

Croatian parliament adopts tax legislation amendments

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Tax Newsflash
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On 28 September 2023 the Croatian Parliament passed amendments of the existing tax legislation.

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Below we set out the most important amendments of tax legislation.

Personal income taxation

Tax burden on wages is reduced through several Laws amendments. The most important amendments are as follows:

- City surtax on all types of income is abrogated.
- The tax rates on income that is not taxed as final (employment income and other income) will be determined by cities/municipalities. Tax rates can be determined within the following ranges: a lower rate from 15% to 23.6% and a higher rate from 25% to 34.5%.
- The basic personal allowance is increased from EUR 530.90 to EUR 560. Consequently the allowance for the dependent family members and disability is also increased.
- The threshold for applying the higher rate of personal income tax is increased from EUR 47,780 to EUR 50,400.
- The base for the first pillar of pension insurance for gross wages up to EUR 1,300 is reduced. Individuals with a gross salary of up to EUR 700 will benefit from the largest reduction of EUR 300, and for individuals with a gross salary ranging between EUR 700 and EUR 1,300 the amount of benefit will be gradually reduced as the amount of the gross salary increases. The relief will not result with the reduction of pension insurance entitlements upon retirement.

Simultaneously with the reduction of the tax burden on wages, there is an increase in personal income tax rates (along with the abrogation of the city surtax) for the following types of income:

- Income from property and property rights. The tax rate on rental income is increased from 10% to 12%, and for income from property rights and alienation of real estate and property rights, the tax rate is increased from 20% to 24%.
- Income from capital. The general capital income tax rate is increased from 10% to 12%. The tax rate on income on the basis of share incentives is increased from 20% to 24%, and for income from capital based on withdrawal of assets and utilization of services by its members (so-called "hidden profit payments") from 30% to 36%.

The respective amendments are added in addition to the initially proposed amendments of the Personal Income Tax Law.

Stock option incentives for limited liability companies (d.o.o.)

The treatment of joint-stock companies (d.d.) and limited liability companies (d.o.o.) is equalized in the case of share incentives.

Limited liability companies and their employees can use the same tax treatment as joint-stock companies when awarding shares to employees, which represents a significant change in tax treatment compared to the current situation.

Withholding tax

- Withholding tax on market research and business consulting services (auditing, tax consulting) is abrogated.
- The application of withholding tax exemption on dividends, interest and royalties is extended to companies that are tax residents in the European Economic Area (in addition to EU Member States, the exemption is extended to Iceland, Liechtenstein and Norway).
- For payments made to non-cooperative jurisdictions the withholding tax rate is increased from 20% to 25%.

Correction of output VAT liability for uncollected receivables

This long-awaited amendment provides taxpayers with the right to reduce their output VAT based on performed supplies in cases of inability of partial or full collection of receivables, where more than one year has passed since the receivable due date. In order to be entitled to reduce output VAT liabilities on the above basis, taxpayers must fulfill certain conditions, such as suing the debtors or initiating enforcement procedures, informing the Croatian Tax Authorities of the performed corrections, etc.

Other important amendments

- Tips recorded in the fiscalization system are not taxable up to EUR 3,360 per annum. Tips above that amount are taxed as final other income at a rate of 20%.
- The date of payment of the annual tax liabilities has been fixed according to the deadline for submitting the tax returns: for personal income tax on February 28, and for corporate profit tax on 30 April. This rule applies as of annual tax returns for the year 2023.
- EUR amounts are rounded in favor of taxpayers.

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