



Tax Card

2007

KPMG CROATIA D.O.O.

AUDIT ■ TAX ■ ADVISORY

CORPORATE INCOME TAX

Corporate profit tax is levied at the rate of 20% on accounting profit adjusted in accordance with the provisions of the corporate profit tax law.

Detailed transfer pricing, thin capitalisation and interest deductibility rules exist. There are no group taxation provisions.

Domestic and foreign dividend income is not taxable.

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

Withholding tax

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

The withholding tax rate may be decreased/eliminated pursuant to an effective double tax treaty.

No withholding tax is levied on dividend payments, except for dividend payments made to individuals out of profits earned during the period 1 January 2001 to 31 December 2004.

Tax depreciation rates / periods

Assets	Annual depreciation rate (%)	Depreciation period (years)
Buildings	5	20
Equipment, motor vehicles (other than personal cars), intangible assets	25	4
Personal cars*	20	5
IT equipment and mobile phones	50	2
Other long-term assets	10	10

* If the value of a personal car and other means of personal transportation exceeds the amount of HRK 400,000, depreciation on the amount in excess of HRK 400,000 is non-deductible for corporate profit tax purposes.

Depreciation is calculated using the linear method of depreciation applying the annual depreciation rates set above. At the request of the taxpayer, the annual rates may be doubled.

Goodwill arising on business combinations cannot be amortised.

INDIRECT TAXES

Value Added Tax ("VAT")

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

The VAT rate of 10% applies to tourist accommodation services and related agency fees.

A VAT rate of 0% applies to bread, milk, educational literature (specified), certain (specified) medical supplies and film projection services.

VAT exemptions (no input VAT recovery) include: rental 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 for certain services supplied from abroad.

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

Customs Duties

Croatia uses the uniform customs tariff classification for a range of imports to determine applicable customs duty, excise taxes, etc. However, imports from EU countries or from countries with which Croatia has a Free Trade Agreement, are generally free of customs duties.

PERSONAL INCOME TAX

Rates	Percentage (%)	Annual taxable income bands (Croatian Kuna (HRK)*)
Starting	15	0 – 38,400
Basic	25	38,400 – 96,000
High	35	96,000 – 268,800
Highest	45	Above 268,800

*The average middle exchange rate of the Croatian National Bank as at 28 February 2007 was USD 1 : HRK 5.56 and EUR 1 : HRK 7.35.

All taxpayers are entitled to a basic personal allowance of HRK 1,600 per month (HRK 19,200 annually).

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

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

Unless specifically exempt, fringe benefits are generally taxable according to the market value of the benefit provided (incl. 22% VAT).

The private use of a company car benefit is assessed according to specific rates.

The value of fringe benefits must be grossed-up for personal income tax purposes.

City surtax

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

Exempt income

Exempt income includes pensions derived from pension schemes abroad, interest income from Croatian kuna and foreign currency denominated bank accounts, dividend income and shares in profit, certain insurance payments and gains realised in the sale of financial property (incl. shares and other securities) if not considered the taxpayer's main activity.

Social Security Contributions

	Employee	Employer ³
Generation solidarity (Pillar 1) ^{1,2}	15.0%	-
Individual capital savings (Pillar 2) ²	5.0%	-
Health insurance	-	15.0%
Unemployment insurance	-	1.7% (1.6%) ⁴
Contributions for employees with disabilities	-	(0.1%) ⁴
Insurance against injury at work	-	0.5%
Total contributions	20.0%	17.2%

¹ Maximum annual earnings base for Pillar 1 s/s contributions in 2007 is HRK 472,680.

² Maximum monthly earnings base for both pillars, applicable only on receipts which qualify as salary for a specific month, is HRK 39,390.

³ Based on gross salary.

⁴ 1.7% for unemployment insurance has to be generally paid by employers. For employers with 20 or more employees, the 1.7% unemployment insurance contribution is split between 1.6% unemployment insurance and 0.1% contributions for employees with disabilities.

FILING DEADLINES

Filing deadlines are as follows:

- Annual foreign ownership declaration – 28 February of the current year for the previous year;
- 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 (or four months after the end of the fiscal year);
- Monthly / Quarterly VAT returns – last day of the current month for the previous month / quarter; and
- Annual VAT returns – 30 April of the current year for the previous year.

OTHER TAXES

Other taxes may apply, according to the taxpayer's individual or corporate status and activities.

More information in respect of investment incentives and real estate related taxation issues in Croatia is provided in our Investment Incentives Card for 2007 and Real Estate Card for 2007.

DOUBLE TAX TREATY NETWORK*

Croatia currently has a treaty for the avoidance of double taxation of income and property ratified and in effect with the following countries:

Albania	Greece	Romania
Austria	Hungary	Russia
Belarus	Ireland	San Marino
Belgium	Italy	Serbia and
Bosnia &	Jordan	Montenegro
Herzegovina	Korea	Slovakia
Bulgaria	Latvia	Slovenia
Canada	Lithuania	South Africa
Chile	Macedonia	Spain
China	Malaysia	Sweden
Czech Republic	Malta	Switzerland
Denmark	Mauritius	Turkey
Estonia	Moldova	Ukraine
Finland	Netherlands	United Kingdom of
France	Norway	Great Britain and
Germany	Poland	Northern Ireland

*Source: Croatian Ministry of Finance at 28 February 2007.

For more information please contact:

KPMG Croatia d.o.o.

Eurotower, 17th floor

Ivana Lučića 2a

10000 Zagreb, Croatia

tel. +385 (0) 1 5390 000

fax. +385 (0) 1 5390 111

e-mail: info@kpmg.hr

kpmg.hr

Paul Suchar

Partner, Taxation & Regulatory Services

e-mail: psuchar@kpmg.com

Tomislav Borošak

Senior Manager, Taxation Services

e-mail: tborosak@kpmg.com

Marinela Mostić

Senior Manager, Regulatory Services

e-mail: mmostic@kpmg.com

This card was prepared on 28 February 2007 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 an investment strategy in specific circumstances. In such cases specialist advice should be taken.

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