

**CONFIDA**

# Ideas that pay off.

## Monthly Newsletter

December, 2022

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### I. RULES FOR CHRISTMAS BONUSES, GIFTS AND REWARDS PAYMENT

December is approaching, and the payments of Christmas bonuses, awards and gifts to workers begin. These payments belong to the category of occasional rewards. As with all other payments, some rules must follow. Below, CONFIDA Croatia provides an overview of the most important rules and the amounts employers can pay out the rewards tax-free.

#### WHAT ARE THE AMOUNTS?

According to the Amendments Ordinance to the Ordinance on Income Tax, occasional awards like Christmas bonuses and vacation allowances are tax-free to HRK 5,000.00 per year. Namely, the tax-free amounts have increased, and we informed you about it recently.

Also, workers can be paid rewards for work results of up to HRK 7,500.00 per year.

**Up to HRK 12,500.00 can be paid tax-free annually.**

#### WHO IS ENTITLED TO THE PRIZE?

The worker has the right to an appropriate reward if prescribed by the collective agreement, work regulations, employment contract or internal act. If not, the employer can decide whether to reward employees and how.

It does not matter if the worker works for a fixed or indefinite time and full or part-time he is entitled to a prescribed reward. It also refers to workers who use sick leave, maternity and parental leave, and annual vacation.

#### CHILD GIFT

According to the same rulebook, a child's gift is paid tax-free up to HRK 1,000.00 per year. The gift will pay off if the child has turned 15 by the end of the current year. If the parents work for the same employer, he can pay both parents.

#### WHAT PRIZES CAN BUSINESS OWNERS PAY?

**Business owners and other self-employed income taxpayers are entitled to:**

- special awards expenses (Christmas, vacation and similar)
- paid rewards for work results and other forms of additional remuneration expenses
- gifts to children up to 15 years of age.



## II. POSSIBILITIES FOR WORK WITH MULTIPLE EMPLOYERS OR ON A PART-TIME BASIS

During the hiring process, both parties are setting working conditions and expectations of the employment. Let's look at the situation from the perspective of both parties – employers and employees.

### PART-TIME WORK

The Labour Act, Article 62 defines part-time work as any working time shorter than full-time work. It is further clarified that a worker cannot work for more than one employer with a total working time of more than 40 hours per week.

### RIGHTS AND CONDITIONS

The same as full-time work, part-time work has clearly defined rights and working conditions which protect the individual and the employer.

Let's start with the positive side; by agreement with the employer and the amount of work, several employers may hire you, which means better financial stability. Part-time employment is frequent among students due to flexible working hours. With a part-time job, they can earn money during their studies, which significantly eases living conditions.

Another positive side to mention is clearly defined rights and working conditions in the contract and in the Labour Act. There are items such as specific annual leave and breaks during the day. Full-time and part-time workers have equal rights to annual leave, and if it is about working for several employers, the individual can decide to take annual leave without a previously defined agreement.

The provisions for awarding the severance pay that the employee deserves after two years of continuous work are also very clear, provided that the dismissal was not caused by the employee's behaviour. The Law defines compensation as no less than a third of the average monthly salary for the three months before the termination of employment and no greater than six average monthly wages achieved in the three months before terminating the employment.

### WORK WITH MULTIPLE EMPLOYERS – ADDITIONAL WORK

The Labour Law additionally defines the possibility of an individual working for several employers.

If the individual works for 40 hours a week, he/she can additionally work for 8 hours a week on another part-time contract.

During the conclusion of such a contract, there is an obligation to report to the current employer and to sign his consent. If there is a violation, i.e., failure to notify, there are sanctions for the individual as well as the employer's right to dismissal.

The Law further states the right to salary and other material rights, as well as legal obligations of employers and individuals, as well as misdemeanour sanctions for the same, where the amount of the fines can be between HRK 61,000.00 and HRK 100,000.00.



## III. PROPOSAL OF THE LAW ON EXTRA PROFIT TAX

On November 17, 2022, the draft of the final proposal of the Law on Extra Profit Tax was published on the e-Savjetovanje website.

**The Extra Profit Tax is a one-time tax for the year 2022, and according to the draft of the final proposal, the taxpayer becomes obliged to pay Extra Profit Tax for the year 2022 if he meets the following two criteria:**

- achievement of a total income of more than HRK 300 million and
- 20% increase in taxable profit in 2022 compared to the average taxable profit in the last four tax periods 2018, 2019, 2020 and 2021 year.

**Extra Profit Tax will be applied only for one tax period, namely for the year 2022. For taxpayers whose tax period is not a calendar year, the calculation period starts after January 1, 2022.**

The basis for calculating Extra Profit Tax is the positive difference between the taxable profit of the tax period and the average taxable profit of the four previous tax periods (years 2018, 2019, 2020 and 2021).

Taxable profit, in both cases, represents the difference between income and expenses increased and decreased in accordance with accounting regulations on corporate profit taxation.

The total income does not include the income from the write-off of liabilities in pre-bankruptcy and bankruptcy proceedings resulting from the sale of assets to settle creditors and income from the sale of long-term tangible and intangible assets to an unrelated person.

The tax base is determined regardless of whether the taxpayer has a tax liability within the Corporate Profit Tax return in accordance with special regulations on corporate profit taxation in the tax period for which the tax return is submitted or in previous tax periods.

**Extra Profit Tax is paid on the established tax base, at a rate of 33%.**

A separate Extra Profit Tax return must be submitted, whereby the deadlines for submission of the Extra Profit Tax return and payment of the tax liability are identical to the deadlines for submission of the corporate profit tax return and payment of the corporate tax.

At the same time, the Law does not apply to newly established entrepreneurs in 2022 nor those who ceased business activities during 2022 (without transferring activities to other taxpayers).

## IV. DOUBLE TAXATION ELIMINATION

On November 3, 2022, after three days of negotiations, the Republic of Croatia and the Republic of Cyprus reached an agreement on the Treaty on the Elimination of Double Taxation and the System of Tax Evasion and Tax Avoidance.

Internal processes and procedure to enable the signing of the Agreement and confirmation in the parliaments of both countries is initiated. The agreement will achieve relief in the taxation of all types of income, improve the conditions for increasing the mutual exchange of goods and services and increase the level of overall economic activity of both countries.

When the Agreement enters into force, the Republic of Croatia will have agreements on double taxation avoidance with all member states of the European Union.

## V. THE REPORT ON THE CONSUMPTION NUMBERS

In this year's first ten months, entrepreneurs report a 25% higher turnover than the last year, and an 11.6% increase in invoices. This is an all-time high in the food business, with reports exceeding the 2021 turnover by 60% and half that more invoices.

Records of a good tourist season floated out with a 45% increase in accommodations and 37% more invoices.

The health industry had the lowest increases – 10% more over the last year, including a 2.5% invoice increase.

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