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# New tax legislation

Tax advisory TUK Ltd.



The Croatian Parliament has confirmed **the final drafts of new tax laws** and related legislation that should enter into force starting with 1 January 2024, with certain amendments entering into force upon publication of the laws in the Official gazette.

Although the media were focused primarily on reduction of tax burden on natural persons, i.e. the reduction of personal income taxation (salary and income from self-employment), amendments will also bring certain changes that are important from perspective of employers and entrepreneurs, and which have been given significantly less media space so far.

Additionally, it should be mentioned that **certain income categories** (such as income from capital and property income) **will be taxable at higher rates** (e.g., 12% tax rate on dividend income instead of the current 10%). Therefore, even though the municipalities and cities will not be authorized to prescribe tax rates on capital and other types of final income (which they will be allowed to do for income from employment, self-employment and other income), the abolition of city tax **will not reduce the overall tax liability on final income** such as capital and property income. Moreover, in municipalities where there was no city tax obligation prescribed, such an increase in the rate represents an increase in the tax obligation by as much as 20%. Due to this significant tax burden, payment of retained earnings or even advance profit payment for FY2023, if possible, should be considered before the increased rates are applied.

The changes to the tax legislation are described further and focus primarily on:

- changes in the taxation of all types of income,
- changes in awarding or optional purchase of shares in limited liability companies,
- abolition of withholding tax on certain types of services,
- correction of the VAT base in case of inability to collect due receivables,
- introduction of fixed payments deadlines for corporate income tax and personal income tax,
- changes in the tax treatment of tips, and
- share capital and business shares adjustments that companies are obliged to do.

## 1. Changes regarding income taxation

- city tax is abolished;
- municipalities and cities are given the autonomy to **independently determine the level of income tax rate** for employment income, self-employment and other income, all within the limits prescribed by law:
  - municipalities: lower rate (15% - 22%), higher rate ( 25% - 33%)
  - cities (<30.000 residents): lower rate (15% – 22.40%), higher rate (25% – 33.60%)
  - cities (>30.000 residents): lower rate (15% – 23%), higher rate (25% – 34.50%)
  - City of Zagreb: lower rate (15% - 23.60%), higher rate (25% - 35.40%);
- increase of tax rates on final income:
  - from 10% to 12% on income such as dividend and profit share income, property income based on rent and lease, interest income and capital gains income,
  - from 20% to 24% for income such as income from alienation of property and income from optional share purchase and awarding of shares,
  - from 30% to 36% for income such as income from withdrawal.
- personal allowance is increased from EUR 530.90 to EUR 560.00
- the higher income tax rate of 30% is applied to the tax base above EUR 54,400.00 instead of the current EUR 47,780.00



## 2. Awarding and optional purchase of shares in a limited liability companies

Awarding and optional purchase of shares is currently not treated equally for joint-stock companies ("JSC") and limited liability companies ("LLC"). Starting from 2024, **awarding and optional purchase of shares in LLC will be treated the same as in JSC.**

Up until this change, employees in LLC were in a worse position compared to employees in JSC regarding awarding and optional purchase of shares, since in LLC it was considered income from employment, i.e. salary, meaning that personal income tax, city tax and social security contributions were calculated and paid for these types of compensation. The introduced change will encourage additional stimulation of employees since it enables awarding and optional purchase of shares to be treated as capital income, meaning that social security contributions will not be calculated on such compensation, and the applicable tax rate will be the one for capital income, i.e. 24% (the current rate is 20%).

The change will result in the reduction of tax liability when rewarding employees.

## 3. Withholding tax

- Abolished for **market research, tax and business consulting, and audit services;**
- The treatment of dividends, interest and royalties paid to persons from European Economic Area will be the same as for persons from the EU;
- There is an increase of the tax rate for payments to non-cooperative jurisdictions on the EU list from 20% to 25%.

The aforementioned changes enter into force **immediately** after the publication of the law in the Official Gazette.



#### 4. Correction of the VAT base in case of inability to collect due receivables

A significant amendment in terms of VAT concerns the **correction of the VAT base in case of inability to collect due receivables** that have not been collected for more than one year. The taxpayer can reduce the VAT base within six months from the date when the right to reduction was realized.

The prerequisite for such a reduction is that the actions were performed with due care, of which the taxpayer must have evidence.

#### 5. Fixed payments deadlines for annual tax liabilities

In order to simplify the process of tax payments based on the annual tax returns, **fixed payment deadlines** are introduced instead of determining the payment deadline according to the date of submission of the annual tax return.

Until this change, taxpayers were obliged to pay the tax liability on the day of submission of the annual tax return, regardless of the deadline for submitting the annual tax return which is April 30 for corporate income taxpayers and February 28 for personal income taxpayers.

In order to eliminate earlier tax liability payment deadline, the payment deadlines are fixed regardless of the date of submission of the return, which means that the fixed deadlines are **April 30** for corporate income taxpayers and **February 28** for personal income taxpayers.



## 6. Changes in the tax treatment of tips

One of the tax changes of great importance to the hospitality sector concerns **regulating the tax treatment of tips**.

Until this change, due to the lack of regulation, net amount of tip that „was left” for the employee after taxation was 40-50% of the tip that was initially given to the employee.

In order to make tipping easier, and at the same time to reduce the taxation of employees in tip-prone sectors, **a non-taxable tip amount** is being introduced. Up to the amount determined by the Croatian Ministry of Finance, tips will not be taxed and will be paid in full to the employee to whom they were given. After exceeding the prescribed threshold, **tips will be taxed at a rate of 20%, as a final other income, without calculating social security contributions**. This change applies to tips for cash and card payments, which makes tipping easier, especially for card payments.

Employers will have an additional administrative burden since they will have to monitor the amount of tips awarded to each employee in order to know if and when the threshold has been exceeded. Reporting will continue through the JOPPD form.

In terms of VAT, we would like to point out to the fact that the VAT treatment of charged tips will depend on their presentation, i.e. whether the tip is included in the price of the service or is expressed separately as a reward for a well-done service.

## 7. Adjustment of the value of share capital

Considering that on 1 January 2023 all share capital values in HRK were converted to EUR in line with the prescribed fixed conversion rate, the same values have to be adjusted.

For LLCs and SLLCs there is no time limit in which it is mandatory to carry out the adjustment (rounding). Companies organized as JSC are obliged to adjust (round) the values of shares within a year, i.e. by the beginning of 2024 or earlier if there are any changes regarding share capital, division / merger of shares or exchange of shares.

The minimum prescribed amounts of share capital and business shares are listed below:

- Minimum share capital:
  - €25,000.00 for JSC
  - €2,500.00 for aLLC
  - €1.00 for a SLLC
- Minimum nominal value of shares:
  - €1.00 for JSC shares
  - €10.00 for LLC business share
  - €1.00 for SLLC business share

*\*simple limited liability company*





## 8. Other changes

- **Tax on vacation houses** - a change of minimum and maximum amount at which vacation houses are taxed is proposed from EUR 0.66 and EUR 1.99 per m<sup>2</sup> to EUR 0.60 and EUR 5.00 per m<sup>2</sup>.
- **Classification of fixed assets** - the purchase value of long-term tangible and intangible assets that are depreciated will increase from EUR 464.53 (previously HRK 3,500.00) to EUR 665.00. Therefore, assets with a value of less than EUR 665.00 and a useful life of less than one year are considered small inventory.
- **Tax base for contribution calculation** - the monthly tax base for the calculation of the contribution for I pension pillar based on the employment relationship is reduced for persons whose total monthly gross salary is up to EUR 1,300.00.
- **Threshold for entering the VAT system** - the threshold for entering the VAT system is raised from the current EUR 39,816.84 to EUR 40,000.00



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