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PRESS RELEASES

Value Added Tax: Changes in Rates in Croatia and Trends in the European Union

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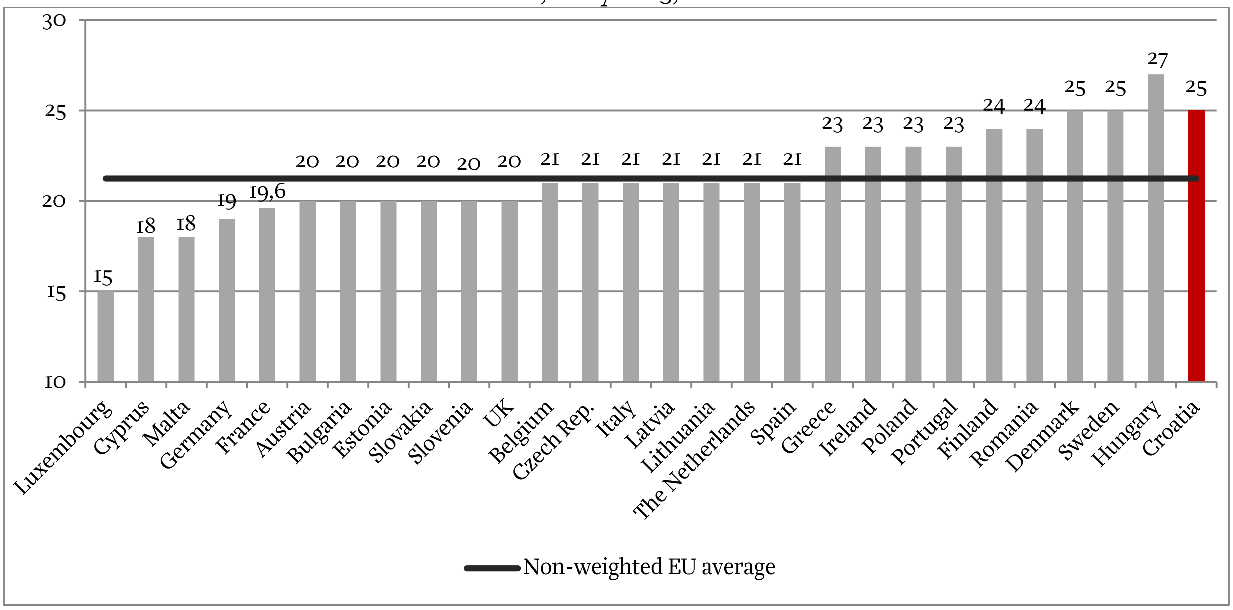
The Croatian value added taxation system was last changed in early 2013, and a new VAT Act[1] is currently in parliamentary procedure and is planned to be adopted in mid-2013. Can the changes in the Croatian VAT system ensure compliance with the VAT rates in the EU Member States?

Value added tax has been applied in over 150 countries, and it enjoys popularity on account of its neutrality and the generous revenues it provides. However, the global economic crisis and growing funding needs of national budgets call for frequent changes in this tax. General VAT rates are raised, new reduced rates are introduced, and tax exemptions are reviewed, thus providing countries with the necessary funds in a relatively quick and elegant way. Chart 1 shows general VAT rates in the EU[2] and Croatia at the beginning of 2013.

Chart 1 General VAT rates in EU and Croatia, early 2013, in %



Source: European Commission, 2013.

[1] Croatian Parliament, 2013. *A Proposal for a Value Added Tax Act* (first reading), 8th Session, April 19, 2013.
[2] European Commission, 2013. *VAT Rates Applied in the Member States of the European Union.* Situation at 14th January 2013.

Croatia has the second-highest general VAT rate (after Hungary), the same as Sweden and Denmark. Table 1 gives an overview of both general and reduced VAT rates applied in the EU Member States.

Table 1 General and reduced VAT rates in the EU and Croatia, early 2013, in %

	General rate	Reduced rates	Super-reduced rate
Austria	20	10	-
Belgium	21	6 / 12	-
Bulgaria	20	9	-
Croatia	25	5 / 10	-
Cyprus	18	5 / 8	-
Czech Republic	21	15	-
Denmark	25	-	-
Estonia	20	9	-
Finland	24	10 / 14	-
France	19.6	5.5 / 7[3]	2.1
Germany	19	7	-
Greece[4]	23	6.5 / 13	-
Hungary	27	5 / 18	-
Ireland	23	9 / 13.5	4.8
Italy	21	10	4
Latvia	21	12	-
Lithuania	21	5 / 9	-
Luxembourg	15	6 / 12	3
Malta	18	5 / 7	-
Netherlands	21	6	-
Poland	23	5 / 8	-
Portugal	23	6 / 13[5]	-
Romania	24	5 / 9	-
Slovakia	20	10	-
Slovenia	20	8.5	-
Spain	21	10	4
Sweden	25	6 / 12	-
United Kingdom	20	5	-

Source: European Commission, 2013.

The reduced rates applied in the EU Member States early in 2013 rang between 5% and 18% (super-reduced rates: between 2.1% and 4.8%). Only Denmark has no reduced rates.

Croatia. Because of the "rapid" fiscal effect of VAT, as well as a need for further compliance and alignment of domestic legislation with that of the EU, Croatia continued the process of changing its value added taxation system in 2013, after some changes had already been introduced in 2012 (the most important among them being the increase in the general rate from 23% to 25%)[6].

[3] Admission to amusement parks offering no cultural programmes is taxed at a general rate of 19.6% (otherwise, the rate of 7% is applied).
[4] On all Aegean Islands except Crete, a general rate of 16% and reduced rates of 9% and 5% are applied.
These rates are charged on imported goods, procurements inside the EU, the supplies of goods and services carried out on these islands by entities established there, and on deliveries from other parts of Greece to persons established on these islands. However, the preferential tax treatment does not apply to tobacco products and means of transport.
[5] The inter-rates applied in the Autonomous Region of Madeira and on the Azores amount to 12% and 9% respectively, and the reduced rates 5% and 4% respectively.
[6] In addition to increasing the general rate as of 1 March 2012, a reduced rate of 10% was introduced on certain products (sugars, oils and fats, water and baby food).

Thus, as of 1 January 2013, the application of the reduced rate of 10% is extended[7], the zero rate is replaced by a reduced rate of 5% on certain goods and services[8] and a new 5% rate is introduced on vessels for sport and leisure which were previously under temporary admission procedure and which will be put into the customs procedure of free circulation by 31 May 2013.

The new VAT Act[9], based on a Proposal submitted by the Government to Parliament on 7 March this year, is also planned to be adopted in the first half of 2013. The adoption of the new VAT Act will pave the way for further harmonisation with the EU acquis, especially as concerns reduced rates and taxation on the EU Common Market, although the fiscal impact of the Act is far from negligible. According to a Ministry of Finance estimate, the application of the new Act will lead to a drop in the state budget revenues by about HRK 500 million in 2013, or by circa HRK 1 billion in the coming years.

In response to the need for fiscal consolidation and the adjustment of the national value added taxation system with that of the EU, Croatia has obviously made some important moves. It first increased the general VAT rate in 2012, which made it one of the countries with the highest general rates, and then it abolished the zero rate in early 2013. However, the real effects of these fiscal measures will not become evident before the end of the fiscal year, notably at the end of the tourist season, as the reduced rate of 10% will have a strong impact on the state budget revenues.

[7] To include food preparation and other food provision services in hotel and restaurant facilities, as well as the preparation and serving of non-alcoholic beverages, wine and beer in such facilities.
[8] All kinds of bread and milk; medicines; scientific journals, books with professional, scientific, art, cultural and educational contents, as well as textbooks for pedagogical training and education and primary, secondary and university education; devices surgically implanted into the human body (implants) and other medical products intended to replace missing body parts; cinema tickets; public showing of films, as well as daily newspapers, periodicals and journals, except those consisting entirely or mainly of advertisements or intended for advertising purposes.
[9] Other changes envisaged by the new Act also include the following: inclusion of free zones in the territory of the RC (in fiscal terms); abolition of VAT exemption for the import of passenger cars and equipment for the performance of business activities by Croatian homeland war veterans and for the import of goods received by religious organisations from foreign religious organisations and other legal and natural persons, used for the performance of their religious activities; abolition of VAT exemption for freelance artists; abolition of VAT exemption for the purchase of fuel for ships sailing on high seas; and the introduction of VAT on building land as of 1 January 2015.