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TAX AND EMPLOYMENT RETENTION MEASURES CROATIA - COVID-19

Introduction

As at 1 April 2020, in relation to COVID-19, Croatia has introduced employment retention measures as well as the following tax measures:

- ▶ Deferral of payment of certain tax liabilities
- ▶ Elimination or reduction of Corporate Income Tax ("CIT") prepayments
- ▶ Decrease of CIT base
- ▶ Other

It is expected that the Government will present new COVID-19 measures, so called "April package of measures" on their meeting at 2nd April 2020.

Employment retention measure

The measure of ensuring minimum wage is introduced for all employers affected by the COVID-19 circumstances.

The amount of support is HRK 3,250 per month per employee working full-time, or a proportionate amount of HRK 3,250 per month per employee for the part-time employees.

The planned payment of the support is by the 15th of the month for the previous month.

The period and duration of the measure is from 1 March 2020, onwards, up to a maximum of three months.

The application procedure as well as follow up reporting to the authorities is strictly prescribed.

The measure applies to employers in the following industries:

- ▶ accommodation, food, and beverage
- ▶ transportation and storage
- ▶ labor-intensive activities within the manufacturing industry - textiles, clothing, footwear, leather, wood, and furniture
- ▶ employers who are unable to perform their activities due to decisions of the Civil Protection Headquarters (national, county, local self-government units)
- ▶ other employers who can prove the impact of special circumstances (e.g. 20% decrease in revenues)

The measure cannot be used by employers if there was a decrease in the number of employees in the period from 20 March 2020 to the date of payment, resulting with a decrease in the number of employees more than:

- ▶ 40% for employers employing up to 10 workers
- ▶ 20% for small businesses
- ▶ 15% for medium-sized enterprises
- ▶ 10% for large enterprises

The decrease in the number of employees does not include the expiry of fixed-term employment contracts, retirement, and dismissal due to the employee's misconduct.

There are other conditions which employers should observe when applying for the measures (e.g. employers who did not pay out salaries for February 2020 cannot apply for the measure).

Deferral of payment of certain tax liabilities

The measure of deferral of payment of tax liabilities applies to:

- ▶ Taxes: personal income tax ("PIT"), CIT, VAT and other taxes
- ▶ Social security contributions
- ▶ Other public charges: concession fees, contributions and any other charges within the jurisdiction of the Tax Authorities

The measure does not apply to customs and excise duties taxes.

Deferral of payment of certain tax liabilities can be applied to the tax liabilities which were due as of 20 March 2020 for the period of three months, that is until 20 June 2020. The measure can be extended for another three months (subject to the extension of current COVID-19 circumstances).

To apply for the measure of deferral of payment of certain tax liabilities, taxpayers need to meet the following conditions:

- ▶ decrease of turnover for at least 20% in comparison to the same month in the previous calendar year
- or
- ▶ probability of loss of revenue for the coming period for at least 20% in comparison to the same month in the previous calendar year
- and
- ▶ no due tax debt (if taxpayer has tax debt up to HRK 200 the taxpayer will be considered to be in line with the condition of having no due tax debt)

Deferral of payment of VAT liabilities applies only to the taxpayers meeting the below special:

- ▶ Turnover below HRK 7.5m (net of VAT) for the supplied goods and services in the previous year
- ▶ Determination of the VAT base according to supplies made (accruals principle), i.e., this measure does not apply to tax payers that apply the cash accounting scheme

- ▶ There is a proof that the due VAT liability arises from issued invoices that have not been collected and/or other indicators that affect the liquidity

To apply for the measure of deferral of payment, a taxpayer needs to submit a written Request to the Tax Authorities via "e-Tax" system (obligatory for all users of the system); via web form "Write to us" via telephone (only in exceptional cases).

Elimination or reduction of CIT prepayments

The Tax Authorities shall unilaterally eliminate to zero HRK the CIT prepayments for all the taxpayers which had to discontinue business operations, based on the decision of the competent authorities, due to Covid-19 (e.g. Decision on measures to limit social gatherings, work in commerce, service activities and the holding of sports and cultural events, of 19 March 2020).

Taxpayers which, due to special circumstances and decision of the competent authorities in relation to Covid-19, have reduced business operations, may submit a written Request to the responsible Tax Authorities via "e-Tax" system for decreasing the CIT prepayments.

Other measures

- ▶ Temporary suspension of payments of contribution to the Croatian Chamber of Commerce for certain businesses for the period from 1 March 2020 to 31 May 2020
- ▶ Postponement of payment of fees for non-recruitment of persons with disabilities for March, April and May 2020, with the possibility to extend the postponement for the period from June to August 2020
- ▶ Temporary suspension of payments of monument annuities for the period from 20 March 2020 to 20 May 2020
- ▶ Postponement of payment of concession fees for tourist land in camps co-owned by the Republic of Croatia, until 30 November 2020

Received support is non taxable revenue for CIT base

The taxpayers are entitled to decrease the CIT base (accounting profit/loss) for any amounts received as aid for Covid-19.

How can EY help?

- ▶ Advice on available tax relief measures and eligibility requirements
- ▶ Preparation of a written reasoned request for the submission to the respective tax authorities
- ▶ Assistance throughout the procedure before the respective tax authorities

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