

NEWSLETTER – PROPOSALS FROM THE FIFTH ROUND OF THE TAX REFORM

06/11/2020

On November 5, 2020, the Government of the Republic of Croatia submitted 4 legislative proposals from the fifth round of the tax reform. The proposals for amendments that have been sent to the first parliamentary reading relate to:

- Personal Income Tax Act
- Corporate Income Tax Act
- Value Added Tax Act
- Fiscalisation Act

Proposed amendments to Personal Income Tax Act

- The personal income tax rate of 36% would be reduced to **30%**, and the rate of 24% to **20%**.
- Reduction of the rate from 12% to **10%** applicable to the taxation of annual and final income (e.g. profit distributions) and lump-sum taxation of activities (e.g. rental of apartments or flats).
- The amendments include defining the tax treatment of the national allowance for the elderly people which from January 1, 2021 would amount to HRK 800 per month. This would not be regarded as income subject to personal income tax and would not be taken into account when determining the right to personal allowance deduction for dependant family members.
- Simplification for reporting the income from property generated from rent and lease of movable and immovable property. Namely, if such contracts are being signed in front of notary public, he/she would be obliged to report the notarized contracts to the Tax Authorities.
- Extension of possibility of pay-outs of benefits in kind based on the allocation or optional purchase of own shares given by employers to employees, members of the management board and natural or other related persons, which are used as a way of rewarding employees.
- It is proposed to abolish taxation at annual rate of 24% of taxpayers who have received additional income on the basis of other income up to the amount of five times the amount of the personal allowance base (HRK 150.000).
- Stricter tax treatment is provided for cases when the disparity between income and assets is determined. The percentage of increase of the personal income tax rises from 50% to 100% when determining income tax based on the difference between the value of the income and the amount of assets with which it was acquired. This would mean that, after lowering the maximum tax rate, the tax on income earned in this way would be calculated at a rate of 30% instead of 36%, and the tax thus calculated would be increased by 100% (the total tax rate would be 60%).

Proposed amendments to Corporate Profit Tax Act

- Reduction of the corporate profit tax rate for entrepreneurs with income up to HRK 7.5 million from 12% to **10%**.
- Reduction of the rate of withholding tax on payment of dividends and profit shares to foreign non-natural persons from 12% to **10%**.

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- Reduction of the withholding tax rate for performances by foreign performers (artists, entertainers, athletes, etc.) from 15% to **10%** when the fee is paid by a domestic or a foreign payer under a contract with a foreign person who is not a natural person and in that case there is no obligation to calculate the personal income tax and social security contributions for the performer.
- It is proposed a more favourable tax treatment for banks in case of loan write-offs or reprogramming of loans, i.e. to recognize as tax-deductible expense for credit institution the amount of write-off of receivables from unrelated natural or legal persons on the basis of approved credit placements with values in accordance with the special regulations of the Croatian National Bank.
- The taxpayer should perform control and if necessary, adjustment of transfer prices for each tax period in order to rationalize the procedures related to transfer pricing, both before the Tax Authorities and the taxpayers, in order to prevent misunderstandings, corrections of tax returns and court or arbitration proceedings.

Proposed amendments to Value Added Tax Act

- Increase of the threshold for the application of the VAT cash accounting scheme from the current 7.5 to **15 million kuna**.
- Removal of the VAT exemption for distance selling of goods to non-taxable persons (natural persons) where goods are imported from third countries in parcels of small value up to 22 EUR.
- Regulating the Distance selling of goods in such a way that after exceeding the threshold of HRK 77,000, the sale is taxed in the Member State in which the recipient of the goods who is not a taxable person has residence. Therefore, foreign taxable person will pay the Croatian VAT when the total value of distance selling of goods and telecommunications services, radio and television broadcasting services and electronically performed services exceeds the threshold of 10,000 euros and vice versa, Croatian taxable persons will pay VAT in another Member State when the value of these supplies exceeds the threshold of HRK 77,000.
- Expanding the possibility of applying the calculation category of VAT on imports in order to relieve the taxable persons in terms of engaging financial resources for the payment of VAT on imports.

Proposed amendments to Fiscalisation Act

- Determination of the cash register maximum according to certain categories of taxpayers.
- From January 1, 2021, the obligation to carry out the procedure of fiscalisation of sales via self-service devices as well as the obligation to display the QR code on each issued and fiscalized invoice should start. However, taxpayers who collect the turnover via means that are not considered as cash transaction in accordance with the provisions of the Fiscalization Act, are not required to display the QR code on the invoice.



Please keep in mind the fact that legislation is subject to frequent change. This newsletter is therefore necessarily based on our understanding and correct interpretation of the law and practice at the time of publication of this newsletter. This newsletter will not be updated due to changes in legislation that occur after the issuance of this letter.