

# Croatia - One of the last paradises for residence in Europe

By Dr. Nenad Saljic, Henley & Partners, Split, Croatia

Croatia was one of the two largest states in the former Yugoslavia. When Croatia declared independence in 1991, a four-year war with Serbia followed. Although most of Croatia remained untouched by the war, the nation still suffers from a reputation as a (former) war zone. This has distracted attention from Croatia's clear seas, the more than one thousand islands, romantic fishing villages, beautiful beaches, vineyards, Roman remains and medieval towns.

Croatia is now a sovereign state and since 1992 has been a member of the United Nations. The political, social and economic situation is rapidly improving. Croatia has joined the World Trade Organisation, the NATO Partnership for Peace Programme and signed the Stabilisation and Association Agreement with the EU. It is expected that Croatia will join the EU by 2007.

Croatia is divided between the Latin-influenced coast and an interior that is more Central European. The official language is Croatian, although English is spoken widely, particularly in larger cities and in tourist areas. The capital is Zagreb with about 800,000 inhabitants.

## Prime real estate at attractive prices

The annual average increase of real estate prices in Croatia is currently about 20%, however, in top locations the real estate prices have risen sharply in the last two years. There is a very high demand for luxury real estate on the Adriatic coast from Istria down to the southern tip of Dalmatia, yet there is only very limited supply.

Foreign persons can purchase real estate in Croatia providing that they get an approval by the Ministry of Foreign Affairs. Such approval

may take up to six months. However, the restrictions can easily and legally be avoided if the property is bought by a Croatian company, which can be entirely owned and controlled by a foreign person. Using a company for this purpose also avoids capital gains tax and transfer tax on the subsequent sale of the property.

The Constitution of the Republic of Croatia establishes Croatia as a parliamentary democracy and guarantees the right and inviolability of private property. Foreign investments in Croatia are protected by the Constitution as follows:

- Investment rights cannot be subsequently annulled or reduced.
- Free repatriation of profits after the fulfilment of all obligations and payment of taxes.
- The free repatriation of capital when withdrawing investments.

In view of future EU-membership, Croatia is already adjusting its laws and regulations to comply with EU standards. For example, the current restrictions on foreign real estate ownership will be abolished in just two years from now, a fact that will no doubt make Croatia even more attractive for foreigners in the future.

## Taxation

Croatia is generally a high-tax country, but it offers unique advantages for persons who receive certain income, for example a foreign pension, bank interest and capital gains. Croatia also offers important tax advantages to yacht owners. These fiscal advantages as well as its astonishing and well preserved nature and rich cultural heritage make Croatia one of the most attractive locations for residence and retirement in Europe. As these advantages

are not well known, Croatia offers the possibility of tax-free residence and yachting in a country not perceived to be a "tax haven," and thereby maintains a low profile.

There is no wealth tax in Croatia and the following income is tax-free:

- Interest payments on loans, investments, deposits with financial institutions, public loans and securities and similar income.
- Pensions received from abroad.
- Capital gains from trading securities and other financial assets.
- Capital gains from real estate if you occupied the real estate, held the property more than three years or sold it to your spouse or members of your immediate family.
- Inheritance and gifts are exempted from taxation in the first line of succession, and in other cases there is a single rate of only 5%.

Croatian residents normally pay personal income tax of 15% for monthly salaries up to 3,000 kunas (1 USD = 6.50 kunas); 25% for monthly salaries between 3,000 and 6,750 kunas; 35% for monthly salaries between 6,750 and 21,000 kunas; and 45% for monthly salaries of more than 21,000 kunas.

Personal income tax rate on dividends is 15%. The same tax rate applies for property rental income, however, allowed expenses are 50%, so the effective rate is 7.5% only.

Value added tax (VAT) of 22% applies for most goods and services. Bread, dairy products, medicines and books are exempt as well as some tourist services, eg. hotel rooms, yacht charter.

Corporate income tax is paid at a single rate of 20%. This tax is reduced to 10% or even to 0% for companies operating in Free Zones. Additional investment incentives apply (special tax rates 0, 3 or 7%) according to the size of the investment and the securing of the employment of a specific number of employees. Special privileges are granted to investors who are situated in the areas of Special State Care where corporate income tax is 5, 10 or 15%, depending on the area in which they operate.

There is withholding tax on dividends, royalties and interests, but they can be avoided using companies incorporated in countries with which exist favourable double-taxation treaties. Croatia has signed double-taxation treaties with 30 countries, and six new treaties are to be entered into force in the near future.

## Residence and citizenship in Croatia

Persons physically present in Croatia or maintaining a home there for more than 182 days/year are considered tax-resident and generally taxed on world-wide income. However, important exemptions apply, which make Croatia very attractive for personal residence.

Foreign nationals who stay longer than three months in Croatia must obtain a residence permit. A yacht moored in a Croatian marina or an apartment, rented or owned, or an investment through Croatian company is sufficient to obtain one. Possession of a resident permit does not necessarily mean you are tax resident.

You are tax resident in Croatia based on your physical presence if you stay for at least 183 days under circumstances that indicate your visit is not temporary. The 183-day visit may overlap calendar years.

You are tax resident based on maintaining a home in Croatia if you have accommodation there at your exclusive and continuous disposal for at least 183 days under circumstances that indicate you intend to keep and use that accommodation. Again, this period may overlap calendar years. Your length of stay is not important, nor does it matter if the accommodation is owned or rented.

Such "deemed residence" is very attractive for foreigners who wish to maintain legal residence in Croatia without having to be physically present for a minimum period.

It is possible to be tax resident both in Croatia and in another country. Proper planning may be essential in such circumstances to avoid unforeseen tax consequences.

A permanent residence can be granted to the following persons:

- a foreigner who has stayed in Croatia with temporary residence/work permit for a period of not less than five years continuously, or
- a foreigner who has a temporary residence/work permit and who is married to a Croatian citizen at least three years, or
- a foreigner who has a temporary residence/work permit and who is married to a foreigner with the permanent residence permit at least three years.

A permanent residence is also given to a child under 18 years accompanying the parent.

A Croatian citizenship can be acquired by origin, by birth on the territory of the Republic of Croatia and by naturalisation. A citizen of the Republic of Croatia who is at the same time a foreign citizen is deemed to be exclusively a Croatian citizen before the authorities of the Republic of Croatia.

## Citizenship by origin

A child can acquire Croatian citizenship by origin if:

- Both of his/her parents were Croatian citizens at the time of his/her birth;
- One of his/her parents was a Croatian citizen at the time of his/her birth, and the child was born in the Republic of Croatia;
- One of his/her parents was a Croatian citizen at the time of his/her birth, while the other was a stateless person or a person whose citizenship was unknown, and the child was born abroad;
- One of his/her parents was a Croatian citizen at the time of his/her birth, and the child was born abroad, and if the child by the age of eighteen is signed up for registration as Croatian citizen by the authorised body of the Republic of Croatia abroad or in the Republic of Croatia or if he/she establishes residence in the Republic of Croatia.

A child who is foreign citizen or is stateless person can also acquire Croatian citizenship by origin, if he/she was adopted with kinship legal effect by Croatian citizens according to the provisions of a special Law.

## Citizenship by birth

A person who is born on the territory of the Republic of Croatia can acquire Croatian citizenship provided that before the filing of the petition he/she had a registered place of residence for a period of not less than five years constantly in Croatia.

## Citizenship by naturalisation - emigrants and descendants

An emigrant (a person who has emigrated from Croatia with the intention to live permanently abroad), as well as his/her descendants can acquire Croatian citizenship by naturalisation provided that a conclusion can be derived from his/her conduct that he/she is attached to the legal system and customs persisting in the Republic of Croatia and that he/she accepts the Croatian culture.

A foreign citizen who is married to an emigrant who has acquired Croatian citizenship according to this provision can also acquire Croatian citizenship.

## Citizenship by naturalisation - minors

A minor can acquire Croatian citizenship by naturalisation if:

- Both parents acquire citizenship by naturalisation, or;
- Only one parent acquires citizenship by naturalisation and the child lives in the Republic of Croatia, or;
- Only one parent acquires citizenship by naturalisation, the other one is a stateless person or a person of unknown citizenship and the child is living abroad.

## Citizenship by naturalisation - marriage

A foreign citizen who is married to a Croatian citizen can acquire Croatian citizenship by naturalisation provided that he/she has permanent residency in Croatia.

## Citizenship by naturalisation - special cases

A foreign citizen whose admission to Croatian citizenship would be of interest for Croatia can acquire Croatian citizenship by naturalisation. Croatian citizenship can also be acquired by the spouse of this person. The Ministry of the Interior shall issue an opinion on the existence of an interest in the admission to Croatian citizenship.

## Citizenship by naturalisation - other cases

A foreign citizen can acquire Croatian citizenship by naturalisation provided that:

- He/she has reached the age of eighteen years and that his/her legal capacity has not been taken away;
- He/she has had his/her foreign citizenship revoked or that he/she submits proof that he/she will get a revocation if he/she would be admitted to Croatian citizenship. If the foreign country does not allow revocation or is asking for prerequisites which cannot be met, a statement stating that he/she will renounce foreign citizenship if he/she acquires Croatian citizenship is sufficient;
- He/she had a registered place of residence for a period of at least five years constantly in Croatia before the filing of the petition;
- He/she is proficient in the Croatian language and Latin script.

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