

GLOBAL
EMPLOYER
GUIDE

CROATIA





Basic Country Facts

Full Name

- Republic of Croatia

Capital

- Zagreb

Main Languages

- Croatian
- Serbian
- Czech
- Italian
- Hungarian
- Slovak
- Romani

Population

- 4.076 million

Monetary Unit

- Croatian Kuna

Internet Domain

- .hr

International Dialing Code

- +385

Currency

- Croatian Kuna



STATUTORY LABOR REQUIREMENTS

Probation Period

- According to Article 53 of the EA, a probationary period may be agreed upon by the employment contract and its length may not exceed six months.

Annual Leave

- Employees in Croatia are entitled to a minimum of 20 business days off per year.
- Employees are also entitled to up to 7 days leave per calendar year for important personal events such as marriage or death of a close family member.

Public Holidays

Croatia celebrates 14 public holidays for which employees are given the day off, including

- New Year's Day
- Epiphany
- Easter
- Easter Monday
- Labor Day
- Corpus Christi
- Anti-Fascist Struggle Day
- Statehood Day
- Victory Day
- Assumption Day
- Independence Day
- All Saints' Day
- Christmas Day
- Stephen's Day



Maternity Leave

- Pregnant employees are entitled to:
 - 28 days of maternity leave prior to the expected delivery date or 45 days before the delivery date under special circumstances, based on a medical assessment.
 - After the birth of a child, female employees are entitled to at least 70 days of maternity leave or until the child turns 6 months of age.
 - After the 70-day period expires, the father has the right to use the remaining period of maternity leave, with the mother's consent.

Paternity Leave

- There is no statutory requirement for paid paternity leave but the employee has the option of using their personal leave.

Sick Leave

- Employees are entitled to a maximum of 42 days of paid sick leave per year.
- The amount that is paid during sick leave depends on the employment agreement, however, it cannot be less than 70% of the average daily wage in the 6 months preceding the sick leave.

Work Hours

- The standard work week in Croatia consists of up to 40 hours per week spread out over 5 or 6 days.

Overtime

- Employees can work overtime, not to exceed 8 hours per week if the employer submits a written request for overtime work.
- Overtime must be paid at a rate of 50% over the employee's standard salary.

Notice Period

- According to Article 122 of the EA, a notice period depends on the length of tenure with the same employer.
- It is a minimum of two weeks (for less than one year) and a maximum of three months (for 20 years).
- In case of an employee who has continuously worked for the same employer for 20 years, the notice period is extended by two weeks if the employee has reached 50 years of age, and by one month if the employee has reached 55 years of age.
- In case of dismissal because of an employee's misconduct, the notice period is halved.
- The employer is obliged to pay compensation and recognize all other rights to the employee released from the obligation to work during the notice period, as if the employee had worked until the expiry of the notice period.

Severance

- Article 126 of the EA prescribes that when an employer dismisses an employee following two years of tenure, unless dismissal is given as a result of an employee's misconduct, the employee is entitled to severance pay for each year of tenure with the employer.
- It may not be lower than one-third of the average monthly salary earned by the employee in the period of three months prior to dismissal and, unless otherwise provided for by the law, collective agreement, working regulations or employment contract, it may not exceed six average monthly salaries earned by the employee during three months prior to dismissal.

13th Month

- The 13th month bonus is not standard in Croatia. Employees typically receive performance-based bonuses.

Income Tax

- A taxpayer for Personal Income Tax (PIT) purposes is every physical person deriving income.
- Resident taxpayers are subject to worldwide taxation in Croatia. Non-resident taxpayers are liable to pay tax in Croatia on Croatian-source income. Non-resident performers (artists, entertainers, athletes) are not required to pay PIT if the fee for their performance is paid to the foreign legal entity and subject to withholding tax (WHT) in line with corporate income tax (CIT) legislation.
- Under certain circumstances, an individual can either voluntarily or obligatorily become a corporate income tax (i.e. profit tax) payer instead of a PIT payer.
- Croatia has progressive tax rates that are applicable to the taxable base in the process of annual assessment of tax liability. The following types of income form part of the so-called 'annual income' that is subject to the process of annual assessment of tax liability:
 - Employment income.
 - Self-employment income.
 - Other income that is not deemed 'final other income'.
- Taxable base is calculated by applying prescribed tax deductions and tax allowances (i.e. non-taxable parts of income) to the total amount of annual income.

- Tax deductions and tax allowances may, depending on the type of income, also be applied when calculating monthly tax prepayments.
- The following tax rates and tax bands are used on an annual basis (i.e. in the process of annual assessment of tax liability) to calculate PIT liability:

Annual Tax Bands (HRK*)		Tax Rate (%)
Over	Not Over	
0	360,000	24
360,000		36



Social Security

- Croatian Social Security contributions consist of pension contribution calculated and deducted from the gross salary and a health and employment contribution calculated and paid on top of the gross salary.
- In the case of dependently employed individuals, social security charges are borne by the employee and employer.
- Employee's social security contributions are pension contributions levied at the rate of 20% (15% I. Pillar payments, 5% II. Pillar payments). The basis for their payment is gross salary, which is capped at the following values for 2020:
 - HRK 52,452 monthly cap (applicable for both I. and II. Pillar payments in case of salary).
 - HRK 629,424 annual cap (applicable for I. Pillar payments irrespective of whether the payment is salary or other types of remuneration).
- Additionally, employers make social contributions for the following social security benefits: Health insurance: 16.5%
- Health insurance: 16.5%
- The basis for payment of employer's social security contributions is gross salary, which is not capped.
- Employers have certain additional obligations with respect to disabled individuals.

The following rates are valid from 01.01.2019:

Contribution Type	Employee	Employer
Pension Fund	20%	-
Health insurance	-	16.5%
Health insurance at work place	-	0%
Unemployment contribution	-	0%



Deductible Expenses

- The Croatian PIT Act prescribes personal allowances (i.e. non-taxable portions of income), special reliefs, exemptions, and incentives.
- Some of the deductible expenses are given below



Deductible Expenses	Amount	Resident	Non-resident
Personal monthly allowance	HRK 4,000	Yes	Yes
Monthly allowance for a dependent family member	HRK 1,750	Yes	(1)
Monthly allowance for dependent children	First: HRK 1,750; second: HRK 2,500; third: HRK 3,500; etc.	Yes	(1)
Monthly amounts for a disability of taxpayer/ dependent family member/ dependent child	HRK 1,000	Yes	(1)
Amounts of mandatory health insurance contributions up to the amount of prescribed mandatory health insurance contribution, in case where taxpayer is not insured on a different basis.	Not Available	Yes	Yes
Donations made in Croatia for prescribed purposes up to prescribed level	Not Available	Yes	Yes

(1) European Union (EU)/European

Economic Area (EEA) member state tax resident can increase one's basic personal allowance on the basis of dependent family members.

However, for this increase to be available, income included in the process of annual assessment of tax liability needs to:

- represent at least 90% of the taxpayer's total (worldwide) income realized in the given tax period, and
- be exempt from taxation or tax-free in the country of tax residence that is different from Croatia.

Immigration

Residence Permit

- The residence permit based on employment is a unique permit, which provides temporary residence and allows one to work for a Croatian company in Croatia.
- The Aliens Act and Related By-Laws that governs work permits for foreigners was changed for 2020.
- There will no longer be quotas. Instead, companies who wish to hire foreigners must first check with the Croatian employment service to see if there is a qualified Croatian for the role.
- If there is not a qualified Croatian, then the company will be given approval to offer employment to a foreigner for the job.
- You'll need to:
 - Have an offer of employment with a Croatian company
 - Have a valid employment contract or other proof of employment
 - Once you have a job and can prove it, you can start your work permit application.
- A third-country national who has applied for a residence and work permit based on a work contract with a Croatian employer doesn't have to enclose proof of health insurance, as health insurance will be provided by the employer.

EU Blue Card

- Croatia is part of the EU Blue Card network, which is a useful tool for third country nationals.
- To be eligible for a Blue Card, you must be from a country outside the EU, be highly skilled (typically meaning you have completed a bachelor's level university degree, or have five years of senior professional experience), and have a binding job offer or active work contract.



Type of Visa/ Permits	Documentation	Validity	Eligibility
Residence Permit	<ul style="list-style-type: none"> • Passport copy • Recent passport-sized photo • Proof of your ability to support yourself for the duration of your stay • Employment contract • Proof of your academic qualifications and skills • Evidence of the company's registration 	12 months	<ul style="list-style-type: none"> • The residence permit based on employment is a unique permit, which provides temporary residence and allows one to work for a Croatian company in Croatia.
EU Blue Card	<ul style="list-style-type: none"> • Passport copy • Recent passport-sized photo • Proof of your ability to support yourself for the duration of your stay • Evidence of health insurance • Employment contract • Proof of your academic qualifications and skills • Evidence of the company's registration 	2 years	<ul style="list-style-type: none"> • To be eligible for a Blue Card, you must be from a country outside the EU, be highly skilled (typically meaning you have completed a bachelor's level university degree, or have five years of senior professional experience), and have a binding job offer or active work contract.



Value Added Tax (VAT)

- The Croatian VAT system is in line with the provisions of the European Union (EU) VAT Directive.
- VAT is payable on sales of goods and supply of services, import of goods, and intra-Community acquisition of goods.
- Croatia has not introduced any VAT grouping rules.
- The general VAT rate is 25%.
- A reduced rate of 13% is applicable for certain items such as organized stays, Edible oils and fat of animal and vegetable origin, child seats for cars, children's diapers etc.

VAT Rates	
General Rate	25%
Reduced Rate	13%

Withholding Tax

Dividends

- Dividends paid to a nonresident (other than a private individual) are subject to a 12% WHT, unless the rate is reduced or an exemption applies under a tax treaty, or the dividends qualify for an exemption under the EU parent-subsidiary directive.
- However, dividends paid to entities in countries that are listed as non-cooperative for tax purposes and that have not concluded a tax treaty with Croatia, will be subject to a 20% WHT.

Interest

- A 15% WHT is levied on interest paid to a nonresident (other than a private individual), unless the rate is reduced or an exemption applies under a tax treaty or the EU interest and royalties' directive.
- However, interest paid to entities in countries that are listed as non-cooperative for tax purposes and that have not concluded a tax treaty with Croatia, will be subject to a 20% WHT.

Royalties

- A 15% WHT is levied on royalties paid to a nonresident (other than a private individual), unless the rate is reduced or an exemption applies under a tax treaty or the EU interest and royalties' directive.
- However, royalties paid to entities in countries that are listed as non-cooperative for tax purposes and that have not concluded a tax treaty with Croatia, will be subject to a 20% WHT.

Technical Service Fees

- A 15% WHT is levied on technical service fees paid to a nonresident, unless the rate is reduced or an exemption applies under a tax treaty
- However, fees paid to entities in countries that are listed as non-cooperative for tax purposes and that have not concluded a tax treaty with Croatia, will be subject to a 20% WHT.



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Termination

- Ordinary termination. The parties to an employment contract can terminate the employment subject to a prescribed or agreed notice period. The employer can give notice due to: -
- Business reasons (if the need to perform a certain work ceases due to economic, technological or organizational reasons).
- Some of the common business reasons recognized by the courts are: -
 - cancellation of departments in the company or a decrease in a number of employees due to unprofitability (economic reason);
 - redundancy due to automation of the business operations/tasks (technical reason) or reorganization of the business;
 - elimination of business units in the company (organizational reason).
- Notice due to business reasons is deemed valid if the need for a certain employee to perform working tasks ceases to exist. There is no obligation to eliminate the entire job position. It is sufficient to reduce the number of employees working in the same job.
- The winding-up of a company is another typical example of a legitimate termination of employment due to business reasons.
- Personal reasons (if the employee is not capable of fulfilling duties because of some permanent characteristics or abilities).
- Employee's misconduct (if the employee violates his/her employment obligation).
- Failure of the employee to perform the work to the required standard during the probation period.

Statutory Benefits

- These are mandatory benefits as prescribed by law
- These include annual leave, public holidays, maternity leave, sick leave, notice period, severance pay etc.
- Moreover, it also includes social security benefits pension fund, health insurance and unemployment benefits.

Statutory Benefits

Annual leave

Public Holidays

Sick Leave

Maternity Leave

Notice Period

Severance Pay

Health Insurance

Unemployment Benefits

Payments and Invoicing

- Generally, tax assessments are issued starting from April of the following year and up to the end of the following year.
- The annual INO-DOH form is to be submitted by 31 January of a current year for the previous year.
- The annual ZPP-DOH form to be submitted by the end of the February of a current year for the previous year
- The annual tax return DOH form to be submitted by the end of February of a current year for the previous year
- Individuals receiving income directly from abroad should within 30 days from the receipt of the income report the income, calculate and pay taxes levied on the income.
- Reporting to the tax authorities is made via submission of a JOPPD form. If income received from abroad is subject to foreign tax during the tax year, an individual may claim exemption from taxation in Croatia during the tax year.
- In this case the individual is required to report income from abroad on the INO-DOH form.

Ease of Doing Business

- The ease of doing business index is an index created by Simeon Djankov, an economist at the Central and Eastern Europe sector of the World Bank Group.
- Higher rankings (a low numerical value) indicate better, usually simpler, regulations for businesses and stronger protections of property rights.
- According to the World Bank Croatia ranked 51st in the World in 2019 in terms of ease of doing business.



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