

Tax legislation amendments in force from 1 January 2021

Tax Newsflash

December 2020.

Amendments in force from 1st January 2021:

- Corporate profit tax act
- Value added tax act
- Personal income tax act

CORPORATE PROFIT TAX ACT

- For taxpayers whose annual income does not exceed HRK 7.5 million, the corporate profit tax rate is reduced from 12% to 10%
- Withholding tax rate will be reduced:
 - on dividend and profit share payments from 12% to 10%
 - on payments effected to non-resident performers (artists, entertainers and athletes) from 15% to 10%
- Write-offs of credit institutions' receivables (principal and interest recognized in income) will be tax deductible to the extent these were previously impaired and provided for in accordance with Croatian National Bank regulations. The amount of written-off liability will not be considered as taxable income, i.e. receipt of the debtor and will not impact other thresholds prescribed by the Corporate Profit Tax Law.
- In cases where prices agreed between related parties were not at arm's length, instead of increasing the tax base for the corresponding amount in the annual corporate profit tax return, taxpayers will be obliged to perform a compensating transfer pricing adjustment before the annual corporate profit tax return is submitted.

VALUE ADDED TAX ACT

- Cash accounting scheme threshold is increased from HRK 7,5 million to HRK 15 million
- Extension of the possibility to treat import VAT as an accounting category
- The VAT exemption related to defence efforts undertaken within the EU is equalled to the VAT exemption which is applied to defence efforts undertaken within the North Atlantic Treaty Organization (NATO)

Changes coming into force as of 01 July 2021

- Implementation of EU Council Directives with regard to provisions in respect of distance sales and abolishment of the VAT exemption for import of small value parcels
- The application of the special taxation procedure for telecommunications services, radio and television services broadcasting and electronically performed services, (i.e. Mini One Stop Shop – MOSS system) will be extended to provision of all services performed to persons which are not taxpayers. Further to this, entrepreneurs who provide services to persons that are not taxpayers are not obliged to register for VAT purposes in each Member state in which the place of taxation of these services is situated, which means that VAT on these services will be reported and collected in the Member State of reporting.
- The application of the MOSS system is also extended to the distance sale of goods within the EU to persons which are not taxpayers and the obligation to issue and invoice for these supplies is abolished.
- Current distance sales thresholds are replaced with an annual threshold of HRK 77 thousand, and once the threshold HRK 77 thousand is reached the distance sale supplies will be taxed in the Member State in which the non-taxpayer recipient of goods has residence.
- The VAT exemption for small parcels imported into the European Union from third countries with a value of less than HRK 160 (EUR 22) is abolished.
- If the distance sale of goods is enabled through an electronic interface and the goods are imported from third territories or third countries in parcels which have a value of not more than HRK 1,135 or if the distance sale of goods within the European union is conducted by a taxpayer without residence in the European union, the supplier is deemed to be the taxpayer, which enables the sale through its electronic interface.

PERSONAL INCOME TAX ACT

- Reduction in the personal income tax rates, as follows:

Type of income	From 1st January 2021
<ul style="list-style-type: none"> — Employment income/self-employment income/"other income" above the tax base of HRK 360,000 per annum/HRK 30,000 per month — "Other income" assessed on the refund of overpaid pension insurance contributions — Income from capital based on asset withdrawal from the company — "Other income" determined as the difference between the value of an asset and the proved source of funds for acquiring the asset* 	Tax rate decrease from 36% to 30%
<ul style="list-style-type: none"> — Employment income/self-employment income/"other income" up to the tax base of HRK 360,000 per annum/HRK 30,000 per month — Income from property rights (patents and similar property rights) — Income from alienation of more than three properties of the same kind within a five year period — Income from capital based on share award or share option plan 	Tax rate decrease from 24% to 20%
<ul style="list-style-type: none"> — Capital gain — Dividends and share in profit income — Interest income — Income subject to lump-sum tax — Rental income — Income from special types of asset 	Tax rate decrease from 12% to 10%

*Assessed tax liability is further increased by 100%

- If other income does not exceed HRK 12,500 annually taxation with the lower tax rate is nonetheless abolished if the total annual income exceeds HRK 360,000.
- New non-taxable types of income are introduced:
 - National reimbursement for the elderly according to special regulations.
 - Income earned by individuals who are employed or work as a freelancer for a foreign employer not registered in the Republic of Croatia, and have the status of digital nomad according to Croatian Foreigners Act will be exempted from taxation in Croatia.
- Costs of vaccination against infectious diseases paid by a employer for its employees is not taxable regardless of the way how the costs are covered.
- Public notaries are obliged to submit certified documentation regarding individuals renting real estate or entering into lease contract to the Croatian Tax Authorities (CTA) by electronic submission.

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