



GES NewsFlash

Croatia – Changes in the Personal Income Tax

May 19, 2010

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Abolishment of special tax on salaries, pensions and other personal income

The Croatian Parliament has accepted proposition for the Act on Changes of the Act on Special Tax on Salaries, Pensions and Other Income which will abolish the special tax before its original expiration date. Special tax on Salaries, Pensions and Other Income applied to the net income between HRK 3,000 - 6,000 will be abolished effective 1 July 2010. Special tax at a 4% rate applied to the net income above HRK 6,000 remains in force. It has been announced that this special tax rate will be abolished effective 1 November 2010. Changes on the Act on Special Tax on Salaries, Pensions and Other Income will be announced in the Official Gazette ('Narodne novine').

Changes in the Personal Income Tax Act

Croatian Government has announced, as part of the Program for Economic Recovery, changes in the fiscal system including the following:

- **Abolishment of tax reliefs, except R&D relief**
It is anticipated that all tax reliefs that physical persons were entitled to will be abolished. Example of reliefs to be abolished include: deductions for health insurance, for premiums for life or pension insurance, for interest paid on purchase of the first real estate etc.
- **Reduction and change of tax rates and applicable thresholds**
New proposed tax rates are 12%, 25% and 40% applicable to the following thresholds:
 - 12% on income up to HRK 3,600,
 - 25% on income HRK 3,600- 10,800 and
 - 40% on income above HRK 10,800
- **Reduction of excise taxes** (e.g. monument fee, fees for water, forestry etc).

The announced Personal Income Tax Changes will affect individual's personal income by increasing or decreasing the net salary, which depends on the salary level. The so called "middle class" will be most affected with the changes. The same goes for the abolishment of tax reliefs.

Please note that these are announced changes. Details will be published in the Act that should be pronounced in June.

People to Contact

If you have any questions concerning the issues in this GES NewsFlash, please contact one of the tax professionals as follows:

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