Croatian Tax Reform to promote economic goals

As announced by the Croatian Government, it is likely that 2017 will bring significant changes to the Croatian tax system with two main objectives: increasing the sustainability of the general state debt and promotion of growth and employment in the Croatian economy. The proposed tax reform aims to reduce the overall tax burden, to promote the competitiveness of the economy, and to introduce a sustainable and simple tax system and cheaper tax administration.

In the corporate profit tax system, the general tax rate is reduced to 18%, while the lower rate of 12% will apply to taxpayers with annual turnover up to MHRK 3. The incentive for reinvested profit is being abandoned and regional and other tax related incentives are kept under the Investment Promotion Law.

In the personal income tax sphere, the increase of the tax-free allowance and the reduction of the top tax rate is aimed to reduce the overall personal income tax burden, allowing Croatia to be a more competitive environment for highly skilled personnel and professionals. At the same time, the reform introduces social security liabilities to specific non-employment types of income as well as synthetic taxation of other income (leading to more fair participation in the overall tax / social security burden).

In the VAT system, VAT rate on certain goods and services (e.g. electricity supply) is reduced from 25% to 13%, while increased from 13% to 25% for example on hospitality services. Threshold for entering the VAT system is increased to THRK 300 and billing method (as opposite to payment method) is to be applied for VAT at import of high value machinery and equipment. As of 2018, the simplified VAT system with only two tax rates (12% and 24%) will apply.
A more detailed overview is presented below.

CORPORATE PROFIT TAX

Tax rate is reduced from 20% to 12% for small enterprises with annual revenues below HRK 3 million (app. EUR 400,000) and for farmers and to 18% for other taxpayers. Advance payments for 2017 will be calculated based on the new reduced rates. Reliefs for reinvested profits and free zones as well as certain regional reliefs are abandoned, but reliefs under the Investment Incentives Act are kept.

Small enterprises and taxpayers applying the cash accounting VAT scheme can also opt for cash accounting in determining the corporate profit tax base.

Entertainment expenses will be tax recognized at 50% instead of current 30% and car costs at 50% instead of current 70% (latter as of 1/1/2018). More flexible rules for tax recognized value adjustments and write offs of bad debt are introduced, with special provisions for credit institutions (with application in the CPT return already for 2016).

Advance pricing agreements for transfer pricing purposes is introduced.

Non-profit legal entities performing business activities can apply the cash accounting CPT scheme.

THE LAW ON ADMINISTRATIVE COOPERATION IN THE FIELD OF TAXATION

The intention of the new Law (in force as of 1/1/2017) is to increase transparency of taxation of multinational companies and the efficiency of the combat against the reduction of tax revenues, as well as reducing harmful tax practices.

Information obtained based on the administrative cooperation in the field of taxation and automatic exchange of information on bank accounts will be used to determine and collect taxes of any type, other claims and contributions and in the court and administrative procedures. For example the following information will be automatically exchanged: personal income, ownership of real estate, bank accounts, advance cross-border Tax Authorities’ rulings and advance transfer pricing arrangements. Spontaneous exchange of information will apply for example in case of suspicious tax savings in one Member State etc.

LAW ON REAL ESTATE TRANSFER TAX

As of 1/1/2017, domestic and foreign natural and legal persons will be equal with respect to the payment of real estate transfer tax (RETT). The tax rate is reduced from 5% to 4% for all taxpayers.
The tax exemption relating to the acquisition of the first property for taxpayer’s residence purposes will be abandoned. The transfer of real estate is considered reported to the Tax Authorities by delivery of documents by notaries, courts and other decision-making bodies that decide on the disposal of real estate.

RETT is not paid if real estate is contributed into the capital of the company (before: in the share capital), and if real estate is acquired in mergers, acquisitions and divisions.

GENERAL TAX ACT

New General Tax Act (in force as of 1/1/2017) abandons relative statute of limitation and introduces six-year single statute of limitation for determining tax and interest liabilities and enforcement costs. It also introduces special three-year period for performing tax inspection. The Tax Authorities should observe the statute of limitation ex offo until issuing and delivery of resolutions. Statute of limitation does not run during the court proceedings aimed at assessment or collection of taxes, interest and enforcement costs (this provision will be in force until 31/12/2018).

Tax resolutions will be issued also in cases when no tax liabilities are determined during the tax audit.

The possibility of granting special status to taxpayers in order to promote voluntary settlement of tax liabilities (horizontal monitoring) and issuing binding opinions for certain questions are included in the Act.

The Act also introduces the obligation of the taxpayers to enable access to the Tax Authorities to the information affecting the tax base such as network data, data on the Internet and stored computer data, regardless where the data is located.

Deadline for correction of tax returns is prolonged to three years after the deadline for submission of tax returns.

The Act also widens the obligation of banks to deliver to the Tax Authorities also data on current and savings accounts of citizens.

VALUE ADDED TAX

As of 1/1/2017, application of decreased VAT rate of 13% is expand to certain supplies (e.g. supply of electricity, seeds, seedlings, etc., while services of food preparation and food services in restaurants and the preparation and serving of soft drinks, wine and beer at these facilities will be taxed at the regular rate of 25%.

The right to opt for VAT on loans relating to the supply of goods and services will be possible irrespective of whether these loans are granted occasionally or not.

Amendments define more precisely conditions for applying VAT option on otherwise exempt real estate, how the reciprocity for purposes of VAT refund to taxpayers from third countries is determined, exceptions from application of VAT calculation according to the collected fees, transit of goods and putting goods in a free zone.
the responsibility of the taxpayer for payment of VAT etc.

From 1/1/2018 the threshold for VAT registration is increased to HRK 300,000, accounting method for VAT settlement on import of certain machinery and equipment exceeding value of HRK 1,000,000 is introduced, the limits for input VAT deduction relating to entertainment costs as well as car costs (50% will be deducted) are changed.

From 1/1/2019 the rules relating to the taxation of value coupons will come into force.

PERSONAL INCOME TAX AND SOCIAL CONTRIBUTIONS

New Personal Income Tax Law in force as of 01/01/2017 introduces a base for calculating personal allowance (HRK 2,500) and increases the amount of basic personal allowance to HRK 3,800 as well as the allowance for the dependents by applying the prescribed coefficients.

Advance tax on employment income will be calculated by applying tax rates of 24% and 36%. Other income will be taxed at 24% as well as the income from granting or option purchase of own shares. Income from rent and lease of property and income from dividends and investment income arising from capital gains will be taxed at 12%, while income from refunded contributions, income arising from the difference between the assets and the funds for which the assets are acquired and income from withdrawals of assets and the use of services at 36%.

Synthetic taxation of other income is introduced: amount of other income exceeding HRK 12,500 annually is taxed cumulative with other receipts from other sources at the rate of 36%.

Flat rate taxation is introduced for income from rent of apartments, rooms and beds to tourists and organizing camps to non-residents registered in the VAT system in Croatia with the value of supplies not exceeding threshold for mandatory registration in the previous calendar year.

From 01/01/2017 the exemptions from mandatory social and health contributions on authors’ and artistic fees are abandoned. The contributions on other income are however reduced by 50% (pension I pillar to 10%/7.5%; pension II pillar at 2.5%, health ins. 7.5%).

The social contributions' rates are reduced with respect to performance of second activity. The period for payment of contributions on other income received from abroad or from the natural person is extended.

LAW ON FISCALIZATION

As of 1/1/2017 it will be obligatory to use the software that prevents actions breaching the fiscalization regulations. Both taxpayer and the developer / or maintainer of the software solutions are responsible for the correctness of the software solution.

For natural persons, corporate income taxpayers, the amount of the maximum cash held at cash registry is changed and shall be determined as for as for the micro, small or medium enterprises.
As of 1/7/2017, the taxpayers who are paying a flat (lump sum) tax have the obligation to issue invoices through cash registers. The exemption from fiscalization will be abandoned for taxpayers selling tickets or tokens in passenger traffic (except local transport services for passengers in the public transport). Also, the new way of delivering information on the business premises and information on the manufacturer and / or maintainer of software solutions is introduced.

OTHER PROVISIONS - Abstract

According to the amendments of the Accounting Act (in force as of 01/01/2017) FINA will publish a list of entrepreneurs who will not submit the documentation required for publication and has the authority to initiate offence proceedings against these entrepreneurs. The deadline for submission of documentation for publication is extended to six months (for the consolidated financial statements the deadline remains 9 months).

Amendments of the Accounting Act abolish mandatory application of a single framework for the chart of accounts.

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