

GMS Flash Alert

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Croatia - Amendments to Personal Income Tax Law Benefit Those Under 30

Effective 1 January 2020, new amendments will bring additional tax relief for individuals, particularly for those younger than 30.¹ This follows certain tax changes effective in September 2019 that broadened non-taxable compensation to include nutrition costs, accommodation expenses, and regular child-care service costs,² thus continuing the trend of tax burden reduction.³

In addition, administrative changes will be introduced in order to ease the administrative burden for Croatian employers and combat tax evasion.

WHY THIS MATTERS

With these latest amendments, the tax burden for individuals younger than 30 is expected to be significantly reduced. This could have a positive impact on these individuals in considering whether to remain living in Croatia.

Making additional and private health insurance provided to an employee a non-taxable benefit should help to provide better health care for employees and relieve pressure on the compulsory health insurance system.

Amendments in Effect from 1 January 2020

Tax Reliefs

- The Croatian tax authorities will, after the year-end, provide a refund (based on the annual tax assessment) of personal income tax paid on employment income to taxpayers as follows:

Age	Tax rate	Tax refund
Up to 25	24%	100%
Up to 25	36%	-
26 – 30	24%	50%
26 – 30	36%	-

Annual tax assessments have historically been issued in June and July for the previous year, thus eligible taxpayers could expect a tax refund for the 2020 year in August 2021.

- The basic monthly personal allowance will be increased from HRK 3,800 to HRK 4,000.
- The personal allowance for dependent family members remains the same. Parents who are using additional personal allowances for supported children can keep this even if their children receive an education allowance during practical work and apprenticeships or compensation to students in dual education programs.
- Additional non-taxable benefits will be introduced, such as insurance premiums that employers may pay for their employees based on additional and private health insurance, up to the prescribed value (the non-taxable value will be prescribed by the Personal Income Tax Regulations).

Tax Anti-avoidance

- New provisions will outline criteria to determine whether specific activities should qualify as employment activities for taxation purposes. These provisions will be introduced to avoid situations in which individuals who are in fact performing employment activities are using the favourable tax treatment prescribed for self-employment activities.

Administrative Amendments

- Employers will have access to data related to non-taxable employment receipts already paid to a specific employee (from more than one employer) during a tax period through the “ePorezna” system, to help ensure that non-taxable employment receipts are computed correctly.
- Employers may use personal allowances in the final salary payment to a former employee, provided that the employer has access to the “PK” tax card of the former employee.

KPMG NOTE

To use the favourable tax treatment prescribed for individuals performing self-employment activities, those whose activities mostly had employment elements might register themselves as self-employed individuals. This was common in the IT industry.

As the new provisions outline criteria to determine whether specific activities should qualify as employment activities for taxation purposes, it is to be seen how this will affect professionals in the IT industry. Namely, these professionals are often highly mobile, and a less favourable tax treatment may result in their leaving Croatia.

FOOTNOTES:

- 1 To see the Amendments on personal income tax law (Official Gazette (*Narodne Novine*) 121 /19) (in Croatian), click [here](#).
- 2 For prior coverage, see GMS [Flash Alert 2019-151](#) (3 October 2019).
- 3 Ibid.

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HRK 1 = EUR 0.134

HRK 1 = USD 0.1495

HRK 1 = GBP 0.115

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