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Factsheet for case **HR-2020-12/379**

More favourable tax treatment of state subsidies due to special circumstances

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Country	Croatia, applies nationwide
Time period	Open ended, started on 19 March 2020
Type	Legislation or other statutory regulation
Category	Supporting businesses to stay afloat – Direct subsidies (full or partial)
Case created	08 April 2020 (updated 30 April 2020)

Background information

Subsidies and transfers can be used for a number of different purposes: market failures, economies of scale in production, redistribution of income and alleviation of poverty. However, in Croatia it is difficult to evaluate if subsidies and transfers have achieved these objectives. State subsidies in Croatia are relatively high. They have been concentrated in a few sectors, with a high proportion of them going to the national railway company Hrvatske željeznice ((HŽ)) and to the agriculture sector. Due to the EU requirement and membership, Croatia has improved policies related to state subsidies and lowered their level.

Content of measure

Amendments to the Act on Personal Income Tax and Amendments to the Act on the Company Income Tax (OG 32/20) introduced novelties regarding the impact of grants on the income tax base and tax liability for entrepreneurs which received grants intended to mitigate the adverse effects of special circumstances. Income tax payers record grants into realized income, but exclude it from the tax base when determining the income tax liability. According to the amended Act on Company Income Tax, grants obtained due to special circumstances do not affect the threshold for compulsory shift from personal income tax to company income tax. This threshold is HRK 7.5 million (€ 1 million) of revenue. Furthermore, grants obtained do not affect the threshold of realized annual revenues according to which the tax rate of 12% and 18% is determined (the threshold is HRK 7.5 million (€ 1 million) of revenue).

It is hard to predict the role of this measure and the number of possible users but from the public discussions it can be assessed that it would be relatively limited. Fiscal experts support the regulation according to which

such grants are recorded into realized income but excluded from the tax base when determining the income tax liability.

Use of measure

Not yet known at this stage.

Actors, target groups and funding

Actors	Target groups	Funding
National government	Employees All companies	No special funding required

Social partners

Role of social partners	No involvement
Form of involvement	No involvement

Social partners were not involved due to the nature of the measure.

Sectors and occupations

This case is not sector-specific.

This case is not occupation-specific.

Sources

- 19 March 2020: Odluka o izmjenama i dopunama Zakona o porezu na dobit - OG 32/20 (narodne-novine.nn.hr)
- 19 March 2020: Odluka o izmjenama i dopunama Zakona o porezu na dobit - OG 32/20 (narodne-novine.nn.hr)