

# DOING BUSINESS

IN CROATIA

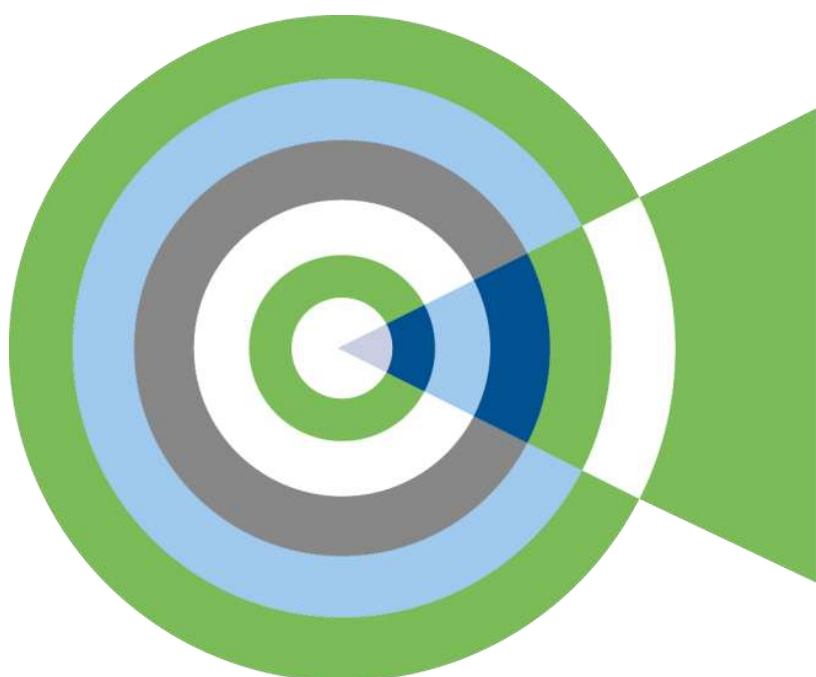


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# 1 – INTRODUCTION

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UHY is an international organisation providing audit, accountancy, business management and consultancy services through financial business centres in over 80 countries worldwide.

Business partners work together through the network to conduct transnational operations for clients as well as offering specialist knowledge and experience within their own national borders. Global specialists in various industry and market sectors are also available for consultation.

This detailed report providing key issues and information for investors considering a business operation in **Pogreška! Izvor reference nije pronađen.** has been provided by the office of UHY's representatives there:

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Information in the following pages has been updated so that they are effective at the date shown, but inevitably it is both general and subject to change and should be used for guidance only. For specific matters, investors are strongly advised to obtain further information and take professional advice before making any decisions. This publication is current at October 2013.

We look forward to helping you do business in **Pogreška! Izvor reference nije pronađen.**

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## 2 – BUSINESS ENVIRONMENT

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### BACKGROUND

Croatia is a Central European and Mediterranean country, culturally and historically linked to Central and Eastern Europe.

Croatia has a good geostrategic position. It borders with Slovenia, Hungary, Serbia, Montenegro, Bosnia and Herzegovina and has a marine border with Italy.

For most of the 20th century, Croatia was a part of the state called Yugoslavia, which had a communist system and socially owned companies. Croatia became an independent state in 1991 when a democratic, multi-party political system was adopted and political and economic reforms were introduced.

Croatia signed the Accession Treaty on 9 December 2011 to become the 28<sup>th</sup> member state of the European Union. Following the ratification procedure in all Member States and Croatia, as of 1 July 2013 Croatia has become a full member of the European Union.

From 1999–2008, Croatia recorded the highest Gross Domestic Product (GDP) increase in the region, with an average GDP growth of 4.3% per annum in 2007. GDP growth of 5.5% was the highest recorded growth in the last decade.

The crisis that hit all major economies in the world (the USA, EU, Japan, China) in 2008 and spread all over the globe, affected Croatia too. Croatian GDP growth was slower in 2008 than in past years. Nevertheless, GDP growth of 2.4% in 2008 was still significantly higher than the GDP growth in the EU (0.9%).

The second major issue for Croatia in 2008 was the introduction of the European System of Accounts 95 (ESA 95), a set of statistical measures which provide harmonised and reliable data for reviewing GDP. This adjustment has increased GDP per annum in the period 1995 to 2007 to an average of 15.6%, which has put Croatia in an even better position by international comparison.

Due to the economic crisis which hit the Croatian and global market, the Croatian GDP real growth rate recorded a decline of -6% in 2009, -1.2% in 2010 and 0% in 2011 while the GDP real growth rate was -2% in 2012. Imports per capita in 2012 were 36.79% (exports 21.86%) of GDP per capita, which makes the Croatian market greatly dependent on movements in the world's major economies, especially on movements in the major trade partner of the EU countries.

Although trends in tourism on the global level have had a positive influence in the past five years, the global economy crisis in 2008 slowed down growth. According to tourism indicators in Croatia, growth of this sector has been lower over the past years with growth of 0,2% in overnight stays in 2010, followed by growth of 6.98% in 2011 and 3.96% in 2012.

Germans account for the largest number of overnight stays, followed by Slovenians and Austrians. The tourist sector in Croatia has an increasing number of high quality hotels; 27% of all hotel capacity is four star hotels. Annual income from tourism is growing much faster than the number of overnight stays.

Although exports have been increasing rapidly, exports are still two times lower than imports. The export commodity structure shows that Croatia exports mostly ships and boats, oil derivatives, electric transformers, gas and medicines. The import structure in 2012 shows the largest imports are in mining and the chemical industry, in machine production and in food and drink production.

In the last few years, there has been a rapid growth of machinery and industrial equipment imports, which indicates Croatian industry has been modernising.

At the moment, the Government is making a great effort to reorganise and reform the land registry, tax and judicial system, with the goal of making them efficient and reliable. The first electronic Land Register started operating in 2005, providing data for 43 land registries (see [www.pravosudje.hr](http://www.pravosudje.hr)).

In 2005, the 'One Stop Shop' project was introduced, a service for entrepreneurs which aims to centralise and simplify all procedures necessary to establish new business entities in Croatia. It is designed to reduce the time and cost of such procedures. According to World Bank data, this has shortened the period needed to start a company from an average of 29 days to only seven days and has reduced the number of required procedures from 11 to 6. Altogether this has reduced the cost of starting up companies by 50%, to a cost of approximately EUR 800.

The government plan for further development includes strengthening entrepreneurship, stimulating exports and foreign investment, increasing employment and competitiveness, and reducing the costs of state administration.

## BACKGROUND INFORMATION

TABLE 1

Official statistics, Source: Croatian Bureau of Statistic, Croatian Chamber of Commerce, Croatian Employment Service

USD MILLION	2008	2009	2010	2011	2012
GDP, current prices (EUR million)	47,370	45,877	45,302	45,897	43.929
GDP per capita (EUR)	10,682	10,358	10,256	10,697	10.295
GDP, real growth rate (%)	2.4	-6	-1.2	0.00	-2.0
Inflation rate (%)	6.1	2.4	1.1	2.3	3.4
Central Bank interest rate (at the end of the 9 period) (%)		9	9	7	7
Consumer Price Index (Previous year=100.0)	106.1	102.4	101.1	102.3	103.4
Unemployment rate (%)	13.2	14.9	17.4	17.8	18.9
Employment rate (%)	86.8	85.1	82.6	82.2	81.1
Average gross salary (HRK)	7,544	7,711	7,679	7,796	7,875
Average gross salary (EUR)	1,030	1,055	1,040	1,049	1,044
Exchange rate HRK/EUR (31 December)	7.324425	7.306199	7.385173	7.530420	7.545624
Exchange rate HRK/GBP (31 December)	7.484595	8.074040	8.608431	8.986181	9.219971
Exchange rate HRK/USD (31 December)	5.155504	5.089300	5.568252	5.819940	5.726794

## AREA

56,594 square kilometres of land and 31,067 square kilometres of territorial waters

## POPULATION

4.280 million (March 2011)

## LANGUAGE

Croatian, with ethnic minorities using their own language locally

## POLITICAL SYSTEM

Parliamentary democracy

## CAPITAL

Zagreb (population 793,000)

## CURRENCY

Croatian Kuna (HRK), made up of 100 Lipa

## EXTERNAL TRADE

Exports: EUR 9.628 billion (2012)

Imports: EUR 16.214 billion (2012)

## MAJOR EXTERNAL TRADING PARTNER COUNTRIES (2011)

Exports: Italy, Bosnia and Herzegovina, Slovenia, Austria

Imports: Italy, Germany, Russia, China, Slovenia

## 3 – FOREIGN INVESTMENT

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### INVESTMENT IN CROATIA

There is no difference between domestic and foreign investors with regards to the legal status of foreign investment in Croatia.

When foreign investors found or participate in founding companies in Croatia, they gain rights and take on responsibilities under the same conditions and have the same status as domestic investors. Everything that relates to relationships between domestic investors also relates when foreigners invest capital.

Foreign legal entities in Croatia are allowed to invest capital in a company, bank or insurance company, start up as a sole trader or craftsman and obtain a concession to exploit natural resources or other assets of interest to Croatia.

Foreign persons are allowed to acquire shares and ownership stakes in existing public and private limited companies.

Croatia recognises the importance of attracting foreign investors, valuing the management, commercial know-how and fresh capital they bring. That is why foreign investors are entitled to additional guarantees that are not extended to domestic investors. For example, the rights gained through capital investment will not be reduced by any law or other regulation.

### INVESTMENT INCENTIVES

The Investment Incentives and improvement of the investment climate Act offers a wide variety of tax incentives for foreign and domestic investors.

Corporate tax incentives are related to capital investments and depend on the size, number of employees and/ or location of the investment project. The tax benefits cannot exceed the amount of the investment. Non-tax incentives take the form of grants or interest subsidies and are given on a case by case basis following a detailed application.

### SECTOR RESTRICTIONS

Investments in Croatia are welcome and encouraged.

However, some areas of investment are limited and are subject to special conditions of approval procedure by competent authorities. These include areas of foreign ownership of real estate, particularly agricultural land, forests and other protected nature parts, as well as industries connected with national defence and security. Otherwise, the regulatory framework for the establishment and operation of businesses in Croatia by foreign investors is relatively straightforward and in line with the basic standards of the EU.

Specific permits or licences are only required for certain activities, such as banking, insurance, stock brokerage and similar financial services.

## **IMMOVABLE PROPERTY OWNERSHIP**

In the past, the most complicated aspect of foreign investment in Croatia was the acquisition of land, registration and site development.

Only companies registered in Croatia were considered domestic legal entities and could acquire ownership rights over real estate without any restrictions.

The most important change regarding this issue followed from the Act on Amendments to the Act on Ownership and Other Real Rights which came into force on 1 February 2009. This equalised citizens and legal persons from EU Member States with domestic persons in the Republic of Croatia in acquiring the right to real property ownership.

The restriction remains for agriculture land and land categorised as protected nature land, as national and nature parks.

Foreign natural persons (non EU citizens) are able to acquire property with prior approval of the Ministry of Foreign Affairs, based on the opinion of the Ministry of Justice on the basis of reciprocity.

## **REPATRIATION OF PROFITS AND CAPITAL**

There are no restrictions imposed on the repatriation of profits or capital investments.

There are no restrictions on transferring profit abroad after paying tax obligations, which includes the 20% corporate tax and 12% of withholding tax, if applicable. Tax losses can be carried over into the next year for up to five years.

Foreign investors can transfer abroad the profits earned from capital invested in Croatia, or the proceeds from the sale of stocks or stakes after settling outstanding liabilities, and they can transfer the capital upon divestment. The profit earned by a foreign contractor engaged in capital projects in Croatia may also be transferred abroad.





## 4 – SETTING UP A BUSINESS

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### SETTING UP A COMPANY IN CROATIA

The Croatian legal system provides a range of entities common in other legal systems. There are no restrictions on establishment of business entities by foreign investors.

The procedures for establishing, registering and operating a company in Croatia are relatively straightforward. There are four basic types of entities available under the Company Law:

- Simple limited liability company – j.d.o.o.
- Limited liability company - d.o.o.
- Joint stock company - d.d.
- Partnerships - limited, unlimited and silent

The Croatian Company Law also recognises business associations. Alternatively, foreign investors may opt for a branch office or a representative office (only possible for non-EU investors) as the most effective way of conducting business operations in Croatia.

### COMPANY REGISTRATION PROCEDURE

The registration of a company is relatively simple. In general, there are several stages in the process of establishing and registering a business in Croatia.

This process includes:

- Company name availability check
- Verification of documents by a public notary
- Settling the share capital
- Registering the company at the Commercial Court
- Registering with the Central Bureau of Statistics
- Opening a business account so that the initial capital can be transferred to the company's account
- Registering with the Tax Authorities.

When establishing a limited liability company or a joint stock company, a foreign investor may invest money, goods and rights. The minimum capital required when establishing a joint-stock company is the domestic currency equivalent of EUR 25,000, equivalent to domestic currency of EUR 2,500 when establishing a limited liability company and equivalent to EUR 1,5 when establishing a simple limited liability company. Simple limited liability companies are obliged to transfer 25% of its profits to statutory reserves until these reserves reach EUR 2,500.

Registration procedures upon the authorisation of the agreement on incorporation take up to seven days approximately.

The compulsory documents required to register a company by a legal entity / individual are:

- Registration certificate of the founding company translated by the Croatian court interpreter

- The founding company's letter of attorney issued to a person signing the foundation statement of the new company, certified and translated by the Croatian court interpreter
- A copy of an identification document of the appointed company representative or proxy
- Statement of acceptance of the appointment by authorised company representatives, authenticated by a public notary
- The authentication of the director's or proxy's signature by public notary
- Incorporation document – articles or statement of incorporation
- Company name explanation (if the company has a foreign name).

## CONCESSIONS AND FREE ZONES

As foreign persons cannot become owners of certain types of real estate, the Concessions Rights Act regulates rights to concessions.

Concessions may be granted for exploitation of natural resources and other wealth, if such activities are considered to be within the interest of Croatia. A concession may be granted for a period of up to 99 years (40 years for agricultural land).

Free Zones may be established based on a concession granted by the Government. Domestic and foreign legal entities or foreign natural persons cannot found a zone, but can be zone users. Based on an agreement made with the domestic founder of the zone, they may carry out all activities within the zone (production and refinement of goods, wholesale trade, trade intermediation, services, banking transactions, insurance services etc.) except retail trade.

The Free Zone stipulates the following benefits:

- All forms of foreign trade may be carried out within a zone and the limitations of the Trade Act and the Foreign Exchange Act do not apply to such operations,
- Goods may be freely imported or exported, or remain within the zone for an unlimited period of time,
- No customs duties or taxes are levied on goods stored in the zone,
- Zone users pay profit tax reduced to 50% of the standard rate ( i.e. 10%).

Provisions on Free Zones described within the VAT Law have been harmonised with provisions of the European Council Directive 2006/112. Trade of goods and services inside Free Zones is taxable by VAT except in cases these goods and services have been purchased for future export outside of EU.

There are 15 Free Zones established in Croatia; these range from sea port-based locations at Pula, Rijeka, Split and Ploče, as well as other strategically located zones in Krapina-Zagorje, Kukuljanovo, Osijek, Ribnik, Slavonski Brod, Split, Varaždin, Vukovar and Zagreb.

Because of the availability of a skilled and productive workforce, modern infrastructure and an excellent geographical location that offers a market of 500 million consumers, a number of international companies from Italy, Germany, Austria, Switzerland and France have already established their operations within the Free Zones in Croatia. Their industry sectors range from ICT, software development, medical devices, innovative Computer Numerical Control (CNC) technologies and machinery, to traditional manufacturing including automotive components, textiles, engineering and shipbuilding.

## 5 – LABOUR

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### EMPLOYMENT

Croatia has a highly skilled, well-educated workforce.

Croatia's labour market is changing rapidly with the entry of new professionals who have a good understanding of foreign languages, particularly English, German and Italian.

Unemployment is relatively high and according to official sources in 2012 amounted to 18.9% of the workforce. Despite government efforts to stimulate employment with various programs of incentives for employers, the level of unemployment remains a significant social and economic burden.

### EMPLOYMENT CONTRACTS

The Labour Law is the main instrument that regulates the relationship between employers and employees in Croatia through employment contracts and a number of institutions which protect worker's rights.

Employment contracts must be concluded in a written form, regardless of the duration of the employment. The contract must include the location of the employment, job description, basic salary and fringe benefits. An employer and employee are entitled to agree on terms more favourable to the employee than those specified in law.

The Labour Law defines full-time employment as a 40-hour week. Employees are entitled to a minimum of 20 working days paid annual vacation. Vacation days must be granted in the year in which they are due. The salary paid during the annual vacation must be at least the average salary of the three preceding months.

### TERMINATION OF EMPLOYMENT

Employment may be terminated by mutual agreement, with retirement, dismissal, the death of the employee or expiry of the term for which the employment contract was concluded.

The Labour Law prescribes notice periods of two weeks to three months, depending on the length of the employment.

As a rule, a permanent employment contract cannot be terminated without sufficient justification, unless the employment contract is terminated on the grounds of misconduct on the part of the employee. The severance payment is determined on the basis of the duration of the employment. The minimum severance payment is calculated as one third of the average monthly salary paid out in the last three months before the termination, for each year of employment with the respective employer.

In addition, there are certain protections for employees in cases where a company files for bankruptcy, such as priority in receiving salaries for three months before the start of proceedings, compensation for annual vacation and severance pay.

If the employee's contract is temporary, then the employer may dismiss the employee before the contract expires and pay the wages for the remainder of the term.

When the employer and the employee terminate the employment by mutual agreement, they are free to decide the relevant terms.

## SOCIAL SECURITY

The Croatian social security system includes regulations covering pension, health care and unemployment insurance.

Croatia introduced crucial changes to its pay-as-you-go pension system in 1998, enacting legislation for a funded 'two-pillar' pension system along the lines of reforms in Hungary and Poland. These reforms raised the retirement age and gradually lowered replacement rates. The reform came into effect on 1 January 2002 and has introduced three pillars into the pension insurance system.

Health insurance in Croatia includes basic, additional and private health insurance. Basic health insurance is mandatory and consists of the right to health care and the right to financial benefits. The right to various financial benefits includes compensation of salary during sick leave (including maternity leave) and transport costs incurred when using the health services. The additional and private health insurances are both voluntary insurances with a beneficiary contributing a monthly insurance premium.

TABLE 2

*Contributions are shown below*

	EMPLOYER	EMPLOYEE
Pension contributions		15+5%
Health insurance	13%	
Special health insurance against work-related accidents	0.5%	
Employment contributions	1.7%	
<b>Total contributions</b>	<b>15.2%</b>	<b>20%</b>

## EMPLOYMENT OF FOREIGNERS

The law divides foreigners into two categories: citizens from countries in the European Economic Zone (meaning the EU and EFTA) and Switzerland; and citizens from third countries. However, citizens from EU countries which have placed restrictions on its employment market for Croatian citizens (Malta, France, Germany, Netherlands, Cyprus, Austria, Great Britain, Slovenia, Belgium, Spain, Luxembourg and Greece) have to go through the same procedure as third country citizens.

Foreigners from the European Economic zone do not require a Certificate of Labour Registration nor do a Stay and Work permit in order to work in Croatia. They are just obliged to register their residence address at the relevant Police station for an up to three month stay; and register for temporary stay if this exceeds this three month period.

Employing foreigners from third countries and EU countries which have set restrictions for Croatian citizens requires either a *Stay and work permit* or a *Certificate of Labour Registration*. The application for either type of permit should be made at the local Police station by either the foreigner in person or the Croatian employer prior to employment.

The Croatian Government sets an annual quota for *Croatian Stay and Work permits*. However, Stay and Work permits are not subject to the annual quota for certain types of employees, but restrictions in this case are more severe. This kind of permit is usually granted for the period that is needed to fulfil a job, i.e. for the period a labour contract has been signed for, but not longer than one year.

A *Certificate of Labour Registration* is a work permit for specific groups of foreigners which can be granted for a maximum period of 90, 60 or 30 days depending on the foreigner's profession.

Foreign nationals who are required to obtain temporary residence or either permit are also required to have health cover in Croatia. This requirement is imposed on all individuals applying for Croatian permits and any accompanying family members, unless there is a social security agreement in place between the two countries. Foreign nationals who are covered by their home country's social security system and submit the prescribed certificate, are exempt from contributions for health insurance in Croatia. This certificate for EU citizens is the so called A1 which defines the EU member country in which the employee is obliged to pay social security contributions.

## 6 – TAXATION

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### TAX AUTHORITIES

Croatian Tax Administration is the administrative organisation within the Ministry of Finance.

The Tax Administration consists of the central office in Zagreb and 20 regional offices that are situated in county capitals. Their basic duty is to implement tax regulations and regulations concerning the payment of obligatory contributions. All residents are obliged to participate in the settlement of public expenses in accordance with their economic capabilities.

The tax system is based on the principles of equality and justice.

The Tax Administration performs administrative and other professional duties.

The Tax Administration is responsible for controlling the calculations and execution of collecting the obligatory contributions and to filing and pursuing cases of misbehaviour due to the violation of regulations on the payment of obligatory contributions.

The Tax Administration collects and processes data on defined and collected taxes and obligatory contributions, proposes changes in tax policy and tax regulations and other regulations in order to improve the tax system and collect taxes and obligatory contributions in a more efficient way.

The Tax Administration can perform duties relating to the recording, determining, controlling, collecting and seizure of assets in order to collect taxes that entirely belong to the local and regional government, other public taxes and other taxes stipulated by the law.

### GENERAL TAX LAW

The General tax law prescribes tax processes and the relations between taxpayers and tax authorities.

The General Tax Law covers broad issues relating to taxation procedure, notably completion, payment, reimbursement, postponement, forced payment, evidencing and dispute resolution. This law also defines the main taxation principles, such as the equal attention principle, the principle of no retroactive application of tax regulation, the principle of established fact declaration, tax secrecy, the bona fide principle and the economic substance principle.

The provisions of this law define the rights of taxpayers, clearly defining the relationship between debtors, creditors and successors in the payment, disbursement, guarantee, compensation and the calculation of tax obligations or claims proceedings. It also clearly defines the relationship in proceedings of pledging, ceding and impounding assets or rights.

## VALUE ADDED TAX (VAT)

Value added tax is paid on the delivery of all kinds of goods and services rendered inside the country, for compensation or for own consumption and on the delivery of goods and services rendered without compensation and with a personal discount.

Since 1 July 2013 Croatia has become a full member of the EU and Croatia has entered the common EU market without customs and other legal barriers. EU countries are obliged to harmonise its own VAT Laws with the provisions of the European Council Directive 2006/112 so that every transaction of goods and services is VAT taxable in only one member country.

VAT is also paid on the import of goods from third countries (non EU countries) and on the services that a foreign entity (outside EU) performs for a domestic entity.

Business transactions are taxed at 25%, 10% and 5% (this rate came into force from 1 January 2013).

The 5% rate applies to the following:

- All kinds of bread and milk (except for fermented and certain other milk products)
- Books with professional, scientific, artistic, cultural and educational character and school textbooks (for primary, secondary and tertiary education, including printed paper and other media, such as CD ROMs, video cassettes and audio tapes)
- Medicines determined by the List of Medicines of the Croatian Institute for Health Insurance
- Scientific and scholarly journals
- Daily newspapers printed on the paper, except those that wholly or mainly contain advertisement or are used for advertising
- Services rendered by cinemas.

The rate of 10% applies to the following:

- Services of accommodation with/without breakfast, accommodation in all kinds of commercial hospitality facilities and on services of organised tourist stays
- Newspapers (except daily newspaper) and magazines printed on paper that come out periodically, except those that wholly or mainly contain advertisements or are used for advertising
- Edible oils and fats, of vegetable or animal origin, in accordance with special regulations
- Baby food and processed cereal-based food for infants and young children, in accordance with special regulations
- Delivery of water, except water that is placed on the market in bottles or other containers
- White sugar from cane and sugar beet
- Concert tickets
- Cultural and art magazines

Exports, imports in Free zones for the future exports and imports of donated goods are not subject to tax.

Free of tax inside the country are:

- Lease or rent of housing space
- Bank, savings bank, credit-saving organisation and insurance company services
- Lottery games, games of chance and other gambling games
- Post stamps
- Delivery of used buildings (used at least 2 years), delivery of land (except construction land) - applicable as of 1 January 2015

Tax calculation periods of VAT are for the calendar months or trimesters, while the final VAT calculation is made for the calendar year.

All domestic entrepreneurs doing business with entrepreneurs inside the EU are obliged to register within Tax Authorities and get a VAT-ID number necessary for identification as VAT obligators in other EU countries. Entrepreneurs registered for EU transactions are obliged to submit VAT calculation on a monthly basis.

An entrepreneur for whom the annual value of taxable goods delivered and services rendered in the previous calendar year was not higher than HRK 230,000 does not pay VAT, does not have the right to display tax on invoices issued and cannot deduct the tax other entrepreneurs charge him.



## INDIVIDUAL INCOME TAX

The income tax law stipulates that every person who acquires an income is a taxpayer, with differences between residents and non-residents.

A resident is a person who has domicile residence in Croatia. Individuals who are considered tax residents in Croatia are taxed on their worldwide income. Non-resident taxpayers are taxed only on the income earned in Croatia.

Income itself is the difference between the receipts obtained in the tax period and the expenses occurred in the same period, with deductions for losses made in Croatia and personal tax benefits.

The Croatian tax laws recognise six income categories:

- Income from employment
- Income from independent personal activities (self-employment)
- Income from property and property rights
- Income from capital
- Income from insurance
- Other income.

The Croatian personal income tax law recognises basic personal tax allowance and tax allowances for dependent family members, determined as a percentage of basic personal tax allowances. The basic personal allowance is HRK 2,200 which isn't taxable.

An overview of personal income tax rate is given in the table below.

**TABLE 3**

*Income tax rates are as shown below*

MONTHLY INCOME (HRK)	RATE
0–2,200	12%
2,200–8,800	25%
Over 8,800	40%

In Croatia, there is an obligation to pay surtax on income tax. The tax base for the surtax is the amount of income tax. Cities, depending on their size of population, can prescribe surtax on personal income. According to this possibility, the following major cities have local taxes:

- Zagreb 18%
- Split 10%
- Rijeka 12%
- Osijek 13%
- Pula 7.5 %
- Zadar 12%
- Varaždin 10%
- Dubrovnik 10%

## CORPORATE INCOME TAX

The corporate income tax is the principal tax levied on business profits. The corporate profit tax law imposes taxes on all enterprises that carry out activities for the purpose of making a profit.

Considerations foreign investors need to take into account when determining the nature of their investments or the legal form of establishing business operations in Croatia include tax burdens from the investor's original obligation, in conjunction with the provisions of any relevant double taxation treaty.

The taxpayer is a company or another legal or natural person resident in Croatia, who is permanently and independently engaged in an economic activity for the purpose of making profit, an income or other economic benefits.

The tax period is the calendar year, except at the request of the taxpayer that the tax period should not correspond with the calendar year, where the tax period may not exceed 12 months. The chosen period cannot be changed for five years.

The tax base is defined as profit, determined as the difference between income and expenditure before the profit tax assessment, increased and reduced in accordance with the provisions of The Profit Tax Law. The tax base of a resident taxpayer is the profit earned in Croatia and abroad, and the tax base for non-residents is the profit earned in Croatia assessed in accordance with the provisions of The Profit Tax Law.

The tax rate on corporate income is 20%.

There are no restrictions on transferring profit abroad after paying tax obligations, which includes the 20% corporate tax and 12% of withholding tax, if applicable. Tax losses can be carried over into the next year for up to five years.

The following tax exemptions, reliefs and incentives apply:

- The tax rate on profits resulting from new investments has been reduced (between 0% and 10%), depending on the amount of investment and on the number of new employees.

## WITHHOLDING TAX

Withholding tax is the tax that shall be paid on the profit derived by a non-resident in Croatia.

The tax rate on withholding tax is 15%.

For countries with profit tax rate below 12.5% the withholding tax rate is 20%.

The taxpayer liable to pay withholding tax is:

- A Croatian entity that pays to foreign entities who are not natural persons
- The permanent establishment of a non-resident company, when they pay to the parent company interest or royalties and other intellectual property rights

Withholding tax shall not be paid if considerations are recognised as revenues of a resident permanent establishment of a non-resident company.

Withholding taxes are paid on the following:

- Royalties and other intellectual property rights for which considerations are paid to non-residents who are not natural persons
- Market research services, tax and business consulting and auditor services paid to non-residents
- Interest.

From 1 March 2012, withholding tax of 12% is payable on dividends resulting from profit.

In all cases, double taxation treaties are taken into consideration.

## **DOUBLE TAXATION**

Croatia has signed double taxation treaties (DTTs) that may reduce or eliminate withholding taxes.

The payment of withholding tax requires the submission of a separate summarised report on the withholding tax paid. If the proper form is not submitted, the taxpayer has to pay the withholding tax calculated at the rate of 15%. If there is a difference in the percentage of the withholding tax paid and the percentage pre-set by the DTT, a request for a refund of the overpaid tax can be submitted within three years of the year in which the payment was made.

## **REAL ESTATE TRANSFER TAX**

The taxpayer is the person or entity acquiring the real estate (purchase and sale, exchange, inheritance, donation, merger or withdrawal of property from a company, property purchase in the process of liquidation or bankruptcy and on the basis of a court decision).

The tax is payable by both domestic and foreign legal entities and individuals, unless an international treaty provides otherwise.

Real estate transfer tax is paid at the rate of 5%. The tax base is calculated as the market value of property at the moment of the acquisition.

The Real estate transfer tax Law provides for general tax reliefs, tax reliefs on the contribution to a company in the form of real estate and tax reliefs on inheritance, gifts and other acquisitions of real estate without charge.

According to the Law on Commercial Companies, real estate transfer tax is not payable when real property is contributed as share capital into a company, as well as when immovable property is acquired in the process of a merger of companies or of disassociation of the company into several companies.

The acquisition of new real estate's built after 1 January 1998 is taxed according to the VAT Law and is not considered to be the transfer of real estate.

Transfer of construction land and buildings used for living less than 2 years since the first settlement will be taxed according to the VAT Law from 1 January 2015.

## **INHERITANCE AND GIFT TAX**

Inheritance tax is generally chargeable on inheritances of property located in Croatia.

The tax base of the inheritance is generally the market value of the property less expenses and debts accruing to the property. There are a number of exemptions from inheritance tax available.

The tax rate is 5%.

Gift tax is payable where a gift of property is made to another individual (i.e. the beneficiary). The taxable base of the gift is usually the net value of the gift. The gift tax rate is usually 5%.

Again, depending on the circumstances surrounding the gift, there are a number of exemptions from gift tax available.

## **SPECIAL TAXES (EXCISES)**

There are special taxes (excises) in Croatia imposed on coffee, mineral oils, alcohol, beer, non-alcoholic beverages, tobacco products, cars and other motor vehicles and luxury products.

Persons required to pay excise duty are producers and importers.

## **OTHER TAXES**

There are other, less relevant taxes such as tax on road motor vehicles, tax on holiday houses and tax on coin-operated machines for games and amusements.

## 7 – ACCOUNTING & REPORTING

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### ACCOUNTING

Companies that exist and perform their work in Croatia are obliged to keep their records and prepare annual financial statements in accordance with the Croatian Financial Reporting Standards (CFRS) issued by the National Committee for Financial Standards. Large or listed companies prepare annual financial statements in accordance with International Financial Reporting Standards (IFRS).

The size of the company is determined according to the criteria disclosed in the Croatian Accounting Law.

Small companies are those that don't exceed two of the following limits:

- Total assets over HRK 32,500,000
- Total turnover over HRK 65,000,000
- Average number of employees during the year over 50.

Medium-sized companies are those that exceed two of the above mentioned limits but don't exceed two of the following limits:

- Total assets over HRK 130,000,000
- Total turnover over HRK 260,000,000
- Average number of employees over 250

Large companies are those that exceed two of the above mentioned limits.

External audit of the financial statements is defined by the Croatian Accounting Law and Croatian Auditing Law. According to the Croatian Accounting Law, companies that are obliged to have an annual external audit are:

- Large and medium-sized companies
- Companies whose shares or securities are listed or preparing for their inclusion on the organised securities market
- Companies whose obligation of audit is prescribed by special regulations

According to the Croatian Audit Law, companies that are obliged to have an annual external audit are:

- All joint stock companies - d.d. and limited partnerships
- Limited liability companies whose individual or consolidated total turnover exceeds the amount of HRK 30,000,000
- Banks, insurance companies, investment funds etc.
- Joint stock companies, limited partnership companies and limited liability companies which prepare financial statements for a period shorter than a calendar year in cases of liquidation, bankruptcy or status change (acquisitions, mergers, overtaking, etc.) whose turnover exceeds the amount of HRK 30,000,000 in the previous period

Croatian auditors work according to International Standards of Auditing and according to International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS). Their main organisation is the Croatian Auditors Chamber in Zagreb.

## REPORTING

Annual financial statements must include these basic statements:

- Statement of Financial Position (Balance sheet)
- Statement of Comprehensive Income (Profit and loss statement)
- Cash flow statement
- Structure of capital statement
- Notes

According to Croatian Accounting Law, the fiscal year equals to the calendar year.

However, the same Law allows the fiscal year to differ from the calendar year if this is arranged by other regulations or for the purposes of entrepreneurs.

When the fiscal year equals to the calendar year, the corporate income tax returns have to be delivered to the Tax Authority by not later than 30 April of the following year.

VAT calculation has to be delivered not later than 28 February of the following year.

Personal income tax returns have to be handed in to the tax authority (Croatian Tax Administration) not later than 28 February of the following year.

All companies are obliged to deliver their Annual financial statements and Auditor's report to the Financial Agency (FINA) for purpose of public disclosure by 30 June of the following year. Annual consolidated financial statements have to be delivered by 30 September of the following year.

## 8 – UHY REPRESENTATION IN **POGREŠKA! IZVOR REFERENCE NIJE PRONAĐEN.**

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### ABOUT UHY HB EKONOM D.O.O. (LTD.)

UHY HB EKONOM d.o.o. was established in 1995 and is specialised in accounting, auditing and business consulting services. The company was entered in the Register of Auditors by the Croatian Auditor Chamber No: 100001870.

Clients include small- to medium-sized Croatian companies, as well as affiliates of international companies from various sectors: construction, manufacturing, trade, food, tourism, furniture and many others.

The company currently employs 11 professionals; two of them are certified auditors, two are certified internal auditors and three are certified accountants. A wide network of external associates, i.e. lawyers, public notaries, certified consultants, certified estimators and court interpreters are at a client's disposal.

The main business of our practice is auditing of financial statements, accounting and tax consulting services. Other fields of expertise are business advisory services and project application to EU funding. Our broad accountant client base provides us a global insight into various business sectors.

The company has conducted audits for private companies, building societies, non-profit organisations, founding audits, merger and separation audits, stock capital increase and decrease audits, audits of business contracts and due diligence.

We have provided tax and business consulting services, financial analysis, reconstruction and investment advice, business plans and manager reports for foreign investors.

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#### ABOUT RUDAN D.O.O. (LTD.)

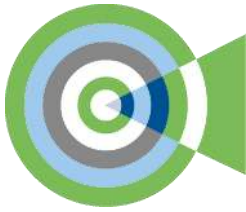
Rudan d.o.o. was established in 1994 for tax consulting and auditing. The company is registered for auditing, accounting and tax or business consulting services. The company headquarter is in Zagreb at Ilica 213. The Croatian Auditors Chamber entered the company in the Register of Auditors under No.100001550.

The main business of our Company is auditing and tax consulting. The company also conducts audits of private companies and public companies, forensic audits, merger and separation audits, capital increase audits and due diligence. We are also competent in making all kinds of business or investment plans.

The company currently employs 12 professionals out of whom three are certified auditors; one is a certified tax consultant, one a certified estimator and one a certified internal auditor. Our company is in the position to provide services in English and in German language. In cooperation with several lawyers, public notaries, judicial and other experts, we are in position to provide a full service to our clients.

Our employees have long experience in providing consulting services to domestic and foreign clients. In resolving the problems of our clients, we always try to find the best, innovative and most suitable solutions.





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## LET US HELP YOU ACHIEVE FURTHER BUSINESS SUCCESS

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