



INVEST IN CROATIA

Agency for Investments
and Competitiveness



**“Smart investors
should think
about investing
in Croatia”**

— Financial Times

Investment guide

December, 2014

Dear Investors,

It is my great pleasure to present you with the second edition of the Investment Guide to Croatia. This publication is designed to guide current and prospective investors through all stages of the investment process in the Republic of Croatia. Through this Investment Guide we would like to showcase Croatia; the country with vast business potential and many competitive advantages.

Since the end of 2011, a comprehensive set of measures and legislative amendments has been implemented by the Government of the Republic of Croatia in order to create an attractive legal framework and business conditions as well as to improve the overall business environment.

Cost competitiveness, a highly educated, skilled and innovative workforce, an excellent geostrategic location, the most modern infrastructure in the region and a member nation of the European Union - one of the largest free trade areas in the world - are just some of the advantages that qualify Croatia as an ideal destination for expanding your business activities, growing your market share and improving profitability.

Established by the Government of the Republic of Croatia, the Agency for Investments and Competitiveness has already been utilised by many multinational companies and investors and offers free of charge, full-service assistance. We are ready to provide you with efficient, active and professional step-by-step guidance. Our tailor made professional services will guide and support you through all phases of the investment cycle, from the initial inquiry through to successful completion of your investment.

We take your business seriously and are always at your service. Invest in Croatia – be a part of the new growth!

Yours sincerely,

Damir Novinić
Managing Director

0.0.

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01 About Croatia

- 1.1. Basic Indicators
- 1.2. Strategic location
- 1.3. Infrastructure
- 1.4. Trade Exchange
- 1.5. Foreign Direct Investments

Share of foreign direct investments in Croatia by activity

Share of foreign direct investments in Croatia by country

(cumulative from 1993 to Q2 2014)

1.1. Basic Indicators

Land area
56 594 km²

Population (2013)
4.256 m

Political System
Parliamentary democracy

Territorial Organization
20 counties & the City of Zagreb

Capital
Zagreb

Official Language
Croatian

Currency
Kuna (HRK)

Average Exchange Rate (2013)
1 EUR = 7.5735
1 USD = 5.7059

International Telephone Code
00 385

Internet Country Code
.hr

Time Zone
Central European Time (CET)

Climate
Continental & Mediterranean

SOURCE: CNB, CBS

| Main Macroeconomic Indicators | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|--------------------------------------|--------|--------|--------|--------|--------|--------|--------|
| GDP (million EUR, current prices) | 43 935 | 48 135 | 45 093 | 45 022 | 44 737 | 43 959 | 43 591 |
| GDP growth rate (constant prices) % | 5.2 | 2.1 | -7.4 | -1.7 | -0.3 | -2.2 | -0.9 |
| GDP per capita, current prices (EUR) | 9 904 | 10 856 | 10 181 | 10 191 | 10 453 | 10 300 | 10 242 |
| Import of goods and services (% GDP) | 46.3 | 46.5 | 38.2 | 38.1 | 40.9 | 41.1 | 42.5 |
| Export of goods and services (% GDP) | 39.0 | 38.5 | 34.5 | 37.7 | 40.4 | 41.6 | 43.0 |
| Unemployment Rate (ILO) % | 9.6 | 8.4 | 9.1 | 11.8 | 13.5 | 15.8 | 17.3 |
| Inflation (Year Average) % | 2.9 | 6.1 | 2.4 | 1.1 | 2.3 | 3.4 | 2.2 |

1.2.

Strategic location





Shortest transit time
Lower transit expenses
"No borders" - from July 2013
Most modern infrastructure in the region



1.3.

Infrastructure



-  · All of Europe within 3 hours
-  · Shortest transit time from Far East through quality sea ports
-  · Direct access to Rhine-Main-Danube waterway through four main river ports
-  · Corridor VII
-  · Pan-European Corridors (X, Vb, Vc) cross its territory

1.4. Trade Exchange

With regard to foreign trade exchange, more than half of it occurs with EU countries. Croatia's most important foreign trade partners are Italy, Germany, Slovenia, Italy, Austria and Bosnia and Herzegovina.

Source: CNB, 2014 for 2013



Source: CBS, 2014 for 2013

| Products | Export % | Import % |
|---|------------|------------|
| Food and live animals | 9,43 | 10,54 |
| Beverages and tobacco | 1,77 | 1,01 |
| Crude materials, except fuels | 8,23 | 1,53 |
| Mineral fuels and lubricants | 13,99 | 21,68 |
| Animal and vegetable oils and fats | 0,19 | 0,66 |
| Chemical products | 11,01 | 13,50 |
| Manufactured goods classified by material | 15,72 | 17,42 |
| Machinery and transport equipment | 24,07 | 22,68 |
| Miscellaneous manufactured articles | 13,86 | 10,96 |
| Commodities and transactions, n.e.s. | 1,11 | 0,01 |
| Not classified | 0,62 | 0,01 |
| TOTAL | 100 | 100 |

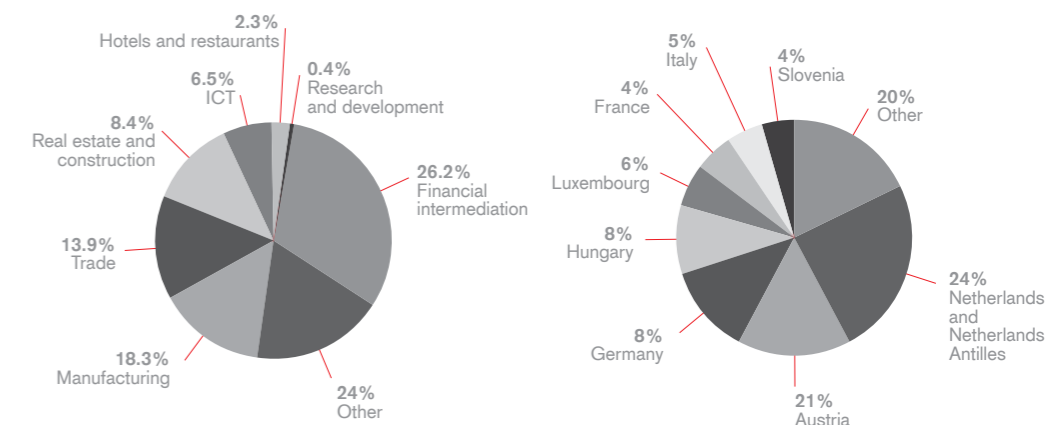
1.5. Foreign Direct Investments

From 1993 to Q2 of 2014 Croatia has received foreign direct investments in the amount of 29,17 billion €.

Share of foreign direct investments in Croatia by activity (1993-Q2 2014):

Share of foreign direct investments in Croatia by country (1993-Q2 2014):

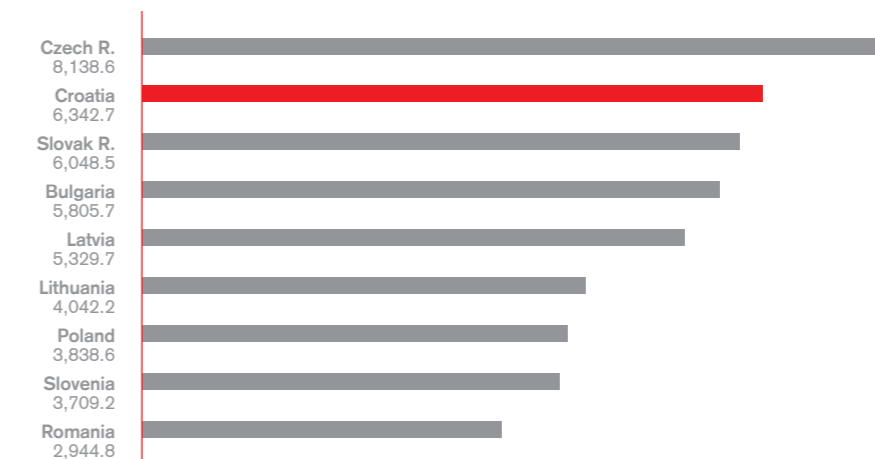
Source: CNB, 2014



With regards to FDI per capita, Croatia is one of the leaders compared to other transitional economies:

FDI per capita (EUR), 1993 – 2013

Source: CNB, 2014



02 Investment locations

2.1. Business Zones in Croatia

2.2. Land Acquisition

2.3. Construction Permits

2.3.1. Compatibility with Physical Plans

2.3.1.1. Location information

2.3.2. Location Permit

2.3.3. Special conditions and Main Design verification

2.3.3.1. Notification on the Main Design creation requirements

2.3.3.2. Special conditions determination and the Main Design verification

2.3.4. Building Permit

2.3.4.1. e-Building Permit

2.3.5. Use Permit

2.1.

Business Zones in Croatia

Business zones are specifically designated areas of industrial real estate owned by the Republic of Croatia, local municipalities or private entities. There are more than three hundred infrastructure-ready zones, ranging in size from ten thousand square meters to several million square meters.

The land located within the business zones is ready for investment projects:

- legal issues regarding the land ownership have been settled;
- physical plans have been adopted; and
- land is equipped with the utilities, transport and ICT infrastructure.

Each of these business zones offers numerous benefits to potential investors, such as:

- full or partial exemption from the communal contribution fee;
- full or partial exemption from the communal contribution tax;
- low price of land;
- developed infrastructure; and
- direct and indirect state incentives.

Business zones provide the ideal infrastructure for quick and successful establishment of business activities, and are often equipped with available office space.

The Agency for Investments and Competitiveness has one of the largest data-bases of the available business zones in Croatia, including all relevant information about the business zones (www.aik-invest.hr/en/zone/).

2.2.

Land Acquisition

Citizens and legal persons of the European Union may acquire real estate in Croatia without any obstacles, i.e. under the same conditions as Croatian citizens, with the exception of agricultural land and real estate located in protected nature areas.

Non-EU citizens and legal persons may acquire real estate in Croatia based on the principle of reciprocity, i.e. under the same rules which apply to Croatian citizens in the foreigner's own country. To ascertain whether this reciprocity exists, please visit the web-pages of the Croatian Ministry of Justice <http://www.mprh.hr/stjecanje-prava-vlasnistva-u-rh->. For this kind of land acquisition, consent of the Minister of Justice is also required. Non-EU citizens and legal persons, may not acquire (i) agricultural or forest land, unless provided differently by an international treaty, or (ii) real estate located in certain areas declared to be of importance to the interests and security of the Republic of Croatia.

Real estate located within the maritime domain may not be acquired. It may only be used with granted concessions. More information on this issue can be obtained from the Ministry of Maritime Affairs, Transport and Infrastructure (www.mppi.hr). Purchase of real estate that has been identified as culturally significant is subject to a pre-emption right of the local and national authorities. Agricultural real estate owned by the Republic of Croatia may only be acquired in exceptional circumstances, although long term leases of the same may be acquired. Acquisition of agricultural land owned by the State is within the responsibility of the Ministry of Agriculture, which can provide all relevant information (www.mps.hr).

The ownership and possession status of real estate can be determined by accessing the Land Registry at the Municipal Court and the Cadastre at the local Cadastre Office. It is necessary to check the physical planning documentation in order to determine the zoning of the land (example.g. construction, tourism, agriculture etc.). Croatia's land records are available on-line (see <http://e-izvadak.pravosudje.hr/home.htm> and www.katastar.hr).

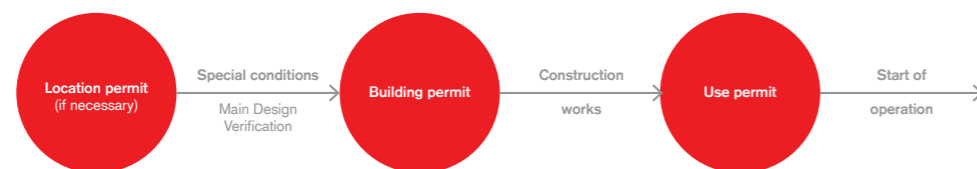
In Croatia the acquisition of real estate requires a written agreement in the form of a notarial deed. After the purchase contract has been signed, ownership must be registered in the land registry. In order to do this, it is necessary to submit an application form together with the necessary documentation (original or verified copy) to the land registry department of the Municipal Court. After registration, the owner will receive the ownership deed. Change of ownership is also registered in the Cadastre.

The purchase of land is subject to the real estate transfer tax (5%) and the purchaser is obliged to give notice of the tax duty to the relevant Tax Authority. The Tax Authority may at its discretion re-evaluate the value stated in the sale and purchase contract and calculate the tax based on the market value of the real estate.

It should be noted that as of 1 January 2015 a new concept of taxation of real estate (i.e. buildings and land) provided for by the Value Added Tax Act (OG, 73/13, 99/13, 148/13, 153/13) will come into force whereby sale of construction land will no longer be exempt from VAT (currently 25%).

2.3.

Construction Permits



Relevant laws:

- Physical Planning Act (Official Gazette No 153/13)
- Building Act (Official Gazette No 153/13)

2.3.1.

Compatibility with Physical Plans

Any spatial intervention needs to be carried out in accordance with the physical plans, or in accordance with the act for the implementation of the physical plan and special regulations, if not prescribed otherwise by the Physical Planning Act.

2.3.1.1.

Location information

In order to familiarize itself with the spatial purpose and conditions of the spatial intervention prescribed by physical plans on a particular plot of land, the interested party may request, and the administrative authority in whose area the land plot is situated will issue, the Location information.

2.3.2.

Location Permit

In most cases, a Location Permit is not necessary. The Physical Planning Act prescribes that Location Permits only have to be obtained for:

- exploration fields, construction of mining facilities and facilities supporting mining operations, storage and permanent disposal of hydrocarbon gases in geological structures;
- determining the location of new military locations and military buildings;
- interventions in space which under the special regulations that regulate construction are not considered as construction work;
- staged and / or phased construction of buildings; and
- construction on land or buildings where the investor has not resolved property-related rights or for which it is necessary to carry out expropriation.

In other cases the investor needs only to obtain the Building Permit.

2.3.3.

Special conditions and Main Design verification

Special conditions are conditions determined by designated public law bodies which need to be met in building construction, excluding conditions determined in the process of environmental impact assessment and the review procedure of project acceptability for the ecological network.

The Main Design is a set of mutually harmonized projects which provides technical building solutions and demonstrates the fulfilment of basic building requirements and other prescribed and determined requirements and conditions. Main Design for the construction of buildings for which a Location Permit is issued needs to be made in accordance with site conditions stipulated in that license. Main Design for the construction of buildings, for which a Location Permit is not required, needs to be made in accordance with the Special conditions.

2.3.3.1.

Notification on the Main Design creation requirements

In cases of building construction for which a Location Permit is not required, the investor may request from the administrative authority or Ministry of Construction and Physical Planning to be informed from which public law bodies it is necessary to obtain Special conditions. Main Design for a specific building on a specific location must be in accordance with these special conditions.



2.3.3.2.

Special conditions determination and the Main Design verification

The investor is required to align the Main Design with the Special conditions and to submit the Main Design to the public law body for obtaining Main Design verification.

If the public law body does not determine Special conditions for building construction within fifteen days from the receipt of investor's valid application, the investor can file an application for issuance of a Building Permit even without Special conditions and Main Design verification. In this case, the Ministry of Construction and Physical Planning will again invite the public law body to determine the Special conditions.

2.3.4.

Building Permit

An application for a Building Permit is submitted by an investor.

Under the provisions of the Building Act, a Building Permit must be obtained for:

- construction of an entire building;
- execution of works on an existing building prescribed by Building Act;
- construction of one or more complete buildings within a complex building (phases) determined by Location Permit; and
- one or more phases of certain individual buildings determined by Location Permit.

The Main Design is an integral part of the Building Permit.

If, after the issuance of a Building Permit there is a change of the investor named in the Building Permit, the new investor is required within fifteen days from the date of the said change to request the change of name in the Building Permit. Without the change of name on the Building Permit, construction of the building for which the Building Permit is issued is not allowed to commence.

2.3.4.1.

e-Building Permit

The e-Building project is intended to facilitate and accelerate even the Building Permit process by allowing the issuance of the e-Building Permits over the Internet.

2.3.5.

Use Permit

In order for a newly constructed or renovated building to be used or put into operation, a Use Permit for that building has to be issued.

An application for the issuance of a Use Permit is submitted by the investor or the owner of the building. A Use Permit is issued after a technical inspection ensures that the building was built in accordance with the Building Permit.

For more information about the Physical Plans and Construction Permits, please contact:

Ministry of Construction and Physical Planning
Ulica Republike Austrije 20,
HR – 10 000 Zagreb
P: +385 1 3782-143; 3782-444
F: +385 1 3772-822
www.mgipu.hr



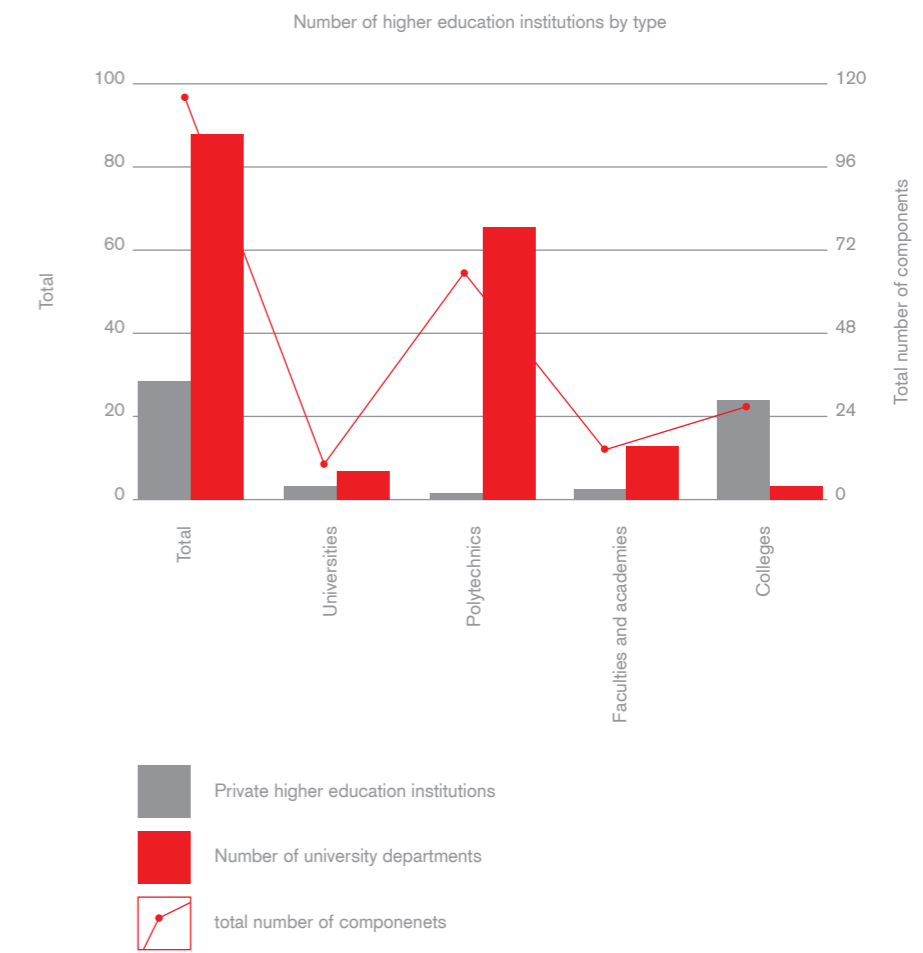
03 Human capital

- 3.1. Education System
- 3.2. Available Labour Force

3.1. Education System

At the beginning of the 2012/2013 school year, there were 1.534 pre-schools, 2.067 elementary schools, 724 upper secondary schools and 122 higher education institutions; consisting of 7 public universities, 3 private universities, 67 faculties and academies, 3 private polytechnics, 12 public polytechnics, 23 private colleges and 3 public colleges.

Types of higher education institutions in Croatia



3.2. Available Labour Force

Having signed the Bologna Declaration, Croatia undertook an obligation to become a member of the uniform European system of higher education, with the first generation of students enrolled in line with the Bologna system during the 2005/06 academic year. The total number of students graduating in 2012/2013 in Croatia was 32.172.

| | Upper Secondary Students | Professional and University study | Master of Science | Candidates for Doctorate |
|-------|--------------------------|-----------------------------------|-------------------|--------------------------|
| TOTAL | 181 110 | 188 285 | 1 197 | 3 235 |

Source: CBS, Agency for science and higher education, 2013

Source CBS, CES, 2014

Number of employees and unemployed persons by industries, 2013

| | Employees | Unemployed persons |
|---|-----------|--------------------|
| TOTAL | 1 104 807 | 298 930 |
| Agriculture, forestry and fishing | 23 843 | 13 196 |
| Mining and quarrying | 5 548 | 749 |
| Manufacturing | 195 923 | 58 126 |
| Electricity, gas, steam and air conditioning supply | 14 674 | 544 |
| Water supply sewerage, waste management activities | 21 775 | 4 799 |
| Construction | 70 540 | 31 000 |
| Wholesale and retail trade | 178 916 | 52 329 |
| Transportation and storage | 57 569 | 9 819 |
| Accommodation and food service activities | 44 516 | 40 349 |
| Information and communication | 32 134 | 3 851 |
| Financial and insurance activities | 36 502 | 3 003 |
| Real estate activities | 5 951 | 1 573 |
| Professional, scientific and technical activities | 50 641 | 9 900 |
| Administrative and support service | 34 119 | 14 873 |
| Public administration and defence | 104 234 | 17 307 |
| Education | 108 955 | 6 875 |
| Health and social work activities | 84 043 | 8 388 |
| Arts, entertainment and recreation | 20 465 | 3 979 |
| Other service activities | 14 459 | 13 194 |



04 Costs of doing business

4.1. Salaries

4.2. Utilities

4.2.1. Electricity

4.2.2. Natural Gas

4.2.3. Water

Costs of doing business in Croatia are significantly lower than the average costs of doing business in the European Union. The prices of electricity, natural gas and telephone prices are among the lowest in the region.

4.1.

Salaries

Contributions (social taxes) from and on salaries are paid at the rate of 37.2% - where 20% is paid by the employee and 17.2% is paid by the employer.

Using an example of a 1.000 EUR gross salary, earned in Zagreb* where the local surtax rate equals 18% and as such is the highest surtax rate in the country. Taxpayers are entitled to a personal allowance calculated on the basis of factor 1., which equals 343,46 EUR (exchange rate used for this calculation 1 EUR = 7.57 HRK).

| | Liability |
|---|---------------------|
| Total Cost to the Employer | 1,172.00 EUR |
| Mandatory contribution paid by the employer 17.2% (comprising of health contribution, employment contribution and work injuries contribution) | 172.00 EUR |
| Gross Salary | 1000,00 EUR |
| Obligatory contributions paid by the employee (Pension insurance pillar I 15% (obligatory) and pension insurance pillar II 5% (obligatory)) | 200.00 EUR |
| Income | 800,00 EUR |
| Personal allowance (1) | 343,46 EUR |
| Tax base | 456,54 EUR |
| Tax (12%) for salary amounts below 292.16 EUR | 34,87 EUR |
| Tax (25%) for salary amounts between 292.16 and 1743,73 EUR | 41,46 EUR |
| Tax (40%) for salary amounts above 1743,73 EUR | 0.00 EUR |
| Total tax amount | 76,35 EUR |
| Surtax - 18% of total tax amount | 13,74 EUR |
| Total income after tax and surtax | 366,44 EUR |
| NET SALARY - personal allowance + income after taxation | 709,9 EUR |

*Zagreb is the most expensive city in Croatia with respect to average monthly salaries and surtax rate

Source: CBS, 2013 for 2011
Exchange rate: HRK/EUR= 7,4
(2011)

| Average Salaries in Croatian Counties | Net salary (EUR) | Gross* salary (EUR) |
|---------------------------------------|------------------|---------------------|
| Republic of Croatia | 734 | 1,050 |
| Bjelovar-Bilogora County | 613 | 845 |
| Brod-Posavina County | 643 | 886 |
| City of Zagreb | 859 | 1,282 |
| Dubrovnik-Neretva County | 723 | 1,021 |
| Istria County | 723 | 1,018 |
| Karlovac County | 709 | 992 |
| Koprivnica-Krizevci County | 674 | 935 |
| Krapina-Zagorje County | 636 | 880 |
| Lika-Senj County | 688 | 946 |
| Međimurje County | 592 | 811 |
| Osijek-Baranja County | 661 | 918 |
| Pozega-Slavonia County | 648 | 889 |
| Primorje-Gorski Kotar County | 732 | 1,036 |
| Sisak-Moslavina County | 694 | 964 |
| Split-Dalmatia County | 699 | 982 |
| Šibenik-Knin County | 699 | 972 |
| Varazdin County | 598 | 829 |
| Virovitica-Podravina County | 617 | 845 |
| Vukovar-Syrmia County | 642 | 882 |
| Zadar County | 714 | 990 |
| Zagreb County | 668 | 953 |

*Gross salary equals the total cost to the employer

4.2. Utilities

Source: Ministry of Construction and Physical Planning, 2013

The Communal Contributions Tax is set by city or municipality authorities according to built infrastructure, location of the infrastructure (by zones) and the purpose of the infrastructure. It is paid monthly by physical and legal entities in a specific city or municipality. It is used for financing of the utilities system, which includes: potable water supply, wastewater disposal and purification, public passenger transport, municipal waste disposal, maintenance of public surfaces, etc. The Communal Contribution Tax is charged per square metre (m²).

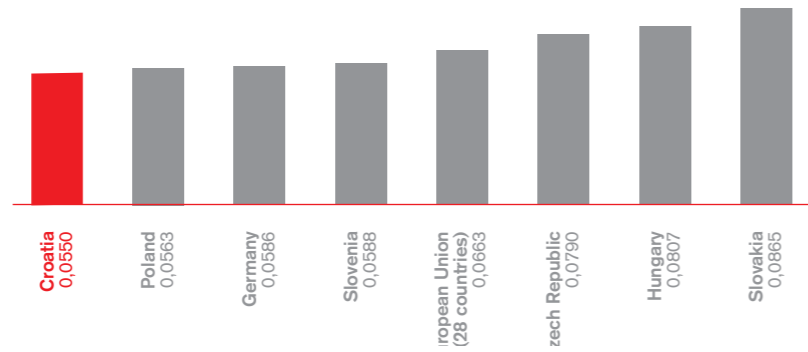
The Communal Contribution Fee is a one-time charge, which is paid for construction of objects. It is calculated on newly developed cubic meters, before the start of construction. It is set by municipalities or cities, and can vary depending on volume of the building (m³) and its location.

| | Communal contribution fee (Average) | | Communal contribution tax (Average) | |
|--------|-------------------------------------|--------------------------|-------------------------------------|-------------------------|
| | Living Space | Office Space | Living Space | Office Space |
| Zagreb | 11,89 EUR/m ³ | 11,89 EUR/m ³ | 0,07 EUR/m ² | 0,68 EUR/m ² |
| Osijek | 5,85 EUR/m ³ | 6,52 EUR/m ³ | 0,06 EUR/m ² | 0,41 EUR/m ² |
| Rijeka | 10,46 EUR/m ³ | 17,70 EUR/m ³ | 0,06 EUR/m ² | 1,07 EUR/m ² |
| Split | 12,69 EUR/m ³ | 16,37 EUR/m ³ | 0,06 EUR/m ² | 0,53 EUR/m ² |



4.2.1.
Electricity

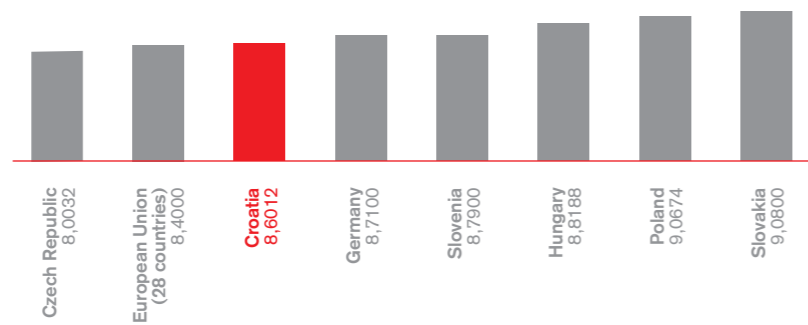
Electricity prices for industrial consumers 2014S1 (70 000 MWh < Consumption < 150 000 MWh), unit Kilowatt-hour



Source: Eurostat, 2014

4.2.2.
Natural Gas

Gas prices for industrial consumers, 2014S1 (100 000 GJ < Consumption < 1 000 000 GJ), unit Gigajoules



Source: Eurostat, 2014

4.2.3.
Water

| Water Contribution Fee (Average) | ZONE | | |
|--|-------------------------|-------------------------|-------------------------|
| | A | B | C |
| Office space, except production plants | 2.95 EUR/m ³ | 1.77 EUR/m ³ | 0.89 EUR/m ³ |
| Production plants | 0.53 EUR/m ³ | 0.32 EUR/m ³ | 0.11 EUR/m ³ |
| Open business buildings | 0.87 EUR/m ³ | 0.52 EUR/m ³ | 0.17 EUR/m ³ |

Source: Decree on Water Contribution (Official Gazette No 151/13) (EUR/HRK 7,57 CNB 2013)



05

Legal environment

5.1. Foreign Investors Status

5.2. Intellectual Property Rights

5.3. Establishing a Company

5.3.1. Setting up a Branch Office

5.3.2. Opening a Representative Office

5.4. Employment of Foreign Citizens

5.4.1. Work Registration Certificate

5.4.2. Posted Worker



5.1.

Foreign Investors Status

Under the provisions of the Companies Act (Official Gazette 111/93, 34/99, 121/99, 52/00, 118/03, 107/07, 146/08, 137/09, 125/11, 152/11, 111/12, 68/13), domestic and foreign companies conduct their business activities on an equal footing. A foreign investor may establish or participate in the establishment of a company and may acquire rights and/or obligations as any other domestic investor. Foreign investors with headquarters or resided in non-WTO member countries need to meet reciprocity conditions.

5.2.

Intellectual Property Rights

Croatia is a member of the World Intellectual Property Organization (WIPO) and is a signatory of all basic international instruments in the field of intellectual property. All relevant information about Intellectual Property Rights protection can be obtained from the State Intellectual Property Office (www.dziv.hr).

5.3.

Establishing a Company

Foreign companies and sole traders, under conditions prescribed by law, are considered to be domestic legal entities with all rights and obligations as applied to Croatian nationals. However, they cannot continuously perform activities on Croatian territory until they have established a subsidiary in Croatia. Activities shall not be considered as continuous if they are an occasional or one-time undertaking of the activity or specific work (the concept of freedom to provide services in accordance with the EU).

Both foreign and domestic legal entities have the right to establish and own businesses and engage in income producing activities. Foreign investors can acquire ownership and shares of joint stock companies. The lowest amount of initial capital for establishing a joint stock company is HRK 200,000 and the nominal value per share cannot be less than HRK 10. Minimum initial capital for establishing a limited liability company is HRK 20,000, while individual representation per investor cannot be less than HRK 200. Companies that have no more than three members and one Board member may be established through a simplified procedure as a simple limited liability company. The minimum initial amount for the establishment of such companies is HRK 10, while individual representation per investor cannot be less than HRK 1.

| Company | Short Description |
|---|---|
| Joint Stock Company (d.d.) | Minimal funding capital amounts to approximately EUR 26,670 (HRK 200,000) of which, if the shares are paid in cash, at least a quarter of the lowest amount of shares which may be issued, must be paid before the entry into the Court Register. |
| Limited Liability Company (d.o.o.) | Minimal funding capital amounts to approximately EUR 2,700 (HRK 20,000) of which at least EUR 1,350 (HRK 10,000) must be paid in cash before the entry into the Court Register. |
| Simple Limited Liability Company (d.o.o.) | Minimal funding capital amounts to approximately EUR 1,34 (HRK 10) and it must be paid in cash before the entry into the Court Registry. |
| European Company (Societas Europea) | A European Company is a type of public limited liability company regulated under EU law. Minimal founding capital for its establishment is 120 000€. |

Procedure for establishing a company:

- Step 01 Check availability of the company's name
- Step 02 Notarize memorandum of association and register company with the Commercial Court electronically
- Step 03 Order official seal and apply for statistical registration number
- Step 04 Open a bank account
- Step 05 Register with tax authority (Porezna uprava) for VAT and employee income tax withdrawals
- Step 06 Croatian Institute for Pension Insurance (HZMO) and Croatian Institute for Health Insurance (HZZO)

More detailed information about establishing companies and necessary documents can be obtained from the Ministry of Justice (www.mprh.hr) and commercial court (depending on the location of the company). Investors can also consult www.hitro.hr, a service provided by the Government of the Republic of Croatia intended to expedite investor communication with state administration through which limited liability companies can be established.

5.3.1.

Setting up a Branch Office

A Branch Office is not a legal entity, but accepts the rights and obligations for the account of its foreign founder while executing its activities. The Branch Office executes its activity under the company name of the founder. The Branch Office is set up by a special decision brought by the sole trader or a relevant body of the company, in accordance with the statement about the establishment of the company which must be notarized. A branch office can only conduct the same business activities as its founder and must be registered in the Court Register at the Croatian Commercial Court.

For more information please contact the Croatian Ministry of Justice www.mprh.hr.

5.3.2.

Opening a Representative Office

A representative office is not a legal entity and its purpose is limited to the activities concerning market research and representation of the founder. One exception is the representative offices of foreign airlines, which may sell flight tickets in accordance with international agreements signed by the Republic of Croatia and international conventions. The Representative Office carries its activities under the founder's company. Any foreign party executing a business activity or a national or international business association may open a representative office in Croatia.

After the Republic of Croatia became a Member State of the EU, legal entities coming from the EU can no longer establish representative offices in the Republic of Croatia, but must open either a branch office or establish a domestically registered company.

The Ministry of Economy (www.mgipu.hr) is the responsible Ministry for Representative Offices and can provide more detailed information about Representative Offices.).

5.4.

Employment of Foreign Citizens

Under the provisions of the Aliens Act (Official Gazette 130/11, 74/13), a foreigner wishing to work in Croatia must obtain either a stay and work permit, within the annual quota determined annually by the Government of Croatia, or a stay and work permit outside the annual quota. Both simultaneously represent a work permit and a temporary residence permit.

Aliens should submit their stay and work permit applications to the diplomatic mission / consular post of the Republic of Croatia in their country. Aliens who do not require a visa for entry into the Republic of Croatia may apply for a stay and work permit at a police administration / police station based on the place of their intended stay, their employer's registered office or their place of work. The application for the issue of a stay and work permit may also be submitted by the employer.

Nationals of an European Economic Area (EEA) and members of their families (irrespective of their nationality) as well as the nationals of Swiss Confederation who have the right to stay in Croatia, have equal rights as Croatian citizens in accordance with the Treaty on the Functioning of the EU. They may work and provide services without stay and work permits or certificate of work registration.

Stay and work permit – EU Blue Card – of third country nationals who are highly skilled workers will be held to encompass authorization for temporary stay and work on the Croatian territory.



Permits Issuance Procedure:

- Step 01** **Submit the request** - An alien or an employer shall submit stay and work permit application to the diplomatic mission / consular post of the Republic of Croatia in their country. Aliens who do not require a visa for entry into the Republic of Croatia may apply for a stay and work permit at a police administration / police station based on the place of their intended stay, their employer's registered office or their place of work.
- Step 02** **Decision** - Police administration/police station makes a decision on the permit that is delivered to the applicant. An appeal against the decision may be submitted to the Commission established to deal with the appeals.
- Step 03** **Payment of fees / Issuance of Permit** - If the application is approved, the alien shall be issued a stay and work permit in a form of a sticker in a travel document after the prescribed fees have been paid.
- Step 04** **Registration of Dwelling / Renewal** - If an application has been submitted at a diplomatic mission / consular post, the alien shall register his/her dwelling address at a police administration / police station, not later than 30 days upon having received the stay and work permit, otherwise the stay and work permit shall be invalidated.
An alien shall register his/her dwelling address at the appropriate police administration / police station not later than 3 days upon entering the Republic of Croatia.
A stay and work permit and the renewal of a temporary stay permit shall be issued with a validity period of up to one year. In the event of an internal transfer, a stay and work permit may be issued with a validity period of 2 years.
The application for renewal shall be submitted at a police administration / police station not later than 30 days before the existing stay and work permit expires.

5.4.1.

Work Registration Certificate

On the basis of a Certificate of Work Registration, aliens may work in certain fields for up to 90 days per year in the Republic of Croatia.

5.4.2.

Posted Worker

A posted worker is a worker whose employer (natural or legal person established in another member state of the EEA) is posted for a limited period of time in the Republic of Croatia for temporary or occasional cross border provision of services. Posted workers are guaranteed certain rights prescribed by Croatian law and collective agreements.

The responsible Ministry for the employment of foreign citizens and obtaining work permits is the Ministry of the Interior:

Ministry of the Interior
Ulica grada Vukovara 33,
HR – 10 000 Zagreb
P: + 385 1 6122 111
e-mail: pitanja@mup.hr
www.mup.hr



06 Tax system

6.1. Profit tax

6.2. Income Tax and Surtax

6.3. Value Added Tax (VAT)

6.4. Real Estate Transfer Tax

6.1.

Profit tax

The profit tax rate is 20%.

The tax rate on withholding tax:

- 15% in general;
- 12% on dividends and shares in corporate income (profit)
- 20% on all types of services that are paid to entities who have their headquarters or place of effective management and supervision of operations in countries other than EU member states, where the general or average nominal rate of income tax is lower than 12,5%, and a state is included in the list of countries maintained by the Minister of Finance and published on the website of the Ministry of Finance and the Croatian Tax Administration.

6.2.

Income Tax and Surtax

Income tax rates are progressive rates, ranging from 12% to 40%

| Tax rates | The Monthly Tax Base | The Annual Tax Base |
|-----------|---|---|
| 12% | up to HRK 2 200 / EUR 292.16 | up to HRK 26 400 / EUR 3505.92 |
| 25% | HRK 2 200 / EUR 292.16 to HRK 13 200 / EUR 1743.73 | HRK 26 400 / EUR 3505.92 to HRK 158 400 / EUR 20924.76 |
| 40% | over HRK 13 200 / EUR 1743.73 | over HRK 158 400 / EUR 20924.76 |

1 EUR = 7.57 HRK

In addition to income tax, the taxpayer also pays surtax on income tax, levied by municipalities and cities. The basis for the surtax calculation is the amount of income tax. The surtax rates range from 0% to 18%, with the highest rate being applied only in Zagreb (18%).

6.3.

Value Added Tax (VAT)

When calculating VAT, three rates are applied.

- The general rate is 25%.
- The rate of 13% is imposed on the following tourist services: accommodation service or bed and breakfast accommodation, half board or full board in all types of commercial catering premises as well as the agency fees for such service. This rate also applies to services of preparing food, non-alcoholic drinks and beverages, wine, beer and restaurant services; printed newspapers and magazines with the exception of those that, in their entirety or mainly, contain advertisements or serve for advertising purposes; oils and fats for human consumption; baby food and processed grain food for infants and small children; supply of water, with the exception of water marketed in bottles or any other packaging; white sugar produced from sugar cane or sugar beet.
- The rate of 5% is applied to all types of bread and milk, books and scientific magazines (printed and published on CD/DVD media, video-cassettes and audio-cassettes), schoolbooks, certain medical and orthopaedic aids and the public display of movies.

6.4.

Real Estate Transfer Tax

Real Estate Transfer Tax rate is 5% for acquiring existing real estate and is paid by the buyer.

More information on the tax system can be obtained from the Croatian Ministry of Finance:

Ministry of Finance
Katančičeva 5,
HR – 10 000 Zagreb
P: +385 1 4591 333
www.mfin.hr



07 Investment incentives

* Please note that at the time of writing of this Guide the Act on Investment Promotion and Enhancement of the Investment Environment was being amended, so for the final version of this Act please consult www.aik-invest.hr

Incentive measures for investment projects in the Republic of Croatia are regulated by the Act on Investment Promotion and Enhancement of the Investment Environment* and pertain to investment projects in:

- manufacturing and processing activities,
- development and innovation activities,
- business support activities,
- high added value activities.



Maximum aid intensity is calculated by taking into account the maximum aid intensity for a specific region and the category of the enterprise (large, medium, small or micro). Classification of enterprises is done in accordance with the small business development promotion act (OG 29/02, 63/07, 53/12, 56/13):

| Enterprise category* | Number of employees | Annual turnover | Annual balance sheet |
|----------------------|---------------------|-----------------|----------------------|
| Large | ≥ 250 | > 50 million € | > 43 million € |
| Medium | < 250 | ≤ 50 million € | ≤ 43 million € |
| Small | < 50 | ≤ 10 million € | ≤ 10 million € |
| Micro | < 10 | ≤ 2 million € | ≤ 2 million € |

and or

The amount of aid shall be calculated as a percentage of investment value, which is determined on the basis of eligible investment cost.

Eligible investment costs are:

- tangible (value of buildings, machinery and equipment) and intangible assets (patent rights, licences, know-how), or
- gross salary (total cost to the employer) calculated over a period of two years

The minimum period for maintaining the investment and newly created jobs linked to an investment is five years for large enterprises, and three years for micro, small and medium-sized enterprises, but no less than the period of use of the incentive measures.

According to the procedure for applying for incentive measures an enterprise intending to acquire the status of a beneficiary of incentive measures must file an Application for the use of incentives using the prescribed forms either to the Ministry of Economy if it falls under the category of a large enterprise or to the Ministry of Entrepreneurship and Crafts if it falls under the categories of micro, small or medium enterprise before the beginning of the investment.

For more information on specific incentives and the application procedure, large enterprises please contact:

Agency for Investments and Competitiveness
Zagreb tower, Radnikča 80
HR – 10 000 Zagreb
P: +385 1 6286 816
e-mail: info@aik-invest.hr
www.aik-invest.hr/en

Medium, small, micro enterprises please contact:
Croatian Agency for Smes, Innovation and Investments
Prilaz Gj. Deželića 7
HR – 10 000 Zagreb
P: + 385 1 4881 003
e-mail: investments@hamagininvest.hr
www.investcroatia.hr/

Profit tax incentives

| Investment amount (€ mil.) | Number of newly Employed | Period (years) | Period of employment (years) | Profit tax rate |
|----------------------------|--------------------------|------------------|------------------------------|-----------------|
| 0,15 -1 (>0,05 for micro) | 5 (3 for micro) | 10 (5 for micro) | 3 (SME), 5 (large) | 10% |
| 1-3 | 10 | 10 | 3 (SME), 5 (large) | 5% |
| >3 | 15 | 10 | 3 (SME), 5 (large) | 0% |

Employment incentives

| County un-employment rate | Incentive rate in relation to eligible costs of opening new workplaces* | Increase for technology innovation and development centres | Increase for business support strategic activities and high added value activities |
|---------------------------|---|--|--|
| <10% | 10% (max. 3,000 €) for employing groups of persons covered by Article 11 paragraph 3 of Regulation* | +50% (1,500 €) | +25% (750 €) |
| | 4% (max. 1,200 €) for employing other groups of persons | +50% (600 €) | +25% (300 €) |
| 10-20% | 20% (max. 6,000 €) for employing groups of persons covered by Article 11 paragraph 3 of Regulation* | +50% (3,000 €) | +25% (1,500 €) |
| | 8% (max. 2,400 €) for employing other groups of persons | +50% (1,200 €) | +25% (600 €) |
| >20% | 30% (max. 9,000 €) for employing groups of persons covered by Article 11 paragraph 3 of Regulation* | +50% (4,500 €) | +25% (2,250 €) |
| | 12% (max. 3,600 €) for employing other groups of persons | +50% (1,800 €) | +25% (900 €) |

* Article 11 paragraph 3 of the Regulation on Investment Promotion and Enhancement of the Investment Environment (OG, 40/13) provides incentives for hiring an unemployed person who was, before the conclusion of the employment contract reported as unemployed at the Croatian Employment Service for at least three months; or for hiring first-time employees, if they have no qualifications, or who are qualified for auxiliary or vocational occupations, without being registered as unemployed, and who are up to 25 years of age; or for hiring first-time employees who have acquired secondary, graduate or postgraduate degree, and are up to 29 years of age, and are not registered as unemployed at the Croatian Employment Service; or for hiring a person under 29 years of age who was registered in the Register of unemployed persons of the Croatian Employment Service within 90 days of graduation, the acquisition of title / occupation at the end of regular high school education or for those without vocation at the end of primary education; or for hiring a person whose employment contract was cancelled due to the opening of bankruptcy proceedings.



Incentives for investment in development and innovation activities

For investment in development and innovation activities, a non-repayable grant shall be approved for the purchase of plant/machinery amounting to 20% of the actual eligible costs for purchasing plant/machinery, in the maximum amount of EUR 500,000 in equivalent HRK value, provided that the purchased plant/machinery represents high technology equipment.

Incentives for education and training

The eligible costs for the purpose of training may include staff trainer costs, trainers' and trainees' travel expenses, depreciation of tools and equipment, to the extent that they are used for the training project, as well as trainees' costs up to the amount of the total of the above referred eligible costs. Only the hours during which the trainees actually participate in the training, after deduction of any productive hours or of their equivalent, shall be taken into account. Incentives for education and training cannot exceed the following maximum aid intensities:

| Training | |
|--------------------|-----------|
| Large enterprises | up to 50% |
| Medium enterprises | up to 60% |
| Small enterprises | up to 70% |



Incentive measures for labour-intensive investment projects

| Number of newly created jobs | Increase of support for creating new jobs |
|------------------------------|---|
| 100 and higher | 25% |
| 300 and higher | 50% |
| 500 and higher | 100% |

Incentive measures for the capital costs of the investment project

Eligibility conditions for incentive measures for capital expenditures in an investment project: investment in long-term assets of at least EUR 5 million and with the condition of opening at least 50 new work places.

| County unemployment rate | Incentives for capital expenses |
|--------------------------|---|
| 10-20% | Cash grant in amount of 10% of the eligible costs of investments for: · construction of the new factory, production facility or tourist facility; · buying of new machines, i.e. production equipment, (max amount up to 0.5 million EUR with the condition that the part of investment in the machines/equipment equals at least 40% of the investment and that at least 50% of those machines/equipment are of high technology). |
| >20% | Cash grant in amount of 20% of the eligible costs of investments for: · construction of the new factory, production facility or tourist facility; · buying of new machines, i.e. production equipment, (max amount up to 1 million EUR with the condition that the part of investment in the machines/equipment equals at least 40% of the investment and that at least 50% of those machines/equipment are of high technology). |

08 Strategic investment projects



The Act on Strategic Investment Projects in the Republic of Croatia was enacted at the end of 2013. It provides for strategic investment projects:

- quicker investment implementation;
- less procedures and licences needed;
- each step of the investment process specified; and
- exact deadlines for each step of the investment process.

To qualify as strategic investment projects, the following criteria must be met:

- it must be private, public or public-private partnership;
- it must entail construction of structures in one of the following sectors: economy, energy, tourism, transport, infrastructure, electronic communications, postal services, environmental protection, public utilities, agriculture, forestry, water management, fisheries, health care, culture, science, technology, education, defence and judiciary;
- it must meet the requirements prescribed by law:
- employment of significant number of persons;
- alignment with existing physical plans;
- minimum value of total capital investment costs:
HRK 150,000,000.00, or
HRK 75,000,000.00 (if there is the ability of co-financing from the funds and programs of the EU), or
HRK 20,000,000.00 (if realized in assisted areas, on the islands or in sectors of farming and fisheries);
- alignment with strategic documents of the EU and the Republic of Croatia;
- positively affect multiple economic activities and create added value, raise the overall safety and quality of life of citizens and environmental protection and contribute to the overall Croatian competitiveness;
- additionally, private investment project must be in production and processing activities, development and innovation activities, business support activities, activities of high added value services, activities in energy sector, infrastructure, or activities related to agriculture and fisheries.

In order to be considered as a strategic investment project, the investment project needs to meet the above listed prerequisites and be proclaimed as such by the Government of the Republic of Croatia.

Private and public-private partnership investors nominate their projects to the Agency for Investments and Competitiveness. (<http://www.aik-invest.hr/en/>)

Investments into energy sector by private or public investors are nominated to the Center for Monitoring Business Activities in the Energy Sector and Investments. (<http://cei.hr/en/>)

Public investments are nominated to the Ministry of Economy. (<http://www.mingo.hr/en>)

09

Agency for investments and competitiveness

Who are we?

The Agency for Investments and Competitiveness (AIK) is an agency established by the Government of the Republic of Croatia. Its key objectives are: promotion of Croatia as a desirable investment destination, proactively encouraging investment into Croatia and enabling successful implementation of investment projects, as well as enhancing the competitiveness of the Croatian economy on a global level.

Our role is to serve as the central place for investors in the Republic of Croatia, in order to ensure a transparent, professional and tailor-made full service completely free of charge, through all stages of investment projects, from the initial inquiry through to investment completion.

Mission

AIK's mission is to enable investors to efficiently and successfully achieve their business goals in Croatia and through its professional services, promote sector specialization, cluster competitiveness and to identify all necessary measures needed to boost investors' business activities, as well as raising the level of competitiveness in the Republic of Croatia.

Vision

AIK's vision is to attract and encourage investments and improve the competitiveness of the Croatian economy in order to ensure that Croatia becomes a highly competitive country in the EU. The goal is to achieve significant growth and development based on knowledge, quality products and services with high added value with an emphasis on creating new employment opportunities.

Our services

1. Promotion of Croatia as an investment destination
 - Strengthening Croatia's image as a globally competitive economy
 - Preparation and organization of subject-specific seminars
 - Coordination of all promotional activities on international markets with partner institutions
2. Support of investment projects implementations through:
 - Offering all necessary information on business opportunities in Croatia
 - Project preparation for investments in Croatia
 - Supporting investments projects in all phases of implementation through a tailor-made approach
3. Increasing competitiveness levels of the Croatian economy by:
 - Improving the investment environment
 - Removing administrative barriers
 - Supporting the work of clusters of competitiveness

Our strength lies in a young and experienced team of professionals, who will use their knowledge and expertise to offer you the best possible support in all stages of implementation of your investment projects. All our services are free of charge.

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HR - 10 000 Zagreb
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