

Ideas that pay off.

Monthly Newsletter

November, 2021

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New amount of minimum gross wage

A new Decree on the minimum wage for 2022 (OG 117/2021) was adopted. The new Regulation on the minimum wage would thus apply to about 51 thousand employees who have a minimum wage. This Regulation applies to full-time workers, while the minimum part-time wage is set in proportion to the minimum wage for full-time work, as well as the hours of work for which the worker is registered. The decree will be published in the Official Gazette and will enter into force on January 1, 2022.

MINIMUM AMOUNT OF GROSS AND NET WAGE

The new amount of the minimum gross wage will increase by 10.3% and will amount to HRK 4.687,50 in gross amount, i.e., HRK 3.750,00 in net amount, starting from 2022, which is an increase in the amount of the minimum wage for 2022 with to 2021 from HRK 437,50 in gross amount, or HRK 350,00 in net amount. For the first time, the minimum net wage will be above 50% of the average net wage.

AVERAGE GROSS AND NET WAGE IN CROATIA

Let us remind you that the average net wage paid in August was HRK 7.118,00, and the median wage was HRK 6.014,00. Given these data, the new minimum wage would amount to a total of 52.7% of the average wage, or 60% of the median wage.

For comparison, in 2016 the minimum wage was 38% of the average wage. This means that within 5 years the minimum wage has been increased by HRK 1.254,00.

The average gross minimum wage will thus amount to a total of HRK 4.687,50, and when proposing the minimum wage for 2022, several parameters were taken, such as job preservation measures, the COVID-19 pandemic on the labor market, as well as the global impact of the pandemic on prices of goods and services.

AVERAGE GROSS AND NET WAGE OF DIRECTORS AND MANAGEMENT BOARD MEMBERS

As we wrote earlier [HERE](#), at the beginning of the year there were changes in the calculation of wages to members of the management board who are employed in the company in which they perform this duty.

The provisions of the Minimum Wage Act (OG 39/13) applied to them, as well as to other employees who are not in the company's management. This caused inequality between the owner of the business and the director of the company in which he has an employment contract. At the beginning of 2021, there was a change in regulations, i.e., a change in the amount of the average wage, so that all workers working in the Republic of Croatia have the right to the minimum wage, regardless of the seat or registration of the employer.

In the Order on the amounts of bases for calculating contributions for compulsory insurance for 2021, in Article 19, the monthly basis for full-time work of a person who is a member of the management board or executive director must not be lower than HRK 5.967,65.

It is also important to emphasize how an employment relationship can be contracted full-time and part-time. If a member of the management board or executive director of the company is employed part-time, then he pays a smaller amount of contributions and exercises the right to health care and length of service as if he were employed full-time.

For 2021 (OG 118/20), members of the management board and directors have prescribed an average gross wage of HRK 9.181,00, while the average net wage amounts to HRK 6.724,00. Given that members of the management board and executive directors do not have compulsory insurance, their task is to independently calculate and pay contributions.

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Benefits you can use while hiring a young person

A significant number of employers, as well as young people, are not familiar with all measures that the state offers when hiring a young person. Certain conditions and circumstances can make the employment of new workers favorable, and by their realization entrepreneurs can achieve significant savings, facilitate this financial process, and improve certain conditions offered to young employees also.

WHO MEETS THE YOUNG PERSON CRITERIA?

A young person is a natural person who is less than 30 years old, and whom the employer decides to report for compulsory pension insurance and compulsory health insurance based on an employment contract for an indefinite period. Also, one of the criteria stated is that until the day of concluding the employment contract, the young person did not have a previously concluded employment contract for an indefinite period with the same employer. The provisions of [the Law on Contributions](#) apply to insured persons based on employment and posted workers.

SHOULD A PERSON BE REGISTERED AT THE EMPLOYMENT OFFICE?

A young person employed by an employer is not required to be registered with the Employment Office, nor must he/she have a previously registered length of service in pension insurance. If the young person has already concluded an employment contract with the employer, but for a definite period, and if the person concludes a contract for an indefinite period, the employer may exercise the right to exemption from paying contributions on an ongoing basis. Please note that the employee status cannot be changed to benefit from the exemption from paying salary contributions for an employee who is already employed for an indefinite period and is not registered for pension insurance based on employment as a young person. An employee as a young person may be employed full-time or part-time, but he/she must be registered for an indefinite period.

When employing a young person, the employer is obliged to provide proof. He may take as evidence a copy of an employment contract concluded for an indefinite period. However, this evidence is not required to be submitted to the institutions, but to be archived in their records and shown if the Tax Authorities in their tax supervision procedure so requests, following the provisions of [the Ordinance on Amendments to the Ordinance on Contributions](#). The provisions of the Ordinance also regulate additional issues of the right to use benefits for the employment of young persons when it comes to employers related persons, as well as in the case of status changes of the previous employer.

WHAT BENEFITS CAN AN EMPLOYER USE?

An employer who concludes an employment contract with a young person for an indefinite period, following the provisions of the Act on Amendments to the Contributions Act, which entered into force in 2019, is obliged to calculate only the following contributions:

CONTRIBUTION FOR PENSION INSURANCE

- at a rate of 20%, i.e., at the rate of 15% for the person insured based on pension insurance on individual capital savings;
- at the rate of 5% for a person insured on that insurance.

From the signing of the contract up to the next five years, there will be no obligation to calculate and pay the following contribution:

CONTRIBUTION FOR HEALTH INSURANCE

- at the rate of 16.5%

WHAT OTHER CONDITIONS MUST BE FULFILLED?

The provisions of the Contributions Act do not specify any other conditions that must be met for an employer to exercise the rights to this benefit, except for the three already mentioned:

- the person with whom the contract is concluded must be under 30 years of age,
- the employment contract must be concluded for an indefinite period,
- the person under the age of 30 has not previously had an employment contract for an indefinite period with the same employer.



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Benefits you can use while hiring a young person – continued

WHAT EXACTLY IS THE EXEMPTION FROM PAYMENT OF THE CONTRIBUTION?

Exemption from payment of salary contributions applies only to the monthly salary determined by the employment contract, rulebook, collective agreement, or special regulation.

Exemption from salary contributions does not apply to contributions calculated on the payment of salary benefits:

- fees and grants paid in amounts exceeding the prescribed non-taxable amounts,
- bonuses,
- annual awards,
- life and supplementary health insurance premiums,
- other receipts.

WHAT HAPPENS IN THE EVENT OF TERMINATION OF THE CONTRACT?

The duration and interruptions of benefits last for a maximum period of five years. If an employee is justifiably prevented from working within those five years, for example, due to sick leave or the use of maternity leave, the employer's right to exemption from salary contributions is extended.

The provisions of the Ordinance further regulate the issue of the right to use the benefit in the event of a change of the previous employer, when the young person continues to work for the new employer.

CAN A NEW EMPLOYER CONTINUE TO USE THE TAX RELIEF?

The new employer can continue to use the tax relief but under certain conditions. The Ordinance on Contributions prescribes the possibility of continuing to use the tax relief if the new employer is a person related to the previous employer, through the regulations on profit tax, or if the two employers together perform activities in co-entrepreneurship. According to the Ordinance, the new employer can use the remaining period of exemption from paying contributions to the salary of a young person.

The situation is the same if a young person continues to work for a new employer due to a merger, acquisition, or reorganization, but under several conditions; that the new employer has taken over all the obligations from the employment contract with the previous employer, that the insurance period continues immediately, that the person retains the status of a young person.

In addition, the provisions of the Ordinance stipulate that for a young person who during the five years of employment is entitled to compulsory health insurance to salary compensation at the expense of the state budget or whose employment is suspended due to voluntary military service in the Armed Forces of the Republic of Croatia.



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Business of Revolut Bank UAB and Revolut Payments UAB in the territory of the Republic of Croatia

From the day of the accession of the Republic of Croatia to the European Union, payment service providers in the Republic of Croatia may also be electronic money institutions established in another Member State of the European Union.

An electronic money institution established in another EU Member State may, under the conditions regulated by the Electronic Money Act, issue electronic money and/or provide payment services using the right of establishment or the freedom to provide services, after the competent authority the home Member State shall inform the Croatian National Bank thereof.

In November 2020, the CNB received a notification from the competent authority of the home Member State on the intention to directly provide services in the territory of the Republic of Croatia in which the institution was issued, ie Lietuvos banks (Bank of Lithuania) from Lithuania for Revolut Bank UAB.

It informed the CNB that Revolut Bank UAB will start providing mutually recognized services in the Republic of Croatia, but only those listed in Directive 2013/36 / EU – receiving deposits and other repayable funds, while other services from Directive 2013/36 / EU (including payment services) will not and must not provide.

Payment services are defined in Article 4 of the Payment Transactions Act and include opening and maintaining payment accounts. According to this law, payment accounts are accounts maintained by a payment service provider on behalf of one or more payment service users used by payment service users to execute payment transactions. A current account or giro account is a type of payment account.

Insight into the business conditions of the credit institution Revolut Bank UAB is described as a deposit account to which the user can store money and withdraw it solely based on his request. In these business conditions, Revolut Banka UAB points out that it is not authorized to provide payment services and that only the user can deposit money into and make payments from it. The only method of payment and withdrawal from that deposit account is through the transfer that the user makes from the electronic money account he has opened in Revolut Payments UAB.

Information on direct service notifications for Revolut Bank UAB and Revolut Payments UAB is publicly available on the CNB's website in the List of institutions exercising freedom of establishment and freedom to provide services and the List of payment institutions, electronic money institutions, and registered service providers account information from the other Member States.

Therefore, Revolut Bank UAB is not allowed to open and maintain payment accounts, such as a current account or giro account, but collects its clients' deposits to a deposit account. By concluding a contractual relationship with Revolut Bank UAB, Revolut Payments UAB's clients have a deposit account with a credit institution (Revolut Bank UAB) and a payment account with an electronic money institution (Revolut Payments UAB).

It should be noted that the supervision of an electronic money institution, which directly provides services in the Republic of Croatia, is carried out by the competent authority of the home Member State in which the institution was issued, ie Lietuvos Bankas (Bank of Lithuania) for Revolut Payments UAB. The right to cross-border provision of services in the European Economic Area applies to all licensed payment service providers and electronic money issuers, including institutions established in the Republic of Croatia.

It is important to note that deposits collected from the credit institution Revolut Bank UAB would be included in the deposit insurance system in the Republic of Lithuania, and not in the Republic of Croatia. The mentioned funds of Revolut Bank UAB clients that are in their payment accounts in Revolut Payments UAB are not subject to deposit insurance. This is indicated in the general terms and conditions of Revolut Bank UAB.

You can read the originally published press release [HERE](#).



New Guidelines of the Global Tax System adopted

Just a few months ago, as we wrote [HERE](#), the G7 finance ministers boasted that they had reached an “agreement of the century” – an agreement on a global and minimum tax rate of 15%. What has changed since then?

On Friday, October 5, 2021, more than 130 countries around the world agreed to changes in the way multinational technology giants will be taxed. This includes a minimum global tax rate of 15% to prevent multinational giants from hiding profits in the so-called “tax heavens”.

An agreement to change the global tax system will provide countries with additional revenue, and according to OECD data, that revenue could reach as much as \$ 150 billion.

The reality of paying taxes is bizarre and the goal of this reform is to prevent multinational companies, especially GAFA (short for Google, Amazon, Facebook, and Apple), which have benefited enormously from the pandemic and restrictive measures, from paying low taxes comparing to revenues.

For example, in front of the court in Luxembourg, the European Commission asked Amazon for a tax surcharge, but the court ruled in favor of Amazon. The reality is even more bizarre because Luxembourg's taxpayers have granted Amazon, which has its European headquarters there, a tax refund in the amount of \$ 56 million!

That is why part of the package of the new global tax system is regarding new tax regulations and redistribution of the right to tax the largest companies. This will result in the redirection of part of the rights from the companies' home countries to those in which they operate. The redistribution of tax rights will open the possibility of taxing more than \$ 100 billion in profits annually, and a minimum global tax rate of at least 15% will generate about \$ 150 billion additional revenue annually.

The proposals, which will provide much-needed support to governments in the post-pandemic world, have been supported by 130 of the 139 members of the OECD initiative and the G20, including Croatia. Nine members did not support the initiative, and some of them are Ireland and Barbados.

WHAT DO THE NEW GLOBAL TAX GUIDELINES MEAN FOR CROATIA?

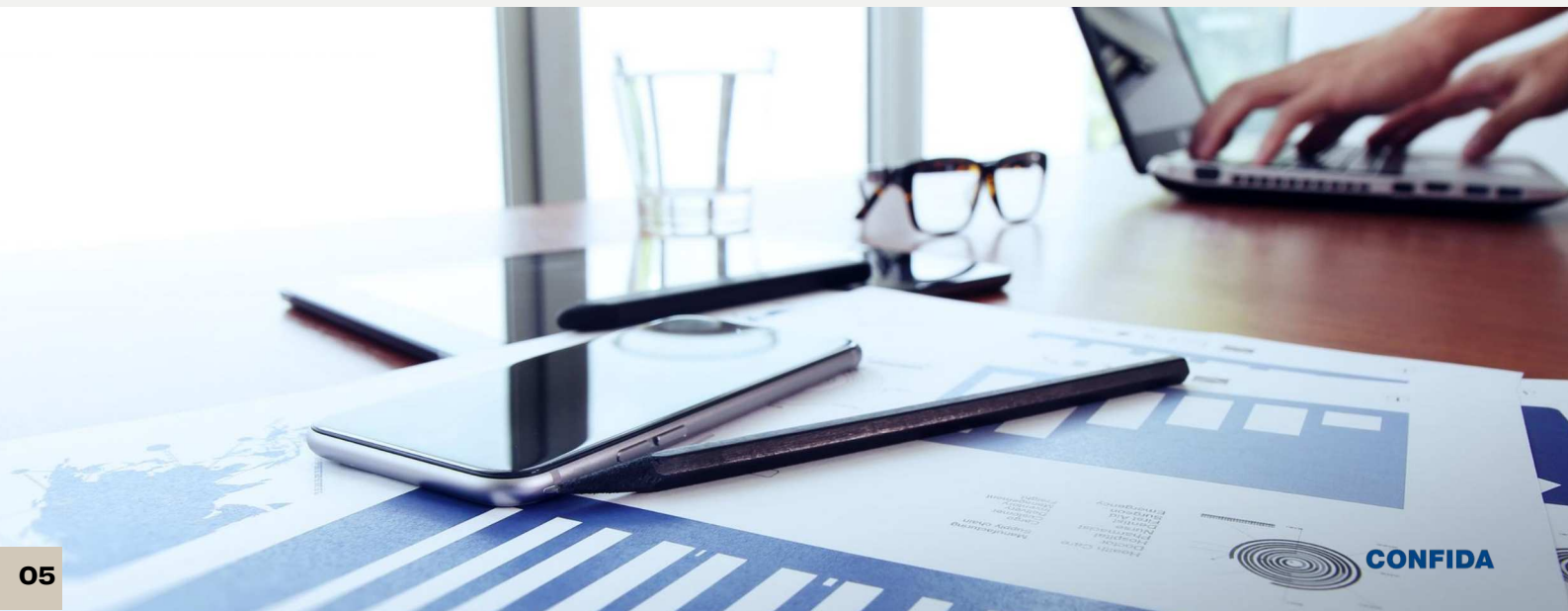
The global tax will not affect micro, small and medium-sized enterprises with total revenue of up to HRK 7.5 million. They will continue to pay a national tax rate of 10%.

On the other hand, the question is how this will affect the big ones, who invest in Croatia; whether it will still be able to maintain an income tax rate of 18% or not.

In addition to supporting governments, the OECD believes that the global tax system will contribute to a significant stabilization of the international tax system, as well as transparency for tax administrations and taxpayers.

The OECD reports that countries should sign a multilateral convention in 2022, with effective implementation in 2023. The convention is currently under development and will be used to implement the newly agreed first pillar tax law, as well as to stop and remove provisions relating to all existing taxes on digital services and other similar relevant unilateral measures.

Thus, the OECD will develop a model rule for the introduction of the second pillar into domestic legislation during 2022, which will take effect in 2023, the OECD said in a statement.



The European Commission has extended the temporary framework for state aid until mid 2022.

A temporary framework for state aid was adopted on 19 March 2020 at the start of the pandemic when the economy found itself in great difficulty due to a measure introduced to combat coronavirus infection.

The temporary framework was supposed to be valid until December 31, 2021, but was extended until June 30, 2022.

Such a limited extension provides for the possibility of a coordinated phasing out of crisis measures without creating negative effects. The framework, which allows for deviations from the current state aid rules, has been amended several times in the meantime.

The European Commission has also introduced two new tools to support the recovery of the European economy:

- investment support to help EU members overcome difficulties due to lack of investment, and
- solvency grants to attract private funds and be available for investment in small and medium-sized enterprises (including start-ups and small mid-caps).



Tax treatment of Cryptocurrency in the Republic of Croatia

Cryptocurrencies have been present on the market for more than a decade, but their implementations, opinions, and proposals for regulation are still not globally harmonized. Consequently, that tax liability is a major concern for cryptocurrency investors due to the most obscure and complex tax laws. The Republic of Croatia still does not have the Law on Cryptocurrencies but trading in cryptocurrencies is regulated as a form of investment through [Personal Income Tax Act](#).

CRYPTOCURRENCY AS VIRTUAL MONEY

Virtual money, by definition, must meet the following conditions:

- must be a means of exchange,
- must be a unit of measure of value,
- must be used to store values.

Therefore, virtual money as such differs from the term electronic money because electronic money is by a definition a legal means of payment, as opposed to virtual money (except for the Republic of El Salvador where bitcoin has recently been listed as an official means of payment). For example, the European Banking Authority defines it as a digital display of value that is not linked to a conventional currency but is accepted by natural and legal persons as a means of exchange. They can be transferred, stored, and traded electronically, and the value of units is measured based on supply and demand.

Bitcoin, as well as Ethereum, Ripple XRP, etc., are virtual currencies that are created and stored digitally only. They do not exist in the printed version, nor are they subject to institutional controls.

ACQUISITION OF CRYPTOCURRENCY

Virtual transactions are usually recorded chronologically in a public decentralized book, often referred to as a "blockchain." The book consists of "blocks" that contain algorithmic records of past transactions. It is maintained by the so-called miners' community who process transactions and maintain the system. They also create new units of cryptocurrencies whose procurement is kept under control due to the use of cryptographic algorithms.

Thus, cryptocurrencies can be acquired in three ways:

- sales contract,
- contract of exchange, inheritance, etc. and
- mining.

Tax treatment of Cryptocurrency in the Republic of Croatia – continued

TAXATION OF CRYPTOCURRENCY IN THE REPUBLIC OF CROATIA

As the very definition of cryptocurrency is not yet globally defined, the fiscal profession is trying to find answers on how to tax it. For example, in Singapore, they are defined as a service, in the US as a capital good, and in Germany as private money.

The stand of the Republic of Croatia on cryptocurrencies, according to the Personal Income Tax Act, is such that cryptocurrencies are defined as capital income and are classified as income from other financial assets. Therefore, the possession of cryptocurrencies as financial assets is not taxed, but the earnings from the alienation of those assets will be taxed.

Accordingly, cryptocurrencies do not fall under any legally regulated category of means of payment and according to Croatian National Bank Act and the Foreign Exchange Act, cryptocurrencies do not represent money or means of payment in the Republic of Croatia. Cryptocurrencies can be considered a transferable instrument in terms of VAT Act, so the transactions themselves are exempt from VAT.

Considering the obligation to pay personal income tax based on cryptocurrency earnings, it is due once a year, by the end of February, for earnings earned in the previous calendar year. Not all individual earnings from the transactions are taxed, but the total earnings on an annual basis.

The tax base is the total annual earnings determined as the difference between the purchase price of the cryptocurrency and the value for which it is exchanged in the monetary amount of any recognized legal tender and is taxed at a rate of 10% + surtax – if the cryptocurrency is exchanged for "classic money" within two years of purchase (for instruments purchased after January 2016). If the exchange is made more than two years from the date of acquisition, earnings are not subject to taxation regardless of the economic benefit.

If a taxpayer earns income from trading in certain securities or financial instruments in a tax year and records a loss on other instruments, income from capital gains is determined on an annual basis, as difference between total earnings and losses incurred in that tax year.

RECORDS AND JOPPD FORM

Every natural and/or legal person who trades in any cryptocurrency is obliged to keep records on the acquisition and disposal of cryptocurrencies according to the date of trading. Records are kept according to the method of consecutive prices or FIFO "First In – First Out", and must contain:

- information on the type of financial instrument,
- date of purchase,
- quantity and number,
- the purchase price per unit of each type of digital money, and
- the total price for each transaction.

In addition to keeping records, the taxpayer is obliged to submit a JOPPD form with data on income from capital gains to the Tax Administration by the end of February and pay personal income tax at the rate of 10%, increased by the city surtax.

Also, for the realized capital gain from abroad, a resident of the Republic of Croatia, if his income tax has been withheld in the country of payment, is obliged to register into the Taxpayers' Register of (in case of first receipt) and submit an INO statement on payment of personal income tax abroad to competent branch office of the Tax Administration. If the taxpayer does not submit the INO statement, he is obliged to declare the income on the JOPPD form by the end of February and, if he wants to utilize the right to include the tax paid abroad in the total tax liability, he should submit the INO-DOH form.

When the income from capital is realized in foreign currency, when calculating the tax, it is necessary to perform the conversion into kunas according to the middle exchange rate of the Croatian National Bank on 31 December of the previous year.

The taxpayer is not obliged to submit the JOPPD form to the Tax Administration if total loss was realized on an annual basis, based on trading in all securities and financial instruments traded by the taxpayer, or the realized capital gain is less than HRK 112,00.

Likewise, it is not possible to carry forward a loss to the next tax year and as such cannot be used to reduce income based on capital gains earned in the same state, and in the same tax year.

Tax treatment of Cryptocurrency in the Republic of Croatia – continued

TAXATION OF CRYPTOCURRENCY DURING THE ACTIVITY OF A COMPANY

If an employer wishes to pay its employees a salary in cryptocurrencies, according to Personal Income Tax Act, such payment would be considered as benefit in kind. Personal income tax and social security contributions should be calculated on this type of receipt according to the market price of a certain cryptocurrency on the day of salary payment. However, the [Tax Administration issued an opinion](#) clearly stating that cryptocurrencies are still virtual currencies, decentralized, not under the jurisdiction of monetary authorities, and anonymous, and as such cannot be used as a mean of paying salaries.

TAXATION ON MINING ACTIVITIES

How is a mining activity of a natural person who is not an employee of a cryptocurrency payer taxed? There is still no clearly defined rule, however, the profession agrees that the mining activity should be considered as other income and taxed accordingly.

If a natural person actively acquires cryptocurrencies through mining activities and does not perform this activity based on an employment contract, the profession declares that such activity could be considered as income from self-employment. It is determined as the difference between operating receipts and operating expenses incurred in the tax period.

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