



## KPMG Croatia Tax Card 2003



## PERSONAL INCOME TAX

Rates	Percentage (%)	Annual income bands (in HRK)
Tax free	0	Up to 18,000
Starting	15	18,000 - 54,000
Basic	25	54,000 - 99,000
High	35	99,000 - 270,000
Very High	45	Above 270,000

*Employment income is taxed at source in accordance with the above rates.*

The rate of tax applicable to dividend income (interim and final payments) is 15%.

The rates of tax applicable to property income and income from property rights are 15% and 25% respectively.

### **Taxable benefits**

Unless specifically exempt, fringe benefits are generally taxable according to the market value of the benefit provided (incl. 22% VAT). Fringe benefits include private use of company cars, housing and rental allowances, relocation expenses, etc.

The company car benefit is either assessed as 1% of the purchase price of the company car when new (incl. 22% VAT), or on the basis of actual kilometres incurred in private travel.

### **Tax free allowances**

Typically include, but are not limited to the following:

- Reimbursement of travel expenses to / from work;
- Reimbursement of business trip expenses;
- Daily allowances for business trips in Croatia up to HRK 170;
- Daily allowances for business trips abroad up to specified amounts (country dependent);
- Annual awards of up to HRK 1,000; and
- Other allowances / benefits up to specified amounts.

### **Exempt income**

Exempt income includes pensions derived from pension schemes abroad, interest income from kuna and foreign currency denominated bank accounts, certain insurance premiums and the like.

### **City surtax**

Municipalities and cities may levy an additional tax. Currently, the City of Zagreb has the highest city surtax rate, being 18%. City surtax is calculated on the total amount of tax payable.

<b>Deductions</b>	<b>HRK</b>
Basic personal allowance* (annual)	18,000
Dependant spouse (annual)	7,200*
First child (annual)	7,560*
Second child (annual)	10,620*
Third child (annual)	15,120*
Additional health, life insurance and voluntary pension contributions (annual)	Up to 12,600
Donations	Up to 2% of prior year total receipts
Costs of qualifying health services**	Up to 12,000
Investments of purchase / building of main residence**	Up to 12,000
Interest on qualifying loans for purchase / building of main residence**	Up to 12,000
50% of rental charges paid for main residence (if used for living)**	Up to 12,000

\* Annual allowances are based on multiples of the basic personal allowance.

\*\* May be utilised on the basis of annual tax return submitted.

### **Social Security Contributions**

	<b>Employee**</b>	<b>Employer</b>
Pension and disability	20.00%	-
Health insurance	-	15.00%
Unemployment fund	-	1.70%
Against injury at work	-	0.50%
<b>Total contributions*</b>	<b>20.00%</b>	<b>17.20%</b>

\* Based on gross salary.

\*\* Maximum annual earnings base is HRK 382,320.

### **CORPORATE PROFIT TAX**

Corporate profit tax is levied at the rate of 20% on the adjusted difference between income and expenditure assessed in accordance with legislative requirements.

Basic transfer pricing provisions exist. There are no thin capitalisation rules and no group taxation provisions.

Dividend income is not taxable.

Tax losses may be carried forward for a maximum of 5 years, and no carry back provisions exist.

### **Tax depreciation rates / periods**

<b>Assets</b>	<b>Annual depreciation rate (%)</b>	<b>Depreciation period (years)</b>
Buildings and plant facilities	2.5 - 10	40 - 10
Equipment	5 - 25	20 - 4
Long-term intangible assets	20	5
Other long-term assets	10	10

Fixed assets are depreciated using the linear method of depreciation and annual depreciation rates set above. Additional, partial or total write-off of equipment and commercial premises acquired during the tax period is available.

### **Withholding tax**

Withholding tax at the rate of 15% applies on certain payments (dividends / shares in profit, qualifying interest, intellectual property rights and market research / tax advisory / audit and similar services) to non-resident legal entities.

The effective rate may be decreased pursuant to double tax treaties.

### **VALUE ADDED TAX**

The standard VAT rate is 22% and applies to most products and services.

The lower band rate is 0% and applies to bread, milk, educational literature (specified), certain medical supplies, film projection service, stay of foreign tourists organised by a foreign tourist agency (legal entity) if paid from abroad and all exports. In order for the 0% rate to apply to exports, the receivable must be collected within 150 days. This is subject to certain exceptions.

VAT exemptions include: renting of residential property; services performed by banks, savings institutions, savings and loan institutions, insurance and reinsurance companies; medical services; services and deliveries of goods performed by social welfare organisations, organisations for children, pupils and students, religious communities, or for cultural purposes.

Services are taxable in Croatia if they are deemed to be supplied in Croatia. The place of supply rules are similar to those in the EU. The self-charge mechanism applies.

A registration threshold consists of taxable supplies of HRK 85,000 or more in the previous year.

### **FILING DEADLINES**

Filing deadlines are as follows:

- Annual personal income tax returns - 28 February of the current year for the previous year;
- Annual statistical reports - 31 March of the current year for the previous year;
- Annual corporate profit tax returns - 30 April of the current year for the previous year;
- Annual VAT returns - 30 April of the current year for the previous year; and
- Monthly VAT returns - last day of the current month for the previous month.

## PROPERTY TRANSFER TAX

Property transfer tax at the rate of 5% applies to all transfers of land, transfers of all property by physical persons and to transfers of property built before 31 December 1997. Deliveries of property by legal entities built after 31 December 1997 is subject to 22% VAT. The tax base is the market value (or value estimated by the Tax Authorities) and is levied on buyers.

As of 1 January 2003, an exemption from property transfer tax is available to Croatian citizens buying their first property, if certain criteria are met.

## OTHER TAXES

There are numerous other taxes including:

- Gift and inheritance taxes
- Customs duties
- Excise duties
- Chamber of commerce contributions
- Forestry tax
- Tourist tax
- Tax on games of chance
- Tax on motor vehicles
- Tax on boats
- Tax on slot machines
- Consumption tax
- Tax on country cottages and rest centres
- Firm tax
- Public utilities tax
- Tax on uncultivated cultivable land
- Tax on unused business real estate
- Tax on un-built build-able land

## INVESTMENT INCENTIVES

The main statutory incentive areas are:

- Free Trade Zones;
- Special State Care Areas;
- Investment Promotion Law; and
- Corporate Profit Tax (CPT).

Under the Investment Promotion Law and CPT legislation the CPT rate can be reduced as follows:

Investment level (in HRK)	Employees (minimum)	CPT rate	Period*
Over 10 million	30	7%	10 years
Over 20 million	50	3%	10 years
Over 60 million	75	0%	10 years

\* or until investment level reached

## **Double Tax Treaty Network**

Albania	Greece	Romania
Austria	Hungary	Russia
Belgium	Ireland*	Slovakia
Bulgaria	Italy	South Africa
Canada	Latvia	South Korea*
China	Lithuania	Sweden
Czech Republic	Macedonia	Switzerland
Denmark	Malta	Turkey
Finland	Netherlands	Ukraine
France	Norway	United Kingdom
Germany	Poland	

*(Status as of 23 January 2003)*

*\* new treaty signed, but not yet in effect*

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This card was prepared on 23 January 2003 as a quick-reference guide to the subject matter and should not be regarded as a basis for ascertaining the liability to tax or determining investment strategy in specific circumstances. In such cases specialist advice should be taken.

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