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REPORT

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

Croatia's reduction of withholding tax rate on dividends and profit sharing (HR016)

1. Summary of the measure

The withholding tax rate on dividends and profit sharing has been reduced from 12% to 10%, while the withholding tax rate on the payment of performance fees for foreign performers (artists, entertainers and athletes) has been reduced from 15% to 10%. The withholding tax is levied on the gross amount of the payment.

By reducing the withholding tax rates, Croatia wants to increase the competitiveness of the economy.

The withholding tax for foreign performers is only due when a remuneration is paid to a foreign person which is not a natural person. In case the remuneration is paid to a non-resident natural person, the natural person is subject to Croatian personal income tax.

The withholding tax on dividends and profit sharing is only due when these payments are made by a Croatian entity to a foreign entity. If dividends are paid by a Croatian entity to another Croatian entity, no withholding tax is due and the dividends will not be subject to tax in the hands of the receiving Croatian entity.

2. Summary conclusion

- Withholding tax on the payment of performance fees

The withholding tax on performance fees for artists, entertainers and athletes only applies when fees are paid to a non-natural person and therefore, it concerns a measure on business taxation. Compared to a Croatian company, the taxation is lower, as a 10% withholding tax is levied¹, whereas a Croatian company would in principle pay 18% corporate income tax because the reduced rate of 10% applies only to SMEs.

However, 93% of the Croatian companies are SME (annual turnover not exceeding HRK 7.5 million – approximately EUR 1 million) companies and hence subject to 10% corporate income tax. Compared to these companies, the withholding tax does not lead to a significantly lower level of taxation.

Given the nature of the activity (performance of artists, entertainers and athletes), the Commission services are of the opinion that for the remaining companies (annual turnover higher than approximately EUR 1 million) the measure will not affect in a significant way the location of business activity, as the scope of the measure is very limited and does not concern highly mobile activities.

¹ However, the withholding tax is levied on the gross amount of the payment, whereas the 18% corporate income tax is levied on the net profits.

- Withholding tax on dividends and profit sharing

The withholding tax on dividends and profit sharing is not applicable when dividends are paid to Croatian companies. Dividends received by Croatian companies are not subject to tax. Consequently, the measure does not provide for a significantly lower level of taxation.

3. Follow-up

The COCG agreed that **no action** is required from the Code of Conduct Group regarding the withholding tax rate on payments of performance fees and dividend and profit sharing payments.
