

Changes in tax legislation - changes that will take effect on 1st January 2019.

On 30th November 2018. the following was published in the Official Gazette No. 106/2018:

- Act on Amendments to the Value Added Tax Act
- Act on Amendments to the Act on Real Property Tax
- Act on Amendments to the Income Tax Act
- Act on Amendments to the General Tax Act

Here is a brief overview of the changes whose implementation begins on 1st January 2019.

1. Act on Amendments to the Value Added Tax Act

1.1. Expanded application of reduced VAT rates of 5% and 13%

A 5% rate will apply to medicines approved by the competent body for medicines and medical products, whether or not these medicines are sold on a prescription or can be purchased for free.

A discount of 13%, except for the current product and service range, will also apply to:

- delivery of live animals: cattle, pigs, sheep, goats, horses, donkeys, domestic poultry and rabbits,
- delivery of fresh or chilled meat and edible slaughter products of: cattle, pigs, sheep, goats, horses, donkeys, domestic poultry and rabbits,
- delivery of fresh or chilled sausages and similar products of meat, meat slaughtered products or blood,
- delivery of live fish,
- delivery of fresh or chilled fish, mollusks and other water invertebrates,
- delivery of fresh or chilled crawfish: lobster, lard, shrimp and softshell crabs,
- delivery of fresh or chilled vegetables, roots and onions, including leguminous dried vegetables,
- delivery of fresh and dried fruit and nuts,
- delivery of fresh poultry eggs, in shell,
- services and related copyrights of writers, composers and performers who are members of the appropriate collective rights association bodies performing this activity under special regulations in the field of copyright and related rights and with the prior approval of the central state authority in charge of intellectual property.

What exact products fall under the category of reduced rates will be listed in the Ordinance which should be based on the Combined Nomenclature of Annex I to Council Regulation (EEC) No. 2658/1987.

From 1st January 2020 the general value added tax rate will be 24%.

1.2. Introducing the delivery threshold for telecommunication services, radio and television broadcasting services and electronically performed services, performed to persons who are not taxpayers.

Namely, such services are now taxable where the person to whom they are delivered has their seat, residence or habitual residence. The legal change from 01/01/2019 introduces a delivery rate of 77.000,00 HRK.

1.3. The abolition of limitations for the recognition of VAT credits for cars exceeding 400.000,00 HRK

The limit for the recognition of VAT for personal cars of over 400.000,00 HRK is abolished. When purchasing a personal car, a taxpayer may deduct 50% of the total VAT charged regardless of the amount of invoice of the car supplier. Also, the restriction on the recognition of overpayments for other personal transport equipment (aircraft, vessels, etc.) has been abolished.

1.4. New requirement for entering the VAT system

So far, so-called small taxpayers were obliged to enter the VAT system if they had delivered goods and services exceeding 300.000,00 HRK in the previous year. According to published changes, the taxpayer in the VAT system will be obliged to enter VAT system from the first day of the month following the month in which the threshold exceeded 300.000,00 HRK.

1.5. Change with foreign taxpayers who do not have a permanent business unit in the Republic of Croatia

The scope of application of article 75. paragraph 2. is reduced, according to which so far has been applied the transfer of tax liability when delivering goods or services to domestic taxpayers. The transfer of the tax liability from 1st January 2019 will only be possible if the non-registered supplier in the Republic of Croatia has not been registered for VAT purposes and does not have a Croatian VAT number. Foreign taxpayers who are registered in Croatia for VAT purposes will have to issue invoices according to the provisions of the Croatian VAT Act for all deliveries, without the possibility of transferring the tax liability.

In addition, the obligation to submit the INO-PPO form is abolished and the obligation to submit a special record of received invoices is to be submitted within the deadlines applicable to the VAT returns.

1.6. Change in the application of the domestic transfer of tax liability

The application of the domestic transfer tax liability between the two Croatian taxpayers extends to the supply of concrete steel and iron as well as concrete steel and iron products.

1.7. Special record of incoming invoices

In addition to any VAT form, the taxpayer is obliged to electronically submit a special record of the incoming invoices. We consider this to be an AP listing/book. The fines for misdemeanors are imposed if the taxpayer does not provide a record or the same is not complete.



2. Act on Amendments to the Real Estate Tax Act

The real estate sales tax rate decreases from 4% to 3%.

3. Act on Amendments to the Profit Tax Act

Amendments to the existing Income Tax Act have been defined as tax-recognized expenditure as the write-offs of receivables confirmed and realized in accordance with a special regulation on the procedure of extraordinary administration in the companies of systemic significance. It is about the write-off of customers' claims made in accordance with Lex Agrokor.

Other changes refer to changes in the treatment of the tax base in situations where a Croatian taxpayer acts as a parent company with permanent business units abroad, under certain conditions. These changes do not apply to the closing accounts for 2018, but for tax periods beginning on 1st January 2019. Determination of the tax base will be further stipulated in the Ordinance on Profit Tax.

4. Act on Amendments to the General Tax Act

The basic amendment relates to the submission of OPZ-STAT report, which will be submitted once per year from 1st January 2019 for unpaid bills as of December 31st.

A provision defining the taxpayer's obligation to report to the tax authorities the account number outside the Republic of Croatia is added.

Bookkeeping documents created on paper may be converted into an electronic record if the authenticity of the origin, the integrity of the contents and the readability from the time of conversion to the end of the period prescribed for the keeping of bookkeeping documents are ensured. The details will be explained in the Ordinance.

Also, we would like to remind you about the Forests Act defining that from 1st January 2019, only those taxpayers with a total annual income exceeding 3.000.000,00 HRK will remain obliged to pay the forest contribution. This means that all taxpayers who earn revenues below the prescribed amount will be required to pay liability together with 2018 final account, while 2019 advance payments will no longer need to be paid.