

# Ideas that pay off.

## Monthly Newsletter

October, 2021

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### Tax exemptions prescribed by the Real Estate Sales Tax Act

According to the Real Estate Sales Tax Act, any acquisition of the real estate by purchase, exchange, inheritance, donation, entry, and exclusion of real estate from a company, acquisition of real estate in liquidation or bankruptcy proceedings, acquisition based on the court or other body decisions, acquisition under the law and other ways of acquiring real estate from other persons, is considered a real estate transaction that is subject to real estate transfer tax at the rate of 3%, except for that on which value-added tax is calculated.

Chapter 4 of the Real Estate Sales Tax Act prescribes certain exemptions:

#### GENERAL EXEMPTIONS:

The general exemption covers those legal and natural persons who, based on their status, are exempted from the obligation to pay real estate transfer tax:

- The Republic of Croatia and local self-government and administration units, state authorities, public institutions, foundations, the Red Cross, and similar humanitarian associations established based on special regulations,
- diplomatic or consular missions of a foreign state, subject to reciprocity, and an international organization for which an exemption from payment of real estate transfer tax has been agreed by an international agreement,
- persons who acquire real estate in the process of returning confiscated property and consolidation of real estate,
- displaced persons and refugees who acquire real estate by exchanging their real estate abroad,

- citizens who buy a residential building or apartment (including land), on which they had an occupancy right or with the consent of the occupancy right holder according to the regulations governing the sale of apartments on which there is an occupancy right. The same applies to protected tenants who buy a residential building or apartment in which they live based on a lease agreement,
- persons who acquire real estate following the regulations governing the conversion of social ownership into other forms of ownership,
- persons who acquire real estate based on a lifetime maintenance contract who are heirs of the first hereditary order with the real estate provider,
- persons who, by the dissolution of co-ownership or the division of joint ownership, acquire separate parts of that or those real estates, regardless of the ratios before and after the dissolution of co-ownership or division of joint ownership.

#### TAX EXEMPTIONS FROM THE INTRODUCTION OF REAL ESTATE INTO A COMPANY

To encourage and develop entrepreneurship, Article 12, paragraph 1. of the Real Estate Sales Tax Act prescribes an exemption for the acquisition of real estate when a company enters into the company's capital. Namely, from January 1, 2017, the exemption from real estate transfer tax can be applied when the real estate is entered into the company in the position of capital reserves. This procedure is not obligatory to be conducted through the court register, but the right to exemption is proven by appropriate documentation at the competent Tax Authority.

Real estate transfer tax is not paid when real estate is acquired in the process of merging companies, as well as in the process of dividing a company into several of them.

## Tax exemptions prescribed by the Real Estate Sales Tax Act – continued

### TAX EXEMPTIONS FOR INHERITANCE, DONATION, AND OTHER ACQUISITION OF REAL ESTATE WITHOUT COMPENSATION

Article 15 of the Law on Public Procurement stipulates that exemption is exercised by:

- Spouse, descendants, and ancestors who form an upright line and adoptees and adoptive parents who are in that relationship with the deceased or the donor;
- Legal and natural persons to whom the Republic of Croatia or a unit of local and regional self-government donates or gives real estate free of charge for compensation or other reasons in connection with the Homeland War and
- Ex-spouses when arranging their property relations in connection with a divorce.



## Significant changes in the Intrastat system

Starting from 1 January 2022, significant changes await us in the Intrastat system, which will be applied in all EU Member States following the requirements of the modernization of the European Statistical System (ESS).

The Republic of Croatia has already introduced some of the required requirements/changes into the Croatian Intrastat system during 2021. To inform all businessmen/reporting units/declarants in time, below is an overview of the most significant changes for 2022 in the Intrastat system of the Republic of Croatia.

### NEW NATURE OF TRANSACTION CODES IN 2022.

Following Commission Implementing Regulation (EU) 2020/1197 of 11.2022. all EU Member States are obliged to apply the new transaction codes in Intrastat reports.

Significant changes are expected in the transaction code list for 2022, and they are listed [HERE](#).

It is important to emphasize that in the period from January to April 2022, as every year, it will be possible to send Substitute Forms for 2021 to the Intrastat system. In doing so, it is important to pay attention to:

- [In the Substitute Forms](#) for the periods from 2021, it is necessary to apply the Nature of transaction codebook from 2021, as well as the Combined Nomenclature from 2021, i.e., all methodological rules from 2021,

- [In the Intrastat forms](#) (Original, Substitute) for the period from 2022 (January 2022, February 2022, March 2022, etc.) it will be necessary to apply the Nature of transaction codebook from 2022 as well as the Combined Nomenclature from 2022 or all methodological rules from 2022.

**To facilitate the adjustment to the above changes, we recommend that all PSIs/declarants take the following steps:**

- TECHNICAL PART – implementation of a new Nature of transaction codebook in the IT system/application

If you use your application to fill in the Intrastat form – send the table of the new code list for 2022 to your IT specialists, who will additionally implement the new Nature of transaction codes in your IT system/application. At the same time, it is important to be able to use the old Nature of transaction codes in case you need to send Substitute forms for 2021 during 2022 (the same applies to the code list of the Combined Nomenclature for 2022).

CIWS users will be provided with all the above within the CIWS application – technical changes and adjustments will be made by the Customs Administration.

## Significant changes in the Intrastat system – continued

### 1 METHODOLOGICAL PART – adaptation to new codebooks

All PSIs/declarants will need some time to get used to the new transaction codes and their meaning. As there may be errors in the application of the appropriate Nature of transaction codes, pay special attention to the new Nature of transaction codes and the correct application in your Intrastat reports.

For easier navigation we present a comparative overview of the old and new Nature of transaction codes in Intrastat reports [HERE](#).

### NEW COMBINED NOMENCLATURE FOR 2022.

The new Combined Nomenclature for 2022 will be released at the end of October 2021 with the obligation to apply in all EU member states from January 1st, 2022, to the end of December 2022. A major revision of approximately 1000 nomenclature codes is expected.

The CBS and the Customs Administration will publish the legal version of the Combined Nomenclature for 2022 in PDF format on their websites by the end of 2021.

After that, the CBS in cooperation with the Customs Administration – Intrastat Service, begins to create unofficial abbreviated versions of the Combined Nomenclature for 2022 in Excel format, which will also be published on the website immediately after the completion of a major update – **no later than January 2022** (first reporting based on the new CN is in February 2022).

### CHANGES FOR KN CODE 9950 0000

Until the end of 2021, Intrastat forms may optionally report small value goods under CN code 9950 0000. This simplification is called “Small Value ITEMS” and, by definition, includes items on the invoice up to EUR 200. This method of declaring goods can be used under specific conditions.

From 2022, in accordance with Commission Regulation 2020/1197, the term “Small value CONSIGNMENT” is introduced for the same simplification and is defined as “all transactions during the month that are the subject of the same invoice”. Thus, a “small value item” becomes a “small value consignment”.

It can still optionally be reported under CN code 9950 0000, but the conditions for the application of this type of simplification are changing:

- The value of a small value consignment in the Republic of Croatia for 2022 is prescribed in the maximum amount of up to EUR 1,000,

- The current restrictions on the total value (up to HRK 50,000) and the total weight (up to 500 kg) of all items of goods declared according to the CN code 9950 000 in one Intrastat report are still valid in the Republic of Croatia in 2022.

### NEW EU LEGISLATION

From January 1st, 2022, in all EU member states, the new EBS legislation (EBS – European Business Statistics) applies to foreign trade statistics.

All previous regulations shall cease to be valid and as of that date only the following shall apply:

- 1 Regulation (EU) 2019/2152 of the European Parliament and the Council (OJ L 327, 17.12.2019)
  - 2 replaces the previous Regulation 638/2004 and all its amendments
- 1 Commission Implementing Regulation (EU) 2020/1197 (OJ L 271, 18.8.2020)
  - 2 replaces the previous Commission Regulation 1982/2004 and all its amendments
- 1 Commission Implementing Regulation (EU) 2021/1225 (OJ L 269, 28.7.2021)
  - 2 applies to Extrastat only
- 1 Commission Delegated Regulation (EU)... / ... of 14.7.2021.
  - 2 expected to be published in the last quartal of 2021.

All new regulations will be published on the CBS website in the section European legal basis (INTRASTAT ([dzs.hr](#)) and on the CIWS website (CIWS – Croatian Intrastat Web Service ([carina.hr](#))) by the end of this year.



# CONFIDA

## Remote work – how employees think differently about the workplace now

Employee expectations have changed significantly in the last year due to the introduction of remote work. The office is no longer called the place where an employee sits at a desk, trying to block out background noise and waiting for the hands of the clock to arrive by 5 p.m.

The pandemic has shown office workers that there is an alternative – one that gives people the freedom to work in different spaces tailored to their needs and desires. Having opened up a whole new alternative to the work we have known so far, many do not want to return to the traditional approach that was common until recently. The pandemic has thus awakened the realization that work is not where you go, but something you do – no matter where it happens.

Employees, empowered and driven by technology, are asking companies to do more in terms of support and their mental health. Currently, it is the employees who drive and accelerate change. Companies need to rethink their policies, keeping in mind the workforce.

That is why the Government of the Republic of Croatia is proposing activities regarding changes in labor legislation. The new legislation envisages the work of platform workers, part-time work, and the largest activities concern remote work.

Many companies, from technology to finance, are moving towards more hybrid work models that include homes, offices, and other remote locations, and redesigning their spaces and strategies to put people first and give them a better workplace experience. Therefore, it is necessary to adapt the existing regulations to the new conditions, and practice has already shown that some current legal provisions are not enforceable.

### SHOULD WE BE IN THE OFFICE EVERY DAY, FROM 9 AM TO 5 PM?

With the help of video conferencing and various digital collaboration tools, people can work from anywhere. Recent research suggests that employees want to work remotely for at least 2.4 days a week, or twice as much as what was previously considered normal. Many consider a better balance between business and private life to be a more important factor than financial conditions.

Moreover, 71 percent of respondents say they expect a more flexible work schedule. For companies, this requires a change in thinking in managing traditional ways of working regarding employees, looking for new ways to retain employees and maintain their productivity.

Estimates at the EU level indicate that before the Covid crisis, only 3 percent of workers worked from home and that only 37 percent of workers could work from home. Trends are changing, and what the Government wants to achieve with the new bill is a higher level of protection, both for the employer and for the worker – with cost regulation.

### WORKSPACE MUST OFFER A FLEXIBLE WORK STYLE

Flexible operation requires more flexible space. Whether it is a desk in the premises intended for cooperation with clients, or smaller so-called. "Satellite offices" (an office rented outside the main office, usually in more remote places to reduce travel time) – it is obvious that employees need their own flexible space to meet labor demand with new patterns of work and life.

The workplaces are thus transformed into spaces for collaboration and equipped accordingly. Also, employees are increasingly looking at the well-equipped buildings in which they work. From ventilation, climate, some plants, all the way to security services. All of these segments affect overall satisfaction, and therefore productivity.

Both in the office and the "home office", the workspace must be equipped and comfortable to work. According to the legislator's proposal, written contracts would be concluded for remote work, and the worker would thus be entitled to reimbursement of overhead costs.

Also, in extraordinary circumstances, such as the outbreak of a pandemic, the employer could send a worker to work from home without changing the contract, but for a maximum of 30 days continuously.

The unions believe that for successful law enforcement it is necessary to set concrete and clear minimum working conditions as well as working hours. It is necessary to determine precisely what goes into the recoverable costs of working from home; from the use of own equipment, the cost of the Internet to electricity, water, and heating.

### THERE ARE NO MORE EXCUSES FOR INADEQUATE EQUIPMENT

Documents are stored in the clouds, and more and more communication takes place through various team collaboration software. Poor internet signal and poor equipment will affect productivity and frustrate employees.

As the hybrid work model becomes more and more popular, attention is no longer paid only to the equipment in the company's headquarters, but also to that in the home office. For this reason, employers are advocating for legal solutions that also take into account technological changes. They also note the importance of simplifying rigid legal provisions related to safety at work and the recording of working hours. Payment of labor costs from home in the form of non-taxable benefits is also required.

# CONFIDA

## Remote work – how employees thin differently about the workplace now – continued

**Minister Aladrovic also announces the regulation of the labor rights of workers who perform work through digital platforms, but it is not known in which direction this regulation will go. What is known is that the requirements of the European directive on transparent and predictable working conditions will have to be met.**

The European Directive on Transparent and Predictable Working Conditions also calls for limiting the so-called false self-employment that is often seen in practice. In this regard, the newly formed digital platforms union demands that platform owners be responsible for paying taxes and contributions.

### **PHYSICAL AND MENTAL HEALTH IS IMPORTANT – AND COMPANIES AND GOVERNMENT SHOULD SUPPORT IT**

Employees have said clearly and loudly – healthy jobs must be a priority for companies! Equally, companies need to show how they support employees in the workplace through the benefits and services they offer, whether it's free health checkups, flexible working hours, or a hybrid mode of operation.

As companies need to ensure healthy working conditions, the Government should support them with legislation.

The new law should better protect workers from precarious contracts and unclear working conditions. According to the proposal, a worker should work for one employer for a maximum of 3 years with a fixed-term contract, and employers would have to clearly explain the reasons for concluding this type of contract. Employers support regulations of this kind but believe that a more flexible option of dismissal is necessary. In that sense, the Ministry proposes that the notice period be shortened to seven days if the employee is fired due to a serious injury from employment.

Also, unions are advocating for better-regulated rights to paid annual leave, parental leave, sick leave, weekends, and eight-hour working hours.

**The new Labor Law should be adopted in the first part of next year, and it will incorporate the provisions of the European directive on the balance between business and private life.**

This directive provides fathers with a mandatory ten days of paid paternity leave at the birth of a child, as well as two months of non-transferable paid parental leave.

Taking into account the work-life balance of workers, according to the Directive, five days of paid leave per year are provided for employed persons who are caring for a family member or a person living with them in the household due to their serious health condition. Also, employees caring for a close person, parents of children with disabilities, special needs, or single parents, could seek an adjustment of working conditions, which includes remote work and flexible working hours, and it is up to employers to provide such conditions.



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## Overview of countries with which the Republic of Croatia has confirmed reciprocity in the area of VAT Refunds to Foreign Taxpayers

On October 18, 2021, the Tax Administration of the Ministry of Finance issued a [new opinion](#) regarding the countries with which the Republic of Croatia has confirmed reciprocity in the area of VAT refunds to foreign taxpayers.

**Below is an overview of countries that have been confirmed reciprocity in the area of VAT refunds to foreign taxpayers.**

The Tax Administration notes that on 1 July 2013, upon the accession of the Republic of Croatia to the European Union, the provisions of Articles 68 to 73 of the Value Added Tax Act (Official Gazette 73/13, 99/13, 148/13, 153/13, 143/14, 115/16, 106/18, 121/19 and 138/20) on VAT refunds to taxpayers from the other Member States of the European Union, who submit requests for VAT refunds through the tax administrations of the countries the Member States in which they are established and reciprocity is no longer established from 1 July 2013.

\* reciprocity in the area of VAT refunds with the Republic of Serbia was established to a limited extent from 2 May 2012 to 7 October 2015 for supplies of goods or services related to the exhibition at fairs, and full reciprocity with the Republic of Serbia was established from 8 October 2015.

\*\* The United Kingdom ceased to be a member of the European Union on February 1, 2020. In the relations between the European Union and the United Kingdom from February 1, 2020, to December 31, 2020, a transitional period was applied, in which the rules and procedures for taxation and customs remained the same as before, explains the Tax Administration. In the period from July 1, 2013, to December 31, 2020, taxpayers established in the United Kingdom exercised their right to a VAT refund following the VAT refund procedure for the Member States of the European Union.

**The Tax Administration notes that at the end of the transitional period, from January 1, 2021, the VAT refund paid by a taxpayer based in the United Kingdom in the Republic of Croatia may be realized following the VAT refund procedure for third countries based on confirmed reciprocity in VAT refunds.**

COUNTRY	CONFIRMED RECIPROCITY
<b>THIRD COUNTRIES</b>	
<b>SWISS CONFEDERATION</b>	➤ from 01.01.2011.
<b>REPUBLIC OF SERBIA</b>	➤ from 02.05.2012. to 07.10.2015. limited range
	➤ from 08.10.2015. full range*
<b>UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND</b>	➤ from 01.06.2012. to 30.06.2013.
	➤ from 01.01.2021.**
<b>MEMBER STATES OF THE EUROPEAN UNION</b>	
<b>FEDERAL REPUBLIC OF GERMANY</b>	➤ from 01.01.2010.
<b>REPUBLIC OF SLOVENIA</b>	➤ from 01.07.2011.
<b>REPUBLIC OF POLAND</b>	➤ from 01.06.2012.
<b>REPUBLIC OF FINLAND</b>	➤ from 18.12.2012.
<b>KINGDOM OF THE NETHERLANDS</b>	➤ from 07.03.2013.

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This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to our advisors for specific advice.

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