ persons receiving rental or lease fees, income from insurance or from capital;
- ◆ members of the meetings and management and supervisory boards of companies, bankruptcy trustees, lay jurors, authors, artists, scientists, journalists and all those who receive other income on which income tax and surtax were paid at the time when the income was paid out.

However, such persons may file tax returns if they, for example, had medical services or housing expenses and if they expect to receive a tax refund on that account. In such a case, however, they have to report all the incomes acquired during the relevant tax period. Therefore it is recommended that a test tax return be completed in order to see whether it pays to file a real tax return.

## Who is obliged to file a tax return?

Taxpayers are obliged to file a tax return if they acquire income from:

- ◆ employment with two or more employers;
- ◆ self-employment; and
- ◆ abroad.

They are also obliged to file it if the TA has subsequently required that they do so, and if the employer (or taxpayer) failed to pay the advance income tax and surtax. Obligated to file a tax return are also resident crew members of vessels in international shipping who receive salaries from such employment.

## Tax relief

- ◆ **Disabled homeland war veterans** are relieved from paying tax on income from employment and pensions in proportion to the established degree of disability. Members of the families of killed, captured or missing Croatian homeland war veterans are not liable to pay tax on income from family pensions.
- ◆ Special tax relief has been provided for taxpayers and the dependent members of their immediate family in the **areas of special state concern** and in **hill and mountain areas**. Specifically, for these persons, the basic personal allowance which amounts to 1,800 kuna for all taxpayers has been increased to 3,840 kuna, 3,200 kuna or 2,400 kuna, depending on the area in which the taxpayer concerned is domiciled and actually lives.

Where taxpayers in these areas carry out self-employment activities, their income tax is reduced by 25%, 75% or 100%, depending on the area of special state concern. In this way, their tax calculation bases are reduced. Additional relief is provided for the carrying out of self-employment activities in the City of Vukovar.

- ◆ Taxpayers have also been given tax relief for the purpose of **providing employment incentives**. Taxpayers who carry out self-employment activities can have their tax bases reduced by the amount they have paid on salaries and contributions for newly hired employees for a period of one year from the date of their hiring, and for a period of three years in the case of hiring disabled persons.
- ◆ Taxpayers who carry out self-employment activities can have their income tax base reduced by expenditures for **education and professional improvement**, as well as for **pupils' remuneration** for practical work. The tax base can be additionally reduced by expenses for **research and development**, in the amount of 100% of expenses incurred and shown in the business books.


### »Crisis tax«

With the view to ensuring additional revenues for the state budget in the period from 1 August 2009 to 31 December 2010, an Act on Special Tax on Salaries, Pensions and Other Income, i.e. on the so-called „crisis tax“ has been put into effect. Pursuant to the Act on Special Tax on Income from Self-employment and Other Income, the crisis was expanded to cover other income as well, in the period from 1 October 2009 to 28 February 2011.

The crisis tax is an additional tax on all the receipts which are normally subject to income tax, in particular:

- ◆ salaries and pensions,
- ◆ author's royalties,



- 
- ◆ dividends and profit sharing paid to natural and legal persons,
  - ◆ income from crafts, freelance occupations, agriculture and forestry,
  - ◆ income from the sale of real estate,
  - ◆ income from rentals,
  - ◆ interest on loans granted,
  - ◆ income from insurance, etc.

Amounts up to 3,000 kuna are exempt from the tax. The tax rate of 2% is applied to total amounts between 3,000 kuna and 6,000 kuna and the rate of 4% on amounts above that.

## Regulations

- ◆ Personal Income Tax Act, OG 177/04 and 73/08;
- ◆ Personal Income Tax Regulations, OG 95/05, 96/06, 68/07, 146/08, 2/09, 9/09 and 146/09;
- ◆ Regulations on the Activities of Renting Flats, Rooms and Beds to Travellers and Tourists, and Activities of Organising Camps, Which Will Be Subject to Lump-sum Taxation, on the Amount of Lump-sum Tax and on the Manner of Its Payment, OG 48/05 and 148/09;
- ◆ Regulation on the Lump-sum Taxation of Self-employment Activities, OG 143/06;
- ◆ Act on the Financing of Units of Local and Regional Self-government, OG 117/93, 69/97, 33/00, 73/00, 127/00, 59/01, 107/01, 117/01, 150/02, 147/03, 132/06 and 73/08, and the Decision of the Constitutional Court of the Republic of Croatia, OG 26/07;
- ◆ Act on Special Tax on Salaries, Pensions and Other Income, OG 94/09 and the Regulation, OG 96/09; and
- ◆ Act on Special Tax on Income from Self-employment and Other Income, OG 119/09 and the Regulation, OG 131/09.

# SOCIAL SECURITY CONTRIBUTIONS

## What are compulsory contributions?

The compulsory social security contributions constitute a kind of direct taxes on labour and, as such, they are part of the tax system in a broader sense. They are the basic revenues used for the financing of expenditures for pension, health and employment insurance.

The Croatian compulsory social insurance plan includes:

- ◆ compulsory pension insurance based on intergenerational solidarity (the so-called 1st pillar pension scheme) paid to the **Croatian Institute for Pension Insurance**;
- ◆ compulsory pension insurance based on capitalised savings (the so-called 2nd pillar pension scheme), paid to a **compulsory pension fund** of the insured person's choice;
- ◆ compulsory health insurance paid to the **Croatian Health Insurance Institute**; and
- ◆ insurance in the case of unemployment, paid to the **Croatian Employment Service**.

The contributions are paid from salaries (i.e. at the expense of the employee) and on salaries (at the expense of the employer). Thus, pension insurance contributions are paid at the expense of the employee, whereas the burden of health and employment insurance contributions is borne by the employer.

## Difference between taxes and contributions

Like taxes, contributions are public levies paid to the state. But the basic difference between contributions and taxes is that taxes are not spent for any predetermined purposes, as is the case with contributions. For example, when we pay a tax we do not know whether this money will be used for financing road construction or teachers' salaries. By contrast, the purpose of spending contributions is known in advance. So, whoever pays health insurance contributions knows that they will be used just for paying health care services.

## Pension insurance contributions

A pension system reform was launched in Croatia on 1 January 2002. Since then, the system has been based on three pillars. The first and second pillars are obligatory, whereas the third pillar is voluntary. The first-pillar pension insurance contributions are paid to the Croatian Institute for Pension Insurance, whereas contributions for the second pillar are paid to compulsory pension funds. Contributions for these two pillars are paid on gross salaries of employees at the total rate of 20%. They are paid by the employer for the employee. Citizens independently decide on an additional, third-pillar pension insurance, and the premiums are paid to voluntary pension funds of their choice. These insurance premiums are allowed for income tax purposes.

## Health insurance contributions

The basic health insurance is compulsory. Employers are obliged to pay health insurance contributions on gross salaries of their employees at a rate of 15%. The contributions are paid to the Croatian Health Insurance Institute. In order to cover additional health care costs, citizens can pay additional health insurance premiums to the Croatian Health Insurance Institute or to insurance companies. These insurance premiums are allowed for income tax purposes.

## Rates of contribution

For 2010, contributions from and on salaries are paid at a total rate of 37.2%, as shown in the following table:

Contributions	Contributions from salaries (at the expense of employee) (%)	Contributions on salaries (at the expense of employee) (%)
for pension insurance of persons only in the 1 <sup>st</sup> pillar scheme	20 – 1 <sup>st</sup> pillar	
for pension insurance of persons in the 1 <sup>st</sup> and 2 <sup>nd</sup> pillar schemes	15 – 1 <sup>st</sup> pillar 5 – 2 <sup>nd</sup> pillar	
for health insurance		15.0
for health protection at workplace		0.5
for employment		1.7
<b>Total contributions</b>	<b>20</b>	<b>17.2</b>

Before you become generous, be just.

English proverb

## Contribution bases

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The contribution base is the gross salary. According to Croatian regulations, in 2010, the monthly full-time employment salary used for the assessment of compulsory contributions on and from salaries **cannot be lower than** 2,700.60 kuna.

For contributions from salaries (i.e. for pension insurance at the expense of the employee) the **maximum** monthly base is 46,296 kuna. This means that, up to this amount, the base equals the gross salary, but the base for gross salaries exceeding this amount remains fixed at 46,296 kuna. For contributions on salaries (i.e. for health insurance and other employer-financed insurances) there is no fixed **maximum** base.

## Regulations

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- ◆ Contributions Act, OG 84/08, 152/08 and 94/09; and
- ◆ Ordinance Regarding the Amounts of Bases for the Assessment of Compulsory Insurance Contributions for 2010, OG 141/09.



# CORPORATE INCOME TAX

## Changes in corporate income taxation

The initial Corporate Income Tax Act, passed at the end of 2004, has been amended several times:

- ◆ In 2005, tax relief for the areas of special state concern, hill and mountain areas, the City of Vukovar and free zones was moved to the relevant specific acts.
- ◆ After that, on 1 January 2007, the remaining tax relief (incentives to employment, research and development, education and professional improvement, as well as to professional rehabilitation and employment of disabled persons) was abolished, whereas investment incentives were regulated by the new Investment Incentives Act. However, the application of tax relief for research and development, and education and training continued pursuant to separate legislation passed during 2007.
- ◆ For the alignment of the Croatian corporate income tax with the EU legislation, the Act was amended in 2008 in the part governing mergers and divisions of companies and taxation of interest and author's royalties.

## Corporate income taxpayers

**The following persons are corporate income taxpayers:**

- ◆ a company or another legal or natural person that is resident in Croatia i.e. that has a seat or head office, or that is engaged in an economic activity, in Croatia;
- ◆ a resident business unit of a non-resident entrepreneur, i.e. the one that has no seat or head office in Croatia;
- ◆ a natural person who acquires income, if he/she declares that he/she intends to pay corporate income tax instead of personal income tax;
- ◆ a natural person who derives income from a craft business or an activity equalised with it, if:
  - his/her total receipts in the preceding tax period exceeded 2,000,000 kuna; or
  - his/her total income in the preceding tax period exceeded 400,000 kuna; or
  - the value of his/her fixed assets exceeds 2,000,000 kuna; or

- he/she employed more than 15 employees on average during the preceding tax period.

## Which legal persons are not liable to pay corporate income tax?

The following are exempt from corporate income tax liability:

- ◆ bodies of national, regional and local self-government (unless otherwise prescribed by the TA);
- ◆ the Croatian National Bank;
- ◆ state institutions, local government institutions, national institutes, religious communities, political parties, trade unions, chambers, civic organisations, foundations, artists associations, sports clubs, etc. (unless otherwise prescribed by the TA);
- ◆ open-end investment funds, established and operating in accordance with the law pursuant to which they have been established.

## Tax base

The tax base is the corporate income assessed pursuant to the accounting regulations **as the difference between revenues and expenditures** reported in the financial statements and realised during a tax year which is the calendar year. Such income is increased and reduced by revenues and expenditures, respectively, recognised for taxation purposes.

For a resident taxpayer, the tax base is the total corporate income made in Croatia and abroad; for a non-resident taxpayer it is the income acquired in Croatia only. The tax base also includes any income realised during the winding-up proceedings according to market value.

## What increases or reduces corporate income?

The Act separately defines the items that increase or reduce corporate income. In other words, for taxation purposes, the Act prescribes the revenues and expenditures which influence the amount of the corporate income tax base.

The main items **increasing** the tax base are as follows:

- ◆ the amount of depreciation in excess of the amounts prescribed by the Act;
- ◆ 70% of entertainment expenses;
- ◆ costs relating to the private life of shareholders, company members and employees;

- ◆ hidden profit distributions; and
- ◆ gifts in excess of the prescribed amounts, etc.

The main items **reducing** the tax base are as follows:

- ◆ revenues from dividends and profit sharing;
- ◆ the amount of depreciation up to the prescribed amount;
- ◆ the amount of incentives in the form of tax exemption or relief governed by special regulations.

The incentives must be approved in accordance with the state aid regulations.

### Depreciation or write-off

The depreciation or write-off means a loss in the value of real property that becomes physically or economically depleted due to the passage of time or as a result of use. Each business entity must set aside annually depreciation funds for buildings, equipment and intangible assets that it uses in its operation. The purpose of this is to ensure adequate resources for the replacement of assets once they become worn out. The amount of tax allowable depreciation is usually determined in all tax regulations.

In Croatia, taxpayers liable to personal income tax and corporate income tax depreciate their tangible and intangible fixed assets (i.e., items and rights the individual cost of which exceeds 2,000 kuna and the useful life of which is longer than one year). That is, depreciation is applied to buildings, equipment, vehicles, basic herds and intangible fixed assets (e.g. patents and licences). Depreciation does not apply to land, forests, financial assets, monuments of culture and works of art. The depreciation amount is determined by applying the prescribed depreciation rate on the acquisition cost of the assets.

### Depreciation rates and depreciation life

	Depreciation life (years)	Annual depreciation rates (%)
Buildings and ships over 1,000 GRT	20	5
Basic herd, passenger motor vehicles	5	20
Intangible assets, equipment, vehicles and machinery	4	25
Computers, software and mobile phones	2	50
Other assets	10	10

For taxation purposes, the depreciation rates can be doubled, so that a large portion of fixed assets can be depreciated on an accelerated basis in the period of one to two years.



## What is a tax loss?

A tax loss occurs when the tax allowable expenses are greater than the tax allowable revenues, i.e. when the tax base is negative. Such tax losses can be carried forward to a period of **five years** in the way that, in each year, the corporate income tax base is reduced, i.e. the amount of income in the tax return is reduced before applying the tax rate and before the tax liability assessment.

## Corporate income tax rate

In 1994, when new principles of corporate income taxation were introduced in Croatia, the tax rate was 25%. But as a result of changes at end-1996, the rate was increased to 35%, to reach the maximum corporate income tax rate. Since 2000, the rate has stood at **20%**.

## Corporate income tax assessment

During the year, corporate income taxpayers pay advance tax on corporate income for the previous **calendar year**. The final assessment of the tax is carried out on the basis of the tax return submitted by the taxpayer to the TA by 30 April for the preceding business year. Along with the tax return, the balance sheet and the profit and loss account should be submitted.

## Tax relief, exemptions and incentives

As in the case of personal income taxation, there are many kinds of tax relief within corporate income tax. They are not listed in the Corporate Income Tax Act, but in the acts regulating specific areas. There are tax relief, exemptions and incentives that reduce the corporate income tax base and those that reduce the tax liability.

1. State aid and tax relief that reduce the corporate income tax base
  - ◆ State aid for **research and development** can be used by all corporate income taxpayers in the way that they deduct recognised expenses for research and development projects from their tax bases in the following percentages:
    - 150% for fundamental research;
    - 125% for applied research; and
    - 100% developmental research.

State aid can be increased by 20% and 10% for small and medium-sized enterprises respectively.

- ◆ State aid for **education and training** can be used by large, medium-sized and small enterprises in the way that they deduct recognised expenses for the education and training of employees from their tax bases in the following percentages:
  - large enterprises – up to 50% for general education and training, and 25% for special education and training;
  - medium-sized and small enterprises – up to 70% for general education and training, and 35% for special education and training;
  - enterprises engaged in maritime transport – up to 100% of recognised expenses for education and training.

State aid can be further increased for regional aid user, as well as for enterprises employing disadvantaged persons (young, disabled and elderly persons, undereducated and long-term unemployed persons, etc.).

## 2. Tax relief, exemptions and incentives that reduce the tax liability

- ◆ Taxpayers who are engaged in agriculture and fisheries in the **areas of special state concern** and permanently employ more than five employees, of whom more than 50% have had their domicile or habitual abode in such areas for at least nine months, will, up to the date of Croatia's accession to the EU, pay corporate income tax at a rate that can be 0%, 25% or 75% of the prescribed rate, depending on the area of special state concern. For other business activities, taxpayers in equal circumstances pay tax at rates from 0% to 85% of the prescribed income tax rate, depending on the area of special state concern. Rates also differ by period of time between 2008 and 2017.
- ◆ Taxpayers who are engaged in agriculture and fisheries in the **City of Vukovar** area and permanently employ more than five employees, of whom more than 50% have had their domicile or habitual abode in the City of Vukovar area, in a hill and mountain area or an area of special state concern will be exempt from corporate income tax up to the date of Croatia's accession to the EU. For other business activities, taxpayers in equal circumstances pay tax at rates from 0%, 25% to 75% of the prescribed corporate tax income rate, distributed across the periods of time between 2008 and 2016.
- ◆ Taxpayers who are engaged in agriculture and fisheries in **the hill and mountain areas** and permanently employ more than five employees, of whom more than 50% have had their domicile or habitual abode in a hill and mountain area or an area of special state concern for at least nine months, pay corporate income tax in the amount of 75% of the prescribed tax rate up to the date of Croatia's accession to the EU. For other business activities, taxpayers in equal circumstances pay corporate income tax in the amount of 75% of the prescribed rate in the period from 2008 to 2010.

- ◆ Users of **free zones** pay corporate income tax in the amount of 0%, 50%, 75% and 100% of the prescribed rate, depending on the location of the free zone and the periods of time between 2008 and 2017.
- ◆ There are also **special investment incentives** than can be used in the period of 10 years from the beginning of investment. The privileged corporate income tax rates depend on the investment amount and the number of newly employed persons. The possibilities of making use of the privileged rates are shown in the table below.

Investment amount (in million EUR)	Corporate income tax rate (%)	Obligatory minimum number of new jobs
up to 1.5	10	10
from 1.5 to 4	7	30
from 4 to 8	3	50
over 8	0	75

Taxpayers are entitled to make use of several kinds of relief simultaneously, i.e. to use relief cumulatively.

#### Withholding corporate income tax for non-residents

Withholding corporate income tax is a tax on the profits earned by a non-resident in the Republic of Croatia. It is paid by a payer who is a resident entrepreneur, at a rate of 15% on interest, royalties and other intellectual property rights, on market research services, tax and audit services and business counselling services paid to non-resident persons (other than natural persons). However, the tax is not paid on interest on loans granted by non-resident banks.

#### Double taxation treaties

Double taxation occurs in international business relationships. When a legal or natural person earns an income (in the form of profit sharing, interest, royalties or dividends) in a state in which that person is a non-resident, this income is taxable both in the state in which it has been earned and in the state of the recipient. In order to avoid the unjustified taxation of the same income in both countries, a treaty concluded between the two countries to avoid double taxation is applied. Croatia has concluded or taken over through succession to the former Yugoslavia **double taxation treaties with 47 countries**.

## Regulations

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- ◆ Corporate Income Tax Act, OG 177/04, 90/05, 57/06 and 146/08;
- ◆ Corporate Income Tax Regulations, OG 95/05, 133/07 and 156/08 and 146/09;
- ◆ Act on Areas of Special State Concern, OG 86/08;
- ◆ Act on the Reconstruction and Development of the City of Vukovar, OG 44/01, 90/05, 80/08 and 38/09;
- ◆ Act on Hill and Mountain Areas, OG 12/02, 32/02, 117/03, 42/05, 90/05 and 80/08;
- ◆ Free Zones Act, OG 44/96, 92/05 and 85/08;
- ◆ Investment Incentives Act, OG 138/06;
- ◆ Scientific Activity and University Education Act, OG 123/03, 198/03, 105/04, 174/04 and 46/07;
- ◆ Regulations on State Aid to R&D Projects, OG 116/07; and
- ◆ State Aid to Education and Training Act, OG 109/07, 134/07 and 152/08.



# VALUE ADDED TAX

Value added tax (VAT) has been applied in Croatia since 1 January 1998. It is in line with the EU Council Directive 2006/112/EC on the common system of value added tax. It is a consumption-type tax, based on the destination principle. The tax liability is assessed by applying the credit method which allows for input tax deduction.

## What is value added?

Value added is the value that the producer adds to his inputs before selling them as new products or services.

The taxation of value added is done in the way that the tax base does not include the tax calculated when goods and services are procured (the input tax) but the tax is charged on the value added after the procurement (output tax).

When using the **invoice-based method** of taxation, a taxpayer, when settling its tax liability, deducts the tax calculated on the basis of the invoices of those taxpayers that have supplied goods or services (the suppliers). The invoice is a document used for deducting the calculated tax. In some cases, the amount of VAT charged on the supplier's invoice can be greater than the VAT calculated by the taxpayer on output invoices. The difference between these two amounts will be allowed to the taxpayer as an advance payment of the tax liability in the forthcoming period, or it will be paid as a tax refund. Accordingly, VAT is neutral for the taxpayer, but not for the final consumer, i.e. ordinary citizen who actually bears the tax without the possibility of deducting the input tax.

The **payments-based method** is applied to natural persons, i.e. craftsmen.

When calculating VAT, the entrepreneur calculates his/her tax liability directly on the basis of invoices for purchased or sold goods and services. Specifically, he/she deducts the amount of tax shown on input invoices from the tax that he had to show on invoices for the sale of his/her goods or services. Thus, the invoice becomes the main evidence for the calculation of value added tax and a basis for efficient tax liability checking. It is in the interest of every taxpayer to have the tax at the previous stage shown correctly, because the amount of his/her own tax liability depends on this. In this way, the possibility of self-checking was introduced in the VAT system, reducing the likelihood of tax evasion.

But when the impositions are laid upon those things which men consume, every man payeth equally for what he useth: nor is the common wealth defrauded by the luxurious waste of private men.

Thomas Hobbes

## Persons liable to register for VAT

The fact that each citizen who buys a good or pays a service bears VAT included in the price does not mean that he/she is a registered payer of VAT. Registered VAT payers are only the persons (entrepreneurs) registered for the performance of some entrepreneurial activity, i.e.:

- ◆ entrepreneurs, when supplying goods or providing services;
- ◆ importers, when importing goods;
- ◆ exporters who have not exported products in accordance with certain regulations; and
- ◆ entrepreneurs (natural persons), if the annual value of their deliveries exceeds 85,000 kuna.

### What is an entrepreneur in terms of the VAT Act?

An entrepreneur is any legal or natural person that independently and continuously performs an activity with the intention of earning an income. An entrepreneur is also an association of persons, the operational units of foreign companies and foreign entrepreneurs. The bodies of national and local government, political parties, trade unions and chambers are not considered as entrepreneurs if they carry out their operations in line with their authorisations. However, if alongside this they carry out some economic activity from which they derive income on the market, the TA can issue a ruling assigning them the status as entrepreneurs with respect to this activity.

### VAT registered natural persons


If a natural person who, alongside some permanent job, occasionally carries out other jobs, e.g. an artist, a scientist, etc, and if he/she derived gross income (turnover) of more than 85,000 kuna from such work in the previous calendar year, this person is obliged to report to the TA by 15 January in the current year in order to be enrolled in the register of VAT payers. The registration and data are submitted on a VAT form. Persons who are VAT registered must keep books of input and output invoices, and independently calculate and pay the tax or claim the refund of any overpaid tax from the TA.

## What is taxable?

The following are subject to taxation:

- ◆ the supply of all goods and services carried out for a consideration in Croatia;
- ◆ imports of goods into Croatia;
- ◆ the use of goods that are part of the entrepreneurial assets and that are used by the taxpayer or his/her employees for personal or other non-entrepreneurial purposes, if the value added tax on such assets was wholly or partly deductible; and
- ◆ newly-built real estate.


It is essential that the supply includes a mutual causal link, i.e. that there exists a joint economic interest among the participants, irrespective of what this joint transaction is called – a sale, exchange, agency, representation, rent, lease, etc.



Where a taxpayer or his/her employees withdraw for personal purposes goods that are part of the entrepreneurial assets, and the input tax on these goods was wholly or partly deductible, this will be considered as the supply of goods for a consideration. For example, if an entrepreneur producing lamps takes one lamp for his/her personal use he/she must charge VAT on this lamp.

### **The use of passenger cars and other personal means of transportation – own use**

The use of a business vehicle or other means of transport for private purposes is a supply subject to VAT.




When entrepreneurs or other employees of an enterprise use cars owned by the enterprise, rented passenger cars or some other means of transportation for personal purposes (personal transportation), this is considered as own use and is subject to VAT at a rate of 30% of the costs incurred (for fuel, maintenance, registration, depreciation, etc.).

**As from 1 January 2010**, taxpayers are not entitled to deduct input tax charged by other entrepreneurs on account of taxable expenses in the amount of 30% for the use of own or rented passenger cars and other means of transportation.

However, this does not apply to the use of passenger cars for driver training, vehicle testing, repair and maintenance service, taxi service, transportation of dead human bodies, renting and reselling, in which cases the input tax deduction is not limited.





**Entertainment expenses include:**

- ◆ hosting,
- ◆ gifts and occasional gifts, including own products,
- ◆ costs of relaxation, sport, recreation and leisure, and
- ◆ the lease of cars, vessels, aircrafts, country cottages, etc.

Entertainment expenses are subject to VAT as own use only if the right to deduct input tax has been exercised at the time when the goods and services for these purposes have been procured. At the end of the accounting period, VAT is charged on 70% of all entertainment costs.

**As from 1 January 2010**, taxpayers are not entitled to deduct 70% of the input tax charged on goods supplied or services rendered, or on the imports of goods for entertainment, relating to hosting and giving gifts to business partners, if they charge VAT subsequently. This implies that VAT is charged and paid on all withdrawals of goods and services, except on handing out reasonable quantities of free samples to prospective customers and giving gifts up to the value of 80 kuna, within the performance of an economic activity, provided that such gifts are given occasionally and not always to the same persons.

## What are the supplies of goods?

- ◆ A supply of goods occurs when an entrepreneur who is the supplier of some good (a product, merchandise, a newly constructed building, equipment, electricity, gas, etc.) places this good at the disposal of a customer (by giving or selling) for a certain consideration (cash), a compensation in the form of some other goods (exchange) or without any consideration.
- ◆ A supply of goods for a consideration is a supply which involves withdrawals of goods constituting a part of the entrepreneurial assets by the taxpayer or his/her employees for their personal purposes, if they use them without consideration or for other, non-entrepreneurial purposes, and if input tax on such goods was wholly or partly deductible.

Input tax can only be deducted in the case of the purchase of passenger cars and other personal means of transportation the purchase price of which does not exceed 400,000 kuna.



## What are the supplies of services?

A supply of services occurs:

- ◆ when an entrepreneur who is a supplier transfers property rights or copyright to another person;
- ◆ when something is put to use (by renting or leasing), or when rights to patents, inventions or industrial property are given or transferred to somebody;
- ◆ when services are rendered as a compensation for received services (exchange) instead of a cash consideration;
- ◆ when goods which constitute a part of the entrepreneurial assets are used by the taxpayer or his/her employees for their personal or other, non-entrepreneurial purposes, if value added tax on such goods was wholly or partly deductible.

## The place of taxation

**For goods:**

- ◆ the location of goods at the time of supply, or the location where the supplier has placed, assembled, built in or constructed them;
- ◆ in the case of newly built real estate, the place where the real estate is located.

**For services:**

- ◆ the seat, domicile or habitual abode of the entrepreneur (or a business unit) that supplies the services;
- ◆ the place where the service is actually provided;
- ◆ goods and passenger transport is taxed according to the section of the route on which it is provided (the transport of exported goods is exempt from VAT);
- ◆ in the case of real estate, the place where the real estate is located;
- ◆ in the case of banking and financial services, insurance services including re-insurance and insurance agents, with the exception of safe deposit box renting, providing access to natural gas or electricity distribution systems, as well as the transport or transfer through these systems and the provision of other services directly connected with this, telecommunication services, radio and TV broadcasting services and electronically supplied services, the place of taxation is determined according to the seat of the recipient.

### **The housing premises renting services**

The renting of housing premises, i.e. premises in which someone resides and lives, irrespective of whether the renter is a legal or a natural person, or whether it is VAT registered or not, is not subject to VAT.

However, if the renter is a VAT registered person (an entrepreneur) or a natural person participating in the VAT system, and rents housing premises for business purposes, VAT will be charged according to the place where the real estate is located.

### **Payment for foreign services**

When a Croatian company pays a fee to, for example, a foreign lawyer, it charges withholding tax on corporate income at a rate of 15%. At the same time, it must calculate and pay VAT, the tax base being the fee paid to the foreign lawyer, because the recipient (beneficiary) of that service is in Croatia.

## Value added tax rates

When VAT was first introduced in Croatia, a single rate of 22% was applied.

After almost two years of VAT being applied, a zero rate was introduced as follows:

- ◆ from 1 November 1999, on all kinds of bread and milk, books dealing with technical, scientific, artistic, cultural and educational matters, textbooks, and certain drugs and orthopaedic aids;
- ◆ from 1 June 2000, on books published on CD ROMs, video and audio cassettes, and on scientific magazines;
- ◆ from mid-September 2000, on the public showing of movies.

As from 1 January 2006, another rate of 10% is applied on the services of accommodation, accommodation with breakfast, half board or full board in all kinds of commercial catering facilities and on agency commissions for such services.

On 1 August 2007, a 10% rate was introduced on newspapers, daily and periodical magazines, except those which entirely or mainly consist of advertisements, or serve for advertising purposes.

As from 1 August 2009, the general VAT rate is 23%.

### Difference between the zero rate and tax exemption

A zero rate means that producers and importers do not charge VAT when they deliver their products but do have a right to deduct the input tax contained in their input invoices, i.e. the right to deduct VAT paid on the imports connected with their economic activity.

In the case of tax exemption, tax is not charged at the time of delivery, but the input tax contained in input invoices is not deductible. This means that the zero rate is more favourable for the taxpayer than tax exemption.

### Reverse tax rate calculation

When calculating the amount of tax included in the price of an item and charged at a rate of 23%, the reverse tax rate is applied 18.6992%. At a rate of 10% the reverse tax rate is applied 9.0909%.

### Example:

A washing machine costs 4,250 kuna. The tax at a rate of 23% included in the price is:  
 $(4,250 \times 18.6992/100) = 794.92$  kuna.

## Tax exemptions

**In the country, the supply of certain goods and services in the public interest** (postal, medical, social welfare, educational, religious or cultural services, etc.) **is exempt from VAT.**<sup>6</sup> Institutions carrying out such activities, legal persons with public authority and other organisations enjoy such exemptions, provided that they perform their activities in accordance with special regulations.

The law provides for a number of exemptions for imports, e.g. for temporary imports, entry of personal luggage (in the total value of 300 kuna), the imports of advertising materials, own brands and forms, various donations to certain institutions (cultural, education, religious, humanitarian, etc.) under specific conditions.

<sup>6</sup> The exemptions are set out in detail in Articles 11, 11a and 12 of the Value Added Tax, and exemptions for imports are prescribed in detail in Article 12 of the Act.



### Exemptions for cash donations received from abroad

Until the end of 2009, cash donations received from abroad could be used in Croatia for purchasing goods exempt from VAT. However, on 1 January 2010 this exemption was abolished.

### The following are exempt from VAT on exports:

- ◆ the exports of goods and processed goods, including transportation and shipment services;
- ◆ the supplies of goods to a free zone, a free or bonded warehouse and within them;
- ◆ the supplies of goods and services to international organisations under specific conditions;
- ◆ certain supplies in international transport;

Articles 13a and 13b prescribe in detail the exemptions for the supplies of goods and services which are treated equally as exports.



### Tax refund to foreigners

Travellers from abroad can claim tax refund for goods purchased in and taken out of Croatia, provided that their total value exceeds **740 kuna**.

## The issue of invoices

The issue of invoices is the basic prerequisite for VAT taxation. For VAT registered entrepreneurs, an invoice with a separately stated amount of tax is used for input tax deduction. Therefore, each participant in the production and sales process is interested to receive and issue invoices, as this enables mutual control of business operations, as well as the prevention of tax evasion. The content of an invoice is laid down by law. An invoice is issued in two copies – one for the buyer and one for the accounts. Both cash and non-cash invoices are recognised. An invoice should contain the relevant identification number.

As from 1 January 2010, instead of the company identification number, the personal identification number (OIB) or the tax number of an entrepreneur should be entered in any invoice as its obligatory element.



## Tax period

The tax period is the calendar year. A calculation period during the year lasts from the first to the last day in a month. The final tax calculation for those who pay tax according to invoices issued (corporate income taxpayers) is done by the end of April for the previous year. Those who pay VAT according to invoices collected (personal income taxpayers) submit their final tax calculations by the end of February for the previous year.

## Taxation procedure

A VAT payer himself/herself calculates the tax liability as the difference between the input tax from input invoices and the tax that he/she has charged to the buyers of his/her goods and services. Entrepreneurs the deliveries of which amounted to less than 300,000 kuna in the previous calendar year calculate and pay tax on a quarterly basis, by the last day of the month following a given quarter (the same rule applies to natural persons who are subject to VAT). Other legal persons pay the tax on a monthly basis, by the last day of the current month for the previous month. The tax is reported on a VAT form for monthly and quarterly payments, and on a PDV-K\* form, for the final annual tax calculation.

If a taxpayer is entitled to an overpaid tax refund, the TA is obliged to make the refund within 15 days from the date of filing the tax return.

## The keeping of documentation

Invoices, corrections of invoices, proofs of import, export and exemptions utilized, as well as other documents required pursuant to the VAT Act, must be kept for the periods laid down by special regulations. Documentation relating to real estate must be kept for at least ten years.

The appeals procedure, renewal, statute of limitations, collection and refund are laid down in the General Tax Act and in the General Customs Act, if the taxation relates to a customs procedure (during importation).

## Penalties

Fines for offences are borne by taxpayers but also by persons who carry out taxation and accountancy work for the taxpayer. The amounts of fines range between 1,000 and 500,000 kuna depending on the gravity of the offence.

\*In English: VAT-F (where 'F' stands for „final“), translator's note.

For some offences, apart from fines, a protective measure of a ban on the performance of the business activity for a period from one to three years is provided for.

A buyer, or the user of some service, will be fined 50 kuna on the spot, if he/she refuses to show an authorised inspector the invoice, receipt or certificate from a till that has been given him/her by the vendor.

## Regulations

- ◆ Value Added Tax Act, OG 47/95, 106/96, 164/98, 105/99, 54/00, 73/00, 48/04, 82/04, 90/05, 76/07, 87/09 and 94/09;
- ◆ Value Added Tax Regulations, OG 149/09;
- ◆ Instruction on the Utilization of Tax Exemption and Exemption from Duty, OG 41/08;
- ◆ Instruction on the Refund of the Value Added Tax Paid on Imported or Domestically Procured Equipment for Technological Research as Well as Scientific Research Projects in 2009, OG 25/09;
- ◆ Instruction on the Refund of the Value Added Tax Paid on Procured Fire Fighting Equipment in 2009, OG 25/09;
- ◆ Act on the Rights of Croatian Homeland War Veterans and Their Family Members, OG 174/04, 92/05, 2/07, 107/07, 65/09 and 137/09;
- ◆ Decision of the Constitutional Court of the Republic of Croatia, OG 107/07 and 65/09;
- ◆ Personal Identification Number Act, OG 60/08; and
- ◆ Regulation on the Personal Identification Number, OG 1/09.

# SPECIAL TAXES – EXCISE TAXES

The sales of certain products is subject to special taxes (excise taxes) paid by producers or importers, in absolute amounts by unit of measurement for a given product, i.e. – the kilogram, litre, piece, etc. There are many reasons for imposing these taxes, e.g. social, medical, ecological and fiscal ones. The advantage of these taxes relative to others is the simplicity with which they can be collected, the small number of taxpayers, and the abundance of revenues they generate.

The first excise tax, on coffee, was introduced in Croatia in July 1993. A year after that came excise taxes on petroleum products, tobacco products, alcohol, beer, non-alcoholic drinks, passenger cars, other motor vehicles, vessels and aircrafts and on luxury products. The excise tax on luxury products was first imposed in October 1999, followed by excises on insurance premiums for automobile liability and comprehensive road vehicle insurance in 2002.

Pursuant to the new Excise Tax Act, new excise taxes are applied to energy products as from 1 January 2010.

Excise tax is paid by producers or importers, and by those who purchase or receive these products from abroad, except for those who are exempt from such payments pursuant to customs regulations. An exception is the special tax on used car sales (which is not an excise tax), paid by the purchasers of such cars.

Pursuant to the provisions of the Customs Service Act, as of 1 January 2002, the responsibility for the assessment, collection and supervision of special taxes was transferred from the Tax Administration to the Customs Administration of the Republic of Croatia.

In July 2009, the Croatian Parliament passed a new Excise Tax Act in order to harmonise the excise tax system with the EU acquis. The harmonisation is based on the Council Directive 92/12/EEC containing the general arrangements for products subject to excise duty and general rules for the holding, movement and monitoring of such products under a deferred excise tax payment regime. A register of excise taxpayers and a separate register of authorised excise tax warehouse keepers will be established in order to enable data exchange with the competent authorities in other EU Member States. The tax bases were changed, excise tax on energy products were introduced, and the numbers of objects of taxation and persons liable to pay excise tax was increased.

The new Excise Tax Act entered into force on 1 January 2010, with the exception of certain provisions that will become effective on the date of Croatia's EU accession.

The Excise Tax Act covers the so-called harmonised EU excise duties, such as the excise taxes on alcohol and alcoholic drinks (including beer), tobacco products, energy products and electricity, which will be presented in the first part of this chapter. The second part deals with other excise taxes which are not harmonised with the EU excise tax system. Other EU countries also know such 'other excise taxes' that can be freely



introduced by each country, provided that they are not contrary to the principles of common market functioning.

## Excise taxes on alcohol and alcoholic drinks, tobacco products, energy products and electricity

The Excise Tax Act superseded the laws on special taxes on alcohol, beer, tobacco products and oil derivatives.

### Alcohol and alcoholic drinks

Alcohol and alcoholic drinks include beer, wine, other drinks produced by fermentation, as well as intermediate products and ethyl alcohol.

#### Tax base and tax amount

**Beer:** 40 kuna for 1% volume fraction of actual alcohol per hectolitre of finished product.

**Still and sparkling wines and other beverages produced by fermentation, except beer and wine:** 0 kuna.

**Intermediate products** with a volume fraction of actual alcohol of 15% and more: 800 kuna; intermediate products with the fraction lower than 15%: 500 kuna per hectolitre of finished product.

**Ethyl alcohol:** 5,300 kuna per hectolitre of pure alcohol.

Alcoholic drinks which are subject to tax must bear a special tax stamp.

Ethyl alcohol is a mixture of corn and your money.

Paul A. Gigot

#### Small producers

A small wine producer is a person defined by special regulations, who produces no more than 1,000 hl of wine per year. A small strong alcoholic drink producer is considered to be a natural person who owns or uses agricultural land, and who owns substances for the production of strong alcoholic drinks and who produces them for his/her personal use in the amount not exceeding 20 litres of pure alcohol per year per household. Such persons are not subject to the provisions about the movement of excise tax products (the deferred excise tax payment regime) or general terms of excise tax warehouse operation. Small producers are subject to enrolment in the register of excise taxpayers.

### Production of strong alcoholic drinks for personal use

The Directive provides no exemption for the production of ethyl alcohol (i.e. a strong alcoholic drink – brandy) for personal use. The Croatian legislation, which was in force till end-2009, provided for an exemption of up to 20 litres of absolute alcohol for ethyl alcohol produced by natural persons from their own raw materials and for their household use. From 2010 on, these persons become excise taxpayers, and they pay excise tax depending on the volume of their brandy distillation apparatus. For a 40-100 litres apparatus the excise tax amounts to 100 kuna and for the apparatus above 100 litres the tax is 200 kuna. A small strong alcohol producer is obliged to apply to a customs office competent according to his/her domicile for the enrolment in the register of excise taxpayers, no later than eight days before the start of production. Along with the application, he/she is obliged to submit data on the volume of the distillation apparatus which he/she owns or uses for production.

## Tax exemptions

Excise tax is not payable if alcohol and alcoholic drinks are used for legally prescribed purposes (e.g. for food production, cosmetics, processing services, exports, and in scientific institutions for teaching or research).

### Excise tax on alcohol and alcoholic drinks is not paid on:

- ◆ beer produced by a natural person who owns agricultural land, from self-cultivated barley and for his/her personal use and the use of his/her household members or guests, provided that it is not sold,
- ◆ wine and other beverages produced by fermentation, except beer and wine produced by a natural person who owns agricultural land or substances for the production,
- ◆ if these beverages are produced for his/her personal use and the use of his/her household members or guests, provided that they are not sold.

## Tobacco products

The laws on amendments to the Special Tax on Tobacco Products Act, which were passed in 2009, marked the beginning of a gradual harmonization of the Croatian excise tax legislation with EU regulations. The tax base was changed and a two-component amount of the special tax on cigarettes was introduced. As from 1 January 2010, tobacco products are taxed in accordance with the Excise Tax Act.

## Tax amount

### 1. Cigarettes

The excise tax on cigarettes is paid as a two-component special tax comprised of a specific excise tax in a prescribed amount for the quantity of 1,000 units of cigarettes and as a proportional special tax expressed as a percentage of the retail price of cigarettes as follows:

- ◆ a specific tax of 180 kuna for 1,000 units of cigarettes;
- ◆ a proportional special tax at a rate of 30% of the retail price.

The retail price of tobacco products is the price determined by an authorised excise tax warehouse keeper and an importer according to the tobacco product stamps. The retail price also includes excise tax, customs duty and value added tax.

### 2. Other tobacco products

The excise tax base for cigars and cigarillos is 1,000 units. The tax is determined as a specific excise prescribed in a certain amount for the quantity of 1,000 units as follows:

- ◆ cigars: 1,100 kuna for 1,000 units;
- ◆ cigarillos: 220 kuna for 1,000 units.

The excise tax base for fine-cut and other smoking tobacco is 1,000 units. The tax is determined as a specific excise as follows:

- ◆ fine-cut tobacco: 136 kuna for a kilogram;
- ◆ other smoking tobacco: 92 kuna for a kilogram.

As from 1 January 2011, the excise tax on fine-cut tobacco will be raised to 234 kuna for a kilogram and on other smoking tobacco to 146 kuna for a kilogram.

Tobacco products that have been taxed are marked with control stamps. The Ministry of Finance (MF) entrusts the printing of the stamps to a printing house that ensures the same level of protection as required for the printing of other securities. The printed stamps are kept in the main vault of the MF in the Central Office of the TA, and are delivered from there to the auxiliary vaults of the producers, or taken over directly by taxpayers.

## Tax exemptions

The tax is not paid on tobacco products intended exclusively for scientific research and product quality analysis, subject to approval by the Customs Administration.

## Energy products and electricity

The tax applies to energy products used as motor fuels or heating fuels and to electricity. These products are determined by the combined nomenclature codes in accordance with the Council Directive 2003/96/EC. The term 'energy products' also includes all the oil derivatives taxable by now, as well as some new ones, e.g. bio fuels, solid fuels (coal and coke) natural gas and all other products, if used for powering motor vehicles or heating. Electricity has also become subject to excise tax.

### Tax amount

<b>Motor petrol used as motor fuel</b>	
Leaded petrol	3,600 kuna per 1,000 l
Unleaded petrol	2,850 kuna per 1,000 l
<b>Gas oil</b>	
used as motor fuel	2,200 kuna per 1,000 l
used for heating	300 kuna per 1,000 l
<b>Kerosene – paraffin oil from the Tariff Code</b>	
used as motor fuel	2,200 kuna per 1,000 l
used for heating	1,752 kuna per 1,000 l
<b>LPG – liquid petroleum gas</b>	
used as motor fuel	912.50 kuna per 1,000 kg
used for heating	0 kuna per 1,000 kg
<b>Heavy fuel oil</b>	110 kuna per 1,000 kg
<b>Natural gas</b>	
used as motor fuel	0 kuna per m <sup>3</sup>
used for heating	0 kuna per m <sup>3</sup>
<b>Coal and coke from the Tariff Codes</b>	2.20 kuna per GJ gross calorific value
<b>Electricity</b>	0 kuna per MWH
<b>Bio fuels</b>	0 kuna

The tax on gas, coal, coke and electricity will be applied as of the date of Croatia's accession to the EU.

## Tax exemptions

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Excise tax is not paid on:

- ◆ energy products supplied and used as motor fuel for the purpose of air navigation, other than private pleasure flying;
- ◆ energy products supplied and used as motor fuel for the purpose of sea navigation in international transport, other than private pleasure craft and vessels;
- ◆ energy products supplied and used as motor fuel for the purpose of sea navigation in third countries or other Member States, other than private pleasure craft and vessels and electricity produced on board a craft;
- ◆ energy products used by the producer of the energy products and electricity in its premises for further processing or for the production of other energy products and electricity, unless they are used as motor fuel for the means of transportation;
- ◆ energy products used for other purposes, and not as motor fuel or heating fuel.

Additional exemptions are laid down in detail by the Act.

## Other excise taxes

This part deals with excise taxes which are not covered by the new Excise Tax Act.

### Coffee

#### Tax amount

Tax base (kg net weight)	Tax amount
Unroasted coffee, caffeinated and decaffeinated	5 kuna
Roasted coffee, caffeinated and decaffeinated	12 kuna
Coffee shells and membranes	15 kuna
Coffee substitutes containing coffee, extracts, essences, coffee concentrates and preparations based on such extracts, essences or coffee concentrates	20 kuna

The tax liability occurs in the case of importation, at the moment when a customs debt is incurred.

Coffee may not be sold on markets or in the open, except within the provision of catering services or vending machine sales.

The taxpayers must keep records about imported, exported and sold quantities of coffee and about the calculated and paid tax.

#### What happens if coffee is exported?



In the case of coffee exportation, a taxpayer has the right to an excise tax refund up to the amount of the excise tax on unroasted coffee that has been paid at the time of importation, increased by 20%. An application for a refund has to be submitted to a TA competent according to the taxpayer's seat.

## Non-alcoholic drinks


### Tax amount

A tax of **40 kuna** is paid on a hectolitre of a refreshing non-alcoholic drink. Also taxed are all powders or pastilles from which refreshing non-alcoholic drinks are produced.

The obligation to charge the tax occurs at the moment the beverage leaves the production

plant, and the tax is payable within a period of 30 days.

At the time of importation, the customs house calculates and collects the tax, along with the collection of the customs debt.



#### Are fruit juices and vegetable juices subject to tax?

According to the Regulations about the Basic Requirements Concerning Refreshing Non-alcoholic Drinks and Soda Water, fruit juices, fruit syrups and vegetable syrups are not classified as refreshing non-alcoholic drinks and are accordingly not subject to tax.

### Tax exemptions

Exempt from tax are exported drinks (subject to the proof of export and proof of payment), drinks delivered from production facilities to distribution centres or the producers bottling plants, drinks used for technical trials or quality testing, drinks delivered to free zones for export, production or consumption, as well as domestic and imported drinks supplied to shops at international airports.



#### Caution!

Products subject to excise tax on non-alcoholic drinks may not be sold on markets or in the open air, except within the provision of catering services, or vending machine sales.

## Passenger cars, other motor vehicles, vessels and aircrafts

It should be emphasized that this category of transportation means is subject to two kinds of tax: special tax (excise tax) and the 'classic' sales tax.

- ◆ **Excise tax** applies to new and used cars, other motor vehicles, vessels and aircrafts that are imported or produced and sold in Croatia.
- ◆ **Sales tax** is imposed only on the sales of used passenger cars, other motor vehicles, vessels and aircrafts that are bought or acquired by legal and natural persons.

### What are new cars?



New cars or motorcycles are considered to be the passenger cars and motorcycles that have not been registered or used, where the registration means the annual registration.

Imported cars or motorcycles are also considered new if they have not been registered.

The amendments to the Act (OG 94/09), introduced a new method of tax base assessment from August 2009: the tax base for all products subject to excise tax (passenger cars, motorcycles, vessels and aircrafts) is determined in a unified manner, i.e. according to their:

- ◆ sales price (net of VAT); and
- ◆ customs value increased by the amount of customs duty – in the case of import.



## Tax amount

Tax base – sales price (kuna)		Excise tax
over	up to	
0	50,000	13%
50,000	100,000	6,500 + 18% on amounts over 50,000
100,000	150,000	15,500 + 23% on amounts over 100,000
150,000	200,000	27,000 + 28% on amounts over 150,000
200,000	250,000	41,000 + 33% on amounts over 200,000
250,000	300,000	57,000 + 38% on amounts over 250,000
300,000	300,000	76,000 + 43% on amounts over 300,000
350,000	400,000	98,000 + 48% on amounts over 350,000
400,000	450,000	122,000 + 53% on amounts over 400,000
450,000	500,000	148,500 + 58% on amounts over 450,000
500,000		177,500 + 63% on amounts over 500,000

Excise tax is increased by 50% for used passenger cars and motorcycles, and by 100% for passenger cars with a cylinder capacity of over 1,600 cm<sup>3</sup> and for motorcycles with a cylinder capacity of over 250 cm<sup>3</sup>.

Electricity-driven passenger cars and motorcycles are not subject to excise tax.

### Vessels

A vessel with a subsequently installed engine (built-in, outboard or non-built-in), or an engine with a power exceeding the initially registered one is subject to excise tax charged on the difference between the initial and increased values of that vessel. The excise tax on the vessel must be assessed at the competent customs office prior to registration. The registration cannot be completed until the excise tax is paid.

The tax base for the **excise tax on the sales of used vehicles** is the market value at the moment of acquisition or the assessed market value. The persons liable to pay the tax are the **buyers** of the used vehicles. The tax is paid at a **rate of 5%**.

**The sales tax liability** arises at the moment when the motor vehicle, aircraft or vessel is bought or acquired, which the buyer has to report to the competent TA within a period of 15 days.

The **excise tax** liability in the case of importation arises on the date of incurrence of the customs debt, and for the producer, at the time of delivery.

## Tax exemptions

Excise tax is not payable by diplomatic missions and consular posts, subject to reciprocity, or by a taxpayer (producer) who exports a vessel and has proof of export and proof that payment has been made in accordance with the regulations governing foreign trade and foreign exchange transactions.

The tax is also not payable on vessels, i.e. ships, or small crafts (yachts) or boats, in inland navigation which are imported or supplied for the performance of a registered activity. An approval to this effect, issued by the Customs Administration must contain the information on the time period in which the vessel may not be alienated, made available to another person for use or used for purposes other than the performance of the registered activity.



## Luxury products

### Tax rate

The tax is payable by importers and producers on the sales value (net of VAT) at a rate of **30%**.

**The tax is charged** on jewellery and similar items, watches, fur clothes, fur and reptile leather shoes, pyrotechnic products for fireworks, arms, and other luxury products (worked ivory, tortoise-shell, coral, mother-of-pearl and items made of these materials and cigarette lighters).

The tax is payable within a period of 10 days after the expiry of the calendar month in which the tax liability was incurred.

### Tax exemptions

The following are exempt from tax:

- ◆ producer that exports products on which the luxury products tax is payable, subject to proof of export and proof of payment;
- ◆ person who sells arms to the bodies of national government and self-government;

- ◆ person who imports such products on a temporary basis;
- ◆ person who sells such products to diplomatic missions and consular posts, as well as to foreign international organisations on a reciprocity basis.

## The tax on automobile liability and comprehensive road vehicle insurance premiums

### Tax rates

The tax is paid at a **rate of 15%** on compulsory road vehicle insurance premiums determined by a contract with an insurance company. The tax on comprehensive insurance premiums is paid at a rate of **10%**.

**The taxpayers** are insurance companies which enter into contracts with legal and natural persons and collect liability road vehicle insurance premiums directly or indirectly through intermediaries or agents.

The tax is payable within 30 days from the incurrence of the tax liability; the tax calculation and payment are supervised by the TA.

### Tax exemption

Exempt from tax are diplomatic missions and consular posts.

## Regulations

- ◆ Excise Tax Act, OG 83/09;
- ◆ Excise Tax Regulations, OG 1/10;
- ◆ Regulation on the Application of the Excise Tax Act Relating to Blue Diesel Oil Intended for Use in Agriculture, Fisheries and Mariculture, OG 1/10;
- ◆ Excise Tax on Oil Derivatives Act, OG 136/02, 123/03 and 57/06; Article 3, paragraph 1, item 3 and Article 5, paragraph 1, item 4, in the part dealing with the object of taxation which is the euro diesel – blue diesel with the excise tax amounting to 0 kuna for the use in agriculture, fisheries and mariculture; it remains applicable until the issuance of subsidized fuel cards to entitled persons;
- ◆ Excise Tax on Coffee Act, OG 87/05 and Regulation, OG 92/05 and 155/05;

- ◆ Excise Tax on Non-alcoholic Drinks Act, OG 136/02 and Regulation, OG 59/94, 109/96 and 119/01;
- ◆ Act on Excise Taxes on Passenger Cars, Other Motor Vehicles, Vessels and Aircrafts, OG 136/02, 44/03, 95/04 and 94/09;
- ◆ Act on the Rights of Croatian Homeland War Veterans and Their Family Members, OG 174/04, 92/05, 2/07, 107/07, 65/09 and 137/09;
- ◆ Excise Tax on Luxury Products Act, OG 136/02 (revised) and Regulation OG 112/99, 119/01, 25/09, 26/09, 27/09 and 73/09; and
- ◆ Excise on Tax on Automobile Liability and Comprehensive Road Vehicle Insurance Premiums, OG 150/02 and Regulations; OG 16/03.



# LOCAL TAXES

According to the Act on the Financing of Units of Local and Regional Self-government, the counties, cities and municipalities can introduce their own taxes which constitute their own revenue.

County taxes	Municipal or city taxes
inheritance and gift tax	surtax on personal income tax
road motor vehicle tax	consumption tax
boat tax	second home tax
slot machine tax	trading name or corporate name tax
	public land use tax

## County taxes

### Inheritance and gift tax

The Act on the Financing of Units of Local and Regional Self-government regulates the taxation of inherited or donated moveable property, whereas the taxation of inherited or donated immovable property is governed by the Real Property Transaction Tax Act.

This part deals with the taxation of inheritances and gifts irrespective of whether they are movables or immovables.

If you have received as a gift or inheritance:

#### 1. immovable property

- ◆ piece of land (agricultural land or a building site);
- ◆ building (a whole residential or commercial building, or a country cottage, or parts of it, a garage, a tomb, etc.);

**you will have to pay a 5% tax on the market value of the immovable property; or**

Get born, and pay;  
get christened, and  
pay; die - pay for  
that too.

Russian proverb

Wherever there is a  
will, there is also an  
inheritance tax.

Anonymous

## 2. movable property

- ◆ a car, a truck, a motorcycle, a ship, a work of art (picture, sculpture), antique furniture, appliances, machinery, etc.; or
- ◆ money (cash, savings books, securities, in either HRK or a foreign currency) **you will have to pay a 5% tax on all the cash and cash receivables, and a 5% tax on the movable property**, if its individual **market** value exceeds 50,000 kuna on the date of tax liability assessment, after deduction of debts and expenses with which the inherited or donated property is encumbered (e.g. if the deceased person had unsettled debts in connection with the estate – unpaid household bills, tax, loans, interest, mortgages, funeral expenses, etc.).

## Who pays the tax?

The tax is payable by a legal or natural person that inherits or receives as a gift some property in Croatia. Should such a person renounce the gift or inheritance, or transfer it to another person, then this other person pays the tax.

### Inheriting from a common law marriage

V. B. lived in a common law marriage with M. L. In the property division after the death of M. L., it was determined that V.B. (the widow) owned a part of the immovable property that had been acquired during the time of the common law marriage. However, she was not exempted from the payment of tax. In neither the Real Property Transaction Tax Act nor other tax legislation are statutory marriages and common law marriages given equal states, as prescribed by the Family Act.

## Who is not liable to pay the tax?

### The following persons are exempt from inheritance and gift tax:

- ◆ the spouse, children, adopted children, grandchildren, great-grandchildren, parents, grandparents and great-grandparents, of the testator/ donor;
- ◆ brothers and sisters, their descendants and sons- and daughters-in-law, if they lived in an economic community with the testator/donor at the time of the construction of the property, or acquisition of the assets, or at the time of his/ her death, or of receiving the gift (an economic community means the joint acquisition and disposal of inherited or donated income and property);
- ◆ legal and natural persons to whom the Republic of Croatia or a unit of local government or self-government donates or gives property free of charge for compensation or for some other reasons connected with the Homeland War.

**Exempt from tax in the case of inheritance/donation of immovable property are also:**

- ◆ brothers, sisters and their descendants, as well as sons- and daughters-in-law in the event of receiving agricultural land, provided that agriculture is their basic source of income;
- ◆ former spouses – in the case of immovable property division after divorce.

**Exempt from tax in the case of inheritance/donation of movable property are the following:**

- ◆ the state, units of local self-government, national government bodies, public institutions, religious communities, foundations, the Red Cross and similar charitable organisations;
- ◆ natural and legal persons when they receive gifts (donations) for purposes laid down by special regulations.

#### Areas of special state concern

According to the Act on Areas of Special State Concern, certain natural persons from these areas can inherit immovable property located in these areas without the payment of tax.



## Tax payment

Within 30 days from the date of taking a final decision on inheritance or concluding a gift contract, the TA issues a ruling which stipulates that tax has to be paid within 15 days from delivery of the ruling. If it is not paid, then interest starts to be charged at an annual rate of 18%.

## Road motor vehicle tax

### Who pays the tax?

If you own as registered passenger car or motorcycle, you are liable to pay a one-time tax for the whole year.

#### What is a car and what a motorcycle?

A car is a motor vehicle meant for the transportation of persons, which has a driver's seat and up to eight seats, and the maximum load capacity of which does not exceed 250 kilogram. A motorcycle is a two-wheeled motor vehicle with or without a sidecar, or a three-wheeled motor vehicle, if its total mass does not exceed 400 kilogram.





## Tax amount

### Passenger cars

Engine power		Amount of tax (kuna)		
over (kW)	up to (kW)	up to 2 years old	2 - 5 years old	5 - 10 years old
—	55	300	250	200
55	70	400	350	250
70	100	600	500	400
100	130	900	700	600
130	—	1,500	1,200	1,000

### Motorcycles

Engine power		Amount of tax (kuna)			
over (kW)	up to (kW)	up to 2 years old	2 - 5 years old	5 - 10 years old	over 10 years old
—	20	100	80	50	—
20	50	200	150	100	50
50	80	500	400	300	200
80	—	1,200	1,000	800	600

The tax is payable within 15 days from delivery of the tax ruling. A county can make a decision prescribing that the tax is payable on registration of the vehicle.



#### Tax on a bought car

You will pay no tax on a used car if the tax for a given year has already been paid by the former owner. However, if you buy a new vehicle in July, you will have to pay the tax only for the period up to the end of the calendar year.

## Who does not have to pay the tax?

The tax is not paid on vehicles owned by the state and units of local self-government, healthcare institutions, fire brigades, diplomatic missions and consular posts and their personnel, or vehicles used for the transport of the deceased as a registered activity, and for taxi service.

The tax is not paid by persons who have been fully exempt from the payment of customs duty and VAT on the purchase of a vehicle (Croatian disabled war veterans with 100% disability, as well as the spouse, children and parents of a killed, deceased or missing Croatian defender who is entitled to a one-time import of a car without the payment of customs duty and tax).

## Boat tax

If you own a vessel such as a ship (a yacht or a small craft), or a boat in inland navigation that is used for leisure, sport or recreation you are liable to pay an annual tax.

## Tax amount

The boat tax is paid annually, according to the length of the vessel expressed in meters, depending on whether the vessel has a cabin or not, and depending on the engine power expressed in kW.

1. **for vessels with no cabin** – from 100 kuna to 600 kuna
2. **for vessels with cabin, engine powered** – from 200 kuna to 5,000 kuna
3. **for vessels with cabin, sail powered** – from 200 kuna to 4,000 kuna.

### The islands

The tax is not payable on vessels that are used for the performance of some registered activity, or on small crafts owned by resident population on the islands, which are used for the necessary organisation of life and maintenance of property on the islands.

The tax is paid pursuant to a TA ruling within 15 days from delivery of the ruling.

## Slot machine tax

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### Who pays the tax?

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The tax is payable by a legal or natural person that puts to use slot machines in entertainment clubs, catering facilities, public buildings and other public premises.

### What is taxed?

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The tax is charged on slot machines used for organizing entertainment games, slot machines that are started up by inserting coins or tokens, or for a charge, where the player does not make any gains in cash, things or rights.

Entertainment slot machines are divided into two groups:

- ◆ group A machines (video games, simulators and other electronic entertainment machines on which the player does not win any prizes);
- ◆ group B machines (pinball, billiards, hockey, football game, darts and other mechanical machines).

### Tax amount

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- ◆ 100 kuna per machine per month.

The tax is not paid on billiard machines, if they have a Croatian Billiards Federation stamp displayed at a visible place.

Before putting the machine to use, the taxpayer submits an application for the issue of a control stamp to the TA in the area of which the machine is placed. The applicant pays a five kuna fee for each control stamp.

After the tax payment, he/she will receive a stamp that is valid only for the month in which the application is submitted and the tax paid. The stamp must be stuck on the slot machine, and every machine with no control stamp will be temporarily confiscated.

Game organisers who are subject to VAT must charge VAT on the game participation fees at a rate of 23%.

**An application for the issue of a control stamp must contain proof of the following:**

- ◆ permission to carry out the entertainment game organisation activity,
- ◆ the number and kinds of slot machines to be put to use,
- ◆ the place at which each individual slot machine will be located,
- ◆ ownership of or right to use the slot machine,
- ◆ good working order of the slot machine according to the Standardisation Act,
- ◆ ownership of the premises, or a lease contract made with the owner or user of the premises,
- ◆ good working order, issued by an authorised certification firm, and
- ◆ payment of the slot machine tax.



## Municipal or city taxes

### Consumption tax

The tax is payable on the consumption of alcoholic drinks (spirits, natural wines, special wines and beers) and non-alcoholic drinks sold in catering facilities. It is paid by natural and legal persons that provide catering services. The tax base is the sales price of the drink. The tax rate is prescribed by a city or municipality concerned, and it cannot be more than 3% of the base which is the sales price of the drink, excluding VAT.

### Second home tax

#### Who pays the tax?

The tax is payable by any natural or legal person that is the owner of a second home, or of a building or part of a building/apartment used occasionally or seasonally. Outbuildings that are used for holding agricultural machinery, tools and other equipment are not considered as second homes.

## Tax amount

The tax is 5 kuna to 15 kuna per square metre of usable space, depending on the location, age, infrastructure condition and other circumstances essential for the use of the second home.

By 31 March in the year for which the tax is to be assessed, taxpayers are required to submit to the TA details about their second homes. The tax is payable within 15 days from delivery of the ruling.

## Tax exemptions

The following are exempt from tax:

- ◆ houses that cannot be used due to the consequences of war and natural disasters (floods, fires, earthquakes), or due to their age and dilapidation;
- ◆ houses in which refugees and displaced persons are accommodated;
- ◆ recreation centres owned by units of local and regional self-government that are used for the accommodation of children up to the age of 15.

For economic and social reasons, municipalities or cities can prescribe additional exemptions.

## Trading name or corporate name tax

### Who pays the tax?

Get born, and pay; get christened, and pay; get married, and pay; die – pay for that too.

Russian proverb

The tax is payable by corporate income or personal income taxpayers that are engaged in a registered activity.

If their companies include other business units (shops, plants, workshops or points of sale) the tax is payable for each of the business units.

### Tax amount

The annual tax cannot exceed 2,000 kuna per trading name or corporate name.

## Public land use tax

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### Who pays the tax?

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The tax is payable by legal or natural persons using public areas, in the amount, in the manner and under the conditions as prescribed by the municipality or city concerned.

### Regulations

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- ◆ Act on the Financing of Units of Local and Regional Self-government, OG 117/93, 33/00, 73/00, 59/01, 107/01, 117/01, 150/02, 147/03, 132/06 and 73/08;
- ◆ Decision of the Constitutional Court of the Republic of Croatia, OG 26/07;
- ◆ Real Property Transaction Tax Act, OG 69/97, 26/00 and 153/02;
- ◆ General Tax Act, OG 147/08;
- ◆ Regulation on the Organisation of Entertainment Games, OG 86/01 and 3/02;
- ◆ Regulation on the Criteria for a Good Working Order of Entertainment Slot Machines, OG 107/03; and
- ◆ Act on the Areas of Special State Concern, OG 86/08.



# OTHER TAXES

## Real property transaction tax

Real property can be acquired by purchase, exchange, inheritance, donation, putting into or withdrawing from a company, through liquidation or bankruptcy proceedings, on the basis of judicial decisions or any other transfer of real property ownership.

### What is considered as real property?

Real property includes:

- ◆ land (agricultural, building, developed, undeveloped, built up, not built up);
- ◆ buildings (whole, or parts of, residential or commercial buildings, country cottages, garages, tombs, roads, bridges, etc.).

### The tax is payable by the person who acquires real property

Through purchase: the purchaser;

Through exchange: each party to the exchange;

Through the acquisition of an indivisible, co-proprietary share: each acquirer of an indivisible share separately;

Through inheritance or donation: the heir or recipient.

### Real property sales are taxed by real property transaction tax or by VAT

The kind of tax and the rate to be applied depends on the type of real property transaction.

**1. The acquisition of old real property** by natural persons or entrepreneurs that are not VAT registered, with or without a consideration, is subject to real property transaction tax according to the Real Property Transaction Tax Act at a rate of 5% of the market value of the real property at the time of acquisition. The market value is assessed



according to the acquisition documents (a sale and purchase agreement, a deed of gift, a lifelong support contract, an exchange contract, a final court decision, etc.). Should the TA establish that the market value of the real property has been shown unrealistically, it will itself assess the value.

### Real property exchange

An exchange of real property is considered as a purchase and sale. Both parties to the exchange are liable to pay tax as if each of them had bought the real property.

For example, A.Š. exchanged a 60 m<sup>2</sup> flat, the market value of which was estimated at 400,000 kuna, with M.N. for an 80 m<sup>2</sup> flat of an estimated market value of 600,000 kuna. The tax liability of A.Š. is 30,000 kuna (600,000 x 5%), and that of M.N. 20,000 kuna (400,000 x 5%).

## 2. The acquisition of newly constructed buildings delivered by persons subject to VAT is taxed at a rate of 23%.

**The tax base** is the price of the real property delivered, i.e. the pure construction value of the real property, excluding the land value and the amount of the communal land development charge. The land pertaining to the newly built piece of real property is subject to the real property transaction tax at a rate of 5% on the market value at the time of the real property acquisition. For this reason, the values of the building and of the land, including the communal charge for its development, must be shown separately in the seller's invoice.

### Real property transaction taxation

Seller	Buyer	Type of real property	Rate (%)	Tax
Enterprise	Enterprise/citizen	old	5	RPTT*
Enterprise	Enterprise/citizen	new	23	VAT
Citizen	Citizen/enterprise	new or old	5	RPTT

### Renovation or reconstruction of real properties carried out by a construction firm

Construction firms quite often buy old and run-down real properties which they renovate and then resell. When buying such an old piece of real property, they pay real property transaction tax at a rate of 5%. If they carry out minor renovations for which no building permit is necessary, the buyer of the building will, at the time of sale, pay real property transaction tax. However, if a building permit was necessary for the adaptation, because of some major changes in the size, appearance and quality of the building, this has now become a newly-built real property, the price of which, at the time of sale, will be burdened with VAT, at a rate of 23%.

\* Real property transaction tax, translator's note.

### Partnership contract

Real property can also be acquired through joint construction based on a partnership contract. The taxation depends on the tax status of the contracting parties. The contract determines which partner is the investor, i.e. the holder of rights and obligations. He/she must obtain a building permit issued to his/her name and deal with the contractor. If the contractor is VAT registered, the investor will be given invoices in which VAT is included. The tax procedure is as follows:

**The partner that is the land owner** transfers the land to the investor, who pays real property transaction tax at a rate of 5%.


**The investor** (i.e. an entrepreneur that is registered for VAT) delivers to the partner, who is the land owner, the building or a part of it (a flat) and charges VAT. In the case of a sale to other buyers with whom the investor is not in a partnership contract he/she will also charge VAT. If the **investor** (a natural person) is not registered for VAT, the delivery of a newly built real property or its part will not be subject to VAT but to real property transaction tax, at a rate of 5%.

## Exemptions from real property transaction tax

The following are exempt from real property transaction tax:

- ◆ bodies of national government and local self-government, public institutions, foundations, the Red Cross and similar charitable organisations founded pursuant to special regulations;
- ◆ foreign diplomatic missions and consular posts, on condition of reciprocity, and international organisations;
- ◆ persons acquiring real property during the process of returning confiscated property and real property consolidation;
- ◆ displaced persons and refugees who acquire real property through real property exchange abroad;
- ◆ citizens who purchase a residential building or a flat (including land) to which they used to have tenancy rights or with the consent of the person having tenancy rights pursuant to the regulations governing the sale of flats with tenancy rights. The same applies to protected tenants who buy residential buildings or flats in which they live on the basis of a lease agreement;
- ◆ persons who acquire real property pursuant to the regulations governing the transformation of public ownership into other forms of ownership;
- ◆ persons who acquire real property on the basis of a lifelong support contract, and who are heirs being in the first line of descent with respect to the real property donor;

- ◆ persons who acquire certain special parts of a real property by breaking up co-ownership or through the division of a jointly owned real property, up to the value of their co-ownership or joint ownership before the split.



A special tax exemption is applied as from 1 January 2003. Specifically, citizens who buy their first real property for the purpose of providing housing can be exempt from real property transaction tax under certain conditions.

**If real property is put into a company** as equity capital or for the purpose of increasing core capital in accordance with the Companies Act, the real property transaction tax is not payable. Nor is the tax payable if real property is acquired in the process of merging or acquisition of companies or their splitting up into several companies.


#### Areas of special state concern



A **natural person** with a domicile in an area of special state concern is not liable to pay real property transaction tax on the sales and acquisition of real property located in such areas. Nor is the buyer of a real property (a legal or natural person) liable to pay the tax, if the real property is to be used for the performance of that person's business activity.

This tax exemption does not apply if the real property is alienated after terminating the business activity, or moving the domicile outside the area of special state concern within ten years from the date of the real property acquisition.

#### Lifelong support



Real property can also be acquired on the basis of a lifelong support agreement, in which the provider of support undertakes to look after the recipient of support until his/her death, in return for the real property. The agreement must be drawn up in writing and verified by a judge.

The payment of the tax depends on the family relationship between the persons who have concluded the agreement, and the number of years of support. If the agreement is concluded between a supported person and his/her son, daughter or grandchild the tax is not payable. Those who are in no kind of family relationship with the person they concluded an agreement with will pay tax at a rate of 5%, depending on the duration of the agreement.

The ownership of the recipient's real property can be transferred by an agreement to the provider before the recipient's death, and the tax liability is then incurred at the time of concluding the agreement.

After the recipient's death, the tax is reduced by 5% for each year that elapsed between the date of concluding the agreement and the decease, when the tax liability arises.

In January 2000, M. K. concluded a lifelong support agreement with B. L., who is in no family relationship with him, and from whom he was to obtain, after his death, a 80m<sup>2</sup> flat in Petrinjska Street, Zagreb. B. L. died in July 2000. The tax liability arose at the moment of his death and, within 30 days, M. K. had to report the acquisition of the flat to the TA in the territory of which the flat is located. The value of the real property, as reported by M.K., was 300,000 kuna. The TA considered this price as unrealistic and, on the basis of an inspection, assessed the value of the flat at 450,000 kuna. The tax was calculated as follows:

The value of real property	450,000 kuna
Tax at 5%	22,500 kuna
Tax reduction (22,500 x 30%) (for six years of Support at 5% = 30%)	- 6,750 kuna
Tax liability	15,750 kuna



## What are the taxpayer's obligations?

- ◆ Within 30 days from concluding a legal transaction (a contract, a final court ruling, etc.), the taxpayer reports, on a special form, the transfer of a real property to the TA in the locality where the real property is situated.
- ◆ As from 10 April 2001, the form must also contain the data about the source of the funds with which the real property has been acquired (earned or saved money, money from the sale of some other real property or from inheritance, a loan, a prize won in some entertainment game, etc.). The data about the purpose of the real property acquired (residential or business) should also be entered.
- ◆ The form should be enclosed with a document about the real property acquisition (the purchase and sale agreement, court ruling, etc.) and the signature of the seller authenticated by a notary public (the authenticated agreement is to be provided in six copies).
- ◆ Proof of ownership of the real property (an excerpt from the land register, the ruling on inheritance) before its acquisition should also be provided.

In order to avoid the possibility of not reporting the real property transaction, notaries public, courts or other bodies that take decisions about changes in real property ownership are bound to inform the TA within 15 days from the expiry of the month in which the signature was authenticated or the decision became final.

## Tax payment

The taxpayer must pay the tax within 15 days from receiving the ruling. Despite the stipulation that the tax is payable by the acquirer of the real property, the seller (or donor) nevertheless guarantees jointly and severally for the collection of the tax if he/

she has accepted the tax liability. This means that, if the buyer fails to pay the tax, the TA can claim the tax amount from either the seller or the buyer or from both of them concurrently.

## Regulations

- ◆ Real Property Transaction Tax Act, OG 69/97, 26/00 (Decision of the Constitutional Court ) and 153/02;
- ◆ Regulation on the Form and Content of the Tax Return for Real Property Transaction Tax, OG 28/01;
- ◆ Value Added Tax Act, OG 47/95, 106/95, 164/98, 105/99, 54/00, 73/00, 48/04, 82/04, 90/05, 76/07, 87/09 and 94/09; and
- ◆ Value Added Tax Regulations, OG 60/96, 113/97, 7/99, 112/99, 119/99, 44/00, 63/00, 80/00, 109/00, 54/01, 58/03, 198/03, 55/04, 77/04, 153/05, 79/07, 34/08 and 97/09.

## Games of chance and prize games taxation

Gamblers and race-horses do not last long

English proverb

The Games of Chance Act regulates the system, the terms and conditions and the types of games of chance, as well as the rules of and procedures for the acquisition and withdrawal of the right to organise games of chance, rights and obligations of the organizers of such games, the distribution of revenues and the supervision of this business activity.

### Games of chance

A game of chance gives one the chance of winning some money, things (cars, valuable appliances, etc. or rights (journeys). Games of chance can be classified into four groups:

- ◆ lottery games;
- ◆ casino games;
- ◆ betting games; and
- ◆ slot machine games of chance.

The right to organise games of chance in Croatia belongs to Hrvatska lutrija d.o.o. (Croatian Lottery). Subject to a decision of the Government of the Republic of Croatia, and

the approval from the Ministry of Finance, this right can also be granted to other companies with a seat in the Republic of Croatia.

#### **Occasional, one-off organisation of games of chance by non-profit legal persons**

Non-profit legal persons can occasionally (once a year) organise a tombola or a simple lottery game, with a view to raising funds for their business activities. The organiser is required to pay 5% of the revenues collected from selling lottery tickets (a total of all payments), which may not exceed 300,000 kuna, to the national Budget. Similarly, where non-profit legal persons organise sports contests they can organise one-off betting in connection with such a contest at the premises where the contests are held.

## Tax liabilities and other obligations of the organisers of games of chance

Hrvatska lutrija, d.o.o. is not subject to corporate income tax but it transfers its profit to the national Budget. The organisation of special games of chance in casinos and slot-machine parlours is VAT-exempt, without the right to deduct input tax.

The organisers pay an organisation fee, which is determined in a fixed and a variable amount, and which is considered to be a public levy pursuant to the General Tax Act.

It is payable on a monthly basis at a rate of 10% of the base, which consists, for all types of lottery games, of the total value of lottery tickets sold, i.e. the total value of payments received for a particular game.

**Tax on gains from lottery games** is payable by natural persons who acquire gains from games of chance.

The tax base for monetary gains is the cash amount of an individual gain, and the base for the calculation of tax on gains in things, services or rights is the market value of the thing, service or right constituting an individual gain. The tax on gains is payable at a rate of 15% on gains between 30,000 kuna and 500,000 kuna and at a rate of 20% on gains exceeding 500,000 kuna. The tax is calculated and charged when the gain is paid out, and the calculation and payment is made by the organiser of games of chance.

The organisers of games of chance are obliged to ensure that their operation complies with the regulations on the prevention of money laundering and the financing of terrorism, to preserve the secrecy of data on players and their participation in games, including the data on their gains and losses. Advertisements and commercials relating

to games of chance may not be published in radio and TV programm for children and youth, or in printed media intended for children and youth.

## Casino games

For the entire duration of the right to organise casino games, the initial capital of the organiser, registered in the Commercial Court Register, must not fall below 4,000,000 kuna. In order to ensure the payment of gains to the players and of public levies, the organiser must, at all times during the period in which the games are organised in a particular casino, have a bank guarantee for each casino in the amount of 1,500,000 kuna deposited in a bank with a seat in the Republic of Croatia. Where casino games are organised through interactive channels for on-line playing, the organiser must, at all times during the period in which the games are organised, have a bank guarantee in the amount of 3,000,000 kuna for the payment of gains to the players and of public levies.

### The organisers of casino games of chance have the following liabilities:

- ◆ an annual fee in the amount of 500,000 kuna per casino;
- ◆ an annual fee in the amount of 3,000,000 kuna for organising casino games through interactive channels for on-line playing;
- ◆ a monthly fee on account of the revenues from games of chance organised in a casino, calculated at a rate of 15% of the fee calculation base.

## Betting games

An organiser who has the right to organise betting games is obliged, when receiving betting payments at payment points or through self-service terminals, to meet the necessary technical and premises-related requirements.

### The prohibition of organising betting

The organisation of betting is prohibited:

- ◆ if the betting is contrary to legal regulations and general morality principles,
- ◆ if the betting relates to election results for the president of the Republic of Croatia, members of the Croatian Parliament and of the representative bodies of local and regional self-government units,
- ◆ for the organiser, the owner or a shareholder of which is also a member, the owner, or a shareholder of a sports club that is engaged in the same sport and organises events of the same rank as those of the club in which the organiser of the betting is the owner or a shareholder.

The receiving of betting payments from persons under the age of 18 is prohibited. A betting shop employee is authorised to require proof of legal age from a player.



## Slot machine games of chance

The Ministry of Finance exercises full supervision of the procedure of slot machine games.

The organisation of slot machine games is subject to an annual fee in the amount of 10,000 kuna per machine, or more (for certain games).

Entertainment slot machines must be constructed and tuned in such a way that, of the total number of programmed combinations, at least 80% of the total amount of payments for the participation in the games of chance is paid out to the players. All inputs and outputs must be recorded.



The slot machines and tables on which games of chance are organised must be in a good working order; control units for payments and payouts, the wiring board, the games, and the parts influencing the game results must be sealed. The certificate of good working order is issued by a natural person authorised to carry out technical inspection.

The sealing of games of chance slot machines is carried out by authorised employees of the Ministry of Finance. The game organiser is obliged to submit, along with an application for sealing, proof of payment of a fee to the state budget in the amount of 300 kuna per machine. Along with an application for the sealing of jack-pot and on-line systems, proof of payment of a fee to the state budget in the amount of 500 kuna per system should be submitted.

### Foreign games of chance



It is forbidden to take part in foreign games of chance if the stakes are paid in Croatia. It is also forbidden to collect stakes for, to sell, keep, cede the right to organise, organize and advertise foreign games of chance in Croatia. Persons who are not Croatian citizens and who stay in the Republic of Croatia on a temporary basis are allowed to hold stakes and lottery tickets for foreign games of chance for personal participation in such games.

## Prize games

Prize games are the games organised by companies and other legal and natural persons who are entrepreneurs, for the promotion of their products and services, where the organiser commits itself to distributing prizes in goods or services to winners, without requiring any game participation fee. The prize pool can exclusively consist of products or services which the winner cannot exchange for money, and the total market value of



which cannot exceed 1,000,000 kuna per game. The organisers pay a fee of 5% of the assessed prize pool value to the Croatian Red Cross.

Social knowledge games (quizzes) are not considered as prize games.

## Regulations

- ◆ Games of Chance Act, OG 87/09;
- ◆ Decision of the Constitutional Court, OG 22/04;
- ◆ Regulations on the Organisation of Betting Games, OG 167/03, 24/04 and 2/06;
- ◆ Value Added Tax Act, OG 47/95, 106/95, 164/98, 105/99, 54/00, 73/00, 48/04, 82/04, 90/05 76/07, 87/09 and 94/09;
- ◆ Value Added Tax Regulations, OG 60/96, 113/97, 7/99, 112/99, 119/99, 44/00, 63/00, 80/00, 109/00, 54/01, 58/03, 198/03, 55/04, 77/04, 153/05, 79/07, 34/08 and 97/09;
- ◆ Rules on Premises and Technical Requirements for Organizing Casino Games of Chance, OG 162/03;
- ◆ Regulations on Criteria for a Good Working Order of Slot Machines, OG 77/03, 110/03 and 47/06;
- ◆ Rules on Mandatory Records for the Calculation of Concession Fees for Casinos and Slot Parlours, OG 43/03, 47/06, 30/08 and 34/09;
- ◆ Decree on the Criteria for the Determination of Beneficiaries and on the Manner of Distribution of a Part of Revenue from Games of Chance for 2009, OG 150/08;
- ◆ Regulations on the Organisation of Games of Chance, OG 158/02 and 47/08.

# Fees for the provision of services in mobile electronic communications networks

The Act on Fees for the Provision of Services in Mobile Electronic Communications Networks entered into force on 1 August 2009. It was primarily introduced for fiscal reasons, as it was envisaged that the fees would increase the national budget revenue by about 430 million kuna.

The Act governs the payment of fees for the provision of services in mobile electronic communications networks.

**The fees are paid for** text messaging services, image, voice and sound mail services and voice telephony services.

**The person liable to pay the fee** is any infrastructure operator that provides services in mobile electronic communications networks; the fee amounts to **6% of the base, i.e. of the revenues** from provided services.

**The fee calculation period** is the calendar month, and the liability to pay the fee to the state Budget must be met by 15<sup>th</sup> of the current month for the previous month.

## Regulations

- ◆ Act on Fees for the Provision of Services in Mobile Electronic Communications Networks; and the Regulations, OG 97/09.



# CUSTOMS DUTIES

## What is a customs duty and what is its role?

Customs duties are **one of the oldest forms of taxation**, and are paid on imported goods. They belong to the group of the so-called indirect taxes. The main purpose of customs duties is to protect and stimulate domestic production by making imported goods more expensive. The second task of customs duties is fiscal, i.e. they constitute budget revenues. By joining the WTO in 2007, Croatia agreed to lower gradually its tariff barriers. As a result, custom duties would lose their character as a foreign trade instrument and become just one of the sources of public revenues.

Customs duty is a tax on imports meant to protect domestic production from the greed of the domestic consumer.

Ambrose Bierce

### What is the WTO?



**The WTO** (*World Trade Organization*), is an international organisation representing an institutional and legal framework for a multilateral trading system in the areas of customs duties and trade in goods, services and intellectual property. It was founded in Geneva, Switzerland on 1 January 1995, and it has a total of 153 member countries. Croatia became member of the WTO on 30 November 2000.

## Customs duties in the EU

**The customs union** is one of the fundamentals of the European Union. The EU has abolished customs duties among the Member States and established a common customs tariff against third countries. Customs control within the EU has been fully abandoned, so that the customs union covers a single market for a free exchange of goods, irrespective of whether they are produced in the EU or not. Thus, a mobile telephone produced in Finland can be sold in Hungary without a customs duty. A TV set produced in South Korea is subject to a customs duty only when it enters the EU for the first time. After that, no customs duties are charged and no customs controls exercised.

## Customs duties in Croatia

Pursuant to customs regulations, customs duties are payable on goods imported into Croatia in accordance with the Customs Tariff which is available at the Customs Administration's website.

As a WTO member, Croatia has committed itself to lower gradually its tariff barriers and it applies free trade agreements with the member states of EU-27, EFTA (Switzerland, Liechtenstein, Norway and Iceland), CEFTA (Albania, Bosnia and Herzegovina, Macedonia, Moldavia, Montenegro, Serbia and Kosovo), and with Turkey, which speaks in favour of Croatia's favourable geographic location for export-oriented production.

According to the Stabilization and Association Agreement between the Republic of Croatia and the EU, signed in 2001, in the part dealing with the free movement of goods, the EU has almost completely and without a transition period abolished customs duties and removed other limits on the imports of Croatian goods. In addition, since the beginning of 2002, all customs duties and quantity restrictions on most industrial products originating from the EU have been lifted.

## How is the customs administration organised?

The customs service operations are carried out by the Customs Administration, which is organised as part of the Ministry of Finance. It has a central office and a number of customs houses, which have their local offices. The Director General of the Customs Administration is equal in rank to a state secretary. Information about the customs system can be found at the Customs Administration's website at: [www.carina.hr](http://www.carina.hr).

### Returned migrants and foreigners immigrating to Croatia

Croatian citizens who have stayed or worked abroad and foreign citizens who have obtained a temporary or permanent residence permit from the Ministry of the Interior are exempt from customs duty and VAT on household items when immigrating to Croatia. However, this is subject to two conditions: that they have been abroad uninterruptedly for at least one year and that they have possessed and used these household items for at least six months. The items can be imported into Croatia for a year after the immigration.



### Exemption from customs duties for travellers

Travellers coming from abroad are not liable to pay customs duties or VAT on personal luggage (including a radio, a CD player, a TV set or a computer) and on other goods up to a total value of 1,000 kuna. This benefit applies to each individual traveller. The following can also be freely brought into the country: 200 cigarettes or 100 cigarillos or 50 cigars or 250 g tobacco, 1l of spirit or 2l of wine or liqueur, 50 g of perfume and 250 ml of eau de toilette, medicine for the traveller's personal use and one package of homeopathic produce.



### How much cash can be carried over the border?

Foreign persons can bring into or out of the country domestic and foreign currency and checks without limitation, but are bound to report to the customs officer any amount to the equivalent of EUR 10,000 or more. Foreign travellers are the persons domiciled abroad or persons who have stayed abroad on the basis of a valid work permit for at least 183 days in a year.

The bringing of foreign currency out of the country is only limited for Croatian residents to EUR 3,000 in cash, whereas higher amounts must be approved by the Croatian National Bank. Foreign cash and checks can be brought into the country without limitation. The bringing of domestic currency (kuna) into and out of the country by residents is limited to 15,000 kuna, whereas higher amounts are subject to a special approval by the Croatian National Bank. Both residents and foreign travellers are bound to report to a customs officer any amount to the equivalent of EUR 10,000 or more, brought into or out of the country.

## Regulations

- ◆ Customs Act, OG 78/99, 94/99, 117/99, 73/00, 92/01, 47/03, 140/05, 138/06, 60/08 and 45/09;
- ◆ Customs Act Implementation Decree, OG 161/03, 69/06, 5/07, 70/08 and 76/09;
- ◆ Customs Tariff Act, OG 61/00, 117/00 and 119/00; and
- ◆ Customs Service Act, OG 83/09.



# TAX ADMINISTRATION

## How is the Tax Administration organised?

The Tax Administration is a part of the **Ministry of Finance**, and its full name is 'Ministry of Finance, Tax Administration'. The Director General of the Tax Administration has the rank of a state secretary.

The Tax Administration consists of the **Central Office, regional offices and local offices**. Each of these three levels of administration has its own powers and tasks precisely determined by law. The general organisational scheme of the TA is given in the table below.

MINISTRY OF FINANCE					
TAX ADMINISTRATION Director General					
CENTRAL OFFICE					
Tax System Department	International Co-operation and European Integration Department	Taxation Procedure and Tax Records Department	Information Technology System Department	Audit Department	Enforced Collection Procedure Department
Games of Chance, Entertainment and Prize Games Department	Personnel and Human Resources Manag. and Development Department	General Affairs, Legal and Accounting Department	Criminal Tax Investigation Department	Financial Management and Control Department	Personal Identification Number Department



REGIONAL OFFICES									
Bjelovar	Čakovec	Dubrovnik	Gospić	Karlovac	Koprivnica	Krapina	Osijek	Pazin	Požega
Rijeka	Sisak	Slavonski Brod	Split	Šibenik	Varaždin	Virovitica	Vukovar	Zadar	Zagreb



LOCAL OFFICES
There is a total of 122 Local Offices of the regional offices, in cities and municipalities.



## How many regional offices and local offices are there in the Tax Administration?

The Tax Administration is divided into **20 regional offices**, set up at the county level, and local offices belonging to the regional offices.

Regional offices and their local offices	
Bjelovar	Bjelovar, Čazma, Daruvar, Garešnica and Grubišno Polje
Čakovec	Čakovec, Mursko Središće and Prelog
Dubrovnik	Dubrovnik, Korčula, Lastovo, Metković, Ploče and a separate office in Blato
Gospić	Donji Lapac, Gospić, Korenica, separate office in Novalja Novalja, Otočac and Senj
Karlovac	Duga Resa, Karlovac, Ogulin, Ozalj, Slunj and Vojnić
Koprivnica	Đurđevac, Koprivnica and Križevci
Krapina	Donja Stubica, Klanjec, Krapina, Pregrada, Zabok and Zlatar
Osijek	Beli Manastir, Donji Miholjac, Đakovo, Našice, Osijek and Valpovo
Pazin	Buzet, Labin, Pazin, Poreč, Pula, Rovinj and Umag
Požega	Pakrac and Požega
Rijeka	Crikvenica, Čabar, Delnice, Krk, Mali Lošinj, Opatija, Rab, Rijeka and Vrbovsko
Sisak	Dvor, Glina, Gvozd, Hrvatska Kostajnica, Kutina, Novska, Petrinja and Sisak
Slavonski Brod	Nova Gradiška, Okučani and Slavonski Brod
Split	Hvar, Imotski, Kaštela, Makarska, Omiš, Sinj, Solin, Split, Supetar, Trogir, Vis and Vrgorac
Šibenik	Drniš, Knin and Šibenik
Varaždin	Ivanec, Ludbreg, Novi Marof and Varaždin
Virovitica	Orahovica, Slatina, Virovitica and a separate office in Pitomača
Vukovar	Vinkovci, Vukovar, Županja and Ilok
Zadar	Benkovac, Biograd na Moru, Gračac, Obrovac, Zadar and Pag
Zagreb	Dugo Selo, Ivanić Grad, Jastrebarsko, Samobor, Sesvete, Sveti Ivan Zelina, Velika Gorica, Vrbovec, Zaprešić and Zagreb (13 local offices)

# What are the tasks of the Tax Administration?

The fundamental task of the TA is to enforce tax regulations and regulations concerning the payment of compulsory contributions. As a result of changes that came into force in 2001, apart from collecting tax, the TA also controls the payment of health and pension insurance contributions, as well as employment contributions. The scope of activity of the TA includes:

- ◆ receiving tax returns and checking their contents;
- ◆ tax base and tax liability assessment;
- ◆ control and initiating proceedings in case of violation of the regulations;
- ◆ carrying out inspection;
- ◆ giving opinions about the enforcement of the regulations;
- ◆ studying the tax system, cooperation with other countries, and monitoring the enforcement of international treaties in the area of taxation;
- ◆ developing and using a tax information system;
- ◆ issuing control stamps for certain products;
- ◆ giving approvals for and supervision of games of chance and other games;
- ◆ execution in case of default in the payment of public levies;
- ◆ control of the calculation and collection of compulsory contributions,
- ◆ compilation and processing of data about taxes and obligatory contributions and proposing changes in the tax policy.

## Where can you report taxes and get the necessary information?

Citizens or companies communicate with the TA via its **local offices**. Taxpayers can also go directly to the regional offices or the Central Office of the TA, but then their case will be forwarded to a competent local office. Consequently, a local office is the place where taxpayers can get the necessary information concerning their tax status, where they can file the tax return and from where they will receive tax rulings, etc.

Citizens submit their tax returns to TA local offices according to their domicile or habitual abode.

Legal persons, i.e. enterprises, institutions, etc., submit tax returns to a TA local office according to the taxpayer's seat.

The tax administration (in the USA) prescribes 480 different forms, and 280 forms explaining how to fill in these 480 forms. The tax law at the beginning had 11,400 words, and today has seven million of them.

Sam Johnson



The Tax Administration's website at: <http://www.pu.mfin.hr> offers lots of information about taxes, so that visiting a local office of the Tax Administration has become unnecessary.

Moreover, the TA is currently developing a project entitled »eTax« which will enable all taxpayers to meet their tax liabilities through the Internet.



### Tax Administration Contact Centre

Telephone calls are accepted every business day from 9 a.m. to 3 p.m.

Please, call **0800 1001** for:

- ◆ reporting a tax fraud,
- ◆ non-issue of invoice,
- ◆ illicit work,
- ◆ other tax violations, and
- ◆ complaints about the misconduct of a Tax Administration officer.

Please, call **0800 66 99 33** for:

- ◆ information about tax exemptions, tax relief and allowable expenses.

## Regulations

- ◆ Tax Administration Act, OG 67/01, 94/01 and 177/04.

# TAX ADVISING

If you have problems in meeting your tax liabilities and you are not well acquainted with the tax regulations and your own rights, you should seek the expert assistance of a tax adviser.

## Who is eligible to be a tax adviser?

**Natural persons** who meet:


- ◆ **general conditions** (business competence and health conditions to be a civil servant, domicile in Croatia, knowledge of the Croatian language and the Latin script, or some other language and script officially used in the area where the activity is carried out, and having no criminal record for the relevant offences); and
- ◆ **special conditions** (a degree in law or economics, with 5 years work experience in tax or accountancy affairs, having passed the tax adviser examination, and work licence granted by the Croatian Chamber of Tax Advisers).

The difference between tax evasion and tax avoidance is in the thickness of the prison walls.

Denis Healey

**Public companies providing tax advisory services.**

**Certified auditors and audit firms, companies and small businesses providing accounting services**, employers in the cases related to taxes on salaries of their own employees, but without the right to represent parties to the taxation proceedings before the tax authorities and in tax disputes.



Although the Tax Consultancy Act of 2000 regulates the terms of establishment, the status and activity of a Croatian Chamber of Tax Advisers, by end-2009, the Chamber was still not existent. The Act also stipulates that tax advisory services can only be provided by natural persons who have been issued work licences by the Chamber. Given the non-existence of the Chamber, the issue of work licences is currently within the competence of the Ministry of Finance.

## What are the tax adviser's activities?

**The scope of activities of a tax adviser includes the following:**

- ◆ assistance in tax matters;
- ◆ advising clients on all taxation issues, assistance in the drawing up of tax returns, representation in taxation proceedings before the tax authorities, participation in tax disputes in courts, and supervision of the keeping of tax and accounting records;
- ◆ filling in tax returns and other documents that the taxpayer is bound to fill in and submit in the taxation procedure.

## Tax adviser examination

- ◆ It is organised and carried out by the Chamber.
- ◆ It is taken in front of a board of at least five examiners, appointed by the MF at the recommendation of the Chamber.
- ◆ The examination costs are borne by the person taking the exam.

An application for examination can be filed by a person who meets both the general and special conditions.

**The application should be enclosed with the following documents:**

- ◆ an authenticated copy of a university degree certificate;
- ◆ proof of domicile in the Republic of Croatia;
- ◆ proof of work experience;
- ◆ proof of meeting health conditions for a civil servant;
- ◆ a certificate of no criminal record.

### Examination price



Along with the application form submitted to the Board of Examiners Secretary at the MF, Zagreb, Katančičeva 5, the candidate is liable to pay an application fee of 300 kuna.

After receiving notification about the date and time of taking the exam, the candidate has to pay an examination fee in the amount of 6,700 kuna. The application fee and the examination fee are both payable to the TA account, No. 30102-637-5491.

## What does the examination cover?

The examination tests knowledge about:

- ◆ the foundations of the tax system, tax policy and financial equalisation;
- ◆ the Croatian tax law;
- ◆ direct taxes;
- ◆ indirect taxes;
- ◆ accounting, financial statements and auditing;
- ◆ the bases of the financial system of the Republic of Croatia;
- ◆ corporate law; and
- ◆ (other) participants in a tax-related legal relationship.

After the examination has been passed, a work licence is issued to the tax adviser. Tax advisers carry out their activities for a fee in accordance with the tariffs prescribed by the Chamber.

## Regulations

- ◆ Tax Consultancy Act, OG 127/00; and
- ◆ Regulations Concerning the Syllabus and Examinations for Tax Advisers, OG 54/01, 79/01 and 38/03.



# A LIST OF THE TAX ADMINISTRATION REGIONAL OFFICES AND THEIR LOCAL OFFICES

## TAX ADMINISTRATION Regional Offices and Local Offices

<b>MINISTRY OF FINANCE</b> <b>TAX ADMINISTRATION - CENTRAL OFFICE</b> Boškovićeva 5 P.O.B. 359 10000 ZAGREB	Phone Fax	01 4809 000 01 4809 008
<b>REGIONAL OFFICE ZAGREB and local offices</b> Avenija Dubrovnik 32 P.O.B. 344 10020 ZAGREB	Phone Fax	01 6501 111 01 6501 448
<b>LOCAL OFFICE ZAGREB - CENTRE</b> Ilica 25 P.O.B. 346 10000 ZAGREB	Phone Fax	01 4802 900 01 4802 999
<b>LOCAL OFFICE ZAGREB – MEDVEŠČAK</b> Draškovićeva 15 P.O.B. 347 10000 ZAGREB	Phone Fax	01 4596 300 01 4596 301
<b>LOCAL OFFICE ZAGREB – TREŠNJEVKA</b> Park Stara Trešnjevka 2 P.O.B. 348 10000 ZAGREB	Phone Fax	01 3035 800 01 3035 888
<b>LOCAL OFFICE ZAGREB – TRNJE</b> Ul. grada Vukovara 56 P.O.B. 349 10000 ZAGREB	Phone Fax	01 6321 222 01 6170 736
<b>LOCAL OFFICE ZAGREB – DUBRAVA</b> Av. Dubrava 49 P.O.B. 201 10040 ZAGREB - DUBRAVA	Phone Fax	01 2960 900 01 2960 950
<b>LOCAL OFFICE ZAGREB – MAKSIMIR</b> Petrova 116 P.O.B. 350 10000 ZAGREB	Phone Fax	01 6100 670 01 6100 660
<b>LOCAL OFFICE ZAGREB – SUSEDGRAD</b> Sigetje 2 P.O.B. 74 10090 ZAGREB – SUSEDGRAD	Phone Fax	01 3793 400 01 3793 444



**TAX ADMINISTRATION**  
**Regional Offices and Local Offices**

<b>LOCAL OFFICE ZAGREB – ČRNOMEREC</b> Trg Francuske Republike 15 P.O.B. 351 10000 ZAGREB	Phone Fax	01 3793 600 01 3793 666
<b>LOCAL OFFICE ZAGREB – NOVI ZAGREB</b> Avenija Dubrovnik 12 P.O.B. 325 10020 ZAGREB	Phone Fax	01 6501 000 01 6501 050
<b>LOCAL OFFICE ZAGREB – PEŠČENICA</b> Zapoljska 1 P.O.B. 322 10000 ZAGREB	Phone Fax	01 2362 090 01 2362 099
<b>LOCAL OFFICE ZAGREB – citizens' taxes</b> Avenija Dubrovnik 32 P.O.B. 323 10020 ZAGREB	Phone Fax	01 6501 111 01 6501 192
<b>LOCAL OFFICE ZAGREB – real estate</b> Avenija Dubrovnik 32 P.O.B. 323 10020 ZAGREB	Phone Fax	01 6501 111 01 6501 277
<b>LOCAL OFFICE ZAGREB – large taxpayers</b> Avenija Dubrovnik 30 10020 ZAGREB	Phone Fax	01 6501 111 01 6501 523
<b>LOCAL OFFICE DUGO SELO</b> Josipa Zorića 1 P.O.B. 81 10370 DUGO SELO	Phone Fax	01 2753 122 01 2753 413
<b>LOCAL OFFICE IVANIĆ GRAD</b> Trg Vladimira Nazora 1 P.O.B. 2 10310 IVANIĆ GRAD	Phone Fax	01 2831 242 01 2831 260
<b>LOCAL OFFICE JASTREBARSKO</b> Vlatka Mačeka 2 P.O.B. 76 10450 JASTREBARSKO	Phone Fax	01 6274 030 01 6281 118
<b>LOCAL OFFICE SAMOBOR</b> Trg kralja Tomislava 5 P.O.B. 121 10430 SAMOBOR	Phone Fax	01 3335 320 01 3363 385
<b>LOCAL OFFICE SESVETE</b> Trg Dragutina Domjanića 4 P.O.B. 18 10360 SESVETE	Phone Fax	01 2030 600 01 2030 650
<b>LOCAL OFFICE SVETI IVAN ZELINA</b> Trg Ante Starčevića 4 P.O.B. 3 10380 SVETI IVAN ZELINA	Phone Fax	01 2030 850 01 2060 240

**TAX ADMINISTRATION**  
**Regional Offices and Local Offices**

<b>LOCAL OFFICE VELIKA GORICA</b> Trg kralja Tomislava 34 P.O.B. 3 10410 VELIKA GORICA	Phone Fax	01 6269 900 01 6221 313
<b>LOCAL OFFICE VRBOVEC</b> Trg Petra Zrinskog 10 P.O.B. 29 10340 VRBOVEC	Phone Fax	01 2700 060 01 2700 077
<b>LOCAL OFFICE ZAPREŠIĆ</b> Drage Švajcera 1 P.O.B. 76 10290 ZAPREŠIĆ	Phone Fax	01 3340 200 01 3340 230
<b>SMALL AND MEDIUM-SIZED TAXPAYERS AUDIT DIVISION</b> Albrechtova 42 10000 ZAGREB	Phone Fax	01 2392 960 01 2389 985
<b>ENFORCED COLLECTION DIVISION</b> Albrechtova 42 10000 ZAGREB	Phone Fax	01 2390 900 01 2390 958
<b>TAX CRIMES DETECTION DIVISION</b> Albrechtova 42 10000 ZAGREB	Phone Fax	01 2390 836 01 2390 867
<b>OFFENCE PROCEEDINGS DIVISION</b> Draškovićeve 15/4 P.O.B. 330 10000 ZAGREB	Phone Fax	01 4596 352 01 4596 365
<b>REGIONAL OFFICE SISAK and local offices</b> A. i S. Radića 30 P.O.B. 26 44000 SISAK	Phone Fax	044 551 103 044 551 177
<b>LOCAL OFFICE DVOR</b> Trg bana J. Jelačića b.b. P.O.B. 9 44440 DVOR	Phone Fax	044 525 161 044 871 151
<b>LOCAL OFFICE GLINA</b> Trg bana J. Jelačića b.b. P.O.B. 7 44400 GLINA	Phone Fax	044 880 902 044 880 917
<b>LOCAL OFFICE GVOZD</b> Trg dr. Franje Tuđmana 6 P.O.B. 8 44410 GVOZD	Phone Fax	044 881 002 044 881 034

**TAX ADMINISTRATION**  
**Regional Offices and Local Offices**

<b>LOCAL OFFICE HRVATSKA KOSTAJNICA</b> Vladimira Nazora 9 P.O.B. 77 44430 HRVATSKA KOSTAJNICA	Phone Fax	044 525 330 044 525 333
<b>LOCAL OFFICE KUTINA</b> Trg kralja Tomislava 12 P.O.B. 97 44320 KUTINA	Phone Fax	044 691 321 044 683 470
<b>LOCAL OFFICE NOVSKA</b> Trg L. I. Oriovčanina 2 P.O.B. 33 44330 NOVSKA	Phone Fax	044 691 581 044 691 599
<b>LOCAL OFFICE PETRINJA</b> Gundulićeva 2 P.O.B. 38 44250 PETRINJA	Phone Fax	044 811 525 044 815 898
<b>LOCAL OFFICE SISAK</b> A. i S. Radića 30 P.O.B. 26 44000 SISAK	Phone Fax	044 551 100 044 551 176
<b>REGIONAL OFFICE KARLOVAC and local offices</b> Pavla Vitezovića 1 P.O.B. 79 47000 KARLOVAC	Phone Fax	047 542 000 047 611 315
<b>LOCAL OFFICE DUGA RESA</b> Trg sv. Jurja 1 P.O.B. 74 47250 DUGA RESA	Phone Fax	047 819 288 047 841 829
<b>LOCAL OFFICE KARLOVAC</b> Pavla Vitezovića 1 P.O.B. 79 47000 KARLOVAC	Phone Fax	047 542 000 047 542 123
<b>LOCAL OFFICE OGULIN</b> Bernardina Frankopana 11 P.O.B. 85 47300 OGULIN	Phone Fax	047 819 255 047 522 841
<b>LOCAL OFFICE OZALJ</b> Kurilovac b.b. P.O.B. 1 47280 OZALJ	Phone Fax	047 693 343 047 731 133
<b>LOCAL OFFICE SLUNJ</b> Trg dr. Franje Tuđmana 2 P.O.B. 2 47240 SLUNJ	Phone Fax	047 819 340 047 777 656

**TAX ADMINISTRATION**  
**Regional Offices and Local Offices**

<b>LOCAL OFFICE VOJNIĆ</b> Trg S. Radića 1 P.O.B. 7 47220 VOJNIĆ	Phone Fax	047 883 033 047 883 033
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<b>REGIONAL OFFICE VARAŽDIN and local offices</b> Graberje 1 P.O.B. 231 42000 VARAŽDIN	Phone Fax	042 390 100 042 390 178
<b>LOCAL OFFICE IVANEC</b> Đure Arnolda 11 P.O.B. 34 42240 IVANEC	Phone Fax	042 332 940 042 781 522
<b>LOCAL OFFICE LUDBREG</b> Trg Sv. Trojstva 14 P.O.B. 5 42230 LUDBREG	Phone Fax	042 306 555 042 810 535
<b>LOCAL OFFICE NOVI MAROF</b> Trg hrvatske državnosti 1 P.O.B. 1 42220 NOVI MAROF	Phone Fax	042 613 060 042 612 714
<b>LOCAL OFFICE VARAŽDIN</b> Graberje 1 P.O.B. 231 42000 VARAŽDIN	Phone Fax	042 390 100 042 390 176

<b>REGIONAL OFFICE KOPRIVNICA and local offices</b> Hrvatske državnosti 7 P.O.B. 6 48000 KOPRIVNICA	Phone Fax	048 289 555 048 622 937
<b>LOCAL OFFICE ĐURĐEVAC</b> Stjepana Radića 1 P.O.B. 27 48350 ĐURĐEVAC	Phone Fax	048 289 050 048 289 065
<b>LOCAL OFFICE KOPRIVNICA</b> Hrvatske državnosti 7 P.O.B. 6 48000 KOPRIVNICA	Phone Fax	048 289 555 048 622 868
<b>LOCAL OFFICE KRIŽEVCI</b> I. Z. Dijankovečkog 8 P.O.B. 58 48260 KRIŽEVCI	Phone Fax	048 279 000 048 279 003

**TAX ADMINISTRATION**  
**Regional Offices and Local Offices**

<b>REGIONAL OFFICE BJELOVAR and local offices</b> Dr. Ante Starčevića 8/II P.O.B. 2 43000 BJELOVAR	Phone Fax	043 225 700 043 244 693
<b>LOCAL OFFICE BJELOVAR</b> Dr. Ante Starčevića 8 P.O.B. 47 43000 BJELOVAR	Phone Fax	043 225 717 43 241 864
<b>LOCAL OFFICE ČAZMA</b> Milana Novačića 13 P.O.B. 1 43240 ČAZMA	Phone Fax	043 444 380 043 771 410
<b>LOCAL OFFICE DARUVAR</b> Matije Gupca 4 P.O.B. 78 43500 DARUVAR	Phone Fax	043 440 800 043 331 275
<b>LOCAL OFFICE GAREŠNICA</b> Vladimira Nazora 22 P.O.B. 116 43280 GAREŠNICA	Phone Fax	043 675 640 043 675 650
<b>LOCAL OFFICE GRUBIŠNO POLJE</b> Trg bana J. Jelačića 1 P.O.B. 54 43290 GRUBIŠNO POLJE	Phone Fax	043 675 660 043 675 666
<b>REGIONAL OFFICE RIJEKA and local offices</b> Riva 16 P.O.B. 182 51000 RIJEKA	Phone Fax	051 310 000 051 330 246
<b>LOCAL OFFICE CRIKVENICA</b> Kralja Tomislava 85 P.O.B. 7 51260 CRIKVENICA	Phone Fax	051 455 100 051 784 603
<b>LOCAL OFFICE ČABAR</b> Narodnog oslobođenja 2 P.O.B. 14 51306 ČABAR	Phone Fax	051 612 060 051 821 292
<b>LOCAL OFFICE DELNICE</b> Supilova 20 P.O.B. 67 51300 DELNICE	Phone Fax	051 508 230 051 508 255
<b>LOCAL OFFICE KRK</b> Trg bana J. Jelačića 5 P.O.B. 29 51500 KRK	Phone Fax	051 867 670 051 222 289

**TAX ADMINISTRATION**  
**Regional Offices and Local Offices**

<b>LOCAL OFFICE MALI LOŠINJ</b> Riva lošinjskih kapetana 7 P.O.B. 56 51550 MALI LOŠINJ	Phone Fax	051 867 760 051 233 427
<b>LOCAL OFFICE OPATIJA</b> M. Tita 8 P.O.B. 112 51410 OPATIJA	Phone Fax	051 701 770 051 701 259
<b>LOCAL OFFICE RAB</b> Mali Palit b.b. P.O.B. 121 51280 RAB	Phone Fax	051 867 700 051 725 350
<b>LOCAL OFFICE RIJEKA</b> Riva 10 P.O.B. 182 51000 RIJEKA	Phone Fax	051 310 200 051 335 792
<b>LOCAL OFFICE VRBOVSKO</b> Dobra 4 P.O.B. 22 51326 VRBOVSKO	Phone Fax	051 829 320 051 875 240
<b>REGIONAL OFFICE GOSPIĆ and local offices</b> Kaniška 4 P.O.B. 43 53000 GOSPIĆ	Phone Fax	053 665 370 053 575 248
<b>LOCAL OFFICE DONJI LAPAC</b> Trg Nikole Tesle 2 P.O.B. 1 53250 DONJI LAPAC	Phone Fax	053 765 021 053 765 020
<b>LOCAL OFFICE GOSPIĆ</b> Budačka 55 53000 GOSPIĆ	Phone Fax	053 746 440 053 575 590
<b>A SEPARATE OFFICE IN NOVALJA</b> Trg dr. Franje Tuđmana 1 P.O.B. 1 53291 NOVALJA	Phone Fax	053 746 490 053 662 353
<b>LOCAL OFFICE KORENICA</b> Trg svetog Jurja 6 P.O.B. 17 53230 KORENICA	Phone Fax	053 746 470 053 776 498
<b>LOCAL OFFICE OTOČAC</b> Trg dr. Franje Tuđmana b.b. P.O.B. 28 53220 OTOČAC	Phone Fax	053 746 510 053 771 436

**TAX ADMINISTRATION**  
**Regional Offices and Local Offices**

<b>LOCAL OFFICE SENJ</b> S. S. Kranjčevića 3a P.O.B. 44 53270 SENJ	Phone Fax	053 885 100 053 881 026
<b>REGIONAL OFFICE VIROVITICA and local offices</b> Vladimira Nazora 3 P.O.B. 26 33000 VIROVITICA	Phone Fax	033 841 500 033 726 729
<b>LOCAL OFFICE ORAHOVICA</b> Kralja Zvonimira 26a P.O.B. 23 33515 ORAHOVICA	Phone Fax	033 401 000 033 673 239
<b>LOCAL OFFICE SLATINA</b> Braće Radića 7 P.O.B. 25 33520 SLATINA	Phone Fax	033 401 950 033 551 434
<b>LOCAL OFFICE VIROVITICA</b> Ljudevita Patačića 1 P.O.B. 51 33000 VIROVITICA	Phone Fax	033 841 550 033 721 248
<b>REGIONAL OFFICE POŽEGA and local offices</b> Županijska 14 P.O.B. 412 34000 POŽEGA	Phone Fax	034 312 340 034 272 582
<b>LOCAL OFFICE PAKRAC</b> Trg bana J. Jelačića 18 P.O.B. 37 34550 PAKRAC	Phone Fax	034 311 500 034 411 001
<b>LOCAL OFFICE POŽEGA</b> Županijska 14 P.O.B. 412 34000 POŽEGA	Phone Fax	034 312 340 034 272 624
<b>REGIONAL OFFICE ZADAR and local offices</b> Ante Starčevića 9 P.O.B. 278 23000 ZADAR	Phone Fax	023 204 111 023 204 144
<b>LOCAL OFFICE BIOGRAD na MORU</b> Trg kralja Tomislava 5 P.O.B. 37 23210 BIOGRAD na MORU	Phone Fax	023 382 860 023 383 093

**TAX ADMINISTRATION**  
**Regional Offices and Local Offices**

<b>LOCAL OFFICE BENKOVAC</b> Ivana Meštrovića 9 P.O.B. 23 23420 BENKOVAC	Phone Fax	023 684 860 023 681 457
<b>LOCAL OFFICE GRAČAC</b> Školska ulica 1 P.O.B. 18 23440 GRAČAC	Phone Fax	023 775 800 023 775 804
<b>LOCAL OFFICE OBROVAC</b> Ante Starčevića 11 P.O.B. 5 23450 OBROVAC	Phone Fax	023 689 940 023 689 187
<b>LOCAL OFFICE PAG</b> Branimirova obala 1 P.O.B. 18 23250 PAG	Phone Fax	023 600 500 023 600 510
<b>LOCAL OFFICE ZADAR</b> Ante Starčevića 9 P.O.B. 278 23000 ZADAR	Phone Fax	023 204 222 023 204 244
<b>REGIONAL OFFICE OSIJEK and local offices</b> Županijska 4 31000 OSIJEK	Phone Fax	031 223 723 031 223 778
<b>LOCAL OFFICE BELI MANASTIR</b> Kralja Tomislava 53 P.O.B. 33 31300 BELI MANASTIR	Phone Fax	031 710 020 031 703 814
<b>LOCAL OFFICE DONJI MIHOLJAC</b> Vukovarska 1 P.O.B. 33 31540 DONJI MIHOLJAC	Phone Fax	031 620 000 031 631 548
<b>LOCAL OFFICE ĐAKOVO</b> Vijenac K. A. Stepinca 10 P.O.B. 13 31400 ĐAKOVO	Phone Fax	031 840 260 031 813 022
<b>LOCAL OFFICE NAŠICE</b> Pejačevićev trg 7 P.O.B. 2 31500 NAŠICE	Phone Fax	031 615 720 031 613 517
<b>LOCAL OFFICE OSIJEK</b> Županijska 4 31000 OSIJEK	Phone Fax	031 223 700 031 223 772



**TAX ADMINISTRATION**  
**Regional Offices and Local Offices**

<b>LOCAL OFFICE VALPOVO</b> Kralja Petra Krešimira IV. P.O.B. 38 31550 VALPOVO	Phone Fax	031 656 010 031 656 020
<b>REGIONAL OFFICE ŠIBENIK and local offices</b> Obala Hrvatske mornarice 3 P.O.B. 37 22000 ŠIBENIK	Phone Fax	022 209 500 022 218 936
<b>LOCAL OFFICE DRNIŠ</b> Kardinala Alojzija Stepinca 4 P.O.B. 43 22320 DRNIŠ	Phone Fax	022 888 850 022 886 991
<b>LOCAL OFFICE KNIN</b> Dr. Franje Tuđmana 2 P.O.B. 5 22300 KNIN	Phone Fax	022 664 461 022 664 468
<b>LOCAL OFFICE ŠIBENIK</b> Obala Hrvatske mornarice 3 P.O.B. 37 22000 ŠIBENIK	Phone Fax	022 209 503 022 213 550
<b>REGIONAL OFFICE VUKOVAR and local offices</b> Trg Republike Hrvatske 5 P.O.B. 96 32000 VUKOVAR	Phone Fax	032 451 111 032 451 151
<b>LOCAL OFFICE VINKOVCI</b> Kralja Zvonimira 12 P.O.B. 115 32100 VINKOVCI	Phone Fax	032 343 307 032 343 346
<b>LOCAL OFFICE VUKOVAR</b> Trg Republike Hrvatske 5 P.O.B. 84 32000 VUKOVAR	Phone Fax	032 451 111 032 451 122
<b>LOCAL OFFICE ŽUPANJA</b> Strossmayerova 18 P.O.B. 48 32270 ŽUPANJA	Phone Fax	032 827 511 032 827 555
<b>LOCAL OFFICE ILOK</b> Trg Nikole Iločkog 16 P.O.B. 48 32236 ILOK	Phone Fax	032 590 068 032 590 137

**TAX ADMINISTRATION**  
**Regional Offices and Local Offices**

<b>REGIONAL OFFICE SPLIT and local offices</b> Trg Franje Tuđmana 4 P.O.B. 157 21000 SPLIT	Phone Fax	021 352 055 021 347 002
<b>LOCAL OFFICE HVAR</b> Fabrika bb P.O.B. 45 21450 HVAR	Phone Fax	021 778 130 021 742 294
<b>LOCAL OFFICE IMOTSKI</b> Ante Starčevića b.b. P.O.B. 80 21260 IMOTSKI	Phone Fax	021 671 180 021 842 145
<b>LOCAL OFFICE KAŠTELA</b> Braće Radića b.b. P.O.B. 50 21212 KAŠTEL SUČURAC	Phone Fax	021 246 550 021 246 563
<b>LOCAL OFFICE MAKARSKA</b> Obala kralja Tomislava 1 P.O.B. 81 21300 MAKARSKA	Phone Fax	021 695 030 021 695 055
<b>LOCAL OFFICE OMIŠ</b> Put ribnjaka 1 P.O.B. 20 21310 OMIŠ	Phone Fax	021 755 550 021 755 570
<b>LOCAL OFFICE SINJ</b> Vrcanov obor 2 P.O.B. 78 21230 SINJ	Phone Fax	021 668 080 021 824 470
<b>LOCAL OFFICE SOLIN</b> Stjepana Radića 42 P.O.B. 16 21210 SOLIN	Phone Fax	021 246 460 021 213 399
<b>LOCAL OFFICE SPLIT</b> Domovinskog rata 2 P.O.B. 383 21000 SPLIT	Phone Fax	021 352 055 021 343 433
<b>LOCAL OFFICE SUPETAR</b> Put Vele Luke 3 P.O.B. 27 21400 SUPETAR	Phone Fax	021 630 526 021 630 191
<b>LOCAL OFFICE TROGIR</b> Blaža Jurja Trogirana 1 P.O.B. 32 21220 TROGIR	Phone Fax	021 798 360 021 881 955

**TAX ADMINISTRATION**  
**Regional Offices and Local Offices**

<b>LOCAL OFFICE VIS</b> Biskupa Mihe Pušića 10 P.O.B. 51 21480 VIS	Phone Fax	021 778 070 021 711 438
<b>LOCAL OFFICE VRGORAC</b> Tina Ujevića 8 P.O.B. 87 21276 VRGORAC	Phone Fax	021 695 830 021 674 442
<b>REGIONAL OFFICE PAZIN and local offices</b> M. B. Rašana 2/4 P.O.B. 60 52000 PAZIN	Phone Fax	052 600 200 052 624 164
<b>LOCAL OFFICE BUZET</b> II. Istarske brigade 11 P.O.B. 30 52420 BUZET	Phone Fax	052 725 530 052 663 299
<b>LOCAL OFFICE LABIN</b> Rudarska 1 P.O.B. 74 52220 LABIN	Phone Fax	052 866 721 052 866 729
<b>LOCAL OFFICE PAZIN</b> Čirilometodske družbe 10 P.O.B. 2 52000 PAZIN	Phone Fax	052 429 430 052 624 507
<b>LOCAL OFFICE POREČ</b> Vlašića 20 P.O.B. 67 52440 POREČ	Phone Fax	052 408 700 052 432 122
<b>LOCAL OFFICE PULA</b> Cararrina 5 P.O.B. 551 52100 PULA	Phone Fax	052 372 700 052 218 966
<b>LOCAL OFFICE ROVINJ</b> Pečine 6 P.O.B. 122 52210 ROVINJ	Phone Fax	052 827 201 052 814 078
<b>LOCAL OFFICE UMAG</b> Vrh b.b. P.O.B. 102 52470 UMAG	Phone Fax	052 702 100 052 741 798

**TAX ADMINISTRATION**  
**Regional Offices and Local Offices**

<b>REGIONAL OFFICE DUBROVNIK and local offices</b> Vukovarska 6 P.O.B. 11 20000 DUBROVNIK	Phone Fax	020 431 222 020 417 244
<b>LOCAL OFFICE DUBROVNIK</b> Vukovarska 6 P.O.B. 11 20000 DUBROVNIK	Phone Fax	020 431 222 020 416 908
<b>LOCAL OFFICE KORČULA</b> Trg A. i S. Radića 1 P.O.B. 110 20260 KORČULA	Phone Fax	020 716 410 020 715 940
<b>LOCAL OFFICE LASTOVO</b> Pjevor bb P.O.B. 13 20290 LASTOVO	Phone Fax	020 801 033 020 801 033
<b>LOCAL OFFICE METKOVIĆ</b> Stjepana Radića 3 P.O.B. 79 20350 METKOVIĆ	Phone Fax	020 684 920 020 684 935
<b>LOCAL OFFICE PLOČE</b> Trg kralja Tomislava 16 20340 PLOČE	Phone Fax	020 716 450 020 678 788

<b>REGIONAL OFFICE ČAKOVEC and local offices</b> Otokara Keršovanija 11 P.O.B. 71 40000 ČAKOVEC	Phone Fax	040 371 222 040 371 200
<b>LOCAL OFFICE ČAKOVEC</b> Otokara Keršovanija 11 P.O.B. 71 40000 ČAKOVEC	Phone Fax	040 371 250 040 371 272
<b>LOCAL OFFICE MURSKO SREDIŠĆE</b> Martinska 3 P.O.B. 2 40315 MURSKO SREDIŠĆE	Phone Fax	040 370 791 040 543 171
<b>LOCAL OFFICE PRELOG</b> Glavna 51 P.O.B. 22 40323 PRELOG	Phone Fax	040 379 731 040 379 741



# TAXES IN THE REPUBLIC OF CROATIA\*

TAX	TAXPAYER	TAX BASE/OBJECT OF TAXATION	TAX RATE	REGULATIONS	OWNER OF REVENUES
VALUE ADDED TAX	Legal and natural person (entrepreneur) supplying goods or providing services	Consideration for delivered goods or provided services	23%, 10% and 0%	Value Added Tax Act, OG 47/95, 106/96, 164/98, 105/99, 54/00, 73/00, 48/04, 82/04, 90/05, 76/07, 87/09 and 94/09;  Regulations, OG 149/09	State – 100%
<b>EXCISE TAXES</b>					
ENERGY PRODUCTS AND ELECTRICITY	Producer, importer, authorised excise tax warehouse keeper, registered recipient, excise tax agents, etc.	Energy products used as motor fuels or heating fuels, and electricity determined by the combined nomenclature codes (CNC)	Motor petrol used as motor fuel leaded 3,600 kuna /1,000 l unleaded 2,850 kuna /1,000 l Gas oil used as motor fuel HRK 2,200 /1,000 l used for heating 300 kuna /1,000 l Kerosene – paraffin oil used as motor fuel 2,200 kuna /1,000 l used for heating 1,752 kuna /1,000 l LPG used as motor fuel 912.50 kuna /1,000 kg used for heating 0 kuna/1,000 kg Heavy fuel oil 110 kuna /1,000 kg Natural gas motor fuel and heating 0 kuna /m <sup>3</sup> Coal, coke 2.20 kuna /GJ Electricity 0 kuna /MWH Bio fuels 0 kuna	Excise Tax Act, OG 83/09;  Regulations, OG 1/10  Regulation on the Application of the Excise Tax Act Relating to Blue Diesel Oil Intended for Use in Agriculture, Fisheries and Mariculture, OG 1/10	State – 100%

\*January, 2010

TOBACCO PRODUCTS	Producer, importer, authorised excise tax warehouse keeper, registered recipient, excise tax agents, etc.	Cigarettes and other tobacco products	Cigarettes specific 180 kuna /1,000 units proportional 30% of retail price  Cigars 1,100 kuna/1,000 units  Cigarillos 4.40 kuna /pack  Tobacco 92-136 kuna /kg	Excise Tax Act, OG 83/09;  Regulations, OG 1/10	State – 100%
ALCOHOL AND ALCOHOLIC DRINKS	Producer, importer, authorised excise tax warehouse keeper, registered recipient, excise tax agent, etc.	Beer, still and sparkling wines, intermediate products, ethyl alcohol	Beer 40 kuna /hl  Still and sparkling wines 0 kuna  Intermediate products 500-800 kuna /hl  Ethyl alcohol 5,300 kuna /hl of pure alcohol	Excise Tax Act, OG 83/09;  Regulations, OG 1/10	State – 100%
COFFEE	Legal or natural person importing or carrying into or receiving in the Republic of Croatia coffee, except for the persons and quantities that are exempt from customs duty pursuant to customs regulations	Kilo of net weight of coffee or a coffee product	Unroasted 5 kuna  Roasted 12 kuna  Coffee shells and membranes 15 kuna  Coffee substitutes and coffee-based concentrates 20 kuna	Special Tax on Coffee Act, OG 87/05;  Regulations, OG 92/05 and 155/05	State – 100%
NON-ALCOHOLIC DRINKS	Legal and natural person producing or ordering the production of drinks, person importing, carrying into or receiving non-alcoholic drinks in the customs territory of the Republic of Croatia and person other than a producer who imports and procures syrups, powders and pastilles used for producing non-alcoholic drinks	hectolitre of a produced or imported non-alcoholic drink and a non-alcoholic drink obtained by dissolving syrups, powders or pastilles	40 kuna per hectolitre	Special Tax on Non-alcoholic Drinks Act, OG 136/02;  Regulations, OG 59/94, 109/96, and 119/01	State – 100%

PASSENGER CARS, OTHER MOTOR VEHICLES, VESSELS AND AIRCRAFTS	Importer or producer (special tax – excise tax)	new: cars, motor vehicle, vessel or aircraft: sales price (excluding VAT) or tariff base	new: 0 kuna – over 500,000: tax 13% – 63%, + 6,500 – 177,500 kuna	Act on Special Tax on Passenger Cars, Other Motor Vehicles, Vessels and Aircrafts, OG 136/02 (revised text), 44/03, 95/04 and 94/09	State – 100%
	used cars and motorcycles	used: sales price	used: 5%		
LUXURY PRODUCTS	Legal or natural person producing or importing the products	new: Sales value of the product (excluding VAT) or tariff base (watches, jewellery and similar items, clothes and shoes made of fur and reptile leather, arms and pyrotechnic products)	30%	Special Tax on Luxury Products Act, OG 136/02;  Regulations, OG 112/99, 119/01, 25/09, 26/09, 27/09 and 73/09	State – 100%
		used: used: sales price	used: 5%		
TAX ON AUTOMOBILE LIABILITY AND COMPREHENSIVE ROAD VEHICLE INSURANCE PREMIUMS	Insurance companies	automobile liability premium	15%	Act on Tax on Automobile Liability and Comprehensive Road Vehicle Insurance Premiums, OG 150/02;  Regulations, OG 16/03	State – 100%
		comprehensive road vehicle insurance premium	10%		
FEES FOR THE PROVISION OF SERVICES IN MOBILE ELECTRONIC COMMUNICATIONS NETWORKS	Infrastructure operator	SMS, MMS and voice telephony service	6%	Act on Fees for the Provision of Services in Mobile Electronic Communications Network, OG 94/09;  Regulations, OG 97/09	State – 100%
TAX ON GAMES OF CHANCE AND PRIZE GAMES	Special games of chance organiser  Natural person	various fees  VAT (those who are registered)  gains from games of chance	23%  30,000 – 500,000 kuna: 15%  over 500,000 kuna: 20%	Games of Chance Act, OG 87/09; various regulations; Value Added Tax Act; Decree, OG 150/08; Decision of the Constitutional Court of the RC, OG 22/04	State – 100%



PERSONAL INCOME TAX	Natural person acquiring an income	For domestic taxpayers, total income realised in the country and abroad, for foreign taxpayers, income realised in the Republic of Croatia	15%, 25%, 35% and 45%	Personal Income Tax Act, OG 177/04 and 73/08;  Regulations, OG 95/05, 96/06, 68/07, 146/08, 2/09, 9/09 and 146/09;  Regulations, OG 48/05, 143/06, and 148/09	The distribution of personal income tax revenues is regulated by Art. 45 of the Act on the Financing of Units of Local and Regional Self-government
SPECIAL TAX ON SALARIES, PENSIONS AND OTHER INCOME	Payer of salary, pension and other income	Salaries, pensions, dividends, profit sharing and other income pursuant to the Personal Income Tax Act	2 and 4%	Act on Special Tax on Salaries, Pensions and Other Income, OG 94/09;  Regulations, OG 96/09	State – 100%
SPECIAL TAX ON INCOME FROM SELF-EMPLOYMENT AND OTHER INCOME	Recipient of income from a craft business, rentals, insurance, author's royalties, the sale of real estate, interest and profit sharing	Income from a craft business, rentals, insurance, author's royalties, the sale of real estate, interest and profit sharing	2 and 4%	Act on Special Tax on Income from Self-employment and other income, OG 119/09;  Regulations, OG 131/09	State – 100%
CORPORATE INCOME TAX	A company and other legal or natural person carrying out a business activity with a view to making a profit	Profit (the difference between revenues and expenditures)	20 %	Corporate Income Tax Act, OG 177/04, 90/05, 57/06 and 146/08;  Regulations, OG 95/05, 133/07, 156/08 and 146/09	State – 100%
REAL PROPERTY TRANSACTION TAX	Person acquiring the real property	Market value of the real property at the moment the tax liability is incurred	5 %  23%	Real Property Transaction Tax Act, OG 69/97, 26/00, 86/01 and 153/02;  Regulations, OG 28/01;  Value Added Tax Act	State – 40%  Municip./ city – 60%

INHERITANCE AND GIFT TAX	Legal and natural persons that inherit or receive as a gift some taxable property	Market value of the financial property inherited or received as a gift at the moment the tax liability is incurred, after deduction of debts and expenses	cash, monetary claims, securities and movables, if their individual values exceed 50,000 kuna: 5%  immovables: 5%	Act on the Financing of Units of Local and Regional Self-government, OG 117/93, 69/97, 33/00, 73/00, 59/01, 107/01, 117/01, 150/02, 147/03, 132/06 and 73/08;  Real Property Transaction Tax Act, OG 69/97, 86/01 153/02; various regulations; Decision of the Constitutional Court of the RC, OG 26/07	County – 100%  State – 40%  Municipality /city – 60%
ROAD MOTOR VEHICLE TAX	Legal and natural persons owning registered passenger cars and motorcycles	Depending on age (up to 10 years of age for cars) and engine power:  cars  motorcycles	cars: 200 – 1,500 kuna per year  motorcycles. 0 – 1,200 kuna per year	Act on the Financing of Units of Local and Regional Self-government	County – 100%
BOAT TAX	Legal and natural persons owning vessels	Vessels depending on the length, cabin, engine power and form of power (engine powered or sail-powered)	0 – 5,000 kuna per year	Act on the Financing of Units of Local and Regional Self-government	County – 100%
SLOT MACHINE TAX	Legal or natural person putting slot machines to use	Entertainment slot machines	100 kuna per machine per month	Act on the Financing of Units of Local and Regional Self-government;  various regulations	County – 100%
CONSUMPTION TAX	Legal or natural person providing catering services	Retail price of beverages sold in catering facilities	up to 3%	Act on the Financing of Units of Local and Regional Self-government	Municipality /city – 100%
SECOND HOME TAX	Legal or natural person owning a second home, a buildings, a parts of a building or an apartment used occasionally or seasonally	Square meter of usable floor space, depending on the location, age, infrastructure condition, etc.	5 to 15 kuna per m <sup>2</sup> per year	Act on the Financing of Units of Local and Regional Self-government	Municipality /city – 100%

TRADING NAME OR CORPORATE NAME TAX	Legal or natural person subject to personal income or corporate income tax	Trading name or corporate name (of a shop, plant, workshop, point of sale)	up to 2,000 kuna per year	Act on the Financing of Units of Local and Regional Self-government	Municipality /city – 100%
PUBLIC LAND USE TAX	Legal or natural person using public land	Size of the used public area	per m <sup>2</sup> (as laid down by a municipality or city)	Act on the Financing of Units of Local and Regional Self-government	Municipality /city – 100%
SURTAX	Personal income taxpayers	Personal income tax	municipality – up to 10% town under 30,000 inhabitants – 12% town over 30,000 inhabitants – up to 15% City of Zagreb – up to 30%	Act on the Financing of Units of Local and Regional Self-government	Municipality, city, City of Zagreb.

## Regulations related to taxation

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- ◆ General Tax Act, OG 147/08;
- ◆ Tax Consultancy Act, OG 127/00;
- ◆ Hill and Mountain Areas Act, OG 12/02, 32/02, 117/03, 42/05, 90/05, 80/08 and 38/09;
- ◆ Act on the Areas of Special State Concern, OG 86/08;
- ◆ Act on the Rights of Croatian Homeland War Veterans and Their Family Members, OG 174/04, 92/05, 2/07, 107/07, 65/09 and 137/09;
- ◆ Investment Incentives Act, OG 138/06;
- ◆ Free Zones Act, OG 44/96, 92/05 and 85/08;
- ◆ Act on the Reconstruction and Development of the City of Vukovar, OG 44/01, 90/05 and 80/08;
- ◆ Islands Act, OG 34/99, 32/02 and 33/06;
- ◆ State Aid to Education and Training Act, OG 109/07, 134/07 and 152/08;
- ◆ Regulations on State Aid to R&D Projects, OG 116/07;
- ◆ Personal Identification Number Act, OG 60/08;
- ◆ Regulations on the Personal Identification Number, OG 1/09.



# GLOSSARY

**basic personal allowance** – a personal allowance given to a taxpayer himself/herself;

**capital gain** – an increase in the value of assets: land, buildings, machinery, cars, and securities (shares and bonds). It is measured by the difference between the sales price and the price at which the asset was previously purchased;

**contribution** – a kind of public revenue proportional to the service provided in return. In Croatia, contributions are paid from and on salaries, and they constitute the revenues of extra-budgetary funds for pension, health and employment insurance;

**corporate income tax** – a direct tax charged on the profit generated by an enterprise;

**craft business** – various production, commercial, service and similar activities;

**customs duty** – a kind of a public levy that is paid on all imported goods;

**dependent persons** – certain relatives supported by the taxpayer (usually family or household members);

**depreciation or write-off** – an impairment of the value of real property that becomes physically or economically depleted due to the passage of time or as a result of use;

**direct tax** – a tax that is finally borne by an enterprises or individual and cannot be shifted to another person. Direct taxes are, for example, personal income tax and property tax;

**dividend** – the profit of a company distributed to the shareholders according to the number and kind of shares they hold;

**entrepreneur** – a natural or legal person that independently and permanently carries out some activity with a view to making a profit;

**excise taxes** – see 'special taxes';

**execution** – forcible collection of a debt;

**execution creditor** – a tax authority that carries out the execution procedure;

**execution debtor** – a tax debtor or his/her guarantor from whom the debt is collected;

**extra-budgetary users** – extra-budgetary funds, enterprises and other legal entities in which the state or local government units have a decisive influence on the management and which enjoy a significant level of autonomy including independent decision-making about a part of revenues and expenditures;

**fixed assets list** – a list that has to be kept by persons liable to pay income tax for items and rights the purchase prices of which exceed 2,000 kuna or the life of which is longer than one year. The list is used for calculating the depreciation for fixed assets which is recognised as expenditure;

**free-lance occupations** – the occupations pursued by, e.g. physicians, veterinary surgeons, journalists, writers, artists, inventors, etc.;

**gross domestic product** – is the market value of all final goods and services produced in a country during one calendar year;

**income** – the difference between receipts and expenditures during a tax period;

**indirect tax** – a tax that is not borne by the one who pays it, but is most often shifted to others. Indirect taxes are, e.g. VAT and excise taxes;

**input invoice** – the invoice issued by the supplier (vendor) to the VAT registered taxpayer (entrepreneur);

**input tax** – VAT charged by the supplier (vendor) to a VAT registered taxpayer (entrepreneur);

**local office of the Tax Administration** – the place where taxpayers can make direct contacts with the tax services. Apart from the local offices, the TA consists of the Central Office and regional offices;

**other self-employment activities** – for example, the activities of MPs, the members of management and supervisory boards, trustees in bankruptcy, as well as occasional authorial activities of scientists, artists, professionals, etc.;

**output invoice** – the invoice issued by a VAT registered vendor of goods or provider of services;

**own use** – taking goods or services out of one's own company for private purposes;

**personal allowance** – the amount of income that is not taxable, because it is considered, from the standpoint of economic equity, that the income serving to cover the taxpayer's basic necessities of life should not be taxed. It can be granted to the taxpayer and his/her dependents;

**personal income tax** – a direct tax charged on an individual's income;

**profit** – the difference between the revenues and expenditures of an enterprise;

**progressive tax** – a tax where the average tax rate grows with an increase in an individual's income;

**proportional tax** – a tax with an equal average tax rate for all levels of an individual's income;

**register of value added taxpayers** – a list kept by the TA for legal and natural persons that are entrepreneurs and that are either obliged to enrol in the register pursuant to the VAT Act, or enrol in it at own request. An entrepreneur whose turnover exceeded 85,000 kuna in the previous calendar year must report to the register;

**regressive tax** – a tax where the average tax rate falls with an increase in an individual's income;

**self-employment activity** – the activity carried out by an individual on his/her own behalf and for his/her own account with a view to earning an income;

**special taxes (excise taxes)** – the taxes charged on the sales of certain products and paid by producers and importers in absolute amounts per unit of measurement of the product (kilo, litre, piece, etc.);

**statutory tax rate** – a tax rate determined by law;

**supplier** – a person who sells goods or provides services to an entrepreneur;

**surtax on personal income tax** – an additional tax paid on top of the personal income tax and used for the financing of units of local self-government;

**tax** – a kind of compulsory public levy for which there is no direct compensation;

**tax administration** – an authority responsible for the enforcement of the tax regulations of a given state, regional or local government;

**tax base** – the amount, after reductions for certain tax relief, to which the statutory tax rate is applied;

**tax exemption** – exempting from tax of persons, enterprises, transactions, etc., that would normally be subject to taxation; the exemptions can be granted for social, economic or other reasons;

**tax inspection** – a procedure carried out by a tax authority for the purpose of checking and establishment of the facts relevant for taxation;

**tax rate** – the percentage of the tax base paid in the form of a tax;

**tax return** – a declaration of personal/corporate income, sales and other facts, made by

the taxpayer or some other person on his/her behalf and for his/her account; the form of the tax return is usually prescribed by the TA;

**unit of local and regional self-government** – a municipality, city and country;

**value added** – the difference between the sales value of some good and the procurement costs of the material inputs;

**VAT exemption** – a product or service on which the taxpayer is not required to charge VAT, but does not have the right to a refund of input tax from the TA. Thus, the burden of the input tax is actually borne by the taxpayer;

**withholding tax, tax at source** – the tax that the payer of an income pays directly to the Treasury and not to the taxpayer;

**zero rate** – a VAT rate of 0% that a VAT registered person calculates on its product or service, and is entitled to a refund of input tax from the TA.





# SOURCES OF INFORMATION ABOUT TAXES

## **Institutions:**

Tax Administration: [<http://www.pu.mfin.hr>]

Customs Administration: [<http://www.carina.hr>]

Ministry of Finance of the Republic of Croatia: [<http://www.mfin.hr>]

Official Gazette: [<http://www.nn.hr>]

Institute of Public Finance: [<http://www.ijf.hr>]

## **Journals:**

Tax News: [<http://www.ijf.hr/index.php?ime=45>]

Customs News: [<http://www.ijf.hr/index.php?ime=8>]

Financial Theory and Practice: [<http://www.ijf.hr/index.php?ime=58>]

Ministry of Finance Annual Reports: [<http://www.mfin.hr/hr/godisnjaci-ministarstva>]

Ministry of Finance Monthly Statistical Reviews: [<http://www.mfin.hr/hr/mjesecni-statisticki-prikazi>]

Tax Administration Handbooks and Brochures: [[http://www.porezna-uprava.hr/publikacije/p\\_prirucnici\\_brosure.asp?id=b05d2](http://www.porezna-uprava.hr/publikacije/p_prirucnici_brosure.asp?id=b05d2)]

