NEWSLETTER – NEW ROUND OF TAX REFORM - YEAR 2024

09/10/2023

At the session of the Croatian Parliament held on September 28, 2023, amendments to the existing tax regulations were adopted. Most of the adopted legislative changes enter into force on January 1, 2024. Below is an overview of the main changes in legislative regulations.

1) Act on the Amendments to the Income Tax Act

- **Increase of personal allowance –** the amount of personal allowance increases from EUR 530.90 to **EUR 560.00**.
- The amounts of personal allowance for dependent family members and disability are also increased.
- **The income surtax is abolished**.
- **Taxation classes** - the threshold for applying a higher income tax rate is increased from EUR 47,780 to **EUR 50,400**.
- The uniform income tax rates of 20% and 30% are abolished, and **the new tax rates on income from employment and other income will be determined by local self-government units within the prescribed ranges.**

  Possible range of income tax rates:

Local governments	Lower rate	Higher rate
Municipality	15% - 22%	25% - 33%
City with < 30,000 inhabitants	15% - 22.4%	25% - 33.6%
City with >30,000 inhabitants	15% - 23%	25% - 34.5%
City of Zagreb	15% - 23.6%	25% - 35.4%

  The deadline for reaching a decision on the income tax rate for local self-government units is until the end of November 2023, and it will enter into force on January 1, 2024.

- **The tax rates applied for taxation of final income are increased** as shown in the following table:

Type of income	Rate from 2024
Property income generated from rent and lease payments	12%
Income from property rights	24%
Income from disposal of real estate and property rights	24%
Interest income	12%
Income based on receipts from dividends or profit shares	12%
Income from capital based on capital gains	12%
Income from self-employment - flat rate taxation	12%

- **Tips -** the non-taxable amount of tips is determined in the amount of EUR 3,360 per year. The amount of the tip above the non-taxable part is taxed as final other income at a rate of 20%. The obligation to submit information about the receipt of a tip to the Tax Administration via an electronic link established for the purposes of fiscalization of cash transactions is also introduced.

2) Act on the Amendments to the Contributions Act

- **Contributions for pension insurance -** the monthly base for calculating contributions for pension insurance in the 1st pillar is reduced:
  - **a reduction of EUR 300.00** is introduced **for gross salaries up to EUR 700.00**;
  - **a linear reduction** is introduced according to the following calculation: **0.5 x (1,300 – gross salary) for gross salaries from EUR 700.01 to EUR 1,300.**

3) Act on the Amendments to the Profit Tax Act

- **Withholding tax**
  - **The withholding tax** for **tax and business consulting services, researched markets and audits is abolished** (except when those services are paid to entities based in countries that are on the EU list of non-cooperative jurisdictions).
  - Affiliated companies of different EU member states that do not meet the condition of minimum retention of shares for an uninterrupted period of 24 months, can exercise the right to non-taxable payment of interest and royalties if they provide an appropriate guarantee.
  - Exemption from withholding tax on interest, royalties, dividends and profit shares is extended to residents of the European Economic Area (Norway, Iceland and Liechtenstein), in addition to the residents of the EU member states.
  - The withholding tax rate is increased from 20% to 25% for payments to entities based in countries that are on the EU list of non-cooperative jurisdictions.
- **Depreciation**
  - The threshold for determining fixed assets is increased from EUR 464.53 to EUR 665.00, but only for the purpose of determining corporate income tax
- **Gifts**
  - Tax-deductible gift expenses in the amount of 2% of the income realized in the previous tax period are now extended to 2% of the income realized in the current period.

4) Act on the Amendments to the Value Added Tax Act

- **Correction of the tax base -** possibility of reducing the supplier's tax base unilaterally within 6 months if they are unable to collect all or part of the amount for more than a year, and actions have been taken to collect the overdue claim (enforcement proceedings, court proceeding, etc.)
- **CESOP (Central Electronic System of Payment information) -** the obligation to provide data to all payment service providers at the EU level is introduced, for the purpose of conducting controls of cross-border deliveries and combating VAT-related frauds

Rounding of amounts

- From January 1st 2024, EUR amounts in all regulations are rounded in favor of taxable persons (e.g. the amount of income for the purposes of determining the corporate income tax rate is rounded to EUR 1,000,000.00, while the threshold for entry into the register of VAT payers is rounded to EUR 40,000.00).