



Taxation of international executives: Croatia



June 2023

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01

Overview and Introduction

1 Overview and Introduction

Individuals are classified either as resident or non-resident taxpayers. An individual resident in Croatia is taxed on her/his worldwide income. A non-resident individual is subject to income tax in Croatia only on income from Croatian sources.

The tax year for individuals is the calendar year.

The official currency of Croatia is the Euro (EUR).

Personal income tax liability varies depending on the type of income. Employment income, self - employment income and so-called other income is subject to the progressive annual tax rates of 20 and 30 percent. Property and property rights income and capital income are subject to a flat tax rate of 10 percent (with some exceptions which are subject to flat tax rates of 20 or 30 percent).

In addition, local municipalities may impose city surtax liability in the range between 0 to 18 percent of personal income tax payable.

In this publication, the host country/jurisdiction refers to the country/jurisdiction to which an employee is assigned. The home country/jurisdiction refers to the country/jurisdiction where an assignee lives when she/he is not on assignment.

02

Income tax

2 Income Tax

2.1 Tax returns and compliance

When are tax returns due? That is, what is the tax return due date?

31 January and end of February of the following year.

What is the tax year-end?

31 December.

What are the compliance requirements for tax returns in Croatia?

The annual INO-DOH form, to be submitted by 31 January of a current year for the previous year:

- to report income received from abroad which was not taxed in Croatia during the tax year as it was subject to foreign personal income tax on a prepayment basis;
- to request a right to a credit for tax paid abroad (it is not obligatory to request this right – a tax paid certificate issued by the relevant foreign tax authority is required).

The annual ZPP-DOH form, to be submitted by the end of February of a current year for the previous year:

- to request a right for personal allowances for supported family members if not utilized during the previous year and for other prescribed increments of personal allowances;
- to request a right to a credit for tax paid abroad (only for employment income, self-employment income and other income, if this request was not submitted through the INO-DOH form).

The annual tax return DOH form, to be submitted by the end of February of a current year for the previous year, if:

- the taxpayer has realized income from self-employment or other activities for which income tax is determined according to business books;
- the taxpayer has earned income as a crew member of a vessel in international navigation;
- the Croatian Tax Authorities have required that the taxpayer should pay income tax subsequently.

Generally, tax assessments are issued starting from June of the following year and up to the end of the following year.

Individuals receiving income directly from abroad should within 30 days from the receipt of the income report the income, calculate and pay taxes levied on the income. Reporting to the tax authorities is made via submission of a JOPPD form. If income received from abroad is subject to foreign tax during the tax year, an individual may claim exemption from taxation in Croatia during the tax year. In this case at year end the individual is required to report income from abroad on the annual INO-DOH form.

Residents

All resident taxpayers who source any type of income from abroad may be required to submit an annual personal income tax return, if such income is subject to tax in Croatia and if advance tax was not paid in Croatia and/or was paid in Croatia in an amount less than the amount which would be calculated pursuant to the provisions of the personal income tax Law.

Non-residents

Non-resident taxpayers may be required to submit an annual personal income tax return. Only Croatian sourced income of non-residents is subject to personal income tax in Croatia.

2.2 Tax rates

What are the current income tax rates for resident taxpayers and non-resident taxpayers in Croatia?

Resident taxpayers and non-resident taxpayers

Income tax table for 2023

| Taxable income bracket | | Total tax on income below bracket | Tax rate on income in bracket |
|------------------------|-----------|-----------------------------------|-------------------------------|
| From EUR | To EUR | EUR | Percent |
| 0 | 47,780.28 | - | 20 |
| 47,780.29 | over | 9,556.06 | 30 |

2.3 Residence rules

For the purposes of taxation, how is an individual defined as a resident of Croatia?

A resident taxpayer is an individual who has in Croatia:

- residence (if an individual owns/rents accommodation without interruption for at least 183 days over 2 consecutive calendar years; permanent stay in the accommodation is not necessary); or
- habitual abode (if the circumstances suggest that an individual permanently resides in a place or region for a period of at least 183 days over 2 consecutive calendar years).

If an individual simultaneously has residence in Croatia and abroad (owns/rents accommodation without interruption for at least 183 days over 2 consecutive calendar years in Croatia and a second state), the individual will be tax resident in the state where her/his family reside. If the individual is single, it is considered that the individual has permanent residence (and accordingly tax residence) in the state from which she/he mostly travels to work or in which she/he mostly stays.

A resident taxpayer is also an individual who does not have residence or habitual abode in Croatia but is employed with the government service and receives a salary based on this appointment.

A non-resident taxpayer is an individual who has neither residence nor habitual abode in Croatia, but sources income subject to Croatian personal income tax.

Is there, a de minimus number of days rule when it comes to residency start and end date? For example, a taxpayer can't come back to the host country/jurisdiction for more than 10 days after their assignment is over and they repatriate.

There is no de minimus number of days rule.

What if the assignee enters the country/jurisdiction before their assignment begins?

For more information, please see the section on Immigration. Any pre-assignment days are included in the number of days when determining tax residence.

2.4 Termination of residence

Are there any tax compliance requirements when leaving Croatia?

If leaving Croatia permanently, an individual should inform the Ministry of Internal Affairs and their local tax office of their departure.

In addition, if an individual is changing her/his residency status from Croatian tax resident to Croatian tax non-resident, she/he is required to report the change of residency to the Croatian tax authorities by submitting a tax residency questionnaire – TI Questionnaire form.

There is no need to submit a departure tax return form at the time of departure.

What if the assignee comes back for a trip after residency has terminated?

Any post-assignment days are included in the number of days when determining tax residence.

Communication between immigration and taxation authorities

Do the immigration authorities in Croatia provide information to the local taxation authorities regarding when a person enters or leaves Croatia?

Yes. The Croatian Ministry of Internal Affairs is required to ensure the delivery of all confirmation of work certificates and all issued stay and work permits to the local office of the Croatian Tax Authorities.

Filing requirements

Will an assignee have a filing requirement in the host country/jurisdiction after they leave the country/jurisdiction and repatriate?

Assignees may be required to file a monthly JOPPD form if there will be post assignment payments for work performed in Croatia.

2.5 Economic employer approach

Do the taxation authorities in Croatia adopt the economic employer approach¹ to interpreting Article 15 of the Organisation for Economic Co-operation and Development (OECD) treaty? If no, are the taxation authorities in Croatia considering the adoption of this interpretation of economic employer in the future?

No. The taxation authorities are considering the adoption of this approach, but no formal guidelines (or non-binding opinions) have been issued to date.

De minimus number of days

Are there a de minimus number of days² before the local taxation authorities will apply the economic employer approach? If yes, what is the de minimus number of days?

No (not applicable).

2.6 Types of taxable compensation

What categories are subject to income tax in general situations?

As a rule, all types of remuneration and benefits-in-kind received by an employee for services rendered constitute taxable income. These include, but are not limited to, the following:

- reimbursements of foreign and/or home country/jurisdiction taxes;
- school tuition reimbursements;
- home-leave reimbursements;
- cost-of-living allowances;

- expatriation premiums;
- interest-free or below-market-rate loans provided by the employer;
- housing allowances and the imputed value of housing provided directly by the employer. Under certain circumstances reimbursement of the accommodation costs can be exempted from taxation. For more information, please see the section on Tax exempt income; and
- private use of a company car.

All benefits-in-kind are deemed taxable income. The fair market value is chargeable to tax.

The value of benefits-in-kind provided should be grossed up to include personal income tax, city surtax (if applicable), and social security contributions (if applicable).

Intra-group statutory directors

Will a non-resident taxpayer of Croatia who, as part of their employment within a group company, is also appointed as a statutory director (i.e. member of the Board of Directors in a group company situated in Croatia trigger a personal tax liability in Croatia, even though no separate director's fee/remuneration is paid for their duties as a board member?

Note that up to now, in general, a Croatian non-resident taxpayer who is, based on their employment within a group company, appointed as a statutory director of a Croatian company should not be subject to Croatian personal income taxation under the following assumptions that: they do not receive director's fees/remuneration for their duties as a board member; they do not have any physical presence in Croatia; there is no direct re-charge of the director's fees/remuneration costs.

However, what we see recently is a non-formal interpretation by the Croatian tax authorities (there is no official guideline issued with this regard) that director's fee/remuneration paid as the part of the salary should fall under Article 16 of the OECD Model Convention and therefore to be fully taxed in Croatia.

If a Croatian non-resident taxpayer is appointed as a statutory director of a Croatian company, Croatian social security contributions liabilities may arise if she/he is not socially secured in an EU Member state or a State with which Croatia has a Social Security Totalization Agreement in force. An A1 certificate or a Certificate of coverage may be requested.

a) Will the taxation be triggered irrespective of whether or not the board member is physically present at the board meetings in Croatia?

If director's fees/remuneration is paid by a Croatian company or re-charged to a Croatian company, these should be subject to Croatian personal income taxation irrespective of the board member's physical presence in Croatia.

b) Will the answer be different if the cost directly or indirectly is charged to/allocated to the company situated in Croatia (i.e. as a general management fee where the duties rendered as a board member is included)?

If costs are indirectly charged to/allocated to a Croatian company as a management fee this should not lead to taxation in Croatia under assumption that, when computing the management fee, salary costs of the individual performing the service is just one element used in the formula of the management fee calculation.

If the salary cost of the director (which relates to Croatia) would be directly re-charged to a Croatian company (e.g. salary and bonus) with or without mark up, it may lead the Croatian Tax Authorities to the conclusion, in a potential tax audit, that no management service is provided to the Croatian company, but rather that the Croatian company is the director's economic employer.

If a tax liability is triggered, how will taxable income be determined?

If a tax liability is triggered, this income will be considered as an employment income subject to progressive tax rates of 20 and 30 percent (as received based on the employment within a group company).

2.7 Tax-exempt income

Are there any areas of income that are exempt from taxation in Croatia? If so, please provide a general definition of these areas.

The following payments/reimbursements are not included in taxable income (whether paid to a local employee or an expatriate assigned to a Croatian entity but only if the expatriate is sent on a business trip to perform services on behalf of the Croatian entity to which the expatriate has been assigned):

- reimbursement of accommodation expenses on a business trip, up to the amount of actual expenses;
- reimbursement of travel expenses on a business trip, up to the amount of actual expenses;
- reimbursement of travel expenses to and from work by local public transport, up to the amount of actual expenses according to the price of single or monthly tickets;
- reimbursement of travel expenses to and from work by inter-city public transport, up to the amount of actual expenses according to the price of monthly or single tickets;
- daily allowances for business trips within Croatia, up to EUR 26.65 (in addition to actual travel and accommodation costs);
- daily allowances for business trips abroad, up to specified amounts (varies by country/jurisdiction; in addition to actual travel and accommodation costs); and
- allowances for the use of a private car for business purposes, up to EUR 0.4 per kilometer driven.

The following payments/reimbursements are not included in taxable income:

- awards for special occasions cumulatively to EUR 663.62 per annum (usually paid for Christmas, during holidays, and so on);
- awards to employees for performance result to EUR 995.43 per annum;
- jubilee payments from EUR 199.09 to EUR 663.62 per annum depending on the years of service; other payments up to prescribed amounts;
- education provided by the company and connected with the company;
- specific work outfits labelled with the name or logo of the employer (or income payer); compulsory health checks and general health checks, if provided to all employees;
- Croatian compulsory social security contributions provided by the employer;
- Employee nutrition costs based on supporting documentation, up to EUR 1,592.76 annually or cash lump-sum payment covering the costs of an employee's nutrition – up to EUR 796.44 annually;
- Accommodation expenses, up to the actual expenses based on supporting documentation (signed contract, settlement through a non-cash means of payment); and
- Reimbursements of regular childcare costs (preschool), up to the actual expenses based on supporting documentation.

In addition, income tax is not paid on the following items:

- interest on positive balance on giro accounts, current accounts, and foreign currency accounts up to 0.5 percent per annum;
- interest on investment bonds;
- gains realized from the sale of a financial property (investment and securities), if financial property is acquired prior 1 January 2016 or disposed after 2 years from the date of acquisition;

- dividends and profit shares if:
 - those were earned up to and including 31 December 2000 and in the period from 1 January 2005 to 29 February 2012;
 - the dividends and profit shares are used to increase the share capital of the company;
- if certain conditions are met, the alienation of real estate or property rights; and
- receipts from non-refundable European Union (EU) funds and programs for the purpose of education and professional training, up to the prescribed amounts

Voluntary pension insurance premiums paid on behalf on an employee by their employer with the employee's consent, to a voluntary pension fund registered in Croatia pursuant to the regulations on voluntary pension insurance, up to EUR 66,37 per month in the tax period or the total of EUR 796,44 per annum are not subject to individual income tax.

Insurance premiums that employers may pay for their employees based on Croatian additional and private health insurance, up to the amount EUR 331,81 annually are not subject to individual income tax.

Partially tax-exempt income

A range of payments, benefits, and allowances are not taxable, up to prescribed amounts, when paid to individuals employed by a Croatian legal entity and up to a certain scale when paid to expatriates.

2.8 Expatriate concessions

Are there any concessions made for expatriates in Croatia?

There is no special tax regime for expatriates.

2.9 Salary earned from working abroad

Is salary earned from working abroad taxed in Croatia? If so, how?

Yes, in the case of Croatian tax resident taxpayers. Resident taxpayers must report all their worldwide income. If a tax resident individual works in Croatia and in addition during the same calendar year earns income and pays foreign taxes for work performed abroad, such foreign sourced income and foreign taxes paid must be reported in the individual's annual personal income tax form, supported with a formal confirmation of foreign income and taxes paid.

No, in the case of Croatian non-tax resident taxpayers.

2.10 Taxation of investment income and capital gains

Are investment income and capital gains taxed in Croatia? If so, how?

Capital income includes the following:

- Interest income on loans provided by physical persons (taxed at the rate of 10 percent, plus city surtax if applicable);
- Interest on savings accounts (taxed at the rate of 10 percent, plus city surtax if applicable);
- Withdrawals of assets and usage of services by an entrepreneur (taxed at the rate of 30 percent, plus city surtax if applicable);
- Shares granted to or purchased by management board members and employees of a joint stock company via a stock option scheme are considered capital income (taxed at the rate of 20 percent, plus city surtax if applicable, with a gross up requirement);
- Dividends and profit shares (taxed at the rate of 10 percent, plus city surtax if applicable).

Tax on capital income is withheld at source without a right for the individual to claim expenses or personal allowances. An obligation to submit an annual personal income tax return does not arise. Capital gains arising on the disposal of property and intangible assets are subject to tax. Exclusions are the following:

- Gains arising from the sale of financial assets if financial assets are acquired prior 1 January 2016 or disposed after 2 years from the date of acquisition; and
- Gains arising from the sale of the taxpayer's main residence.

Gains arising from the disposal of real estate and property rights are also subject to taxation if the disposal takes place after 2 years of the date of acquisition.

Interest and rental income

Interest on saving accounts is treated as income from capital, subject to income tax at the rate of 10 percent, plus city surtax if applicable. The tax is withheld by the payer.

Interest on a positive balance on giro accounts, current accounts and foreign currency accounts up to 0.5 percent per annum, interest on investment bonds and interest due pursuant to court rulings and rulings of the bodies of regional and local authorities are exempt from tax. Loan interest received by individuals from other individuals or legal entities is generally subject to withholding tax.

Rental income from Croatian property is taxable either at the rate of 10 percent, plus city surtax if applicable, after a fixed deduction of 30 percent of the gross income or if the individual keeps business books, based on the actual income and expenses reported via the annual personal income tax return. The same approach should be taken for rental income sourced from abroad.

Gains from stock option exercises

| Residency status | Taxable at: | | |
|------------------|-------------|------|----------|
| | Grant | Vest | Exercise |
| Resident | N | N | Y |
| Non-resident | N | N | Y* |

Foreign exchange gains and losses

Foreign exchange gains are not taxable nor are foreign exchange losses taken into account at the individual level.

Principal residence gains and losses

Gains on the disposal of a principal residence are not taxable nor are losses taken into account at the individual level.

Capital losses

Capital losses from the disposal of financial assets are taken into consideration. However, they can only be deducted from capital gains realized in the same calendar year.

Personal use items

Any item taken from the Croatian entity to which the assignee was assigned for the personal use of the assignee should be treated as a benefit-in-kind for the assignee. Withdrawals of assets and usage of services for personal use of an entrepreneur or the shareholders of companies are taxed at the rate of 30 percent, plus city surtax if applicable.

Gifts

Employees of Croatian companies may receive gifts or services tax free in the equivalent amount of EUR 132.72 annually. Amounts above this annual limit are considered to be a benefit-in-kind.

Gifts provided to assignees should be treated in total as a benefit-in-kind.

2.11 Additional capital gains tax (CGT) issues and exceptions

Are there additional capital gains tax (CGT) issues in Croatia? If so, please discuss?

No.

Are there capital gains tax exceptions in Croatia? If so, please discuss?

Pre-CGT assets

No.

Deemed disposal and acquisition

No.

2.12 General deductions from income

What are the general deductions from income allowed in Croatia?

In calculating taxable income, every resident taxpayer is entitled to deduct the following from their monthly gross salary.

- A basic monthly personal allowance of EUR 530,90 for each month for which tax is being assessed.
- Additional allowances if the taxpayer supports qualifying family members; to be a supported family member the individual cannot earn or receive more than EUR 3,185.40 of receipts per year, including receipts which are not subject to taxation.
- Employee compulsory social security contributions (if paid in Croatia based on a valid employment agreement with a local company or EU social security contributions paid in the Member State in which the taxpayer has remained socially insured) or if paid abroad in a country/jurisdiction with which Croatia has concluded a totalization agreement based on a valid employment agreement with a foreign employer (provided the relevant totalization agreement forms for exemption from Croatian social security contributions are obtained).
- Additional deductions are available for all taxpayers for donations up to 2 percent of the receipts for which, in the current year, an annual tax return has been submitted and annual income tax has been determined or a special procedure took place establishing annual personal income tax and city surtax liabilities.

If both spouses pay personal income tax, it is possible to share additional allowances for children and other dependents of the immediate family.

Croatian domestic tax law indicates that foreign earned income, which is taxed abroad, is also taxable in Croatia but a tax credit for taxes paid abroad may be applied to reduce tax otherwise payable in Croatia; however, the amount of tax credit may not exceed the amount of Croatian tax payable on that foreign income.

2.13 Tax reimbursement methods

What are the tax reimbursement methods generally used by employers in Croatia?

Current year gross-up.

2.14 Calculation of estimates/prepayments/withholding

How are estimates/prepayments/withholding of tax handled in Croatia? For example, Pay-As-You-Earn (PAYE), Pay-As-You-Go (PAYG), and so on.

Pay-As-You-Earn (PAYE) in the case of individuals employed by Croatian employers.

A similar principle is used in the case of assignees. Assignees must report the receipt of income and they are liable to pay tax within 30 days from the date the income was received.

PAYG installments

When are estimates/prepayments/withholding of tax due in Croatia? For example: monthly, annually, both, and so on.

In the case of individuals employed by Croatian employers, tax is due monthly or more often if payments are made more frequently.

In the case of assignees, tax is due monthly or more often if payments are received more frequently.

2.15 Relief for foreign taxes

Is there any Relief for Foreign Taxes in Croatia? For example, a foreign tax credit (FTC) system, double taxation treaties, and so on?

To avoid double taxation, under Croatian domestic tax law and in accordance with tax treaties which Croatia has concluded with a number of countries/jurisdictions, the credit method applies to foreign earned income and either the credit method or the exemption method applies to other forms of foreign income. If the credit system applies, the credit for tax paid abroad may not exceed the amount of taxes due in Croatia on that foreign income.

Croatia currently has a treaty for the avoidance of double taxation of income and property ratified and in effect with the following countries/jurisdictions:

| | | |
|------------------------|------------|------------|
| Albania | Indonesia | Norway |
| Armenia | Iran | Oman |
| Austria | Ireland | Poland |
| Azerbaijan | Italy | Portugal |
| Belarus | Israel | Qatar |
| Belgium | Japan | Romania |
| Bosnia and Herzegovina | Jordan | Russia |
| Bulgaria | Kazakhstan | San Marino |
| Canada | Korea | Serbia |
| Chile | Kosovo | Slovakia |
| China | Kuwait | Slovenia |
| Czech Republic | Latvia | SAR |

| | | |
|---------|-----------------|----------------------|
| Denmark | Lithuania | Spain |
| Estonia | Luxembourg | Sweden |
| Finland | North Macedonia | Switzerland |
| France | Malaysia | Syria |
| Georgia | Malta | Turkey |
| Germany | Morocco | Turkmenistan |
| Greece | Mauritius | Ukraine |
| Hungary | Moldova | United Arab Emirates |
| Iceland | Montenegro | United Kingdom |
| India | Netherlands | Vietnam |

2.16 General tax credits

What are the general tax credits that may be claimed in Croatia? Please list below.

There are no general tax credits in Croatia.

2.17 Sample tax calculation

This calculation³ assumes a married taxpayer resident in Croatia with supported family member (spouse and two children) whose 3-year assignment begins 1 January 2021 and ends 31 December 2023. The taxpayer's base salary is 100,000 US dollars (USD) and the calculation covers 3 years.

| | 2021 USD | 2022 USD | 2023 USD |
|---|-------------|-------------|-------------|
| Salary | 100,000 | 100,000 | 100,000 |
| Bonus | 20,000 | 20,000 | 20,000 |
| Cost-of-living allowance | 10,000 | 10,000 | 10,000 |
| Housing allowance | 12,000 | 12,000 | 12,000 |
| Company car* | 6,000 | 6,000 | 6,000 |
| Moving expense reimbursement | 20,000 | 0 | 20,000 |
| Home leave | 0 | 5,000 | 0 |
| Education allowance | 3,000 | 3,000 | 3,000 |
| Interest income from non-local sources (from savings) | 6,000 | 6,000 | 6,000 |

Exchange rate used for calculation: USD1.00 = EUR0,9243

- All earned income is attributable to local sources.
- All income indicated represents gross income (cash allowances are gross, and the car benefit is treated as net and grossed up separately for Croatian tax purposes).
- Bonuses are paid at the end of each tax year and accrue evenly throughout the year.

- Interest income from savings is earned on foreign bank accounts.
- The company car is used for business and private purposes and originally cost USD50,000.
- The employee is deemed tax resident throughout the assignment.
- The employee lives in Zagreb (city surtax of 18 percent applies).
- Tax treaties and social security liabilities, including the potential impact of totalization agreements, are ignored for the purpose of this calculation. Accordingly, all employment income is subject to Croatian personal income tax and no local or foreign social security contributions are calculated / claimed as deductions.

Calculation of Taxable Income

| Year-ended | 2021 | 2022 | 2023 |
|---|------------|------------|------------|
| Days in Croatia during year | 365 | 365 | 365 |
| | EUR | EUR | EUR |
| Earned income subject to income tax | | | |
| Salary | 92,430 | 92,430 | 92,430 |
| Bonus | 18,486 | 18,486 | 18,486 |
| Cost-of-living allowance | 9,243 | 9,243 | 9,243 |
| Housing allowance | 11,092 | 11,092 | 11,092 |
| Company car* | 8,585 | 8,585 | 8,585 |
| Moving expense reimbursement | 18,486 | 0 | 18,486 |
| Home leave | 0 | 4,622 | 0 |
| Education allowance | 2,773 | 2,773 | 2,773 |
| Interest income from savings from non-local sources | 5,546 | 5,546 | 5,546 |
| Total earned income | 161,095 | 147,231 | 161,095 |
| Other income (such as interest) | 5,546 | 5,546 | 5,546 |
| Total income | 166,641 | 152,777 | 166,641 |
| Deductions | 15,927 | 15,927 | 15,927 |
| Total gross taxable income | 150,714 | 136,850 | 150,714 |

*Value of the company car benefit, for the purpose of this calculation, is calculated as 1 percent of the purchase price of the car, USD500 per month (that is, USD6,000 per year). For all years this amount is grossed up by 30 percent of Croatian personal income tax and 18 percent of Zagreb city surtax.

Calculation of Tax Liability

| | 2021 | 2022 | 2023 |
|-------------------------|------------|------------|------------|
| | EUR | EUR | EUR |
| Taxable income as above | 150,714 | 136,850 | 150,714 |
| Croatian tax thereon | 46,406 | 41,498 | 46,406 |
| Less | 0 | 0 | 0 |

| | 2021 EUR | 2022 EUR | 2023 EUR |
|--|-------------|-------------|-------------|
| Domestic tax rebates (dependent spouse rebate) | 0 | 0 | 0 |
| Foreign tax credits | 0 | 0 | 0 |
| Total Croatian tax | 450,893 | 333,828 | 372,775 |

Footnotes:

¹Certain tax authorities adopt an 'economic employer' approach to interpreting Article 15 of the OECD model treaty which deals with the Dependent Services Article. In summary, this means that if an employee is assigned to work for an entity in the host country/jurisdiction for a period of less than 183 days in the fiscal year (or a calendar year of a 12-month period), the employee remains employed by the home country/jurisdiction employer but the employee's salary and costs are recharged to the host entity, then the host country/jurisdiction tax authority will treat the host entity as being the 'economic employer' and therefore the employer for the purposes of interpreting Article 15. In this case, Article 15 relief would be denied, and the employee would be subject to tax in the host country/jurisdiction.

²For example, an employee can be physically present in the country/jurisdiction for up to 60 days before the tax authorities will apply the 'economic employer' approach.

³Sample calculation generated by KPMG in Croatia - based on the PIT Law, published in National Gazette 115/16 dated 9 December 2016, effective as of 1 January 2017, and amendments of PIT Law published in National Gazette 106/18, 121/19, 32/20; 138/20; and 151/22.

03

**Special considerations
for short term
assignments**

3 Special considerations for short-term assignments

For the purposes of this publication, a short-term assignment is defined as an assignment that lasts for less than 1 year.

3.1 Residency rules

Are there special residency considerations for short-term assignments

No.

3.2 Payroll considerations

Are there special payroll considerations for short-term assignments?

No.

3.3 Taxable income

What income will be taxed during short-term assignments?

All salary and all benefits-in-kind are considered taxable income (subject to the individual's Croatian tax residence status and double taxation agreement stipulations).

3.4 Additional considerations

Are there any additional considerations that should be considered before initiating a short-term assignment in Croatia?

Please consider double taxation agreement provisions. If there is no double taxation agreement concluded, carefully plan the timing of payments as bonuses earned in prior periods but paid during the assignment may be taxable in Croatia.

04

Other taxes and levies

4 Other taxes and levies

4.1 Social security tax

Are there social security/social insurance taxes in Croatia? If so, what are the rates for employers and employees?

If an expatriate has a contractual arrangement with a Croatian legal entity and performs services in Croatia, the Croatian entity needs to withhold and pay compulsory social security contributions (pension fund and health insurance). A Croatian entity refers to all legal entities incorporated in Croatia, branch offices, and representative offices.

Croatian social security rates (applicable for the year 2023) are as follows.

| Type of insurance | Paid by | | Total |
|--|------------------|------------------|---------|
| | Employer Percent | Employee Percent | Percent |
| Pension | 0.0 | 20.0 | 20.0 |
| Split between (depending on the age of the employee) Generation solidarity (Pillar 1) | N/A | 15.0 | 15.0 |
| Individual capital savings (Pillar 2) | N/A | 5.0 | 5.0 |
| Health | 16,5 | 0.0 | 16,5 |
| Total | 16,5 | 20.0 | 36,5 |

Employer and employee

It should be noted that for the year 23, the compulsory employee social security contribution base is capped at the maximum monthly amount of EUR 8,203.08 (for both Pillars only on portions of income which qualify as a salary for that month) or EUR 98,436.96 on an annual basis (for Pillar 1 only; there is no annual cap for Pillar 2 contributions). The minimum monthly base for employee and employer social security contributions is EUR 519.53.

Employer social security contributions are not capped.

Inbound expatriates

An employee of a non-resident company from another EU Member State seconded to work in Croatia remains subject to the home-country/jurisdiction social security system if the anticipated duration of the work performed in Croatia does not exceed 24 months and they are not replacing another person.

An employee of a non-resident company from a non-EU country/jurisdiction seconded to work in Croatia (inbound expatriate) is not subject to the social security system in Croatia, provided there is an effective social security treaty (totalization agreement) between Croatia and the country/jurisdiction where the inbound expatriate is a tax resident, and provided there is no contractual agreement between the inbound expatriate and the Croatian company to which the inbound expatriate has been assigned. Croatia has signed totalization agreements with a number of non-EU countries/jurisdictions. The inbound expatriate must be able to evidence that she/he is insured in their country/jurisdiction of residence and the form prescribed by the totalization agreement must be obtained.

If a totalization agreement cannot be applied or if its application has expired or if there is no agreement in place, the inbound expatriate would at least need to pay compulsory health insurance contributions based on an assessment issued to the inbound expatriate by the Croatian tax authorities.

Outbound expatriates

An (outbound expatriate) employee of a Croatian resident company seconded to work abroad, remains subject to the social security system of Croatia. Monthly receipts of the outbound expatriate are subject to Croatian social security contributions at the standard rates, but the base for calculating the contributions is the salary the outbound expatriate would receive for the same or similar work in Croatia (in accordance with the working contract, book of regulations or collective agreement) increased by 20 percent. Furthermore, the company is liable to pay an additional health insurance contribution at the rate of 10 percent applied to the same increased base. The additional health insurance contribution does not apply to an outbound expatriate seconded to another EU Member State or to a non-EU country/jurisdiction with which Croatia has a totalization agreement.

Other receipts which do not relate to remuneration for work in a specific month (e.g. annual bonus, 13th salary, daily allowances above non-taxable amounts) are subject to Croatian social security contributions at the standard rates and the basis for calculation of Croatia social security contributions is the actual amount of remuneration. Other receipts are not subject to additional health insurance contributions.

Income received by an outbound expatriate from the foreign entity to which the expatriate is seconded to, is subject to pension insurance contributions in Croatia are computed in the same manner as for "other income"

4.2 Gift, wealth, estate, and/or inheritance tax

Are there any gift, wealth, estate, and/or inheritance taxes in Croatia?

Inheritance tax and gift tax at the rate of 4 percent applies to transfers by individuals or legal entities of real estate, cash, securities, or movables, if their individual market value exceeds EUR 6.636,14, where that property is inherited, received as a gift or otherwise received (or transferred), without consideration.

Inheritance and gift tax does not apply to movable property inherited/received as a gift if the transfer is subject to Value Added Tax (VAT).

Inheritance and gift tax provisions are not applicable under certain other circumstances, amongst others, the transfer between immediate relatives (that is spouses, siblings, and children).

Croatia does not levy a wealth tax.

4.3 Real estate tax

Are there real estate taxes in Croatia?

The transfer of real estate is, generally, subject to Real Estate Transfer Tax (RETT). RETT is levied at a rate of 3 percent. If the seller of real estate is VAT registered, the transfer of real estate (business / residential premises and accompanying land) and construction land is subject to VAT except for the transfer of real estate that has been occupied for more than 2 years, in which case, generally, RETT applies.

4.4 Sales/VAT tax

Are there sales and/or value-added taxes in Croatia?

The standard VAT rate is 25 percent (and applies to most products and services). A reduced VAT rate of 13 percent - applies to:

- Tourist accommodation services;
- Full or half board services and the rent of campsites;
- Certain newspapers and magazines, otherwise not subject to 5 percent rate, with the exception of newspapers and magazines that consist mainly or entirely of advertisements or whose main purpose is advertising;
- Supply of electricity, natural gas and heating
- Firewood, Pellets, briquettes and wood chips;
- Urns and coffins;
- Child diapers, and child car seats;
- Menstrual supplies;
- Services and related copyrights of authors, composers and other artists; and
- Preparation and serving of meals.

A reduced VAT rate of 5 percent - applies to:

- All kinds of bread and milk;
- Scientific magazines;
- Cinema tickets,
- tickets for concerts and
- sporting events;
- Certain medicines;
- Certain medical implants and orthopedic devices;
- Books of professional, scientific, artistic, cultural and educational contents;
- Certain daily newspapers;
- Child food;
- Animal food except pet food;
- Seedlings, seeds, fertilizers, pesticides and other agrochemical products;
- Fresh poultry eggs;
- Fresh and dried fruit and vegetables and nuts;
- Live and fresh fish, crabs, mollusks and other water invertebrates;
- Live animals, raw or chilled meat, sausages and other butcher's products; and
- Edible oils and fats, butter and margarine.

VAT exemption (without right to input VAT recovery) applies to: health and welfare services, education services, supplies by charitable organizations, supplies by museums, libraries, theaters, orchestras and other cultural services, financial and insurance services, betting and gambling, rental of residential property, postal services, public radio and television broadcasting etc.

VAT registration threshold is EUR 39,816.84 of taxable supplies in a calendar year.

Based on the general B2B (business to business) rule for taxation of services, provision of services by a Croatian taxpayer to a foreign taxpayer is taxable at the place where service recipient is established.

Foreign legal entities may be able to recover Croatian VAT, provided relevant conditions are met.

4.5 Unemployment tax

Are there additional taxes in Croatia that may be relevant to the general assignee? For example, customs tax, excise tax, stamp tax, and so on.

Local taxes

Municipalities and cities may levy a city surtax, which is calculated on the amount of personal income tax payable, as follows:

- municipalities, up to 10 percent
- cities with less than 30,000 inhabitants, up to 12 percent
- cities with more than 30,000 inhabitants, up to 15 percent
- 18 percent for the city of Zagreb.

Resident taxpayers are subject to city surtax, while taxpayers who under Croatian domestic tax legislation are non-residents (not taking into account the impact of double tax treaties, if applicable)

are not subject to city surtax.

Foreign Financial Assets

Is there a requirement to declare/report offshore assets (e.g. foreign financial accounts, securities) to the country/jurisdiction's fiscal or banking authorities?

Individuals who have a tax residence in Croatia or a stay permit for a period longer than 12 months in Croatia are required to report to the Croatian National Bank the following foreign assets:

- Purchase/disposal of 10 or more percent of the share in the capital of a foreign entity
- Purchase/disposal of real estate abroad;
- Receipt of dividends and shares in profit based on the share in capital from abroad in excess of EUR 10,000 within one month;
- Loans from abroad in excess of EUR 70,000;
- Revenue in relation to services provided to foreign individuals/entities in excess of EUR 100,000;
- Foreign forwards, futures, swaps, options or credit derivatives.

05

Immigration

5 Immigration

Following is an overview of the concept of Croatia's immigration system for skilled labor.

The information included herein is of a general nature and should be used for general guidance only. Whether a specific foreign national can be issued a Work and Stay Permit, or another immigration permit depends on the circumstances of each particular case. In order to determine the manner in which the specific foreign national's status in Croatia can be regulated, one has to consider the criteria such as nationality, state of employment, intended duration of stay in Croatia, type of work to ^[1] be performed, and whether the foreign national can qualify as a posted worker. Issuance of work and stay permits is also subject to security checks performed by the Croatian Ministry of Internal Affairs.

In general, a distinction can be made between the following categories of foreign nationals:

1. Posted workers.¹ Prior to the commencement of a posted worker's work in Croatia, her/his European Economic Area (EEA) employer is required to submit a posting declaration containing the legally prescribed information to the Croatian Labour Inspectorate. The posted worker is required to have an A1 certificate in her/his possession. We also suggest obtaining a European health insurance card (EHIC) should any medical attention in Croatia be required. If a posted worker's stay in Croatia exceeds 3 months in a consecutive 180 days, the posted worker is required to register her/his temporary stay in Croatia. The registration of a temporary stay is a formal process that takes place before the relevant police station in Croatia. The estimated duration of the process is 1 month from the submission of a complete application.

2. Nationals of EEA countries. Nationals of EEA countries are free to start working in Croatia. However, if the intended duration of their stay exceeds 3 months, they are required to register their temporary stay in Croatia before a relevant police station in Croatia. The registration of temporary stay has to be done within the first 3 months, while the approximate processing time of an application is 1 month. Temporary residence can be registered for the maximum of 5 years, following which it has to be renewed if the foreign national intends to stay in Croatia.

3. Third country/jurisdiction nationals. This category of foreign nationals can start working in Croatia only after obtaining a proper type of work permit, as follows:

- Confirmation of Work (CoW), which can be issued for a period of up to 30 or up to 90 days in a calendar year, depending on the type of work that will be performed. The services for which the CoW can be issued are specifically listed in the Croatian Law on Foreigners. The application for the issuance of a CoW has to be submitted to the relevant police station at least 10 days prior to the intended commencement of work. This type of permit is issued without local employment in Croatia.
- Work and Stay Permit (WSP). The process of obtaining the same differs depending on the basis on which the WSP is being sought. Namely, a Croatian employer wishing to hire a foreign national would first need to conduct a labour market test with a view of determining whether the position in question can be filled by unemployed individuals in Croatia. Only if the labour market test shows that there are no suitable candidates on the Croatian labour market, a WSP could be issued for a foreign national. There is no need to conduct a labour market test if a particular employment position is listed in the decision of the Croatian Employment Office as a position for which there is a shortage on the Croatian labour market, as well as in particular cases listed in the Croatian Law on Foreigners (e.g. intra-corporate transfers, employment of directors, employment under the EU Blue Card regime etc.).

Depending on the basis for the WSP, different minimum salary requirements apply.

A WSP can be issued for a period of up to 1 year, while an EU Blue Card can be issued for a period of up to 2 years. Both can be renewed.

The processing time of an application for the issuance of a WSP is between one and two months (depending on whether a labour market test is required). After a WSP is issued, the foreign national is required to personally attend at the relevant police station to apply for a biometric residence card.

Entry visa

Some foreign nationals require an entry visa for Croatia. An entry visa is merely an approval to enter Croatian territory and does not entitle the foreign national to perform any work in Croatia. If a foreign national requires an entry visa, the processing time of a WSP application can be up to one month longer than stated above.

Documentation

The documents that are usually submitted with the application for the registration of temporary stay, a CoW, or a WSP include the following: copy of the foreign national's passport, proof of health insurance, proof of employment status, proof of professional qualifications, and similar (depending on which basis the application is made). Some of the documents have to be prepared in Croatian (or bilingually, provided that one of the versions is in Croatian) or have to be translated to Croatian by a certified court translator.

It is not possible to expedite the procedure for issuance of entry visas and work permits.

5.1 International Business Travel/Short-Term Assignments

Please see the section above for more information.

5.2 Long-Term Assignments

Please see the section above for more information.

5.3 General Immigration Related Questions

Would it be possible to bring family members to Croatia?

Yes, a foreign national's family members can stay in Croatia as tourists, up to 90 days in each consecutive period of 180 days. If the family members would like to stay longer than that, they would need to regulate their temporary stay in Croatia as dependents.

Is it possible to obtain a permanent residence permit?

In general, a permanent residence permit can be issued to a foreign national who had a lawful stay in Croatia (e.g. WSP, registered temporary stay) for at least 5 years without interruption. In order to qualify for the same, a foreign national *inter alia* has to pass a Croatian language test and a Latin script test.

What if circumstances change after the Work and Residence application process (e.g. change of employment or personal situation, including job title, job role or salary)?

This depends on the basis on which the immigration status was regulated and the nature of the change at issue. In some cases, such changes do not have to be reported to the police station. In other cases, depending on the circumstances of the case, such changes have to be reported, and they may even result in termination of the issued work permit (e.g. if the required criteria based on which the work permit was issued are no longer met).

How long can a permit holder leave Croatia without their permit becoming invalid?

In general, a permit holder can leave Croatia for a maximum of 30 consecutive days. As an exception, a permit holder can leave Croatia for a maximum of 90 consecutive days, provided that the permit holder informs the relevant police station about their departure in advance.

Must immigration permissions be cancelled by the end of the assignment/employment?

Immigration permissions have to be cancelled only in the event of earlier departure of foreign national from Croatia. If the foreign national is staying in Croatia until their expiry, cancellation is not required.

Are there any penalties for individuals and/or companies in place for non-compliance with immigration law?

Yes, the Croatian Law on Foreigners contains an exhaustive list of misdemeanors of the foreign national, foreign employer, and Croatian employer.

The monetary fines for the misdemeanors range between EUR 60.00 and EUR 20,000.00. For specific misdemeanors, the Croatian Law on Foreigners also prescribes imprisonment up to 60 days, and banishment from Croatia.

5.4 Other Important Items

Besides the above described obligation to obtain a proper work permit, third country/jurisdiction nationals may also be required to personally register the address of their stay in Croatia. This obligation will apply if the address of their stay in Croatia was not registered by the accommodation services provider (e.g. hotel, and other providers who are required to register the address with the Croatian authorities electronically). The registration of address has to be done within 2 days of their arrival, or within 2 days from the change of address by personal visit to a police station.

An EEA national on a temporary stay in Croatia is required to report any change of their address to the police station within 15 days of the change.

Footnotes:

¹ As described by the Directive 96/71/EC of the European Parliament and of the Council of 16 December 1996 concerning the posting of workers in the framework of the provision of services, which was transposed into the Croatian Law on Foreigners.

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