

THE REPUBLIC OF CROATIA
THE MINISTRY OF THE ECONOMY



**THE ACT ON INVESTMENT PROMOTION AND
IMPROVING THE INVESTMENT CLIMATE**

Zagreb, September 2012

I – GENERAL PROVISIONS

Subject-matter and purpose of the Act

Article 1

This Act shall regulate the promotion of investment and fostering the improvement of the investment climate in the Republic of Croatia, and any other issues in relation thereto.

Article 2

This Act contains the provisions which are in conformity with the following acts of the European Union:

– the rules on regional aid contained in the:

- a) Guidelines on national regional aid (Official Journal of the European Union, C 74 (hereinafter: OJ C), 10.03.1998, pages 9-31; OJ C 258, 09.09.2000, p.5),
- b) Guidelines on national regional aid (OJ C 54, 04.03.2006, pages 13-45),
- c) Communication from the Commission – Multisectoral framework on regional aid for large investment projects (OJ C 70, 19.03.2002, pages 8–20; OJ C 263, 01.11.2003, pages 3-4),

Article 3

(1) For the purpose of this Act, enterprise shall consist of entities – undertakings categorised under the provisions of Articles 2 and 3 of the Small Business Development Promotion Act (Official Gazette 29/02, 63/07 and 53/12).

(2) For the purpose of this Act, enterprise shall also consist of entities – large enterprises. The category of large enterprise, for the purposes of this Act, means an undertaking whose: number of employees, turnover/operating income and total assets exceed the benchmarks established in Article 2 of the Small Business Development Promotion Act (Official Gazette 29/02, 63/07 and 53/12).

Article 4

(1) The objective, that is, the purpose of promoting investment and fostering the improvement of the investment climate in the Republic of Croatia is: promotion of economic growth and fulfilling of the economic policy of the Republic of Croatia, the country's integration in the international trade, and strengthening investment capability and competitiveness of Croatian enterprise.

(2) At the level of economic operators, the objective and purpose of promoting investment and fostering the improvement of the investment climate is to build an internationally competitive, transparent and attractive system of incentive measures for investments by legal or natural persons registered in the Republic of Croatia, which are profit tax payers engaged in an economic activity in the Republic of Croatia.

Article 5

(1) Promoting investment and fostering the improvement of the investment climate in the Republic of Croatia within the meaning of this Act constitutes a system of incentive measures for investment and incentive measures for timely performance of the necessary investment

activities. It also determines the method and time limits for completing all the necessary investment activities, aimed at successful performance of the investment project concerned in a fixed term, in the territory of the Republic of Croatia.

(2) The incentive measures regulated by this Act pertain to the investment projects and strengthening competitiveness in the:

- manufacturing and processing activities,
- development and innovation activities,
- business support activities,
- high added value services.

(3) The incentive measures regulated by this Act shall cover the investment projects referred to in paragraph 2 of this Article, which ensure environmentally friendly business activity and one or more of the following objectives:

- introduction of new equipment and modern technologies,
- higher rate of employment and level of training of employees,
- development of high added value products and services,
- increase in entrepreneurial competitiveness,
- uniform regional development of the Republic of Croatia.

Definitions

Article 6

For the purposes of this Act, these terms shall have the following meaning:

1. *Investment, initial investment or investment project*: investment in fixed assets contributed to the property of the beneficiary of incentive measures amounting to a minimum of EUR 150,000 expressed in equivalent HRK value, i.e. in the minimum amount of EUR 50,000 expressed in equivalent HRK value for microenterprise, relating to the setting-up of a new undertaking, the extension of an existing undertaking or the starting-up of an activity involving a fundamental change in the product or production process of an existing enterprise (through rationalisation, diversification or modernisation). Replacement investment is excluded from this definition, except in the case of modernisation or improving the business process, and shall not be included in the amount of the initial investment. Regional state aid, in accordance with this Act, may not be granted to enterprises in difficulty, or to enterprises in the steel industry, shipbuilding (construction of seagoing, self-propelled merchant ships – not less than 100 gross register tonnage), and synthetic fibres industry and the transport sector.

2. *Fixed assets* – tangible and intangible assets contributed to the property of the beneficiary of incentive measures, expressed in the balance-sheet of the beneficiary of incentive measures.

3. *Beneficiary of incentive measures*: An undertaking – natural person (craftsman) profit tax payer or a company, registered in the territory of the Republic of Croatia, which uses incentive measures or to which aid for initial investment is approved.

4. *Aid for initial investment*: total incentive measures granted calculated as a percentage of the value of investment. This value is established on the basis of eligible costs of investment.

Pursuant to the provisions of rules for regional state aid, aid for initial investment may be allocated as:

- A. Calculation of aid based on the investment costs – tangible and intangible assets
- B. Calculation of aid based on wage costs.

5. *Eligible investment costs:*

A. The value of real estate/buildings and plant/machinery (standard base). In the transport sector, expenditure on the purchase of transport equipment (movable assets) may not be included in eligible investment costs (standard base). Land, previously erected buildings/structures and previously used plant/machinery shall not be counted toward eligible investment costs.

The minimum period for maintaining the investment concerned in the region where it is carried out shall be five years for large enterprises, and three years for small and medium-sized enterprises after the completion of the investment, but no less than the period of use of the incentive measures under this Act.

B. Eligible investment costs may include certain categories of immaterial investment (patent rights, licences, know-how) up to a limit of 50% of the standard base. Immaterial assets comprising eligible investment costs shall comply with the following conditions:

- they must be used exclusively in the beneficiary of incentive measures,
- they must be regarded as assets that can be written-off (amortisable assets),
- they must be purchased from third parties under market conditions, excluding affiliated enterprises,
- they must be included in the assets of the beneficiary of incentive measures and must be expressed in the balance-sheet of the beneficiary of incentive measures for at least five years.

C. Eligible costs in respect of job creation linked to an investment shall be expressed as a percentage of the gross wage calculated over a period of two years.

New jobs shall be created within a period of three years after the completion of the works. The minimum period for maintaining new jobs linked to the investment shall be five years for large enterprises and three years for small and medium-sized enterprises.

6. *Aid intensity:*

(1) The amount of aid shall be calculated relative to the tangible and intangible assets in the initial investment project or relative to wage costs for new jobs created as a direct result of the investment project.

(2) For the purpose of determining the maximum aid intensity it is not permissible to add up these two amounts as the total eligible costs, but the higher amount shall be taken into account instead.

(3) The minimum of 25% of eligible investment costs shall be contributed by the beneficiary of incentive measures and it must not contain any state aid.

7. *Gross grant equivalent (GGE):* all aid intensities must be calculated in terms of gross grant equivalents (GGE) as the amounts of the final benefit which a beneficiary of incentive measures derives from the value of the aid net of profit tax.

8. *Maximum aid intensity:*

(1) Aid intensity which is calculated as a percentage of eligible investment costs or eligible costs for job creation represents a certain percentage of gross grant equivalent of eligible investment costs for large enterprises, increased by 10% gross grant equivalent in the case of incentives to medium-sized enterprises, or increased by 20% gross grant equivalent in the case of incentives to small enterprises, as determined in the regional aid map, and as such represents the aid intensity ceiling for the overall cumulative aid, i.e. the sum of incentive measures under this Act, including aid from other sources, in accordance with the rules on regional aid and regional aid map.

(2) The maximum aid intensity is specified in accordance with the rules on regional aid and shall not exceed the amount of aid intensity ceiling defined in the regional aid map.

(3) Regional aid intended for investments for eligible investment costs higher than EUR 50 million (large investment projects) shall be determined according to the maximum aid intensity, as follows:

– for part of the investment up to the amount of EUR 50 million, the maximum intensity of total aid shall amount to 100% of the aid ceiling determined in the regional state aid map,

– for part of the investment from EUR 50 million to EUR 100 million, the maximum intensity of total aid shall amount to 50% of the aid ceiling determined in the regional state aid map,

– for part of the investment above EUR 100 million, the maximum intensity of total aid shall amount to 34% of the aid ceiling determined in the regional state aid map.

(4) The maximum intensity of state aid referred to in paragraph 1 of this item shall pertain to all aid referred to in Articles 7, 8, 9, 10, 11, 12, 13, 14 and 20 of this Act.

9. *Large investment projects:*

(1) Large investment projects refer to the investment projects in the amounts above EUR 50 million expressed in equivalent HRK value. A special method for calculating the amount of state aid is envisaged for them, in accordance with item 8 of paragraph 4 of this Article.

(2) The authority competent for the implementation of the state aid system shall be informed about regional aid for large investment projects if the total aid from all sources exceeds 75% of the maximum aid for an investment with eligible costs amounting to EUR 100 million expressed in equivalent HRK value, and which can be granted applying the standard amount of aid for large enterprises in accordance with the regional aid map on the day of granting the aid, and when

– the aid beneficiary accounts for more than 25 % of the sales of the products concerned on the market or markets concerned or will account for more than 25% after the investment, or

– the production capacity created by the project exceeds 5 % of the market measured on the basis of the data on visible consumption relative to the product concerned, unless the average annual growth rate of its visible consumption in the last five years is above the average annual GDP growth rate in the European Economic Area.

The authority competent for the implementation of the state aid system shall grant regional aid intended for investment only after a detailed examination and when it has established that the

aid is necessary to ensure the incentive effect of the investment and that the benefits of the aid shall exceed the effect of distortion of competition and impact on trade.

(3) In order to prevent an artificial separation of large investment project to subprojects, large investment projects must be considered as a single investment project when the investment was implemented within a period of three years by the same investor, and it consists of fixed assets combined in an economically indivisible way.

10. *New jobs and training related to the investment*: implies any job created as a result of the investment referred to in item 1 of this Article, and the relevant training of the person working in this position, in accordance with the aid set out in this Act.

11. *When establishing eligibility for non-repayable grants for new jobs and training under this Act, the following conditions shall be considered in particular*:

– the new job and related training must be linked to the carrying out of the investment project, that is, the job must be created during the period of carrying out of the investment project and must be maintained during a period of five years starting from the year in which it was created for large enterprises, or three years for small and medium-sized enterprises.

– the non-repayable grant for job creation and training linked to the investment project shall be approved for new jobs created within a period of three years starting from the date of the completion of works, except for the investment projects referred to in Article 8 of this Act,

– if the beneficiary of incentive measures fails to maintain the new jobs created under the provisions of this Act during a minimum period of five years from their creation for large enterprises, or three years for small and medium-sized enterprises, eligibility for non-repayable grants for new jobs and training shall be revoked, and it shall be obliged to return the funds derived from the use of the grant increased by the statutory default interest,

– the investment project shall lead to an increase in the number of employees in the beneficiary of incentive measures, compared with the average employment over the previous twelve months, i.e. any jobs lost during a 12-month period shall be subtracted from the gross jobs created during the same period.

12. *Start of the investment*: start of the investment or start of the work on the projects shall be considered to be: the start of construction works or the first assumed obligation in the sense of the equipment work order, excluding the preparatory feasibility studies.

13. *Competent ministry*: the Ministry of Entrepreneurship and Crafts as the competent ministry in charge of micro, small and medium-sized enterprises referred to in Article 3, paragraph 1, of this Act. The Ministry of the Economy as the competent ministry in charge of large enterprises referred to in Article 3, paragraph 2, of this Act.

II – PROMOTION OF INVESTMENT

Incentive measures

Article 7

Incentive measures are the following:

1. Incentives for microenterprises

2. Tax advantages,
3. Tariff preferences,
4. Incentives for eligible costs of new jobs linked to the investment project,
5. Incentives for eligible costs of training linked to the investment project,
6. Incentive measures for the:
 - A. development and innovation activities and
 - B. business support activities and
 - C. high added value services.
7. Incentive measures for capital costs of the investment project,
8. Incentive measures for labour-intensive investment projects.

1. Incentives for microenterprises

Article 8

(1) In the case of investments of microenterprises in the minimum value of EUR 50,000 expressed in equivalent HRK value, the beneficiary of incentive measures shall be eligible for reduction of the profit tax rate by 50% relative to the statutory profit tax rate within a period of up to five years from the start of the investment, provided at least three new jobs linked to the investment project are created within one year from the start of the investment.

(2) The applicant for incentive measures may be granted tax advantages even if it does not create new jobs provided it modernises the technological process of the existing production line or plant. The applicant shall be obliged, during the entire period of use of incentive measures, to maintain an equal number of jobs which it had when submitting the application, and no less than three years from the start of use of incentive measures under this Article.

(3) The total amount of tax advantages to which the beneficiary of incentive measures is entitled within the period of use of tax advantages shall be expressed in an absolute amount resulting from the difference between the due amount of profit tax calculated pursuant to the Profit Tax Act and the amount calculated pursuant to this Act, in compliance with the maximum aid ceilings for the overall incentives as referred to in Article 6, item 8, of this Act.

(4) The minimum period for maintaining the investment project and jobs shall be three years, but no less than the period for using the incentive measures under this Act.

(5) If, during the period of use of incentive measures under this Act, the beneficiary of incentive measures stops being a profit tax payer, its right to use tax advantages in the remaining period they were granted for and with the obligation to maintain the jobs and the investment project, shall terminate,

(6) In the event that the beneficiary of incentive measures reduces the number of new jobs determined by the provision of this Article, its right to use tax advantages for the entire approved period shall terminate, and it shall be obliged to return the funds derived from the use of approved advantages increased by the statutory default interest.

2. Tax advantages

Article 9

(1) For investments in the amount up to EUR 1 million expressed in equivalent HRK value, for the beneficiary of incentive measures, the profit tax rate shall be reduced by 50% of the statutory profit tax for a period of 10 years from the year of the start of the investment, provided at least five new jobs linked to the investment are created.

(2) For investments in the amount from EUR 1 million to EUR 3 million expressed in equivalent HRK value, for the beneficiary of incentive measures, the profit tax rate shall be by 75% of the statutory profit tax for a period of 10 years from the year of the start of the investment, provided at least 10 new jobs linked to the investment are created.

(3) For investments in the amount exceeding EUR 3 million expressed in equivalent HRK value, for the beneficiary of incentive measures, the profit tax rate shall be reduced by 100% of the statutory profit tax for a period of 10 years from the year of the start of the investment, provided at least 15 new jobs linked to the investment are created.

(4) The applicant for incentive measures may be granted a tax advantage even without creating new jobs provided it modernizes the technological process of the existing production line or plant. The applicant shall be obliged, during the entire period of use of incentive measures, to maintain an equal number of jobs it had at the time of submitting the application, and no less than three years from the start of use of incentive measures under this Article.

(5) The total amount of tax advantages to which the beneficiary of incentive measures is entitled in the period of use of the tax advantages shall be expressed in an absolute amount resulting from the difference between the due amount of profit tax calculated pursuant to the Profit Tax Act and the amount calculated pursuant to this Act, in compliance with the maximum aid ceiling for the overall aid as referred to in Article 6, item 8, of this Act.

(6) The minimum period for maintaining the investment project concerned shall be five years for large enterprises or three years for small and medium-sized enterprises, but no less than the period for using the incentive measures under this Act.

(7) If, during the period of use of the incentive measures referred to in this Act, the beneficiary of incentive measures stops being a profit tax payer, its right to use tax advantages in the remaining period they were granted for and with the obligation to maintain the jobs and the investment project, shall terminate.

(8) In the event that the beneficiary of incentive measures reduces the number of new jobs determined by the provisions of this Article, the right to use tax advantages for the whole approved period shall be terminated, and it shall be obliged to return the funds derived from the use of approved incentives increased by the statutory default interest.

3. *Tariff preferences*

Article 10

In the case of import of investment plant/machinery that fall under eligible costs of the investment project, no custom duties are paid on the goods in the Customs Tariff Chapter 84 – 90 of the Customs Tariff Act.

4. *Incentives for eligible costs for creating job creation linked to the investment project*

Article 11

(1) The beneficiary of incentive measures providing for the creation of new jobs linked to the investment project in counties where the registered unemployment rate according to the data of the Croatian Bureau of Statistics for the preceding year does not exceed 10%, shall be approved a non-repayable grant in respect of the eligible costs of new employment linked to the investment in the amount up to 10% of eligible costs of new employment and the maximum amount up to EUR 3,000 expressed in equivalent HRK value per job created.

(2) The beneficiary of incentive measures providing for the creation of new jobs linked to the investment project in counties where the registered unemployment rate according to the data of the Croatian Bureau of Statistics for the preceding year ranges from 10% to 20%, shall be approved a non-repayable grant in respect of the eligible costs for job creation linked to the investment in the amount up to 20% of eligible costs of new employment and the maximum amount up to EUR 6,000 expressed in equivalent HRK value per job created.

(3) The beneficiary of incentive measures providing for the creation of new jobs linked to the investment project in counties where the registered unemployment rate according to the data of the Croatian Bureau of Statistics for the preceding year exceeds 20%, shall be approved a non-repayable grant in respect of the eligible costs of new employment linked to the investment in the amount up to 30% of eligible costs for job creation and the maximum amount up to EUR 9,000 expressed in equivalent HRK value per job created.

(4) In the event that the beneficiary of incentive measures fails to maintain the new jobs set out by the provisions of this Article for at least five year from their creating, the right to use non-repayable grant for new jobs, and training, with the obligation to return the funds derived from the use of approved incentives increased by the statutory default interest, shall terminate.

(5) The total amount of non-repayable grant under this Article, tax advantages and other incentives to which the beneficiary of incentive measures is entitled within the period of use of incentive measures shall be expressed in an absolute amount, in compliance with the maximum aid ceilings referred to in Article 6, item 8, of this Act.

5. Incentives for eligible costs of training linked to the investment project

Article 12

(1) The beneficiary of incentive measures shall be approved a non-repayable grant for training of employees in the newly created jobs linked to the investment project.

(2) A non-repayable grant for the costs of training linked to the investment project shall be awarded in accordance with the rules on state aid for training.

(3) Aid for the costs of training linked to the investment may be granted in the form of:

a. aid for general training: general training is aimed at acquiring general knowledge used in the present or future position with the beneficiary of incentive measures which is a state aid beneficiary, shall be transferable to other undertakings or fields of work and which substantially improves the employability of a worker.

Training shall be considered general if:

– it is jointly organised by different independent undertakings or where employees of different undertakings may avail themselves of the training;

– it is recognised, certified or validated by the state administration bodies or other authorised bodies and institutions of the Republic of Croatia;

b. aid for a specific training: the specific training is aimed at acquiring theoretical knowledge and practical skills applicable to the employee's present or future position with the beneficiary of incentive measures which is the state aid beneficiary, which are not transferable or only to a limited extent transferable to other undertakings or fields of work.

(4) The eligible costs for the purpose of training include:

- a. staff trainer costs,
- b. trainers' and trainees' travel expenses,
- c. depreciation of tools and equipment, to the extent that they are used for the training project,
- d. trainees' costs up to the amount of the total of the other eligible costs referred to in items (a) through (c) of this Article.

Only the hours during which the trainees actually participate in the training, after deduction of any productive hours or of their equivalent, shall be taken into account.

(5) Aid to cover the eligible costs of training may not exceed the following maximum aid intensities:

- a. where aid is granted for specific training, aid intensity may not exceed 25% for large enterprises and 35% for small and medium-sized enterprises,
- b. where aid is granted for general training, aid intensity may not exceed 60% for large enterprises and 70% for medium-sized enterprises and 80% for small-sized enterprises,
- c. in cases where aid project involves both specific and general training components which cannot be separated for the calculation of the aid intensity, and in cases where the specific or general character of the training aid project cannot be established and separated, the maximum aid intensities applicable to specific training shall apply,
- d. aid intensity, together with investment aid and job creation aid, may not exceed more than 50% of eligible investment costs.

6. *Incentive measures for the development and innovation activities,*

business support activities and high-added value activities

Article 13

(1) For the purpose of investment in the development and innovation activities, business support activities and high added value services, additional incentive measures shall be approved for the following investment projects:

A. DEVELOPMENT AND INNOVATION ACTIVITIES – having an impact on advancement and modernisation of:

- products,
- production series,

- production processes and
- production technologies.

B. BUSINESS SUPPORT ACTIVITIES

1. *Customer Contact Centres*

All types of call-centres, multi-media contact centres and other types of customer/client contact centres focused on technical support and problem solving for customers/clients.

2. *Centres for Outsourced Business Activities*

Focused on outsourcing and pooling of business activities, such as: finance, accounting, marketing, product design, audio-visual activity, development of human resources and IT services.

3. *Logistics and Distribution Centres*

Focused on establishing and constructing high-technology logistics and distribution centres providing; intermodal transportation of goods, warehousing, packaging and handling of goods in order to significantly improve logistics and distribution activities within business process and delivery of goods.

4. *ICT System and Software Development Centres*

- Development and application of information systems,
- Outsourcing of IT management operating systems,
- Development of telecommunications network operation centres,
- Development and application of new software solutions.

C. HIGH ADDED VALUE INVESTMENT ACTIVITIES

1. *Creative service activities*

Activities in the field of architecture, design, different forms of media communication, advertising, publishing, culture, creative industry and other activities in the field of fine arts.

2. *Tourism service activities*

Activities in the field of high added value services in tourism, such as accommodation projects hotel, apart-hotel, tourist resorts categorised as four- or more stars, tourist apartments within tourist resorts categorised as four- or more stars, camps categorised as four- or more stars, heritage hotels, other types of accommodation facilities as a result of renovation of cultural and historical structures, supporting services, health tourism, congress tourism, nautical tourism, cultural tourism, entertainment and/or recreation centres and parks, ecological tourism projects.

3. *Management, consulting, education services,*

4. *Industrial engineering services.*

(2) For investment in the development and innovation activities, the beneficiary of incentive measures shall be approved, along with the incentive measures under this Act, an increase in

the aid intensities to cover the costs of job creation linked to the investment project of 50 % relative to the amounts set out in Article 11 of this Act.

(3) For investment in the business support activities and high added value services, the beneficiary of incentive measures shall be approved, along with the incentive measures under this Act, an increase in the aid intensities to cover the costs of job creation linked to the investment project of 25 % relative to the amounts set out in Article 11 of this Act.

(4) For investment in the development and innovation activities, a non-repayable grant shall be approved for the purchase of plant/machinery in the amount of 20% of the actual eligible costs for purchasing plant/machinery, and in the maximum amount of EUR 500,000 in equivalent HRK value, provided that the purchased plant/machinery represents high technology equipment.

(5) The total amount of non-repayable grant, tax advantages and other incentives which the beneficiary of incentive measures may use during the period of use of incentive measures shall be determined in the absolute amount, in compliance with the maximum permissible amount of the total aid referred to in Article 6, item 8, of this Act.

7. Incentive measures for the capital costs of the investment project

Article 14

(1) An investment project which is granted incentive measures for capital costs of the investment project shall represent an investment in fixed assets of the beneficiary of incentive measures of not less than EUR 5 million in equivalent HRK value, provided that a minimum of 50 new jobs linked to the investment are created within a period of three years from the start of the investment.

(2) Along with the incentive measures under this Act, the beneficiary of incentive measures carrying out the investment project referred to in paragraph 1 of this Article in counties where the registered unemployment rate according to the data of the Croatian Bureau of Statistics for the preceding year ranges from 10% to 20%, shall be granted the following investment incentives for capital costs:

Non-repayable grant in the amount of 10% of the actual eligible costs of investment in fixed assets for the:

- costs of construction of the new works, industrial plant or catering and tourist facility,
- costs of purchase of new machinery or manufacturing equipment,

in the total maximum amount of EUR 500,000 in equivalent HRK value, provided that part of the investment in machinery and manufacturing equipment amounts to a minimum of 40% of the total value of investment, where a minimum of 50% of purchased machinery and manufacturing equipment must be high-tech machinery.

(3) Along with the incentive measures under this Act, the beneficiary of incentive measures carrying out the investment project referred to in paragraph 1 of this Article in counties where the registered unemployment rate according to the data of the Croatian Bureau of Statistics for the preceding year exceeds 20%, shall be granted the following investment incentives for capital costs:

Non-repayable grant in the amount of 20% of the actual eligible costs of investment in fixed assets for the:

- costs of construction of the new works, industrial plant or catering and tourist facility,

- costs of purchase of new machinery or manufacturing equipment,

in the total maximum amount of EUR 1 million in equivalent HRK value, provided that part of the investment in machinery and manufacturing equipment amounts to a minimum of 40% of the total value of investment, where a minimum of 50% of purchased machinery and manufacturing equipment must be high-tech machinery.

(4) In the event that the beneficiary of incentive measures fails to comply with the requirement of creating new jobs, or reduces the number of new jobs set out in paragraph 1 of this Article, the right to use incentive measures for capital costs of the investment project for the whole approved period shall be terminated, and it shall be obliged to return the funds derived from the use of approved incentives increased by the statutory default interest.

(5) The total amount of non-repayable grant, tax advantages and other incentives which the beneficiary of incentive measures may use during the period of use of incentive measures shall be determined in the absolute amount, in compliance with the maximum permissible amount of the total aid referred to in Article 6, item 8, of this Act.

8. Incentive measures for labour-intensive investment projects

Article 15

(1) Incentive measures for labour-intensive investment projects that are approved for an investment project shall be an investment in fixed assets of the beneficiary of incentive measures which shall provide for creation of a minimum of 100 new jobs within a period of three years from the start of the investment.

(2) The beneficiary of incentive measures carrying out the investment project referred to in paragraph 1 of this Article shall be granted an increase in the aid intensities to cover the costs of new employment linked to the investment project in the amount of 25% relative to the amounts set out in Article 11 of this Act.

(3) The beneficiary of incentive measures carrying out the investment project providing for the creation of a minimum of 300 new jobs linked to the investment project shall be granted an increase in the aid intensities to cover the costs of new employment linked to the investment project in the amount of 50% relative to the amounts set out in Article 11 of this Act.

(4) The beneficiary of incentive measures carrying out the investment project providing for the creation of a minimum of 500 new jobs linked to the investment project shall be granted an increase in the aid intensities to cover the costs of new employment linked to the investment project in the amount of 100 % relative to the amounts set out in Article 11 of this Act.

(5) The total amount of non-repayable grant, tax advantages and other incentives which the beneficiary of incentive measures may use during the period of use of incentive measures shall be determined in the absolute amount, in compliance with the maximum permissible amount of the total aid referred to in Article 6, item 8, of this Act.

Incentive funds

Article 16

(1) The non-repayable grants for promoting investment under this Act shall be secured from the state budget of the Republic of Croatia on the positions of the competent ministries.

(2) The competent ministry shall keep records of approved non-repayable grants for the investment promotion and job creation and other aid.

(3) After the accession of the Republic of Croatia to the European Union, funds for non-repayable grants for investment promotion shall be secured, apart from the budget of the Republic of Croatia, from the European Union Structural Funds in accordance with the acquis communautaire of the European Union and the relevant national legislation.

Approval and control

Article 17

(1) Undertakings intending to benefit from the incentive measures under this Act shall submit the application for the approval of the status of a beneficiary of incentive measures and the application to use incentive measures. The application shall be submitted to the competent ministry prior to the commencement of the investment project.

(2) On the basis of the submitted application, the competent ministry shall, in co-operation with the Ministry of Finance and other competent ministries whose scope of jurisdiction includes the envisaged investment project, and other authorities competent for promoting investment, establish whether the submitted application complies with the provisions of this Act and shall inform the applicant thereof, and it shall issue a certificate of eligibility for the status of the beneficiary of incentive measures not later than 60 days from the receipt of the application in conformity with the provisions of this Act.

(3) The Investment and Competition Agency (hereinafter: ICA), the Croatian Agency for SMEs and Investment (hereinafter: HAMAG INVEST), county development agencies and other legal persons responsible for supporting and promoting investment in the units of local and regional self-government pursuant to this Act, shall provide administrative, expert and technical assistance in the process of drawing up the application referred to in paragraph 1 of this Article to the enterprises intending to use incentive measures under this Act.

(4) During the period of eligibility status of the beneficiary of incentive measures, beneficiaries of incentive measures shall submit written annual reports on the carrying out of the investment project, the use of incentive measures, and maintaining of the investment concerned and created jobs to the competent ministry and the Ministry of Finance – Tax Administration.

(5) The annual reports referred to in paragraph 4 of this Article shall be submitted together with the profit tax return in accordance with the time limits laid down by the Profit Tax Act.

(6) If the beneficiary of incentive measures, for no justifiable reasons, fails to submit the report within the period referred to in paragraph 5 of this Article, its eligibility to use the approved incentive measures shall be revoked and the status of a beneficiary of incentive measures withdrawn.

(7) Mandatory content of the application for the approval of the status of a beneficiary of incentive measures with related standard forms, procedure for applying, approving and using incentive measures under this Act, and the content of the report on the use of incentive measures referred to in paragraphs 1 and 4 of this Article, shall be laid down by the Government of the Republic of Croatia.

(8) The competent ministries in cooperation with the Ministry of Finance and other competent ministries, whose scope of jurisdiction includes the envisaged investment project, shall control

the use of incentive measures by the beneficiary of incentive measures in order to detect and penalise any irregularities and violations.

Repayment of aid in case of bankruptcy or winding-up of the beneficiary of incentive measures

Article 18

In the event of bankruptcy or winding-up of the company or craft profit tax payer which is the beneficiary of incentive measures, before the expiry of the period for the use of incentive measures, i.e. before the expiry of the obligation to maintain the investment and jobs concerned, it shall be obliged to repay the used aid increased by the statutory default interest.

Monitoring and determining the maximum aid intensity for investment promotion

Article 19

(1) For the purpose of monitoring and determining the maximum intensity of aid granted, the competent ministry shall be obliged to request from other ministries and authorities competent for approving aid the information on all state aid granted.

(2) The competent ministry shall calculate the gross grant equivalent of the investment promotion aid and job creation aid, and it shall have the competence to monitor the total aid for investment promotion, including aid from other sources, and to calculate utilisation of the maximum aid intensity for investment promotion under this Act.

(3) For each beneficiary of incentive measures that has utilised the maximum aid intensity for investment promotion, the competent ministry shall notify in writing thereof the beneficiary of incentive measures and the Ministry of Finance – Tax Administration.

III – FOSTERING THE IMPROVEMENT OF INVESTMENT AND ENTREPRENEURIAL CLIMATE

Article 20

Investment climate

(1) The investment climate in the broad sense of this Act constitutes the totality of all pre-investment and post-investment activities at national, regional and local level, which have an impact on the success and time limit for the carrying out of an investment project in the territory of the Republic of Croatia.

(2) The investment climate in the narrow sense of this Act constitutes the activities referred to in paragraph 1 of this Article, which include: the issuing of acts approving the construction and use of buildings, the award of concessions, rights of construction and other approvals for construction by the units of local self-government or by the competent ministries and other competent authorities, building of the infrastructure and issuing prior energy or infrastructure approvals related to the investment project, physical planning and condominium conversion by the local or regional self-government units or by the competent ministries, including the regulations on the construction procedure and conditions aimed at the promotion of investment projects, activities of change of use of land, putting to use inactive property in public ownership aimed at performing the investment project.

(3) Apart from the activities referred to in paragraph 2 of this Article, the activities of decision-making, issuing approvals, issuing decisions, permissions or other stipulated acts at local,

regional and national level, which have an impact on the success and time limit of the carrying out of the investment project, also constitute the investment climate within the meaning of this Act.

Article 21

The Government of the Republic of Croatia may declare a particular investment project to be of interest to the Republic of Croatia. The criteria for determining the projects of interest to the Republic of Croatia and the manner of carrying out such projects, including the manner of attracting potential investors within the meaning of this Article, shall be specified by the Government of the Republic of Croatia in a regulation.

Article 22

Fostering the improvement of investment climate

(1) For the purpose of improving the investment climate in the Republic of Croatia, ICA and HAMAG INVEST shall coordinate the activities aimed at carrying out investment projects in cooperation with the investors and competent state administration bodies, local and regional self-government bodies, and with other legal persons participating in the carrying out of the investment project in the territory of the Republic of Croatia.

(2) ICA and HAMAG INVEST shall, in coordination with the county development agencies, provide active support to investors in all stages and activities of the investment project that have an impact on the success and time limit for the carrying out of an investment project in the Republic of Croatia.

(3) For the purpose of a successful and foreseeable performance of an investment project, HAMAG INVEST, or ICA and the county development agency with the local self-government in whose area the investment project is carried out shall organise a joint proactive *ad hoc* body for the respective investment project – the “investment project support team” – consisting of at least one representative of the local self-government, one representative of the county development agency responsible for promoting and attracting investment, and one representative of ICA and HAMAG INVEST respectively, responsible for promoting and attracting investment.

(4) The investment project support team shall provide professional support to the investment project promoter (beneficiary) aimed at carrying out all activities referred to in paragraphs 2 and 3 of Article 20 of this Act in good time, in direct cooperation with the competent bodies responsible for the said activities at local, regional and national level, and shall submit quarterly reports thereon to the Governing Council of ICA, or the Governing Council of HAMAG INVEST.

(5) The quarterly report of the investment project support team for each respective investment project shall contain the information on the status of implementation of the investment project and the information about the established administrative barriers to the investment climate precluding timely performance of the investment project, together with a proposal for the solution, that is elimination of the established administrative barriers with a view to improving the investment climate.

(6) After accepting the quarterly report, the Management Board of ICA, or the Management Board of HAMAG INVEST shall submit the report proposing the solutions for eliminating the established administrative barriers to the timely performance of the investment project to the competent ministry, and the competent ministry shall report thereon to the Government of the Republic of Croatia.

(7) Based on the submitted report and proposed solutions for eliminating the established administrative barriers to the timely performance of the investment project, the Government of the Republic of Croatia shall adopt a decision charging the competent ministry to draw up, in cooperation with line state administration bodies, or bodies of the regional and local self-government, within a period of 45 days, a final proposal of the solution to eliminate the established administrative barriers to timely performance of the investment project that will also improve the investment and entrepreneurial climate in the Republic of Croatia.

IV – MINOR OFFENCE PROVISIONS

Minor offence provisions

Article 23

(1) A fine in the amount from HRK 100,000.00 to HRK 1,000,000.00 shall be imposed for an offence on the beneficiary of incentive measures if it fails to submit the written annual report on the use of the incentive measures to the competent ministry and the Ministry of Finance – Tax Administration, pursuant to the provisions of Article 17, paragraphs 4 and 5, of this Act.

(2) The responsible person of the beneficiary of incentive measures shall also be fined for the offence referred to in paragraph 1 of this Article in an amount from HRK 10,000.00 to HRK 50,000.00.

V – TRANSITIONAL AND FINAL PROVISIONS

Article 24

(1) The Government of the Republic of Croatia shall adopt the regulation referred to in Article 17, paragraph 7, of this Act within a period of 60 days following the date of entry into force of this Act.

2) The Government of the Republic of Croatia shall adopt the regulation referred to in Article 21 of this Act within a period of 30 days following the date of entry into force of this Act.

Article 25

With the entry into force of this Act, the Investment Promotion Act (Official Gazette 138/06, 61/11) shall cease to have effect.

Article 26

Tariff preferences for the investment projects referred to in Article 10 of this Act shall cease to be valid on the date of accession of the Republic of Croatia to the European Union.

Article 27

Companies and crafts, profit tax payers using incentive measures, tax advantages and tariff preferences for the investment, effected pursuant to the Investment Promotion Act (Official Gazette 73/00) and the Investment Promotion Act (Official Gazette 138/06 and 61/11), shall retain the right of use of the approved incentive measures, tax advantages and tariff preferences until the expiry of the period they were approved for.

Article 28

Beneficiaries of incentive measures and applicants for the use of incentive measures that have not put the incentive measures to use pursuant to the Investment Promotion Act (Official Gazette 138/06, 61/11), and that are still carrying out the investment project shall be subject to the provisions on incentive measures under this Act as of the date of entry into force of the Act, provided the beneficiary of incentive measures submits a written request within 60 days from the day of entry into force of this Act.

Article 29

This Act shall enter into force on the day of its publication in the Official Gazette.

Class: 404-01/12-01/02

Zagreb, 21 September 2012

THE CROATIAN PARLIAMENT

The Deputy Speaker
of the Croatian Parliament

Josip Leko, m.p.