

CONFIDA

Ideas that pay off.

Monthly Newsletter

October, 2022

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I. RISING PRICES MODERATED IN NEW ADOPTED MEASURE PACKAGE

Due to the global increase in energy prices, there has been a new wave of price increases in Europe. Numerous global disruptions such as Russian aggression against Ukraine, climate change, China's shutdown due to the pandemic, and strong economic growth after two years of the pandemic have caused the energy crisis and rising prices. There have been recorded increases in the prices of oil, gas, electricity, and coal.

Because of this, the Government of the Republic of Croatia adopted a package of measures to protect households and businesses from rising prices. In this article, Confida Croatia will focus on measures related to the economy and entrepreneurship, while highlighting the most important ones.

THE RISE IN ELECTRICITY PRICES IS EASING

Electricity prices for half-yearly consumption of up to 250,000 kWh will be limited for all businesses. The above will be valid from October 1, 2022, to March 31, 2023. The electricity price will be 0.5295 HRK/kWh for all businesses. If there is a half-yearly consumption of more than 250,000 kWh, the price will be 1.356210 HRK/kWh, while the average price will be 180 €/MWh.

For the public and non-profit sectors, cheaper electricity is provided with an average total of 62 €/MWh. For households, it will amount to 59 €/MWh for half-yearly consumption up to 2,500 kWh, or 88 €/MWh for half-yearly consumption over 2,500 kWh.

MEASURES TO MITIGATE THE GAS PRICES RISING

For companies, a solution is being prepared at the level of the European Union, where Croatia will propose a limit on wholesale gas prices. Gas prices affected the production of electricity, so there was an uncontrolled increase in prices on the stock exchanges.

Also, the Ministry of Economy and Sustainable Development, in cooperation with HAMAG – BICRO, launched a grant program to reduce gas costs for micro, small and medium-sized enterprises, which we wrote about in May.

WHAT ABOUT THE THERMAL ENERGY PRICES?

Households and entrepreneurs were greeted by positive news about the limited thermal energy price, i.e. the unchanged unit price for all heating systems in the heating season of 2022 to 2023. The price per kWh in central and closed heating systems does not change.

I. RISING PRICES MODERATED IN NEW ADOPTED MEASURE PACKAGE – CONTINUED

SUBSIDIES FOR THE TRANSITION TO AN ENERGY-EFFICIENT ECONOMY

Entrepreneurship will be encouraged to transition to energy-efficient economies through the introduction of new energy-saving technologies and investments in the production of electricity, heat, or cooling energy from renewable sources. This support will include grants. Amounts from HRK 750,000 to HRK 7.5 million will be provided for small and medium-sized companies, and HRK 2 to HRK 35 million for medium-sized companies. The submission of project proposals started on September 1, 2022.

Besides that, this year, the Croatian Employment Service adopted the Criteria for determining green and digital jobs and the Grant Manual, which greatly encourages entrepreneurs in corporate social responsibility.

TAX RELIEF AND AN INCREASE IN MONETARY REWARDS AND BENEFITS

The plan is to adopt the Ordinance on amendments to the Ordinance on income tax, which will increase the tax-free receipts. Such measures open up space for entrepreneurs to stimulate employees through an increase in tax-free receipts.

Planned changes to increase the number of tax-free receipts:

- Occasional prizes will increase from HRK 3,000.00 to HRK 5,000.00 per year
- Cash prizes for work results and other forms of additional remuneration for workers from HRK 5,000.00 to HRK 7,500.00 per year
- A gift to a child up to the age of 15 from HRK 600.00 to HRK 1,000 per year
- A gift in kind from HRK 600.00 to HRK 1,000.00 per year
- Lump-sum monetary allowances for meeting the costs of food for workers from HRK 5,000.00 to HRK 6,000.00 per year
- Charges for using a private car for official purposes from HRK 2.00/km to HRK 3.00/km
- Severance pay when retiring from HRK 8,000.00 to HRK 10,000.00

WHAT WILL HAPPEN TO THE LOANS?

Special measures are laid out for companies in difficulty. In addition to the previously mentioned measures to alleviate the energy crisis, the Croatian Bank for Reconstruction and Development has secured HRK 3.8 billion for companies experiencing difficulties. Namely, this includes subsidized interest rates of 0.5% per year and repayment terms of up to 5 years.

The measures include loans for working capital with an interest rate subsidy and an HRK 3.1 billion guarantee for loans to exporters for working capital with a subsidy of 100% of the guarantee premium.

INTRODUCTION OF THE LAW ON SPECIAL PROFIT TAX?

By the end of the year, the Government of the Republic of Croatia plans to submit a proposal for a special income tax law. With this measure, it is intended to additionally tax companies that generate a significant level of profit and whose profit has increased especially compared to the period before the extraordinary circumstances occurrence.



II. DETERMINING TAX OBLIGATIONS FOR RECEIPTS MADE ABROAD

The Republic of Croatia, like most countries in the world, carries out regular activities based on the data received from the international exchange, where the tax obligations of citizens are determined, as we have already written about in one of our [articles](#).

INCOME OF A RESIDENT OF THE REPUBLIC OF CROATIA

Like most countries in the world, the Republic of Croatia applies the principle of world income. What does that mean? This means that all income of residents generated in the Republic of Croatia and abroad must be reported, regardless of the fact in which country it was generated. Also, it is important to emphasize that the above does not mean that the obligation to pay tax for foreign income will be determined since that would depend on the application of the double taxation avoidance agreement with a certain country.

INTERNATIONAL DATA EXCHANGE

Due to the above-mentioned application of the principle of world income, the Member States of the European Union have agreed on the international exchange of data. The goal is for each country to have certain information about the receipts of its residents. The Republic of Croatia, as a member of the European Union, joined the international data exchange community by its very accession.

VOLUNTARY APPLICATION

Croatian residents are invited by the Tax Administration to report realized receipts and thus participate in the process of determining receipts and possible tax liabilities. The possibility of voluntary reporting was introduced where residents can report data, thereby exempting them from the obligation to calculate interest and possibly initiating misdemeanor proceedings. The obligation to report receipts applies only to Croatian residents, and not to all Croatian citizens who live and work abroad. Therefore, the Tax Administration invited Croatian citizens who changed their residency in the last 6 years to report it without legal consequences. About 20,000 voluntary applications have been received so far.

A significant part of Croatian residents' income earned from abroad, according to data from the Tax Administration received from other countries, refers to income from dividends, interest, property, and property rights.

BENEFITS RELATED TO VOLUNTARY APPLICATION

The Tax Administration offers certain benefits related to voluntary application, other than default interest and misdemeanor fines will not be calculated. Everyone who submits a voluntary declaration has the convenience of calculating tax liabilities in one of two possible ways, which will result in a more favorable tax liability. One refers to the application of tax rates, brackets, and regulations in 2022, and the second applies the tax rates, brackets, and regulations that were in effect for each year in which the income was generated.

Voluntary registration has advantages and disadvantages. Namely, in 2022, lower tax rates and wider tax brackets are in effect than in previous years. Therefore, the Tax Administration can add up the total income at once, which means that the use of personal deductions for previous years will not be possible. Also, total income automatically implies that more income enters the higher tax rate.

Considering all of the above, we recommend that you consult with experts to reach the most favorable solution!



III. GENERAL RULES FOR RECALCULATING SHARE CAPITAL ON THE EURO INTRODUCTION DAY

The arrival of the euro as the official currency in the Republic of Croatia brings numerous changes and adjustments to the legislative framework. Because of that, the Law of the euro introduction as the official currency in the Republic of Croatia was published.

RECALCULATION AND PRESENTATION OF MARKET VALUES OF SHARES

For the market value of shares that are included or traded in kuna, the market operator/manager of the multilateral trading platform on the day of the euro introduction recalculates and reports the amounts in euros. The amount is rounded to the nearest cent using a fixed conversion rate and following the rules for conversion and rounding from the Law on the euro introduction.

RECALCULATION OF THE SHARE CAPITAL AMOUNT

Joint-stock companies must recalculate the existing amount of share capital and its parts attributable to shares. Recalculation, as in the previous case, is carried out by applying a fixed conversion rate from kuna to euro with rounding to the nearest cent by the rules for recalculation and rounding from the Act on the euro introduction.

Also, limited liability companies are required to recalculate the existing amount of share capital and its parts attributable to business shares, by applying a fixed conversion rate from kuna to euro, with rounding to the nearest cent, by the rules. The obtained amounts must be reconciled with the requirements and in the manner regulated by the establishment of commercial companies.

REGISTRATION IN THE COURT REGISTER

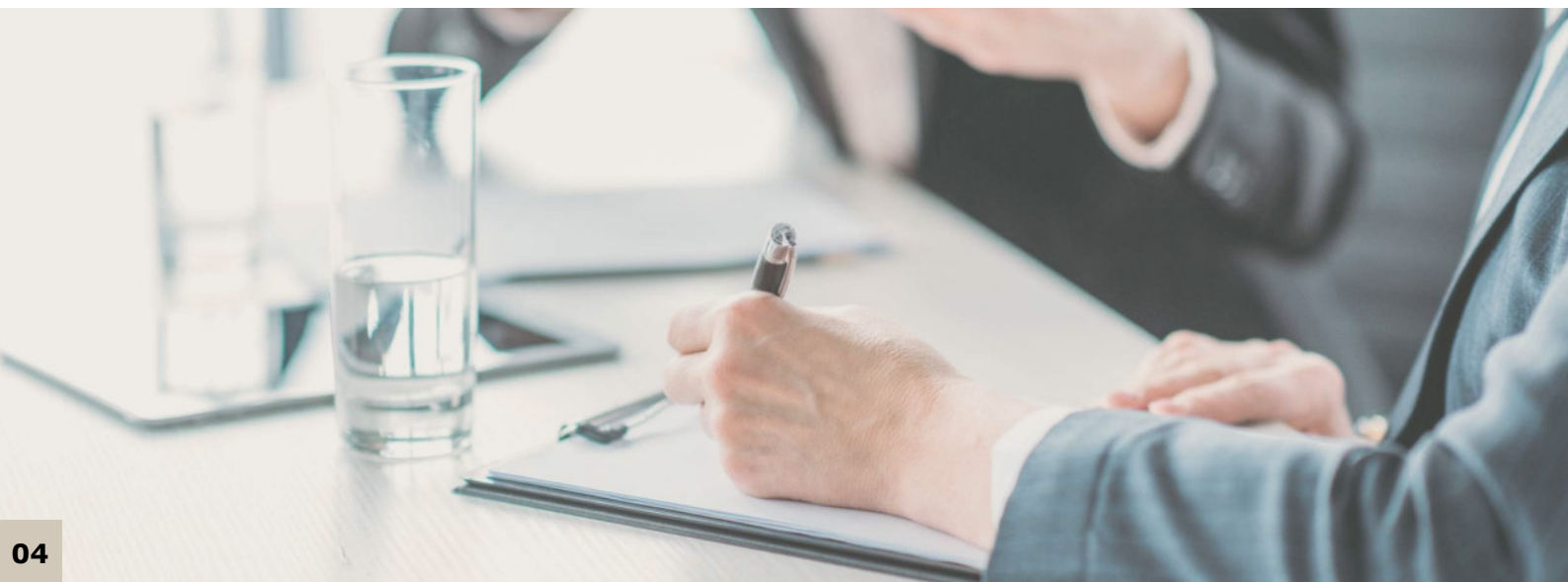
The amount of the limited partner's stake entered in the court register in kuna is recalculated on the day of the euro introduction from the kuna to the euro, again by rounding to the nearest cent with the application of a fixed exchange rate and rules for recalculation and rounding. The recalculated amount will be entered in the court register ex officio by the registry court.

Within one year from the date of the euro introduction, joint-stock companies must submit a request for registration of the change to the registry court. The request can be submitted at the earliest on the day of the euro introduction.

Unlike joint-stock companies, limited liability companies are required to submit a request to the registration court for registration of the change within a maximum of three years from the date of euro introduction. The request can be submitted at the earliest on the day of the euro introduction.

The most important thing to remember is that all financial obligations based on shares, business shares that are due on the day of the euro introduction or later, and were expressed in kunas, are settled in euros by the rules for conversion and rounding from the Act on the euro introduction.

Registration of the before-mentioned changes for joint-stock companies and limited liability companies, which are carried out in the court register to comply with the provisions of the Act on the euro introduction and the law regulating the establishment of commercial companies, is carried out under urgent procedure.



IV. ANNOUNCED CHANGES TO THE ACCOUNTING ACT DUE TO THE EURO ARRIVAL

Through several past articles, Confida Croatia introduced you to the euro's arrival as the official currency in the Republic of Croatia. The changes are numerous, and the legislative framework needs to be adjusted. Today, we are introducing you to the Final Proposal of the Act on Amendments to the Accounting Act, which will enter into force on January 1, 2023.

Adoption of this Law was proposed under an urgent procedure. The amendments mostly concern the replacement of sums expressed in kuna, which will have to be expressed in euros. Below is an overview of the most important changes.

CHANGE RELATED TO THE DIVISION OF ENTREPRENEURS

In Article 5 of the Accounting Act, items 2 to 4 concerning the division of entrepreneurs are amended. Entrepreneurs are classified into micro, small, medium and large depending on the indicators determined on the last day of the business year preceding the business year for which the financial statements are drawn up.

In the mentioned items, the amounts in kunas are converted into euros and read as follows:

- ➊ Micro entrepreneurs are those who do not exceed the threshold indicators in two of the following three conditions:
 - ➋ total active EUR 350.000,00
 - ➌ income EUR 700.000,00
 - ➍ the average number of employees during the business year – 10 employees
- ➋ Small entrepreneurs are those who are not micro-entrepreneurs and do not exceed the threshold indicators in two of the following three conditions:
 - ➋ total assets of EUR 4.000.000,00
 - ➌ income of EUR 8.000.000,00
 - ➍ the average number of employees during the business year – 50 employees
- ➌ Medium-sized entrepreneurs are those who are neither micro nor small entrepreneurs and do not exceed the threshold indicators in two of the following three conditions:
 - ➋ total assets EUR 20.000.000,00
 - ➌ income EUR 40.000.000,00
 - ➍ the average number of employees during the business year – 250 employees

CHANGE IN THE PART OF THE AUDITOR AND RELATED AMOUNTS

The obligation to audit annual financial statements is subject to the annual financial statement and consolidated financial statements of public interest entities and large and medium-sized enterprises that are not entities of public interest.

In the Accounting Act, in the part related to auditing, amounts in kuna are converted into euros, and Article 20, paragraph 4 therefore reads:

- ➊ If they are not subject to an audit in accordance with paragraphs 1 and 2 of this article, the annual financial statements and annual consolidated financial statements of joint-stock companies, limited partnerships and limited liability companies whose individual or consolidated data in the year preceding the audit exceed the indicators are also subject to the audit obligation in at least two of the following three conditions:
 - ➋ the amount of total assets EUR 1,990,842.13
 - ➌ amount of income EUR 3,981,684.25
 - ➍ the average number of employees during the business year is at least 25

OTHER CHANGES

Most of the changes in the Accounting Act concern amounts in kuna that have been converted into euros, and the word "kuna" is changed to the word "euro". Here are some examples:

- ➊ In Article 26, paragraph 2, the word "kunas" is replaced by the word: "euros"
- ➋ In Article 27, paragraph 3, in two places, the words "750,000.00 kunas" are replaced by the words: "100,000.00 euros"
- ➌ In Article 42, paragraph 1, the words: "HRK 10,000.00 to HRK 100,000.00" are replaced by the words: "EUR 1,320.00 to EUR 13,270.00"
- ➍ In paragraph 2, the words: "HRK 5,000.00 to HRK 20,000.00" are replaced by the words: EUR 660.00 to EUR 2,650.00.

The new Accounting Act will be published in the Official Gazette and will enter into force on the day of the euro's introduction as the official currency in the Republic of Croatia.

V. TERMINATION OF EMPLOYMENT CONTRACT AND RULES FOR PAYMENT OF SEVERANCE PAY

The employment relationship carries numerous rules and obligations for the employer and the employee. If the employment contract is terminated, many questions arise regarding the payment of severance pay. The mentioned rules and obligations are prescribed by the Labour Law. Below, Confida Croatia provides an overview of the most important rules and obligations.

WHEN IS SEVERANCE PAID?

A worker whose employer cancels the employment contract after two years of continuous work, and if the termination is not conditioned by the behaviour of the worker, leads to the worker being entitled to severance pay. The amount of severance pay is determined concerning the length of the previous continuous employment relationship with that employer.

DETERMINING THE AMOUNT OF SEVERANCE PAY

The rule for determining the amount of severance pay stipulates that severance pay may not be agreed/determined in the amount of less than one-third of the average monthly salary earned by the worker in the three months before the termination of the employment contract, for each completed year of work for that employer.

The total amount of severance pay may not exceed six average monthly wages earned by the worker in the three months before the termination unless otherwise determined by law, collective agreement, labour regulations or employment contract.

PAYMENT OF SEVERANCE PAY WITHOUT PAYING INCOME TAX

It is possible to pay severance pay without paying income tax and contributions. If the employer pays the amount of severance pay up to HRK 6,500.00 for each completed work year he avoids paying income tax. If he pays more than the specified amount, it is considered income from independent work, which is linked to the calculation of prescribed obligations as well as to the payment of wages.

Severance pay without payment of tax can also be paid to a worker whose employment has ended by agreement between the employer and the worker at the employer's proposal, but under the condition that the worker fell into the category of redundant workers by Art. 127 of the Labour Act.

SPECIFYING DATA IN THE JOPPD FORM

If non-taxable severance pay is paid, then the JOPPD form is submitted on the day of payment, and no later than the 15th day of the following month. At the same time, on page B in field 15.1. is entered by mark 26.

In contrast, there is a different procedure if non-taxable and taxable severance pay is paid at the same time. Then the JOPPD form is submitted on the day of payment, i.e. no later than the next working day. In field 6.1. code 0001 is entered in field 6.2. code 0025, and the calendar year is marked for the period.

Because of the euro's arrival as the official currency in the Republic of Croatia, all amounts on the JOPPD forms marked until December 31, 2022, are reported in kuna, and those marked from January 1, 2023, are reported in euros. On the documents on the payment of severance pay from September 5, 2022, to December 31, 2023, the employer is obliged to state the amounts twice.



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