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Ideas that pay off.

Monthly Newsletter

March, 2022

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CHANGES IN THE INTRASTAT SYSTEM

At the beginning of the year, significant changes in the Intrastat system are being introduced, which began to be applied in all EU Member States following the requirements of the modernization of the European Statistical System (ESS). The Republic of Croatia has already introduced some of the requested requirements/changes into the Croatian Intrastat system during 2021, and you can check access to current documentation and a detailed overview of all changes on the website of the Central Bureau of Statistics and on the CIWS website below.

➤ [ACCES CBS WEBSITE](#)

➤ [ACCESS CIWS WEBSITE](#)

It should also be noted that documents related to Intrastat, legislation, EU methodological materials, notices, necessary information, technical prerequisites, and instructions for reporting units are available on these pages, and all available documents on the pages are updated following the changes.

Intrastat taxpayers need to continue to apply the methodological rules for 2022 when filling in Intrastat forms for the period of JANUARY 2022 and beyond, and special attention should be paid to:

New codebooks:

- Types of work
- Combined Nomenclature for 2022

Full application of data from the field of Intrastat form for the trade flow SHIPMENT:

- VAT ID number of the buyer/recipient of the goods
- Country of origin

which were introduced in the Republic of Croatia Intrastat reporting in 2021, and the obligation to fill them in at the level of the entire EU will start in January 2022.

The NEW excel Intrastat Form 4.0 applies to Intrastat reports from 2022. which you can download on the CBS website by clicking on the button on the left.

We additionally point out that the Replacement forms for 2021 can be submitted to the customs Intrastat system until April 15, 2022.

In doing so, special attention should be paid to the following:

In the Replacement Forms for the periods from 2021, it is necessary to use the codebook of the type of work for 2021 as well as the Combined Nomenclature for 2021, i.e., all methodological rules from 2021, and excel Intrastat Form 3.0 is used to prepare the Intrastat report;

Intrastat forms (Original, Replacement) for the periods from 2022 (January 2022, February 2022, March 2022, etc.) apply the codebook of the type of work for 2022, as well as the Combined Nomenclature for 2022, i.e., all methodological rules from 2022, and excel Intrastat, form 4.0 is used to prepare the Intrastat report.



NEW BASES FOR CALCULATING CONTRIBUTIONS FOR COMPULSORY INSURANCE FOR 2022

A new Order on the amounts of bases for the calculation of contributions for compulsory insurance for 2022 was adopted (NN 127/2021). It states that all monthly and annual bases in the system of mandatory contributions for 2022 depend on the average amount of monthly gross salary paid per employee (for legal entities) in Croatia for the period from January to August 2021. According to the Central Bureau of Statistics, the average monthly gross salary for the specified period amounts to HRK 9,537.00.

A detailed overview of the new bases for calculating contributions for compulsory insurance for 2022 can be accessed by clicking the button below.

➔ **NEW BASES FOR CALCULATING CONTRIBUTIONS**

ANNUAL BASIS FOR LIABILITIES BASED ON PERFORMING OTHER ACTIVITIES

For income taxpayers, the annual basis for calculating contributions is the income earned in the tax period. The highest annual base for 2022 is HRK 74,388.60.

For corporate taxpayers, the annual basis for calculating contributions is the profit realized in the tax period. The highest annual base for 2022 is HRK 74,388.60.

For taxpayers of lump-sum income based on other activities, see the annual basis for calculating contributions by clicking on the button above.



EUROPEAN COMMISSION APPROVES NEW REGIONAL FUND MAP FOR CROATIA FOR THE PERIOD 2022-2027

The European Commission has approved a new regional fund map for Croatia for the period 2022-2027. This decision will enable significantly higher co-financing for all regions. According to the current European Nomenclature of Spatial Units for Statistics, Croatia was divided into two regions – Continental and Adriatic, while at the beginning of 2022 it was officially divided into four:

Pannonian

➔ Bjelovar-Bilogora, Virovitica-Podravina, Požega-Slavonia, Brod-Posavina, Osijek-Baranja, Vukovar-Srijem, Karlovac and Sisak-Moslavina counties;

Northern

➔ Međimurje, Varaždin, Koprivnica-Križevci, Krapina-Zagorje and Zagreb counties;

Adriatic

➔ Primorje-Gorski Kotar, Lika-Senj, Zadar, Šibenik-Knin, Split-Dalmatia, Istria, Dubrovnik-Neretva County and;

the City of Zagreb

The intensity of funds has also increased from the current 25% to 50% for Pannonian and Northern Croatia, 40% for the Adriatic, and 35% for the City of Zagreb region. The new regional fund map will be applied to EU funds in the new programming period and to tenders under the National Recovery and Resilience Plan. Also, the maximum fund intensity was determined for each region, i.e., the amount that can be allocated to the beneficiary expressed as a percentage of eligible investment costs.

Grants are being increased for all entrepreneurs. For large companies and their projects, the maximum amount of support will be 50% of eligible investment costs in the Pannonian and Northern Croatia regions, 40% in the Adriatic, and 35% in the City of Zagreb.

For initial investments with an eligible cost of up to EUR 50 million in all these areas, the maximum fund intensities may be increased by 10 percentage points for medium-sized enterprises and by 20 percentage points for small-scale investments. This means that for medium-sized enterprises the fund rises to a maximum of 60%, and for small to a maximum of 70% of eligible costs.

WAGE ENFORCEMENT IN YEAR 2022

Wage enforcement procedure may be carried out on a fixed cash income, and the amount subject to enforcement depends on the average net salary from the previous year. Thus, the average monthly net salary paid within legal entities in the Republic of Croatia for the period January – August 2021 amounts to HRK 7,086.00 (NN, No. 118/21). The Enforcement Act states that the determined amount will be applied in the next year, which means that this limit will be applied to every salary payment in 2022.

The wage enforcement document determines the amount of the salary that will be confiscated. The employer may carry out enforcement only based on a final notarial decision or a certified private document of the debtor. After the employee's account is blocked, FINA is obliged to inform the employer about the opening of a specific bank account to which the part of the salary that is protected from enforcement will be paid. The rest of the salary is paid to the regular bank account of the debtor from which FINA takes funds for the account of the creditor. The confiscation of part of the salary is carried out by the employer in a way that the amount determined for enforcement is paid to the creditor. If the employer receives several enforcement orders for the same employee, he must make the order of collection by forming the order of the decision on enforcement according to the date of submission of the proposal for enforcement, and the private document of the debtor according to the date of receipt.

It is important to note that in the process of enforcement on wages (and other permanent cash receipts), the employer is obliged to take into consideration the restrictions on enforcement and income that are exempt from enforcement.

Below you can find an overview of the amount of salary that is exempt from enforcement during the year 2022.

If the net salary of the employee is equal to or higher than HRK 7,086.00, the following amounts are exempt from enforcement:

- 1/4 of HRK 7,086.00 if the enforcement is carried out to support the child (i.e., HRK 1,771.50);
- 1/2 of HRK 7,086.00 if the enforcement is carried out for legal alimony or compensation for damage caused by impaired health or reduction/loss of working capacity or compensation for loss of alimony due to death of the alimony provider (i.e., HRK 3,543.00);
- 2/3 of HRK 7,086.00 if the enforcement is carried out for the collection of other claims (i.e., HRK 4,724.00).

For example, if an employee receives a net salary of HRK 8,000.00, and the enforcement is carried out to collect unpaid bills, HRK 4,724.00 will be exempted from the enforcement, and the amount subject to enforcement is HRK 3,276.00.

If the net salary of the employee is less than HRK 7,086.00, the following amounts are exempt from enforcement:

- 1/4 of the net salary of the employee if the enforcement is carried out to support the child;
- 1/2 of the net salary of the employee if the enforcement is carried out for legal alimony or compensation for damage caused by impaired health or reduction/loss of ability to work or compensation for loss of alimony due to death of the alimony provider;
- 3/4 of the net salary of the debtor, but not more than HRK 4,724.00 if the execution is carried out for the collection of other claims.

For example, if an employee receives a net salary of HRK 5,000.00, and the enforcement is carried out due to overdue unpaid loan installments, HRK 3,750.00 or 3/4 of the salary will be exempt from enforcement, and the amount subject to enforcement is HRK 1,250.00.

As for other income and benefits, according to Art. 172. of the Enforcement Act, the following income is exempt from enforcement:

reimbursement of business travel expenses and reimbursement of travel expenses to and from work, support for new-borns, disability benefits for workers, gift for children up to 15 years of age, benefits for continuous sick leave for more than 90 days, benefits in the event of the death of a worker and the death of a member of the worker's immediate family, occasional prizes, cash rewards for work results and other forms of additional remuneration of employees, awards to employees for completed years of service, per diems for fieldwork at home and abroad, per diems for business trips at home and abroad, per diem per diems paid to workers from the EU budget to carry out their jobs, in connection with the employer's activities, flat-rate cash benefits to cover the cost of workers' meals, maritime allowance and maritime allowance on ships of international navigation,

and only up to the prescribed amounts up to which they are not considered as taxable income.

Enforcement is also performed on the employee's income, which is not salary, pension, or income from self-employment, free professions, agriculture and forestry, property and property rights, capital, and other income according to special regulations. There is a way for a person to protect other income but if it has the character of the only permanent cash income, which must be proven by a public document. A public document is a Certificate of Income and Receipt issued by the Tax Administration upon request. The person then submits this certificate to FINA, which opens a protected bank account and informs the payer who was listed by the debtor as the payer of other income.

Read the detailed list of income and benefits exempt from enforcement published by FINA by clicking on the button below.



**LIST OF INCOME AND BENEFITS
EXEMPTED FROM ENFORCEMENT**

EUROPEAN COMMISSION PUBLISHES PROPOSAL FOR ATAD DIRECTIVE 3

The European Commission has published a proposal for a Directive laying down rules to prevent the misuse of fraudulent entities for tax purposes and amending Directive 2011/16 / EU, also known as the ATAD Directive 3.

The directive thus lays down reporting requirements for EU tax-resident companies, regardless of their legal form, with certain passive revenue streams and inadequate operational content. In certain cases, inadequate content, benefits of tax agreements, and EU directives may be denied, which would result in an increased tax burden after deduction, as well as potential penalties for non-reporting or inaccurate reporting.

If the proposal is adopted, EU Member States will have to implement the proposed measures in their domestic tax legislation by 30 June 2023 and implement them by 1 January 2024. It is important to note that to determine whether a company falls under the Directive, a two-year review rule would apply, meaning that from 1 January 2022, companies could become a reference point.

The new rules could potentially affect companies that have hired third-party service providers to act as external directors for companies that are tax residents in the EU. Therefore, companies should carefully review their corporate structures to pre-adjust their business to new requirements.

SHOULD A COMPANY REPORT TO THE EU?

It is first necessary to determine whether a company in the EU is required to report. The answer is "yes" if more than 75% of the revenue in the previous two years is relevant revenue (defined in the Directive as mobile or passive revenue) if it is engaged in a cross-border activity and if in the previous two tax years the company hired external associates to carry out daily tasks and make meaningful decisions.

There are several exceptions to this rule, which mostly concern regulated financial companies, investment funds, companies with transferable securities listed on a regulated market, companies with at least 5 full-time employees performing activities that generate this type of income, etc.

Likewise, any company that meets the above criteria may request an exemption from the reporting obligation if it proves that its existence does not reduce the tax liability of the beneficial owner and/or his group. Such exemption is granted for one year and may be extended for up to five years.

IF THE COMPANY NEEDS TO REPORT TO THE EU

EU companies that are required to report must indicate in their tax return whether they meet certain minimum requirements such as office space, an active EU bank account, and so on. It must also meet one of the following two criteria, which are:

- that most of the company's employees are residents or live near the company's jurisdiction, and these employees are qualified to perform a revenue-generating business, and
- that there is at least one company director who:
 - ⊗ lives near the jurisdiction of the company,
 - ⊗ is qualified and authorized to make relevant decisions,
 - ⊗ actively, independently, and regularly uses its powers and,
 - ⊗ is not an employee or director of any other unrelated company.

WHAT ARE THE CONSEQUENCES OF THE ABUSE OF FALSE ENTITIES FOR INAPPROPRIATE TAX PURPOSES IS PROVED?

If the misuse of fraudulent entities to misuse tax relief is proven, the following consequences will occur:

- if the company has an EU shareholder, the competent authority will tax the shareholder's relevant income following its national law;
- the reporting company will no longer receive a tax residency certificate and the Tax Authority will issue an amended tax residency certificate stating that the company is no longer entitled to benefits from various agreements or relevant EU directives.

EXCHANGE OF INFORMATION, PENALTIES, AND TAX AUDITS

The central database will be available to all Member States with information relating to all EU companies that are considered reporting companies and which are required to declare this in their tax return.

Member States may impose penalties of up to 5% of annual revenues on companies that do not report or report inaccurate reports, and may even ask other Member States to initiate a tax audit if they suspect that an EU company does not comply with the Directive.

DEADLINES FOR SUBMISSION OF ANNUAL FINANCIAL REPORTS FOR 2021.

Upon the expiration of the aforementioned Ordinance, those obliged to apply the Accounting Act are obliged to submit the annual financial statements for 2021 to the Financial Agency (FINA) according to the old (shorter) deadlines.

Following the above, the deadlines for submission of annual financial statements and accounting documents for 2022 to FINA are listed in the table below.

The annual financial statements for public disclosure of branches of undertakings established in another EU Member State will also be submitted according to regular deadlines, ie within 6 months from the balance sheet date.

Regarding the submission of the income tax return and other supporting documentation for 2022, it is expected that the same will be submitted to the Tax Administration according to the regular deadline for submission - April 30, 2022.

SUBMISSION DEADLINE	
AFS for statistical purposes and other needs (balance sheet, profit and loss account, additional data)	➤ April 30, 2022
Statement of inactivity	➤ April 30, 2022
PUBLIC ANNOUNCEMENT	SUBMISSION DEADLINE
AFS	➤ June 30, 2022 (ie within 6 months after the end of the entrepreneur's business year)
Annual report (medium and large entrepreneurs)	
Audit report (if the company is subject to audit)	
Resolutions	
CONSOLIDATED FINANCIAL STATEMENTS	SUBMISSION DEADLINE
Consolidated AFS, annual report and audit report	➤ September 30, 2022 (ie within 9 months after the end of the entrepreneur's business year)

CROSS - BORDER WORK AND TAX LIABILITIES IN CROATIA

The Tax Administration recently called on all citizens residents of the Republic of Croatia to voluntarily report foreign income they have earned in this or previous years but have not reported them so far. Namely, through the exchange of data between the Croatian Tax Administration and the Tax Authorities of other countries, it's noticed that many citizens did not fulfill their obligation and reported foreign income.

All those persons who live and work abroad but remained Croatian tax residents must declare income from abroad. Also, all citizens who are tax residents of the Republic of Croatia who live and work in Croatia, but receive income from abroad (e.g., dividends, interest, income from renting a real estate) must declare income from abroad.

As several questions about the status of tax resident/non-resident in the Republic of Croatia have appeared in public, the Tax Administration has published an additional clarification regarding the determination of tax residency.

Below is an overview of key issues through liabilities and rights in the tax payment process of income earned abroad.

How can I know if I am a tax resident or a non-resident?

Based on general rule, the status of a resident defines the place of residence, while the General Tax Law states that the residence of an individual is where his family resides (spouse, children, extramarital partner), and for a single taxpayer or if the family residence cannot be determined, the residence is in the country from which he/she predominantly go to work or in which he/she predominantly stays. If you have moved abroad with your family and registered your residence abroad, you will be considered as a Croatian tax non-resident, although you may have registered residence in Croatia as well.

I deregistered my residence, I do not live in Croatia, why am I not automatically registered as a tax resident of the country where I live and work?

Although the Tax Administration has certain information in its systems, it still does not have the information on the change in the status of a tax resident/non-resident until the individual independently reports the change. In case of going abroad, whether permanently or temporarily, it is necessary to report the departure to the Ministry of the Interior and fill out and submit the TI form to the Tax Administration to change the resident status to a non-resident.

When to report foreign income in Croatia?

The basic principle is that income earned abroad is taxed in Croatia within 30 days of receipt (via the JOPPD form). But if you have already paid income tax abroad, you need to pay income tax in Croatia once a year, by 31 January of the current year for the previous year. If the income tax was paid abroad, the Tax Administration should be informed within 8 days from the day of the first receipt in the current year through the Statement on deferral of tax payment (so-called INO-STATEMENT).

How is a calculated tax on income earned abroad and what represents the Double Taxation Agreement?

Tax on income earned abroad is calculated in the same way as income earned in Croatia. However, the Double Taxation Agreement usually prescribes in Article 23 the method of avoiding double taxation - the credit method or the exemption method. If your foreign income is earned in the country with which the credit method is prescribed in the Agreement, the tax to be paid in Croatia will be calculated as the difference between the tax you have to pay in Croatia and the tax you have already paid in the country where you work. If the tax in the country where you worked is calculated in a higher amount than your liability in Croatia, you will not pay anything more. Please note that you are also not entitled to a tax refund, as the tax has not been paid in Croatia in the first place. However, if you have paid less tax in the country where you worked than your tax liability in Croatia, you will pay the difference in income tax. In order for that, the Tax Administration could calculate the tax you previously paid in the country of work, you will also need a certificate from the Foreign Tax Authority on the tax paid. With the exemption method, there is no additional collection of foreign income tax, as all income is exempted from taxation in Croatia.



CROSS - BORDER WORK AND TAX LIABILITIES IN CROATIA - CONTINUED

What benefits does the Tax Administration offer regarding voluntary income tax returns?

In addition to not charging default interest and misdemeanor penalties, the Tax Administration offers some other benefits related to voluntary filing. Namely, all those who submit a voluntary return will be able to calculate the tax liability in one of two ways that will result in a more favorable tax liability. One is the application of tax rates, tax brackets, and regulations for the year 2022, and the other is the application of tax rates, tax brackets, and regulations that were in force for each year in which the income was generated, according to the data available to the Tax Administration. Voluntary application has its advantages, but also its disadvantages. Although in the year 2022 lower tax rates and wider tax brackets are in force than the ones in previous years, the Tax Administration will add up the total income at once, which means the inability to use the personal allowance for previous years and the fact that total income automatically goes into a higher tax bracket. Therefore, we recommend that you consult with tax experts before voluntarily applying and find out which tax calculation is more favorable for you.

How can I dispute the decision of the Tax Administration regarding double taxation?

If there is a reasonable presumption that the tax liability is incorrectly calculated or that the tax liability has been determined even though the individual meets all the conditions for the status of a tax non-resident, the decision of the Tax Administration may be disputed. Please note that the status of a tax resident/non-resident can be changed retroactively by providing the Tax Administration with evidence and facts about the same.

What is the legal deadline within which the Tax Administration can send such decisions?

The legal deadline by which the Tax Administration can send such decisions is six years, i.e., the statute of limitations occurs after six years. The condition that must be met for the statute of limitation to occur is that in the meantime no action has been taken with a particular case. Therefore, if a person is a tax resident who has been living and working abroad for years and has not reported foreign income in Croatia so far, he or she can do so at once through a voluntary declaration of foreign income. In case of voluntary submission, the Tax Administration will not charge default interest or initiate misdemeanor proceedings, and the income to be reported is valid only for the years from 2016 to 2021.



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