

# INVESTMENT PROMOTION LAW

## I – GENERAL PROVISIONS

### Article 1

(1) This Law regulates the promotion of investments of Croatian and foreign legal or physical persons with the aim to stimulate economic growth, development and implementation of the economic policy of the Republic of Croatia, its integration into international trade through increase of export and competitiveness of the Croatian economy.

(2) For the purpose of this Law, the investment promotion shall comprise a system of incentive measures, tax and tariff privileges.

(3) The incentive measures, tax and tariff privileges regulated by this Law apply to the investments in economic activities, if those investments provide for environmentally friendly activities and if they meet one or more of the following objectives:

- Introduction of new equipment and modern technologies,
- Introduction of new production processes and new products,
- Employment and education of employees,
- Modernisation and improvement of business,
- Development of production with higher degree of processing,
- Increase of export,
- Increase of economic activities in the parts of the Republic of Croatia where economic growth and employment fall behind the state average,
- Development of new services,
- Saving of energy,
- Improvement of information activities,
- Co-operation with foreign financial institutions,
- Adjustment of Croatian economy to European standards.

### Article 2

For the purpose of this Law, the expressions shall have the following meanings:

1. Investor: Croatian or/and foreign legal or physical person or few of them together who invest at least four million kunas into the beneficiary of incentive measure, tax and tariff privilege.
2. Investment: the value of assets, rights and liabilities determined in compliance with IAS, entered as the ownership of the beneficiary of incentive measures, tax and tariff privileges.
3. Beneficiary of incentive measures, tax and tariff privileges: companies taking advantage of incentive measures, tax and tariff privileges. Tax and tariff privileges may be given only to the beneficiary of incentive measures, tax and tariff privileges registered as a newly established company which is

registered for the exclusively for the activities that they are granted the tax and tariff privileges for.

Exceptionally, if the investment in tourist activity is concerned, subject to an application by the investor and proposal of the Ministry of Tourism, the Government of the Republic of Croatia may decide that the already existing company is the beneficiary of incentive measures, tax and tariff privileges.

4. Ministry: Ministry of Economy as the ministry in charge of the activities related to investment promotion.

## II – INCENTIVE MEASURES

Incentive measures

Article 3

The incentive measures shall include:

1. Leasing, granting of construction rights, sale or usage of real estate or other infrastructure facilities under commercial or more favourable conditions, including without a fee, notwithstanding the provisions of Article 391 of the Law on Property and Other Rights in Rem and Article 6 of the Law on the Lease of Business Premises, Real Estate and Facilities Owned by the Republic of Croatia, local government or self-government units, or real estate from the portfolio of the Real Estate Fund for the Promotion of Investment.
2. assistance granted for the new job creation,
3. assistance granted for the vocational training or re-training.

Assistance granted for the new job creation, vocational training or re-training

Article 4

(1) The beneficiary of incentive measures, tax and tariff privileges who creates new jobs and new employment may be granted the amount up to 15,000 kunas per employee for covering the cost of job creation by the Fund for the Stimulation of New Job Creation and Re-training of Employees on a one-time basis.

(2) The incentive under paragraph 1 above applies only to new job creation under condition that the number of new employees is not reduced during the period of three years at least.

(3) For the purpose of this Law, when calculating the number of newly created jobs the number of jobs abolished in other companies of the investor, which are in relation to the investment of the investor shall be taken into the consideration.

(4) If the employer invests in vocational education or re-training of his employees, the Fund for the Stimulation of New Job Creation and Re-training of Employees may participate with up to 50% in covering of the costs of the vocational education or retraining.

(5) The participation in covering of the costs specified in paragraphs 1 and 4 above shall be in the form of non-repayable funds or soft-loan granted by the

Fund for Stimulation of New Job Creation and Re-training of Employees.

(6) The Fund for Stimulation of New Job Creation and Re-training of the Employees decides on the incentive measures on the proposal of the Ministry of Labour and Social Welfare.

Incentive funds

Article 5

(1) The establishment and activities of the Real Estate Fund for the Promotion of Investment and the Fund for Stimulation of New Job Creation and Re-training of Employees will be determined in a separate law.

(2) Before the Funds under paragraph (1) are established, the Ministry and other authorised body as the Privatisation Fund shall grant the incentive measures from real estates and resources, and contracts that the Government of the Republic of Croatia or other authorised body disposes of pursuant to laws and other regulations.

(3) The priority in granting of incentive measures shall be given to companies in majority ownership of Croatian legal and physical persons.

(4) The bodies under paragraph 2 above which grant incentive measures are obliged to keep records of those grants; the minister of finance shall stipulate the content and form thereof.

### **III TAX AND TARIFF PRIVILEGES**

Tax privileges

Article 6

(1) For investments exceeding the amount of 10 million kuna, profit tax rate will be 7% for a period of 10 years as from the first year of the investment, under condition that not less than 30 employees are employed in that period beginning with the first year of the investment.

(2) For investments exceeding 20 million kuna, profit tax rate will be 3% for a period of 10 years as from the first year of the investment, under condition that at least 50 employees are employed in that period beginning with the first year of the investment.

(3) For investments exceeding 60 million kuna, profit tax will rate be 0% for a period of 20 years as from the first year of the investment, under condition that at least 75 employees are employed in that period beginning with the first year of the investment.

(4) The total amount of the tax privilege that the investor is entitled to during the period of the application of the preferential profit tax rate may not exceed the value of the investment itself. This amount is determined as absolute amount of the difference between the due amount of the profit tax calculated pursuant to the Profit Tax Law and the amount calculated pursuant to this Law.

(5) If the beneficiary of incentive measures, tax and tariff privileges reduces the number of employees determined in the provisions of Article 4

above and paragraphs 1, 2 and 3 above, the right to use the privileges concerned ceases for the whole period granted and he is obliged to repay the funds derived from the privileges granted together with the interest.

(6) The beneficiary of incentive measures, tax and tariff privileges whose right to use the privileges ceased may not be granted those privileges again.

## Structure of investments

### Article 7

The part of the investment which comprises land, buildings aged more than one year, and already used equipment, invested as a share of the investment shall not be treated as a part of investment under Article 2, item 1 and Article 6, paragraphs 1, 2 and 3.

## Tariff privileges

### Article 8

When the equipment which is a part of the investment is imported, the customs duty does not apply to goods under Chapters 84, 85 86 and 87 (except motor vehicles of a cylinder capacity exceeding 1500 m3), 88, 89 and 90 of the Tariff Law.

### Article 9

When the investment of special economic interest for the Republic of Croatia is made, the Government of the Republic of Croatia may increase the amount of incentive measures, tax and tariff privileges stipulated in this Law and extend the delay for the transfer of losses of the previous accounting period after the proposal of the authorised ministry taking into account the importance of investment for the overall economic development and employment, equal regional development, the development of the less developed areas and the development of the economic sector in which the investment has been made,.

### Article 10

(1) Legal and physical persons who intend to submit an application for the incentive measures, tax and tariff privileges pursuant to this Law have to inform the Ministry and the Ministry of Finance – Tax Administration in writing on the manner, kind and amount of incentive measures, tax and tariff privileges.

(2) On the basis of this prior information, the Ministry, together with the Ministry of Finance and other ministries in charge of the investment concerned, shall assess whether such an investment is eligible for incentive measures, tax and tariff privileges. The applicant shall be informed on the standpoint in 30 days from the date of the reception of the prior information.

(3) The beneficiaries of incentive measures, tax and tariff privileges are obliged to submit an annual report in writing to the Ministry and Ministry of Finance – Tax Administration during the period those measures and privileges are used.

(4) The annual report under paragraph 3 above is submitted before the end of March of the current year for the previous calendar year.

(5) If the beneficiary of incentive measures, tax and tariff privileges does not submit the report in the period specified under paragraph 4 above, its right to use the incentive measures and privileges ceases.

(6) The obligatory content of the report under paragraph 1 and 3 above will be stipulated in the Decree adopted by the Government of the Republic of Croatia.

(7) If necessary, the Ministry of Finance – Tax Administration is entitled to control and inspect the usage of incentive measures, tax and tariff privileges with the beneficiary of incentive measures to detect and penalise irregularity and illicitness.

#### IV. PENALTY CLAUSE

Penalty clause

Article 11

(1) The beneficiary of incentive measures, tax and tariff privileges shall be fined with 100.000,00 kuna to 1.000.000,00 kunas if he:

- does not use the incentive measures, tax and tariff privileges in compliance with the provisions of Article 4, 6 and 8 of this Law,
- does not submit an annual report in writing to the Ministry and Ministry of Finance – Tax Administration in compliance with the provisions of Article 10 of this Law.

(2) The responsible person of the beneficiary of incentive measures, tax and tariff privileges shall also be fined for violation under paragraph 1 above with 10.000,00 to 100.000,00 kunas.

#### V – TRANSITIONAL AND FINAL PROVISION

Article 12

(1) The Government of the Republic of Croatia undertakes the obligation to adopt the Decree under paragraph 6 of Article 10 above within 60 days of the date this Law enters into force.

(2) The minister of finance undertakes the obligation to adopt the regulation under paragraph 4 Article 5 within 60 days of the date this Law enters into force.

(3) The minister of finance is authorised to adopt other regulations for the implementation of this Law if necessary.

Article 13

This Law shall enter into force on the eighth day following its publication in the "Official Gazette".

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Zagreb, 12th July 2000

HOUSE OF REPRESENTATIVES

OF THE CROATIAN STATE PARLIAMENT

President of the House of Representatives  
of the Croatian State Parliament  
Zlatko Tomcic, signed



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