

CONFIDA

Ideas that pay off.

Monthly Newsletter

January, 2023

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I. EMPLOYEES' EDUCATION AND TRAINING COSTS AS A TAX-DEDUCTIBLE EXPENSE

Many employers invest in the additional education of their employees, considering that such investment is the development of their own company. However, what is the actual tax treatment of such expenses find out below.

EMPLOYEES' EDUCATION AND TRAINING COSTS FROM A TAX POINT OF VIEW

Education and training costs of the employees are considered a tax-deductible expense, provided that the employee has a valid employment contract with the company and that education or training is closely related to the company's activities, current or future. In accordance with the Ordinance on Profit Tax, the employer acquires the right to an additional reduction of the profit tax base in case of paid education and training costs of the employees. However, the percentage of reduction depends on the type of education and the size of the company.

GENERAL AND SPECIAL EDUCATION OF THE EMPLOYEES

Based on the Law on State Support for Education and Training, education is divided into general and special education for employees.

The general education of the employees includes the acquisition of qualifications that are mostly transferable to other entrepreneurs or to other work areas, thus significantly improving the employee's opportunity for employment.

The justified costs of general education of the employees include:

- tuition fees for educational institutions (including postgraduate and doctoral studies)
- fees for participation in seminars, courses and congresses, costs of specializations and other forms of education at home and abroad
- fees for lecturers and instructors and consulting costs related to education and training projects
- professional literature in paper or electronic form, and
- cost of write-off (amortization) devices, aids and equipment used in education.

The special education of the employees includes education that is primarily dedicated to the current or future workplace at the employer that uses a tax relief for special education and enables the acquisition of qualifications that are not transferable to other entrepreneurs or to other workplaces, or that are partially transferable.

Among the justified costs of the employees' special education, all costs for general education are included, except tuition fees for educational institutions which are not included in the costs of special education.

I. EMPLOYEES' EDUCATION AND TRAINING COSTS AS A TAX-DEDUCTIBLE EXPENSE - CONTINUED

According to the Law on State Support for Education and Training, a beneficiary of state support who is considered a micro, small, medium or large entrepreneur can reduce the base for calculating profit tax by up to 60% of justified expenses in case of general education and training of the employees and up to 25% of the justified expenses in case of special education and training of the employees.

Exceptionally, a beneficiary of state support who is considered a micro, small and medium-sized entrepreneur can reduce the base for calculating profit tax by up to 80% of justified expenses in such a way that the reduction of the tax base is increased by:

- 20 percentage points if considered a micro or small entrepreneur, and
- 10 percentage points if considered a medium-sized entrepreneur.

In order to justify the costs of education and training of the employees, it is necessary to have a valid document (a contract or an invoice) from which it is evident which service is in question, when the service was performed and to whom the service refers.

II. THE ROAD TO THE WEST – TREATY ON AVOIDANCE OF DOUBLE TAXATION WITH THE USA, ENTRY INTO THE SCHENGEN AND THE EURO INTRODUCTION

In 2022, the Republic of Croatia faced numerous steps forward and changes in the financial and economic sense. Namely, in addition to the vital adjustment of the entire financial system with the Euro's arrival, there was also a positive move towards entering Schengen and the signing of the Agreement with the United States of America on the avoidance of double taxation.

TREATY BETWEEN CROATIA AND THE UNITED STATES OF AMERICA ON THE AVOIDANCE OF DOUBLE TAXATION

On Wednesday, December 7, 2022, the United States of America and the Republic of Croatia signed a comprehensive Treaty on the avoidance of double taxation. The complex and detailed Treaty ended the long-term process of reaching a final agreement. The Treaty is subject to the consultation and consent process for ratification in the US Senate and ratification in the Croatian Parliament.

The long-term and common goal of the countries is to avoid double taxation. The Treaty will simplify the operations of Croatian companies on the US market and vice versa. It will be easier for Croatian companies to enter the US market. The growing partnership will strengthen economic cooperation and innovation in the private sector.

The Treaty sets out the basic rules that regulate tax issues related to trade and investment between the USA and Croatia:

- Protection of American and Croatian taxpayers from double taxation through the distribution of taxation rights
- Preventing potential over-taxation by reducing the withholding tax imposed by the source country on taxable income – important information for individual taxpayers and companies
- Establishing an agreed minimum level of economic activity within the country by residents of another country, up to which the profit tax is not applied
- Croatian companies operating in the USA and vice versa enable to do business more simply while supporting jobs



II. THE ROAD TO THE WEST – TREATY ON AVOIDANCE OF DOUBLE TAXATION WITH THE USA, ENTRY INTO THE SCHENGEN AND THE EURO INTRODUCTION - CONTINUED

- It will be easier for Croatian companies to enter the US market, which contributes to joint economic cooperation and the strengthening of the private sector
- The exchange of critical information between Tax Authorities and solid mechanisms for resolving disputes related to the application of the Agreement is enabled
- Regulation of the provision on harmonizing the rules of the American and Croatian pension and tax systems – important information for pensioners.

CROATIA'S ENTRY INTO THE SCHENGEN

On Thursday, December 8, 2022, a unanimous decision reaching in Brussels that Croatia would become the 27th member of the Schengen area. The decision on the complete application of the Schengen acquis in Croatia brings about joining the largest area in the world without internal border controls between countries.

From the beginning of 2023, border controls on land and sea with the countries of the Schengen area and Croatia will no longer exist – these are the borders with Slovenia and Hungary. From March 26, 2023, the same thing will happen with airlines.

The Schengen area has almost 420 million people and approximately two million daily commutes to work across the internal border. The absence of border controls brings savings but also facilitates trade.

INTRODUCTION OF THE EURO AS THE OFFICIAL CURRENCY

A topic we have introduced several times is the Euro introduction as the official currency in the Republic of Croatia. The Law on the euro introduction as the official currency in the Republic of Croatia regulates:

- Rules for conversion, supply and exchange of Kuna cash for Euro cash
- Double circulation and double expression of prices
- Application of the principle of continuity of legal instruments
- Budgets, financial plans, business books, financial statements and taxes in the process of introducing the Euro, and
- Supervised by applying the Law and misdemeanour provisions.



III. AMENDMENTS OF THE LABOUR ACT – HOME OFFICE

As a result of the development of the modern labour market, amendments to the Labour Act were introduced, which we wrote about earlier in our articles. Amendments to the Act provide more quality and modern legal framework that guarantees better conditions for employees.

CONFIDA Croatia provides an overview of one of the most significant changes – the possibility of working from a separate location (home office).

WORK FROM HOME (AT A SEPARATE WORKPLACE)

With the adopted amendments to the Act, work from home can be performed as permanent, temporary, or occasional if, based on the proposal of the employee or employer, the employee and the employer agree on such type of work, provided that the nature of the work and the low risk determined in accordance with the regulations on occupational safety, that enables.

An employee who works in the employer's premises, in order to harmonize work, family obligations and personal needs, can propose to the employer an amendment to the employment contract, which would regulate work from home for a certain period of time, especially for health protection due to diagnosed illness or established disability, pregnancy or parental obligations towards children until the child reaches eight years old and providing personal care to a member of the immediate family or a member of the household.

In the event of extraordinary circumstances resulting from disease epidemics, earthquakes, floods and similar phenomena, the employer may, in order to continue business activities and protect the health and safety of the employees and other persons, agree to work from home without changing the employment contract with the employee.

In case such work lasts longer than 30 days from the beginning of the extraordinary circumstances, the employer is obliged to offer the employee an employment contract with mandatory content in the event of work at a separate workplace.

OBLIGATIONS AND RIGHTS OF EMPLOYEES WHO WORK AT A SEPARATE WORKPLACE

In case of an employee's request to the employer to amend the employment contract by which work from home would be regulated, the employer is obliged to respond to the employee, and he can reject the request for a justified reason only, which must be explained in writing to the employee, no later than 30 days after receiving the proposal.

An employee who has agreed with the employer amendment of the employment contract temporarily may propose to the employer that, before the expiry of the time for which the amended employment contract was concluded, he performs the work again at the employer's premises.

OBLIGATIONS AND RIGHTS OF EMPLOYERS TOWARDS EMPLOYEES WHO WORK AT A SEPARATE WORKPLACE

The salary and other material rights of the employees who work at a different workplace must not be set at a lower amount than the salary of an employee who works in the employer's premises on the same or similar job. The employer is obliged to adjust the amount and deadlines for the execution of work in a way that does not prevent the employee from using daily, weekly, and annual leave within the established scope. The employer has the right to enter the premises of the employee's home or any other premises about which the employee has informed the employer, for the purpose of maintaining equipment or carrying out predetermined supervision related to the employee's working conditions, if this is agreed between the employee and the employer and only at the specific time agreed with the employee.

III. AMENDMENTS OF THE LABOUR ACT – HOME OFFICE - CONTINUED

An employment contract concluded in writing, by which the employer and the employee agree to work at a separate workplace, in addition to the information from Article 15 of the Labour Act, must also contain additional information about:

- › the organization of work that enables the availability of employees and their unhindered access to business space, information and professional communication with other workers and the employer, as well as third parties in the business process
- › the method of recording working hours
- › means of work for the performance of work that the employer is obliged to acquire, install and maintain
- › compensation for expenses incurred due to the performance of work, which the employer is obliged to compensate to the employee if the work at a separate workplace is contracted as permanent or in a case when the period of work at a separate workplace lasts longer than 15 working days continuously
- › the method of training and professional development of the employees
- › the way of exercising the right to employees' participation in the decision-making process, and
- › duration of work at a separate workplace.

IV. INPUT TAX DEDUCTION BASED ON THE INVOICE OBTAINED FROM THE TAXPAVER WHO APPLIES THE TAXATION PROCEDURE ACCORDING TO THE CHARGED FEES

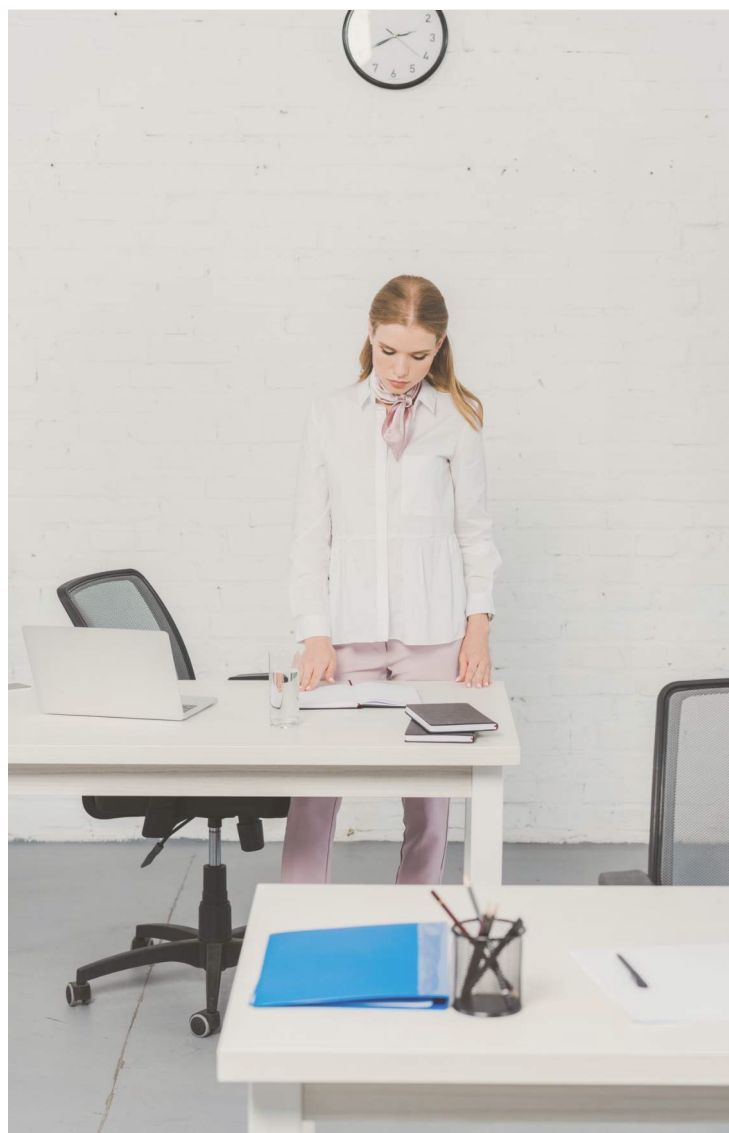
From December 1, 2022, taxpayers who determine value-added tax based on issued invoices can recognize withholding tax from input invoices of suppliers who determine value-added tax based on collected invoices, only when they pay the invoice.

The procedure instruction refers to the submission of the VAT form for December 2022, which should be submitted no later than January 20, 2023. The VAT form for November of this year, which should be submitted by December 20, must be drawn up according to the previous instructions.

V. NEW RULES FOR ISSUING AND RECORDING INVOICES FOR BUSINESS ENTITIES IN THE TRANSITION PERIOD

As a result of the change in official currency, several rules ensure the proper accounting procedure of invoice issuing, as invoices are legal documents valid at the time of issuance:

- › Invoices for business events occurring up to and including December 31, 2022, and issued on January 1, 2023, must be in kuna. In the business books for the 2022 year, amounts must enter within kuna.
- › Invoices for business events occurring up to and including December 31, 2022, and issued on January 1, 2023, and later must be in euros and entered in the business books for the year 2022 in kuna.
- › From January 1 to December 31, 2023, which refers to business events occurring on and after January 1 2023, invoices will issue in euros and enter into the business books for the 2023 year in euros.



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CONTACT

Confida - Revizija d.o.o.
Confida - Zagreb d.o.o.

Poljička ul. 5/V
10000, Zagreb
+385 1 4606 900

www.confida.hr

Christian Braunig
Managing Partner
e-mail

Frane Garma
Director
e-mail