

INCENTIVE MEASURES FOR INVESTMENT PROJECTS

Incentive measures for investment projects in the Republic of Croatia are regulated by the Act on Investment Promotion and Enhancement of the Investment Environment (OG, No. 111/12 and 28/13) and pertain to investment projects in:

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

Incentive measures are:

- Incentives for microenterprises
- Tax advantages
- Tariff preferences (Tariff Preferences do not apply since joining the EU, on 1 July 2013)
- Incentives for eligible costs of new jobs linked to the investment project
- Incentives for eligible costs of training linked to the investment project
- Incentive measures for:
 - ▶ development and innovation activities and
 - ▶ business support activities and
 - ▶ high added value services
- Incentive measures for capital costs of the investment project and
- Incentive measures for labour intensive investment projects

Incentive measures can be used by enterprises registered in the Republic of Croatia investing in fixed assets the minimum amount of:

- € 50,000 together with creating at least 3 new jobs for microenterprises;
- € 150,000 together with creating at least 5 new jobs for small, medium and large enterprises.

Classification of enterprises is done in accordance with the Small Business Development Promotion Act (OG 29/02, 63/07, 53/12):

ENTERPRISE CATEGORY**	NUMBER OF EMPLOYEES	AND	ANNUAL TURNOVER	OR	ANNUAL BALANCE SHEET
Large	≥ 250		> 50 million €		> 43 million €
Medium	< 250		≤ 50 million €		≤ 43 million €
Small	< 50		≤ 10 million €		≤ 10 million €
Micro	< 10		≤ 2 million €		≤ 2 million €

* when classifying enterprises one should also consider affiliated enterprises, as defined by the General Tax Act (OG, No. 147/08, 18/11 and 78/12) and the Decision on the publication of the General Block Exemption Regulation regarding State Aid (OG, No. 37/09)

The amount of aid shall be calculated as a percentage of investment value, which is determined on the basis of eligible investment cost. Eligible investment costs are:

- tangible (value of land/buildings and plant/machinery) and intangible assets (patent rights, licences, know-how), or
- gross wage calculated over a period of two years

The minimum period for maintaining the investment and newly created jobs linked to an investment is five years for large enterprises, and three years for small and medium-sized enterprises, but no less than the period of use of the incentive measures

Profit tax incentives

INVESTMENT AMOUNT (€ MIL.)	NUMBER OF NEWLY EMPLOYED	PERIOD (YEARS)	PERIOD OF EMPLOYMENT (YEARS)	PROFIT TAX RATE
<1	5 (3 for micro)	10	3 (SME), 5 (large)	10%
1-3	10	10	3 (SME), 5 (large)	5%
>3	15	10	3 (SME), 5 (large)	0%

Employment incentives

COUNTY UNEMPLOYMENT RATE	INCENTIVE RATE IN RELATION TO ELIGIBLE COSTS OF OPENING NEW WORKPLACES*	INCREASE FOR TECHNOLOGY INNOVATION AND DEVELOPMENT CENTRES	INCREASE FOR BUSINESS SUPPORT STRATEGIC ACTIVITIES	INCENTIVES FOR INNOVATION AND DEVELOPMENT ACTIVITIES
<10%	10% (max. 3,000 €) for employing groups of persons covered by Article 11. paragraph 3. of Regulation*	+50% (1,500 €)	+25% (750 €)	20% of the eligible cost of buying the equipment/machinery (up to € 0.5 million) All the equipment/machinery has to be high technology
	4% (max. 1,200 €) for employing other groups of persons	+50% (600 €)	+25% (300 €)	
10-20%	20% (max. 6,000 €) for employing groups of persons covered by Article 11. paragraph 3. of Regulation*	+50% (3,000 €)	+25% (1,500 €)	
	8% (max. 2,400 €) for employing other groups of persons	+50% (1,200 €)	+25% (600 €)	
>20%	30% (max. 9,000 €) for employing groups of persons covered by Article 11. paragraph 3. of Regulation*	+50% (4,500 €)	+25% (2,250 €)	
	12% (max. 3,600 €) for employing other groups of persons	+50% (1,800 €)	+25% (900 €)	

* Article 11 paragraph 3 of the Regulation on Investment Promotion and Enhancement of the Investment Environment (OG, 40/13) provides incentives for hiring an unemployed person who was, before the conclusion of the employment contract reported as unemployed at the Croatian Employment Service for at least three months; or for hiring first-time employees, if they have no qualifications, or who are qualified for auxiliary or vocational occupations, without being registered as unemployed, and who are up to 25 years of age; or for hiring first-time employees who have acquired secondary, graduate or postgraduate degree, and are up to 29 years of age, and are not registered as unemployed at the Croatian Employment Service; or for hiring a person under 29 years of age who was registered in the Register of unemployed persons of the Croatian Employment Service within 90 days of graduation, the acquisition of title / occupation at the end of regular high school education or for those without vocation at the end of primary education; or for hiring a person whose employment contract was cancelled due to the opening of bankruptcy proceedings.

Development and innovation activities include activities that affect the improvement and modernization of the product, production series, processes and manufacturing technologies.

Business support services:

- Customers / Clients 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,
- 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. Centres of selected business activities: focus on separation and concentration of business activities such as finance, accounting, marketing, product design, audio-visual industry, the development of human resources and information technology,
- 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 the business process and delivery of goods,
- ICT System and Software Development Centres: development and application of information systems, outsourcing of IT management operating systems, development of telecommunications network operation centres and development and application of new software solutions.

High Added Value Investment Activities:

- 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,
- 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,
- Management, consulting, education services,
- Industrial engineering services.

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

Incentives for education and training cannot exceed the following maximum aid intensities:

The eligible costs for the purpose of training may include staff trainer costs, trainers' and trainees' travel expenses, depreciation of tools and equipment, to the extent that they are used for the training project, as well as trainees' costs up to the amount of the total of the above referred eligible costs. 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.

	SPECIFIC TRAINING	GENERAL TRAINING
Large enterprises	up to 25%	up to 60%
Medium enterprises	up to 35%	up to 70%
Small enterprises	up to 45%	up to 80%

In cases where aid projects involve 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.

Amount of incentives, along with incentives for investment, i.e. employment incentives, cannot exceed more than 50% of the eligible investment costs. Amount of incentives for education and training can amount up to a maximum of 50% of employment incentives, but in accordance with the maximum allowable aid intensity for general and specific education and training.

Incentive measures for the capital costs of the investment project

Eligibility conditions for incentive measures for capital expenditures in an investment project: investment in long-term assets of at least EUR 5 million and with the condition of opening at least 50 new work places.

COUNTY UNEMPLOYMENT RATE	INCENTIVES FOR CAPITAL EXPENSES
10-20%	Cash grant in amount of 10% of the eligible costs of investments for: <ul style="list-style-type: none"> • construction of the new factory, production facility or tourist facility, • buying of new machines, i.e. production equipment, (max amount up to 0.5 million EUR with the condition that the part of investment in the machines / equipment equals at least 40% of the investment and that at least 50% of those machines/equipment are of high technology)
>20%	Cash grant in amount of 20% of the eligible costs of investments for: <ul style="list-style-type: none"> • construction of the new factory, production facility or tourist facility, • buying of new machines, i.e. production equipment, (max amount up to 1 million EUR with the condition that the part of investment in the machines / equipment equals at least 40% of the investment and that at least 50% of those machines/equipment are of high technology)

Incentive measures for labour-intensive investment projects

NUMBER OF NEWLY CREATED JOBS	INCREASE OF SUPPORT FOR CREATING NEW JOBS
100 and higher	25%
300 and higher	50%
500 and higher	100%

According to the procedure for applying for incentive measures under the Act on Investment Promotion and Enhancement of the Investment Environment an enterprise intending to acquire the status of a beneficiary of incentive measures must file an Application for the use of incentives using the prescribed forms either to the Ministry of Economy if it falls under the category of a large enterprise or to the Ministry of Entrepreneurship and Crafts if it falls under the categories of micro-, small or medium enterprise before the beginning of the investment.