

CASE STUDY: TAX BENEFITS ON MOVING RESIDENCY TO CROATIA

ABOUT THIS DOCUMENT

Middelland keeps its customers updated with relevant information about the investment climate in Croatia's real estate market. Since a change of law in Belgium, that makes an end to certain tax benefits on assets, the number of clients requesting information on taxes in Croatia, has increased. We are getting many questions about the tax effects on moving to Croatia. Most of these questions are similar, and this has led Middelland to build a case study.

We would kindly like you to benefit from this information.

The following information is the result of a case study, done together with Henley & Partners in Amsterdam. Henley & Partners are the world's leading specialists in international residence and citizenship planning. The firm has also acquired a reputation in multi-jurisdictional real-estate advisory, tax planning and fiduciary services for private clients. Please feel free to contact Laurens Rinkes of Henley & Partners directly, for further information or to make an appointment.

SUMMARY

The overall assessment is that Croatia is a fiscally advantageous country, especially if income is mostly, so called 'passive' income. Income tax is levied on the incremental operating income, as employment income, income from business, consulting fees and similar income. Income on interests of financial institutions and pensions from abroad are usually exempt from income tax.

- From the 1st of January 2012 a filing duty exists for all who enjoy movable income from Belgium (so also for those who enjoy income from Belgium without living in Belgium)
- There is NO exit tax when emigrating from Belgium to a state that has a double tax treaty (like Croatia)
- With regards to any build-up pension, there might be restrictions when emigrating to another country. This requires further and specific investigation
- Based on a tax treaty between Belgium and Croatia, Belgium can withhold a source-tax of 5% (dividends with a stake of >10%) and 10% (interest);
- Based on our - general - information, Croatia seems to not levy any taxes on dividend- and interest income;
- Capital gains on shares are not taxed in Croatia;
- The tax advantage of an emigration therefore seems to consist of the difference between the withholding tax in Belgium and the withholding tax when moving to Croatia: 25 to 5% and 10% = 20% -15%;
- Croatia has a (negligible) tax on boats / yachts of up to 5.000 HRK annually (approx. € 660).

THE CASE

A BELGIAN CITIZEN MOVES TO CROATIA

Mr. De Vries made money on selling his company. He invested this money partly into obligations/bonds and another part he wishes to invest in real estate. Mr. De Vries does not work anymore, he receives his income from the interest of the obligations/bonds. Mr. De Vries likes Sailing and considers buying a property in Croatia with a mooring for his sailing boat.

Belgium adopted a new law. He has to pay high taxes on his wealth now. So he wants to move away to a more friendly tax climate. How can Mr. De Vries avoid paying high taxes on the income from his obligations/bonds and how can Mr. De Vries avoid paying high taxes on his assets?

The following information was derived from information from Henley & Partners and other sources

"TAX RESIDENCY"

It is possible to move your "tax residency" from your current country to Croatia. The principles of international tax focus on where the "center of your life and wealth" is situated. Owning a home in Croatia or being a significant part of the year present in Croatia is the basis for obtaining "tax residency in Croatia". If the outcome of the January 22 referendum on EU accession is positive, Croatia will adjust its laws to distinguish between EU citizens and non-EU citizens. This is advantageous for Croatia: on one hand Western Europeans can more easily become resident and, on the other hand Croatia can maintain its protectionist policy to exclude, in particular, Bosnian and Eastern European job seekers.

Croatia and Belgium have concluded a Double Tax Treaty (DTT), which regulates conditions for the avoidance of double taxation between residents of these two countries. If the Client moves permanently to Croatia, he will be considered a tax resident of Croatia and be obliged to pay taxes in accordance with Croatian tax legislation.

REAL ESTATE TAX:

First of all, if the Client buys a house, he will have to pay a 5% transfer tax on the value of the real estate. If he buys a house built after 1 January 1998, he will have to pay the 5% transfer tax on the value of the land alone, and the 23% VAT on the value of the house itself (this VAT is already calculated in the asking price). Otherwise, the 5% transfer tax is payable on both the land and the house.

The tax base for both the VAT and real estate transfer tax is the market value of the property.

INHERITANCE AND GIFT TAXES

If the Client inherits or receives a gift or acquires on some other basis without compensation:

1. cash, monetary value and securities;
2. movables, if the individual market value is more than HRK 50,000 (EUR 7,000 on the day of the determination of the tax liability), he is obligated to pay inheritance and gift tax. The taxable base is the amount of cash and the market value of financial and other assets on the day the tax liability is determined, (after the deduction of any debts or costs that relate to the assets, if any).
The tax rate is 5%.

INCOME TAX

According to Croatian tax law, a tax payer is a natural person who receives income.

A resident tax payer is a natural person who has in the Republic of Croatia:

1. a domicile or habitual residence,
2. neither domicile nor habitual residence, but is employed in the Republic of Croatia and receives a salary on that basis.
3. A non-resident tax payer is a natural person who has neither domicile nor habitual residence in the Republic of Croatia, but receives income in the Republic of Croatia which is subject to taxation provided by the Income

Tax Law.

A resident is taxed on the following sources of income received in Croatia and abroad (the world income principle):

1. Income from employment,
2. Income from professional activities (small business, self-employment and professional income),
3. Income from property and property rights,
4. Income from capital,
5. Income from insurance,
6. Other income.

A non-resident is taxed on the same sources of income, but only to the extent they are received in Croatia.

The following income is not taxable:

1. Interest on Kuna and foreign currency savings, or on deposits (a vista or time deposits) in a giro, current or foreign currency accounts, received from banks, savings banks or savings and loan cooperatives,
2. Dividends and profit sharing on the basis of equity participation,
3. Interest on securities issued under capital markets regulations,
4. Sale of financial assets, unless this is a business activity of the tax payer,
5. Pensions of residents received from abroad.

Consequently, the Client's income from interest, shares or dividends will be not taxable in Croatia.

The Client's income from property on the basis of rental or lease of movables and real estate (income received during the taxable period from rentals and leases decreased by expenses recognized in the fixed amount of 30%) will be taxable with the tax rate of 12%.

CONTACT

For general questions about this document or to make an initial appointment, please contact Laurens Rinkes of Henley & Partners directly:

H&P Trust Company (Netherlands) B.V.
De Dreeftoren
Haaksbergweg 71
1101 BR Amsterdam
The Netherlands
Tel. +31 20 312 1212
Fax. +31 20 312 1210
Mob. +31 6 11 510 137
E-mail: laurens.rinkes@henleyglobal.com
www.henleyglobal.com

For questions regarding real estate in Croatia, please contact Bob van den Bichelaar of Middelland Croatia:

Office The Netherlands:
Middelland International Real Estate BV
Nieuwezijds Voorburgwal 340
1012 RX Amsterdam
Tel: +31(0)207725652
Fax: +31 (0)847376866

info@middellandcroatia.com

Office Croatia:
Trg Hr. Bratske Zajednice 3/1 21000 Split
Tel: +385(0)21868082

Disclaimer

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