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Tax News - Croatia

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Changes to the Personal Income Tax Act

Taxation of dividends

After suspending the controversial provision on dividend taxation in April this year, the Croatian Constitutional Court has now ruled that such provision is not in line with the Croatian Constitution.

To remind you, the provision stipulated that any dividend paid out after March 2012 was subject to personal income tax. It also covered dividends from profits realized in the period 2005-2011 (when dividends were not subject to personal income tax).

According to the new provisions (approved by the Parliament in September 2013), the taxation of dividends will depend on whether the company brought the decision to pay out dividends prior to March 2012 or after. For example, if the company brought the decision in May 2011 to pay out dividends from profits earned in 2010 (but has not made the payment by March 2012) such payout will be exempt from personal income tax (since dividends were generally not taxable at the time the decision was made). However, if the

company made the same decision in May 2012, such dividends will be subject to personal income tax at payout (12% + city tax).

A list of employers that fail to pay salaries to be published

The tax authorities will now be allowed to publish on their websites a list of employers / taxpayers that fail to pay salaries for three consecutive months.



New fiscal package

The Croatian Government has introduced long-term and short-term measures for fiscal consolidation aimed at reducing the budget deficit.

VAT rate increase

One of 37 measures that have been introduced relates to a change in the reduced rate of VAT from 10% to 13%. The increased rate should come into effect on 1 January 2014. According to the current VAT Act, the reduced rate of 10% applies to accommodation in hotels (and similar places), camps and vessels, the preparation of food, the preparation and serving of

drinks, newspapers and magazines with less than 25,000 words, edible oils and fats, baby food, the water supply, white sugar, concert tickets and arts and culture magazines.

The Croatian Government is also considering applying the minimum VAT rate (currently 5%) to accommodation in tourism which is currently subject to 10% VAT. If this is enacted, it is likely that minimum VAT rate will increase.

The standard VAT rate of 25% should remain unchanged.

Real estate transfer tax

A reduction in the real estate transfer tax rate from 5% to 4% has been proposed. However, first time home buyers will no longer be exempt from paying this tax.

Excise duties

An increase in excise duties on gasoline and diesel fuel and on tobacco and tobacco products has been announced. These increases should be enacted by the end of 2013 or early 2014.

Tax benefits for persons in special state care areas and mountain areas

In line with the existing legislation, individuals that come from special state care areas and mountain areas are able to utilize an increased personal allowance and may have a decreased tax liability for personal income tax (up to 100%).

In line with announced amendments to the Personal Income Tax Act, as of 1 January 2014 these personal income tax benefits should be abolished.

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