

Doing Business in Croatia

This document describes some of the key commercial and taxation factors that are relevant on setting up a business in Croatia.



Background

Business environment in Croatia is very favourable for investors. Excellent geographical location enables access to the market of 650 million people and labour force in Croatia is effective, motivated and innovative which is recognized by many foreign companies already operating in Croatia.

Country overview

Croatia is a small but complex market. Its geography divides it into two distinct markets - the more affluent and tourism - oriented coastal region along the

Adriatic Sea, and the rural inland region, dominated by agricultural and industrial activities.

The country's population of roughly 4.2 million is largely homogenous in ethnicity, language and religion; but in the summer months its numbers are doubled by tourists from throughout Europe and the world, making it a cosmopolitan market for products and services. Its ports and transportation infrastructure make Croatia a natural trade gateway into southeast Europe, but its largest trading partners are Italy, Germany, Slovenia and Austria.



Economic overview

Croatia entered the European Union (EU) on July 1, 2013 as the 28th member state. The government has been striving to raise Croatia's competitiveness to compete in the large EU market and maximize the opportunities that membership brings, especially the absorption of a large amount of EU Structural Funds.

Before the global financial crisis of 2008-09, the Croatian economy grew at a healthy 4-5% annually, incomes doubled, and economic and social opportunities dramatically improved. However, after the financial crisis hit, back in 2008, Croatia's economy contracted for six consecutive years, with the pace of the recession starting to weaken in 2014.

In 2015, Croatia's recession finally came to an end, with real GDP growth reaching 1.6% in 2015 and 3.2% in 2016. Economic activity lost some steam at the end of 2017, with real GDP growth reaching 2.8%, weighing on the still positive growth outlook for 2018 and 2019 which should end up at 2.7%.

A pickup in investment is set to support the pace of growth, while private consumption remains robust. Strong employment growth helps to keep the unemployment rate on a fast-declining path resulting in unemployment rate below 10% in 2018. The general government headline balance is projected to remain in surplus, leading to further reductions in the debt ratio.

Transport infrastructure

Transport in Croatia relies on several main modes, including transport by road, rail, water and air. Road transport incorporates a comprehensive network of state, county and local routes augmented by a network of highways for long-distance travelling. Water transport can be divided into sea, based on the ports of Rijeka, Ploče, Split and Zadar, and river transport, based on Sava and Danube. Croatia has 68 airports, nine of which are international. The country also has several airlines, of which the most notable is Croatia Airlines. Rail transport is fairly developed, with dual track and electrification not very common, although high-speed tilting trains are used on some routes. However, bus still tends to be more common than rail as a mode of inter-city transport.

Choice of Legal Form



Company law in Croatia is governed primarily by the Companies Act. The act regulates different types of business forms (see below) and contains rules on groups of companies, mergers, divisions, transformations of companies and the legal status of foreign companies.

The Companies Act recognizes three principal types of business forms:

- sole traders;
- companies of persons: general partnerships, limited partnerships, economic interest groupings;
- companies of capital: public and private limited liability companies.

Croatian law requires all merchants (sole traders, companies of persons and companies of capital) to register in the court register, governed by the Court Register Act.

Simple Limited Liability Company (Croatian abbreviation: j.d.o.o.)

Changes and amendments of the Corporations Act from 2012 have enabled foundation of a company with at most 3 activities, 3 members of a company and 1 member of the management board. The lowest share capital of a simple limited liability company is set at HRK 10,00 whilst the lowest nominal amount of the share interest is set at HRK 1,00.

This form of a company may only be incorporated by payment of the share capital in cash. At the end of the year $\frac{1}{4}$ of the profit of simple Ltd must be transferred in the legal reserve so that the legal capital of the company is in that way increased up to HRK 20.000,00 when a simple Limited Liability Company becomes a regular Limited Liability Company.

Limited Liability Company (Croatian abbreviation: d.o.o.)

Limited liability companies are the most common type of companies in Croatia. It is one in which one or more domestic or foreign legal entities or citizens invest in initial authorized stakes, with which they participate in the total authorized capital as contractually set beforehand. Company assets are strictly separated from the property of owners. The company is liable for its debts with all its assets. The initial authorized capital of a private limited company must be shown in Croatian currency - Kuna (HRK). The minimum amount of initial authorized capital may not be below HRK 20,000.

General Partnership (Croatian abbreviation: j.t.d.)

General partnership is the relationship between two or more persons carrying on a business in common with a view to profit. The members of the partnership are jointly and severally liable for all debts and obligations, without limitation. No minimum capital is required.

Partnership profits are shared by the partners as income, and taxation is paid on this income in exactly the same way as a sole proprietor.

Limited Partnership (Croatian abbreviation: k.d.)

Just like a general partnership, the limited partnership in Croatia can be established by at least two members, individuals or legal entities. The difference is that at least one partner has limited liability up to his own contribution, while at least one member is fully liable for the company's obligations and management as general partners. No minimum capital is required.

Silent partnership

The silent partnership in Croatia makes no difference in terms of requirements for establishment. At least two partners are required and no minimum capital is necessary. The main characteristic is that this type of partnership has a silent partner who is excluded from the obligation to cover the losses of the company. It is not necessary for this partnership to register with the Commercial Court in Croatia.

Branch/Representative office

Under Croatian legislation, foreign companies and sole traders may conduct business in Croatia by setting up a branch office. The start-up and operation of branch offices owned by foreign companies are governed by the same regulations that apply to the establishment of branches by domestic companies. A branch office is not a legal entity. The liabilities and rights stemming from its operation do not belong to the branch office but to the founder.

Sole proprietorship

The sole proprietorship is the simplest business form under which one can operate a business. It simply refers to a person who owns the business and is personally responsible for its debts. A sole proprietorship can operate under the name of its owner or it can do business under a fictitious name. The fictitious name is simply a trade name - it does not create a legal entity separate from the sole proprietor owner.

Subsidiary

A subsidiary is a company registered in Croatia but benefiting from foreign capital. It's considered a separated legal entity, though. The advantages of owning this type of business are numerous especially from a tax point of view: thanks to the vast network of double tax treaties, a subsidiary registered in Croatia must pay taxes on profits only in the country of origin and benefit from abolished or minimized taxes on dividends paid to those countries.

Public Limited Company (Croatian abbreviation: d.d.)

A public limited company is based on capital, with owners (shareholders) investing in authorized capital divided into shares. The company is liable for its debts with all its assets. Shareholders are not liable for the debts of the company. The basic document for a public limited company is the articles of association, as it specifies the internal organization of the company. Authorized capital and shares

must show par value in the currency of the Republic of Croatia. The minimum amount of authorized capital is HRK 200,000.

Joint venture

The Law on Companies regulates the establishment of joint-ventures, investment in companies with mixed ownership, as well as other types of foreign or domestic investment.

Under Croatian law, a joint venture may operate under two legal structures:

- a contractual joint venture
- an equity joint venture

Anti-trust provisions apply to joint ventures.

Trust/Foundation

A foundation is property permanently assigned to serve some "generally beneficial" or "charitable" purpose. Beneficiaries need not be the general public; a foundation is considered generally beneficial even if its activities benefit only members of a particular profession, nationality, religion, or other group.

A foundation is generally created by a donor's "letter of establishment" and administered by a director or a governing body pursuant to rules set forth in the foundation's charter (also called a statute). A foundation may be established by one or more domestic or foreign, physical or legal, persons.

Audit Requirements



Requirement and thresholds

Companies 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 and in accordance with International Financial Reporting Standards (IFRS).

Small and Medium-sized Enterprises (SMEs) are required to report in accordance with national standards (CFRS) which are based on International Financial Reporting Standards (IFRS). There are no possibilities for simplified or abridged accounting requirements for SMEs. Large enterprises, the definition of which also includes companies listed on a regulated market and financial institutions, together with other Public interest entities are required to draw-up their accounts in accordance with full IFRS. The classification

criteria (thresholds) used to define SMEs are in line with those set out in the 4th Company Law Directive.

According to the Croatian Accounting Law micro enterprises are those companies which indicators do not exceed two of the following thresholds:

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

Small enterprises are those companies that are not micro enterprises and which indicators do not exceed two of the following thresholds:

- Total assets of HRK 30,000,000
- Total revenues of HRK 60,000,000

- Average number of employees during the year - 50.

Medium-sized enterprises are those companies that are not micro or small enterprises and which indicators do not exceed two of the following thresholds:

- Total assets of HRK 150,000,000
- Total revenues of HRK 300,000,000
- Average number of employees - 250.

Large enterprises are those that exceed two of the above-mentioned thresholds and banks, insurance companies, investment funds, leasing companies, pension funds and some other special purpose companies.

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 of standalone and consolidated financial statements are:

- Public interest entities and large and medium-sized companies which are not public interest entities
- Companies which are parent companies of large and medium-sized groups if they are not obliged to have an annual external audit according to the first condition
- Joint stock companies, limited partnership companies and limited liability companies which indicators, in the business year which precedes the audit year, exceed two out of three of the following thresholds:

- Total assets of HRK 15,000,000
- Total revenues of HRK 30,000,000
- Average number of employees during the business year is 25

- All joint stock companies – public limited companies and limited partnerships
- Companies which were in the process of mergers and divisions acting as acquiring companies or new entities

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.

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 30th June of the following year. Annual consolidated financial statements have to be delivered by 30th September of the following year.

Requirement for consolidation

The consolidated accounts of groups of companies are regulated by the Accounting Act. The Act stipulates that any entity required to prepare consolidated accounts shall do so in accordance with the applicable reporting framework.

The accounting Act defines in details sizes of the groups, consolidation requirements and consolidation exemptions.

Small groups are those groups which consolidated indicators of the parent company at the balance sheet date do not exceed two of the following thresholds:

- Total assets of HRK 30,000,000
- Total revenues of HRK 60,000,000
- Average number of employees during the year - 50.

Medium-sized groups are those groups that are not small groups and which indicators of the parent company at the balance sheet do not exceed two of the following thresholds:

- Total assets of HRK 150,000,000
- Total revenues of HRK 300,000,000
- Average number of employees - 250.

Large groups are those that exceed two of the above-mentioned thresholds.

Parent companies of the small groups are not required to prepare annual consolidated financial statements unless their small group includes public interest entity.



Taxation



The General Tax law covers broad issues relating to taxation procedures, notably completion, payment, reimbursement, postponement, forced payment, evidencing and dispute resolution and also defines the main taxation principles, such as the equal attention principle, the principle of no retroactive application of tax regulation, the principle of established fact declaration, tax secrecy, the bona fide principle and the economic substance principle.

Corporation tax

Taxable persons liable to pay corporate income tax are companies or other legal persons or citizens residents in Croatia, who are 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 five years.

The taxable base is the corporate income (profit), determined as the difference between income and expenditure 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%.

Tax losses can be carried over into the next year for up to five years.

The tax rate on profits resulting from new investments may be reduced (between 0-10%), depending on the amount of investment and on the number of new employees.

Small companies rate

Starting from 1 January 2017, the new Profit Tax Law includes a small companies' rate that can be applied by companies which annual income does not exceed HRK 3,000,000.00. Such companies are subject to corporation tax at the rate of 12% (tax rate on corporate income).

Group taxation in Croatia

There are no group taxation provisions in Croatia.

Dividend payments

Withholding tax (WHT) of 12% is payable on dividends resulting from profit. The WHT rate may be decreased or eliminated under one of Croatia's tax treaties.

Dividends paid to EU resident companies or qualifying Swiss companies are exempt from Croatian WHT, provided certain conditions are met.

Dividends payable to Croatian resident companies are not treated as taxable income to Croatian resident companies for Croatian tax purposes. The same principle applies to dividends payable to Croatian resident companies by EU resident companies provided certain conditions are met.

Affiliation privilege

There are no additional exemptions for profit from shares and investments in foreign corporations apart from the tax exemption for received dividends described under heading 'Group taxation in Croatia'.

Branch profit tax

The profits are subject to corporation tax described under heading 'Corporation tax' and Small companies rate'.

Personal income tax

Every person who acquires an income is a taxpayer. There are differences between residents and non-residents. According to Croatian laws, a resident is a citizen with a legal residence or a customary habitat in the Republic of Croatia. A non-resident is a person who has neither a legal residence nor a customary habitat in Croatia, but earns a taxable income in Croatia. A legal residence, according to tax laws, is the ownership or use (note: a lease contract applies) of a housing unit for at least 183 days continuously – actual occupation of the unit is not necessary. A customary habitat is implied when circumstances lead to the conclusion that the tax payer's residence is not temporary. In the sphere of tax laws, this is concluded after a continuous residence of at least 183 days (short interruptions of residence, not longer than one year, are not regarded).

Income tax is paid on the following types of income:

- Income from employment,
- Income from self-employment,
- Income from property and property rights,
- Income from capital,
- Income from insurance and other incomes.

The income tax base for a resident is the total amount of income from employment, income from self-employment, income from property and property rights, income from capital, income from insurance and other income, acquired by the resident

in Croatia and abroad (the world income principle) reduced by the resident's personal allowances. The income tax base for a non-resident is the total amount of income from employment, income from self-employment, income from property and property rights, income from capital, income from insurance and other income, acquired by a non-resident in Croatia (the domestic income principle) reduced by the non-resident's personal allowances.

All tax payers are entitled to a personal allowance in the amount of HRK 3,800 per month, while taxpayers who support a spouse, children and other family members, can, in addition to the basic personal allowance, also deduct from their taxable income the personal allowances for supported family members.

Income tax rates:

Income Tax Rate	Monthly Taxable Base	Annual Taxable Base
24%	Up to HRK 17,500	Up to HRK 210,000
36%	Over the total amount of HRK 17,500	Over the total amount of HRK 210,000

Capital gains tax

Capital gains are subject to tax at different rates ranging from 12% to 36% depending on the type of gain as follows:

- Gains derived from the sale of financial assets (shares etc.) are taxable at 12% but this only applies to gains from the sale of shares acquired after 1 January 2016. Also gains from the sale of shares that are owned for more than two years are exempt from the tax.
- Dividend and share of profit income is taxable at 12% (paid out of profits realised in the period from 1 January 2001 through 31 December 2004 and as of 1 March 2012 onwards).
- Interest income is taxable at 12% (excluding: late payment interest; interest realised on the basis of court assessments and assessments issued by bodies of local and regional government; interest realised on the basis of positive balance on

giro, current and foreign currency account realised from banks, savings institutions and other financial institutions up to the level of interest such payers pay for a vista deposits assuming such interest is lower than the lowest level of interest paid for fixed-term deposits and assuming it is not higher than 0.5% per year; interest from bonds; receipts realised on the basis of yield from life insurance with savings element and yield from voluntary pension insurance).

- Gains from the sale of property are taxable at 24% but only if the property was owned for less than two years.
- Income realised by members of a Management Board from grant of own shares or stock options based on purchase of own shares at a favourable price under certain circumstances is taxable at 24%.
- Income from withdrawals of assets and use of services is taxable at 36%.

The taxable base depends on the type of income and no personal allowance is allowed when calculating tax. When calculating tax obligation capital losses can be deducted from gains realised only in the same tax period. Calculated tax liability is further increased for surtax.



When it comes to capital gains income, obligation of keeping records, determining income from capital gains, tax calculation, tax prepayments, and reporting obligations lie with the financial assets holder.

Real estate transfer tax

Taxable persons are person or entity acquiring the real estate.

For buildings constructed before the VAT law became effective (that is before 1 January 1998) transfers are subject to irrecoverable transfer tax at the rate of 4%. For newly constructed buildings (that is on or after 1 January 1998) transfers are subject to VAT at the rate of 25%. The subsequent transfer of newly constructed buildings is subject to VAT at the rate of 25% or transfer tax at the rate of 4%, depending on whether the seller was able to deduct VAT as a tax prepayment when the building was initially transferred to the seller.

Irrecoverable transfer tax at the rate of 4% applies to the transfer of land.

Tax reliefs refer on the contribution to a company in the form of real estate and tax reliefs on transfer between immediate relatives (spouses, siblings and children) regarded as inheritance or gift which are not subject to taxation.

Value added tax

Value-added tax (VAT) is due on delivery of all kinds of goods and services rendered inside the country, on compensation or

own consumption and on delivery of goods and services rendered without compensation and with a personal discount.

To apply for VAT registration, businesses must send an application for registration for value added tax purposes to the Croatian VAT authorities.

The obligatory VAT registration threshold in Croatia for resident companies is HRK 230,000. Once this threshold is crossed within the fiscal year, the company is obliged to submit an application for registration by 15 January on the following year. An enterprise may, if it wishes, voluntarily apply on the basis of the expected turnover.

Businesses that are established outside of Croatia are obliged to register for VAT if they perform taxable activities in Croatia. In the case of distance sales to private individuals from Croatia, the company needs to register once the threshold of HRK 270,000.

The standard VAT rate is 25% (it applies to most products and services) and there are reduced VAT rates of 13% and 5% as of 1 January 2014.

The reduced VAT rate of 13% shall be paid on tourist accommodation services and related agency fees, newspapers and magazines issued on a daily and periodical basis, oils and fats for human consumption, baby food, supply of water, with the exception of water marketed in bottles or any other packaging, white sugar and services of preparing and serving of food, non-alcoholic drinks and beverages, wine and beer in registered hospitality facilities.

The reduced VAT rate of 5% shall be paid on all kinds of bread and milk, educational literature, certain medical supplies and scientific magazines and film projection services.

The following shall be exempt from value added tax payment: hospital and health care services, financial services, insurance transactions, educational services, universal postal services, public radio and television broadcasting etc.

Starting from 1st January 2015 instead of offering only accruals accounting for VAT, Croatia offers also cash-based accounting. Companies with an annual turnover below HRK 3 million can request to be a part of this new regime and pay or charge VAT when there is a bank settlement of an outstanding invoice.

VAT returns, "EC sales lists" and "EC purchases lists" are due for filling by the

20th day of the current month for the prior VAT period. Payments of VAT liabilities must be made by the end of the month.

Local taxes

Some of the common local taxes include:

Surtax on income tax

Taxpayer: Those liable to pay income tax who have a domicile or a common residence in the area of the commune/ municipality that has prescribed the obligation to pay the tax.

Tax base: 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 10%, Rijeka 15%, Osijek 13%).



Tax treaties

Double taxation treaties were signed by Croatia with 61 country in order to protect the foreign company's incomes and attract with this more investments. Some of the states that has signed double tax treaties with Croatia are: Albania, Armenia, Austria, Belarus, Belgium, Bosnia and Herzegovina, Bulgaria, Canada, Chile, China, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iran, Ireland, Israel, Italia, Jordan, Korea, Kuwait, Latvia, Lithuania, Macedonia, Malaysia, Malta, Mauritius, Moldova, Montenegro, Netherlands, Norway, Poland, Qatar, Romania, Russia, San Marino, SAR, Serbia, Slovakia, Sweden, Swiss, Syria, Turkey, Ukraine and United Kingdom.

A Double Taxation Prevention Treaty, in principle, enables offsetting tax paid in one of 2 countries against the tax payable in the other, in this way preventing double taxation. Another important factor is the grant of an exemption or tax at a reduced rate on certain receipts such as interest, royalties, dividends, capital gains and others that are connected with a transaction carried out between parties associated with the Double Taxation Prevention Treaty.

When certain income is taxable under the Croatia Income Tax Ordinance but there is an exemption (reduced tax) under any Taxation Treaty, the income is taxed, if at all, but only according to the provisions of the Taxation Treaty.

Transfer Pricing Rules

Transfer pricing provisions in Croatia were introduced through the Corporate Income Tax (CIT) Act on 1 January 2005, but only in recent years the Croatian tax authorities have recognised the importance of transfer pricing. The result is an educated transfer pricing team of the tax authorities with access to the Amadeus database, as well as an increased number of audits related specifically to transfer pricing. Current Croatian legislation does not proscribe additional tax and penalties in relation to transfer pricing. The general penalties contained in the law apply to these cases as well. However, if the prices between related entities are different from those between non-related resident and non-resident entities, any excess amounts will not be recognised for taxation purposes.

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.

Allowances



The Corporate income tax Law contains incentives available to all taxpayers, including:

- The ability to double depreciation rates (if the same rates are used for both accounting and tax purposes); and

Investment incentives

Specific, investment incentives are provided for taxpayers which satisfy certain criteria based on the following legislation:

- Corporate Profit Tax Law (double depreciation rates, incentives for re-investment of profit);
- Training and Education Incentives Law (an additional CPT deduction of up to 100% of certain education and training expenses);
- Law on Scientific Activities and Higher Education (an additional CPT deduction of up to 150% of certain research and development expenses);
- Law on Investment Promotion and Improvement of the Investment Environment (reduced CPT rates, cash payments, etc.);
- Other.

Employment



Social Security and charges for the employer

The Croatian social security system includes regulations covering pension, health care and unemployment insurance.

Social security contributions paid by employer and employee:

	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 foreign personnel

The Law on the Employment of Foreign Nationals regulates the employment of foreigners in Croatia. EU nationals don't need a visa or a work permit to stay and work in Croatia. Nevertheless, there are still some exceptions - citizens of Austria, Belgium, Cyprus, France, Greece, Germany, Italy, Luxembourg, Malta, the Netherlands, Slovenia, Spain and the UK are treated differently (as of March 2014). Citizens from one of these countries will need a work registration certificate to work for up to 90 days a year. If they want to work more than a work permit is required.

Non-EU nationals need a work and a residence permit. They may be employed in Croatia only if they hold either a business visa or an employment visa, and a work permit. The business visa is the most appropriate working visa for employees of Croatian companies with short-term technical assignments of less than one year's duration.

If the person intends to act as a company director or a new investor in Croatia, the business visa is necessary, but the work permit is not. A valid employment visa is required by all employees not covered by the business visa.

The application for the employment visa ("Entry visa for the purpose of employment") can either be made at the consulate or embassy in the current country of residence, or at the Ministry of the Interior in Croatia. Officials at the Ministry of the Interior state that processing times vary from consulate to consulate. It normally takes four to six weeks to receive an employment visa.

Medical

Health care insurance in Croatia includes basic, additional and private health care insurance. Basic health care insurance is mandatory and consists of the right to health care and the right to financial benefits, including compensation of salary during sick leave or maternity leave.

Basic health insurance is borne and paid by employers as a contribution of 15% on salary.

Additional and private health care insurances are voluntary insurances with the beneficiary contributing a monthly insurance premium.

Payroll taxes

Employees in Croatia are subject to the Personal Income Tax covered under heading 4.7. Apart from that there are no additional payroll taxes.

Withholding Taxes



In terms of the Profit Tax Act, withholding tax is tax on the corporate income (profit) derived by a non-resident in the Republic of Croatia. The taxable person liable to pay withholding tax is:

- An inland paying agent that pays to foreign entities-recipients (non-residents) who are not citizens,
 - The permanent establishments of a non-resident entrepreneur, when they pay to the parent company interest, as well as royalties and other intellectual property rights (copyright, patent, licensing, trade mark, design pattern, production procedure, production formulas, draft, plan, industrial or scientific experience and similar rights). Exceptionally, the withholding tax shall not be paid if considerations are recognized as the revenues of a resident permanent establishment of a non-resident entrepreneur.
- The withholding tax shall be paid at the tax rate of:
- 12% on dividends and shares in corporate income (profit) paid to a non-resident (unless the rate is reduced or an exemption applies under the signed treaty or under the EU parent-subsiidiary directive),
 - 15% on royalties and other intellectual property rights) paid to a non-resident (unless the rate is reduced or an exemption applies under the signed treaty or under the EU parent-subsiidiary directive),
 - 15% on interests) paid to a non-resident (unless the rate is reduced or an exemption applies under the signed treaty or under the EU parent-subsiidiary directive),

- 15% on market research services, tax and business counselling and audit services paid to a non-resident, (unless the rate is reduced or an exemption applies under the signed treaty),
- 20% on all types of services that are paid to entities who have their headquarters or place of effective management and supervision of operations in countries other than EU member states and states that have signed a tax treaty with Croatia, where the general or average nominal rate of income tax is lower than 12,5%, and state was published in the list of countries that made the minister of finance.

The withholding tax base shall be the gross amount of a consideration paid by a resident payer to a non-resident recipient.

Withholding is paid at a lower rate if with the state in which the foreign recipient of remunerations, interest or dividends has its headquarters there is in force a tax treaty, along with the agreed on lower rates of taxation.

From the day of the accession of the Republic of Croatia to the European Union withholding tax on dividends and shares in corporate income (profit) is not paid when dividends and shares in corporate income (profit) are distributed to a company taking one of the forms that are subject to the common taxation system applicable to parent companies and their subsidiaries from different EU Member states, provided that the recipient of dividend or share of corporate income (profit) has a minimum holding of 10% in the capital

of the company distributing dividend or share of corporate income (profit) for an uninterrupted period of 24 months.

Interest

The withholding tax shall not be paid on interest paid to a non-resident:

- on commodity loans for the purchase of good used for carrying out of a taxable person's business activity,
- on loans granted by non-resident bank or other financial institution,
- to holders of government or corporate bonds, who are non-resident legal persons.

Royalties

Royalties and other intellectual property rights (copyright, patent, licensing, trade mark, design or pattern, production procedure, production formulas, draft, plan, industrial or scientific experience and similar rights) for which considerations are paid to non-residents who are not natural persons, market research services, tax and business counselling and auditor services paid to non-residents.

Dividends

Dividends and corporate income (profit) shares which are paid from 1 March 2012.

Dividends and corporate income (profit) shares acquired before 31 December 2000 are not taxed, regardless of the distribution date.

From the day of the accession of the Republic of Croatia to the European Union with- holding tax on dividends and corporate income (profit) shares shall not be paid when dividends and corporate income (profit) shares are distributed to a company taking one of the forms that are subject to the common taxation system applicable to parent companies and their subsidiaries from different EU Member states provided that:

- the recipient of dividend or share of corporate income (profit) has a minimum holding of 10% in the capital of the company distributing dividend or share of corporate income (profit),
- the lowest percentage as referred to in item 1 is held for an uninterrupted period of 24 months.



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