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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 determination of tax-deductible expenses of credit institutions for write-offs of receivables from citizens and entrepreneurs (HR017)

1. Summary of the measure

The write-off of receivables from unrelated natural or legal persons are considered as a tax deductible expense for a credit institution. According to the new law, the rules have been determined in a simpler and more efficient way. As a consequence of the change, write-offs of receivables are tax deductible when the uncollectibility has been established in accordance with special regulations of the Croatian National bank.

The aim is to encourage credit institutions to carry out final write-offs of receivables instead of selling non-performing loans to receivables purchase agencies.

When a receivable is waived by a credit institution, the receivable can no longer be claimed by the credit institution and the waiver of debt is therefore definite. A credit institution can perform a 100% write-off of the receivable, or only a part of the receivable.

This provision is intended to improve the position of debtors, citizens and entrepreneurs. This will indirectly give an incentive to citizens and entrepreneurs and should hence have positive financial and social consequences.

2. Summary conclusion

Before the new measure was introduced, a write-off was only tax deductible when performed according to the criteria and procedures of the credit institution, whereas with the new measure, a write-off is tax deductible when it is performed in accordance with the regulations of the Croatian National Bank.

Consequently, the measure is of a mere procedural nature and does not provide a significantly lower level of taxation. Therefore, the measure does not pass the gateway.

3. Follow-up

The COCG agreed that **no action** is required from the Code of Conduct Group regarding the new rules on the tax deductibility of expenses for write-offs of receivables, as it does not provide a significantly lower level of taxation.