

DOING BUSINESS

IN CROATIA



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business

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1 – INTRODUCTION

UHY is an international organisation providing accountancy, business management and consultancy services through financial business centres in around 95 countries throughout the world.

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 business operations in Croatia has been provided by the offices of UHY representatives:

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A detailed firm profile for UHY's representation in Croatia can be found in section 8.

Information in the following pages has been updated so that they are effective at the date shown, but inevitably they are 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 December 2017.

We look forward to helping you do business in Croatia.

2 – BUSINESS ENVIRONMENT

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 28th member state of the European Union (EU). Following the ratification procedure in all member states and Croatia, as of 1 July 2013 Croatia became a full member of the EU.

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 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 increased GDP per annum in the period 1995–2007 to an average of 15.6%, which puts 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 -1.1% in 2013 and -0.4% in 2014, while the GDP real growth rate was 1.6% in 2015, 3.0% in 2016 and 2,8% in second quarter of 2017. Expected growth of GDP is 3,1% in 2017 and 2,8% in 2018. Imports of goods and services in 2016 were 46.6, exports 49.4 as % of GDP, which makes the Croatian market greatly dependent on movements in the world's major economies, especially on movements in the major trade partners of the EU. As of today GDP real growth is lower in Croatia than in other European countries but it shows improvement.

Although trends in tourism on the global level have had a positive influence in the past five years, the global economic crisis in 2008 slowed down growth. According to tourism indicators in Croatia, growth of this sector was 0.2% in overnight stays in 2010, followed by growth of 6.98% in 2011, 3.96% in 2012, 5, 2% in 2013, 2, 6% in 2014, 6, 8% in 2015 and 9.0% in 2016. In 2016 overnight stays in Croatia numbered approximately 78 million. Revenues of tourism were 18.9% of GDP. That makes industry of tourism one of the key drivers of Croatian economy.

Germans account for the largest number of overnight visitor stays, followed by Slovenians, Italians, Austrians and Czech. The tourist sector in Croatia has an increasing number of high-quality hotels; 44% of all hotel capacity comprises four or five star hotels. Annual income from tourism is growing much faster than the number of overnight stays.

Although exports have been increasing rapidly, due to increase in exports to EU members, exports are still 62 % lower than imports. The export commodity structure shows that Croatia exports mostly mineral fuels, mineral oils and distillates, nuclear reactors, boilers, machines, apparatus, electrical machinery and equipment, electric equipment, gas, products made of wood, coal, clothes and clothes accessories, medicines and products made of steel and iron. In the last few years, there has been a rapid growth of ICT and software exports, which indicates that Croatian companies are turning to more profitable industries. The import structure in 2016 shows the largest imports is in mineral fuels, mineral oils and distillates, nuclear reactors, boilers, machines, apparatus, electrical machinery and equipment and motor vehicle.

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. As of 2014, Croatian Ministry of Justice and State Geodetic Directorate started introducing project “Development of joint information system (JIS) of land registry and cadastre and consolidation of land registry data” (see <http://oss.uredjenazemlja.hr>) which purpose is to speed up and simplify registration of real estate, increase level of legal security in real estate transfers and increase quality of providing services.

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 six. Altogether this has reduced the cost of starting up companies by 50%, to a cost of approximately EUR 800.

In 2012 Croatian Government adopted the new Investment Promotion and Development of Investment Climate Act. The incentive measures in the new Act are aimed at strengthening production activities and the use of new technologies, supporting research & development activities and stimulating employment.

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.

TABLE 1

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

	2012	2013	2014	2015	2016
GDP, current prices (EUR million)	43.959	43.516	43.045	43.921	45.843
GDP per capita (EUR)	10.297	10.228	10.162	10.390	10.992
GDP, real growth rate (%)	-2.2	-1.1	-0.4	2.2	3.0
Inflation rate (%)	3.4	2.2	-0.2	-0.5	-1,1
Central Bank discount rate (%)	7	7	7	3	3
Unemployment rate (%)	15,9	17,3	17,3	16,2	13,1
Average gross salary (HRK)	7,875	7,939	7,943	8,055	7.752
Average gross salary (EUR)	1,044	1,039	1,041	1,059	1.029
Exchange rate HRK/EUR (31 December)	7.545624	7,637643	7,630014	7,609601	7,5294
Exchange rate HRK/USD (31 December)	5.726794	5.549000	5,749322	6,862262	6,8037

BACKGROUND FACTS

Area	56,594 square kilometres of land and 31,067 square kilometres of territorial waters
Population	4.171 million (2016)
Language	Croatian, with ethnic minorities using their own language locally
Political system	Parliamentary democracy
Capital	Zagreb
Currency	Croatian kuna (HRK), made up of 100 Lipa

TRADE

Exports	EUR 12, 32 billion (2016)
Imports	EUR 19, 7 billion (2016)
Main trading partners	Exports (2016): Italy, Slovenia, Germany, BiH, Austria Imports (2016): Germany, Italy, Slovenia, Russia, China

3 – FOREIGN INVESTMENT

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 companies in Croatia, they gain rights and take on responsibilities under the same conditions and have the same status as domestic investors. Everything relating to relationships between domestic investors also relates to foreigners when they 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. This is why foreign investors are entitled to additional guarantees that are not extended to domestic investors. For example, the rights gained through capital investment are not reduced by any law or other regulation.

FOREIGN DIRECT INVESTMENT ANALYSIS

TABLE 2

	2014	2015	2016
Total inflows into Croatia	2.292 million EUR	192,3 million EUR	1.705,6 million EUR

Key facts:

The total FDI inflows into the Croatia in 2016 compare to 2015 – 786, 95 % increase.

TOP INFLOW FDI INVESTITORS INTO CROATIA IN 2016, BY COUNTRY

TABLE 3

	TOTAL INVESTMENT
Italy	24.5
Netherlands	15.4
Germany	12.3
Hungary	9.4
France	1.21

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.

In order to apply for investment incentives, an investment must relate to one of the following:

- manufacturing and processing activities;
- development and innovation activities;
- strategic business support activities; or
- provision of services of high added value.

Further, the investment should ensure environmentally safe business activities and achieve at least one of the following aims:

- introduction of new equipment and modern technologies;
- increase of employment and education of employees;
- development of products and services of high added value;
- increase entrepreneurial competitiveness; or
- stimulation and increase of economic activity in areas where economic growth and employment are below the national average (in accordance with the Croatian regional development map).

Should the investment qualify the Act provides the following incentive measures:

- Tax incentives - decrease of the corporate income tax rate, depending on the amount of the investment and the number of new jobs created,
- Customs incentives - customs exemption for importing machinery/equipment, depending on the customs tariff,
- Employment incentives - non-refundable aid for eligible costs of new jobs created depending on the unemployment rate in the county in which the investment is located,
- Incentives for education and training - depending on the size of the enterprise and the type of the training,
- Non-refundable aid for the purchase of high-tech equipment/machinery for development and innovation activities – non-refundable aid of up to 20% of eligible costs of the purchase of machinery/equipment,
- Incentives for the capital expenses of investment projects
- Incentives for labour intensive investment projects - non-refundable aid for new jobs created in labour intensive investment projects – depending on the number of new jobs created.

Incentive measures can be used by enterprises registered in the Republic of Croatia investing in fixed assets in the minimum amount of:

- € 50,000 and 3 new jobs created for micro enterprises
- € 150,000 and 5 new jobs created for small, medium and large enterprises.

The recipient of incentive measures can be an entrepreneur – natural person (craftsman) profit taxpayer or commercial company.

An application to acquire the status of a recipient of incentive measures must be submitted before the beginning of the investment.

Obligations of the recipient of incentive measures is submission of the annual report on the status of the investment project to the responsible ministry and Ministry of Finance – Tax Authority. The Annual Report is submitted together and in accordance with the deadlines for the submission of an annual income tax statement and in accordance with the Corporate Income Act.

SECTOR RESTRICTIONS

Investments in Croatia are welcome and encouraged.

However, some areas of investment are limited and are subject to special conditions and approval procedures by the competent authorities. These include areas of foreign ownership of real estate, particularly agricultural land, forests and other protected nature areas, 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.

A restriction remains for agricultural land and land categorised as protected natural areas such as national parks 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 18% or 12% 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

SETTING UP A COMPANY IN CROATIA

The Croatian legal system provides for a range of entities common in other legal systems. There are no restrictions on the 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.

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, to 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 their profits to statutory reserves until share capital reaches 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 a public notary
- Incorporation document – articles or statement of incorporation
- Company name explanation (if necessary).

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.

Operating in a free zone confers 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 (ie 10%).

Provisions for the free zones described within the VAT Law have been harmonised with provisions of the European Council Directive 2006/112. The trade of goods and services inside free zones is taxable by VAT except in cases where goods and services have been purchased for future export outside of the EU.

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

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 2016 amounted to 13, 1% 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 four weeks paid annual vacation. Vacation days must be granted until 30 June current year for the previous year. 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.

Generally, 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. Any 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, an employer may dismiss the employee only if such a cancellation clause is included in the employment contract.

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. A new reform came into effect on 1 January 2002 when a three pillar pension insurance system was introduced. Following international trends, Croatia has also raised the retirement age which will as of 01 January 2038 be equalised for both men and women – 67 years of age and 15 years of employment.

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 health services. Additional and private health insurances are both voluntary insurances with a beneficiary contributing a monthly insurance premium.

TABLE 4

Social security contributions

	EMPLOYER	EMPLOYEE
Pension contributions		15+5%
Health insurance	15%	
Special health insurance against work-related accidents	0.5%	
Employment contributions	1.7%	
Total contributions	17.2%	20%

EMPLOYMENT OF FOREIGNERS

The law divides foreigners into two categories: citizens from countries in the European Economic Zone (meaning the EU and EFTA); and citizens from third countries (including Switzerland and Liechtenstein). However, citizens from EU countries which have placed restrictions on their employment markets for Croatian citizens (Malta, Netherlands, Austria, Great Britain and Slovenia) 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 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 a stay of up to three months and register for a temporary stay if this exceeds a 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, these permits are not subject to the annual quota for certain types of employees, though 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 of a signed labour contract, 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

TAX AUTHORITIES

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

The Tax Administration consists of 6 territorial branch offices and one national office for large taxpayers. 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 for 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 the tax policy, 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 taxes stipulated by the law.

GENERAL TAX LAW

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

The General Tax law covers broad issues relating to taxation procedures, 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 a 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 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)

VAT 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 entered the common EU market without customs and other legal barriers. EU countries are obliged to harmonise their 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 the EU) performs for a domestic entity.

Business transactions are taxed at 25%, 13% and 5% (these rates are active from 1 January 2014).

The 5% rate applies to the following:

- All kinds of bread and milk (except for fermented and certain other milk products)
- Books of a 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 and medical equipment determined by the List of Medicines of the Croatian Institute for Health Insurance
- Scientific periodicals
- Daily newspapers printed on paper, except those that wholly or mainly contain advertisements or are used for advertising purposes
- Scientific newspapers
- Cinema tickets.

The rate of 13% applies to the following:

- Accommodation or bed and breakfast, half board or full board accommodation services provided in hotels and similar establishments including holiday accommodation, renting of space in holiday camps or in places set aside for camping as well as provision of accommodation in nautical tourism vessels
- Newspapers and magazines issued by a newspaper publisher holding a statute of a media and newspapers and magazines which are not obliged to adopt a statute of a media according to special regulation, printed on paper and published periodically, and those that, in their entirety or mainly, contain advertisements or serve for advertising purposes
- Edible oils and fats of vegetable or animal origin
- Baby car seats and food and processed foodstuff made from cereals for infants and small children
- Supply of water, with the exception of marketed water in bottles or any other packaging
- Concert tickets
- Supply of electricity to the other supplier or end-user, including delivery fees,
- Public service for the collection of mixed municipal waste, biodegradable municipal waste and separate collection of waste under a special regulation
- Urns and coffins
- Seedlings and seeds
- Fertilizers and pesticides and other agrochemicals
- Feed, other than pet food.

The following are free of tax inside Croatia:

- Lease or rent of residential premises
- Bank, savings bank, credit-saving organisation and insurance company services
- Lotteries, casino games, betting, and slot machine games
- Postal and fiscal stamps
- Delivery of used buildings (used for at least two years), delivery of land (except construction land) – applicable as of 1 January 2015.

All domestic entrepreneurs doing business with entrepreneurs inside the EU are obliged to register with tax authorities and get a VAT-ID number which is necessary for identification as a VAT obligator in other EU countries. Entrepreneurs registered for EU transactions are obliged to submit VAT calculations 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 (HRK 300,000 as of 1 January 2018), does not have the right to display tax on invoices issued and cannot deduct the tax which other entrepreneurs may charge.

A taxpayer with headquarters, a permanent establishment, domicile or habitual residence in Croatia and whose value of the supply of goods and services in the previous calendar year did not exceed HRK 3,000,000.00 excluding VAT, can account for and pay VAT on the basis of received considerations.

A taxpayer which has received goods or services in the country acts as a paying guarantor for payment of VAT if, due to objective circumstances, it appears that the taxpayer knew or should have known that it is with such a transaction involved in a fraudulent activity which intention is to avoid paying VAT.

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 or habitual 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 incurred 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 a 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 3,800 which isn't taxable (since January 2017).

TABLE 5

Personal income tax rates (Since 1 January 2017)

MONTHLY INCOME (HRK)	RATE
0–17,500	24%
Over 17,500	36%

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. Accordingly, the following major cities have local taxes:

- Zagreb 18%
- Split 15 %
- Rijeka 15 %
- Osijek 13 %
- Pula 12 %
- Zadar 12 %
- Varaždin 10 %
- Dubrovnik 10 %.

CORPORATE INCOME TAX

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

When determining the nature of their investments or the legal form of establishing a business operation in Croatia, foreign investors need to consider tax burdens and obligations, 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 a profit, an income or other economic benefits.

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

The tax base is defined as profit, determined as the difference between revenues and expenditures 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. 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 18% or 12%.

There are no restrictions on transferring profits abroad after paying tax obligations, which include the 18% or 12% corporate tax and 12% of withholding tax, if applicable. A tax loss shall be carried forward and offset by reducing the tax bases in the following five years.

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%, except for dividends and shares of profit subject to withholding tax at a rate of 12%.

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

The taxpayer liable to pay withholding tax is:

- A Croatian entity that makes payments to foreign entities which are not natural persons
- The permanent establishment of a non-resident company, when it pays considerations subject to withholding tax to its parent company.

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 which are not natural persons
- Market research services, tax and business consulting and auditor services paid to non-residents
- Interest, dividends and shares of 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 at the rate of 15% or 12%.) 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). Property acquisition on which VAT is paid is not considered a transaction subject to real estate transfer tax.

This 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 4%. The tax base is calculated as the market value of the property at the moment of the acquisition.

The Real Estate Transfer Tax Law provides 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.

INHERITANCE AND GIFT TAX

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

The tax base for 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 up to 4%.

Gift tax is payable where a gift of property is made to another individual (ie the beneficiary). The taxable base of the gift is usually the net value of the gift. The gift tax rate is usually 4%.

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

SPECIAL TAXES (EXCISES)

Special taxes (excises) in Croatia are 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 for companies.

These include a tax on road motor vehicles, a tax on holiday houses and a tax on coin-operated machines for games and amusements.

7 – ACCOUNTING & REPORTING

ACCOUNTING

Companies existing and performing their work in Croatia are obliged to keep records and prepare annual financial statements in accordance with the Croatian Financial Reporting Standards (CFRS) issued by the National Committee for Financial Standards.

Large companies and public interest entities 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.

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

- Total assets over HRK 2,600,000
- Total turnover over HRK 5,200,000
- Average number of employees during the year over 10.

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

- Total assets over HRK 30,000,000
- Total turnover over HRK 60,000,000
- 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 150,000,000
- Total turnover over HRK 300,000,000
- Average number of employees over 250.

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

External auditing of 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
- Public interest entities
- Large and medium-sized groups
- Companies whose shares or securities are preparing for their inclusion on the organised securities market
- Companies engaged in business combinations or divisions as takeover companies or newly established companies.

The following companies or groups will also be subject to annual external audit from year 2016 if annual reports for the previous year exceed two of the following limits:

- Total assets HRK 15.000.000,00
- Total turnover HRK 30.000.000,00
- Average number of employees 25.

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 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 the calendar year, corporate income tax returns have to be delivered to the tax authority not later than 30 April 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. As of 1 January 2016, for 2015 tax returns, the tax authority has been authorised to independently calculate a taxpayer's annual personal income tax obligation/return if it has all data on the earned income of the taxpayer in the tax period.

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 CROATIA

UHY HB EKONOM d.o.o.

CONTACT DETAILS

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Split
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Fax: +385 21 381 119
www.uhyincroatia.com

CONTACTS

Liaison contact: Helena Budisa
Position: Director
Email: helena.budisa@uhy.hr

SOCIAL MEDIA CONNECTIONS

- Facebook:
<https://www.facebook.com/pages/UHY-HB-ekonom-ra%C4%8Dunovodstvo-revizija-i-poreznosavjetovanje/107550732641921?fref=ts>
- LinkedIn:
<http://www.linkedin.com/company/uhy-hb-ekonom-split-croatia-ltd-for-accounting-auditingand-tax-consulting>
- YouTube: <http://www.youtube.com/user/uhyhbekonom>

Year established: 1995

Number of partners: 1

Total staff: 11

ABOUT US

"We will either find a way, or make one." - "Naci cemo put, ili cemo ga napraviti."

OTHER IN-COUNTRY OFFICE LOCATIONS AND CONTACTS

UHY SAVJETOVANJE d.o.o. (UHY CONSULTING Ltd) - Hrvatske mornarice 1h, 21 000 Split
Tel: 00 385 21 612 673
FAX: 00 385 21 612 672
Contact: savjetovanje@uhy.hr

Director: Kresimir Budisa

E-mail: kresimir.budisa@uhy.hr

BRIEF DESCRIPTION OF FIRM

UHY HB EKONOM with headquarters in Split, Croatia has twelve employees, ten of which have a university degree and active knowledge of English language. Two of us are certified auditors, one is younger auditor, three are certified accountants and one is younger accountant.

UHY SAVJETOVANJE has 5 employees that are proficient into strategy development, development of various projects, either for banks or through EU funding, holding seminars and trainings in EU funding, etc.

Thanks to our personnel and wide external net of associates, we are able to provide all types of services to our domestic and foreign clients. We do all kinds of audit, make financial reports, and provide tax and business consulting services, financial analysis, reconstruction and investment

advice, preparing business plans and management reports. We are also capable of providing you with funding support for your project, either from government incentives, EU grants or any other sources of funding available.

We are the largest audit and consulting company in Dalmatia either through number of employees or through the revenues, we are chosen among all companies in Dalmatia to be in top 100 companies in years 2008 - 2013. based on the Poslovni dnevnik and Ministry of entrepreneurship, and have AAA creditworthiness, among 2% of companies in Croatia.

UHY HB EKONOM was founded in 1995, as a small privately owned company with only two employees. From the beginning, we were committed to provide highly professional accounting services, mostly for newly founded private companies. Over the years we expanded our services in such areas as tax and business consulting, and general business planning and advisory services. In 2000, we added audit services.

Year 2000 was a turning point for the Croatian market. Many foreign investors came to Croatia requiring professional financial advice and our firm has grown continuously since then.

We have conducted many audits for small and medium sized companies, building societies, not-for-profit organisations, founding audits, mergers and separations, stock capital increase, audit of business control and due diligence.

The firm currently has twelve employees and ambitious plan for further growth in years to come. The firm joined UHY in 2007, fully adopting the UHY brand in 2009.

2012. UHY CONSULTING was founded, due to the fact of the growing potential in the market of EU funding, development of feasibility studies, investment studies, etc. Firms in 2013 reach the market leader position becoming the largest audit and consulting company in Dalmatia (southern region of Croatia). In 2014 our firm UHY CONSULTING has reached investors from Poland, that are now co-owners of the company, group B-4, which has extensive knowledge in developing and finalizing own projects funded through EU in Poland.

SERVICE AREAS

Audit, due diligence
 Accountancy, bookkeeping
 VAT consultancy
 Corporate and personal tax assistance
 Financial analysis and control
 Corporate finance (acquisitions, sales, fundraising and flotations)
 General business advice and strategic planning
 Business and investment plans
 EU funding project management and planning
 Project leadership packages

SPECIALIST SERVICE AREAS

Revision, due diligence
 Accounting, bookkeeping
 Tax counseling
 Financial analysis and controls
 Corporate finance (acquisitions, sales, valuations of a company, mergers, mergers)
 Business consulting and strategic planning
 Business and investment plans and elaborates
 Preparation of projects for EU competitions and grants

PRINCIPAL OPERATING SECTORS

Car manufacturing and components
 Chemicals
 Computers & Peripherals
 Construction

Educational Services
 Electrical Components & Equipment
 Electronics
 Food & beverages manufacturing
 Hotels
 Information Technology (IT) & services

LANGUAGES

Croatian, English, Deutsch, Polski

CURRENT PRINCIPAL CLIENTS

Alcor Ltd
 Alpro Att Ltd
 Arista Group
 CS Croatia Ltd
 Crvena luka plc
 HL Dvorac Ltd
 LTH Metalni lijev Ltd
 Libertas Dubrovnik Ltd
 Končar električni uređaji Ltd
 Nautika Centar Nava Ltd
 Ora-Mont Ltd
 Petason Ltd
 Promet Ltd
 Wellmax Ltd
 Split ferry port plc
 Trigon Capital Group
 Tulipan Group
 Vodovod Dubrovnik Ltd
 Vodovod i kanalizacija Ltd
 Fakultet građevine, arhitekture i geodezije Split
 Pomorski fakultet Split
 Grad Drniš

OTHER COUNTRIES IN UHY CURRENTLY WORKING WITH, OR HAVE WORKED WITH IN THE PAST

Austria, Estonia, France, Germany, Hungary, Italy, Malta, Poland, UK, US, Serbia, Slovakia, Sweden

UHY RUDAN d.o.o.**CONTACT DETAILS**

UHY RUDAN d.o.o.
 Ilica 213
 Zagreb
 Croatia
 Tel: +385 1 39 06 374
 Fax: +385 1 30 10 380
 www.uhyincroatia.com

Year established: 1994

Number of partners: 1

Total staff: 15

CONTACTS

Liaison contact: Dragan Rudan
 Position: Managing Partner
 Email: dragan.rudan@uhy.rudan.hr

BRIEF DESCRIPTION OF FIRM

Established in 1994, Rudan d.o.o. is located in Zagreb; our core business 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.

Our employees have considerable experience in providing consulting services to domestic and foreign clients. In resolving the problems of our clients we are always trying to find the best, innovative and most suitable solution for our clients. Company currently employs 10 professionals out of whom there are 2 certified auditors, 1 certified tax consultant and 1 certified estimator. Our company is in the position to provide services in English and in German language. In cooperation with several law firms, public notaries, judicial and other experts we are in position to provide full service to our clients.

After a long and successful career in leading positions with several well-known Croatian firms, Mr. Rudan, a leading expert in the field of auditing and tax consulting, started Rudan d.o.o. in 1994. Located in Zagreb, our core business is auditing and tax consulting. The company also conducts audits of private companies and public the firm is registered for auditing, accounting and tax or business consulting services. The company was entered in the Register of Auditors by the Croatian Auditors Chamber under No.100001550. Share capital of the company is 490 thousands Kuna. In 2006, the firm expanded and a new generation of young professionals joined to give a fresh, modern spirit to Rudan d.o.o.. In 2009 the firm employed 3 more young professionals. The firm joined UHY network in 2007.

SERVICE AREAS

Audit and outsourcing services
 Tax consulting
 Forensic accounting and litigation support
 Due diligence
 Corporate finance (acquisitions, sales, fundraising and flotation)
 Transfer Pricing

SPECIALIST SERVICE AREAS

Company valuation

PRINCIPAL OPERATING SECTORS

Computers & Peripherals
 Electrical Components & Equipment

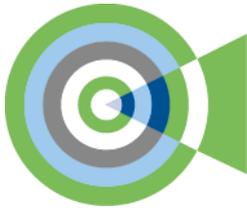
Hotels
Industrial Products
Information Technology (IT) & services
Textiles & Apparel

LANGUAGES

Croatian, English, German.

PRINCIPAL CLIENTS

Borovo d.d. (plc)
Computech d.o.o. (Ltd.)
Hempel Coatings d.o.o. (Ltd.)
J.u.A. Frischeis d.o.o. (Ltd.)
KFK Tehnika d.o.o.(Ltd.)
MST International (Herbalife) d.o.o. (Ltd.)
N.G. Prom (Diesel clothing) d.o.o. (Ltd)
Pastor TVA d.d. (Joint stock company)
Pastor Inženjering d.d. (Joint stock company)
Recro d.d. (Joint stock company)
Recro Net d.o.o. (Ltd.)
Reflex Zagreb d.o.o. (Ltd)
Sanitaria Zagreb d.o.o.(Ltd)
SCL Logistika d.o.o.(Ltd)
Valalta d.d. (plc)
Zagrebtrans d.o.o. (Ltd.)



LET US HELP YOU ACHIEVE FURTHER BUSINESS SUCCESS

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