Council of the
European Union

Brussels, 2 June 2022
(OR. en)

9295/22
ADD 8

LIMITE

FISC 114
ECOFIN 452



**REPORT**

| | |
|---|---|
| From: | General Secretariat of the Council |
| To: | Permanent Representatives Committee |
| Subject: | Code of Conduct Group (Business Taxation)<br>- Report to the Council<br>= Approval |

**Croatia's newly introduced tax incentive for investment projects in the manufacturing industry (HR019) – Additional clarification by Croatia regarding the impact of the measure**

We believe that it is important to expand the information regarding the impact of the Modernization measure and therefore we would like to use this opportunity to submit additional data, which we believe, are important when addressing this subject matter.

The measure of Modernization of business process is brought as a novelty in the Investment Promotion Act in year 2020. So far, there has been **only one subject**, which was granted with beneficiary status for this new measure.

Further in text, one can find details about the income structure of beneficiary company as well as income analysis of manufacturing sector in Croatia since **this measure can only be granted to companies within manufacturing sector.**

The company received the status of beneficiary for the modernization of business processes for the project in the amount of material investments of 21,530,470.00 HRK (EUR 2,855,500).

The investment resulted in a 50% reduction of the tax rate in 2021, which amounts to a tax benefitof HRK 1,463,083.25 (EUR 194,043), representing 6,79% of eligible cost of the investments. Based on current figures it can be assumed that the company will be able to benefit from the measure for 4 years from the beginning of the investment project.

**PROFIT AND LOSS ACCOUNT**

**(**Company received the status of beneficiary for the modernization)

| **Type of income/Year** | **2019.** | | **2020.** | |
|---|---|---|---|---|
| | **Amount** | **%** | **Amount** | **%** |
| Total income | 114.063.680 | 100 | 110.991.368 | 100 |
| **Operating income** | **113.837.978** | **99,80** | **110.496.066** | **99,55** |
| Financial income | 225.702 | 0,20 | 495.302 | 0,45 |

From the table above, it is clear that the beneficiary company, during the observed period (2019-2020), generated almost 100% (99,55%-99,81%) of its income as operating income (production income).

As mentioned above, support for the modernization of business processes is intended exclusivelyfor the manufacturing sector, and not for other sectors (finance, trade, services ...)

Therefore, below is an overview of the revenue structure for the manufacturing sector in the Republic of Croatia.

**PROFIT AND LOSS ACCOUNT**

**(HR - NACE Manufacturing Sector – No. of Companies – 15.399)**

| | 2019 | | 2020 | |
|---|---|---|---|---|
| | **Amount** | **%** | **Amount** | **%** |
| TOTAL INCOME | 185,000,844,059 | **100%** | 175,454,944,603 | **100%** |
| OPERATING INCOME | 183,266,968,334 | **99.06%** | 173,184,431,118 | **98.71%** |
| FINANCIAL INCOME | 1,701,713,027 | **0.92%** | 2,160,323,934 | **1.23%** |

This review that analyzes 15,399 companies in the manufacturing sector in Croatia, clearly showsthat for the observed period (2019-2020), the manufacturing industry in the Republic of Croatia generated approx. 99% of income as operating income (production income) and only approx. 1%as financial (passive) income.

Considering all the above, we can point out that the current effect of the measure covers only 0.006% of manufacturing companies in the Republic of Croatia (in terms of all companies in Croatia and European scope, this percentage is significantly lower). By observing the structure ofrevenues, it is clear that the measure refers to active - operating income (approx. 99% ofmanufacturing income is operating income).

Also, manufacturing sector does not generate significant revenue from other passive incomes such as royalties, licenses or similar.

Additionally it is important to take into account that the effect of the above-mentioned measure isinsignificant and that placing additional administrative burden on taxpayers in Croatia in terms of additional reporting regarding the profit tax should be avoided. Namely, through National Recovery and Resilience Plan, Croatia has taken the obligation of additional 2 billion HRK of administrative burden reduction and therefore we must take special care in order not to bring additional administrative burdens into force.