

## NEWSLETTER – CHANGES WITH THE PROPOSED AMENDMENTS TO THE ACCOUNTING ACT

01/06/2023

The Draft Act on the Amendments **to the Accounting Act** translates the provisions of the EU Directive 2021/2101, which aims to increase transparency and public oversight of information on corporate income tax submitted by enterprises that operate in the territory of several member states and whose income exceeds EUR 750 million. In addition to harmonization with the legal acquis of the European Union, the draft act proposes other changes as well, such as the possibility of using a functional currency other than the euro, public disclosure of annual financial statements of credit unions, and alterations in the part regarding the disclosure of the non-financial report and the consolidated non-financial report so that they are distinctly visible, or highlighted in a clear and visible way for the purposes of supervision, the general public and other stakeholders in the market.

The draft act adds a new chapter to the current Accounting Act **regarding the reporting on corporate income tax information** and defines the terms that are applied for the purposes of corporate income tax reporting. The overview of terms is given in the table below:

ultimate parent company	an enterprise that prepares consolidated financial statements of the largest group of companies
independent enterprise	an enterprise that is not part of a group
consolidated financial statements	financial statements prepared by the parent company of the group in which assets, liabilities, equity, income and expenses are reported as if it was a single economic entity
tax jurisdiction	a state or non-state jurisdiction that has fiscal autonomy with respect to corporate income tax
income	a) " <i>net income</i> " for enterprises subject to the law of a member state that do not apply international accounting standards adopted based on the Regulation (EC) no. 1606/2002 or b) " <i>income</i> " as defined by the financial reporting framework based on which financial statements are prepared or in terms of that framework, for other enterprises.

The entities subject to preparing a corporate income tax report are:

- **ultimate parent company**
- **independent enterprise**
- **medium and large enterprises that are subsidiary companies under control of the ultimate parent company that does not apply the law of the Republic of Croatia or another member state**
- **a subsidiary opened in the Republic of Croatia by an enterprise to which the law of the Republic of Croatia or other member states does not apply.**

The ultimate parent company and an independent enterprise are obliged **to prepare, publish and make publicly available a corporate income tax report if they exceed the sum of €750,000,000 in terms of total income during the period of two consecutive business years, depending on the consolidated income of the group or the income of the independent enterprise.**

Obligations of an enterprise from a third country operating in the EU:

A medium and large enterprise that is a daughter company:

- to which national law applies, and which is under the control of the ultimate parent company to which the law of the Republic of Croatia or another Member State does not apply
- the amount of the consolidated income of the parent company stated in the consolidated annual financial statements **for each of the last two consecutive business years exceeds a total of 750 million euros**
- publishes and makes available a report on information on the corporate income tax that refers to the ultimate parent company;

Subsidiary:

- opened by a company in the territory of the Republic of Croatia, to which the law of the Republic of Croatia or another Member State does not apply
- publishes and makes publicly available a report on information on the corporate income tax that refers to the ultimate parent company or independent enterprise
- **the subsidiary's net income for each of the last two consecutive business years exceeds the threshold of 8 million euros.**

The above **applies** to the subsidiary only if the following criteria are met:

**1. The enterprise that founded the subsidiary is:**

- a) a related company within the group whose ultimate parent company is not subject to the law of the Republic of Croatia or another Member State and whose consolidated income stated in the consolidated annual financial statements for each of the last two consecutive business years exceeds a total of 750 million euros or
- b) an independent enterprise whose income stated in the consolidated annual financial statements for each of the last two consecutive business years exceeds a total of 750 million euros and

**2. The ultimate parent company does not have a medium or large daughter company.**

The corporate income tax report should include **information related to all activities of the ultimate parent company or independent enterprise, including the activities of all related companies consolidated in the annual financial statements for the relevant business year.**

The entities must **publicly disclose** the report on the corporate income tax and the statement on the unavailability of information from the ultimate parent company **no later than 12 months after the date of the balance sheet for the business year for which the report is prepared.** The amounts in business books, annual financial statements, annual consolidated financial statements, annual reports, consolidated annual reports and other financial information are expressed in euros. This does not allow defining a functional currency other than the euro.

Effects of foreign exchange rate changes:

- **Functional currency** is the currency of the primary economic environment in which the entity operates
- **Foreign currency** is a currency that is not a functional currency
- **Disclosure currency** is the currency in which the financial statements are presented.

The elements of capital and reserves are converted from a functional currency other than the euro to the euro as follows:

- **share capital is stated in euro as stated in the court register**
- **receivables for registered and unpaid capital that the enterprise claims from the members of the company are expressed in euros**
- **capital reserves, profit reserves and retained earnings are stated in euros as stated in the decisions of the competent authorities based on which the enterprise was formed**
- **revaluation reserves are converted into euros using the historical exchange rate on the date of valuation of the assets for which revaluation reserves are recognized**
- **fair value reserves are converted into euros using the spot exchange rate on the balance sheet date.**

Entities currently subject to non-financial reporting are large enterprises that are public interest entities, and on the balance sheet date they exceed the criterion of an average number of 500 employees during the previous business year.

Currently, there are three ways of publishing a non-financial report:

- within the management report,
- together with the management report by submitting it for public disclosure as an attachment to the management report or
- as a separate report that is published on the website referred to in the management report, within a reasonable period not exceeding six months after the balance sheet date.

Entities that will become subject to sustainability reporting:

- large enterprises regardless of whether they are public interest entities
- small and medium-sized enterprises that are public interest entities and whose securities are listed on a regulated market in the EU
- an enterprise from a third country + a daughter company or a subsidiary of an enterprise from a third country

The content of the sustainability report is expanded by prescribing **the introduction of new information about the company's strategy, goals, the role of the boards and the management, the main adverse effects associated with the company and its value chain, intangible assets and how the companies determine the information presented.** The first sustainability report **will be prepared for the business year 2024, and then the number of subjects to sustainability report will be expanded every year,** as shown in the table:

Entities subject to sustainability reporting	First application
Entities currently subject to non-financial reporting (all large enterprises that are public interest entities with more than 500 employees)	Application to business year 2024 (first reports must be published in 2025)
All large enterprises	Application to business year 2025 (first reports must be published in 2026)
Small and medium-sized enterprises that are public interest entities and whose securities are listed for trading on a regulated market in the European Union	Application to business year 2026 (first reports must be published in 2027)
Non-EU companies above a certain income threshold that have a daughter company or a subsidiary in the EU	Application to business year 2028 (first reports must be published in 2029)

**The deadline for translating the The Corporate Sustainability Reporting Directive (CSRD) Directive into the national legislation is July 6, 2024**, and by then it will be necessary to amend at least the following acts:

- Accounting Act,
- Audit Act and
- Capital Market Act.



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