

Croatia - The Insider's Choice for Tax-Advantaged Residence and Yachting in Europe

by Dr. Nenad Saljic

Croatia is generally a high-tax country, but it offers interesting advantages for persons who receive certain income, for example a foreign pension, bank interest and capital gains. Croatia also offers important tax advantages to yacht owners. These fiscal advantages as well as the natural beauty of the country and its rich culture and history make Croatia one of the most attractive locations for residence and retirement in Europe.

Rich culture and unspoiled nature

Croatia is divided between the Latin-influenced coast and an interior which is more Central European. The official language is Croatian, but English is widely spoken. Croatia occupies an area only slightly larger than Switzerland, but has a spectacular 6,000 km coastline on the Adriatic Sea with more than one thousand islands, of which only 66 are inhabited. This is the most beautiful coast in Europe with innumerable bays, inlets, coves and beaches. Most islands receive more than 2,600 hours of sun a year. Before separation from Yugoslavia, Croatia had a well-developed tourism sector attracting about 10 million visitors annually. Tourism is now rapidly recovering. Besides a beautiful coast and countryside, there are many historic places such as Pula, Split, Korcula, Trogir, or Dubrovnik. On the Adriatic coast alone there are five UNESCO World Heritage sites.

Prime real estate at attractive prices

Land and house prices are still very favourable, particularly on the islands where there are beautiful stone houses built in the traditional style. Also in the historic towns there are excellent opportunities to acquire prime location real estate at reasonable prices. Although the purchase of real estate is straightforward, it is nevertheless advisable to use a lawyer to assist with the transaction. After the lawyer has prepared the contract, the parties sign the contract and the notary certifies the signatures. Following that, the property is registered on behalf of the buyer. Foreign persons can purchase real estate in Croatia providing that they get an approval from the Ministry of Foreign Affairs. Such approval may take up to six months, but it can easily be avoided if the property is bought by a domestic company, which can be entirely owned and controlled by a foreign person.

Residence and personal taxation in Croatia

Foreign nationals who wish to stay longer than three months in Croatia must obtain a residence permit. To obtain one it is sufficient to have a yacht moored in a Croatian marina or to rent or own an apartment. An application for residence in Croatia involves submitting various government forms and identification documents, including proof of sufficient funds, and requires a visit to Croatia followed by six to eight weeks processing time. The residence permit is valid for maximum of one year and can be easily renewed.

You are tax resident in Croatia *based on physical presence* if you stay for at least 183 days under circumstances that indicate your visit is not temporary. The 183-day visit may overlap calendar years. You are tax resident *based on maintaining a home in Croatia* if you have accommodation there at your exclusive and continuous disposal for at least 183 days under circumstances that indicate you intend to keep and use that accommodation. Again, this period may overlap calendar years. Your length of stay is not important, nor does it matter if the accommodation is owned or rented. Tax-residents are generally taxed on their worldwide income. However, there are important exemptions, which make Croatia very attractive for personal residence also from a tax point of view.

Croatian residents normally pay personal income tax of 35% for monthly salaries of more than 6,250 kunas (approximately US\$ 750). With surtaxes and social security deductions the total tax burden on salaries can easily exceed 50%. However, if you do not receive a salary, consultancy fees or similar income in Croatia, the tax situation is much more favourable.

Dividends, royalties and interest payments from non-financial institutions received by individuals are taxed at only 15% but can be lowered to 5% (for dividends) or to 0% (royalties and interest payments) if a double-taxation agreement applies. Croatia currently has 27 double-taxation agreements in place. Interest payments on loans, investments, deposits with financial institutions, public loans and securities and similar income are exempt from taxation, as are pensions received from abroad and capital gains from trading any financial assets. Inheritance and gifts are exempted from taxation in the first line of succession, and in other cases there is a single rate of only 5%.

Besides all these advantages, due to the lack of controlled foreign corporation rules, anti-avoidance provisions or similar regulations in Croatia, appropriate structures can be relatively easily put in place for personal tax planning and financial privacy.

Tax-free yachting

Croatia is also a very attractive place for yacht owners who wish to keep their yachts in Europe, but not within the EU to save the Value Added Tax (VAT) on the purchase price. Yacht owners can moor their yachts in Croatia indefinitely without paying Croatian import duties or VAT. Spare parts and additional yacht equipment remain duty-free and VAT-free if the yacht is under a foreign flag. Since Croatia is not a EU member, you do not have to pay VAT on a yacht purchased within the EU if the yacht is registered and exported out of EU territory. Yacht owners with Croatian residence permits can sail into EU waters for up to six months annually without paying VAT on the yacht.

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