



## Croatia

### Introduction

An individual's liability to Croatian personal income tax (PIT) is determined by the individual's tax residence status and the source of income derived by the individual. PIT is levied at progressive rates on an individual's taxable income for the year.

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### Key messages

Extended business travelers are likely to be subject to PIT on employment income relating to their Croatian workdays (unless the individual qualifies for relief under the Dependent Personal Services article of an applicable double tax treaty).

## Income tax

### Liability for income tax

An individual can be a tax resident or a tax nonresident. All resident taxpayers are taxable in Croatia on their worldwide income, while nonresidents are taxable on income from Croatian sources only. A resident taxpayer is an individual who has in Croatia:

- Residence (if an individual owns/rents accommodation without interruption for at least 183 days over two consecutive calendar years; staying permanently in the accommodation, however, is not necessary)
- Habitual abode (if the circumstances suggest that an individual permanently resides in that place or region for a period of at least 183 days over two consecutive calendar years).

A resident taxpayer is also an individual who does not have a residence or habitual abode in Croatia, but is employed with the government service and receives a salary based on this appointment.

A nonresident taxpayer is an individual who has neither a residence nor habitual abode in Croatia but earns income from Croatian sources that are subject to Croatian PIT.

Extended business travelers are likely to be considered nonresidents of Croatia for tax purposes unless they enter Croatia with the intention to remain in Croatia for more than 183 days over a period of two consecutive years.

### Tax trigger points

Technically, there is no threshold/minimum number of days that exempts an employee from the requirements to file and pay PIT in Croatia. To the extent that the individual qualifies for relief in terms of the dependent personal services article of an applicable double tax treaty, there will be no PIT liability.

### Types of taxable income

For extended business travelers, the types of income that are generally subject to PIT are employment income (encompassing benefits-in-kind) and other types of income that they might earn in Croatia.

### Tax rates

As of July 1, 2010, the PIT legislation was amended and taxable income of both residents and nonresidents is taxed at progressive rates of 12 percent, 25 percent, and 40 percent. City surtax may also be applicable, and it is calculated on the amount of PIT payable, applying the relevant city surtax rate. The highest city surtax rate is in Zagreb, at 18 percent.

## Social security

### Liability for social security

If a business traveler comes from a country with which Croatia has concluded a totalization agreement and the relevant exemption forms are obtained to confirm the payment of obligatory insurance abroad, no Croatian obligatory social security contributions are required. Otherwise, depending on the

case, the foreigner would need to at least pay health insurance contributions, where the amount of contributions is assessed directly by the tax authorities. The taxable base is the average Croatian national monthly salary (a prescribed, fixed amount, for the whole year) multiplied by 35 percent and then by the health insurance contribution rate of 15 percent.

## Compliance obligations

### Employee compliance obligations

Individuals receiving income directly from abroad should report such income to the tax authorities within eight days of receipt of the income via submission of a monthly ID form. An annual income summary form, the IP form (summarizing the previous years' ID forms), must be submitted by January 31 of the following year. An annual PIT return, if one must be submitted, is due February 28 of the following year. Residents are obliged to submit an annual PIT return for the income received from abroad only if during the year PIT advances were not paid or were paid in an amount lower than the amount prescribed by the PIT legislation, whereas, nonresidents may opt not to submit an annual PIT return. An annual PIT return can be submitted only if monthly ID forms and the annual IP form have been submitted.

Extensions are granted only in exceptional circumstances.

### Employer reporting and withholding requirements

There are no compliance obligations for foreign employers for business travelers coming to Croatia.

If a business traveler travels abroad from Croatia and remains subject to PIT in Croatia, the employer is required to withhold obligatory employee social security contributions and to pay employer social security contributions at rates specifically prescribed for business travelers. The employer is also required to ensure appropriate PIT withholding.

## Other

### Work permit/visa requirements

An individual cannot start working in Croatia without having both a work permit and a temporary residence permit. Depending on the type of work that will be performed in Croatia, the individual may instead need to apply for a business permit and a temporary residence permit.

Certain categories of individuals coming to work in Croatia could qualify to work for a limited number of days in Croatia without a work permit (up to 90 days for procurement specialists, key personnel, management board members, supervisory board members, etc.). Such individuals should obtain, in any case, a confirmation that they may work in Croatia without a work permit. If the 90-day limit is exceeded, generally, both a work permit/business permit and a temporary resident permit should be obtained.

### Double taxation treaties

Croatia has currently entered into double taxation treaties with more than 49 countries.

### Permanent establishment implications

A permanent establishment could be created as a result of extended business travel if the travel lasts for more than 3 months in any 12-month period, unless the traveler is subject to Croatian PIT.

### Indirect taxes

The standard value-added tax (VAT) rate is 23 percent and applies to most products and services.

A reduced VAT rate of 10 percent applies to:

- Tourist accommodation services and related agency fees
- 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 percent applies to bread, milk, educational literature (specified), certain (specified) medical supplies, scientific magazines, and film projection services, as well as to exports.

### Transfer pricing

Croatia has a transfer pricing regime that applies to any transaction between a Croatian company and a foreign-related company, inclusive of any charges made to the Croatian company for business travelers. As of July 1, 2010, the transfer pricing provisions were extended to apply to transactions undertaken between two domestic related entities if one of them has a preferential tax position (e.g., entitlement to a reduced corporate profit tax rate, exemption from corporate profit tax, or tax losses available for utilization).

### Local data privacy requirements

Croatia has data privacy laws.

### Exchange control

There are no limitations for foreign and domestic currency brought into Croatia (for either residents or nonresidents). However, amounts in excess of EUR10,000 need to be reported to the Croatian Customs Authorities. The Croatian Customs Authorities must report amounts in excess of EUR10,000 to the Office for the Prevention of Money Laundering.

### Nondeductible costs for assignees

Nonresidents can deduct only from gross income the basic personal allowance (currently 1,800 Croatia Kuna (HRK) per month) and any obligatory health insurance contributions paid by the individual. Any other costs or expenses are nondeductible.

Residents can deduct from gross income the basic personal allowance (currently HRK1,800 per month), as well as additional personal allowances for dependent family members.

Additional deductions are available for all taxpayers for the following:

- Donations of up to 2 percent of their previous year's income as evidenced in the previous year's annual PIT return
- As of July 1, 2010, payments made by employers to Croatian voluntary pension funds (pillar III pension insurance) on behalf of employees up to a maximum amount of HRK500 per month per employee.

If both spouses are tax residents and pay PIT, it is possible to share additional allowances for children and other dependents of the immediate family.

Croatian domestic tax law indicates that foreign earned income, which is subject to PIT abroad, is also subject to PIT in Croatia, but a tax credit for PIT paid abroad may be applied to reduce PIT otherwise payable in Croatia; the amount of PIT credited may not exceed, however, the amount of Croatian PIT payable on that foreign income.

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