

# Summary of Tax reform in effect from January 1, 2025

Below is a short summary of main changes in the Croatian tax legislation, applied as of January 1, 2025.

On December 10, 2024, the Croatian Parliament completed the voting process on the final proposals for laws included in the seventh tax reform, in force as of January 1, 2025. The legislation was published in the Official Gazette in December 2024.

## Amendments to the Personal Income Tax and Contributions Act

- ▶ Increase of basic personal allowance on employment income
- ▶ Increase of the threshold for higher Personal Income Tax rate on employment income
- ▶ Decrease of Personal Income Tax rates on employment income
- ▶ Exemption from Personal Income Tax for Croatian citizens who are returnees
- ▶ Cancellation of the exemption from payment of health insurance

## Amendments to the VAT Act

- ▶ Increase in the threshold for registration for the purposes of VAT to €60,000
- ▶ Application of special scheme for small taxpayers to non-established taxable persons
- ▶ New rules for place of supply of services in relation to events transmitted via the Internet or in virtual form
- ▶ Deduction of input VAT based on the Tax Authorities Resolution

## Amendments to the General Tax Act

- ▶ The extension of the statute of limitations to six years for procedures involving or relating to taxpayer operations with foreign related parties
- ▶ Extension of provisions on e-communication
- ▶ Introduction of liability for company members for failure to submit tax returns

## Amendments to the Local Tax Act

- ▶ Replacement of Tax on Holiday Homes with new Real Estate Tax

# Amendments to the Personal Income Tax and Contributions Act

## Increase of basic personal allowance on employment income

- ▶ The basic personal allowance on employment income is increased from €560 to €600, and the personal allowance for dependents and disability is increased as follows.

	Coefficient	2024. in €	2025. in €
Basic personal allowance		560	600
Monthly amounts for increasing the basic personal allowance,			
1. Dependent family members	0,5	280	300
First dependent child	0,5	280	300
Second dependent child	0,7	392	420
Third dependent child	1,0	560	600
Fourth dependent child	1,4	784	840
Fifth dependent child	1,9	1,064	1,140
Sixth dependent child	2,5	1,400	1,500
Seventh dependent child	3,2	1,792	1,920
Eighth dependent child	4,0	2,240	2,400
Ninth dependent child	4,9	2,744	2,940
2. Disability	0,3	168	180
3. Disability (100%)	1,0	560	600

## Increase of the threshold for higher Personal Income Tax rate on employment income

- ▶ The annual threshold for applying the higher Personal Income Tax rate on employment income is raised from €50,400 to €60,000.

## Decrease of Personal Income Tax rate on employment income

- ▶ The maximum rates for lower and higher tax brackets are being reduced to further decrease Personal Income Tax burden on employment income as follows:

Municipality or city	Proposal from 1 January 2025	
	Lower rate	Higher rate
Municipalities	15% - 20%	25% - 30%
Cities	15% - 21%	25% - 31%
Large cities and country seats	15% - 22%	25% - 32%
City of Zagreb	15% - 23%	25% - 33%

- ▶ Local Authorities need to reach a Decision on the new Personal Income Tax rates until February 28, 2025. The new Personal Income Tax Rates based on the new Decisions will be reflected through the annual Personal Income Tax calculations.

## Exemption from Personal Income Tax for Croatian citizens who are returnees

- ▶ Personal Income Tax Exemption on employment income for a period of 5 years for taxpayers who have continuously resided abroad for at least 2 years.

## Cancellation of the exemption from payment of health insurance

- ▶ Employers will no longer be exempt from the obligation to pay the health insurance for young employees below 30 years of age for employment income.

# Amendments to the VAT Act

## Increase in the threshold for registration for the purposes of VAT to €60,000

- ▶ The threshold for VAT Registration has been increased from €40,000 to €60,000 per annum.
- ▶ Taxpayers whose turnover for 2024 was below €60,000 are able to deregister from the VAT system.
- ▶ Taxpayers who register for VAT voluntarily must remain within the VAT system for the next two years.

## Application of special scheme for small taxpayers to non-established taxable persons

- ▶ Taxpayers not established in Croatia but established in another EU Member State have the right to use the special scheme for small and medium-sized enterprises (small taxpayers), that is, they are not obliged to register for VAT in Croatia until thresholds are reached. This is applicable if their annual turnover in the Union does not exceed €100,000 and their annual turnover in Croatia does not exceed €60,000.
- ▶ Such non-established taxpayers must provide prior notification to their Member State of establishment and obtain individual identification number.

## New rules for place of supply of services in relation to events transmitted via the Internet or in virtual form

- ▶ A new rule for place of supply of services related to events organized virtually has been introduced. As a result, the place of supply for B2B services is the place where the recipient is established and for B2C services the place of supply is the place where the supplier is established.

## Deduction of input VAT based on the Tax Authorities Resolution

- ▶ If VAT is assessed as a result of Tax Authorities decision (normally after a tax audit) the supplier will be able to issue an amended invoice, and the recipient will be able to deduct the amount of VAT.
- ▶ If import VAT has been additionally increased the taxpayer can correct the input tax deduction based on the document from the Customs Administration.

# Amendments to the General Tax Act

## The extension of the statute of limitations to six years for procedures involving or relating to taxpayer operations with foreign related parties

- ▶ Extension of the statute of limitations to six years for procedures involving or relating to the business of taxpayers with related parties abroad.

## Extension of provisions on e-communication

- ▶ The Minutes on tax audit are issued in electronic form whenever feasible.

## Introduction of liability for company members for failure to submit tax returns

- ▶ The introduction of liability for company members for failure to submit tax returns; the members, along with the company, are jointly liable for the obligation as guarantors.



# Amendments to the Local Tax Act

## Replacement of Tax on Holiday Homes with new Real Estate Tax

- ▶ Tax on Holiday Homes is effectively replaced by the new Real Estate Tax that needs to be introduced by the local authorities. The Real Estate Tax will be paid annually in the amount of €0.60 to €8 per square meter of usable area of real estate. Real Estate Tax rate is calculated according to the decision of the municipality or city in which the Real Estate is located.
- ▶ Individual and legal persons who own real estate on March 31 of the year for which the tax is determined are obligated to pay the Real Estate Tax.
- ▶ Following real estate, amongst others, should be exempt from Real Estate Tax:
  - ▶ Real estate used for permanent residence or is permanently leased,
  - ▶ Real estate utilized for public use and intended for institutional accommodation of persons,
  - ▶ Commercial real estate of companies and real estate that cannot be used as residential real estate,
  - ▶ Real estate owned by local self-government units if they are located on the territory of that local self-government unit.

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