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Monthly Newsletter
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I. OVERVIEW OF FINANCIAL OPPORTUNITIES FROM THE MULTIANNUAL FINANCIAL FRAMEWORK 2021 - 2027

The new multi-year financial framework 2021 – 2027 brings new funds and opportunities from EU funds for Croatian entrepreneurs. The Multiannual Financial Framework 2021-2027 is a seven-year budget cycle through which the European Union allocates funds. The total budget for this period is 1,824.3 billion euros, and the Republic of Croatia has more than 25 billion euros at its disposal.

The financial resources are distributed among Cohesion policy, Just Transition Fund, European Maritime, Fisheries and Aquaculture Fund, Asylum, Migration and Integration Fund, Internal Security Fund, Instrument for Financial Support for Border Management and Visa Policy, European Agricultural Fund for Rural Development, European Agricultural Guarantee Fund.

THE COMPETITIVENESS AND COHESION PROGRAM 2021-2027

The Program establishes four priorities for implementation:

- Smarter Europe – promoting innovative and intelligent economic transformation,
- Greener Europe – promoting the transition to clean and fair energy, green and blue investments, circular economy, adaptation to climate change, and risk management and prevention,
- More Connected Europe – promoting the strengthening of mobility and regional connectivity of ICT,
- Stronger Social Component – promoting the European Pillar implementation of Social Rights.

The main objective of this program is to strengthen the economy through digital and green transition, digitalization of public administration, improving connectivity and mobility, and enhancing the population's life quality.

THE INTEGRATED TERRITORIAL PROGRAM 2021 - 2027

The Integrated Territorial Program 2021-2027 is based on the specific needs of certain local and regional areas to promote more balanced territorial development. The program aims to achieve the industrial transition of Croatian regions, strengthening of green, clean, smart, and sustainable urban transport within the framework of integrated, territorial investments in cities, development of urban areas and sustainable and green islands, and just transition.

The Ministry of Regional Development and EU Funds, as the Managing Authority for the Competitiveness and Cohesion Programme 2021-2027 and the Integrated Territorial Program 2021-2027, has published an annual plan for the publication of the calls for project proposals in 2023.

II. DISTRIBUTION OF PROFIT IN A LIMITED LIABILITY COMPANY

Each business year can end with a profit, stagnation, or loss, which companies express through financial statements. After taxation, companies can distribute/cover the profit or loss in the following business year. The profit for 2022 can be distributed in 2023, while the loss in 2022 company can cover in 2023.

THE ORDER OF PROFIT DISTRIBUTION AND LOSS COVERAGE

The provisions of the Companies Act (Official Gazette no. 111/93 – 18/23) and the Accounting Act (Official Gazette no. 78/15 – 114/22) prescribe the manner of disposal of the established profits of companies. The company's members decide on the profit distribution or loss covering at the annual meeting. The order of profit distribution and coverage of losses in a limited liability company is prescribed by the provisions of Articles 406 and 406a of the Companies Act and Article 19 of the Accounting Act.

TAX LOSS CARRIED FORWARD, AND HIS COVERAGE

Suppose a negative tax base is determined when determining the profit tax base. In that case, the taxpayer has declared a tax loss, which can be carried forward and compensated by reducing the tax base in the following five tax periods. In the case of a limited liability company, the profit, after taxation, must first be used to cover losses from previous years (if any). Only when the losses from previous years are fully covered can the company continue with the profit distribution, which means that the company cannot use the current period's profit for any other purpose as long as there is an uncovered loss in the business books.

OWN BUSINESS SHARES

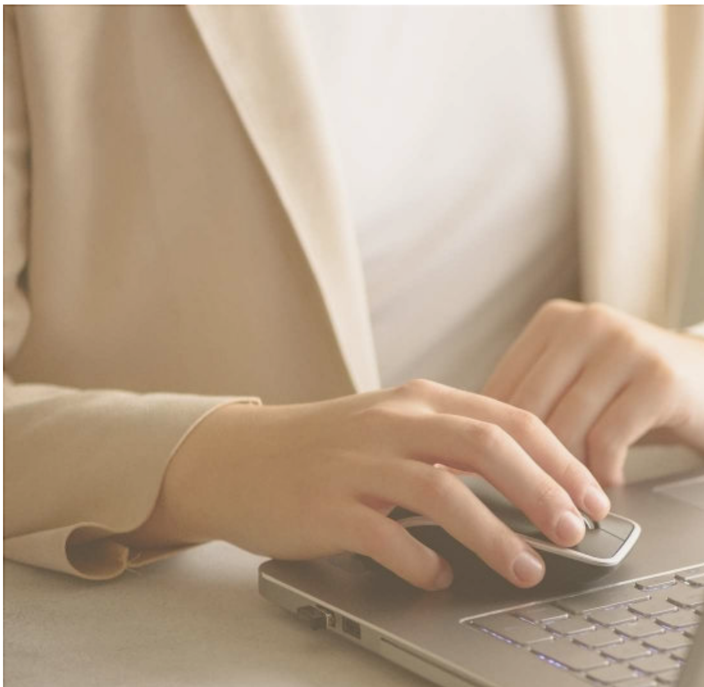
Limited liability company can buy back their business shares. If a company decides to do so, it must form reserves for these shares, which will not reduce the company's registered capital or reserves that the company must create (based on the articles of association) and must not use them for payments to its members.

The company enters into the mentioned reserves an amount corresponding to the amount stated in the financial statements for these business shares. The company's reserves can only be abolished if it alienates or withdraws its business shares or reduces them by the amount that exceeds its lower stated value.

Reserves can be formed from reserves provided for in a collective agreement if the agreement allows such a possibility, but also from the number of other reserves from the profit that exceed the losses carried over from the previous years.

If the company buys back its business shares during the year, it must form reserves for these shares before any further distribution of profits, at the expense of current profit and in the amount paid for them.

Suppose the articles of association or the declaration of incorporation of the Ltd provides for forming certain reserves for specific purposes. In that case, these reserves are formed at the expense of realized profit and must not be used for any other purpose than those for which they were formed. The company may include further reserves at its discretion, which it may use for any purpose.



II. DISTRIBUTION OF PROFIT IN A LIMITED LIABILITY COMPANY – CONTINUED

RESERVES ACCORDING TO THE ACCOUNTING LAW

When a company distributes its profit in favour of mandatory reserves prescribed by the Companies Law, it must form additional reserves from the remaining profit by Article 19, Paragraph 14 of the Accounting Law.

A trading company that has distributable profit on the balance sheet date must first use them to create other reserves from profit to cover:

- Unwritten development costs are shown in assets, and
- The profit that can be attributed to the participating interests and which is shown in the profit and loss account, in the amount that has not been received nor its payment can be demanded if the financial reporting standards allow or require the specified method of reporting development costs or profit from participating interests.

If the company needs to realize a sufficient profit for all mandatory appropriations, according to the Companies and Accounting Law, the distribution is made first according to the Companies Law. The remaining profit is distributed upon request under Article 19, Paragraph 14 of the Accounting Law.

III. NEW REGULATIONS BASED ON THE CONTRIBUTIONS ACT

The amendments to three regulations based on the Contributions Act were published in the Official Gazette No. 42/23 on April 21, 2023, and came into force on April 22, 2023.

RULEBOOK ON AMENDMENTS TO THE RULEBOOK ON CONTRIBUTIONS

The Rulebook on Amendments to the Rulebook on Contributions prescribes the deletion of Articles 81 to 84 and Articles 84.a to 84.d. As a result, a pension beneficiary under regulations on pension insurance of the Republic of Croatia and according to the Law on the Rights of Croatian Homeland War Veterans and Members of Their Families is not a mandatory insured person under the Mandatory Insurance Act.

Therefore, they do not have to pay an additional health insurance contribution at 1% if their monthly pension amount is up to the average net salary or 3% if their monthly pension amount is higher than the net average wage.

RULEBOOK ON AMENDMENTS TO THE RULEBOOK ON REPORTING, FORM, CONTENT, AND DEADLINE FOR SUBMITTING REPORTS ON CALCULATED ADDITIONAL HEALTH INSURANCE CONTRIBUTIONS

This Rulebook deletes Article 1, point 1, and Article 134.d, paragraph 1. The deletion implies that the Croatian Pension Insurance Institute is not obliged to calculate additional health insurance contributions for an insured person based on a pension beneficiary under regulations on pension insurance of the Republic of Croatia. Moreover, the Croatian Pension Insurance Institute does not compile a monthly report on the additional contribution amount for health insurance, nor does it submit it to the Croatian Institute for Health Insurance.

ORDER ON AMENDMENTS TO THE ORDER ON BASE AMOUNTS FOR CALCULATION OF MANDATORY CONTRIBUTIONS FOR 2023

This Order prescribes the replacement of the coefficient of 0.8 with a coefficient of 1.2 and the base amount of 1,093.74 euros with a base amount of 1,640.62 euros. Additionally, the specific bases prescribed by Article 16, paragraphs 1 and 2, namely the monthly base up to the amount of the average net salary and the monthly base exceeding the net average wage amount, are deleted.

IV. RECIPROCITY WITH TURKEY REGARDING THE VAT REFUND TO FOREIGN TAXPAYERS

As of April 10, 2023, the Republic of Croatia has confirmed Reciprocity with Turkey regarding the VAT refund to foreign taxpayers.

The Republic of Croatia has confirmed Reciprocity in VAT refunds to foreign taxpayers with the following countries:

- Swiss Confederation – from January 1, 2011
- The Republic of Serbia – from May 2, 2012, to October 7, 2015, in a limited range, and from October 8, 2015, in full range
- United Kingdom of Great Britain and Northern Ireland – from June 1, 2012, to June 30, 2013, and from January 1, 2021
- Republic of Turkey – from April 10, 2023

Reciprocity in the area of VAT refunds with the Republic of Serbia was established to a limited extent from May 2, 2012, to October 7, 2015, for supplies of goods or services related to the exhibition at fairs, and full Reciprocity with the Republic of Serbia was established from October 8 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. 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. After the transitional period, starting from January 1, 2021, the VAT refund paid by a taxpayer based in the United Kingdom in the Republic of Croatia can be obtained by the procedure for VAT refund to third countries, based on confirmed Reciprocity in VAT refund.

Reciprocity in VAT refund with the Republic of Turkey is established in the following range: for the supply of goods and services exclusively related to participation in fairs and exhibitions, as well as for expenses related to fuel, spare parts, highway tolls, maintenance, and repairs related to road transport. We emphasize that taxpayers engaged solely in occasional international passenger road transport cannot claim a VAT refund under this procedure.

V. AMENDMENTS TO THE LAW ON COMPULSORY HEALTH INSURANCE

The Law on Amendments to the Law on Compulsory Health Insurance was published in the Official Gazette No. 33/23 and took effect on April 1, 2023.

WHAT DOES THE LAW PROPOSE?

The Law proposes the following:

- Introducing a new basis for acquiring insured status in mandatory health insurance for individuals whose employment in institutions, bodies, offices, and agencies of the European Union has ceased,
- Regulating the adoption of healthcare measures from mandatory health insurance
- Preventive healthcare,
- Increasing the amount of co-payment for certain healthcare services and the maximum amount of participation by insured persons in healthcare costs,
- Regulating the list of expensive drugs and introducing a treatment outcome registry,
- Compensation of wages due to temporary incapacity for work for insured persons who meet the conditions for retirement,
- Control of temporary incapacity,
- Financing sources for mandatory health insurance.

SICK LEAVE COMPENSATION FOR INSURED PERSONS OVER 65 YEARS OLD

Amendments to the Law on Compulsory Health Insurance introduced a new provision for insured persons over 65. Namely, until March 31, 2023, insured persons over 65 who were still employed did not have the right to sick leave compensation covered by the Croatian Institute for Health Insurance (HZZO). Instead, they received sick leave compensation from their employers — a similar situation applied to self-employed insured persons. Tradesmen and individuals engaged in freelance work over 65 years old did not have the right to sick leave compensation covered by HZZO, and their obligation to pay contributions was suspended from the 43rd day of sick leave.

Changes have occurred with amendments to the Law on Compulsory Health Insurance. The age threshold for entitlement to compensation covered by HZZO has been raised to 70 years and requires a minimum of 15 years of pensionable service. Insured persons over 65 years old now have the right to sick leave compensation covered by HZZO from the 43rd day of sick leave, and in the case of occupational injury, from the first day of incapacity for work. This change also applies to insured persons on sick leave when the amendments were enacted. Raising the age threshold for entitlement to sick leave compensation covered by HZZO could encourage employers to retain employees for a more extended period.

VI. TAX CHANGES ACCORDING TO THE NEW TAX REFORM

On May 24, 2023, the Government of the Republic of Croatia presented a new tax reform. The amendments to the tax regulations should be in force from January 1, 2024.

According to the presented tax package, the following changes are Income Taxes on Natural Persons Act, Local Tax Law, Law on Financing Local and Regional Self-Government Units, Contributions Act, Law on Fiscalization in Cash Transactions, Income Tax Law, VAT Law, Law on Tax Counseling, Law on Administrative Cooperation in the Field of Taxation.

In anticipation of slowing economic growth and easing inflationary pressures, improving tax relief is scheduled for early 2024. A reduction in the VAT rate would be appropriate if the Vat rate reduction contributed to a retail price reduction. Alternatively, the possibility of increasing the real purchasing power of citizens is to lower the tax burden on income.

The plan is to increase the fiscal autonomy of municipalities and cities and to increase fiscal decentralization.

REDUCING THE BURDEN OF WAGES THROUGH INCOME TAX?

The Government plans to reduce the wage burden by lowering income tax. Specifically, they will delete the notion of the personal deduction base and increase the amounts of the personal deduction for dependents by applying a coefficient to the basic personal deduction.

- Personal deduction for the dependent = Coefficient x Basic personal deduction

Additionally, the Government raises the threshold for applying a higher income tax rate from EUR 47,780 to EUR 50,400.

Further changes in income tax concern the increase of fiscal autonomy of local self-government units, where municipalities and cities would be able to independently prescribe the tax rate for annual taxes on income from independent work, independent activity and other income.

The law prescribes other elements of taxation: personal deduction, non-taxable receipts, and the tax rate application threshold as other parameters. The Government also plans to abolish the income tax surtax.

REDUCING THE WAGE BURDEN THROUGH A REDUCTION IN THE PENSION INSURANCE BASE?

The Government also plans to reduce the wage burden by lowering the pension insurance base. They intend to decrease the pension base (Pillar I) by a maximum of 300 euros for:

- gross wages up to 700 euros – fixed allowance up to 300 euros
- wages from 700.01 to 1.300 euros – gradual reduction of relief.

For pensioners, this would mean an increase in the net amount of pay, especially for those with the lowest incomes, which refers to 53.5% of the total number of taxpayers not subject to income tax (1.52 million people out of a total of 2.84 million taxpayers).

In addition, this allowance does not reduce the future pension amount. Still, the total monthly base will be used to determine the pension rights based on generational solidarity without deduction for the allowance.

The Government of the Republic of Croatia states that a two measures combination would lead to a wage increase.

TAX TREATMENT OF TIPS, DONATIONS, DEPRECIATION AND OPTIONAL SHARES

The Government of the Republic of Croatia intends to change the tax treatment of tips. Under the proposed plan, they will set the amount of non-taxable tips at 3,360 euros. Any tip amount exceeding the non-taxable portion will be subject to taxation as the final second income, with a rate of 20%.

Also, there should be changes in donations, depreciation and optional allocations of shares.

VI. TAX CHANGES ACCORDING TO THE NEW TAX REFORM – CONTINUED

For donations, the existing possibilities of donating for general use purposes in the amount of more than 2% of the previous year's revenue are specified (if there are programs and decisions of the competent ministries).
The Government plans to increase the value of assets eligible for depreciation calculation to 650 euros. They have also announced the equalization of the optional allocation of shares with the optional allocation of shares. This change will enable the allocation of shares in the company through the tax treatment of capital income, aiming to stimulate employees.

FIXED DATES OF PAYMENT OF INCOME TAX ACCORDING TO THE ANNUAL CALCULATION AND INCOME TAX ACCORDING TO THE ANNUAL CALCULATION

The Government plans to introduce a fixed payment date for income tax based on annual calculations. Specifically, the payment for income tax according to the yearly total will be due on February 28, while the payment for income tax based on the annual analysis will be due on April 30.

WITHHOLDING TAX

Withholding tax is abolished for market research and business consulting, dividends for the area of the European Economic Area, and increases to non-cooperating jurisdictions from 20% to 25%.

VALUE ADDED TAX

The Government simplifies the procedure for correcting the tax base. VAT charges the supplier only if they can collect all or part of the due receivables that have been outstanding for over a year.

The Government reduces the tax base within six months if entrepreneurs exercise due care or take actions to collect the due claim (such as enforcement proceedings, court action, settlement reached, etc.). In addition, the threshold for entry in the VAT register increases from 39,816.84 euros to 40,000 euros.

LAW ON TAX COUNSELING

It simplifies the acquisition of the status of tax advisor and abolishes the majority ownership conditions for a tax advisory company establishment. It allows for the free cross-border provision of services to tax advisers from all OECD member countries as representation before administrative courts in tax disputes.

LAW ON ADMINISTRATIVE COOPERATION IN THE FIELD OF TAXATION

The amendments to the Law on Administrative Cooperation will enable the implementation of the Multilateral Agreements of the competent authorities on autonomous proportionality and introduce a Council Regulation on measures to strengthen administrative cooperation in the VAT field.

Tax advice
for entrepreneurs

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