



## CROATIA - September 2017

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### **Croatia to scrap property tax planned in 2018**

The Croatian government is dropping plans to introduce a property tax from the start of 2018, Prime Minister Andrej Plenkovic said, following widespread opposition to the proposal.

Part of wider fiscal reforms, the tax was intended to replace communal and other real estates levies and bring Croatia's system closer into in line with its European Union peers.

"We plan to regulate this topic differently after a public debate," Plenkovic told a cabinet session.

Finance Minister Zdravko Maric said the move came as "a perception has been created that this is a new tax while this government aims to reduce the overall taxation pressure."

Parliament is expected to endorse a government proposal to drop the new tax.

Last month more than 100,000 citizens signed a petition against it.

Croatia is seen by many analysts and the business community as a country where high taxes, notably on labour, and an expensive public sector are affecting economic competitiveness.

"Unfortunately, this topic has become a political rather than an economic issue," said an economic analyst Damir Novotny.

### **The delayed tax could be introduced by January 2019 at the latest.**

Although many believed that the introduction of the property tax had been postponed indefinitely, it seems that the delay could be rather short. The most recent statement by Prime Minister Andrej Plenković, who has never said that he has given up completely on the idea, confirms that the government has no intention of admitting defeat. The only real question is when will Plenković's government try again to launch the tax since it is evident that it will not happen on 1 January 2018. Another important issue is what changes will happen to the tax which has already been passed in Parliament, reports Jutarnji List on August 25, 2017. Possible new deadlines for the introduction of the tax being mentioned are the beginning of the second quarter of 2018 or 1 January 2019. The argument against the shorter deadline is the fact that it would again be too early for

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many of the 127 towns and 428 municipalities which have to prepare for the tax, although realists warn that for about a third of the local government units not even a few years of delay would be enough. Some experts suggest that the delay should be used to simplify the forms by which owners have to submit data on their properties. “We should use the existing communal fee database and expand it by maybe two or three data categories, and not add more to that. It should be borne in mind that a significant number of people will not even understand the forms, although they seem simple,” said an expert close to the government. Anyway, the Prime Minister has already stated that people should continue submitting the forms which they have received. As for 1 January 2019 as a possible new date for the introduction of the property tax, the beginning of a year would be a natural deadline since the property tax is an annual tax. However, it is supposed to be paid quarterly, so in reality, it can be launched during a year as well. The problem with the delay until 2019 is uncertainty about the government's future. What if the government collapsed and there are early parliamentary elections? No one wants to introduce new taxes close to elections. It seems that the key change in the property tax as it is conceived now is that the discretionary rights of local government units to determine coefficients could be reduced. There are coefficients for zoning, condition, age and manner of usage. All the coefficients other than the manner of usage allow for a relatively small discretion for local governments to determine them (between 0.8 and 1.2), but the range is huge when it comes to the usage (between 1 and 10). Given that no local politician will dare to maximize the tax burden on the local population which should re-elect him or her, it is feared that local governments would then rather focus on businesses in their areas, especially hotel companies which own and lease extensive properties. It is not a secret that hotels were extremely concerned about the excessive discretion left to local governments. When leaving such an extensive range for mayors to determine coefficients for real estate usage, it was thought that local authorities should have the right to decide what kind of business activities they want to attract to their areas. However, the way in which local politicians operate suggests that they are not led by economic logic, but rather by a political one, which could endanger the wider economic interests of the whole country. It is also unclear whether other inconsistencies in the law will be corrected. For example, perhaps the status of the so-called “first property” should be better defined. The first property can be a palace, as well as a 30-square-metre apartment. Is it right for them to have the same tax status, or should the coefficients be determined in terms of the number of users compared to the size of the property? Translated from Jutarnji List.

#### **After mixed signals, it seems that the government will fulfil the Prime Minister’s promise to postpone the widely-hated tax.**

Finance Minister Zdravko Marić said on Saturday that the Croatian government would use its next session on Thursday to adopt and send to the Parliament a proposal to amend the Law on Local Taxes, which will include a postponement of the property tax, which is currently scheduled to come into force on 1 January, reports Jutarnji List on September 10, 2017.

On Thursday, all details about the delay in the introduction of the tax should be known. This will also be a subject of public debates, panels and presentations in the following period, said Finance Minister Marić.

He reiterated that the property tax had never been conceived as a new tax, but as an integral part of the overall tax reform through which the taxes had been lowered by more than two billion kunas.

In the meantime, citizens and businesses will continue to pay the communal fee, the so-called monument rent and the tax on holiday homes, he added.

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Marić also reiterated that the government's goal was for the new tax to become a general income of towns and municipalities, as opposed to the present communal fee which can be used only for the construction and maintenance of local municipal infrastructure.

Unlike the communal fee, the income from the property tax would be general revenue, which could be used to build kindergartens, co-finance projects from EU funds and fund other major projects in towns and municipalities.

He also pointed out that the government had clearly stated that it was not planning to introduce the property tax which would be based on the actual value of the property. "We have started from the existing system which we wanted to improve because it is not fair that two properties, one being new and other being 50 years old, pay the same fee, as is now the case," Marić concluded.

Asked by journalists, the Finance Minister confirmed that this year's tourist season had broken all the records and that the financial results seen in the budget were excellent. "We will wait a little bit longer for the final economic indicators, but I monitor them together with my associates in the ministry every day," explained Marić.

He added that they expected a good season, for reasons explained in statements made by Tourism Minister Gari Cappelli. "In general, the expectations were high, and with some indicators, we are even above our expectations," he added.

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