

Introduction of the euro as the official currency of the Republic of Croatia

The Croatian kuna joined the European Exchange Rate Mechanism (ERM II) on 10 July 2020.

The inclusion of the Croatian kuna in ERM II has set as preparatory phase for euro implementation.

The official decision on the date of implementation has not yet been made, although it is highly expected that the euro will be introduced on 1 January 2023. All implementing regulations governing operational matters have not yet been enacted.

The following is a brief overview of the activities under euro introduction:



Deadlines of activities related to the exchange of the kuna with the euro

- ▶ 13 May 2022 - Croatian Parliament enacted the Law on euro introduction (furthermore: "the Law").
- ▶ 13 July 2022 - expected an EU Council Decision on date of implementation and fixed conversion rate (expected to be at **EUR 1 = HRK 7.5345**)
- ▶ 5 September 2022 - expected beginning of the period of dual price expression for entities dealing with consumers
- ▶ 1 January 2023 - euro becomes official currency and official mean of payment in Croatia
- ▶ 1 January 2024 - end of dual price expression period

Below are main highlights regarding accounting and reporting from the Law in key periods:

- ▶ the dual pricing period, and
- ▶ the dual circulation period.

Dual pricing period

- ▶ It is foreseen that dual pricing period would last from 5 September 2022 to 31 December 2023. Entities obliged to apply dual pricing are only entities dealing directly with consumers. Legal entities may commence applying this obligation even earlier, from the day following the day of publication of the EU Council Decision on the implementation of the euro and the regulation of the fixed conversion rate.
- ▶ Dual pricing for business entities dealing with **final consumers**
 - ▶ Business entities will be obliged to highlight the kuna and the euro amount based on fixed conversion rate in a clear, legible and easily visible way.
 - ▶ Business entities will be obliged to dually show the total amount on the invoice to the consumers during the period of dual pricing when issuing the invoice and state the fixed conversion rate.
- ▶ Dual "pricing" for employers on payrolls and other amounts paid to employees
 - ▶ In the period of dual pricing, the employer is obligated to present dual expression of at least the **total net amount paid** to the employee based on salary payment, salary compensation, severance payments and other material rights paid to the employee based on regulations, collective agreement, labour regulations and employment contracts with stated fixed conversion rate
 - ▶ A travel orders are exempted from the obligation of dual expression



- ▶ **Rounding:**
 - ▶ The Law provides that the amounts are rounded to two decimal places, to the nearest cent, using the arithmetic rounding: if the third decimal is less than five, the second decimal remains unchanged, and if the third decimal is equal to or greater than five, the second decimal is increased by one.

Dual circulation period

- ▶ The dual circulation period starts at the date of implementation of the euro and lasts 2 weeks (14 days) from the date of implementation of euro, 1 January 2023. Dual circulation is a circulation in which, during cash transactions, euro and kuna are used simultaneously as legal mean of payment.
- ▶ During the period of dual circulation, the payee is required to give change in euro for the payments done in kuna.
- ▶ Exceptionally, when the payee is unable to repay the change in euro, he/she can return the reminder in euro or in kuna or combining kuna and euro for the same cash transaction.



Business books

- ▶ Business events and transactions relating to the period after the date of implementation of the euro shall be recorded in euro and, if necessary, in another foreign currency.
- ▶ Opening balances as at 1 January 2023 will be transferred from kuna to euro by using the fixed conversion rate.
- ▶ Bookkeeping documentation in kuna issued before the day of the introduction of the euro, relating to the accounting period after the date of implementation of the euro, will be converted into euro using a fixed conversion rate.
- ▶ Differences that will arise due to the application of the rules for recalculation and rounding are

accounted for in accordance with the applicable accounting standards.



Preparation of Annual Financial Statements

- ▶ Legal entities obligated to apply the Accounting Law, whose financial year corresponds to the calendar year, should prepare their Annual Financial Statements in kuna for the year preceding the day of the introduction of euro.
- ▶ Legal entities whose financial year differs from the calendar year, and whose last day of the financial year occurs after the day of the introduction of the euro (1 January 2023), are required to provide Annual Financial Statements in euro. For example, entity with the financial year end on 31 January 2023 should report financial result for that year end already in euro.
- ▶ Annual Financial Statements should indicate comparison period in kuna and euro amounts, if entities are using Croatian Financial Reporting Standards. The euro amounts will be converted by using the fixed conversion rate on reported kuna amounts.



Tax returns and other contributions

- ▶ The tax returns and other contributions, in accordance with the special regulation governing the tax procedure, for accounting periods ending before the date of introduction of the euro is submitted in kuna. For instance, the VAT return for December 2022, although due by 20 January 2023, must be submitted in kuna.
- ▶ All reports for the year in which the euro will be introduced and for all future periods, will be submitted in euro.



- ▶ JOPPD form (Declaration of Revenue, Income Tax and Surtax and Contributions for Mandatory Insurance), which according to the regulations governing Personal Income Taxation, has the **date of a report** before the day of the implementation of the euro is submitted in kuna, and the JOPPD Form, which is dated after the day of the introduction of the euro, is submitted in euro. If payroll for December 2022 is paid out in January 2023, JOPPD form will need to be submitted in euro; however, payroll expenses will need to be booked in kuna.
- ▶ The correction of the tax return is made in the currency in which it was originally delivered.



Contact us

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