

Amendments have been voted

The tax reform expected to apply as of 1 January 2024

Below you can find a short reminder of the expected changes in the Croatian tax legislation.

Namely, on 28 September 2023, the voting of the proposals of laws that are part of the sixth tax reform for 2024 was completed in the Croatian Parliament and publication in the Official Gazette is expected. Below we present you a summary of the amendments.

Amendments to the Personal Income Tax Act and Contributions Act

- ▶ Increase of the personal allowance
- ▶ Determination of personal income tax rates by local self-government units
- ▶ Termination of the city surtax
- ▶ Increase of tax rates applied on final personal income
- ▶ New tax treatment of tips
- ▶ Increase of the non-taxable amount of donations
- ▶ Equalizing the tax treatment of option allocation and purchase in a limited liability company with that of a joint-stock company

Amendments to the Corporate Income Tax Act

- ▶ Increase in value for depreciation purposes
- ▶ Increase of the non-taxable amount of donations
- ▶ Introduction of a fixed date for the payment of Corporate Income Tax
- ▶ Termination of withholding tax on tax and business consulting and market research services

Amendments to the VAT Act

- ▶ Possibility of output VAT adjustments for bad debts.

Amendments to other regulations

- ▶ Fiscalization Act
- ▶ Financing of Local and Regional Self-government Units Act
- ▶ Local Tax Act
- ▶ Act of Administrative Cooperation in the Field of Taxation
- ▶ Act of Tax Consulting



AMENDMENTS TO THE PERSONAL INCOME TAX ACT AND CONTRIBUTIONS ACT

Amendments to the Personal Income Tax Act

Increase of the personal allowance

- ▶ The amount of the personal allowance is increased from **€531 to €560**.
- ▶ The amount of personal allowance for dependent family members is increased as follows:

	2023	2024
Threshold of the monthly tax base	3.982	4.200
Basic personal allowance	531	560
Dependent family member	232	280
1st child	232	280
2nd child	332	392
3rd child	465	560
Invalidity	133	168
Invalidity 100%	498	560

Tax brackets

- ▶ The threshold for application of the higher tax rate increases from **€47,780 to €50,400**.

Tax rates

- ▶ Termination of the unique tax rates of 20% and 30%
- ▶ The local self-government units autonomously determine Personal Income Tax rates within the prescribed range, as shown in the table.

	2023	
	Lower tax rate	Higher tax rate
Uniform rates	20%	30%
Self-government unit	2024	
Counties	15% - 22%	25% - 33%
Cities with fewer than 30.000 residents	15% - 22,4%	25% - 33,6%
Cities with more than 30.000 residents	15% - 23%	25% - 34,5%
City of Zagreb	15% - 23,6%	25% - 35,4%

- ▶ The deadline for determining the Personal Income Tax rate is by the end of November of the 2023 and entering into force on 1 January of the following year. This rate remains in force until a new decision is made. In the event that the representative body of the local self-government unit does not make a decision within the prescribed period, tax rates of 20% and 30% would apply.
- ▶ Termination of the city surtax.
- ▶ The tax rates applied on final personal income are increased as shown in table:

Type of final personal income	2023	2024
Income from leased property	10%	12%
Income from property rights	20%	24%
Income from the disposal of real estate and property rights	20%	24%
Income from the disposal of special types of assets/purchase of raw materials	10%	12%
Income from interest	10%	12%
Income from exclusion of assets and use of services	30%	36%
Income based on the optional allocation or optional purchase	20%	24%
Income from dividends or shares in profit based on equity	10%	12%
Income from capital gains - disposal of financial assets	10%	12%
Income based on the difference in value of assets and the amount of funds used for acquisition	30% increased for 100%	36% increased for 100%
Income based on the return of contributions	30%	36%
Income from self-employment taxed on a lump-sum basis	10%	12%

Option allocation and purchase

- ▶ The tax treatment of income from capital gains arising from the allocation and option purchase of business shares is equated with that of allocation or option purchase of shares.

Tips

- ▶ The amount of the tip received by an individual above the non-taxable amount is taxed as an other income at the rate of 20% (calculation of taxes without contributions and without an increase in relation to other income).
- ▶ The employer reports the monthly amount of the collected tip, through the JOPPD form, per ID number of the employee.
- ▶ The tip is recorded in the fiscalization system by providing data of:
 - ▶ the tip amount and
 - ▶ the way it was received (cash or card)
- ▶ Non-taxable amount of the tip will be prescribed by the Personal Income Tax Bylaw.

Fixed date for the payment of Personal Income Tax

- ▶ The date of **28 February** is introduced as the fixed date of payment of Personal Income Tax if the annual calculation is applied.

Entering into force

- ▶ 1 January 2024

Draft amendments to the Contributions Act

- ▶ The monthly base for calculating pension contribution in pillar I is reduced for monthly gross salaries up to €1,300.
- ▶ Relief for insured persons based on employment will be:
 - ▶ for gross salaries up to **€700 - fixed relief of €300**
 - ▶ for gross salaries from **€700,01 to €1.300 - a linear model of calculating the reduction is applied**, according to the formula below:

Monthly basis for calculating contributions in euro	The relief amount
Up to €700	€300
From €700.01 to €1,300	$0.5 \times (\text{€1,300} - \text{gross salaries})$
€1,300.01 and more	-

Entering into force

- ▶ 1 January 2024

AMENDMENTS TO THE CORPORATE INCOME TAX ACT

Withholding Tax

- ▶ Termination of Withholding Tax on tax and business consulting and market research services.
- ▶ The application of Withholding Tax exemption on interest and royalties between related companies of different EU member states is allowed, even before the end of the 24-month period of holding shares, with an appropriate guarantee.
- ▶ The possibility of application of Withholding Tax exemptions on interest, royalties, dividends and profit shares, under certain conditions, is extended to transactions with companies that are residents of the European Economic Area (Norway, Iceland and Liechtenstein).
- ▶ The Withholding Tax rate increases from **20% to 25%** when paying compensations to residents of non-cooperative jurisdictions according to the EU list.

Depreciation

- ▶ The threshold of fixed tangible and intangible assets, for which depreciation expenses are tax deductible is increased from **€464.53 to €665**.

Fixed date for the payment of Corporate Income Tax

- ▶ The date of 30 April is introduced as the fixed date for payment of Corporate Income Tax.

Entering into force

- ▶ 1 January 2024

AMENDMENTS TO THE VAT ACT

Adjustment of VAT tax base

- ▶ In order to simplify the method of correcting the VAT obligation, it is prescribed that the taxable person may adjust the tax base:
 - ▶ in the case of revocation or different types of discounts, provided that the taxable person to whom the goods or services were supplied is informed of the correction carried out;
 - ▶ in the event of inability to recover all or part of an overdue receivable that has not been collected for more than one year, within 6 months, if all actions of a good businessman have been carried out.

Preventing VAT fraud

- ▶ In order to prevent VAT fraud, especially from non-residents operating in other Member States, payment service providers are required to collect detailed information on cross-border payments

Rounding

- ▶ All amounts in the VAT Act are rounded up in euro. The most important is the threshold for VAT registration which goes from **€39,816.84 to €40,000**.

Entering into force

- ▶ 1 January 2024



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