

Overview of the new Investment Promotion Act

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The new Investment Promotion Act entered into force on 4 June 2022, except for certain provisions which will take effect on the date of the introduction of the euro as the official currency in the Republic of Croatia. The main purpose of the adoption of the new Act is to harmonize with a new regional support map of the Republic of Croatia, which determines the maximum support intensity, and to further align the Croatian legal system with the *Acquis Communautaire*. The new Act intended to regulate the allocation of regional state support for the purpose of promoting both economic growth and the realization of the economic policy of the Republic of Croatia, thereby reinforcing the investment and competitive ability of Croatian entrepreneurship.

Who can use the investment aid and incentives?

Investment aid and incentives can be used by entrepreneurs registered in the Republic of Croatia (companies and craftsmen, who are subject to Croatian Profit tax).

In order to benefit from investment aid, in a three-year period, the entrepreneurs must make certain investments in fixed assets in the minimum amount of:

- (i) EUR 150,000.00 subject to opening at least 5 new workplaces;
- (ii) EUR 50,000.00 subject to opening at least 3 new workplaces for micro entrepreneurs;
- (iii) EUR 50,000.00 subject to opening at least 10 new workplaces for centres for the development of information and communication systems and software;
- (iv) EUR 3,000,000.00 subject to opening at least 15 new workplaces for investment projects through economic activation of inactive assets owned by the Republic of Croatia; and
- (v) EUR 500,000.00 for investment projects of modernization and increase of the productivity of business processes.

Incentive intensity

The adoption of a new regional support map, valid from the 1 January 2022 to the 31 December 2027, increases the maximum incentive intensity, which will depend not only on the size of individual enterprise (small, medium or large enterprises), but also on the location where the investment is planned (the area of the City of Zagreb, Northern Croatia, Pannonian Croatia and Adriatic Croatia).

Application for the incentives

To use any of the following incentives, the entrepreneurs must apply for their use. Entrepreneurs must apply for the investment aid, before the start of the planned investment, to the Ministry of Economy and Sustainable Development.

Types of Incentives

Entrepreneurs have the opportunity to use the following investment aid and incentives: (i) tax incentive for micro-entrepreneurs, (ii) tax incentives, (iii) grants for eligible costs of new workplaces related to investment projects, (iv) grant for eligible training costs related to investment projects, (v) grants for development – innovation activities, business support activities and high value-added service activities, (vi) grants for capital costs of the investment project, (vii) grants of labour intensive investment projects, (viii) incentives for

economic activation of inactive assets owned by the Republic of Croatia, and (ix) tax incentives for modernization of business processes – automation, robotization and digitalization of production and processing processes.

Tax incentives for micro-entrepreneurs

If the micro-entrepreneur makes an investment in the minimum amount of EUR 50,000.00, the profit tax rate will be reduced by as much as 50% in a five-year period from the start of the investment. The condition that has to be met is that the micro-entrepreneur is required to open a minimum of 3 new workplaces related to the investment project in the three-year period from the start of the investment.

Tax incentive

Tax incentives are dependent on the amount of investment and the number of newly created workplaces.

If the entrepreneur makes an investment in the amount of EUR 150,000.00 to EUR 1,000,000.00, with the condition that the entrepreneur opens a minimum of 5 new workplaces related to the investment project, the applicable profit tax rate may be reduced by 50% in the period of 10 years from the start of the investment.

If the entrepreneur makes an investment in the amount of EUR 1,000,000.00 to EUR 3,000,000.00, with the condition that the entrepreneur opens a minimum of 10 new workplaces related to the investment project, the profit tax rate can be reduced by 75% of prescribed profit tax rate in a period of 10 years from the start of the investment.

If the entrepreneur makes an investment in the amount higher than EUR 3,000,000.00, with the fulfilment of the condition to open at least 15 new workplaces related to the investment, the corporate tax rate can be reduced by 100% of prescribed profit tax rate in a period of 10 years from the start of the investment.

Additionally, there are specific conditions for centres for development of information and communication systems and software. For these entrepreneurs profit tax rate can be reduced by 50% for investments in the amount of EUR 50,000.00 to EUR 1,000,000.00, with the condition of opening 10 new workplaces related to the investment.

Grants for eligible costs of new jobs related to the investment project

The calculation method of the non-refundable financial grant is based on the unemployment criteria in each registered county.

In a county where the unemployment rate is 10%, the entrepreneur may receive a non-refundable financial grant of 10% of eligible costs for the opening of a new job and a maximum of EUR 3,000.00 per newly created job.

In a county where the unemployment rate is between 10% and 15%, the entrepreneur may receive a non-refundable financial support of 20% of eligible costs for the opening a new job and a maximum of EUR 6,000.00 per newly created job.

In a county where the unemployment rate is higher than 15%, the entrepreneur will receive a non-refundable financial support of 30% of eligible costs for the opening of a new job and a maximum of EUR 9,000.00 per a newly created job.

Grant for eligible training costs related to investment projects

The entrepreneur can receive a non-refundable financial grant for the training of employees at new jobs related to the investment project. Eligible training costs include (i) lecturer costs, and (ii) related costs (e.g., travel costs, costs of materials and consumable goods directly related to the project, depreciation of tools and equipment).

The intensity of the grant may cover up to 50% of eligible costs, but it may increase up to 70% of eligible costs in the following cases: (i) increase by 10% if the training is carried out for an employee with disability, (ii) increase by 10% if the grant is awarded to medium-sized enterprise, and (iii) increase by 20% if the grant is awarded to a small-sized and micro enterprise.

Grant for development and innovation activities, business support activities and high value-added service activities

If the entrepreneur makes certain investments in development and innovation activities, it will receive a non-refundable financial grant to purchase the equipment and/or machines of up to 20% of eligible costs thereof, and a maximum of EUR 500,000.00, with

the condition that the purchased equipment and/or machines consists of high technology.

Grant for capital costs of the investment project

In order to use financial support for the capital costs of the investment project, the entrepreneur is expected to meet the following conditions: (i) investment in a minimum amount of EUR 5,000,000.00, (ii) the investment must be made in fixed assets, and (iii) at least 50 new jobs related to the investment project has to be open. Grant for capital costs of the investment project is awarded for a period of three years from the start of the investment.

If the entrepreneur, who intends to obtain financial grant is located in a county where the unemployment rate is between 10% and 15%, the entrepreneur will also receive a non-refundable financial grant of 10% of the eligible costs of investment in fixed assets for the costs of building a new factory or industrial plant, as well as costs of purchasing new machines and/or equipment and a maximum of EUR 500,000.00, subject to an additional condition that the share of investment in machines and/or equipment is at least 40% of the total value of the investment and at least 50% of purchased machines and/or equipment must be high technology.

However, if the activity is undertaken in a county where the unemployment rate is higher than 15%, then the entrepreneur may receive a non-refundable financial grant of 20% of eligible costs of investment in fixed assets and a maximum of EUR 1,000,000.00, provided that the previously mentioned conditions have been met.

Grant for labour-intensive investment projects

If the entrepreneur opens more jobs, it will be entitled to an increased grant. Such increased grant is then valid for a period of 3 years from the start of the investment.

The entrepreneur who opens at least 100 new jobs is entitled to a 25% grant increase, if he opens at least 300 new jobs he is entitled to a 50% grant increase, and if

he opens at least 500 new workplaces a 100% grant increase.

Grant for economic activation of inactive assets owned by the Republic of Croatia

The term "inactive asset" includes land and/or buildings which are not in function and where no economic activity is carried out.

This grant is awarded to entrepreneurs who intend economically activate the real estate owned by the Republic of Croatia. The grant relates to fixed assets of entrepreneurs and it amounts to at least EUR 3,000,000.00, subject to a condition of opening at least 15 new jobs relating to the investment project within a period of 3 years from the start of the investment .

Tax incentives for modernization of business processes – automation, robotization and digitalization of production and processing processes

The main purpose of this incentive is to improve the existing technological level of business processes within the production and processing industry, and transformation towards the technological level of industry 4.0.

Under this tax incentive, the profit tax rate is reduced depending on the amount of investment for a period of 10 years from the start of the investment.

If the entrepreneur makes an investment in the amount of EUR 500,000.00 to EUR 1,000,000.00, the corporate tax rate will be reduced by as much as 50%.

If the entrepreneur makes an investment in the amount of EUR 1,000,000.00 to EUR 3,000,000.00, the profit tax rate may be reduced by 75%.

If the amount of investment is higher than EUR 3,000,000.00, the profit tax rate may be reduced by 100%.

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