



Tax Card 2010

KPMG CROATIA D.O.O.



CORPORATE PROFIT TAX

Accounting profit, adjusted in accordance with the provisions of the Corporate Profit Tax (CPT) Law, is subject to CPT at the rate of 20%.

Anti-avoidance provisions exist, including detailed transfer pricing, thin capitalization and interest rate limit rules. There are no group taxation provisions.

Certain expenses are only partially deductible for CPT purposes, including:

- 70% of car related expenses; and
- 30% of entertainment expenses.

Certain expenses are deductible for CPT purposes even though they are not included in current year accounting profit, including:

- Depreciation expenses which were not recognized in earlier periods;
- An additional percentage of certain research and development expenses of up to 150% of the expenses, depending on the type of research and development project; and
- An additional percentage of education and training expenses, depending on the type of education and training.

Further, 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.

From 1 January 2010 all business documentation and correspondence (including tax returns) must include the taxpayer's personal identification number ("OIB").

Accounting framework in Croatia

As of 1 January 2008 the official accounting frameworks in Croatia are Croatian Financial Reporting Standards (CFRS) and International Financial Reporting Standards (IFRS).

IFRS must be applied by large entities and entities whose securities are registered on an organized securities market (i.e. stock exchange). CFRS must be applied by small and medium-sized entities. CFRS are based on IFRS.

Large entities are defined in the Croatian Accounting Law as entities that exceed two of the following thresholds:

- assets amount to more than HRK 130 million (approximately EUR 18 million at year end);
- annual revenue amounts to more than HRK 260 million (approximately EUR 35 million); and
- the average number of employees during the year exceeds 250.

Chart of accounts

With the exception of banks and certain other financial institutions, there is no obligatory chart of accounts.

Structure of financial statements

Since 1 January 2009, a prescribed structure of financial statements is obligatory for all entities, with the exception of those specially regulated.

Withholding tax

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

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 until 31 December 2004.

Tax depreciation rates

| Assets | Annual depreciation rate (%) | Maximum accelerated annual depreciation rate (%) ¹ |
|---|------------------------------|---|
| Buildings | 5 | 10 |
| Equipment and machinery, motor vehicles (other than personal cars), intangible assets | 25 | 50 |
| Personal cars ² | 20 | 40 |
| IT equipment and mobile phones | 50 | 100 |
| Other long-term assets | 10 | 20 |

¹ If the same rates are also used for accounting purposes, these rates may be claimed for CPT purposes.

² Depreciation on the value of a personal car in excess of HRK 400,000 is non-deductible for CPT purposes.

STATUTORY AUDIT REQUIREMENTS

An annual financial statement statutory audit is required for:

- limited liability companies and limited partnerships whose revenues exceed HRK 30 million (approximately EUR 4 million) in the year preceding the year for which the audit is required; and
- all joint-stock companies, banks, insurance companies, investment funds, pension funds, pension insurance funds and other companies under special regulations, and all related (subsidiary) companies, regardless of their size, if their parent company is subject to statutory audit.

An auditor must be appointed by no later than 30 September of the year for which the audit is required.

Limited liability companies and limited partnerships whose revenues do not exceed HRK 30 million are required to carry out audits in accordance with their internal regulations, Statement of incorporation or Articles of association.

INDIRECT TAXES

Value Added Tax ("VAT")

The standard VAT rate is 23% and applies to most products and services.

A reduced VAT rate of 10% applies to:

- Tourist accommodation services and related agency fees; and
- Newspapers and magazines issued on a daily and periodical basis, with the exception of newspapers and magazines that consist mainly or entirely of advertisements or whose main purpose is advertising.

A VAT rate of 0% (input VAT recovery possible) applies to bread, milk, educational literature (specified), certain (specified) medical supplies, scientific magazines and film projection services, as well as to exports.

VAT exemption (no input VAT recovery) applies to: health and welfare services, education services, supplies by charitable organizations, supplies by museums, libraries, theaters, orchestras and other cultural services, financial and insurance services, betting and gambling and rental of residential property.

The registration threshold is taxable supplies of HRK 85,000 (approximately EUR 11,600) or more in the previous year.

Services are taxable in Croatia if they are deemed to be supplied in Croatia. The places of supply rules are similar to those in the EU. The reverse-charge mechanism applies to certain services supplied from abroad.

If a Croatian entrepreneur renders a service to a foreign recipient who is not registered for VAT purposes (e.g. a foreign individual), then those services are subject to VAT in Croatia.

Entities in Croatia using financial support from certain pre-accession EU funds are entitled to obtain goods/services without being subject to VAT, if certain conditions are met.

As of 1 January 2010, foreign legal entities may be able to recover VAT, provided relevant conditions are met.

As of 1 January 2010 the provisions of the VAT Law defining financial services have been harmonized with EU Directives. As a result, certain services provided by financial institutions are subject to VAT, i.e. services which are not of a financial nature (e.g. safe deposit box rental, advisory and legal services, certain factoring activities, custody services, etc).

Customs Duties

Croatia uses the uniform customs tariff classification for a range of imports to determine applicable customs duty rates, excise taxes, etc. Imports of goods originating from EU countries, or from countries with which Croatia has a Free Trade Agreement, are generally not subject to customs duties.

PERSONAL INCOME TAXES

| Rates | Percentage (%) | Annual taxable income bands as of 1 January 2010 (Croatian Kuna (HRK)) |
|----------|----------------|--|
| Starting | 15 | 0 – 43,200 |
| Basic | 25 | 43,200 – 108,000 |
| High | 35 | 108,000 – 302,400 |
| Highest | 45 | Above 302,400 |

All taxpayers are entitled to a basic personal allowance of HRK 1,800 per month (HRK 21,600 annually).

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

The minimal monthly gross salary for full time work (40 hours a week) in the period from 1 June 2009 to 31 May 2010 is HRK 2,814 (approximately EUR 386).

Income from letting property is taxed at 15% (after a 30% fixed expenses deduction is applied).

Income from proprietary rights (e.g. limited authorship rights, industrial rights, etc) is taxed at 25% (no fixed expenses deduction is applied).

Where there is a requirement to file an annual personal income tax return, income from letting property and proprietary rights is then, in addition to income generated from other sources, subject to marginal tax rates.

Taxable benefits

Unless specifically exempt, all non-cash salary items are generally taxable according to the market value of the item provided (incl. 23% VAT). Non-cash salary items include private use of company cars, housing and rental reimbursements, loans with an interest rate below 4% per annum, subsidized meals, etc.

The taxable value of private use of a company car is:

- 1% of the purchase price of the company car (incl. 23% VAT) per month for company owned cars, or
- 20% of the monthly lease installment (incl. 23% VAT) for cars under operational lease arrangements, or
- calculated based on actual kilometers driven for private use in a given month.

The value of all non-cash salary items must be grossed-up for personal income tax purposes.

Tax free allowances

Include, but are not limited to, the following:

- reimbursement of travel expenses to / from work;
- reimbursement of business trip expenses;
- daily allowances for business trips in Croatia up to HRK 170;
- daily allowances for business trips abroad up to specified amounts (country dependent);
- additional payments of up to HRK 2,500 per annum; and
- other allowances / benefits up to specified amounts.

Exempt income

Exempt income includes:

- dividend income and shares in profit;
- pensions derived from pension schemes abroad;

- interest income from Croatian Kuna and foreign currency denominated bank accounts;
- certain insurance payments; and
- gains realized on the sale of financial property (incl. shares and other securities) if not considered the taxpayer's main activity.

City surtax

Municipalities and cities may levy an additional tax, called city surtax. Currently, the City of Zagreb has the highest city surtax rate, at 18%. City surtax is payable depending on the residence or habitual abode of the taxpayer. City surtax is calculated on the amount of personal income tax payable.

Special tax on salaries, pensions and other income ("Crisis tax")

The Croatian government enacted a new tax, "crisis tax", as of August 2009, which is payable on all salaries, pensions and other income including dividends received by Croatian tax residents. As of 1 October 2009, crisis tax also applies to self-employment income, income from letting property and income from proprietary rights.

Crisis tax acts as a temporary anti-crisis measure, and should be applicable until the end of 2010 (and February 2010 for crisis tax on self-employment income).

The following rates of crisis tax are applied on the following bases:

- 2% on net income from HRK 3,001 to HRK 6,000; and
- 4% on net income from HRK 6,001 and above.

Crisis is to be reported through an IPP form by the 15th of each month for the previous month's income, and is payable at the time of payment of salary, pension or other income.

| Deductions | HRK |
|--|---|
| Basic personal allowance (annual) | 21,600* |
| Dependant spouse personal allowance factor 0.5 (annual) | 10,800* |
| Dependant first child personal allowance factor 0.5 (annual) | 10,800* |
| Dependant second child personal allowance factor 0.7 (annual) | 15,120* |
| Dependant third child personal allowance factor 1.0 (annual) | 21,600* |
| Donations in Croatia | Up to 2% of prior year total receipts** |
| Certain expenses as prescribed by the personal income tax legislation such as: | |
| • voluntary and additional health insurance; | |
| • voluntary pension insurance (Pillar 3); | |
| • insurance premiums paid in respect of life insurance with a retirement savings component; | Collectively limited to 12,000** p.a. |
| • certain health services; | |
| • certain costs for the purchase or construction or maintenance of a first main residence, as well as interest expenses paid for these purposes; and | |
| • rental costs for a main residence | |

* The personal annual allowances are based on multiples of the basic personal allowance of HRK 1,800 per month and the relevant factor.

** May only be utilized through the submission of an annual tax return, with the exception of insurance premiums which may be utilized during the year via monthly payroll, but with a limit of HRK 1,000 per month.

Social Security Contributions

| | Employee | Employer³ |
|--|-----------------|-----------------------------|
| 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 2010 is HRK 555,552 (approximately EUR 76,200).

² Maximum monthly earnings base for both pillars, applicable only on receipts which qualify as salary for a specific month, is HRK 46,296 (approximately EUR 6,340).

³ Based on gross salary and paid by the employer in addition to gross salary.

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

FILING DEADLINES

Key filing deadlines are as follows:

- Monthly / Quarterly VAT returns – last day of the current month for the previous month / quarter;
- Annual foreign investment 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 financial statements for statistical purposes – 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);

- Annual VAT returns – 30 April of the current year for the previous year;
- Annual financial statements and auditor's report for public announcement – 30 June of the current year for the previous year; and
- Annual consolidated financial statements – 30 September of the current year for the previous year.

* If the filing date falls on a weekend, the applicable filing date is the first subsequent working day.

REAL ESTATE TRANSFERS

Irrecoverable transfer tax at the rate of 5% applies to the transfer of land.

For buildings constructed before the VAT law became effective (i.e. before 1 January 1998) transfers are subject to irrecoverable transfer tax at the rate of 5%.

For newly constructed buildings (i.e. on or after 1 January 1998) transfers are subject to VAT at the rate of 23%.

The subsequent transfer of newly constructed buildings is:

- subject to VAT at the rate of 23% if the seller was able to deduct VAT as a tax prepayment when the building was initially purchased by the seller; or
- transfer tax at the rate of 5% in all other cases.

Croatian citizens acquiring their first property as their main residence are exempt from paying property transfer tax (but not VAT, if VAT applies), if certain conditions are met.

Further transfer tax exemptions are available for the transfer of land or qualifying buildings located in special state care areas to both companies and physical persons, if certain conditions are met.

TRANSFER TAX

The transfer of used cars, other motor vehicles, boats and planes is subject to irrecoverable transfer tax at the rate of 5%, unless VAT applies.

INHERITANCE AND GIFT TAX

Inheritance tax and gift tax at the rate of 5% applies to transfers by individuals or legal entities of real estate, cash, securities, or movables, if their individual market value exceeds HRK 50,000 (approximately EUR 6,800), where that property is inherited, received as a gift or otherwise received (or transferred), without consideration.

Inheritance and gift tax does not apply to movable property inherited/received as a gift if the transfer is subject to VAT.

Inheritance and gift tax provisions are not applicable under certain other circumstances, among others, the transfer between immediate relatives (i.e. spouses, siblings and children).

OTHER TAXES

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

Croatia also imposes a wide range of parafiscal taxes/fees.

INVESTMENT INCENTIVES

The key incentives are regulated by the:

- Investment Promotion Law;
- Law on Free Trade Zones (incentives expire in 2014 through 2017);
- Law on Special State Care Areas (incentives expire in 2014 through 2017);
- Law on Renewal and Development of the City of Vukovar (incentives expire in 2017);
- Law on Hill and Mountain Areas (incentives expire in 2011);
- Law on Scientific Activities and Higher Education; and
- Training and Education Incentives Law.

Under the Investment Promotion Law the reduced CPT rates are as follows:

| Investment range (in EUR) | New job positions * | CPT rate | Period** |
|---------------------------|---------------------|----------|----------|
| From 0.3 to 1.5 million | 10 | 10% | 10 years |
| From 1.5 to 4 million | 30 | 7% | 10 years |
| From 4 to 8 million | 50 | 3% | 10 years |
| Exceeding 8 million | 75 | 0% | 10 years |

* within the first three years of the investment

** or until investment level is reached

According to the Investment Promotion Law, in order to apply for the tax incentives, a legal entity should make investments into the following projects:

- Manufacturing and processing activities;
- Technological development and innovation centers; or
- Strategic business support activities.

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

As at 1 January 2010

The middle exchange rate of the Croatian National Bank as at 1 January 2010 was USD 1 : HRK 5.066 and EUR 1 : HRK 7.295.

For more information please contact:

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This card was prepared as at 1 January 2010 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 all cases specialist advice should be taken.

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