



NEWSLETTER – TAX RELIEFS FROM THE FIFTH ROUND OF TAX REFORM AND CHANGES TO THE FOREIGNERS ACT

5/1/2021

On December 4, 2020 the Croatian Parliament passed a package of tax amendments from the fifth round of tax reform, which entered into force on January 1, 2021. The fifth round of tax reform relates to:

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

Below are the most significant tax changes and additions.

Personal Income Tax Act

- The personal income tax rate of 36% is reduced to **30%**, and the rate of 24% is reduced to **20%**.
- Reduction of the 12% tax rate to a **10%** rate, applicable on the taxation of annual and final income (e.g. profit distributions) and lump-sum taxation of activities (e.g. rental of apartments or flats).
- Defining the tax treatment of the national support for the elderly which amounts up to HRK 800 per month as of January 1, 2021. This support is not regarded as income subject to personal income tax and is not 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 is obliged to report the notarized contracts to the Tax Authorities.
- Abolition of taxation at annual rate of 24% for 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 12.500).
- Stricter tax treatment is prescribed for cases when the disparity between income and assets is determined. The percentage increase of the personal income tax rises from 50% to 100% when personal income tax is determined based on the difference between the value of the assets and the amount of income with which the assets were acquired - the total tax rate is increased from current 54% to 60%.
- A tax exemption is prescribed for receipts received by natural persons who have acquired the status of "digital nomads" in order to facilitate their decision to choose the Republic of Croatia as their place of residence and work.

Corporate Income Tax Act

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

TPA d.o.o.

Josipa Marohnića 1/1, HR-10000 Zagreb, Hrvatska, OIB: 18197068007 Tel.: +385 (1) 6461-780,

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- Reduction of the withholding tax rate on performances by foreign performers (artists, entertainers, athletes, etc.) from 15% to **10%** when the fee is paid by domestic or foreign payer based on 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 (natural person).
- More favourable tax treatment for credit institution in case of loan write-offs or reprogramming of loans, i.e. 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 is recognised as tax-deductible expense of a credit institution.

Value Added Tax Act

- Increase of the threshold for the application of the VAT cash accounting scheme from current HRK 7.5 to **HRK 15 million**.
- 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 EUR 22 (HRK 160).
- The application of the special taxation procedure for telecommunications services, radio and television services broadcasting and electronically performed services, (i.e. Mini One Stop Shop – MOSS system) will be extended to provision of all services performed to persons which are not taxpayers. Further to this, entrepreneurs who provide services to persons that are not taxpayers are not obliged to register for VAT purposes in each Member state in which the place of taxation of these services is situated, which means that VAT on these services will be reported and collected in the Member State of reporting. The application of the MOSS system is also extended to the distance sale of goods within the EU to persons who are not taxpayers and the obligation to issue the invoices for these supplies is abolished.
- Current distance sales thresholds are replaced with an annual threshold of HRK 77.000, and once the threshold of HRK 77.000 is reached the distance sale supplies will be taxed in the Member State in which the non-taxpayer recipient of goods has residence.
- Therefore, foreign taxpayers will pay Croatian VAT when the total value of distance sales of goods and telecommunications, radio and television broadcasting and electronically performed services exceeds the threshold of HRK 77.000. Conversely, Croatian taxpayers will pay VAT of another Member State when the value of these supplies exceeds the threshold of EUR 10.000.
- Expanding the possibility of applying the calculation category of VAT on imports in order to relieve taxpayers in terms of engaging financial resources for the payment of VAT on imports.
- If the distance sale of goods is enabled through an electronic interface and the goods are imported from third territories or third countries in parcels which have a value of not more than HRK 1.135 or if the distance sale of goods within the European union is conducted by a taxpayer without residence in the European union, the supplier is deemed to be the taxpayer, who enables the sale through its electronic interface.

Cash Transaction Fiscalisation Act

- The Minister of Finance is given the authority to prescribe in an ordinance the provisions regarding the amount of the treasury maximum according to certain categories of taxpayers.
- From January 1, 2021, the obligation to carry out the procedure of fiscalization of sales via self-service devices begins, as well as the obligation to display the QR code on each issued and fiscalized invoice, which is charged by a means that is considered a cash transaction. However,

taxpayers who collect the realized turnover with means that are not considered as cash transaction in accordance with the provisions of the Cash Transaction Fiscalisation Act, are not required to state the QR code on the invoice that is charged in such a way.

Foreigners Act

- The institute of a long-term visa (D) is prescribed, which is issued to a third-country national who needs a short-term visa to enter, and has a temporary residence permit, i.e. a residence and work permit issued in the Republic of Croatia.
- Clearer provisions have been defined for the entry and stay of third-country nationals and relating the part of granting temporary residence for humanitarian purposes.
- A new purpose of temporary residence has been prescribed, which refers to the stay of digital nomads.
- The conditions that must be met by the employer before hiring foreigners, in order to obtain the opinion of the Croatian Employment Service, are prescribed, since the current quota system has been abolished.



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.