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Monthly Newsletter
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I. EURO IN CROATIA – RULES OF DUAL PRICE DISPLAY

The preparatory period begins 6 months before the Euro introduction and includes a dual price display. What exactly does this mean for businesses?

Every business entity must identify its own needs and adjustments regarding currency change and prepare on time to face the inevitable challenges as easily as possible. Timely preparation aims at an unhindered and fast currency exchange, with maximum efficiency and minimal business disruptions.

A necessary step is to access the impact of the change in the Euro currency on one's own business. Upon the initial assessment completion, it is recommendable to develop an action plan with a specific time frame.

Since business entities will have to bear the cost of adjustment themselves, it is recommendable to keep records of the adjusting costs to be able to calculate the total cost of the Euro introduction. It is also very important to stick to the set deadlines and the mentioned plan of activities. Only in this way entities can anticipate potential difficulties and come up with unpleasant surprises.

WHO IS OBLIGED TO DUAL PRICE DISPLAY?

The obligors of the dual price display are business entities, employers, public authorities, the Croatian Pension Insurance Fund, and institutions in the financial sector.

Businesses will have to double display their prices. Employers will also have to double display the total amount paid to the employee for wages and other payments based on an employment contract. Public authorities are obliged to state double prices on acts they pass. Clients will have to double display the amounts in the employment contracts and copyright agreements. The Croatian Pension Insurance Fund, as well as other entities, will display all information on pension income in double currency. Institutions in the financial sector will double display all relevant information which are most important to consumers.

There are some transactions that are exempted from the dual price display. Namely, dual price display does not include trade agreements, i.e., transactions between business entities (B2B), internal transactions within the same company, and various records and reports that will need to be sent to the public authorities. Also, business entities in the process of issuing invoices to government institutions (B2G) are not obliged to double disclose the prices.

I. EURO IN CROATIA – RULES OF DUAL PRICE DISPLAY – CONTINUED

HOW LONG WILL THE DUAL PRICE DISPLAY LAST?

The dual price display is a key measure to prevent incorrect recalculation and unjustified price increases. The dual price display obligation refers only to the relationship with consumers to protect them. The dual price display is the presentation of prices of goods, services, and all monetary statements of value in such a way that they are simultaneously denominated in HRK and EUR, with the application of a fixed conversion rate, under the rules for conversion and rounding.

We distinguish two types of dual price display. Voluntary and mandatory display. The voluntary double display will take effect on the publication of the EU Council's decision day on a fixed conversion rate. The mandatory double display will take effect no later than the first Monday of the month following the 30th day since the EU Council regulation will be adopted.

The EU Council Regulation will, inter alia, set a fixed conversion rate under Art. 140, paragraph 3 of the Treaty on the Functioning of the European Union. Mandatory dual price display will end 12 months after the Euro will be introduced as the official Croatia currency.

WHERE AND HOW WILL BUSINESSES DISPLAY DUAL PRICES?

In approximately 16 months, which will be the double display period of prices and other monetary values, the business entities are obliged to report prices/services/other monetary values and a fixed conversion rate in a clear, legible, visible, and easily noticeable way in Euro and Kuna.

Business entities will thus double display prices, services, and other monetary amounts:

- in the branch office and at the point of sale,
- on the price list if it is a service,
- in an offer or contract,
- on websites,
- in any form of advertising,
- when concluding a distance contract with a consumer,
- and other price presentation forms.

DUAL PRICE DISPLAY WHEN ISSUING AN INVOICE TO A CUSTOMER

A fiscalized invoice must be issued to the customer where the total amount of the invoice is displayed in dual prices with a stated fixed conversion rate. This applies to business entities, the Croatian Bank for Reconstruction and Development, public authorities, credit institutions, credit unions, payment institutions, electronic money institutions, and all other creditors following the regulations governing consumer lending and financial services.

Exchange offices are not required to dual price display or display a fixed conversion rate.

DUAL PRICE DISPLAY WHEN PAYING A SALARY TO AN EMPLOYEE

In the period of dual price display, all employers are required to double disclose:

- the total amount paid to the employee within payroll,
- salary compensation,
- severance pay,
- and other substantive rights

arising from labor regulations, employment contracts, collective agreements, etc. with a presentation of a fixed conversion rate.

A travel order is exempted from the obligation of the dual price display.

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I. EURO IN CROATIA – RULES OF DUAL PRICE DISPLAY - CONTINUED

DUAL PRICE DISPLAY IN ENFORCEMENT DECISIONS

In the service contract and copyright agreement, entities are obliged to dual price display the total amount paid to the executor with the presentation of a fixed conversion rate. This also applies to student contracts, notices of retirement benefits, and enforcement decisions issued by a notary public, court, and other authorities.

ARE THERE EXCEPTIONS TO THE DUAL PRICE DISPLAY?

There are three exceptions for situations where dual price display is not applicable for practical reasons or would cause disproportionate costs to businesses. Despite the exceptions, when issuing an invoice to the consumer, the total amount will have to be stated twice on the invoice with a fixed conversion rate.

- Business entities that sell goods in a specific way and in specific locations (markets, stands, benches, mobile sales, etc.)
- Expression forms that are exempt from the obligation due to disproportionate costs that would be incurred (fixed panels, self-service devices, prices on scales, totems of gas stations, etc.)
- Situations, where the price in Kuna is highlighted on the goods and reprinting, would result in unnecessary and excessive costs.

The double display will be carried out following the Law on the Introduction of the Euro, the Law on Consumer Protection, and the Ordinance on the manner of displaying the retail price and the unit price of products and services.

II. SALARY COMPENSATION DURING ANNUAL LEAVE AND HOLIDAY ALLOWANCE

Annual leave is defined as a worker's right and an employer's obligation, the purpose of which is to restore the worker's abilities necessary for safe and successful further work. His right is defined by the Labour Law, regardless of whether the worker has a fixed-term or indefinite employment contract. Following, we present a brief overview of benefits that can be obtained during the use of annual leave.

HOLIDAY ALLOWANCE AS A SPECIAL REWARD

Due to the increased costs that are expected during the use of annual leave, employers can, according to the tax regulations, pay out a non-taxable compensation, the so-called holiday allowance. Holiday allowance is a worker's material right that can be realized based on acts such as an employment contract, work regulations, or a collective agreement. It is important to note that if the right to payment of the holiday allowance is not defined in the above-mentioned acts, the worker can realize his right to the holiday allowance based on the goodwill of his employer only.

PAYMENT OF NON-TAXABLE AND TAXABLE HOLIDAY ALLOWANCE

Based on Article 7, paragraph 2 of the Personal Income Tax Ordinance, it is prescribed that the holiday allowance, as a special reward, can be paid both taxable and non-taxable. Given that the Personal Income Tax Ordinance does not specify precisely, an occasion for a non-taxable payment can be any occasion that according to the source of law belongs to the worker (use of annual leave, Christmas, or Easter holidays, etc.)

Non-taxable payment of holiday allowance is possible if two conditions are cumulatively met:

- a holiday allowance must be paid to a natural person, that is, to an employee with whom the employer has an established employment relationship based on the employment contract; and
- the amount paid out should not exceed HRK 3,000.00 per year (unless the worker did not receive another special award during a stated period that would exceed the amount of HRK 3,000.00). The employee must give a written statement to the employer about possible other payments from the other payers.

If the employer pays the employee a holiday allowance in the amount above the prescribed non-taxable amount, the difference between the prescribed amount and the paid-out amount will be considered employment income.

II. SALARY COMPENSATION DURING ANNUAL LEAVE AND HOLIDAY ALLOWANCE – CONTINUED

There are several ways to pay out the taxable amount of holiday allowance:

- the taxable amount is paid before the salary,
- the salary and the taxable part of the holiday allowance are paid at the same time,
- the salary is paid first, and then the holiday allowance.

In both cases, while paying the holiday allowance, the employer must submit a report on receipts of income tax and surtax and contributions for mandatory insurance in the form of a JOPPD form no later than the 15th of the month for payments made in the previous month. How the data in the form will be displayed depends on the calculation itself.

WHO CAN RECEIVE A HOLIDAY ALLOWANCE?

A tax-free holiday allowance can be granted to an employee regardless of how long he has been employed by the employer, or even to an employee who does not work for the entire year, provided he has exercised his right to use annual leave.

Please note that occasional holiday allowances cannot be paid to workers on sick leave, maternity, or parental leave, because these workers then use their rights from the mandatory health insurance and do not use their annual leaves.

In practice, the question is often raised whether workers who the employer has not employed for the whole year can also utilize the right to a holiday allowance. Given that tax regulations do not limit the payment of holiday allowance, it can be granted tax-free to an employee, regardless of the part of the year in which he started his employment relationship with the employer.

THE DIFFERENCE BETWEEN SALARY COMPENSATION DURING ANNUAL LEAVE AND HOLIDAY ALLOWANCE

The main difference between salary compensation during annual leave and holiday allowance is that salary compensation is regulated by the Labour Law, while holiday allowance is not. As already mentioned, the payment of holiday allowance depends on the will of the employer, and it can be defined by one of the acts such as the collective agreement, the work regulations, or the employment contract.

CROATIAN TOURIST CARD – TAX-FREE RECEIPT

The Personal Income Tax Ordinance also provides the possibility of paying HRK 2,500.00 tax-free per year as a fee to cover the costs of hospitality, tourism, and other services intended for workers' vacation. Employers can pay compensation for the expenses intended for workers' vacation to employees, regardless of whether they are employed for a fixed or indefinite period. The payment of this fee is made through the so-called "Croatian tourist card" granted in the name of the employee to whom this tax-free receipt is paid.

III. PATERNITY LEAVE – A NOVELTY IN THE ACT ON MATERNITY AND PARENTAL BENEFITS

On July 12, 2022, amendments to the Act on Maternity and Parental Support were adopted. There have been very positive changes and additions, the most important of which relates to paid paternity leave.

PATERNITY LEAVE

Important changes and amendments to the Act on Maternity and Parental Support affected fathers. Namely, from August 1, 2022, fathers will be entitled to 10 working days of paternity leave if it is the case of one child, and in the case of twins or more children, the leave is increased to 15 days. This is the minimum number of days prescribed by the EU Directive on the balance between work and private life of parents and caregivers.

Fathers should use this leave no later than when the child is six months old. Also, they can use the leave regardless of the mother's employment legal status, which means that they can use the leave in parallel with the mother's maternity leave.

This right is not mandatory, but we emphasize that employers must respect this right if the father decides to use it. Leave is granted regardless of the marital or family status of the father.

WHAT ARE THE AMOUNTS?

The anticipated salary compensation for paternity leave amounts to 100% of the salary compensation base determined according to the regulations on mandatory health insurance. The entire compensation is paid from the state budget.

THE PURPOSE OF PATERNITY LEAVE

The main goal of this leave is to enable parents and people who take care of others to coordinate business and private obligations more easily and concretely. The purpose is to strengthen the standard related to parental leave, but also to introduce the standard related to paternity leave.

Croatia introduced paternity leave at the very end of the term and for the minimum duration prescribed by the EU Directive on the balance between the work and private life of parents and caregivers.

You can find all the details about paternity leave and other things in the Act on Amendments to the Act on Maternity and Parental Support.

IV. TAX-FREE ACCOMMODATION FOR EMPLOYEES

If you are an employer, it is possible to provide accommodation for your employees without paying taxes or social security contributions, and this expense will be recognized for you as a tax expense. There are three possibilities for this, and certain conditions prescribed by the Law and Ordinance on income tax must be met.

EMPLOYEE CONCLUDES A RENTAL AGREEMENT WITH THE EMPLOYER

The employer has the right to refund the employee the entire rental amount or a certain part during the employment relationship and this is an autonomous decision of the employer. In this case, the employee must provide the employer with a copy of the rental agreement or invoice, and the employer will reimburse the rent costs exclusively by payment to the account. The receipt is realized when the employee receives his compensation.

Rental costs are considered non-taxable receipts if the rental contract is for an employee, and if it is for several persons, then only the part that can be attributed to that employee is non-taxable. Only the accommodation costs are considered as non-taxable receipts without included utility costs.

The Tax Authority should be informed about these payments by submitting the JOPPD form (page B, 15.1. – mark 68) on the day of the payment, and no later than the 15th day of the current month for receipts made in the previous month.

ACCOMMODATION CAN BE ARRANGED BY THE EMPLOYER WITH THE LESSOR

The employer can contract the accommodation of the worker with the lessor, up to the amount of the actual expenditure under the condition that the expenses are settled in a cashless way and that the basis for the payment is credible documentation, i.e., an invoice that must be addressed to the employer.

The same as the above, the payment of tax-free receipts should be reported to the Tax Authority by submitting the JOPPD form (page B, 15.1. – mark 67)

THE EMPLOYER CAN PROVIDE ACCOMMODATION ON PRIVATE PREMISES

The cost of housing workers, together with the depreciation of the building, furniture, and other equipment, and other costs related to the use of housing, excluding utility costs, is considered non-taxable income.

Also, the payment of non-taxable receipts must be reported to the Police Administration by submitting the JOPPD form (page B, 15.1. – mark 67) by the 15th day of the current month for the accommodation made in the previous month.

Tax advice
for entrepreneurs

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