

January 13, 2015
2015-003

flash Alert

A Publication for Global Mobility and Tax Professionals by KPMG's Global Mobility Services Practice

Croatia – Effective 1 January, Amendments to PIT and Social Security Rules

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As of 1 January 2015, new Croatian Personal Income Tax (PIT) and social security legislation¹ introduce various changes to the taxation of individuals and employers. The principal changes are briefly described in this newsletter.

Why This Matters

The changes will mean lower taxation in some instances. However, some previously excluded/exempt elements of income (e.g., savings interest) are now brought into the scope of taxation and capital gains will be subject to taxation from 1 January 2016. These latter measures could raise taxpayers' burdens.

Taxpayers using organizers that they supply to their tax service providers for return completion and filing purposes will need to be more diligent about recording their investment income.

Employers will need to determine to what extent they will include in their tax reimbursement policies and tax service provision their employees' passive income and their liabilities related thereto.

Amendments to the PIT Law

Increase of Personal Allowance and Modifications to Tax Brackets

From 1 January 2015, taxpayers' taxable earned income will benefit from a rise in the personal allowance and higher tax brackets as follows:

Monthly amount of a basic personal allowance in HRK		
	From 1 January 2015	Up to 31 December 2014
Basic personal allowance	2,600.00	2,200.00
Pensioners	3,800.00	3,400.00
Areas under special government protection (category I) and the city of Vukovar	3,500.00	3,200.00
Areas under special government protection (category II)	3,000.00	2,700.00

HRK 1 = EUR 0.13 | HRK 1 = USD 0.153 | HRK 1 = GBP 0.101

Monthly tax basis in HRK		Tax rate
From 1 January 2015	Up to 31 December 2014	
Up to 2,200.00	Up to 2,200.00	12%
From 2,200.01 to 13,200.00	From 2,200.01 to 8,800.00	25%
13,200.01 and above	8,800.00 and above	40%

Tax on Savings Interest

- As of 1 January 2015, the following passive income is to be subject to PIT: interest on kuna and foreign currency savings accounts, interest from securities, interest on loans, and receipts from investment funds paid in the form of interest.
- Non-taxable interest received includes: penalty interest, receipts from interest on the basis of court resolutions/decisions and resolutions of local and regional bodies, interest on positive balances on giro, current, and foreign currency bank accounts (up to 0.5 percent per annum), interest on investments in bonds, and receipts from returns in respect of life insurance savings and in respect of the basis in voluntary pension insurance.
- PIT is therefore payable at the rate of 12 percent (plus city surtax).
- Individuals earning interest from abroad (outside Croatia) are now required to self-assess and pay PIT.
- Savings interest earned up to 31 December 2014, is not taxable.

***Taxation of Capital Gains* (from 1 January 2016)**

- Taxation of capital gains from the disposal of financial assets, acquired after 1 January 2016, will be introduced at the rate of 12 percent (plus city surtax).
- Some capital gains will not be taxable; for example, for financial assets disposed after three years from the date of acquisition, disposals between spouses, etc.
- Capital losses can be deducted only from the capital gains realized in the same calendar year.
- PIT should be calculated, paid, and reported to the Croatian tax authorities within eight days from the date of realization of the capital gain (whether realized in Croatia or abroad).

Dividends

- As of 1 January 2015, the non-taxable annual threshold for dividends and profit shares of HRK 12,000 is abolished. The last annual PIT return through submission of which this non-taxable threshold can be utilized is the PIT return for 2014.
- Individuals receiving dividends from abroad continue to have an obligation to self-assess and pay PIT.

Taxation of Non-Reported Income

- As of 1 January 2015, the difference between an asset's value and proven sources (as determined by the tax authorities) of income for the acquisition of that asset is to be treated as "other income" subject to PIT at the rate of 40 percent (plus city surtax).
- Tax liability will be determined by the Croatian tax authorities through a Tax Resolution.

Special Procedure for Submission of an Annual PIT Return

- With the submission of the annual PIT return for 2015, commencing in 2016, a special procedure will be introduced according to which most taxpayers will not be obliged to submit an annual PIT return. Namely, the Croatian tax authorities will assess taxpayers' annual PIT liability based on the information collected during the year and will issue a Temporary Tax Resolution for the previous year until the end of June.
- A taxpayer will have the possibility to submit an objection to the Temporary Tax Resolution by the end of July.
- The special procedure will not apply to the following taxpayers:
 - taxpayers receiving income from self-employment;
 - taxpayers for whom the Croatian tax authorities do not have the information on realized income (nor are the tax authorities obliged to have that information); and
 - taxpayers who are not obliged to submit an annual PIT return, and the voluntary submission of the same would result in an additional tax payable position.

Amendments to the Law on Contributions

Exemption from Payment of Employer's Social Security Contributions

- As of 1 January 2015, employers that conclude an employment contract for an indefinite period with a person younger than 30 years of age, shall be exempt from employer's social security contributions (that is, health insurance contribution, unemployment contribution, and contribution for work-related injuries – currently cumulatively 17.2 percent) for a period of five years from the time of employing such person. Therefore, only employees contributions will be payable (i.e., pension insurance contributions pillar I and pillar II).

Footnote:

1 Amendments to Croatia's Personal Income Tax (PIT) Law (*Zakon o izmjenama i dopunama zakona o porezu na dohodak*) and Amendments to the Social Security Contributions Law (*Zakon o izmjenama i dopunama zakona o doprinosima*) have been published in Croatia's national gazette (*Narodne novine*) No 143/14, 3.12.2014. To access the *Narodne novine* (in Croatian), visit the Web site at: <http://narodne-novine.nn.hr/>.

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This article is excerpted, with permission, from "Personal Income Tax (PIT) and Social-Security (S/S) Newsflash" in *Newsflash* (December 2014), a publication of the KPMG International member firm in Croatia.

The information contained in this newsletter was submitted by the KPMG International member firm in Croatia. The information contained herein is of a general nature and based on authorities that are subject to change. Applicability of the information to specific situations should be determined through consultation with your tax adviser.

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