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Introduction of euro as official currency in Croatia



Tax advisory TUK Ltd.

The Croatian Parliament has adopted the **Act on the introduction of euro as official currency in the Republic of Croatia**, which brought Croatia one step closer to joining the Eurozone, planned for the first day of 2023.

The next step is a decision on the adoption of euro by the EU Council, which will confirm that Croatia has met all prerequisites for entry into the Eurozone and will confirm a fixed conversion rate EUR/HRK, which is expected to be 7.53450 HRK for 1 EUR. The EU Council is expected to make a decision in July 2022.

Following the adoption of the Decision of the EU Council, the Government of Croatia will confirm the date of the introduction of euro (**January 1, 2023**).

In this regard, the following is an overview of the most important implications for business entities, primarily in relation to showing of prices, invoicing, recording of business events, preparation of financial statements and tax returns.

1. Conversion – fixed exchange rate

The conversion of the values from Croatian kuna to euro is carried out using the fixed conversion rate (7.53450 HRK for 1 EUR, which will be confirmed by the Decision of the EU Council).

After the calculation, the result is rounded to two decimals, and based on the third decimal, as follows:

- if the third decimal is less than five (number from 0 to 4), the second decimal remains unchanged (the amount in cents remains the same);
- if the third decimal is equal to or greater than five (numbers 5 to 9), the second decimal is increased by one (the amount in cents is rounded to the higher cent).

2. Dual price showing

Dual price showing assumes the presentation of prices using both HRK and EUR in relations with customers (e.g. in retail, on price lists, offers and invoices and other documents) which will follow before the introduction of the euro.

The dual price showing obligation only applies in relations with end customers (B2C sales/transactions) and does not apply in relations between business entities. Thus, invoices between business entities, price lists and similar documents used in transactions in which only business entities participate can remain denominated in HRK until euro becomes the official currency.



2. Dual price showing (*continued*)

Mandatory dual price showing is expected to start from **September 5th, 2022** (the first Monday of the month following the month in which thirty days have elapsed from announcing of the Council Decision). The mandatory dual price showing will apply until December 31st, 2023.

Business entities can start with dual price showing earlier, i.e. after the publication of a fixed exchange rate.

Dual price showing in the employer-employee relationship

In addition, mandatory dual price showing also applies to the employer-employee relationship. Namely, the employer, i.e. the payer of compensation, is obliged to present the final net payment to the employee based on salary, severance pay, bonuses, travel orders, vacation allowance and other salary-related payments, in both currencies. Regardless of the obligation of dual price showing, the payment of remuneration for work is made in EUR starting from January 1st, 2023.



3. Bookkeeping

Business events related to the period after the introduction of euro as official currency must be recorded into business books in EUR. Balances in HRK transferred from business books for 2022 must be converted into EUR using the set fixed exchange rate.

4. Tax returns

The corporate income tax return, as well as the financial statements for 2022 shall be prepared and submitted in HRK since the relevant business events in 2022 occurred before euro became the official currency.

From January 1st, 2023, registered VAT payers shall pay VAT in euros. Thus, the VAT return for December 2022 shall be submitted in HRK, while the VAT liability will be paid in EUR at a fixed exchange rate for EUR/HRK. The VAT return for January 2023, which is due by the end of February 2023, shall be reported in EUR.

A JOPPD report with a report code before the euro introduction date shall be submitted in HRK, and a JOPPD report with a report code after the euro introduction date shall be submitted in EUR.

Additionally, corrections to tax returns / forms shall be submitted in the currency in which they were originally submitted.

5. Continuity of legal instruments

The introduction of euro does not affect the validity of existing legal instruments in which kuna is mentioned, such as previously concluded business agreements in which mutual obligations have been agreed using the kuna as the currency. Thus, the fees or other payments agreed in kuna shall be converted into euros using the fixed exchange rate.



Summary of the euro introduction process

a) Preparation period

- It begins after the EU Council announces the decision on the adoption of euro in the Republic of Croatia (July 2022), which also marks the start of the voluntary dual price showing. Mandatory dual price showing begins on September 5th, 2022.

b) Dual circulation period

- Is applied for 14 days from the date of introduction of euro (from January 1st – January 14th, 2023).
- For cash transactions, both kuna and euro can be used as a legal means of payment.

c) After the dual circulation period

- After January 14th, 2023, all payments are made only using EUR.

Period of mandatory dual price showing from - September 5th, 2022

- Showing of prices using both HRK and EUR (does not apply to transactions between business entities);
- Payments in HRK.

Dual circulation period from od January 1st – January 14th, 2023.

- Showing of prices using both HRK and EUR (only for B2C relations);
- Non-cash payments in EUR.
- Cash payments in both HRK and EUR are accepted.

End of dual circulation period- from January 14th, 2023.

- Showing of prices using both HRK and EUR (only for B2C relations);
- All payments in EUR.

End of dual price showing period- from December 31st, 2024.

- Showing of prices using EUR only;
- All payments in EUR.



Tax advisory TUK Ltd.

Edo Tuk

Managing Partner

edo.tuk@pst.hr

Nika Miloloža

Senior Manager

nika.miloloza@pst.hr

