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Ideas that pay off.

Monthly Newsletter
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1.

PRE-BANKRUPTCY PROCEEDINGS: WHAT DO BUSINESSES NEED TO KNOW ABOUT DEADLINES AND LIABILITY?

Pre-bankruptcy proceedings allow a company facing impending insolvency to agree a restructuring plan with its creditors under court supervision and continue operating. Proceedings can be opened if the debtor **has a blocked bank account, is more than 30 days late paying salaries, or fails to pay taxes and contributions on salaries within 30 days**. Only the debtor can file the petition, and the proceedings must be completed within 120 days of opening.

Initiating pre-bankruptcy proceedings is the debtor's right, not an obligation. However, they are only possible until grounds for bankruptcy arise, that is, as long as **the account has not been blocked for more than 60 days and three consecutive salaries have not gone unpaid.** Once grounds for bankruptcy arise, management **has 21 days** to file for bankruptcy. If this deadline is missed, management board members are personally liable. They are jointly and severally liable to the company for damages and must pay the advance for bankruptcy costs from their own funds, and failing to file for bankruptcy is a criminal offence.

The deadlines are just as strict for creditors. Court documents are not sent by post but published on the courts' e-Notice Board, and missed deadlines cannot be reinstated. You must **register your claim with FINA within 21 days**, as the court rejects late registrations. A claim is not considered registered just because the debtor listed it in its petition. A creditor who does not submit the voting form is counted as having voted in favour of the plan.

Once proceedings are opened, interest stops accruing and **enforcement is prohibited for 120 days**, with the possibility of extension. You may not terminate a contract with the debtor or withhold performance because of an unpaid old debt.

Pre-bankruptcy proceedings also have tax consequences. Once the restructuring plan is confirmed, the claim a creditor writes off in accordance with the plan is a tax-deductible expense. The debtor must correct its input VAT deduction and retain the profit from debt write-offs until the deadline for fulfilling the plan expires.

Who can initiate pre-bankruptcy proceedings, when is management personally liable, and what must creditors do to protect their claims? Read the full overview in the article.

2.

TAX-DEDUCTIBLE WRITE-OFFS OF RECEIVABLES: HOW CAN YOU STOP AN UNPAID INVOICE BECOMING A DOUBLE LOSS?

You issued an invoice, booked the revenue and paid the tax, but the money never arrived. The law allows you to **make a value adjustment to such receivables or write them off** and thereby reduce your tax base, but only if you meet the prescribed conditions. Otherwise, the expense is not tax-deductible and increases your tax base.

A value adjustment is tax-deductible if **more than 60 days** have passed between the due date and the end of the tax period, the receivable has not been collected by the 15th day before the tax return is filed, and you have taken collection measures. The law requires specific measures: **a lawsuit, enforcement, a claim registered in bankruptcy proceedings or a settlement** with an unrelated debtor. Reminders and phone calls alone are not enough. If you take no action before the claim becomes time-barred, the previously deducted expense is added back to your income.

A write-off is also deductible if you can prove that the costs of proceedings would exceed the amount of the receivable or that collection is definitively impossible. Small time-barred receivables from unrelated parties can be written off even without collection measures: **up to EUR 665 per debtor** if the debtor is a company or sole trader, and up to EUR 40 if the debtor is an individual. These reliefs do not apply to receivables from **related parties.**

Since 1 January 2024, you can **also reduce VAT** on invoices that have remained unpaid for more than a year after the due date. You make the reduction within six months, notify the customer and submit the PDV-ispravak (VAT correction) form. Unlike for corporate income tax, documented reminders can serve as evidence here. The rule applies only to invoices issued from 1 January 2024.

The most common mistakes in practice are making value adjustments without any collection measures, letting claims become time-barred, applying the EUR 665 limit per invoice instead of per debtor, and missing the deadline for the VAT correction.

When are value adjustments and write-offs tax-deductible, what happens if the customer pays later, and how can you reduce VAT on unpaid invoices? Read all the details in our article.



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3.

REGISTRATION OF FOREIGN TAXPAYERS IN CROATIA: WHEN DO YOU NEED A CROATIAN VAT NUMBER?

If your company is not based in Croatia but sells goods or services here, the first question is whether you need a Croatian VAT number. Croatia applies a simplification. When you sell to a Croatian taxpayer, **the customer takes over the tax liability** under Article 75(2) of the VAT Act, so registration is often not necessary.

Registration is mandatory before the first supply if the customer is **a person to whom the tax liability cannot be transferred**, most often a private individual. It is also mandatory for exporting goods from Croatia, acquiring or transferring goods from the EU to Croatia, supplying goods from Croatia to another EU country, and distance sales if you are not registered for OSS in your home country. If you exceed the **EUR 10,000 threshold** for distance sales and electronically supplied services to private individuals in the EU without OSS, registration becomes unavoidable.

The procedure has two steps. First you submit an **application for an OIB** (Croatian personal identification number), and then Form P-PDV to the Tax Administration's Zagreb Regional Office. With the form, you enclose confirmation of registration in your home country and proof of your intention to make supplies in Croatia, and all documents must be translated into Croatian. The decision assigning the VAT number (HR + OIB) is issued within 8 days at the latest.

After registration, for supplies taxable in Croatia you issue Croatian invoices, charge VAT and keep the prescribed records. A foreign **taxpayer cannot use cash accounting and can only file VAT returns monthly.**

An example shows how decisive the customer's status is. An Italian contractor carrying out construction work on a property in Croatia does not need to register if the client is a Croatian taxpayer. If the client is a private individual, the contractor must register and issue an invoice under Croatian rules.

When is registration mandatory, what documents do you need, and what obligations follow once you have a VAT number? Find out more in the article on our blog.





Tax advice
for entrepreneurs

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