

February 2022

Tax news

Income from abroad and tax residency



Tax advisory TUK Ltd.

The Tax Administration recently invited its **citizens, tax residents of the Republic of Croatia** which earned income abroad or from abroad in the period from 2016 to 2021, to report foreign receipts if they yet have not done so. Taxpayers can file **a voluntary declaration of income from abroad** no later than **February 28th, 2022**. Citizens which report foreign income from previous years through this mechanism, shall be exempted from paying default interest and penalty fees, whereas more favourable regulations shall apply for them, i.e. more favourable rates and brackets.

This invitation resulted with great interest of the public and citizens who are potentially affected by it and opened queries about who is considered a tax resident of the Republic of Croatia and what it means to work abroad, either temporarily or permanently, from tax perspective.

In general, in a situation where a Croatian citizen works abroad, it is important to know in which country he/she is considered a tax resident, in order to avoid double taxation of income. Also, the tax treatment of income earned by an individual on occasional or temporary work abroad and income earned by an individual leaving Croatia for the purpose of permanently working abroad and / or moving abroad is not the same.

Below we address this issue and related matters.

What does being a tax resident mean?

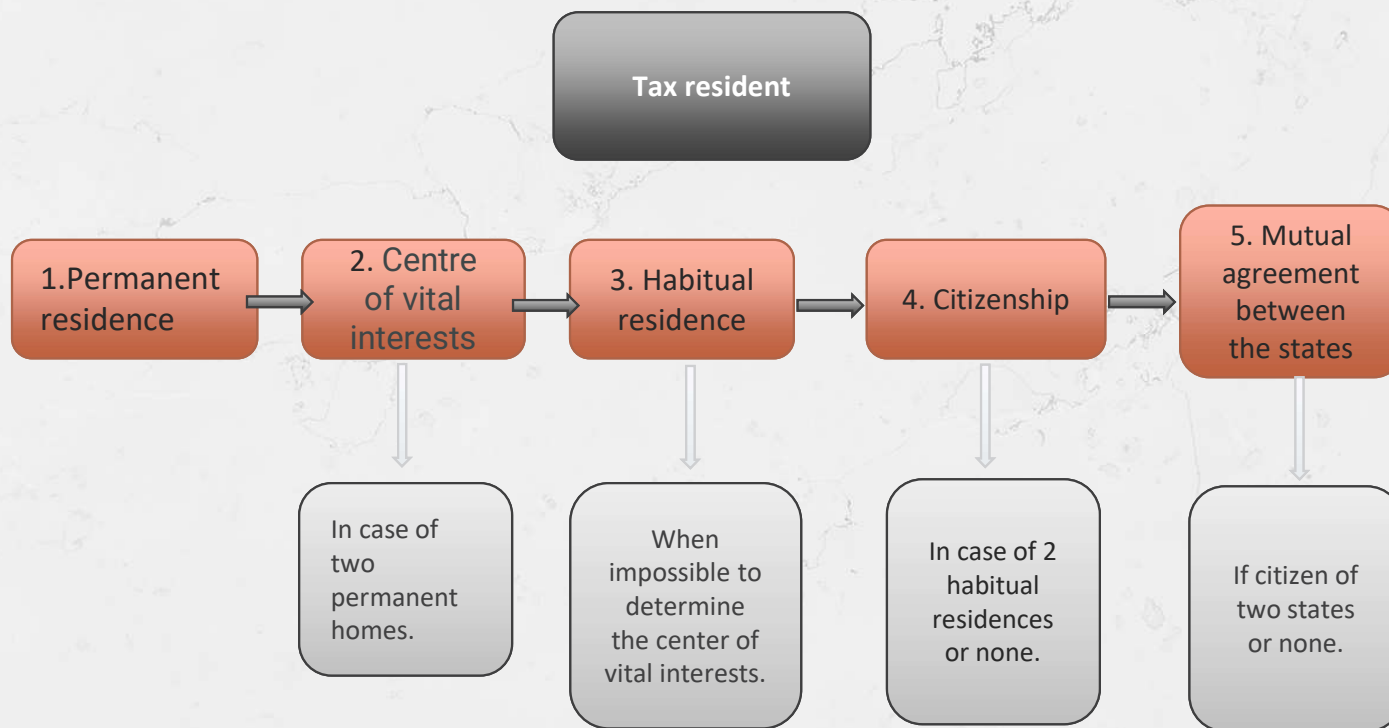
In order to avoid double taxation of income, the Republic of Croatia has concluded Agreements for the avoidance of double taxation with a number of countries. When concluding such Agreements, the Republic of Croatia uses a model agreement based on the OECD proposal.

When tax residency is concerned, it is important to emphasize that the first factor of interest to the Tax Administration **is the residence (permanent home) of a natural person for tax purposes**. Article 43 of the General Tax Act clarifies when it is considered that a taxpayer has a permanent residence in the Republic of Croatia, which should not be confused with the address of residence registered with the Ministry of the Internal Affairs. Thus, a taxpayer is considered to have a tax residence where a certain property is at his disposal, regardless of whether he lives in it.

In addition to the taxpayer's residence, the most important factor in practice is **the center of a person's vital interests**. It is thus assessed with which country the taxpayer has closer personal and economic relations (where the taxpayer's family resides, the place from which he mostly goes to work, etc.). What other factors and circumstances are taken into account are presented in the next flow chart.



What does being a tax resident mean?



Regulation of the tax residency status when moving abroad

Citizens of the Republic of Croatia that have decided to leave the Republic of Croatia permanently often assume that it is enough to regulate their departure with the Ministry of the Internal Affairs, with the permanent deregistration of residence or with at least registration of temporary departure for 5 years.

This is indeed the first step, but the deregistration of permanent residence or temporary residence does not change the tax residence of a natural person. Apart from the Ministry of the Internal Affairs, the departure from the Republic of Croatia also needs to be regulated with the Tax Authorities, by submitting the **TI Form**. After the verification procedure, the Tax Authorities issue a **Confirmation of the Change of Residence Status** to the person in question.

In practice, it often happens that individuals work abroad permanently, but return to the Republic of Croatia on weekends due to family or other personal reasons. In such situations, the center of their vital life interests has not change and thus the Republic of Croatia still considers them as its tax residents.

What are the obligations of a tax resident?

If, based on the circumstances, it is determined that a person working abroad is still a tax resident of the Republic of Croatia, his or her total worldwide income is taxed and reported in the Republic of Croatia. Therefore, in accordance with the principle of worldwide income, the Republic of Croatia has the right to tax the income of its tax residents earned in the country and **abroad!**

The tax resident is obliged to declare foreign income on which the tax has been paid abroad, by January 31st of the following calendar year. If the tax on foreign income has not been paid abroad at the time of payment, the taxpayer is obliged to submit the JOPPD form to the Tax Authorities within 30 days of receipt, i.e. to pay the tax monthly.

The mechanism of tax payment in the Republic of Croatia depends in which country the tax resident earns income, since the Agreement signed with that country will determine whether any tax difference will be paid in the Republic of Croatia or income will be exempt from taxation. Regardless, **the obligation to declare a taxpayer's foreign income always exists.**

On the contrary, a person who has changed his status to a tax non-resident has **no further obligation** to report the income earned abroad to the Croatian Tax Authorities.



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