



GES NewsFlash

Croatia – Changes to the Personal Income Tax Act

July 28, 2010

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Summary

The Croatian Government has published the new Personal Income Tax Act (the “Act”). The Act is in force from 1 July 2010.

The Act declares the following changes:

New tax rates

- Employment income:
The new tax rates are 12%, 25% and 40%, applied progressively as follows:
 - 12% to the monthly tax base of up to HRK 3,600;
 - 25% to the monthly tax base of HRK 3,600 - 10,800; and
 - 40% to the monthly tax base of above HRK 10,800.

The basic personal tax-free monthly allowance remains HRK 1,800.

- Income from the refund of overpaid pension insurance:
 - Tax rate: 40% (reduced from 45%)
- Income from property and property rights realized from rental and lease fees:
 - Tax rate: 12% (reduced from 15%)
- Income from capital:
 - Tax rates: 40% and 25% (increased from 35% and 15%)
 - 40% is applicable to income from asset use and interest.
 - 25% is applicable to income from award of own shares or participation in share purchase plans.
- Income from insurance

- Tax rate: 12% (reduced from 15%)

Cancellation of tax allowances, except R&D

The new Act abolishes various allowances (except the general allowance and the R&D allowance).

For 2010 individual is entitled to tax deductions of qualifying expenditures up to HRK 6,000. In order for such deductions to be accepted, expenditures have to be paid before the Act came into force.

Paid voluntary pension insurance premiums are non-taxable income

Voluntary pension insurance fund premiums paid by employers on behalf of employees are treated as non-taxable income up to HRK 500 per month, i.e. HRK 6,000 per annum.

Filing requirements

Residents receiving foreign income are required to file the annual tax return only if the tax on such income was not paid at the time when income was received (i.e. on a monthly basis) or if the paid tax did not correspond with the local tax liability.

If a taxpayer is obliged to file annual return he/she is required to report only the income for which the filing requirement exists and for employment income. Under the current Act, all sources of income have to be reported once the annual tax return is filed.

Transitional tax rates have been prescribed for 2010 for filing purposes:

- 13,5% on tax base up to HRK 43,200
- 25% on tax base from HRK 43,201 up to HRK 108,000
- 30% on tax base from HRK 108,001 up to HRK 129,600
- 37,5% on tax base from HRK 129,601 up to HRK 302,400
- 42,5% on tax base above HRK 302,401

Dividend payment

Dividend and shares in profit payments have to be paid into the individual recipients bank (gyro) account, as opposed to the current provisions that allow cash payments also.

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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