

SETTING UP BUSINESS IN CROATIA



General Aspect

The Republic of Croatia is situated in the southeastern part of Europe, surrounded by Alps in the west, Sava and Drava rivers in the north and east and the Adriatic Sea in the south. Neighboring countries are Slovenia, Hungary, Italy, Serbia, Bosnia and Herzegovina and Montenegro and the capital city is Zagreb. Croatia has 4,12 million inhabitants across the land area of 56,594 sqm, organized in 20 Counties and City of Zagreb. Major cities are Split, Osijek and Rijeka. Time zone is GMT+1, telephone code +385, country code domain is. hr and the currency is Croatian kuna (HRK). Croatia adopts parliamentary democracy as political system.

Legal Forms of Business Entities

Legal form	Feature	Remarks
Limited Liability Company (d.o.o.)	Minimum share capital is 20.000 kn (approx. 2,700 EUR) and can have one or more shareholders. LLC companies are registered with the Court Registry of a territorially competent Commercial Court.	Most commonly used entity.
Simple Limited Liability Company (j.d.o.o.)	Simple version of LLC company, mainly used by start-up businesses and young entrepreneurs. Minimum share capital is 10 kn (approx. 1,4 EUR). SLLC companies can have maximum 3 shareholders and only one board member/director. Each fiscal year a ¼ of corporate income must be entered into the share capital.	This form of LLC has the only advantage the lower initial share capital, but for the rest is not very convenient. The transformation into a full d.o.o. does not occur automatically when reached 20.000 kn of share capital.
Joint Stock Company (d.d.)	Mandatory form for credit institutions (banks). Minimum shared capital is 200,000 kn (approx. 27,000 EUR). Shareholders are not liable for the obligations of the company.	Such form has increasingly being abandoned in favour of Limited Liability Company.
Branch Office of a Foreign Entity	Branch Office of a Foreign Founder is established by registration into the Court Registry of the territorially competent Commercial Court. Rights and obligations are similar to the LLC but it is not a legal person. The branch office is a founder's "extended arm" across territories and operates exclusively on behalf and for the account of the founder.	Such option is more favourable for foreign entrepreneurs who do not wish to set up a permanent establishment or a presence for longer term. Compared to a LLC company, closing down a Branch Office is faster and cheaper.
Representative Office	Representative Office is not a legal entity and operates solely on behalf and for the account of the founder. It can be established solely for promotional purposes and cannot carry commercial activities.	Only non-EU countries can establish a Rep Office in Croatia.

Organizational Questions

Topic	Feature	Remarks
Company Register	<p>Limited Liability Companies, Simple LLC, Joint Stock Companies and Branches of a Foreign Entrepreneurs are established by registration into a Court Registry with the territorially competent Commercial Court. If incorporated remotely, i.e. without physical presence of founders and directors the incorporation may take up to 30 days.</p> <p>Once the Court Registry issues the decision on incorporation, the company/branch office must obtain the company stamp, open a corporate bank account, register with the Croatian Bureau of Statistics, and in case it has employees, register with Health and Pension Funds and with the Tax Authority. Depending on the activities, a special approvals may be needed from the relevant authorities (e.g. very common in retail business).</p>	<p>Although the Croatian government launched the service HITRO. hr for fast incorporation of companies, it may still take up to 7 – 30 days. There is no possibility to incorporate a company electronically, and lawyers and notaries have to be involved in order to set up the company swiftly and efficiently.</p>
Bank Account	<p>Due to AML regulation, company representatives must be physically present when opening a bank account. Major banks (PBZ – Banca Intesa SanPaolo, Zagrebacka Banka – Unicredit, Erste&Steiermärkische Bank and ReiffeisenBank Austria) offer the possibility to pass the AML clearance abroad at a branch in the country of residences of directors.</p> <p>Opening a bank account is usually very swift and in case of physical presence, the account is opened the same day.</p>	<p>Croatia adopts heavy AML measures and closely monitors transactions between entrepreneurs.</p>
Croatian Bureau of Statistics	<p>The Croatian Bureau of Statistics plays important role in Croatian economy. All companies must register their main activity (following the NACE system of activity codes) based on which some additional contributions and levies may be due. Also, the CBS defines all reporting requirements which are then delegated to various bodies of public authorities, banks and similar. Most important reports for companies are those delegated to Tax Authority or Financial Agency.</p>	<p>All reporting requirements in Croatia originate from the Annual Implementation Plan of Statistical Activities of the Republic of Croatia, issued each year by the Croatian Bureau of Statistics (e.g. Financial Statements, Intrastat, OPZ-STAT and many other mandatory reporting).</p>

Employment

Topic	Feature	Remarks
Work permit	<p>All EU countries have lifted the working permit ban off Croatia, except Austria. For citizens of EU/EEA obtaining a permit to work has become much easier and often it requires a simple statement and registration with the competent local police office.</p> <p>For residents outside EU/EEA, Croatia prescribes annual quotas for certain industries and professions. Some categories, such as key employees of a company may bypass the quota under strict conditions.</p>	<p>Several years ago, obtaining a work permit in Croatia required heavy bureaucracy and long queues at dawn outside the police office. Today, the practice has drastically improved and the working permit may be obtained in rather short time and civilised manner.</p>
Labour law	<p>Employees may work on two types of employment contract: definite and indefinite period. Definite period has been previously set to a maximum of three years, but now it is possible to set it to longer terms. Maximum probation period is 6 months. Employment contract may be terminated under strict conditions set by the Labour Act. Severance fee is due only if the employee has worked longer than two years with the employer who is terminating the contract. Average notice period is 15-30 days. Rights and obligations of both employer and employee are set by the Employment Contract, Company Bylaws, Labour Act, Collective Agreements and other regulations. Because of uncertainty in interpretation of Labour Act and lack of uniformity in court practice, it is very often needed to engage lawyers in resolving conflicting situations or when drafting company bylaws.</p>	
Social system and tax on salaries	<p>Salary calculations in Croatia are rather complex because they depend on many variable factors. Salary calculations are always entrusted with professional service providers and when dealt in-house, payroll processors must always closely align with legal officers specialised in labour law.</p>	<p>Salary contributions and taxes are regulated by many separate laws and ordinances and are rather complex. Furthermore, tax rates are changing almost on annual basis, due to the ongoing tax reform.</p>

Taxation

Tax	Feature	Remarks
Corporate Income Tax	12% for income up to and including 3 mio HRK 18% for income higher than 3 mio HRK	
VAT	The general VAT rate is 25% As of 2020 the general VAT rate shall be 24% Lower rates of 13% and 5% apply to certain types of products and services.	
Personal Income Tax	PIT is taxable by two rates (as of 1.1.2019.): 24% up to 360,000 HRK annual taxable base 36% for 360,000 HRK and higher annual taxable base	Categories of Personal Income: 1. Income from employment and pension, 2. Income from free profession, 3. Income from property and property rights, 4. Income from capital, 6. Other income.
County Taxes (local)	Inheritance and gifts tax Tax on road motor vehicles Tax on vessels Tax on coin operated machines for games for amusement	
City or Municipal Taxes (local)	Surtax on income tax Consumption tax Tax on holiday houses Tax on the use of public land Real estate transfer tax	City surtax depends on local authorities (e.g. Zagreb 18%, Split and Rijeka 15%, Osijek 12% Čakovec 10%, Koprivnica 0% etc.) Real Estate Transfer Tax is 3% (as of 1.1.2019.)
Special Taxes and Excise Duties	Special taxes on motor vehicles Special tax on coffee and non-alcoholic beverages Tax on liability and comprehensive road vehicle insurance premiums Excise duties (system of excise duties levied on alcohol, alcoholic beverages, tobacco products, energy products and electricity)	



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