

GMS Flash Alert



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Croatia - Personal Income Tax Amendments for 2021

Starting 1 January 2021, new amendments to Croatia's income tax laws will bring additional tax relief for individuals, including reduced personal income tax rates and new exemptions for freelancers known as digital nomads as well as for some other types of income.¹

WHY THIS MATTERS

These latest amendments will reduce the tax burden for individuals and in particular, freelancers.

Tax costs for mobile employees will decrease, and overall tax burden related to the assignment of the employee. For employers with tax equalisation or tax protection policies, the cost of seconding employees to Croatia may decrease making Croatia more attractive for secondments.

Tax Rates Reduction

In the last four years, tax rates have significantly decreased and income thresholds have significantly increased. The continuation of tax reform in Croatia introduced, amongst other legislative changes, further decreases in personal income tax rates.

The reduced tax rates apply from 1st January 2021 and can be summarized as follows:

- The 12% rate will be reduced to a 10% tax rate: this lower rate will be applicable to dividends, interest income, capital gains, rental income and all other types of income that are currently subject to the 12% rate.

- The 24% rate will be reduced to a 20% rate: this rate will be applicable to employment income not exceeding the threshold (HRK 360,000 per annum), other income, income from stock option plans; and all other types of income currently subject to the 24% rate.
- The 36% rate will be reduced to a 30% rate: employment income and other income exceeding the threshold lower rate threshold, as well as all other types of income currently subject to the 36% rate, will be subject to the new 30% rate.

The tax rate on capital income received from restricted stock units and stock options has also significantly decreased. Further reductions are being discussed with the authorities since capital income is treated as a net receipt, which results in the effective tax rate from 1 January 2021 of 30.89% (reduced from 39.5%) for individuals residing in Zagreb.

New Types of Income Exempted from Taxation

Further, new non-taxable types of income are introduced.

- Income earned by individuals who are employed or work as a freelancers for a foreign employer not registered in the Republic of Croatia, and who have the status of a "digital nomad" according to the new Croatian Law on Foreigners, will be exempted from taxation in Croatia.²

"Digital nomads" are defined by the new Croatian Law on Foreigners applicable from 1 January 2021, as a third country nationals who are employed and perform work via communication technologies for a company or their own company established abroad, and who do not perform work for or provide services to Croatian employers. An individual's digital nomad status in Croatia can be approved for an initial period of up to one year.

In a nutshell, digital nomads are third country nationals working as a freelancers, while having approved temporary stay in Croatia. The term does not apply to EU nationals, thus a citizen of Germany, for example, will not be treated as a digital nomad in Croatia, and the income of an EU national working as a freelancer in Croatia will be subject to taxes in accordance with Croatian and applicable international law.

- National support for the elderly under special regulations (up to HRK 800 per month) is exempted.
- Costs of vaccination against infectious diseases paid by the employer for its employees are not taxable regardless of how the costs are covered.

FOOTNOTES:

1 To see the Amendments on personal income tax law (Official Gazette (*Narodne Novine*) 138/20) (in Croatian), click here https://narodne-novine.nn.hr/clanci/sluzbeni/2020_12_138_2625.html.

2 To see the new Law on Foreigners (Official Gazette (*Narodne novine*) 133/20 (in Croatian), click here: https://narodne-novine.nn.hr/clanci/sluzbeni/2020_12_133_2520.html.

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