

III. Set of Recommendations for Economic Relief

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American Chamber of Commerce in Croatia *Američka gospodarska komora u Hrvatskoj*

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Introduction

The American Chamber of Commerce in Croatia supports the efforts of the Croatian Government to help entrepreneurs overcome the period of crisis caused by the COVID-19 pandemic, ensure liquidity, and protect jobs. We would like to take this opportunity to emphasize once again the importance of provision of an extension of the time limit for implementation of the measures. Once the extraordinary circumstances caused by the pandemic end, it is expected that a certain period will be required to restart the activities suspended, place orders of raw materials, contact clients and establish a regular work cycle. Therefore, it is already necessary at this moment **to consider an extension of the aid measures directed at the economy by three months following the end of the extraordinary circumstances**. In case of tourism, it is necessary to plan extraordinary aid measures spanning 12 months immediately to achieve certainty of business.

AmCham also welcomes recent Action Plan for Reduction of Non-tax and Parafiscal Charges adopted by the Croatian Government to help the economy. It is our opinion that their lack of transparency, too large a number, along with the financial burden and administrative complexity, represent the biggest problems for entrepreneurs in Croatia, and that the abolition and/or reduction of non-tax and parafiscal charges can help improve the business climate.

Non-tax and Parafiscal charges

Entrepreneurs in Croatia pay about 440 different parafiscal charges, which significantly hinder their business operations. Certain taxes have a generally useful purpose, so abolishing them would create a budget deficit that would have to be financed from other sources. There are also numerous taxes that do not represent a big financial burden, but the purpose of their payment is not transparent. Many indirect taxes and payments represent an administrative burden as well, in terms of monitoring payment obligations and overly complex procedures.

The biggest problems the entrepreneurs point out are the following:

- Too many parafiscal charges
- Lack of transparency
- Financial burden
- Procedural complexity
- Administratively demanding monitoring of the payment obligation

For that reason, it is necessary to focus on:

- **The reduction of the total number of parafiscal charges**
- **The reduction of the financial burden caused by the taxes**

Considering the crisis caused by the COVID-19 pandemic, whose negative effects will have a long-term impact on the economy, AmCham proposes the following measures, which can be implemented in a short time, and are based on the idea that the state has an insight into the overall list of parafiscal charges burdening the economy:

1. Regularly update and make publicly available a detailed list of all taxes and parafiscal charges businesses are required to pay, as well as the purpose of their payments, together with a report on the use of those funds in the last year.
2. Simplify the administrative monitoring of tax payments and parafiscal charges in such a way that certain levies, which are continuous and do not have a big financial impact, but are administratively time-consuming, are grouped together and put under a single invoice, while the state assumes the obligation to distribute the revenue from those levies.
3. Reconsider legal framework for obligatory membership in the Croatian Chamber of Economy and the Croatian Chamber of Trades and Craft and make the membership obligation voluntary.
4. As priorities for considering the permanent abolition and further reduction of parafiscal charges at the expense of the economy, we propose: monument annuity, forestry contribution, and fees for the Croatian Financial Agency. We suggest an increase of internal efficiency, which would compensate for the portion that has been incurred by reducing charges.
5. We suggest including the AmCham representatives into the work of Committee for reduction and abolishment of parafiscal and non-tax charges.

Income tax from 2019

We propose the introduction of the possibility of tax loss carryback, i.e. the obtainment of tax refund for tax paid in e.g. 2019 because of losses incurred in 2020. A similar measure was proposed by the Ministry of Finance of the Czech Republic as well.

We also propose the deferral, i.e. the exemption from advance payments of corporation tax in 2020, considering that the monthly advance is not covered by the currently applicable COVID measures, and with the aim of maintaining the liquidity of the economy.

Offset of mutual tax liabilities

According to the General Tax Law (Article 129), it is taxpayers' statutory right to be able to use any tax overpayments (i.e. receivables from the State) for settling liabilities for other taxes. The legal regulation does not prescribe any restrictions in the offset between different tax forms (since these are receivables that are identical), so until recently it was possible to offset liabilities for any type of tax) with their VAT based receivables. However, in the last few months entrepreneurs have been encountering difficulties while trying to offset existing tax overpayments with other taxes, thereby adversely impacting their liquidity. Specifically, they have been allowed to use input VAT overpayments to offset only output VAT liabilities (absence of which has been caused by the crisis). Since many entrepreneurs have already found themselves in the VAT overpayment position during the past few months due to decreased commercial activities (i.e. reduced number of outgoing invoices) or will find themselves in the VAT overpayment position once they restart their activities and start incurring increased business inputs (e.g. due to increased ordering of raw materials) and before their outgoing deliveries of goods and services return to normal level, AmCham suggests that companies/taxpayers are enabled – as it had been the practice until recently - to utilize their right to offset their liabilities for any type of tax (e.g. Personal Income Tax and Social Security Contributions) with their VAT based receivables.

Exemption from payment of VAT on earthquake donations

The General Tax Law states that, according to a special regulation, taxpayers entered in the register of value added taxpayers are exempt from paying VAT for supplies of goods and services, performed without compensation or consideration, and necessary to combat the effects of the COVID-19 pandemic, until the expiry of a period of three months from the day Article 107a of the Law entered into force. We suggest extending the exemption to donations made in order to help with the Zagreb earthquake.

Inclusion of non-profit institutions in tax measures for helping the economy

Given the uncertainty of the situation with the COVID-19 pandemic, non-profit institutions such as educational institutions of private founders and the like expect a significant reduction in activity in the following academic year, and are not covered by the adopted measures to help the economy.

The aid for undertaking in the activities affected by the coronavirus aimed at retaining jobs are set out in such a manner that employers have to demonstrate that their economic activity has been distorted. Non-profit institutions, in this case educational institutions with private founders, do not have a registered economic activity and are thus not able to prove that their work has been undermined, given that classes have been moved online.

These institutions operate on an academic year basis, i.e. collect tuition fees in the fall semester (October) and the spring semester (March) and are thus not able to demonstrate a drop in their income because this situation has not affected the students at the moment of paying for the spring semester. For private educational institutions, these indicators will only be visible in the fall and spring semester of the next academic year. There have already been numerous enquiries from parents and students, who are no longer able to secure money for the tuition fees in the subsequent period because of a reduction in their income, as well as many students studying abroad, who have uncertainties regarding closed borders and a new flaring up of the virus.

According to current data, in the next 6 – 12 months, the total decline in activity and income is expected to be at least 30% – 40%, which puts them in a position of financial loss, despite the fact that their business model is based on the so-called “break even”.

Non-profit institutions are also employers who pay taxes and contributions on a regular basis, and now they find themselves in an unfair position compared to other employers in the market. Therefore, we propose the inclusion of employers registered as non-profit institutions in the existing measures for the preservation of jobs, in particular:

- Aid for preserving jobs of the non-teaching staff, who have no conditions to work from home nor is it a part of their job description (cleaning staff, janitors, porters, etc.)
- Deferment of income tax payments and contributions for everyone employed in the same model, as for other employers. Ideally, exemptions or reductions

in income taxes and contributions during the state of emergency, for a minimum of two months.

We also suggest the following:

- Deferred payment of income tax and contribution for all external associates employed through a contract for work. According to the Act on Quality Assurance in Science and Higher Education, external associates can conduct up to 66% of classes in vocational studies taught by most private higher education institutions. The cost of paying royalties under copyright contracts and contracts for work is a significant issue, which is why it is certainly necessary to enable this sector to abolish taxes and contributions for these types of contracts.
- Exemptions from the payment of utility fees, waste management, TV fees and the like during the state of emergency and inability to provide classes in regular conditions.
- The same conditions in possible amendments to the Labor Law for all other business entities in Croatia.

Price limit for certain products

In the Official Gazette no. 30/20 of 15 March 2020, the Decision on exceptional price control measures for certain products was published (hereinafter: the Decision), which, in order to prevent the negative effects of price changes or monopolistic pricing of certain products, prescribes the highest prices that can be applied in wholesale and retail sales.

As the epidemiological measures are relaxed, and the working hours in trade have been extended, we believe that it is once again possible to gain entrepreneurial freedom when pricing products. Taking into consideration the different structure of the retail sector (large retail chains, small trading businesses), the additional administrative burden and meeting with the inspection passing these current measures, we believe that it is possible to reduce the burden on traders and withdraw this measure in order for the sector to independently determine the requisite prices that will help them stay on the market in the long-term. In addition, the trade sector believes that the tourist season is not irretrievably lost, so it must be able to meet the increased consumption.

With the aim of normalizing market relations and enabling the supply of citizens with all necessary products, we suggest that the Croatian Government and the Civil Protection Headquarters review the Decision relating to the following products from

the food sector: flour, milk and milk powder, eggs, sugar, salt, rice, pasta, fresh meat, fish, fruits and vegetables, tinned meat, tinned fish, edible oil, baby food, baby napkins, water for drinking, laundry detergent, dishwashing detergent, soap.

In order to maintain this sector capacity, we propose the Government prioritize the abolition of the price limitation measure on certain products as the risk of the COVID-19 epidemic is reduced.

Although we recognize the Government's intention to prevent the unfair realization of additional profits by individual traders, which we welcome from an ethical point of view, this Decision still distorts competitive and market relations, and threatens the already fragile current liquidity. If this measure lasts longer than necessary, market relations would be significantly disrupted. The fact is that traders have little or no influence on the increase in producer prices caused by lower production and logistics problems. In addition, despite the willingness of traders to favor domestic producers, a large part of the products with limited price is imported. Therefore, the threat of exchange rate disruption is inevitable, so, in a situation of exchange rate disruption or increase in producer prices, the traders would find themselves in a difficult position, where they would have to choose between selling certain products illegally, below the purchase price, in order to maintain their market position, or not sell them at all. In both cases, the result would be an artificial shortage. We sincerely believe that the Government, as well as the sector itself, wants to avoid this scenario.

The abolition of non-working Sunday

The decision on the provisional measure of banning work on Sundays and bank holidays has several negative consequences:

1. Discriminatory effect

A certain self-regulation of the market is already present because retail establishments independently decide whether to work on Sundays in the areas and periods which do not require this. Due to large discrepancies in the size of the establishments, store types, geographical area types, periods of the year, weather conditions, needs of the different types of workers (full-time employees, students and pupils, seasonal workers or “weekenders”) and the differences between business models, the adopting of such unspecified measures with unfounded exceptions could lead to serious disarray on the market. It is the adoption of such measures that could inadvertently lead to some people acquiring a competitive advantage whilst discriminating others.

2. Increase in unemployment

The current ban on work on Sundays and bank holidays in trade will inevitably lead to a reduction in the number of jobs. Due to reduced income resulting from the withholding of the possibility to pursue activities of retailing and wholesaling on Sundays, when the turnover in said activities amounts to 20% of the total weekly income, according to the data available, employers will be forced to lay off some of their workers and are already making plans and adapting business strategies. Those workers will consequently become a burden to the state budget.

The measure also calls seasonal employment into question, which is kept to a minimum, i.e. many employers have not yet started making use of said employment at all. A planned reduction in seasonal employment by 80% has been announced.

According to calculations by retail chains, department stores and shopping centers at the end of April, it follows that, on a broad average, 11% of workers are redundant due to the taking away of a workday, which leads to the conclusion that those workers will be laid off during May and June. The realistic number of unemployed persons is increasing due to the likely non-renewal of contracts for fixed-term contract workers (these workers account for about 20% of the workforce in trade).

Most retail chains do not plan to seek Government job retention aid because large retail chains do not rely on short-term measures in creating their respective business plans.

3. Economic downturn

The decrease in turnover in sales over the first four days of May in relation to the same period last year amounts to about 30%. The Austrian example of opening stores on Sundays, when they traditionally do not work, clearly shows how much of an important element Sunday shopping is for the economic recovery from the consequences of the COVID 19 pandemic.

Any restriction on personal consumption will inevitably result in a significant reduction in funding the already overburdened state budget. An important item of the revenue side of the state budget is VAT collection, and Sundays represent, on average, 20% of the total weekly turnover in sales.

Considering the excellent results of the Civil Protection Headquarters of the Republic of Croatia and the favorable epidemiological picture in the state, we believe that allowing work in trade on both Sundays and bank holidays under the applicable instructions from the Headquarters relating to disinfection and physical distance whilst shopping should be taken into consideration.

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