



Mazars Tax News

September 2023

Tax changes in 2024

Amendments to the tax regulations that come into force in early 2024 have been published in the Official Gazette. Below we provide an overview of the most important changes.

Amendments to the Personal Income Tax Act

The surtax on Personal Income Tax is abolished and cities and municipalities are allowed to choose new rates that will be applied on income from employment and other income. The new rates can effectively be equal to the current tax rates increased for a surtax or lower. Cities and municipalities will decide on rates to be applied in the next year by the end of November 2023.

The new possible tax rates are shown in the table below:

LOCAL SELF-GOVERNMENT UNIT	LOWER INCOME TAX RATE (currently 20% plus surtax)	HIGHER INCOME TAX RATE (currently 30% plus surtax)
Municipalities	15% - 22%	25% - 33%
Cities with less than 30,000 inhabitants	15% - 22,40%	25% - 33,60%
Cities with more than 30,000 inhabitants	15% - 23%	25% - 34,50%
City of Zagreb	15% - 23,60%	25% - 35,40%

The threshold for applying a higher Personal Income Tax rate has been increased from EUR 3,981.69 to EUR 4,200.00 per month (EUR 50,400.00 per year).

The basic personal allowance is increased from EUR 530.90 to EUR 560 and the coefficients used in calculating the increased personal allowance based on dependents and disability are changed.

These amendments refer to income from employment, self-employment and other income that is not deemed final.

Property and capital income tax rates change equally for everyone (cities and municipalities will not be able to choose rates in this case). Briefly:

- current rate 10% plus surtax (combined maximum 11.8%) will be 12% from next year,
- current rate 20% plus surtax (combined maximum 23.6%) will be 24% from next year,
- current rate 30% plus surtax (combined maximum 35.6%) will be 36% from next year.

The tax treatment of share option allocation (in LLC) is equated with the stock option allocation (in JSC) so that in both cases it is now taxed as income from capital (tax rate of 24%, without calculating contributions).

The non-taxable amount of the contribution to the 3rd pillar of pension insurance, which the employer can pay at his expense for the worker, increases to EUR 804 per year.

Amendments to the Contributions Act

The monthly basis for calculating compulsory pension insurance for the insured whose total amount of monthly gross salaries is up to EUR 700 is reduced by EUR 300, while for the insured whose total amount of monthly gross salaries is EUR 700.01 to EUR 1,300 is reduced according to the formula $0.5 \times (1,300 - \text{the total amount of gross salaries for a particular month})$. When announcing the Amendments to the Contributions Act, it was implied that this reduction will be used only for the 1st pillar of pension insurance. However, from the published Amendments to the Act it could be concluded that the reduction applies to both pillars of pension insurance. We expect further clarification from the Tax Authority in this regard.

Amendments to the Corporate Income Tax Act

The amount of the minimum value for determining the long-term tangible and intangible asset (only for the purpose of determining a corporate tax liability) increases from EUR 464.53 to EUR 665 and for the recognition of the only and outdated write-off of receivable towards citizens from the amount of EUR 26.54 to EUR 40.

A fixed date for the payment of Corporate Income Tax per annual calculation is determined. Namely, unlike the previous practice when the maturity of the liability for Corporate Income Tax was determined according to the date of filing the return, the deadline for payment of Corporate Income Tax is the last day of the deadline for filing the annual tax return.

The withholding tax payment on market research, tax and business consulting and audit services is abolished. Additionally the amount of withholding tax for [non-cooperative jurisdictions](#) increases from the current 20% to 25%.

Amendments to the Value Added Tax Act

In the event of revocation or different types of discounts, the taxable person who made the supply may reduce the tax base if the taxable person to whom the good or service was supplied is informed of the correction carried out.

In the case when the taxpayer is not able to collect the entire amount or part of the receivable he has towards the debtor for more than one year, and has taken all actions with the care of a good entrepreneur (enforcement proceedings, court action, etc.), he can reduce the tax base for the uncollected amount within 6 months from the date of the right to impairment.

In this regard, the taxable person who performed the supply is not obliged to collect the buyer's statement that he has reduced the incoming VAT, but the buyer must correct the input VAT deduction in the period when he receives a notice of correction of the tax base from the supplier. In the event that the buyer does not correct the input VAT, the Tax Authority may indebted the taxpayer for an uncorrected amount of input VAT. More details in this regard are expected in the Amendments to the Value Added Tax Rulebook.

The tax legislation of the Republic of Croatia shall be aligned with the Council Directive (EU) 2020/284. In this context, an obligation is imposed on payment service providers at EU level to submit payment system data. In general, the purpose of the adjustment would be to prevent avoidance of VAT liability (especially in situations where a non-resident operates in other EU Member States).

Additionally, the threshold for registration in the register of VAT payers has increased from EUR 39,816.84 to EUR 40,000.

Amendments to the Administrative Cooperation in the Field of Taxation Act

Certain changes are being introduced in the area of administrative co-operation regarding taxes. These amendments relate to the implementation of the Multilateral Agreements of the competent authorities regarding the automatic exchange of data between the tax jurisdictions of states. The plan is to introduce a Council Regulation in terms of improving administrative cooperation in the field of VAT.

Amendments to the Local Taxes Act

The tax on holiday homes is currently paid from 0.66 to 1.99 EUR/m² of usable area of the holiday home, and from next year it will be from 0.60 to 5.00 EUR/m². The exact amount of the tax on holiday homes will be, as before, prescribed by a decision of the representative body of the local self-government unit.

Other news

Overview of countries with which the Republic of Croatia has confirmed reciprocity in the field of VAT refund to foreign taxpayers

The Tax Authority has published [an Overview](#) containing the countries with which the Republic of Croatia has confirmed reciprocity in the field of VAT refund to foreign taxpayers. The aforementioned review contains the date of confirmed reciprocity with a particular country and the duration of reciprocity.

Thereby, it should be noted that from April 2023, the reciprocity has been established in the field of VAT refund with the Republic of Turkey in the following scope: for supplies of goods and services exclusively in connection with participation in fairs and exhibitions and with expenditure on fuel, spare parts, use of highways, maintenance and repairs related to road transport.

The Tax Authority's opinion - Pan-European Pension Product

The Tax Authority issued [an opinion](#) regarding the received inquiry of the taxpayer related to the taxation of receipts under the Pan-European Personal Pension Product or PEPP.

The Tax Authority replied that the tax treatment of PEPP receipts is prescribed by Article 21 of the Treaty on European Union Regulation (EU) 2019/1238 on a pan-European personal pension product (PEPP) published in the Official Gazette, No 151/2022. The aforementioned article stipulates that the PEPP is governed by the provisions of income tax regulations relating to receipts based on a voluntary pension insurance contract. The Personal Income Tax Act art. 9 Par. 1, Pt. 18 provides that voluntary pension insurance premiums paid by the employer in favor of his worker, with his consent, to the national voluntary pension fund, which is registered in accordance with the regulations governing voluntary pension insurance, up to EUR 66,37 for each month of the tax period, i.e. a total of up to EUR 796,44 per year shall be regarded as receipts on which the income tax is not paid.

The Tax Authority concludes that an employer who concludes a voluntary pension insurance contract within the Pan-European Personal Pension Product or PEPP with a worker in his



favor and with his consent, does not pay income tax on such paid receipts up to the stated prescribed amount.

Contact

Pere Mioč, Tax Advisory Partner, Mazars
pere.mioc@mazars.hr

Vladimir Nol, Payroll, Global Mobility and Tax Partner, Mazars
vladimir.nol@mazars.hr

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