The New Tax Reform In Croatia

What should change on January 1, 2024?

The tax changes that have been announced concern not only employees but also entrepreneurs. All the mentioned changes are not ratified by the Parliament yet, and it is expected that the changes will enter into force on January 1, 2024.

1. Income tax

Increase in personal allowance.

The personal allowance amount should be increased to EUR 560.

Item	Current	New	Diff.
Supported immediate family member	EUR 232	EUR 280	20,6%
1st. child	EUR 232	EUR 280	20,6%
2nd. child	EUR 332	EUR 392	18,1%
3rd. child	EUR 465	EUR 560	20,6%
4th. child	EUR 630	EUR 784	24,4%
5th. child	EUR 830	EUR 1.064	28,3%
6th. child	EUR 1.062	EUR 1.400	31,9%
7th. child	EUR 1.327	EUR 1.792	35,0%
8th. child	EUR 1.626	EUR 2.240	37,8%
9th. child	EUR 1.958	EUR 2.744	40,2%
Disability	EUR 133	EUR 168	26,6%
Disability 100%	EUR 498	EUR 560	12,5%

Source: MinFin, Government of RC

The annual amount to which the rate of 30% is applied increases from EUR 47,780 to EUR 50,400. This would equal to increase in higher range salaries of approximately EUR 800 p.a.

City surtax and local self-government

The surtax is abolished, but cities and municipalities depending on their size of population are allowed to change the income tax rates as shown in the table below.

Local government	Current	New income tax proposal	
	Surtax	Lower Rate	Higher Rate
Municipalities	up to 10%	15% -22%	25% -33%
Cities with <30k inhabitants	up to 12%	15% -22,4%	25% -33,6%
Cities with >30k inhabitants	up to 15%	15% -23%	25% -34,5%
City of Zagreb	up to 18%	15% -23,6%	25% -35,4%

Source: MinFin, Government of RC

Contributions for pension insurance

Contributions for pension insurance (the so-called Pillar 1) are also changing.

👉 For gross salaries up to EUR 700, the fixed allowance is EUR 300.

👉 For salaries from EUR 700.01 to EUR 1,300, a gradual reduction of the allowance is foreseen as shown in the table below.

Contribution Calculation *	Amount of allowance
Up to EUR 700	EUR 300
From EUR 700 to EUR 1.300	0,5 x (EUR 1.300 – basis)
EUR 1.300 and more	0

Source: MinFin, Government of RC
*Monthly basis

Salary increase in practice

Using the example of a person living in the city of Samobor where there is no city surtax, we have illustrated the changes.

As per the table below, salaries will not increase significantly for employees who have a net salary of approximately EUR 1000 and no other additional allowances.

Gross	EUR 700,00	EUR 1290,00
Net current	EUR 554,18	EUR 931,78
New Net	**EUR 596,00**	**EUR 938,20**

Source: MinFin, Government of RC

Tips

For the first time, the reform sets out treatment of tips that is their "better" tax treatment.

👉 The tax-free tip amount on an annual basis would be €560 x 6 = €3,360 (for cash and credit card payments).

👉 The amount of the tip above the tax-free amount is taxed as so called final other income at a rate of 20 % (final tax calculation without payment of social security contributions and without increase in relation to other types of income).

For each invoice (paid in cash or by credit card), the amount of the tip is reported in the fiscal register. The employer reports the monthly amount of the collected tips using employee's social security number (OIB) via the JOPPD form.

Donations

The idea of the new tax regulation for donations is to increase the tax-free amount, that is, the existing possibility of donating for public interest purposes in an amount greater than 2 percent of the income of the previous year, if there are programs and decisions of the competent ministries (e.g. construction of sports infrastructure in accordance with strategic documents for the development of sports).

Depreciation of inventory

The value of assets representing small inventory is increased to EUR 650 and can be written off at 100 percent of the purchase value.

Stock options

Awarding stock options in a limited liability company is equated with awarding stock options in a joint stock company.

The deadline for payment of income tax is February 28.
To simplify the system, a fixed payment date is introduced instead of the date according to the date of submission of the application.

2. Corporate Profit Tax

The value of assets representing small inventory is increased to EUR 650 and can be written off in the amount of 100% of the purchase value.
Donations are regulated similarly to personal income tax.

The deadline for payment of corporate profit tax is April 30.
To simplify the system, a fixed payment date is introduced instead of the payment day according to the date of submission of the application.

3. Withholding tax

Withholding tax is a specific tax that is paid when paying for certain types of services abroad or to foreign entrepreneurs, as well as in case of payment of interest, dividends, and royalties.
👉 Withholding tax on market research and business consulting services is abolished.
👉 Withholding tax on dividends paid to entrepreneurs from the European Economic Area (incl. Norway, Iceland, and Liechtenstein) is abolished.
However, this same tax is increased for payments to non-cooperative jurisdictions from 20 to 25 percent.
The list of such jurisdictions is updated regularly at the EU level and should be regularly monitored.
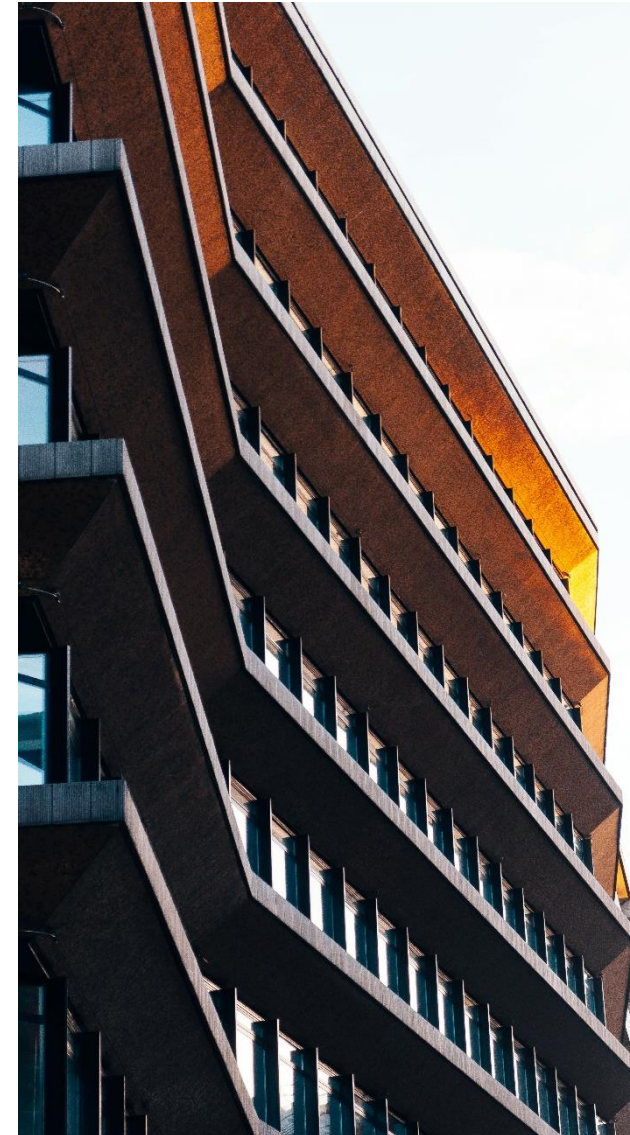
4. Value Added Tax (VAT)

The most important change in VAT, which is almost revolutionary, is the possibility of VAT refund in case the entrepreneur could not collect receivables.

The VAT base can be reduced in case of impossibility to collect all or part of due receivables that have not been collected for more than one year.

👉 In such case, the entrepreneur can conduct a reduction of the tax base within six months if the actions for collection have been undertaken. The entrepreneur must have evidence that he has taken actions for the purpose of collecting overdue receivables, that is that overdue claims were subject to enforcement proceedings or have been sued in court of law or a settlement has been reached with a debtor who is not a related party, or to prove in some other manner that he has demanded the collection of claims from the customer.

👉 Exceptionally, the VAT base cannot be reduced after the initiation of insolvency proceedings against the customer for deliveries that occurred before the initiation of insolvency proceedings.

👉 If the entrepreneur, after reducing the tax base, subsequently partially or fully collects the receivable, he is obliged to increase the VAT base by the corresponding amount.

An entrepreneur who corrected the VAT base is obliged to notify the competent office of the Tax Authorities about the correction made within the deadline for submitting the VAT return for the taxation period in which the correction was made. Another interesting change is the increase in the threshold for registration in the register of VAT payers from EUR.

5. Holiday homes

The range for holiday home tax is increased to EUR 0.60 to EUR 5.00 per m² of holiday home. To avoid confusion, the term holiday home for taxation purposes also includes apartments.

CONCLUSION

Any change that leads to lower taxes is welcome. Employees hoped that their salaries would increase significantly, but one should never lose hope - after the rain, the sun always comes out.

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