10. CUSTOMS DUTIES

WHAT IS A CUSTOMS DUTY, AND WHAT IS ITS ROLE

Customs duties are one of the oldest forms of taxation, and are paid on goods that are imported.¹ They are part of indirect taxes. The point of customs duties is primarily to protect domestic production by making imported goods more expensive. The second task of customs duties is fiscal, i.e., they make up one of the revenues of the Budget. While other taxes are used to collect as much revenue as possible, customs duties have their primary role in the foreign trade policy.

In 2001, the Croatian general government budget received 3.2 billion kuna from customs, or about 4.8% of all tax revenues, and is more than the money collected from profit tax (2.8 billion, or 4.2%). This shows that customs duties in Croatia, apart from protecting domestic production, do actually form a very important part of the revenue of the national Budget. Entering the WTO, Croatia agreed gradually to reduce its tariff barriers, by which custom duties will increasingly lose their character as an instrument in foreign trade and become just one of the sources of public revenue. Moreover as tariff barriers go down, the total amounts of customs duties going into the Budget will decline as well.

THE CUSTOMS SYSTEME

The Customs Tariff, the Customs Tariff Act and the Customs Act prescribe duties paid on imports. In accordance with the obligations assumed during Croatia's negotiations on acceding to the World Trade Organisation, Croatia must gradually reduce the level of tariff protection. From 2000 to 2005, Croatia is obliged to reduce customs duties on industrial products by the same percentage every year. The same principle applies to agricultural and food products. However, the transitional period totals 7 years in this case (from 2000 to 2007).

As of 2002, a Customs Tariff compliant with the Combined Nomenclature of the EU has been implemented. The Customs Tariff for 2003 determines import tariffs according to obligations assumed within the WTO, in accordance with the Most-Favoured Nation Clause and free trade agreements. Based on the free trade agreements signed in 2003, Croatia will enjoy preferential treatment in the trade with 32 countries.

In 2003 the average customs tariff on industrial products amounts to 3.5%, which is in accordance with the principle that the tariff rates for raw materials and intermediary goods must be lower than the rates for finished or semi-manufactured goods. Tariff rates for agricultural and food products are determined in a number of ways, as value-based (ad valorem), quantity-based and combined rates.

The rate per quantity unit for seasonal products is prescribed in advance for the period of implementation, so that the conditions of importation are known in advance for the entire year. For certain agricultural and food products, preferential tariffs have been set only for limited quantities of those products (customs quotas). The Annex to the

¹ Although today the most widespread form of customs duty is on imports, it can nevertheless be paid on export and transfer products.
Customs Tariff presents quotas for each country, as well as quotas for the importation of goods from WTO member states.

As provided by the Agreement on Stabilization and Association between Croatia and the European Union signed in 2001, the EU has almost entirely, without a transitional period, abolished tariffs and other limitations to the importation of Croatian products in the segment related to the free movement of goods. Quotas have been retained only for baby-beef products, some types of fish products and wine. At the beginning of 2001, all quantitative restrictions and customs duties for the importation of textile products of Croatian origin into EU member countries were abolished. A double-check system was introduced for the most sensitive textile categories (cotton yarn, cotton and synthetic fabrics, sweaters, trousers, blouses, shirts, coats, suits, bed and table linen, etc.), implemented through export and import licences. Based on an export licence issued by the Croatian Chamber of Economy, the buyer in the EU obtains an import licence for the importation of a textile product. For the majority of industrial products originating from the EU, all tariffs and quantitative restrictions were abolished at the beginning of 2002. For so-called sensitive products, tariffs will be abolished within a transitional period of 2 to 5 years. Tariffs for agricultural and food products and fish originating from the EU will be abolished within a 6-year transitional period. However, the level of tariff protection will be maintained for certain products even after the transitional period expires.

What is the WTO?

The WTO, World Trade Organisation, was founded in 1995. Its purpose is to coordinate customs policies, reduce customs and other barriers and reinvestigate the trade regimes of member countries who together account for more than 90% of the world’s trade.

HOW THE CUSTOMS ADMINISTRATION IS ORGANISED

The operations of the customs service are carried out by the Customs Administration, which is organised as part of the Ministry of Finance. It has a central office and ten customs houses, which in turn have their branches or offices. The Director of the Customs Administration is equivalent in position to the assistant to the Minister of Finance. The Customs Administration has its own Web page at http://www.carina.hr at which you can find a large amount of information in connection with customs.

Returning expatriates and foreigners who are immigrating into Croatia

Natural persons who move into Croatia and have been abroad uninterruptedly for at least five years are exempted from the payment of customs duties on household items, on condition that they have possessed and used them for at least 12 months. Items can be imported into Croatia for a year after the return, or the immigration. The same thing holds for an economic or business inventory, on condition that it has been used abroad for at least 12 months for the same purpose it will be used for in Croatia.

Exemption from customs duties for travellers
Travellers coming from abroad do not have to pay customs or VAT on goods up to a value of 300 kuna. If the value of a good is higher than 300 kuna the custom duty and VAT has to be paid (but the value of the good cannot be divided among several persons).

In the country the following can be freely brought in: 200 cigarettes or 100 cigarillos or 250 g tobacco, 1l of spirit or 2l of wine, 50 g of perfume and 0.25 l eau de toilette, and medicine for the traveller.

**How much cash can be taken over the frontier?**

Domestic and foreign natural persons must report to the customs officer the amount of cash in kuna, foreign currency and cheques greater than 40,000 kuna. Domestic natural persons can take out foreign currency and cheques to the value of EUR 3,000 (but a bigger amount must be allowed by Croatian National Bank). Domestic and foreign natural persons can bring in cash in kuna up to the amount of 15,000 kuna (but a bigger amount must be allowed by Croatian National Bank).

**PENALTIES**

Penalties for customs offences move in a large range from 400 kuna for smaller offences by natural persons to 2 million kuna for more considerable violations of customs regulations.

**THE REGULATIONS**

- The Customs Act, NN 78/99, 94/99, 117/99, 73/00, 92/01, 47/03 and 140/05
- The Customs Act Implementation Decree, NN 161/03
- The Customs Tariff Act, NN 61/00, 117/00 and 119/00
- The Customs Service Act, NN 67/01

These are just the most important regulations governing the area of customs; on top of them there are a whole series of detailed implementation documents, consisting of various decrees, regulations, decisions and rulings.