

Foreign Direct Investment Initiatives in Croatia

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Earlier this month, Croatia became the 28th member state of the European Union. The country's EU membership will contribute to political and economic development along with ensuring high standards of the rule of law and high quality regulation. In addition, Croatia's local businesses and foreign investors are able to operate in a more competitive business environment in which a number of incentives already exist. Consequently, investing in Croatia is becoming more attractive; MACESIC & PARTNERS told us more.

MACESIC & PARTNERS Law offices are one of the oldest Croatian law firms oriented towards international practice. MACESIC & PARTNERS currently consists of fifteen lawyers and operates through two offices in Rijeka and Zagreb.

The firms practice areas include dispute resolution, transportation, insurance, energy and natural resources, corporate/M&A/insolvency/corporate restructuring/competition/public procurement, banking and finance, intellectual property, commercial property/real estate.

Jelena Zjadic and Ana Padjen are Partners at MACESIC & PARTNERS.

Jelena started her professional career with the firm and today has more than eight years of experience in advising in all aspects of corporate law with particular focus on banking and finance as well as restructuring practice.

Ana is experienced in advising international clients on intellectual property, labor law, commercial, debt collection and dispute resolution matters.

Q What makes Croatia an attractive business/investment destination?

This due to its geographical location (Central and Mediterranean Europe and gateway to Balkans), natural resources (water supplies, forests, oil and gas reserves, etc.) as well as for political reasons – especially it became a member of the EU. In addition, the transition in course and privatization of a large number of state owned companies continues to broaden its appeal.

Q What does becoming a member of the EU mean for Croatia's business/investment landscape?

From Croatia's point of view, by becoming an EU member state Croatia should become more interesting for potential investors. Croatia as part of the common market will become a playing field

familiar for investors either coming from EU countries or with previous experience in investing in EU countries. One of direct consequences is that investors will not be required to establish their corporate presence in Croatia, if they have already established corporate presence in any of the existing EU member states.

Q What potential investment strategies are provided by Croatia's tax systems?

Effective from 10 October 2012 there is a new Act on Investment Promotion and Improvement of Investment Environment (the "Act") (OG 111/2012 with amendments) with the aim to increase direct investment and employment in Croatia.

The Act provides different incentive measures that include tax incentives by means of reducing the Profit Tax for a period of ten years from the start of the investment under the condition of creating a prescribed number of new jobs in connection with the investment. For instance, for investment from EUR 150.000,00 up to EUR 1 million, Profit Tax rate (20%) is reduced for 50% provided that 5 new jobs are created and for above EUR 3 million, Profit Tax rate is reduced for 100% provided that 15 new jobs are created.

Tax incentives can be approved without creating new jobs, provided there is a modernization of the technology process or production line in place, and number of jobs is preserved for at least three years from when the incentives are used. Special conditions are set for micro-entrepreneurs (companies with up to 10 employees).

Q How does one best structure an investment in Croatia? What are the potential liabilities and how can these be mitigated or overcome?

To plan and structure an investment in Croatia it is recommended to identify an economic sector and determine whether there exist incentives prescribed by the law for investments in this sector. Investors are encouraged to refer to specialized government agencies such as Croatian Agency for SMEs and Investment (HAMAG INVEST), Agency for Investments and

Competitiveness (AIK) that provide assistance in administrative, strategic and technical support in applying for incentives. Investment interesting sectors are production, agriculture, tourism (as strategic interest), transportation and energy sector.

The location of the investment within Croatia may also be of relevance when structuring investment. For example, the Act on Areas Under Special State Care provides reduced income rate for investors that perform their activities in the area under special state care provided that they meet prescribed requirements (number of employees with residence in the area under special state care).

Foreign investors, in terms of liability, have the same position as domestic investors.

Q What more can you tell us about existing incentives for investment projects of significant economic interest?

According to the Act, investors in Croatia can apply for various incentives, for instance if they purchase new equipment and modern technologies, create new jobs or stimulate training of employees, or develop products and services with higher added value. Incentives refer to tax advantages (for instance reduced Profit Tax), non-refundable financial support or exemption from custom duty. The incentives differ depending on the amount of investment. For an example, regional aid intended for investments with eligible investment costs exceeding EUR 50 million (large investment projects) is determined upon the maximum intensity of aid in a way that for instance for the part of investment amounting to EUR 50 million, the maximum total aid intensity amounts to 100%.

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