

BENEFICIARY OF INCENTIVES MEASURES – ENTERPRISE

Beneficiary of incentives measures is an entrepreneur - natural person (craftsman) that is subject to income tax or company, which are registered in the Croatian territory. Undertaking in difficulty as prescribed in Article 2 point 18 of the Commission Regulation (EU) N°651/2014 of 17 June 2014 and an undertaking which is subject to an outstanding recovery order following a previous Commission decision declaring an aid illegal and incompatible with the internal market **cannot be beneficiaries of incentives measures.**

ENTERPRISE CATEGORY*	STAFF HEADCOUNT**		ANNUAL TURNOVER**		ANNUAL BALANCE SHEET TOTAL**
Large	> 250	and	> 50 million €	or	> 43 million €
Medium	< 250		≤ 50 million €		≤ 43 million €
Small	< 50		≤ 10 million €		≤ 10 million €
Micro	< 10		≤ 2 million €		≤ 2 million €

*in accordance with Annex I of Commission Regulation (EU) N°651/2014 of 17 June 2014

** when calculating staff headcount and financial amounts one has to take into account also partner enterprises (proportional to the percentage interest in the capital or voting rights (whichever is greater) and linked enterprises (100%) as prescribed in Annex I of Commission Regulation (EU) N°651/2014 of 17 June 2014

APPLICATION

According to the procedure for applying for incentive measures under the Act on Investment Promotion (OG, No. 102/15) 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 to **the Ministry of Economy, Entrepreneurship and Crafts before the start of the investment.**

Start of investment means the earlier of either the start of construction works relating to the investment, or the first legally binding commitment to order equipment or any other commitment that makes the investment irreversible. Buying land and preparatory works such as obtaining permits and conducting feasibility studies are not considered start of investment.

INCENTIVE MEASURES

Incentive measures for investment projects in the Republic of Croatia are regulated by the Act on Investment Promotion and pertain to investment projects in:

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

Incentive measures cannot be granted to export-related activities towards third countries or Member States, namely aid directly linked to the quantities exported, to the establishment and operation of a distribution network or to other current costs linked to the export activity; sector of processing and marketing of agricultural products, where the amount of the aid is fixed on the basis of the price or quantity of such products purchased from primary producers or put on the market by the undertakings concerned or where the aid is conditional on being partly or entirely passed on to primary producers; fishery, aquaculture and primary agricultural production sector, as prescribed in Article 1 paragraph 3 subparagraphs (a) and (b) and Article 2 point 9 of the Commission Regulation (EU) N°651/2014 of 17 June 2014; steel, coal, synthetic fibres and transport sector as well as the related infrastructure, as prescribed in Article 2 points 13 and 43-45 of the Commission Regulation (EU) N°651/2014 of 17 June 2014; energy generation, distribution and infrastructure; broadband infrastructure; research infrastructure; and shipbuilding sector.

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,
- € 13,000,000 together with creating at least 10 new jobs requiring university degree (for newly established enterprises).

Investment is an investment in tangible and intangible assets related to the setting-up of a new establishment, extension of the capacity of an existing establishment, diversification of the output of an establishment into products not previously produced in the establishment or a fundamental change in the overall production process of an existing establishment. For aid granted for a **fundamental change in the production process**, the eligible costs must exceed the depreciation of the assets linked to the activity to be modernised in the course of the preceding three fiscal years. For **aid granted for a diversification of an existing establishment**, the eligible costs must exceed by at least 200 % the book value of the assets that are reused, as registered in the fiscal year preceding the start of works.

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

Completion of works is the date when business operation certificate is issued or the date when the material assets associated with the investment project become operational.

AID INTENSITY

The amount of aid shall be calculated as a **prescribed percentage of investment value, which is determined on the basis of eligible investment cost.**

Eligible investment costs are:

- tangible (new, not previously used) and intangible assets (patent rights, licences, know-how or unpatented technical knowledge), or
- costs of job creation calculated as gross wage of newly employed workers calculated over a period of two years.

As eligible costs of investment cannot be calculated costs of acquiring land, previously constructed buildings / facilities and used equipment / machinery. For large undertakings, costs of intangible assets are eligible only up to a limit of 50 % of the total eligible investment costs for the project.

Job creation means a net increase in the number of employees in the establishment concerned compared with the average over the previous 12 months after deducting from the apparent created number of jobs any job lost during that period. In the tourism sector seasonally employed persons shall also be included in the number of employees in accordance with their annual labour units fractions (but for these workers investor cannot receive incentives for job creation).

TAX INCENTIVES

INVESTMENT AMMOUNT (€ MIL.)	NEWLY EMPLOYED	PERIOD (YEARS)	PERIOD OF EMPLOYMENT (YEARS)	PROFIT TAX RATE
0,15 -1 (>0,05 for micro)	5 (3 for micro)	10 (5 for micro)	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 JOBS CREATION*	INCREASE FOR DEVELOPMENT AND INNOVATION ACTIVITIES**	INCREASE FOR BUSINESS SUPPORT ACTIVITIES*** AND HIGH ADDED VALUE ACTIVITIES****
<10%	10% (max. 3,000 €)	+50% (1,500 €)	+25% (750 €)
10-20%	20% (max. 6,000 €)	+50% (3,000 €)	+25% (1,500 €)
>20%	30% (max. 9,000 €)	+50% (4,500 €)	+25% (2,250 €)

* The specified amount of the grant refers to the long-term unemployed, regardless of length of service and level of education, who are registered as unemployed with Croatian Employment Service (CES) for at least 6 months, persons older than 50 years registered as unemployed with CES, persons without work experience registered as unemployed with CES, persons whose contract was cancelled because of the bankruptcy proceedings. For other categories of workers the incentive rate is 40% of the above specified amount.

** Development and innovation activities – activities that affect the development of new and significantly improving existing products, production series, manufacturing processes and / or production technologies

*** Business support services:

1. Customers / Clients relationship centres - all types of call centres, multimedia contact centres and other types of contact and service centres focused on technical support and problem solving for customers / clients.
2. Centres of outsourced business activities - focused on outsourcing and pooling of business activities, such as finance, accounting, marketing, product design, audio-visual activities, human resources development and development of information technology.
3. Logistics and Distribution Centres - aimed at establishing and building high-technology logistics and distribution centres providing intermodal transportation, warehousing, packaging and handling in order to significantly improve logistics and distribution activities within business process and delivery of goods, which relate to investment projects in production and processing activities.
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 and development and application of new software solutions.

**** High Added Value 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
- 2. Hospitality and tourism activities - hospitality and tourism accommodation facilities categorized as four or five stars, such as hotel, aparthotel, tourist resort and camps; heritage hotels, other types of accommodation facilities created by renovation of cultural and historical structures, with the mandatory submission of conservation requirements of reconstruction; supporting services of the aforementioned types of accommodations; health tourism, congress tourism, nautical tourism, cultural tourism, entertainment and/or recreation centres and parks, ecological tourism projects and other innovative projects in tourism with high added value.
- 3. Management, consulting, education services,
- 4. Industrial engineering services.

INCENTIVES FOR INVESTMENT IN DEVELOPMENT AND INNOVATION ACTIVITIES

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.

INCENTIVE MEASURES FOR LABOUR-INTENSIVE INVESTMENT PROJECTS

>100 NEWLY CREATED JOBS*	>300 NEWLY CREATED JOBS*	>500 NEWLY CREATED JOBS*
+ 25%	+ 50%	+ 100%

*On incentive rate in relation to eligible costs of jobs creation.

INCENTIVES FOR EDUCATION AND TRAINING

up to 50 % of the eligible costs of education and training*	+ 10% if the training is given to workers with disabilities	+10% if the aid is granted to medium-sized enterprises	+20% if the aid is granted to small and micro-sized enterprises
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*incentives for education cannot exceed 70% of eligible costs of education and training or 50% of incentive in relation to eligible costs of jobs creation

** The eligible costs for the purpose of training may include trainers' personnel costs, for the hours during which the trainers participate in the training; trainers' and trainees' operating costs directly relating to the training project such as travel expenses, materials and supplies directly related to the project, depreciation of tools and equipment, to the extent that they are used exclusively for the training project; costs of advisory services linked to the training project; trainees' personnel costs and general indirect costs (administrative costs, rent, overheads) for the hours during which the trainees participate in the training. Accommodation costs are excluded. Incentives will not be awarded for the training conducted to ensure compliance with the mandatory training prescribed by national norms.

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%	10% of the eligible costs of investments in long-term assets (max. 500.000 €)*
>20%	20% of the eligible costs of investments in long-term assets (max. 1.000.000 €)*

* eligible costs of investments in long-term assets are construction of the new factory, production facility and buying of new machines, i.e. production equipment, 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.

INVESTMENT INCENTIVES FOR THE INVESTMENT OF THE NEWLY ESTABLISHED ENTERPRISE IN THE MINIMUM AMOUNT EQUIVALENT TO € 13,000,000 PROVIDED THAT A MINIMUM OF 10 NEW JOBS REQUIRING UNIVERSITY DEGREE AND RELATED TO THE INVESTMENT PROJECT ARE CREATED

INCENTIVES TO MAINTAIN UNCHANGED BUSINESS CONDITIONS	INCENTIVES FOR INVESTMENT	INCENTIVES 50% - 50%	GRACE PERIOD FOR TAX PAYMENTS
through co-financing up to the differences in tax liabilities and liabilities arising from contributions determined in accordance with the regulations that were in force at the time of filing the application for approval of the status of aid beneficiary and tax liabilities and liabilities arising from contributions in accordance with the regulations in force at the time of calculation of those commitments, for a period of 10 years from the beginning of investment	through co-financing of the part of the tax liabilities to the state other than value added tax, or part of the amount of the obligatory contributions in the period to 10 years from the initial investment	through co-financing of: up to 50% of tax due on income from employment, and/or: up to 50% of income tax liability and advance payment of income tax.	through interest-free loan from the competent ministry for the payment of tax liabilities, except value added tax, for a period of three years from the beginning of investment