



POSITION PAPER
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**Tax Treaty Would Increase Investment, Benefiting Both US and Croatian
Trans-Atlantic Trade**

Tax treaties are bilateral agreements between countries that harmonize the tax systems of those countries, which is applied to companies and individuals involved in cross-border investment and trade (i.e. income, profit, capital gain, inheritance, etc.). The primary purpose of such treaties is to avoid the realistic potential of double taxation, first by the country where the income arises and again by the country of the recipient's residence. This double taxation is eliminated by a tax treaty by allocating jurisdiction. Treaties often offer a significant measure of certainty to potential investors. An extremely important benefit that is available exclusively under tax treaties is the mutual agreement procedure, which is meant to resolve disputes in particular case or disputes on issues that become a matter of interpretation. Hence, double taxation on cross-border transactions are avoided through this administrative mechanism.

Tax treaties also provide for the exchange of information between the countries' tax authorities. This administrative mechanism provides for governments to efficiently monitor flows of income from their residents to another country, in order to police their income tax laws. Since the world has absolutely become a global and digital economy, tax treaties are becoming increasingly important in preventing the imposition of excessive or inappropriate taxes on global businesses, ensuring a fairer and more competitive business climate.

Croatia does NOT have Tax Treaty with the United States!

For all of the positive business and security reasons outlined in the above paragraphs, AmCham Croatia absolutely supports the ratification of a Tax Treaty between the United States and Croatia. Even though not all of our membership would be affected by such a Tax Treaty, all of our members (160) replied positively to the possibility of such a treaty in a survey that was conducted in 2007. In Croatia, the lack of such a treaty is essentially resulting in not double-taxation but almost a triple-taxation factor for some of our members. In order to maintain the salaries at the same level for US professionals coming to Croatia, our member US companies are forced to pay US and Croatian tax and then there are additional taxes (social taxes) paid by the employer, in order for the employee to receive the same take-home salary.

As a member of U.S. Chamber of Commerce, the American Chamber of Commerce in Croatia (AmCham Croatia) is the voice of US and other international businesses in Croatia and of Croatian businesses abroad. AmCham Croatia is committed to ensuring an optimum business and investment climate in Croatia, promoting the highest standards of free-market commercial practice. AmCham Croatia facilitates the resolution of issues that impact business in Croatia and represents a membership that employs over 38,000 persons, generating over \$5 billion of revenue. Total US investment in Europe amounts to \$964 billion, and currently supports over 3.6 million jobs, with AmCham Croatia also being an integral member of the European Council of the American Chambers of Commerce (ECACC), networking 37 countries throughout Western and Central Europe.

In the last few years, there has been a considerable rise of US investor interest (and realization) in Croatia. This positive trend of US investment in Croatia is absolutely expected to continue, given Croatia's opening of its market, which opens investment opportunities to the region. This expectation is also supported by the invitation to Croatia to join NATO (the US Govt has ratified treaties with all present NATO member states) and by Croatia being an EU candidate for membership, expecting to join the EU in 2010 (the US Govt has ratified treaties with all present EU member states.) The recent visit to Croatia by US President George W. Bush further supports this positive trend of US and Trans-Atlantic trade with Croatia. The lack of a treaty between the US and Croatia makes US investors significantly less competitive in this environment.

AmCham Croatia, our membership – 160 US, Croatian and other foreign companies, organizations and individuals - and US investors absolutely support every effort that would lead to the realization of a Tax Treaty between the United States of America and Croatia. In a recent working group meeting with Croatian officials, the Croatian Tax Authorities stated that they are prepared to provide an experienced team to be dedicated to treaty preparation at short notice, if necessary and as soon as Croatia becomes a priority for processing by the US Treasury Department.

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